CHEMESIS

CHEMESIS INTERNATIONAL INC.

Condensed Consolidated Interim Financial Statements
For the nine months ended March 31, 2020 and 2019

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

As at		March 31, 2020 (unaudited)		June 30, 2019 (audited)
ASSETS				
Current assets				
Cash	$	1,086,101	$	641,583
Amounts receivable (Note 13)		2,259,816		2,392,559
Prepaids		855,873		99,678
Biological assets (Note 7)		1,284,635		1,244,938
Inventory (Note 8)		2,214,660		830,001
		7,701,085		5,208,759
Non-current assets				
Deposits		646,383		26,743
Fixed assets (Note 11)		7,303,372		7,057,515
Right of use asset (Note 6)		3,540,466		-
Investments (Note 5)		99,280		14,497,777
Intangible assets (Note 9)		2,173,902		2,541,942
Goodwill (Note 5)		3,676,276		4,390,323
Total non-current assets		**17,439,679**		**28,514,300**
TOTAL ASSETS	**$**	**25,140,764**	**$**	**33,723,059**
LIABILITIES				
Current				
Accounts payable and accrued liabilities (Note 17)	$	5,492,787	$	2,488,824
Acquisition payable (Note 5)		-		1,308,700
Derivative liability (Note 12)		179,664		-
Notes payable		-		838,366
Income tax payable		-		133,000
Current portion of lease liability (Note 6)		1,524,036		-
Unearned revenue		215,923		235,639
Convertible debt (Note 12)		2,507,109		-
		9,919,521		5,004,529
Non-current liabilities				
Lease liability (Note 6)		2,107,235		-
Convertible debt (Note 12)		-		3,342,741
TOTAL LIABILITIES	**$**	**12,026,756**	**$**	**8,347,270**
SHAREHOLDERS' EQUITY				
Share capital (Note 14)		73,190,069		56,954,958
Subscriptions received		173,920		-
Equity portion of convertible debt (Notes 12)		-		244,000
Contributed surplus		2,386,256		5,253,384
Accumulated other comprehensive income		1,269,925		569,066
Deficit		(67,761,351)		(37,904,390)
Equity attributable to Chemesis		**7,258,819**		**25,117,018**
Non-controlling interest (Note 10)		5,855,189		258,771
Total equity		**13,114,008**		**25,375,789**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$**	**25,140,764**	**$**	**33,723,059**

Subsequent events (Note 25) Commitments (Note 19) Contingent Liability (Note 24)

These condensed consolidated interim financial statements were authorized for issue by the Board of Directors on June 2, 2020.
Approved on behalf of the Board of Directors:

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

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

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

		For the three months ended March 31, 2020		For the three months ended March 31, 2019		For the nine months ended March 31, 2020		For the nine months ended March 31, 2019
REVENUES	$	4,529,524	$	3,762,139	$	10,174,815	$	8,501,274
COST OF GOODS SOLD		(2,877,742)		(2,878,780)		(6,666,255)		(6,995,783)
		1,651,782		883,359		3,508,560		1,505,491
Unrealized gain (loss) on biological assets (Note 7)		(751,662)		230,544		119,983		230,544
Realized gain (loss) on biological assets (Note 7)		(631,691)		-		72,170		-
Gross Profit		268,429		1,113,903		3,700,713		1,736,035
EXPENSES								
Advertising and marketing		755,589		350,575		1,189,728		1,339,385
Bad debt expense (recovery)		(205,281)		-		11,246		-
Consulting and payroll		228,214		516,878		1,667,803		1,319,716
Depreciation (Notes 6, 9 and 11)		289,567		10,967		2,910,310		44,884
Foreign exchange loss (gain)		386,074		65,239		403,024		53,600
Management fees (Note 17)		129,857		113,401		355,500		322,591
General and administration		1,444,895		366,024		3,857,191		735,445
Professional fees		506,635		329,855		1,650,508		989,903
Rent		87,772		341,144		460,881		827,352
Security		60,780		19,122		98,083		136,795
Share-based payments (Notes 14 and 17)								
Options granted		1,798,274		1,518,496		2,060,114		4,085,798
Consulting fees		24,602		-		24,602		-
Transfer agent and filing fees		14,064		75,100		81,002		159,647
Travel		53,060		90,890		315,791		230,217
TOTAL OPERATING EXPENSES		5,574,102		3,797,691		15,085,783		10,245,333
LOSS BEFORE OTHER ITEMS		(5,305,673)		(2,683,788)		(11,385,070)		(8,509,298)
OTHER ITEMS:								
Interest expense (Notes 6 and 12)		(440,450)		(97,281)		(990,017)		(109,147)
Loss on GSRX Industries Inc. (Note 5)		-		-		(10,308,227)		-
Loss on sale of building (Note 11)		-		-		(256,810)		-
Impairment of assets (Note 5)		(5,257,609)		-		(6,065,391)		-
Impairment of goodwill (Note 5)		-		-		(2,633,910)		-
Interest and other income		-		2,939		-		23,486
Listing acquisition expense		-		-		-		(25,278,174)
		(5,698,059)		(94,342)		(20,254,355)		(25,363,835)
NET LOSS BEFORE TAX	$	(11,003,732)	$	(2,778,130)	$	(31,639,425)	$	(33,873,133)
Income tax recovery		-		-		133,000		-
NET LOSS AFTER TAX		(11,003,732)	-	(2,778,130)		(31,506,425)		(33,873,133)
OTHER COMPREHENSIVE LOSS								
Items that may be subsequently reclassified to loss:								
Cumulative translation adjustment		1,040,904		(710,453)		740,327		(106,770)
COMPREHENSIVE LOSS	$	(9,962,828)	$	(3,488,583)	$	(30,766,098)	$	(33,979,903)
NET LOSS ATTRIBUTABLE TO:								
Chemesis International Inc.	$	(11,125,993)		(2,741,874)		(31,856,488)	$	(33,574,331)
Non-controlling interest		122,261		(36,256)		350,063		(298,802)
		(11,003,732)		(2,778,130)		(31,506,425)		(33,873,133)
						-		
COMPREHENSIVE LOSS ATTRIBUTABLE TO:								
Chemesis International Inc.		(10,101,299)		(3,461,706)		(31,193,709)		(33,675,791)
Non-controlling interest		138,471		(26,877)		427,611		(304,112)
	$	(9,962,828)		(3,488,583)		(30,766,098)	$	(33,979,903)
Loss per share, basic and diluted	$	(0.44)		(0.37)		(1.78)	$	(5.18)
Weighted average number of common shares outstanding		24,737,950		7,533,009		17,736,289		6,543,412

