



CHEMESIS INTERNATIONAL INC.

**Condensed Consolidated Interim Financial Statements
For the three months ended September 30, 2020 and 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, 2020 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, 2020 (Unaudited)	June 30, 2020 (Amended - Note 5)
ASSETS		
Current assets		
Cash	\$ 480,230	\$ 185,279
Amounts receivable (Note 13)	176,527	79,544
Prepaid expenses and deposits	10,118	10,118
Assets held for sale (Note 5)	6,465,137	4,540,947
Inventory (Note 8)	7,922	38,506
	7,139,934	4,854,394
Non-current assets		
Assets held for sale (Note 5)	14,981,001	17,332,726
Fixed assets (Note 11)	196,947	201,335
Intangible assets (Note 9)	42,810	51,143
Total non-current assets	15,220,758	17,585,204
TOTAL ASSETS	\$ 22,360,692	\$ 22,439,598
LIABILITIES		
Current		
Accounts payable and accrued liabilities (Note 15)	\$ 1,828,731	\$ 2,800,647
Income tax payable	-	76,974
Convertible debt (Note 12)	1,247,270	1,063,562
Liabilities held for sale (Note 5)	7,241,333	4,563,897
	10,317,334	8,505,080
Non-current liabilities		
Liabilities held for sale (Note 5)	2,051,980	2,097,156
	2,051,980	2,097,156
TOTAL LIABILITIES	\$ 12,369,314	\$ 10,602,236
EQUITY		
Share capital (Note 14)	80,469,715	77,952,340
Subscriptions received	-	22,500
Contributed surplus	5,814,928	5,814,928
Accumulated other comprehensive income	699,228	240,078
Deficit	(80,320,367)	(76,517,929)
Equity attributable to shareholders of Chemesis	6,663,504	7,511,917
Non-controlling interests (Note 10)	3,327,874	4,325,445
TOTAL EQUITY	9,991,378	11,837,362
TOTAL LIABILITIES AND EQUITY	\$ 22,360,692	\$ 22,439,598
Subsequent events (Note 24)	Contingent liabilities (Note 22)	
Going concern (Note 2)		

Approved on behalf of the Board of Directors:

"Brian Thurston", Director

"Aman Parmar", Director

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

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

(Unaudited)	For the three months ended	
	September 30, 2020	September 30, 2019 (Restated)
REVENUES	\$ -	\$ 364,514
COST OF GOODS SOLD (Note 8)	-	(295,256)
GROSS PROFIT	-	69,258
EXPENSES		-
Depreciation (Notes 11)	12,721	182,107
Foreign exchange loss (gain)	(5,429)	(5,259)
General and administration (Note 16)	1,561,591	1,308,329
Share-based payments (Notes 14 and 15)	75,863	72,632
TOTAL OPERATING EXPENSES	1,644,746	1,557,809
LOSS BEFORE OTHER ITEMS	(1,644,746)	(1,488,551)
OTHER ITEMS:		
Interest expense	(187,200)	(76,897)
Loss on investment in GSRX Industries Inc.	-	(1,564,379)
	(187,200)	(1,641,276)
NET LOSS BEFORE DISCONTINUED OPERATIONS AND INCOME TAXES	(1,831,946)	(3,129,827)
Income (loss) on discontinued operations, net of tax (Note 5)	(2,873,002)	(564,139)
Income tax recovery (expense)	-	133,000
NET LOSS	(4,704,948)	(3,560,966)
OTHER COMPREHENSIVE INCOME (LOSS)		
Cumulative translation adjustment, attributable to:		
Continuing operations	393,104	(45,368)
Discontinued operations	(29,015)	(285,563)
COMPREHENSIVE LOSS	(4,340,859)	(3,891,897)
NET LOSS ATTRIBUTABLE TO:		
Chemesis International Inc.	(929,436)	(3,218,512)
Discontinued operations	(2,873,002)	135,861
Non-controlling interests	(902,510)	(47,176)
NET LOSS	(4,704,948)	(3,129,827)
COMPREHENSIVE LOSS ATTRIBUTABLE TO:		
Chemesis International Inc.	(3,343,288)	(4,068,304)
Discontinued operations	(29,015)	(285,563)
Non-controlling interests	(997,571)	176,407
COMPREHENSIVE LOSS	\$ (4,369,874)	\$ (4,177,460)
Loss per share, basic and diluted	(0.12)	(0.30)
Loss per share, basic and diluted, continuing operations	(0.04)	(0.32)
Loss per share, basic and diluted, discontinued operations	(0.08)	0.01
Weighted average number of common shares outstanding	37,894,347	10,300,754

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

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

	<u>Share Capital</u>				Accumulated other comprehensive income (loss)		Equity attributable to shareholders of Chemesis	Non-controlling interests	Total equity
	Number	Amount	Subscriptions received	Contributed surplus		Deficit			
		\$	\$	\$	\$	\$	\$	\$	\$
As at June 30, 2020	33,891,694	77,952,340	22,500	5,814,928	240,078	(76,517,929)	7,511,917	4,325,445	11,837,362
Shares issued for cash	2,542,800	1,271,400	(22,500)	-	-	-	1,248,900	-	1,248,900
Conversion of RSUs into common shares	125,000	75,863	-	-	-	-	75,863	-	75,863
Exercise of warrants	1,646,191	666,708	-	-	-	-	666,708	-	666,708
Shares for debt	730,723	503,404	-	-	-	-	503,404	-	503,404
Subscriptions received	-	-	-	-	-	-	-	-	-
Net loss	-	-	-	-	-	(3,802,438)	(3,802,438)	(902,510)	(4,704,948)
Other comprehensive loss (income)	-	-	-	-	459,150	-	459,150	(95,061)	364,089
As at September 30, 2020	38,936,408	80,469,715	-	5,814,928	699,228	(80,320,367)	6,663,504	3,327,874	9,991,378

