CHEMESIS

**CHEMESIS INTERNATIONAL INC.**

**Consolidated Financial Statements**
**For the years ended June 30, 2021 and 2020**

manning elliott

17th floor, 1030 West Georgia St., Vancouver, BC, Canada V6E 2Y3

**Tel:** 604. 714. 3600 **Fax:** 604. 714. 3669 **Web:** manningelliott.com

## 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 statements of financial position as at June 30, 2021 and 2020, and the consolidated statements of loss and comprehensive loss, changes in equity (deficiency) and cash flows for the years 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, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

**Basis for Opinion**

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *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.

**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

March 25, 2022

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

| As at | June 30, 2021 | June 30, 2020 |
|---|---|---|
| ASSETS | | |
| Current assets | | |
| Cash | $ 1,719,845 | $ 1,044,585 |
| Amounts receivable (Note 15) | 201,964 | 752,668 |
| Prepaid expenses | - | 85,162 |
| Inventory (Note 10) | - | 1,129,131 |
| Loan receivable | 55,631 | - |
| Biological assets (Note 9) | - | 1,842,848 |
| Assets held for sale (Note 5) | 345,257 | - |
| | 2,322,697 | 4,854,394 |
| Non-current assets | | |
| Deposits | - | 1,033,234 |
| Fixed assets (Note 13) | - | 4,249,892 |
| Note receivable (Note 17) | 1,227,281 | - |
| Right of use assets (Note 8) | - | 2,916,092 |
| Intangible assets (Note 11) | - | 2,051,774 |
| Goodwill (Note 7) | - | 7,334,212 |
| | 1,227,281 | 17,585,204 |
| TOTAL ASSETS | $ 3,549,978 | $ 22,439,598 |
| LIABILITIES | | |
| Current | | |
| Accounts payable and accrued liabilities (Note 17) | $ 2,287,347 | $ 6,051,158 |
| Income tax payable (Note 26) | - | 76,974 |
| Current portion of lease liabilities (Note 8) | - | 1,313,386 |
| Derivative liability (Note 16) | 1,185,923 | - |
| Convertible debt (Note 14) | 129,382 | 1,063,562 |
| Liabilities held for sale (Note 5) | 150,459 | - |
| | 3,753,111 | 8,505,080 |
| Non-current liabilities | | |
| Lease liabilities (Note 8) | - | 2,097,156 |
| TOTAL LIABILITIES | 3,753,111 | 10,602,236 |
| EQUITY (DEFICIENCY) | | |
| Share capital (Note 16) | 85,611,273 | 77,952,340 |
| Subscriptions received | 40,500 | 22,500 |
| Reserves | 7,564,425 | 5,814,928 |
| Accumulated other comprehensive income (loss) | (311,202) | 240,078 |
| Deficit | (94,757,209) | (76,517,929) |
| Equity (deficiency) attributable to shareholders of Chemesis | (1,852,213) | 7,511,917 |
| Non-controlling interests (Note 12) | 1,649,080 | 4,325,445 |
| TOTAL EQUITY (DEFICIENCY) | (203,133) | 11,837,362 |
| TOTAL LIABILITIES AND EQUITY (DEFICIENCY) | $ 3,549,978 | $ 22,439,598 |

*Going concern (Note 2)*
*Contingent liabilities (Note 25)*
*Subsequent events (Note 27)*

Approved on behalf of the Board of Directors:

*"Josh Rosenberg",* 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, 2021 | | June 30, 2020 |
|---|---|---|---|---|
| REVENUES | $ | 27,838 | $ | 1,091,649 |
| COST OF GOODS SOLD | | (31,124) | | (1,097,707) |
| GROSS LOSS | | (3,286) | | (6,058) |
| EXPENSES | | | | |
| Depreciation (Notes 11 and 13) | | 46,580 | | 1,731,176 |
| Foreign exchange loss (gain) | | 14,828 | | (112,594) |
| General and administration (Note 18) | | 9,080,490 | | 8,471,422 |
| Share-based payments (Notes 16 and 17) | | 1,835,458 | | 3,569,588 |
| TOTAL OPERATING EXPENSES | | (10,977,356) | | (13,659,592) |
| LOSS BEFORE OTHER ITEMS | | (10,980,642) | | (13,665,650) |
| OTHER INCOME (EXPENSES): | | | | |
| Interest expense | | (55,751) | | (1,413,294) |
| Interest income and other (Note 17) | | 89,210 | | 140,647 |
| Change in fair value of derivative liabilities (Notes 14, 16) | | 12,488 | | 3,773,450 |
| Loss on recognition and change in fair value of loan receivable (Note 17) | | (422,549) | | - |
| Loss on debt settlement (Notes 14 and 17) | | (585,131) | | (3,900,042) |
| Loss on investment in GSRX (Note 6) | | - | | (9,839,396) |
| Impairment of assets (Note 22) | | (119,247) | | (9,991,891) |
| | | (1,080,980) | | (21,230,526) |
| NET LOSS BEFORE DISCONTINUED OPERATIONS AND INCOME TAXES | | (12,061,622) | | (34,896,176) |
| Income tax recovery (expense) (Note 26) | | 76,974 | | 56,026 |
| NET LOSS FROM CONTINUING OPERATIONS | | (11,984,648) | | (34,840,150) |
| Net loss from discontinued operations (Note 6) | | (9,387,334) | | (3,778,327) |
| NET LOSS | | (21,371,982) | | (38,618,477) |
| OTHER COMPREHENSIVE INCOME (LOSS) | | | | |
| Other comprehensive income (loss) that may be reclassified to net loss: | | | | |
| Cumulative translation adjustment from continuing operations | | (773,573) | | (387,707) |
| Cumulative translation adjustment from discontinued operations | | 109,570 | | 8,207 |
| | | (664,003) | | (379,500) |
| COMPREHENSIVE LOSS | | (22,035,985) | | (38,997,977) |
| NET LOSS FROM CONTINUING OPERATIONS ATTRIBUTABLE TO: | | | | |
| Chemesis International Inc. | | (11,439,489) | | (33,845,426) |
| Non-controlling interests | | (545,159) | | (994,724) |
| | | (11,984,648) | | (34,840,150) |
| NET LOSS FROM DISCONTINUED OPERATIONS ATTRIBUTABLE TO: | | | | |
| Chemesis International Inc. | | (6,779,791) | | (3,145,017) |
| Non-controlling interests | | (2,587,543) | | (633,310) |
| | $ | (9,387,334) | $ | (3,778,327) |
| COMPREHENSIVE LOSS ATTRIBUTABLE TO: | | | | |
| Chemesis International Inc. | | (18,790,560) | | (37,437,525) |
| Non-controlling interests | | (3,245,425) | | (1,560,452) |
| | $ | (22,035,985) | $ | (38,997,977) |

