



**CHEMESIS INTERNATIONAL INC.  
(Formerly Canadian Mining Corp.)**

**Condensed Consolidated Interim Financial Statements  
For the six months ended December 31, 2018**

**(Unaudited - Expressed in Canadian Dollars)**

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## **NOTICE TO READER**

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

The accompanying unaudited condensed consolidated interim financial statements of Chemesis International Inc. (the “Company”) have been prepared by and are the responsibility of management. These condensed consolidated interim financial statements for the six months ended December 31, 2018 have not been reviewed or audited by the Company’s independent auditors. All amounts are stated in Canadian Dollars.

**Chemesis International Inc.**  
**(formerly Canadian Mining Corp.)**  
**Condensed Consolidated Interim Statement of Financial Position**  
**As at December 31, 2018**  
**(Expressed in Canadian dollars)**

<b>As at</b>	December 31, 2018 (Unaudited)	June 30, 2018 (audited)
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash	\$ 1,102,844	\$ 1,030,284
Prepays	171,269	50,598
Inventory (Note 5)	729,236	-
Promissory notes receivable (Note 6)	26,939	-
Amounts receivable (Note 7)	405,540	-
	<b>2,435,828</b>	<b>1,080,882</b>
<b>Non-current assets</b>		
Deposits	70,971	125,656
Equipment (Note 9)	1,888,402	657,752
Leasehold improvements (Note 9)	4,547,751	1,552,595
Exploration and evaluation assets (Note 8)	113,319	-
Intangible assets (Note 10)	1,433,173	-
Goodwill (Note 10, 11)	4,471,440	-
<b>Total non-current assets</b>	<b>12,525,056</b>	<b>2,336,003</b>
<b>TOTAL ASSETS</b>	<b>\$ 14,960,884</b>	<b>\$ 3,416,885</b>
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 1,571,493	\$ 206,642
Excise tax payable	639,747	-
Convertible debt (Note 12)	3,081,809	-
	<b>5,293,049</b>	<b>206,642</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 13)	38,042,108	3,800,000
Equity portion of convertible debt (Note 12)	244,000	-
Contributed surplus	3,466,406	-
Accumulated other comprehensive income	(346,630)	38,600
Deficit	(31,177,620)	(345,163)
<b>Equity attributable to 1145411 B.C. Ltd.</b>	<b>10,228,264</b>	<b>3,493,437</b>
Non-controlling interest	(560,429)	(283,194)
<b>Total equity</b>	<b>9,667,835</b>	<b>3,210,243</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 14,960,884</b>	<b>\$ 3,416,885</b>

Subsequent events (Note 21)

Going concern (Note 2)

These condensed consolidated interim financial statements were authorized for issue by the Board of Directors on March 1, 2019.

Approved on behalf of the Board of Directors:

*"Brian Thurston"*, Director      *"Aman Parmar"*, Director

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

**Chemesis International Inc.**  
**(formerly Canadian Mining Corp.)**  
**Condensed Consolidated Interim Statement of Loss and Comprehensive Loss**  
**For the three and six months ended December 31, 2018**  
**(Unaudited - Expressed in Canadian dollars)**

	For the three months ended December 31, 2018	For the period from incorporation to December 31, 2017	For the six months ended December 31, 2018	For the period from incorporation to December 31, 2017
<b>REVENUES</b>	\$ 2,820,105	\$ -	\$ 4,739,135	\$ -
<b>COST OF GOODS SOLD</b>	(2,319,002)	-	(4,117,003)	-
<b>GROSS PROFIT</b>	501,103	-	622,132	-
<b>EXPENSES</b>				
Advertising and marketing	686,504	-	988,810	-
Consulting (Note 15)	163,297	6,325	516,091	6,325
Depreciation	528,966	-	533,917	-
Office and miscellaneous	76,751	-	172,243	-
Payroll	98,115	-	193,115	-
Professional fees	429,148	-	648,048	-
Rent	251,104	12,647	486,208	12,647
Security	117,673	-	117,673	-
Share-based payments (Note 13, 15)	323,722	-	2,567,302	-
Transfer agent and filing fees	66,194	-	96,547	-
Travel	98,564	-	139,327	-
<b>TOTAL OPERATING EXPENSES</b>	(2,840,038)	(18,972)	(6,495,281)	(18,972)
<b>OTHER ITEMS:</b>				
Interest expense	(11,866)	-	(11,866)	-
Interest income (write-off)	(4,081)	-	20,547	-
Listing acquisition expense (Note 13, 14)	-	-	(25,278,174)	-
Foreign exchange loss	18,902	(10,342)	11,639	(10,342)
	2,955	(10,342)	(25,257,854)	(10,342)
<b>NET LOSS FOR THE PERIOD</b>	\$ (2,335,980)	\$ (29,314)	\$ (31,095,003)	\$ (29,314)
<b>OTHER COMPREHENSIVE LOSS</b>				
<i>Items that may be subsequently reclassified to loss for the year</i>				
Cumulative translation adjustment	578,625	-	603,683	-
<b>COMPREHENSIVE LOSS</b>	\$ (1,757,355)	\$ (29,314)	\$ (30,491,320)	\$ (29,314)
<b>NET LOSS ATTRIBUTABLE TO:</b>				
Chemesis International Inc.	\$ (2,171,361)	\$ (20,018)	\$ (30,832,457)	\$ (20,018)
Non-controlling interest	(164,619)	(9,296)	(262,546)	(9,296)
	(2,335,980)	(29,314)	(31,095,003)	(29,314)
<b>COMPREHENSIVE LOSS ATTRIBUTABLE TO:</b>				
Chemesis International Inc.	(1,578,763)	(20,018)	(30,214,085)	(20,018)
Non-controlling interest	(178,592)	(9,296)	(277,235)	(9,296)
	\$ (1,757,355)	\$ (29,314)	\$ (30,491,320)	\$ (29,314)
<b>Loss per share, basic and diluted</b>	\$ (0.03)	\$ (523)	\$ (0.50)	\$ (523)
<b>Weighted average number of common shares outstanding</b>	65,038,620	56	60,593,826	56

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

**Chemesis International Inc.**  
**(formerly Canadian Mining Corp.)**  
**Condensed Consolidated Interim Statement of Changes in Equity**  
**For the period from incorporation to December 31, 2017 and the six months ending December 31, 2018**  
**(Unaudited - Expressed in Canadian dollars)**

	<u>Share Capital</u>		Equity portion of convertible debt	Contributed surplus	Accumulated other comprehensive income	Deficit	Non- Controlling Interest	Total Equity
	Number	Amount						
		\$	\$	\$	\$	\$	\$	\$
<b>December 15, 2017</b>	-	-	-	-	-	-	-	-
Common shares issued for cash	100	3,800,000	-	-	-	-	-	3,800,000
<b>December 31, 2017</b>	100	3,800,000	-	-	-	-	-	3,800,000
Net loss for the year	-	-	-	-	-	(345,163)	(320,281)	(665,444)
Other comprehensive income	-	-	-	-	38,600	-	37,087	75,687
<b>June 30, 2018</b>	100	3,800,000	-	-	38,600	(345,163)	(283,194)	3,210,243
Cancelled shares	(100)	-	-	-	-	-	-	-
Chemesis opening balance								
Chemesis shares	16,040,076	-	-	-	-	-	-	-
Shares issued on reverse takeover (Note 13, 14)	46,807,559	28,552,611	-	-	-	-	-	28,552,611
Business acquisitions (Note 11)	2,952,996	4,440,356	-	-	-	-	-	4,440,356
Asset acquisitions (Note 10)	947,137	754,517	-	463,047	-	-	-	1,217,564
Shares issued for consulting fees (Note 13)	369,982	372,124	-	-	-	-	-	372,124
Options exercised (Note 13)	117,500	122,500	-	-	-	-	-	122,500
Share-based payments (Note 13)	-	-	-	2,567,302	-	-	-	2,567,302
Convertible debt (Note 12)	-	-	244,000	186,057	-	-	-	430,057
Subscriptions received (Note 13)	-	-	-	250,000	-	-	-	250,000
Net income	-	-	-	-	-	(30,832,457)	(262,546)	(31,095,003)
Other comprehensive income	-	-	-	-	(385,230)	-	(14,689)	(399,919)
<b>December 31, 2018</b>	<b>67,235,250</b>	<b>38,042,108</b>	<b>244,000</b>	<b>3,466,406</b>	<b>(346,630)</b>	<b>(31,177,620)</b>	<b>(560,429)</b>	<b>9,667,835</b>

