CHEMESIS INTERNATIONAL INC.

Consolidated Financial Statements
For the years ended June 30, 2020 and 2019

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and Directors of Chemesis International Inc.

Opinion

We have audited the consolidated financial statements of Chemesis International Inc. and its subsidiaries (the "Company") which comprise the consolidated statement of financial position as at June 30, 2020, and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the year then ended, and the related notes comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2020, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

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

Emphasis of Matter - Material Uncertainty Related to Going Concern

We draw attention to Note 2 of the accompanying consolidated financial statements, which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Emphasis of Matter – Comparative Information and Restatement

The consolidated financial statements of the Company as at June 30, 2019 and for the year then ended, which are presented for comparative purposes, were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements in their report dated November 4, 2019.

We draw attention to Note 28 to the consolidated financial statements, which describes that certain comparative information presented for the year ended June 30, 2019 has been restated. Our opinion is not modified in respect of this matter. Note 28 explains the reasons for the restatements and discloses the adjustments that were applied to restate certain comparative information.

As part of our audit of the consolidated financial statements for the year ended June 30, 2020, we also audited the adjustments described in Note 28 that were applied to restate certain comparative information presented for the year ended June 30, 2019. In our opinion, such adjustments are appropriate and have been properly applied. Other than with respect to the adjustments that were applied to restate certain comparative information, we were not engaged to audit, review, or apply any procedures to the consolidated financial statements for the year ended June 30, 2019. Accordingly, we do not express an opinion or any other form of assurance on the consolidated financial statements for the year ended June 30, 2019 taken as a whole.

Other Information

Management is responsible for the other information, which comprises the information included in the Company’s Management Discussion & Analysis to be filed with the relevant Canadian securities commissions.

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

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

If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

Auditors’ Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

The engagement partner on the audit resulting in this independent auditors' report is Michael Ryan Ayre.

Manning Elliott LLP

CHARTERED PROFESSIONAL ACCOUNTANTS
Vancouver, Canada
October 28, 2020

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

As at		**June 30, 2020**		**June 30, 2019**
				(Restated – Note 28)
ASSETS				
Current assets				
Cash	$	1,044,585	$	641,583
Amounts receivable (Note 13)		752,668		2,392,559
Prepaid expenses and deposits		85,162		99,678
Biological assets (Note 7)		1,842,848		1,244,938
Inventory (Note 8)		1,129,131		830,001
		4,854,394		5,208,759
Non-current assets				
Deposits		1,033,234		26,743
Fixed assets (Note 11)		4,249,892		7,057,515
Right of use assets (Note 6)		2,916,092		-
Investments (Note 5)		-		14,497,777
Intangible assets (Note 9)		2,051,774		2,541,942
Goodwill (Note 5)		7,334,212		4,390,323
Total non-current assets		**17,585,204**		**28,514,300**
TOTAL ASSETS	**$**	**22,439,598**	**$**	**33,723,059**
LIABILITIES				
Current				
Accounts payable and accrued liabilities (Note 17)	$	6,051,158	$	2,488,824
Acquisition payable (Note 5)		-		1,308,700
Notes payable		-		838,366
Income tax payable (Note 27)		76,974		133,000
Current portion of lease liabilities (Note 6)		1,313,386		-
Unearned revenue		-		235,639
Convertible debt (Note 12)		1,063,562		-
		8,505,080		5,004,529
Non-current liabilities				
Lease liabilities (Note 6)		2,097,156		-
Embedded derivative liabilities (Note 12)		-		3,152,490
Convertible debt (Note 12)		-		2,243,404
TOTAL LIABILITIES	**$**	**10,602,236**	**$**	**10,400,423**
EQUITY				
Share capital (Note 14)		77,952,340		56,954,958
Subscriptions received		22,500		-
Contributed surplus		5,814,928		5,067,327
Accumulated other comprehensive income		240,078		569,066
Deficit		(76,517,929)		(39,527,486)
Equity attributable to shareholders of Chemesis		**7,511,917**		**23,063,865**
Non-controlling interests (Note 10)		4,325,445		258,771
TOTAL EQUITY		**11,837,362**		**23,322,636**
TOTAL LIABILITIES AND EQUITY	**$**	**22,439,598**	**$**	**33,723,059**

Subsequent events (Note 29) Commitments (Note 20) Contingent liabilities (Note 26)
Going concern (Note 2)

Approved on behalf of the Board of Directors:

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

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

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

For the years ended		June 30, 2020		June 30, 2019
				(Restated – Note 28)
REVENUES	$	14,093,840	$	9,311,119
COST OF GOODS SOLD (Note 8)		(8,384,419)		(7,444,130)
		5,709,421		1,866,989
Unrealized gain on biological assets (Note 7)		925,159		219,996
Fair value adjustments included in cost of goods sold and others (Note 7)		(983,727)		-
GROSS PROFIT		5,650,853		2,086,985
EXPENSES				
Bad debt expense (Note 13)		391,978		336,296
Depreciation (Notes 6, 9 and 11)		3,811,749		983,245
Foreign exchange loss (gain)		(112,597)		42,313
General and administration (Note 18)		14,510,316		10,942,305
Share-based payments (Notes 14 and 17)		3,569,588		4,539,342
TOTAL OPERATING EXPENSES		22,171,034		16,843,501
LOSS BEFORE OTHER ITEMS		(16,520,181)		(14,756,516)
OTHER ITEMS:				
Interest expense		(1,581,183)		(599,522)
Loss on investment in GSRX Industries Inc. (Note 5)		(9,839,396)		(2,646,285)
Acquisition costs (Note 5)		(454,054)		-
Listing acquisition expense		-		(7,218,093)
Seed research, development, and technology		(120,118)		(10,305,740)
Change in fair value of derivative liabilities		3,773,450		(1,380,694)
Gain/loss on debt settlement (Note 12 and 17)		(4,248,086)		(292,629)
Other income		306,956		64,984
Impairment of assets (Note 23)		(9,991,891)		(2,438,359)
		(22,154,322)		(24,816,338)
NET LOSS BEFORE INCOME TAXES		**(38,674,503)**		**(39,572,854)**
Income tax recovery (expense) (Note 27)		56,026		(133,000)
NET LOSS		**(38,618,477)**		**(39,705,854)**
OTHER COMPREHENSIVE INCOME (LOSS)				
Cumulative translation adjustment		(379,500)		731,719
COMPREHENSIVE LOSS		**(38,997,977)**		**(38,974,135)**
NET LOSS ATTRIBUTABLE TO:				
Chemesis International Inc.		(36,990,443)		(39,069,004)
Non-controlling interests		(1,628,034)		(636,850)
NET LOSS		**(38,618,477)**		**(39,705,854)**
COMPREHENSIVE LOSS ATTRIBUTABLE TO:				
Chemesis International Inc.		(37,437,525)		(38,538,538)
Non-controlling interests		(1,560,452)		(435,597)
COMPREHENSIVE LOSS	$	**(38, 997,977)**	$	**(38,974,135)**
Loss per share, basic and diluted	$	**(1.95)**	$	**(5.13)**
Weighted average number of common shares outstanding		18,995,633		7,612,345

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

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

	Share Capital								
	Number	**Amount**	**Subscriptions received**	**Contributed surplus**	**Accumulated other comprehensive income (loss)**	**Deficit**	**Equity attributable to shareholders of Chemesis**	**Non-controlling interests**	**Total equity**
		$	$	$	$	$	$	$	$
As at June 30, 2019 (Restated- Note 28)	9,216,353	56,954,958	-	5,067,327	569,066	(39,527,486)	23,063,865	258,771	23,322,636
Acquisition of GSRX common shares (Note 5)	1,488,071	8,437,358	-	-	-	-	8,437,358	4,811,232	13,248,590
Shares held internally (Note 5)	(729,187)	(6,027,801)	-	-	-	-	(6,027,801)	-	(6,027,801)
Acquisition of SAP (Note 5)	100,000	1,780,000	-	(2,602,879)	118,094	-	(704,785)	704,785	-
Acquisition of GSRX preferred shares (Note 5)	400,000	2,268,000	-	-	-	-	2,268,000	-	2,268,000
Shares issued for intangible asset (Note 9)	15,750	269,316	-	-	-	-	269,316	-	269,316
Shares issued to settle note payable (Note 5)	60,000	732,000					732,000	-	732,000
Shares issued to settle liabilities	1,621,684	1,337,828	-	-	-	-	1,337,828	-	1,337,828
Convertible debt (Note 12)	8,072,054	6,649,269	-	-	-	-	6,649,269	-	6,649,269
Private placements, net (Note 14)	13,606,031	5,246,177	-	-	-	-	5,246,177	-	5,246,177
Subscriptions received (Note 14)	-	-	22,500	-	-	-	22,500	-	22,500
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)	-	-	-	(85,285)	-	-	(85,285)	111,109	25,824
Share-based payments (Note 14)	-	-	-	3,543,765	-	-	3,543,765	-	3,543,765
Net loss	-	-	-	-	-	(36,990,443)	(36,990,443)	(1,628,034)	(38,618,477)
Other comprehensive loss	-	-	-	-	(447,082)		(447,082)	67,582	(379,500)
As at June 30, 2020	**33,891,694**	**77,952,340**	**22,500**	**5,814,928**	**240,078**	**(76,517,929)**	**7,511,917**	**4,325,445**	**11,837,362**

