FORM 5

QUARTERLY LISTING STATEMENT

Name of Listed Issuer: **Chemesis International Inc.** (the "**Issuer**")

Trading Symbol: **CSI**

This Quarterly Listing Statement must be posted on or before the day on which the Issuer's unaudited interim financial statements are to be filed under the *Securities* Act, or, if no interim statements are required to be filed for the quarter, within 60 days of the end of the Issuer's first, second and third fiscal quarters. This statement is not intended to replace the Issuer's obligation to separately report material information forthwith upon the information becoming known to management or to post the forms required by the Exchange Policies. If material information became known and was reported during the preceding quarter to which this statement relates, management is encouraged to also make reference in this statement to the material information, the news release date and the posting date on the Exchange website.

General Instructions

(a) Prepare this Quarterly Listing Statement using the format set out below. The sequence of questions must not be altered nor should questions be omitted or left unanswered. The answers to the following items must be in narrative form. When the answer to any item is negative or not applicable to the Issuer, state it in a sentence. The title to each item must precede the answer.

(b) The term "Issuer" includes the Listed Issuer and any of its subsidiaries.

(c) Terms used and not defined in this form are defined or interpreted in Policy 1 – Interpretation and General Provisions.

There are three schedules which must be attached to this report as follows:

SCHEDULE A: FINANCIAL STATEMENTS

Financial statements are required as follows:

For the first, second and third financial quarters interim financial statements prepared in accordance with the requirements under Ontario securities law must be attached.

If the Issuer is exempt from filing certain interim financial statements, give the date of the exempting order.

Unaudited condensed consolidated interim financial statements for the six-month period ended December 31, 2018, as filed with the securities regulatory authorities are attached to this Form 5 as Appendix "A".

SCHEDULE B: SUPPLEMENTARY INFORMATION

The supplementary information set out below must be provided when not included in Schedule A.

1. Related party transactions

Provide disclosure of all transactions with a Related Person, including those previously disclosed on Form 10. Include in the disclosure the following information about the transactions with Related Persons:

(a) A description of the relationship between the transacting parties. Be as precise as possible in this description of the relationship. Terms such as affiliate, associate or related company without further clarifying details are not sufficient.
(b) A description of the transaction(s), including those for which no amount has been recorded.
(c) The recorded amount of the transactions classified by financial statement category.
(d) The amounts due to or from Related Persons and the terms and conditions relating thereto.
(e) Contractual obligations with Related Persons, separate from other contractual obligations.
(f) Contingencies involving Related Persons, separate from other contingencies.

All related party transactions have been disclosed in the Issuer's financial statements for the interim period ended December 31, 2018. Please refer to Note 15 to the unaudited condensed consolidated interim financial statements for the six-month period ended December 31, 2018, attached hereto as Appendix "A". For information supplementary to that contained in the notes to the unaudited condensed consolidated interim financial statements with respect to related party transactions, please refer to the Management's Discussion and Analysis ("MD&A") for the six-month period ended December 31, 2018, as filed with the securities regulatory authorities and attached to this Form 5 as Appendix "B".

2. Summary of securities issued and options granted during the period.

Provide the following information for the period beginning on the date of the last Listing Statement (Form 2A):

All securities issued and options granted, if any, by the Issuer have been disclosed in the Issuer's financial statement notes for the interim period ended December 31, 2018.

(a) summary of securities issued during the period,

Date of Issue	Type of Security (common shares, convertible debentures, etc.)	Type of Issue (private placement, public offering, exercise of warrants, etc.)	Number	Price	Total Proceeds	Type of Consideration (cash, property, etc.)	Describe relationship of Person with Issuer (indicate if Related Person)	Commission Paid
November 8, 2018	Common Shares	Consulting Fees	15,026	$1.74 (deemed)	N/A	N/A	Unrelated	Nil
November 21, 2018	Common Shares	Asset Acquisition (license agreement)	282,500	$1.87 (deemed)	N/A	N/A	Unrelated	Nil
November 30, 2018	Common Shares	Business Acquisition (80% of Natural Ventures PR LLC)	2,235,246	$1.00 (deemed)	N/A	N/A	Unrelated	Nil
December 4, 2018	Convertible Debenture Units (1)	Private Placement	2,000	$1,000	$2,000,000	Cash	Two placees are insiders of Issuer	Nil
December 14, 2018	Common Shares	Exercise of Options	67,500	$1.00	$67,500	Cash	Unrelated	Nil
December 21, 2018	Convertible Debenture Units (1)	Private Placement	1,500	$1,000	$1,500,000	Cash	Unrelated	Nil

(1) Each convertible debenture unit consists of (i) $1,000 principal amount of senior unsecured convertible debentures of the Issuer; and (ii) 800 common share purchase warrants of the Issuer (each, a "Warrant"), whereby each Warrant is exercisable for one common share in the capital of the Issuer at an exercise price of $1.50 for a period of 24 months from issuance.

(b) summary of options granted during the period,

Date	Number	Name of Optionee if Related Person and relationship	Generic description of other Optionees	Exercise Price	Expiry Date	Market Price on date of Grant
November 6, 2018	300,000	Unrelated Persons	Consultants	$1.40	November 6, 2023	$1.74

3. Summary of securities as at the end of the reporting period.

Provide the following information in tabular format as at the end of the reporting period:

(a) description of authorized share capital including number of shares for each class, dividend rates on preferred shares and whether or not cumulative, redemption and conversion provisions,

Description	Number Authorized	Par Value
Common Shares	Unlimited	NPV

(b) number and recorded value for shares issued and outstanding,

Description	Number Issued and Outstanding	Value
Common Shares	67,235,250	$38,042,108

(c) description of options, warrants and convertible securities outstanding, including number or amount, exercise or conversion price and expiry date, and any recorded value, and

Description	Number Outstanding	Exercise Price	Expiry Date
Stock Options	150,000	$1.00	September 18, 2019
Stock Options	350,000	$0.50	June 9, 2022
Stock Options	250,000	$1.10	August 18, 2022
Stock Options	4,550,000	$1.00	July 22, 2023
Stock Options	200,000	$1.74	September 27, 2023
Stock Options	300,000	$1.40	September 27, 2023
TOTAL	**5,800,000**		

Warrants	4,580,282	$1.00	August 3, 2019
Warrants	1,600,000	$1.50	December 4, 2020
Warrants	1,200,000	$1.50	December 21, 2020
TOTAL:	**7,380,282**		

(d) number of shares in each class of shares subject to escrow or pooling agreements or any other restriction on transfer.

Description	Number	Number Released During the Period
Escrowed Shares	20,906,465	88,107

4. List the names of the directors and officers, with an indication of the position(s) held, as at the date this report is signed and filed.

Name	Position
Edgar Montero	Chief Executive Officer, Director
Brian Thurston	Corporate Secretary, Director
Eli Dusenbury	Chief Financial Officer
Aman Parmar	Director
Mike Aujla	Director

SCHEDULE C: MANAGEMENT DISCUSSION AND ANALYSIS

Provide Interim MD&A if required by applicable securities legislation.

Management's Discussion and Analysis ("MD&A") for the six-month period ended December 31, 2018, attached to this Form 5 as Appendix "B".

Certificate of Compliance

The undersigned hereby certifies that:

1. The undersigned is a director and/or senior officer of the Issuer and has been duly authorized by a resolution of the board of directors of the Issuer to sign this Quarterly Listing Statement.

2. As of the date hereof there is no material information concerning the Issuer which has not been publicly disclosed.

3. The undersigned hereby certifies to the Exchange that the Issuer is in compliance with the requirements of applicable securities legislation (as such term is defined in National Instrument 14-101) and all Exchange Requirements (as defined in CNSX Policy 1).

4. All of the information in this Form 5 Quarterly Listing Statement is true.

Dated: March 1, 2019

Eli Dusenbury
Name of Director or Senior Officer

/s/ Eli Dusenbury
Signature

Chief Financial Officer
Official Capacity

Issuer Details Name of Issuer Chemesis International Inc.	For Quarter Ended December 31, 2018	Date of Report YY/MM/DD 19/03/01
Issuer Address Suite 2710, 200 Granville Street		
City/Province/Postal Code Vancouver, British Columbia, V6C 1S4	Issuer Fax No. Not Applicable	Issuer Telephone No. 604-398-3378
Contact Name Eli Dusenbury	Contact Position Chief Financial Officer	Contact Telephone No. 604-398-3378
Contact Email Address ir@chemesis.com	Web Site Address https://chemesis.com/	

APPENDIX “A”

CHEMESIS INTERNATIONAL INC.
(Formerly Canadian Mining Corp.)

Condensed Consolidated Interim Financial Statements
For the six months ended December 31, 2018

(Unaudited - Expressed in Canadian Dollars)

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 six months ended December 31, 2018 have not been reviewed or audited by the Company's independent auditors. All amounts are stated in Canadian Dollars.

