CHEMESIS

CHEMESIS INTERNATIONAL INC.

Consolidated Financial Statements
For the years ended June 30, 2019 and 2018

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Chemesis International Inc.

Opinion

We have audited the accompanying consolidated financial statements of Chemesis International Inc. (the "Company"), which comprise the consolidated statement of financial position as at June 30, 2019, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the year 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 its financial performance and its cash flows for the year 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 2 of the consolidated financial statements, which indicates that the Company incurred a net loss of $38,082,758 during the year ended June 30, 2019 and remains dependent on receipt of additional financing. As stated in Note 2, 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 Matters

The consolidated financial statements of the Company for the period from incorporation on December 15, 2017 to June 30, 2018 were audited by another auditor who expressed an unmodified opinion on those statements on November 6, 2018.

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 Peter Maloff.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada

Chartered Professional Accountants

November 4, 2019

Chemesis International Inc.
Consolidated Statements of Financial Position
(Expressed in Canadian dollars)

As at		June 30, 2019		June 30, 2018
ASSETS				
Current assets				
Cash	$	641,583	$	1,030,284
Amounts receivable (Note 14)		2,392,559		-
Prepaids		99,678		50,598
Biological assets (Note 9)		1,244,938		-
Inventory (Note 10)		830,001		-
		5,208,759		1,080,882
Non-current assets				
Deposits		26,743		125,656
Equipment (Note 12)		5,043,876		657,752
Leasehold improvements (Note 12)		2,013,639		1,552,595
Investment in GSRX Industries Inc. (Note 7)		14,497,777		-
Intangible assets (Note 11)		2,541,942		-
Goodwill (Note 6)		4,390,323		-
Total non-current assets		28,514,300		2,336,003
TOTAL ASSETS	$	33,723,059	$	3,416,885
LIABILITIES				
Current				
Accounts payable and accrued liabilities (Note 16)	$	2,477,662	$	206,642
Acquisition payable (Note 6)		1,308,700		-
Notes payable (Note 13)		838,366		-
Excise tax payable		11,162		-
Income tax payable		133,000		-
Unearned revenue		235,639		-
		5,004,529		206,642
Convertible debt (Note 14)		3,342,741		-
		8,347,270		206,642
SHAREHOLDERS' EQUITY				
Share capital (Note 16)		56,954,958		3,800,000
Equity portion of convertible debt (Notes 14 and 16)		244,000		-
Contributed surplus		5,253,384		-
Accumulated other comprehensive income		569,066		38,600
Deficit		(37,904,390)		(345,163)
Equity attributable to Chemesis		25,117,018		3,493,437
Non-controlling interest		258,771		(283,194)
Total equity		25,375,789		3,210,243
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$	33,723,059		3,416,885

Subsequent events (Note 26)
Going concern (Note 2)
Commitments (Note 19)
Contingent Liability (Note 25)

These consolidated financial statements were authorized for issue by the Board of Directors on November 4, 2019.
Approved on behalf of the Board of Directors:

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

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

Chemesis International Inc.
Consolidated Statements of Loss and Comprehensive Loss
(Expressed in Canadian dollars)

		For the year ended June 30, 2019		For the period from incorporation on December 15, 2017 to June 30, 2018
REVENUES	$	9,311,119	$	-
COST OF GOODS SOLD		(7,444,130)		-
		1,866,989		-
Unrealized gain on biological assets (Note 9)		219,996		-
Gross Profit		2,086,985		-
EXPENSES				
Advertising and marketing		4,233,999		2,349
Bad debt expense		336,296		-
Consulting and payroll (Note 17)		1,964,939		139,786
Depreciation (Notes 11 and 12)		983,245		115
Foreign exchange loss		42,313		10,630
Management fees		424,473		-
Office and miscellaneous		1,223,582		22,789
Professional fees		1,540,524		11,111
Rent		773,086		202,979
Security		171,553		-
Share-based payments (Note 16 and 17)		4,539,342		-
Transfer agent and filing fees		95,400		-
Travel		514,749		8,794
TOTAL OPERATING EXPENSES		(16,843,501)		(398,553)
OTHER ITEMS:				
Interest expense		(357,120)		-
Loss on investment in GSRX Industries Inc. (Note 7)		(2,646,285)		-
Seed research, development, and technology (Note 6)		(10,305,740)		-
Loss on debt settlement (Note 6)		(292,629)		-
Interest and other income		64,984		-
Equipment write-off (Note 12)		-		(130,034)
Listing acquisition expense (Note 5)		(7,218,093)		-
Impairment of intangible assets (Note 11)		(637,059)		-
Impairment of goodwill (Note 6)		(1,801,300)		-
Inventory write-off		-		(136,857)
		(23,193,242)		(266,891)
NET LOSS BEFORE INCOME TAXES	$	(37,949,758)	$	(665,444)
Current income taxes (Note 24)		(133,000)		-
NET LOSS	$	(38,082,758)	$	(665,444)
OTHER COMPREHENSIVE LOSS				
Items that may be subsequently reclassified to loss				
Cumulative translation adjustment		731,719		75,687
COMPREHENSIVE LOSS	$	(37,351,039)	$	(589,757)
NET LOSS ATTRIBUTABLE TO:				
Chemesis International Inc.	$	(37,445,908)	$	(345,163)
Non-controlling interest		(636,850)		(320,281)
		(38,082,758)		(665,444)
COMPREHENSIVE LOSS ATTRIBUTABLE TO:				
Chemesis International Inc.		(36,915,442)		(306,563)
Non-controlling interest		(435,597)		(283,194)
	$	(37,351,039)	$	(589,657)
Loss per share, basic and diluted	$	(0.49)	$	(0.01)
Weighted average number of common shares outstanding		76,123,451		46,807,559

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

Chemesis International Inc.
Consolidated Statements of Changes in Shareholders' Equity
(Expressed in Canadian dollars)

	Share Capital								
	Number	Amount	Equity portion of convertible debt	Contributed surplus	Accumulated other comprehensive income (loss)	Deficit	Subtotal	Non-Controlling Interest	Total Shareholders' Equity
		$	$	$	$	$	$	$	$
Date of incorporation, December 15, 2017	-	-	-	-	-	-	-	-	-
Common shares issued for cash	46,807,559	3,800,000	-	-	-	-	3,800,000	-	3,800,000
Net loss for the year	-	-	-	-	-	(345,163)	(345,163)	(320,281)	(665,444)
Other comprehensive income	-	-	-	-	38,600	-	38,600	37,087	75,687
As at June 30, 2018	46,807,559	3,800,000	-	-	38,600	(345,163)	3,493,437	(283,194)	3,210,243
Shares issued on reverse takeover (Note 16 and 17)	16,040,076	9,784,446	-	708,083	-	-	10,492,529	-	10,492,529
Business acquisitions (Note 6 and 16)	3,560,059	3,100,228	-	-	-	-	3,100,228	977,562	4,077,790
Shares issued for asset acquisitions (Note 11)	9,527,274	9,653,291	-	-	-	-	9,653,291	-	9,653,291
Shares issued for consulting fees (Note 16)	538,865	631,437	-	-	-	-	631,437	-	631,437
Shares-for-debt (Note 6)	4,104,476	5,861,191	-	-	-	-	5,861,191		5,861,191
Shares issued to GSRX	7,291,874	17,144,062	-	-	-	-	17,144,062	-	17,144,062
Shares issued for cash:									
Private placements, net (Note 16)	3,426,844	5,434,705	-	-	-	-	5,434,705		5,434,705
Warrants exercised (Note 16)	484,000	1,026,661	-	(58,661)	-	-	968,000	-	968,000
Options exercised (Note 16)	382,500	518,937	-	(121,437)	-	-	397,500	-	397,500
Share-based payments (Note 16)	-	-	-	4,539,342	-	-	4,539,342	-	4,539,342
Convertible debt (Note 15)	-	-	244,000	186,057	-	-	430,057	-	430,057
Spin-out of exploration and evaluation assets (Note 1 and 8)	-	-	-	-	-	(113,319)	(113,319)	-	(113,319)
Net loss	-	-	-	-	-	(37,445,908)	(37,445,908)	(636,850)	(38,082,758)
Other comprehensive income	-	-	-	-	530,466	-	530,466	201,253	731,719
As at June 30, 2019	92,163,527	56,954,958	244,000	5,253,384	569,066	(37,904,390)	25,117,018	258,771	25,375,789

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

Chemesis International Inc.
Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)