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

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

	Share Capital							
	Number *	**Amount**	**Contributed surplus**	**Accumulated other comprehensive income**	**Deficit**	**Equity attributable to shareholders of Chemesis**	**Non-controlling interests**	**Total equity**
		$	$	$	$	$	$	$
As at 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	356,006	3,100,228	-	-	-	3,100,228	977,562	4,077,790
Shares issued for asset acquisitions	952,727	9,653,291	-	-	-	9,653,291	-	9,653,291
Shares issued for consulting fees	53,887	631,437	-	-	-	631,437	-	631,437
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 placements, net	342,684	5,434,705	-	-	-	5,434,705		5,434,705
Warrants exercised	48,400	1,026,661	(58,661)	-	-	968,000	-	968,000
Options exercised	38,250	518,937	(121,437)	-	-	397,500	-	397,500
Share-based payments	-	-	4,539,342	-	-	4,539,342	-	4,539,342
Spin-out of exploration and evaluation assets	-	-	-	-	(113,319)	(113,319)	-	(113,319)
Net loss	-	-	-	-	(39,069,004)	(39,069,004)	(636,850)	(39,705854)
Other comprehensive income	-	-	-	530,466	-	530,466	201,253	731,719
As at June 30, 2019 (Restated – Note 28)	9,216,353	56,954,958	5,067,327	569,066	(39,527,486)	23,063,865	258,771	23,322,636

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

(*) On December 20, 2019, the Company performed a forward stock consolidation, whereby every ten (10) shares of the common stock were automatically reclassified and changed into one (1) share (the "Stock Consolidation"). The total amounts of share capital as at June 30, 2019 and 2018 were not impacted. The Company had 92,163,527 and 46,807,559 shares of common stock outstanding as at June 30, 2019 and 2018, which were retroactively stated as 9,216,353 and 4,680,756 shares, respectively, due to the Stock Consolidation.

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

For the years ended		June 30, 2020		June 30, 2019
				(Restated – Note 28)
Cash (used in) provided by:				
OPERATING ACTIVITIES				
Net loss for the year	$	(38,618,477)	$	(39,705,854)
Items not involving cash:				
Listing expense		-		7,218,093
Loss on investment in GSRX Industries Inc.		9,839,396		2,646,285
Unrealized gain on biological assets		(925,159)		(219,996)
Fair value adjustments included in cost of goods sold		676,292		-
Write-down of inventory		307,435		-
Share-based payments		3,569,588		4,539,342
Shares issued for consulting fees		57,235		631,437
Change in fair value of embedded derivative liabilities		(3,773,450)		1,380,694
Interest accretion on convertible debt		1,058,510		583,762
Interest accretion on lease liabilities		474,196		-
Bad debt expenses		391,978		336,296
Loss on debt settlement		4,248,086		292,629
Seed research and development		-		10,305,740
Foreign exchange		-		754,248
Impairment of assets		9,991,891		2,438,359
Depreciation		4,420,968		983,245
Gain on disposal of assets		(92,642)		-
Net changes in non-cash working capital items:				
Prepaid expenses and deposits		-		74,658
Inventory		83,185		(1,868,733)
Notes payable		-		106,366
Biological assets		(283,594)		-
Unearned revenue		(235,639)		235,639
Income tax payable		(67,188)		133,000
Amounts receivable		1,295,416		(2,500,894)
Amounts payable and other payables		1,719,413		1,196,279
Deposits		(2,474)		-
Net cash used in operating activities		**(5,865,034)**		**(10,439,405)**
INVESTING ACTIVITIES:				
Deposits on acquisition of licenses		(614,565)		-
Purchase of equipment and leasehold improvements		(1,179,184)		(1,536,342)
Exploration and evaluation assets		-		(4,438)
Purchase of intangible assets		-		(530,885)
Proceeds from sale of building		1,224,779		-
Cash received on acquisition		2,026,139		5,072,307
Cash paid on acquisition		-		(3,257,131)
Net cash provided by (used in) investing activities		**1,457,169**		**(256,489)**
FINANCING ACTIVITIES:				
Proceeds from private placement, net		5,246,177		5,434,705
Proceeds from option and warrant exercise		140,000		1,365,500
Subscriptions received		22,500		-
Lease payments		(1,454,649)		-
Convertible debt		1,455,080		3,500,000
Net cash provided by financing activities		**5,409,108**		**10,300,205**
Effect of exchange rate changes on cash		(598,241)		6,988
Net increase (decrease) in cash		403,002		(388,701)
Cash, beginning of year		641,583		1,030,284
Cash, end of year	$	1,044,585	$	641,583

Non-cash investing and financing activities - See Note 19
The accompanying notes are an integral part of these consolidated financial statements.

1. NATURE OF OPERATIONS

Chemesis International Inc. ("Chemesis" or "the Company") was incorporated under the Business Corporations Act of 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, on the OTC markets under the symbol CADMF, and on the Frankfurt Stock Exchange under the symbol CWAA.

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 year ended June 30, 2020, the Company's cultivation and manufacturing licenses (the "Licenses") were suspended by the Puerto Rico Department of Health. During the year ended June 30, 2020, the Licenses were also reinstated; and therefore, all licenced activities have been resumed. The Company also notes that there have been insignificant impacts on the Company's operations due to the outbreak of COVID-19, and in fact the Company's dispensaries remained operational throughout the COVID-19 pandemic. These factors have been considered in the preparation of these consolidated financial statements.

2. GOING CONCERN

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due. Management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. During the year ended June 30, 2020, the Company incurred a loss of $38,618,477 and as at June 30, 2020 has a working capital deficit of $3,650,686 and an accumulated deficit of $76,517,929 and remains dependent upon the receipt of additional equity or debt financing. While management has been successful in obtaining required financing in the past, there is no assurance that additional financing will be available or be available on favourable terms. The Company's ability to continue as a going concern is dependent upon the ability to raise financing and ultimately generate profitable operations. These consolidated financial statements do not reflect and adjustments to the carrying value of assets and liabilities and the reported amounts of expenses and statement of financial position classifications that would be necessary if the going concern assumption was not appropriate. Such adjustments could be material.

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

2. GOING CONCERN (CONTINUED)

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

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

In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period.

3. BASIS OF PRESENTATION

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

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 shares 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.

These consolidated financial statements were authorized for issue by the Board of Directors on October 28, 2020.

3.1. Basis of measurement

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

3.2. Significant judgments, estimates and assumptions

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

3. BASIS OF PRESENTATION (CONTINUED)

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 interests 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.

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.

Leases

Judgement is used when determining if the exercise of a lease renewal option is reasonably certain.

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.

3. BASIS OF PRESENTATION (CONTINUED)

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 of 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.

Critical Accounting Estimates

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 value, the Company estimates obsolete or slow-moving inventory in determining net realizable value.

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

Inventory

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

Share-based payments

Where applicable, the fair value of certain equity instruments is 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.

Income Taxes

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

Valuation of 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.

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

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

3. BASIS OF PRESENTATION (CONTINUED)

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 ("CAD") and incorporate the financial results of the Company and its controlled subsidiaries:

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

*List of subsidiaries and percentage of ownership held under GSRX includes the following:

Subsidiaries held by GSRX	Country	GSRX Ownership %
Project 1493, LLC;	USA	100%
Andalucia 511, LLC;	USA	100%
Spirulinex, LLC;	USA	51%
Sunset Connect Oakland, LLC;	USA	55%
Green Spirit Essentials, LLC;	USA	55%
Green Spirit Mendocino, LLC;	USA	100%
138 Main Street PA, LLC.	USA	100%
GSRX SUPES, LLC	USA	100%
Point Arena Supply Co., LLC	USA	100%
Ukiah Supply Company, LLC	USA	100%
Pure and Natural, LLC	USA	100%
Point Arena Manufacturing, LLC	USA	94%
Point Arena Distribution, LLC	USA	100%
Pure and Natural-Lakeway, LLC	USA	51%
Pure and Natural One-TN, LLC	USA	51%
Green Room Palm Springs, LLC	USA	95%

3. BASIS OF PRESENTATION (CONTINUED)

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., and are initially recognized at the pro-rata share of ownership of the Company's net identifiable assets. 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 interests' disclosures.

