

CHEMISTREE TECHNOLOGY INC.

(the "Company")

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FORM 2A

LISTING STATEMENT - Annual

October 30, 2020

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The Company is an entity that is focused on making investments and acquisitions in the United States, including potential investments and acquisitions in states that have legalized cannabis for medical or adult-use.

Having completed the Washington Acquisition (as defined herein), the Company indirectly derives, through investments in ancillary operations, revenue from the adult-use cannabis industry in the United States in jurisdictions where local law permits such activities, and may in the future indirectly derive revenue from the medical cannabis industry in the United States and the medical and/or adult-use cannabis industries in Canada. See “Risk Factors - Risks Related to Uncertain Regulatory Environments Where we Operate” and “Risk Factors – United States” in this Form 2A.

Although a number of states of 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 plans and current, proposed and potential future investments, even where the Company is not directly involved in the cultivation or sale of either adult-use 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. See “Risk Factors - Risks Related to Uncertain Regulatory Environments Where we Operate” and “Risk Factors – United States” in this Form 2A.

Over half of the states of the United States have enacted legislation to regulate the sale and use of medical cannabis without limits on tetrahydrocannabinol (“THC”), while other states have regulated the sale and use of medical cannabis with strict limits on the levels of THC. Notwithstanding the permissive regulatory environment of medical cannabis at the state level, cannabis continues to be categorized as a controlled substance under the U.S Controlled Substances Act (the “CSA”) in the United States and as such, is in violation of U.S. federal law.

As a result of the conflicting views between state legislatures and the federal government regarding cannabis, investments in cannabis businesses in the United States are subject to inconsistent legislation and regulation. The Supremacy Clause of the United States Constitution establishes that the United States Constitution and federal laws made pursuant to it are paramount and, in case of conflict between federal and state law, the federal law must be applied. Notwithstanding the paramountcy of United States federal law, although federal law, in general, governs the interpretation and enforcement of the CSA, enforcement of the CSA and other related federal regulations may be limited by other means or circumstances, which are further described in this Form 2A Unless and until the United States Congress amends the CSA with respect to cannabis (and as to the likelihood, timing or scope of any such potential amendments there can be no assurance), there is a risk that U.S. federal authorities may enforce current U.S. federal law, which may adversely affect any current or future investments of the Company in the United States. As such, there are a number of risks associated with any of the Company’s current or future investments in the United States, and such investments may become the subject of heightened scrutiny by regulators, stock exchanges and other authorities. As a result, the Company may be subject to significant direct and indirect interaction with public officials. There can be no assurance that this heightened scrutiny will not in turn lead to the imposition of certain restrictions on the Company’s ability to invest in the United States or any other jurisdiction. See “Risk Factors - Risks Related to Uncertain

Regulatory Environments Where we Operate” and “Risk Factors – United States” in this Form 2A.

On October 17, 2018, the Cannabis Act, 2018 (the “Cannabis Act”) came into force with the effect of legalizing adult recreational use of cannabis across Canada. The Cannabis Act provides for the federal government to regulate commercial production of cannabis products and grants the provincial, territorial and municipal governments the authority to prescribe regulations regarding retail and distribution, as well as the ability to alter some of the existing baseline requirements of the Cannabis Act. The provinces of Canada have passed legislation which sets out the scheme for private cannabis sales in each Province. The new framework opens the door for private operators to capitalize on cannabis retail opportunities in Canada. See “Risk Factors - Risks Related to Uncertain Regulatory Environments Where we Operate” and “Risk Factors – Canada” in this Form 2A.

On February 8, 2018, following discussions with the Canadian Securities Administrators and recognized Canadian securities exchanges, the TMX Group announced the signing of a Memorandum of Understanding (the “TMX MOU”) with Aequitas NEO Exchange Inc., the Canadian Securities Exchange, the TSX and the TSX Venture Exchange. The TMX MOU outlines the parties’ understanding of Canada’s regulatory framework applicable to the rules, procedures, and regulatory oversight of the exchanges and CDS as it relates to issuers with cannabis-related activities in the United States. The TMX MOU confirms, with respect to the clearing of listed securities, that CDS relies on the exchanges to review the conduct of listed issuers. As a result, there is no CDS ban on the clearing of securities of issuers with cannabis-related activities in the United States. However, there can be no guarantee that this approach to regulation will continue in the future. If such a ban were to be implemented after the Company begins operating in cannabis-related activities in the United States, it would have a material adverse effect on the ability of holders of Common Shares, Debentures and Warrants to make and settle trades. In particular, the Common Shares, Debentures and Warrants would become highly illiquid as until an alternative was implemented, and investors would have no ability to effect a trade of the Common Shares, Debentures and Warrants through the facilities of a stock exchange. See “Risk Factors - Risks Related to Uncertain Regulatory Environments Where we Operate” and “Risk Factors – United States” in this Form 2A.

Accordingly, the Company, and its investments in the cannabis sector, may be subjected to heightened scrutiny by applicable regulatory authorities, the CSE, clearing agencies or other governmental bodies. See the sections entitled “Description of the Business – Legal and Regulatory Trends” and “Risk Factors” in this Form 2A and below, for further details.

Forward-Looking Statements

The information provided in this Listing Statement, including schedules and information incorporated by reference, may contain “forward-looking statements” of the Company. In addition, the Company may make or approve certain statements in future filings with Canadian securities regulatory authorities, in press releases, or in oral or written presentations by representatives of the Company that are not statements of historical fact and may also constitute forward-looking statements. All statements, other than statements of historical fact, made by the Company that address activities, events or developments that the Company expects or anticipates will or may occur in the future are forward-looking statements, including,

but not limited to, statements preceded by, followed by or that include words such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or state that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved" or the negative of those words or other similar or comparable words and includes, among others, information regarding: expectations for the effects of any transactions; expectations for the potential benefits of any transactions; statements relating to the business and future activities of, and developments related to, the Company after the date of this Form 2A including such things as future business and investment strategy, competitive strengths, goals, expansion and growth of the Company's business, operations and plans; availability of investment opportunities, future upgrades to the Washington Assets; expectations for the DHS Property; the future expansion of the Sugarleaf brand; availability of, and entrance into anticipated financing arrangements; expectations that planned acquisitions will be completed; expectations that licenses or permits applied for will be obtained; potential future legalization of adult-use and/or medical cannabis under U.S. federal law; potential for the future enforcement of U.S. federal law; the Company's disclosure obligations in respect of its operations in the U.S.; expectations of market size and growth in the U.S. and the states in which the Company operates; the potential for a shift in Canadian law or regulatory framework; expectations for other economic, business, regulatory and/or competitive factors related to the Company or the cannabis industry generally; and other events or conditions that may occur in the future. These statements speak only as at the date they are made and are based on information currently available and on the then current expectations the Company and assumptions concerning future events, which are subject to a number of known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to be materially different from that which was expressed or implied by such forward-looking statements, including, but not limited to, risks and uncertainties related to:

- regulatory environments where the Company operates;
- inconsistent treatment of cannabis in certain states and federally in the United States ("U.S.");
- anti-money laundering laws and regulations in the U.S.;
- enforcement of federal laws against the Company;
- the Company's balance sheet exposure to U.S. cannabis related activities;
- the federal and provincial regulatory frameworks in Canada;
- loss of business and/or opportunities due to perceived risks;
- insufficient cash flows to meet the Company's capital expenditure requirements;
- the highly regulated nature of the cannabis industry;
- competition;
- intellectual property litigation;
- fast changing technology and consumer demands;

- uncertain market acceptance for the Company's products and services;
- the development and promotion of products and brands;
- dependence upon, and need for, key personnel;
- dependence on management;
- potential conflicts of interest;
- statutory and regulatory compliance;
- insurance coverage;
- operating losses and unlikely dividends;
- investments may be pre-revenue;
- lack of control over operations of investments;
- investments in private companies and illiquid assets;
- unfavourable perception or publicity;
- laws and regulations that are subject to unforeseen changes;
- risks associated with investments;
- operating licenses;
- litigation;
- regulatory or agency proceedings, investigations and audits;
- product liability claims;
- fraudulent or illegal activity by the Company's employees, contractors and consultants;
- currency fluctuations;
- the Company's ability to manage growth;
- perception of reputational risk from third-parties;
- an exchange on which the Company's shares are listed may initiate a delisting review;
- stock price volatility;
- sales by shareholders of a substantial number of Common Shares;
- dilution;

- no requirements to make representations relating to disclosure controls and procedures and internal control over financial reporting;
- unfavourable or lack of research and reports from research analysts; and
- other risks described from time to time in documents filed by the Company with Canadian securities regulatory authorities.

Consequently, all forward-looking statements made in this Listing Statement and other documents of the Issuer are qualified by such cautionary statements and there can be no assurance that the anticipated results or developments will actually be realized or, even if realized, that they will have the expected consequences to or effects on the Issuer.

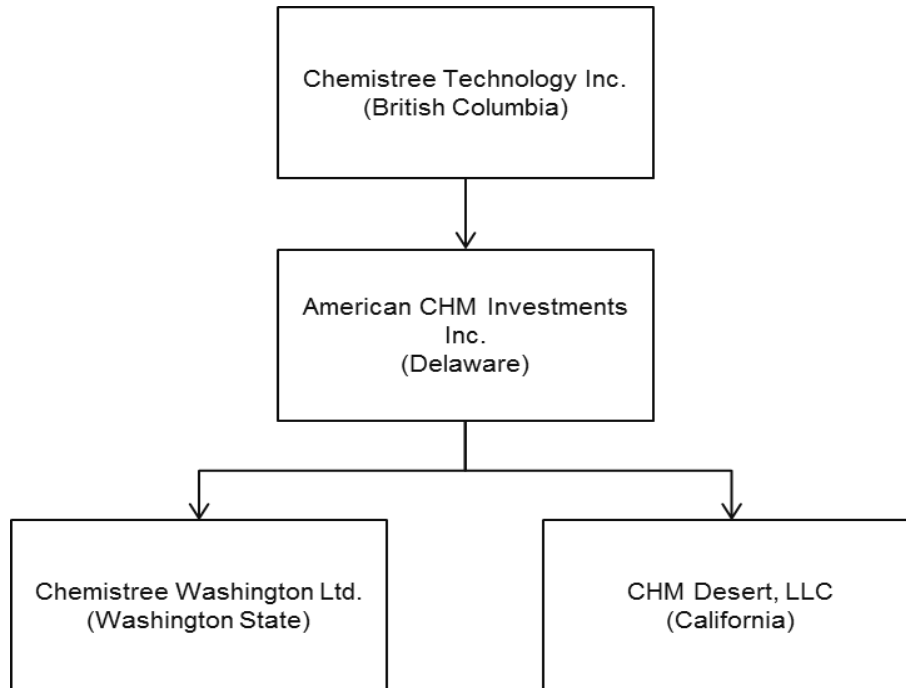
The cautionary statements contained or referred to in this section should be considered in connection with any subsequent written or oral forward-looking statements that the Issuer and/or persons acting on its behalf may issue. The Issuer undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, other than as required under securities legislation. See the section entitled “Risk Factors”, below.

2. Corporate Structure

Chemistree was incorporated in the Province of British Columbia on March 14, 2008 under the *Business Corporations Act* (British Columbia) (“**BCBCA**”). The name change to Chemistree Technology Inc. became effective August 3, 2017. The Company’s registered office is located at Suite 2600, Three Bentall Centre, 595 Burrard Street, P.O. Box 49314, Vancouver, British Columbia, V7X 1L3, Canada and its head office is located at Suite 204, 998 Harbourside Drive, North Vancouver, British Columbia, V7P 3T2, Canada.

On July 20, 2018, the Company requalified for a listing on the CSE following a change of business to an “investment issuer” on the CSE.

The Company has three wholly-owned subsidiaries. Effective October 17, 2017, the Company incorporated a wholly-owned subsidiary, Chemistree Washington Ltd. (“**Chemistree Washington**”), under the laws of Washington State. 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, the American CHM incorporated CHM Desert LLC (“**CHM Desert**”) under the laws of the State of California. The following diagram presents the organizational chart of the Company:



3. General Development of the Business

In October 2015, management made the decision to pursue initiatives in addition to its mineral exploration activities. To begin this process, the Company hired a consultant to explore alternative business opportunities, primarily focusing on technology. By working with that consultant, the Company identified an online business opportunity that combined social media marketing with event management. The Company subsequently changed its focus under WhatToZee, a division of Bama Gold Corp., to specialize in marketing, event planning and social media. The business was hosted at www.whattozee.com, which has since been suspended.

WhatToZee pursued a business model that was meant to be replicable across a number of ostensibly underserved demographics, such as social change agents (i.e. charities and political movements), fitness experts, business events managers and artists. Combining event management with social media marketing, WhatToZee was to allow its members to buy or sell their social influence to promote other members.

Effective January 27, 2017, the Company changed its corporate name from “Bama Gold Corp.” to “Whattozee Networks Inc.” and also consolidated its share capital on the basis of three (3) pre-consolidated shares to one (1) post-consolidation share ratio.

As the Company progressed with software design and development, it ultimately became clear that, despite having invested over \$500,000 in direct and indirect capital, the intended outcome for the software was not achievable. As a result, management made the decision to pivot the Company’s focus from events to a broader offering grounded in social media marketing. A partnership format was also thought to be an advantageous and expeditious refocus and growth strategy.

In July 2017, the Company entered into a strategic alliance with LG Digital Inc. (“**LG**”), a Vancouver-based digital marketing and production company. LG is a provider of digital

marketing, website, video production and graphic design work to its international client base since 2013. LG is also the owner and producer of “Growing Exposed” – a series of documentary, educational and biographical videos focused exclusively on the cannabis industry. Growing Exposed is now in the middle of its second season. The series has released a total of 17 episodes and continues to be a leading series in cannabis cultivation -dedicated to the industry. Growing Exposed has steadily increased its subscriber base on YouTube, and now has over one million views on its website, Vimeo and YouTube. The series is exclusively distributed by “High Times”, the pre-eminent international cannabis periodical for over 40 years.

On August 3, 2017, the Company changed its name to Chemistree Technology Inc. After input from shareholders and prospective investors, management and the board of directors of the Company determined that a name change would be prudent to improve the Company’s brand given its focus as a social media technology supplier to the growing cannabis industry.

As a result of working with clients in the cannabis industry, specifically within Washington State, the Company became familiar with a number of producers and brands that it believed were in need of the Company’s suite of services. When the Company focused its branding and marketing efforts on the cannabis industry in summer of 2017, it found several seemingly under-served sectors. In Washington State specifically, the Company encountered producers and processors of cannabis who were ill-equipped to handle the rate at which trends were developing in the cannabis space.

The Company began to investigate and undertake preliminary due diligence on potential investments in the cannabis space. After reviewing potential opportunities, the Company focused on an opportunity in Washington State to invest in certain assets that Chemistree believed would enable it to provide a turn-key facility capable of generating licensing revenue.

On May 11, 2018, the Company announced that it had entered into a letter of intent with arm’s-length parties to acquire, through Chemistree Washington, a suite of Washington-based assets used in cannabis cultivation, production and distribution (the “**Washington Acquisition**”).

On June 29, 2018, the Company closed the Washington Acquisition. Pursuant to a definitive asset purchase agreement dated May 31, 2018 (the “**Washington Acquisition Agreement**”) with Elite Holdings Inc. (the “**Washington Vendor**”), Chemistree Washington acquired certain assets, including, but not limited to, all growing supplies, leases, software, furniture, systems, equipment, and lighting from the Washington Vendor (the “**Washington Assets**”). The Washington Acquisition did not include any receivables, payables, warranties, employee or tax liabilities of the Washington Vendor.

For further details regarding the Washington Acquisition, see “*Description of the Business – Investment Business – Washington Acquisition*” below. Chemistree Washington will not be directly operating the business of growing or selling cannabis and such business will be conducted by an operator under a license from the Washington State Liquor and Cannabis Board (“**WSLCB**”), **marijuana remains illegal under U.S. federal laws and enforcement thereof remains a significant risk.** See “*Risk Factors*”.

On June 25, 2018, Chemistree announced that it closed the first tranche of a non-brokered private placement (the “**2019 Private Placement**”). The first tranche was comprised of 7,313,771 units, issued at \$0.35 per unit for gross proceeds of \$2,559,820. 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 2019 Private Placement. The warrants are subject to an acceleration provision whereby if the closing market price of the common shares of the company on the CSE is greater than 60 cents 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 will expire at 4:00 p.m. PT on the 30th calendar day after the date of the acceleration notice.

On 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 basic rent amounts payable are US\$96,320 for fiscal 2019, increasing to US\$100,320 for each of fiscal 2020 through to 2023.

On July 11, 2018, the Company closed the final tranche of the 2019 Private Placement for gross proceeds of \$1,949,365 and aggregate gross proceeds from the 2019 Private Placement of \$4,509,184. The final tranche of the 2019 Private Placement was comprised of 5,569,613 units issued at \$0.35 per unit. Approximately \$500,000 of the gross proceeds from the 2019 Private Placement were used to complete the acquisition of the Washington Assets.

On July 20, 2018, the CSE formally accepted the Company's change of business filing whereby Chemistree became recognized as an investment company. Initially, the Company's investment objectives were to seek investment opportunities in the cannabis sector in jurisdictions where cannabis-related activities are permitted and to achieve an acceptable rate of return by focusing on opportunities with attractive risk to reward profiles. The proposed investments will generally be companies in the cannabis sector but may include a range of investment opportunities including, but not limited to, service providers to the cannabis industry, licensees and bare land packages for development. In October 2020, the Company expanded its investment policy [see Recent Developments below]

On July 25, 2018, Chemistree, through its indirect, wholly-owned California subsidiary, CHM Desert, entered into a purchase agreement dated July 25, 2018 (the "**DHS Agreement**"), with an arm's length vendor for the purchase of 9.55 acres of fee simple, vacant land in the City of Desert Hot Springs, Riverside County, California (the "**DHS Property**"). Consideration for the purchase was US\$1,233,800. The DHS Property can support two 63,980 square foot state-of-the-art light deprivation greenhouses, and a future 40,572 square foot engineered steel building and 171 parking stalls to accommodate staff and visitors. In full production, the site is expected to be capable of producing in excess of 30,000 pounds of dried market ready cannabis annually, along with a full market-ready selection of extracts and edible based on the regulations of the City of Desert Hot Springs.

On August 9, 2018, the Company closed the DHS Acquisition.

On October 4, 2018, the Company announced a strategic investment in Pasha Brands Ltd. ("**Pasha**"). Pasha was starting-up a vertically integrated British Columbian craft cannabis brand company with several internationally recognized brands and a history in cannabis retailing. Pasha was also a late stage applicant to become a Licensed Producer ("**LP**") and expected to own and operate a Health Canada approved licensed processing facility on Vancouver Island. The investment in Pasha amounted to less than 10% of both Chemistree's working capital and the proceeds raised by Pasha pursuant to the private placement in which the Company participated as a strategic investor.

On October 16, 2018, the Company announced the results of its 2018 annual general meeting of shareholders held on October 15, 2018. At the meeting, Chemistree's shareholders elected or re-elected Justin Chorbajian, Karl Kottmeier, Douglas Ford and Sheldon Aberman as the directors of the Company.

On November 27, 2018, the Company announced the Arcata Investment and the Collaboration Agreement with a Humboldt County-based cannabis processing company (the "**Processor**").

On November 29, 2018, the Company announced that it has submitted an application to the City of Desert Hot Springs, California, requesting the receipt of the Conditional Use Permit in respect of the DHS Property.

On December 4, 2018, the Company announced that the Sugarleaf brand had grown 18 different strains of cannabis in rotation, including nine major strains in high production and nine minor strains in smaller batch production. The Company further announced that Sugarleaf Farm LLC is expected to soon launch its own line of cannabis oil-based products in a special edition Sugarleaf branded Vapor Slide V2. Lastly, the Company announced that the Washington Assets had undergone significant infrastructure upgrades and design improvements.

On December 6, 2018, the Company announced that it had entered into an agreement with Sugarleaf Farm LLC to acquire the global brand and marketing rights to the Sugarleaf brand (outside of Washington State) (the "**Sugarleaf Rights**").

On December 11, 2018, the Company provided an update on its Conditional Use Permit application in respect of the DHS Property. The Company announced that, due to a rework of its plans, the Company has identified savings of approximately \$500,000 to the original project budget.

On February 19, 2019, the Company announced that it had, through its wholly-owned subsidiary CHM Desert, obtained a Conditional Use Permit for the DHS Property. The Conditional Use Permit allows for the construction of two greenhouse buildings totaling approximately 128,000 square feet, and an additional building of up to an additional 40,000 square feet for processing, manufacturing and distribution of cannabis goods.

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.

In April 2019, the Company appointed Mr. Nicholas Zitelli as an additional independent director of Chemistree and appointed Mr. Sheldon Aberman to the newly created position of Chief Cannabis Officer. Pursuant to the Company's Stock Option Plan, effective April 5, 2019, the Company granted options to purchase 1,300,000 common shares at \$0.60 per share to certain eligible directors, officers and consultants. The options expire five years after the grant date.

On April 15, 2019 the Company announced that American CHM Investments Inc., had signed a letter of intent to partner with Applied Cannabis Sciences ("**ACS**") of New Jersey, a New Jersey-based medical retail dispensary applicant in the upcoming New Jersey round of request for applications, which is anticipated in 2020.

On April 29, 2019, the Company announced that had entered into a financing agreement with The Physician's Choice CBD LLC of Phoenix, Arizona (“PCCBD”). Under the agreement the Company proposed to acquire a significant ownership stake in PCCBD.

On June 10, 2019, the Company announced that its partner ACS was readying an application under the new request for applications program announced by the New Jersey Department of Health on June 3, 2019. In total, the department will seek up to 24 cultivation endorsements, up to 30 manufacturing endorsements and up to 54 dispensary endorsements. As allowable, ACS will be applying for all three permit types, with the intent of creating a vertically integrated model for the business.

On July 22, 2019, the Company announced that through a wholly owned United States subsidiary, it had finalized its investment into ACS.

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

Pursuant to the Collaboration Agreement with the Processor, the Company 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 is secured by 50% of the equity of the Processor 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, therefore the Company has written-down the receivable.

On April 9, 2020, the Company announced that during March, the Company continued the Washington State expansion and reconfiguration of the Sedro Woolley facility operated by Sugarleaf. The expansion will add approximately 30% to the cultivation area and will allow for significant streamlining of pre- and post- production facilities. Unfortunately, in late March due to Covid-19 the State of Washington deemed “construction” a non-essential service. The expansion of the facility has thus ceased at approximately 60% complete, pending inspections for building and electrical work. At this time the Company cannot estimate when the project will be ready for handover to the operator. The Company’s Washington assets are performing well on a turnkey basis, as provided to the Washington licensee.

Also, on April 9, 2020, the Company announced that it had commenced an internal review of its investment policy. Since entering into the cannabis sector in 2017 the Company's investment objectives were to seek investment opportunities in the cannabis industry, initially in the western United States and potentially other jurisdictions where cannabis-related activities are permitted, and to achieve an acceptable rate of return by focusing on opportunities with attractive risk-to-reward profiles. Investments by the Company were be made in accordance with, and are otherwise subject to, its investment policy, which may be amended from time to time at the sole discretion of the company without shareholder approval unless required by applicable laws or exchange policies. The board of directors is considering a broadening of the mandate to include investment opportunities unrelated to the cannabis sector. To date, in excess of 50 per cent of the company's asset base has been deployed in cannabis-related initiatives. In order to deploy the remaining investment capital with a more diversified approach, management is recommending an expanded investment policy that may include opportunities in the cannabis, health care, technology, biotechnology, medical technology or related consumer products fields.

Recent Developments

On October 30, 2020, pursuant to an internal review announced in April 2020, the Company announced that the board of directors has amended the Company's investment policy (the "**Investment Policy**") to broaden the mandate to include investment opportunities unrelated to the cannabis sector. To date, in excess of 50 per cent of the company's asset base has been deployed in cannabis-related initiatives. In order to deploy the remaining investment capital with a more diversified approach, the amended Investment Policy includes, but is not limited to, opportunities in the cannabis, health care, technology, biotechnology, medical technology or related consumer products fields. Refer to Exhibit "C".

The Company's investee, Applied Cannabis Sciences of New Jersey ("ACS"), continues to report to management regarding the changing regulatory landscape in New Jersey. ACS filed its medical vertically integrated license application in August 2019 in the latest New Jersey Request for Applications (RFA), which was released Monday, July 15, 2019, by the New Jersey Department of Health. Unfortunately, New Jersey lawmakers voted late last year to pose the question to voters on the November 2020 ballot. No further advance in that state is expected until the end of the year at best.

On August 5, 2020 the Company announced that the Washington State Liquor and Cannabis Board (WSLCB) had approved Chemistree Washington's expanded facility in Sedro Woolley for cultivation and processing operations. The expansion increases the size of the cultivation area by approximately 30 per cent. Chemistree commenced construction of the additional grow room in early March, but progress was delayed by the statewide restrictions brought on by the COVID-19 pandemic. Management is pleased that the project was completed safely and expeditiously by all the contractors and sub-trades involved, always keeping workers protected. The expanded space was turned-over to the licensee, Sugarleaf, for planting and active cannabis operations.

On July 9, 2020, and further to its earlier announcements on June 15 and June 18 – Chemistree confirmed that it had now closed the first tranche of the investment into ImmuoFlex 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. The first product, known internally as FLEX 0010, targeted to launch in late 2020, is designed to counteract weakened immune systems and diminished immune repertoire caused by a lifetime of battling infections and disease. It is a natural health product, manufactured and packaged in pharmaceutical-grade facilities and delivered as a flavoured effervescent powder designed to maximize bioavailability and minimize oxidation.

Investment Business

Until the broadening of the Company's investment policy in October 2020, Chemistree was 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 was to acquire and develop vertically integrated U.S. cannabis assets, leveraging management's decades of expertise in the cannabis and corporate finance industries to own and to, in the future, potentially operate licensed cultivation, processing, distribution and retail facilities throughout the United States. No investments have been made under the broadened mandate as at the date hereof.

Washington

On May 31, 2018, the Company entered into a definitive asset purchase agreement (the "**Washington Acquisition Agreement**") between the Company and Elite Holdings Inc. (the "**Washington Vendor**"), an arm's-length party, to acquire certain assets, including, but not limited to, all growing supplies, leases, software, furniture, systems, equipment, and lighting from the Washington Vendor (the "**Washington Assets**"). On June 29, 2018, the Company closed the Washington Acquisition. The Washington Acquisition did not include any receivables, payables, warranties, employees or tax liabilities of the Washington Vendor. The Washington Assets were comprised of certain equipment necessary for the holder of a Washington State Liquor and Cannabis Board (the "**WSLCB**") license to operate its business, including "mother room" equipment, clone room equipment, pre-vegetative equipment, vegetative room equipment, nutrients and other supplies, and quarantine room equipment. This equipment included advanced LED lights, fans, HVAC equipment, drying and packaging equipment, computer systems and other assets necessary for Chemistree Washington to provide a turn-key facility to an arm's length holder (the "**Strategic Partner**") of a WSLCB license.

Consideration for the Washington Assets was US\$1,000,000 payable in cash, of which US\$800,000 was paid upon closing of the Washington Acquisition with the remainder being paid in four equal installments, the last of which was paid on October 31, 2018. Notwithstanding the foregoing, US\$540,000 of the consideration payable upon closing was placed into escrow and used to satisfy certain liabilities of the Washington Vendor relating to its accounts payable. All of the funds were released from escrow on or before November 1, 2018.

Following closing of the Washington Acquisition and receipt of approval from the WSLCB, Chemistree Washington entered into agreements with a Strategic Partner, pursuant to which the Strategic Partner has subleased and licensed the Washington Assets from Chemistree Washington in order for the Strategic Partner to use the "Sugarleaf" brand on retail cannabis products in Washington State. The Strategic Partner operates under the Washington State Tier 3 production and processing Licence No. 423406, as acquired from Sugarleaf Farm LLC. Additionally, the Strategic Partner is entitled to the use of any and all brands related to the Sugarleaf brand, as well as any and all trademarks, websites, URLs, packaging, goods in process, and social media accounts for the purpose of providing retail cannabis products. The Sugarleaf brand is an established cannabis brand within Washington State, and is currently sold in approximately 75 retail locations. Chemistree has entered into an agreement to acquire the Sugarleaf Rights (as defined below) and is currently seeking to establish the Sugarleaf brand in California and elsewhere.

The Washington Assets that Chemistree has acquired may require normal course upgrades and management. On December 6, 2018, the Company announced that the Washington Assets had undergone significant infrastructure upgrades and design improvements.

The Company, through Chemistree Washington, intends to seek additional opportunities to invest in and develop real estate in the State of Washington for the purpose of serving licensed

I-502 (as defined herein) production and processing businesses, among other investment opportunities.

In addition to advising on growing techniques and providing specialized facilities and equipment to I-502 producers and processors, the Company may in the future seek to develop its own growing techniques, standard operating procedures and manufacturing practices to further assist license holders with their production and processing operations. The Company believes these services could create synergies and advantages that will provide significant and long-term revenue for the license-holder and, in turn, to the Company.

Management of the Company expects the Washington Acquisition to provide the Company with a platform to (if and when management identifies attractive opportunities) enter into, or make investments, in cannabis cultivation, production, processing, distribution and retail sales, while also allowing the Company to establish an investment portfolio of cannabis-related, and potentially non-cannabis related, real estate assets in Washington State.

California – DHS Property

Pursuant to a purchase agreement between CHM Desert and an arm's length vendor (the "**DHS Agreement**") dated July 25, 2018, Chemistree purchased (the "**DHS Acquisition**") 9.55 acres of fee simple vacant land in the City of Desert Hot Springs, California (the "**DHS Property**"). Consideration for the DHS Acquisition was US\$1,233,800, payable in cash.

During fall 2018, the Company applied for a Conditional Use Permit from the City of Desert Hot Springs for the DHS Property. In accordance with applicable law, the Conditional Use Permit submission included the following fees, reports and plans: filing fee; notification package; title report; existing site plan; proposed site plan; conceptual grading and drainage plan; building plans; sign program plans; exterior lighting plan; site photographs; conceptual landscaping plan; art in public places program; copies of "Will Serve" letters from fire departments and all utility companies; and development agreement, deposit and application.

In February 2018, the Company obtained, through its wholly-owned subsidiary CHM Desert, the Conditional Use Permit, which allows for two greenhouse buildings totaling approximately 128,000 sq. ft., and an additional building of up to an additional 40,000 sq. ft. for processing, manufacturing and distribution of cannabis goods at the DHS Property. Fully constructed and licensed, the Company believes that a facility of this size could produce approximately 30,000 pounds of dried-cannabis flower per annum. Once fully licensed and constructed, the Company expects the DHS Property will have the capacity to process, manufacture and distribute a range of cannabis-related products.

In an effort to fast-track the path to revenue, Chemistree also received an amended CUP to accommodate light manufacturing and distribution from temporary mobile buildings during the construction phase. The capital markets headwinds facing the cannabis industry combined with the Covid-19 pandemic have stymied managements' efforts to put-in-place the necessary construction/real estate financing to commence construction. In calendar Q4 2019, and Q1 2020 the Company engaged two cannabis finance consultants, respectively, to assist with placement of the construction debt – neither was successful in delivering a term sheet. The Company has invested approximately US\$400,000 on development expense to make the DHS Property shovel-ready.

California – Arcata Investment

On November 27, 2018, the Company entered into the Collaboration Agreement with the Processor in respect of the Arcata Investment. Pursuant to the Collaboration Agreement, the Company agreed to loan the Processor US\$450,000 (the “**Arcata Loan**”) 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 Company and the Processor also intended 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 was entered into.

The Processor held a “Type 6: Non-Volatile Solvent Extraction” license from the State of California, which allows for extraction using mechanical methods or non-volatile solvents. The Processor uses Apeks super critical CO2 extraction to produce cannabis oil, terpene profiles and other products on behalf of cannabis cultivators, other manufacturers and processors throughout northern California.

The Arcata Loan was issued by way of a secured Note. The Note is secured by 50% of the equity of the Processor 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, therefore the Company has written-down the receivable.

The Company is currently working on establishing the Sugarleaf brand in California, and intended to leverage its relationship through the Processor as one of the avenues to launch the brand. The Company can make no assurances in respect to the successful expansion of the Sugarleaf brand in California.

Investment Policy and Procedures

On October 30, 2020, pursuant to an internal review announced in April 2020, the Company announced that the board of directors has amended the Company’s Investment Policy to broaden the mandate to include investment opportunities unrelated to the cannabis sector. To date, in excess of 50 per cent of the company’s asset base has been deployed in cannabis-related initiatives. In order to deploy the remaining investment capital with a more diversified approach, the amended Investment Policy includes, but is not limited to, opportunities in the cannabis, technology, health care, biotechnology, medical technology or related consumer products fields. Investments by the Company are to be made in accordance with and are otherwise subject to the Investment Policy, which may be amended from time to time at the sole discretion of the Company without shareholder approval, unless required by applicable laws or CSE policies.

Prior to broadening the mandate, the Company’s investment objectives were to seek investment opportunities in the cannabis sector, initially in the U.S. Pacific Northwest and California and potentially other jurisdictions where cannabis-related activities are permitted, and to achieve an acceptable rate of return by focusing on opportunities with attractive risk to reward profiles.

The key elements of the Investment Policy are summarized and included below:

Summary

The Company is a publicly traded investment company whose primary objective is to invest its funds for purposes of generating returns from capital appreciation and investment income. It intends to accomplish these goals through the identification of and investment in securities of private and publicly listed entities that are involved in a variety of industries, including, but not limited to, opportunities in the cannabis, technology, health care, biotechnology, medical technology or related consumer products fields.

Investments will be acquired and held for short-term gains, income generation, or long-term capital appreciation, dependent upon the specific investment. The paramount goal of the Company will be to generate maximum returns from its investments.

The composition of the Company's investment portfolio will vary over time depending on its assessment of a number of factors, including the performance of its investments, developments in existing and potential markets, and risk assessment. The Company's investment objectives, investment strategy and investment restrictions may be amended from time to time on the recommendation of the investment committee or senior management and approval by the Board. The Company's board of directors reserves the right and authority to change the general or specific focus of the Company's investments over time; and reserves the right to diversify the Company's portfolio of investments by industry, geography, and investment type without prior announcement or notice being given.

The Company anticipates re-investing the profits realized from its investments to further the growth and development of the Company's investment portfolio. The declaration and payment of dividends to shareholders will become a priority once Company has achieved steady or continuous cash flow from its investments.

Investment Objectives

The principal investment objectives of the Company are as follows:

- to seek high return investment opportunities by investing directly in a variety of securities or interests of public and private companies and assisting in early stage projects by providing financial support;
- to identify early stage opportunities with attractive risk/reward ratios;
- to preserve its capital and limit the downside risk of its capital;
- to achieve a reasonable rate of capital appreciation;
- to minimize the risk associated with each form of investment; and
- to seek liquidity in its investments.

Investment Strategy

In light of the numerous investment opportunities across the entire landscape, the Company aims to adopt a flexible approach to investment targets without placing unnecessary limits on

potential returns on its investment. This approach is demonstrated in the Company's proposed investment strategy set out below.