Chemesis International Inc.
(formerly Canadian Mining Corp.)
Condensed Consolidated Interim Statement of Financial Position
As at December 31, 2018
(Expressed in Canadian dollars)

As at		December 31, 2018 (Unaudited)		June 30, 2018 (audited)
ASSETS				
Current Assets				
Cash	$	1,102,844	$	1,030,284
Prepaids		171,269		50,598
Inventory (Note 5)		729,236		-
Promissory notes receivable (Note 6)		26,939		-
Amounts receivable (Note 7)		405,540		-
		2,435,828		1,080,882
Non-current assets				
Deposits		70,971		125,656
Equipment (Note 9)		1,888,402		657,752
Leasehold improvements (Note 9)		4,547,751		1,552,595
Exploration and evaluation assets (Note 8)		113,319		-
Intangible assets (Note 10)		1,433,173		-
Goodwill (Note 10, 11)		4,471,440		-
Total non-current assets		12,525,056		2,336,003
TOTAL ASSETS	$	14,960,884	$	3,416,885
LIABILITIES				
Current				
Accounts payable and accrued liabilities	$	1,571,493	$	206,642
Excise tax payable		639,747		-
Convertible debt (Note 12)		3,081,809		-
		5,293,049		206,642
SHAREHOLDERS' EQUITY				
Share capital (Note 13)		38,042,108		3,800,000
Equity portion of convertible debt (Note 12)		244,000		-
Contributed surplus		3,466,406		-
Accumulated other comprehensive income		(346,630)		38,600
Deficit		(31,177,620)		(345,163)
Equity attributable to 1145411 B.C. Ltd.		10,228,264		3,493,437
Non-controlling interest		(560,429)		(283,194)
Total equity		9,667,835		3,210,243
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$	14,960,884	$	3,416,885

Subsequent events (Note 21)
Going concern (Note 2)

These condensed consolidated interim financial statements were authorized for issue by the Board of Directors on March 1, 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.
(formerly Canadian Mining Corp.)
Condensed Consolidated Interim Statement of Loss and Comprehensive Loss
For the three and six months ended December 31, 2018
(Unaudited - Expressed in Canadian dollars)

		For the three months ended December 31, 2018		For the period from incorporation to December 31, 2017		For the six months ended December 31, 2018		For the period from incorporation to December 31, 2017
REVENUES	$	2,820,105	$	-	$	4,739,135	$	-
COST OF GOODS SOLD		(2,319,002)		-		(4,117,003)		-
GROSS PROFIT		501,103		-		622,132		-
EXPENSES								
Advertising and marketing		686,504		-		988,810		-
Consulting (Note 15)		163,297		6,325		516,091		6,325
Depreciation		528,966		-		533,917		-
Office and miscellaneous		76,751		-		172,243		-
Payroll		98,115		-		193,115		-
Professional fees		429,148		-		648,048		-
Rent		251,104		12,647		486,208		12,647
Security		117,673		-		117,673		-
Share-based payments (Note 13, 15)		323,722		-		2,567,302		-
Transfer agent and filing fees		66,194		-		96,547		-
Travel		98,564		-		139,327		-
TOTAL OPERATING EXPENSES		(2,840,038)		(18,972)		(6,495,281)		(18,972)
OTHER ITEMS:								
Interest expense		(11,866)		-		(11,866)		-
Interest income (write-off)		(4,081)		-		20,547		-
Listing acquisition expense (Note 13, 14)		-		-		(25,278,174)		-
Foreign exchange loss		18,902		(10,342)		11,639		(10,342)
		2,955		(10,342)		(25,257,854)		(10,342)
NET LOSS FOR THE PERIOD	$	(2,335,980)	$	(29,314)	$	(31,095,003)	$	(29,314)
OTHER COMPREHENSIVE LOSS								
Items that may be subsequently reclassified to loss for the year								
Cumulative translation adjustment		578,625		-		603,683		-
COMPREHENSIVE LOSS	$	(1,757,355)	$	(29,314)	$	(30,491,320)	$	(29,314)
NET LOSS ATTRIBUTABLE TO:								
Chemesis International Inc.	$	(2,171,361)	$	(20,018)	$	(30,832,457)	$	(20,018)
Non-controlling interest		(164,619)		(9,296)		(262,546)		(9,296)
		(2,335,980)		(29,314)		(31,095,003)		(29,314)
COMPREHENSIVE LOSS ATTRIBUTABLE TO:								
Chemesis International Inc.		(1,578,763)		(20,018)		(30,214,085)		(20,018)
Non-controlling interest		(178,592)		(9,296)		(277,235)		(9,296)
	$	(1,757,355)	$	(29,314)	$	(30,491,320)	$	(29,314)
Loss per share, basic and diluted	$	(0.03)	$	(523)	$	(0.50)	$	(523)
Weighted average number of common shares outstanding		65,038,620		56		60,593,826		56

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

Chemesis International Inc.
(formerly Canadian Mining Corp.)
Condensed Consolidated Interim Statement of Changes in Equity
For the period from incorporation to December 31, 2017 and the six months ending December 31, 2018
(Unaudited - Expressed in Canadian dollars)

	Share Capital							
	Number	Amount	Equity portion of convertible debt	Contributed surplus	Accumulated other comprehensive income	Deficit	Non-Controlling Interest	Total Equity
		$	$	$	$	$	$	$
December 15, 2017	-	-	-	-	-	-	-	-
Common shares issued for cash	100	3,800,000	-	-	-	-	-	3,800,000
December 31, 2017	100	3,800,000	-	-	-	-	-	3,800,000
Net loss for the year	-	-	-	-	-	(345,163)	(320,281)	(665,444)
Other comprehensive income	-	-	-	-	38,600	-	37,087	75,687
June 30, 2018	100	3,800,000	-	-	38,600	(345,163)	(283,194)	3,210,243
Cancelled shares	(100)	-	-	-	-	-	-	-
Chemesis opening balance Chemesis shares	16,040,076	-	-	-	-	-	-	-
Shares issued on reverse takeover (Note 13, 14)	46,807,559	28,552,611	-	-	-	-	-	28,552,611
Business acquisitions (Note 11)	2,952,996	4,440,356	-	-	-	-	-	4,440,356
Asset acquisitions (Note 10)	947,137	754,517	-	463,047	-	-	-	1,217,564
Shares issued for consulting fees (Note 13)	369,982	372,124	-	-	-	-	-	372,124
Options exercised (Note 13)	117,500	122,500	-	-	-	-	-	122,500
Share-based payments (Note 13)	-	-	-	2,567,302	-	-	-	2,567,302
Convertible debt (Note 12)	-	-	244,000	186,057	-	-	-	430,057
Subscriptions received (Note 13)	-	-	-	250,000	-	-	-	250,000
Net income	-	-	-	-	-	(30,832,457)	(262,546)	(31,095,003)
Other comprehensive income	-	-	-	-	(385,230)	-	(14,689)	(399,919)
December 31, 2018	67,235,250	38,042,108	244,000	3,466,406	(346,630)	(31,177,620)	(560,429)	9,667,835

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

Chemesis International Inc.
(formerly Canadian Mining Corp.)
Condensed Consolidated Interim Statement of Cash Flows
For the six months ended December 31, 2018
(Unaudited - Expressed in Canadian dollars)

		For the six months ended December 31, 2018		For the period from incorporation to December 31, 2017
Cash (used in) provided by:				
OPERATING ACTIVITIES				
Net loss for the period	$	(31,095,003)	$	(29,314)
Items not involving cash:				
Foreign exchange		-		(389)
Listing acquisition expense		25,278,174		-
Share-based payments		2,567,302		-
Shares issued for consulting fees		372,124		-
Accrued interest		11,866		-
Depreciation		533,917		-
Net changes in non-cash working capital items:				
Prepaids		(95,846)		-
Inventory		(365,201)		-
Amounts receivable		(121,251)		-
Amounts payable		1,111,770		142,816
Net cash used in operating activities		(1,802,148)		113,113
INVESTING ACTIVITIES:				
Deposits		96,416		-
Exploration and evaluation assets		(4,438)		-
Cash received on acquisition		2,725,638		126
Cash paid on acquisition		(3,633,419)		-
Purchase of intangible assets		(238,262)		-
Purchase of equipment and leasehold improvements		(1,276,283)		(124,109)
Net cash used in investing activities		(2,330,348)		(123,983)
FINANCING ACTIVITIES:				
Proceeds from issuance of common shares		122,500		3,800,000
Proceeds from subscriptions received		250,000		-
Proceeds from convertible debt		3,500,000		-
Cash provided by financing activities		3,872,500		3,800,000
Effect of exchange rate changes		332,556		265
Net increase (decrease) in cash		72,560		3,789,395
Cash, beginning of period		1,030,284		-
Cash, end of period	$	1,102,844	$	3,789,395

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

1. NATURE OF OPERATIONS

Chemesis International Inc. (formerly Canadian Mining Corp.) ("Chemesis") was incorporated on April 26, 2013 and was a wholly-owned subsidiary of International Zeolite Corp. Chemesis' registered records office is 1212 Austin Avenue, Coquitlam, British Columbia V3K 3P5 and the corporate head office is at 2710 – 200 Granville Street, Vancouver, BC V6C 1S4. During fiscal 2017, Chemesis was spun out pursuant to a plan of arrangement as disclosed in Note 14. On June 5, 2017, Chemesis began trading on the TSX Venture Exchange under the symbol CNG.

On July 17, 2018, Chemesis completed a reverse takeover transaction ("RTO") with 1145411 BC Ltd. (the "Company" or "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. These financial statements include the historical consolidated financial information of 1145411 up to the completion of the RTO. 1145411 was incorporated under the laws of British Columbia on December 15, 2017 and as such, the comparative periods for the consolidated statement of loss and comprehensive loss and the consolidated statement of cash flows are not presented.

As the former shareholders of 1145411 owned a majority interest in Chemesis immediately after closing, the substance of the transaction, for accounting purpose, is a reverse merger. The transaction does not constitute a business combination as the Company does not meet the definition of a business as defined under IFRS. As a result, the transaction will be accounted for as a capital transaction in substance, with 1145411 being identified as the acquirer.

1145411 is the owner of 100% of the issued and outstanding capital stock of Bonhomie Labs Inc., a California corporation ("Bonhomie"). Bonhomie is the owner of 80% of the issued and outstanding capital stock of SAP Global, a California corporation ("SAP"). SAP is the holder of various licenses and permits that allow it to legally operate cannabis businesses in the State of California.

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. As a result of the share consolidation, the 32,080,152 common shares issued and outstanding were consolidated to 16,040,076 common shares. All information in these consolidated financial statements is presented on a post-share consolidation basis, including the number and exercise price of all share options and warrants.

The shares issued to 1145411 were issued on a post-consolidation basis. Concurrent with the transaction, the Company changed its name to Chemesis International Inc. and started trading on the Canadian Securities Exchange ("CSE") under the symbol "C.CSI".

Chemesis changed its business focus from mineral exploration to the continuation of 1145411's business of pursuing opportunities in the cannabis industry.

