



**CHEMESIS INTERNATIONAL INC.**

**Condensed Consolidated Interim Financial Statements  
For the three months ended September 30, 2019**

## **NOTICE TO READER**

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

The accompanying unaudited condensed consolidated interim financial statements of Chemesis International Inc. (the "Company") have been prepared by and are the responsibility of management. These condensed consolidated interim financial statements for the three months ended September 30, 2019 has not been reviewed or audited by the Company's independent auditors. All amounts are stated in Canadian Dollars unless otherwise stated.

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

As at	September 30, 2019	June 30, 2019
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	\$ 1,813,367	\$ 641,583
Amounts receivable (Note 12)	1,100,515	2,392,559
Prepays	469,414	99,678
Biological assets (Note 7)	1,615,016	1,244,938
Inventory (Note 8)	2,288,762	830,001
	<b>7,287,074</b>	<b>5,208,759</b>
<b>Non-current assets</b>		
Deposits	1,497,911	26,743
Fixed assets (Note 10)	11,665,446	7,057,515
Right of use asset (Note 6)	4,520,128	-
Investments (Note 5)	92,659	14,497,777
Intangible assets (Note 9)	4,877,430	2,541,942
Goodwill (Note 5)	12,141,446	4,390,323
	<b>34,795,020</b>	<b>28,514,300</b>
<b>TOTAL ASSETS</b>	<b>\$ 42,082,094</b>	<b>\$ 33,723,059</b>
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities (Note 14)	\$ 2,295,493	\$ 2,488,824
Acquisition payable (Note 5)	661,855	1,308,700
Notes payable	114,676	838,366
Income tax payable	-	133,000
Current portion of lease liability (Note 6)	1,388,758	-
Unearned revenue	-	235,639
	<b>4,460,782</b>	<b>5,004,529</b>
Convertible debt (Note 11)	3,396,940	3,342,741
Lease liability (Note 6)	3,467,974	-
	<b>6,864,914</b>	<b>8,347,270</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 13)	43,307,212	56,954,958
Subscriptions received	1,287,190	-
Equity portion of convertible debt (Notes 11)	244,000	244,000
Contributed surplus	17,873,286	5,253,384
Accumulated other comprehensive income	478,027	569,066
Deficit	(40,236,092)	(37,904,390)
<b>Equity attributable to Chemesis</b>	<b>22,953,623</b>	<b>25,117,018</b>
Non-controlling interest	7,802,775	258,771
<b>Total equity</b>	<b>30,756,398</b>	<b>25,375,789</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 42,082,094</b>	<b>\$ 33,723,059</b>
Subsequent events (Note 22)		
Going concern (Note 2)		
Commitments (Note 16)		
Contingent Liability (Note 21)		

These condensed consolidated interim financial statements were authorized for issue by the Board of Directors on November 26, 2019.  
Approved on behalf of the Board of Directors:

*"Brian Thurston"*, Director *"Aman Parmar"*, Director  
The accompanying notes are an integral part of these condensed consolidated interim financial statements.

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

	For the three months ended September 30, 2019	For the three months ended September 30, 2018
<b>REVENUES</b>	\$ 4,700,834	\$ 1,238,835
<b>COST OF GOODS SOLD</b>	(2,815,639)	1,117,806
	1,885,195	121,029
Unrealized gain on biological assets (Note 7)	452,867	-
<b>Gross Profit</b>	2,338,062	121,029
<b>EXPENSES</b>		
Advertising and marketing	156,389	302,306
Consulting and payroll (Note 14)	447,550	447,794
Depreciation (Notes 6, 9 and 10)	854,779	4,951
Foreign exchange loss	(13,913)	7,263
Management fees	116,100	-
General and administration	524,223	65,413
Professional fees	508,876	218,900
Rent	187,724	235,104
Security	44,345	-
Share-based payments (Note 13 and 14)	72,632	2,243,580
Transfer agent and filing fees	6,005	30,353
Travel	180,563	40,763
<b>TOTAL OPERATING EXPENSES</b>	(3,085,273)	(3,596,427)
<b>NET LOSS FROM OPERATIONS BEFORE OTHER ITEMS</b>	(747,211)	(3,505,477)
<b>OTHER ITEMS:</b>		
Interest expense	(200,288)	-
Loss on investment in GSRX Industries Inc. (Note 6)	(1,564,379)	-
Interest and other income	-	24,628
Listing acquisition expense	-	(7,218,093)
	(1,764,667)	(7,193,465)
<b>NET LOSS BEFORE TAX</b>	\$ (2,511,878)	\$ (10,698,942)
Income tax recovery	133,000	-
<b>NET LOSS AFTER TAX</b>	(2,378,878)	(10,698,942)
<b>OTHER COMPREHENSIVE LOSS</b>		
Items that may be subsequently reclassified to loss		
Cumulative translation adjustment	(330,931)	25,058
<b>COMPREHENSIVE LOSS</b>	\$ (2,709,809)	\$ (10,673,884)
<b>NET LOSS ATTRIBUTABLE TO:</b>		
Chemesis International Inc.	\$ (2,331,702)	\$ (10,377,974)
Non-controlling interest	(47,176)	(320,968)
	(2,378,878)	(10,698,942)
<b>COMPREHENSIVE LOSS ATTRIBUTABLE TO:</b>		
Chemesis International Inc.	(2,886,216)	(10,353,667)
Non-controlling interest	176,407	(320,217)
	\$ (2,709,809)	\$ (10,673,884)
<b>Loss per share, basic and diluted</b>	\$ (0.02)	\$ (0.19)
<b>Weighted average number of common shares outstanding</b>	103,007,537	55,662,451