4. SIGNIFICANT ACCOUNTING POLICIES

4.1 Intangible assets

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

4.2 Goodwill

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

4.3 Revenue recognition, accounts receivable and allowance for doubtful accounts

The Company's revenue consists solely of product sales and as such, the Company recognizes revenues when a contract has been entered into and performance obligations are known, the price has been determined, control of the goods passes to the customer and the significant risks and benefits of ownership are transferred and performance obligations have been satisfied. Revenue is measured based on the price specified, net of excise taxes, trade discounts and estimated returns at the time of sale. Historical experience is used to estimate allowances for returns.

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

The Company derives revenue from

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

4.4 Inventory

Inventory of raw materials, merchandise and devices and finished goods are valued at the lower of cost and net realizable value. Cost is determined using the weighted average method, which under the circumstances, management believes will provide for the most practical basis for the measurement of periodic income. Harvested cannabis plants are transferred from biological assets into inventory at their fair value at harvest less costs to sell which is deemed to be their cost. Any subsequent post-harvest costs are capitalized to inventory to the extent that cost is less than net realizable value. Management periodically reviews inventory for slow moving or obsolete items and considers realizability based on the Company's marketing strategies and sales forecasts to determine if an allowance is necessary. If net realizable value is below cost, then an allowance is created to adjust the carrying amount of inventory.

4.5 Biological assets

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

4.6 Impairment of tangible and intangible assets

At the end of each reporting period, the Company's assets are reviewed to determine whether there is any indication that those assets may be impaired. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss for the period. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.7 Equipment, vehicles, building and leasehold improvements

Fixed asset items, including equipment, vehicles, building and leasehold improvements, are carried at cost less accumulated depreciation and accumulated impairment losses. In the year of acquisition, depreciation is recorded at one-half the normal rate. Depreciation is recognized using the declining balance method at the following annual rates or over the useful life:

Equipment	Declining-Balance	10%
Vehicles	Declining-Balance	10%
Leasehold improvements	Declining-Balance	20%
Building	Straight-line	25 years

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

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

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

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

4.8 Provisions

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

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

4.9 Income taxes

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

4.10 Share capital

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

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

4.11 Share-based payments

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

4.12 Related party transactions

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

4.13 Earnings (loss) per share

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.14 Financial instruments - recognition and measurement

The Company accounts for financial instruments under IFRS 9:

(i) Classification

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

The following table shows the classification under IFRS 9:

Financial assets/liabilities	Classification
Cash	FVTPL
Amounts receivable	Amortized cost
Investments	FVTPL
Accounts payable	Amortized cost
Acquisition payable	Amortized cost
Notes payable	Amortized cost
Convertible debt	Amortized cost

(ii) Measurement

Financial assets and liabilities at fair value through profit and loss

Financial assets and liabilities at FVTPL are initially recorded at fair value and transaction costs are expensed in the consolidated statements of loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the consolidated statements of loss in the period in which they arise. The Company's cash, investment in GSRX and derivative liability are measured at FVTPL.

Financial assets and liabilities at amortized cost

Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment. The Company's amounts receivable are financial assets at amortized cost. The Company's accounts payable and acquisition payable are financial liabilities at amortized cost.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(iii) Impairment of financial assets at amortized cost.

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

(iv) Derecognition

Financial assets

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

(v) Compound financial instruments

Compound financial instruments issued by the Company comprise convertible debentures that can be converted to share capital at the option of the holder. If the number of shares to be issued is fixed and does not vary, the liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially as the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts. Share Purchase Warrants issued in conjunction with a convertible debt are allocated a proportion value of the equity component and included within contributed surplus.

If the number of share vary, the embedded derivative liability is recognized initially at fair value and the residual amount is allocated to the convertible debt liability.

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

4.15 Share issuance costs

Share issuance costs, which include commissions, facilitation payments, professional fees and regulatory fees, are charged directly to share capital.

4.16 Comprehensive income (loss)

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.17 Foreign currency translation

Functional currency

Items included in the consolidated financial statements of the Company's subsidiaries are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency of the parent company is the Canadian dollar. All the Company's subsidiaries except 1145411 have the US dollar as the functional currency, except for La Finca, which uses the Colombian peso.

Transactions and balances

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

Subsidiaries

The results and financial position of the Company's subsidiaries that have a functional currency different from the Company's presentation currency are translated into the presentation currency as follows:
- Assets and liabilities are translated at the closing rate at the reporting date;
- Income and expenses are translated at average exchange rates for the period;
- Equity is translated using historical rates; and
- All resulting exchange differences are recognised in other comprehensive income as foreign currency translation adjustments.

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

4.18 Business combinations

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

4.19 Research and development

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

With the exception of the recently adopted accounting policies, these consolidated 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.

(Expressed in Canadian dollars)

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 consolidated financial statements for the year ended June 30, 2020.

The Company adopted the requirements of IFRS 16 *Leases* 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 liabilities 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 assets 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 deficit 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	$	3,268,752
Discounted using incremental borrowing rate of 15%		(664,897)
Lease liabilities	**$**	**2,603,855**

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

For any new contracts entered into on or after July 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, amongst which are:

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 consolidated 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.

(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 with non-related parties 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	-	-	-	5,577,799	5,577,799
Balance, June 30, 2020	**$ 374,830**	**$ 3,557,713**	**$ 2,259,080**	**$ 5,577,799**	**$ 11,769,422**
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, June 30, 2020	**$ 374,830**	**$ 1,801,300**	**$ 2,259,080**	$ -	**$ 4,435,210**
Balance, June 30, 2019	**$ 374,830**	**$ 1,756,413**	**$ 2,259,080**	**$ -**	**$ 4,390,323**
Balance, June 30, 2020	**$ -**	**$ 1,756,413**	**$ -**	**$ 5,577,799**	**$ 7,334,212**

Impairment of goodwill and intangible assets

During the year ended June 30, 2020, the Company noted indicators of impairment for certain of the Company's non-current assets domiciled in California, United States, including a significant drop in demand. As such, the Company temporarily and permanently ceased certain operations during the year ended June 30, 2020. Goodwill of $374,830 related to the Desert Zen CGU and $2,259,080 related to the Kieley CGU were charged to the consolidated statement of comprehensive loss during the year ended June 30, 2020. The Company also recorded related impairment charges to the fixed assets of $6,561,150 writing the assets down to a recoverable amount of $nil.

GSRX Industries Inc.

On April 1, 2019 the Company acquired an 19.9% interest in GSRX, a company which owns and operates cannabis dispensaries in Puerto Rico. 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.

(Expressed in Canadian dollars)

5. GOODWILL, ACQUISITIONS AND ACQUISITIONS PAYABLE (CONTINUED)

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		(9,839,396)
Investment balance transferred as consideration for GSRX acquisition		(4,658,381)
Balance, June 30, 2020	**$**	**-**

On August 28, 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 $8,437,358 and acquired 100% of the preferred shares in exchange for 400,000 common shares of the Company with an estimated fair value of $2,268,000. Immediately after the transaction the Company held a 66.39% common share interest in GSRX. The acquisition of GSRX was accounted for as a business combination.

Acquisition of GSRX on August 28, 2019 is as follows:

Consideration		
Fair value of initial investment in GSRX	$	4,658,381
Common shares		10,705,358
Total consideration	$	15,363,739
Fair value of net assets acquired		
Cash	$	2,026,139
Accounts receivable		47,627
Inventory		689,750
Deposits		367,027
Equipment		472,310
Land		322,316
Building		1,147,069
Leasehold improvements		954,273
License		2,727,986
Right of use assets		2,912,084
Construction in progress		897,157
Investment in Chemesis		6,027,801
Total assets	$	18,591,539
Current liabilities	$	1,082,159
Lease liabilities		2,912,084
Total liabilities	$	3,994,243
Net identifiable assets		**14,597,296**
Less: non-controlling interests portion	$	**(4,811,269)**
Company's share of net assets acquired		**9,786,027**
Goodwill	**$**	**5,577,712**

On the acquisition date, the Company held 11,668,998 shares of GSRX's common shares with a fair value of $4,658,381, which were issued on April 1, 2019 and classified as financial assets at FVTPL. On August 28, 2019 the Company issued 1,488,071 common shares of the Company with a fair value of $8,437,358, 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%.