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**Chemesis International Inc.**  
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**Condensed Consolidated Interim Statement of Cash Flows**  
**For the six months ended December 31, 2018**  
**(Unaudited - Expressed in Canadian dollars)**

	For the six months ended December 31, 2018	For the period from incorporation to December 31, 2017
<b>Cash (used in) provided by: OPERATING ACTIVITIES</b>		
Net loss for the period	\$ (31,095,003)	\$ (29,314)
Items not involving cash:		
Foreign exchange	-	(389)
Listing acquisition expense	25,278,174	-
Share-based payments	2,567,302	-
Shares issued for consulting fees	372,124	-
Accrued interest	11,866	-
Depreciation	533,917	-
<b>Net changes in non-cash working capital items:</b>		
Prepays	(95,846)	-
Inventory	(365,201)	-
Amounts receivable	(121,251)	-
Amounts payable	1,111,770	142,816
<b>Net cash used in operating activities</b>	<b>(1,802,148)</b>	<b>113,113</b>
<b>INVESTING ACTIVITIES:</b>		
Deposits	96,416	-
Exploration and evaluation assets	(4,438)	-
Cash received on acquisition	2,725,638	126
Cash paid on acquisition	(3,633,419)	-
Purchase of intangible assets	(238,262)	-
Purchase of equipment and leasehold improvements	(1,276,283)	(124,109)
<b>Net cash used in investing activities</b>	<b>(2,330,348)</b>	<b>(123,983)</b>
<b>FINANCING ACTIVITIES:</b>		
Proceeds from issuance of common shares	122,500	3,800,000
Proceeds from subscriptions received	250,000	-
Proceeds from convertible debt	3,500,000	-
<b>Cash provided by financing activities</b>	<b>3,872,500</b>	<b>3,800,000</b>
Effect of exchange rate changes	332,556	265
Net increase (decrease) in cash	72,560	3,789,395
Cash, beginning of period	1,030,284	-
<b>Cash, end of period</b>	<b>\$ 1,102,844</b>	<b>\$ 3,789,395</b>

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**Chemesis International Inc.**  
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**Notes to the Condensed Consolidated Interim Financial Statements**  
**For the period ended December 31, 2018**  
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**1. NATURE OF OPERATIONS**

Chemesis International Inc. (formerly Canadian Mining Corp.) (“Chemesis”) was incorporated on April 26, 2013 and was a wholly-owned subsidiary of International Zeolite Corp. Chemesis’ registered records office is 1212 Austin Avenue, Coquitlam, British Columbia V3K 3P5 and the corporate head office is at 2710 – 200 Granville Street, Vancouver, BC V6C 1S4. During fiscal 2017, Chemesis was spun out pursuant to a plan of arrangement as disclosed in Note 14. On June 5, 2017, Chemesis began trading on the TSX Venture Exchange under the symbol CNG.

On July 17, 2018, Chemesis completed a reverse takeover transaction (“RTO”) with 1145411 BC Ltd. (the “Company” or “1145411”), pursuant to which Chemesis acquired all of the issued and outstanding shares of 1145411 in exchange for 46,807,559 common shares of Chemesis. These financial statements include the historical consolidated financial information of 1145411 up to the completion of the RTO. 1145411 was incorporated under the laws of British Columbia on December 15, 2017 and as such, the comparative periods for the consolidated statement of loss and comprehensive loss and the consolidated statement of cash flows are not presented.

As the former shareholders of 1145411 owned a majority interest in Chemesis immediately after closing, the substance of the transaction, for accounting purpose, is a reverse merger. The transaction does not constitute a business combination as the Company does not meet the definition of a business as defined under IFRS. As a result, the transaction will be accounted for as a capital transaction in substance, with 1145411 being identified as the acquirer.

1145411 is the owner of 100% of the issued and outstanding capital stock of Bonhomie Labs Inc., a California corporation (“Bonhomie”). Bonhomie is the owner of 80% of the issued and outstanding capital stock of SAP Global, a California corporation (“SAP”). SAP is the holder of various licenses and permits that allow it to legally operate cannabis businesses in the State of California.

Effective July 17, 2018, the Company completed a share consolidation of its share capital on the basis of two existing common shares for one new common share. As a result of the share consolidation, the 32,080,152 common shares issued and outstanding were consolidated to 16,040,076 common shares. All information in these consolidated financial statements is presented on a post-share consolidation basis, including the number and exercise price of all share options and warrants.

The shares issued to 1145411 were issued on a post-consolidation basis. Concurrent with the transaction, the Company changed its name to Chemesis International Inc. and started trading on the Canadian Securities Exchange (“CSE”) under the symbol “C.CSI”.

Chemesis changed its business focus from mineral exploration to the continuation of 1145411’s business of pursuing opportunities in the cannabis industry.

Pursuant to the reverse acquisition transaction, CNG will also change its name to Chemesis International Inc. (“Chemesis”) and has de-listed from TSX-V and has listed its shares on the Canadian Stock Exchange (“CSE”). Chemesis will also change its business focus from mineral exploration to the continuation of the Company’s business of pursuing opportunities in the cannabis industry.

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**2. GOING CONCERN**

The Company has begun to earn operating revenue, however, is still dependent upon the receipt of equity and/or debt financing on terms which are acceptable to it.

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. Management is aware, in making its assessment, of material uncertainties related to events or conditions that cast significant doubt upon the Company's ability to continue as a going concern.

**3. BASIS OF PRESENTATION**

These consolidated financial statements have been prepared on a historical cost basis. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information. The accounting policies below have been applied to all periods presented in these consolidated financial statements and are based on International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretation Committee ("IFRIC").

**3.1. Basis of measurement**

These consolidated financial statements have been prepared using the measurement basis specified by IFRS for each type of asset, liability, revenue and expense. Certain items are stated at fair value.

**3.2. Significant judgments, estimates and assumptions**

The preparation of the Company's consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from these estimates.

**Critical Accounting Judgments**

The assumption that the Company will be able to continue as a going concern is subject to critical judgments by management with respect to assumptions surrounding the short and long-term operating budget, expected profitability, investing and financing activities and management's strategic planning. Should those judgments prove to be inaccurate, management's continued use of the going concern assumption could be inappropriate.



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**3. BASIS OF PRESENTATION (CONTINUED)**

*Business combinations*

Judgment is used when determining whether an acquisition is a business combination or an asset acquisition. Judgment is also used in measuring the fair value of equity instruments issued as consideration for a business combination, and in allocating the fair value of consideration paid to the assets acquired and liabilities assumed.

*Functional currency*

Determination of an entity's functional currency involves judgment taking into account the transactions, events, and conditions relevant to the entity. Determination of functional currency involves evaluating evidence about the primary economic environment in which the entity operations and is re-evaluated when facts and circumstances indicate that conditions have changed.

**Critical Accounting Estimates**

*Inventory*

The Company estimates the net realizable value of inventory taking into account the most reliable evidence available at each reporting date.

*Estimated useful lives, impairment considerations and amortization of tangible and intangible assets*

Amortization of tangible and intangible assets is dependent upon estimates of useful lives based on management's judgment.

Goodwill impairment testing requires management to make critical estimates within the impairment testing model. On an annual basis, the Company tests whether goodwill is impaired.