The accompanying notes are an integral part of these consolidated financial statements. (CONTINUED ON NEXT PAGE)

| | | | | |
|---|---|---|---|---|
| Loss per share, basic and diluted | | | | |
| Continuing operations | $ | (0.25) | $ | (1.78) |
| Discontinued operations | | (0.15) | | (0.17) |
| Total operations | $ | (0.40) | $ | (1.95) |
| Weighted average number of common shares outstanding | | 44,962,402 | | 18,995,633 |

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

| | Share Capital | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Number | Amount | Subscriptions received | Reserves | Accumulated other comprehensive income (loss) | Deficit | Equity (deficiency) attributable to shareholders of Chemesis | Non-controlling interests | Total equity (deficiency) |
| | | $ | $ | $ | $ | $ | $ | $ | $ |
| **As at June 30, 2020** | **33,891,638** | **77,952,340** | **22,500** | **5,814,928** | **240,078** | **(76,517,929)** | **7,511,917** | **4,325,446** | **11,837,363** |
| Shares issued for cash | 6,230,219 | 2,469,811 | (22,500) | - | - | - | 2,447,311 | - | 2,447,311 |
| Allocation to derivative liability | - | (1,198,411) | - | - | - | - | (1,198,411) | - | (1,198,411) |
| Share issuance costs | - | (59,602) | - | 24,602 | - | - | (35,000) | - | (35,000) |
| Conversion of RSUs into common shares | 125,000 | 110,563 | - | (110,563) | - | - | - | - | - |
| Exercise of warrants | 10,757,003 | 4,534,586 | - | - | - | - | 4,534,586 | - | 4,534,586 |
| Shares for debt | 4,325,697 | 1,801,986 | - | - | - | - | 1,801,986 | - | 1,801,986 |
| Subscriptions received | - | - | 40,500 | - | - | - | 40,500 | - | 40,500 |
| Disposal of non-controlling interests | - | - | - | - | - | - | - | 569,059 | 569,059 |
| Share-based payments | - | - | - | 1,835,458 | - | - | 1,835,458 | - | 1,835,458 |
| Net loss | - | - | - | - | - | (18,239,281) | (18,239,281) | (3,132,702) | (21,371,983) |
| Other comprehensive loss (income) | - | - | - | - | (551,279) | - | (551,279) | (112,723) | (664,002) |
| **As at June 30, 2021** | **55,329,557** | **85,611,273** | **40,500** | **7,564,425** | **(311,201)** | **(94,757,210)** | **(1,852,213)** | **1,649,080** | **(203,133)** |

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

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

| | Number | Amount | Subscriptions received | Reserves | Accumulated other comprehensive income (loss) | Deficit | Equity attributable to shareholders of Chemesis | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|
| | | $ | $ | $ | $ | $ | $ | $ | $ |
| **As at June 30, 2019** | **9,216,353** | **56,954,958** | **-** | **5,067,327** | **569,066** | **(39,527,486)** | **23,063,865** | **258,772** | **23,322,637** |
| Acquisition of GSRX common shares | 1,488,071 | 8,437,358 | - | - | - | - | 8,437,358 | 4,811,232 | 13,248,590 |
| Shares held internally | (729,187) | (6,027,801) | - | - | - | - | (6,027,801) | - | (6,027,801) |
| Acquisition of SAP | 100,000 | 1,780,000 | - | (2,602,879) | 118,094 | - | (704,785) | 704,785 | - |
| Acquisition of GSRX preferred shares | 400,000 | 2,268,000 | - | - | - | - | 2,268,000 | - | 2,268,000 |
| Shares issued for intangible asset | 15,750 | 269,316 | - | - | - | - | 269,316 | - | 269,316 |
| Shares issued to settle note payable | 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 | 8,072,054 | 6,649,269 | - | - | - | - | 6,649,269 | - | 6,649,269 |
| Private placements, net | 13,606,031 | 5,246,177 | - | - | - | - | 5,246,177 | - | 5,246,177 |
| Subscriptions received | - | - | 22,500 | - | - | - | 22,500 | - | 22,500 |
| Shares issued for options exercised | 10,000 | 248,000 | - | (108,000) | - | - | 140,000 | - | 140,000 |
| Shares issued for services | 30,882 | 57,235 | - | - | - | - | 57,235 | - | 57,235 |
| Issuance of shares by GSRX for services | - | - | - | (85,285) | - | - | (85,285) | 111,109 | 25,824 |
| Share-based payments | - | - | - | 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** | **33,891,638** | **77,952,340** | **22,500** | **5,814,928** | **240,078** | **(76,517,929)** | **7,511,917** | **4,325,446** | **11,837,363** |

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

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

| For the years ended | | June 30, 2021 | | June 30, 2020 |
|---|---|---|---|---|
| Cash (used in) provided by: | | | | |
| OPERATING ACTIVITIES | | | | |
| Net loss for the year from continuing operations | $ | (11,984,648) | $ | (34,840,150) |
| Items not involving cash: | | | | |
| Share-based payments | | 1,835,458 | | 3,569,588 |
| Shares issued for consulting fees | | - | | 57,235 |
| Change in fair value of derivative liabilities | | (12,488) | | (3,773,450) |
| Loss on recognition and change in fair value of note receivable | | 422,549 | | - |
| Interest accretion on convertible debt | | 149,132 | | 1,058,510 |
| Loss on debt settlement | | 585,131 | | 4,248,086 |
| Loss on investment in GSRX | | - | | 9,839,396 |
| Foreign exchange | | (58,703) | | - |
| Impairment of assets | | 119,247 | | 9,991,891 |
| Depreciation | | 46,580 | | - |
| Net changes in non-cash working capital items: | | | | |
| Prepaid expenses and deposits | | 176,477 | | (2,474) |
| Income tax payable | | (76,974) | | (67,188) |
| Amounts receivable | | (69,325) | | 1,295,416 |
| Amounts payable and other payables | | (91,191) | | 1,719,413 |
| Net cash used in operating activities from continuing operations | | (8,958,755) | | (6,903,727) |
| Net cash provided by (used in) operating activities from discontinued operations | | (935,082) | | 1,038,693 |
| | | (9,893,837) | | (5,865,034) |
| INVESTING ACTIVITIES: | | | | |
| Note receivable | | (55,631) | | - |
| Loan receivable | | (1,649,830) | | - |
| Cash received upon acquisition of GSRX | | - | | 2,026,139 |
| Net cash provided by (used in) investing activities from continuing operations | | (1,705,461) | | 2,026,139 |
| Net cash provided by (used in) investing activities from discontinued operations | | 6,214,664 | | (568,970) |
| | | 4,509,203 | | 1,457,169 |
| FINANCING ACTIVITIES: | | | | |
| Proceeds from private placement, net | | 2,447,311 | | 5,246,177 |
| Finder's fees | | (35,000) | | - |
| Proceeds from option and warrant exercise | | 4,534,586 | | 140,000 |
| Subscriptions received | | 40,500 | | 22,500 |
| Convertible debentures | | (250,000) | | 1,455,080 |
| Interest paid | | (13,500) | | - |
| Net cash provided by financing activities from continuing operations | | 6,723,897 | | 6,863,757 |
| Net cash provided by (used in) financing activities from discontinued operations | | - | | (1,454,649) |
| | | 6,723,897 | | 5,409,108 |
| Effect of exchange rate changes on cash | | (664,003) | | (598,241) |
| Net increase in cash | | 675,260 | | 403,002 |
| Cash, beginning of year | | 1,044,585 | | 641,583 |
| Cash, end of year | $ | 1,719,845 | $ | 1,044,585 |

Non-cash investing and financing activities - See Note 19.