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

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

	<u>Share Capital</u>		Subscriptions received	Contributed surplus	Accumulated other comprehensive income (loss)	Deficit	Equity attributable to shareholders of Chemesis	Non-controlling interests	Total equity
	Number	Amount							
		\$	\$	\$	\$	\$	\$	\$	\$
As at June 30, 2019 (Restated- Note 28)	9,216,353	56,954,958	-	5,067,327	569,066	(39,527,486)	23,063,865	258,771	23,322,636
Acquisition of GSRX common shares	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	-	-	-	-	-	-	-	-	-
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	-	-	-	-	-	-	-	-	-
Convertible debt	-	-	-	-	-	-	-	-	-
Private placements, net	77,702	575,000	-	-	-	-	575,000	-	575,000
Subscriptions received	-	-	1,287,190	-	-	-	1,287,190	-	1,287,190
Shares issued for options exercised	10,000	248,000	-	(108,000)	-	-	140,000	-	140,000
Shares issued for services	-	-	-	-	-	-	-	-	-
Issuance of shares by GSRX for services	-	-	-	-	-	-	-	-	-
Share-based payments	-	-	-	72,632	-	-	72,632	-	72,632
Net loss	-	-	-	-	-	(940,239)	(940,239)	(47,176)	(987,415)
Other comprehensive loss	-	-	-	-	(91,039)	-	(91,039)	(239,892)	(330,931)
As at September 30, 2019 (Restated – Note 28)	10,238,689	62,968,831	1,287,190	2,429,080	596,121	(40,467,725)	26,813,497	5,487,720	32,301,217

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

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

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

	Share Capital		Subscriptions received	Contributed surplus	Accumulated other comprehensive income (loss)	Deficit	Equity attributable to shareholders of Chemesis	Non-controlling interests	Total equity
	Number	Amount							
		\$	\$	\$	\$	\$	\$	\$	\$
As at October 1, 2019 (Restated – Note 28)	10,238,689	62,968,831	1,287,190	2,429,080	596,121	(40,467,725)	26,813,497	5,487,720	32,301,217
Acquisition of GSRX common shares	-	-	-	-	-	-	-	-	-
Shares held internally	-	-	-	-	-	-	-	-	-
Acquisition of SAP	-	-	-	-	-	-	-	-	-
Acquisition of GSRX preferred shares	400,000	2,268,000	-	-	-	-	2,268,000	-	2,268,000
Shares issued for intangible asset	-	-	-	-	-	-	-	-	-
Shares issued to settle note payable	-	-	-	-	-	-	-	-	-
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	13,528,329	4,671,177	-	-	-	-	4,671,177	-	4,671,177
Subscriptions received	-	-	(1,264,690)	-	-	-	(1,264,690)	-	(1,264,690)
Shares issued for options exercised	-	-	-	-	-	-	-	-	-
Shares issued for services	30,938	57,235	-	-	-	-	57,235	-	57,235
Issuance of shares by GSRX for services	-	-	-	(85,285)	-	-	(85,285)	111,109	25,824
Share-based payments	-	-	-	3,471,133	-	-	3,471,133	-	3,471,133
Net loss	-	-	-	-	-	(36,050,204)	(36,050,204)	(1,580,858)	(37,631,062)
Other comprehensive loss	-	-	-	-	(356,043)	-	(356,043)	307,474	(48,569)
As at June 30, 2020	33,891,694	77,952,340	22,500	5,814,928	240,078	(76,517,929)	7,511,917	4,325,445	11,837,362

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

For the three months ended September 30	2020		2019	
Cash (used in) provided by:				
OPERATING ACTIVITIES				
Net loss from continuing operations	\$	(1,281,064)	\$	765,181
Net loss from discontinued operations		(3,423,884)		(1,752,596)
	\$	(4,704,948)	\$	(987,415)
Items not involving cash:				
Share-based payments		-		72,632
Change in fair value of embedded derivative liabilities		-		(1,393,444)
Interest/accretion		187,200		202,269
Gain/loss on debt settlement		-		(396,176)
Foreign exchange		896		-
Impairment of assets		-		645,943
Depreciation		12,721		-
Gain on disposal of assets		-		-
Net changes in non-cash working capital items:				
Prepaid expenses and deposits		-		(116,726)
Inventory		30,584		(839,173)
Biological assets		-		82,789
Acquisition payable		-		(646,845)
Income tax payable		-		(133,000)
Unearned revenue		-		(235,639)
Lease liability		-		-
Amounts receivable		(96,983)		1,321,107
Amounts payable and other payables		(397,036)		(1326,224)
Net cash used in operating activities		(1,526,378)		(2,007,306)
INVESTING ACTIVITIES:				
Purchase of equipment and leasehold improvements		-		(451,188)
Net cash provided by (used in) investing activities		-		(451,188)
FINANCING ACTIVITIES:				
Proceeds from private placement, net		1,248,900		575,000
Proceeds from option, RSU, and warrant exercise		666,707		140,000
Subscriptions received		-		1,287,190
Net cash provided by financing activities		1,915,607		2,002,190
Effect of exchange rate changes on cash				-
Net increase (decrease) in cash		294,951		(456,304)
Cash, beginning of year		185,279		641,583
Cash, end of period	\$	480,230	\$	185,279

Non-cash investing and financing activities - See Note 18
The accompanying notes are an integral part of these consolidated financial statements.