Pursuant to the reverse acquisition transaction, CNG will also change its name to Chemesis International Inc. ('Chemesis') and has de-listed from TSX-V and has listed its shares on the Canadian Stock Exchange ('CSE'). Chemesis will also change its business focus from mineral exploration to the continuation of the Company's business of pursuing opportunities in the cannabis industry.

2. GOING CONCERN

The Company has begun to earn operating revenue, however, is still dependent upon the receipt of equity and/or debt financing on terms which are acceptable to it.

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. 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. Management is aware, in making its assessment, of material uncertainties related to events or conditions that cast significant doubt upon the Company's ability to continue as a going concern.

3. BASIS OF PRESENTATION

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

3.1. Basis of measurement

These consolidated financial statements have been prepared using the measurement basis specified by IFRS for each type of asset, liability, revenue and expense. Certain items are stated at fair value.

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.

3. BASIS OF PRESENTATION (CONTINUED)

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.

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.

Critical Accounting Estimates

Inventory

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

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

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 is affected by judgments about impairment indicates 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.

Share-based payments

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

3. BASIS OF PRESENTATION (CONTINUED)

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.

Exploration and evaluation properties and impairment

The Company is required to make significant judgments regarding the capitalization of the costs incurred in respect to its exploration and evaluation properties. The Company is also required to make significant judgments on the ongoing feasibility of mineral exploration, and whether there are indicators that the development of a specific area is unlikely, and exploration and evaluation properties should be impaired. Management has assessed impairment indicators on the Company's exploration and evaluation properties and has concluded that no impairment indicators existed as of December 31, 2018.

3.3 Basis of consolidation

These consolidated financials incorporate the financial statements of the Company and its wholly controlled subsidiaries, Chemesis Latin America, 1145411 BC Ltd., Dessert Zen LLC, Bonhomie Labs LLC. Bonhomie also holds an 80% interest in SAP Global Inc. ("SAP") and the Company holds 80% interest in Natural Ventures PR LLC. Dessert Zen, Bonhomie Labs and SAP, are incorporated in the State of California, USA and Natural Ventures PR LLC is incorporated in the USA territory of Puerto Rico. Control exists when the parent company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as 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 interest. 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

4.1 Exploration and Evaluation Assets

(i) Pre-license costs:

Costs incurred before the Company has obtained the legal right to explore are expensed as incurred.

(ii) Exploration and evaluation costs:

Once the legal right to explore has been acquired, exploration and evaluation expenditures are capitalized as incurred, unless future economic benefit is not expected to be realized. The Company capitalizes, on a property by property basis, the costs of acquiring, maintaining its interest in, and exploring and evaluating mineral properties until such time as the lease expires, it is abandoned, sold or considered impaired in value. Indirect administrative costs are expensed as incurred. Exploration and evaluation properties are not depreciated during the exploration and evaluation stage.

Recovery of capitalized costs is dependent on successful development of economic mining operations or the disposition of the related mineral property.

Although the Company has taken steps to verify title to mineral properties in which it has an interest, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers, non-compliance with regulatory requirements or title may be affected by undetected defects.

4.2 Decommissioning and Restoration

The Company is subject to various governmental laws and regulations relating to the protection of the environment. The environmental regulations are continually changing and are generally becoming more restrictive.

Decommissioning and restoration obligations encompass legal, statutory, contractual or constructive obligations associated with the retirement of a long-lived tangible asset (for example, mine reclamation costs) that results from the acquisition, construction, development and/or normal operation of a long-lived asset. The retirement of a long-lived asset is reflected by an other-than-temporary removal from service, including sale of the asset, abandonment or disposal in some other manner.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The fair value of a liability for decommissioning and restoration is recorded in the period in which the obligation first arises. The Company records the estimated present value of future cash flows associated with site closure and reclamation as a long-term liability and increases the carrying value of the related assets for that amount. Over time, the liability is increased to reflect an interest element in the estimated future cash flows (accretion expense) considered in the initial measurement of fair value. The capitalized cost is depreciated on either the unit-of-production basis or the straight-line basis, as appropriate. The Company's estimates of its provision for decommissioning and restoration obligations could change as a result of changes in regulations, changes to the current market-based discount rate, the extent of environmental remediation required, and the means of reclamation or cost estimates. Changes in estimates are accounted for in the period in which these estimates are revised.

As at December 31, 2018, the Company has determined that it does not have any decommissioning and restoration obligations related to current or former operations.

4.3 Impairment of Non-Financial Assets

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

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

Intangibles with a finite useful life are amortized on the straight-line method unless the pattern in which the economic benefits of the intangible asset are consumed or used up are reliably determinable. The Company evaluates the remaining useful life of intangible assets each reporting period to determine whether any revision to the remaining useful life is required. If the remaining useful life is changed, the remaining carrying amount of the intangible asset will be amortized prospectively over the revised remaining useful life. Licenced rights are amortized on a straight-line basis over 20 years.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

4.4 Goodwill

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

4.5 Revenue Recognition, Accounts Receivable and Allowance for Doubtful Accounts

The Company recognizes product sales when it is probable that the economic benefits will flow to the Company, the goods are received by the customers and the significant risks and benefits of ownership are transferred, the price is fixed or determinable and collection of the resulting receivable is reasonably assured. Revenue is measured based on the price specified, net of sales commissions expenses, trade discounts and estimated returns at the time of sale. Historical experience is used to estimate allowances for returns.

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

4.6 Inventory

Inventory is stated at the lower of cost and net realizable value. Cost is determined using the weighted average method, which under the circumstances, management believes will provide for the most practical basis for the measurement of periodic income. Management periodically reviews inventory for slow moving or obsolete items and considers realizability based on the Company's marketing strategies and sales forecasts to determine if an allowance is necessary. If net realizable value is below cost, then an allowance is created to adjust the carrying amount of inventory.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.7 Impairment of tangible and intangible assets

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

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

4.8 Equipment and Leasehold improvements

Equipment items are carried at cost less accumulated depreciation and accumulated impairment losses. In the year of acquisition, depreciation is recorded at one-half the normal rate. Depreciation is recognized using the declining balance method at the following annual rates:

Equipment	Declining-Balance	10%
Vehicles	Declining-Balance	10%
Leasehold Improvements	Declining-Balance	20%

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.9 Provisions

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

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

4.10 Income Taxes

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

4.11 Share capital

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

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

4.12 Share-based Payments

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

4.13 Related Party Transactions

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

4.14 Earnings (Loss) per Share

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.15 Financial Instruments - Recognition and Measurement

The following is the Company's new accounting policy for financial instruments under IFRS 9:

(i) Classification

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

The Company completed a detailed assessment of its financial assets and liabilities as at July 1, 2018. The following table shows the original classification under IAS 39 and the new classification under IFRS 9:

Financial assets/liabilities	Original classification IAS 39	New classification IFRS 9
Cash	FVTPL	FVTPL
Accounts receivable	Loans and receivables	Amortized cost
Promissory notes receivable	Loans and receivables	Amortized cost
Deposits	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Loans and receivables	Amortized cost
Convertible debt		Amortized cost

The Company did not restate prior periods as it recognized the effects of retrospective application to shareholders' equity at the beginning of the 2019 annual reporting period, which also includes the date of initial application. The adoption of IFRS 9 resulted in no impact to the opening accumulated deficit nor to the opening balance of accumulated other comprehensive income on July 1, 2018.

(ii) Measurement

Financial assets and liabilities at amortized cost.

Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets and liabilities at FVTPL Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the consolidated statements of loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the consolidated statements of loss in the period in which they arise.

(iii) Impairment of financial assets at amortized cost.

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

(iv) Derecognition

Financial assets

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

(v) Compound financial instruments

Compound financial instruments issued by the Company comprise convertible debentures that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value.

The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially as the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts. Share Purchase Warrants issued in conjunction with a convertible debt are allocated a proportion value of the equity component and included within contributed surplus.

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.16 Share Issuance Costs

Share issuance costs, which include commissions, facilitation payments, professional fees and regulatory fees, are charged directly to share capital. Share issue costs incurred from the issuance of flow-through shares are charged directly to share capital and expense in proportion to the value of the Company's shares at time of issue and any flow-through share premium.

4.17 Comprehensive Income (Loss)

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

4.18 Foreign Currency Translation

Functional currency

Items included in the consolidated financial statements of the Company's subsidiaries are measured using the currency of the primary economic environment in which the entity operates (the "functional currency").

Transactions and balances

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

Subsidiaries

The results and financial position of the Company's subsidiaries that have a functional currency different from the Company's presentation currency are translated into the presentation currency as follows:

- Assets and liabilities are translated at the closing rate at the reporting date;
- Income and expenses are translated at average exchange rates for the period;
- Equity is translated using historical rates; and
- All resulting exchange differences are recognised in other comprehensive income as foreign currency translation adjustments.

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

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.19 Changes in Significant Accounting Policies

Accounting standard anticipated to be effective

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, 2018, 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.

IFRS 16, *Leases*, specifies how an entity will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17 Leases. IFRS 16 is effective for years beginning after January 1, 2019. The Company does not anticipate the adoption of this standard to have a significant impact on the Company's consolidated financial statements.

Accounting standard adopted during the period

IFRS 9, Financial Instruments, The Company adopted all of the requirements of IFRS 9 Financial Instruments ("IFRS 9") as of July 1, 2018. IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 utilizes a revised model for recognition and measurement of financial instruments and a single, forward-looking "expected loss" impairment model. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9, so the Company's accounting policy with respect to financial liabilities is unchanged. As a result of the adoption of IFRS 9, management has changed its accounting policy for financial assets retrospectively, for assets that continued to be recognized at the date of initial application. The change did not impact the carrying value of any financial assets or financial liabilities on the transition date.

5. INVENTORY

As at December 31, 2018, the Company's inventory balance consists of raw goods and supplies. During the six months ended December 31, 2018, the Company expensed $4,117,003 of inventory included within cost of goods sold.