To achieve the investment objectives as stated above, while mitigating risk, the Company, when appropriate, shall employ the following disciplines:

- The Company will obtain detailed knowledge of the relevant business in which the investment will be made, as well as the target company ("Investee").
- The Company will seek to retain management or consultants having specific industry expertise within the industry or sector in which an investment is contemplated or has been made.
- The Company will work closely with the Investee's management and board, and in some cases, assist in sourcing experienced and qualified persons to add to the board and/or management of the Investee. In certain circumstances, a representative of the Company may be appointed to an Investee's board of directors.
- Investments may include:
 - equity, bridge loans, secured loans, unsecured loans, convertible debentures, warrants and options, royalties, streaming investments, net profit interests and other hybrid instruments;
 - acquisitions, partnership interests, or joint venture interests with Investees;
 - acquisition of a business or its assets, directly or via a wholly owned subsidiary, and subsequent managing or assisting in developing the underlying business;
 - capital investment in private companies, and assistance in moving them to an acquisition or merger transaction with a larger company or to the public stage through initial public offering, reverse takeover or other liquidity event;
 - early stage equity investments in public companies believed to have favourable management and business; and
 - where appropriate, acting as a third party advisor for opportunities in target or other companies, in exchange for a fee.
- The Company will have flexibility on the return sought, while seeking to recapture its capital within a reasonable period following the initial investment(s).
- The Company will seek to maintain the ability to actively review and monitor all of its investments on an ongoing basis. Investees will be required to provide continuous disclosure of operations and financial status. From time to time, the Company may insist on board or management representation on Investees.
- The Company will continually seek liquidity opportunities for its investments, with a view to optimizing the return on its investment; recognizing that no two investments will be alike in terms of the duration held or the best means of exiting an investment.
- The Company may acquire interests in Investees within the framework of the above guidelines, which from time to time may result in the Company holding a control or complete ownership position in an Investee.
- The Company may utilize the services of both independent organizations and securities dealers to gain additional information on target investments where appropriate.

Notwithstanding the foregoing, from time to time, the Board may authorize such investments outside of these disciplines as it sees fit for the benefit of the Company and its shareholders.

Pending investment of available funds, monies will be held in bank or trust accounts with Schedule A financial institutions.

Composition of Investment Portfolio

Principal Targets: The Company is employing an agnostic to industry approach to its investment target type in order to ensure quality investment opportunities are not disqualified. However, management and board will apply a moral suitability analysis in conjunction with the regular investment assessment criteria.

Composition: The actual composition of the Company's investment portfolio will vary over time depending on its assessment of a number of factors, including the global development of the cannabis industry. Management will not be bound or restricted as to the geographic, percentage diversity, number of investments, or other restrictive parameters; but may exercise flexibility in its approach to and investment of available funds.

Types: The Company will maintain a flexible position with respect to the form of investments taken, and may employ a wide range of investment instruments, including equity, bridge loans, secured loans, unsecured loans, convertible debentures, warrants and options, joint ventures, partnerships, net profit interests and other hybrid instruments.

Jurisdictions: While the Company initially intends to focus on investments in North America, but acknowledges that the industries and sectors in which it intends to invest may become global in nature, and as such anticipates that a material percentage of its investments may be in entities formed in jurisdictions outside of Canada and the United States. All jurisdictions where cannabis is legal will be permissible for investment consideration depending on the risk assessment of the Board and management at the time the investment is made and the risk-reward relationship associated with each investment in a particular jurisdiction, including the purchase of securities listed on foreign stock exchanges.

Timing: The timing of the Company's investments will depend, in part, on available capital at any particular time, and the investment opportunities identified and available to the Company. Subject to the availability of capital, the Company intends to create a suitably diversified portfolio of investments and not retain available cash. Management will not be bound or restricted as to the timing to invest available capital; but will seek to fully deploy available capital in as expeditious a manner as possible.

Notwithstanding the above, the Company intends to invest at least 60% of its available capital resources in Investees, in accordance with the investment objectives and strategy outlined herein, at all times (subject to a reasonable period of time following each raising of additional capital and providing for reasonable reserves of cash for budgeted administrative expenditures and a prudent cash reserve.).

Size: The Company will not be bound or restricted as to the overall size of its investment portfolio. The Company may raise additional funds continuously for purposes of expanding its investment portfolio; or may choose to limit its size based on available management time or investment opportunities. Nor will the Company be limited as to the size of any particular investment it may make or the percentage interest any one investment may be of the Company's overall portfolio. As such, the Company may hold a material or majority of its investments in one Investee or a relatively few number of Investees. Further, the Company will

not be limited as to the percentage interest it may hold in any Investee, which may result in the Company holding a control position or even complete ownership of an Investee.

Investee Structures: The Company will not be bound or restricted as to the nature or structure of Investees. Investees may be public or private corporations, partnerships, joint ventures or other legal entities.

Compliance: The Company will use its reasonable commercial efforts to ensure that with respect to every investment made by the Company that the Investee is in full compliance with all applicable regulatory requirements enacted by the applicable regulatory authorities in the jurisdiction in which it operates.

Procedures and Implementation

The senior officers and other management of the Company (“Management”) and the Company’s Board of Directors (the “Board”) and the respective members thereof shall work jointly and severally to uncover appropriate investment opportunities. These individuals have a broad range of business experience and their own networks of business partners, financiers, venture capitalists and finders through whom potential investments may be identified.

Prospective investments will be channelled through Management. Management shall make an assessment of whether the proposal fits with the investment and corporate strategy of the Company in accordance with the investment objectives and strategy set out in this policy, and then proceed with preliminary due diligence, leading to a decision to reject or move the proposal to the next stage of detailed due diligence. This process may involve the participation of outside professional consultants.

The Company will obtain detailed knowledge of the relevant business the investment shall be made in, as well as the investee corporation, their management team, quality of asset(s) and risks associated as applicable.

Once a decision has been reached to invest in a particular situation, a summary of the rationale behind the investment decision shall be prepared by Management and submitted to the Board. This summary should include, among other things, the estimated return on investment, timeline of investment, guidelines against which future progress can be measured, and risks associated with the investment. The summary should also disclose any finder’s or agent’s fees payable.

All investments shall be submitted to the Board for final approval. Management will select all investments for submission to the Board and monitor the Company’s investment portfolio on an ongoing basis, and will be subject to the direction of the Board. Management will present an overview of the state of the investment portfolio to the Board on a quarterly basis.

Negotiation of terms of participation is a key determinant of the ultimate value of any opportunity to the Company. Negotiations may be ongoing before and after the performance of due diligence. The representative(s) of the Company involved in these negotiations will be determined in each case by the circumstances of the investment opportunity.

Compliance

All investments shall be made in compliance with applicable laws in relevant jurisdictions, and shall be made in accordance with and governed by the rules and policies of applicable regulatory authorities.

From time to time, the Board may authorize such additional investments outside of the guidelines described herein as it sees fit for the benefit of the Company and its shareholders.

Management Participation

The Company may, from time to time, seek a more active role in the corporations in which it invests, and provide such corporations with financial and personnel resources, as well as strategic counsel. The Company may also ask for board representation in cases where it makes a significant investment in the business of an investee corporation. The Company's nominee(s) shall be determined by the Board as appropriate in such circumstances.

Fund Status

The Company will aim to structure its investments in such a way as to not be deemed either an Investment Fund or Mutual Fund, as defined by applicable securities laws, thereby avoiding the requirement to register as a fund or investment advisor.

Conflicts of Interest

The Company has no restrictions with respect to investing in corporations in which a Board member may already have an interest. Any potential investments where there is a material conflict of interest involving an employee, officer or director of the Company may only proceed after receiving approval from the disinterested directors of the Board. The Company is also subject to the "related party" transaction policies of the CSE, which mandates disinterested shareholder approval and valuations to certain transactions.

Prior to making any investment commitment, the Company shall adopt procedures for checking for potential conflicts of interest, which shall include but not be limited to a circulation of the names of a potential target corporation and its affiliates to the Board and Management.

All members of the Board shall be obligated to disclose any interest in the potential investment. In the event a conflict is detected, the target corporation shall be notified of the potential conflict in writing. The members of the Board and its advisors shall be responsible for detecting a potential conflict.

Where a conflict is determined to exist within Management or the Board, the individual having a conflicting interest shall provide full disclosure of their interest in the potential investment and, if such person is a Board member, shall abstain from voting on the investment decision but may participate in discussions regarding the potential investment opportunity.

The members of the Board and Management and their respective affiliates (collectively the "Parties") are or may be involved in other financial, investment and professional activities which may on occasion cause a conflict of interest with their duties to the Company. These include serving as directors, officers, promoters, advisers or agents of other public and private corporations, including corporations in which the Company may invest. The Parties may also

engage in transactions with the Company where any one or more of the Parties is acting in their capacity as financial advisor, broker, intermediary, principal, or counterparty, provided that such transactions are carried out on terms similar to those which would apply in a similar transaction between persons not connected with the Parties or any one of them and such transactions are carried out on normal commercial terms as if negotiated at arm's length.

Amendment

The Company's investment objectives, strategy and restrictions and other provisions of this Investment Policy may be amended from time to time on the recommendation of Management and approval by the Board. Unless required by the TSX Venture Exchange, approval by the Company's shareholders of any such amendments is not required.

Dividends

The Company does not anticipate the declaration of dividends to shareholders during its initial stages and plans to reinvest the profits of its investments to further the growth and development of the Company's investment portfolio. As part of the Company's overall objective of maximizing returns on its investments, it will seek to maximize value to its shareholders. As such the declaration and payment of dividends to shareholders may become a priority once Company has achieved steady or continuous cash flow from its investments.

4. Narrative Description of the Business

See (3) "General Development of the Business" above

Business objectives 12 months forward

Chemistree Technology Inc. is an investment company. The Company's corporate strategy is to seek out, assess and if deemed appropriate make investments of the Company's capital into certain corporations.

The Covid-19 pandemic is creating unprecedented challenges to the global economy and stock markets. Chemistree is dependent on the formation of capital for our liquidity. Our board and management are taking actions to maintain the solvency of the Company as long as possible during this period of uncertainty. In addition, management continues to monitor the negative headwinds of capital markets related to the cannabis industry, given its current investment portfolio. Company valuations have retreated over the last 12-months largely due to negative investor sentiment, and failure of operators to deliver on performance guidance. Chemistree believes that capital markets will improve for US operators, however, caution is warranted as the industry deals with the large quantity of 'unregulated' product that is still widely available in the marketplace. The industry's "miss" of financial performance targets has been due to many factors, including slowness and uncertainty of the licensing/regulatory process, higher than expected costs associated with testing and taxation, and inability to access capital on an as-needed basis.

During the period, 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.

In terms of composition, the nature and timing of the Company's investments will depend, in part, on available capital at any particular time and the investment opportunities identified and available to the Company. Subject to the availability of capital, the Company intends to create a diversified portfolio of investments. The composition of its investment portfolio will vary over time, and may include equity investments, , secured or unsecured loans, asset acquisitions, All investments shall be made in compliance with applicable laws in relevant jurisdictions and shall be made in accordance with and governed by the rules and policies of applicable regulatory authorities.

Management

The management team consists of four key people. Karl Kottmeier, President/Chief Executive Officer; Douglas Ford, Chief Financial Officer; Sheldon Aberman, Chief Cannabis Officer and Jeremy Deichen, Project Manager.

Karl Kottmeier, President/CEO

Karl has over 25 years of experience in structuring, financing and administering start-up venture companies through to listing on the TSX and TSX Venture Exchanges, directly raising over \$150 million in equity financing. Karl is a principal of the PEM Group.

Douglas Ford, CFO

Doug is a career venture capitalist and has served as Chief Financial Officer and director of a number of public companies over the past 30 years and has significant experience in all facets of financial management, governance, compliance and reporting. Doug is a principal of the PEM Group.

Sheldon Aberman, Chief Cannabis Officer

Sheldon Aberman is an independent businessman who has co-founded, operated and sold several businesses in a variety of industries, including: insurance, equipment and consulting. He has a specialized acumen in the cannabis industry and has been in business for more than 15 years.

Jeremy Deichen, Manager, social media business development

Jeremy is the creative director of LG Digital Inc., a Vancouver-based digital marketing, website, video production and graphic design company. Jeremy has over 20 years' experience in project management, marketing, branding and social media. Jeremy is also the creative director of Growing Exposed, an on-line video information and marketing series showcasing the cannabis industry world-wide.

Administration

All corporate administration is managed from the Company's head office in North Vancouver, Canada.

Specialized skills

Core management of the Company has extensive experience in capital raising, identifying early-stage investment opportunities, negotiating and structuring investments and administration of start-up enterprises. The Company has developed an in-house team of social media experts, branding, marketing and finance experts. Cannabis expertise is provided through a network of US-based consultants.

Cyclical business

The Company does not regard its investment business as cyclical.

Employees

The Company has on average, six employees.

Foreign Operations

The Company is developing its marketing and social operations and specific projects outside of Canada, in the Pacific region of the United States. Currently the Company has three clients in Washington state. Certain contracts entered into or potentially available to the Company do or may require the Company to maintain a physical presence in the state in which the client company is doing business. The Company is currently investigating suitable locations and business arrangements for its base of operations.

Through Chemistree Washington, the Washington Assets will be located in Washington state. Marijuana remains illegal under U.S. federal law. See "*Washington Acquisition*" above and "*Legal and Regulatory Trends*" and "*Risk Factors*" below.

Competitive Conditions

Cannabis-Specific

New technology is constantly being introduced to the market and users are highly mobile and prone to change and/or acceptance of new platforms, business offerings and methods of online communication and commerce. New brands can be introduced quickly to a given market with potentially disruptive impacts and consumer tastes and demands are equally volatile.

Management and corporate advisors have substantial experience and industry knowledge and have maintained key relationships with suppliers, and consultants, as well as, existing and potential clients. Management believes that these relationships may provide a distinct advantage over competitors for access.

The fast-growing market for legalized cannabis in both Canada and the U.S. has created a competitive environment for cannabis producers and retailers as well as other types of companies who provide goods and services to the cannabis industry. In November 2012, the WSLCB passed Initiative 502 (I-502), pursuant to a vote by the people of the State of Washington. I-502 authorized the WSLCB to regulate and tax recreational marijuana products for persons over 21 years of age and thereby created a new industry for the growing, processing and selling of recreational marijuana products regulated by the state of Washington. In the state of Washington, a Tier 3 Producer-Processor License is allowed to produce marijuana for sale at

wholesale to marijuana processor licensees and to other marijuana producer licensees. Tier 3 allows for between ten thousand square feet and thirty thousand square feet of dedicated plant canopy. Recent WSLCB data reports that for calendar 2017, cannabis sales surpassed \$1.37-billion, and generated Excise Tax to Washington State of more than \$314-million. Reports by the Rand organization suggested that there are currently up to 700,000 recreational marijuana users in the state of Washington.

A number of companies have emerged that specialize in or seek to provide financing to enterprises in the cannabis space. The Company believes that some traditional sources of financing, such as bank, venture capital funds and private equity firms or merchant banks, are becoming increasingly available in the cannabis sector as acceptance of the industry grows and additional jurisdictions legalize cannabis for medicinal and/or recreational use.

Accordingly, Chemistree may face competition from a number of new, well capitalized entrants for investments in the cannabis space, along with competition from other early movers into the cannabis sector.

Social or Environmental Policies

The Company has not implemented any specific social or environmental policies that are fundamental to operations. The Company seeks to adhere to industry-standard best practices at all times and is governed by the regulations of the specific jurisdictions in which it operates. Depending on the Company's future investments, it may in the future be subject to environmental regulation or adopt additional social or environmental policies.

Legal and Regulatory Trends

In accordance with the Canadian Securities Administrators Staff Notice 51-352 (Revised) – Issuers with U.S. Marijuana-Related Activities (“Staff Notice 51-352”), below is a discussion of the federal and state-level U.S. regulatory regimes in those jurisdictions where the Company is currently directly involved in the cannabis industry. The Company's wholly owned subsidiaries, Chemistree Washington, American CHM Investments Inc., and CMH Desert LLC, are indirectly engaged, by providing turn-key facilities and branding services, or investing, in the manufacture, possession, use, sale or distribution of cannabis in Washington State, the State of California and the State of New Jersey. None of Chemistree, Chemistree Washington, or the Company's other subsidiaries are required to hold a permit, license or other regulatory approvals under applicable state cannabis laws, in order to operate the Company's business as conducted at present.

In accordance with Staff Notice 51-352, the Company will evaluate, monitor and reassess its disclosure in respect of its operations in the U.S., and any related risks, on an ongoing basis and the same will be supplemented and amended to investors in public filings, including in the event of government policy changes or the introduction of new or amended guidance, laws or regulations regarding marijuana regulation. Any non-compliance, citations or notices of violation which may have an impact on the Company's business activities or operations will be promptly disclosed by the Company

This Form 2A involves an entity that derives a portion of its revenues from the cannabis industry in certain U.S. states. While, to the best of the Company's knowledge, the Company's business activities are compliant with applicable licensing requirements and the regulatory frameworks enacted by applicable U.S. states, such activities remain illegal under U.S. federal law. The enforcement of relevant laws is a significant risk. For more information concerning the risks related to the Company's operations in the U.S. See “Risk Factors – United States”.

United States

As of January 16, 2018, the United States Supreme Court has ruled that the United States Congress has the power to regulate cannabis. The United States federal government regulates drugs through the CSA, which places controlled substances, including cannabis, in a schedule. Cannabis is classified as a Schedule I drug. A Schedule I controlled substance is defined as a substance that has (i) no currently accepted medical use in the United States, (ii) a lack of safety for use under medical supervision, and (iii) a high potential for abuse. The Department of Justice defines Schedule 1 drugs, substances or chemicals as “drugs with no currently accepted medical use and a high potential for abuse.” The United States Food and Drug Administration has not approved marijuana as a safe and effective drug for any application.

Unlike in Canada which has federal legislation uniformly governing the cultivation, distribution, sale and possession of marijuana under the Cannabis Act (Canada), marijuana is largely regulated at the state level in the United States. State laws regulating cannabis may be deemed, in certain instances, to conflict with the CSA, as cannabis use and possession remains illegal at the federal level. Although certain states and territories of the United States authorize medical or recreational cannabis production and distribution by licensed or registered entities, under federal law, the possession, use, cultivation, and transfer of cannabis and any related drug paraphernalia is illegal and any such acts may be deemed criminal acts under the CSA. Although the Company’s activities are compliant with applicable state and local law, strict compliance with state and local laws with respect to cannabis may neither absolve the Company of liability under United States federal law, nor may it be conclusive when developing a defense against any federal proceeding which may be brought against the Company. See “Risk Factors” in this Form 2A.

Compliance with Applicable State Law in the United States The Company is classified as having an “indirect” involvement in the United States cannabis industry, and is in compliance with applicable licensing requirements, to the extent required, and the regulatory framework enacted by Washington State, the State of California and the State of New Jersey. The Company is not subject to any citations or notices of violation with applicable licensing requirements and the regulatory framework enacted in Washington State, the State of California or the State of New Jersey which may have an impact on its business activities or operations.

The Company has state and local regulatory/compliance counsel engaged in every jurisdiction in which it operates.

In January 2018, United States Attorney General Jeff Sessions rescinded the memorandum issued on August 29, 2013, by the United States Deputy Attorney General James M. Cole (the “Cole Memorandum”), governing federal prosecution of offenses related to marijuana in the United States, and thereby created a vacuum of guidance for enforcement agencies and the Department of Justice. United States Attorney General Jeff Sessions resigned on November 7, 2018. On January 15, 2019, then U.S. Attorney General nominee William P. Barr intimated a markedly different approach to cannabis regulation than his predecessor during his confirmation hearing before the Senate Judiciary Committee. Mr. Barr stated that his approach to cannabis regulation would be not to upset settled expectations that have arisen as a result of the Cole Memorandum, that it would be inappropriate to upset the current situation as there has been reliance on the Cole Memorandum and that he would not be targeting companies that have relied on the Cole Memorandum and are complying with state laws with respect to the distribution and production of cannabis. While he did not offer support for cannabis legalization, Mr. Barr did emphasize the need for the U.S. Congress to clarify federal laws to address the

untenable current situation which has resulted in a backdoor nullification of federal law. It is unclear what specific impact this development will have on U.S. federal government enforcement policy. There is no guarantee that state laws legalizing and regulating the sale and use of cannabis will not be repealed or overturned, or that local governmental authorities will not limit the applicability of state laws within their respective jurisdictions. Unless and until the United States Congress amends the CSA with respect to cannabis (and as to the timing or scope of any such potential amendments there can be no assurance), there is a risk that federal authorities may enforce current U.S. federal law. The Company will continue to monitor compliance on an ongoing basis in accordance with its compliance program and standard operating procedures.

On December 20, 2018, the Agricultural Improvement Act of 2018 (commonly known as the “2018 Farm Bill”) was signed into law by President Trump. The 2018 Farm Bill, among other things, removes industrial hemp and its cannabidiols, including CBD derived from industrial hemp, from the CSA and amends the Agricultural Marketing Act of 1946 to allow for industrial hemp production and sale in the United States. Under the 2018 Farm Bill, industrial hemp is defined as “the plant *Cannabis sativa* L. and any part of that plant, including the seeds thereof and all derivatives, extracts, cannabinoids, isomers, acids, salts, and salts of isomers, whether growing or not, with a delta-9 tetrahydrocannabinol concentration of not more than 0.3 percent on a dry weight basis.” The U.S. Department of Agriculture has been tasked with promulgating regulations for the industrial hemp industry, which, among other things, requires the Department of Agriculture to review and approve any state-promulgated regulations relating to industrial hemp. Until such time as the Department of Agriculture approves a state’s industrial hemp regulations, commercial sale of industrial hemp may not be permissible. The timing of such Department of Agriculture regulations cannot be assured. Further, under the 2018 Farm Bill, the United States Food and Drug Administration (“FDA”) has retained authority over the addition of CBD to products that fall within the Food, Drug and Cosmetics Act (“FDCA”). There can be no assurance that the FDA will approve CBD as an additive to products under the FDCA. Additionally, the 2018 Farm Bill does not legalize CBD derived from “marihuana” (as such term is defined in the CSA), which is and will remain a Schedule I controlled substance under the CSA.

While the Company’s operations are in compliance with all applicable state laws, regulations and licensing requirements, such activities remain illegal under United States federal law. For the reasons described above and the risks further described in this Form 2A, there are significant risks associated with the business of the Company. See “Risk Factors” in this Form 2A.

California Regulations

In 1996, California was the first state to legalize medical marijuana through Proposition 215, the Compassionate Use Act of 1996 (the “CUA”). This legalized the use, possession and cultivation of medical marijuana by patients with a physician recommendation for treatment of cancer, anorexia, AIDS, chronic pain, spasticity, glaucoma, arthritis, migraine, or any other illness for which marijuana provides relief. In 2003, Senate Bill 420 was signed into law establishing an optional identification card system for medical marijuana patients.

In September 2015, the California legislature passed three bills collectively known as the “Medical Cannabis Regulation and Safety Act” (the “MCRSA”). The MCRSA established a licensing and regulatory framework for medical marijuana businesses in California. The system created testing laboratories, transportation companies, and distributors. Edible infused product

manufacturers would require either volatile solvent or non-volatile solvent manufacturing licenses depending on their specific extraction methodology. Multiple agencies would oversee different aspects of the program and businesses would require a state license and local approval to operate. However, in November 2016, voters in California overwhelmingly passed Proposition 64, the “Adult Use of Marijuana Act” (the “AUMA”) creating an adult-use marijuana program for adult-use 21 years of age or older. In June 2017, the California State Legislature passed Senate Bill No. 94, known as Medicinal and Adult-Use Cannabis Regulation and Safety Act (the “MAUCRSA”), which amalgamated the MCRSA and the AUMA to provide a set of regulations to govern the medical and adult-use licensing regime for cannabis businesses in the State of California. The MAUCRSA went into effect on January 1, 2018. The three agencies that regulate marijuana licensing at the state level are the Bureau of Cannabis Control, the California Department of Food and Agriculture, and the California Department of Public Health. The California Department of Tax and Fee Administration and other state departments provide ancillary regulatory oversight of marijuana businesses

In order to legally operate a medical or adult-use cannabis business in California, an operator must have both a local and state license. This requires license holders to operate in cities or counties with marijuana licensing programs. Therefore, cities and unincorporated counties in California are allowed to determine the number of licenses they will issue to marijuana operators, or can choose to outright ban marijuana.

In connection with the acquisition of the DHS Property, the Company retained legal counsel and other advisors in connection with California’s marijuana regulatory program. The Company has and will only engage in transactions with California marijuana businesses that hold local and state licenses that are in good standing to cultivate, manufacture, possess, sell and/or distribute marijuana in California in compliance with California’s marijuana regulatory program. Management believes the Company’s ancillary involvement in the cannabis sector is in compliance with the cannabis regulatory program of the State of California and the Company conducts itself in a manner consistent with United States federal and state enforcement priorities.

Washington Regulations

In November 2012, Initiative 502 (“I-502”) passed pursuant to a vote by the people of the State of Washington. I-502 authorized the WSLCB to regulate and tax recreational cannabis products for persons over 21 years of age. The WSLCB issues three distinct license types: producers, processors, and retailers. Unlike other States, Washington’s regulations include a ban on vertical integration. This prohibits any individual or entity from having an ownership interest in both a retail license and either a producer or processor license, although common ownership is allowed for a producer/processor. Within the classification of producers, the WSLCB issues licenses within one of three tiers. Under the regulations, a Marijuana Producer Tier I is allowed to grow up to 2,000 square feet of dedicated plant canopy, a Marijuana Producer Tier II is allowed to grow between 2,000 square feet and 10,000 square feet of dedicated plant canopy, and a Marijuana Producer Tier III is allowed to grow between 10,000 square feet and 30,000 square feet of dedicated plant canopy. A WSLCB-commissioned report by the RAND Company suggests that there are currently up to 700,000 recreational cannabis users in the State of Washington, worth approximately US\$1.25 billion to US\$1.5 billion in annual sales(2) .

WSLCB regulation requires licensed operators and, in the case of a licensed entity, all individuals who have or seek to acquire and ownership interest in a licensee to be residents of Washington and to have lived in Washington for at least six months prior to applying.

Chemistree, as a widely held public company, is unable to satisfy this requirement and has not acquired a direct license under Washington's cannabis regulatory program to date. The Company endeavours to be a provider of turnkey facilities and licenses brands to state-licensed producers and processor licensees. Although Chemistree Washington will not hold a license issued by the WSLCB, the regulatory risks faced by the WSLCB-approved licensees may indirectly impact Chemistree Washington. For example, a strategic partner with Chemistree Washington may be unable to perform under agreements entered into with Chemistree Washington in the event of an actual or threatened loss of a license. Management believes (i) the Company's involvement in the cannabis sector is in compliance with Washington's cannabis regulatory program and (ii) the Company conducts itself in a manner consistent with United States federal and state enforcement priorities.

1. Application and Licensing

In the State of Washington, every individual with an ownership or equity interest, a right to receive a percentage of gross or net profits, or who otherwise exercises control over a licensed cannabis operator must apply for licensing with the WSLCB and be approved. Each applicant must be over 21 years of age and a Washington resident.

An applicant for WSLCB licensing (a "WSLCB Applicant") must provide the WSLCB with the WSLCB Applicant's organizational and operational documents, including the entity's operating agreement and a detailed operating plan, in order to verify that the proposed business meets the minimum requirements for licensing and has the capacity to meet the ongoing operational and regulatory demands of a licensee.

A WSLCB Applicant must provide the WSLCB with the applicant's financial statements and other personal background documentation necessary to verify the source of funds for the business, including any acquisition agreements and any agreements for the development of an operating cannabis business, as well as financial documents verifying the source of funds for all purchases of and material changes to the business. All capital contributions made to an existing licensee must also be approved by the WSLCB. A WSLCB Applicant must disclose any financiers that are providing funds to be used by the cannabis business, and such financiers, except banks and other financial institutions, are subject to a substantially similar application process through the WSLCB. Financiers need not be Washington residents, but must be United States residents and all shareholders of a financier, in the case of a business entity, must meet the same requirements.

A WSLCB Applicant must also provide the WSLCB with the WSLCB Applicant's and the WSLCB Applicant's spouse's personal and criminal history, including fingerprints for the submission of a criminal records background check with the Washington State Patrol and the United States Federal Bureau of Investigation. Conviction for certain serious crimes, or a certain number of convictions for more minor crimes, may disqualify a WSLCB Applicant from holding a WSLCB cannabis license.

The WSLCB is not currently accepting new license applications for producers, processors, or retailers. While the agency may reopen the application window for new applications if and when it deems a new window to be necessary, the only current way to obtain one is to assume an existing license. Licensees are also limited to the number of licenses they can obtain. A single entity is limited to no more than three producer and/or processor licenses or, separately and subject to various restrictions on integration, five retail licenses. Any change in the initial ownership of a cannabis entity must receive prior approval through the WSLCB, and must undergo a review of the same rigor and breadth as an initial application.

2. Operations

A WSLCB Applicant must provide an operational plan that includes a detailed description of all applicable areas of: security; traceability; employee qualifications and training; transportation of product including packaging for transportation; destruction of waste product; description of growing operations including growing media, size of grow space allocated for plant production, space allocated for any other business activity, description of all equipment used in the production process, and a list of soil amendments, fertilizers, other crop production aids, or pesticides, utilized in the production process; description of the types of products to be processed with a complete description of all equipment including all cannabis infused edible processing facility equipment and solvents, gases, chemicals and other compounds used to create extracts and for processing of cannabis-infused products; testing procedures and protocols; employee compensation and benefits data; description of packaging and labeling of products; and the array of products which are to be sold and how the products are to be displayed to consumers.

Any significant change in the operational plan (e.g. adding volatiles processing capabilities, expanding the floorplan of the cannabis business, etc.) of a licensed cannabis entity must receive prior approval through the WSLCB, and undergo a review of the same rigor and breadth or review as an initial application.

3. Inspections

The WSLCB sends an enforcement officer to inspect each proposed cannabis facility prior to granting approval to be authorized to begin cultivation, processing, or dispensing. Licensed operators must permit the WSLCB enforcement officers to inspect the premises, vehicles, records, and cannabis products at any time, and random inspections are conducted frequently by enforcement officers.

4. Security Requirements

The WSLCB requires all licensed operators, employees, and non-employee visitors other than retail customers to display an identification badge at all times on the premises. Each licensed operator must keep a log of all visitors other than retail customers to the premises.

All premises must have a security alarm system on all perimeter entry points and perimeter windows. All premises must have a complete video surveillance system with minimum required camera resolution and a surveillance system storage device or internet protocol storage compatibility that: (a) records continuously for 24 hour per day, (b) has cameras in fixed places that allow for the clear identification of persons and activities in the controlled areas of the premises, including grow rooms, processing rooms, storage rooms, disposal rooms/areas and point of sale rooms, (c) has the capability of recording clear images and displays the time and date of the recording, (d) demonstrates a plan for retention of recordings for at least 45 days; and (e) provides outdoor lighting for outdoor cultivation.

5. Traceability and Inventory Tracking

Washington requires use of a seed-to-sale tracking system. Licensed operators must use an inventory control system that identifies and tracks the plant from the time it reaches a height of six inches through harvest, processing, packaging, wholesale, and retail sale. Vehicles transporting cannabis must have: (a) a vehicle security system, including separate, secure, locking compartment to store any cannabis product; and (b) a transportation manifest reported through the seed-to-sale tracking system, including: (i) the departure time, (ii) the name, location, address and license number of the originating licensed operator, (iii) a quantity and form of product to be delivered, (iv) an estimated time of arrival, and (v) the name of the employee and identification of the vehicle delivering the product. Licensed operators must retain traceability records for three years and make records available upon request for inspection by the WSLCB or other law enforcement.

6. Pricing and Prohibited Practices

Cannabis products must be sold at a price indicative of true value. Licensed retailers may not sell cannabis products below the wholesale acquisition price of the product. Licensed cannabis producers and processors are prohibited from offering conditional sales, discounts, loans, rebates, free products, or any agreement that causes undue influence over another licensed operator. However, licensed producers and processors are allowed to provide licensed retailers certain promotional items of nominal value such as hats, mugs, etc.

7. Testing

The WSLCB requires quality assurance testing of each lot of final cannabis product be conducted by an independent, state certified, third-party testing laboratory with a statistically significant number of samples using acceptable methodologies to ensure that all lots of cannabis product manufactured are adequately assessed for contaminants and the cannabinoid profile is correctly labeled for consumers. The quality assurance tests required for cannabis flowers and infused products currently include moisture content, potency analysis, foreign matter inspection, microbiological screening, and residual solvent levels.

The results of the inspection and testing are submitted to the WSLCB through the traceability system. In conjunction with the Washington State Department of Agriculture, the WSLCB conducts random screening for pesticide residues. A particular lot of cannabis product may not move forward in processing, delivery, or sale without a passing test for that lot reported by the independent lab itself into the traceability system. All test results are required to be provided to retailers and/or end consumers upon request.

8. Packaging and Labelling

Each package containing cannabis, or a cannabis product must have affixed a label including required warnings for all cannabis products and for the specific product type. The label must also include identifying information for the producer and retailer of the cannabis product. Each edible cannabis infused product must be packaged in child-safe packaging and contain 10 milligrams or less of active THC per serving. WSLCB licensed cannabis retailers must make testing results available to the customer upon request.

9. Advertising

The WSLCB limits advertising by licensee cannabis operators. Advertising in any form is prohibited within 1,000 feet of school grounds, playgrounds, recreation centers or facilities, childcare centers, public parks, libraries, or game arcades with unrestricted admission. Advertising is also prohibited on public transit vehicles or transit shelters, and on any publicly owned or operated property. Advertising visible from a public roadway may only contain the name, location, and nature of the business. No advertising may target youth or use objects likely to be appealing to youth. All advertising, including digital advertising, must include required warnings prescribed by regulation.

New Jersey Regulations

New Jersey's medical cannabis program was introduced on January 18, 2010 when then Governor Corzine signed the New Jersey Compassionate Use Medical Marijuana Act ("NJCUMMA") into law. The NJCUMMA legalized medical cannabis for patients with certain qualifying conditions. The first sales were made to patients in December 2012. The New Jersey Department of Health ("NJDOH") issued regulations shortly thereafter authorizing the NJDOH to accept applications for a minimum of six alternative treatment centers (each, an "ATC"), with two each to operate in the north, central and south regions of New Jersey.

The application process in respect of an ATC involves two stages. Those seeking an ATC permit must first submit an application seeking authority to apply for a permit to operate. Upon the granting of the application, the prospective ATC must then complete the application for actual permitting. Applications for authority to apply for a permit may only be submitted following solicitation from NJDOH for such applications. The first six permits for ATCs were awarded to nonprofit entities, with subsequent permits to be available to both nonprofit and for-profit entities. In 2013, NJCUMMA was amended to allow ATCs to cultivate an unlimited number of strains of marijuana and sell additional marijuana-infused products, and to restrict the sale of marijuana-infused edible products to qualifying patients under the age of 18. With additional authorizations, ATCs may also house manufacturing facilities for marijuana-infused products such as syrups and lozenges. All marijuana is subject to a THC limit of 10%, though NJDOH is proposing to repeal the regulation that establishes this limit.