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

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

	<u>Share Capital</u>		Equity portion			Accumulated	Deficit	Subtotal	Non-Controlling Interest	Total Shareholders' Equity
	Number	Amount	Subscriptions received	of convertible debt	Contributed surplus	other comprehensive income (loss)				
		\$	\$	\$	\$	\$				
<b>As at June 30, 2019</b>	92,163,527	56,954,958	-	244,000	5,253,384	569,066	(37,904,390)	25,117,018	258,771	25,375,789
Acquisition of GSRX (Note 5)	14,880,705	8,437,363	-	-	-	-	-	8,437,363	7,831,072	16,268,435
Shares held internally (Note 5)	(18,958,872)	(25,581,425)	-	-	12,547,270	-	-	(13,034,155)	-	(13,034,155)
Acquisition of SAP (Note 5)	1,000,000	1,780,000	-	-	-	-	-	1,780,000	-	1,780,000
Shares issued for equipment (Note 10)	157,495	269,316	-	-	-	-	-	269,316	-	269,316
Shares-for-debt (Note 13)	600,000	732,000	-	-	-	-	-	732,000	-	732,000
Private placements, net (Note 13)	777,026	575,000	-	-	-	-	-	575,000	-	575,000
Subscriptions received (Note 13)	-	-	1,287,190	-	-	-	-	1,287,190	-	1,287,190
Shares issued for options exercised (Note 13)	100,000	140,000	-	-	-	-	-	140,000	-	140,000
Share-based payments (Note 13)	-	-	-	-	72,632	-	-	72,632	-	72,632
Net loss	-	-	-	-	-	-	(2,331,702)	(2,331,702)	(47,176)	(2,378,878)
Other comprehensive income	-	-	-	-	-	(91,039)	-	(91,039)	(239,892)	(330,931)
<b>As at September 30, 2019</b>	90,719,881	43,307,212	1,287,190	244,000	17,873,286	478,027	(40,236,092)	22,953,623	7,802,775	30,756,398

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

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

	Number	Amount	Subscriptions received	Equity portion of convertible debt	Contributed surplus	Accumulated other comprehensive income (loss)	Deficit	Subtotal	Non-Controlling Interest	Total Shareholders' Equity
<b>June 30, 2018</b>	46,807,559	3,800,000	-	-	-	38,600	(345,163)	3,493,437	(283,194)	3,210,243
Shares issued on reverse takeover	16,040,076	9,784,446	-	-	-	-	-	9,784,446	-	9,784,446
Business acquisitions	717,750	595,733	-	-	-	-	-	595,733	-	595,733
Shares issued for asset acquisitions	664,637	365,550	-	-	-	-	-	365,550	-	365,550
Shares issued for consulting fees	32,222	290,979	-	-	-	-	-	290,979	-	290,979
Share-based payments	-	-	-	-	2,243,580	-	-	2,243,580	-	2,243,580
Subscriptions received	-	55,000	-	-	-	-	-	55,000	-	55,000
Net loss	-	-	-	-	-	-	(10,353,667)	(10,353,667)	(320,968)	(10,674,636)
Other comprehensive income	-	-	-	-	-	24,306	-	24,306	752	25,058
<b>September 30, 2018</b>	<b>64,262,244</b>	<b>14,891,708</b>	-	-	<b>2,243,580</b>	<b>62,906</b>	<b>(10,698,830)</b>	<b>6,499,364</b>	<b>(603,411)</b>	<b>5,840,953</b>
Business acquisitions	2,842,309	2,757,665	-	-	-	-	-	2,757,665	977,562	3,735,227
Shares issued for asset acquisitions	8,862,637	9,397,405	-	-	-	-	-	9,397,405	-	9,397,405
Shares issued for consulting fees	506,643	340,458	-	-	-	-	-	340,458	-	340,458
Shares-for-debt	4,104,476	5,861,191	-	-	-	-	-	5,861,191	-	5,861,191
Shares issued to GSRX	7,291,874	17,144,062	-	-	-	-	-	17,144,062	-	17,144,062
Shares issued for cash:										
Private placement, net	3,426,844	5,434,705	-	-	-	-	-	5,434,705	-	5,434,705
Warrants exercised	484,000	1,026,661	-	-	(58,661)	-	-	968,000	-	968,000
Options exercised	382,500	518,937	-	-	(121,437)	-	-	397,500	-	397,500
Share-based payments	-	-	-	-	2,295,762	-	-	2,295,762	-	2,295,762
Subscriptions received	-	-	-	-	(55,000)	-	-	(55,000)	-	(55,000)
Convertible debt	-	-	-	244,000	186,057	-	-	430,057	-	430,057
Spin-out of exploration and evaluation assets	-	-	-	-	-	-	(113,319)	(113,319)	-	(113,319)
Net loss	-	-	-	-	-	-	(26,844,893)	(26,844,893)	(538,923)	(27,383,816)
Other comprehensive income	-	-	-	-	-	504,690	-	504,690	299,896	804,586
<b>June 30, 2019</b>	<b>92,163,527</b>	<b>56,954,958</b>	-	<b>244,000</b>	<b>5,253,384</b>	<b>569,066</b>	<b>(37,904,390)</b>	<b>25,117,018</b>	<b>258,771</b>	<b>25,375,789</b>

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

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

	Three months ended September 30, 2019	Three months ended September 30, 2018
<b>Cash (used in) provided by:</b>		
<b>OPERATING ACTIVITIES</b>		
Net loss for the period	\$ (2,378,878)	\$ (10,698,942)
Items not involving cash:		
Listing expense	-	7,218,093
Loss on investment in GSRX	1,564,379	-
Unrealized gain on biological assets	(452,867)	-
Share-based payments	72,632	2,243,580
Shares issued for consulting fees	-	290,979
Interest/accretion	200,288	2,324
Foreign exchange	(396,176)	-
Depreciation	854,779	4,951
	(535,843)	(939,015)
<b>Net changes in non-cash working capital items:</b>		
Prepays and deposits	(116,726)	(356,766)
Inventory	(839,173)	(41,658)
Biological assets	82,789	-
Acquisition payable	(646,845)	-
Unearned revenue	(235,639)	-
Income tax payable	(133,000)	-
Excise tax payable	(2,478)	-
Amounts receivable	1,321,107	(977,324)
Amounts payable	(1,333,746)	322,623
<b>Net cash used in operating activities</b>	<b>(2,439,554)</b>	<b>(1,992,140)</b>
<b>INVESTING ACTIVITIES:</b>		
Purchase of equipment and leaseholds improvements	(451,188)	(594,001)
Exploration and evaluation assets	-	(4,438)
Cash received (paid) on acquisition:	-	-
<i>GSRX Industries Inc.</i>	2,060,336	-
<i>Chemesis International Inc.</i>	-	2,326,828
<b>Net cash provided investing activities</b>	<b>1,609,148</b>	<b>1,728,329</b>
<b>FINANCING ACTIVITIES:</b>		
Proceeds from private placement, net	575,000	-
Proceeds from option and warrant exercise	140,000	-
Subscriptions received	1,287,190	55,000
<b>Net cash provided by financing activities</b>	<b>2,002,190</b>	<b>55,000</b>
Effect of exchange rate changes on cash	-	25,776
Net increase (decrease) in cash	1,171,784	(272,975)
Cash, beginning of period	641,583	1,030,284
<b>Cash, end of period</b>	<b>\$ 1,813,367</b>	<b>\$ 757,309</b>