(Expressed in Canadian dollars)

5. GOODWILL, ACQUISITIONS AND ACQUISITIONS PAYABLE (CONTINUED)

In connection with the acquisition of controlling interests in GSRX on August 28, 2019, the Company commited to issue an additional 400,000 common shares to exchange for the preferred shares of GSRX, which represent 51% of voting rights. The fair value of the common shares was valued at closing price of the acquisition date. The 400,000 common shares were issued on November 6, 2019.

Goodwill arising from the acquisition represent expected synergies, future income and growth, and other intangibles that do not qualify for separate recognition. The goodwill arising on this acquisition is not expected to be deductible for tax purposes.

For the year ended June 30, 2020, GSRX accounted for $11.1 million in revenue and $10.8 million in net loss since the August 28, 2019 acquisition date.

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 65,250 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 9)		230,000
Total assets	$	266,348
Current liabilities		(34,209)
Net assets acquired	**$**	**232,139**
Goodwill	**$**	**374,830**

Natural Ventures

On November 30, 2018, the Company acquired 80% of Natural Ventures for cash payment of $3,724,280 (USD$2,800,000), and 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.

(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 11)		566,508
Leasehold improvements (Note 11)		611,409
Licenses (Note 9)		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**

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 11)		66,395
Licenses (Note 9)		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**

(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 11)		891,143
Licenses (Note 9)		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 year ended, the Company settled the $732,000 note payable through the issuance of 60,000 common shares.

(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, June 30, 2020	**$**	**-**

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 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 the transaction did not result in any change in controlling of the subsidiary, the Company recognized directly in equity any difference between the amount by which the non-controlling interests were adjusted and the fair value of the consideration paid, and attribute it to the owners of the parent.

Caribbean Green LLC

On September 9, 2019, Natural Ventures entered into an asset acquisition agreement to acquire three dispensaries in Puerto Rico for total payments of USD $1,200,000, due in monthly installments of USD $50,000. The closing of the agreement is subject to the Company successfully transferring the licenses into its name. This requires approval from the Puerto Rico Department of Health. As at June 30, 2020 this has not been completed. During the year ended June 30, 2020, the Company has paid USD $450,000 ($615,000) and is included in deposits subject to the completion of the license transfer. During the year ended June 30, 2020, the Company made advances of $USD339,860 ($CAD 454,054) for operating purposes which was fully allowed for and recorded as expense in the statement of loss and comprehensive loss.

(Expressed in Canadian dollars)

6. RIGHT OF USE ASSETS AND LEASE LIABILITIES

The Company's right-of-use asset relates to the lease of 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	$	2,603,855
Acquisition of GSRX (Note 5)		2,912,084
Additions		300,647
Disposals		(1,701,477)
Impairment		(261,955)
Effects of foreign exchange		150,511
Balance, June 30, 2020	**$**	4,003,665
Accumulated depreciation		
Balance, July 1, 2019	$	-
Disposals		(231,350)
Depreciation		1,331,012
Impairment		(36,393)
Effects of foreign exchange		24,304
Balance, June 30, 2020		1,087,573
Balance July 1, 2019	$	2,603,855
Balance, June 30, 2020	**$**	2,916,092

The carrying value of the lease liabilities is as follows:

Lease liabilities		
Lease liabilities, adoption of IFRS 16, July 1, 2019	$	2,603,855
Acquisition of GSRX		2,912,084
Additions		300,647
Repayments		(1,454,649)
Disposals		(1,562,769)
Accretion		474,196
Effects of foreign exchange		137,178
Balance, June 30, 2020	$	3,410,542
Less: Current portion		(1,313,386)
Lease liabilities, long term	**$**	2,097,156

(Expressed in Canadian dollars)

6. RIGHT OF USE ASSETS AND LEASE LIABILITIES (CONTINUED)

The lease commitment payments are as follows discounted to the lease liability shown above.

	$
2021	1,411,890
2022	1,314,713
2023	1,141,569
2024	297,448
2025	141,549
Thereafter	337,029
Total future lease payments	4,644,198
Less: amount of lease payments representing effects of discounting	(1,233,656)
Present value of future lease payments	3,410,542
Less: current portion of lease liabilities	(1,313,386)
Lease liabilities, non-current	2,097,156

7. BIOLOGICAL ASSETS

Biological assets consist of cannabis plants and are summarized as at and for the years ended as follows:

		2020		**2019**
Biological assets, beginning	$	1,244,938	$	-
Production costs		1,959,421		1,038,732
Biological assets transferred to Inventory		(2,352,119)		-
Net increase in fair value less costs to sell due to biological transformation		925,159		219,996
Effects of foreign exchange rates		65,449		(13,790)
Biological assets, end	**$**	**1,842,848**	**$**	**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, the valuation of these biological assets is obtained using valuation techniques where the inputs are based upon unobservable market data (Level 3).

(Expressed in Canadian dollars)

7. BIOLOGICAL ASSETS (CONTINUED)

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

Unobservable inputs	Amounts	Sensitivity
Estimated selling price of dry cannabis - varies by strain and is obtained through listed selling prices or estimated selling prices if historical results are not available.	$158 per dry ounce (2019 - $158).	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.	5.83 oz per flowering cannabis plant (2019 – 5.83 oz).	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 (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 (2019 - $nil)	A slight decrease in the estimated selling costs would result in a slight increase in fair value, and vice versa.

The Company estimates the average grow cycle of plants up to the point of harvest is approximately 13 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 June 30, 2020, the Company’s inventory balance consists of dried cannabis flower and finished cannabis edibles. During the year ended June 30, 2020, the Company expensed $8,384,419 (2019 - $7,444,130) of inventory included within cost of goods sold.

Included in inventory at June 30, 2020 was $99,649 (2019 - $nil) in fair value of biological assets. The Company realized $676,292 in fair value biological asset adjustments through cost of goods sold during the year ended June 30, 2020 (2019 - $nil).

During the year ended June 30, 2020, the Company wrote down certain of its inventory to net realizable value in the amount of $307,435 (2019 - $nil), which is included in cost of goods sold on the consolidated statements of net loss and comprehensive loss.

(Expressed in Canadian dollars)

8. INVENTORY (CONTINUED)

The Company's inventory comprised the following as at June 30:

	2020	2019
Dried cannabis flowers	$ 99,649	$ 428,770
Finished goods	1,029,482	401,231
Total	**$ 1,129,131**	**$ 830,001**

9. INTANGIBLE ASSETS

Cost		**License rights**
Balance, June 30, 2018	$	-
Additions		3,793,620
Impairment		(637,059)
Balance, June 30, 2019	**$**	3,156,561
Acquisition of GSRX licenses		2,727,986
Additions		269,316
Impairment		(1,663,252)
Balance, June 30, 2020	**$**	**4,490,611**
Accumulated amortization		
Balance, June 30, 2018	$	-
Additions		(614,619)
Balance, June 30, 2019	**$**	(614,619)
Additions		(2,247,317)
Impairment		423,099
Balance, June 30, 2020	**$**	**(2,438,837)**
Net, June 30, 2019	$	**2,541,942**
Net, June 30, 2020	$	**2,051,774**

The Company's license rights are summarized as follows:

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 year ended June 30, 2020 as the license is no longer in use.

9. INTANGIBLE ASSETS (CONTINUED)

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. During the year ended June 30, 2020, the Company issued additional 15,750 common shares with a fair value at $17.10 for a total fair value of $269,316. An impairment charge of $432,371 was recognized during the year ended June 30, 2020 as the license is no longer in use.

Da Grassy High Inc.
On November 14, 2018, Chemesis entered a multi-year licensing deal with Da Grassy High Inc., Kevin Smith and Jason Mewes ("Jay and Silent Bob") for the development and promotion of cannabis products in the US. The Company paid an initial fee of USD$50,000 on signing and three payments of USD$25,000 on each of the three-month anniversaries of signing. In addition, the Company issued common shares worth USD$400,000 on signing and USD$150,000 in stock on each annual anniversary. Additional payments for up to a total of USD$600,000 in stock may be payable on the date certain states in the USA legalize marijuana. All shares are based on the 5-day volume-weighted average prices on the date the shares become payable. The Company will owe a 12% royalty on sales related to the Jay and Silent Bob brand with a minimum royalty of USD$120,000 each year of the license term. As of June 30, 2019, the Company has paid a cash total of $214,315 and issued shares valued at $422,745 capitalized as intangible assets. The agreement was terminated during the year 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 year ended June 30, 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 year ended June 30, 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 in Colombia with a fair value of $100,000. This license has a useful life of one year.

GSRX Licenses
GSRX operates 5 cannabis dispensaries in Puerto Rico, through its wholly owned subsidiary, Project 1493, LLC. The licenses were measured at a fair value of $2,727,986, at the acquisition date of GSRX on August 28, 2019. The licenses have a useful life of 3 to 5 years.