(Expressed in Canadian dollars)

6. PROMISSORY NOTES RECEIVABLE

During the year ended June 30, 2018, Chemesis entered into a memorandum of understanding (the "MOU") with Natural Ventures PR LLC ("Natural Ventures"). Natural Ventures holds various licenses that allow it to legally operate Cannabis business in the U.S. territory of Puerto Rico. The MOU states that, upon completion of the agreement, the Company will pay US$2,250,000 for 62.5% of all the issued and outstanding shares of Natural Ventures and will issue common shares equal to US$1,682,085 for a further 17.5% bringing the total ownership to 80%. The Company will also loan up to US$750,000 to Natural Ventures as part of a secured promissory note. If the secured promissory note is not paid back within the first year, it will accrue interest at 5% per year, calculated annually. As at June 30, 2018, the Company had loaned US$550,000 in connection with the MOU. On November 9, 2018, the Company acquired Natural Ventures and this loan receivable has been eliminated on consolidation.

During the year ended June 30, 2018, Chemesis entered into a letter of intent ("LOI") with Crust Resources Corp. ("Crust"). In connection with the LOI, the Company loaned Crust $25,000. The loan accrues interest at 5% per year, calculated annually.

The Company's loan receivable is summarized as follows:

	December 31, 2018	June 30, 2018
Crust Resources Corp.	$ 25,000	-
Accrued interest	1,939	
	$ 26,939	-

7. AMOUNTS RECEIVABLE

Amounts receivable as of December 31, 2018 consist of:

	December 31, 2018	June 30, 2018
GST	$ 36,926	-
Trade receivable	366,054	-
Other receivables	2,560	-
Balance at December 31, 2018	$ 405,540	-

(Expressed in Canadian dollars)

8. EXPLORATION AND EVALUATION ASSETS

The Company has 171 mineral claims in the vicinity of the Harcuvar and Harquahala Mountains, Yavapai County, Arizona, United states.

On November 29, 2018, the Company entered into an arrangement agreement with IMC International Mining Corp. ("IMC") pursuant to which the Company will spin out its various interests in mineral claims located in the vicinity of the Harcuvar and Harquahala Mountains, Yavapai County, Arizona (the "Bullard Pass Property") into IMC through a Plan of Arrangement under the Business Corporations Act. Upon completion of the Arrangement, IMC will own 100% of the Bullard Pass Property. As a result of the Arrangement, Shareholders will receive one-twentieth of one IMC Common Share for every Chemesis Common Share held as of December 9, 2018 (the "Record Date"), and own all of the outstanding IMC Common Shares, post-Arrangement. The Shareholders will receive one-twentieth of one IMC option and warrant for every Chemesis option and warrant held as at the Record Date. The spin out was completed subsequent to period end.

A summary of the capitalized acquisition and exploration expenditures and accumulated totals for the six months ending December 31, 2018 are as follows:

	Amount ($)
Balance at June 30, 2018	$ -
Balance at July 17, 2018, RTO date	108,881
Additions during the period:	
Claim fees	4,438
Balance at December 31, 2018	$ 113,319

(Expressed in Canadian dollars)

9. EQUIPMENT AND LEASEHOLD IMPROVEMENTS

	Equipment	Vehicles	Leasehold improvements	Total
Cost				
Balance, December 15, 2017	$ -	$ -	$ -	$ -
Additions	787,905	-	1,552,595	2,340,500
Write-down	(130,034)	-	-	(130,034)
Balance, June 30, 2018	$ 657,871	$ -	$ 1,552,595	$ 2,210,466
Additions	1,725,327	16,468	2,995,156	4,736,951
Balance, December 31, 2018	$ 2,383,198	$ 16,468	$ 4,547,751	$ 6,947,417
Depreciation				
Balance, December 15, 2017	$ -	$ -	$ -	$ -
Additions	119	-	-	119
Balance, June 30, 2018	$ 119	$ -	$ -	$ 119
Additions	510,506	639	-	511,145
Balance, December 31, 2018	$ 510,625	$ 639	$	$ 511,264
Net, June 30, 2018	**$ 657,752**	**$ -**	**$ 1,552,595**	**$ 2,210,347**
Net, December 31, 2018	**$ 1,872,573**	**$ 15,829**	**$ 4,547,751**	**$ 6,436,153**

As at December 31, 2018, the Company's leasehold improvements were still under construction and modification and are not yet ready for operations. As such, depreciation expense has only been recorded on equipment and vehicles in use.

During the period ended June 30, 2018, the Company wrote-off equipment totalling $130,034 due to a change in regulations resulting in the equipment no longer usable in operations.

10. INTANGIBLE ASSET AND GOODWILL

Intangible Asset

	License Rights
Cost	
Balance, June 30, 2018	$ -
Additions	1,455,826
Balance, December 31, 2018	1,455,826
Depreciation	
Balance, June 30, 2018	$ -
Additions	22,653
Balance, December 31, 2018	$ 22,653
Net, June 30, 2018	**$ -**
Net, December 31, 2018	**$ 1,433,173**

(Expressed in Canadian dollars)

10. INTANGIBLE ASSET AND GOODWILL (CONTINUED)

The Company's license rights are summarized as follows:

On July 20, 2018, the Company issued 664,637 common shares measured at a fair value of $0.55 per common share pursuant to an acquisition of licensed rights from SAP. Such rights include, Assignor is the brand name, trade name, and trade marks together with all of the patents, patent applications, and inventions.

On October 12, 2018 the Company acquired the license rights from Rapid Dose Therapeutics Inc. ("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, the Company receives rights to produce, distribute, and sell QuickStrip products, with rights for cannabis markets in California. The Company paid $130,570 and issued shares to settle USD$300,000 (subsequently issued), measured at a fair value of $390,480 and included in contributed surplus.

On November 14, 2018 Chemesis entered a multi-year licensing deal with Kevin Smith and Jason Mewes (Jay and Silent Bob) for the development and promotion of cannabis products in the US. The Company will pay an initial fee of USD$50,000 (Paid) on signing and three payments of USD$25,000 (Paid one of three) on each of the three-month anniversaries of signing. In Addition, the Company will issue common shares worth USD$400,000 on signing (issued) and USD$150,000 in stock on each annual anniversary. Additional payments for up to a total of USD$600,000 in stock may be payable on the date certain states in the USA legalize marijuana. All shares are based on the 5-day volume-weighted average prices on the date the shares become payable. The Company will owe a 12% royalty on sales related to the Jay and Silent Bob brand with a minimum royalty of USD$120,000 each year of the license term.

Goodwill

	Natural Ventures	**Dessert Zen**	
Cost	(Note 11)	(Note 11)	
Balance, June 30, 2018	$ -	$ -	$ -
Additions	3,625,324	846,116	4,471,440
Balance, December 31, 2018	$ 3,625,324	$ 846,116	$ 4,471,440

(Expressed in Canadian dollars)

11. ACQUISITIONS

During the six months ended December 31, 2018, goodwill arose over the acquisition of Dessert Zen and Natural Ventures due to the benefit of expected revenue growth in North 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 with arms-length parties.

Dessert Zen

On August 10, 2018, the Company acquired 100% of the shares of Desert Zen for USD$200,000 cash paid upon closing, as well as USD$500,000 in stock escrowed over 36 months. This transaction was accounted for as a business combination. The consideration paid in excess of the net assets of the acquired business was $846,116 and is recognized in goodwill, summarized as follows:

Cash	$ 5,690
Accounts receivable	84,719
Total assets	$ 90,409
Current liabilities	79,866
Net assets acquired	$ 10,543
Consideration	856,659
Goodwill (Note 10)	$ 846,116

Bonhomie

During the period ended June 30, 2018, the Company acquired 100% of the issued and outstanding shares of Bonhomie for $100.

Bonhomie holds a 51% controlling interest in SAP. On July 19, 2018, the Company increased its ownership in SAP from 51% to 80%.

At the date of the Company's acquisition of Bonhomie, the only assets and liabilities of SAP were related to the recent acquisition, by SAP, of interests in certain assets as to Leaseholds of $208,556 and Equipment of $365,472, based on the expectation that the liabilities incurred for these items would then be settled with subsequent advances from the Company (completed). Accordingly, at the date of the Company's acquisition of Bonhomie, SAP was considered to have net identifiable assets of $nil.

(Expressed in Canadian dollars)

11. ACQUISITIONS (CONTINUED)

Natural Ventures

On November 9, 2018, the Company acquired 80% of Natural Ventures for cash payment of USD$2,250,000 (paid), as well as USD$1,682,085 in stock escrowed over 36 months. This transaction was accounted for as a business combination. The consideration paid in excess of the net assets of the acquired business was $3,625,324 and is recognized in goodwill, summarized as follows:

Cash	$	227,884
Accounts receivable		198,321
Inventory		364,035
Deposits		41,731
Fixed assets		3,460,787
Total assets	$	4,292,758
Current liabilities		700,966
Net assets acquired	$	3,591,793
Consideration		7,217,117
Goodwill (Note 10)	$	3,625,324

12. CONVERTIBLE DEBT

During December, the Company completed two tranches of convertible debt financing for proceeds of $2,000,000, closing December 4, 2018 and $1,500,000 closing December 20, 2018. The convertible debenture's bear interest at a rate of 8% per year, maturing two years from the closing date. The Convertible Debentures are unsecured and are convertible, at the option of the holder, into common shares ("Common Shares") of the Company at a price of $1.25 per Common Share.

The Company will have 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 will have 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.

In addition, the Company granted one Common Share purchase warrant ("Warrants") for each Common Share underlying the Convertible Debentures for a total of 2,800,000 warrants. Each Warrant will be exercisable into one Common Share at an exercise price of $1.50 for a period of 24 months.