Non-cash investing and financing activities - See Note 15

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

**Chemesis International Inc.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**For the three months ended September 30, 2019 and 2018**  
**(Expressed in Canadian dollars)**

---

**1. NATURE OF OPERATIONS**

Chemesis International Inc. (“Chemesis” or “the Company”) was incorporated under the Business Corporations Act (British Columbia) on April 26, 2013. Chemesis’ registered records office is 2200 HSBC Building, 885 West Georgia Street, Vancouver BC V6C 3E8 and the corporate head office is at 2710 – 200 Granville Street, Vancouver, BC V6C 1S4. The Company trades on the Canadian Securities Exchange (“CSE”) under the symbol CSI.

On July 17, 2018, Chemesis completed a transaction (“RTO”) with 1145411 BC Ltd. (“1145411”), pursuant to which Chemesis acquired all of the issued and outstanding shares of 1145411 in exchange for 46,807,559 common shares of Chemesis. As the former shareholders of 1145411 owned a majority interest in the combined entity immediately after closing, the transaction was accounted for as a reverse acquisition with 1145411 identified as the acquirer. The transaction did not constitute a business combination as the Company did not meet the definition of a business as defined under IFRS. As 1145411 was the acquirer for accounting purposes, its operations are presented as the continuing entity with those of Chemesis included from the transaction date of July 17, 2018 onward. The comparative figures are those of 1145411 prior to the reverse acquisition.

Effective July 17, 2018, the Company completed a share consolidation of its share capital on the basis of two existing common shares for one new common share. All common share and per share amounts in these condensed consolidated interim financial statements is retroactively presented on a post-share consolidation basis, including the number and exercise price of all share options and warrants.

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

As of November 26, 2019, the Company’s Puerto Rican manufacturing and cultivation licenses are currently subject to administrative review by the Department of Health in Puerto Rico and until the review has been completed, the Company is not permitted to carry out licensed activities aside from preserving its inventory. The Company has considered this in the preparation of these consolidated financial statements.

**2. GOING CONCERN**

These condensed consolidated interim financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due. Management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the Company’s ability to continue as a going concern. During the three months ended September 30, 2019, the Company incurred a loss of \$2,467,878 and remains dependent upon the receipt of additional equity and/or debt financing. While management has been successful in obtaining required financing in the past, there is no assurance that additional financing will be available or be available on favourable terms. The Company’s ability to continue as a going concern is dependent upon the ability to raise financing and ultimately generate profitable operations. These condensed consolidated interim financial statements do not reflect and adjustments to the carrying value of assets and liabilities and the reported amounts of expenses and statement of financial position classifications that would be necessary if the going concern assumption was not appropriate. Such adjustments could be material.

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



**Chemesis International Inc.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**For the three months ended September 30, 2019 and 2018**  
**(Expressed in Canadian dollars)**

---

**2. GOING CONCERN (CONTINUED)**

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

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

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

**3. BASIS OF PRESENTATION**

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

The condensed consolidated interim financial statements were authorized for issue in accordance with a resolution from the Board of Directors on November 26, 2019.

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

These condensed consolidated interim financial statements were authorized for issue by the Board of Directors on November 26, 2019.

**3.1. Basis of measurement**

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

**Chemesis International Inc.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**For the three months ended September 30, 2019 and 2018**  
**(Expressed in Canadian dollars)**

---

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

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

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

**Critical Accounting Judgments**

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

*Going concern*

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

*Business combinations*

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

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

*Functional currency*

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

*Revenues - Gross vs net*

Determination of whether the Company is the agent or principal in a transaction involves judgment taking into account whether the Company accepts inventory risk, responsibility for fulfilling the purchaser and exercises price discretion.

**Chemesis International Inc.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**For the three months ended September 30, 2019 and 2018**  
**(Expressed in Canadian dollars)**

---

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

*Collectability of amounts receivable*

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

**Critical Accounting Estimates**

*Financial instruments*

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

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

*Biological assets*

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

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

*Inventory*

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

*Share-based payments*

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

*Income Taxes*

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

**Chemesis International Inc.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**For the three months ended September 30, 2019 and 2018**  
**(Expressed in Canadian dollars)**

---

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

*Valuation of investment in GSRX*

Management exercises judgment on the valuation of the investment in GSRX with reference to the valuation of the consideration received, and if appropriate, the valuation of the share consideration granted. On August 29, 2018, the Company completed an acquisition of control now includes this investment as a component of the purchase price of GSRX.

*Valuation of equity consideration granted*

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

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

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

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

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

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

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

**3.3 Basis of consolidation**

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

<b>Subsidiary</b>	<b>Country</b>	<b>Ownership %</b>
1145411 BC Ltd.	Canada	100%
Desert Zen LLC ("Desert Zen")	USA - California	100%
10998451 Canada Inc	Canada	100%
Kieley Growth Management LLC ("Kieley")	USA - California	60%
La Finca Interactiva Arachna Inc. SAS. (La Finca")	Colombia	100%
Bonhomie Labs LLC ("Bonhomie")	USA - California	100%
SAP Global Inc. ("SAP Global")	USA - California	100%
Natural Ventures Puerto Rico ("Natural Ventures")	USA - Puerto Rico	80%
GSRX Industries Inc. ("GSRX")*	USA	66.29%

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

**Chemesis International Inc.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**For the three months ended September 30, 2019 and 2018**  
**(Expressed in Canadian dollars)**

---

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

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

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.

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

**4. SIGNIFICANT ACCOUNTING POLICIES**

With the exception of the recently adopted accounting policies, these condensed consolidated interim financial statements have been prepared on the basis of accounting policies and methods of computation consistent with those applied in the Company's amended audited annual financial statement for the fiscal year ended June 30, 2019, filed November 4, 2019.