Upon taking office on January 16, 2018, Governor Murphy expanded the medical program by issuing Executive Order No. 6, which ordered a 60-day review of all aspects of New Jersey's current program, "with a focus on ways to expand access to marijuana for medical purposes." On March 23, 2018, NJDOH issued the Executive Order 6 Report, which immediately changed the medical cannabis program in numerous ways including adding chronic pain and anxiety as qualifying conditions, doubling the monthly product limit, permitting current licensees to open satellite dispensaries and cutting registration and renewal fees.

On July 16, 2018, the Murphy Administration announced that the licensing application process would be opened for up to six additional vertically integrated medicinal marijuana ATCs. In August 2018, the NJDOH began accepting applications for the additional ATCs. The application period closed on August 31, 2018. Winning applicants were supposed to be selected on or before November 1, 2018 but this deadline was subsequently pushed to December due to administrative constraints. On December 17, 2018, NJDOH revealed the additional six medical marijuana ATCs it picked to add to the program. New Jersey will now have 12 vertically-integrated ATCs across the state, if these additional six applicant ATCs become operational. These six applicant ATCs now must pass background checks, provide evidence of cultivation

and dispensary locations with municipal approval for each location, and comply with all regulations promulgated by the NJDOH, including safety and security requirements. As of mid-2019, there were six operational ATCs dispensing medical cannabis to patients.

A single ATC license allows for the cultivation, processing, and dispensing of medical cannabis products. Originally, each ATC was permitted to open one dispensary, located within the same facility in which the ATC cultivated and processed. With the Executive Order 6 Report, each ATC can now open two additional satellite dispensaries within their NJDOH-designated region for a total of three dispensaries each, as well as satellite production facilities. Each ATC must produce every product they dispense and must be not-for-profit. Wholesaling is prohibited. Extracted oils and flower products are permitted. The Executive Order 6 Report recommended adding edibles as a permitted product, with rulemaking for edibles the responsibility of the state legislature. As of the date of this Form 2A, the legislature has yet to develop rules for edibles, and a timeline for edibles rulemaking is yet to be determined.

On March 25, 2019, a planned vote on legislative package including medical expansion and adult-use legalization was pulled due to a lack of votes necessary to pass the legislation through the state Senate. This setback came after significant momentum had helped to pass the bill through the appropriations and judiciary committees earlier in the month. After the package of cannabis reforms stalled, Governor Murphy announced he would be expanding the medical program through administrative action. This announcement has proved contentious as the Senate President claims any regulatory changes for medical cannabis would make securing the votes necessary to pass adult-use legalization more difficult. On May 14, 2019, the Senate President announced he would no longer work to advance adult-use legalization through the legislature and instead would pivot to put the issue before voters for the 2020 general election. While legalization has stalled, bills to expand the state's medical program and reform criminal penalties continue to move forward.

Management believes the Company's ancillary involvement in the cannabis sector is in compliance with the cannabis regulatory program of the State of New Jersey and the Company conducts itself in a manner consistent with United States federal and state enforcement priorities.

Canada

The cannabis industry is a new industry in Canada and the Company anticipates that regulations governing the industry will be subject to change as the Government of Canada monitors the development and growth of industry players. On December 20, 2017, the Prime Minister communicated that the Canadian Federal Government intended to legalize cannabis in the summer of 2018, despite previous reports of a July 1, 2018 deadline. On June 7, 2018, Bill C45 passed the third reading in the Senate with a number of amendments to the language of the Cannabis Act. On June 20, 2018, Prime Minister Trudeau announced that cannabis would be legal by October 17, 2018. On June 21, 2018, the Government of Canada announced that Bill C-45 received Royal Assent. Bill-C-45 came into force on October 17, 2018. On July 11, 2018, the regulations made pursuant to the Cannabis Act were published. On October 17, 2019, the Regulations Amending the Cannabis Regulations came into force, which, among other things, amended the Cannabis Act and Cannabis Regulations to authorize the production and sale of cannabis edibles, extracts and topicals. The regulations under the Cannabis Act contemplate the various licensed activities including cultivation, processing, analytical testing, sale (including medical sales), analytical testing and scientific research, and explicitly set forth the requirements for packaging and labelling of products for both medical and non-medical

consumption. The impact of changes in the regulatory enforcement by Health Canada under the Cannabis Act and its regulations, particularly in respect of product packaging, labelling, marketing, advertising and promotions and product approvals are not expected to have any impacts on the Company as the Company has no cannabis operations in Canada at this time.

For more information concerning the risks related to the Company's operations in Canada see "Risk Factors – Canada".

Asset Backed Securities

The Company has no Asset-backed Securities outstanding.

5. Selected Consolidated Financial Information

Selected Financial Data [Annual]

The following tables show selected summary financial information which have been derived from the annual financial statements of the Company.

		Year ended		
		June 30, 2020	June 30, 2019	June 30, 2018
Operating Revenue	\$	161,050	317,736	0
Net income (loss)	\$	(5,453,452)	(4,665,101)	(738,475)
Income (Loss) per share	\$	(0.14)	(0.13)	(0.04)
Share capital	\$	17,207,845	17,075,475	13,896,322
Common shares issued		37,714,430	37,384,430	28,652,976
Weighted average shares outstanding		37,641,534	34,589,602	19,515,142
Total Assets	\$	7,453,343	11,744,835	4,042,251
Net Assets (liabilities)	\$	(1,217,959)	4,054,611	3,279,840
Cash Dividends Declared per Common Shares	\$	0	0	0

Selected Financial Data [Quarterly - unaudited]

(Expressed in Canadian Dollars)

	Quarter Ended							
	6/30/2020	3/31/2020	12/31/2019	9/30/2019	6/30/2019	3/31/2019	12/31/2018	9/30/2018
Operating revenue	(78,170)	80,838	79,181	79,201	79,434	79,434	79,434	79,434
Comprehensive (loss) gain	\$ (1,416,519)	(1,877,631)	(1,164,484)	(994,818)	(2,895,743)	(398,674)	(816,830)	(553,854)
Earnings (loss) per share	\$ (0.03)	(0.05)	(0.03)	(0.03)	(0.08)	(0.01)	(0.02)	(0.02)
Share capital	\$ 17,207,845	17,199,863	17,180,306	17,170,818	17,075,475	15,751,956	15,670,956	15,661,870
Common shares issued	37,714,430	37,694,430	37,644,430	37,644,430	37,384,430	34,383,589	34,233,589	34,222,589
Weighted average shares outstanding	37,703,221	37,652,672	37,644,430	37,566,604	34,589,602	34,236,922	34,223,904	33,556,657
Total Assets	\$ 7,453,343	8,573,333	10,073,815	11,225,888	11,744,835	13,917,458	4,566,176	5,356,816
Net Assets (liabilities)	\$ (1,217,959)	132,578	1,990,652	3,155,136	4,054,611	5,291,062	3,861,729	4,673,060
Dividends Declared per Share	\$ 0	0	0	0	0	0	0	0

6. Management's Discussion and Analysis

Please refer to Appendix "B" for Chemistree's management's discussion and analysis for the year ended June 30, 2020.

Further Information

Additional information about the Company is available at the System for Electronic Document Analysis and Retrieval (SEDAR) website www.sedar.com and at the Company's website www.chemistree.ca

7. Market for Securities

Chemistree Technology Inc. common shares and Warrants are currently listed and posted for trading on the Canadian Securities Exchange under the symbol "CHM" and CHM.wt", respectively, and the common shares are quoted in the United States on the OTCQB under the symbol "CHMJF".

8. Consolidated Capitalization

Effective December 30, 2014, the Company consolidated its common share capital on a 5-old for 1-new basis, whereby each five old shares are equal to one new share without par value.

The Company also completed a one-new-for-three-old consolidation of its common shares with a record date of Jan. 27, 2017. As a result, the Company's 15,445,221 issued and outstanding common shares were consolidated into 5,148,405 issued and outstanding common shares.

During the year ended June 30, 2020, the Company issued shares as follows:

- The Company issued 330,000 common shares pursuant to the conversion of convertible debentures at \$0.50 per share. Upon this conversion, \$122,882 was reclassified from convertible debentures to share capital, \$4,454 from deferred income tax liability and \$9,488 was reclassified from equity reserves to share capital

During the year ended June 30, 2019, the Company issued shares as follows:

- Effective July 11, 2018, Chemistree Technology Inc. closed the final tranche of the non-brokered private placement as announced May 11, 2018, and as amended June 22, 2018, and July 10, 2018, for gross proceeds of \$1,949,364.
- The July 11, 2018, final tranche comprised 5,569,613 units, issued at \$0.35 per unit. Each unit consisted of one common share and one common share purchase warrant; each warrant entitles the holder to acquire one additional common share for \$0.50 for a period of 24 months after closing of the private placement.
- The Company also issued 257,748 finders' warrants in connection with the final tranche, and the warrants will have the same terms as the common share purchase warrants included in the placement units. The Company incurred share issuance costs of \$99,790 in cash, and \$84,026 representing the fair value of finders' warrants, respectively, in connection with the placement.
- Effective March 29, 2019, in connection with a convertible debenture offering (the "Offering"), 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 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 at \$0.50 per share. 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

9. Options to Purchase Securities

Grant Date	Holder	Amount	Series total	Sub-	Exercise Price	Expiry
04/09/2020	Gina Dickson	100,000			\$0.60	04/09/2025
	Nicholas Zitelli	100,000				
	Douglas Ford	250,000				
	Sheldon Aberman	200,000				
	Karl Kottmeier	250,000				
	Elbert Wong	75,000				
	Nancy Chow	25,000				
	Kirk Gamley	250,000				
	Jeremy Deichen	100,000				
	Travis Royce	50,000				
	Kyle Stamback	50,000				
			1,450,000			
04/05/2019	Nicholas Zitelli	100,000			\$0.60	04/05/2024
	Douglas Ford	200,000				
	Sheldon Aberman	200,000				
	Karl Kottmeier	200,000				
	Elbert Wong	75,000				
	Nancy Chow	25,000				
	Kirk Gamley	200,000				
	Jeremy Deichen	100,000				
	Travis Royce	50,000				
	Kyle Stamback	50,000				
				1,200,000		
07/10/2018	Contact Financial Corp.	150,000			\$0.41	07/10/2023
	Adelaide Capital Markets	100,000				
			250,000			
06/07/2017	Doug Ford	150,000			\$ 0.10	06/07/2022
	Karl Kottmeier	150,000				
	Kirk Gamley	150,000				
	Jeremy Deichen	150,000				
	Rob Gamley	150,000				
			750,000			
08/04/2016	Frederick Chabot	50,000		50,000	\$ 0.36	08/04/2021
Grand Total				3,700,000		

10. Description of the Securities

The Company is authorized to issue an unlimited number of common shares without par value.

Holders of common shares are entitled to dividends if, as and when declared by the directors, to one vote per common shares at meetings of shareholders and, upon liquidation, to receive such assets of the Company as are distributable to holders of common shares. The common shares are not subject to call or assessment rights, redemption rights, rights regarding purchase for cancellation or surrender, or any pre-emptive or conversion rights. All common shares outstanding are fully paid and non-assessable.

In the year ended June 30, 2020, and to the date hereof, the Company has issued common shares as follows:

Date	Transaction	Price	# Shares	Gross Proceeds
2019-07-04	conversion of Debentures	\$ 0.50	32,000	\$ 16,000.00
2019-07-25	conversion of Debentures	\$ 0.50	50,000	\$ 25,000.00
2019-07-31	conversion of Debentures	\$ 0.50	166,000	\$ 83,000.00
2019-08-22	conversion of Debentures	\$ 0.50	12,000	\$ 6,000.00
2020-03-16	conversion of Debentures	\$ 0.50	50,000	\$ 25,000.00
2020-05-21	conversion of Debentures	\$ 0.50	20,000	\$ 10,000.00
2020-08-19	conversion of Debentures	\$ 0.50	100,000	\$ 50,000.00

The following table sets forth, for the periods indicated, the reported high and low prices (in Canadian dollars) and volume traded on the CSE.

Period	High	Low	Volume
October 2020	\$0.08	\$0.035	17,535,205
Quarter ended September 30, 2020	\$0.135	\$0.035	10,083,180
Quarter ended June 30, 2020	\$0.30	\$0.03	17,064,557
Quarter ended March 31, 2020	\$0.14	\$0.025	4,373,424
Quarter ended December 31, 2019	\$0.21	\$0.10	3,032,112
Quarter ended September 30, 2019	\$0.39	\$0.16	2,628,369
Quarter ended June 30, 2019 ⁽	\$0.75	\$0.28	11,139,269
Quarter ended March 31, 2019	\$0.61	\$0.445	4,270,447
Quarter ended December 31, 2018	\$0.67	\$0.31	9,098,183

11. Escrowed Securities

The Company has no escrowed securities.

12. Principal Shareholders

To the knowledge of the directors and senior officers of the Company, no person or company beneficially owns, directly or indirectly, or exercises control or direction over, voting securities carrying more than 10% of the outstanding voting rights of the Company.

13. Directors and Officers

Board of Directors

The board of directors of the Company (the “**Board**” or the “**Board of Directors**”) currently consists of five (5) directors, all of whom are elected annually. The term of office for each of the present directors of the Company expires at the Meeting.

NAME, PRESENT OFFICE HELD AND PROVINCE OR STATE OF RESIDENCY	DIRECTOR SINCE	NUMBER OF SHARES BENEFICIALLY OWNED, DIRECTLY OR INDIRECTLY, OR OVER WHICH CONTROL OR DIRECTION IS EXERCISED AT THE DATE OF THIS INFORMATION LISTING STATEMENT	PRINCIPAL OCCUPATION AND IF NOT AT PRESENT AN ELECTED DIRECTOR, OCCUPATION DURING THE PAST FIVE (5) YEARS
Karl Kottmeier ⁽¹⁾ CEO and President British Columbia	June 8, 2017	836,333	President Pacific Equity Management; Director and CEO Avanti Energy Inc. (from May 2013 until August 30, 2019)
Douglas E. Ford ⁽²⁾ CFO and Secretary British Columbia	March 14, 2008	83,243	General Manager - Dockside Capital Group Inc. Director and CFO - Avanti Energy Inc. (from May 2013 until August 30, 2019)
Nicholas Zitelli ⁽²⁾ New Jersey, United States	April 5, 2019	Nil	Independent businessman, Chief Executive Officer of the Cannabis Genetics Institute.
Sheldon Aberman Chief Cannabis Officer Arizona, United States	October 15, 2018	1,207,088	Independent businessman. President, Pure Essentials Black Label and President, Cannabis Consulting Co.
Gina Dickson ⁽²⁾ Nevada, United States	January 17, 2020	Nil	Controller, Pure Essentials Black Label since 2008. Controller, Buffalo Roots Hydro since 2019. Controller, Gardening Unlimited (from 2015 to 2016)

⁽¹⁾ Held directly, and indirectly through Madjak Management Ltd.

⁽²⁾ Member of the Audit Committee.

Corporate Cease Trade Orders or Bankruptcies

No director, officer, Insider or Promoter or a shareholder holding a sufficient number of securities to affect materially the control of the Corporation is, or within 10 years before the date of the prospectus, has been, a director, officer, Insider or Promoter of any other issuer that, while that Person was acting in that capacity, was the subject of a cease trade or similar order, or an order that denied such issuer access to any statutory exemptions for a period of more than 30 consecutive days or became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

Due to the size of the Company, the sole committee is the Audit Committee.

Composition of Audit Committee

The following directors are members of the Audit Committee:

Douglas E. Ford	Not Independent ⁽¹⁾	Financially literate ⁽²⁾
Gina Dickson	Independent ⁽¹⁾	Financially literate ⁽²⁾
Nicholas Zitelli	Independent ⁽¹⁾	Financially literate ⁽²⁾

⁽¹⁾ A member of an audit committee is independent if the member has no direct or indirect material relationship with the Company, which could, in the view of the Board of Directors, reasonably interfere with the exercise of a member's independent judgment. Mr. Douglas E. Ford is not independent by virtue of being the Company's Chief Financial Officer.

⁽²⁾ An individual is financially literate if he has the ability to read and understand a set of financial statements that present a breadth of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Company's financial statements.

Relevant Education and Experience

The relevant education and/or experience of each member of the Audit Committee is as follows:

Mr. Douglas E. Ford holds a BA in Political Science from the University of British Columbia in 1986. Mr. Ford is also directly responsible for the financial reporting of several public and private companies and has over 30 years' experience in financial reporting.

Ms. Gina Dickson serves as controller of two cannabis-related supply businesses, Pure Essentials Black Label and Buffalo Roots Hydro. For two years (in 2015 through 2016), she was the controller of Gardening Unlimited with its 8 hydroponic-supply stores and additional partner store. In 2006, she graduated from University of Nevada Las Vegas with a BSc in Business Administration: Accounting.

Mr. Nicholas Zitelli is an independent businessman with specialized expertise in technical issues surrounding cannabis cultivation, genetics and breeding, and both lab and garden technologies. Since 2007, he has been intricately involved in the oversight and operations of several sophisticated businesses directly involved in the cannabis industry.

Officers of the Company

Company officers are:

Karl Kottmeier, age 52, President.

Mr. Kottmeier has been directly responsible for the financing and administration of several public companies over the past twelve years and prior to that was an Investment Advisor at several Canadian investment firms for ten years. Mr. Kottmeier holds a BA in American History from the University of British Columbia in 1991.

Douglas Ford, age 57, CFO

Mr. Ford has also been directly responsible for the administration and financial reporting of several public and private companies and has over 30 years' experience in financial reporting. Mr. Ford holds a BA in Political Science from the University of British Columbia in 1986.

Both Mr. Kottmeier and Mr. Ford dedicate approximately 25% of their time to the Company and are contracted service providers to the Company through the Company's contract with Pacific Equity Management.

Since 2006, Mr. Kottmeier and Mr. Ford have been principals of Pacific Equity Management, a corporation that provides corporate administration and finance services to private and public companies. Neither has entered into non-competition or non-disclosure agreement with the Company.

Sheldon Aberman, Age 40, Chief Cannabis Officer and Director

Since 2003, Mr. Aberman has been involved in the cannabis industry. As of May 2013, Sheldon continues to operate Pure Essentials Black Label, a leading nutrient line geared towards commercial grows, and formally formed Cannabis Consulting Co; where he extends his expansive knowledge through consulting large scale grows throughout the United States and Canada. In September of 2014, Sheldon joined Canadian Cannabis Corporation (OTC: CCAN) as their CIO in charge of design, implementation and operations of their 312,000 square foot cultivation center just outside of Toronto, Ontario, Canada. In late 2016, Sheldon, via Cannabis Consulting, entered into a consulting agreement to design and build what would become the first licensed cultivation and processing facility in the state of Michigan, being awarded cultivation license #1 in July of 2018.

14. Capitalization

The following table sets forth the Company's share capital data as at June 30, 2020:

Common Shares Issued & Outstanding	37,714,430		
Options	1,450,000	Exercise price \$0.06	Expiry: 4/09/2025
Options	1,200,000	Exercise price \$0.60	Expiry: 4/05/2024
Options	250,000	Exercise price \$0.41	Expiry: 7/11/2023
Options	750,000	Exercise price \$0.10	Expiry: 6/7/2022
Options	50,000	Exercise price \$0.36	Expiry: 4/8/2021

Warrants	5,374,932 ⁽¹⁾	Exercise price \$0.50		Expiry: 7/11/2020 ⁽¹⁾
Warrants	21,639,500	Exercise price \$0.70		Expiry: 3/29/2022
Warrants	1,474,200	Exercise price \$0.50		Expiry: 3/22/2022
Convertible Debentures	9,567	Converts \$0.50	Price: \$1000	Maturity: 3/22/2022

⁽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.

Issued Capital (as of October 22, 2020)

	Number of Securities (non- diluted)	Number of Securities (fully- diluted)	% of Issued (non- diluted)	% of Issued (fully diluted)
<u>Public Float</u>				
Total outstanding (A)	37,814,430	89,037,062	100%	100%
Held by Related Persons or employees of the Issuer or Related Person of the Issuer, or by persons or companies who beneficially own or control, directly or indirectly, more than a 5% voting position in the Issuer (or who would beneficially own or control, directly or indirectly, more than a 5% voting position in the Issuer upon exercise or conversion of other securities held (B)	2,126,664	2,796,166	5.6%	5.52%
Total Public Float (A-B)	35,687,766	86,240,896	94.4%	94.4%
Number of outstanding securities subject to resale restrictions, including restrictions imposed by pooling or other arrangements or in a shareholder agreement and securities held by control block holders (C)	Nil	Nil	Nil	Nil
Total Tradeable Float (A-C)	35,687,766	86,240,896	94.4%	94.4%

Public Securityholders (Registered Only)

The following information is as of October 22, 2020.

Class of Security – Common Shares

<u>Size of holding</u>	<u>Number of holders</u>	<u>Total number of securities</u>
1 – 99 securities	1	8
100 – 499 securities	-	
1,500 or more securities	37	37,814,422
	<u>38</u>	<u>37,814,430</u>

Public Securityholders (Beneficial – includes registered and non-registered)

The following information is as of October 22, 2020.

Class of Security – Common Shares

<u>Size of Holding</u>	<u>Number of holders</u>	<u>Total number of securities</u>
Under 500 securities	2,438	291,568
500 – 999 securities	487	513,258
1,000 – 1,999 securities	285	510,872
2,000 – 4,999 securities	351	1,490,563
5,000 or more securities	615	35,008,169
	<u>4,176</u>	<u>37,814,430</u>

Non-Public Securityholders (Registered)

The following information is as of October 22, 2020.

Class of Security – Common Shares

<u>Size of Holding</u>	<u>Number of holders</u>	<u>Total number of securities</u>
1 – 99 securities	<u>0</u>	<u>0</u>
100 – 499 securities	<u>0</u>	<u>0</u>
500 – 999 securities	<u>0</u>	<u>0</u>
1,000 – 1,999 securities	<u>0</u>	<u>0</u>
2,000 – 2,999 securities	<u>0</u>	<u>0</u>
3,000 – 3,999 securities	<u>0</u>	<u>0</u>

4,000 – 4,999 securities	0	0
5,000 or more securities	0	0
	<u>0</u>	<u>0</u>

Warrants

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 ⁽¹⁾	\$0.50	July 11, 2020	0.03
21,639,500	\$0.70	March 29, 2022	1.75
1,474,200	\$0.50	March 29, 2022	1.75

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

15. Executive Compensation

For purposes of this Listing Statement, “Named Executive Officer” or “NEO” of the Company means an individual who, at any time during the year, was:

- (a) the Company's chief executive officer (“CEO”);
- (b) the Company's chief financial officer (“CFO”);
- (c) each of the Company's three most highly compensated executive officers, or the three most highly compensated individuals acting in a similar capacity, other than the CEO and CFO, at the end of the most recently completed financial year and whose total compensation was, individually, more than \$150,000 for that financial year; and
- (d) each individual who would be a named executive officer under paragraph (c) but for the fact that the individual was neither an executive officer of the Company, nor acting in a similar capacity, at the end of the most recently completed financial year;

(each a “Named Executive Officer”).

Based on the foregoing definition, during the last completed financial year of the Company, there were two Executive Officer(s), namely, its Chief Executive Officer, Karl Kottmeier, Chief Financial Officer, Douglas E. Ford, and its Chief Cannabis Officer, Sheldon Aberman.

Summary Compensation Table

The following table sets forth the total compensation paid to or earned by the Named Executive Officers for the Company's most recently completed financial year.

NAME AND PRINCIPAL POSITION	YEAR ENDED JUNE 30, 30TH	SALARY (\$)	SHARE-BASED AWARDS (\$)	OPTION-BASED AWARDS ⁽¹⁾ (\$)	NON-EQUITY INCENTIVE PLAN COMPENSATION (\$)		PENSION VALUE (\$)	ALL OTHER COMPENSATION (\$)	TOTAL COMPENSATION
					ANNUAL INCENTIVE PLANS	LONG-TERM INCENTIVE PLANS			
Karl Kottmeier President and Chief Executive Officer	2020	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil	\$240,000 ⁽²⁾	\$240,000
	2019	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil	\$90,000 ⁽²⁾	\$90,000
	2018	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil	\$60,000 ⁽²⁾	\$60,000
	2017	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil	\$60,000 ⁽²⁾	\$60,000
Douglas E. Ford Chief Financial Officer	2020	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil	\$240,000 ⁽²⁾	\$240,000
	2019	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil	\$90,000 ⁽²⁾	\$90,000
	2018	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil	\$60,000 ⁽²⁾	\$60,000
	2017	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil	\$60,000 ⁽²⁾	\$60,000
Sheldon Aberman⁽³⁾ Chief Cannabis Officer	2020	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil	US\$288,000	US\$288,000
	2019	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil	US\$157,000	US\$157,000
	2018	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil
	2017	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil	\$Nil

- (1) The fair value of stock options granted during the last financial year is based on the difference between the exercise price of the stock options granted, and the last closing price of the Company's shares on the trading date immediately preceding the dates of grant of the stock options, as a reasonable estimate of the benefit conferred at the time of the grant.
- (2) Pursuant to a management services agreement dated August 1, 2008 (as amended, the "PEMC Agreement"), the Company paid or accrued a total of \$720,000 in management fees to Pacific Equity Management Corporation ("PEMC") for management services for the year ended June 30, 2020, \$320,000 for the year ended June 30, 2019, \$240,000 for the year ended June 30, 2018 and \$166,667 for the year ended June 30, 2017. The amounts disclosed in the table above under "Value of All Other Compensation" represent the payments made by PEMC to the NEOs for the services rendered by the NEOs to the Company. PEMC is a management services company controlled by Karl Kottmeier and Douglas E. Ford, each of whom is a director and officer of the Company. The monthly management fee payable under the PEMC Agreement is currently \$60,000, plus taxes. The services provided by PEMC include the provision of the services of the following officers and employees: President, Chief Financial Officer, Corporate Secretary, Accountant, Administrator and Receptionist.
- (3) Mr. Aberman was appointed Chief Cannabis Officer effective April 5, 2019. Pursuant to a management services employment agreement dated as of April 1, 2019 (the "SA Agreement"), the Company paid or accrued a total of US\$288,000 in retainer fees for the year ended June 30, 2020, and US\$157,000 in 2019 inclusive of a required US\$85,000 signing fee and a monthly amount of US\$24,000.

Named Executive Officer Options

NAME	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS (#)	OPTION EXERCISE PRICE	OPTION EXPIRATION DATE	VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS (\$) ⁽¹⁾
Karl Kottmeier	150,000	\$0.10	6/7/2022	\$1,500
	200,000	\$0.60	4/05/2024	\$Nil
	250,000	\$0.06	4/09/2025	\$12,500
Douglas E. Ford	150,000	\$0.10	6/7/2022	\$1,500
	200,000	\$0.60	4/05/2024	\$Nil
	250,000	\$0.06	4/09/2025	\$12,500
Sheldon Aberman	200,000	\$0.60	4/05/2024	\$Nil
	200,000	\$0.06	4/09/2025	\$10,000

⁽¹⁾Based upon the CSE closing price of \$0.11 on June 30, 2020, the last trading day of the fiscal year.

16. Indebtedness of Directors and Executive Officers

As at the date hereof, none of the Company's directors or executive officers are indebted to the Company or its subsidiaries.

17. Risk Factors

Risk associated with the Company

Investing in our securities involves a high degree of risk. You should carefully consider the following risks in addition to the other information included in this Form 2A and our financial statements, including related notes, before you decide to purchase our common shares. If any of the following risks actually occur, our business, financial condition and results of operations could materially suffer. As a result, the trading price of our securities, including common shares, could decline and you could lose part or all of your investment. The risks set out below are not the only risks we face; risks and uncertainties not currently known to us or that we currently deem to be immaterial may also materially and adversely affect our business, financial condition and results of operations. You should also refer to information set out in our consolidated financial statements for the year ended June 30, 2020.

Risks Related to Uncertain Regulatory Environments Where We Operate

The activities of the Company will be subject to evolving regulation by governmental authorities. The legality of the production, extraction, distribution, marketing, advertising and use of cannabis differs among North American jurisdictions.

United States

Inconsistent treatment in certain states and federally

In the United States, the cultivation, manufacturing, importation, distribution, use, and possession of cannabis is illegal under U.S. federal law. However, medical and adult-use cannabis has been legalized and regulated by individual states. As of the date of this MD&A, 33 states plus the District of Columbia and certain U.S. territories recognize in one form or another the medical use of cannabis, while 11 of those states plus the District of Columbia and certain U.S. territories recognize in one form or another the full adult-use of cannabis. Notwithstanding the regulatory environment with respect to cannabis at the state level, cannabis continues to be categorized as a Schedule I controlled substance under the U.S. Controlled Substances Act (the "CSA") and as such violates U.S. federal law. As a result, cannabis businesses in the United States are subject to inconsistent state and federal legislation, regulation, and enforcement.

Under former President Barack Obama, in an effort to provide guidance to U.S. federal law enforcement regarding the inconsistent regulation of cannabis at the U.S. federal and state levels, the U.S. Department of Justice (the "DOJ") released a memorandum on August 29, 2013 entitled "Guidance Regarding Marijuana Enforcement" from former Deputy Attorney General James Cole (the "Cole Memorandum"). The Cole Memorandum acknowledged that, although cannabis is a Schedule I controlled substance under the CSA, the U.S. Attorneys in states that have legalized cannabis in some form should prioritize the use of the U.S. federal government's limited prosecutorial resources by focusing enforcement actions on the following eight areas of concern (the "Cole Priorities"):

- Preventing the distribution of cannabis to minors;
- Preventing revenue from the sale of cannabis from going to criminal enterprises, gangs, and cartels;
- Preventing the diversion of cannabis from states where it is legal under state law in some form to states where it is not legal;
- Preventing legal cannabis activity from being used as a pretext for trafficking other illegal drugs or other illegal activity;
- Preventing violence and the use of firearms in the cultivation and distribution of cannabis;
- Preventing drugged driving and the exacerbation of other adverse public health consequences associated with cannabis use;
- Preventing the growing of cannabis on public lands and the attendant public safety and environmental dangers posed by cannabis production on public lands; and
- Preventing possession or use of cannabis on U.S. federal property.

In January 2018, under the administration of President Donald Trump, former U.S. Attorney General Jeff Sessions rescinded the Cole Memorandum. While this did not create a change in U.S. federal law, as the Cole Memorandum was not itself law, the rescission added to the uncertainty of U.S. federal enforcement of the CSA in states where cannabis use is legal and regulated. Former Attorney General Sessions, concurrent with the rescission of the Cole Memorandum, also issued a one-page memorandum known as the "Sessions Memorandum." The Sessions Memorandum explained that the Cole Memorandum was "unnecessary" due to existing general enforcement guidance adopted in the 1980s, as set forth in the U.S. Attorney's Manual (the "USAM"). The USAM enforcement priorities, like those of the Cole Memorandum, are also based on the U.S. federal government's limited resources and include "law enforcement priorities set by the Attorney General," the "seriousness" of the alleged crimes, the "deterrent effect of criminal prosecution," and "the cumulative impact of particular crimes on the community."

While the Sessions Memorandum emphasizes that cannabis is a Schedule I controlled substance under the CSA and states that it is a “dangerous drug and that marijuana activity is a serious crime,” it does not otherwise provide that the prosecution of cannabis-related offenses is now a DOJ priority. Furthermore, the Sessions Memorandum explicitly describes itself as a guide for prosecutorial discretion. Such discretion is firmly in the hands of U.S. Attorneys who determine whether to prosecute cannabis-related offenses. U.S. Attorneys could individually continue to exercise their discretion in a manner similar to that permitted under the Cole Memorandum. While certain U.S. Attorneys have publicly affirmed their commitment to proceeding in a manner contemplated under the Cole Memorandum, or otherwise affirmed that their views of U.S. federal enforcement priorities have not changed as a result of the rescission of the Cole Memorandum, others have publicly supported the rescission of the Cole Memorandum.

At a U.S. Senate appropriations hearing on April 10, 2019, the current U.S. Attorney General, William Barr, stated that he personally “would still favor one uniform federal rule against marijuana,” but if “there’s not sufficient consensus to obtain that, then the way to go is to permit a more federal approach so states can make their own decisions within the framework of a federal law so we’re not just ignoring the enforcement of federal law.” When asked to provide any guidance in the meantime, Attorney General Barr stated that “I’ve generally left it up to the U.S. Attorneys in each state to determine what the best approach is.”

He also stated that the DOJ is currently reviewing the recently reintroduced Strengthening the Tenth Amendment Through Entrusting States Act (“STATES Act”), which would shield individuals and businesses complying with state cannabis laws from federal intervention.

Other federal legislation provides or seeks to provide protection to individuals and businesses acting in violation of U.S. federal law but in compliance with state cannabis laws. For example, what is now known as the Joyce Amendment (previously known as the Leahy Amendment, the Rohrabacher-Farr Amendment, and the Rohrabacher-Blumenauer Amendment) has been included in annual spending bills passed by Congress since 2014. The Joyce Amendment restricts the DOJ from using federal funds to interfere with states implementing laws that authorize the use, distribution, possession, or cultivation of medical cannabis.

U.S. courts have construed these appropriations bills to prevent the U.S. federal government from prosecuting individuals or businesses engaged in cannabis-related activities to the extent operating in compliance with state medical cannabis laws. However, because this conduct continues to violate U.S. federal law, U.S. courts have observed that should the U.S. Congress at any time choose to appropriate funds to fully prosecute individuals or businesses acting in violation of the CSA, such individuals or businesses could be prosecuted for violations of U.S. federal law even to the extent operating in compliance with applicable state medical cannabis laws.

If Congress declines to include the Joyce Amendment in future fiscal year appropriations bills or fails to pass necessary budget legislation causing a government shutdown, the U.S. federal government will have the authority to spend federal funds to prosecute individuals and businesses acting contrary to the CSA for violations of U.S. federal law.

Further, the appropriations protections only apply to individuals or businesses operating in compliance with a state’s medical cannabis laws and provide no protection to individuals or businesses operating in compliance with a state’s adult-use cannabis laws. On June 20, 2019, however, the U.S. House of Representatives passed the Blumenauer-Norton-McClintock

Amendment, which would expand the protections afforded by the Joyce amendment to individuals and businesses operating in compliance with applicable state adult-use cannabis laws. The U.S. Senate did not include the Blumenauer-McClintock-Norton Amendment in its appropriations bill, and ultimately, the Blumenauer-McClintock-Norton Amendment was not included in the Consolidated Appropriations Act, 2020. On July 30, 2020, the U.S. House of Representatives again passed the Blumenauer-Norton-McClintock Amendment in its 2021 appropriations bill. However, it is unclear whether the U.S. Senate will include the Blumenauer-McClintock-Norton Amendment in its 2021 appropriations bill.

Additionally, there are a number of marijuana reform bills that have been introduced in the U.S. Congress that would amend federal law regarding the legal status and permissibility of medical and adult-use cannabis, including the STATES Act and the Marijuana Opportunity Reinvestment and Expungement Act (the "MORE Act"). The STATES Act would create an exemption in the CSA to allow states to determine their own cannabis policies without fear of federal reprisal; whereas, the MORE ACT, which was passed by the House Judiciary Committee on November 20, 2019, would remove cannabis from the CSA, expunge federal cannabis offenses, and establish a 5% excise tax on cannabis to fund various federal grant programs. Nevertheless, it is uncertain which federal marijuana reform bills, if any, will ultimately be signed into law.