## 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 Suite 2200 - 885 West Georgia Street, Vancouver, BC V6C3E8 and the corporate head office is at Suite 2200 - 885 West Georgia Street, Vancouver, BC V6C3E8. 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.

During the years ended June 30, 2021 and 2020, the Company’s principal business was the production, distribution and sale of cannabis and cannabis related products. In December 2020, the Company entered into sale agreements with Puerto Rico Industrial Commercial Holdings Biotech Corp for the sale of substantially all the operating assets held by the Company’s 80%-owned Puerto Rican subsidiary, Natural Ventures Puerto Rico, and substantially all of the Puerto Rican assets of Project 1493, a wholly-owned Puerto Rican subsidiary of the Company’s 66%-owned American subsidiary, GSRX. See Notes 5 and 6. The Company’s continuing business includes the sale of cannabis related products from vending machines in the United States.

In March 2020 the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. The Company’s operations have not been affected by the COVID-19 global pandemic.

## 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.

On October 29, 2021, the Company applied for and received approval of a Management Cease Trade Order primarily due to the COVID-19 pandemic. On January 11, 2021, the British Columbia Securities Commission (“BCSC”) issued a Cease Trade Order (“CTO”) to the Company for failure to file its annual audited Financial Statements and Management Discussion and Analysis and for the year ended June 30, 2021 and its interim Financial Statements and Management Discussion and Analysis and for the three months ended September 30, 2021. The Company is working diligently to correct its filing deficiencies and have the BCSC revoke the CTO.

During the year ended June 30, 2021, the Company incurred a net loss of $21,371,982 and as at June 30, 2021 has a negative working capital of $1,430,414 and an accumulated deficit of $94,757,209 and remains dependent upon the receipt of additional equity or debt financing. These factors indicate the existence of a material uncertainty that may raise significant doubt about the Company’s ability to continue as a going concern. 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, 36 states, the District of Columbia, and four U.S. territories allow the use of medical cannabis. 16 states allow the sale and adult-use of recreational cannabis.

## 2. GOING CONCERN (CONTINUED)

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

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

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

## 3. BASIS OF PRESENTATION

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

These consolidated financial statements were authorized for issue by the Board of Directors on March 25, 2022.

### 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.

*Leases*

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

## 3. BASIS OF PRESENTATION (CONTINUED)

*Financial instruments*

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

The identification of convertible note component is based on interpretations of the substance of the contractual arrangement and therefore requires judgement from management. The separation of components affects the initial recognition of the convertible debenture at issuance and the subsequent recognition of interest 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**

*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.

*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.

## 3. BASIS OF PRESENTATION (CONTINUED)

*Valuation of equity consideration granted*

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

*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.

*Assets held for sale*

The recoverable value of a disposal group under IFRS 5 Assets held for sale and discontinued operations is based on estimates of the net consideration received. Estimates can change due to changes in negotiations or due to professional fees.

*Recoverable value of goodwill*

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.

*Fair value of note receivable*

Management uses judgment when estimating the fair value of note receivable including the discount rate and the timing of expected cash flows.

*Valuation of derivative liabilities*

The Company measures the warrants issued in a foreign currency using the Black Scholes Option Pricing model. The estimates include calculation of volatility and forfeiture rates.

## 3. BASIS OF PRESENTATION (CONTINUED)

### 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% |
| Vending Co. ("VendCo")* | USA - Nevada | USD | 100% |
| GSRX Industries Inc. ("GSRX")** | USA | USD | 66% |

*VendCo was incorporated in Nevada on November 13, 2020.
**List of subsidiaries and percentage of ownership held under GSRX includes the following:

| Subsidiaries held by GSRX | Country | GSRX Ownership % |
|---|---|---|
| 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% |
| Project 1493, 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% |

***On November 11, 2020, the Company disposed of the majority of the assets in Project 1493.

On November 27, 2020, the Company disposed of Natural Ventures Puerto Rico ("Natural Ventures") (Note 6).

Control exists when the parent company has the power, directly or indirectly, to govern the financial and operating policies of an entity to obtain benefits from its activities. The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany transactions and balances have been eliminated.

## 3. BASIS OF PRESENTATION (CONTINUED)

### 3.4 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 12 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.

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

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 4.2 Goodwill

Goodwill represents the excess of the consideration transferred over the Company's interest in the fair value of the net identifiable assets, including 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.

During the years ended June 30, 2020 and 2019, the Company derived revenue from:

- *Resale of cannabis products, oils and extracts.* The Company held certain licenses in California and Puerto Rico facilitating both retail and bulk sales of CBD and other cannabis products;
- *Sale of internally produced cannabis products, oils and extracts*. The Company held certain manufacturing and sales licenses. The Company grew cannabis to harvest and then sold it using its sales licenses and storefronts; and
- *Retail sale of CBD products at vending machines.*

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, at a point in time upon delivery to the customer.

### 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. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 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.

### 4.7 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.

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 4.7 Equipment, vehicles, building and leasehold improvements (continued)

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.

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.

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 4.9 Income taxes (continued)

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.

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. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 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.

### 4.14 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 |
| Loan receivable | Amortized cost |
| Note receivable | FVTPL |
| Accounts payable | Amortized cost |
| Derivative liability | FVTPL |
| Convertible debt | Amortized cost |

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(ii) Measurement (continued)

*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 is 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 convertible debt are financial liabilities at amortized cost.

(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. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 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.

### 4.17 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.

**(Expressed in Canadian dollars)**

## 4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 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.

## 5. ASSETS AND LIABILITIES HELD FOR SALE

During the year ended June 30, 2021, the Company entered into negotiations to dispose of 100% of its equity interest in La Finca in exchange for the Company paying USD $100,000 to dispose of its liabilities. Further, subsequent to June 30, 2021, the Company entered into an agreement to sell substantially all of the assets of the Green Spirit Mendocino, LLC for USD $200,000. As management believes the sales are highly probable and the remaining criteria under IFRS 5 *Assets Held for Sale and Discontinued Operations* are met, the La Finca and Green Spirit Mendocino, LLC assets and liabilities were classified as held for sale at June 30, 2021 and are as follows:

| As at | | June 30, 2021 |
|---|---|---|
| **Current** | | |
| Cash | $ | 15 |
| Amounts receivable (Note 14) | | 19,594 |
| Prepaids | | 1,642 |
| Inventory (Note 10) | | 4,186 |
| | | 25,437 |
| **Non-current assets** | | |
| Building (Note 12) | | 284,197 |
| Intangible assets (Note 11) | | 35,623 |
| **Total non-current assets** | | 319,820 |
| **TOTAL ASSETS** | $ | 345,257 |
| **LIABILITIES** | | |
| **Current** | | |
| Accounts payable | $ | 150,459 |
| **NET ASSETS** | $ | 194,798 |

**(Expressed in Canadian dollars)**

## 6. DISCONTINUED OPERATIONS

On November 11, 2020, GSRX's subsidiary, Project 1493 entered into an asset purchase agreement (the "Asset Purchase Agreement") with Puerto Rico Industrial Commercial Holdings, LLC ("PRICH") to sell and transfer all of Project 1493's operating assets in Puerto Rico in consideration for US$3,993,333 cash, or $5,111,866. Additionally, PRICH assumed all of Project 1493's liabilities in respect of the assets sold and the leases assumed. A loss of $4,344,519 was recognised on the measurement to fair value less costs to sell and on the disposal of the assets and disposal groups constituting the discontinued operations.