	Year ended June 30, 2019	Period from incorporation on December 15, 2017 to June 30, 2018
Cash (used in) provided by:		
OPERATING ACTIVITIES		
Net loss for the period	$ (38,082,758)	$ (665,444)
Items not involving cash:		
Listing expense	7,218,093	-
Gain/loss on extinguishment of debt	292,629	-
Loss on investment in GSRX	2,646,285	-
Unrealized gain on biological assets	(219,996)	-
Share-based payments	4,539,342	-
Seed research and development	10,305,740	-
Shares issued for consulting fees	631,437	-
Interest/accretion	341,360	-
Foreign exchange	754,248	11,820
Impairment of intangible asset	637,059	-
Impairment of goodwill	1,801,300	-
Depreciation	983,245	115
Equipment write-off	-	130,034
	(8,152,016)	(523,475)
Net changes in non-cash working capital items:		
Prepaids and deposits	74,658	(50,598)
Inventory	(1,868,733)	-
Notes payable	106,366	-
Unearned revenue	235,639	-
Income tax payable	133,000	-
Excise tax payable	11,162	-
Amounts receivable	(2,164,598)	-
Amounts payable	1,185,117	24,975
Net cash used in operating activities	(10,439,405)	(549,098)
INVESTING ACTIVITIES:		
Deposits	-	(122,221)
Purchase of equipment and leaseholds improvements	(1,536,342)	(2,098,397)
Exploration and evaluation assets	(4,438)	-
Purchase of intangible assets	(530,885)	-
Cash received (paid) on acquisition:	-	-
Chemesis International Inc.	2,492,065	-
Acquisition of La Finca	2,348,179	-
Acquisition of Desert Zen7	(264,406)	-
Acquisition of NVPR – received	232,063	-
Acquisition of NVPR - paid	(2,992,725)	-
Net cash used in investing activities	(256,489)	(2,220,618)
FINANCING ACTIVITIES:		
Proceeds from private placement, net	5,434,705	3,800,000
Proceeds from option and warrant exercise	1,365,500	-
Proceeds from convertible debt	3,500,000	-
Net cash provided by financing activities	10,300,205	3,800,000
Effect of exchange rate changes on cash	6,988	-
Net increase (decrease) in cash	(388,701)	1,030,284
Cash, beginning of period	1,030,284	-
Cash, end of period	$ 641,583	**$** 1,030,284

Non-cash investing and financing activities - See Note 18

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

1. NATURE OF OPERATIONS

Chemesis International Inc. (“Chemesis” or “the Company”) was incorporated under the Business Corporations Act (British Columbia) on April 26, 2013. Chemesis’ registered records office is 1212 Austin Avenue, Coquitlam, BC, V3K 3P5 and the corporate head office is at 2710 – 200 Granville Street, Vancouver, BC V6C 1S4. The Company trades on the Canadian Securities Exchange (“CSE”) under the symbol CSI.

On July 17, 2018, Chemesis completed a transaction (“RTO”) with 1145411 BC Ltd. (“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. As the former shareholders of 1145411 owned a majority interest in the combined entity immediately after closing, the transaction was accounted for as a reverse acquisition with 1145411 identified as the acquirer. The transaction did not constitute a business combination as the Company did not meet the definition of a business as defined under IFRS. As 1145411 was the acquirer for accounting purposes, its operations are presented as the continuing entity with those of Chemesis included from the transaction date of July 17, 2018 onward. The comparative figures are those of 1145411 prior to the reverse acquisition (Note 5).

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. All common share and per share amounts in these consolidated financial statements is retroactively presented on a post-share consolidation basis, including the number and exercise price of all share options and warrants.

On February 1, 2019, the Company and IMC International Mining Corp. (“IMC”) completed a reorganization transaction by way of a plan of arrangement (“Arrangement”) whereby, the Company undertook a reorganization and spin-out of various interests in minerals located in Yavapai County, Arizona to IMC (Note 8).

As of November 4, 2019, the Company’s manufacturing and cultivation licenses are currently subject to administrative review by the Puerto Rican Department of Health and until the review has been completed, the Company is not permitted to carry out licensed activities under the licenses apart for the purposes of preserving its inventory. The Company has considered this in the preparation of these consolidated financial statements.

2. GOING CONCERN

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. Management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. During the year ended June 30, 2019, the Company began earning operating revenue, however, incurred a loss of $38,082,758 for the year and remains dependent upon the receipt of additional equity and/or debt financing. While management has been successful in obtaining required financing in the past, there is no assurance that additional financing will be available or be available on favourable terms. The Company’s ability to continue as a going concern is dependent upon the ability to raise financing and ultimately generate profitable operations. These consolidated financial statements do not reflect and adjustments to the carrying value of assets and liabilities and the reported amounts of expenses and statement of financial position classifications that would be necessary if the going concern assumption was not appropriate. Such adjustments could be material.

In the United States, 33 states, the District of Columbia, and four U.S. territories allow the use of medical cannabis. Alaska, California, Colorado, Maine, Massachusetts, Nevada, Oregon, Washington, Vermont and the District of Columbia legalized the sale and adult-use of recreational cannabis.

2. GOING CONCERN (CONTINUED)

At the federal level, however, cannabis currently remains a Schedule I controlled substance under the Federal Controlled Substances Act of 1970 ("Federal CSA"). Under U.S. federal law, a Schedule I drug or substance has a high potential for abuse, no accepted medical use in the United States, and a lack of accepted safety for the use of the drug under medical supervision. As such, even in those states in which marijuana is legalized under state law, the manufacture, importation, possession, use or distribution of cannabis remains illegal under U.S. federal law. This has created a dichotomy between state and federal law, whereby many states have elected to regulate and remove state-level penalties regarding a substance which is still illegal at the federal level.

There remains uncertainty about the US federal government's position on cannabis with respect to cannabis-legal states. A change in its enforcement policies could also impact the ability of the Company to continue as a going concern.

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.

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").

These consolidated financial statements were authorized for issue by the Board of Directors on November 4, 2019.

3.1. Basis of measurement

These consolidated financial statements have been prepared on a historical cost basis except for certain financial assets that are measured at fair value. All amounts are presented in Canadian dollars unless otherwise specified.

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.

3. BASIS OF PRESENTATION (CONTINUED)

Going concern

The assessment of the Company's ongoing viability as an operating entity and determination of the related disclosures require significant judgment.

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.

The Company measures all assets acquired and liabilities assumed at their acquisition-date fair values. Non-controlling interests in the acqiree are measured on the basis of the non-controlling interests' proportionate share of this equity in the acquiree's identifiable net assets. The excess of the aggregate of the consideration transferred and the amount of any non-controlling interest in the acquiree over the net assets of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed, is recognized as goodwill as of the acquisition date.

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.

Revenues - Gross vs net

Determination of whether the Company is the agent or principal in a transaction involves judgment taking into account whether the Company accepts inventory risk, responsibility for fulfilling the purchaser and exercises price discretion. As at June 30, 2019 and for the year then ended, the Company recognized $40,295 in net revenue recognized as the agent in the transaction, and $9,270,824 in gross revenue as the principal.

Collectability of amounts receivable

The Company monitors its exposure for credit losses on its customer and related party receivable balances and the creditworthiness of the customers and related parties on an ongoing basis and records related allowances for doubtful accounts. Allowances are estimated based upon specific customer and related party balances, where a risk of default is identified, and also include a provision for non-customer specific defaults based upon historical experience and aging of accounts. As of June 30, 2019, the Company recorded an allowance for doubtful accounts of $304,163 (2018 - $nil). If circumstances related to specific customers and related parties change, estimates of the recoverability of amounts receivable could also change.

3. BASIS OF PRESENTATION (CONTINUED)

Critical Accounting Estimates

Financial instruments

The determination of categories of financial assets and liabilities has been identified as an accounting policy which involves judgments or assessments made by management.

The identification of convertible note component is based on interpretations of the substance of the contractual arrangement and therefore requires judgement from management. the separation of components affects the initial recognition of the convertible debenture at issuance and the subsequent recognition of interest o the liability component. The determination of fair value of the liability is also based on several assumptions, including contractual future cash flows, discount rates and the presence of any derivative financial instruments.

Biological assets

Determination of the fair value of biological assets requires the Company to make a number of estimates, including estimating the stage of growth of the cannabis up to the point of harvest, harvesting costs, selling costs, sales prices, wastage and expected yields of the cannabis plant. In determining final inventory values, the Company estimates spoiled or expired inventory in determining net realizable value.

The Company's estimates are, by their nature, subject to change and differences from the anticipated yield will be reflected in the gain or loss on biological assets in future periods.

Inventory

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

Share-based payments

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

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.