Businesses in the regulated cannabis industry, including the Company, are subject to a variety of laws and regulations in the United States that involve money laundering, financial recordkeeping, and proceeds of crime, including the Bank Secrecy Act and the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act (the "USA PATRIOT Act") and the rules and regulations thereunder, and any related or similar rules, regulations, or guidelines, issued, administered, or enforced by governmental authorities in the United States. Further, under U.S. federal law, banks or other financial institutions that provide a cannabis business with a checking account, debit or credit card, small business loan, or any other service could be charged with money laundering, aiding and abetting, or conspiracy.

Despite these laws, the Financial Crimes Enforcement Network ("FinCEN"), a bureau within the U.S. Department of the Treasury ("U.S. Treasury"), issued a memorandum on February 14, 2014 (the "FinCEN Memorandum"), which provides instructions to banks and other financial institutions seeking to provide services to cannabis-related businesses. The FinCEN Memorandum explicitly references the Cole Priorities and states that in some circumstances it is permissible for banks and other financial institutions to provide services to cannabis-related businesses without risking prosecution for violation of U.S. federal money laundering laws. Under these guidelines, financial institutions are subject to a requirement to submit a suspicious activity report ("SAR") in certain circumstances as required by federal money laundering laws.

These cannabis related SARs are divided into three categories: marijuana limited, marijuana priority, and marijuana terminated, based on the financial institution's belief that the marijuana business follows state law, is operating out of compliance with state law, or where the banking relationship has been terminated, respectively. The FinCEN Memorandum refers to supplementary guidance in the Cole Memorandum relating to the prosecution of money laundering offenses predicated on cannabis-related violations of the CSA.

Despite the rescission of the Cole Memorandum, this did not affect the status of the FinCEN Memorandum, and to date, the U.S. Treasury has not given any indication that it intends to rescind the FinCEN Memorandum. While the FinCEN Memorandum was originally intended to work in tandem with the Cole Memorandum, the FinCEN Memorandum appears to remain in

effect as standalone guidance. Although the FinCEN Memorandum remains intact, indicating that the U.S. Treasury and FinCEN intend to continue abiding by its guidance, it is unclear whether the Trump administration will continue to follow the guidelines set forth under the FinCEN Memorandum.

In March 2019, the U.S. House of Representatives Financial Services Committee passed the Secure and Fair Enforcement Banking Act (the “SAFE Banking Act”), which creates protections for financial institutions that provide banking services to businesses acting in compliance with applicable state cannabis laws. The U.S. Senate held a hearing on the SAFE Banking Act in July, 2019. On September 25, 2019, the U.S. House of Representatives passed the SAFE Banking Act, but it is uncertain whether it will be passed by the U.S. Senate and ultimately signed into law.

There also can be no assurance that state laws legalizing and regulating the sale and use of cannabis will not be repealed or overturned or that local governmental authorities will not limit the applicability of state laws within their respective jurisdictions. In addition, local and city ordinances may strictly limit and/or restrict the distribution of cannabis in a manner that could make it difficult or impossible to operate cannabis businesses in certain jurisdictions.

Application of Cannabis Laws and Regulations in the United States

Violations of U.S. federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions, or settlements arising from either civil or criminal proceedings brought by either the U.S. federal government or private citizens, including, but not limited to, disgorgement of profits, seizure of property or products, cessation of business activities, or divestiture. The approach to the enforcement of cannabis laws may be subject to change or may not proceed as previously outlined. See “Risk Factors – Risks Specifically Related to the United States Regulatory System”. The Company’s cannabis business activities and the cannabis business activities of its subsidiaries, while believed to be compliant with applicable U.S. state and local laws, currently are illegal under U.S. federal law.

U.S. anti-money laundering laws and regulations

Additionally, under U.S. federal law, it may potentially be a violation of federal money laundering statutes for financial institutions to take any proceeds from the sale of marijuana or any other Schedule I controlled substance. Certain Canadian banks are likewise hesitant to deal with cannabis companies, due to the uncertain legal and regulatory framework of the industry. Banks and other financial institutions could be prosecuted and possibly convicted of money laundering for providing services to cannabis businesses. Under U.S. federal law, banks or other financial institutions that provide a cannabis business with a checking account, debit or credit card, small business loan, or any other service could be found guilty of money laundering, aiding and abetting, or conspiracy.

Despite these laws, the U.S. Department of the Treasury’s FinCEN issued a memorandum on February 14, 2014 (the “FinCEN Memorandum”) outlining the pathways for financial institutions to bank state-sanctioned marijuana businesses in compliance with federal enforcement priorities. The FinCEN Memorandum echoed the enforcement priorities of the Cole Memorandum. Under these guidelines, financial institutions must submit a Suspicious Activity Report (“SAR”) in connection with all marijuana-related banking activities by any client of such financial institution, in accordance with federal money laundering laws.

These marijuana-related SARs are divided into three categories – marijuana limited, marijuana priority, and marijuana terminated – based on the financial institution’s belief that the business in question follows state law, is operating outside of compliance with state law, or where the banking relationship has been terminated, respectively. On the same day as the FinCEN Memorandum was published, the DOJ issued a memorandum directing prosecutors to apply the enforcement priorities of the Cole Memorandum in determining whether to charge individuals or institutions with crimes related to financial transactions involving the proceeds of marijuana-related conduct. However, this memorandum was rescinded as of January 4, 2018, along with the Cole Memorandum, removing guidance that enforcement of applicable financial crimes against state-compliant actors was not a DOJ priority.

As a result of its investments in the cannabis space, Chemistree or its subsidiaries may face difficulty obtaining bank or certain other traditional forms of financing in the U.S., as well as banking services. Although there has been an increase in private sources of financing and growing acceptance of cannabis related businesses in recent years, there can be no assurance that additional financing will be available to the Company on acceptable terms or at all. The Company’s inability to raise additional financing to fund new investments or invest further capital in its existing investments could limit its growth and have a material and adverse effect on its ability to generate investment returns or profits.

Further, there can be no assurance that state laws legalizing and regulating the sale and use of cannabis will not be repealed or overturned, or that local governmental authorities will not limit the applicability of state laws within their respective jurisdictions. It is also important to note that local and city ordinances may strictly limit and/or restrict the distribution of cannabis in a manner that will make it extremely difficult or impossible to transact business in the cannabis industry. If the federal government begins to enforce federal laws relating to cannabis in states where the sale and use of cannabis is currently legal, or if existing state laws are repealed or curtailed, the Company’s investments in such businesses would be materially and adversely affected notwithstanding the fact that the Company is not directly engaged in the sale or distribution of cannabis. Federal actions against any individual or entity engaged in the marijuana industry or a substantial repeal of marijuana related legislation could adversely affect the Company, its business and its investments.

Enforcement

The concepts of “medical cannabis” and “retail cannabis” do not exist under U.S. federal law. The CSA classifies “marihuana” as a Schedule I drug. Under U.S. federal law, a Schedule I drug or substance has a high potential for abuse, no accepted medical use in the U.S., and a lack of safety for the use of the drug under medical supervision. As such, cannabis related practices or activities, including without limitation, the manufacture, importation, possession, use or distribution of cannabis are illegal under U.S. federal law. Strict compliance with state laws with respect to cannabis will neither absolve the Company’s investees of liability under U.S. federal law, nor will it provide a defense to any federal proceeding which may be brought against the Company or its investments. Any such proceedings brought against the Company or its investments may adversely affect the Company’s operations and financial performance and its ability to realize gains or profits from its investments.

There can be no assurances the federal government of the U.S. or other jurisdictions will not seek to enforce the applicable laws against the Company or its investments. Violations of any U.S. federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions or settlements arising from civil proceedings conducted by either the U.S. federal government or private citizens, or criminal charges, including, but not limited to,

disgorgement of profits, cessation of business activities or divestiture. This could have a material adverse effect on the Company, including its reputation and ability to conduct business, its holding (directly or indirectly) of cannabis related investments in the U.S., the listing of its securities on various stock exchanges, its financial position, operating results, profitability or liquidity or the market price of its publicly traded shares. In addition, it is difficult for the Company to estimate the time or resources that would be needed for the investigation of any such matters or its final resolution because, in part, the time and resources that may be needed are dependent on the nature and extent of any information requested by the applicable authorities involved, and such time or resources could be substantial.

The Company's proposed investment in the U.S., and any future investments, may become the subject of heightened scrutiny by regulators, stock exchanges and other authorities in Canada. As a result, the Company may be subject to significant direct and indirect interaction with public officials. There can be no assurance that this heightened scrutiny will not in turn lead to the imposition of certain restrictions on the Company's ability to invest in the U.S. or any other jurisdiction.

Washington State

Washington State has both medical and adult-use marijuana programs. Washington voters initially passed its original medical law in 1998, which allowed physicians to recommend cannabis for an inclusive set of qualifying conditions including chronic pain and created a patient/caregiver system without explicitly permitting businesses to cultivate and sell cannabis.

However, various cannabis businesses developed in Washington State. In 2012, Initiative 502 legalized cannabis at a state-level in Washington for adults 21 years of age and older. Initiative 502 regulated adult-use marijuana businesses but left the unregulated medical marijuana establishments in an uncertain situation.

In 2015, the Governor of Washington signed Senate Bill 5052 which forced the closure of existing unregulated medical dispensaries and allows existing adult-use retail marijuana stores to apply for a "medical marijuana endorsement" to sell medical marijuana tax free to registered qualifying patients and their designated caregivers.

The WSLCB regulates adult-use marijuana businesses and those with a medical endorsement. The WSLCB licenses cultivation facilities, product manufacturing facilities ("processors"), retail stores, transportation licensees, and testing facilities. All individuals and entities considered a "true party of interest" in a marijuana business license must have at least six months of Washington residency. Accordingly, Chemistree Washington will not have a WSLCB license and instead will be leasing or licensing certain assets to a WSLCB license holder. Although Chemistree Washington will not hold the WSLCB it will face many of the same risks as the license holder, as the loss of the WSLCB license would leave it unable to make the requisite payments to Chemistree Washington. Chemistree may in turn be materially and adversely affected if it is unable to enter into new lease and license arrangements with a WSLCB license holder on terms acceptable to Chemistree or at all.

Unlike many other states, Washington prohibits vertical integration between adult-use marijuana retailers and cultivators. Common ownership between cultivation and processors is permitted. A single entity, and/or principals within an entity, are limited to no more than three marijuana producer licenses, and/or three marijuana processor licenses, or five retail marijuana licenses.

Chemistree is not aware of any non-compliance by the WSLCB license holder with applicable WSLCB license requirements or any notices of violation. However, any future violations by the WSLCB license holder may have a material and adverse effect on Chemistree or the value of the Washington Assets.

California

The Company may become indirectly involved in the cultivation and distribution of cannabis as a result of the acquisition of the DHS property and, if so, expects to seek to take measures to ensure compliance with applicable California state laws, regulations and guidelines.

In 1996, California voters passed a medical marijuana law allowing physicians to recommend cannabis for an inclusive set of qualifying conditions including chronic pain. The law established a not-for-profit patient/caregiver system but there was no state licensing authority to oversee the businesses that emerged as a result of the system. In September of 2015, the California legislature passed three bills, collectively known as the Medical Marijuana Regulation and Safety Act (“MCRSA”). In 2016, California voters passed The Adult Use of Marijuana Act (“AUMA”), which legalized adult-use cannabis for adults 21 years of age and older and created a licensing system for commercial cannabis businesses. On June 27, 2017, Governor Brown signed SB-94 into law. SB-94 combines California’s medicinal and adult-use cannabis frameworks into one licensing structure under the Medicinal and Adult-Use of Cannabis Regulation and Safety Act (“MAUCRSA”).

Pursuant to MAUCRSA: (1) the California Department of Food and Agriculture, via CalCannabis, issues licenses to cannabis cultivators; (2) the California Department of Public Health, via the Manufactured Cannabis Safety Branch (the “MCSB”), issues licenses to cannabis manufacturers and (3) the California Department of Consumer Affairs, via the Bureau of Cannabis Control (the “BCC”), issues licenses to cannabis distributors, testing laboratories, microbusinesses, and retailers. These agencies also oversee the various aspects of implementing and maintaining California’s cannabis landscape, including the statewide seed-to-sale track and trace system. All three agencies released their emergency rulemakings at the end of 2017 and have begun issuing temporary licenses.

To operate legally under state law, cannabis operators must obtain a state license and local approval. Local authorization is a prerequisite to obtaining state licensure, and local governments are permitted to prohibit or otherwise regulate the types and number of cannabis businesses allowed in their locality. The state license approval process is not competitive and there is no limit on the number of state licenses an entity may hold. Although vertical integration across multiple license types is allowed under MAUCRSA, testing laboratory licensees may not hold any other licenses aside from a laboratory license and all transportation of cannabis goods between licensees must be performed by a licensed distributor. There are also no residency requirements for ownership of medical or adult-use marijuana licenses under MAUCRSA.

California has implemented a robust regulatory system designed to ensure, monitor, and enforce compliance with all aspects of a cannabis operator’s licensed operations. Compliance with local law is a prerequisite to obtaining and maintaining state licensure, and all three state regulatory agencies require confirmation from the locality that the operator is operating in compliance with local requirements and was granted authorization to continue or commence commercial cannabis operations within the locality’s jurisdiction.

Balance Sheet Exposure

The Washington Acquisition, DHS Acquisition and potentially a substantial portion of the Company's future investments may be in the U.S.. Accordingly, a significant portion of the Company's success, ability to generate returns on its investments, realize on its investments or otherwise generate income will be subject to risks associated with U.S. cannabis related activities.

Canada

Cannabis production, distribution, sale, and use is illegal in Canada except where specifically permitted by law. On October 17, 2018, the federal Cannabis Act and accompanying Regulations, including the *Cannabis Regulations* ("Cannabis Regulations"), the new *Industrial Hemp Regulations* ("IHR", and together with the Cannabis Regulations, collectively, the "Regulations"), came into force, legalizing the production, distribution and sale of cannabis for adult recreational purposes, as well as incorporating the pre-existing medical cannabis regulatory scheme under one complete framework. Amendments legalizing the sale of edible cannabis, cannabis extracts, and cannabis topicals in the Canadian market came into force on October 17, 2019. A federally licensed entity with authorization to produce and sell edible cannabis, cannabis extracts, and cannabis topicals must provide 60-days notice to Health Canada of its intent to sell these newly legalized classes of products.

Pursuant to the federal regulatory framework in Canada, each province and territory may adopt its own laws governing the distribution, sale and consumption of cannabis and cannabis accessories within the province or territory. All Canadian provinces and territories have implemented mechanisms for the distribution and sale of cannabis for recreational purposes within those jurisdictions, and retail models vary between jurisdictions.

The Cannabis Act maintains separate access to cannabis for medical purposes, including providing that import and export licences and permits will only be issued in respect of cannabis for medical or scientific purposes or in respect of industrial hemp. Patients who have the authorization of their healthcare provider have access to cannabis, either purchased directly from a federally licensed entity authorized to sell for medical purposes, or by registering to produce a limited amount of cannabis for their own medical purposes or designating someone to produce cannabis for them.

Provincial Regulatory Framework

While the Cannabis Act provides for regulation of the commercial production of cannabis and related matters by the federal government, the provinces and territories of Canada have authority to adopt their own laws and regulations governing the distribution, sale and consumption of cannabis and cannabis accessory products within the province or territory, permitting for example, provincial and territorial governments to set lower possession limit for individuals and higher age requirements. Currently each of the Canadian provincial and territorial jurisdictions has established a minimum age of 19, except for Alberta, where the minimum age is 18, and Québec, where the minimum age is 21.

All Canadian provinces and territories have implemented regulatory regimes for the distribution and sale of cannabis for recreational purposes within those jurisdictions. Provincial/territorial bodies act as intermediaries between entities licensed federally under the Cannabis Act and consumers, such bodies acting in some jurisdictions as exclusive cannabis wholesalers and distributors, and in some instances as exclusive retailers.

Some municipal and regional governments may also choose to impose additional requirements and regulations on the sale of recreational cannabis. In some provinces, municipal by-laws may restrict the number of recreational cannabis retail outlets that are permitted in a certain geographical area, or restrict the geographical locations wherein such retail outlets may be opened.

Additional Risks Associated with our Business and Industry

Loss of business and/or opportunities due to perceived risk

Third parties with whom the Company and its investments do business, including banks and other financial intermediaries, may perceive that they are exposed to legal and reputational risk because of the Company's cannabis business activities. Because cannabis remains illegal under U.S. federal law, a third-party service provider could reach the conclusion that their activities as a service provider are aiding and abetting the violation of the U.S. federal law. Any provision of services or sale of goods to a cannabis business could be construed as aiding and abetting violations of the U.S. Controlled Substances Act of 1970, in addition to other possible violations. Financial institutions may also be concerned that they would be at risk of prosecution for violation of U.S. money laundering laws and the Bank Secrecy Act, in addition to other potential violations. Any third-party service provider could suspend or withdraw its services to the Company or its investee companies if it perceives that the potential risks exceed the potential benefits to such services. If the Company's investments operating in the U.S. are unable to utilize financial institutions or third-party services providers, or bank accounts are subject to special restrictions preventing the processing of wire transfers, they may be unable to meet payment obligations to the Company or pay dividends or other amounts to the Company.

Cash flows insufficient to meet capital expenditures

Lack of cash flow may affect the Company's ability to continue as a going concern. Presently, the Company's operating cash flows are not sufficient to meet operating and capital expenses. The Company's business plan calls for continued research and development of the Company's services and products and expansion of market share. The Company will require additional financing to fund working capital and pay for operating expenses and capital requirements until it can achieve a positive cash flow.

In particular, additional capital may be required in the event that: The occurrence of any of the aforementioned events could adversely affect the Company's ability to carry out proposed business plans. The Company depends on a mix of revenues and outside capital to pay for the continued development of its business offering and the marketing of its products. Such outside capital may include the sale of additional stock and/or commercial borrowing. There can be no assurance that capital will continue to be available if necessary to meet these continuing development costs or, if the capital is available, that it will be on terms acceptable to the Company. Disruptions in financial markets and challenging economic conditions have and may continue to affect the Company's ability to raise capital. The issuance of additional equity securities by the Company would result in a dilution, possibly a significant dilution, in the equity interests of current stockholders. Obtaining commercial loans, assuming those loans would be available, will increase the Company's liabilities and future cash commitments.

The Company's future revenue, operating results and gross margin may fluctuate significantly and unpredictably from quarter-to-quarter and from year-to-year, which could have a material adverse effect on its operating results.

However, there is no assurance that actual cash requirements will not exceed the Company's estimates. In particular, additional capital may be required in the event that:

- the Company incurs delays and additional expenses as a result of technology failure;
- the Company is unable to create a substantial market for its products and services; or
- the Company incurs any significant unanticipated expenses. The rate at which the Company's customers order its products, and the size of these orders, are highly variable and difficult to predict. Because any substantial adjustment to expenses to account for lower levels of revenue is difficult and takes time, if the Company's revenue declines, its operating expenses and general overhead would likely be high relative to revenue, which could have a material adverse effect on the Company's operating margin and operating results.

If the Company is not able to manage operating expenses, then the Company's financial condition may be adversely affected.

The Company's ability to reach and maintain profitability is conditional upon its ability to manage operating expenses. There is a risk that the Company will have to increase operating expenses in the future. Factors that could cause the Company's operating expenses to increase include the Company's determination to spend more on sales and marketing in order to increase product sales or the Company's determination that more research and development expenditures are required in order to keep current software products competitive or in order to develop new products for the market. To the extent that the Company's operating expenses increase without a corresponding increase in revenue, the Company's financial condition would be adversely impacted.

Cannabis is highly regulated

The Company's business and activities are heavily regulated in all jurisdictions where it carries on business. The Company's operations are subject to various laws, regulations and guidelines by governmental authorities (including, in Canada, Health Canada) relating to the manufacture, marketing, management, transportation, storage, sale, pricing and disposal of cannabis, and also including laws and regulations relating to health and safety, insurance coverage, the conduct of operations and the protection of the environment. Laws and regulations, applied generally, grant government agencies and self-regulatory bodies broad administrative discretion over our activities, including the power to limit or restrict business activities as well as impose additional disclosure requirements on our products and services.

Achievement of the Company's business objectives is contingent, in part, upon compliance with regulatory requirements enacted by these governmental authorities. The commercial cannabis industry is still a new industry and, in Canada, in particular the ACMPR, is a new regime that has no close precedent in Canadian law. The effect of relevant governmental authorities' administration, application and enforcement of their respective regulatory regimes and delays in obtaining, or failure to obtain, applicable regulatory approvals which may be required may significantly delay or impact the development of markets, products and sales initiatives and could have a material adverse effect on the Company's business, financial condition and results of operations.

Competition

The Company faces larger and better-financed competitors, which may affect its ability to achieve or maintain profitability and complete investments. Competition exists for social media, branding and marketing companies in the jurisdictions in which the Company conducts operations and competition is significant in the cannabis investment sector, with a number of non-traditional sources of financing emerging and growing acceptance of cannabis related activities among more traditional sources of financing. As a result of this competition, much of which is with large, established companies with substantially greater financial and technical resources than the Company, the Company may be unable to acquire additional clientele or identify additional investments on terms it considers acceptable or at all. The Company also competes with other investment, cannabis, social media, technology, design and branding companies in the recruitment and retention of qualified employees.

Intellectual property litigation

The Company may in the future be subject to damaging and disruptive intellectual property litigation that could materially and adversely affect business, results of operations and financial condition, as well as the continued viability of the Company. The Company may be unaware of filed patent applications and issued patents that could relate to its products and services. Intellectual property litigation, if determined against the Company, could:

- result in substantial employee layoffs or risk the permanent loss of highly-valued employees;
- materially and adversely affect the Company's brand in the marketplace and cause a substantial loss of goodwill;
- affect the Company's ability to raise additional capital;
- cause the Company's stock price to decline significantly; and
- lead to the bankruptcy or liquidation of the Company.

Parties making claims of infringement may be able to obtain injunctive or other equitable relief that could effectively block the Company's ability to provide its products or services and could cause the Company to pay substantial royalties, licensing fees or damages. The defense of any lawsuit could result in time-consuming and expensive litigation, regardless of the merits of such claims.

The Company could lose its competitive advantages if it is not able to protect any proprietary technology and intellectual property rights against infringement, and any related litigation could be time-consuming and costly. The measures the Company takes to protect the proprietary technology software, and other intellectual property rights, which presently are based upon a combination of patents, patents pending, copyright, trade secret and trademark laws, may not be adequate to prevent their unauthorized use. Further, the laws of foreign countries may provide inadequate protection of such intellectual property rights. The Company may need to bring legal claims to enforce or protect such intellectual property rights. Any litigation, whether successful or unsuccessful, could result in substantial costs and divert resources from intended uses. In addition, notwithstanding any rights we have secured in the Company's intellectual property, other persons may bring claims against us that we have infringed on their intellectual property rights, including claims based upon the content we license from third parties or claims that the Company's intellectual property right interests are not valid. Any claims against the Company, with or without merit, could be time consuming and costly to defend or litigate, divert our attention and resources, result in the loss of goodwill associated with the Company's service marks or require the Company to make changes to its website or its other technologies.

Fast changing technology and consumer demands

The Company's industry is characterized by rapid changes in technology and customer demands. As a result, the Company's products may quickly become obsolete and unmarketable. The Company's future success will depend on its ability to adapt to technological advances, anticipate customer demands, develop new products and enhance current products on a timely and cost-effective basis. Further, the Company's products must remain competitive with those of other companies with substantially greater resources. The Company's may experience technical or other difficulties that could delay or prevent the development, introduction or marketing of new products or enhanced versions of existing products. Also, the Company may not be able to adapt new or enhanced services to emerging industry standards, and the Company's new products may not be favorably received.

Uncertain market acceptance for the Company's products and services

The Company expects that a substantial portion of its future revenue will be derived from the sale of its services. The Company expects that these product offerings and their extensions and derivatives will account for a majority of the Company's revenue for the foreseeable future. Broad market acceptance of the Company's services is, therefore, critical to its future success and its ability to continue to generate revenues. Failure to achieve broad market acceptance of the Company's services as a result of competition, technological change, or otherwise, would significantly harm the Company's business. The Company's future financial performance will depend primarily on the continued market acceptance of the Company's current service offerings and on the development, introduction and market acceptance of any future enhancements. There can be no assurance that the Company will be successful in marketing its current product offerings or any new product offerings, applications or enhancements, and any failure to do so would significantly harm the Company's business.

Risks associated with developing and promoting products and brands

The Company expects that new products and/or brands it develops may expose the Company to risks that may be difficult to identify until such products and/or brands are commercially available. Any negative events or results that may arise as the Company develops new products or brands may adversely affect the business, financial condition and results of operations.

Dependence upon, and need for, key personnel

The Company is, and will be for the foreseeable future, dependent upon the performance of a limited number of key personnel. The loss of a key individual or a reduction in the time devoted by such persons to the Company's business could have a materially adverse effect on the Company's business. The Company's future success will depend on part on its ability to attract and retain highly qualified personnel. The Company faces competition for such personnel from other companies, governmental/academic institutions and other organizations, many of which have significantly greater resources than the Company. There is no assurance that the Company will be able to attract and retain the necessary personnel on acceptable terms, or at all.

Dependence on management

The Company will be dependent upon the personal efforts and commitment of its management, which is responsible for the development of future business. To the extent that management's services would be unavailable for any reason, a disruption to the operations of the Company could result, and other persons would be required to manage and operate the Company.

Potential conflicts of interest

Certain of the Company's directors and officers may serve as directors and/or officers of other public and private companies and devote a portion of their time to manage other business interests. This may result in certain conflicts of interest, to the extent that such other companies may participate in ventures in which the Company is also participating. The laws of British Columbia require the directors and officers to act honestly, in good faith, and in the best interests of the Company. In addition, each director must declare his or her interest and abstain from voting on any contract or transaction in which the director may have a conflict of interest.

Risks relating to statutory and regulatory compliance

Failure to comply with applicable laws, regulations and permits may result in enforcement actions there under, including the forfeiture of claims, orders issued by regulatory or judicial authorities requiring operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment or costly remedial actions. The Company is not currently covered by any form of environmental liability insurance. See "Insurance Risk", below.

Existing and possible future laws, regulations and permits governing operations and activities of exploration companies, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in capital expenditures or require abandonment or delays in exploration.

Insurance risk

No assurance can be given that insurance to cover the risks to which the Company's activities are subject will be available at all or at commercially reasonable premiums. The Company seeks to maintain insurance within ranges of coverage which it believes to be consistent with industry practice for companies of a similar stage of development. The Company carries liability insurance with respect to its corporate operations, but does not currently intend to carry any form of political risk insurance or any form of environmental liability insurance, since insurance against political risks and environmental risks (including liability for pollution) or other hazards resulting from exploration and development activities is prohibitively expensive. In addition, the Company may not be able to obtain insurance with respect to cannabis related operations or investments at any cost. The payment of any such liabilities would reduce the funds available to the Company. If the Company is unable to fully fund the cost of remedying an environmental problem, it might be required to suspend operations or enter into costly interim compliance measures pending completion of a permanent remedy.

Operating losses; dividends unlikely

The Company has a history of operating losses and may have operating losses and a negative cash flow in the future. The Company has not paid any dividends since the date of its incorporation, and it is not anticipated that dividends will be declared in the short or medium term.

Investments may be pre-revenue

The Company may make investments in entities that have no significant sources of operating cash flow and no revenue from operations. As such, the Company's investments are subject to risks and uncertainties that new companies with no operating history may face. In particular, there is a risk that the Company's investments will not be able to: (i) implement or execute their current business plan, or create a business plan that is sound; (ii) maintain their anticipated management team; and/or (iii) raise sufficient funds in the capital markets or otherwise to effectuate their business plan. If the Company's investments cannot execute any one of the

foregoing, their businesses may fail, which could have a materially adverse impact on the business, financial condition and operating results of the Company.

Lack of control over operations of investments

The Company will depend upon its investments or strategic relations to execute on their business plans and produce medical and/or recreational cannabis products, and holds contractual rights and minority equity interest relating to the operation of the Company's investments. The operators of the Company's investments have significant influence over the results of operations of the Company's investments. Further, the interests of the Company and the operators of the Company's investments may not always be aligned. As a result, the cash flows of the Company are dependent upon the activities of third parties which creates the risk that at any time those third parties may: (i) have business interests or targets that are inconsistent with those of the Company; (ii) take action contrary to the Company's policies or objectives; (iii) be unable or unwilling to fulfill their obligations under their agreements with the Company, to regulators or under applicable laws, which may result in the loss of necessary governmental approvals or licenses; or (iv) experience financial, operational or other difficulties, including insolvency, which could limit or suspend a third party's ability to perform its obligations. In addition, payments may flow through the Company's investments, and there is a risk of delay and additional expense in receiving such revenues. In addition, the Company must rely, in part, on the accuracy and timeliness of the information it receives from the Company's investments, and uses such information in its analysis, forecasts and assessments relating to its own business. If the information provided by investment entities to the Company contains material inaccuracies or omissions, the Company's ability to accurately forecast or achieve its stated objectives, or satisfy its reporting obligations, may be materially impaired.

Investments in private companies and illiquid assets

The Company may invest in securities of or lend or otherwise provide financing to private companies. In some cases, the Company may be restricted by contract or generally by applicable securities laws from selling such securities for a period of time. Such securities may not have a ready market and the inability to sell such securities or to sell such securities on a timely basis or at acceptable prices may impair the Company's ability to exit such investments when the Company considers it appropriate.

Unfavourable perception or publicity

The regulated cannabis industry in the U.S. and Canada is at an early stage of development. The Company believes the medical and recreational cannabis industry is highly dependent on consumer perception regarding the safety and efficacy of recreational and medical cannabis. Consumer perceptions regarding legality, morality, consumption, safety, efficacy and quality of cannabis are mixed and evolving. Consumer perception can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity regarding the consumption of cannabis products. There can be no assurance that future scientific research, findings, regulatory proceedings, litigation, media attention or other research findings or publicity will be favourable to the cannabis market or any particular product, or consistent with earlier publicity. Future research reports, findings, regulatory proceedings, litigation, media attention or other publicity that are perceived as less favourable than, or that question, earlier research reports, findings or publicity could have a material adverse effect on the demand for cannabis and on the business, results of operations, financial condition and cash flows of the Company. Further, adverse publicity reports or other media attention regarding cannabis in general, or associating the consumption of cannabis with illness or other negative effects or events, could have such a material adverse effect on the business of the Company. Such adverse publicity reports or other media attention could arise even if the adverse effects

associated with such products resulted from consumers' failure to consumer such products legally, appropriately or as directed.

The ability of Chemistree's investments to gain or increase market acceptance of their Products or services may require them to establish and maintain brand names and reputation. In the U.S., it may be difficult or impossible to obtain federal trademark protection. While state-level protection may be available, this nevertheless increases the risks in protecting investments' brands until such time as the Controlled Substances Act is amended by federal legislation. Furthermore, in order to obtain such protection, substantial expenditures on product development, strategic relationships and marketing initiatives may be required. There can be no assurance that these initiatives will be successful, and their failure may have an adverse effect on the Company.

Laws and regulations are subject to unforeseen changes

The Company's operations may be subject to the ACMPR, the CSA and various other laws, regulations and guidelines relating to the marketing, acquisition, manufacture, packaging/labelling, management, transportation, storage, sale and disposal of cannabis but also including laws and regulations relating to health and safety, the conduct of operations and the protection of the environment. If any changes to such laws, regulations and guidelines occur (and in Canada the laws and regulations are currently changing at a rapid pace), which are matters beyond the Company's control, the Company may incur significant costs in complying with such changes or may be unable to comply therewith, which in turn may result in a material adverse effect on the Company's business, financial condition and results of operations.

Risks associated with investments

As part of the Company's investment strategy, the Company intends to pursue strategic investment or acquisitions, which could provide additional product offerings, vertical integrations, additional industry expertise, and a stronger industry presence in both existing and new jurisdictions. The success of any such investments or acquisitions will depend, in part, on the ability of the Company to realize the anticipated benefits and synergies from integrating those companies into the businesses of the Company. Future investments may expose it to potential risks, including risks associated with: (a) the integration of new operations, services and personnel; (b) unforeseen or hidden liabilities; (c) the diversion of resources from the Company's existing business and technology; (d) potential inability to generate sufficient revenue to offset new costs; (e) the expenses of acquisitions; (f) the potential loss of or harm to relationships with both employees and existing users resulting from its integration of new businesses; and (g) exposure to additional regulatory or legal regimes or risks. In addition, any proposed acquisitions may be subject to regulatory approval.

While Chemistree seeks to conduct due diligence that its management believes is reasonable given the scale and scope of its investments, there are both foreseen and unforeseen risks inherent in any investment. Specifically, there could be unknown or undisclosed risks or liabilities of such companies or liabilities that transfer by operation of law with respect to asset acquisitions for which the Company may not be indemnified sufficiently or at all. Any such unknown or undisclosed risks or liabilities could materially and adversely affect the Company's financial performance and results of operations and lead to write downs or write offs of the value of its investments. The Company may incur additional transactional and integration related costs or experience other factors such as the failure to realize all of the benefits from the acquisition.

Operating licenses

The Company's investments may not be able to obtain or maintain the necessary licenses, permits, authorizations or accreditations, or may only be able to do so at great cost, to operate their respective businesses. In addition, the Company's investments may not be able to comply fully with the wide variety of laws and regulations applicable to the cannabis industry. Failure to comply with or to obtain the necessary licenses, permits, authorizations or accreditations could result in restrictions on, or a loss of, an investment's ability to operate in the cannabis industry, which could have a material adverse effect on the value of the Company's investments.

Litigation risks

Chemistree's investments in the cannabis industry may lead to litigation, formal or informal complaints, enforcement actions, and inquiries by various federal, state, or local governmental authorities against the Company or its investments. Litigation, complaints, and enforcement actions involving either of the Company or its investments could consume considerable amounts of financial and other corporate resources, which could have an adverse effect on the Company's future cash flows, earnings, results of operations and financial condition.

Regulatory or agency proceedings, investigations and audits

The Company's business requires compliance with many laws and regulations. Failure to comply with these laws and regulations could subject the Company to regulatory or agency proceedings or investigations and could also lead to damage awards, fines and penalties. The Company may become involved in a number of government or agency proceedings, investigations and audits. The outcome of any regulatory or agency proceedings, investigations, audits, and other contingencies could harm the Company's reputation, require the Company to take, or refrain from taking, actions that could harm its operations or require payment of substantial amounts of money, harming the Company's financial condition. There can be no assurance that any pending or future regulatory or agency proceedings, investigations and audits will not result in substantial costs or a diversion of management's attention and resources or have a material adverse impact on the Company's business, financial condition and results of operations.