On November 13, 2020, Natural Ventures entered into an agreement (the "Natural Ventures Agreement") with Puerto Rico Industrial Commercial Holdings Biotech Corp ("PRICH") to sell and transfer all of Natural Ventures' operating assets in Puerto Rico in consideration for US$550,000 cash. On November 17, 2020, the Company transferred licenses and operations to PRICH. On November 27, 2020, the Company withdrew its membership interest in Natural Ventures in substance transferring them to the CEO of the Company (Note 17). A loss of $3,277,271 was recognised on the measurement to fair value less costs to sell and on the disposal of the assets and disposal groups constituting the discontinued operations.

During the year ended June 30, 2021, the Company entered into negotiations to dispose of 100% of its equity interest in La Finca and as at June 30, 2021, its assets and liabilities were classified as held for sale (see Note 5).

An analysis of the post-tax loss on discontinued operations and the post-tax loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal groups for Project 1493, Natural Ventures and La Finca constituting the discontinued operations is as follows:

| | For the years ended June 30, 2021 | June 30, 2020 |
|---|---|---|
| Revenue | $ 5,572,845 | $ 12,123,429 |
| Cost of goods sold | (3,147,936) | (6,407,950) |
| | 2,424,909 | 5,715,479 |
| Fair value adjustment included in cost of sales and gain on biological assets | (507,543) | (58,568) |
| Gross profit | 1,917,366 | 5,656,911 |
| General and administrative costs | (4,042,296) | (8,511,444) |
| Other expenses | (209,673) | (923,794) |
| Loss recognised on the measurement to fair value less costs to sell and on the disposal of the assets or disposal groups constituting discontinued operations | (7,621,790) | - |
| Disposal of non-controlling interest | 569,059 | - |
| Net income (loss) | **(9,387,334)** | (3,778,327) |
| Other comprehensive income | 109,570 | 8,207 |
| Comprehensive income (loss) | **$ (9,227,764)** | **$ (3,770,120)** |

**(Expressed in Canadian dollars)**

## 7. GOODWILL AND ACQUISITIONS

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:

| | GSRX | Natural Ventures | Kieley Growth | Desert Zen | Total |
|---|---|---|---|---|---|
| | *Puerto Rico* | *Puerto Rico* | *United States* | *United States* | |
| **Cost** | | | | | |
| Balance, June 30, 2019 | $ - | $ 3,557,713 | $ 2,259,080 | $ 374,830 | $ 6,191,623 |
| Additions | 5,577,799 | - | - | - | 5,577,799 |
| **Balance, June 30, 2020** | **$ 5,577,799** | **$ 3,557,713** | **$ 2,259,080** | **$ 374,830** | **$ 11,769,422** |
| Disposition | **(5,577,799)** | **(3,557,713)** | **-** | **-** | **(9,135,512)** |
| **Balance, June 30, 2021** | **$ -** | **$ -** | **$ 2,259,080** | **$ 374,830** | **$ 2,633,910** |
| **Accumulated impairment** | | | | | |
| **Balance, June 30, 2019** | **$** | **$** | **$ -** | **$ -** | **$ -** |
| Addition | - | 1,801,300 | 2,259,080 | 374,830 | 4,435,210 |
| **Balance, June 30, 2020** | **$ -** | **$ 1,801,300** | **$ 2,259,080** | **$ 374,830** | **$ 4,435,210** |
| Disposition | - | (1,801,300) | - | - | (1,801,300) |
| **Balance, June 30, 2021** | **$ -** | **$ -** | **$ 2,259,080** | **$ 374,830** | **$ 2,633,910** |
| **NET** | | | | | |
| **Balance, June 30, 2019** | **$ -** | **$ 3,557,713** | **$ 2,259,080** | **$ 374,830** | **$ 2,633,910** |
| **Balance, June 30, 2020** | **$ 5,577,799** | **$ 1,756,413** | **$ -** | **$ -** | **$ 7,334,212** |
| **Balance, June 30, 2021** | **$ -** | **$ -** | **$ -** | **$ -** | **$ -** |

*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.

On December 7, 2020, the Company disposed of Natural Ventures and of certain Project 1493 assets, which represented the total of goodwill for GSRX. As such, $1,756,413 and $5,577,799, respectively, were included in loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal groups during the year ended June 30, 2021.

**(Expressed in Canadian dollars)**

## 7. GOODWILL AND ACQUISITIONS (CONTINUED)

The balance of investment in GSRX is as follows:

| | | |
|---|---|---|
| **Balance, June 30, 2019** | **$** | **14,497,777** |
| Unrealized loss on investment in GSRX | | (9,839,396) |
| Investment balance transferred as consideration for GSRX acquisition | | (4,658,381) |
| **Balance, June 30, 2020 and 2021** | **$** | **-** |

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.

The unrealized loss on investment in GSRX was not included in the loss from discontinued operations (Note 6) as the Company still holds its common shares of GSRX and Project 1493 as at June 30, 2021 and 2020.

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.

## 7. GOODWILL AND ACQUISITIONS (CONTINUED)

In connection with the acquisition of controlling interests in GSRX on August 28, 2019, the Company issued an additional 400,000 common shares to exchange for the preferred shares of GSRX, which represent 51% of voting rights.

During the year ended June 30, 2020, the Company disposed of certain Project 1493 assets, including goodwill (Note 6).

*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. During the year ended June 30, 2021, this agreement was transferred to discontinued operations (Note 6).