Impairment of tangible and intangible assets with limited lives is affected by judgments about impairment indicators and estimates used to measure impairment losses where necessary.

The recoverable value of goodwill and tangible and intangible assets is determined using discounted cash flow models, which incorporate assumptions about future events including future cash flows, growth rates and discount rates.

*Share-based payments*

Share-based payments, as measured with respect to stock options granted are estimated by reference to the Black-Scholes pricing model

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**3. BASIS OF PRESENTATION (CONTINUED)**

*Income Taxes*

The determination of income tax is inherently complex and requires making certain estimates and assumptions about future events. While income tax filings are subject to audits and reassessments, the Company has adequately provided for all income tax obligations. However, changes in facts and circumstances as a result of income tax audits, reassessments, jurisprudence and any new legislation may result in an increase or decrease in our provision for income taxes.

*Exploration and evaluation properties and impairment*

The Company is required to make significant judgments regarding the capitalization of the costs incurred in respect to its exploration and evaluation properties. The Company is also required to make significant judgments on the ongoing feasibility of mineral exploration, and whether there are indicators that the development of a specific area is unlikely, and exploration and evaluation properties should be impaired. Management has assessed impairment indicators on the Company's exploration and evaluation properties and has concluded that no impairment indicators existed as of December 31, 2018.

**3.3 Basis of consolidation**

These consolidated financials incorporate the financial statements of the Company and its wholly controlled subsidiaries, Chemesis Latin America, 1145411 BC Ltd., Dessert Zen LLC, Bonhomie Labs LLC. Bonhomie also holds an 80% interest in SAP Global Inc. ("SAP") and the Company holds 80% interest in Natural Ventures PR LLC. Dessert Zen, Bonhomie Labs and SAP, are incorporated in the State of California, USA and Natural Ventures PR LLC is incorporated in the USA territory of Puerto Rico. Control exists when the parent company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany transactions and balances have been eliminated.

Where the Company's interest is less than 100%, the interest attributable to outside shareholders is reflected in non-controlling interest. Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Company's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling interests' share of changes in equity since the date of the combination.

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**4. SIGNIFICANT ACCOUNTING POLICIES**

**4.1 Exploration and Evaluation Assets**

**(i) Pre-license costs:**

Costs incurred before the Company has obtained the legal right to explore are expensed as incurred.

**(ii) Exploration and evaluation costs:**

Once the legal right to explore has been acquired, exploration and evaluation expenditures are capitalized as incurred, unless future economic benefit is not expected to be realized. The Company capitalizes, on a property by property basis, the costs of acquiring, maintaining its interest in, and exploring and evaluating mineral properties until such time as the lease expires, it is abandoned, sold or considered impaired in value. Indirect administrative costs are expensed as incurred. Exploration and evaluation properties are not depreciated during the exploration and evaluation stage.

Recovery of capitalized costs is dependent on successful development of economic mining operations or the disposition of the related mineral property.

Although the Company has taken steps to verify title to mineral properties in which it has an interest, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers, non-compliance with regulatory requirements or title may be affected by undetected defects.

**4.2 Decommissioning and Restoration**

The Company is subject to various governmental laws and regulations relating to the protection of the environment. The environmental regulations are continually changing and are generally becoming more restrictive.

Decommissioning and restoration obligations encompass legal, statutory, contractual or constructive obligations associated with the retirement of a long-lived tangible asset (for example, mine reclamation costs) that results from the acquisition, construction, development and/or normal operation of a long-lived asset. The retirement of a long-lived asset is reflected by an other-than-temporary removal from service, including sale of the asset, abandonment or disposal in some other manner.

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**(Expressed in Canadian dollars)**

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**4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

The fair value of a liability for decommissioning and restoration is recorded in the period in which the obligation first arises. The Company records the estimated present value of future cash flows associated with site closure and reclamation as a long-term liability and increases the carrying value of the related assets for that amount. Over time, the liability is increased to reflect an interest element in the estimated future cash flows (accretion expense) considered in the initial measurement of fair value. The capitalized cost is depreciated on either the unit-of-production basis or the straight-line basis, as appropriate. The Company's estimates of its provision for decommissioning and restoration obligations could change as a result of changes in regulations, changes to the current market-based discount rate, the extent of environmental remediation required, and the means of reclamation or cost estimates. Changes in estimates are accounted for in the period in which these estimates are revised.

As at December 31, 2018, the Company has determined that it does not have any decommissioning and restoration obligations related to current or former operations.

**4.3 Impairment of Non-Financial Assets**

Intangible assets acquired individually or with a group of other assets from others (other than in a business combination) are recognized at cost, including transaction costs, and allocated to the individual assets acquired based on relative fair values and no goodwill is recognized. Cost is measured based on cash consideration paid. If consideration given is in the form of non-cash assets, liabilities incurred, or equity interests issued, measurement of cost is based on either the fair value of the consideration given or the fair value of the assets (or net assets) acquired, whichever is more clearly evident and more reliably measurable. Costs of internally developing, maintaining or restoring intangible assets that are not specifically identifiable, have indeterminate lives or are inherent in a continuing business are expensed as incurred.

Intangibles with a finite useful life are amortized and those with an indefinite useful life are not amortized. The useful life is the best estimate of the period over which the asset is expected to contribute directly or indirectly to the future cash flows of the Company. The useful life is based on the duration of the expected use of the asset by the Company and the legal, regulatory or contractual provisions that constrain the useful life and future cash flows of the asset, including regulatory acceptance and approval, obsolescence, demand, competition and other economic factors. If an income approach is used to measure the fair value of an intangible asset, the Company considers the period of expected cash flows used to measure the fair value of the intangible asset, adjusted as appropriate for Company-specific factors discussed above, to determine the useful life for amortization purposes. If no regulatory, contractual, competitive, economic or other factors limit the useful life of the intangible to the Company, the useful life is considered indefinite.

Intangibles with a finite useful life are amortized on the straight-line method unless the pattern in which the economic benefits of the intangible asset are consumed or used up are reliably determinable. The Company evaluates the remaining useful life of intangible assets each reporting period to determine whether any revision to the remaining useful life is required. If the remaining useful life is changed, the remaining carrying amount of the intangible asset will be amortized prospectively over the revised remaining useful life. Licenced rights are amortized on a straight-line basis over 20 years.

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**4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Intangibles with an indefinite useful life are not amortized until its useful life is determined to be no longer indefinite. If the useful life is determined to be finite, the intangible is tested for impairment and the carrying amount is amortized over the remaining useful life in accordance with intangibles subject to amortization. Indefinite-lived intangibles are tested for impairment annually and more frequently if events or circumstances indicate that it is more-likely-than-not that the asset is impaired. The Company has not recognized any intangible assets with an indefinite useful life.

**4.4 Goodwill**

Goodwill represents the excess of the consideration transferred over the Company's interest in the fair value of the net identifiable assets, including intangible assets, and liabilities of the acquire at the date of acquisition. At the date of acquisition, goodwill is allocated to cash-generating units (CGU's) for the purpose of impairment testing. A CGU is the smallest group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Goodwill is tested at least annually for impairment at the CGU level and is carried at cost less accumulated impairment losses.

**4.5 Revenue Recognition, Accounts Receivable and Allowance for Doubtful Accounts**

The Company recognizes product sales when it is probable that the economic benefits will flow to the Company, the goods are received by the customers and the significant risks and benefits of ownership are transferred, the price is fixed or determinable and collection of the resulting receivable is reasonably assured. Revenue is measured based on the price specified, net of sales commissions expenses, trade discounts and estimated returns at the time of sale. Historical experience is used to estimate allowances for returns.

Accounts receivable consist of amounts due from customers and are recorded upon the sale of product to customers. Credit terms are extended to customers in the normal course of business and no collateral is required. The Company estimates an allowance for doubtful accounts based on historical losses, the existing economic conditions and the financial stability of its customers. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when received.