Product Liability

Certain of the Company's investments or strategic partners may manufacture, process and/or distribute products for consumption by humans and, as a result, face an inherent risk of exposure to product liability claims, regulatory action and litigation if products are alleged to have caused significant loss or injury or adverse health effects. In addition, previously unknown adverse reactions resulting from human consumption of cannabis alone or in combination with other medications or substances could occur. A product liability claim or regulatory action against Chemistree's investments or strategic partners may result in increased costs, adversely affect the Company's reputation, and have a material adverse effect on the results of operations and financial condition of the Company or its investments.

Fraudulent or Illegal activity by its employees, contractors and consultants

The Company is exposed to the risk that its employees, independent contractors and consultants may engage in fraudulent or other illegal activity. Misconduct by these parties could include intentional, reckless and/or negligent conduct or disclosure of unauthorized activities to the Company that violates: (i) government regulations; (ii) manufacturing standards; (iii) federal and provincial healthcare fraud and abuse laws and regulations; or (iv) laws that require the true, complete and accurate reporting of financial information or data. It is not always possible for the Company to identify and deter misconduct by its employees and other third parties, and the precautions taken by the Company to detect and prevent this activity may not be effective in

controlling unknown or unmanaged risks or losses or in protecting the Company from governmental investigations or other actions or lawsuits stemming from a failure to be in compliance with such laws or regulations. If any such actions are instituted against Chemistree, and it is not successful in defending itself or asserting its rights, those actions could have a significant impact on the Company's business, including the imposition of civil, criminal and administrative penalties, damages, monetary fines, contractual damages, reputational harm, diminished profits and future earnings, and curtailment of the Company's operations, any of which could have a material adverse effect on the Company's business, financial condition and results of operations.

Currency fluctuations

The Company's revenues and expenses are expected to be primarily denominated in U.S. dollars, and therefore may be exposed to significant currency exchange fluctuations. Recent events in the global financial markets have been coupled with increased volatility in the currency markets. Fluctuations in the exchange rate between the U.S. dollar and the Canadian dollar may have a material adverse effect on the Company's business, financial condition and operating results.

Risks associated with managing growth

The Company is currently in an early development stage and may be subject to growth-related risks, including capacity constraints and pressure on the Company's internal systems and controls, which may place significant strain on operational and managerial resources. The Company's ability to manage growth effectively will require it to continue to implement and improve operational and financial systems and to expand, train and manage its employee base. There can be no assurances that the Company will be able to manage growth successfully. Any inability to manage growth successfully could have a material adverse effect on the Company's business, financial condition and results of operations.

Perception of reputational risk from third-parties

The parties the Company does business with may perceive that they are exposed to reputational risk as a result of the Company's cannabis business activities. Failure to establish or maintain business relationships could have a material adverse effect on the Company's business, financial condition and results of operations. Any third-party service provider could suspend or withdraw its services to the Company if it perceives that the potential risks exceed the potential benefits to such services.

An exchange on which our common shares are listed may initiate a delisting review

The listing of the Company's common shares on a particular stock exchange is dependent on complying with the listing requirements of the applicable exchange. As the Company operates in the cannabis industry, it may from time to time be subject to additional listing requirements that are not applicable to companies in other industries.

Risks Related to Ownership of Chemistree's Common Shares

Stock price volatility

A decline in the price of the Company's common shares could affect its ability to raise further working capital and adversely impact our operations. A prolonged decline in the price of the Company's common shares could result in a reduction in the liquidity of the Company's common shares and a reduction in its ability to raise capital, or a delisting from a stock exchange on which the Company's common shares trades. Because the Company's operations have been

partially financed through the sale of equity securities, a decline in the price of its common shares could be especially detrimental to the Company's liquidity and continued operations. Any reduction in the Company's ability to raise equity capital in the future would force the Company to reallocate funds from other planned uses and would have a significant negative effect on business plans and operations, including the Company's ability to develop new products and continue current operations. If the Company's shares price declines, there can be no assurance that the Company can raise additional capital or generate funds from operations sufficient to meet its obligations.

Sales by shareholders of a substantial number of Common Shares

A substantial portion of total outstanding Common Shares may be sold into the market. Such sales could cause the market price of Common Shares to drop, even if the business is doing well. Such sales may include sales by officers and directors of the Company. Furthermore, the market price of Common Shares could decline as a result of the perception that such sales could occur. These sales, or the possibility that these sales may occur, also might make it more difficult for the Company to sell equity securities in the future at a time and price that the Company deems appropriate.

Dilution

Issuances of additional securities at or near the current share price of the Company would result in significant dilution of the equity interests of any persons who are holders of common shares.

No Requirement to make representations relating to disclosure controls and procedures and internal control over financial reporting.

In contrast to the certificate required for non-venture issues under NI 52-109, the certifying officers of Chemistree, as a venture issuer, are not required to make representations relating to the establishment and maintenance of disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR"), as defined in NI 52-109. In particular, the certifying officers of Chemistree are not required to make any representations that they have:

- designed, or caused to be designed, DC&P to provide reasonable assurance that information required to be disclosed by Chemistree in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and
- designed, or caused to be designed, ICFR to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the Chemistree's GAAP.

Investors should be aware that inherent limitations on the ability of certifying officers of a venture issuer to design and implement on a cost effective basis DC&P and ICFR may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

Unfavorable or lack of research and reports from research analysts

The trading market for Chemistree's common shares will rely in part on the research and reports that equity research analysts publish about Chemistree and Chemistree's business. Chemistree does not control these analysts. The price of Chemistree's common shares could decline if one or more equity analysts downgrade Chemistree's common shares or if analysts issue other unfavorable commentary or cease publishing reports about Chemistree or Chemistree's business.

18. Promoters

There is no person or company that has been, within the past three most recently completed financial years or during the current financial year, a promoter of the Company or a subsidiary of the Company, as such term is defined in the Securities Act.

19. Legal Proceedings

To the best of the Company's knowledge, there are no legal proceedings that the Company is or was a party to, or that any of its property is or was the subject of, during the most recently completed financial year.

To the best of the Company's knowledge, there are no (a) penalties or sanctions imposed against the Company by a court relating to securities legislation or by a securities regulatory authority during the Company's most recently completed financial year, (b) other penalties or sanctions imposed by a court or regulatory body against the Company that would likely be considered important to a reasonable investor in making an investment decision, or (c) settlement agreements the Company entered into before a court relating to securities legislation or with a securities regulatory authority during the Company's most recently completed financial year.

20. Interest of Management and Others in Material Transactions

During the three most recently completed financial years ended June 30, 2020, 2019 and 2018, and the subsequent period to the date of this listing statement, no director, officer or 10% shareholder of the Company or any associate or affiliate of any such person or company, has or had any material interest, direct or indirect, in any transaction that has materially affected or will materially affect the Company or its subsidiaries, except as may be disclosed in this document.

21. Auditors, Transfer Agents and Registrars

The Auditors for the Company are:

Davidson & Company LLP
Chartered Professional Accountants
#1200 – 609 Granville Street
Vancouver, B.C. V7Y 1G6

The Registrar and Transfer Agent for the Common Shares of the Company are:

Computershare Trust Company of Canada
2nd Floor, 510 Burrard Street
Vancouver, B.C. V6C 3B9

The Registrar and Transfer Agent for the warrants listed on the CSE and for the Convertible Debentures is:

Odyssey Trust Company
#323 – 409 Granville Street
Vancouver, B.C. V6C 1T2.

22. Material Contracts

Except for contracts entered into in the ordinary course of business, as of date of this Form 2A, the only material contracts which the Company has entered into are the Washington Acquisition Agreement and the DHS Agreement – see “*General Development of the Business*”; and the management agreements – see “*Executive Compensation*”.

23. Interest of Experts

Name of Experts

The following people have prepared or certified reports by the Company during the Company’s most recently completed financial year and whose profession or business gives authority to the report:

Mr. Erez Bahar
Davidson & Company LLP
Chartered Professional Accountants
#1200 – 609 Granville Street
Vancouver, B.C. V7Y 1G6

None of the above-mentioned experts has any registered or beneficial interest, directly or indirectly, in any securities of the Company greater than one per cent, or other properties of the Company.

24. Other Material Facts

Not applicable.

25. Financial Statements

The Financial Statements of the Company for the previous three financial years (June 2020, 2019, and 2018) are included herewith as Appendix A. The first certificate below must be signed by the CEO, CFO, any person or company who is a promoter of the Company and two directors of the Company. In the case of an Issuer re-qualifying following a fundamental change, the second certificate must also be signed by the CEO, CFO, any person or company who is a promoter of the target and two directors of the target.

CERTIFICATE OF THE ISSUER

Pursuant to a resolution duly passed by its Board of Directors, (full legal name of the Issuer), hereby applies for the listing of the above mentioned securities on the Exchange. The foregoing contains full, true and plain disclosure of all material information relating to (full legal name of the Issuer). It contains no untrue statement of a material fact and does not omit to state a material fact that is required to be stated or that is necessary to prevent a statement that is made from being false or misleading in light of the circumstances in which it was made.

Dated at Vancouver, BC this 30 day of October 2020.

"signed"

Karl Kottmeier, Chief Executive Officer

N/A

Promoter (if applicable)

"signed"

Nicholas Zitelli, Director

"signed"

Douglas Ford, Chief Financial Officer

"signed"

Sheldon Aberman, Director

"signed"

Gina Dickson, Director

APPENDIX A

Financial Statements 2020, 2019 and 2018



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
ASSETS		
Current		
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
	3,661,994	8,460,847
Non-current assets		
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	-
	\$ 7,453,343	\$ 11,744,835
LIABILITIES		
Current		
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
	346,300	149,810
Convertible debentures (Note 8)	7,739,770	7,096,455
Lease liability (Note 12)	141,273	-
Notes payable (Note 5)	443,959	443,959
	8,671,302	7,690,224
SHAREHOLDERS' EQUITY (DEFICIENCY)		
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)
	(1,217,959)	4,054,611
	\$ 7,453,343	\$ 11,744,835

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
Revenue (Note 3)	\$ 161,050	\$ 317,736
Cost of sales	(120,000)	(247,518)
Gross margin	\$ 41,050	\$ 70,218
Expenses		
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
Total expenses	(5,735,269)	(5,162,617)
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
Loss and comprehensive loss	\$ (5,453,452)	\$ (4,665,101)
Basic and diluted loss per share	\$ (0.14)	\$ (0.13)
Weighted average number of shares outstanding - basic and diluted	37,641,534	34,589,602

Chemistree Technology Inc.

(in Canadian Dollars)

Consolidated Statements of Cash Flows

For the years ended June 30,	2020		2019	
OPERATING ACTIVITIES				
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)
Cash used in operating activities		(3,193,496)		(4,877,590)
INVESTING ACTIVITIES				
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)
Cash used in investing activities		(844,108)		(2,328,675)
FINANCING ACTIVITIES				
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		-
Cash provided by (used in) financing activities		(1,379)		11,830,779
Change in cash and cash equivalents during the year		(4,038,983)		4,624,514
Cash and cash equivalents, beginning of year		7,286,516		2,662,002
Cash and cash equivalents, end of year	\$	3,247,533	\$	7,286,516
Cash paid for:				
Interest	\$	960,168	\$	260,756
Income taxes	\$	-	\$	-
Cash and cash equivalents comprises:				
		2020		2019
Cash	\$	3,247,533	\$	1,286,516
Cash equivalents		-		6,000,000
	\$	3,247,533	\$	7,286,516

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)
Balance, June 30, 2019	37,384,430	\$ 17,075,475	\$ 3,225,330	\$ (16,246,194)	\$ 4,054,611
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)
Balance, June 30, 2020	37,714,430	\$ 17,207,845	\$ 3,273,842	\$ (21,699,646)	\$ (1,217,959)

Chemistree Technology Inc.

Notes to the Consolidated Financial Statements

For the years ended June 30, 2020 and 2019

(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 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.

Chemistree Technology Inc.

Notes to the Consolidated Financial Statements

For the years ended June 30, 2020 and 2019

(in Canadian dollars)

2. BASIS OF PREPARATION

Statement of Compliance

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

Basis of Measurement

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

Principles of consolidation

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

Cash and cash equivalents

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

Change in Accounting Policies

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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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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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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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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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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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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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 \$
COST			
Balance, June 30, 2018	-	1,323,245	1,323,245
Additions	1,620,323	116,743	1,737,066
Balance, June 30, 2019	1,620,323	1,439,988	3,060,311
Additions	-	171,203	171,203
Balance, June 30, 2020	1,620,323	1,611,191	3,231,514
DEPRECIATION			
Balance, June 30, 2018	-	-	-
Depreciation	-	276,323	276,323
Balance, June 30, 2019	-	276,323	276,323
Depreciation	-	124,243	124,243
Balance, June 30, 2020	-	400,566	400,566
NET BOOK VALUE			
Balance, June 30, 2019	1,620,323	1,163,665	2,783,988
Balance, June 30, 2020	1,620,323	1,210,625	2,830,948

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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.

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

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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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 ⁽¹⁾	\$ 720,000	\$ 320,000

⁽¹⁾ 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) ⁽²⁾	\$ 30,000	\$ 30,000

⁽²⁾ 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.

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

	2020	2019
Marketing (general and administrative) ⁽³⁾ (Note 15)	\$ 72,000	\$ 222,000

⁽³⁾ 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:

	2020	2019
Consulting ⁽⁴⁾	\$ 384,292	\$ 210,387

⁽⁴⁾ 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:

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

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

⁽⁵⁾ Aberman and Zitelli were officers of ACS at the time of the investment.

Due to related parties include the following amounts:

	2020	2019
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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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:

	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, 2019	35,897,955	0.62
Expired - unexercised	(7,409,323)	0.50
Balance, June 30, 2020	28,488,632	0.65

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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 ⁽¹⁾	\$0.50	July 11, 2020 ⁽²⁾	0.03
21,639,500	\$0.70	March 29, 2022	1.75
1,474,200	\$0.50	March 29, 2022	1.75

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

⁽²⁾ 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
Balance, June 30, 2020	3,700,000	0.27

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(in Canadian dollars)

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	-
Balance as at June 30, 2020	\$ 9,567,000	\$ 7,739,770	\$ -	\$ 700,772

Chemistree Technology Inc.

Notes to the Consolidated Financial Statements

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Details of the convertible debenture classification are as follows:

	June 30, 2020
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	\$ 7,739,770
Current portion	-
Non-current portion	\$ 7,739,770

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

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.

Chemistree Technology Inc.

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For the years ended June 30, 2020 and 2019

(in Canadian dollars)

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:

	Investment in Sublease
	\$
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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For the years ended June 30, 2020 and 2019

(in Canadian dollars)

	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.

Chemistree Technology Inc.

Notes to the Consolidated Financial Statements

For the years ended June 30, 2020 and 2019

(in Canadian dollars)

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
Fair value, June 30, 2019	\$ 174,050
Proceeds from sales	(72,067)
Loss realized on sale	(101,983)
Fair value, June 30, 2020	\$ -

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
Balance, June 30, 2019	610,061
Accrued interest	25,311
FX translation	50,058
Impairment	(685,429)
Balance, June 30, 2020	1

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

Chemistree Technology Inc.

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For the years ended June 30, 2020 and 2019

(in Canadian dollars)

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
Total income tax expense (recovery)	\$ -	(263,000)
Current income tax	-	-
Deferred tax recovery	-	(263,000)

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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)
Net deferred tax assets	-	-

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

	2020	Expiry Date Range	2019	Expiry Date Range
Temporary Differences				
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.

Chemistree Technology Inc.

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For the years ended June 30, 2020 and 2019

(in Canadian dollars)

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.



Chemistree Technology Inc.

Consolidated Financial Statements

For the years ended June 30, 2019 and 2018

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Chemistree Technology Inc.

Opinion

We have audited the accompanying consolidated financial statements of Chemistree Technology Inc. (the "Company"), which comprise the consolidated statements of financial position as at June 30, 2019 and 2018, and the consolidated statements of loss and comprehensive loss, cash flows and changes in shareholders' equity for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

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

Material Uncertainty Related to Going Concern

We draw attention to Note 1 of the consolidated financial statements, which indicates that the Company had working capital of \$8,311,037 and an accumulated deficit of \$16,246,194 as at June 30, 2019. As stated in Note 1, these events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

“DAVIDSON & COMPANY LLP”

Vancouver, Canada

Chartered Professional Accountants

October 25, 2019

Chemistree Technology Inc.

(in Canadian Dollars)

Consolidated Statements of Financial Position

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

Nature and continuance of operations (Note 1)

Commitment (Note 15)

Events after the reporting period (Note 17)

Approved by the board on October 25, 2019:

Signed: "Karl Kottmeier"
Director

Signed: "Douglas Ford"
Director

Chemistree Technology Inc.

(in Canadian Dollars)

Consolidated Statements of Loss and Comprehensive Loss

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

Chemistree Technology Inc.

(in Canadian Dollars)

Consolidated Statements of Cash Flows

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

Supplemental disclosure with respect to cash flows (Note 11)

Chemistree Technology Inc.

(in Canadian Dollars)

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

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

Chemistree Technology Inc.

Notes to the Consolidated Financial Statements

For the years ended June 30, 2019 and 2018

(in Canadian dollars)

1. NATURE AND CONTINUANCE OF OPERATIONS

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

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

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

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

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

Chemistree Technology Inc.

Notes to the Consolidated Financial Statements

For the years ended June 30, 2019 and 2018

(in Canadian dollars)

2. BASIS OF PREPARATION

Statement of Compliance

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

Basis of Measurement

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

Principles of consolidation

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

Cash and cash equivalents

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

Change in Accounting Policies

Financial instruments

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

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

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

Chemistree Technology Inc.

Notes to the Consolidated Financial Statements

For the years ended June 30, 2019 and 2018

(in Canadian dollars)

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

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

Critical accounting estimates and judgments

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

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

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

Judgments:

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

Estimates:

Share-based payments

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

Impairment and useful lives of long-lived assets

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

Deferred income taxes

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

Chemistree Technology Inc.

Notes to the Consolidated Financial Statements

For the years ended June 30, 2019 and 2018

(in Canadian dollars)

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

Basic and diluted loss per share

The Company presents basic loss per share for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share does not adjust the loss attributable to common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive.

Financial instruments

Financial assets:

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

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

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

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

Financial liabilities:

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

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

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

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

Chemistree Technology Inc.

Notes to the Consolidated Financial Statements

For the years ended June 30, 2019 and 2018

(in Canadian dollars)

Revenue Recognition

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

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

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

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

Property and Equipment

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

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

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

Share Capital

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

Chemistree Technology Inc.

Notes to the Consolidated Financial Statements

For the years ended June 30, 2019 and 2018

(in Canadian dollars)

Foreign exchange

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

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

Income taxes

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

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

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Impairment of non-financial assets

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

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

Share-based payments

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

Chemistree Technology Inc.

Notes to the Consolidated Financial Statements

For the years ended June 30, 2019 and 2018

(in Canadian dollars)

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

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

Provisions

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

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

New Accounting Standards

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

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

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

Chemistree Technology Inc.

Notes to the Consolidated Financial Statements

For the years ended June 30, 2019 and 2018

(in Canadian dollars)

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

4. PROPERTY AND EQUIPMENT

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

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

Acquisition of Washington Assets

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

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

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

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

Chemistree Technology Inc.

Notes to the Consolidated Financial Statements

For the years ended June 30, 2019 and 2018

(in Canadian dollars)

Receivables

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

Acquisition of DHS Land

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

5. NOTES PAYABLE

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

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

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

6. RELATED PARTY TRANSACTIONS AND BALANCES

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

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of executive and non-executive members of the Company's Board of Directors and Officers.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Due to related parties include the following amounts:

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

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

7. SHARE CAPITAL AND EQUITY RESERVES

a) Authorized: Unlimited common shares without par value

b) Issued common shares

Year ended June 30, 2019:

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

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

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

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

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

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

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

Year ended June 30, 2018:

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

c) Warrants:

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

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

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

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

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

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

d) Options:

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

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

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

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

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

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

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

8. CONVERTIBLE DEBENTURE

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

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

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

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

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

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

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

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

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

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

Details of the convertible debenture classification are as follows:

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

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

9. CAPITAL MANAGEMENT

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

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

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

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10. FINANCIAL INSTRUMENTS, FAIR VALUE MEASUREMENT AND RISK

a) Financial Instruments

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

b) Fair Value Measurements

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

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

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

c) Financial Risks

(i) Credit Risk

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

(ii) Liquidity Risk

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

(iii) Interest Rate Risk

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

Chemistree Technology Inc.

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(iv) Foreign Currency Risk

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

11. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

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

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

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

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

12. SEGMENTED INFORMATION

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

13. MARKETABLE SECURITIES

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

The Company's marketable securities transactions are as follows:

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

Chemistree Technology Inc.

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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	21,177
Balance, June 30, 2019	610,061

15. COMMITMENTS

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

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

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

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

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

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

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

Chemistree Technology Inc.

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16. INCOME TAXES

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

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

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

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

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

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

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

Chemistree Technology Inc.

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17. EVENTS AFTER THE REPORTING PERIOD

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



Chemistree Technology Inc.

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Chemistree Technology Inc.

We have audited the accompanying consolidated financial statements of Chemistree Technology Inc., which comprise the consolidated statement of financial position as at June 30, 2018 and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Chemistree Technology Inc. as at June 30, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes conditions and matters that indicate the existence of a material uncertainty that may cast significant doubt about Chemistree Technology Inc.'s ability to continue as a going concern.

Other Matters

The consolidated financial statements of Chemistree Technology Inc. for the year ended 2017 were audited by another auditor who expressed an unmodified opinion on those statements on October 27, 2017.

“DAVIDSON & COMPANY LLP”

Vancouver, Canada

Chartered Professional Accountants

September 17, 2018

Chemistree Technology Inc.

(in Canadian Dollars)

Consolidated Statements of Financial Position

As at June 30,	2018	2017
ASSETS		
Current		
Cash and cash equivalents	\$ 2,662,002	\$ 135,795
Accounts receivable	7,374	-
Taxes receivable	7,411	6,919
Prepays and deposits	42,219	-
	2,719,006	142,714
Non-current assets		
Equipment (Note 4)	1,323,245	-
	\$ 4,042,251	\$ 142,714
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 316,337	\$ 38,084
Due to related parties (Note 6)	9,408	2,445
Interest payable (Note 5)	14,707	-
Loan payable (Note 5)	-	76,036
	340,452	116,565
Notes payable (Note 5)	421,959	-
	762,411	116,565
SHAREHOLDERS' EQUITY		
Share capital (Note 7)	13,896,322	10,107,349
Equity reserves (Notes 7)	964,611	761,418
Deficit	(11,581,093)	(10,842,618)
	3,279,840	26,149
	\$ 4,042,251	\$ 142,714

Nature and continuance of operations (Note 1)

Commitment (Note 15)

Events after the reporting period (Note 16)

Approved by the board on September 12, 2018:

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,	2018	2017
Expenses		
Business development	\$ 156,327	\$ 140,885
Consulting	-	48,000
Foreign exchange gain	(17,973)	(733)
General and administrative	100,886	37,562
Insurance	16,134	9,450
Interest expense (Note 5)	14,707	-
Interest income	(56)	(58)
Management fees (Note 6)	240,000	166,667
Professional fees	133,882	22,878
Share-based payments (Note 7)	58,500	68,053
Transfer agent and regulatory fees	33,121	27,922
Travel	23,520	4,222
	(759,048)	(524,848)
Other income (Note 4, 14)	20,573	430
Loss and comprehensive loss	\$ (738,475)	\$ (524,418)
Basic and diluted loss per share	\$ (0.04)	\$ (0.06)
Weighted average number of shares outstanding - basic and diluted	19,515,142	9,038,816

Chemistree Technology Inc.

(in Canadian Dollars)

Consolidated Statements of Cash Flows

For the years ended June 30,	2018	2017
OPERATING ACTIVITIES		
Loss for the year	\$ (738,475)	\$ (524,418)
Items not affecting cash:		
Share-based payments	58,500	68,053
Changes in non-cash working capital items:		
Accounts receivable	(7,374)	-
Taxes receivable	(492)	17,652
Prepays and deposits	(42,219)	4,236
Accounts payable and accrued liabilities, and due to related parties	21,856	(34,359)
Interest payable	14,707	-
Cash used in operating activities	(693,497)	(468,836)
INVESTING ACTIVITIES		
Equipment purchase	(1,059,885)	-
Cash used in investing activities	(1,059,885)	-
FINANCING ACTIVITIES		
Common shares issued for cash	4,107,520	500,000
Share issue costs	(173,854)	(5,789)
Proceeds from notes payable	345,923	-
Proceeds from loan	-	76,036
Cash provided by financing activities	4,279,589	570,247
Change in cash and cash equivalents during the year	2,526,207	101,411
Cash and cash equivalents, beginning of year	135,795	34,384
Cash and cash equivalents, end of year	\$ 2,662,002	\$ 135,795
Cash paid for:		
Interest	\$ -	\$ -
Income taxes	\$ -	\$ -
Cash and cash equivalents comprises:	2018	2017
Cash	\$ 2,657,002	\$ -
Cash equivalents	5,000	-
	\$ 2,662,002	\$ -

Supplemental disclosure with respect to cash flows (Note 10)

Chemistree Technology Inc.

(in Canadian Dollars)

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

	Number of shares	Share capital	Equity reserves	Deficit	Total
Balance, June 30, 2016	5,148,405	\$ 9,613,138	\$ 693,365	\$ (10,318,200)	\$ (11,697)
Private placement	10,000,000	500,000	-	-	500,000
Share issue costs	-	(5,789)	-	-	(5,789)
Share-based payments	-	-	68,053	-	68,053
Loss for the year	-	-	-	(524,418)	(524,418)
Balance, June 30, 2017	15,148,405	10,107,349	761,418	(10,842,618)	26,149
Balance, June 30, 2017	15,148,405	10,107,349	761,418	(10,842,618)	26,149
Private placement	13,504,571	4,107,520	-	-	4,107,520
Share issue costs – cash	-	(173,854)	-	-	(173,854)
Share issue costs – warrants	-	(144,693)	144,693	-	-
Share-based payments - options	-	-	58,500	-	58,500
Loss for the year	-	-	-	(738,475)	(738,475)
Balance, June 30, 2018	28,652,976	\$ 13,896,322	\$ 964,611	\$ (11,581,093)	\$ 3,279,840

Chemistree Technology Inc.

Notes to the Consolidated Financial Statements

For the years ended June 30, 2018 and 2017

(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 16), and American CHM Investments Inc. (Note 16). On July 20, 2018, it was announced that the Company had become an investment issuer on the Canadian Securities Exchange. Prior to becoming an investment issuer, the Company was involved in the business of developing a social media marketing platform. Revenues earned during the years ended June 30, 2018 and 2017, from such activity is included in other income.

On June 29, 2018, the Company completed the acquisition of Washington State-based equipment assets used in cannabis cultivation, production and distribution (Note 4). Following the completion of these assets the Company expects to indirectly derive 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, 2018, the Company had working capital of \$2,378,554 and an accumulated deficit of \$11,581,093. These consolidated financial statements have been prepared on the assumption that the Company will continue as a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the ordinary course of operations. These financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

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

Effective January 27, 2017, the Company consolidated its common shares on a 3-old for 1-new basis, whereby every three old common shares were exchanged for one new common share without par value. All references to common shares, stock options, warrants and weighted average number of shares outstanding in these consolidated financial statements reflect this share consolidation unless otherwise noted (Note 7).

Chemistree Technology Inc.

Notes to the Consolidated Financial Statements

For the years ended June 30, 2018 and 2017

(in Canadian dollars)

2. BASIS OF PREPARATION

Statement of Compliance

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

Basis of Measurement

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

Principles of consolidation

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

Chemistree Washington Ltd.	100%	Investment holding company
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Chemistree Washington Ltd., was incorporated by the Company on October 17, 2017, to facilitate the Company’s investment objectives in the United States cannabis sector. All intercompany transactions, balances, revenues and expenses are eliminated on consolidation. Subsequent to June 30, 2018, the Company incorporated additional subsidiaries.

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.

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:

Chemistree Technology Inc.

Notes to the Consolidated Financial Statements

For the years ended June 30, 2018 and 2017

(in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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 equipment

The Company assesses equipment 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 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.

Chemistree Technology Inc.

Notes to the Consolidated Financial Statements

For the years ended June 30, 2018 and 2017

(in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Financial instruments

Financial assets:

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

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

Loans and receivables – These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at cost less any provision for impairment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default.

Held-to-maturity investments – These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in profit or loss.

Available-for-sale – Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized directly in shareholders' equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized in profit or loss.

All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described above.

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 as fair value through profit and loss. Accounts receivable, and taxes receivable are classified as loans and receivables. The Company's accounts payable and accrued liabilities, due to related parties, interest payable, loan payable, and notes payable are classified as other financial liabilities.

Chemistree Technology Inc.

Notes to the Consolidated Financial Statements

For the years ended June 30, 2018 and 2017

(in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Equipment

Equipment is stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of equipment 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 equipment, 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.

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.

Foreign exchange

The functional and reporting currency of the Company and its subsidiary 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.

Chemistree Technology Inc.

Notes to the Consolidated Financial Statements

For the years ended June 30, 2018 and 2017

(in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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.

Chemistree Technology Inc.

Notes to the Consolidated Financial Statements

For the years ended June 30, 2018 and 2017

(in Canadian dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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

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

Provisions

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

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

New Accounting Standards

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

- IFRS 9: New standard that replaced IAS 39 for classification and measurement, tentatively effective for annual periods beginning on or after January 1, 2018. The Company does not expect the adoption of this standard to significantly affect these consolidated financial statements.
- IFRS 15: New standard to establish principles for reporting the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contracts with customers, effective for annual periods beginning on or after January 1, 2018. The Company does not expect the adoption of this standard to significantly affect these consolidated financial statements.
- IFRS 16: Leases: New standard to establish principles for recognition, measurement, presentation and disclosure of leases with an impact on lessee accounting, effective for annual periods beginning on or after January 1, 2019. The Company is currently evaluating the impact of this standard.

Chemistree Technology Inc.
Notes to the Consolidated Financial Statements
For the years ended June 30, 2018 and 2017
(in Canadian dollars)

4. EQUIPMENT

	Equipment \$
COST	
Balance, June 30, 2017 and 2016	-
Additions	1,323,245
Balance, June 30, 2018	1,323,245
DEPRECIATION	
Balance, June 30, 2017 and 2016	-
Depreciation ⁽¹⁾	-
Balance, June 30, 2018	-
NET BOOK VALUE	
Balance, June 30, 2018	1,323,245
Balance, June 30, 2017	-

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

Acquisition of Washington Assets

Pursuant to a definitive asset purchase agreement (the “Washington Acquisition”) between Chemistree Washington Ltd. (“Chemistree Washington”) and Elite Holdings Inc. (“Elite”), the Company acquired certain cannabis cultivation equipment (the “Washington Assets”) from Elite. Consideration for the Washington Assets was US\$1,000,000 payable in cash. US\$800,000 was paid upon closing of the Washington Acquisition on June 29, 2018. There are four remaining instalments of US\$50,000 each payable on September 30, 2018, December 31, 2018, March 31, 2019, and June 30, 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 \$6,360 per month for each of July and August 2018, and \$8,360 per month from September 2018, and each month thereafter (Note 15).

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

Other Income

During the year ended June 30, 2018, the Company purchased equipment with the intention of immediate resale. The cost of this equipment was \$32,998, and it was sold to a third party for proceeds of \$46,479. The aggregate of these amounts is included within other income.

Chemistree Technology Inc.

Notes to the Consolidated Financial Statements

For the years ended June 30, 2018 and 2017

(in Canadian dollars)

5. NOTES PAYABLE AND LOAN PAYABLE

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.

	2018	2017
	\$	\$
Opening balance	-	-
Additions	345,923	-
Transfer from loan payable	76,036	-
Ending balance	421,959	-

As at June 30, 2018, accrued and unpaid interest on these Notes amounts to \$14,707 (2017: \$nil), which is presented as interest payable.

Loan payable

As at June 30, 2018, loans payable amounts to \$nil (2017: \$76,036 (USD \$58,750)). The loan payable was owed to an arm's length party and was replaced with a promissory note during the year ended June 30, 2018. The loan payable was unsecured and bore interest at the Canadian prime rate plus 0.5% per annum, and was due on demand.

6. RELATED PARTY TRANSACTIONS AND BALANCES

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

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of executive and non-executive members of the Company's Board of Directors and Officers.

During the years ended June 30, 2018 and 2017, 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")	Rent and shared office expenses terminated June 30, 2017.
Karl Kottmeier ("Kottmeier")	Expenditures incurred by a Director to be reimbursed.
1044825 BC Ltd. ("1BL")	Consulting fees for services provided by former CTO.
Justin Chorbajian ("Chorbajian")	Note payable issued for funds advanced by a Director.

Chemistree Technology Inc.
Notes to the Consolidated Financial Statements
For the years ended June 30, 2018 and 2017
(in Canadian dollars)

6. RELATED PARTY TRANSACTIONS AND BALANCES (cont'd)

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

	2018	2017
Management fees ⁽¹⁾	\$ 240,000	\$ 166,667

⁽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 a Management Services Agreement, the Company is required to pay \$20,000 per month (2017: \$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:

	2018	2017
Rent (general and administrative) ⁽²⁾	\$ 30,000	\$ 35,000
Consulting ⁽³⁾	\$ -	\$ 48,000

⁽²⁾ During the year ended June 30, 2018, rent was paid to PEMC for office rent and other office services. The Company is required to pay \$2,500 per month to PEMC (2017: \$nil per month). The agreement with PEMC can be terminated by either party with six months' notice. During the year ended June 30, 2017, rent was paid to CFC, a company in which an officer of the Company has a significant interest. The agreement with CFC was terminated effective June 30, 2017.

⁽³⁾ Consulting fees were paid to 1BL, a company controlled by the former CTO for consulting services.

Due to related parties include the following amounts:

	2018	2017
	\$	\$
PEMC	695	695
CFC	1,750	1,750
Kottmeier	6,963	-
	<u>9,408</u>	<u>2,445</u>

Included in the notes payable (Note 5), is \$78,431 principal (2017: \$nil), and \$2,864 in accrued interest owed to Chorbajian.

Chemistree Technology Inc.

Notes to the Consolidated Financial Statements

For the years ended June 30, 2018 and 2017

(in Canadian dollars)

7. SHARE CAPITAL AND EQUITY RESERVES

a) Authorized: Unlimited common shares without par value

Effective January 27, 2017, the Company consolidated its common share capital on a 3-old for 1-new basis, whereby each three old shares are equal to one new share without par value. All references to common shares, stock options, warrants and weighted average number of shares outstanding in these consolidated financial statements reflect the share consolidation unless otherwise noted.

b) Issued common shares

Year ended June 30, 2018:

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

Year ended June 30, 2017:

The Company closed a non-brokered private placement through the issuance of 10,000,000 common shares at \$0.05 per share, for proceeds of \$500,000. The Company incurred share issuance costs of \$5,789 in connection with this placement.

Chemistree Technology Inc.