**Accounting standards adopted during the period**

Certain new standards, interpretations and amendments to existing standards have been issued by the IASB or International Financial Reporting Interpretations Committee ("IFRIC") that are mandatory for accounting periods beginning after January 1, 2019, or later periods. New standards and updates, which are not applicable or are not consequential to the Company, have been excluded from the list below.

**Chemesis International Inc.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**For the three months ended September 30, 2019 and 2018**  
**(Expressed in Canadian dollars)**

---

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

IFRIC 23 Uncertainty over income tax treatments - clarifies the application of recognition and measurement requirement in IAS 12, Income Taxes, when there is uncertainty over income tax treatments. It specifically addresses whether an entity considers each tax treatment independently or collectively, the assumptions an entity makes about the examination of tax treatments by taxation authorities, how an entity determines taxable profit (tax loss), tax bases, unused tax credits and tax rates, and how an entity considers changes in facts and circumstances. IFRIC 23 is effective for the Company's current annual period retrospectively and the adoption did not have a significant impact on the Company's condensed consolidated interim financial statements for the three months ended September 30, 2019.

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

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

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

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

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

Lease liabilities before discounting	\$ 1,702,341
Discounted using incremental borrowing rate of 15%	(266,799)
<b>Operating lease liability</b>	<b>\$ 1,435,542</b>

The following is a reconciliation of lease liabilities to right of use lease asset at July 1, 2019:

Operating lease liability at July 1, 2019	\$ 1,435,542
Lease payments prior to July 1, 2019	-
<b>Right of use lease asset as of July 1, 2019</b>	<b>\$ 1,435,542</b>

**Chemesis International Inc.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**For the three months ended September 30, 2019 and 2018**  
**(Expressed in Canadian dollars)**

---

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

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

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

*Measurement and recognition of leases as a lessee*

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

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

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

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

**Chemesis International Inc.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**For the three months ended September 30, 2019 and 2018**  
**(Expressed in Canadian dollars)**

**5. GOODWILL, ACQUISITIONS AND ACQUISITIONS PAYABLE**

Goodwill arose over the acquisition of Natural Ventures, Desert Zen, Kieley Growth, and GSRX due to the benefit of expected revenue growth in North American and Latin America markets and future market developments. These benefits were not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets. None of the goodwill arising on these acquisitions are expected to be deductible for tax purposes. All acquisitions were dealt with at arm's length at the time of transaction. The fair value of assets and liabilities as at acquisition date are within the measurement period, as such, these values may change.

The Company's goodwill arose on acquisitions and are summarized as follows for the three months ended September 30, 2019:

	<b>Desert Zen</b>	<b>Natural Ventures</b>	<b>Kieley Growth</b>	<b>GSRX</b>	<b>SAP</b>	<b>Total</b>
	<i>United States</i>	<i>Puerto Rico</i>	<i>United States</i>	<i>Puerto Rico</i>	<i>United States</i>	
<b>Cost</b>						
Balance, June 30, 2018	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Additions	374,830	3,557,713	2,259,080	-	-	6,191,623
Balance, June 30, 2019	\$ 374,830	\$ 3,557,713	\$ 2,259,080	\$ -	\$ -	\$ 6,191,623
Additions	-	-	-	5,971,123	1,780,000	7,751,123
<b>Balance, September 30, 2019</b>	<b>\$ 374,830</b>	<b>\$ 3,557,713</b>	<b>\$ 2,259,080</b>	<b>\$ 5,971,123</b>	<b>1,780,000</b>	<b>\$ 13,942,746</b>
<b>Accumulated impairment</b>						
Balance, June 30, 2018	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Additions	-	1,801,300	-	-	-	1,801,300
<b>Balance, June 30, 2019</b>	<b>\$ -</b>	<b>\$ 1,801,300</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,801,300</b>
Additions	-	-	-	-	-	-
<b>Balance, September 30, 2019</b>	<b>\$ -</b>	<b>\$ 1,801,300</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,801,300</b>
<b>Balance, June 30, 2018</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Balance, June 30, 2019</b>	<b>\$ 374,830</b>	<b>\$ 1,756,413</b>	<b>\$ 2,259,080</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 4,390,323</b>
<b>Balance, September 30, 2019</b>	<b>\$ 374,830</b>	<b>\$ 1,756,413</b>	<b>\$ 2,259,080</b>	<b>\$ 5,971,123</b>	<b>\$ 1,780,000</b>	<b>\$ 12,141,446</b>

*GSRX Industries Inc.*

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

<b>Balance, June 30, 2018 and December 15, 2017</b>	<b>\$ -</b>
Share exchange	17,144,062
Unrealized loss on investment in GSRX	(2,646,285)
<b>Balance, June 30, 2019</b>	<b>\$ 14,497,777</b>
Unrealized loss on investment in GSRX	(1,564,379)
Investment balance transferred to GSRX acquisition on August 29, 2019	(12,933,398)
<b>Balance, September 30, 2019</b>	<b>\$ -</b>



**Chemesis International Inc.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**For the three months ended September 30, 2019 and 2018**  
**(Expressed in Canadian dollars)**

---

**5. GOODWILL, ACQUISITIONS AND ACQUISITIONS PAYABLE (CONTINUED)**

On August 29, 2019, the Company acquired 42,634,124 common shares of GSRX in exchange for 14,880,705 common shares of the Company for a total fair value of \$8,437,363. Immediately after the transaction the Company held a 66.29% common share interest and in GSRX. Subsequent to September 30, 2019, the Company acquired a 100% of the preferred shares in exchange for 4,000,000 common shares of the Company. The acquisition of GSRX was accounted for as a business combination.