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

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

	Share Capital									
	Number	**Amount**	**Subscriptions received**	**Equity portion of convertible debt**	**Contributed surplus**	**Accumulated other comprehensive income (loss)**	**Deficit**	**Subtotal**	**Non-Controlling Interest**	**Total Shareholders' Equity**
		$	$	$	$	$	$	$	$	$
As at June 30, 2019	9,216,353	56,954,958	-	244,000	5,253,384	569,066	(37,904,390)	25,117,018	258,771	25,375,789
Acquisition of GSRX (Note 5)	1,488,071	8,437,363	-	-	-	-	-	8,437,363	5,444,783	13,882,146
Shares held internally (Note 5)	(729,187)	(4,506,378)	-	-	(1,400,040)	-	-	(5,906,418)	-	(5,906,418)
Acquisition of SAP (Note 5)	100,000	1,780,000	-	-	(1,603,804)	-	-	176,196	(176,196)	-
Acquisition of GSRX preferred shares (Note 5)	400,000	1,840,000	-	-	(1,840,000)	-	-	-	-	-
Shares issued for intangible asset (Note 9)	15,750	269,316	-	-	-	-	-	269,316	-	269,316
Shares-for-debt (Note 5)	5,717,617	2,457,573	-	-	-	-	-	2,457,573	-	2,457,573
Convertible Debt (Note 12)	1,802,903	1,802,575	-	(244,000)	-	-	-	1,558,575	-	1,558,575
Private placements, net (Note 14)	10,812,900	3,849,427	-	-	-	-	-	3,849,427	-	3,849,427
Subscriptions received (Note 14)	-	-	173,920	-	-	-	-	173,920	-	173,920
Shares issued for options exercised (Note 14)	10,000	248,000	-	-	(108,000)	-	-	140,000	-	140,000
Shares issued for services (Note 14)	30,938	57,235	-	-	-	-	-	57,235		57,235
Issuance of shares by GSRX for services (Note 14)	-	-	-	-	24,602	475	(475)	24,602	(62,174)	(37,572)
Share-based payments (Note 14)	-	-	-	-	2,060,114	-	-	2,060,114	-	2,060,114
Net loss	-	-	-	-	-		(31,856,488)	(31,856,488)	350,063	(31,506,425)
Other comprehensive loss	-	-	-	-	-	700,384	-	700,384	39,942	740,326
As at March 31, 2020	28,865,345	73,190,069	173,920	-	2,386,256	1,269,925	(69,761,353)	7,258,817	5,855,189	13,114,006

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

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

	Number	Amount	Subscriptions received	Equity portion of convertible debt	Contributed surplus	Accumulated other comprehensive income (loss)	Deficit	Subtotal	Non-Controlling Interest	Total Shareholders' Equity
June 30, 2018	**4,680,756**	3,800,000	**-**	**-**	**-**	**38,600**	**(345,163)**	**3,493,437**	**(283,194)**	**3,210,243**
Shares issued on reverse takeover	1,604,008	9,784,446	-	-	708,083	-	-	10,492,529	-	10,492,529
Business acquisitions	288,775	2,220,170	-	-	-	-	-	2,220,170	-	2,220,170
Shares issued for asset acquisitions	870,193	8,091,751	-	-	-	-	-	8,091,751	-	8,091,751
Shares issued for consulting fees	53,887	631,437	-	-	-	-	-	631,437	-	631,437
Shares issued for cash:										
Private placement, net	219,712	3,306,768	-	-	-	-	-	3,306,768	-	3,306,768
Warrants exercised	45,200	904,000	-	-	-	-	-	904,000	-	904,000
Options exercised	33,250	342,500	-	-	-	-	-	342,500	-	342,500
Share-based payments	-	-	-	-	4,085,798	-	-	4,085,798	-	4,085,798
Subscriptions received	-	-	20,000	-	-	-	-	20,000	-	20,000
Convertible debt	-	-	-	244,000	186,057	-	-	430,057	-	430,057
Spin-out of exploration and evaluation assets	-	-		-	-	-	(113,319)	(113,319)	-	(113,319)
Net loss	-	-	-	-	-		(12,687,035)	(12,687,035)	(262,546)	(12,949,581)
Other comprehensive income	-	-	-	-	-	406,252		406,252	197,431	603,683
March 31, 2019	**7,795,779**	**29,081,072**	**20,000**	**244,000**	**4,979,938**	**444,852**	**(13,145,517)**	**21,624,345**	**(348,309)**	**21,276,036**
Business acquisitions	67,231	880,058	-	-	-	-	-	880,058	977,562	1,857,620
Shares issued for asset acquisitions	82,534	1,561,540	-	-	-	-	-	1,561,540	-	1,561,540
Shares-for-debt	410,448	5,861,191	-	-	-	-	-	5,861,191	-	5,861,191
Shares issued to GSRX	729,187	17,144,062	-	-	-	-	-	17,144,062	-	17,144,062
Shares issued for cash:										
Private placement, net	122,973	2,127,937	-	-	-	-	-	2,127,937	-	2,127,937
Warrants exercised	3,200	122,661	-	-	(58,661)	-	-	64,000	-	64,000
Options exercised	5,000	176,437	-	-	(121,437)	-	-	55,000	-	55,000
Share-based payments	-	-	-	-	453,544	-	-	453,544	-	453,544
Subscriptions received	-	-	(20,000)	-	-	-	-	(20,000)	-	(20,000)
Net loss	-	-		-	-	-	(24,758,873)	(24,758,873)	(374,304)	(25,133,177)
Other comprehensive income	-	-		-	-	124,214	-	124,214	3,822	128,036
June 30, 2019	**9,216,353**	**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 condensed consolidated interim financial statements.

Chemesis International Inc.
Condensed Consolidated Interim Statements of Cash Flows
(Unaudited - Expressed in Canadian dollars)

	Nine months ended March 31, 2020	Nine months ended March 31, 2019
Cash (used in) provided by:		
OPERATING ACTIVITIES		
Net loss for the period	$ (31,506,425)	$ (33,873,133)
Items not involving cash:		
Listing expense		25,278,174
Loss on investment in GSRX	10,308,227	-
Unrealized gain on biological assets	(119,983)	(233,212)
Share-based payments	2,084,716	4,085,798
Shares issued for consulting fees	(4,939)	372,124
Interest/accretion	478,003	64,545
Loss on sale of building	256,610	-
Foreign exchange	(20,234)	-
Write-off of deposit	1,264,184	
Write-off of patent application costs	2,562,963	-
Write-off of other assets	1,430,462	
Write-off of intangible asset	807,782	-
Write-off of goodwill	2,633,910	-
Depreciation	2,910,310	44,884
Net changes in non-cash working capital items:		
Prepaid expenses	(490,061)	(1,113,230)
Inventory	(764,723)	(1,076,409)
Biological assets	80,286	-
Acquisition payable	(1,308,700)	-
Unearned revenue	(19,716)	-
Income tax payable	(133,000)	-
Lease liability	(1,262,446)	-
Amounts receivable	(59,647)	(2,933,945)
Amounts payable	3,715,168	1,105,705
Net cash used in operating activities	(7,157,253)	(8,278,699)
INVESTING ACTIVITIES:		
Deposits	(619,640)	97,936
Purchase of equipment and leaseholds improvements	(801,173)	(1,001,834)
Purchase of intangible assets	-	(253,674)
Proceeds from sale of assets	1,254,626	-
Cash received on acquisition	2,061,494	5,073,817
Cash paid on acquisition	-	(3,633,419)
Net cash used in investing activities	1,895,307	282,826
FINANCING ACTIVITIES:		
Proceeds from private placement, net	3,849,427	3,306,768
Proceeds from option and warrant exercise	140,000	1,246,500
Subscriptions received	173,920	20,000
Convertible debt	1,462,190	3,500,000
Net cash provided by financing activities	5,625,537	8,073,268
Effect of exchange rate changes on cash	80,927	625,707
Net increase (decrease) in cash	444,518	703,102
Cash, beginning of period	641,583	1,030,284
Cash, end of period	$ 1,086,101	**$** 1,733,386

Non-cash investing and financing activities - See Note 18
The accompanying notes are an integral part of these condensed consolidated interim 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 2200 HSBC Building, 885 West Georgia Street, Vancouver BC V6C 3E8 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.

Effective December 20, 2019, the Company completed a share consolidation of its share capital on the basis of ten existing common shares for one new common share. All common share and per share amounts in these consolidated financial statements are 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.