Valuation of investment in GSRX

Management exercises judgment on the valuation of the investment in GSRX with reference to the valuation of the consideration received, and if appropriate, the valuation of the share consideration granted. Management also exercises judgment in the recoverability of the balance as at June 30, 2019, taking into account management's future plans for the asset as well as any external and internal indicators of impairment. No impairment was noted as at June 30, 2019 and 2018.

(Expressed in Canadian dollars)

3. BASIS OF PRESENTATION (CONTINUED)

Valuation of equity consideration granted

The valuation of share consideration granted involves management judgment in determining valuation of the share consideration granted. Judgment is exercised in the reliability of the fair value of consideration received.

The fair value of equity instruments are subject to the limitations of the Black-Scholes option pricing model, as well as other pricing models that incorporate market data and involves uncertainty in estimates used by management in the assumptions. Because option pricing models require inputs of highly subjective assumptions, including the volatility of share prices, changes in subjective input assumptions can materially affect the fair value estimate

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

Amortization of tangible assets 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 are 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.

3.3 Basis of consolidation

These consolidated financials incorporate the financial statements of the Company and its controlled subsidiaries:

Subsidiary	Country	Ownership %
1145411 BC Ltd.	Canada	100%
Desert Zen LLC ("Desert Zen")	USA - California	100%
10998451 Canada Inc	Canada	100%
Kieley Growth Management LLC ("Kieley")	USA - California	60%
La Finca Interacviva Arachna Inc. SAS. (La Finca")	Colombia	100%
Bonhomie Labs LLC ("Bonhomie")	USA - California	100%
SAP Global Inc. ("SAP Global")	USA - California	80%
Natural Ventures Puerto Rico ("Natural Ventures")	USA - Puerto Rico	80%

Control exists when the parent company has the power, directly or indirectly, to govern the financial and operating policies of an entity 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.

3. BASIS OF PRESENTATION (CONTINUED)

3.3 Basis of consolidation (continued)

Where the Company's interest is less than 100%, the interest attributable to outside shareholders is reflected in non-controlling interests. 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.

4. SIGNIFICANT ACCOUNTING POLICIES

4.1 Intangible 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 1-5 years.

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. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.2 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 (CGUs) 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.

4.3 Revenue recognition, accounts receivable and allowance for doubtful accounts

The Company's revenue consists solely of product sales and as such, the Company recognizes revenues when a contract has been entered into and performance obligations are known, the price has been determined, the goods are received by the customers and the significant risks and benefits of ownership are transferred and performance obligations have been satisfied. 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.

The adoption of IFRS 15 resulting in no impact to the opening accumulated deficit on July 1, 2018.

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.

The Company derives revenue from

- *Resale of cannabis products, oils and extracts.* The Company holds certain licenses in California and Puerto Rico facilitating both retail and bulk sales of CBD and other cannabis products,
- *Sale of internally produced cannabis products, oils and extracts*. The Company holds certain manufacturing and sales licenses. The Company grows cannabis to harvest and then sells using its sales licenses and storefronts.

Revenue is recognized upon transfer of control of the promised goods or services to customers in an amount that reflects the consideration the Company expects to receive in exchange for those goods or services. Performance obligations are satisfied, and revenue is recognized, either over time or at a point in time.

Certain activities may give rise to deferred revenue, which are contract liabilities under IFRS15 and relate to payments received in advance of performance under contracts with customers. Contract liabilities are recognized as revenue as (or when) the Company satisfies its performance obligations under the contracts.

Resale and Sale of cannabis products, oils and extracts and *Sale of internally produced cannabis products, oils and extracts*

Revenue from the resale or sale of cannabis is recognized when the Company transfers control of the good to the customer upon delivery and collectability is ensured.

Unearned revenues relate to contractual amounts held by Natural Ventures in advance of point of sale and delivery by the Company.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.4 Inventory

Inventory of raw materials, merchandise and devices and finished goods are valued 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. Harvested cannabis plants are transferred from biological assets into inventory at their fair value at harvest less costs to sell which is deemed to be their cost. Any subsequent post-harvest costs are capitalized to inventory to the extent that cost is less than net realizable value. 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.

4.5 Biological assets

The Company's biological assets consist of cannabis plants. All of the biological assets are presented as current assets on the statement of financial position. The Company measures biological assets at fair value less cost to sell up to the point of harvest which becomes the basis for the cost of finished goods inventories after harvest. Gains or losses arising from changes in fair value less cost to sell are included in the results of operations of the related period.

4.6 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. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.7 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.

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.

4.8 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.

4.9 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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.9 Income taxes (continued)

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.

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.

4.10 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. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.11 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.

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.

4.12 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.

4.13 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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.14 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
Amounts receivable	Loans and receivables	Amortized cost
Promissory notes receivable	Loans and receivables	Amortized cost
Investment in GSRX	N/A	FVTPL
Bank indebtedness	N/A	FVTPL
Accounts payable	Other financial liabilities	Amortized cost
Acquisition payable	N/A	Amortized cost
Convertible debt	Other financial liabilities	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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.14 Financial instruments - recognition and measurement (continued)

(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.

4.15 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.

4.16 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 FCTOCI financial assets and the effective portion of gains and losses on hedging instruments in a cash flow hedge.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.17 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"). The functional currency of the parent company is the Canadian dollar. All of the Company's subsidiaries have the US dollar as the functional currency, except for La Finca, which uses the Colombian peso.

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.

4.18 Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The Company measures goodwill as the fair value of the consideration transferred less the recognized amount of the identifiable assets and liabilities assumed, all measured at the acquisition date. Transactions costs, other than those associated with the issue of equity instruments, incurred in connection with a business combination are expensed as incurred.

4.19 Research and development

Research costs are expensed as incurred. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically, and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development or use or sell the asset. Other development expenditures are expensed as incurred.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.20 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 the Company's annual period beginning July 1, 2019. The Company notes that certain office leases meet the criteria for recognition as a capital lease asset and corresponding lease liability. As such, the Company expects total assets and liabilities to increase on adoption of IFRS 16.

IFRIC 23 Uncertainty over income tax treatments - clarifies the application of recognition and measurement requirement in IAS 12, Income Taxes, when there is uncertainty over income tax treatments. It specifically addresses whether an entity considers each tax treatment independently or collectively, the assumptions an entity makes about the examination of tax treatments by taxation authorities, how an entity determines taxable profit (tax loss), tax bases, unused tax credits and tax rates, and how an entity considers changes in facts and circumstances. IFRIC 23 is effective for the Company's annual period beginning July 1, 2019 retrospectively and does not anticipate that the adoption will have a significant impact on the Company's consolidated financial statements.

Accounting standards adopted during the year

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.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.20 Changes in significant accounting policies (continued)

Accounting standards adopted during the year (continued)

IFRS 15 Revenue from Contracts with Customers, The Company adopted the requirements of IFRS 15 as of April 1, 2018. This new standard establishes a comprehensive framework for the recognition, measurement and disclosure of revenue replacing IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers, and SIC-31 Revenue — Barter Transactions Involving Advertising Services.

The main features introduced by this new standard compared with predecessor IFRSs are as follows:

1. Identify the contract with the customer;
2. Identify the performance obligations in the contract;
3. Determine the transaction price;
4. Allocate the transaction price to the performance obligations in the contracts; and
5. Recognize revenue when (or as) the entity satisfies a performance obligation.

Guidance is provided on topics such as the point in which revenue is recognized, accounting for variable consideration, costs of fulfilling and obtaining a contract and various related matters. New disclosures about revenue are also introduced. The adoption of this standard on July 1, 2018 did not have a significant impact on the Company's condensed consolidated interim financial statements.

5. REVERSE TAKEOVER TRANSACTION

On July 17, 2018, the Chemesis completed a transaction with 1145411, pursuant to which the Company acquired all of the issued and outstanding shares of 1145411 in exchange for 46,807,559 common shares of the Chemesis.

As the former shareholders of 1145411 owned a majority interest in the combined entity immediately after closing, the transactions was accounted for as a reverse acquisition with 1145411 identified as the acquirer. The transaction did not constitute a business combination as the Company did not meet the definition of a business as defined under IFRS. As 1145411 was the acquirer for accounting purposes, its operations are presented as the continuing entity with those of Chemesis included from the transactions date of July 17, 2019 onward. The comparative figures for the year ended June 30, 2018 are those of 1145411 prior to the reverse acquisition.

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 "CSI".