**(Expressed in Canadian dollars)**

## 8. 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 entirety of the Company's leases and right of use assets were disposed of during the year ended June 30, 2021. The movement during the years ended June 30, 2021 and 2020 are shown in the continuity below:

| | | |
|---|---|---|
| **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** | **$** | **4,003,665** |
| Termination of lease | | (2,520,323) |
| Effects of foreign exchange | | 284,141 |
| Disposition (Note 6) | | (1,767,483) |
| **Balance, June 30, 2021** | **$** | **-** |
| **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** |
| Disposals | | (299,950) |
| Depreciation | | 428,163 |
| Disposition (Note 6) | | (1,215,786) |
| **Balance, June 30, 2021** | | **-** |

| | | |
|---|---|---|
| **Balance July 1, 2019** | $ | **2,603,855** |
| **Balance, June 30, 2020** | **$** | **2,916,092** |
| **Balance, June 30, 2021** | **$** | **-** |

**(Expressed in Canadian dollars)**

## 8. RIGHT OF USE ASSETS AND LEASE LIABILITIES (CONTINUED)

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** |
| Accretion | | 213,863 |
| Repayments | | (914,988) |
| Termination of lease | | 1,688,967 |
| Effects of foreign exchange | | (159,842) |
| Disposition (Note 6) | | (860,608) |
| **Balance, June 30, 2021** | **$** | **-** |

As at June 30, 2021, the Company had no further lease commitments.

## 9. BIOLOGICAL ASSETS

The Company's biological assets consist of cannabis plants. The movement during the years ended June 30, 2021 and 2020 is as follows:

| | | June 30, 2021 | | June 30, 2020 |
|---|---|---|---|---|
| Biological assets, beginning | $ | 1,842,848 | $ | 1,244,938 |
| Production costs | | 388,589 | | 1,959,421 |
| Biological assets transferred to Inventory | | (1,102,691) | | (2,352,119) |
| Net increase in fair value less costs to sell due to biological transformation | | 248,187 | | 925,159 |
| Effects of foreign exchange rates | | (154,275) | | 65,449 |
| Disposition (Note 6) | | (1,222,658) | | - |
| **Biological assets, end** | **$** | **-** | **$** | **1,842,848** |

Biological assets 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)**

## 9. BIOLOGICAL ASSETS (CONTINUED)

The significant assumptions used in determining the fair value of biological assets as at June 30, 2020 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. | 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. | 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 | 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 | 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.

## 10. INVENTORY

During the year ended June 30, 2021, the Company expensed $31,124 (2020 - $1,097,707) of inventory included within cost of goods sold.

During the year ended June 30, 2021, the Company wrote down certain of its inventory to net realizable value in the amount of $nil (2020 - $307,435), which is included in cost of goods sold in the analysis of the post-tax loss on discontinued operations (see Note 6).

**(Expressed in Canadian dollars)**

## 10. INVENTORY (CONTINUED)

The Company's inventory comprised the following as at:

| | June 30, 2021 | June 30, 2020 |
|---|---|---|
| Dried cannabis flowers | $ - | $ 99,649 |
| Finished goods | - | 1,029,482 |
| **Total** | **$ -** | **$ 1,129,131** |

## 11. INTANGIBLE ASSETS

| **Cost** | | **License rights** |
|---|---|---|
| **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** |
| Disposal (Note 6) | | (4,490,611) |
| **Balance, June 30, 2021** | **$** | **-** |
| **Accumulated amortization** | | |
| **Balance, June 30, 2019** | **$** | (614,619) |
| Additions | | (2,247,317) |
| Impairment | | 423,099 |
| **Balance, June 30, 2020** | **$** | **(2,438,837)** |
| Disposal (Note 6) | | 2,438,837 |
| **Balance, June 30, 2021** | **$** | **-** |
| Net book value | | |
| **June 30, 2019** | $ | **2,541,942** |
| **June 30, 2020** | $ | **2,051,774** |
| **June 30, 2021** | $ | **-** |

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. An impairment charge of $223,393 was recognized during the year ended June 30, 2020 as the license was no longer in use.

## 11. 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. 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.

*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.

*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.

*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. During the year ended June 30, 2021, these licenses were disposed of an included in discontinued operations (Note 6).

**(Expressed in Canadian dollars)**

## 12. 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.

During the year ended June 30, 2021, the Company disposed of Natural Ventures.

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, 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** |
| Net loss | (613,991) | - | (2,311,784) | (206,927) | (3,132,702) |
| Other comprehensive loss | - | - | (112,722) | - | (112,722) |
| Disposal | 569,059 | - | | | 569,059 |
| **Balance, June 30, 2021** | **$ -** | **$ 99,679** | **$ 1,756,328** | **$ (206,927)** | **$ 1,649,080** |

Summarized financial information from each subsidiary with significant non-controlling interests is as follows as at and for the year ended June 30, 2021:

| | Natural Ventures | Kieley Growth | GSRX | SAP | Total |
|---|---|---|---|---|---|
| Total assets | $ - | $ - | $ 43,249 | $ - | $ 43,249 |
| Total liabilities | - | 122,970 | 150,459 | 12,249 | 285,678 |
| Revenues | - | - | - | - | - |
| Cost of goods sold | - | - | 76,975 | - | 76,975 |
| Other loss | (3,069,953) | (517,318) | (4,535,662) | - | (8,122,933) |
| Expenses | - | - | (1,753,137) | - | (1,753,137) |
| **Net loss** | $ (3,069,953) | $ (517,318) | $ (6,211,824) | $ - | $ (9,799,095) |

**(Expressed in Canadian dollars)**

## 12. NON-CONTROLLING INTERESTS (CONTINUED)

Summarized financial information from each subsidiary with significant non-controlling interests is as follows as at and for the year ended June 30, 2020:

| | 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)**

## 13. FIXED ASSETS

The Company's fixed assets are as follows:

| | Machinery and equipment | Leasehold improvements | Buildings | Construction in progress | Land | Total |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| **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 | - | 1,179,183 |
| Transfer | (563,817) | 563,817 | - | - | - | - |
| Impairment | (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** | **$ -** | $ **$4,809,583** |
| Disposals (Note 6) | (1,332,720) | (2,175,189) | (251,011) | (918,168) | - | (4,677,088) |
| Impairment | (132,495) | - | - | - | - | (132,495) |
| **Balance, June 30, 2021** | **$ -** | $ - | $ - | $ - | $ - | $ - |
| **Depreciation** | | | | | | |
| **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** |
| Additions | 13,248 | - | - | - | - | 13,248 |
| Disposals (Note 6) | (206,292) | 334,793) | (5,358) | - | - | (546,443) |
| Impairment | (26,496) | - | - | - | - | (26,496) |
| **Balance, June 30, 2021** | **$ -** | **$ -** | **$ -** | **$ -** | **$ -** | **$ -** |
| **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** |
| **June 30, 2021** | **$ -** | **$ -** | **$ -** | **$ -** | **$ -** | **$ -** |

## 14. 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.

## 14. CONVERTIBLE DEBT (CONTINUED)

During the year ended June 30, 2020, the Company 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.

During the year ended June 30, 2020, the Company 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.

During the year ended June 30, 2021, the Company settled $1,011,109 (Note 16) through the issuance of 2,309,019 common shares with an estimated fair value of $863,551 and the issuance of $250,000 cash, resulting in a loss on debt settlement of $102,442.