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

<b>Cost of transaction</b>	
Initial investment of 7,291,874 common shares	\$ 12,933,398
Investment of 14,880,705 common shares of the Company	8,437,363
<b>Total consideration</b>	<b>\$ 21,370,761</b>
<b>Fair value of Net assets acquired</b>	
Cash	\$ 2,060,336
Accounts receivable	29,063
Prepaid expenses	267,686
Inventory	619,588
Deposits	1,456,492
Fixed assets	3,317,630
Right of use asset	3,486,382
Construction in progress	1,211,917
Patents	2,585,389
Marketable securities	93,098
Investment in Chemesis	13,034,155
<b>Total assets</b>	<b>\$ 28,161,736</b>
<b>Current liabilities</b>	<b>\$ 1,927,765</b>
Lease liabilities	3,003,262
<b>Total liabilities</b>	<b>\$ 4,931,026</b>
<b>Net assets acquired</b>	<b>23,230,710</b>
Less: NCI portion	<b>(7,831,072)</b>
<b>Company's share of net assets acquired</b>	<b>15,399,638</b>
<b>Goodwill</b>	<b>\$ 5,971,123</b>

At acquisition, GSRX held 18,958,872 common shares of the Company with a fair value of \$13,034,155, compared to a total fair value at acquisition of \$25,581,425. The difference of \$12,547,270 is included in Chemesis' share capital however is excluded from the net assets of GSRX as these losses occurred before acquisition. As such, the Company recognized \$12,547,270 in contributed surplus during the three months ended September 30, 2019.

*SAP*

During the year ended June 30, 2018, the Company acquired 100% of the issued and outstanding shares of Bonhomie for \$100. At the time, Bonhomie held a 51% controlling interest in SAP Global. On July 19, 2018, the Company increased its ownership in SAP Global from 51% to 80% for no additional consideration and on July 3, 2019, the Company issued 1,000,000 common shares with a fair value of \$1,780,000 to increase its ownership to 100% which has been accounted for as goodwill.

**Chemesis International Inc.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**For the three months ended September 30, 2019 and 2018**  
**(Expressed in Canadian dollars)**

---

**6. RIGHT OF USE ASSETS AND LEASE LIABILITIES**

*Measurement period*

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

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 on July 1, 2019 was 15%.

<b>Cost</b>	
Balance, July 1, 2019, on adoption of IFRS 16	\$ 1,435,542
Acquisition of GSRX (Note 5)	3,486,382
Effects of foreign exchange	(118,070)
<b>Balance, September 30, 2019</b>	<b>4,803,854</b>
<b>Accumulated depreciation</b>	
Balance, July 1, 2019	\$ -
Depreciation	283,726
<b>Carrying value, July 1, 2019</b>	<b>\$ -</b>
<b>Balance, September 30, 2019</b>	<b>\$ 4,520,128</b>

The carrying value of the lease obligations is as follows:

<b>Lease obligations</b>	
Total lease payments at July 1, 2019	\$ 1,702,341
Discount	(266,799)
Acquisition of GSRX	3,788,134
Repayments	(394,733)
Accretion	146,089
Effects of foreign exchange	(118,300)
<b>Balance, September 30, 2019</b>	<b>\$ 4,856,732</b>
Less: Current portion	(1,388,758)
<b>Net assets acquired</b>	<b>\$ 3,467,974</b>

**Chemesis International Inc.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**For the three months ended September 30, 2019 and 2018**  
**(Expressed in Canadian dollars)**

**7. BIOLOGICAL ASSETS**

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

	<b>September 30, 2019</b>	<b>June 30, 2019</b>
Biological assets, beginning	\$ 1,244,938	\$ -
<i>Allocated direct costs</i>	341,515	1,038,732
<i>Biological assets transferred to Inventory</i>	(425,567)	-
<i>Net increase in fair value less costs to sell due to biological transformation</i>	452,867	219,996
<i>Effects of foreign exchange rates</i>	1,263	(13,790)
Biological assets, end	\$ 1,615,016	\$ 1,244,938

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

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

<b>Unobservable inputs</b>	<b>Amounts</b>	<b>Sensitivity</b>
<b>Estimated selling price of dry cannabis</b> - varies by strain and is obtained through listed selling prices or estimated selling prices if historical results are not available.	\$81.25 per dry ounce (June 30, 2019 - \$81.25).	A slight increase in the estimated selling price per strain would result in a significant increase in fair value, and vice versa.
<b>Estimated yield per plant</b> - varies by strain and is obtained through historical growing results (6 month trailing average) or grower estimate if historical results are not available.	3.5oz per flowering cannabis plant (June 30, 2019 – 3.5oz).	A slight increase in the estimated yield per plant would result in a significant increase in fair value, and vice versa.
<b>Stage of cannabis plant within its life cycle.</b>	12 - 15 weeks (June 30, 2019 – 12-15 weeks)	A slight increase in the estimated stage in the life cycle would result in a slight increase in fair value, and vice versa.
<b>Selling costs</b> - are estimated based on the salaries paid to marketing and inventory personnel.	\$nil/oz (June - \$nil)	A slight decrease in the estimated selling costs would result in a slight increase in fair value, and vice versa.

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

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

**Chemesis International Inc.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**For the three months ended September 30, 2019 and 2018**  
**(Expressed in Canadian dollars)**

**8. INVENTORY**

As at September 30, 2019, the Company's inventory balance consists of raw and finished goods. During the three months ended September 30, 2019, the Company expensed \$2,815,639 (September 30, 2019 - \$1,798,001) of inventory included within cost of goods sold.

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

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

	September 30, 2019	June 30, 2019
Cultivation	\$ 272,487	\$ -
Raw materials and supplies	272,713	428,770
Finished goods	1,683,562	401,231
<b>Total</b>	<b>\$ 2,228,762</b>	<b>\$ 830,001</b>

**9. INTANGIBLE ASSETS**

Cost	License Rights	Patent application costs	Total
Balance, June 30, 2019	\$ 3,156,561	\$ -	\$ 3,156,561
Additions	-	2,585,389	2,585,389
Effects of foreign exchange	-	(12,184)	(12,184)
<b>Balance, September 30, 2019</b>	<b>\$ 3,156,561</b>	<b>\$ 2,573,205</b>	<b>\$ 5,729,766</b>
<b>Accumulated amortization</b>			
Balance, June 30, 2019	\$ 614,619	\$ -	\$ 614,619
Additions	237,717	-	237,717
<b>Balance, September 30, 2019</b>	<b>\$ 852,336</b>	<b>\$ -</b>	<b>\$ 852,336</b>
<b>Net, June 30, 2019</b>	<b>\$ 2,541,942</b>	<b>\$ -</b>	<b>\$ 2,541,942</b>
<b>Net, September 30, 2019</b>	<b>\$ 2,304,225</b>	<b>\$ 2,573,205</b>	<b>\$ 4,877,430</b>

The Company's license rights are summarized as follows:

*SAP Brand rights*

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

**Chemesis International Inc.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**For the three months ended September 30, 2019 and 2018**  
**(Expressed in Canadian dollars)**

---

**9. INTANGIBLE ASSETS (CONTINUED)**

*Rapid Dose Therapeutics Inc. ("RDT")*

On October 12, 2018, the Company acquired the license rights from RDT, a Canadian bio-technology company which provides proprietary drug delivery technologies. RDT's QuickStrip is an oral fast-dissolving drug delivery system. Under the terms of the agreement, the Company received rights to produce, distribute, and sell QuickStrip products, with rights for cannabis markets in California. Total consideration was \$318,010, paid by \$130,570 in cash and 173,556 common shares with a fair value per share of \$1.08 for a total share fair value of \$187,440. This license is amortized over the estimated useful life of 5 years.