Chemesis International Inc.
Notes to the Condensed Consolidated Interim Financial Statements
As at and for the three months ended September 30, 2020 and 2019
(Expressed in Canadian dollars)

1. NATURE OF OPERATIONS

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

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

During November, 2020, the company entered into sale agreements with Puerto Rico Industrial Commercial Holdings Biotech Corp, for the sale of Natural Ventures Puerto Rico and all of the Puerto Rican assets of GSRX. Accordingly, the related assets and liabilities have been presented separately on the statement of financial position as at September 30, 2020 and June 30, 2020. Additionally, the sum of the post-tax loss of the discontinued operations and post-tax gain or loss recognized on the measurement to fair value less cost to sell or fair value adjustments on the disposal of the assets has been presented as a single amount on the face of the statement of comprehensive income for the three months ended September 30, 2020 and 2019.

2. GOING CONCERN

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due. Management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. During the three months ended September 30, 2020, the Company incurred a loss of \$4,704,948 and as at September 30, 2020 has a working capital deficit of \$3,177,400 and an accumulated deficit of \$80,320,367 and remains dependent upon the receipt of additional equity or debt financing. While management has been successful in obtaining required financing in the past, there is no assurance that additional financing will be available or be available on favourable terms. The Company’s ability to continue as a going concern is dependent upon the ability to raise financing and ultimately generate profitable operations. These consolidated financial statements do not reflect and adjustments to the carrying value of assets and liabilities and the reported amounts of expenses and statement of financial position classifications that would be necessary if the going concern assumption was not appropriate. Such adjustments could be material.

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

Chemesis International Inc.
Notes to the Condensed Consolidated Interim Financial Statements
As at and for the three months ended September 30, 2020 and 2019
(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, 2020, filed October 28, 2020, 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 December 1, 2020.

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

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.

Chemesis International Inc.
Notes to the Condensed Consolidated Interim Financial Statements
As at and for the three months ended September 30, 2020 and 2019
(Expressed in Canadian dollars)

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 operates and is re-evaluated when facts and circumstances indicate that conditions have changed.

Collectability of amounts receivable

The Company monitors its exposure for credit losses on its customer and related party receivable balances and the creditworthiness of the customers and related parties on an ongoing basis and records related allowances for doubtful accounts. Allowances are estimated based upon specific customer and related party balances, where a risk of default is identified, and also include a provision for non-customer specific defaults based upon historical experience and aging of accounts.

Leases

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

Chemesis International Inc.
Notes to the Condensed Consolidated Interim Financial Statements
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(Expressed in Canadian dollars)

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

Biological assets

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

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

Inventory

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

Share-based payments

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

Income Taxes

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

Valuation of equity consideration granted

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

Chemesis International Inc.
Notes to the Condensed Consolidated Interim Financial Statements
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(Expressed in Canadian dollars)

3. BASIS OF PRESENTATION (CONTINUED)

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.

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

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

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

3.3 Basis of consolidation

These consolidated financials are presented in Canadian dollars ("CAD") and incorporate the financial results of the Company and its controlled subsidiaries:

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

Chemesis International Inc.
Notes to the Condensed Consolidated Interim Financial Statements
As at and for the three months ended September 30, 2020 and 2019
(Expressed in Canadian dollars)

3. BASIS OF PRESENTATION (CONTINUED)

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

Subsidiaries held by GSRX	Country	GSRX Ownership %
Project 1493, LLC;	USA	100%
Andalucia 511, LLC;	USA	100%
Spirulindex, 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.

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 11 for non-controlling interests' disclosures.

4. SIGNIFICANT 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, 2020, filed October 28, 2020.

Discontinued Operations

The Company classifies a disposal group as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. Upon classification as a discontinued operation, assets and liabilities are measured at their fair value less costs to sell.

Current assets, non-current assets, current liabilities and non-current liabilities will be presented combined on one line under assets or liabilities held for sale, respectively.

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4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

All income or loss on discontinued operations, including any impairment charges recorded on transfer of CGU assets to conformity with IFRS 5 *Assets Held for Sale and Discontinued Operations*, are charged to one line on the statement of profit or loss.