(Expressed in Canadian dollars)

5. REVERSE TAKEOVER TRANSACTION (CONTINUED)

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 16,040,076 common shares issued	$	9,784,446
Fair value of 650,000 options issued		174,804
Fair value of 4,399,472 warrants issued		533,279
	$	**10,492,529**
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	**$**	**3,274,436**
Listing expense	**$**	**7,218,093**

The fair value of the consideration paid was determined as follows:

i) The fair value of the 16,040,076 common shares of Chemesis was measured using the closing price of $0.61 per common share on July 17, 2018, the date of the acquisition, for a total fair value of $9,784,446;
ii) The 650,000 options and 4,399,472 warrants had fair values of $174,804 and $533,279, respectively, valued using the Black-Scholes model under the following weighted average assumptions:

	Options	**Warrants**
Strike price	$0.78	$2.00
Risk free interest rate	2.05%	2.05%
Expected option life (years)	1.05	1.05
Expected stock price volatility	125%	125%
Dividend payments during life of option	-	-
Expected forfeiture rate	-	-

6. GOODWILL, ACQUISITIONS AND ACQUISITIONS PAYABLE

During the year ended June 30, 2019, goodwill arose over the acquisition of Natural Ventures, Desert Zen, and Kieley Growth due to the benefit of expected revenue growth in North American and Latin America 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 dealt with at arm's length at the time of transaction. The fair value of assets and liabilities as at acquisition date are within the measurement period, as such, these values may change.

(Expressed in Canadian dollars)

6. GOODWILL, ACQUISITIONS AND ACQUISITIONS PAYABLE (CONTINUED)

The Company's goodwill arose on acquisitions and are summarized as follows for the year ended June 30, 2019 and period ended June 30, 2018:

		Desert Zen		Natural Ventures		Kieley Growth		Total
		United States		*Puerto Rico*		*United States*		
Cost								
Balance, June 30, 2018 and December 15, 2017	$	-	$	-	$	-	$	-
Additions		374,830		3,557,713		2,259,080		6,191,623
Balance, June 30, 2019	**$**	**374,830**	**$**	**3,557,713**	**$**	**2,259,080**	**$**	**6,191,623**
Accumulated impairment								
Balance, June 30, 2018 and December 15, 2017	$	-	$	-	$	-	$	-
Additions		-		1,801,300		-		1,801,300
Balance, June 30, 2019	$	**-**	$	**1,801,300**		**-**	$	**1,801,300**
Balance, June 30, 2018 and December 15, 2017	**$**	**-**	**$**	**-**	**$**	**-**	**$**	**-**
Balance, June 30 ,2019	**$**	**374,830**	**$**	**1,756,413**	**$**	**2,259,080**	**$**	**4,390,323**

Impairment of goodwill and intangible assets

On an annual basis, the Company assesses the Company's CGUs for indicators of impairment or when facts or circumstances suggest the carrying amount may exceed its recoverable amount. Goodwill is tested for impairment annually. For the purpose of impairment testing, goodwill is allocated to the Company's CGU to which it relates.

The Company performed its annual impairment test and estimated the recoverable amount of the above-noted CGU based on fair value less costs of disposal ("FVLCOD"), which was determined using a capitalized cash flow methodology and categorized within level 3 of the fair market value hierarchy.

The key assumptions used in the calculation of the recoverable amount include forecast next twelve months:

a) Revenues;
b) normalized operating expenses;
c) income taxes; and
d) capital expenditures.

Capitalized cash flows are determined with reference to undiscounted risk adjusted cash flows, and discount rates in the range of 28% to 32% based on the individual characteristics of the Company's CGU, the risk-free rate of return and other economic and operating factors.

The result is that the carrying amount of goodwill and intangible assets exceeded the recoverable amount and as a result, the Company recognized the following impairment charges:

a) Intangible assets of $637,059; and
b) Goodwill of $1,801,300.

(Expressed in Canadian dollars)

6. GOODWILL, ACQUISITIONS AND ACQUISITIONS PAYABLE (CONTINUED)

Desert Zen

On August 21, 2018, the Company acquired 100% of the shares of Desert Zen for $262,782 (USD$200,000) cash paid upon closing, as well as 652,500 common shares of the Company with a fair value of $342,563 escrowed over 36 months using the Discount for Lack of Marketability ("DLOM") model which compares nonmarketable security relative to its value on a fully marketable basis with discount rates of between 18% and 35%. This transaction was accounted for as a business combination, as such the Company used the acquisition method of accounting. The consideration paid in excess of the net assets of the acquired business was $374,830 and is recognized in goodwill as follows:

Consideration		
Cash	$	264,406
Common shares		342,563
Total consideration		606,969
Fair value of net assets acquired		
Accounts receivable	$	36,348
License (Note 11)		230,000
Total assets	$	266,348
Current liabilities		(34,209)
Net assets acquired	**$**	**232,139**
Goodwill	**$**	**374,830**

Natural Ventures

On November 30, 2018, the Company acquired 80% of Natural Ventures for cash payment of $3,724,280 (USD$2,800,000), and 2,235,246 common shares of the Company with a fair value of $1,877,607 escrowed over 36 months using DLOM model resulting in discount rates of between 18% and 35%. This transaction was accounted for as a business combination, as such the Company used the acquisition method of accounting. The consideration paid in excess of the net assets of the acquired business was $3,557,713 and is recognized as goodwill as follows:

Consideration		
Cash	$	3,724,280
Common shares		1,877,607
Total consideration	**$**	**5,601,887**
Fair value of net assets acquired		
Cash	$	232,063
Accounts receivable		195,758
Equipment (Note 12)		566,508
Leasehold improvements (Note 12)		611,409
Licenses (Note 11)		1,662,625
Total assets	$	3,268,363
Current liabilities		(713,145)
Net assets acquired	**$**	**2,555,218**
Less NCI portion of Net Assets		(511,044)
Fair value of net assets acquired		**2,044,174**
Goodwill	**$**	**3,557,713**

(Expressed in Canadian dollars)

6. GOODWILL, ACQUISITIONS AND ACQUISITIONS PAYABLE (CONTINUED)

During the year ended June 30, 2018, Chemesis entered into a memorandum of understanding (the "MOU") with Natural Ventures. In connection with the MOU, the Company had loaned $731,555 (US$550,000) as at June 30, 2018 which has been included in the cash consideration on acquisition.

Impairment

During the year ended June 30, 2019, management noted certain indicators of impairment on the Company's US - Puerto Rico CGU. As such, management carried out impairment tests under IAS 36, and determined there to be an impairment of $1,801,300 to the US - Puerto Rico CGU. The recoverable values of the CGU of $4,234,866 was determined in accordance with Level 3 of the fair value hierarchy based on a value in use calculation which used discount rates of 28%.

La Finca

On January 11, 2019, the Company acquired 100% of La Finca, a hemp and CBD cultivation company located in Colombia. The Company assumed a promissory note of $5,500,000 and issued of 7,480,000 common shares with a fair value of $7,225,680 escrowed over 36 months. This transaction was accounted for as an asset acquisition. The consideration paid in excess of the net assets of the acquired assets was $10,305,740 as follows:

Consideration		
Acquisition payable	$	5,500,000
Common shares		7,225,680
Total consideration		**12,725,680**
Fair value of Net assets acquired		
Cash	$	2,348,179
Accounts receivable		3,113
Fixed assets (Note 12)		66,395
Licenses (Note 11)		100,000
Total assets	$	2,517,687
Current liabilities		(97,747)
Net assets acquired	**$**	**2,419,940**
Seed research, development and technology		10,305,740
Total received	**$**	**12,725,680**

The principal and interest of the acquisition payable were due January 11, 2024, accrued compounding interest of 5% per year, and had a fair value at acquisition of $5,500,000. La Finca holds various licenses that allow it to legally operate Cannabis business in the U.S. territory of Puerto Rico. On April 12, 2019, the Company settled the principal and accrued interest of the promissory note through the issuance of 4,104,476 common shares valued at $2.04 per share for total fair value of $5,861,191, valued in accordance with IFRIC 19, where equity instruments granted in a shares-for-debt transaction are considered to be the value of the consideration, rather than the consideration received. A loss on debt settlement of $262,629 was incurred. A continuity of the loan is as follows:

La Finca acquisition payable		
Balance, January 11, 2019	$	5,500,000
Interest expense		68,562
Balance, April 12, 2019	**$**	**5,568,562**
Fair value of shares issued (Note 16)		5,861,191
Loss on debt settlement	**$**	**292,629**

(Expressed in Canadian dollars)

6. GOODWILL, ACQUISITIONS AND ACQUISITIONS PAYABLE (CONTINUED)

Kieley Growth Management

On May 24, 2019, the Company acquired a 60% interest in Kieley, a company with dispensary operations in California, United States. The Company acquired a non-interest-bearing promissory note of $1,346,800 (USD $1,000,000) due on May 24, 2020 and issued 672,313 common shares with a fair value of $880,058 as consideration for 60% of Kieley's common shares. This transaction was accounted for as a business combination, as such the Company used the acquisition method of accounting. The consideration paid in excess of the net assets of the acquired business was $2,259,080 and is recognized as goodwill:

Consideration		
Acquisition payable	$	1,346,800
Common shares		880,058
Notes payable		732,000
Total consideration	$	**2,958,858**
Fair value of Net assets acquired		
Fixed assets (Note 12)		891,143
Licenses (Note 11)		404,040
Total assets	$	1,295,183
Current liabilities		(128,887)
Net assets acquired	**$**	**1,166,296**
Less NCI portion of net assets		(466,518)
Fair value of net assets acquired		**699,778**
Goodwill	**$**	**2,259,080**

As part of the above acquisition, the Company acquired a note payable. The note payable was non-interest bearing and had no terms of repayment. Subsequent to June 30, 2019, the Company settled the $732,000 note payable through the issuance of 600,000 common shares.