(Expressed in Canadian dollars)

10. NON-CONTROLLING INTERESTS

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

	Natural Ventures	Kieley Growth	GSRX	SAP	Total
	Puerto Rico	*United States*	*Puerto Rico*	*United States*	
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	-	-	4,811,232	-	4,811,232
Disposal	-	-	-	704,785	704,785
				-	
Net loss	(404,193)	(418,892)	(804,949)	-	(1,628,034)
Other comprehensive loss	(10,425)	14,565	63,442	-	67,582
Shares issued for services	-	-	111,109	-	111,109
Balance, June 30, 2020	**$ 44,932**	**$ 99,679**	$ **4,180,834**	$ **-**	$ **4,325,445**

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

	Natural Ventures	Kieley Growth	GSRX	SAP	Total
Total assets	$ 8,762,931	$ -	$ 13,081,326	$ -	$ 21,844,257
Total liabilities	4,195,026	130,899	2,607,689	13,039	6,946,653
Revenues	2,385,210	424,579	11,103,245	-	13,913,034
Cost of goods sold	(2,802,332)	(61,281)	(4,841,761	(674,681)	(8,380,055)
Other loss	(582,544)	(1,034,862)	(799,115)	(2,826,738)	(5,243,259)
Expenses	(2,195,321)	(375,666)	(6,424,725)	(1,019,830)	(10,015,542)
Net loss	**$ (3,194,987)**	**$ (1,047,230)**	**$ (962,356)**	**$ (4,521,249)**	**$ (9,725,822)**

(Expressed in Canadian dollars)

11. FIXED ASSETS

	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	472,441	954,236	1,147,023	897,122	322,303	3,793,125
Additions	154,655	828,888	-	195,641	-	1,179,184
Transfer	(563,817)	563,817	-	-	-	-
Impairment (Note 5)	(3,964,176)	(2,394,284)	-	(202,690)	-	(6,561,150)
Disposals	-	(23,367)	(905,475)	-	(323,383)	(1,252,225)
Changes in foreign exchange	93,503	92,248	9,463	28,095	1,080	224,389
Balance, June 30, 2020	**$ 1,465,215**	**$ 2,175,189**	**$ 251,011**	**$ 918,168**	**$ -**	**$ 4,809,583**
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	306,972	526,783	8,884	-	-	842,639
Reclassification	(39,024)	39,024	-	-	-	-
Disposals	-	-	(3,645)	-	-	(3,645)
Impairment	(281,796)	(379,179)	-	-	-	(660,975)
Changes in foreign exchange	4,655	8,153	119	-	-	12,927
Balance, June 30, 2020	$ 219,540	$ 334,793	$ 5,358	$ -	$ -	$ **559,691**
Net book value						
June 30, 2019	**$ 5,043,876**	**$ 2,013,639**	**$ -**	**$ -**	**$ -**	**$ 7,057,515**
June 30, 2020	**$ 1,245,675**	**$ 1,840,396**	**$ 245,653**	**$ 918,168**	**$ -**	**$ 4,249,892**

During the year ended June 30, 2019, the Company:

a) issued 27,146 common shares for a total fair value of $431,613 in exchange for equipment; and
b) issued 55,389 common shares for total fair value of $1,129,927 for equipment which was in transit as at June 30, 2019.

12. CONVERTIBLE DEBT

During the year ended June 30, 2020, the Company completed a convertible debt financing for total gross proceeds of $1,455,080 (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 USD$1.00 per common share. The debentures carry a derivative liability whereby the number of shares is fixed to the US dollar. The Company recognized a derivative liability of $620,960 and re-measures the liability at the end of each reporting period using the Black-Scholes option pricing model.

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.

12. CONVERTIBLE DEBT (CONTINUED)

The Company during the year ended June 30, 2020 entered into debt settlement agreement with one of the debentures holders whereby the Company settled $1,036,750 of the carrying value of the principal and outstanding interest amount by issuing 1,561,418 common shares of the Company for total fair value of $1,327,205 and recognizing a loss on settlement of $290,455 included in the loss on debt settlement in the consolidated statement of comprehensive income and loss.

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. 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 Company has the right to repay and cancel the convertible debentures at any time prior to the maturity date at a price equal to 105% of the principal amount of the convertible debentures then outstanding plus accrued and unpaid interest thereon. In addition, the Company has the right to compel the conversion of the convertible debentures in the event that the daily volume weighted average trading price of the common shares exceeds $2.50 per common share for 10 consecutive trading days. The Company recognized a derivative liability of $1,079,782 relating to the first tranche closed on December 4, 2018 and a derivative liability of $692,013 on the second tranche closed on December 20, 2018 and re-measures the liability at the end of each reporting period using the Black-Scholes option pricing model. There was no residual value allocated to the warrants attached to the debentures.

The Company during the year ended June 30, 2020 entered into debt settlement agreements with the debentures holders for the tranche closed December 4, 2018 whereby the Company settled of the principal and outstanding interest amount of $2,184,000 with a carrying value of $1,581,007 by issuing a total of 4,976,482 common shares of the Company for total fair value of $4,054,715 and recognizing a loss on settlement of $2,473,708 included in the loss on debt settlement in the consolidated statement of comprehensive income and loss. The Company incurred $100,000 in early settlement penalties, being 5% of the outstanding which were settled, and are included as part of the loss on debt settlement.

The Company during the year ended June 30, 2020 entered into debt settlement agreements with certain debentures holders for the tranche closed December 20, 2018 whereby the Company settled of the principal and outstanding interest amount of $601,898 with a carrying value of $469,790 by issuing a total of 1,537,425 common shares of the Company for total fair value of $1,255,233 and recognizing a loss on settlement of $785,443 included in the loss on debt settlement in the consolidated statement of comprehensive income and loss. The Company incurred $27,650 in early settlement penalties, being 5% of the outstanding which were settled, and are included as part of the loss on debt settlement.

(Expressed in Canadian dollars)

12. CONVERTIBLE DEBT (CONTINUED)

The following table summarizes the Company's convertible debt:

Balance, June 30, 2018	**$**	**-**
Proceeds on issuance of convertible debt		3,500,000
Allocation to derivative liabilities		(1,771,796)
Interest accrual		515,200
Balance, June 30, 2019 (restated)	**$**	**2,243,404**
Additions		1,455,080
Allocation to derivative liabilities		(620,960)
Settlement		(3,087,547)
Accretion and interest		1,058,510
Foreign exchange		15,075
Balance, June 30, 2020	**$**	**1,063,562**

As at June 30, 2020, the outstanding principal and accrued interest related to convertible debt was $1,216,557.

The following table summarizes the Company's derivative liabilities:

Balance, June 30, 2018	**$**	**-**
Allocation to derivative liabilities		1,771,796
Change in fair value during the year		1,380,694
Balance, June 30, 2019 (restated)	**$**	**3,152,490**
Additions		620,960
Change in fair value during the year		(3,773,450)
Balance, June 30, 2020	**$**	**-**

13. AMOUNTS RECEIVABLE

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

		June 30, 2020		**June 30, 2019**
Trade receivable	$	681,484	$	2,378,904
GST		71,184		13,655
Balance	**$**	**752,668**	**$**	**2,392,559**

As of June 30, 2020, the Company recorded an allowance for doubtful accounts of $391,978 (2019 - $336,296). If circumstances related to specific customers and related parties change, estimates of the recoverability of amounts receivable could also change.

A reconciliation of 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		391,978
Balance, June 30, 2020	**$**	**728,274**

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 June 30, 2020 are 34,620,879 of which 729,187 common shares are classified as held internally and deducted from the consolidated statement of changes in equity. As at June 30, 2020, the Company held 1,032,104 common shares in escrow.

At acquisition date, the Company held 11,668,998 common shares of GSRX's common shares with a fair value of $4,658,381, which were purchased on April 1, 2019 and classified as financial assets at FVTPL. On August 28, 2019 the Company issued 1,488,071 common shares for common share of GSRX with a fair value of $8,437,358, 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%. Also see Note 5.

In connection with the acquisition of controlling interests in GSRX on August 28, 2019, the Company agreed to issue an additional 400,000 common shares to exchange for the preferred shares of GSRX, which represent 51% of voting rights. The fair value of the common shares was valued at closing price of the acquisition date. The 400,000 common shares were issued on November 6, 2019.

On January 23, 2020, the Company closed a private placement of 13,506,030 units of the Company at price of $0.370 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) 3,742,807 units were issued to settle $1,141,556 owed under a convertible debt held by a director of the Company and 1,128,771 units were issued to settle $344,275 of other convertible debentures (Note 12);
ii) $239,742 in accounts payable owing to a director of the Company was settled with 786,039 units; 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 $361,933. A penalty of $12,500 was incurred 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 (Note 12). 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 $145,821. 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.