During the nine months ended March 31, 2020, the Company's cultivation and manufacturing licenses (the "Licenses") were suspended by the Puerto Rico Department of Health. Subsequent to March 31, 2020, the Company filed an injunction. As a result, the Puerto Superior Court found the suspension to be invalid and nullified the suspension. As a result, the Company's Licenses have since been reinstated and all licenced activities have been resumed. These factors have been considered in the preparation of these consolidated interim financial statements.

2. GOING CONCERN

These condensed consolidated interim 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 nine months ended March 31, 2020, the Company incurred a loss of $30,075,208 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 condensed consolidated interim 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 condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34 “Interim Financial Reporting”. They do not include all of the information required for full annual financial statements and should be read in conjunction with the Company's audited annual consolidated financial statements for the fiscal year ended June 30, 2019, filed November 4, 2019, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and Interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).

The condensed consolidated interim financial statements were authorized for issue in accordance with a resolution from the Board of Directors on June 2, 2020.

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 condensed consolidated interim financial statements were authorized for issue by the Board of Directors on June 2, 2020.

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. BASIS OF PRESENTATION (CONTINUED)

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.

Going concern

The assessment of the Company's ongoing viability as an operating entity and determination of the related disclosures require significant judgment. In assessing the Company's ability to continue as a going concern, market and regulatory factors are considered.

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 acquiree 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.

3. BASIS OF PRESENTATION (CONTINUED)

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.

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. Any excess

Share-based payments

Share-based payments, as measured with respect to stock options granted are estimated using 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.

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.

Where applicable, 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 are presented in Canadian Dollars and incorporate the financial statements of the Company and its controlled subsidiaries:

Subsidiary	Country	Functional currency	Ownership %
1145411 BC Ltd.	Canada	Canadian Dollar	100%
Desert Zen LLC ("Desert Zen")	USA - California	US Dollar	100%
10998451 Canada Inc	Canada	Canadian Dollar	100%
Kieley Growth Management LLC ("Kieley")	USA - California	US Dollar	60%
La Finca Interacviva Arachna Inc. SAS. (La Finca")	Colombia	Colombian Peso	100%
Bonhomie Labs LLC ("Bonhomie")	USA - California	US Dollar	100%
SAP Global Inc. ("SAP Global")	USA - California	US Dollar	100%
Natural Ventures Puerto Rico ("Natural Ventures")	USA - Puerto Rico	US Dollar	80%
GSRX Industries Inc. ("GSRX")*	USA	US Dollar	66%

(Unaudited - Expressed in Canadian dollars)

3. BASIS OF PRESENTATION (CONTINUED)

*List of subsidiaries and percent ownership held under GSRX included below

Subsidiaries held by GSRX	Country	GSRX Ownership %
Project 1493, LLC;	USA	100%
Green Spirit Mendocino, LLC;	USA	100%
Sunset Connect Oakland, LLC;	USA	55%
Green Spirit Essentials, LLC;	USA	55%
Spirulinex, LLC	USA	100%
Point Arena Supply Co., LLC	USA	100%
GSRX SUPES, LLC	USA	100%
138 Main Street PA, LLC.	USA	100%
511 Andalucia, LLC	USA	100%
Ukiah Supply Company, LLC	USA	100%
Point Arena Distribution, LLC	USA	100%
Point Arena Manufacturing, LLC	USA	94%
Pure and Natural, LLC	USA	100%
Pure and Natural One-TN, LLC	USA	51%
Pure and Natural-Lakeway, LLC	USA	51%

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.

3.4 Non-controlling interests

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. See Note 10 for non-controlling interest disclosures.

4. SIGNIFICANT ACCOUNTING POLICIES

With the exception of the recently adopted accounting policies, these condensed consolidated interim financial statements have been prepared on the basis of accounting policies and methods of computation consistent with those applied in the Company's amended audited annual financial statement for the fiscal year ended June 30, 2019.

Accounting standards adopted during the period

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, 2019, 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.

(Unaudited - Expressed in Canadian dollars)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 current annual period retrospectively and the adoption did not have a significant impact on the Company's condensed consolidated interim financial statements for the nine months ended March 31, 2020.

The Company adopted the requirements of IFRS 16 effective July 1, 2019. This new standard replaces IAS 17 Leases and the related interpretative guidance. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset being leased. For those assets determined to meet the definition of a lease, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model that is similar to the current accounting for finance leases, with limited exceptions for short-term leases or leases of low value assets. Lessor accounting is substantially changed.

On adoption, the Company transitioned to the new standard using the modified retrospective approach and:

a) Measured the lease liability based on the present value of the remaining lease payments discounted using the Company's incremental borrowing rate of at July 1, 2019;
b) Measured the right-of-use asset as if IFRS 16 had been applied since the commencement date, but discounted using the Company's incremental borrowing rate at July 1, 2019; and
c) Recording the cumulative difference to deficit;

The net impact on retained earnings on July 1, 2019 was a $nil.

The following is a reconciliation of total operating lease commitments at June 30, 2019, to the lease liabilities recognized at July 1, 2019:

Lease liabilities before discounting	$	1,726,894
Discounted using incremental borrowing rate of 15%		(270,647)
Operating lease liability	**$**	**1,456,247**

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

For any new contracts entered into on or after January 1, 2019, the Company considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition the Company assesses whether the contract meets six key evaluations which are whether:

a) The contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Company;
b) The Company has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and
c) The Company has the right to direct the use of the identified asset throughout the period of use. The Company assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

Measurement and recognition of leases as a lessee

At lease commencement date, the Company recognizes a right-of-use asset and a lease liability on the balance sheet. The Company depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Company also assesses the right-of-use asset for impairment when such indicators exist.

At the commencement date, the Company measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available. If the interest rate implicit in the lease is not readily available, the Company discounts using the Company's incremental borrowing rate. Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Company has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognizing a right-of-use asset and lease liability, the payments in relation to these are recognized as an expense in profit or loss on a straight-line basis over the lease term. On the statement of financial position, right-of-use assets have been included under non-current assets and lease liabilities have been included under current and non-current liabilities.

(Unaudited - Expressed in Canadian dollars)

5. GOODWILL, ACQUISITIONS AND ACQUISITIONS PAYABLE

Goodwill arose over the acquisition of Natural Ventures, Desert Zen, Kieley Growth, and GSRX 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.

The Company's goodwill arose on acquisitions and are summarized as follows:

	Desert Zen	**Natural Ventures**	**Kieley Growth**	**GSRX**	**Total**
	United States	*Puerto Rico*	*United States*	*Puerto Rico*	
Cost					
Balance, June 30, 2018	$ -	$ -	$ -	$ -	$ -
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
Additions	-	-	-	1,919,863	1,919,863
Balance, March 31, 2020	**$ 374,830**	**$ 3,557,713**	**$ 2,259,080**	**$ 1,919,863**	**$ 8,111,486**
Accumulated impairment					
Balance, June 30, 2018	$ -	$ -	$ -	$ -	$ -
Additions	-	1,801,300	-	-	1,801,300
Balance, June 30, 2019	**$ -**	**$ 1,801,300**	**$**	**$ -**	**$ 1,801,300**
Additions	374,830	-	2,259,080	-	2,633,910
Balance, March 31, 2020	**$ 374,830**	**$ 1,801,300**	**$ 2,259,080**	**$ -**	**$ 4,435,210**
Balance, June 30, 2018	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Balance, June 30, 2019	**$ 374,830**	**$ 1,756,413**	**$ 2,259,080**	**$ -**	**$ 4,390,323**
Balance, March 31, 2020	**$ -**	**$ 1,756,413**	**$ -**	**$ 1,919,863**	**$ 3,676,276**

Impairment of goodwill and intangible assets

During the three months ended March 31, 2019, the Company noted certain indicators of impairment for the Company's US - California CGU, including a significant drop in demand. As such, the Company ceased operations during the three months ended March 31, 2019 in its US - California CGU. Charges of $374,830 to goodwill for Desert Zen and $2,259,080 in goodwill for Kieley were charged to profit and loss.