(Expressed in Canadian dollars)

12. CONVERTIBLE DEBT (CONTINUED)

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 rate applicable to a non-compound debt instrument and is 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 as at December 31, 2018:

Balance, June 30, 2018	$	-
Proceeds on issuance of convertible debt		3,500,000
Allocation to equity component		(244,000)
Allocation to warrant component		(186,057)
Amortization of debt		11,866
Balance, December 31, 2018	$	3,081,809
Equity component of convertible debt	$	**244,000**

13. EQUITY

13.1 Authorized Share Capital

Unlimited number of common shares with no par value.

13.2 Shares Issued

Shares issued and outstanding as at December 31, 2018 are 67,235,250 Common Shares.

During the six months ended December 31, 2018, the following share transactions occurred:

i. On July 17, 2018, the Company completed a reverse takeover transaction ("RTO") and issued 46,807,559 Chemesis common shares measured at a fair value of $0.61 per share for a total of $28,552,611. Pursuant to the RTO transaction, the opening balance of 1145411 BC Ltd.'s share capital, consisting of 63 Class A common shares and 37 Class B common shares were cancelled and replaced by the opening balance of Chemesis common shares of 16,040,076;

ii. On July 20, 2018, the Company issued 664,637 common shares measured at a fair value of $0.55 per common share pursuant to an acquisition of licensed rights from SAP; and

iii. On August 21, 2018, the Company issued 717,750 common shares measured at a fair value of $0.83 per common share pursuant to the Dessert Zen acquisition; and

iv. On August 21, 2018, the Company issued 717,750 common shares measured at a fair value of $0.83 per common share pursuant to the Dessert Zen acquisition; and

13. EQUITY (CONTINUED)

v. On November 21, 2018, the Company issued 282,500 common shares measured at a fair value of $1.12 per common share pursuant an acquisition of licensed rights from Degrassi High Inc. and recorded common shares issuable of 64,792 (subsequently issued) measured at a fair value of $1.12 within contributed surplus; and
vi. On November 30, 2018, the Company issued 3,844,623 common shares measured at a fair value of $1.72 per common share pursuant to the Natural Ventures acquisition; and

The company issued shares pursuant to consulting agreements as follows:

- August 24, 2018, issued 300,000 common shares measured at a fair value of $0.84 per share;
- September 20, 2018, issued 22,022 common shares measured at a fair value of $1.74 per share;
- October 9, 2018, issued 32,934 common shares measured at a fair value of $1.67 per share;
- November 8, 2018, issued 15,026 common shares measured at a fair value of $1.74 per share.

The Company issued shares pursuant to options exercised as follows:

- October 2, 2018, issued 50,000 common shares with an exercise price of $1.10 per share;
- December 14, 2018, issued 27,500 common shares with an exercise price of $1.00 per share;
- December 20, 2018, issued 40,000 common shares with an exercise price of $1.00 per share.

On December 20, 2018, the Company received $250,000 from the $25,000,000 private placement equity facility with Alumina Partners Ltd. (Note 19). Subsequent to year end (Note 21), the company issued 312,500 common shares at a price of $0.80 and issued 312,000 warrants at an exercise price of $1.50, for a period of five years from the closing date.

During the period ended June 30, 2018, the following share transactions occurred:

vii. On December 22, 2017, the Company completed a non-brokered private placement, issuing 63 Class A common shares at a price of $38,000 per Class A common share for gross proceeds of $2,394,000.
viii. On December 22, 2017, the Company completed a non-brokered private placement, issuing 37 Class B common shares at a price of $38,000 per Class B common share for gross proceeds of $1,406,000.

13.3 Warrants

During December, the Company issued one Common Share purchase warrant ("Warrants") for each Common Share underlying the Convertible Debentures for a total of 2,800,000 warrants. Each Warrant will be exercisable into one Common Share at an exercise price of $1.50 for a period of 24 months.

(Expressed in Canadian dollars)

13. EQUITY (CONTINUED)

As of December 31, 2018, the following warrants were outstanding:

	Warrants	Exercise Price
June 30, 2018	-	-
Opening balance Chemesis warrants	4,580,282	1.00
Issued	2,800,000	1.50
December 31, 2018	7,380,282	$ 1.20

Expiry date	Warrants	Exercise Price
August 3, 2019	4,580,282	$ 1.00
December 4, 2020	1,600,000	$ 1.50
December 21, 2020	1,200,000	$ 1.50

At December 31, 2018, the weighted-average remaining life of the outstanding warrants was 1.11 years.

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.

(Expressed in Canadian dollars)

13. EQUITY (CONTINUED)

Total share options granted during the six months ended December 31, 2018 were 5,450,000. Total share-based payments recognized for the fair value of share options granted, vested and approved by the shareholders during the six months ended December 31, 2018 was $2,567,302.

The fair value of the share options granted during the period ended December 31, 2018 was estimated on the date of grant using the Black-Scholes Pricing Model with the following weighted average assumptions:

		Six months ended December 31, 2018
Strike price		$0.55 – $1.74
Risk free interest rate		2.08% - 2.45%
Expected option life (years)		1 – 5 years
Expected stock price volatility		110%
Dividend payments during life of option		Nil
Expected forfeiture rate		Nil

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

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

	Options	Weighted average exercise price
June 30, 2018	-	-
Opening balance Chemesis options	650,000	0.78
Granted	5,450,000	1.05
Cancelled	(182,500)	1.00
Exercised	(117,500)	1.04
December 31, 2018	5,800,000	1.02

(Expressed in Canadian dollars)

13. EQUITY (CONTINUED)

At December 31, 2018, the weighted average remaining life of the outstanding options was 4.37 years.

	Outstanding and exercisable		
Expiry date	Number of Options	Exercise price	Remaining contractual life (years)
September 18, 2019	150,000	$ 1.00	0.72
June 9, 2022	350,000	0.50	3.44
August 18, 2022	300,000	1.10	3.63
July 22, 2023	4,550,000	1.00	4.56
September 27, 2023	200,000	1.74	4.74
September 27, 2023	300,000	1.40	4.85
	5,800,000		

14. REVERSE TAKEOVER TRANSACTION

On July 17, 2018, the Chemesis completed a reverse takeover transaction ("RTO") with 1145411 B.C. Ltd. ("1145411"), pursuant to which the Company acquired all of the issued and outstanding shares of B.C. Ltd. in exchange for 46,807,559 common shares of the Chemesis.

As the former shareholders of 1145411 owned a majority interest in Chemesis immediately after closing, the substance of the transaction, for accounting purpose, is a reverse merger. The transaction does not constitute a business combination as the Company does not meet the definition of a business as defined under IFRS. As a result, the transaction will be accounted for as a capital transaction in substance, with 1145411 being identified as the acquirer. 1145411 is the owner of 100% of the issued and outstanding capital stock of Bonhomie Labs Inc., a California corporation ("Bonhomie"). At the time of the RTO, Bonhomie was the owner of 51% of the issued and outstanding capital stock of SAP Global, a California corporation ("SAP"). SAP is the holder of various licenses and permits that allow it to legally operate cannabis businesses in the State of California.

(Expressed in Canadian dollars)

14. REVERSE TAKEOVER TRANSACTION (CONTINUED)

a) The shares issued to B.C. Ltd. were issued on a post-consolidation basis. Concurrent with the transaction, the Company changed its name to Chemesis International Inc. and started trading on the Canadian Securities Exchange ("CSE") under the symbol "C.CSI".

b) On July 18, 2018, the Company increased its ownership in SAP from 51% to 80% by agreeing to incur $700,000 of capital expenditures.

c) On July 18, 2018, the Company acquired the rights to intellectual property comprised of a trade name, domain name, and product technology by issuing a total of 664,637 common shares measured at a fair value of $0.55 per common share (Note 10).

The cost of the transaction in excess of the net assets of 1145411 has been reflected as an expense, being the cost of obtaining a listing of Chemesis shares on the CSE as follows:

Cost of transaction		
Fair value of 46,807,559 common shares issued	$	28,552,611
Fair value of consolidated Chemesis net assets		
Cash	$	2,492,065
Prepaid expense		24,825
Amounts receivable		1,248
Promissory notes receivable		759,413
Exploration and evaluation assets		108,881
Accounts payable and accrued liabilities		(111,996)
Net assets acquired		3,274,436
Excess recorded as listing acquisition expense	$	25,278,175

The fair value of the consideration paid of 46,807,559 common shares was measured using the closing price of Chemesis' common shares on the date of the acquisition, July 17, 2018 at $0.61 per common share.

(Expressed in Canadian dollars)

15. RELATED PARTY TRANSACTIONS AND BALANCES

Key management personnel are the directors and officers of the Company. Management compensation transactions for the six months ended December 31, 2018 is summarized as follows:

		December 31, 2018
Management fees	$	209,190
Share-based payments		1,452,784
Total	$	1,552,963

As of December 31, 2018, $23,625 (June 30, 2018 - $nil) is owed to a director and officer of the Company for unpaid fees.

During the six months ended December 31, 2018, the Company paid $84,191 included in consulting fees to the CEO and Director of the Company pursuant to CEO and Director services provided.

During the six months ended December 31, 2018, the Company paid $40,000 included in consulting fees to the CFO of the Company pursuant to CFO services provided.

During the six months ended December 31, 2018, the Company paid $62,500 included in consulting fees to a Director of the Company pursuant to Director services provided.

During the six months ended December 31, 2018, the Company paid $19,500 included in consulting fees to the corporate secretary of the Company pursuant to corporate secretary services provided.

On December 4, 2018, a Director loaned the Company $1,000,000 included within convertible debentures (Note 12).

16. COMMITMENTS

On November 1, 2017, SAP 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 December 31, 2018 is approximately $532,000.

Between March 1, 2018 and May 1, 2018, the Company entered into three commercial lease agreements for neighboring industrial buildings in Palm Springs, California, USA. The remaining lease obligation on these buildings totals approximately $1,440,000 at December 31, 2018.

17. MANAGEMENT OF CAPITAL

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

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

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

The Company has a draw-down equity financing agreement of up to $25,000,000 with Alumina Partners, LLC which may be converted into shares of the Company. As of December 31, 2018, the Company has drawn down $250,000 on the loan. The Company is not currently subject to any externally imposed capital requirements.