(Expressed in Canadian dollars)

14. SHAREHOLDERS' EQUITY (CONTINUED)

On April 21, 2020, the Company issued 2,500,000 restricted share units ("RSU") to employees and consultants. These restricted share units vested over a period of three months, and a fair value of $1,719,874 was charged to share-based payments during the year, based on the pro-rata fair value with reference to the shares' grant date price of US$0.626. The restriction period on these shares ends on July 21, 2020.

During the year ended June 30, 2020, other following 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
December 3, 2019	100,000	$	0.73	$	73,000	Private placement
May 19, 2020	1,420,000	$	0.5	$	710,000	Private placement
May 20, 2020	1,272,500	$	0.5	$	636,250	Private placement

During the year ended June 30, 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 11)
August 14, 2019	60,000	$	12.20	$	732,000	Notes payable settlement agreement (Note 5)
August 28, 2019	1,488,071	$	5.67	$	8,437,363	Acquisition of GSRX shares (Note 5)
November 7, 2019	400,000	$	5.67	$	2,268,000	Acquisition of GSRX preferred shares (Note 5)
December 2, 2019	30,938	$	1.85	$	57,240	Shares issued for services

On January 9, 2020, 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 $25,824.

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	$	3.90	$	255,886	SAP license rights (Note 9)
November 21, 2018	28,250		11.20		316,400	Da Grassy High Inc. license acquisition (Note 9)
January 8. 2019	17,356		10.80		187,440	Rapid Dose license (Note 9)
January 11, 2019	748,000		13.80		7,225,680	La Finca acquisition (Note 5)
February 26, 2019	10,124		19.40		106,345	Da Grassy High Inc. license acquisition (Note 9)
April 15, 2019	27,146		15.90		431,613	Equipment acquisition (Note 11)
June 18, 2019	55,389		20.40		1,129,927	Equipment acquisition (Note 11)
	952,729	**$**	**10.10**	**$**	**9,653,291**	

(Expressed in Canadian dollars)

14. SHAREHOLDERS' EQUITY (CONTINUED)

Date	Number of shares		Fair value per share		Total fair value	Purpose
Business acquisitions (Note 5)						
November 30, 2018	223,525		8.40		1,877,607	Natural Ventures acquisition
August 21, 2018	65,250		7.50		342,563	Desert Zen acquisition
May 17, 2019	67,231		13.10		880,058	Kieley acquisition
	356,006	**$**	**8.70**	**$**	**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	$	6.10	$	9,784,446	Reverse take over (Note 5)
April 12, 2019	410,448	$	14.20	$	5,861,191	Debt extinguishment (Note 5)
April 1, 2019	729,187	$	23.50	$	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	$	7.50	$	48,938
August 24, 2018	30,000		8.40		252,000
September 20, 2018	2,202		17.70		38,979
October 9, 2018	3,293		16.70		55,000
November 8, 2018	1,503		17.40		26,145
June 18, 2019	10,363		20.30		210,375
	53,886	**$**	**11.70**	**$**	**631,437**

The Company issued shares pursuant to options exercised as follows:

Date	Number of shares		Strike price		Total proceeds
October 2, 2018	5,000	$	11.00	$	55,000
December 14, 2018	2,750		10.00		27,500
December 20, 2018	4,000		10.00		40,000
January 23, 2019	6,500		10.00		65,000
February 19, 2019	5,000		11.00		55,000
March 6, 2019	10,000		10.00		100,000
May 8, 2019	5,000		11.00		55,000
	38,250	**$**	**10.40**	**$**	**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	10,000	$	20.00	$	200,000
March 6, 2019	12,000		20.00		240,000
March 6, 2019	23,200		20.00		464,000
April 25, 2019	2,200		20.00		44,000
May 8, 2019	1,000		20.00		20,000
	48,400	**$**	**20.00**	**$**	**968,000**

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

(Expressed in Canadian dollars)

14. SHAREHOLDERS' EQUITY (CONTINUED)

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)	31,250	$	8.00	$	250,000	$	-	$	250,000
January 16, 2019	Alumina Partners Ltd.	38,461		13.00		500,000		-		500,000
March 1, 2019	Non-brokered	150,000		18.4		2,760,000		-		2,760,000
April 15, 2019 – June 13 2019	Non-brokered	112,162		18.7		2,101,999		-		2,101,999
June 21, 2019	Non-brokered	10,811		18.5		200,000		-		200,000
Share issuance costs		-		-		-		(377,294)		(377,294)
		342,684	**$**	**16.96**	**$**	**5,811,999**	**$**	**(377,294)**	**$**	**5,434,705**

No share issuance costs were incurred.

14.3 Warrants

As of June 30, 2020, the following warrants were outstanding:

	Warrants		Exercise Price
June 30, 2019	**953,421**	**$**	**19.70**
Issued	20,966,498		0.53
Expired	(391,541)		1.00
June 30, 2020	**21,528,378**	**$**	**1.62**

Expiry date	Warrants		Exercise Price
December 4, 2020	160,000	$	15.00
December 21, 2023	31,250		15.00
October 3, 2021	77,651		15.00
December 20, 2020	120,010		15.00
January 21, 2024	38,460		24.50
March 1, 2024	150,000		25.00
May 30, 2024	18,918		25.00
May 30, 2024	37,837		25.00
June 13, 2024	5,405		25.00
January 21, 2022	16,393,444		0.405
January 23, 2022	570,192		0.70
January 23, 2022	1,232,711		1.12
May 19, 2022	1,420,000		1.00
May 20, 2022	1,272,500		1.00
Balance, June 30, 2020	**21,528,378**	**$**	**1.62**

At June 30, 2020, the weighted-average remaining life of the outstanding warrants was 2.37 years (2019 – 1.85).

(Expressed in Canadian dollars)

14. SHAREHOLDERS' EQUITY (CONTINUED)

As of June 30, 2019, 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**

Expiry date	Warrants		Exercise Price
August 4, 2019	391,547	$	20.00
December 4, 2020	160,000		15.00
December 21, 2020	120,000		15.00
January 21, 2024	38,462		24.50
March 1, 2024	150,000		25.00
December 20, 2023	31,250		15.00
May 30, 2024	37,838		25.00
May 30, 2024	18,919		25.00
June 13, 2024	5,405		25.00
Balance, June 30, 2019	**953,421**	**$**	**19.70**

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.

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 year ended June 30, 2020, the Company charged the following share-based compensation:
a) Fair value of options and restricted share unit issued and vested during the year: $3,543,765;
b) 30,938 Shares issued for services with a fair value $57,235; and
c) Shares issued by GSRX for services with a fair value of $25,824.

During the year ended June 30, 2020, 2,295,000 (2019 – 685,000) 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 year ended June 30, 2020 was $1,823,891 (2019 - $4,539,342).

(Expressed in Canadian dollars)

14. SHAREHOLDERS' EQUITY (CONTINUED)

The fair value of the share options granted was estimated on the date of grant using the Black-Scholes Pricing Model with the following weighted average assumptions for the years ended June 30:

	2020	2019
Strike price	$0.90	$12.80
Risk free interest rate	1.61%	2.00%
Expected option life (years)	5.01 years	4.87 years
Expected stock price volatility	138%	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	**-**	**$**	**-**
Acquisition of Chemesis (Note 5)	65,000		7.80
Granted	685,000		12.70
Cancelled	(40,750)		10.10
Exercised	(38,250)		10.40
June 30, 2019	**671,000**	**$**	**12.50**
Granted	2,295,000		0.90
Exercised	(10,000)		14.00
Cancelled	(656,000)		11.33
Expired	(5,000)		10.00
June 30, 2020	**2,295,000**	**$**	**0.90**

At June 30, 2020, the weighted average remaining life of the outstanding options was 4.53 years (2019 - 3.90). As at June 30, 2020, the Company has 2,295,000 options outstanding, expiring on January 12, 2025 with an exercise price of $0.90.

(Expressed in Canadian dollars)

14. SHAREHOLDERS' EQUITY (CONTINUED)

At June 30, 2019, the following options were outstanding:

		Outstanding and exercisable		
Expiry date	**Options**		**Exercise price**	**Remaining contractual life (years)**
September 18, 2019	5,000	$	10.00	0.22
June 9, 2022	35,000		5.00	2.95
August 18, 2022	12,500		11.00	3.14
July 22, 2023	428,500		10.00	4.06
September 27, 2023	20,000		17.40	4.25
November 6, 2023	30,000		14.00	4.36
March 12, 2024	50,000		21.30	4.70
March 25, 2024	10,000		20.90	4.74
March 29, 2024	50,000		21.60	4.75
April 26 2021	10,000		20.40	1.82
May 23 2024	20,000		21.10	4.90
Balance, June 30, 2019	**671,000**	**$**	**12.50**	**3.90**

15. REVERSE TAKEOVER TRANSACTION

On July 17, 2018, the Chemesis completed a transaction with 1145411 BC Ltd. ("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". See Note 1.