5. DISCONTINUED OPERATIONS

Consolidated discontinued operations as at September 30, 2020 and June 30, 2020 are below:

As at	September 30, 2020		June 30, 2020	
Current				
Cash	\$	934,758	\$	859,306
Amounts receivable (Note 14)		884,512		673,124
Prepays		53,537		75,044
Biological assets (Note 9)		2,348,434		1,842,848
Deposit		602,312		-
Inventory (Note 10)		1,641,584		1,090,625
	\$	6,465,137	\$	4,540,947
Non-current assets				
Deposits		466,800		1,033,234
Fixed Assets (Note 12)		4,078,723		4,048,557
Right of use asset		3,310,097		2,916,092
Investments		93,693		-
Intangible assets (Note 11)		1,087,239		2,000,631
Goodwill (Note 6)		5,944,449		7,334,212
Total non-current assets	\$	14,981,001	\$	17,332,726
				-
TOTAL ASSETS	\$	21,446,138	\$	21,873,673
				(0)
LIABILITIES				-
Current				-
Accounts payable	\$	6,237,920	\$	3,250,511
Unearned revenue				52,063
Lease liability		951,350		1,313,386
		7,189,270		4,615,960
Long-term				-
Lease liability - long term		2,051,980		2,204,637
TOTAL LIABILITIES	\$	9,241,250	\$	6,820,597
NET ASSETS	\$	5,739,751	\$	10,512,129

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5. DISCONTINUED OPERATIONS (CONTINUED)

Loss on discontinued operations for the three months ended is below:

	September 30, 2020	September 30, 2019
Revenue	\$ 4,958,024	\$ 2,546,916
Cost of sales	(1,908,716)	(1,276,235)
	3,049,308	1,270,681
Bio asset adjustment	(69,601)	452,867
Gross Margin	2,979,707	1,723,548
General and administrative costs	(3,891,351)	(1,464,296)
Fair value adjustment upon HFS	(1,389,763)	-
Other items	(571,595)	(123,391)
Total income (loss)	\$ (2,873,002)	\$ 135,861
Other comprehensive loss	(29,015)	(285,563)
Comprehensive income (loss)	\$ (2,902,017)	\$ (149,702)

A summary of cash flows for the three months ended is as follows:

	September 30, 2020	September 30, 2019
Net income	\$ (2,873,002)	\$ 135,861
Non-cash items	1,389,763	-
Changes in non-cash working capital	(848,738)	(219,859)
Cash flows from operations	(2,331,977)	(83,998)
Cash used in investing activities	2,407,429	(3,162,637)
Cash from financing activities	-	3,127,776
Change in cash	75,452	(118,859)
Cash, beginning	859,306	978,165
Cash, end	\$ 934,758	\$ 859,306

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5. DISCONTINUED OPERATIONS (CONTINUED)

Project 1493

During November, 2020, GSRX's subsidiary, Project 1493 entered into an asset purchase agreement (the "Asset Purchase Agreement") with Prich to sell and transfer all of Project 1493's operating assets in Puerto Rico in consideration for US\$743,333.33 (including Sales and Use Tax of Puerto Rico) (the "Project 1493 Asset Purchase Price"), which may be divided and credited towards the Project 1493 Asset Purchase Price as follows:

- (a) US\$133,333 for the purchase of medical cannabis trim;
- (b) US\$533,333 for the purchase of medical cannabis flower; and
- (c) US\$76,666.66 for the payment of Sales and Use Tax of Puerto Rico in respect of the purchases set out in (a) and (b) above.

Additionally, Prich assumed all of Project 1493's liabilities in respect of the assets sold and the leases assumed.

As at	September 30, 2020		June 30, 2020	
Current				
Cash	\$	580,132	\$	789,500
Amounts receivable (Note 14)		13,130		73,455
Prepays		-		6,760
Biological assets (Note 9)		-		-
Deposit		-		-
Inventory (Note 10)		691,471		573,515
	\$	1,284,733	\$	1,443,230
Non-current assets				
Deposits		326,806		350,384
Fixed Assets (Note 12)		2,358,282		2,324,888
Right of use asset		1,938,419		1,413,810
Investments		93,693		-
Intangible assets (Note 11)		1,087,239		2,000,631
Goodwill (Note 6)		4,286,963		5,577,799
Total non-current assets	\$	10,091,402	\$	11,667,512
TOTAL ASSETS	\$	11,376,135	\$	13,110,742
LIABILITIES				
Current				
Accounts payable	\$	2,138,284	\$	650,875
Unearned revenue		-		-
Lease liability		480,405		720,644
		2,618,689		1,371,519
Long-term				
Lease liability - long term		1,083,513		1,236,170
TOTAL LIABILITIES	\$	3,702,202	\$	2,607,689
NET ASSETS	\$	6,389,200	\$	9,059,823

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5. DISCONTINUED OPERATIONS (CONTINUED)

Loss on discontinued operations for Project 1493 for the three months ended is below:

	September 30, 2020	September 30, 2019
Revenue	\$ 3,658,956	\$ 1,239,852
Cost of sales	(1,874,760)	(570,290)
	1,784,196	669,562
Bio asset adjustment	-	-
Gross Margin	1,784,196	669,562
General and administrative costs	(2,313,518)	(941,033)
Fair value adjustment upon HFS	(1,290,836)	-
Other items	(571,595)	(81,559)
Total income (loss)	\$ (2,391,753)	\$ (353,030)
Other comprehensive loss	(32,874)	(100,244)
Comprehensive income (loss)	\$ (2,424,627)	\$ (453,274)

Upon recognition as an asset held for sale, the Company recorded an impairment charge against NVPR goodwill of \$1,290,836 in accordance with IAS 36 and IFRS 5.