**(Expressed in Canadian dollars)**

## 14. CONVERTIBLE DEBT (CONTINUED)

The following table summarizes the Company's convertible debt:

| | | |
|---|---|---|
| **Balance, June 30, 2019** | **$** | **2,243,404** |
| Additions | | 1,455,080 |
| Allocation to derivative liabilities | | (620,960) |
| Settlement | | (3,087,547) |
| Accretion and interest | | 1,058,510 |
| Foreign exchange | | 15,075 |
| **Balance, June 30, 2020** | **$** | **1,063,562** |
| Interest expense | | 135,632 |
| Foreign exchange | | (58,703) |
| Settlement | | (1,011,109) |
| **Balance, June 30, 2021** | **$** | **129,382** |

The following table summarizes the Company's derivative liability related to the convertible debentures:

| | | |
|---|---|---|
| **Balance, June 30, 2019** | **$** | **3,152,490** |
| Additions | | 620,960 |
| Change in fair value during the year | | (3,773,450) |
| **Balance, June 30, 2020 and 2021** | **$** | **-** |

## 15. AMOUNTS RECEIVABLE

Amounts receivable as at June 30, 2021 and June 30, 2020 consist of:

| | | **June 30, 2021** | | **June 30, 2020** |
|---|---|---|---|---|
| GST | $ | 201,964 | $ | 71,184 |
| Trade receivables | | - | | 681,484 |
| | **$** | **201,964** | **$** | **752,668** |

**(Expressed in Canadian dollars)**

## 16. SHAREHOLDERS' EQUITY

### 16.1 Authorized share capital

Unlimited number of common shares with no par value.

### 16.2 Issued share capital

Common shares issued and outstanding as at June 30, 2021 are 55,329,557, which is net of 729,187 common shares held by GSRX, which are considered to be treasury shares. As at June 30, 2021, the Company held 344,041 common shares in escrow (2020 - 1,032,104).

During the year ended June 30, 2021:

- In July, 2020, the Company completed a private placement of 2,542,800 units of the Company for total proceeds of $1,271,400, at a price of $0.50 per unit. Each unit consists of one common share and one common share purchase warrant exercisable at $1.00 per common share for two years. 70,000 finders' warrants with the same terms were issued with a fair value of $24,602;
- In January, 2021, the Company completed a private placement of 3,687,419 common shares for total proceeds of $1,198,411, at a price of $0.325 per common share;
- The Company issued 10,757,003 common shares for cash proceeds of $4,534,586 from the exercise of share purchase warrants; and
- The Company issued 125,000 common shares pursuant to exercise of RSRs with a fair value of $110,563.

The Company also settled liabilities as follows:

| Date | Number of shares | | Fair value per share | | Total fair value | Purpose |
|---|---|---|---|---|---|---|
| August 5, 2020 | 730,723* | $ | 0.74 | $ | 540,735 | Debt settlement |
| November 20, 2020 | 313,313 | | 0.26 | | 81,461 | Debt settlement |
| January 18, 2021 | 1,912,106 | | 0.325 | | 621,434 | Convertible debenture settlement |
| January 19, 2021 | 972,642 | | 0.325 | | 316,109 | Debt settlement |
| April 30, 2021 | 396,913 | | 0.61 | | 242,117 | Convertible debenture settlement |

* In addition, there were 692,416 share purchase warrants issued with a fair value of $78,747, with an exercise price of $0.85 per warrant exercisable into one common share for a period of two years. The fair value was determined using the Black-Scholes Option Pricing Model, using a share price of $0.50, volatility of 100% and a discount rate of 0.95%.

*Derivative liability*

In January, 2021, the Company issued 3,687,419 common share purchase warrants exercisable at $0.34 USD for a period of two years. As the exercise price is in a foreign currency, the fixed for fixed equity criteria are not met and therefore is recorded as a liability. At inception, the fair value of $1,198,411 was calculated using the Black-Scholes Option pricing model, however was 100% allocated to the proceeds from the related private placement of $1,198,411. At June 30, 2021, the fair value of the liability was $1,185,923, calculated using the Black-Scholes Option Pricing Model and using inputs of 132% volatility, $0.51 share price, $0.34 USD exercise price and a period of 1.5 years. A gain of $12,488 was recorded during the year.

**(Expressed in Canadian dollars)**

## 16. SHAREHOLDERS' EQUITY (CONTINUED)

### 16.2 Issued share capital (continued)

During the year ended June 30, 2020:

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. The fair value of the 1,488,071 common shares was determined using a DLOM model, which discounts time-released common shares at rates between 20%-35%.

In connection with the 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.

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 | $ | 0.50 | $ | 710,000 | Private placement |
| May 20, 2020 | 1,272,500 | $ | 0.50 | $ | 636,250 | Private placement |

**(Expressed in Canadian dollars)**

## 16. SHAREHOLDERS' EQUITY (CONTINUED)

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. 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

### 16.3 Warrants

As of June 30, 2021, the following warrants were outstanding:

| | Warrants | | Exercise Price |
|---|---|---|---|
| **June 30, 2020** | **21,528,378** | **$** | **1.62** |
| Issued | 6,992,635 | | 0.68 |
| Exercised | (10,757,003) | | 1.12 |
| Expired | (280,010) | | 15.00 |
| **June 30, 2021** | **17,484,000** | **$** | **0.99** |

| Expiry date | Warrants | | Exercise Price |
|---|---|---|---|
| December 21, 2023 | 31,250 | | 15.00 |
| October 3, 2021 | 77,651 | | 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 | 6,036,441 | | 0.405 |
| January 23, 2022 | 370,192 | | 0.70 |
| January 23, 2022 | 1,232,711 | | 1.12 |
| May 19, 2022 | 1,220,000 | | 1.00 |
| May 20, 2022 | 1,272,500 | | 1.00 |
| July 3, 2022 | 2,612,800 | | 1.00 |
| July 24, 2022 | 692,416 | | 0.85 |
| January 18, 2023 | 3,687,419 | | USD 0.34 |
| **Balance, June 30, 2021** | **17,484,000** | **$** | **0.99** |

At June 30, 2021, the weighted-average remaining life of the outstanding warrants was 0.75 years.

**(Expressed in Canadian dollars)**

## 16. SHAREHOLDERS' EQUITY (CONTINUED)

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.

### 16.4 Options and share-based compensation

The Company has adopted a stock option plan whereby up to 10% of the outstanding shares of the Company as of the date of grant have been reserved for the grant and issuance to its employees, officers, directors and consultants. Under the plan, the exercise price of an option may not be set at less than the minimum price permitted by the CSE. The aggregate number of options granted to any one individual during any 12-month period may not exceed 5% of the issued shares of the Company, or 2% in the case of consultants and investor relations representatives. The stock option plan provides for full vesting of the stock options on the date of approval of the options by the appropriate regulatory authority. Stock options granted to any person engaged in investor relations activities will vest over a period of not less than 12 months with no more than 25% of the stock options vesting in any 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. A fair value of $837,267 was assigned using the Black-Scholes option pricing model.

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.

**(Expressed in Canadian dollars)**

## 16. SHAREHOLDERS' EQUITY (CONTINUED)

During the year ended June 30, 2021, 1,500,000 options (2020 – 2,295,000) 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, 2021 was $nil.