Notes to the Consolidated Financial Statements

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(in Canadian dollars)

7. SHARE CAPITAL AND EQUITY RESERVES (cont'd)

c) Warrants:

	Warrants	Weighted Average Exercise Price \$
Balance, June 30, 2017, and 2016	-	-
Issued – attached to private placement units	7,313,771	0.50
Issued – finder's fees	438,464	0.50
Balance, June 30, 2018	7,752,235	0.50

As at June 30, 2018, the following warrants were outstanding and exercisable:

Number	Exercise Price	Expiry Date	Remaining Contractual Life (in years)
7,752,235	\$0.50	June 25 2020 ⁽¹⁾	1.99

⁽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.

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:

	2018	2017
Risk-free interest rate	1.98%	-
Expected life	2 years	-
Expected volatility	228.27%	-
Expected dividend yield	Nil	-
Weighted average fair value per option	\$0.30	-

d) Options:

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

Chemistree Technology Inc.

Notes to the Consolidated Financial Statements

For the years ended June 30, 2018 and 2017

(in Canadian dollars)

7. SHARE CAPITAL AND EQUITY RESERVES (cont'd)

	Options	Weighted Average Exercise Price \$
Balance, June 30, 2016	312,666	0.69
Expired	(46,000)	(2.55)
Cancelled	(216,666)	(0.36)
Granted	900,000	0.10
Balance, June 30, 2017	950,000	0.13
Granted	150,000	0.41
Balance, June 30, 2018	1,100,000	0.15
Exercisable, June 30, 2018	1,100,000	0.15

As at June 30, 2018, 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	2.78
900,000	\$0.10	June 7, 2022	3.94
150,000	\$0.41	June 22, 2023	4.98

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 4.03 years (2017 – 4.88 years).

The options granted to directors and officers during the period vested on the grant date. The fair value of each stock option was estimated on the grant date using the Black-Scholes option pricing model with the following weighted average assumptions:

	2018	2017
Risk-free interest rate	1.98%	0.93%
Expected life	5 years	5 years
Expected volatility	169.56%	176.34%
Expected dividend yield	Nil	Nil
Weighted average fair value per option	\$0.39	\$0.08

Chemistree Technology Inc.

Notes to the Consolidated Financial Statements

For the years ended June 30, 2018 and 2017

(in Canadian dollars)

8. 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.

9. FINANCIAL INSTRUMENTS, FAIR VALUE MEASUREMENT AND RISK

a) Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, taxes receivable, accounts payable and accrued liabilities, due to related parties, interest payable, notes payable, and loan payable.

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 are determined based on Level 1 inputs which consist of quoted prices in active markets for identical assets. The carrying values of accounts receivable, taxes receivable, accounts payable and accrued liabilities, due to related parties, interest payable, notes payable, and loan payable all approximate their fair values.

Chemistree Technology Inc.

Notes to the Consolidated Financial Statements

For the years ended June 30, 2018 and 2017

(in Canadian dollars)

9. FINANCIAL INSTRUMENTS, FAIR VALUE MEASUREMENT AND RISK (cont'd)

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 \$2,676,787, consisting of cash and cash equivalents, accounts receivable, and taxes 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.

(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, 2018, the Company had working capital of \$2,378,554. 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, 2018, 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 an insignificant impact on the Company's profit or loss.

10. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

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

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

During the year ended June 30, 2017, there were no significant non-cash investing and financing activities.

11. SEGMENTED INFORMATION

The Company operates in one reportable segment, being the business investing in the United States cannabis sector. As at June 30, 2018, all the Company's non-current assets were located in the United States, and other income was earned from activity in the United States. As at June 30, 2017, the Company's assets and other income were located/generated in Canada.

Chemistree Technology Inc.
Notes to the Consolidated Financial Statements
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12. INCOME TAXES

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

	2018	2017
Loss before income taxes	\$ (738,475)	(524,419)
Computed income taxes (recovery)	\$ (192,000)	(136,349)
Change in statutory rate	(74,000)	-
Share issue costs	(45,000)	-
Net adjustments for deductible and non-deductible items	18,000	16,343
Change in unrecognized deferred tax assets	293,000	120,006
	\$ -	-

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:

	2018	Expiry Date Range	2017	Expiry Date Range
Temporary Differences				
Exploration and evaluation assets	\$ 2,809,000	No expiry date	\$ 2,809,000	No expiry date
Share issue costs	\$ 145,000	No expiry date	\$ 11,000	No expiry date
Non-capital losses available for future periods	\$ 4,666,000	2029 to 2038	\$ 3,958,000	2029 to 2037

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

Chemistree Technology Inc.

Notes to the Consolidated Financial Statements

For the years ended June 30, 2018 and 2017

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13. MINERAL PROPERTIES

Pursuant to a historical Option Agreement, the Company formerly held a 100% interest in the Turner Lake Gold property (the "Turner Lake Project") acquired from Trade Winds Ventures Inc. ("Trade Winds"). Effective May 4, 2015, the Company entered into a letter agreement with Pacific Cascade Minerals Inc. ("PCV"), whereby PCV could acquire a 60% in the Turner Lake Project. During the year ended June 30, 2017, the agreement with PCV was terminated due to PCV's inability to make the required payments to the Company.

During the year ended June 30, 2016, the Company impaired all remaining capitalized exploration expenditures which were charged to profit or loss, and subsequently abandoned all mineral claims.

14. SOCIAL MEDIA MARKETING

During the year ended June 30, 2016, the Company engaged the services of an external consultant to review projects in the technology space. The Company developed a social media marketing concept internally under the name "Whattozee." Whattozee synthesizes two online businesses on one platform: event planning and social media marketing. During the year ended June 30, 2017, the Company launched an invitation-only test version of Whattozee.

During the year ended June 30, 2018, the Company earned revenues from this activity of \$7,092 (2017: \$430), presented within other income.

15. COMMITMENT

Subsequent to June 30, 2018 (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:

- 2019: \$96,320
- 2020: \$100,320
- 2021: \$100,320
- 2022: \$100,320
- 2023: \$100,320

Chemistree Technology Inc.

Notes to the Consolidated Financial Statements

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(in Canadian dollars)

16. EVENTS AFTER THE REPORTING PERIOD

- a) Effective July 10, 2018, the Company entered into consulting agreements with Contact Financial Corp. and Adelaide Capital Markets Inc. to provide investor relations and communication services. In addition to the contracted compensation, and subject to Exchange approval, Chemistree agreed to grant Contact Financial and Adelaide Capital Markets options to acquire 150,000 and 100,000 common shares, respectively, in the capital of the Company at a price of \$0.41 per share that vest quarterly over twelve months and have a five-year term.
- b) 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 \$1,949,365.

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 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 will expire within 30 days after the date of the acceleration notice.

The Company also issued 257,748 finder 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. Securities issued under the placement are subject to a four-month hold period, which will expire four months from the date of closing.

- c) 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.

APPENDIX B

Management's Discussion & Analysis

**THE ATTACHED CONSOLIDATED FINANCIAL STATEMENTS FORM AN INTEGRAL PART OF THIS
MANAGEMENT DISCUSSION AND ANALYSIS AND ARE HEREBY INCLUDED BY REFERENCE****Management Discussion and Analysis as of October 15, 2020**

Statements in this report that are not historical facts are forward-looking statements involving known and unknown risks and uncertainties, which could cause actual results to vary considerably from these statements. Readers are cautioned not to put undue reliance on forward-looking statements.

Statements contained in this MD&A that are not historical facts are forward-looking statements (within the meaning of the Canadian securities legislation and the U.S. Private Securities Litigation Reform Act of 1995) that involve risks and uncertainties. Forward-looking statements include, but are not limited to, statements with respect to permitting timelines, currency fluctuations, requirements for additional capital, government regulation, environmental risks, limitations on insurance coverage and the timing and possible outcome of pending litigation. In certain cases, forward-looking statements can be identified by the use of words such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or state that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved". Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such risks and other factors include, among others, risks related to the integration of acquisitions; risks related to operations; risks related to joint venture operations; conclusions of economic evaluations; changes in project parameters as plans continue to be refined; as well as those factors discussed in the sections entitled "Risks and Uncertainties" in this MD&A. Although the Company has attempted to identify important factors that could affect the Company and may cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. The forward-looking statements in this MD&A speak only as of the date hereof. The Company does not undertake any obligation to release publicly any revisions to these forward-looking statements to reflect events or circumstances after the date hereof to reflect the occurrence of unanticipated events.

Forward-looking statements and other information contained herein concerning general expectations are based on estimates prepared by the Company using data from publicly available industry sources as well as from market research and industry analysis and on assumptions based on data and knowledge of this industry which the Company believes to be reasonable. However, this data is inherently imprecise, although generally indicative of relative market positions, market shares and performance characteristics. While the Company is not aware of any misstatements regarding any industry data presented herein, the industry involves risks and uncertainties and is subject to change based on various factors. Forward-looking statements in this MD&A include, but are not limited to, the Company's strategies and objectives, both generally and in respect of its existing business and planned business operations; conditions in the financial markets generally, and with respect to the prospects for cannabis companies specifically; the Company's future cash requirements; the acquisition and development of vertically integrated assets; the potential and development of the DHS property (as defined below); the identification and completion of additional investments; investment and expansion opportunities; the development of the social media business and expansion of its client base; the industry, regions and goals of the Company's investment policy; opportunities arising from the relationship with the Strategic Partner; the Company's ability to raise additional equity capital; and the sufficiency of the Company's capital resources.

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the audited consolidated financial statements for the years ended June 30, 2020 and 2019 together with the corresponding notes of Chemistree Technology Inc. (the "Company" or "Chemistree"). This MD&A covers the financial year ended June 30, 2020 and the subsequent period up to the date of filing. This MD&A has been prepared by reference to the MD&A disclosure requirements established under National Instrument 51-102 – Continuous Disclosure Obligations of the Canadian Securities Administrators and Staff Notice 51-352 (Revised) – Issuers with US Marijuana Related Activities ("Staff Notice 51-352").

The 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”).

All amounts are expressed in Canadian dollars unless otherwise noted. Readers are encouraged to read the Company’s public information filings on SEDAR at www.sedar.com

Having completed the Washington Acquisition (as defined herein), the Company indirectly derives, through investments in ancillary operations, revenue from the adult-use cannabis industry in the United States in jurisdictions where local law permits such activities, and may in the future indirectly derive revenue from the medical cannabis industry in the United States and the medical and/or adult-use cannabis industries in Canada.

Although a number of states of 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 plans and current, proposed and potential future investments, even where the Company is not directly involved in the cultivation or sale of either adult-use 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.

Over half of the states of the United States have enacted legislation to regulate the sale and use of medical cannabis without limits on tetrahydrocannabinol (“THC”), while other states have regulated the sale and use of medical cannabis with strict limits on the levels of THC. Notwithstanding the permissive regulatory environment of medical cannabis at the state level, cannabis continues to be categorized as a controlled substance under the U.S. *Controlled Substances Act* (the “CSA”) in the United States and as such, is in violation of U.S. federal law.

As a result of the conflicting views between state legislatures and the federal government regarding cannabis, investments in cannabis businesses in the United States are subject to inconsistent legislation and regulation. The Supremacy Clause of the *United States Constitution* establishes that the United States Constitution and federal laws made pursuant to it are paramount and, in case of conflict between federal and state law, the federal law must be applied. Notwithstanding the paramountcy of United States federal law, enforcement of such laws may be limited by other means or circumstances, which are further described in this MDA and the documents incorporated by reference herein. Unless and until the United States Congress amends the CSA with respect to cannabis (and as to the likelihood, timing or scope of any such potential amendments there can be no assurance), there is a risk that U.S. federal authorities may enforce current U.S. federal law, which may adversely affect any current or future investments of the Company in the United States. As such, there are a number of risks associated with any of the Company’s current or future investments in the United States, and such investments may become the subject of heightened scrutiny by regulators, stock exchanges and other authorities. As a result, the Company may be subject to significant direct and indirect interaction with public officials. There can be no assurance that this heightened scrutiny will not in turn lead to the imposition of certain restrictions on the Company’s ability to invest in the United States or any other jurisdiction.

On October 17, 2018, the *Cannabis Act, 2018* (the “Cannabis Act”) came into force with the effect of legalizing adult recreational use of cannabis across Canada. The Cannabis Act provides for the federal government to regulate commercial production of cannabis products and grants the provincial, territorial and municipal governments the authority to prescribe regulations regarding retail and distribution, as well as the ability to alter some of the existing baseline requirements of the Cannabis Act. The provinces of Canada have passed legislation which sets out the scheme for private cannabis sales in each Province. The new framework opens the door for private operators to capitalize on cannabis retail opportunities in Canada.

On February 8, 2018, following discussions with the Canadian Securities Administrators and recognized Canadian securities exchanges, the TMX Group announced the signing of a Memorandum of Understanding (the “TMX MOU”) with Aequitas NEO Exchange Inc., the Canadian Securities Exchange, the TSX and the TSX Venture Exchange. The TMX MOU outlines the parties’ understanding of Canada’s regulatory framework applicable to the rules, procedures, and regulatory oversight of the exchanges and CDS as it relates to issuers with cannabis-related activities in the United States. The TMX MOU confirms, with respect to the clearing of listed securities, that CDS relies on the exchanges to

review the conduct of listed issuers. As a result, there is no CDS ban on the clearing of securities of issuers with cannabis-related activities in the United States. However, there can be no guarantee that this approach to regulation will continue in the future. If such a ban were to be implemented after the Company begins operating in cannabis-related activities in the United States, it would have a material adverse effect on the ability of holders of Common Shares, Debentures and Warrants to make and settle trades. In particular, the Common Shares, Debentures and Warrants would become highly illiquid as until an alternative was implemented, investors would have no ability to effect a trade of the Common Shares, Debentures and Warrants through the facilities of a stock exchange.

Accordingly, the Company, and its investments in the cannabis sector, may be subjected to heightened scrutiny by applicable regulatory authorities, the CSE, clearing agencies or other governmental bodies. See the sections entitled “Corporate Overview” and “Risk associated with the Company”, below, for further details.

Outlook

Chemistree Technology Inc. is an investment company dedicated to the U.S. cannabis sector, endeavoring to provide turn-key solutions for the regulated cannabis industry. The Company's corporate strategy is to acquire and develop vertically integrated 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.

The Covid-19 pandemic is creating unprecedented challenges to the global economy and stock markets. Chemistree is dependent on the formation of capital for our liquidity. Our board and management are taking actions to maintain the solvency of the Company as long as possible during this period of uncertainty. In addition, management continues to monitor the negative headwinds of capital markets related to the cannabis industry. Company valuations have severely retreated over the last 12-months largely due to negative investor sentiment, and failure of operators to deliver on performance guidance. Chemistree believes that capital markets will improve for US operators, however, caution is warranted as the industry deals with the large quantity of ‘unregulated’ product that is still widely available in the marketplace. The industry’s “miss” of financial performance targets has been due to many factors, including slowness and uncertainty of the licensing/regulatory process, higher than expected costs associated with testing and taxation, and inability to access capital on an as-needed basis.

Business objectives 12 months forward

During the period, 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.

The Company's investment objectives are to seek investment opportunities in the cannabis sector, initially the western United States and potentially other jurisdictions where cannabis-related activities are permitted and to achieve an acceptable rate of return by focusing on opportunities with attractive risk to reward profiles. Investments by the Company will be made in accordance with and are otherwise subject to the its investment policy (the “Investment Policy”), which may be amended from time to time at the sole discretion of the Company without shareholder approval unless required by applicable laws or Exchange policies.

The proposed investments will generally be companies in the cannabis sector, but may include a range including but not limited to service providers to the cannabis industry, to licensees, to bare land packages for development. Preference will be given initially to the western United States, but other jurisdictions, including potentially outside of North America, may be permissible depending on the risk-reward relationship associated with the particular jurisdiction, including legal and tax considerations.

Currently, the Company is completing an internal strategic review of its investment policy. The Board of Directors is considering a broadening of the mandate to include investment opportunities unrelated to the cannabis sector. To date, in excess of 50% of the Company’s asset base has been deployed in cannabis-related initiatives. In order to deploy remaining

investment capital with a more diversified approach, management is recommending an expanded investment policy that may include other opportunities in the healthcare, biotechnology, medical technology or related consumer-products fields.

In the forthcoming 12-month period the Company intends to : (i) continue pursuing acquisitions of vertically integrating assets within the cannabis industry which will depend on the availability and types of acquisition opportunities available to the Company from time to time; (ii) streamline the operation of the Washington Assets to integrate the expanded facilities (iii) expand the asset base of the Company through direct investment and or mergers and acquisitions, the timing and costs of which will depend upon the asset investment and merger and acquisition targets presented to the Company from time to time and the attractiveness of those opportunities, relative to other opportunities available to the Company in the determination of management.

In terms of composition, the nature and timing of the Company's investments will depend, in part, on available capital at any particular time and the investment opportunities identified and available to the Company. Subject to the availability of capital, the Company intends to create a diversified portfolio of investments. The composition of its investment portfolio will vary over time, and may include equity investments, cannabis streaming arrangements, secured or unsecured loans, asset acquisitions, bare land acquisitions, majority ownership, joint ventures and licensing arrangements, among others. All investments shall be made in compliance with applicable laws in relevant jurisdictions and shall be made in accordance with and governed by the rules and policies of applicable regulatory authorities.

Recent developments

On August 5, 2020 the Company announced that the Washington State Liquor and Cannabis Board (WSLCB) had approved Chemistree Washington's expanded facility in Sedro Woolley for cultivation and processing operations. The expansion increases the size of the cultivation area by approximately 30 per cent. Chemistree commenced construction of the additional grow room in early March, but progress was delayed by the statewide restrictions brought on by the COVID-19 pandemic. Management is pleased that the project was completed safely and expeditiously by all the contractors and sub-trades involved, always keeping workers protected. The expanded space was turned-over to the licensee, Sugarleaf, for planting and active cannabis operations.

On July 9, 2020, and further to its earlier announcements on June 15 and June 18 – Chemistree confirmed that it had now closed the first tranche of the 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.

The first product, known internally as FLEX 0010, targeted to launch in late 2020, is designed to counteract weakened immune systems and diminished immune repertoire caused by a lifetime of battling infections and disease. It is a natural health product, manufactured and packaged in pharmaceutical-grade facilities and delivered as a flavoured effervescent powder designed to maximize bioavailability and minimize oxidation.

On April 9, 2020, the Company announced that during March, the Company continued the Washington State expansion and reconfiguration of the Sedro Woolley facility operated by Sugarleaf. The expansion will add approximately 30% to the cultivation area and will allow for significant streamlining of pre- and post- production facilities. Unfortunately, in late March due to Covid-19 the State of Washington deemed "construction" a non-essential service. The expansion of the facility has thus ceased at approximately 60% complete, pending inspections for building and electrical work. At this time the Company cannot estimate when the project will be ready for handover to the operator. The Company's Washington assets are performing well on a turnkey basis, as provided to the Washington licensee.

In California, Chemistree has completed the planning the development phase for its 9.55-acre Desert Hot Springs land package. A Conditional Use Permit ("CUP") has been issued by the City of Desert Hot Springs to allow full manufacturing, cultivation

and distribution from the site. The planned and approved site includes two 63,980 square foot state-of-the-art light deprivation greenhouses, and a future 40,572 square foot engineered steel building and 171 parking stalls to accommodate staff and visitors. In full production, the site is expected to be capable of producing in excess of 30,000 pounds of dried market ready cannabis annually, along with a full market-ready selection of extracts and edibles. In an effort to fast-track the path to revenue, Chemistree also received an amended CUP to accommodate light manufacturing and distribution from temporary mobile buildings during the construction phase.

In order to secure the approval of the site, buildings and CUP, Chemistree conducted several studies to confirm the site was free of Native artifacts and endangered wildlife species. As part of the CUP process and land improvement goal, a water and flood management plan was produced along with sewer and street improvement plans for the site.

Full architectural and engineered building plans for the Phase 1 greenhouses have been submitted and approved and the project is currently in a shovel-ready status with no further compliance requirements to meet. Chemistree has received “will serve” letters from the major utility companies and confirmed the ongoing availability of power, water and gas to the site.

The capital markets headwinds facing the cannabis industry combined with the Covid-19 pandemic have stymied managements’ efforts to put-in-place the necessary construction/real estate financing to commence construction. In calendar Q4 2019, and Q1 2020 the Company engaged two cannabis finance consultants, respectively, to assist with placement of the construction debt – neither was successful in delivering a term sheet.

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, 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 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, therefore the Company has written-down the receivable.

The Company’s investee, Applied Cannabis Sciences of New Jersey (“ACS”), continues to report to management regarding the changing regulatory landscape in New Jersey. ACS filed its medical vertically integrated license application in August 2019 in the latest New Jersey Request for Applications (RFA), which was released Monday, July 15, 2019, by the New Jersey Department of Health. Unfortunately, New Jersey lawmakers voted late last year to pose the question to voters on the November 2020 ballot. No further advance in that state is expected until the end of the year at best.

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

On July 22, 2019, the Company announced that through a wholly owned United States subsidiary, it had finalized its investment into ACS, a New Jersey-based medical vertically integrated applicant, previously announced as a letter of intent.

On June 10, 2019, the Company announced that its partner ACS was readying an application under the new request for applications (RFA) program announced by the New Jersey Department of Health on June 3, 2019. In total, the department will seek up to 24 cultivation endorsements, up to 30 manufacturing endorsements and up to 54 dispensary endorsements. As allowable, ACS will be applying for all three permit types, with the intent of creating a vertically integrated model for the business.

On April 29, 2019, the Company announced that had entered into a financing agreement with The Physician's Choice CBD LLC of Phoenix, Arizona (“PCCBD”). Under the agreement the Company proposed to acquire a significant ownership stake in PCCBD.

On April 15, 2019 the Company announced that American CHM Investments Inc., had signed a letter of intent (LOI) to partner with Applied Cannabis Sciences (ACS) of New Jersey, a New Jersey-based medical retail dispensary applicant in the upcoming New Jersey round of request for applications (RFA), which is anticipated in 2020.

In April 2019, the Company appointed Mr. Nicholas Zitelli as an additional independent director of Chemistree and appointed Mr. Sheldon Aberman to the newly created position of Chief Cannabis Officer. Pursuant to the Company's Stock Option Plan, effective April 5, 2019, the Company granted options to purchase 1,300,000 common shares at \$0.60 per share to certain eligible directors, officers and consultants. The options expire in five years.

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.

On February 19, 2019, the Company announces that it has, through its wholly-owned subsidiary CHM Desert, obtained a Conditional Use Permit for the DHS Property. The Conditional Use Permit allows for the construction of two greenhouse buildings totaling approximately 128,000 square feet, and an additional building of up to an additional 40,000 square feet for processing, manufacturing and distribution of cannabis goods.

On December 11, 2018, the Company provided an update on its Conditional Use Permit application in respect of the DHS Property. The Company announced that, due to a rework of its plans, the Company has identified savings of approximately \$500,000 to the original project budget.

On December 6, 2018, the Company announced that it has entered into an agreement with Sugarleaf Farm LLC to acquire the global brand and marketing rights to the Sugarleaf brand (outside of Washington State) (the "Sugarleaf Rights"). Chemistree is currently utilizing the Sugarleaf Rights to establish the Sugarleaf brand in California in connection with the Arcata Investment.

On December 4, 2018, the Company announced that the Sugarleaf brand had grown 18 different strains of cannabis in rotation, including nine major strains in high production and nine minor strains in smaller batch production. The Company further announced that Sugarleaf Farm LLC is expected to soon launch its own line of cannabis oil-based products in a special edition Sugarleaf branded Vapor Slide V2. Lastly, the Company announced that the Washington Assets had undergone significant infrastructure upgrades and design improvements.

On November 29, 2018, the Company announced that it has submitted an application to the City of Desert Hot Springs, California, requesting the receipt of the Conditional Use Permit in respect of the DHS Property.

On November 27, 2018, the Company announced that it has entered into a strategic collaboration ("Arcata") with a Humboldt County-based cannabis processing company ("Processor") located in Arcata, California. Pursuant to the collaboration, the Company will loan the Processor US\$450,000 (completed), and the parties also intend to negotiate an additional line of credit for working capital purposes. In December, 2018, the Company entered into the Collaboration Agreement with the Processor in respect of the Arcata Investment. 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.

On October 4, 2018, the Company announced a strategic investment in Pasha Brands Ltd. ("Pasha"). Pasha is a vertically integrated British Columbian craft cannabis brand company with several internationally recognized brands and a proven history in cannabis retailing. Pasha is also a late stage applicant to become a Licensed Producer ("LP") and expects to own and operate a Health Canada approved licensed processing facility on Vancouver Island. The investment in Pasha amounted to less than 10% of both Chemistree's working capital and the proceeds raised by Pasha pursuant to the private placement in which the Company participated as a strategic investor.

On August 9, 2018, the Company closed the DHS Acquisition.

Pursuant to a purchase agreement between CHM Desert and an arm's length vendor (the "DHS Agreement") dated July 25, 2018, Chemistree purchased (the "DHS Acquisition") 9.55 acres of fee simple vacant land in the City of Desert Hot Springs, California (the "DHS Property"). Consideration for the DHS Acquisition was US\$1,233,800, payable in cash.

On July 24, 2018, the Company completed its change of business and now operates as an Investment Issuer under the policies of the CSE.

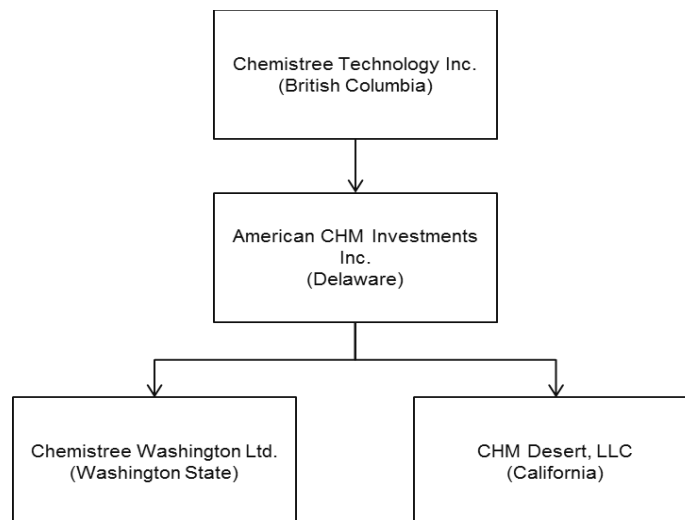
On July 11, 2018, the Company closed the final tranche of the Private Placement for gross proceeds of \$1,949,365 and aggregate gross proceeds from the Private Placement of \$4,509,184. The final tranche of the Private Placement was comprised of 5,569,613 units issued at \$0.35 per unit, with each unit consisting of one Common Share and one Common Share purchase warrant. Each warrant entitles the holder thereof to acquire one Common Share at an exercise price of \$0.50 per Common Share until July 11, 2020, subject to adjustment in certain events. Approximately \$500,000 of the gross proceeds from the Private Placement were used to complete the acquisition of the Washington Assets.

Corporate Overview

Chemistree was incorporated in the Province of British Columbia on March 14, 2008 under the *Business Corporations Act* (British Columbia) ("BCBCA"). The name change to Chemistree Technology Inc. became effective August 3, 2017. The Company's registered office is located at Suite 2600, Three Bentall Centre, 595 Burrard Street, P.O. Box 49314, Vancouver, British Columbia, V7X 1L3, Canada and its head office is located at Suite 204 – 998 Harbourside Drive, North Vancouver, British Columbia, V7N 4M2, Canada.

On July 20, 2018, the Company requalified for a listing following a change of business to an "investment company" on the Exchange.

The Company has three wholly-owned subsidiaries. Effective October 17, 2017, the Company incorporated a wholly-owned subsidiary, Chemistree Washington Ltd. ("**Chemistree Washington**"), incorporated under the laws of Washington State. Effective July 17, 2018, the Company incorporated American CHM Investments Inc., under the laws of the State of Delaware. Effective July 18, 2018, the Company incorporated CHM Desert LLC ("**CHM Desert**") under the laws of the State of California. The following diagram presents the organizational chart of the Company:



After reviewing a number of potential opportunities, the Company focused its efforts and conducted further due diligence on an opportunity in Washington State to invest in certain assets that Chemistree believes will enable it to provide a "turn-key" facility from which it expects to derive licensing revenue.

On June 29, 2018, Chemistree Washington completed the acquisition of a suite of Washington-based assets used in cannabis cultivation, production, distribution and branding (the “Washington Acquisition”) pursuant to a definitive asset purchase agreement (the “Washington Acquisition Agreement”) with Elite Holdings Inc. (the “Washington Vendor”) with respect to the Washington Acquisition. Pursuant to the Washington Acquisition Agreement, Chemistree Washington acquired certain assets, including, but not limited to, all inventory, leases, software, furniture, systems, equipment, and lighting (collectively, the “Washington Assets”) from the Washington Vendor. The acquisition did not include any receivables, payables, warranties, employee or tax liabilities of the Washington Vendor.

Consideration for the Washington Assets was US\$1,000,000 payable in cash, comprised of US\$800,000 payable upon closing of the Washington Acquisition, and four instalments of US\$50,000 each payable at the end of each of the four calendar months following closing.

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”) 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 Sugarleaf brand is an established cannabis brand within Washington state, and is currently sold in approximately 75 retail locations. In addition to the license and sub-lease arrangements, the relationship with the license holder also provides opportunities for Chemistree’s social media marketing business.

Chemistree’s change of focus, and the pursuit of the Washington Acquisition, was determined to be a “change of business” for the Company and was treated as a Fundamental Change under Policy 8 of the CSE. The Company filed the appropriate documentation with the CSE to seek approval of the acquisition and the change in classification of the Company from a technology issuer to an investment company. On July 20, 2018, the Fundamental Change was approved by the CSE.

On July 17, 2018, the Company formed a new wholly-owned subsidiary, American CHM Investments Inc. (“American CHM”), in the State of Delaware. It is intended that American CHM will become the Company’s master subsidiary in the United States and that all U.S. holdings will fall under American CHM’s ownership.

In turn, on July 18, 2018, American CHM formed a wholly-owned subsidiary CHM Desert LLC (“CHM Desert”) to hold the Company’s initial assets in the State of California. Effective August 7, 2018, CHM Desert closed on its acquisition of 9.55 acres of bare land located within the City of Desert Hot Springs, Riverside County, California “Light Industrial Lands Designated for Marijuana Cultivation” area (the “DHS property”). Consideration for the purchase is \$1,233,800 USD. Since the acquisition, the Company has completed the engineering and development work to build-out the site including two 63,980 square foot state- of- the- art light deprivation green houses, and a future 40,572 square foot engineered steel building and 171 parking stalls to accommodate staff and visitors. In full production, the site is expected to be capable of producing in excess of 30,000 pounds lbs of dried market ready cannabis marijuana annually, along with a full market- ready selection of extracts and edibles.

Overall Performance

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 a deficit of \$ 21,699,646 (2019: \$16,246,194).

The Company will depend almost exclusively on outside capital. Such outside capital will include the sale of additional shares. There can be no assurance that capital will be available as necessary to meet these continuing exploration and development costs or, if the capital is available, that it will be on terms acceptable to the Company. 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, will increase the Company’s liabilities and future cash commitments. If the Company is

unable to obtain financing in the amounts and on terms deemed acceptable, the business and future success may be adversely affected. The financial statements do not reflect adjustments to the carrying values of assets, liabilities or reported results should the Company be unable to continue as a going concern.

Selected Financial Data [Annual]

The following tables show selected summary financial information which have been derived from the annual financial statements of the Company.

		Year ended		
		June 30, 2020	June 30, 2019	June 30, 2018
Operating Revenue	\$	161,050	317,736	0
Net income (loss)	\$	(5,453,452)	(4,665,101)	(738,475)
Income (Loss) per share	\$	(0.14)	(0.13)	(0.04)
Share capital	\$	17,207,845	17,075,475	13,896,322
Common shares issued		37,714,430	37,384,430	28,652,976
Weighted average shares outstanding		37,641,534	34,589,602	19,515,142
Total Assets	\$	7,453,343	11,744,835	4,042,251
Net Assets (liabilities)	\$	(1,217,959)	4,054,611	3,279,840
Cash Dividends Declared per Common Shares	\$	0	0	0

Operations Overview

Prior to July 1, 2017, the Company was not generating revenue. Via the Strategic Partner in Washington State, the Company derives revenue from the operation of the Washington Assets through a pre-existing sub-lease arrangement, consulting fees and the finance of improvements to the facilities.

Results of Operations

Fiscal year ended June 30, 2020

During the year, the Company continued the improvements to the Washington Assets and the engineering, planning and development work for the DHS Lands. With the exception of management fees, finance costs and consulting expense all 2020 operating expense categories were reduced compared to 2019. In 2020, the Company incurred total expenses of \$5,735,269 compared with \$5,162,617 in 2019. Loss for the year was 17% higher at \$5,453,452 versus \$4,665,101 in 2019. Operating results were impacted by the recognition of non-cash expenses including depreciation of \$124,243 [2019: \$276,323], accretion and finance costs of \$1,726,366 [2019: \$432,461], bad debt expense of \$689,125 [2019: \$nil] and impairment of \$685,429 [2019: \$nil]. Bad debt expense rose significantly to recognize the risks associated with carrying receivables for an extended period of time. Significant non-operating items were included in the loss, including foreign exchange gain, interest income and loss on sale of marketable securities. All the Company's expenditures related to delivery of its services, ongoing business development and general corporate operations

Fiscal year ended June 30, 2019

During the year, the Company assumed conduct of the Washington Assets; commenced the work necessary to entitle the DHS property; researched, negotiated and concluded the Pasha transaction, and researched and negotiated the Arcata transaction. In addition, significant general & administrative expense and professional fees were incurred in connection with the convertible debenture financing which closed on March 29, 2019. On a comparative basis, the corporate activity level in 2019 far eclipsed that of 2018 – and accordingly expenses were 564% higher in 2019. Total expenditures were \$5,162,617 in 2019 compared to \$777,077 in 2018; in almost every category, expenses were increased in 2019. During the year, the Company incurred a loss of \$4,665,101 [2018: \$738,475]; significant non-operating items were included in the loss, including: foreign exchange, interest income, gain on sale of marketable securities, and unrealized gain adjustment on marketable securities. All the Company's expenditures related to delivery of its services, ongoing business development and general corporate operations. With the shift

to operations as opposed to development, business development expense decreased 97% to \$4,975 from \$156,327 in 2018; and consulting services expense was \$151,482 in 2019 versus \$nil in 2018. General and administrative expense of \$2,088,635 was a dramatic increase over the \$100,886 incurred in 2018, reflecting the Company's transition from R&D to active operations and the pursuit of US transactions; professional fees increased over 455% due to the required preparation for a US launch in the investment space, formation of US subsidiaries, increased audit burden, completion of the prospectus offering, the negotiation and completion of the Company's investment transactions. Management fees increased 60% to \$384,561 versus \$240,000 in 2018. Non-cash expense amounts of \$276,323, \$432,461, \$825,500 for depreciation, accretion, and share-based payments – respectively, were all significantly higher than 2018 to reflect the addition of Property and Equipment, the issuance of convertible debentures and the issuance of share purchase options; respectively, during the year. An increase of 439% in travel expense in 2019 period to \$124,182 from 2018's \$23,520 is indicative of the increased corporate, investment and finance related activity undertaken during the year.