A summary of cash flows for Project 1493 for the three months ended is as follows:

	September 30, 2020	September 30, 2019
Net income	\$ (2,391,753)	\$ (353,030)
Non-cash items	1,290,836	-
Changes in non-cash working capital	(50,871)	155,552
Cash flows from operations	(1,151,788)	(197,478)
Cash used in investing activities	942,420	143,366
Cash from financing activities	-	-
Change in cash	(209,368)	(54,112)
Cash, beginning	789,500	843,612
Cash, end	\$ 580,132	\$ 789,500

NVPR

During November, 2020, Natural Venture entered into an agreement (the “Natural Ventures Agreement”) with Puerto Rico Industrial Commercial Holdings Biotech Corp. to sell and transfer all of Natural Ventures’ operating assets in Puerto Rico in consideration for US\$4,600,000 payable as follows:

- (a) US\$550,000 upon execution and approval of the Regulatory Board of Medicinal Cannabis (Puerto Rico Department of Health) in respect of the transactions contemplated in the Natural Ventures Agreement; and
- (b) US\$4,050,000 payable in 36 installments of US\$112,500.

The completion of the sale and transfer of Natural Ventures’ operating assets in Puerto Rico to Prich is conditional upon receiving approval and authorization of the applicable governmental authorities, including, the approval of the Regulatory Board of Medicinal Cannabis (Puerto Rico Department of Health), and satisfactory due diligence of the operating assets of Natural Ventures by Prich.

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5. DISCONTINUED OPERATIONS (CONTINUED)

A summary of asset and liabilities held for sale for NVPR are below:

As at	September 30, 2020		June 30, 2020	
Current				
Cash	\$	354,626	\$	69,806
Amounts receivable (Note 14)		871,382		599,669
Prepays		53,537		68,284
Biological assets (Note 9)		2,348,434		1,842,848
Deposit		602,312		-
Inventory (Note 10)		950,113		517,110
	\$	5,180,404	\$	3,097,717
Non-current assets				
Deposits		139,994		682,850
Fixed Assets (Note 12)		1,720,441		1,723,669
Right of use asset		1,371,678		1,502,282
Investments		-		-
Intangible assets (Note 11)		-		-
Goodwill (Note 6)		1,657,486		1,756,413
Total non-current assets	\$	4,889,599	\$	5,665,214
TOTAL ASSETS	\$	10,070,003	\$	8,762,931
		-		-
LIABILITIES				
Current				
Accounts payable	\$	4,099,636	\$	2,599,636
Unearned revenue		52,063		52,063
Lease liability		470,945		592,742
		4,622,644		3,244,441
Long-term				
Lease liability - long term		968,467		968,467
TOTAL LIABILITIES	\$	5,591,111	\$	4,212,908
NET ASSETS	\$	4,478,892	\$	1,452,306

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5. DISCONTINUED OPERATIONS (CONTINUED)

Loss on discontinued operations for NVPR for the three months ended is below:

	September 30, 2020	September 30, 2019
Revenue	\$ 1,299,068	\$ 1,307,064
Cost of sales	(33,956)	(705,945)
	1,265,112	601,119
Bio asset adjustment	(69,601)	452,867
Gross Margin	1,195,511	1,053,986
General and administrative costs	(1,577,833)	(523,263)
Fair value adjustment upon HFS	(98,927)	-
Other items	-	(41,832)
Total income (loss)	\$ (481,249)	\$ 488,891
Other comprehensive loss	3,859	(185,319)
Comprehensive income (loss)	\$ (477,390)	\$ 303,572

Upon recognition as an asset held for sale, the Company recorded an impairment charge against NVPR goodwill of \$98,927 in accordance with IAS 36 and IFRS 5.

A summary of cash flows for NVPR for the three months ended is as follows:

	September 30, 2020	September 30, 2019
Net income	\$ 1,018,751	\$ 488,891
Non-cash items	98,927	-
Changes in non-cash working capital	(797,867)	(375,411)
Cash flows from operations	319,811	113,480
Cash used in investing activities	(34,991)	(3,306,003)
Cash from financing activities	-	3,127,776
Change in cash	284,820	(64,747)
Cash, beginning	69,806	134,553
Cash, end	\$ 354,626	\$ 69,806

In accordance with IFRS 5, the Company determined that the sale constituted a discontinued operation as the net assets are to be expected principally through a sale transaction rather than through continual use. The sale constitutes a complete disposal of the Natural Ventures - Puerto Rico CGU and a significant disposal within the GSRX CGU (Note 6).

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6. GOODWILL, ACQUISITIONS AND ACQUISITIONS PAYABLE

Goodwill arose over the acquisition of Natural Ventures and GSRX due to the benefit of expected revenue growth in Latin American 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 Company's goodwill arose on acquisitions and are summarized as follows:

GSRX Industries Inc.

	Natural Ventures		GSRX		Total
	<i>Puerto Rico</i>		<i>Puerto Rico</i>		
Net					
Balance, June 30, 2020	\$	3,557,713	\$	5,577,799	\$ 11,769,422
Transfer to Discontinued Operations (Note 5)		(3,557,713)		(5,577,799)	(11,769,422)
Balance, September 30, 2020	\$	-	\$	-	\$ -

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6. GOODWILL, ACQUISITIONS AND ACQUISITIONS PAYABLE (CONTINUED)

During the year ended June 30, 2020, the Company acquired GSRX. The acquisition of GSRX was accounted for as a business combination 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	\$	(4,811,188)
Company's share of net assets acquired		9,786,027
Goodwill	\$	5,577,799

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

Caribbean Green LLC

On September 9, 2019, Natural Ventures entered into an asset acquisition agreement to acquire three dispensaries in Puerto Rico for total payments of USD \$1,200,000, due in monthly installments of USD \$50,000. The closing of the agreement is subject to the Company successfully transferring the licenses into its name. This requires approval from the Puerto Rico Department of Health. As at September 30, 2020 this has not been completed. During the year ended June 30, 2020, the Company paid USD \$450,000 (\$615,000) and is included in deposits subject to the completion of the license transfer. As at September 30, 2020, the Company has recorded advances of \$USD339,860 (\$CAD 454,054) for operating purposes which was fully allowed for and recorded as expense in the statement of loss and comprehensive loss. As at September 30, 2020, the Company recorded USD \$450,000 (\$615,000), included in assets held for sale (Note 5).