A continuity of acquisition payable is as follows:

Balance, June 30, 2018 and December 15, 2017	**$**	-
Additions, May 24, 2019		1,346,800
Foreign exchange gain		(38,100)
Balance, June 30, 2019	**$**	**1,308,700**

(Expressed in Canadian dollars)

6. GOODWILL, ACQUISITIONS AND ACQUISITIONS PAYABLE (CONTINUED)

Bonhomie

During the year ended June 30, 2018, the Company acquired 100% of the issued and outstanding shares of Bonhomie for $100. At the time, Bonhomie held a 51% controlling interest in SAP Global.

At the date of the Company's acquisition of Bonhomie, the net assets were acquired in exchange for the Company settling the liabilities related to the assets acquired. Accordingly, at the date of the Company's acquisition of Bonhomie, SAP Global was considered to have net identifiable assets of $nil.

Fair value of net assets acquired		
Equipment	$	365,472
Leasehold Improvements		208,556
Total assets	$	574,028
Current liabilities		(574,028)
Net assets acquired	**$**	**-**

On July 19, 2018, the Company increased its ownership in SAP Global from 51% to 80% for no additional consideration.

7. INVESTMENT IN GSRX INDUSTRIES INC. ("GSRX")

On April 1, 2019 the Company entered into an agreement to acquire 19.9% equity stake in GSRX, a company which owns and operates cannabis dispensaries. Pursuant to the terms of the acquisition, GSRX Industries Inc. issued 11,666,998 common shares to Chemesis. GSRX has also granted a pre-emptive right to maintain such ownership percentage. In exchange, the Company issued 7,291,874 common shares, which are subject to hold periods of up to 36 months. At the time of acquisition, the Company had no board members or management on the Board of Directors of GSRX.

Balance, June 30, 2018 and December 15, 2017	**$**	-
Share exchange		17,144,062
Unrealized loss on investment in GSRX		(2,646,285)
Balance, June 30, 2019	**$**	**14,497,777**

On August 28, 2019, the Company acquired 42,634,124 common shares and 1,000 preferred shares of GSRX in exchange for 14,880,705 common shares of the Company for a total fair value of $8,437,363. As these shares were subject to a 36-month release period, with 2,480,118 released every 6 months, the shares were valued using the DLOM model as used in Note 6. The shares were valued using a grant date price of $0.81 and discounted using rates between 20-35% per tranche. Immediately after the transaction the Company held a 66.29% common share interest and a 100% preferred share interest in GSRX (Note 26). The acquisition was accounted for as a business combination. A continuity of the investment in GSRX is as follows.

Balance, June 30, 2019	**$**	**14,497,777**
Unrealized loss on investment in GSRX		(1,564,379)
Balance, August 28, 2019, date of acquisition of controlling interest	**$**	**12,933,398**

(Expressed in Canadian dollars)

7. INVESTMENT IN GSRX INDUSTRIES INC. ("GSRX")

Subsequent acquisition of GSRX on August 28, 2019 is as follows:

Cost of transaction		
Initial investment of 7,291,874 common shares	$	12,933,398
Investment of 14,880,705 common shares of the Company		8,437,363
Total consideration	$	21,370,761
Fair value of Net assets acquired		
Cash	$	1,545,429
Accounts receivable		21,153
Inventory		490,010
Prepaid expenses		200,771
Fixed assets		3,405,731
Licenses		822,665
Deposits		272,460
Patents		1,943,934
Investments		5,174,312
Right of use asset		2,621,383
Total assets	$	16,497,848
Current liabilities	$	1,395,661
Lease liabilities		2,258,129
Total liabilities	$	3,653,790
Net assets acquired		**12,844,058**
Less: NCI portion		(4,329,732)
Company's share of net assets acquired		**8,514,326**
Goodwill	**$**	**12,856,435**

Measurement period

The fair values of assets and liabilities as at acquisition date are still within the measurement period as defined in IFRS 3. As such, these values are subject to change.

8. EXPLORATION AND EVALUATION ASSETS AND PLAN OF ARRANGEMENT

Through its previously wholly owned subsidiary, Canadian Mining of Arizona Inc. ("CMAI"), the Company held mineral claims in Yavapai County, Arizona, United States.

On February 1, 2019 the Company completed plan of arrangement agreement with IMC International Mining Corp. ("IMC") pursuant to which the Company spun out its mineral claims into IMC through a Plan of Arrangement under the Business Corporations Act. Upon completion of the Arrangement, IMC owned 100% of the mineral claims. As a result of the Arrangement, Chemesis Shareholders received one-twentieth of one IMC Common Share for every Chemesis common share held as of December 9, 2018, and own all of the outstanding IMC Common Shares, post-Arrangement.

(Expressed in Canadian dollars)

8. EXPLORATION AND EVALUATION ASSETS AND PLAN OF ARRANGEMENT (CONTINUED)

A summary of the capitalized exploration and evaluation assets for the year ended June 30, 2019 and period ended June 30, 2018, are as follows:

Balance, June 30, 2018 and December 15, 2017	$	-
Additions during the period:		
Acquisition costs		108,881
Claim fees		4,438
Completion of plan of arrangement		(113,319)
Balance at June 30, 2019	$	-

9. BIOLOGICAL ASSETS

Biological assets consist of cannabis plants and are summarized as at June 30 as follows:

		2019		2018
Biological assets, beginning	$	-	$	-
Allocated direct costs		1,038,732		-
Net increase in fair value less costs to sell due to biological transformation		219,996		-
Effects of foreign exchange rates		(13,790)		-
Biological assets, end	$	1,244,938	$	-

Biological assets are valued in accordance with IAS 41 and are presented at their fair values less costs to sell up to the point of harvest. The Company's biological assets are primarily cannabis clones, mother plants and flowering plants, and because there is no actively traded commodity market for plants or dried product, the valuation of these biological assets is obtained using valuation techniques where the inputs are based upon unobservable market data (Level 3).

(Expressed in Canadian dollars)

9. BIOLOGICAL ASSETS (CONTINUED)

The significant assumptions used in determining the fair value of biological assets include:

Unobservable inputs	**Amounts**	**Sensitivity**
Estimated selling price of dry cannabis - varies by strain and is obtained through listed selling prices or estimated selling prices if historical results are not available.	$81.25 per dry ounce (2018 - $nil).	A slight increase in the estimated selling price per strain would result in a significant increase in fair value, and vice versa.
Estimated yield per plant - varies by strain and is obtained through historical growing results (6 month trailing average) or grower estimate if historical results are not available.	3.5oz per flowering cannabis plant (2018 – nil).	A slight increase in the estimated yield per plant would result in a significant increase in fair value, and vice versa.
Stage of cannabis plant within its life cycle.	12 - 15 weeks (2018 – nil weeks)	A slight increase in the estimated stage in the life cycle would result in a slight increase in fair value, and vice versa.
Selling costs - are estimated based on the salaries paid to marketing and inventory personnel.	$nil/oz (2018 - $nil)	A slight decrease in the estimated selling costs would result in a slight increase in fair value, and vice versa.

The Company estimates the average grow cycle of plants up to the point of harvest is approximately thirteen weeks.

The Company's estimates are, by their nature, subject to change and differences from the anticipated yield will be reflected the gain or loss on biological assets in future periods.

10. INVENTORY

As at June 30, 2019, the Company's inventory balance consists of raw and finished goods. During the year ended June 30, 2019, the Company expensed $7,207,949 (2018 - $nil) of inventory included within cost of goods sold.