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.

(Unaudited - Expressed in Canadian dollars)

5. GOODWILL, ACQUISITIONS AND ACQUISITIONS PAYABLE (CONTINUED)

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.

Impairment of goodwill and intangible assets (continued)

During the year ended June 30, 2019, the Company recognized indicators of impairment on its US - Puerto Rico CGU. The recoverable value was determined in accordance with a value in use model in accordance with IFRS 9. Capitalized cash flows were 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 excess of carrying value over fair value was recognized as impairment charges during the year ended June 30, 2019:

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

Measurement period

The fair values of assets and liabilities as at the date of acquisition of GSRX, April 1, 2019, are still within the measurement period as defined in IFRS 3 as at March 31, 2020. As such, these values are subject to change.

GSRX Industries Inc.

On April 1, 2019 the Company acquired an 19.9% interest 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 729,187 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	**$**	**-**
Share exchange		17,144,062
Unrealized loss on investment in GSRX		(2,646,285)
Balance, June 30, 2019	**$**	**14,497,777**
Unrealized loss on investment in GSRX		(10,308,227)
Investment balance transferred to GSRX acquisition on August 29, 2019		(4,189,550)
Balance, March 31, 2020	**$**	**-**

On August 29, 2019, the Company acquired 42,634,124 common shares of GSRX in exchange for 1,488,071 common shares of the Company for a total fair value of $8,437,363. Immediately after the transaction the Company held a 66.29% common share interest and in GSRX. During the six months ended December 31, 2019, the Company acquired a 100% of the preferred shares in exchange for 400,000 common shares of the Company. The acquisition of GSRX was accounted for as a business combination.

(Unaudited - Expressed in Canadian dollars)

5. GOODWILL, ACQUISITIONS AND ACQUISITIONS PAYABLE (CONTINUED)

GSRX Industries Inc. (continued)

Acquisition of GSRX on August 29, 2019 is as follows:

Cost of transaction		
Initial investment of 729,187 common shares	$	4,189,550
Investment of 1,488,071 common shares of the Company		8,437,363
Total consideration	$	12,626,913
Fair value of Net assets acquired		
Cash	$	2,061,494
Accounts receivable		29,079
Prepaid expenses		267,836
Inventory		619,936
Deposits		399,551
Equipment		455,234
Land		467,131
Buildings		1,286,402
Leasehold improvements		814,956
License		1,094,741
Right of use asset		2,959,466
Patent application costs		2,586,842
Construction in progress		1,212,598
Marketable securities		93,151
Investment in Chemesis		5,906,418
Total assets	$	20,254,835
Current liabilities	$	1,143,535
Lease liabilities		2,959,467
Total liabilities	$	4,103,002
Net assets acquired		**16,151,833**
Less: NCI portion	$	**(5,444,783)**
Company's share of net assets acquired		**10,707,050**
Goodwill	**$**	**1,919,863**

At acquisition, GSRX held 1,895,887 common shares of the Company with a fair value of $5,906,418, compared to a value of $4,506,378, which represents the pro-rata net share capital at acquisition date of $6.18 per common share of the Company. 729,187 common shares with a fair value of $4,506,378 were issued on April 1, 2019 and the final issuance on August 29, 2019 of 1,488,071 common shares with a fair value of $8,437,363, which are to be released in equal tranches every six months, starting six months from grant date. The fair value of the 1,488,071 common shares was determined using a DLOM model, which discounts time-released common shares at rates between 20%-35%. In connection with the issuance of 1,488,071 common shares, a finder's fee of $99,450 was paid, which is included in operating expenses.

The difference of $1,400,040 between the fair value of GSRX-held Chemesis shares acquired and the original fair value of shares issued by Chemesis to GSRX is included in Chemesis' share capital however is excluded from the net assets of GSRX as these losses occurred before acquisition. As such, this amount was charged to contributed surplus during the nine months ended March 31, 2020.

(Unaudited - Expressed in Canadian dollars)

5. GOODWILL, ACQUISITIONS AND ACQUISITIONS PAYABLE (CONTINUED)

GSRX Industries Inc. (continued)

On November 7, 2019, the Company issued 400,000 common shares with a fair value of $1,840,000. As this was a transaction with a controlled subsidiary, $1,840,000 was charged to contributed surplus.

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 62,500 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**

Due to a declining market in the US during the nine months ended March 31, 2020, the US - California CGU charged impairment on goodwill of $374,830 for Desert Zen and $2,259,080 for Kieley in accordance with Level 3 of the fair value hierarchy, for total impairment on goodwill charge of $2,633,910.

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 223,525 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.

(Unaudited - Expressed in Canadian dollars)

5. GOODWILL, ACQUISITIONS AND ACQUISITIONS PAYABLE (CONTINUED)

The consideration paid in excess of the net assets of the acquired business was $3,557,713 and was 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**

During the year ended June 30, 2018, Chemesis entered 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.

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 748,000 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**

(Unaudited - Expressed in Canadian dollars)

5. GOODWILL, ACQUISITIONS AND ACQUISITIONS PAYABLE (CONTINUED)

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 410,448 common shares 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 during the year ended June 30, 2019. 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	**$**	**5,568,562**
Fair value of shares issued		5,861,191
Loss on debt settlement	**$**	**292,629**

Kieley

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 67,231 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. During the nine months ended March 31, 2020, the Company settled the $732,000 note payable through the issuance of 60,000 common shares.

(Unaudited - Expressed in Canadian dollars)

5. GOODWILL, ACQUISITIONS AND ACQUISITIONS PAYABLE (CONTINUED)

A continuity of acquisition payable is as follows:

Balance, June 30, 2018	**$**	-
Additions, May 24, 2019		1,346,800
Foreign exchange gain		(38,100)
Balance, June 30, 2019	**$**	**1,308,700**
Repayment		**(1,308,700)**
Balance, March 31, 2020	**$**	**-**

Due to a declining market in the US during the six months ended December 31, 2019, the US - California CGU charged impairment on goodwill of $374,830 for Desert Zen and $2,259,080 for Kieley Growth in accordance with Level 3 of the fair value hierarchy, for total impairment on goodwill charge of $2,633,910.

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.

A continuity is as follows:

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. 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. On July 19, 2018, the Company increased its ownership in SAP Global from 51% to 80% for no additional consideration and on July 3, 2019, the Company issued 100,000 common shares with a fair value of $1,780,000 to increase its ownership to 100%. As this was a transaction with a controlled subsidiary, the value of the increase in ownership of $176,196 was charged to non-controlling interests, and $1,603,804 charged to contributed surplus.

Caribbean Green LLC

On September 9, 2019, Natural Ventures entered into an acquisition agreement to operate three dispensaries in Puerto Rico for total payments of USD $1,200,000, due in monthly installments of USD $50,000. The agreement is subject to the Company successfully transferring the licenses into its name. This requires approval from the Puerto Rico Department of Health, and as such, the acquisition of the licenses is subject to this being completed. As at March 31, 2020, the Company has paid USD $350,000 and is included in deposits subject to the completion of the license transfer. The Company does not anticipate any issues completing the transfer; however, delays are continued to be expected pursuant to the COVID-19 Pandemic.