**4.6 Inventory**

Inventory is stated at the lower of cost and net realizable value. Cost is determined using the weighted average method, which under the circumstances, management believes will provide for the most practical basis for the measurement of periodic income. Management periodically reviews inventory for slow moving or obsolete items and considers realizability based on the Company's marketing strategies and sales forecasts to determine if an allowance is necessary. If net realizable value is below cost, then an allowance is created to adjust the carrying amount of inventory.

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**4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**4.7 Impairment of tangible and intangible assets**

At the end of each reporting period, the Company's assets are reviewed to determine whether there is any indication that those assets may be impaired. If 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. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to 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 profit or loss for the period. For an asset that does not generate largely independent cash flows, 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 to an amount that 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.

**4.8 Equipment and Leasehold improvements**

Equipment items are carried at cost less accumulated depreciation and accumulated impairment losses. In the year of acquisition, depreciation is recorded at one-half the normal rate. Depreciation is recognized using the declining balance method at the following annual rates:

Equipment	Declining-Balance	10%
Vehicles	Declining-Balance	10%
Leasehold Improvements	Declining-Balance	20%

Equipment that is withdrawn from use or has no reasonable prospect of being recovered through use or sale, are regularly identified and written off.

The assets' residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Subsequent expenditure relating to an item of equipment is capitalized when it is probable that future economic benefits from the use of the assets will be increased. All other subsequent expenditure is recognized as repairs and maintenance expense.

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**4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**4.9 Provisions**

Liabilities are recognized when the Company has a present obligation (legal or constructive) that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation. A provision is a liability of uncertain timing or amount.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects the current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to the passage of time is recognized as a financing expense.

**4.10 Income Taxes**

Tax expense recognized in profit or loss comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity.

Current tax assets and liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting periods, that are unpaid at the reporting date. Current tax is payable on taxable profit which differs from profit or loss in the consolidated financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. Deferred tax is not provided on the initial recognition of goodwill or on the initial recognition of an asset or liability unless the related transaction is a business combination or affects taxable profit or accounting profit. Deferred tax liabilities on temporary differences associated with shares in subsidiaries and joint ventures is not provided for if reversal of these temporary differences can be controlled by the Company and it is probable that reversal will not occur in the foreseeable future.

Deferred tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are likely to reverse. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in profit or loss in the period that includes the substantive enactment date. Deferred tax assets are recognized for all temporary differences, carry-forward of unused tax credits and unused tax losses to the extent that it is probable that future taxable profits will be available against which they can be utilized.

Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realization, provided they are enacted or substantively enacted by the end of the reporting period.

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**4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Deferred tax assets and liabilities are offset only when the Company has a right and intention to offset current tax assets and liabilities from the same taxation authority and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same entity or different entities which intend to settle current tax assets and liabilities on a net basis or simultaneously in each future period in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

Changes in deferred tax assets or liabilities are recognized as a component of income or expense in profit or loss, except where they relate to items that are recognized in other comprehensive income or directly in equity, in which case the related deferred tax is also recognized in other comprehensive income or equity, respectively.

**4.11 Share capital**

The Company records proceeds from share issuances net of issue costs and any tax effects in shareholders' equity. Common shares issued for consideration other than cash are valued based on their market value at the date the shares were granted. Common shares held by the Company are classified as treasury stock and recorded as a reduction to shareholders' equity.

The Company has adopted a residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the more easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component. The Company considers the fair value of common shares issued in private placements to be the more easily measurable component of unit offerings and the common shares are valued at their fair value, as determined by the closing quoted bid price on the announcement date. The balance, if any, is allocated to any attached warrants or other features. Any fair value attributed to warrants is recorded as contributed surplus.

**4.12 Share-based Payments**

Share-based payment arrangements in which the Company receives goods or services as consideration for its own equity instruments are accounted for as equity-settled transactions and, when determinable, are recorded at the value of the goods and services received. If the value of the goods and services received is not determinable, then the fair value of the share-based payment is used.

The Company uses a fair value-based method (Black-Scholes Option Pricing Model) for all share options granted to directors, employees and certain non-employees. For directors and employees, the fair value of the share options is measured at the date of grant. For grants to non-employees where the fair value of the goods or services is not determinable, the fair value of the share options is measured on the date the services are received.



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**4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

The fair value of share-based payments is charged either to profit or loss or exploration and evaluation properties, with the offsetting credit to contributed surplus. For directors, employees and consultants, the share options are recognized over the vesting period based on the best available estimate of the number of share options expected to vest. If options vest immediately, the expense is recognized when the options are issued. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognized in the current period. No adjustment is made to any expense recognized in prior periods where vested. For non-employees, the share options are recognized over the related service period. When share options are exercised, the amounts previously recognized in contributed surplus are transferred to share capital.

In the event share options are forfeited prior to vesting, the associated fair value recorded to date is reversed. The fair value of any vested share options that expire remain in contributed surplus.

**4.13 Related Party Transactions**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties. Related party transactions that are in the normal course of business and have commercial substance are measured at the exchange amount.

**4.14 Earnings (Loss) per Share**

Basic earnings (loss) per share is computed by dividing net income (loss) (the numerator) by the weighted average number of outstanding common shares for the period (denominator). In computing diluted earnings per share, an adjustment is made for the dilutive effect of outstanding share options, warrants and other convertible instruments.

In the periods when the Company reports a net loss, the effect of potential issuances of shares under share options and other convertible instruments is anti-dilutive. Therefore, basic and diluted loss per share are the same. When diluted earnings per share is calculated, only those share options and other convertible instruments with exercise prices below the average trading price of the Company's common shares for the period will be dilutive.

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**4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**4.15 Financial Instruments - Recognition and Measurement**

The following is the Company's new accounting policy for financial instruments under IFRS 9:

(i) Classification

The Company classifies its financial instruments in the following categories: at fair value through profit and loss ("FVTPL"), at fair value through other comprehensive income (loss) ("FVTOCI") or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company's business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or if the Company has opted to measure them at FVTPL.

The Company completed a detailed assessment of its financial assets and liabilities as at July 1, 2018. The following table shows the original classification under IAS 39 and the new classification under IFRS 9:

Financial assets/liabilities	Original classification IAS 39	New classification IFRS 9
Cash	FVTPL	FVTPL
Accounts receivable	Loans and receivables	Amortized cost
Promissory notes receivable	Loans and receivables	Amortized cost
Deposits	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Loans and receivables	Amortized cost
Convertible debt		Amortized cost

The Company did not restate prior periods as it recognized the effects of retrospective application to shareholders' equity at the beginning of the 2019 annual reporting period, which also includes the date of initial application. The adoption of IFRS 9 resulted in no impact to the opening accumulated deficit nor to the opening balance of accumulated other comprehensive income on July 1, 2018.

(ii) Measurement

Financial assets and liabilities at amortized cost.

Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment.

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**4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Financial assets and liabilities at FVTPL Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the consolidated statements of loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the consolidated statements of loss in the period in which they arise.

(iii) Impairment of financial assets at amortized cost.

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. The Company shall recognize in the consolidated statements of loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

(iv) Derecognition

Financial assets

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are generally recognized in the consolidated statements of loss.

(v) Compound financial instruments

Compound financial instruments issued by the Company comprise convertible debentures that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value.

The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially as the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts. Share Purchase Warrants issued in conjunction with a convertible debt are allocated a proportion value of the equity component and included within contributed surplus.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition except on conversion or expiry.

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**4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**4.16 Share Issuance Costs**

Share issuance costs, which include commissions, facilitation payments, professional fees and regulatory fees, are charged directly to share capital. Share issue costs incurred from the issuance of flow-through shares are charged directly to share capital and expense in proportion to the value of the Company's shares at time of issue and any flow-through share premium.