Included in inventory at June 30, 2019 was $nil (2018 - $nil) in fair value of biological assets. The Company realized $nil fair value biological asset adjustments through cost of goods sold during the year ended June 30, 2019 (2018 - $nil).

As at June 30, the Company's inventory comprised the following:

		2019		**2018**
Raw materials and supplies	$	428,770	$	-
Finished goods		401,231		-
Total	$	830,001	$	-

(Expressed in Canadian dollars)

11. INTANGIBLE ASSETS

Cost		**License Rights**
Balance, June 30, 2018 and December 15, 2017	$	-
Additions		3,793,620
Impairment		(637,059)
Balance, June 30, 2019	$	**3,156,561**
Accumulated amortization		
Balance, June 30, 2018 and December 15, 2017	$	-
Additions		614,619
Balance, June 30, 2019	$	**614,619**
Net, June 30, 2018 and December 15, 2017	$	**-**
Net, June 30, 2019	$	**2,541,942**

The Company's license rights are summarized as follows:

SAP Brand rights
On July 20, 2018, the Company issued 664,637 common shares measured at a fair value of $0.55 per common share for a fair value of $255,886 pursuant to an acquisition of licensed rights from SAP. Further, the Company paid $110,000 cash. Such rights include the brand name, trade name, and trademarks together with all of the patents, patent applications, and inventions. These licenses are amortized over the estimated useful life of 5 years.

Rapid Dose Therapeutics Inc. ("RDT")
On October 12, 2018, the Company acquired the license rights from 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 of the agreement, the Company received rights to produce, distribute, and sell QuickStrip products, with rights for cannabis markets in California. Total consideration was $318,010, paid by $130,570 in cash and 173,556 common shares with a fair value per share of $1.08 for a total share fair value of $187,440. This license is amortized over the estimated useful life of 5 years.

Da Grassy High Inc.
On November 14, 2018, Chemesis entered a multi-year licensing deal with Da Grassy High Inc., Kevin Smith and Jason Mewes ("Jay and Silent Bob") for the development and promotion of cannabis products in the US. The Company paid an initial fee of USD$50,000 on signing and three payments of USD$25,000 on each of the three-month anniversaries of signing. In addition, the Company issued common shares worth USD$400,000 on signing 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. As of June 30, 2019, the Company has paid a cash total of $214,315 and issued shares valued at $422,745 capitalized as intangible assets. The agreement was terminated during the year, and as such an impairment charge to intangible assets of $637,059 was charged during the year (2018 - $nil).

Kieley Growth Management License
On May 24, 2019, the Company acquired a 60% interest in Kieley, who held a Type-6 Cannabis Processing License as issued by the California Department of Health. This license had a value of $404,040 and is amortized over one year.

(Expressed in Canadian dollars)

11. INTANGIBLE ASSETS (CONTINUED)

Natural Ventures License
On November 30, 2018, the Company acquired Natural Ventures which holds a cultivation license and a cannabis manufacturing license. These licenses had a fair value of $1,662,625 and have a useful life of one year.

Desert Zen License
On August 21, 2018, the Company acquired Desert Zen, which holds licenses issued by the California Department of Health. The licenses had a fair value of $230,000 on acquisition and are amortized over one year.

La Finca License
The Company holds a research and development license in Colombia with a fair value of $100,000. This license has a useful life of one year.

12. EQUIPMENT AND LEASEHOLD IMPROVEMENTS

	Machinery and Equipment	Leasehold improvements	Total
Cost			
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	4,621,929	657,982	5,279,911
Effects of changes in foreign exchange	(7,191)	(56,926)	(64,117)
Balance, June 30, 2019	**$** 5,272,609	$ 2,153,651	**$** 7,426,260
Depreciation			
Balance, December 15, 2017	$ -	$ -	$ -
Additions	119	-	119
Balance, June 30, 2018	$ 119	$ -	$ 119
Additions	228,614	140,012	368,626
Balance, June 30, 2019	**$ 228,733**	**$ 140,012**	**$ 368,745**
Net			
December 15, 2017	**$ -**	**$ -**	**$ -**
June 30, 2018	**$** 657,752	$ 1,552,595	**$** 2,210,347
June 30, 2019	**$** 5,043,876	$ 2,013,639	**$** 7,057,515

During the year ended June 30, 2019, the Company issued 271,455 common shares with a fair value of $1.59 per share for a total fair value of $431,613 in exchange for equipment.

On June 19, 2019, the Company issued 553,886 common shares with a fair value of $2.04 per share for total fair value of $1,129,927 for equipment which was in transit as at June 30, 2019. This is included in equipment additions. No amortization was taken on these as this equipment was not in use as of June 30, 2019.

During the year 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.

(Expressed in Canadian dollars)

13. NOTES PAYABLE

As at June 30, 2019, the Company:

i) Held a note payable with a balance of $106,366 (USD $81,238) as at June 30, 2019 (2018 - $nil) due to an arm's length party and has a maturity date of June 2020. This loan has an interest rate of 8% per annum, and is repayable in monthly blended payments of USD $6,788; and

ii) As part of the acquisition of Kieley Growth (Note 6), the Company acquired a note payable, which was non-interest bearing and had no terms of repayment. Subsequent to June 30, 2019, the Company settled the $732,000 note payable through the issuance of 600,000 common shares (Note 26) .

The notes are note secured against the capital or assets of the Company.

14. CONVERTIBLE DEBT

During the year ended June 30, 2019, the Company completed two tranches of convertible debt financing for total gross proceeds of $3,500,000. The first tranche of $2,000,000 closed on December 4, 2018 and the final tranche of $1,500,000 closed on December 20, 2018. The convertible debentures bear interest at a rate of 8% per year and mature two years from the closing date. The convertible debentures are unsecured and are convertible, at the option of the holder, into common shares of the Company at a price of $1.25 per common share.

The Company has 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 has 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 for each common share underlying the convertible debentures for a total of 2,800,000 warrants. Each warrant is exercisable into one common share at an exercise price of $1.50 for a period of 24 months.

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 discount rate of 15% and are 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:

Balance, June 30, 2018 and December 15, 2017	$	-
Proceeds on issuance of convertible debt		3,500,000
Allocation to equity component		(244,000)
Allocation to warrant component		(186,057)
Interest accrual		272,798
Balance, June 30, 2019	$	3,342,741

Equity component of convertible debt		
Balance, June 30, 2018 and December 15, 2017	$	**-**
Balance, June 30, 2019	$	**244,000**

(Expressed in Canadian dollars)

15. AMOUNTS RECEIVABLE

Amounts receivable as at June 30, 2019 and 2018 consist of:

	June 30, 2019	June 30, 2018
Trade receivable	$ 2,378,904	$ -
GST	13,655	-
Balance at June 30, 2019	$ 2,392,559	$ -

16. SHAREHOLDERS' EQUITY

16.1 Authorized share capital

Unlimited number of common shares with no par value.

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. All common share and per share amounts in these consolidated financial statements is retroactively presented on a post-share consolidation basis, including the number and exercise price of all share options and warrants.

16.2 Issued share capital

Shares issued and outstanding as at June 30, 2019 are 92,163,527 common shares. As at June 30, 2019, the Company had 403,386 common shares in escrow, to be released September 18, 2019.

During the period ended June 30, 2018, the Company issued common shares for cash proceeds of $3,800,000.

During the year ended June 30, 2019, the following non-cash share transactions occurred:

Date	Number of shares	Fair value per share	Total fair value	Purpose
Asset Acquisitions				
July 20, 2018	664,637	$ 0.39	$ 255,886	SAP license rights (Note 11)
November 21, 2018	282,500	1.12	316,400	Da Grassy High Inc. license acquisition (Note 11)
January 8. 2019	173,556	1.08	187,440	Rapid Dose license (Note 11)
January 11, 2019	7,480,000	1.38	7,225,680	La Finca acquisition (Note 6)
February 26, 2019	101,240	1.94	106,345	Da Grassy High Inc. license acquisition (Note 11)
April 15, 2019	271,455	1.59	431,613	Equipment acquisition (Note 12)
June 18, 2019	553,886	2.04	1,129,927	Equipment acquisition (Note 12)
	9,527,274	**$ 1.01**	**$ 9,653,291**	

(Expressed in Canadian dollars)

16. SHAREHOLDERS' EQUITY (CONTINUED)

16.2 Issued share capital (continued)

Date	Number of shares		Fair value per share		Total fair value	Purpose
Business acquisitions (Note 6)						
November 30, 2018	2,235,246		0.84		1,877,607	Natural Ventures acquisition
August 21, 2018	652,500		0.75		342,563	Desert Zen acquisition
May 17, 2019	672,313		1.31		880,058	Kieley acquisition
	3,560,059	**$**	**0.87**	**$**	**3,100,228**	

The value of these shares was discounted based on the respective release schedules of the shares issued (Note 6).