Included in investments as at March 31, 2020 is $99,280 in shares in a privately held company.

(Unaudited - Expressed in Canadian dollars)

6. RIGHT OF USE ASSETS AND LEASE LIABILITIES

The Company's right-of-use asset relates to the lease of operational facilities and office space. On adoption of IFRS 16, the group recognized lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of July 1, 2019.

The weighted average lessee's incremental borrowing rate applied to the lease liabilities was 15%.

The carrying value of the Company's right of use assets is as follows:

Cost		
Balance, July 1, 2019, on adoption of IFRS 16	$	1,456,247
Acquisition of GSRX (Note 5)		2,959,466
Disposals		(383,149)
Effects of foreign exchange		278,141
Balance, March 31, 2020	**$**	**4,310,706**
Accumulated depreciation		
Balance, July 1, 2019	$	-
Disposals		(10,643)
Depreciation		780,883
Balance, March 31, 2020		**770,240**
Carrying value, July 1, 2019	$	1,456,247
Balance, March 31, 2020	**$**	**3,540,466**

The carrying value of the lease obligations is as follows:

Lease obligations		
Lease liabilities, adoption of IFRS 16, July 1, 2019	$	1,456,247
Acquisition of GSRX		2,959,466
Repayments		(1,239,948)
Disposals		(300,556)
Accretion		451,109
Effects of foreign exchange		304,953
Balance, March 31, 2020	$	3,631,271
Less: Current portion		(1,524,036)
Lease liability, long term	**$**	**2,107,235**

(Unaudited - Expressed in Canadian dollars)

7. BIOLOGICAL ASSETS

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

		As at March 31, 2020		As at June 30, 2019
Biological assets, beginning	$	1,244,938	$	-
Allocated direct costs		571,752		1,038,732
Biological assets transferred to Inventory		(775,615)		-
Net increase in fair value less costs to sell due to biological transformation		192,154		219,996
Effects of foreign exchange rates		51,406		(13,790)
Biological assets, end	**$**	**1,284,635**	**$**	**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). The Company did not have any biological assets as at and during the nine months ended March 31, 2020.

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 (June 30, 2019 - \$81.25).	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 (June 30, 2019 – 3.5oz).	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 (June 30, 2019 – 12-15 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 (June 30, 2019 - \$nil)	A slight decrease in the estimated selling costs would result in a slight increase in fair value, and vice versa.

(Unaudited - Expressed in Canadian dollars)

7. BIOLOGICAL ASSETS

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.

8. INVENTORY

As at March 31, 2020, the Company's inventory balance consists of raw and finished goods. During the nine months ended March 31, 2020, the Company expensed $6,666,255 (March 31, 2019 - $6,995,783) of inventory included within cost of goods sold.

Included in inventory at March 31, 2020 was $220,950 (June 30, 2019 - $nil) in fair value of biological assets. The Company realized $72,170 in fair value biological asset adjustments through cost of goods sold during the period ended March 31, 2020 (2019 - $nil).

The Company's inventory comprised the following as at:

	March 31, 2020	June 30, 2019
Cultivation	$ 220,950	$ 428,770
Raw materials and supplies	198,318	428,770
Finished goods	1,795,392	401,231
Total	**$ 2,214,660**	**$ 830,001**

9. INTANGIBLE ASSETS

Cost	**License Rights**	**Patent application costs**	**Total**
Balance, June 30, 2018	$ -	$ -	$ -
Additions	3,793,620	-	-
Impairment	(637,059)	-	-
Balance, June 30, 2019	**$ 3,156,561**	**$ -**	**$ 3,156,561**
Additions	1,364,057	2,585,389	3,949,446
Foreign exchange	57,327	(22,426)	39,401
Impairment	(807,782)	(2,562,963)	(3,370,745)
Balance, March 31, 2020	**$ 3,770,163**	**$ -**	**$ 3,770,163**
Accumulated amortization			
Balance, June 30, 2018	$ -	$ -	$ -
Additions	(614,619)	-	(614,619)
Balance, June 30, 2019	**$ (614,619)**	**$ -**	**$ (614,619)**
Additions	(981,642)	-	(981,642)
Balance, March 31, 2020	**$ (1,596,261)**	**$ -**	**$ (1,596,261)**
Net, June 30, 2018	$ -	$ -	$ **-**
Net, June 30, 2019	$ **2,541,942**	**$ -**	**$ 2,541,942**
Net, March 31, 2020	$ **2,173,902**	**$ -**	**$ 2,173,902**

The Company's license rights are summarized as follows:

9. INTANGIBLE ASSETS (CONTINUED)

SAP Brand rights
On July 20, 2018, the Company issued 66,464 common shares 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. An impairment charge of $223,393 was recognized during the nine months ended March 31, 2020 as the license is no longer in use.

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 17,356 common shares with a fair value per share of $10.80 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 $21,432 and issued shares valued at $422,745 capitalized as intangible assets. The agreement was terminated during the year ended June 30, 2019, and as such an impairment charge to intangible assets of $637,059 was recorded.

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. Due to a declining market in the US during the nine months ended March 31, 2020, the Company wrote off the balance of the license of $441,611 in accordance with Level 3 of the fair value hierarchy.

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. Due to a declining market in the US during the nine months ended March 31, 2020, the Company wrote off the balance of the license of $142,778 in accordance with Level 3 of the fair value hierarchy.

La Finca License
The Company holds a research and development license with a useful life of one year.

Patents
GSRX has applied for patents which it believes are a new, original and ornamental design for Oral Consumable Flakes. The patents use the methods of preparing soluble, encapsulated plant-based compositions. Patents consists of $1,943,934 in legal fees, which were written off during the nine months ended March 31, 2019.

(Unaudited - Expressed in Canadian dollars)

10. NON-CONTROLLING INTERESTS

During the period ended March 31, 2020 and the year ended June 30, 2019, the Company acquired several companies with significant non-controlling interests. Non-controlling interests are initially recorded at the non-controlling interest's percentage of the total fair value of net assets acquired. A continuity of the Company's non-controlling interests is below:

	Natural Ventures *Puerto Rico*	Kieley Growth *United States*	GSRX *Puerto Rico*	SAP *United States*	Total
Balance, June 30, 2018	$ -	$ -	$ -	$ (283,194)	$ (283,194)
Acquisitions	511,044	466,518	-	-	977,562
Net loss	(131,489)	(2,763)	-	(502,598)	(636,850)
Other comprehensive loss	79,995	40,251	-	81,007	201,253
Balance, June 30, 2019	**$ 459,550**	**$ 504,006**	**$ -**	**$ (704,785)**	**$ 258,771**
Acquisition	-	-	5,444,783	(176,196)	5,268,587
Net loss	(235,469)	557,918	-	27,614	350,063
Other comprehensive loss	6,436	(29,904)	36,751	26,659	39,942
Shares issued for services	-	-	(62,174)	-	(62,174)
Balance, March 31, 2020	**$ 230,517**	**$ 1,032,020**	**$ 5,419,360**	**$ (826,708)**	**$ 5,855,189**

Summarized financial information from each subsidiary with significant non-controlling interests is as follows:

	Natural Ventures *Puerto Rico*	Kieley Growth *United States*	GSRX *Puerto Rico*	SAP *United States*	Total
Total assets	$ 4,954,019	$ 1,121,533	$ 151,360	$ 1,262,573	$ 7,489,485
Total liabilities	2,516,751	455,171	417,928	209,019	3,262,711
Revenues	1,909,847	418,999	7,840,478	5,491	10,174,815
Expenses	(1,640,695)	(266,624)	(4,380,437)	(1.126.260)	(7,414,016)
Other items	(102,074)	-	(4,137,301)	(1,556,622)	(5,795,997)
Net loss	$ (1,177,343)	$ 69,034	$ (4,745,583)	$ (3,343,204)	$ (9,197,096)

(Unaudited - Expressed in Canadian dollars)

11. EQUIPMENT AND LEASEHOLD IMPROVEMENTS

	Machinery and Equipment	Leasehold Improvements	Buildings	Construction in Progress	Land	Total
Cost						
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
Acquisition of GSRX	455,234	814,956	1,286,402	1,212,598	467,131	4,236,321
Additions	67,313	1,818,193	-	-	-	1,885,506
Transfer	-	-	131,206	(131,206)	-	-
Impairment	(146,295)	(2,489,354)	-	-	-	(2,635,649)
Disposals	-	-	(1,040,928)	-	(467,131)	(1,508,059)
Changes in foreign exchange	(410,924)	(7,622)	(125,538)	24,902	-	(519,182)
Balance, March 31, 2020	$ 5,237,937	$ 2,289,824	$ 251,142	$ 1,106,294	-	8,885,197
Depreciation						
Balance, June 30, 2018	$ 119	$ -	$ -	$ -	-	119
Additions	228,614	140,012	-	-	-	368,626
Balance, June 30, 2019	$ 228,733	$ 140,012	$ -	$		$ 368,745
Additions	649,423	464,195	34,167			1,147,785
Disposals	-	-	(11,389)			(11,389)
Changes in foreign exchange	9,306	67,378	-			76,684
Balance, March 31, 2020	$ 887,462	$ 671,585	$ 22,778	$ -	-	1,581,825
Net book value						
June 30, 2019	**$ 5,043,876**	**$ 2,013,639**	**$ -**	**$ -**	**-**	**$ 7,057,515**
March 31, 2020	**$ 4,350,475**	**$ 1,618,239**	**$ 228,364**	**$ 1,106,294**	**-**	**$ 7,303,372**

During the nine months ended March 31, 2020, the Company issued 15,750 common shares with a fair value of $269,316 for equipment (Note 14). Further, during the nine months ended March 31, 2020, the Company sold a building with a book value of $1,286,402 and land of $467,131. A loss on sale of $256,610 was recorded.

During the year ended June 30, 2019, the Company:
- issued 27,146 common shares for a total fair value of $431,613 in exchange for equipment.
- issued 55,389 common shares for total fair value of $1,129,927 for equipment which was in transit as at June 30, 2019. No amortization was taken on these as this equipment was not in use.

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.

12. CONVERTIBLE DEBT

During the nine months ended March 31, 2020, the Company completed a convertible debt financing for total gross proceeds of USD$1,100,000. The convertible debentures bear interest at a rate of 10% 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 $12.50 per unit. Each unit consists of one common share and one warrant, which is exercisable into one common share at an exercise price of $15.00 for a period of 24 months. $91,994 was allocated to the equity component of convertible debentures.

The 2019 Debentures carry a derivative liability whereby the number of shares is fixed to the US dollar. The Company does not remeasure this liability due to its immaterial effect on the consolidated financial statements.

(Unaudited - Expressed in Canadian dollars)

12. CONVERTIBLE DEBT (CONTINUED)

The Company has the right to repay and cancel 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 $25.00 per common share for 10 consecutive trading days. The debentures contain a derivative liability whereby the number of shares is fixed to the US dollar. The Company does not remeasure this liability due to its immaterial effect on the consolidated financial statements.

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 $12.50 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 $25.00 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 280,000 warrants. Each warrant is exercisable into one common share at an exercise price of $15.00 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 derivative liability. 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 derivative liability.

During the nine months ended March 31, 2020, the Company incurred $115,150 in early settlement penalties, being 5% of the outstanding which were settled, and are included in interest expense.

The following table summarizes the Company's convertible debentures:

Balance, June 30, 2018	$	-
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	**$**	**3,342,741**
Additions		1,462,190
Allocation to derivative liability		(179,664)
Settlement		(2,782,625)
Accretion and interest		346,994
Foreign exchange		317,473
Balance, March 31, 2020	**$**	**2,507,109**

Equity component of convertible debt		
Balance, June 30, 2018	$	**-**
Balance, June 30, 2019	$	**244,000**
Balance, March 31, 2020	$	**-**

(Unaudited - Expressed in Canadian dollars)

13. AMOUNTS RECEIVABLE

Amounts receivable as at March 31, 2020 and June 30, 2019 consist of:

		March 31, 2020		June 30, 2019
Trade receivable	$	2,213,060	$	2,378,904
GST		46,756		13,655
Balance	**$**	**2,259,816**	**$**	**2,392,559**

As of March 31, 2020, the Company recorded an allowance for doubtful accounts of $nil (June 30, 2019 - $304,163). If circumstances related to specific customers and related parties change, estimates of the recoverability of amounts receivable could also change.

A reconciliation of bad debt expense and allowance for doubtful accounts is as follows:

Balance, June 30, 2018	**$**	**-**
Bad debt expense		336,296
Balance, June 30, 2019	**$**	**336,296**
Bad debt expense		-
Effects of foreign exchange		11,246
Balance, March 31, 2020	**$**	**347,542**

14. SHAREHOLDERS' EQUITY

14.1 Authorized share capital

Unlimited number of common shares with no par value.

Effective December 20, 2019, the Company completed a share consolidation of its share capital on the basis of ten existing common shares for one new common share. All common share and per share amounts in these consolidated financial statements are retroactively presented on a post-share consolidation basis, including the number and exercise price of all share options and warrants.

14.2 Issued share capital

Common shares issued and outstanding as at March 31, 2020 are 29,595,160 of which 729,817 common shares are classified as held internally and deducted from the statement of changes in shareholders equity. As at March 31, 2020, the Company held 10,409,168 common shares in escrow.

Upon acquisition of GSRX, GSRX held 1,895,887 common shares of the Company with a fair value of $5,906,418, compared to a value of $4,506,378, which represents the pro-rata net share capital at acquisition date of $6.18 per common share of the Company. 729,187 common shares with a fair value of $4,506,378 were issued on April 1, 2019 and the final issuance on August 29, 2019 of 1,488,071 common shares with a fair value of $8,437,363, which are to be released in equal tranches every six months, starting six months from grant date. The fair value of the 1,488,071 common shares was determined using a DLOM model (Note 5), which discounts time-released common shares at rates between 20%-35%.

(Unaudited - Expressed in Canadian dollars)

14. SHAREHOLDERS' EQUITY (CONTINUED)

14.2 Issued share capital (Continued)

The difference of $1,400,040 between the fair value of GSRX-held Chemesis shares acquired and the original fair value of shares issued by Chemesis to GSRX is included in Chemesis' share capital however is excluded from the net assets of GSRX as these losses occurred before acquisition. As such, this amount was charged to contributed surplus during the nine months ended March 31, 2020.

On January 23, 2020, the Company closed a private placement of 16,393,444 units of the Company at price of $0.305 per unit (the "Units") for total proceeds of $5,000,000. Each Unit is comprised of one common share and one common share purchase warrant, which is exercisable for one common share at a price of $0.405 for a period of 24 months. Of the total proceeds:

i) $1,485,831 was used to repay $1,091,556 owed under a convertible debt held by a director of the Company and $329,175 other convertible debentures were repaid. The difference of $65,150 was due to the early settlement clause (Note 12);
ii) $239,742 in accounts payable owing to a director of the Company was repaid; and
iii) The balance of $3,274,427 was received in cash.