**4.17 Comprehensive Income (Loss)**

Total comprehensive income comprises all components of profit or loss and other comprehensive income. Other comprehensive income includes items such as gains and losses on re-measuring available-for-sale financial assets and the effective portion of gains and losses on hedging instruments in a cash flow hedge.

**4.18 Foreign Currency Translation**

*Functional currency*

Items included in the consolidated financial statements of the Company's subsidiaries are measured using the currency of the primary economic environment in which the entity operates (the "functional currency").

*Transactions and balances*

Foreign currency transactions are translated into the relevant functional currency using the exchange rate prevailing at the date of the transaction. Foreign currency gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of loss.

*Subsidiaries*

The results and financial position of the Company's subsidiaries that have a functional currency different from the Company's presentation currency are translated into the presentation currency as follows:

- Assets and liabilities are translated at the closing rate at the reporting date;
- Income and expenses are translated at average exchange rates for the period;
- Equity is translated using historical rates; and
- All resulting exchange differences are recognised in other comprehensive income as foreign currency translation adjustments.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are taken to other comprehensive income (loss). When a foreign operation is sold, such exchange differences are recognised in the statement of loss as part of the gain or loss on sale.

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**4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**4.19 Changes in Significant Accounting Policies**

**Accounting standard anticipated to be effective**

Certain new standards, interpretations and amendments to existing standards have been issued by the IASB or International Financial Reporting Interpretations Committee (“IFRIC”) that are mandatory for accounting periods beginning after January 1, 2018, or later periods. New standards and updates, which are not applicable or are not consequential to the Company, have been excluded from the list below.

IFRS 16, *Leases*, specifies how an entity will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16’s approach to lessor accounting substantially unchanged from its predecessor, IAS 17 Leases. IFRS 16 is effective for years beginning after January 1, 2019. The Company does not anticipate the adoption of this standard to have a significant impact on the Company’s consolidated financial statements.

**Accounting standard adopted during the period**

IFRS 9, Financial Instruments, The Company adopted all of the requirements of IFRS 9 Financial Instruments (“IFRS 9”) as of July 1, 2018. IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement (“IAS 39”). IFRS 9 utilizes a revised model for recognition and measurement of financial instruments and a single, forward-looking “expected loss” impairment model. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9, so the Company’s accounting policy with respect to financial liabilities is unchanged. As a result of the adoption of IFRS 9, management has changed its accounting policy for financial assets retrospectively, for assets that continued to be recognized at the date of initial application. The change did not impact the carrying value of any financial assets or financial liabilities on the transition date.

**5. INVENTORY**

As at December 31, 2018, the Company’s inventory balance consists of raw goods and supplies. During the six months ended December 31, 2018, the Company expensed \$4,117,003 of inventory included within cost of goods sold.

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**6. PROMISSORY NOTES RECEIVABLE**

During the year ended June 30, 2018, Chemesis entered into a memorandum of understanding (the “MOU”) with Natural Ventures PR LLC (“Natural Ventures”). Natural Ventures holds various licenses that allow it to legally operate Cannabis business in the U.S. territory of Puerto Rico. The MOU states that, upon completion of the agreement, the Company will pay US\$2,250,000 for 62.5% of all the issued and outstanding shares of Natural Ventures and will issue common shares equal to US\$1,682,085 for a further 17.5% bringing the total ownership to 80%. The Company will also loan up to US\$750,000 to Natural Ventures as part of a secured promissory note. If the secured promissory note is not paid back within the first year, it will accrue interest at 5% per year, calculated annually. As at June 30, 2018, the Company had loaned US\$550,000 in connection with the MOU. On November 9, 2018, the Company acquired Natural Ventures and this loan receivable has been eliminated on consolidation.

During the year ended June 30, 2018, Chemesis entered into a letter of intent (“LOI”) with Crust Resources Corp. (“Crust”). In connection with the LOI, the Company loaned Crust \$25,000. The loan accrues interest at 5% per year, calculated annually.

The Company’s loan receivable is summarized as follows:

	<b>December 31,</b>	<b>June 30, 2018</b>
	<b>2018</b>	
Crust Resources Corp.	\$ 25,000	-
Accrued interest	1,939	
	<b>\$ 26,939</b>	<b>-</b>

**7. AMOUNTS RECEIVABLE**

Amounts receivable as of December 31, 2018 consist of:

	<b>December 31,</b>	<b>June 30, 2018</b>
	<b>2018</b>	
GST	\$ 36,926	-
Trade receivable	366,054	-
Other receivables	2,560	-
<b>Balance at December 31, 2018</b>	<b>\$ 405,540</b>	<b>-</b>

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**8. EXPLORATION AND EVALUATION ASSETS**

The Company has 171 mineral claims in the vicinity of the Harcuvar and Harquahala Mountains, Yavapai County, Arizona, United states.

On November 29, 2018, the Company entered into an arrangement agreement with IMC International Mining Corp. (“IMC”) pursuant to which the Company will spin out its various interests in mineral claims located in the vicinity of the Harcuvar and Harquahala Mountains, Yavapai County, Arizona (the “Bullard Pass Property”) into IMC through a Plan of Arrangement under the Business Corporations Act. Upon completion of the Arrangement, IMC will own 100% of the Bullard Pass Property. As a result of the Arrangement, Shareholders will receive one-twentieth of one IMC Common Share for every Chemesis Common Share held as of December 9, 2018 (the “Record Date”), and own all of the outstanding IMC Common Shares, post-Arrangement. The Shareholders will receive one-twentieth of one IMC option and warrant for every Chemesis option and warrant held as at the Record Date. The spin out was completed subsequent to period end.

A summary of the capitalized acquisition and exploration expenditures and accumulated totals for the six months ending December 31, 2018 are as follows:

	<b>Amount (\$)</b>
<b>Balance at June 30, 2018</b>	\$ -
<b>Balance at July 17, 2018, RTO date</b>	108,881
Additions during the period:	
Claim fees	4,438
<b>Balance at December 31, 2018</b>	<b>\$ 113,319</b>

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**9. EQUIPMENT AND LEASEHOLD IMPROVEMENTS**

	<b>Equipment</b>	<b>Vehicles</b>	<b>Leasehold improvements</b>	<b>Total</b>
<b>Cost</b>				
Balance, December 15, 2017	\$ -	\$ -	\$ -	\$ -
Additions	787,905	-	1,552,595	2,340,500
Write-down	(130,034)	-	-	(130,034)
Balance, June 30, 2018	\$ 657,871	\$ -	\$ 1,552,595	\$ 2,210,466
Additions	1,725,327	16,468	2,995,156	4,736,951
Balance, December 31, 2018	\$ 2,383,198	\$ 16,468	\$ 4,547,751	\$ 6,947,417
<b>Depreciation</b>				
Balance, December 15, 2017	\$ -	\$ -	\$ -	\$ -
Additions	119	-	-	119
Balance, June 30, 2018	\$ 119	\$ -	\$ -	\$ 119
Additions	510,506	639	-	511,145
Balance, December 31, 2018	\$ 510,625	\$ 639	\$ -	\$ 511,264
<b>Net, June 30, 2018</b>	<b>\$ 657,752</b>	<b>\$ -</b>	<b>\$ 1,552,595</b>	<b>\$ 2,210,347</b>
<b>Net, December 31, 2018</b>	<b>\$ 1,872,573</b>	<b>\$ 15,829</b>	<b>\$ 4,547,751</b>	<b>\$ 6,436,153</b>

As at December 31, 2018, the Company's leasehold improvements were still under construction and modification and are not yet ready for operations. As such, depreciation expense has only been recorded on equipment and vehicles in use.

During the period ended June 30, 2018, the Company wrote-off equipment totalling \$130,034 due to a change in regulations resulting in the equipment no longer usable in operations.