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.

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 December 31, 2018, the Company's working capital deficit is $2,857,221 and it does not have any long-term monetary liabilities. 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 December 31, 2018, the Company had cash of $1,102,844 accounts payable and accrued liabilities of $1,571,493, excise tax payable of $639,747 and convertible debt of $3,081,809.

18. RISK MANAGEMENT (CONTINUED)

d. Market Risk
Market risk incorporates a range of risks. Movements in risk factors, such as market price risk and currency risk, affect the fair values of financial assets and liabilities. The Company is not exposed to these risks.

18.2 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).

19. EQUITY FUNDING FACILITY

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 that has made substantial investments in the cannabis space.

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.

20. SEGMENTED REPORTING

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

(Expressed in Canadian dollars)

	Assets	Revenue	Profit (loss)
Canada	$ 6,589,768	$ -	$ (29,880,417)
United States	4,177,989	4,287,097	(1,069,134)
Puerto Rico	4,193,127	452,038	(145,452)
	$ 14,960,884	$ 4,739,135	$ (31,095,003)

21. SUBSEQUENT EVENTS

i) On January 8, 2019, the company issued 312,500 common shares at a price of $0.80 and issued 312,000 warrants at an exercise price of $1.50, for a period of five years from the closing date. This was pursuant to the Company receiving $250,000 from the $25,000,000 equity facility with Alumina Partners Ltd. (Note 19) on December 20, 2018.

ii) On January 9, 2019 the Company issued 6,400,000 common shares for the acquisition of 100% of La Finca Interacviva-Arachna Med SAS, an integrated cannabis company that has been operational since late 2017 and has $2,300,000 in working capital on hand. The Company will pay an additional $5,500,000 within the next 24 months to complete the acquisition.

iii) On January 23, 2019, the Company issued 65,000 common shares pursuant to options exercised with an exercise price of $1.00 per share;

iv) On February 25, 2019, the Company issued 101,240 common shares to settle USD$85,233 pursuant to the license agreement with Jay and Silent Bob, of which 64,792 of the common shares was issued to settle the remaining acquisition fee which totalled USD$400,000 (Note 10).

v) On March 1, 2019 the Company completed a private placement of 1,500,000 units at a price of $1.84 per unit. Each unit is comprised of one common share and one common share purchase warrant exercisable at $2.50 for a period of 60 months.

vi) 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 GEEM will then have an obligation to subscribe up to a maximum of $10,000,000.

APPENDIX “B”

CHEMESIS

CHEMESIS INTERNATIONAL INC.
(Formerly Canadian Mining Corp.)

MANAGEMENT’S DISCUSSION AND ANALYSIS
For the six months ended December 31, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the six months ended December 31, 2018

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the consolidated condensed interim financial statements and notes thereto for the six months ended December 31, 2018 of Chemesis International Inc. (formerly Canadian Mining Corp.) (the "Company"). Such financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

All dollar amounts are expressed in Canadian dollars unless otherwise indicated.

DATE

This MD&A is prepared as of March 1, 2019.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this report are forward-looking statements, which reflect our management's expectations regarding our future growth, results of operations, performance and business prospects and opportunities including statements related to the development of existing and future property interests, availability of financing and projected costs and expenses. Forward-looking statements consist of statements that are not purely historical, including any statements regarding beliefs, plans, expectations or intentions regarding the future. Such statements are subject to risks and uncertainties that may cause actual results, performance or developments to differ materially from those contained in the statements. No assurance can be given that any of the events anticipated by the forward-looking statements will occur or, if they do occur, what benefits we will obtain from them. These forward-looking statements reflect management's current views and are based on certain assumptions and speak only as of the date of this report. These assumptions, which include management's current expectations, estimates and assumptions about current mineral property interests, the global economic environment, the market price and demand for commodities and our ability to manage our property interests and operating costs, may prove to be incorrect. A number of risks and uncertainties could cause our actual results to differ materially from those expressed or implied by the forward-looking statements, including: (1) a downturn in general economic conditions, (2) a decreased demand or price of precious and base metals, (3) delays in the start of projects with respect to our property interests, (4) inability to locate and acquire additional property interests, (5) the uncertainty of government regulation and politics in the state of Arizona regarding mining and mineral exploration, (6) potential negative financial impact from regulatory investigations, claims, lawsuits and other legal proceedings and challenges, and (7) other factors beyond our control.

There is a significant risk that such forward-looking statements will not prove to be accurate. Investors are cautioned not to place undue reliance on these forward-looking statements. No forward-looking statement is a guarantee of future results. We disclaim any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. Additional information about these and other assumptions, risks and uncertainties are set out in the section entitled "Risk Factors" below.

DESCRIPTION OF BUSINESS

The Company was incorporated under the laws of the province of British Columbia on April 26, 2013 under the name Canadian Zeolite Corp. The Company is a junior mineral exploration company engaged in the business of acquiring, exploring and evaluating natural resource properties in British Columbia and Arizona, USA. The Company has recently focused on the acquisition of interests in the State of Arizona, USA, through its wholly-owned subsidiary, Canadian Mining Company of Arizona Inc. The Arizona subsidiary was incorporated April 17, 2007 under the name Canadian Mining Company of Arizona Inc. The Company acquired the wholly-owned subsidiary and all of its issued and outstanding shares along with all of its assets as part of the plan of arrangement with the Company's then parent company Canadian Zeolite Corp. ("CNZ"), a publicly traded company.

Canadian Zeolite Corp. and Canadian Mining Corp. entered into an agreement (the "Vend-In Agreement") dated February 17, 2017. Under the terms of the Vend-In Agreement, Canadian Mining issued 2,826,838 common shares to

Canadian Zeolite valued at $16,243 in exchange for Canadian Zeolite's 100% interest in Canadian Mining Company of Arizona Inc. (through which Canadian Zeolite holds its interest in the Bullard Pass Project).

On February 17, 2017, Canadian Zeolite and Canadian Mining also entered an Arrangement Agreement (the "Arrangement Agreement"). Under the terms of the Arrangement Agreement, the capital of Canadian Zeolite was reorganized by renaming and redesigning all of the issued and unissued Canadian Zeolite common shares as Class A shares and creating an unlimited number of common shares without par value as the new Canadian Zeolite common shares ("New Canadian Zeolite Common Shares"). Each issued and outstanding Class A share was deemed to be exchanged for one New Canadian Zeolite Common Share and for every five (5) Canadian Zeolite Shares held, one (1) Canadian Mining Share. Each Canadian Zeolite Warrant to the extent it had not been exercised as of May23, 2017, was cancelled and exchanged for one (1) Canadian Zeolite Amended Warrant and for every five (5) Canadian Zeolite Warrants held, one (1) Canadian Mining Warrant rounded down to the nearest whole Canadian Mining Warrant. The Arrangement was approved by the shareholders of Canadian Zeolite on April 28, 2017 and by the Supreme Court of British Columbia on May 1, 2017. As part of the Arrangement, Canadian Mining applied to list its common shares on the TSX Venture Exchange (the "Exchange"). All conditions of the Arrangement were completed as of May 30, 2017. Shares of Canadian Mining will began trading on the TSX Venture Exchange on June 5, 2017 under the symbol "CNG." For further details, please see the related documents of the Company which are available on SEDAR at www.sedar.com.

The Company currently has one material exploration property, the Bullard Pass Property located in Arizona, USA, the details of which are set out below. The Company has not yet determined whether its property interests contain reserves that are economically recoverable. The recoverability of amounts shown for resource properties and related deferred exploration expenditures are dependent upon the discovery of economically recoverable reserves, confirmation of the Company's interest in the underlying mineral claims, the ability of the Company to obtain necessary financing to complete the development of the resource property and upon future profitable production or proceeds from the disposition thereof.

On July 17, 2018, the Company acquired 1145411 B.C. Ltd., a Canadian corporation ("B.C. Ltd."), whereby B.C. Ltd. became a wholly owned subsidiary of the Company by issuing 46,807,559 common shares to B.C. Ltd. shareholders. Upon consummation of the transaction, all of B.C. Ltd.'s assets, liabilities, and business operations became the assets, liabilities, and business operations of the Company, which will constitute a change of business for the Company. B.C. Ltd. is the owner of 100% of the issued and outstanding capital stock of Bonhomie Labs Inc., a California corporation ("Bonhomie"). Bonhomie is the owner of 51% of the issued and outstanding capital stock of SAP Global, a California corporation ("SAP"). SAP is the assignee, pursuant to a management agreement (the "Management Agreement"), of various entitlements that allow it to operate cannabis businesses in the State of California. On July 19, 2018, the Company increased its holdings to 80% of the issued and outstanding capital stock of SAP in exchange for investing USD$700,000 in capital expenditures.

Under the Management Agreement, SAP is entitled to manage, consult and supervise all operations of a medical marijuana (inclusive of cannabidiol ("CBD")) cultivation and manufacturing facility, along with all marketing and sales of medical marijuana products (inclusive of CBD) arising from operations as well as all financial and operational matters. In addition, SAP has the sole authority and responsibility to manage, deposit, disburse and invest the funds received by the assignor from operation of the business. SAP is responsible for all operating costs, including, but not limited to, rent, payroll, advertising, sales, power, gas, electricity, security, water, and building insurance.

In exchange for these services, SAP is entitled to receive a management fee (the "Management Fee") from the assignor equal to the gross revenues less product costs and operating costs. The Management Fee shall constitute SAP's sole compensation and all other amounts represent reimbursement to SAP for all indirect costs, including all overhead, legal, accounting, financial, marketing, management and administrative assistance provided by SAP corporate staff. Until SAP's net collections exceed the product costs and operating costs, on a cumulative basis, SAP shall not receive payment of the Management Fee.