*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.

*Natural Ventures License*

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

*Desert Zen License*

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

*La Finca License*

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

*Patents*

GSRX has applied for patents which it believes are a new, original and ornamental design for Oral Consumable Flakes. The patents use the methods of preparing soluble, encapsulated plant-based compositions. These Patent Application Costs consist of \$1,943,934 in legal fees. As the patents have not been issued as of September 30, 2019, no amortization has been applied against the patent costs. If the patents are approved, the Company will amortize the patent application costs over their useful lives. If the patents are not approved, the patent application costs will be expensed and charged to operations.

**Chemesis International Inc.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**For the three months ended September 30, 2019 and 2018**  
**(Expressed in Canadian dollars)**

**10. EQUIPMENT AND LEASEHOLD IMPROVEMENTS**

	<b>Machinery and Equipment</b>	<b>Leasehold improvements</b>	<b>Buildings</b>	<b>Construction in Progress</b>	<b>Total</b>
<b>Cost</b>					
Balance, June 30, 2018	\$ 657,871	\$ 1,552,595	\$ -	\$ -	\$ 2,210,466
Additions	4,621,929	657,982	-	-	5,279,911
Effects of changes in foreign exchange	(7,191)	(56,926)	-	-	(64,117)
<b>Balance, June 30, 2019</b>	<b>\$ 5,272,609</b>	<b>\$ 2,153,651</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 7,426,260</b>
Additions	622,029	590,309	2,941,629	903,133	4,787,783
Effects of changes in foreign exchange	(54,978)	(29,482)	(31,373)	-	(115,833)
<b>Balance, September 30, 2019</b>	<b>\$ 5,839,660</b>	<b>\$ 2,714,478</b>	<b>\$ 2,910,256</b>	<b>\$ 903,133</b>	<b>\$ 12,098,210</b>
<b>Depreciation</b>					
Balance, June 30, 2018	\$ 119	\$ -	\$ -	\$ -	119
Additions	228,614	140,012	-	-	368,626
<b>Balance, June 30, 2019</b>	<b>\$ 228,733</b>	<b>\$ 140,012</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 368,745</b>
Additions	197,225	64,182	71,929	-	333,336
<b>Balance, September 30, 2019</b>	<b>\$ 425,958</b>	<b>\$ 204,194</b>	<b>\$ 71,929</b>	<b>\$ -</b>	<b>\$ 702,081</b>
<b>June 30, 2018</b>	<b>\$ 657,752</b>	<b>\$ 1,552,595</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,210,347</b>
<b>June 30, 2019</b>	<b>\$ 5,043,876</b>	<b>\$ 2,013,639</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 7,057,515</b>
<b>September 30, 2019</b>	<b>\$ 5,413,702</b>	<b>\$ 2,510,284</b>	<b>\$ 2,838,327</b>	<b>\$ 903,133</b>	<b>\$ 11,665,446</b>

During the three months ended September 30, 2019, the Company issued 157,495 common shares with a fair value of \$269,316 for equipment (Note 13).

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

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

**11. CONVERTIBLE DEBT**

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

The Company has the right to repay and cancel the convertible debentures at any time prior to the maturity date at a price equal to 105% of the principal amount of the convertible debentures then outstanding plus accrued and unpaid interest thereon. In addition, the Company has the right to compel the conversion of the convertible debentures in the event that the daily volume weighted average trading price of the common shares exceeds \$2.50 per common share for 10 consecutive trading days.

**Chemesis International Inc.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**For the three months ended September 30, 2019 and 2018**  
**(Expressed in Canadian dollars)**

---

**11. CONVERTIBLE DEBT (CONTINUED)**

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

The convertible debentures are accounted for as compound financial instruments, consisting of a debt instrument, an equity conversion feature and warrant. The debt instrument was fair valued using a discount rate of 15% and are carried at amortized cost. The excess of the proceeds over the value assigned to the debt instrument was proportionately allocated to the equity component of the convertible debentures and the warrant. The following table summarizes the Company's convertible debentures:

<b>Balance, June 30, 2018</b>	\$	-
Proceeds on issuance of convertible debt		3,500,000
Allocation to equity component		(244,000)
Allocation to warrant component		(186,057)
Accretion and interest		272,798
<b>Balance, June 30, 2019</b>	<b>\$</b>	<b>3,342,741</b>
Accretion and interest		54,199
<b>Balance, September 30, 2019</b>	<b>\$</b>	<b>3,396,940</b>
<b>Equity component of convertible debt</b>		
Balance, June 30, 2018	\$	-
Balance, September 30, 2019 and June 30, 2019	\$	244,000

**12. AMOUNTS RECEIVABLE**

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

	<b>September 30,</b>	<b>June 30, 2019</b>
	<b>2019</b>	
Trade receivable	\$ 1,078,626	\$ 2,378,904
GST	21,889	13,655
<b>Balance</b>	<b>\$ 1,100,515</b>	<b>\$ 2,392,559</b>

**13. SHAREHOLDERS' EQUITY**

**13.1 Authorized share capital**

Unlimited number of common shares with no par value.

Effective July 17, 2018, the Company completed a share consolidation of its share capital on the basis of two existing common shares for one new common share. All common share and per share amounts in these consolidated financial statements is retroactively presented on a post-share consolidation basis, including the number and exercise price of all share options and warrants.

**13.2 Issued share capital**

Common shares issued and outstanding as at September 30, 2019 are 109,678,753, of which 18,958,872 common shares are classified as held internally and deducted from the statement of changes in shareholders equity. As at September 30, 2019, the Company held 13,937,641 common shares in escrow.