The fair value of the RSRs granted (2020 - 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:

| | 2021 | 2020 |
|---|---|---|
| Strike price | $0.89 | $0.90 |
| Risk free interest rate | 0.95% | 1.61% |
| Expected option life (years) | 5.00 years | 5.01 years |
| Expected stock price volatility | 100% | 138% |
| 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, 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** |
| Granted | 1,500,000 | | 0.89 |
| **June 30, 2021** | **3,795,000** | | **0.90** |

At June 30, 2021, the weighted average remaining life of the outstanding options was 3.53 years (2020 - 4.53). As at June 30, 2020 and 2021, the Company has 2,295,000 options outstanding, expiring on January 12, 2025 with an exercise price of $0.90.

### 16.5 Restricted Share Rights ("RSR")

As at June 30, 2021, the Company has 3,875,000 RSRs outstanding and exercisable, each allowing the holder to exercise one RSR into one common share at the holder's option. During the year ended June 30, 2021, 125,000 RSRs were exercised into common shares, resulting in a charge to share-based payments of $110,563.

On January 12, 2021, the Company granted 1,500,000 restricted share units to directors, officers and consultants of the Company. These RSRs vest 50% on April 13, 2021 with the balance vesting on June 13, 2021. These RSRs had a fair value of $997,831.

During the year ended June 30, 2020, the Company issued 2,350,000 RSRs to directors and officers of the Company with a fair value of $2,078,591. During the year ended June 30, 2020, the Company recognized share-based payments of $1,616,682, and a further $485,992 was charged during the year ended June 30, 2021 relating to vesting.

**(Expressed in Canadian dollars)**

## 17. RELATED PARTY TRANSACTIONS AND BALANCES

Key management personnel are the directors and officers of the Company. Management compensation transactions for the years ended June 30, 2021 and 2020 is summarized as follows:

| | | 2021 | | 2020 |
|---|---|---|---|---|
| Management and consulting fees | $ | 772,673 | $ | 728,265 |
| Share-based payments | | 1,724,896 | | 3,131,373 |
| **Total** | **$** | **2,497,569** | **$** | **3,859,638** |

As at June 30, 2021, $477,424 (2020 - $647,083) 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, 2021, the Company paid $190,500 (2020 - $314,752) included in management fees to the CEO of the Company pursuant to CEO services provided.

During the year ended June 30, 2021, the Company paid $150,000 (2020 - $130,000) included in management fees to the CFO of the Company pursuant to CFO services provided.

During the year ended June 30, 2021, the Company paid $300,000 (2020 - $195,150) included in management fees to a director of the Company pursuant to director services provided.

During the year ended June 30, 2021, the Company paid $96,173(2020 - $52,363) included in management fees to a director and President of the Company pursuant to director services provided.

During the year ended June 30, 2021, the Company paid $36,000 (2020 - $36,000) 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, 2021, the Company issued 1,500,000 (2020 - 2,350,000) RSUs to directors and officers of the Company with a fair value of $1,035,000 (2020 - $2,078,591). See Note 14. During the year ended June 30, 2020, the Company recognized share-based payments of $1,724,986 pertaining to the RSUs and stock options, which is included in the consolidation statements of net loss and comprehensive loss.

November 27, 2020, the Company withdrew its interests in NVPR in substance transferring them to the CEO of the Company. See Note 6.

During the year ended June 30, 2021, $30,835 was paid in interest relating to a convertible debenture to a director of the Company.

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 14 and 16).

During the year ended June 30, 2021, the Company's subsidiary GSRX advanced US$1,250,000 to an entity controlled by a director of GSRX. The note receivable bears interest at 12% and is due on demand on or before December 31, 2021. The Company has discounted the expected cash flows to be received by GSRX assuming even repayments over a period of 10 years commencing on March 31, 2023 using a rate of 20%. On February 17, 2021, the note was amended to be secured against all the assets of the entity.

**(Expressed in Canadian dollars)**

## 17. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

On January 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, 2021 and 2020 are as follows:

| | | 2021 | | 2020 |
|---|---|---|---|---|
| Bad debt expense | $ | - | $ | 240,992 |
| Consulting and payroll | | 1,114,257 | | 2,469,329 |
| Finder's fee | | - | | - |
| Management fees | | 644,854 | | 407,625 |
| Marketing and promotion | | 4,779,627 | | 1,792,313 |
| Office and miscellaneous | | 1,060,021 | | 18,880 |
| Professional fees | | 1,259,811 | | 2,419,399 |
| Rent | | 60,000 | | 412,161 |
| Security | | - | | 94,642 |
| Transfer agent and filing fees | | 118,650 | | 28,234 |
| Travel | | 43,270 | | 587,847 |
| | **$** | **9,080,490** | **$** | **8,471,422** |

## 19. NON-CASH INVESTING AND FINANCING ACTIVITIES

See the following for non-cash note disclosures:

i) Investment in GSRX (Note 7)
ii) Right of use asset included in leases (Note 8)
iii) Shares issued for license (Notes 11 and 16)
iv) Shares issued for debt (Note 14)

**(Expressed in Canadian dollars)**

## 20. 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. 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 cash, trade receivables and loans receivable.

**b. 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, 2021, the Company's working capital deficiency of $1,330,415. 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. Subsequent to June 30, 2021, the Company raised financing through the issuance of shares (see Note 28).

Contractual undiscounted cash flow requirements for contractual obligations as at June 30, 2021 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 | 2,287,347 | - | - | - | - |
| Derivative liability | 1,185,923 | - | - | - | - |
| Liabilities held for sale | 150,459 | - | - | - | - |
| Convertible debt | 129,382 | - | - | - | - |

**(Expressed in Canadian dollars)**

## 20. RISK MANAGEMENT (CONTINUED)

### c. Market risk

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

*Foreign currency risk*

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

### 20.2 Fair values

The carrying values of trade receivables, loan receivable 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, 2021 and 2020 the Company held the following financial instruments measured at fair value on a recurring basis:

| | | **2021** | | **2020** |
|---|---|---|---|---|
| Cash | $ | 1,719,845 | $ | 1,044,585 |
| Note receivable | $ | 1,227,781 | $ | - |
| Derivative liability | $ | 1,185,923 | $ | - |

Cash is measured at Level 1, note receivable at Level 3, and derivative liability at Level 3. During the years ended June 30, 2021 and 2020, there were no transfers between Level 1 and Level 2 fair value measurements and there were no transfers in and out of Level 3 fair value measurements.

## 21. MANAGEMENT OF CAPITAL

The Company defines the capital that it manages as all components of equity (deficiency). The Company's objective when managing capital is to maintain corporate and administrative functions necessary to support the Company's operations and corporate functions; and to seek out and acquire new projects of merit.
The Company manages its capital structure in a manner that provides sufficient funding for operational and capital expenditure activities. Funds are secured, when necessary, through debt funding or equity capital raised by means of private placements. There can be no assurances that the Company will be able to obtain debt or equity capital in the case of working capital deficits. The Company is not subject to externally imposed capital requirements and the Company's overall strategy with respect to capital risk management remains unchanged from the year ended June 30, 2020.