Pursuant to the Management Agreement, SAP has been assigned all right, title, and interest in and to all intellectual property, branding rights, good will, customer lists, leasehold rights, and any and all other interests and rights associated with the operation of the business. Additionally, SAP has the ultimate authority, control and direction of the officers of the assignor and all other assets, affairs and business of the assignor, including all financial and operational matters. SAP provides the assignor with overall supervision and administration of the business, including general business and office administration services, and cultivation and harvesting activities. In exchange, the assignor maintains their permits to cultivate, manufacture, harvest, sell marijuana and engage in commercial cannabis related activities, and any other business licenses required to operate the business. The Management Agreement also provides SAP the absolute right to manage any new permit, venture or business opportunity presented to the assignor or proposed by the assignor's Board of Directors.

The Management Agreement will continue indefinitely, subject to the occurrence of certain events, which include, among other things, the enactment of federal, state, or local laws or regulations which prohibit the relationship of the parties as structured under the Management Agreement. Should such circumstances arise, the parties have agreed to employ diligent good faith efforts to modify the Management Agreement to the minimum extent necessary to comply with such newly enacted laws or regulations.
The shares issued to B.C. Ltd. were issued on a post-consolidation basis. Concurrent with the transaction, the Company changed its name to Chemesis International Inc. and started trading on the Canadian Securities Exchange ("CSE") under the symbol "C.CSI".

On August 13, 2018 Chemesis acquired 100% of Desert Zen, a state-compliant, recreational and medicinal cannabis manufacturing, distribution, and transportation company based in Cathedral City, California. The facility is licensed under state and local laws to manufacture, package, and transport quality cannabis products. Desert Zen was acquired for USD$500,000 of Chemesis stock at a deemed value of CDN $1.00 per share and a cash payment of USD$200,000.

On October 12, 2018 the Company acquired the license rights from Rapid Dose Therapeutics Inc. ("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, the Company receives rights to produce, distribute, and sell QuickStrip products, with rights for cannabis markets in California. The Company paid $130,570 and issued shares to settle USD$300,000 (subsequently issued), measured at a fair value of $390,480 and included in contributed surplus.

On November 9, 2018 Chemesis acquired 80% of Puerto Rico based Natural Ventures PR LLC. The company has been operational since early 2017 and currently is expanding to meet its growing patient demand. Natural Ventures is licensed to cultivate 100,000 ft^2 of cannabis and has 35,000 ft^2 of manufacturing floor space for quality cannabis products. In exchange for 80% interest in the capital stock of Natural Ventures PR LLC, the Company paid USD$2,250,000 cash and USD$1,682,085 of stock valued at $1.00 per common share.

On November 14, 2018 Chemesis entered a multi-year licensing deal with Kevin Smith and Jason Mewes (Jay and Silent Bob) for the development and promotion of cannabis products in the US. The Company will pay an initial fee of USD$50,000 on signing and three payments of USD$25,000 on each of the three-month anniversaries of signing. In addition, the Company will issue common shares worth USD$400,000 on signing and USD$150,000 in stock on each annual anniversary. Additional payments for up to a total of USD$600,000 in stock may be payable on the date certain states in the USA legalize marijuana. All shares are based on the 5-day volume-weighted average prices on the date the shares become payable. The Company will owe a 12% royalty on sales related to the Jay and Silent Bob brand with a minimum royalty of USD$120,000 each year of the license term.

HIGHLIGHTS

On August 23, 2018 the Company entered into a definitive agreement to acquire 80% of Puerto Rico Based PR LLC via its subsidiary Chemesis PR, a 100% Puerto Rican company, in exchange for USD$2,250,000 cash and USD$1,682,085 of stock valued at CAD$1.00 per common share.

On July 17, 2018 announced a new director, Mike Aujla to replace outgoing director, Dave Mcmillan. The Company also announced an aggregate of grant of 4,800,000 options with an exercise price of $1.00, expiring July 17, 2023 to officers, directors and consultants.

On July 19, 2018 the Company Increased ownership interest in SAP GLOBAL to 80% by paying an additional $700,00 CDN toward additional capital expenditures for the facility. The Company also acquired the California SAP licensed rights to IP, brand and product catalogue by issuing $500,00 USD in stock at $1.00 CDN.

On July 26, 2018 the Company Signed a binding supply agreement with a California distribution company to provide 10,000 lbs/month of clean tested trim which must yield a minimum of 10% return upon processing.

On July 31, 2018 the Company Signed two binding agreements for sale and distribution of 100 litres per month of high-quality tested cannabis oil.

On August 10, 2018 the Company acquired 100% of Desert Zen, a licensed recreational and medical cannabis distribution and manufacturing company.

On August 23, 2018 the Company entered into a definitive agreement to acquire 80% of Puerto Rico based Natural Ventures PR LLC via it's subsidiary Chemesis PR, a 100% Puerto Rican company, in exchange for USD$2,250,000 cash and USD$1,682,085 of stock valued at CAD$1.00 per common share. As of On September 25, 2018 the Company will be entering the cannabis infused beverages market by leveraging licenses and assets it has recently acquired to build out production, storage, and a transportation network for its beverages.

On September 28, 2018 the Company announced the addition of Eli Dusenbury as the Company's new Chief Financial Officer to replace outgoing CFO Mathew Lee.

Granted an aggregate 150,000 incentive stock options to a consultant of the company. The options are exercisable at $1.00 per share for a one-year term. Granted an aggregate 200,000 incentive stock options to the CFO of the Company. The options are exercisable at $1.74 per share for a five-year term.

On October 10, 2018 the Company will be entering the cannabis edibles market by using its existing facilities and licenses to streamline entry and provide services for business that need manufacturing, packaging, and distribution while maintaining compliance.

On October 11, 2018 the Company signed a fulfilment and distribution agreement for the Julian Marley JuJu Royal brand with rights for the packaging, fulfilment, and distribution for all of JuJu Royal's Southern California operations.

On October 12, 2018 the Company signed a definitive agreement for the rights to produce, distribute, and sell QuickStrips with rights for cannabis markets in California.

On November 5, 2018 the Company entered into a binding letter of intent to acquire 100% of Columbia based, La Finca Interacviva-Arachna Med SAS in exchange for CDN$13,500,000 in a combination of cash and common shares to be determined upon execution of a definitive agreement.

On November 7, 2018 the Company signed a definitive agreement for the rights to produce, distribute, and sell QuickStrips with rights for cannabis markets in Puerto Rico.

On November 12, 2018 the Company signed a fulfilment and distribution agreement for the Julian Marley JuJu Royal brand with rights for the packaging, fulfilment, and distribution for all of JuJu Royal's Southern California operations.

On November 14, 2018 the Company entered a multi year licensing deal with Kevin Smith and Jason Mewes (Jay and Silent Bob) for the development and promotion of cannabis products in the US in exchange for USD$400,000 stock and USD$150,000 in stock on each annual anniversary, both based on the 5-day volume-weighted average prices.

On December 4, 2018 the Company closed tranche one of convertible debt for CDN$2,000,000.

Each Convertible Debenture will bear interest at a rate of 8.0% per annum and have a two-year maturity date. Each Convertible Debenture will be unsecured and will be convertible at the option of the holder into common shares of the Company at a price of $1.25 per Common Share. In addition, for every convertible share received, a warrant will be issued for a period of 2-years at an exercise price of $1.50 per warrant.

On December 11, 2018 the Company provided a corporate update for Puerto Rico based operations. Revenue of $336,600 earned from period of November 6 – December 6, 2018. Since the transfer of the state cannabis license, the Company has been aggressively expanding Natural Ventures operations.

On December 12, 2018 the Company obtained approval from the OTC Markets Group to upgrade and quote the Company's common shares on its OTCQB Venture Market under the symbol "CADMF" effective December 13,

2018. The Company's common shares will continue to trade on the Canadian Securities Exchange under the symbol "CSI" as well as the Frankfurt exchange under the symbol "CWAA."

On December 20, 2018 the Company completed a second tranche of convertible debentures financing for gross proceeds of an additional CDN $1,750,000.

Each Convertible Debenture will bear interest at a rate of 8.0% per annum and have a two-year maturity date. Each Convertible Debenture will be unsecured and will be convertible at the option of the holder into common shares of the Company at a price of $1.25 per Common Share. In addition, for every convertible share received, a warrant will be issued for a period of 2-years at an exercise price of $1.50 per warrant.

On December 17, 2018 the Company acquired Viverian, a hemp-derived CDB product line that promotes healthy living and provides consumers with quick and easy methods of consumption. The Company will expand into a retail strategy and additional states for online shipping in 2019, once state-by-state regulations have been established for CBD manufacturing and distribution.

On December 20, 2018 the Company entered into an arrangement agreement with IMC International Mining Corp dated November 29, 2018 pursuant to which the Company intends to spin out its various interests in mineral claims located in the vicinity of the Harcuvar and Harquahala Mountains, Yavapai County, Arizona (the "Bullard Pass Property") into IMC through a Plan of Arrangement under the Business Corporations Act. Upon completion of the Arrangement, IMC will own the Bullard Pass Property. The spin out was completed January 2019.

On January 2, 2019 the Company announced the Annual General and Special Meeting of Shareholders to be held on Wednesday, January 9, 2019.

On January 9, 2018 the Company entered into a definitive agreement for the acquisition of 100% of La Finca Interacviva-Arachna Med SAS, an integrated cannabis company that has been operational since late 2017 and which has CDN $2,300,000 in working capital on hand. To complete the acquisition, the Company is issuing CDN $8,000,000 in stock at a deemed price of CDN $1.25 per share and is agreeing to pay a further CDN $5,500,000 within the next 24 months. The stock issued is subject to a 36-month contractual escrow agreement.

On January 17, 2019 the Company's subsidiary Natural Ventures has entered into a licensing agreement to produce "Dragonglass" for Project 1493 LLC., a subsidiary of GSRX Industries Inc.

On January 28, 2019 the Company's subsidiary, La Finca Interacviva-Arachana Med SAS plans to commence construction of its GMP certified extraction facility before the end of Q1 2019. La Finca has also been granted a Seed Producer Licence after a verification visit from ICA (Columbia Ministry of Agriculture).