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7. RIGHT OF USE ASSETS AND LEASE LIABILITIES

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

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

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

Cost		
Balance, June 30, 2020	\$	4,003,665
Effects of foreign exchange		625,137
Transfer to discontinued operations (Note 5)		(4,628,802)
Balance, September 30, 2020	\$	-
Accumulated depreciation		
Balance, June 30, 2020	\$	1,087,573
Depreciation		231,131
Transfer to discontinued operations		(1,318,704)
Balance, September 30, 2020	\$	-
Balance, June 30, 2020	\$	2,916,092
Balance, September 30, 2020	\$	-

The carrying value of the lease liabilities is as follows:

Lease liabilities		
Balance, June 30, 2020	\$	3,410,542
Interest		(396,707)
Repayments		114,713
Effects of foreign exchange		(125,218)
Balance, September 30, 2020		3,003,330
Less: Current portion transferred to liabilities held for sale (Note 5)		(951,350)
Lease liabilities, long term transferred to liabilities held for sale (Note 5)	\$	2,051,980

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8. INVENTORY

All inventory consists of finished goods Cannabis products held at our California dispensary.

9. INTANGIBLE ASSETS

Cost		License rights
Balance, June 30, 2020	\$	4,490,611
Transfer to Discontinued Operations (Note 5)		(2,727,986)
Balance, September 30, 2020	\$	1,762,625
Accumulated amortization		
Balance, June 30, 2020	\$	(2,438,837)
Additions		(226,540)
Transfer to Discontinued Operations (Note 5)		(945,562)
Balance, September 30, 2020	\$	(1,719,815)
Net, June 30, 2020	\$	2,051,774
Net, September 30, 2020	\$	42,810

The Company's license rights are summarized as follows:

La Finca

During the year ended June 30, 2019, the Company acquired a license in La Finca for \$100,000. The remaining balance on this license after accumulated amortization is \$42,810, the balance of remaining intangible assets above.

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 had a useful life of one year. Due to the disposal of the US – Puerto Rico CGU subsequent to September 30, 2019, these assets were reclassified to Assets Held for Sale (Note 5).

GSRX Licenses

GSRX operated 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. Due to the disposal of the US – Puerto Rico CGU subsequent to September 30, 2019, these assets were reclassified to Assets Held for Sale (Note 5). \$218,207 in amortization was transferred to net loss from discontinuing operations during the three months ended September 30, 2020.

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10. NON-CONTROLLING INTERESTS

A continuity of the Company's non-controlling interests is below:

	Natural Ventures		Kieley Growth		GSRX		SAP		Total
	Puerto Rico		United States		United States		United States		
Balance, June 30, 2020	\$	44,932	\$	99,679	\$	4,080,834	\$	-	\$ 4,225,445
Net loss		(96,250)		0		(806,260)		-	(902,510)
Other comprehensive loss		-		11,082		(5,881)		(262)	4,939
Balance, September 30, 2020	\$	(51,318)	\$	110,761	\$	3,268,693	\$	(262)	\$ 3,327,874

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

	Natural Ventures		Kieley Growth		GSRX		SAP		Total	
Total assets	\$	10,070,003	\$	-	\$	107,280	\$	-	\$	10,177,283
Total liabilities		4,622,644		127,716		242,818		12,722		5,005,900
Discontinued operations, net of tax		(481,249)		-		(2,391,753)		-		(2,873,002)
Net loss	\$	(481,249)	\$	-	\$	(2,391,753)	\$	-	\$	(2,873,002)

11. FIXED ASSETS

	Machinery and equipment		Leasehold improvements		Buildings		Construction in progress		Land		Total	
Cost												
Balance, June 30, 2020	\$	1,465,215	\$	2,175,189	\$	251,011	\$	918,168	\$	-	\$	4,809,583
Acquisition of GSRX												-
Additions				213,354				(213,354)				-
Transfer		(1,268,268)		(2,388,543)		(251,011)		(704,814)				(4,612,636)
Transfer to assets held for sale (Note 5)		196,947	\$	-	\$	-	\$	-	\$	-	\$	196,947
Balance, September 30, 2020	\$	1,465,215	\$	2,175,189	\$	251,011	\$	918,168	\$	-	\$	4,809,583
Depreciation												
Balance, June 30, 2019	\$	219,540	\$	334,793	\$	5,358	\$	-	\$	-	\$	559,691
Additions		(1,130)										(1,130)
Transfer to assets held for sale		(190,031)		(334,793)		(5,358)						(530,182)
Balance, September 30, 2020	\$	28,380	\$	-	\$	-	\$	-	\$	-	\$	28,380
Net book value												
June 30, 2020	\$	1,245,675	\$	1,840,396	\$	245,653	\$	918,168	\$	-	\$	4,249,892
September 30, 2020	\$	168,567	\$	-	\$	-	\$	-	\$	-	\$	168,567

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12. CONVERTIBLE DEBT

During the year ended June 30, 2020, the Company completed a convertible debt financing for total gross proceeds of \$1,455,080 (USD\$1,100,000). The convertible debentures bear interest at a rate of 10% per year and mature two years from the closing date. The convertible debentures are unsecured and are convertible, at the option of the holder, into common shares of the Company at a price of USD\$1.00 per common share. The debentures carry a derivative liability whereby the number of shares is fixed to the US dollar. The Company recognized a derivative liability of \$620,960 and re-measures the liability at the end of each reporting period using the Black-Scholes option pricing model.