Other non-cash share transactions

July 17, 2018	16,040,076	$	0.61	$	9,784,446	Reverse take over (Note 5)
April 12, 2019	4,104,476	$	1.42	$	5,861,191	Debt extinguishment (Note 6)
April 1, 2019	7,291,874	$	2.35	$	17,144,062	Investment in GSRX (Note 7)

The company issued shares pursuant to consulting agreements as follows:

Date	Number of shares		Fair value per share		Total fair value
August 21, 2018	65,250	$	0.75	$	48,938
August 24, 2018	300,000		0.84		252,000
September 20, 2018	22,022		1.77		38,979
October 9, 2018	32,934		1.67		55,000
November 8, 2018	15,026		1.74		26,145
June 18, 2019	103,633		2.03		210,375
	538,865	**$**	**1.17**	**$**	**631,437**

The Company issued shares pursuant to options exercised as follows:

Date	Number of shares		Strike price		Total proceeds
October 2, 2018	50,000	$	1.10	$	55,000
December 14, 2018	27,500		1.00		27,500
December 20, 2018	40,000		1.00		40,000
January 23, 2019	65,000		1.00		65,000
February 19, 2019	50,000		1.10		55,000
March 6, 2019	100,000		1.00		100,000
May 8, 2019	50,000		1.10		55,000
	382,500	**$**	**1.04**	**$**	**397,500**

Upon exercise of options, the Company reallocated $121,437 in contributed surplus to share capital.

(Expressed in Canadian dollars)

16. SHAREHOLDERS' EQUITY (CONTINUED)

16.2 Issued share capital (continued)

The Company issued shares pursuant to warrants exercised as follows:

Date	Number of shares		Strike price		Total proceeds
February 27, 2019	100,000	$	2.00	$	200,000
March 6, 2019	120,000		2.00		240,000
March 6, 2019	232,000		2.00		464,000
April 25, 2019	22,000		2.00		44,000
May 8, 2019	10,000		2.00		20,000
	484,000	**$**	**2.00**	**$**	**968,000**

Upon exercise of warrants, the Company reallocated $58,661 in contributed surplus to share capital.

The Company completed private placements as follows:

Date	Party (if applicable)	Shares #		Price per share		Shares $		Share issuance costs		Net proceeds
December 20, 2018	Alumina Partners Ltd. (note 21)	312,500	$	0.80	$	250,000	$	-	$	250,000
January 16, 2019	Alumina Partners Ltd.	384,615		1.30		500,000		-		500,000
March 1, 2019	Non-brokered	1,500,000		1.84		2,760,000		-		2,760,000
April 15, 2019 – June 13 2019	Non-brokered	1,121,621		1.87		2,101,999		-		2,101,999
June 21, 2019	Non-brokered	108,108		1.85		200,000		-		200,000
Share issuance costs		-		-		-		(377,294)		(377,294)
		3,426,844	**$**	**1.70**	**$**	**5,811,999**	**$**	**(377,294)**	**$**	**5,434,705**

(Expressed in Canadian dollars)

16. SHAREHOLDERS' EQUITY (CONTINUED)

16.3 Warrants

In connection with the convertible debt agreements entered into during the year ended June 30, 2019, 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.

As of June 30, 2019, the following warrants were outstanding:

	Warrants		Exercise Price
June 30, 2018 and December 15, 2017	-	$	-
Acquisition of Chemesis (Note 5)	4,399,472		2.00
Issued	5,618,736		1.94
Exercised	(484,000)		2.00
June 30, 2019	**9,534,208**	**$**	**1.97**

Expiry date	Warrants		Exercise Price
August 4, 2019	3,915,472	$	2.00
December 4, 2020	1,600,000		1.50
December 21, 2020	1,200,000		1.50
January 21, 2024	384,615		2.45
March 1, 2024	1,500,000		2.50
December 20, 2023	312,500		1.50
May 30, 2024	378,378		2.50
May 30, 2024	189,189		2.50
June 13, 2024	54,054		2.50
Balance, June 30, 2019	**9,534,208**	**$**	**1.97**

At June 30, 2019, the weighted-average remaining life of the outstanding warrants was 1.85 years (2018 – nil). There were no warrants outstanding as at June 30, 2018.

16.4 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.

During the year ended June 30, 2019, 6,850,000 options were issued (2018 – nil). Total share-based payments recognized for the fair value of share options granted, vested and approved by the shareholders during the year ended June 30, 2019 was $4,539,342 (2018 - $nil).

(Expressed in Canadian dollars)

16. SHAREHOLDERS' EQUITY (CONTINUED)

16.4 Options and share-based compensation (continued)

The fair value of the share options granted was estimated on the date of grant using the Black-Scholes Pricing Model with the following weighted average assumptions:

	Year ended June 30, 2019	Period from incorporation to June 30, 2018
Strike price	$1.28	-
Risk free interest rate	2.00%	-
Expected option life (years)	4.87 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:

	Options	Exercise price
June 30, 2018 and December 15, 2017	-	-
Acquisition of Chemesis (Note 5)	650,000	0.78
Granted	6,850,000	1.27
Cancelled	(407,500)	1.01
Exercised	(382,500)	1.04
June 30, 2019	**6,710,000**	**1.25**
June 30, 2019 – exercisable	**6,510,000**	**1.24**

At June 30, 2019, the weighted average remaining life of the outstanding options was 3.90 years (2018 - nil).

		Outstanding and exercisable	
Expiry date	Options	Exercise price	Remaining contractual life (years)
September 18, 2019	50,000	$ 1.00	0.22
June 9, 2022	350,000	0.50	2.95
August 18, 2022	125,000	1.10	3.14
July 22, 2023	4,285,000	1.00	4.06
September 27, 2023	200,000	1.74	4.25
November 6, 2023	300,000	1.40	4.36
March 12, 2024	500,000	2.13	4.70
March 25, 2024	100,000	2.09	4.74
March 29, 2024	500,000	2.16	4.75
April 26 2021	100,000	2.04	1.82
May 23 2024	200,000	2.11	4.90
Balance, June 30, 2019	**6,710,000**	**$ 1.25**	**3.90**

(Expressed in Canadian dollars)

17. RELATED PARTY TRANSACTIONS AND BALANCES

Key management personnel are the directors and officers of the Company. Management compensation transactions for the year ended June 30, 2019 and period ended June 30, 2018 is summarized as follows:

	June 30, 2019	June 30, 2018
Management fees	$ 424,473	$ -
Share-based payments	2,032,955	-
Total	$ 2,457,428	$ -

As at June 30, 2019, $52,949 (2018 - $nil) is owed to directors and officers of the Company for unpaid fees.

During the year ended June 30, 2019, the Company paid $164,472 (2018 - $nil) included in management fees to the CEO and Director of the Company pursuant to CEO and Director services provided. The Company also granted 500,000 options measured at a fair value of $238,721 recorded within share-based payments.

During the year ended June 30, 2019, the Company paid $22,500 (2018 - $nil) included in management fees to the previous CFO of the Company pursuant to CFO services provided. The Company also granted 250,000 options measured at a fair value of $99,467 recorded within share-based payments.

During the year ended June 30, 2019, the Company paid $137,500 (2018 - $nil) included in management fees to a Director of the Company pursuant to Director services provided. The Company also granted 700,000 options measured at a fair value of $278,508 recorded within share-based payments.

During the year ended June 30, 2019, the Company paid $37,500 (2018 - $nil) included in consulting fees to the Corporate Secretary and Director and of the Company pursuant to Corporate Secretary and Director services provided. The Company also granted 500,000 options measured at a fair value of value of $198,934 recorded within share-based payments.

During the year ended June 30, 2019, the Company paid $100,000 (2018 - $nil) included in management fees to the current CFO of the Company pursuant to CFO services provided. The Company also granted 200,000 options measured at a fair value of $345,698 recorded within share-based payments.

During the year ended June 30, 2019, the Company granted 250,000 options to a previous Director of the Company measured at a fair value of $99,467 recorded within share-based payments.

During the year ended June 30, 2019, the Company granted 500,000 options to a previous Director of the Company measured at a fair value of $542,320 recorded within share-based payments.