**Chemesis International Inc.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**For the three months ended September 30, 2019 and 2018**  
**(Expressed in Canadian dollars)**

**13. SHAREHOLDERS' EQUITY (COTINUED)**

The Company obtained control of GSRX (Note 5) through the issuance of 14,880,705 common shares with a fair value of \$8,437,363 during the three months ended September 30, 2019. At acquisition, GSRX held 18,958,872 common shares of the Company with a fair value of \$13,034,155, compared to a total fair value at acquisition of \$25,581,425. The difference of \$12,547,270 is included in Chemesis' share capital, however, is excluded from the net assets of GSRX as these losses occurred before acquisition. As such, the Company recognized \$12,547,270 in contributed surplus during the three months ended September 30, 2019. The shares of the Company that are held by GSRX are classified as shares held internally and are eliminated on consolidation.

During the three months ended September 30, 2019, the Company issued 1,000,000 common shares with a fair value of \$1,780,000 to complete the acquisition of Bonhomie (Note 5).

During the three months ended September 30, 2019, the Company issued 157,495 common shares with a fair value of \$269,316 for equipment (Note 10).

During the three months ended September 30, 2019, the Company issued 600,000 common shares to settle debt of \$732,000. No gain or loss was recorded on settlement.

During the three months ended September 30, 2019, the following cash share transactions occurred:

<b>Date</b>	<b>Number of shares</b>	<b>Fair value per share</b>	<b>Total fair value</b>	<b>Purpose</b>
July 4, 2019	100,000	1.40	\$ 140,000	Option exercise
July 4, 2019	108,108	1.85	\$ 200,000	Private placement
September 18, 2019	540,540	0.74	\$ 400,000	Private placement
October 3, 2019	236,486	0.74	\$ 175,000	Private placement

During the three months ended September 30, 2019, the following non-cash share transactions occurred:

<b>Date</b>	<b>Number of shares</b>	<b>Fair value per share</b>	<b>Total fair value</b>	<b>Purpose</b>
July 3, 2019	1,000,000	1.78	\$ 1,780,000	SAP Global license rights (Note 9)
July 12, 2019	157,495	1.71	\$ 269,316	Rapid Dose equipment purchase (Note 9)
August 14, 2019	600,000	1.22	\$ 732,000	Debt settlement agreement
August 28, 2019	14,880,705	0.57	\$ 8,437,363	Acquisition of GSRX shares (Note 5)

No share issuance costs were incurred.

**13.3 Warrants**

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

	<b>Warrants</b>	<b>Exercise Price</b>
<b>June 30, 2019</b>	<b>9,534,208</b>	<b>\$ 1.97</b>
Expired	(3,915,472)	1.00
<b>September 30, 2019</b>	<b>5,618,736</b>	<b>\$ 1.98</b>



**Chemesis International Inc.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**For the three months ended September 30, 2019 and 2018**  
**(Expressed in Canadian dollars)**

**13. SHAREHOLDERS' EQUITY (CONTINUED)**

Expiry date	Warrants	Exercise Price
December 4, 2020	1,600,000	\$ 1.50
December 21, 2020	1,200,000	1.50
December 20, 2023	312,500	1.50
January 21, 2024	384,615	2.45
March 1, 2024	1,500,000	2.50
May 30, 2024	378,378	2.50
May 30, 2024	189,189	2.50
June 13, 2024	54,054	2.50
<b>Balance, September 30, 2019</b>	<b>5,618,736</b>	<b>\$ 1.98</b>

At September 30, 2019, the weighted-average remaining life of the outstanding warrants was 1.60 years (June 30, 2019 – 1.85).

**13.4 Options and share-based compensation**

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

During the period ended September 30, 2019, 300,000 options were issued and vested. Total share-based payments recognized for the fair value of share options granted, vested and approved by the shareholders during the three months ended September 30, 2019 was \$72,632 (2018 - \$2,243,580).

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

	Period ended September 30, 2019	Period ended September 30, 2018
Strike price	\$1.22	\$1.28
Risk free interest rate	1.19%	2.00%
Expected option life (years)	5.01 years	4.87 years
Expected stock price volatility	100%	110%
Dividend payments during life of option	Nil	Nil
Expected forfeiture rate	Nil	Nil

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

**Chemesis International Inc.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**For the three months ended September 30, 2019 and 2018**  
**(Expressed in Canadian dollars)**

**13. SHAREHOLDERS' EQUITY (CONTINUED)**

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

	<b>Options</b>	<b>Exercise price</b>
<b>June 30, 2019</b>	<b>6,710,000</b>	<b>1.25</b>
Granted	300,000	1.22
Cancelled	(50,000)	0.22
<b>September 30, 2019</b>	<b>6,960,000</b>	<b>1.24</b>

At September 30, 2019, the weighted average remaining life of the outstanding options was 3.70 years (2019 - 3.90).

<b>Expiry date</b>	<b>Options</b>	<b>Exercise price</b>	<b>Outstanding and exercisable</b>	
			<b>Remaining contractual life (years)</b>	
June 9, 2022	350,000	0.50	2.95	
August 18, 2022	125,000	1.10	3.14	
July 22, 2023	4,285,000	1.00	4.06	
September 27, 2023	200,000	1.74	4.25	
November 6, 2023	300,000	1.40	4.36	
March 12, 2024	500,000	2.13	4.70	
March 25, 2024	100,000	2.09	4.74	
March 29, 2024	500,000	2.16	4.75	
April 26 2021	100,000	2.04	1.82	
May 23 2024	200,000	2.11	4.90	
August 14, 2024	300,000	1.22	4.92	
<b>Balance, September 30, 2019</b>	<b>6,960,000</b>	<b>\$ 1.25</b>	<b>3.90</b>	

**14. RELATED PARTY TRANSACTIONS AND BALANCES**

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

	<b>2019</b>		<b>2018</b>	
Management fees	\$	116,100	\$	100,179
Share-based payments		-		1,452,784
<b>Total</b>	<b>\$</b>	<b>116,100</b>	<b>\$</b>	<b>-</b>

As at September 30, 2019, \$89,475 (June 30, 2019 - \$52,949) is owed to directors and officers of the Company for unpaid fees.

During the three months ended September 30, 2019, the Company accrued \$39,600 (2019 - \$42,679) included in management fees to the CEO and Director of the Company pursuant to CEO and Director services provided.