The Company has the right to repay and cancel convertible debentures at any time prior to the maturity date at a price equal to 105% of the principal amount of the convertible debentures then outstanding plus accrued and unpaid interest thereon.

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.

As at September 30, 2020 and June 30, 2020, the fair value of the Company's derivative liability was \$nil.

The following table summarizes the Company's convertible debt:

Balance, June 30, 2020	\$	1,063,551
Accretion and interest		183,793
Foreign exchange		(74)
Balance, September 30, 2020	\$	1,247,270

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13. AMOUNTS RECEIVABLE

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

	September 30, 2020	June 30, 2020
Trade receivable	\$ -	\$ 681,484
GST	176,527	71,184
Balance	\$ 176,527	\$ 752,668

As of September 30, 2020, the Company recorded an allowance for doubtful accounts of \$nil (June 30, 2020 - \$728,274). If circumstances related to specific customers and related parties change, estimates of the recoverability of amounts receivable could also change.

14. SHAREHOLDERS' EQUITY

14.1 Authorized share capital

Unlimited number of common shares with no par value.

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

As at September 30, 2020, 688,072 common shares were held in escrow.

14.2 Issued share capital

Common shares issued and outstanding as at September 30, 2020 are 39,665,595 of which 729,187 common shares are classified as held internally and deducted from the consolidated statement of changes in equity. As at September 30, 2020, the Company held 688,072 common shares in escrow.

14.3 Warrants

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

	Warrants	Exercise Price
June 30, 2020	21,523,680	\$ 3.48
Issued	3,305,216	0.97
Exercised	(1,646,191)	0.41
September 30, 2020	23,182,705	\$ 3.34

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14. SHAREHOLDERS' EQUITY (CONTINUED)

14.3 Warrants (continued)

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

Expiry date	Warrants	Exercise Price
December 4, 2020	160,000	\$ 15.00
December 20, 2023	31,250	15.00
December 21, 2020	120,010	15.00
January 21, 2024	38,460	24.50
March 3, 2022	150,000	25.00
April 22, 2024	18,918	25.00
May 8, 2024	18,900	25.00
May 30, 2024	37,837	25.00
June 13, 2024	5,405	25.00
September 18, 2021	54,053	15.00
January 21, 2022	14,747,253	0.41
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
July 3, 2022	2,612,800	1.00
July 24, 2022	692,416	0.85
Balance, September 30, 2020	23,182,705	\$ 1.11

At September 30, 2020, the weighted-average remaining life of the outstanding warrants was 1.41 years (2020 – 2.37).

14.4 Options and share-based compensation

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

As at September 30, 2020 and June 30, 2020, 2,295,000 stock options were outstanding, which the weighted average remaining life of the outstanding options was 4.29 years (2019 - 4.53), expiring on January 12, 2025 at an exercise price of \$0.90.

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15. 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, 2020 and 2019 is summarized as follows:

	2020		2019	
Management fees	\$	259,125	\$	116,100
Share-based payments		75,863		-
Total	\$	334,988	\$	116,100

As at September 30, 2020, \$248,623 (June 30, 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 three months ended September 30, 2020, the Company paid \$81,000 (2019 - \$36,000) 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, 2020, the Company accrued \$37,500 (2019 - \$30,000) included in management fees to the CFO of the Company pursuant to CFO services provided, included in accounts payable and accrued liabilities.

During the three months ended September 30, 2020, the Company accrued \$81,000 (2019 - \$37,500) included in management fees to a director of the Company pursuant to director services provided, included in accounts payable and accrued liabilities.

During the three months ended September 30, 2020, the Company paid \$9,000 (2019 - \$9,000) included in consulting fees to the Corporate Secretary and Director and of the Company pursuant to corporate secretary and director services provided.

During the three months ended September 30, 2020, the Company paid \$50,625 (2019 - \$nil) included in consulting fees to the President and Director and of the Company pursuant to related services provided.

During the year ended June 30, 2020, the Company issued 2,350,000 RSUs to directors and officers of the Company with a fair value of \$2,078,591. Vesting of RSUs resulted in share-based payment expense of \$75,863 for the three months ended September 30, 2020 (2019 - \$nil). See Note 14.