Concurrently, the company settled liabilities of $1,508,575:

i) $271,944 owed under a convertible debenture repaid through the issuance of 406,348 units with a fair value of $284,444. The difference of $12,500 is due to the early settlement clause (Note 12) with each unit being comprised of one common share and one common share purchase warrant exercisable at a price of $0.70 for a period of 24 months;
ii) $1,109,440 under certain convertible debentures through the issuance of 1,232,711 units of the Company. Each unit being comprised of one common share and one common share purchase warrant which is exercisable at a price of $1.12 for a period of 24 months.
iii) $114,691 owed to a creditor was settled through the issuance of 163,844 units with a fair value of $114,691. Each unit being comprised of one common share and one common share purchase warrant exercisable at a price of $0.70 for a period of 24 months.

The fair value of the equity instruments granted to settle the above liabilities were valued in accordance with IFRIC 22, whereby when equity instruments are issued to settle liabilities, the equity instruments shall be granted in accordance with the fair value of the settled liabilities. As such, no gain or loss was recorded on settlement.

During the nine months ended March 31, 2020, additional cash share transactions occurred:

	Number of shares		Fair value per share		Total fair value	Purpose
July 4, 2019	10,000	$	14.00	$	140,000	Option exercise
September 18, 2019	54,054	$	7.40	$	400,000	Private placement
October 3, 2019	23,649	$	7.40	$	175,000	Private placement

During the nine months ended March 31, 2020, the following non-cash share transactions occurred:

Date	Number of shares		Fair value per share		Total fair value	Purpose
July 3, 2019	100,000	$	17.80	$	1,780,000	Acquisition of SAP (Note 5)
July 12, 2019	15,750	$	17.10	$	269,316	Rapid Dose equipment purchase (Note 9)
August 14, 2019	60,000	$	12.20	$	732,000	Debt settlement agreement (Note 5)
August 28, 2019	1,488,071	$	5.70	$	8,437,363	Acquisition of GSRX shares (Note 5)
November 7, 2019	400,000	$	4.60	$	1,840,000	Acquisition of GSRX preferred shares (Note 5)
December 2, 2019	30,938	$	1.85	$	57,235	Shares issued for services

(Unaudited - Expressed in Canadian dollars)

14. SHAREHOLDERS' EQUITY (CONTINUED)

14.2 Issued share capital (continued)

On December 31, 2019, the Company's subsidiary, GSRX, issued 946,144 common shares of its own stock to employees and consultants. These shares were measured at a fair value $24,602.

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	66,464	$	0.39	$	255,886	SAP license rights (Note 11)
November 21, 2018	28,250		1.12		316,400	Da Grassy High Inc. license acquisition (Note 11)
January 8. 2019	17,356		1.08		187,440	Rapid Dose license (Note 11)
January 11, 2019	748,000		1.38		7,225,680	La Finca acquisition (Note 6)
February 26, 2019	10,124		1.94		106,345	Da Grassy High Inc. license acquisition (Note 11)
April 15, 2019	27,146		1.59		431,613	Equipment acquisition (Note 12)
June 18, 2019	55,389		2.04		1,129,927	Equipment acquisition (Note 12)
	952,727	**$**	**1.01**	**$**	**9,653,291**	

Date	Number of shares		Fair value per share		Total fair value	Purpose
Business acquisitions (Note 5)						
November 30, 2018	223,525		0.84		1,877,607	Natural Ventures acquisition
August 21, 2018	65,250		0.75		342,563	Desert Zen acquisition
May 17, 2019	67,231		1.31		880,058	Kieley acquisition
	356,006	**$**	**0.87**	**$**	**3,100,228**	

The fair value shares issued in business acquisitions were determined using a DLOM model (Note 5).

Other non-cash share transactions

July 17, 2018	1,604,008	$	0.61	$	9,784,446	Reverse take over (Note 5)
April 12, 2019	410,448	$	1.42	$	5,861,191	Debt extinguishment (Note 5)
April 1, 2019	729,187	$	2.35	$	17,144,062	Investment in GSRX (Note 5)

The company issued shares pursuant to consulting agreements as follows:

Date	Number of shares		Fair value per share		Total fair value
August 21, 2018	6,525	$	0.75	$	48,938
August 24, 2018	30,000		0.84		252,000
September 20, 2018	2,202		1.77		38,979
October 9, 2018	3,293		1.67		55,000
November 8, 2018	1,503		1.74		26,145
June 18, 2019	10,363		2.03		210,375
	53,887	**$**	**1.17**	**$**	**631,437**

(Unaudited - Expressed in Canadian dollars)

14. SHAREHOLDERS' EQUITY (CONTINUED)

14.2 Issued share capital (continued)

The Company issued shares pursuant to options exercised as follows:

Date	Number of shares		Strike price		Total proceeds
October 2, 2018	5,000	$	1.10	$	55,000
December 14, 2018	2,750		1.00		27,500
December 20, 2018	4,000		1.00		40,000
January 23, 2019	6,500		1.00		65,000
February 19, 2019	5,000		1.10		55,000
March 6, 2019	10,000		1.00		100,000
May 8, 2019	5,000		1.10		55,000
	38,250	**$**	**1.04**	**$**	**397,500**

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

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 22)	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**

No share issuance costs were incurred.

(Unaudited - Expressed in Canadian dollars)

14. SHAREHOLDERS' EQUITY (CONTINUED)

14.3Warrants

As of March 31, 2020, the following warrants were outstanding:

	Warrants		Exercise Price
June 30, 2018	**-**	**$**	**-**
Acquisition of Chemesis (Note 5)	439,947		20.00
Issued	561,874		19.40
Exercised	(48,400)		20.00
June 30, 2019	953,421	**$**	19.70
Issued	18,196,347		0.405
Expired	(582,790)		10.00
March 31, 2020	**18,777,127**	**$**	**1.05**

Expiry date	Warrants		Exercise Price
December 4, 2020	160,000	$	15.00
December 21, 2020	31,250		15.00
January 21, 2022	16,393,444		0.405
January 23, 2022	570,192		0.70
January 23, 2022	1,232,711		1.12
December 20, 2023	120,010		15.00
January 21, 2024	38,460		24.50
March 1, 2024	150,000		25.00
May 2, 20-24	18,900		2.50
May 30, 2024	18,918		25.00
May 30, 2024	37,837		25.00
June 13, 2024	5,405		25.00
Balance, March 31, 2020	**18,777,127**	**$**	**0.53**

At March 31, 2020, the weighted-average remaining life of the outstanding warrants was 2.04 years (June 30, 2019 – 1.85).

14.4 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 six-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.

(Unaudited - Expressed in Canadian dollars)

14. SHAREHOLDERS' EQUITY (CONTINUED)

14.4 Options and share-based compensation (continued)

On January 14, 2020, The Company granted 2,295,000 stock options to directors, officers and consultants of the Company under its share-based compensation plan. The options are exercisable at a price of $0.90 per common share, for a five-year term.

During the period ended March 31, 2020, 18,196,347 options were issued and vested. Total share-based payments recognized for the fair value of share options granted, vested and approved by the shareholders during the nine months ended March 31, 2020 was $2,084,716 (2019 - $2,567,302).