On December 4, 2018, a Director loaned the Company $1,000,000 included within convertible debentures (Note 13). Interest expense of $46,022 was recorded during the year ended June 30, 2019 (2018 - $nil)

(Expressed in Canadian dollars)

18. NON-CASH INVESTING AND FINANCING ACTIVITIES

Non-cash investing and financing activities are as follows:

		Year ended June 30, 2019		Period from incorporation to June 30, 2018
INVESTING ACTIVITIES:				
Shares issued to purchase equipment	$	431,613	$	-
Shares issued for equipment in transit	$	1,129,927	$	-
Shares issued for licenses	$	866,071	$	-
FINANCING ACTIVITIES:				
Spin out of exploration and evaluation assets (Note 8)	$	113,319	$	-

See also the following for further non-cash note disclosures:

i) Listing expense (Note 5)
ii) Acquisition of SAP Global (Note 6)
iii) Acquisition of Bonhomie (Note 6)
iv) Acquisition of Kieley (Note 6)
v) Acquisition of Desert Zen (Note 6)
vi) Shares for debt (Note 6)
vii) Investment in GSRX (Note 7)

19. COMMITMENTS

On November 1, 2017, SAP Global 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 June 30, 2019 is approximately $526,000.

The Company holds a 5-year lease agreement in Caguas, Puerto Rico with remaining lease obligations as at June 30, 2019 of $1,250,000.

The Company holds a 2-year lease agreement in Bogota, Columbia with remaining lease obligations as at June 30, 2019 of $479,000.

20. RISK MANAGEMENT

20.1 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 June 30, 2019, the Company's working capital is $204,230 (2018 - $874,240) and it has a long-term convertible debenture of $3,342,741 (2018 - $nil). 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 June 30, 2019, the Company had cash of $641,583 (2018 - $1,030,284), accounts payable and accrued liabilities of $2,477,662 (2018 - $206,642) (due in 90 days), notes payable of $838,366 (2018 - $nil), excise tax payable of $11,162 (2018 - $nil) (due in 90 days), acquisition payable of $1,308,700 (2018 - $nil), and convertible debt (due in two years) of $3,342,741 (2018 - $nil).

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 does not have a practice of trading derivatives

Foreign currency risk
The Company's foreign exchange risk arises from transactions denominated in other currencies.

20.2 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.

20. RISK MANAGEMENT (CONTINUED)

20.2 Fair values (continued)

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).

At June 30, 2019 and June 30, 2018, cash is measured using Level 1 inputs. At June 30, 2019, the Company held $14,497,777 (June 30, 2018 - $nil) in investments measured at Level 1. During the year ended June 30, 2019 and 2017, there were no transfers between Level 1 and Level 2 fair value measurements and there were no transfers in and out of Level 3 fair value measurements.

21. 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 June 30, 2019, the Company has drawn down $750,000 on the equity financing arrangement. The Company is not currently subject to any externally imposed capital requirements.

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 specifying the number of common shares for which GEM will then have an obligation to subscribe up to a maximum of $10,000,000. As of June 30, 2019, the Company drawn down $778,000 on this equity financing arrangement.

22. EQUITY FUNDING FACILITIES

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.

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. As of June 30, 2019, the Company has drawn down $750,000 on the equity financing arrangement.

(Expressed in Canadian dollars)

22. EQUITY FUNDING FACILITIES (CONTINUED)

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 GEM will then have an obligation to subscribe up to a maximum of $10,000,000. As of June 30, 2019, the Company drawn down $778,000 on this equity financing arrangement.

23. SEGMENTED REPORTING

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

	Assets **$**	**Revenue** **$**	**Profit (loss)** **$**
Canada - Corporate	24,989,600	-	(34,511,271)
United States - California	7,096,288	7,161,025	(2,712,968)
United States - Puerto Rico	1,546,325	2,150,094	(657,446)
Colombia	90,846	-	(201,073)
	33,723,059	9,311,119	(38,082,758)

As at June 30, 2019, the assets held in Canada include $4,390,323 of goodwill (Note 6) (2018 - $nil).

24. INCOME TAXES

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

	June 30, 2019 **$**	**June 30, 2018** **$**
Net loss for the year	(38,082,758)	(665,444)
Expected tax recovery at a combined federal and provincial rate of 26.0% (2017 - 26.0%)	(9,901,000)	(173,000)
Change in statutory, foreign tax, foreign exchange rates and other	122,000	-
Permanent differences	4,853,000	-
Share issue costs	(55,000)	-
Adjustment to prior years provision versus statutory tax returns and expiry of non-capital losses	(1,340,000)	
Changes in unrecognized deductible temporary differences	6,454,000	173,000
Total income tax expense	133,000	-
Current income taxes	133,000	-
Deferred income taxes	-	-
Total income tax expense	133,000	-

As at June 30, 2019, the Company had $133,000 (2018 - $nil) of U.S. income taxes payable.

(Expressed in Canadian dollars)

24. INCOME TAXES (CONTINUED)

As the Company operates in the cannabis industry, it is subject to the limits of IRC Section 280E under which the Company is only allowed to deduct expenses directly related to sales of the product for US tax purposes. Although proper deductions for cost of goods sold are generally allowed to determine gross income, the scope of such items has been the subject of debate, and deductions for significant costs may not be permitted. While there are currently several pending cases before various administrative and federal courts challenging these restrictions, there is no guarantee that these courts will issue an interpretation of Section 280E favorable to cannabis businesses. Thus, the operations of the Company's US subsidiaries may be subject to United States federal tax, without the benefit of certain deductions or credits.

Significant components of the Company’s deferred income tax assets and liabilities are as follows:

	June 30, 2019 $	June 30, 2018 $
Deferred tax assets (liabilities)		-
Share issue costs	305,000	-
Investment in GSRX	357,000	-
Debt with accretion	54,000	-
Leasehold improvements	39,000	-
Allowable capital losses	40,000	-
Non-capital losses available for future period	5,832,000	173,000
	6,627,000	173,000
Unrecognized deferred tax assets	(6,627,000)	(173,000)
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:

	June 30, 2019 $	Expiry date range	June 30, 2018 $	Expiry date range
Temporary differences				
Equipment	1,112,000	No expiry date	-	No expiry date
Share issue costs	317,000	2018 to 2037	-	2017 to 2036
Investment in GSRX	2,646,000	No expiry date	-	No expiry date
Leasehold improvements	138,000	2040 to 2043	-	2037 to 2040
Allowable capital losses	146,000	No expiry date	-	No expiry date
Non-capital losses available for future periods	26,031,000	2026 to indefinite	665,000	2038

The following losses are available for utilization in future years:

	June 30, 2019	Expiry date range	June 30, 2018	Expiry date range
Net operating losses				
Canada	18,419,000	2037 to 2039	665,000	2038
USA - California	2,413,000	2038 to indefinite	-	-
USA - Puerto Rico	4,944,000	2026 to 2029	-	-
Columbia	254,000	2029 to 2031	-	-

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

(Expressed in Canadian dollars)

25. CONTINGENT LIABILITY

A claim has been made against the Company for USD $2 million in common shares to be issued pursuant to an asset purchase agreement. The Company has retained legal counsel and estimates the range of outcomes to be $nil up to 355,000 common shares of the Company. The Company believes this claim to be without merit, and as such, no amounts were accrued as at June 30, 2019.

26. SUBSEQUENT EVENTS

Subsequent to June 30, 2019:

- On August 14, 2019, the Company settled a $732,000 note payable through the issuance of 600,000 common shares.
- On August 28, 2019, the acquired 42,634,124 common shares and 1,000 preferred shares of GSRX through the issuance of 14,880,705 common shares. See Note 7.
- On September 9, 2019, the Company received a hemp cultivation and production license for its Puerto Rican facilities; and
- On September 11, 2019, the Company entered into an acquisition agreement for three dispensaries in Puerto Rico in exchange for $1,300,000 USD paid over 24 months. The dispensaries consist of cannabis license and leases located in high foot traffic areas. These dispensaries will be accounted for as business combinations and management is in the process of measuring the value of the intangible assets acquired.

Subsequent to June 30, 2019, the Company had the following issuances:

Date	Number of shares	Fair value per share		Total fair value	Purpose
July 3, 2019	1,000,000	1.78	$	1,780,000	SAP Global license rights (Note 10)
July 4, 2019	100,000	1.84	$	184,000	Option exercise
July 12, 2019	157,495	1.71	$	269,316	Rapid Dose license (Note 10)
August 14, 2019	600,000	1.22	$	732,000	Debt settlement agreement (Note 6)
August 28, 2019	14,880,705	0.57	$	8,437,363	Acquisition of GSRX shares (Note 7)
September 18, 2019	540,540	0.74	$	400,000	Private placement
October 3, 2019	236,486	0.74	$	175,000	Private placement