(Expressed in Canadian dollars)

15. REVERSE TAKEOVER TRANSACTION (CONTINUED)

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**

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.

(Expressed in Canadian dollars)

16. EXPLORATION AND EVALUATION ASSETS AND PLAN OF ARRANGEMENT (CONTIUNUED)

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

Balance, June 30, 2018	$	-
Additions (disposals) during the period:		
Acquisition costs		108,881
Claim fees		4,438
Completion of plan of arrangement		(113,319)
Balance at June 30, 2019 and 2020	$	-

17. RELATED PARTY TRANSACTIONS AND BALANCES

Key management personnel are the directors and officers of the Company. Management compensation transactions for the years ended June 30, 2020 and 2019 is summarized as follows:

		2020		**2019**
Management fees	$	728,265	$	424,473
Share-based payments		3,131,373		2,032,955
Total	**$**	**3,859,638**	**$**	**2,457,428**

As at June 30, 2020, $647,083 (2019 - $596,847) is owed to directors and officers of the Company for unpaid fees and expenses paid on behalf of the Company.

During the year ended June 30, 2020, the Company paid $314,752 (2019 - $164,472) included in management fees to the CEO and Director of the Company pursuant to CEO and director services provided.

During the year ended June 30, 2020, the Company paid $130,000 included in management fees to the CFO of the Company pursuant to CFO services provided. During the year ended June 30, 2019, the Company paid $100,000 to the previous CFO for services provided, which is included in management fees.

During the year ended June 30, 2020, the Company paid $195,150 (2019 - $137,500) included in management fees to a director of the Company pursuant to director services provided.

During the year ended June 30, 2020, the Company paid $52,363 (2019 - $nil) included in management fees to a director of the Company pursuant to director services provided.

During the year ended June 30, 2020, the Company paid $36,000 (2019 - $37,500) included in consulting fees to the Corporate Secretary and Director and of the Company pursuant to corporate secretary and director services provided.

During the year ended June 30, 2020, the Company issued 2,350,000 RSUs to directors and officers of the Company with a fair value of $2,078,591. See Note 14. During the year ended June 30, 2020, the Company recognized share-based payments of $1,616,682 pertaining to the RSUs, which is included in the consolidation statements of net loss and comprehensive loss.

(Expressed in Canadian dollars)

17. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

During the year ended June 30, 2020, the Company settled a convertible debenture held by a director of the Company with a principal amount of $1,000,000, accrued interest of $91,778 and an early settlement penalty of $50,000. The convertible debt had a carrying value of $789,431 and was settled with 3,743,534 common shares of the Company with a fair value of $2,957,392 resulting in a loss on debt settlement of $2,167,960 (see Note 12 and 14).

On Jan 21, 2020, $239,742 an outstanding payable to the company owned by the director was settled through the issuance of 786,040 units with a fair value of $620,972. There was a loss of $381,230 on the settlement. Each unit comprises of one common share and one common share purchase warrant exercisable at a price of $0.405 for a period of 24 months.

18. GENERAL AND ADMINISTRATION

General and administrative costs during the years ended June 30, 2020 and 2019 are as follows:

		2020		2019
Advertising and marketing	$	1,792,313	$	4,233,999
Consulting and payroll (Note 17)		3,474,567		1,964,939
License and Permits		139,972		42,982
Management fees (Note 17)		728,265		424,473
Office and miscellaneous		4,119,921		1,170,537
Professional fees		2,951,081		1,540,524
Rent		412,161		773,086
Security		107,145		171,553
Transfer agent and filing fees		109,044		95,400
Travel		590,042		514,749
Utilities		85,805		10,063
	$	**14,510,316**	**$**	**10,942,305**

19. 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) Right of use asset included in leases (Note 6)
iv) Shares issued for license (Notes 9 and 14)

(Expressed in Canadian dollars)

20. COMMITMENTS

The Company holds a 5-year lease agreement in Caguas, Puerto Rico with remaining lease obligations as at June 30, 2020 of USD$475,000.

GSRX holds various lease agreements in Puerto Rico and California with remaining lease obligations extending over the next 8 years totaling USD$2,512,000.

21. RISK MANAGEMENT

21.1 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. The maximum amount exposed to credit risk is equal to trade receivables (see Note 13).

c. Liquidity risk
Liquidity risk is the risk that the Company is not able to meet its financial obligations as they fall due. As at June 30, 2020, the Company's working capital deficiency of $3,650,686. The Company plans to 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.

Contractual undiscounted cash flow requirements for contractual obligations as at June 30, 2020 are as follows:

	Less Than 1 Year $	Years 2 and 3 $	Years 4 and 5 $	More Than 5 Years $	Total $
Accounts payable and accrued liabilities	6,051,158	-	-	-	6,051,158
Lease liabilities (Note 6)	1,441,890	2,456,282	438,997	337,029	4,644,198
Convertible debt (Note 12)	1,216,557	-	-	-	1,216,557

(Expressed in Canadian dollars)

21. RISK MANAGEMENT (CONTINUED)

d. Market risk

Market risk incorporates a range of risks. Movements in risk factors, such as market price risk and currency risk, affect the fair values of financial assets and liabilities. The Company does not have a practice of trading derivatives

Foreign currency risk

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

21.2 Fair values

The carrying values of trade receivables and accounts payable and accrued liabilities approximate their fair values due to their short-term to maturity. The carrying value of convertible debt approximates its fair value based on current market rates.

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

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

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

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

As at June 30, 2020 and 2019 the Company held the following measured at their stated fair value hierarchy level:

		2020		**2019**
Level 1				
Cash	$	1,044,585	$	641,583
Investments (Note 5)		-		14,497,777
Level 3				
Embedded derivative liability (Note 12)	$	-	$	3,152,490

At June 30, 2020, the Company held $nil (2019 - $14,497,777) in investments and cash of $1,044,585 measured at Level 1 and a derivative liability of $nil at Level 3. During the years ended June 30, 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.

22. 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.

(Expressed in Canadian dollars)

23. IMPAIRMENT OF ASSETS

During the years ended June 30, 2020 and 2019, the Company impaired goodwill, intangible assets, fixed assets and deposits as follows:

	2020	**2019**
	$	$
Goodwill (Note 5)	2,633,910	1,801,300
Intangible assets (Note 9)	1,240,153	637,059
Fixed assets and right of use asset (Note 11)	5,697,485	-
Deposits	420,343	-
	9,991,891	**2,438,359**

24. EQUITY FUNDING FACILITIES

On August 8, 2018, the Company entered into an equity financing agreement for up to $25,000,000, with Alumina Partners, LLC, a New York-based private equity firm.

The agreement details the purchase of up to $25,000,000 of units of the Company, consisting of one common share and one common share purchase warrant, at discounts ranging from 15% to 25% of the market price of the Company's shares, with each equity financing occurring exclusively at the option of the Company, throughout the 24-month term of the agreement. The exercise price of the warrants will be at a 50% premium over the market price of the shares at the date of any funding loaned. There are no upfront fees or interest associated with the use of this financing. As of June 30, 2020, the Company has drawn down $750,000 (2019 - $750,000) on the equity financing arrangement. Either party to this agreement has the right to terminate this agreement by providing ten business days written notice to the other party of its intention to do so.

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 June 30, 2020, the Company drawn down $778,000 (2019 - $778,000) on this equity financing arrangement.

25. 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	**Liabilities**	**Revenues**	**Depreciation**	**Interest**	**Income tax recovery**	**Profit (loss)**
	$	**$**	**$**	**$**	**$**	**$**	**$**
Canada	436,918	3,102,285	-	2,115,792	1,106,987	-	(27,835,250)
United States - California							
Manufacturing	-	454,420	605,385	548,745	35,610	(56,026)	(6,227,825)
Bulk CBD	-	-	-	-	-	-	-
United States - Puerto Rico							
Cultivation and manufacturing	8,762,931	4,195,026	2,385,210	96,614	128,490	-	(2,050,377)
Retail/dispensary	13,081,326	2,607,689	11,103,245	908,597	270,697	-	(2,088,191)
Columbia	158,423	242,818	-	142,001	39,399	-	(416,834)
	22,439,598	10,602,238	14,093,840	3,811,749	1,581,183	(56,026)	(38,618,477)

(Expressed in Canadian dollars)

25. SEGMENTED REPORTING (CONTINUED)

The Company's reportable segments are organized by geographic regions and by nature of operations which include: Canada, US-California, US-Puerto Rico cultivation and manufacturing, US-Puerto Rico dispensaries and Columbia.