**10. INTANGIBLE ASSET AND GOODWILL**

*Intangible Asset*

	<b>License Rights</b>
<b>Cost</b>	
Balance, June 30, 2018	\$ -
Additions	1,455,826
Balance, December 31, 2018	1,455,826
<b>Depreciation</b>	
Balance, June 30, 2018	\$ -
Additions	22,653
Balance, December 31, 2018	\$ 22,653
<b>Net, June 30, 2018</b>	<b>\$ -</b>
<b>Net, December 31, 2018</b>	<b>\$ 1,433,173</b>



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**10. INTANGIBLE ASSET AND GOODWILL (CONTINUED)**

The Company's license rights are summarized as follows:

On July 20, 2018, the Company issued 664,637 common shares measured at a fair value of \$0.55 per common share pursuant to an acquisition of licensed rights from SAP. Such rights include, Assignor is the brand name, trade name, and trade marks together with all of the patents, patent applications, and inventions.

On October 12, 2018 the Company acquired the license rights from Rapid Dose Therapeutics Inc. ("RDT") a Canadian bio-technology company which provides proprietary drug delivery technologies. RDT's QuickStrip is an oral fast-dissolving drug delivery system. Under the terms, the Company receives rights to produce, distribute, and sell QuickStrip products, with rights for cannabis markets in California. The Company paid \$130,570 and issued shares to settle USD\$300,000 (subsequently issued), measured at a fair value of \$390,480 and included in contributed surplus.

On November 14, 2018 Chemesis entered a multi-year licensing deal with Kevin Smith and Jason Mewes (Jay and Silent Bob) for the development and promotion of cannabis products in the US. The Company will pay an initial fee of USD\$50,000 (Paid) on signing and three payments of USD\$25,000 (Paid one of three) on each of the three-month anniversaries of signing. In Addition, the Company will issue common shares worth USD\$400,000 on signing (issued) and USD\$150,000 in stock on each annual anniversary. Additional payments for up to a total of USD\$600,000 in stock may be payable on the date certain states in the USA legalize marijuana. All shares are based on the 5-day volume-weighted average prices on the date the shares become payable. The Company will owe a 12% royalty on sales related to the Jay and Silent Bob brand with a minimum royalty of USD\$120,000 each year of the license term.

*Goodwill*

<b>Cost</b>	<b>Natural Ventures</b>	<b>Dessert Zen</b>	
	(Note 11)	(Note 11)	
Balance, June 30, 2018	\$ -	\$ -	\$ -
Additions	3,625,324	846,116	4,471,440
<b>Balance, December 31, 2018</b>	<b>\$ 3,625,324</b>	<b>\$ 846,116</b>	<b>\$ 4,471,440</b>

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## 11. ACQUISITIONS

During the six months ended December 31, 2018, goodwill arose over the acquisition of Dessert Zen and Natural Ventures due to the benefit of expected revenue growth in North American markets and future market developments. These benefits were not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. None of the goodwill arising on these acquisitions are expected to be deductible for tax purposes. All acquisitions were with arms-length parties.

### *Dessert Zen*

On August 10, 2018, the Company acquired 100% of the shares of Desert Zen for USD\$200,000 cash paid upon closing, as well as USD\$500,000 in stock escrowed over 36 months. This transaction was accounted for as a business combination. The consideration paid in excess of the net assets of the acquired business was \$846,116 and is recognized in goodwill, summarized as follows:

Cash	\$ 5,690
Accounts receivable	84,719
Total assets	\$ 90,409
Current liabilities	79,866
Net assets acquired	\$ 10,543
Consideration	856,659
Goodwill (Note 10)	\$ 846,116

### *Bonhomie*

During the period ended June 30, 2018, the Company acquired 100% of the issued and outstanding shares of Bonhomie for \$100.

Bonhomie holds a 51% controlling interest in SAP. On July 19, 2018, the Company increased its ownership in SAP from 51% to 80%.

At the date of the Company's acquisition of Bonhomie, the only assets and liabilities of SAP were related to the recent acquisition, by SAP, of interests in certain assets as to Leaseholds of \$208,556 and Equipment of \$365,472, based on the expectation that the liabilities incurred for these items would then be settled with subsequent advances from the Company (completed). Accordingly, at the date of the Company's acquisition of Bonhomie, SAP was considered to have net identifiable assets of \$nil.

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**11. ACQUISITIONS (CONTINUED)**

*Natural Ventures*

On November 9, 2018, the Company acquired 80% of Natural Ventures for cash payment of USD\$2,250,000 (paid), as well as USD\$1,682,085 in stock escrowed over 36 months. This transaction was accounted for as a business combination. The consideration paid in excess of the net assets of the acquired business was \$3,625,324 and is recognized in goodwill, summarized as follows:

Cash	\$ 227,884
Accounts receivable	198,321
Inventory	364,035
Deposits	41,731
Fixed assets	3,460,787
<u>Total assets</u>	<u>\$ 4,292,758</u>
<u>Current liabilities</u>	<u>700,966</u>
Net assets acquired	\$ 3,591,793
<u>Consideration</u>	<u>7,217,117</u>
<u>Goodwill (Note 10)</u>	<u>\$ 3,625,324</u>

**12. CONVERTIBLE DEBT**

During December, the Company completed two tranches of convertible debt financing for proceeds of \$2,000,000, closing December 4, 2018 and \$1,500,000 closing December 20, 2018. The convertible debenture's bear interest at a rate of 8% per year, maturing two years from the closing date. The Convertible Debentures are unsecured and are convertible, at the option of the holder, into common shares ("Common Shares") of the Company at a price of \$1.25 per Common Share.

The Company will have the right to repay and cancel the Convertible Debentures at any time prior to the Maturity Date at a price equal to 105% of the principal amount of the Convertible Debentures then outstanding plus accrued and unpaid interest thereon. In addition, the Company will have the right to compel the conversion of the Convertible Debentures in the event that the daily volume weighted average trading price of the Common Shares exceeds \$2.50 per Common Share for 10 consecutive trading days.

In addition, the Company granted one Common Share purchase warrant ("Warrants") for each Common Share underlying the Convertible Debentures for a total of 2,800,000 warrants. Each Warrant will be exercisable into one Common Share at an exercise price of \$1.50 for a period of 24 months.

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**12. CONVERTIBLE DEBT (CONTINUED)**

The convertible debentures are accounted for as compound financial instruments, consisting of a debt instrument, an equity conversion feature and warrant. The debt instrument was fair valued using a rate applicable to a non-compound debt instrument and is carried at amortized cost. The excess of the proceeds over the value assigned to the debt instrument was proportionately allocated to the equity component of the convertible debentures and the warrant. The following table summarizes the Company's convertible debentures as at December 31, 2018:

<b>Balance, June 30, 2018</b>	\$	-
Proceeds on issuance of convertible debt		3,500,000
Allocation to equity component		(244,000)
Allocation to warrant component		(186,057)
Amortization of debt		11,866
<b>Balance, December 31, 2018</b>	<b>\$</b>	<b>3,081,809</b>
		<hr/>
<b>Equity component of convertible debt</b>	<b>\$</b>	<b>244,000</b>
		<hr/>

**13. EQUITY**

**13.1 Authorized Share Capital**

Unlimited number of common shares with no par value.

**13.2 Shares Issued**

Shares issued and outstanding as at December 31, 2018 are 67,235,250 Common Shares.