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:

	Period ended March 31, 2020	**Period ended December 31, 2018**
Strike price	$12.20	$12.80
Risk free interest rate	1.19%	2.00%
Expected option life (years)	5.01 years	4.87 years
Expected stock price volatility	100%	110%
Dividend payments during life of option	Nil	Nil
Expected forfeiture rate	Nil	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	**-**	**$**	**-**
Acquisition of Chemesis (Note 16)	65,000		7.80
Granted	685,000		12.70
Cancelled	(40,750)		10.10
Exercised	(38,250)		10.40
June 30, 2019	**671,000**	**$**	**12.50**
Granted	2,325,000		0.90
Exercised	(10,000)		14.00
Expired	(653,500)		12.61
Cancelled	(37,500)		2.20
March 31, 2020	**2,295,000**	**$**	**0.90**

(Unaudited - Expressed in Canadian dollars)

14. SHAREHOLDERS' EQUITY (CONTINUED)

14.4 Options and share-based compensation (continued)

At March 31, 2020, the weighted average remaining life of the outstanding options was 4.78 years (June 30, 2019 - 3.90).

		Outstanding and exercisable		
Expiry date	**Options**		**Exercise price**	**Remaining contractual life (years)**
January 12, 2025	2,295,000	$	0.90	4.78
Balance, March 31, 2020	**2,295,000**	**$**	**0.90**	**4.78**

15. 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 2,340,378 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".

The cost of the transaction 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 common shares issued	$	9,784,446
Fair value of options issued		174,804
Fair value of 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**

(Unaudited - Expressed in Canadian dollars)

15. REVERSE TAKEOVER TRANSACTION (CONTINUED)

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

i) The fair value of the common shares of Chemesis was measured using the closing price on July 17, 2018, the date of the acquisition, for a total fair value of $9,784,446;
ii) The options and 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	$7.80	$20.00
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	-	-

16. 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.

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	$	-

(Unaudited - 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 nine months ended March 31, 2020 and 2019 is summarized as follows:

		2020		2019
Management fees	$	355,500	$	100,179
Share-based payments		1,394,739		1,452,784
Total	**$**	**1,750,239**	**$**	**1,552,963**

As at March 31, 2020, $129,925 (June 30, 2019 - $52,949) is owed to directors and officers of the Company for unpaid fees and $342,959 for expenses paid on behalf of the Company.

During the nine months ended March 31, 2020, the Company recorded $126,000 (2019 - $84,191) included in management fees to the CEO and Director of the Company pursuant to CEO and Director services provided.

During the nine months ended March 31, 2020, the Company recorded $90,000 (2019 - $40,000) included in management fees to the CFO of the Company pursuant to CFO services provided.

During the nine months ended March 31, 2020, the Company paid $112,500 (2019 - $62,500) included in management fees to a Director of the Company pursuant to Director services provided.

During the nine months ended March 31, 2020, the Company paid $27,000 (2019 - $19,500) included in consulting fees to the Corporate Secretary and Director and of the Company pursuant to Corporate Secretary and Director services provided.

The Company granted 1,755,000 options to Directors and Officers measured at a fair value of $1,394,739. See note 14 for inputs used in the Black-Sholes option pricing model.

On December 4, 2018, a Director loaned the Company $1,000,000 in convertible debentures. Interest expense of $91,556 was recorded during the nine months ended March 31, 2020 and was settled with the issuance of 1,141,556 units at an exercise price of $0.305. Each unit consists of a common share and a share purchase warrant exercisable at $0.405 per warrant for a period of two years.

18. NON-CASH INVESTING AND FINANCING ACTIVITIES

See the following for non-cash note disclosures:

i) Acquisition of SAP Global (Note 5)
ii) Investment in GSRX (Note 5)
iii) Shareholders' Equity (Note 14)
iv) Right of use asset included in lease (Note 6)
v) Shares issued for license (Notes 10 and 14)
vi) Statement of Changes in Shareholders' Equity
vii) Transfer from construction in Progress (Note 11)
viii) Impairment of assets (Note 23)

19. COMMITMENTS

The Company holds a 5-year lease agreement in Caguas, Puerto Rico with remaining lease obligations as at March 31, 2020 of USD$705,000.

GSRX holds various lease agreements in Puerto Rico and California with remaining lease obligations extending over the next 8 years totaling USD$2,900,000.

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 March 31, 2020, the Company has a working capital deficit of $2,218,437 (June 30, 2019 - $204,230) and long-term lease liabilities of $2,07,235 (June 30, 2019 - $3,342,741). 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 March 31, 2020, the Company had cash of $1,086,101(June 30, 2019 - $652,745), accounts payable and accrued liabilities of $5,492,787 (June 30, 2019 - $2,477,662) (due in 90 days), notes payable of $nil (June 30, 2019 - $838,366), derivative liability of $179,664 (June 30, 2019 - $nil), acquisition payable of $nil (June 30, 2019 - $1,308,700), and convertible debt (due on demand) of $2,507,109 (June 30, 2019 - $3,342,741).

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.

21. RISK MANAGEMENT (CONTINUED)

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.

20.2 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 March 31, 2020 and June 30, 2019, cash is measured using Level 1 inputs. At March 31, 2020, the Company held $nil (June 30, 2019 - $14,497,777) in investments measured at Level 1 and a derivative liability $179,664 at Level 2. During the period ended March 31, 2020 and 2019, 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 December 31, 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"). See Note 22.

(Unaudited - Expressed in Canadian dollars)

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 March 31, 2020, the Company has drawn down $750,000 on the equity financing arrangement.

On March 1, 2019 the Company entered into a $10,000,000 share subscription agreement with 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 March 31, 2020, 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	6,501,931	-	(21,409,967)
United States - California	2,535,781	424,490	(3,658,217)
Puerto Rico	15,951,692	9,750,325	(5,922,926)
Columbia	151,360	-	(515,315)
	25,140,764	10,174,815	(31,506,425)

As at March 31, 2020, the assets held in Canada include $3,676,276 of goodwill (Note 5) (June 30, 2019 - $4,390,323). Revenues earned in California consist of $5,491 of oils and extracts and $418,999 in bulk product sales. Sales generated in Puerto Rico consist of $367,331 in sales from cultivation, $1,542,516 in sales from manufacturing and $7,840,478 from retail.

24. 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 March 31, 2020.

25. SUBSEQUENT EVENTS

On April 27, 2020, the Company and its wholly owned subsidiary, 1247262 B.C. Ltd. ("SpinCo") have agreed to proceed with a reorganization transaction by way of a plan of arrangement under the Business Corporations Act (British Columbia) to spin out La Finca (the "Arrangement"). Upon completion of the Arrangement, La Finca will become a wholly-owned subsidiary of SpinCo and will hold a 100% interest in La Finca's Colombian assets.

On May 4, 2020, the Company entered into an option agreement with GSRX to acquire 100% of the issued and outstanding membership interests of Project 1493, LLC ("1493"). The option agreement is conditional upon the Company performing the following milestones within 15 months from the effective date of the agreement as set forth below:

(a) paying $25,000 to GSRX;
(b) Issuance of 19,981,500 common shares of the Company subject to 36-month escrow terms; and
(c) paying a total of $2,475,000 to GSRX to be paid in installments or in a lump sum, at the election of the Company in its sole discretion,

This Agreement is binding and enforceable between the Parties and will remain in full force and effect unless and until terminated.

On April 21, 2020, the Company granted 2,500,000 restricted share rights to directors, officers, consultants and employees with shares becoming issuable in three months following the expiry of the restrictions.

During May 2020, the Company entered into agreements with arms-length vendors to settle balances totalling $639,070 included in accounts payable and accrued liabilities with 660,800 common shares. The Company is also in the process of issuing 1,561,418 common shares to settle USD$1,073,056 of convertible debt.