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16. GENERAL AND ADMINISTRATION

General and administrative costs during the three months ended September 30 are as follows:

	2020	2019
Advertising and marketing	\$ 766,128	\$ 116,789
Consulting and payroll (Note 17)	42,793	76,783
Finders' fee	35,000	-
License and Permits	-	29,504
Management fees (Note 17)	259,125	116,100
Office and miscellaneous	33,423	69,036
Professional fees	402,417	463,611
Rent	15,000	187,724
Security	-	39,778
Transfer agent and filing fees	7,705	6,005
Travel	-	127,910
Utilities	-	75,089
	\$ 1,561,591	\$ 1,308,329

17. NON-CASH INVESTING AND FINANCING ACTIVITIES

See the following for non-cash note disclosures:

- i) Investment in GSRX (Note 6)
- ii) Right of use asset included in leases (Note 7)

18. RISK MANAGEMENT

18.1 Financial risk management

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

a. Capital risk

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

b. Credit risk

Credit risk is the risk that a counter party will be unable to pay any amounts owed to the Company. Management's assessment of the Company's exposure to credit risk is low. The maximum amount exposed to credit risk is equal to trade receivables (see Note 14).

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, 2020, the Company's working capital deficiency of \$1,677,400. 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.

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18. RISK MANAGEMENT (CONTINUED)

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

	Less Than 1 Year \$	Years 2 and 3 \$	Years 4 and 5 \$	More Than 5 Years \$	Total \$
Accounts payable and accrued liabilities	1,828,732	-	-	-	-
Lease liabilities (Note 6)	-	-	-	-	-
Liabilities held for sale (Note 5)	7,241,333	2,051,980	-	-	-
Convertible debt (Note 12)	1,247,270	-	-	-	-

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.

18.2 Fair values

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

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

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

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

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

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

	September 30, 2020	June 30, 2020
<i>Level 1</i>		
Cash	\$ 480,230	\$ 185,279
Cash held for sale (Note 5)	934,758	859,306

During the three months ended September 30, 2020 and 2019, there were no transfers between Level 1 and Level 2 fair value measurements and there were no transfers in and out of Level 3 fair value measurements.

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19. 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.

20. EQUITY FUNDING FACILITIES

On August 8, 2018, the Company entered into an equity financing agreement for up to \$25,000,000, with 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, 2020, the Company has drawn down \$750,000 (2019 - \$750,000) on the equity financing arrangement. Either party to this agreement has the right to terminate this agreement by providing ten business days written notice to the other party of its intention to do so.

On March 1, 2019 the Company entered into a \$10,000,000 share subscription agreement with GEM. The agreement provides that the Company may, at any time while the agreement is in effect, deliver a draw-down notice to GEM specify the number of common shares for which GEM will then have an obligation to subscribe up to a maximum of \$10,000,000. As of September 30, 2020, the Company drawn down \$778,000 (2019 - \$778,000) on this equity financing arrangement.

21. SEGMENTED REPORTING

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

	Assets \$	Liabilities \$	Revenues \$	Depreciation \$	Interest \$	Income tax recovery \$	Profit (loss) \$
Canada	807,274	2,595,128	-	12,721	(187,200)	-	(1,831,946)
United States - California							
<i>Manufacturing</i>	-	97,618	-	-	-	-	-
<i>Bulk CBD</i>	-	140,438	-	-	-	-	-
United States - Puerto Rico							
<i>Discontinued operations</i>							
– <i>NVPR</i>	10,070,003	5,591,111	1,299,068	-	-	-	(481,249)
<i>Discontinued operations</i>							
– <i>Project 1493</i>	11,376,135	3,702,202	3,658,956	-	-	-	(2,391,753)
Columbia	107,280	242,818	-	-	-	-	-
	22,360,692	12,369,315	4,958,024	12,721	(187,200)	-	(4,704,948)

*Revenues for the three months ended September 30, 2020 are included in loss from discontinued operations (Note 5).

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21. SEGMENTED REPORTING (CONTINUED)

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

Canada is the parent company with operations focused on governance and assets consisting of equipment. US-California revenues consists of manufacturing and extraction of THC oil sold to dispensaries. The assets of California were written off during the year ended June 30, 2020, as the market has taken a significant downturn.

Segmented disclosure above is presented in the same manner than management evaluates performance, net of intercompany eliminations. There were no such intercompany transactions during the period.

22. CONTINGENT LIABILITIES

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

- a) There is a claim against the Company for \$632,250 under the allegation that the Company triggered a cash payment which was never satisfied. The Company believes this claim to be without merit, and as such, no amounts were accrued as at September 30, 2020; and
- b) On July 14, 2020 notice was served to Pure and Natural One-TN, LLC, Pure and Natural Lakeway, LLC and the CFO of GSRX as defendants in a lawsuit filed by Southwest Legend Investments LLC, a member of the two companies. Plaintiff is seeking damages in excess of \$200,000 but less than \$1,000,000. The Company believes this claim to be without merit, and as such, no amounts were accrued as at September 30, 2020.

23. RESTATEMENT

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

The table below summarizes the impact of the restated consolidated financial statements for September 30, 2019:

		As previously reported	Restatement	Restated, September 30, 2019
INCOME STATEMENT				
Fair value change of derivative liability	\$	-	\$ (1,393,444)	\$ (1,393,444)
Interest - convertible debenture	\$	66,219	\$ 1,981	\$ 68,200
STATEMENT OF FINANCIAL POSITION				
Derivative Liability	\$	-	\$ (2,380,000)	\$ (2,380,000)
Convertible debt		(3,396,940)	2,333,389	(1,063,551)
Contributed Surplus		(17,873,286)	244,000	(17,629,286)
Deficit		(40,236,092)	(231,633)	(40,467,725)

These restatements resulted in no change to other comprehensive income nor earnings per share.

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24. SUBSEQUENT EVENTS

See Note 5.