During the six months ended December 31, 2018, the following share transactions occurred:

- i. On July 17, 2018, the Company completed a reverse takeover transaction ("RTO") and issued 46,807,559 Chemesis common shares measured at a fair value of \$0.61 per share for a total of \$28,552,611. Pursuant to the RTO transaction, the opening balance of 1145411 BC Ltd.'s share capital, consisting of 63 Class A common shares and 37 Class B common shares were cancelled and replaced by the opening balance of Chemesis common shares of 16,040,076;
- ii. On July 20, 2018, the Company issued 664,637 common shares measured at a fair value of \$0.55 per common share pursuant to an acquisition of licensed rights from SAP; and
- iii. On August 21, 2018, the Company issued 717,750 common shares measured at a fair value of \$0.83 per common share pursuant to the Dessert Zen acquisition; and
- iv. On August 21, 2018, the Company issued 717,750 common shares measured at a fair value of \$0.83 per common share pursuant to the Dessert Zen acquisition; and

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**13. EQUITY (CONTINUED)**

- v. On November 21, 2018, the Company issued 282,500 common shares measured at a fair value of \$1.12 per common share pursuant an acquisition of licensed rights from Degrassi High Inc. and recorded common shares issuable of 64,792 (subsequently issued) measured at a fair value of \$1.12 within contributed surplus; and
- vi. On November 30, 2018, the Company issued 3,844,623 common shares measured at a fair value of \$1.72 per common share pursuant to the Natural Ventures acquisition; and

The company issued shares pursuant to consulting agreements as follows:

- August 24, 2018, issued 300,000 common shares measured at a fair value of \$0.84 per share;
- September 20, 2018, issued 22,022 common shares measured at a fair value of \$1.74 per share;
- October 9, 2018, issued 32,934 common shares measured at a fair value of \$1.67 per share;
- November 8, 2018, issued 15,026 common shares measured at a fair value of \$1.74 per share.

The Company issued shares pursuant to options exercised as follows:

- October 2, 2018, issued 50,000 common shares with an exercise price of \$1.10 per share;
- December 14, 2018, issued 27,500 common shares with an exercise price of \$1.00 per share;
- December 20, 2018, issued 40,000 common shares with an exercise price of \$1.00 per share.

On December 20, 2018, the Company received \$250,000 from the \$25,000,000 private placement equity facility with Alumina Partners Ltd. (Note 19). Subsequent to year end (Note 21), the company issued 312,500 common shares at a price of \$0.80 and issued 312,000 warrants at an exercise price of \$1.50, for a period of five years from the closing date.

During the period ended June 30, 2018, the following share transactions occurred:

- vii. On December 22, 2017, the Company completed a non-brokered private placement, issuing 63 Class A common shares at a price of \$38,000 per Class A common share for gross proceeds of \$2,394,000.
- viii. On December 22, 2017, the Company completed a non-brokered private placement, issuing 37 Class B common shares at a price of \$38,000 per Class B common share for gross proceeds of \$1,406,000.

**13.3 Warrants**

During December, the Company issued one Common Share purchase warrant (“Warrants”) for each Common Share underlying the Convertible Debentures for a total of 2,800,000 warrants. Each Warrant will be exercisable into one Common Share at an exercise price of \$1.50 for a period of 24 months.

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**13. EQUITY (CONTINUED)**

As of December 31, 2018, the following warrants were outstanding:

	<u>Warrants</u>	<u>Exercise Price</u>	
June 30, 2018	-		-
Opening balance Chemesis warrants	4,580,282		1.00
Issued	2,800,000		1.50
December 31, 2018	<u>7,380,282</u>	<u>\$</u>	<u>1.20</u>

  

<u>Expiry date</u>	<u>Warrants</u>	<u>Exercise Price</u>	
August 3, 2019	4,580,282	\$	1.00
December 4, 2020	1,600,000	\$	1.50
December 21, 2020	1,200,000	\$	1.50

At December 31, 2018, the weighted-average remaining life of the outstanding warrants was 1.11 years.

**13.4 Options and Share-based Compensation**

The Company has adopted a stock option plan whereby up to 10% of the outstanding shares of the Company as of the date of grant have been reserved for the grant and issuance to its employees, officers, directors and consultants. Under the plan, the exercise price of an option may not be set at less than the minimum price permitted by the CSE. The aggregate number of options granted to any one individual during any 12-month period may not exceed 5% of the issued shares of the Company, or 2% in the case of consultants and investor relations representatives. The stock option plan provides for full vesting of the stock options on the date of approval of the options by the appropriate regulatory authority. Stock options granted to any person engaged in investor relations activities will vest over a period of not less than 12 months with no more than 25% of the stock options vesting in any three-month period. The exercise price of any stock options granted under the plan shall be determined by the Board but may not be less than the market price of the common shares on the Exchange on the date of grant (less any discount permissible under Exchange rules). The term of any stock options granted under the plan shall be determined by the Board at the time of grant but may not exceed ten years.

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**13. EQUITY (CONTINUED)**

Total share options granted during the six months ended December 31, 2018 were 5,450,000. Total share-based payments recognized for the fair value of share options granted, vested and approved by the shareholders during the six months ended December 31, 2018 was \$2,567,302.

The fair value of the share options granted during the period ended December 31, 2018 was estimated on the date of grant using the Black-Scholes Pricing Model with the following weighted average assumptions:

	<b>Six months ended December 31, 2018</b>
Strike price	\$0.55 – \$1.74
Risk free interest rate	2.08% - 2.45%
Expected option life (years)	1 – 5 years
Expected stock price volatility	110%
Dividend payments during life of option	Nil
Expected forfeiture rate	Nil

Option pricing models require the input of highly speculative assumptions, including the expected future price volatility of a company's shares. Expected volatility has been estimated based on historical volatility. Changes in these assumptions can materially affect the fair value estimate and, therefore, existing models do not necessarily provide a reliable single measure of the fair value of the Company's share options.

The following stock options issued under the employee stock option plan were outstanding:

	<b>Options</b>	<b>Weighted average exercise price</b>
June 30, 2018	-	-
Opening balance Chemesis options	650,000	0.78
Granted	5,450,000	1.05
Cancelled	(182,500)	1.00
Exercised	(117,500)	1.04
December 31, 2018	<u>5,800,000</u>	<u>1.02</u>

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**13. EQUITY (CONTINUED)**

At December 31, 2018, the weighted average remaining life of the outstanding options was 4.37 years.

<b>Outstanding and exercisable</b>			
<b>Expiry date</b>	<b>Number of Options</b>	<b>Exercise price</b>	<b>Remaining contractual life (years)</b>
September 18, 2019	150,000	\$ 1.00	0.72
June 9, 2022	350,000	0.50	3.44
August 18, 2022	300,000	1.10	3.63
July 22, 2023	4,550,000	1.00	4.56
September 27, 2023	200,000	1.74	4.74
September 27, 2023	300,000	1.40	4.85
	<b>5,800,000</b>		

**14. REVERSE TAKEOVER TRANSACTION**

On July 17, 2018, the Chemesis completed a reverse takeover transaction (“RTO”) with 1145411 B.C. Ltd. (“1145411”), pursuant to which the Company acquired all of the issued and outstanding shares of B.C. Ltd. in exchange for 46,807,559 common shares of the Chemesis.

As the former shareholders of 1145411 owned a majority interest in Chemesis immediately after closing, the substance of the transaction, for accounting purpose, is a reverse merger. The transaction does not constitute a business combination as the Company does not meet the definition of a business as defined under IFRS. As a result, the transaction will be accounted for as a capital transaction in substance, with 1145411 being identified as the acquirer. 1145411 is the owner of 100% of the issued and outstanding capital stock of Bonhomie Labs Inc., a California corporation (“Bonhomie”). At the time of the RTO, Bonhomie was the owner of 51% of the issued and outstanding capital stock of SAP Global, a California corporation (“SAP”). SAP is the holder of various licenses and permits that allow it to legally operate cannabis businesses in the State of California.



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**14. REVERSE TAKEOVER TRANSACTION (CONTINUED)**

- a) The shares issued to B.C. Ltd. were issued on a post-consolidation basis. Concurrent with the transaction, the Company changed its name to Chemesis International Inc. and started trading on the Canadian Securities Exchange (“CSE”) under the symbol “C.CSP”.
- b) On July 18, 2018, the Company increased its ownership in SAP from 51% to 80% by agreeing to incur \$700,000 of capital expenditures.
- c) On July 18, 2018, the Company acquired the rights to intellectual property comprised of a trade name, domain name, and product technology by issuing a total of 664,637 common shares measured at a fair value of \$0.55 per common share (Note 10).