**(Expressed in Canadian dollars)**

## 22. IMPAIRMENT OF ASSETS

During the years ended June 30, 2021 and 2020, the Company impaired goodwill, intangible assets, fixed assets and deposits as follows:

| | 2021 | 2020 |
|---|---|---|
| | $ | $ |
| Goodwill (Note 7) | - | 2,633,910 |
| Intangible assets (Note 11) | - | 1,240,153 |
| Fixed assets and right of use asset (Note 13) | 119,247 | 5,697,485 |
| Deposits | - | 420,343 |
| | **119,247** | **9,991,891** |

## 23. EQUITY FUNDING FACILITIES

On August 8, 2018, the Company entered into an equity financing agreement for up to $25,000,000, 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 had drawn down $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 November 17, 2020, the Company entered into a settlement and termination agreement, whereby the Company issued 250,000 shares measured at a value of USD $0.26 per share and paid $75,000 as consideration for terminating the agreement with GEM.

## 24. SEGMENTED REPORTING

The Company currently has one operating segment.

## 25. CONTINGENT LIABILITIES

a) On October 23, 2019, Brett Albin and Albin Media LLC filed a claim against the Company for unpaid fees of approximately $60,000 USD and common shares worth $125,000 pursuant to services provided. During February 2022 the Company reached a settlement agreement for $42,500 in exchange for returning 10,363 common shares.
b) On October 19, 2020, Carlsbad Naturals, LLC and Carlsbad Naturals LLC filed a claim for unpaid services $2,000,000 USD of common shares of the Company pursuant to an asset purchase agreement. The Company continues to dispute this claim and has not accrued any amounts as the Company believes the claim to be without merit; and
c) On January 15, 2020, Delta-9 Technologies, Inc. filed a claim against the Company for unpaid fees, to be paid through the issuance of 250,000 common shares of the Company. The Company settled this claim subsequent to year-end for $nil.
d) On July 14, 2020 notice was served to Pure and Natural One-TN, LLC, Pure and Natural Lakeway, LLC and Thomas Gingerich as defendants in a lawsuit filed by Southwest Legend Investments LLC, a member of the two companies. As of the date of this report, the defendants have supplied requested information to the plaintiff's attorney. Plaintiff is seeking damages in excess of $200,000 but less than $1,000,000. Due to uncertainty of the outcome, the Company has not accrued any liability for the lawsuit.

**(Expressed in Canadian dollars)**

## 25. CONTINGENT LIABILITIES (CONTINUED)

e) On February 8, 2021 PSS Pathfinders, Inc. ("PSS") filed a lawsuit against Project 1493, LLC ("1493") claiming PSS was owed $58,13 for services rendered. On December 8, 2020 1493 and PSS entered into a settlement agreement and 1493 filed a motion to dismiss on September 3, 2021. As of the report date, 1493 is waiting on the Court's ruling on the motion to dismiss.

## 26. INCOME TAXES

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

| | June 30, 2021<br>$ | June 30, 2020<br>$ |
|---|---|---|
| **Net loss for the year before income taxes** | (21,371,982) | (38,674,503) |
| Expected tax recovery at a combined federal and provincial rate of 27.0% (2020 - 27.0%) | (5,770,435) | (10,442,116) |
| Effects of change in statutory, foreign tax, foreign exchange rates | 1,608,461 | (1,092,000) |
| Permanent differences and other | 3,137,000 | 1,622,068 |
| Share issue costs | (55,000) | (55,000) |
| Adjustment to prior years provision versus statutory tax returns and expiry of non-capital losses | 31,000 | 33,022 |
| Changes in unrecognized deductible temporary differences | 972,000 | 9,878,000 |
| Income tax expense (recovery) | (76,974) | (56,026) |
| | | |
| Current income tax expense (recovery) | (76,974) | (56,026) |
| Deferred income tax expense (recovery) | - | - |
| Income tax expense (recovery) | (76,974) | (56,026) |

As at June 30, 2021, the Company had $nil (2020 - $76,974) 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.

**(Expressed in Canadian dollars)**

## 26. INCOME TAXES (CONTINUED)

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

| | June 30, 2021<br>$ | June 30, 2020<br>$ |
|---|---|---|
| Deferred tax assets (liabilities) | | |
| Equipment | 427,000 | 825,000 |
| Share issue costs | 68,000 | 86,000 |
| Investments | 1,438,000 | 1,392,000 |
| Derivative liability | 320,000 | - |
| Debt with accretion | - | 32,000 |
| Leasehold improvements | 623,000 | 744,000 |
| Intangible assets | - | 1,285,000 |
| Non-capital losses available for future period | 14,601,000 | 12,141,000 |
| | 17,477,000 | 16,505,000 |
| Unrecognized deferred tax assets | (17,477,000) | (16,505,000) |
| **Net deferred tax assets** | - | - |

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

| | June 30, 2021<br>$ | Expiry date range | June 30, 2020<br>$ | Expiry date range |
|---|---|---|---|---|
| **Temporary differences** | | | | |
| Equipment | 2,227,000 | No expiry date | 2,931,000 | No expiry date |
| Share issue costs | 253,000 | 2040 to 2043 | 317,000 | 2018 to 2037 |
| Investment in GSRX | 10,648,000 | No expiry date | 10,308,000 | No expiry date |
| Leasehold improvements | 2,227,000 | 2040 to 2043 | 2,658,000 | 2040 to 2043 |
| Intangible assets | - | No expiry date | 3,309,000 | |
| Non-capital losses available for future periods | 59,789,000 | 2026 to indefinite | 51,215,000 | 2026 to indefinite |

The following losses are available for utilization in future years:

| | June 30, 2021<br>$ | Expiry date range | June 30, 2020<br>$ | Expiry date range |
|---|---|---|---|---|
| **Net operating losses** | | | | |
| Canada | 44,148,000 | 2037 to 2040 | 36,492,000 | 2037 to 2039 |
| USA - California | 4,339,000 | 2038 to Indefinite | 5,604,000 | 2038 to indefinite |
| USA - Puerto Rico | 10,273,704 | 2026 to 2030 | 8,206,000 | 2026 to 2029 |
| Colombia | 1,028,000 | 2029 to 2032 | 913,000 | 2029 to 2031 |

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

## 27. SUBSEQUENT EVENTS

Subsequent to June 30, 2021:

- The Company issued 300,000 common shares pursuant to the exercise of RSRs;
- On November 29, 2021, the Company completed a private placement for gross proceeds of $1,247,000 through the issuance of 10,393,335 units at a price of $0.12 per unit. Each unit consists of one common share and one common share purchase warrant, enabling the holder to exercise the warrant into one common share at a price of $0.15 for a period of two years; and
- The Company issued 74,000 common shares pursuant to debt settlement.