During the three months ended September 30, 2019, the Company paid \$30,000 (2019 - \$22,500) included in management fees to the previous CFO of the Company pursuant to CFO services provided.

**Chemesis International Inc.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**For the three months ended September 30, 2019 and 2018**  
**(Expressed in Canadian dollars)**

---

**14. RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)**

During the three months ended September 30, 2019, the Company paid \$37,500 (2019 - \$25,000) included in management fees to a Director of the Company pursuant to Director services provided.

During the three months ended September 30, 2019, the Company paid \$9,000 (2019 - \$10,000) included in consulting fees to the Corporate Secretary and Director and of the Company pursuant to Corporate Secretary and Director services provided.

**15. NON-CASH INVESTING AND FINANCING ACTIVITIES**

Non-cash investing and financing activities are as follows:

	Period ended September 30, 2019	Period ended September 30, 2018
<b>INVESTING ACTIVITIES:</b>		
Shares issued to purchase equipment	\$ 269,316	\$ -
Shares issued for licenses	\$ -	\$ 365,550

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

- i) Acquisition of SAP Global (Note 5)
- ii) Investment in GSRX (Note 5)

**16. COMMITMENTS**

On November 1, 2017, SAP Global entered into a 36-month lease agreement to rent commercial space for the Company's production facility in Cathedral City, California, USA. The remaining lease obligation at September 30, 2019 is approximately \$500,000.

The Company holds a 5-year lease agreement in Caguas, Puerto Rico with remaining lease obligations as at September 30, 2019 of \$1,200,000.

The Company holds a 2-year lease agreement in Bogota, Columbia with remaining lease obligations as at September 30, 2019 of \$460,000.

**17. RISK MANAGEMENT**

**17.1 Financial risk management**

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

**a. Capital risk**

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

**b. Credit risk**

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

**Chemesis International Inc.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**For the three months ended September 30, 2019 and 2018**  
**(Expressed in Canadian dollars)**

---

**17. RISK MANAGEMENT (CONTINUED)**

**c. Liquidity risk**

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they fall due. As at September 30, 2019, the Company's working capital is \$2,826,293 (June 30, 2019 - \$204,230 ) and it has a long-term convertible debenture of \$3,396,740 and long-term lease liabilities of \$3,467,974 (June 30, 2019 - \$3,342,741). The Company may seek additional financing through debt or equity offerings, but there can be no assurance that such financing will be available on terms acceptable to the Company or at all. Any equity offering will result in dilution to the ownership interests of the Company's shareholders and may result in dilution to the value of such interests. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at September 30, 2019, the Company had cash of \$1,813,367 (June 30, 2019 - \$641,583), accounts payable and accrued liabilities of \$2,295,493 (June 30, 2019 - \$2,477,662) (due in 90 days), notes payable of \$114,676 (June 30, 2019 - \$838,366), acquisition payable of \$661,855 (June 30, 2019 - \$1,308,700), and convertible debt (due in two years) of \$3,396,741 (June 30, 2019 - \$3,342,741).

**d. Market risk**

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

*Foreign currency risk*

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

**17.2 Fair values**

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

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

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

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

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

At September 30, 2019 and June 30, 2019, cash is measured using Level 1 inputs. At September 30, 2019, the Company held \$92,659 (June 30, 2019 - \$14,497,777) in investments measured at Level 1. During the period ended September 30, 2019 and 2018, 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.

**Chemesis International Inc.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**For the three months ended September 30, 2019 and 2018**  
**(Expressed in Canadian dollars)**

---

**18. MANAGEMENT OF CAPITAL**

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

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

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

The Company has a draw-down equity financing agreement of up to \$25,000,000 with Alumina Partners, LLC which may be converted into shares of the Company. As of September 30, 2019, the Company has drawn down \$750,000 on the equity financing arrangement. The Company is not currently subject to any externally imposed capital requirements.

On March 1, 2019 the Company entered into a \$10,000,000 share subscription agreement with Global Emerging Markets ("GEM"). The agreement provides that the Company may, at any time while the agreement is in effect, deliver a draw-down notice to GEM specifying the number of common shares for which GEM will then have an obligation to subscribe up to a maximum of \$10,000,000. As of September 30, 2019, the Company drawn down \$778,000 on this equity financing arrangement.

**19. EQUITY FUNDING FACILITIES**

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

The agreement details the purchase of up to \$25,000,000 of units of the Company, consisting of one common share and one common share purchase warrant, at discounts ranging from 15% to 25% of the market price of the Company's shares, with each equity financing occurring exclusively at the option of the Company, throughout the 24-month term of the agreement. The exercise price of the warrants will be at a 50% premium over the market price of the shares at the date of any funding loaned. There are no upfront fees or interest associated with the use of this financing. As of September 30, 2019, the Company has drawn down \$750,000 on the equity financing arrangement.

On March 1, 2019 the Company entered into a \$10,000,000 share subscription agreement with Global Emerging Markets ("GEM"). The agreement provides that the Company may, at any time while the agreement is in effect, deliver a draw-down notice to GEM specify the number of common shares for which GEM will then have an obligation to subscribe up to a maximum of \$10,000,000. As of September 30, 2019, the Company drawn down \$778,000 on this equity financing arrangement.

**Chemesis International Inc.**  
**Notes to the Condensed Consolidated Interim Financial Statements**  
**For the three months ended September 30, 2019 and 2018**  
**(Expressed in Canadian dollars)**

---

**20. SEGMENTED REPORTING**

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

	<b>Assets</b>	<b>Revenue</b>	<b>Profit (loss)</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Canada - Corporate	17,121,552	-	(2,239,869)
United States	19,864,868	3,365,067	(585,396)
United States - Puerto Rico	4,691,990	1,307,064	688,891
Colombia	403,684	28,703	(242,504)
	<u>42,082,093</u>	<u>4,700,834</u>	<u>(2,378,878)</u>

As at June 30, 2019, the assets held in Canada include \$12,141,446 of goodwill (Note 5) (2018 - \$nil).

**21. CONTINGENT LIABILITY**

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

**22. SUBSEQUENT EVENTS**

On November 7, 2019, the Company acquired a 100% of the preferred shares representing 100% of the voting rights of GSRX in exchange for 4,000,000 common shares of the Company.