The cost of the transaction in excess of the net assets of 1145411 has been reflected as an expense, being the cost of obtaining a listing of Chemesis shares on the CSE as follows:

**Cost of transaction**

Fair value of 46,807,559 common shares issued	\$ 28,552,611
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**Fair value of consolidated Chemesis net assets**

Cash	\$ 2,492,065
Prepaid expense	24,825
Amounts receivable	1,248
Promissory notes receivable	759,413
Exploration and evaluation assets	108,881
Accounts payable and accrued liabilities	(111,996)
Net assets acquired	3,274,436
<b>Excess recorded as listing acquisition expense</b>	<b>\$ 25,278,175</b>

The fair value of the consideration paid of 46,807,559 common shares was measured using the closing price of Chemesis’ common shares on the date of the acquisition, July 17, 2018 at \$0.61 per common share.

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**15. RELATED PARTY TRANSACTIONS AND BALANCES**

Key management personnel are the directors and officers of the Company. Management compensation transactions for the six months ended December 31, 2018 is summarized as follows:

	December 31, 2018
Management fees	\$ 209,190
Share-based payments	<u>1,452,784</u>
Total	<u>\$ 1,552,963</u>

As of December 31, 2018, \$23,625 (June 30, 2018 - \$nil) is owed to a director and officer of the Company for unpaid fees.

During the six months ended December 31, 2018, the Company paid \$84,191 included in consulting fees to the CEO and Director of the Company pursuant to CEO and Director services provided.

During the six months ended December 31, 2018, the Company paid \$40,000 included in consulting fees to the CFO of the Company pursuant to CFO services provided.

During the six months ended December 31, 2018, the Company paid \$62,500 included in consulting fees to a Director of the Company pursuant to Director services provided.

During the six months ended December 31, 2018, the Company paid \$19,500 included in consulting fees to the corporate secretary of the Company pursuant to corporate secretary services provided.

On December 4, 2018, a Director loaned the Company \$1,000,000 included within convertible debentures (Note 12).

**16. COMMITMENTS**

On November 1, 2017, SAP entered into a 36-month lease agreement to rent commercial space for the Company's production facility in Cathedral City, California, USA. The remaining lease obligation at December 31, 2018 is approximately \$532,000.

Between March 1, 2018 and May 1, 2018, the Company entered into three commercial lease agreements for neighboring industrial buildings in Palm Springs, California, USA. The remaining lease obligation on these buildings totals approximately \$1,440,000 at December 31, 2018.

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## **17. MANAGEMENT OF CAPITAL**

The Company defines the capital that it manages as its cash and share capital.

The Company's objective when managing capital is to maintain corporate and administrative functions necessary to support the Company's operations and corporate functions; and to seek out and acquire new projects of merit.

The Company manages its capital structure in a manner that provides sufficient funding for operational and capital expenditure activities. Funds are secured, when necessary, through debt funding or equity capital raised by means of private placements. There can be no assurances that the Company will be able to obtain debt or equity capital in the case of working capital deficits.

The Company has a draw-down equity financing agreement of up to \$25,000,000 with Alumina Partners, LLC which may be converted into shares of the Company. As of December 31, 2018, the Company has drawn down \$250,000 on the loan. The Company is not currently subject to any externally imposed capital requirements.

## **18. RISK MANAGEMENT**

### **18.1 Financial Risk Management**

The Company may be exposed to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives. The main objectives of the Company's risk management processes are to ensure that risks are properly identified and that the capital base is adequate in relation to those risks. The principal risks to which the Company is exposed are described below.

#### **a. Capital Risk**

The Company manages its capital to ensure that there are adequate capital resources for the Company to maintain operations. The capital structure of the Company consists of cash and share capital.

#### **b. Credit Risk**

Credit risk is the risk that a counter party will be unable to pay any amounts owed to the Company. Management's assessment of the Company's exposure to credit risk is low.

#### **c. Liquidity Risk**

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they fall due. As at December 31, 2018, the Company's working capital deficit is \$2,857,221 and it does not have any long-term monetary liabilities. The Company may seek additional financing through debt or equity offerings, but there can be no assurance that such financing will be available on terms acceptable to the Company or at all. Any equity offering will result in dilution to the ownership interests of the Company's shareholders and may result in dilution to the value of such interests. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at December 31, 2018, the Company had cash of \$1,102,844 accounts payable and accrued liabilities of \$1,571,493, excise tax payable of \$639,747 and convertible debt of \$3,081,809.

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**18. RISK MANAGEMENT (CONTINUED)**

**d. Market Risk**

Market risk incorporates a range of risks. Movements in risk factors, such as market price risk and currency risk, affect the fair values of financial assets and liabilities. The Company is not exposed to these risks.

**18.2 Fair Values**

The carrying values of cash and accounts payable and accrued liabilities approximate their fair values due to their short-term to maturity.

Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

**Level 1** – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

**Level 2** – Quoted prices in markets that are not active, or inputs that are not observable, either directly or indirectly, for substantially the full term of the asset or liability.

**Level 3** – Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (supported by little or no market activity).

**19. EQUITY FUNDING FACILITY**

On August 8, 2018, the Company entered into an equity financing agreement for up to \$25,000,000, with Alumina Partners, LLC, a New York-based private equity firm that has made substantial investments in the cannabis space.

The agreement details the purchase of up to \$25,000,000 of units of the Company, consisting of one common share and one common share purchase warrant, at discounts ranging from 15% to 25% of the market price of the Company's shares, with each equity financing occurring exclusively at the option of the Company, throughout the 24-month term of the agreement. The exercise price of the warrants will be at a 50% premium over the market price of the shares at the date of any funding loaned. There are no upfront fees or interest associated with the use of this financing.

**20. SEGMENTED REPORTING**

The Company currently has three operating segments and generates external revenues from the sale of cannabis products. The operating segments have been disclosed by geographical region as follows:

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	Assets	Revenue	Profit (loss)
Canada	\$ 6,589,768	\$ -	\$ (29,880,417)
United States	4,177,989	4,287,097	(1,069,134)
Puerto Rico	4,193,127	452,038	(145,452)
	<u>\$ 14,960,884</u>	<u>\$ 4,739,135</u>	<u>\$ (31,095,003)</u>

**21. SUBSEQUENT EVENTS**

- i) On January 8, 2019, the company issued 312,500 common shares at a price of \$0.80 and issued 312,000 warrants at an exercise price of \$1.50, for a period of five years from the closing date. This was pursuant to the Company receiving \$250,000 from the \$25,000,000 equity facility with Alumina Partners Ltd. (Note 19) on December 20, 2018.
- ii) On January 9, 2019 the Company issued 6,400,000 common shares for the acquisition of 100% of La Finca Interactiva-Arachna Med SAS, an integrated cannabis company that has been operational since late 2017 and has \$2,300,000 in working capital on hand. The Company will pay an additional \$5,500,000 within the next 24 months to complete the acquisition.
- iii) On January 23, 2019, the Company issued 65,000 common shares pursuant to options exercised with an exercise price of \$1.00 per share;
- iv) On February 25, 2019, the Company issued 101,240 common shares to settle USD\$85,233 pursuant to the license agreement with Jay and Silent Bob, of which 64,792 of the common shares was issued to settle the remaining acquisition fee which totalled USD\$400,000 (Note 10).
- v) On March 1, 2019 the Company completed a private placement of 1,500,000 units at a price of \$1.84 per unit. Each unit is comprised of one common share and one common share purchase warrant exercisable at \$2.50 for a period of 60 months.
- vi) On March 1, 2019 the Company entered into a \$10,000,000 share subscription agreement with Global Emerging Markets (“GEM”). The agreement provides that the Company may, at any time while the agreement is in effect, deliver a draw-down notice to GEM specify the number of common shares for which GEEM will then have an obligation to subscribe up to a maximum of \$10,000,000.