Fluctuations in Results

As stated above, operating results fluctuated due to the launching of the Company's service offerings and the pursuit of investment and expansion opportunities in the US cannabis industry.

Fourth Quarter

In 2020, the Company adjusted the carrying value of receivables to recognize the risks associated with overdue collections. As a result, the Company has taken allowances for \$689,125 (2019 - \$Nil) in receivables, recognized as bad debt expense in profit and loss. In 2019, other than adjustments for presentation purposes, there were no fourth quarter events or items that affected the Company's financial condition, cash flows or results of operations, including extraordinary items, year-end and other adjustments

Selected Financial Data [Quarterly - unaudited]

(Expressed in Canadian Dollars)

	Quarter Ended							
	6/30/2020	3/31/2020	12/31/2019	9/30/2019	6/30/2019	3/31/2019	12/31/2018	9/30/2018
Operating revenue	(78,170)	80,838	79,181	79,201	79,434	79,434	79,434	79,434
Comprehensive (loss) gain	\$ (1,416,519)	(1,877,631)	(1,164,484)	(994,818)	(2,895,743)	(398,674)	(816,830)	(553,854)
Earnings (loss) per share	\$ (0.03)	(0.05)	(0.03)	(0.03)	(0.08)	(0.01)	(0.02)	(0.02)
Share capital	\$ 17,207,845	17,199,863	17,180,306	17,170,818	17,075,475	15,751,956	15,670,956	15,661,870
Common shares issued	37,714,430	37,694,430	37,644,430	37,644,430	37,384,430	34,383,589	34,233,589	34,222,589
Weighted average shares outstanding	37,703,221	37,652,672	37,644,430	37,566,604	34,589,602	34,236,922	34,223,904	33,556,657
Total Assets	\$ 7,453,343	8,573,333	10,073,815	11,225,888	11,744,835	13,917,458	4,566,176	5,356,816
Net Assets (liabilities)	\$ (1,217,959)	132,578	1,990,652	3,155,136	4,054,611	5,291,062	3,861,729	4,673,060
Dividends Declared per Share	\$ 0	0	0	0	0	0	0	0

Liquidity and Capital Resources

As at June 20, 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). As at June 30, 2020, the Company had cash and equivalents on hand of \$3,247,533 (2019: \$7,286,516).

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 1,320,000 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 \$2,029,910 associated with the professional fees and financing costs incurred.

Given the various projects the Company is handling in the short and medium terms, management considers the current cash balance and forecast net cash flows from operating activities for the next 12 months to be adequate for its planned business development activities. The success of development projects depends greatly on the Company’s ability to generate sufficient cash to meet its needs.

Additional Disclosure for Issuers Without Significant Revenue

The business of the Company entails significant risks, and following is a general description of all material risks, which can adversely affect the business and in turn the financial results, ultimately affecting the value of an investment the Company.

The Company does not have significant revenues. The Company has limited funds. There is no assurance that the Company can access additional capital. The future requirements for additional capital will require issuance of common shares resulting in a dilution of the share capital issued previously.

General and administrative expense breakdown	Year ended June 30,	
	2020	2019
	\$	\$
Communications	644,309	2,038,877
Computer related	66	1,668
Bank service charges	485	3,525
Dues and subscriptions	904	685
Miscellaneous	15,822	11,912
Miscellaneous - conferences	22,253	-
Office	5,017	-
Postage and delivery	373	1,968
Rent	30,000	30,000
	719,229	2,088,635

Risk Factors

Investing in our securities involves a high degree of risk. You should carefully consider the following risks in addition to the other information included in this MD&A and our financial statements, including related notes, before you decide to purchase our common shares. If any of the following risks actually occur, our business, financial condition and results of operations could materially suffer. As a result, the trading price of our securities, including common shares, could decline and you could lose part or all of your investment. The risks set out below are not the only risks we face; risks and uncertainties not currently known to us or that we currently deem to be immaterial may also materially and adversely affect our business, financial condition and results of operations. You should also refer to information set out in our consolidated financial statements for the year ended June 30, 2020.

Risks Related to Uncertain Regulatory Environments Where We Operate

The activities of the Company will be subject to evolving regulation by governmental authorities. The legality of the production, extraction, distribution, marketing, advertising and use of cannabis differs among North American jurisdictions.

United States

Inconsistent treatment in certain states and federally

In the United States, the cultivation, manufacturing, importation, distribution, use, and possession of cannabis is illegal under U.S. federal law. However, medical and adult-use cannabis has been legalized and regulated by individual states. As of the date of this MD&A, 33 states plus the District of Columbia and certain U.S. territories recognize in one form or another the medical use of cannabis, while 11 of those states plus the District of Columbia and certain U.S. territories recognize in one form or another the full adult-use of cannabis. Notwithstanding the regulatory environment with respect to cannabis at the state level, cannabis continues to be categorized as a Schedule I controlled substance under the U.S. Controlled Substances Act (the "CSA") and as such violates U.S. federal law. As a result, cannabis businesses in the United States are subject to inconsistent state and federal legislation, regulation, and enforcement.

Under former President Barack Obama, in an effort to provide guidance to U.S. federal law enforcement regarding the inconsistent regulation of cannabis at the U.S. federal and state levels, the U.S. Department of Justice (the "DOJ") released a memorandum on August 29, 2013 entitled "Guidance Regarding Marijuana Enforcement" from former Deputy Attorney General James Cole (the "Cole Memorandum"). The Cole Memorandum acknowledged that, although cannabis is a Schedule I controlled substance under the CSA, the U.S. Attorneys in states that have legalized cannabis in some form should prioritize

the use of the U.S. federal government's limited prosecutorial resources by focusing enforcement actions on the following eight areas of concern (the "Cole Priorities"):

- Preventing the distribution of cannabis to minors;
- Preventing revenue from the sale of cannabis from going to criminal enterprises, gangs, and cartels;
- Preventing the diversion of cannabis from states where it is legal under state law in some form to states where it is not legal;
- Preventing legal cannabis activity from being used as a pretext for trafficking other illegal drugs or other illegal activity;
- Preventing violence and the use of firearms in the cultivation and distribution of cannabis;
- Preventing drugged driving and the exacerbation of other adverse public health consequences associated with cannabis use;
- Preventing the growing of cannabis on public lands and the attendant public safety and environmental dangers posed by cannabis production on public lands; and
- Preventing possession or use of cannabis on U.S. federal property.

In January 2018, under the administration of President Donald Trump, former U.S. Attorney General Jeff Sessions rescinded the Cole Memorandum. While this did not create a change in U.S. federal law, as the Cole Memorandum was not itself law, the rescission added to the uncertainty of U.S. federal enforcement of the CSA in states where cannabis use is legal and regulated. Former Attorney General Sessions, concurrent with the rescission of the Cole Memorandum, also issued a one-page memorandum known as the "Sessions Memorandum." The Sessions Memorandum explained that the Cole Memorandum was "unnecessary" due to existing general enforcement guidance adopted in the 1980s, as set forth in the U.S. Attorney's Manual (the "USAM"). The USAM enforcement priorities, like those of the Cole Memorandum, are also based on the U.S. federal government's limited resources and include "law enforcement priorities set by the Attorney General," the "seriousness" of the alleged crimes, the "deterrent effect of criminal prosecution," and "the cumulative impact of particular crimes on the community."

While the Sessions Memorandum emphasizes that cannabis is a Schedule I controlled substance under the CSA and states that it is a "dangerous drug and that marijuana activity is a serious crime," it does not otherwise provide that the prosecution of cannabis-related offenses is now a DOJ priority. Furthermore, the Sessions Memorandum explicitly describes itself as a guide for prosecutorial discretion. Such discretion is firmly in the hands of U.S. Attorneys who determine whether to prosecute cannabis-related offenses. U.S. Attorneys could individually continue to exercise their discretion in a manner similar to that permitted under the Cole Memorandum. While certain U.S. Attorneys have publicly affirmed their commitment to proceeding in a manner contemplated under the Cole Memorandum, or otherwise affirmed that their views of U.S. federal enforcement priorities have not changed as a result of the rescission of the Cole Memorandum, others have publicly supported the rescission of the Cole Memorandum.

At a U.S. Senate appropriations hearing on April 10, 2019, the current U.S. Attorney General, William Barr, stated that he personally "would still favor one uniform federal rule against marijuana," but if "there's not sufficient consensus to obtain that, then the way to go is to permit a more federal approach so states can make their own decisions within the framework of a federal law so we're not just ignoring the enforcement of federal law." When asked to provide any guidance in the meantime, Attorney General Barr stated that "I've generally left it up to the U.S. Attorneys in each state to determine what the best approach is."

He also stated that the DOJ is currently reviewing the recently reintroduced Strengthening the Tenth Amendment Through Entrusting States Act ("STATES Act"), which would shield individuals and businesses complying with state cannabis laws from federal intervention.

Other federal legislation provides or seeks to provide protection to individuals and businesses acting in violation of U.S. federal law but in compliance with state cannabis laws. For example, what is now known as the Joyce Amendment (previously known as the Leahy Amendment, the Rohrabacher-Farr Amendment, and the Rohrabacher-Blumenauer Amendment) has been included in annual spending bills passed by Congress since 2014. The Joyce Amendment restricts the DOJ from using federal

funds to interfere with states implementing laws that authorize the use, distribution, possession, or cultivation of medical cannabis.

U.S. courts have construed these appropriations bills to prevent the U.S. federal government from prosecuting individuals or businesses engaged in cannabis-related activities to the extent operating in compliance with state medical cannabis laws. However, because this conduct continues to violate U.S. federal law, U.S. courts have observed that should the U.S. Congress at any time choose to appropriate funds to fully prosecute individuals or businesses acting in violation of the CSA, such individuals or businesses could be prosecuted for violations of U.S. federal law even to the extent operating in compliance with applicable state medical cannabis laws.

If Congress declines to include the Joyce Amendment in future fiscal year appropriations bills or fails to pass necessary budget legislation causing a government shutdown, the U.S. federal government will have the authority to spend federal funds to prosecute individuals and businesses acting contrary to the CSA for violations of U.S. federal law.

Further, the appropriations protections only apply to individuals or businesses operating in compliance with a state's medical cannabis laws and provide no protection to individuals or businesses operating in compliance with a state's adult-use cannabis laws. On June 20, 2019, however, the U.S. House of Representatives passed the Blumenauer-Norton-McClintock Amendment, which would expand the protections afforded by the Joyce amendment to individuals and businesses operating in compliance with applicable state adult-use cannabis laws. The U.S. Senate did not include the Blumenauer-McClintock-Norton Amendment in its appropriations bill, and ultimately, the Blumenauer-McClintock-Norton Amendment was not included in the Consolidated Appropriations Act, 2020. On July 30, 2020, the U.S. House of Representatives again passed the Blumenauer-Norton-McClintock Amendment in its 2021 appropriations bill. However, it is unclear whether the U.S. Senate will include the Blumenauer-McClintock-Norton Amendment in its 2021 appropriations bill.

Additionally, there are a number of marijuana reform bills that have been introduced in the U.S. Congress that would amend federal law regarding the legal status and permissibility of medical and adult-use cannabis, including the STATES Act and the Marijuana Opportunity Reinvestment and Expungement Act (the "MORE Act"). The STATES Act would create an exemption in the CSA to allow states to determine their own cannabis policies without fear of federal reprisal; whereas, the MORE ACT, which was passed by the House Judiciary Committee on November 20, 2019, would remove cannabis from the CSA, expunge federal cannabis offenses, and establish a 5% excise tax on cannabis to fund various federal grant programs. Nevertheless, it is uncertain which federal marijuana reform bills, if any, will ultimately be signed into law.

Businesses in the regulated cannabis industry, including the Company, are subject to a variety of laws and regulations in the United States that involve money laundering, financial recordkeeping, and proceeds of crime, including the Bank Secrecy Act and the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act (the "USA PATRIOT Act") and the rules and regulations thereunder, and any related or similar rules, regulations, or guidelines, issued, administered, or enforced by governmental authorities in the United States. Further, under U.S. federal law, banks or other financial institutions that provide a cannabis business with a checking account, debit or credit card, small business loan, or any other service could be charged with money laundering, aiding and abetting, or conspiracy.

Despite these laws, the Financial Crimes Enforcement Network ("FinCEN"), a bureau within the U.S. Department of the Treasury ("U.S. Treasury"), issued a memorandum on February 14, 2014 (the "FinCEN Memorandum"), which provides instructions to banks and other financial institutions seeking to provide services to cannabis-related businesses. The FinCEN Memorandum explicitly references the Cole Priorities and states that in some circumstances it is permissible for banks and other financial institutions to provide services to cannabis-related businesses without risking prosecution for violation of U.S. federal money laundering laws. Under these guidelines, financial institutions are subject to a requirement to submit a suspicious activity report ("SAR") in certain circumstances as required by federal money laundering laws.

These cannabis related SARs are divided into three categories: marijuana limited, marijuana priority, and marijuana terminated, based on the financial institution's belief that the marijuana business follows state law, is operating out of compliance with state law, or where the banking relationship has been terminated, respectively. The FinCEN Memorandum refers to supplementary guidance in the Cole Memorandum relating to the prosecution of money laundering offenses predicated on cannabis-related violations of the CSA.

Despite the rescission of the Cole Memorandum, this did not affect the status of the FinCEN Memorandum, and to date, the U.S. Treasury has not given any indication that it intends to rescind the FinCEN Memorandum. While the FinCEN Memorandum was originally intended to work in tandem with the Cole Memorandum, the FinCEN Memorandum appears to remain in effect as standalone guidance. Although the FinCEN Memorandum remains intact, indicating that the U.S. Treasury and FinCEN intend to continue abiding by its guidance, it is unclear whether the Trump administration will continue to follow the guidelines set forth under the FinCEN Memorandum.

In March 2019, the U.S. House of Representatives Financial Services Committee passed the Secure and Fair Enforcement Banking Act (the “SAFE Banking Act”), which creates protections for financial institutions that provide banking services to businesses acting in compliance with applicable state cannabis laws. The U.S. Senate held a hearing on the SAFE Banking Act in July, 2019. On September 25, 2019, the U.S. House of Representatives passed the SAFE Banking Act, but it is uncertain whether it will be passed by the U.S. Senate and ultimately signed into law.

There also can be no assurance that state laws legalizing and regulating the sale and use of cannabis will not be repealed or overturned or that local governmental authorities will not limit the applicability of state laws within their respective jurisdictions. In addition, local and city ordinances may strictly limit and/or restrict the distribution of cannabis in a manner that could make it difficult or impossible to operate cannabis businesses in certain jurisdictions.

Application of Cannabis Laws and Regulations in the United States

Violations of U.S. federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions, or settlements arising from either civil or criminal proceedings brought by either the U.S. federal government or private citizens, including, but not limited to, disgorgement of profits, seizure of property or products, cessation of business activities, or divestiture. The approach to the enforcement of cannabis laws may be subject to change or may not proceed as previously outlined. See “Risk Factors – Risks Specifically Related to the United States Regulatory System”. The Company’s cannabis business activities and the cannabis business activities of its subsidiaries, while believed to be compliant with applicable U.S. state and local laws, currently are illegal under U.S. federal law.

U.S. anti-money laundering laws and regulations

Additionally, under U.S. federal law, it may potentially be a violation of federal money laundering statutes for financial institutions to take any proceeds from the sale of marijuana or any other Schedule I controlled substance. Certain Canadian banks are likewise hesitant to deal with cannabis companies, due to the uncertain legal and regulatory framework of the industry. Banks and other financial institutions could be prosecuted and possibly convicted of money laundering for providing services to cannabis businesses. Under U.S. federal law, banks or other financial institutions that provide a cannabis business with a checking account, debit or credit card, small business loan, or any other service could be found guilty of money laundering, aiding and abetting, or conspiracy.

Despite these laws, the U.S. Department of the Treasury’s FinCEN issued a memorandum on February 14, 2014 (the “FinCEN Memorandum”) outlining the pathways for financial institutions to bank state-sanctioned marijuana businesses in compliance with federal enforcement priorities. The FinCEN Memorandum echoed the enforcement priorities of the Cole Memorandum. Under these guidelines, financial institutions must submit a Suspicious Activity Report (“SAR”) in connection with all marijuana-related banking activities by any client of such financial institution, in accordance with federal money laundering laws.

These marijuana-related SARs are divided into three categories – marijuana limited, marijuana priority, and marijuana terminated – based on the financial institution’s belief that the business in question follows state law, is operating outside of compliance with state law, or where the banking relationship has been terminated, respectively. On the same day as the FinCEN Memorandum was published, the DOJ issued a memorandum directing prosecutors to apply the enforcement priorities of the Cole Memorandum in determining whether to charge individuals or institutions with crimes related to financial transactions involving the proceeds of marijuana-related conduct. However, this memorandum was rescinded as of January 4, 2018, along with the Cole Memorandum, removing guidance that enforcement of applicable financial crimes against state-compliant actors was not a DOJ priority.

As a result of its investments in the cannabis space, Chemistree or its subsidiaries may face difficulty obtaining bank or certain other traditional forms of financing in the U.S., as well as banking services. Although there has been an increase in private sources of financing and growing acceptance of cannabis related businesses in recent years, there can be no assurance that additional financing will be available to the Company on acceptable terms or at all. The Company's inability to raise additional financing to fund new investments or invest further capital in its existing investments could limit its growth and have a material and adverse effect on its ability to generate investment returns or profits.

Further, there can be no assurance that state laws legalizing and regulating the sale and use of cannabis will not be repealed or overturned, or that local governmental authorities will not limit the applicability of state laws within their respective jurisdictions. It is also important to note that local and city ordinances may strictly limit and/or restrict the distribution of cannabis in a manner that will make it extremely difficult or impossible to transact business in the cannabis industry. If the federal government begins to enforce federal laws relating to cannabis in states where the sale and use of cannabis is currently legal, or if existing state laws are repealed or curtailed, the Company's investments in such businesses would be materially and adversely affected notwithstanding the fact that the Company is not directly engaged in the sale or distribution of cannabis. Federal actions against any individual or entity engaged in the marijuana industry or a substantial repeal of marijuana related legislation could adversely affect the Company, its business and its investments.

Enforcement

The concepts of "medical cannabis" and "retail cannabis" do not exist under U.S. federal law. The CSA classifies "marihuana" as a Schedule I drug. Under U.S. federal law, a Schedule I drug or substance has a high potential for abuse, no accepted medical use in the U.S., and a lack of safety for the use of the drug under medical supervision. As such, cannabis related practices or activities, including without limitation, the manufacture, importation, possession, use or distribution of cannabis are illegal under U.S. federal law. Strict compliance with state laws with respect to cannabis will neither absolve the Company's investees of liability under U.S. federal law, nor will it provide a defense to any federal proceeding which may be brought against the Company or its investments. Any such proceedings brought against the Company or its investments may adversely affect the Company's operations and financial performance and its ability to realize gains or profits from its investments.

There can be no assurances the federal government of the U.S. or other jurisdictions will not seek to enforce the applicable laws against the Company or its investments. Violations of any U.S. federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions or settlements arising from civil proceedings conducted by either the U.S. federal government or private citizens, or criminal charges, including, but not limited to, disgorgement of profits, cessation of business activities or divestiture. This could have a material adverse effect on the Company, including its reputation and ability to conduct business, its holding (directly or indirectly) of cannabis related investments in the U.S., the listing of its securities on various stock exchanges, its financial position, operating results, profitability or liquidity or the market price of its publicly traded shares. In addition, it is difficult for the Company to estimate the time or resources that would be needed for the investigation of any such matters or its final resolution because, in part, the time and resources that may be needed are dependent on the nature and extent of any information requested by the applicable authorities involved, and such time or resources could be substantial.

The Company's proposed investment in the U.S., and any future investments, may become the subject of heightened scrutiny by regulators, stock exchanges and other authorities in Canada. As a result, the Company may be subject to significant direct and indirect interaction with public officials. There can be no assurance that this heightened scrutiny will not in turn lead to the imposition of certain restrictions on the Company's ability to invest in the U.S. or any other jurisdiction.

Washington State

Washington State has both medical and adult-use marijuana programs. Washington voters initially passed its original medical law in 1998, which allowed physicians to recommend cannabis for an inclusive set of qualifying conditions including chronic pain and created a patient/caregiver system without explicitly permitting businesses to cultivate and sell cannabis.

However, various cannabis businesses developed in Washington State. In 2012, Initiative 502 legalized cannabis at a state-level in Washington for adults 21 years of age and older. Initiative 502 regulated adult-use marijuana businesses but left the unregulated medical marijuana establishments in an uncertain situation.

In 2015, the Governor of Washington signed Senate Bill 5052 which forced the closure of existing unregulated medical dispensaries and allows existing adult-use retail marijuana stores to apply for a “medical marijuana endorsement” to sell medical marijuana tax free to registered qualifying patients and their designated caregivers.

The WSLCB regulates adult-use marijuana businesses and those with a medical endorsement. The WSLCB licenses cultivation facilities, product manufacturing facilities (“processors”), retail stores, transportation licensees, and testing facilities. All individuals and entities considered a “true party of interest” in a marijuana business license must have at least six months of Washington residency. Accordingly, Chemistree Washington will not have a WSLCB license and instead will be leasing or licensing certain assets to a WSLCB license holder. Although Chemistree Washington will not hold the WSLCB it will face many of the same risks as the license holder, as the loss of the WSLCB license would leave it unable to make the requisite payments to Chemistree Washington. Chemistree may in turn be materially and adversely affected if it is unable to enter into new lease and license arrangements with a WSLCB license holder on terms acceptable to Chemistree or at all.

Unlike many other states, Washington prohibits vertical integration between adult-use marijuana retailers and cultivators. Common ownership between cultivation and processors is permitted. A single entity, and/or principals within an entity, are limited to no more than three marijuana producer licenses, and/or three marijuana processor licenses, or five retail marijuana licenses.

Chemistree is not aware of any non-compliance by the WSLCB license holder with applicable WSLCB license requirements or any notices of violation. However, any future violations by the WSLCB license holder may have a material and adverse effect on Chemistree or the value of the Washington Assets.

California

The Company may become indirectly involved in the cultivation and distribution of cannabis as a result of the acquisition of the DHS property and, if so, expects to seek to take measures to ensure compliance with applicable California state laws, regulations and guidelines.

In 1996, California voters passed a medical marijuana law allowing physicians to recommend cannabis for an inclusive set of qualifying conditions including chronic pain. The law established a not-for-profit patient/caregiver system but there was no state licensing authority to oversee the businesses that emerged as a result of the system. In September of 2015, the California legislature passed three bills, collectively known as the Medical Marijuana Regulation and Safety Act (“MCRSA”). In 2016, California voters passed The Adult Use of Marijuana Act (“AUMA”), which legalized adult-use cannabis for adults 21 years of age and older and created a licensing system for commercial cannabis businesses. On June 27, 2017, Governor Brown signed SB-94 into law. SB-94 combines California’s medicinal and adult-use cannabis frameworks into one licensing structure under the Medicinal and Adult-Use of Cannabis Regulation and Safety Act (“MAUCRSA”).

Pursuant to MAUCRSA: (1) the California Department of Food and Agriculture, via CalCannabis, issues licenses to cannabis cultivators; (2) the California Department of Public Health, via the Manufactured Cannabis Safety Branch (the “MCSB”), issues licenses to cannabis manufacturers and (3) the California Department of Consumer Affairs, via the Bureau of Cannabis Control (the “BCC”), issues licenses to cannabis distributors, testing laboratories, microbusinesses, and retailers. These agencies also oversee the various aspects of implementing and maintaining California’s cannabis landscape, including the statewide seed-to-sale track and trace system. All three agencies released their emergency rulemakings at the end of 2017 and have begun issuing temporary licenses.

To operate legally under state law, cannabis operators must obtain a state license and local approval. Local authorization is a prerequisite to obtaining state licensure, and local governments are permitted to prohibit or otherwise regulate the types and number of cannabis businesses allowed in their locality. The state license approval process is not competitive and there is no limit on the number of state licenses an entity may hold. Although vertical integration across multiple license types is allowed under MAUCRSA, testing laboratory licensees may not hold any other licenses aside from a laboratory license and all transportation of cannabis goods between licensees must be performed by a licensed distributor. There are also no residency requirements for ownership of medical or adult-use marijuana licenses under MAUCRSA.

California has implemented a robust regulatory system designed to ensure, monitor, and enforce compliance with all aspects of a cannabis operator’s licensed operations. Compliance with local law is a prerequisite to obtaining and maintaining state

licensure, and all three state regulatory agencies require confirmation from the locality that the operator is operating in compliance with local requirements and was granted authorization to continue or commence commercial cannabis operations within the locality's jurisdiction.

Balance Sheet Exposure

The Washington Acquisition, DHS Acquisition and potentially a substantial portion of the Company's future investments may be in the U.S.. Accordingly, a significant portion of the Company's success, ability to generate returns on its investments, realize on its investments or otherwise generate income will be subject to risks associated with U.S. cannabis related activities.

Canada

Cannabis production, distribution, sale, and use is illegal in Canada except where specifically permitted by law. On October 17, 2018, the federal Cannabis Act and accompanying Regulations, including the *Cannabis Regulations* ("Cannabis Regulations"), the new *Industrial Hemp Regulations* ("IHR", and together with the Cannabis Regulations, collectively, the "Regulations"), came into force, legalizing the production, distribution and sale of cannabis for adult recreational purposes, as well as incorporating the pre-existing medical cannabis regulatory scheme under one complete framework. Amendments legalizing the sale of edible cannabis, cannabis extracts, and cannabis topicals in the Canadian market came into force on October 17, 2019. A federally licensed entity with authorization to produce and sell edible cannabis, cannabis extracts, and cannabis topicals must provide 60-days notice to Health Canada of its intent to sell these newly legalized classes of products. Pursuant to the federal regulatory framework in Canada, each province and territory may adopt its own laws governing the distribution, sale and consumption of cannabis and cannabis accessories within the province or territory. All Canadian provinces and territories have implemented mechanisms for the distribution and sale of cannabis for recreational purposes within those jurisdictions, and retail models vary between jurisdictions.

The Cannabis Act maintains separate access to cannabis for medical purposes, including providing that import and export licences and permits will only be issued in respect of cannabis for medical or scientific purposes or in respect of industrial hemp. Patients who have the authorization of their healthcare provider have access to cannabis, either purchased directly from a federally licensed entity authorized to sell for medical purposes, or by registering to produce a limited amount of cannabis for their own medical purposes or designating someone to produce cannabis for them.

Provincial Regulatory Framework

While the Cannabis Act provides for regulation of the commercial production of cannabis and related matters by the federal government, the provinces and territories of Canada have authority to adopt their own laws and regulations governing the distribution, sale and consumption of cannabis and cannabis accessory products within the province or territory, permitting for example, provincial and territorial governments to set lower possession limit for individuals and higher age requirements. Currently each of the Canadian provincial and territorial jurisdictions has established a minimum age of 19, except for Alberta, where the minimum age is 18, and Québec, where the minimum age is 21.

All Canadian provinces and territories have implemented regulatory regimes for the distribution and sale of cannabis for recreational purposes within those jurisdictions. Provincial/territorial bodies act as intermediaries between entities licensed federally under the Cannabis Act and consumers, such bodies acting in some jurisdictions as exclusive cannabis wholesalers and distributors, and in some instances as exclusive retailers.

Some municipal and regional governments may also choose to impose additional requirements and regulations on the sale of recreational cannabis. In some provinces, municipal by-laws may restrict the number of recreational cannabis retail outlets that are permitted in a certain geographical area, or restrict the geographical locations wherein such retail outlets may be opened.

Additional Risks Associated with our Business and Industry

Loss of business and/or opportunities due to perceived risk

Third parties with whom the Company and its investments do business, including banks and other financial intermediaries, may perceive that they are exposed to legal and reputational risk because of the Company's cannabis business activities. Because cannabis remains illegal under U.S. federal law, a third-party service provider could reach the conclusion that their activities as a service provider are aiding and abetting the violation of the U.S. federal law. Any provision of services or sale

of goods to a cannabis business could be construed as aiding and abetting violations of the U.S. Controlled Substances Act of 1970, in addition to other possible violations. Financial institutions may also be concerned that they would be at risk of prosecution for violation of U.S. money laundering laws and the Bank Secrecy Act, in addition to other potential violations. Any third-party service provider could suspend or withdraw its services to the Company or its investee companies if it perceives that the potential risks exceed the potential benefits to such services. If the Company's investments operating in the U.S. are unable to utilize financial institutions or third-party services providers, or bank accounts are subject to special restrictions preventing the processing of wire transfers, they may be unable to meet payment obligations to the Company or pay dividends or other amounts to the Company.

Cash flows insufficient to meet capital expenditures

Lack of cash flow may affect the Company's ability to continue as a going concern. Presently, the Company's operating cash flows are not sufficient to meet operating and capital expenses. The Company's business plan calls for continued research and development of the Company's services and products and expansion of market share. The Company will require additional financing to fund working capital and pay for operating expenses and capital requirements until it can achieve a positive cash flow.

In particular, additional capital may be required in the event that: The occurrence of any of the aforementioned events could adversely affect the Company's ability to carry out proposed business plans. The Company depends on a mix of revenues and outside capital to pay for the continued development of its business offering and the marketing of its products. Such outside capital may include the sale of additional stock and/or commercial borrowing. There can be no assurance that capital will continue to be available if necessary to meet these continuing development costs or, if the capital is available, that it will be on terms acceptable to the Company. Disruptions in financial markets and challenging economic conditions have and may continue to affect the Company's ability to raise capital. The issuance of additional equity securities by the Company would result in a dilution, possibly a significant dilution, in the equity interests of current stockholders. Obtaining commercial loans, assuming those loans would be available, will increase the Company's liabilities and future cash commitments.

The Company's future revenue, operating results and gross margin may fluctuate significantly and unpredictably from quarter-to-quarter and from year-to-year, which could have a material adverse effect on its operating results.

However, there is no assurance that actual cash requirements will not exceed the Company's estimates. In particular, additional capital may be required in the event that:

- the Company incurs delays and additional expenses as a result of technology failure;
- the Company is unable to create a substantial market for its products and services; or
- the Company incurs any significant unanticipated expenses. The rate at which the Company's customers order its products, and the size of these orders, are highly variable and difficult to predict. Because any substantial adjustment to expenses to account for lower levels of revenue is difficult and takes time, if the Company's revenue declines, its operating expenses and general overhead would likely be high relative to revenue, which could have a material adverse effect on the Company's operating margin and operating results.

If the Company is not able to manage operating expenses, then the Company's financial condition may be adversely affected.

The Company's ability to reach and maintain profitability is conditional upon its ability to manage operating expenses. There is a risk that the Company will have to increase operating expenses in the future. Factors that could cause the Company's operating expenses to increase include the Company's determination to spend more on sales and marketing in order to increase product sales or the Company's determination that more research and development expenditures are required in order to keep current software products competitive or in order to develop new products for the market. To the extent that the Company's operating expenses increase without a corresponding increase in revenue, the Company's financial condition would be adversely impacted.

Cannabis is highly regulated

The Company's business and activities are heavily regulated in all jurisdictions where it carries on business. The Company's operations are subject to various laws, regulations and guidelines by governmental authorities (including, in Canada, Health Canada) relating to the manufacture, marketing, management, transportation, storage, sale, pricing and disposal of cannabis,

and also including laws and regulations relating to health and safety, insurance coverage, the conduct of operations and the protection of the environment. Laws and regulations, applied generally, grant government agencies and self-regulatory bodies broad administrative discretion over our activities, including the power to limit or restrict business activities as well as impose additional disclosure requirements on our products and services.

Achievement of the Company's business objectives is contingent, in part, upon compliance with regulatory requirements enacted by these governmental authorities. The commercial cannabis industry is still a new industry and, in Canada, in particular the ACMPR, is a new regime that has no close precedent in Canadian law. The effect of relevant governmental authorities' administration, application and enforcement of their respective regulatory regimes and delays in obtaining, or failure to obtain, applicable regulatory approvals which may be required may significantly delay or impact the development of markets, products and sales initiatives and could have a material adverse effect on the Company's business, financial condition and results of operations.

Competition

The Company faces larger and better-financed competitors, which may affect its ability to achieve or maintain profitability and complete investments. Competition exists for social media, branding and marketing companies in the jurisdictions in which the Company conducts operations and competition is significant in the cannabis investment sector, with a number of non-traditional sources of financing emerging and growing acceptance of cannabis related activities among more traditional sources of financing. As a result of this competition, much of which is with large, established companies with substantially greater financial and technical resources than the Company, the Company may be unable to acquire additional clientele or identify additional investments on terms it considers acceptable or at all. The Company also competes with other investment, cannabis, social media, technology, design and branding companies in the recruitment and retention of qualified employees.

Intellectual property litigation

The Company may in the future be subject to damaging and disruptive intellectual property litigation that could materially and adversely affect business, results of operations and financial condition, as well as the continued viability of the Company. The Company may be unaware of filed patent applications and issued patents that could relate to its products and services. Intellectual property litigation, if determined against the Company, could:

- result in substantial employee layoffs or risk the permanent loss of highly-valued employees;
- materially and adversely affect the Company's brand in the marketplace and cause a substantial loss of goodwill;
- affect the Company's ability to raise additional capital;
- cause the Company's stock price to decline significantly; and
- lead to the bankruptcy or liquidation of the Company.

Parties making claims of infringement may be able to obtain injunctive or other equitable relief that could effectively block the Company's ability to provide its products or services and could cause the Company to pay substantial royalties, licensing fees or damages. The defense of any lawsuit could result in time-consuming and expensive litigation, regardless of the merits of such claims.

The Company could lose its competitive advantages if it is not able to protect any proprietary technology and intellectual property rights against infringement, and any related litigation could be time-consuming and costly. The measures the Company takes to protect the proprietary technology software, and other intellectual property rights, which presently are based upon a combination of patents, patents pending, copyright, trade secret and trademark laws, may not be adequate to prevent their unauthorized use. Further, the laws of foreign countries may provide inadequate protection of such intellectual property rights. The Company may need to bring legal claims to enforce or protect such intellectual property rights. Any litigation, whether successful or unsuccessful, could result in substantial costs and divert resources from intended uses. In addition, notwithstanding any rights we have secured in the Company's intellectual property, other persons may bring claims against us that we have infringed on their intellectual property rights, including claims based upon the content we license from third parties or claims that the Company's intellectual property right interests are not valid. Any claims against the Company, with or without merit, could be time consuming and costly to defend or litigate, divert our attention and resources, result in the loss

of goodwill associated with the Company's service marks or require the Company to make changes to its website or its other technologies.

Fast changing technology and consumer demands

The Company's industry is characterized by rapid changes in technology and customer demands. As a result, the Company's products may quickly become obsolete and unmarketable. The Company's future success will depend on its ability to adapt to technological advances, anticipate customer demands, develop new products and enhance current products on a timely and cost-effective basis. Further, the Company's products must remain competitive with those of other companies with substantially greater resources. The Company's may experience technical or other difficulties that could delay or prevent the development, introduction or marketing of new products or enhanced versions of existing products. Also, the Company may not be able to adapt new or enhanced services to emerging industry standards, and the Company's new products may not be favorably received.