Canada is the parent company with operations focused on governance and assets consisting of equipment. US-California revenues consists of manufacturing and extraction of THC oil sold to dispensaries. The assets of California were written off during the year as the market has taken a downturn. US-Puerto Rico cultivation and manufacturing consists of sales of cannabis flower and THC infused edibles and oils though our subsidiary NVPR to dispensaries and retailers. US-Puerto Rico dispensaries consist of the 5 operating retail dispensaries in Puerto Rico who sell cannabis products to individuals through our subsidiary GSRX.

Segmented disclosure above is presented in the same manner than management evaluates performance, net of intercompany eliminations. During the year, $1,174,026 of cannabis and cannabis products were sold to GSRX for resale which were eliminated upon consolidation. These products were transferred at cost.

The Company has adapted the prior year presentation of segments to confirm to the current year presentation, inclusive of the restatement (Note 28), as follows:

	Assets $	Liabilities $	Revenues $	Depreciation $	Interest $	Income tax expense $	Profit (loss) $
Canada	24,989,600	(7,411,952)	-	616,490	599,522	-	(35,476,921)
United States - California							
Manufacturing	7,096,288	(1,202,241)	1,819,014	272,573	-	133,000	(2,817,544)
Bulk CBD	-	(916,391)	5,342,011	-	-	-	104,576
United States - Puerto Rico							
Cultivation and manufacturing	1,546,325	(777,011)	2,150,094	89,096	-	-	(657,446)
Retail/dispensary	-	-	-	-	-	-	(657,446)
Columbia	90,846	(92,828)	-	5,086	-	-	(201,073)
	33,723,059	(10,400,423)	9,311,119	983,245	599,522	133,000	(39,705,854)

26. CONTINGENT LIABILITIES

As at June 30, 2020, the Company has the following claims open:

a) There is a claim against the Company for $632,250 under the allegation the at the Company triggered a cash payment which was never satisfied. The Company believes this claim to be without merit, and as such, no amounts were accrued as at June 30, 2020; and

b) On July 14, 2020 notice was served to Pure and Natural One-TN, LLC, Pure and Natural Lakeway, LLC and the CFO of GSRX as defendants in a lawsuit filed by Southwest Legend Investments LLC, a member of the two companies. Plaintiff is seeking damages in excess of $200,000 but less than $1,000,000. The Company believes this claim to be without merit, and as such, no amounts were accrued as at June 30, 2020.

(Expressed in Canadian dollars)

27. INCOME TAXES

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

	June 30, 2020 $	June 30, 2019 $
Net loss for the year before income taxes	(38,674,503)	(39,572,854)
Expected tax recovery at a combined federal and provincial rate of 27.0% (2019 - 26.0%)	(10,442,116)	(10,288,942)
Change in statutory, foreign tax, foreign exchange rates	(1,092,000)	122,000
Permanent differences and other	1,622,068	5,240,942
Share issue costs	(55,000)	(55,000)
Adjustment to prior years provision versus statutory tax returns and expiry of non-capital losses	33,022	(1,340,000)
Changes in unrecognized deductible temporary differences	9,878,000	6,454,000
Total income tax expense (recovery)	(56,026)	133,000
Current income taxes	(56,026)	133,000
Deferred income taxes	-	-
Total income tax expense (recovery)	(56,026)	133,000

As at June 30, 2020, the Company had $76,974 (2019 - $133,000) of U.S. income taxes payable.

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

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

	June 30, 2020 $	June 30, 2019 $
Deferred tax assets (liabilities)		
Equipment	825,000	-
Share issue costs	86,000	305,000
Investments	1,392,000	357,000
Debt with accretion	32,000	54,000
Leasehold improvements	744,000	39,000
Intangible assets	1,285,000	-
Allowable capital losses	-	40,000
Non-capital losses available for future period	12,141,000	5,832,000
	16,505,000	6,627,000
Unrecognized deferred tax assets	(16,505,000)	(6,627,000)
Net deferred tax assets	-	-

(Expressed in Canadian dollars)

27. INCOME TAXES (CONTINUED)

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

	June 30, 2020 $	Expiry date range	June 30, 2019 $	Expiry date range
Temporary differences				
Equipment	2,931,000	No expiry date	1,112,000	No expiry date
Share issue costs	317,000	2040 to 2043	317,000	2018 to 2037
Investment in GSRX	10,308,000	No expiry date	2,646,000	No expiry date
Leasehold improvements	2,658,000	2040 to 2043	138,000	2040 to 2043
Intangible assets	3,309,000	No expiry date		
Allowable capital losses	-		146,000	No expiry date
Non-capital losses available for future periods	51,215,000	2026 to indefinite	26,031,000	2026 to indefinite

The following losses are available for utilization in future years:

	June 30, 2020	Expiry date range	June 30, 2019	Expiry date range
Net operating losses				
Canada	36,492,000	2037 to 2040	18,419,000	2037 to 2039
USA - California	5,604,000	2038 to Indefinite	2,413,000	2038 to indefinite
USA - Puerto Rico	8,206,000	2026 to 2030	4,944,000	2026 to 2029
Colombia	913,000	2029 to 2032	254,000	2029 to 2031

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

(Expressed in Canadian dollars)

28. RESTATEMENT

During the preparation of the 2020 year end consolidated financial statements the Company identified an error in the accounting treatment of the convertible debentures issued in the fiscal 2019 period. The Company identified there was a clause that allowed for the number of shares to be converted was not fixed thereby resulting in an embedded derivative that was required to be accounted for as at FVTPL. These adjustments, cumulatively, impacted the consolidated statement of financial position as at June 30, 2019 and the consolidated statement of loss and comprehensive loss.

The table below summarizes the restated consolidated financial statements for June 30, 2019:

Consolidated Statement of Financial Position

	As previously reported $	Note	Adjustments $	As restated $
Embedded derivative liability	-	(a)	1,771,796	3,152,490
		(b)	1,380,694	
Convertible debt	3,342,741	(a)	(1,099,337)	2,243,404
Equity portion of convertible debt	244,000	(a)	(244,000)	-
Contributed surplus	5,253,384	(a)	(186,057)	5,067,327
Deficit	(37,904,390)	(c)	(1,623,096)	(39,527,486)

Consolidated Statement of Loss and Comprehensive Loss

	As previously reported $	Note	Adjustments	As restated $
Other items				
Interest expense	(357,120)	(a)	(242,402)	(599,522)
Change in the fair value of derivative liabilities	-	(b)	(1,380,694)	(1,380,694)
NET LOSS ATTRIBUTABLE TO:				
Chemesis International Inc.	(37,445,908)	(c)	(1,623,096)	(39,069,004)
COMPREHENSIVE LOSS ATTRIBUTABLE TO:				
Chemesis International Inc.	(36,915,442)	(c)	(1,623,096)	(38,538,538)
Loss per share, basic and diluted	(4.9)		(0.23)	(5.13)

Restatement adjustments

(a) The adjustment is to record the additional accretion and interest as a result of the change in treatment of the convertible debentures.
(b) The adjustment is to record the change in fair value of the derivative from the date of issuance to the year ended June 30, 2019.
(c) As a result of the above adjustments, the comprehensive loss attributable to the Company increased by $1,623,096.

29. SUBSEQUENT EVENTS

Subsequent to June 30, 2020, the Company completed the following transactions:

a) On July 3, 2020, the Company paid finder's fees totaling $35,000 and issued an aggregate of 70,000 finder's warrants to an arm's-length party. Each Finder's Warrant is exercisable into one common share in the capital of the Company until July 3, 2022.

b) On July 3, 2020, the Company closed the Third Tranche of 2,542,800 units and completed a private placement of 5,235,300 units at a price of $0.50 per unit for gross proceeds totalling $2,617,650. Each unit consists of cone common share and one common share purchase warrant entitling the holder to exercise the option at a price of $1.00 for 24 months;

c) On July 24, 2020, the Company settled liabilities of $470,843 through the issuance of 692,416 units at a price of $0.68 per unit. Each unit consists of one common share and one common share purchase warrant entitling the holder to exercise the option at a price of $0.85 for 24 months;

d) On July 24, 2020, the Company settled US $24,000 in liabilities through the issuance of 38,307 common shares of the Company;

e) On September 11, 2020, 125,000 of Restricted Share Rights were converted into common shares

f) Between August 4, 2020 and the date of these consolidated financial statements, 1,646,191warrants were exercised into 1,646,191 common shares for gross proceeds of $666,707.