Uncertain market acceptance for the Company's products and services

The Company expects that a substantial portion of its future revenue will be derived from the sale of its services. The Company expects that these product offerings and their extensions and derivatives will account for a majority of the Company's revenue for the foreseeable future. Broad market acceptance of the Company's services is, therefore, critical to its future success and its ability to continue to generate revenues. Failure to achieve broad market acceptance of the Company's services as a result of competition, technological change, or otherwise, would significantly harm the Company's business. The Company's future financial performance will depend primarily on the continued market acceptance of the Company's current service offerings and on the development, introduction and market acceptance of any future enhancements. There can be no assurance that the Company will be successful in marketing its current product offerings or any new product offerings, applications or enhancements, and any failure to do so would significantly harm the Company's business.

Risks associated with developing and promoting products and brands

The Company expects that new products and/or brands it develops may expose the Company to risks that may be difficult to identify until such products and/or brands are commercially available. Any negative events or results that may arise as the Company develops new products or brands may adversely affect the business, financial condition and results of operations.

Dependence upon, and need for, key personnel

The Company is, and will be for the foreseeable future, dependent upon the performance of a limited number of key personnel. The loss of a key individual or a reduction in the time devoted by such persons to the Company's business could have a materially adverse effect on the Company's business. The Company's future success will depend on part on its ability to attract and retain highly qualified personnel. The Company faces competition for such personnel from other companies, governmental/academic institutions and other organizations, many of which have significantly greater resources than the Company. There is no assurance that the Company will be able to attract and retain the necessary personnel on acceptable terms, or at all.

Dependence on management

The Company will be dependent upon the personal efforts and commitment of its management, which is responsible for the development of future business. To the extent that management's services would be unavailable for any reason, a disruption to the operations of the Company could result, and other persons would be required to manage and operate the Company.

Potential conflicts of interest

Certain of the Company's directors and officers may serve as directors and/or officers of other public and private companies and devote a portion of their time to manage other business interests. This may result in certain conflicts of interest, to the extent that such other companies may participate in ventures in which the Company is also participating. The laws of British Columbia require the directors and officers to act honestly, in good faith, and in the best interests of the Company. In addition, each director must declare his or her interest and abstain from voting on any contract or transaction in which the director may have a conflict of interest.

Risks relating to statutory and regulatory compliance

Failure to comply with applicable laws, regulations and permits may result in enforcement actions there under, including the forfeiture of claims, orders issued by regulatory or judicial authorities requiring operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment or costly remedial actions. The Company is not currently covered by any form of environmental liability insurance. See “*Insurance Risk*”, below.

Existing and possible future laws, regulations and permits governing operations and activities of exploration companies, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in capital expenditures or require abandonment or delays in exploration.

Insurance risk

No assurance can be given that insurance to cover the risks to which the Company’s activities are subject will be available at all or at commercially reasonable premiums. The Company seeks to maintain insurance within ranges of coverage which it believes to be consistent with industry practice for companies of a similar stage of development. The Company carries liability insurance with respect to its corporate operations, but does not currently intend to carry any form of political risk insurance or any form of environmental liability insurance, since insurance against political risks and environmental risks (including liability for pollution) or other hazards resulting from exploration and development activities is prohibitively expensive. In addition, the Company may not be able to obtain insurance with respect to cannabis related operations or investments at any cost. The payment of any such liabilities would reduce the funds available to the Company. If the Company is unable to fully fund the cost of remedying an environmental problem, it might be required to suspend operations or enter into costly interim compliance measures pending completion of a permanent remedy.

Operating losses; dividends unlikely

The Company has a history of operating losses and may have operating losses and a negative cash flow in the future. The Company has not paid any dividends since the date of its incorporation, and it is not anticipated that dividends will be declared in the short or medium term.

Investments may be pre-revenue

The Company may make investments in entities that have no significant sources of operating cash flow and no revenue from operations. As such, the Company’s investments are subject to risks and uncertainties that new companies with no operating history may face. In particular, there is a risk that the Company’s investments will not be able to: (i) implement or execute their current business plan, or create a business plan that is sound; (ii) maintain their anticipated management team; and/or (iii) raise sufficient funds in the capital markets or otherwise to effectuate their business plan. If the Company’s investments cannot execute any one of the foregoing, their businesses may fail, which could have a materially adverse impact on the business, financial condition and operating results of the Company.

Lack of control over operations of investments

The Company will depend upon its investments or strategic relations to execute on their business plans and produce medical and/or recreational cannabis products, and holds contractual rights and minority equity interest relating to the operation of the Company’s investments. The operators of the Company’s investments have significant influence over the results of operations of the Company’s investments. Further, the interests of the Company and the operators of the Company’s investments may not always be aligned. As a result, the cash flows of the Company are dependent upon the activities of third parties which creates the risk that at any time those third parties may: (i) have business interests or targets that are inconsistent with those of the Company; (ii) take action contrary to the Company’s policies or objectives; (iii) be unable or unwilling to fulfill their obligations under their agreements with the Company, to regulators or under applicable laws, which may result in the loss of necessary governmental approvals or licenses; or (iv) experience financial, operational or other difficulties, including insolvency, which could limit or suspend a third party’s ability to perform its obligations. In addition, payments may flow through the Company’s investments, and there is a risk of delay and additional expense in receiving such revenues. In addition, the Company must rely, in part, on the accuracy and timeliness of the information it receives from the Company’s investments, and uses such information in its analysis, forecasts and assessments relating to its own business. If the information provided by investment entities to the Company contains material inaccuracies or omissions, the Company’s ability to accurately forecast or achieve its stated objectives, or satisfy its reporting obligations, may be materially impaired.

Investments in private companies and illiquid assets

The Company may invest in securities of or lend or otherwise provide financing to private companies. In some cases, the Company may be restricted by contract or generally by applicable securities laws from selling such securities for a period of time. Such securities may not have a ready market and the inability to sell such securities or to sell such securities on a timely basis or at acceptable prices may impair the Company's ability to exit such investments when the Company considers it appropriate.

Unfavourable perception or publicity

The regulated cannabis industry in the U.S. and Canada is at an early stage of development. The Company believes the medical and recreational cannabis industry is highly dependent on consumer perception regarding the safety and efficacy of recreational and medical cannabis. Consumer perceptions regarding legality, morality, consumption, safety, efficacy and quality of cannabis are mixed and evolving. Consumer perception can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity regarding the consumption of cannabis products. There can be no assurance that future scientific research, findings, regulatory proceedings, litigation, media attention or other research findings or publicity will be favourable to the cannabis market or any particular product, or consistent with earlier publicity. Future research reports, findings, regulatory proceedings, litigation, media attention or other publicity that are perceived as less favourable than, or that question, earlier research reports, findings or publicity could have a material adverse effect on the demand for cannabis and on the business, results of operations, financial condition and cash flows of the Company. Further, adverse publicity reports or other media attention regarding cannabis in general, or associating the consumption of cannabis with illness or other negative effects or events, could have such a material adverse effect on the business of the Company. Such adverse publicity reports or other media attention could arise even if the adverse effects associated with such products resulted from consumers' failure to consume such products legally, appropriately or as directed.

The ability of Chemistree's investments to gain or increase market acceptance of their Products or services may require them to establish and maintain brand names and reputation. In the U.S., it may be difficult or impossible to obtain federal trademark protection. While state-level protection may be available, this nevertheless increases the risks in protecting investments' brands until such time as the Controlled Substances Act is amended by federal legislation. Furthermore, in order to obtain such protection, substantial expenditures on product development, strategic relationships and marketing initiatives may be required. There can be no assurance that these initiatives will be successful, and their failure may have an adverse effect on the Company.

Laws and regulations are subject to unforeseen changes

The Company's operations may be subject to the ACMPR, the CSA and various other laws, regulations and guidelines relating to the marketing, acquisition, manufacture, packaging/labelling, management, transportation, storage, sale and disposal of cannabis but also including laws and regulations relating to health and safety, the conduct of operations and the protection of the environment. If any changes to such laws, regulations and guidelines occur (and in Canada the laws and regulations are currently changing at a rapid pace), which are matters beyond the Company's control, the Company may incur significant costs in complying with such changes or may be unable to comply therewith, which in turn may result in a material adverse effect on the Company's business, financial condition and results of operations.

Risks associated with investments

As part of the Company's investment strategy, the Company intends to pursue strategic investment or acquisitions, which could provide additional product offerings, vertical integrations, additional industry expertise, and a stronger industry presence in both existing and new jurisdictions. The success of any such investments or acquisitions will depend, in part, on the ability of the Company to realize the anticipated benefits and synergies from integrating those companies into the businesses of the Company. Future investments may expose it to potential risks, including risks associated with: (a) the integration of new operations, services and personnel; (b) unforeseen or hidden liabilities; (c) the diversion of resources from the Company's existing business and technology; (d) potential inability to generate sufficient revenue to offset new costs; (e) the expenses of acquisitions; (f) the potential loss of or harm to relationships with both employees and existing users resulting from its integration of new businesses; and (g) exposure to additional regulatory or legal regimes or risks. In addition, any proposed acquisitions may be subject to regulatory approval.

While Chemistree seeks to conduct due diligence that its management believes is reasonable given the scale and scope of its investments, there are both foreseen and unforeseen risks inherent in any investment. Specifically, there could be unknown or

undisclosed risks or liabilities of such companies or liabilities that transfer by operation of law with respect to asset acquisitions for which the Company may not be indemnified sufficiently or at all. Any such unknown or undisclosed risks or liabilities could materially and adversely affect the Company's financial performance and results of operations and lead to write downs or write offs of the value of its investments. The Company may incur additional transactional and integration related costs or experience other factors such as the failure to realize all of the benefits from the acquisition.

Operating licenses

The Company's investments may not be able to obtain or maintain the necessary licenses, permits, authorizations or accreditations, or may only be able to do so at great cost, to operate their respective businesses. In addition, the Company's investments may not be able to comply fully with the wide variety of laws and regulations applicable to the cannabis industry. Failure to comply with or to obtain the necessary licenses, permits, authorizations or accreditations could result in restrictions on, or a loss of, an investment's ability to operate in the cannabis industry, which could have a material adverse effect on the value of the Company's investments.

Litigation risks

Chemistree's investments in the cannabis industry may lead to litigation, formal or informal complaints, enforcement actions, and inquiries by various federal, state, or local governmental authorities against the Company or its investments. Litigation, complaints, and enforcement actions involving either of the Company or its investments could consume considerable amounts of financial and other corporate resources, which could have an adverse effect on the Company's future cash flows, earnings, results of operations and financial condition.

Regulatory or agency proceedings, investigations and audits

The Company's business requires compliance with many laws and regulations. Failure to comply with these laws and regulations could subject the Company to regulatory or agency proceedings or investigations and could also lead to damage awards, fines and penalties. The Company may become involved in a number of government or agency proceedings, investigations and audits. The outcome of any regulatory or agency proceedings, investigations, audits, and other contingencies could harm the Company's reputation, require the Company to take, or refrain from taking, actions that could harm its operations or require payment of substantial amounts of money, harming the Company's financial condition. There can be no assurance that any pending or future regulatory or agency proceedings, investigations and audits will not result in substantial costs or a diversion of management's attention and resources or have a material adverse impact on the Company's business, financial condition and results of operations.

Product Liability

Certain of the Company's investments or strategic partners may manufacture, process and/or distribute products for consumption by humans and, as a result, face an inherent risk of exposure to product liability claims, regulatory action and litigation if products are alleged to have caused significant loss or injury or adverse health effects. In addition, previously unknown adverse reactions resulting from human consumption of cannabis alone or in combination with other medications or substances could occur. A product liability claim or regulatory action against Chemistree's investments or strategic partners may result in increased costs, adversely affect the Company's reputation, and have a material adverse effect on the results of operations and financial condition of the Company or its investments.

Fraudulent or Illegal activity by its employees, contractors and consultants

The Company is exposed to the risk that its employees, independent contractors and consultants may engage in fraudulent or other illegal activity. Misconduct by these parties could include intentional, reckless and/or negligent conduct or disclosure of unauthorized activities to the Company that violates: (i) government regulations; (ii) manufacturing standards; (iii) federal and provincial healthcare fraud and abuse laws and regulations; or (iv) laws that require the true, complete and accurate reporting of financial information or data. It is not always possible for the Company to identify and deter misconduct by its employees and other third parties, and the precautions taken by the Company to detect and prevent this activity may not be effective in controlling unknown or unmanaged risks or losses or in protecting the Company from governmental investigations or other actions or lawsuits stemming from a failure to be in compliance with such laws or regulations. If any such actions are instituted against Chemistree, and it is not successful in defending itself or asserting its rights, those actions could have a significant impact on the Company's business, including the imposition of civil, criminal and administrative penalties, damages, monetary fines, contractual damages, reputational harm, diminished profits and future earnings, and curtailment of the Company's

operations, any of which could have a material adverse effect on the Company's business, financial condition and results of operations

Currency fluctuations

The Company's revenues and expenses are expected to be primarily denominated in U.S. dollars, and therefore may be exposed to significant currency exchange fluctuations. Recent events in the global financial markets have been coupled with increased volatility in the currency markets. Fluctuations in the exchange rate between the U.S. dollar and the Canadian dollar may have a material adverse effect on the Company's business, financial condition and operating results.

Risks associated with managing growth

The Company is currently in an early development stage and may be subject to growth-related risks, including capacity constraints and pressure on the Company's internal systems and controls, which may place significant strain on operational and managerial resources. The Company's ability to manage growth effectively will require it to continue to implement and improve operational and financial systems and to expand, train and manage its employee base. There can be no assurances that the Company will be able to manage growth successfully. Any inability to manage growth successfully could have a material adverse effect on the Company's business, financial condition and results of operations.

Perception of reputational risk from third-parties

The parties the Company does business with may perceive that they are exposed to reputational risk as a result of the Company's cannabis business activities. Failure to establish or maintain business relationships could have a material adverse effect on the Company's business, financial condition and results of operations. Any third-party service provider could suspend or withdraw its services to the Company if it perceives that the potential risks exceed the potential benefits to such services.

An exchange on which our common shares are listed may initiate a delisting review

The listing of the Company's common shares on a particular stock exchange is dependent on complying with the listing requirements of the applicable exchange. As the Company operates in the cannabis industry, it may from time to time be subject to additional listing requirements that are not applicable to companies in other industries.

Risks Related to Ownership of Chemistree's Common Shares

Stock price volatility

A decline in the price of the Company's common shares could affect its ability to raise further working capital and adversely impact our operations. A prolonged decline in the price of the Company's common shares could result in a reduction in the liquidity of the Company's common shares and a reduction in its ability to raise capital, or a delisting from a stock exchange on which the Company's common shares trades. Because the Company's operations have been partially financed through the sale of equity securities, a decline in the price of its common shares could be especially detrimental to the Company's liquidity and continued operations. Any reduction in the Company's ability to raise equity capital in the future would force the Company to reallocate funds from other planned uses and would have a significant negative effect on business plans and operations, including the Company's ability to develop new products and continue current operations. If the Company's shares price declines, there can be no assurance that the Company can raise additional capital or generate funds from operations sufficient to meet its obligations.

Sales by shareholders of a substantial number of Common Shares

A substantial portion of total outstanding Common Shares may be sold into the market. Such sales could cause the market price of Common Shares to drop, even if the business is doing well. Such sales may include sales by officers and directors of the Company. Furthermore, the market price of Common Shares could decline as a result of the perception that such sales could occur. These sales, or the possibility that these sales may occur, also might make it more difficult for the Company to sell equity securities in the future at a time and price that the Company deems appropriate.

Dilution

Issuances of additional securities at or near the current share price of the Company would result in significant dilution of the equity interests of any persons who are holders of common shares.

No Requirement to make representations relating to disclosure controls and procedures and internal control over financial reporting.

In contrast to the certificate required for non-venture issues under NI 52-109, the certifying officers of Chemistree, as a venture issuer, are not required to make representations relating to the establishment and maintenance of disclosure controls and procedures (“DC&P”) and internal control over financial reporting (“ICFR”), as defined in NI 52-109. In particular, the certifying officers of Chemistree are not required to make any representations that they have:

- designed, or caused to be designed, DC&P to provide reasonable assurance that information required to be disclosed by Chemistree in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and
- designed, or caused to be designed, ICFR to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the Chemistree’s GAAP.

Investors should be aware that inherent limitations on the ability of certifying officers of a venture issuer to design and implement on a cost effective basis DC&P and ICFR may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

Unfavorable or lack of research and reports from research analysts

The trading market for Chemistree’s common shares will rely in part on the research and reports that equity research analysts publish about Chemistree and Chemistree’s business. Chemistree does not control these analysts. The price of Chemistree’s common shares could decline if one or more equity analysts downgrade Chemistree’s common shares or if analysts issue other unfavorable commentary or cease publishing reports about Chemistree or Chemistree’s business.

Related Party Transactions

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

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of executive and non-executive members of the Company’s Board of Directors and Officers.

During the years ended June 30, 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, 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
Nicholas Zitelli (“Zitelli”), Director	Investment in ACS, a company of which he is an officer

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

	2020	2019
Management fees ⁽¹⁾	\$ 720,000	\$ 320,000

⁽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 (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) ⁽²⁾	\$ 30,000	\$ 30,000

⁽²⁾ For the period 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.

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

	2020	2019
Marketing (general and administrative) ⁽³⁾	\$ 72,000	\$ 222,000

⁽³⁾ For the period 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, in 2019, \$150,000 in fees were paid to CFC for promotional activities.

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

	2020	2019
Consulting ⁽⁴⁾	\$ 384,292	\$ 210,387

⁽⁴⁾ 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:

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

⁽⁴⁾ For the period ended June 30, 2020, expenditures were paid to BL for various categories.

⁽⁵⁾ Aberman and Zitelli were officers of ACS at the time of the investment.

Due to related parties include the following amounts:

	2020	2019
PEMC	\$ 695	\$ 695
CFC	-	1,750
	<u>\$ 2,445</u>	<u>\$ 9,408</u>

Table of Contractual Obligations

<i>Contractual Obligations:</i>	<i>Payments Due by Period</i>
Management Contract with Pursuant to a Management Services Agreement dated as of August 1, 2008, as amended June 29, 2015, February 1, 2017, and May 1, 2019 the Company has engaged Pacific Equity Management Corporation (“PEMC”) for management services. PEMC is a management services company controlled by Karl Kottmeier and Douglas E. Ford, each of whom is a director and/or officer of the Company. The monthly management fee payable under the Agreement is \$63,000, plus taxes. The services provided by PEMC include the provision of the services of the following officers and employees: President, Chief Financial Officer; Group Accountant, Administrator; Corporate Development Manager; and Receptionist. The Agreement may be terminated by either party on six months’ notice. In the event there is a change of effective control of the Company, PEMC has the right to terminate the Agreement and in such event the Company shall pay PEMC a severance payment equal to twelve (12) months management fees.	Pacific Equity Management Corp. \$60,000 per month
Management Services Employment Agreement Pursuant to a Management Services Employment Agreement dated as of April 5, 2019, the Company has engaged Sheldon Aberman Inc. (“SAI”) for the management services and employment of Sheldon Aberman as the Company’s Chief Cannabis Officer at a rate of US\$24,000 per month. The Agreement may be terminated by either party on six months’ notice. In the event there is a change of effective control of the Company, SAI has the right to terminate the Agreement and in such event the Company shall pay SAI a severance payment equal to twenty-four (24) months management fees.	Sheldon Aberman Inc. US \$24,000 per month
Rent & Office Services Contract with Pursuant to a Services Agreement dated as of July 1, 2017, the Company has agreed to pay to PEMC \$2,500 per month, plus taxes for the provision of office space, office equipment and associated administrative services. The Agreement may be terminated by either party on six months’ notice.	Pacific Equity Management Corp. \$2,500 per month
Services Agreement with Pursuant to a Service Agreement dated as of July 10, 2018, the Company has agreed to pay to Contact \$6,000 per month, plus taxes to provide Investor Relations, Digital Marketing, Shareholder Relations, Database Development and Corporate Consultation Services. The Agreement expires on July 1, 2019.	Contact Financial Corp. \$6,000 per month
Commercial Lease Agreement with Effective July 1, 2018, the Company entered into a Commercial Lease agreement 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.	Landlord The Company’s commitment for basic rent amounts payable are as follows: <ul style="list-style-type: none"> • 2021: US\$120,300 • 2022: US\$120,300

Off-Balance Sheet Arrangements

There are no off-balance sheet arrangements.

Critical Accounting Estimates

The Company uses the Black-Scholes option valuation model to calculate the fair value of share purchase options at the date of the grant. Option pricing models require the input of highly subjective assumptions, including the expected price volatility. Changes in these assumptions can materially affect the fair value estimate and, therefore, not necessarily provide a reliable single measure of the fair value of the Company's share purchase options.

Proposed Transactions

See "Events after June 30, 2020", below.

Accounting Changes

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 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 Company did not apply practical expedients in connection with its adoption of IFRS 16.

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

Financial Instruments and Other Instruments

Capital Disclosure

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.

The Company expects its current capital resources are sufficient to carry on its planned operations.

Financial Instruments, Fair Value Measurement and Risk

a) Financial Instruments

As at June 30, 2020, 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 \$4,008,647, consisting of cash and cash equivalents, trade receivable, taxes receivable and note receivable. The Company limits its exposure to credit loss for cash and cash equivalents by placing such instruments with high credit quality financial institutions. The values of these instruments may exceed amounts insured by an agency of the Government of Canada. In management's opinion, the Company's credit risk related to these instruments, is low. Risk exposure to accounts receivable over 90-days past due are considered moderate in the opinion of management. Risk exposure to note receivable is considered moderate in management's opinion since the note is secured by assets of sufficient recoverable value to offset the risk.

(ii) Liquidity Risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient financial resources to meet liabilities when due. As at June 30, 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.

(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\$ 57,000 impact on the Company's profit or loss.

Disclosure Controls and Procedures

Management has established processes, which are in place to provide them sufficient knowledge to support management representations that they have exercised reasonable diligence that (i) the financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented by the financial statements and that (ii) the financial statements fairly present in all material respects the financial condition, results of operations and cash flows of the Company, as of the date of and for the periods presented by the financial statements.

In contrast to the certificate required under National Instrument 52-109 - *Certification of Disclosure in Issuers' Annual and Interim Filings* ("NI 52-109"), the Company utilizes the Venture Issuer Basic Certificate which does not include representations relating to the establishment and maintenance of disclosure controls and procedures (DC&P) and internal controls over financial reporting (ICFR), as defined in NI 52-109. In particular, the certifying officers filing Venture Issuer Basic Certificate are not making any representations relating to the establishment and maintenance of:

- i) controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and
- ii) a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP.

The Company's certifying officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in this certificate.

Investors should be aware that inherent limitations on the ability of certifying officers of the Company to design and implement on a cost-effective basis DC&P and ICFR as defined in NI 52-109 may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

Share Capital Data

The following table sets forth the Company's share capital data as at October 15, 2019:

Common Shares			
-issued & outstanding	37,814,430		
Options	50,000	Exercise price: \$0.36	Expiry: 4/8/2021
Options	750,000	Exercise price: \$0.10	Expiry: 6/7/2022
Options	150,000	Exercise price: \$0.41	Expiry: 6/22/2023
Options	250,000	Exercise price: \$0.41	Expiry: 7/11/2023
Options	1,200,000	Exercise price: \$0.60	Expiry: 4/5/2024
Options	1,450,000	Exercise price: \$0.06	Expiry: 4/9/2025
Warrants	21,639,500	Exercise price: \$0.70	Expiry: 3/29/2022
Warrants	1,474,200	Exercise price: \$0.50	Expiry: 3/29/2022

Events after June 30, 2020

- 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.

Further Information

Additional information about the Company, including its annual financial statements for the year ended June 30, 2019, is available at the Company's website www.chemistree.ca and on the SEDAR website at www.sedar.com.

APPENDIX C

Investment Policy [Amended - October 2020]

CHEMISTREE TECHNOLOGY INC.
(the “Company”)

Investment Policy
[Amended – October 2020]

Summary

The Company is a publicly traded investment company whose primary objective is to invest its funds for purposes of generating returns from capital appreciation and investment income. It intends to accomplish these goals through the identification of and investment in securities of private and publicly listed entities that are involved in a variety of industries, including, but not limited to, opportunities in the cannabis, technology, health care, biotechnology, medical technology or related consumer products fields

Investments will be acquired and held for short-term gains, income generation, or long-term capital appreciation, dependent upon the specific investment. The paramount goal of the Company will be to generate maximum returns from its investments.

The composition of the Company’s investment portfolio will vary over time depending on its assessment of a number of factors, including the performance of its investments, developments in existing and potential markets, and risk assessment. The Company’s investment objectives, investment strategy and investment restrictions may be amended from time to time on the recommendation of the investment committee or senior management and approval by the Board. The Company’s board of directors reserves the right and authority to change the general or specific focus of the Company’s investments over time; and reserves the right to diversify the Company’s portfolio of investments by industry, geography, and investment type without prior announcement or notice being given.

The Company anticipates re-investing the profits realized from its investments to further the growth and development of the Company’s investment portfolio. The declaration and payment of dividends to shareholders will become a priority once Company has achieved steady or continuous cash flow from its investments.

Investment Objectives

The principal investment objectives of the Company are as follows:

- to seek high return investment opportunities by investing directly in a variety of securities or interests of public and private companies and assisting in early stage projects by providing financial support;
- to identify early stage opportunities with attractive risk/reward ratios;
- to preserve its capital and limit the downside risk of its capital;
- to achieve a reasonable rate of capital appreciation;
- to minimize the risk associated with each form of investment; and
- to seek liquidity in its investments.

Investment Strategy

In light of the numerous investment opportunities across the entire landscape, the Company aims to adopt a flexible approach to investment targets without placing unnecessary limits on potential returns on its investment. This approach is demonstrated in the Company's proposed investment strategy set out below.

To achieve the investment objectives as stated above, while mitigating risk, the Company, when appropriate, shall employ the following disciplines:

- The Company will obtain detailed knowledge of the relevant business in which the investment will be made, as well as the target company ("Investee").
- The Company will seek to retain management or consultants having specific industry expertise within the industry or sector in which an investment is contemplated or has been made.
- The Company will work closely with the Investee's management and board, and in some cases, assist in sourcing experienced and qualified persons to add to the board and/or management of the Investee. In certain circumstances, a representative of the Company may be appointed to an Investee's board of directors.
- Investments may include:
 - equity, bridge loans, secured loans, unsecured loans, convertible debentures, warrants and options, royalties, streaming investments, net profit interests and other hybrid instruments;
 - acquisitions, partnership interests, or joint venture interests with Investees;
 - acquisition of a business or its assets, directly or via a wholly owned subsidiary, and subsequent managing or assisting in developing the underlying business;
 - capital investment in private companies, and assistance in moving them to an acquisition or merger transaction with a larger company or to the public stage through initial public offering, reverse takeover or other liquidity event;
 - early stage equity investments in public companies believed to have favourable management and business; and
 - where appropriate, acting as a third party advisor for opportunities in target or other companies, in exchange for a fee.
- The Company will have flexibility on the return sought, while seeking to recapture its capital within a reasonable period following the initial investment(s).
- The Company will seek to maintain the ability to actively review and monitor all of its investments on an ongoing basis. Investees will be required to provide continuous disclosure of operations and financial status. From time to time, the Company may insist on board or management representation on Investees.
- The Company will continually seek liquidity opportunities for its investments, with a view to optimizing the return on its investment; recognizing that no two investments will be alike in terms of the duration held or the best means of exiting an investment.
- The Company may acquire interests in Investees within the framework of the above guidelines, which from time to time may result in the Company holding a control or complete ownership position in an Investee.

- The Company may utilize the services of both independent organizations and securities dealers to gain additional information on target investments where appropriate.

Notwithstanding the foregoing, from time to time, the Board may authorize such investments outside of these disciplines as it sees fit for the benefit of the Company and its shareholders.

Pending investment of available funds, monies will be held in bank or trust accounts with Schedule 1 financial institutions.

Composition of Investment Portfolio

Principal Targets: The Company is employing an agnostic to industry approach to its investment target type in order to ensure quality investment opportunities are not disqualified. However, management and board will apply a moral suitability analysis in conjunction with the regular investment assessment criteria.

Composition: The actual composition of the Company's investment portfolio will vary over time depending on its assessment of a number of factors, including the global development of the cannabis industry. Management will not be bound or restricted as to the geographic, percentage diversity, number of investments, or other restrictive parameters; but may exercise flexibility in its approach to and investment of available funds.

Types: The Company will maintain a flexible position with respect to the form of investments taken, and may employ a wide range of investment instruments, including equity, bridge loans, secured loans, unsecured loans, convertible debentures, warrants and options, joint ventures, partnerships, net profit interests and other hybrid instruments.

Jurisdictions: While the Company initially intends to focus on investments in North America, but acknowledges that the industries and sectors in which it intends to invest may become global in nature, and as such anticipates that a material percentage of its investments may be in entities formed in jurisdictions outside of Canada and the United States. All jurisdictions where cannabis is legal will be permissible for investment consideration depending on the risk assessment of the Board and management at the time the investment is made and the risk-reward relationship associated with each investment in a particular jurisdiction, including the purchase of securities listed on foreign stock exchanges.

Timing: The timing of the Company's investments will depend, in part, on available capital at any particular time, and the investment opportunities identified and available to the Company. Subject to the availability of capital, the Company intends to create a suitably diversified portfolio of investments and not retain available cash. Management will not be bound or restricted as to the timing to invest available capital; but will seek to fully deploy available capital in as expeditious a manner as possible.

Notwithstanding the above, the Company intends to invest at least 60% of its available capital resources in Investees, in accordance with the investment objectives and strategy outlined herein, at all times (subject to a reasonable period of time following each raising of additional capital and providing for reasonable reserves of cash for budgeted administrative expenditures and a prudent cash reserve.).

Size: The Company will not be bound or restricted as to the overall size of its investment portfolio. The Company may raise additional funds continuously for purposes of expanding its investment portfolio; or may choose to limit its size based on available management time or investment opportunities. Nor will the Company be limited as to the size of any particular investment it may make or the percentage interest any one investment may be of the Company's overall portfolio. As such, the Company may hold a material or majority of its investments in one Investee or a relatively few number of Investees. Further, the Company

will not be limited as to the percentage interest it may hold in any Investee, which may result in the Company holding a control position or even complete ownership of an Investee.

Investee Structures: The Company will not be bound or restricted as to the nature or structure of Investees. Investees may be public or private corporations, partnerships, joint ventures or other legal entities.

Compliance: The Company will use its reasonable commercial efforts to ensure that with respect to every investment made by the Company that the Investee is in full compliance with all applicable regulatory requirements enacted by the applicable regulatory authorities in the jurisdiction in which it operates.

Procedures and Implementation

The senior officers and other management of the Company (“Management”) and the Company’s Board of Directors (the “Board”) and the respective members thereof shall work jointly and severally to uncover appropriate investment opportunities. These individuals have a broad range of business experience and their own networks of business partners, financiers, venture capitalists and finders through whom potential investments may be identified.

Prospective investments will be channelled through Management. Management shall make an assessment of whether the proposal fits with the investment and corporate strategy of the Company in accordance with the investment objectives and strategy set out in this policy, and then proceed with preliminary due diligence, leading to a decision to reject or move the proposal to the next stage of detailed due diligence. This process may involve the participation of outside professional consultants.

The Company will obtain detailed knowledge of the relevant business the investment shall be made in, as well as the investee corporation, their management team, quality of asset(s) and risks associated as applicable.

Once a decision has been reached to invest in a particular situation, a summary of the rationale behind the investment decision shall be prepared by Management and submitted to the Board. This summary should include, among other things, the estimated return on investment, timeline of investment, guidelines against which future progress can be measured, and risks associated with the investment. The summary should also disclose any finder’s or agent’s fees payable.

All investments shall be submitted to the Board for final approval. Management will select all investments for submission to the Board and monitor the Company’s investment portfolio on an ongoing basis, and will be subject to the direction of the Board. Management will present an overview of the state of the investment portfolio to the Board on a quarterly basis.

Negotiation of terms of participation is a key determinant of the ultimate value of any opportunity to the Company. Negotiations may be ongoing before and after the performance of due diligence. The representative(s) of the Company involved in these negotiations will be determined in each case by the circumstances of the investment opportunity.

Compliance

All investments shall be made in compliance with applicable laws in relevant jurisdictions, and shall be made in accordance with and governed by the rules and policies of applicable regulatory authorities.

From time to time, the Board may authorize such additional investments outside of the guidelines described herein as it sees fit for the benefit of the Company and its shareholders.

Management Participation

The Company may, from time to time, seek a more active role in the corporations in which it invests, and provide such corporations with financial and personnel resources, as well as strategic counsel. The Company may also ask for board representation in cases where it makes a significant investment in the business of an investee corporation. The Company's nominee(s) shall be determined by the Board as appropriate in such circumstances.

Fund Status

The Company will aim to structure its investments in such a way as to not be deemed either an Investment Fund or Mutual Fund, as defined by applicable securities laws, thereby avoiding the requirement to register as a fund or investment advisor.

Conflicts of Interest

The Company has no restrictions with respect to investing in corporations in which a Board member may already have an interest. Any potential investments where there is a material conflict of interest involving an employee, officer or director of the Company may only proceed after receiving approval from the disinterested directors of the Board. The Company is also subject to the "related party" transaction policies of the CSE, which mandates disinterested shareholder approval and valuations to certain transactions.

Prior to making any investment commitment, the Company shall adopt procedures for checking for potential conflicts of interest, which shall include but not be limited to a circulation of the names of a potential target corporation and its affiliates to the Board and Management.

All members of the Board shall be obligated to disclose any interest in the potential investment. In the event a conflict is detected, the target corporation shall be notified of the potential conflict in writing. The members of the Board and its advisors shall be responsible for detecting a potential conflict.

Where a conflict is determined to exist within Management or the Board, the individual having a conflicting interest shall provide full disclosure of their interest in the potential investment and, if such person is a Board member, shall abstain from voting on the investment decision but may participate in discussions regarding the potential investment opportunity.

The members of the Board and Management and their respective affiliates (collectively the "Parties") are or may be involved in other financial, investment and professional activities which may on occasion cause a conflict of interest with their duties to the Company. These include serving as directors, officers, promoters, advisers or agents of other public and private corporations, including corporations in which the Company may invest. The Parties may also engage in transactions with the Company where any one or more of the Parties is acting in their capacity as financial advisor, broker, intermediary, principal, or counterparty, provided that such transactions are carried out on terms similar to those which would apply in a similar transaction between persons not connected with the Parties or any one of them and such transactions are carried out on normal commercial terms as if negotiated at arm's length.

Amendment

The Company's investment objectives, strategy and restrictions and other provisions of this Investment Policy may be amended from time to time on the recommendation of Management and approval by the Board. Unless required by the TSX Venture Exchange, approval by the Company's shareholders of any such amendments is not required.

Dividends

The Company does not anticipate the declaration of dividends to shareholders during its initial stages and plans to reinvest the profits of its investments to further the growth and development of the Company's investment portfolio. As part of the Company's overall objective of maximizing returns on its investments, it will seek to maximize value to its shareholders. As such the declaration and payment of dividends to shareholders may become a priority once Company has achieved steady or continuous cash flow from its investments.