On February 7, 2019 the Company acquired intellectual property and the physical equipment for an extraction methodology to preserve all the phytocnnabinoids and terpenes from cannabis. The Company will relocate the extraction assets from a licensed facility in San Diego, CA to its extraction facility in Cathedral City, CA. With this transaction, the Company has initial monthly purchase orders in excess of USD $200,000. Under the terms of this acquisition, Chemesis will issue 1,597,633 shares priced at a deemed value of CDN $1.69. The stock issued is subject to a 36-month lock-up/leak-out guidelines.

On February 11, 2018 the Company announced plans to add an additional 25,000 ft2 of manufacturing in Cathedral City, California.

On February 25, 2019, the Company announced a non-brokered private placement of up to CDN $5,800,000 or 3,152,174 units at a price of CDN $1.84 per unit with New York based Global Emerging Markets and participation from Canadian institutional investors. Under the terms of the offering, each unit will be comprised of one common share and one common share purchase warrant exercisable for one comm share at an exercise price of CDN $2.50 for a period of 24 months from the closing date.

On February 28, 2019, the Company's subsidiary Natural Ventures signed a definitive agreement for an annual purchase order of a minimum total of USD $4,000,000.

On March 1, 2019 the Company completed a private placement of 1,500,000 units at a price of $1.84 per unit. Each unit is comprised of one common share and one common share purchase warrant exercisable at $2.50 for a period of 60 months.

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 GEEM will then have an obligation to subscribe up to a maximum of $10,000,000.

EXPLORATION ACTIVITY

BULLARD PASS PROPERTY – ARIZONA, USA

In 2007 the Canadian Mining Company of Arizona Inc. staked the DB 1 to 176 mineral claims totalling 3,420 acres and acquired 476.52 acres of Arizona State land under mineral exploration permit #08-111861, for total land holdings of 3,896.52 acres, located in the vicinity of the Harcuvar and Harquahala Mountains, Yavapai County, Arizona (the "Bullard Pass Property"). The Company subsequently reduced its ownership interest in the Bullard Pass Property to 22 claims. The Company has recently staked additional claims to increase the Property to 171 claims. The Company is evaluating the property to determine if further exploration will be performed.

On September 27, 2017, the Company announced it had entered into a letter of intent (LOI) with Crust Resources Corp., a British Columbia-registered company, to acquire a 100-per-cent direct or indirect interest in its operating subsidiary, Care Mining Company Ltd., a company registered in the Republic of Ghana. Upon closing, Canadian Mining shall issue to, or as directed by, Care, up to 4.8 million common shares in the capital of Canadian Mining in exchange for transferring all of the issued and outstanding shares of Care to Canadian Mining. During the quarter-ended December 31, 2017, the Company announced that it had terminated the LOI with Crust Resources Corp.

On November 29, 2018, the Company entered into an arrangement agreement with IMC International Mining Corp. ("IMC") pursuant to which the Company intends to spin out its various interests in mineral claims located in the vicinity of the Harcuvar and Harquahala Mountains, Yavapai County, Arizona (the "Bullard Pass Property") into IMC through a Plan of Arrangement under the Business Corporations Act. Upon completion of the Arrangement, IMC will own 100% of the Bullard Pass Property. As a result of the Arrangement, Shareholders will receive one-twentieth of one IMC Common Share for every Chemesis Common Share held as at the Arrangement Record Date and own all of the outstanding IMC Common Shares, post-Arrangement. The Shareholders will receive one-twentieth of one IMC option and warrant for every Chemesis option and warrant held as at the Arrangement Record Date. The spin-out transaction completed in January 2019.

OVERALL PERFORMANCE

Pursuant to the reverse acquisition transaction, the Company changed its business focus from mineral exploration to the continuation of the Company's business of pursuing opportunities in the cannabis industry; and as such, this will be the Company's first full year of operations within the cannabis space.

The net assets of the Company increased from $3,210,243 at June 30, 2018 to $9,667,835 at December 31, 2018, an increase of $6,457,592. The most significant assets at December 31, 2018 include: Cash of $1,102,844 (June 30, 2018 - $1,030,284), Inventory of $729,236 (June 30, 2018 - $nil), Amounts receivable of $405,540 (June 30, 2018 - $nil), Equipment and leasehold improvements of $6,436,153 (June 30, 2018 - $2,210,347), Intangible assets of $1,433,173 (June 30, 2018 - $nil), and Goodwill of $4,471,440 (June 30, 2018 - $nil).

Cash increased by $72,560 pursuant to financing activities which are offset by cash used in investing activities of $2,330,348 and cash used in operating activities of $1,802,148. The Company has spent $1,276,283 on equipment and facilities that will be used in manufacturing, processing and distribution of cannabis products. The company has spent $238,262 on intangible assets consisting of licensed IP rights from SAP, Jay and Silent bob and RDT Therapeutics. Goodwill arose pursuant to the acquisition of Dessert Zen and the acquisition of 80% of Natural Ventures PR LLC.

The Company's liabilities at December 31, 2018 consisted of accounts payable and accrued liabilities of $1,571,493 (June 30, 2018 - $206,642), excise tax payable of $639,747 (June 30, 2018 - $nil), and convertible debt of $3,081,809 (June 30, 2018 - $nil).

DISCUSSION OF OPERATIONS

Pursuant to the reverse takeover transaction with 1145411 BC Ltd. (the "Company" or "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. The condensed consolidated interim financial statements include the historical consolidated financial information of 1145411 up to the completion of the RTO. 1145411 was incorporated under the laws of British Columbia on December 15, 2017 and as such, the comparative periods for the consolidated statement of loss and comprehensive loss and the consolidated statement of cash flows are not presented. The following highlights the key operating expenditures during the current six months ended December 31, 2018.

For the six months ended December 31, 2018 compared to the period from incorporation to December 31, 2017

During the six months ended December 31, 2018, the Company incurred a net loss of $31,095,002 (2017 - $29,314). The net loss for the six months ended December 31, 2018 consists primarily of the following:

- Gross margin of $622,132 (2017 - $nil) consists of primarily of net revenues generated from packaging and distribution of cannabis and CBD oil. The Company anticipates the gross margins will improve as the Company begins its own manufacturing and processing;
- Advertising and marketing of $988,810 (2017 - $nil) consists of aggressing advertising and marketing campaigns to increase market awareness and brand generation activities;
- Consulting of $516,091 (2017 - $6,325) consists of services used in operational and corporate activities and reflects the changing needs of the Company as it transitions from exploration and evaluation to the Cannabis market;
- Professional fees of $648,048 (2017 - $nil) consist of the fees incurred to complete significant acquisitions and listing transaction;
- Rent of $486,208 (2017 - $12,647) consist of corporate head office, California head office, Puerto Rico head office and the building facilities that will be used in the manufacture and distribution of our products;
- Share based payments of $2,567,302 (2017 - $nil) consists of the non-cash fair value as measured by the Black-Sholes option pricing model to reflect the grant of 5,450,000 options during the six months ended December 31, 2018;
- Listing acquisition expense of $25,278,174 (2017 - $nil) is a non-cash number and reflects the excess of the shares issued over the net assets of Chemesis.

During the six months ended December 31, 2018, the Company incurred a comprehensive net loss of $30,491,320 (2017 - $29,314). The difference from net loss arises on a foreign currency translation adjustment of $603,683 (2017 - $nil) arising from non-cash presentation currency adjustment of its US and Puerto Rico subsidiaries financial information.

For the three months ended December 31, 2018 compared to the period from incorporation to December 31, 2017

During the three months ended December 31, 2018, the Company incurred a net loss of $2,335,979 (2017 - $29,314). The net loss for the three months ended December 31, 2018 consists primarily of the following:

- Gross margin of $501,103 (2017 - $nil) consists of primarily of net revenues generated from packaging and distribution of cannabis and CBD oil. The Company anticipates the gross margins will improve when the Company begins its own manufacturing and processing;

- Advertising and marketing of $686,504 (2017 - $nil) consists of aggressing advertising and marketing campaigns to increase market awareness and brand generation activities;

- Consulting of $163,297 (2017 - $6,325) consists of services used in operational and corporate activities and reflects the changing needs of the Company as it transitions from exploration and evaluation to the Cannabis market;

- Professional fees of $429,148 (2017 - $nil) consist of the fees incurred to complete acquisitions and listing transaction;

- Rent of $251,104 (2017 - $nil) consist of corporate head office, California head office, Puerto Rico head office and the building facilities that will be used in the manufacture and distribution of our products;

- Share based payments of $323,722 (2017 - $nil) consists of the non-cash fair value as measured by the Black-Sholes option pricing model to reflect the grant of 300,000 options during the three months ended December 31, 2018;

During the three months ended December 31, 2018, the Company incurred a comprehensive net loss of $1,757,355 (2017 - $29,314). The difference from net loss arises on a foreign currency translation adjustment of $578,625 arising from non-cash presentation currency adjustment of its US and Puerto Rico subsidiaries financial information.

SEGMENTED REPORTING

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

	Assets	Revenue	Profit (loss)
Canada	$ 6,589,768	$ -	$ (29,880,417)
United States	4,177,989	4,287,097	(1,069,134)
Puerto Rico	4,193,127	452,038	(145,452)
	$ 14,960,884	$ 4,739,135	$ (31,095,003)

Currently, the Company's US subsidiaries, SAP and Dessert Zen, generate the bulk of the total revenues. With the acquisition of Natural Ventures, the Puerto Rico subsidiary accounts for only a portion of the total revenues during the period, but the Company anticipates growth as resources are allocated and operations ramp up.

SUMMARY OF QUARTERLY RESULTS

The following is a summary of the Company's financial results for the Company's completed quarters since inception:

	Quarter Ended December 31, 2018 $	Quarter Ended September 30, 2018 $	Quarter Ended June 30, 2018 $	Quarter Ended March 31, 2018 $	Period from inception to December 31, 2017 $
Revenue	2,820,105	1,919,030	Nil	Nil	Nil
Operating Expense	(2,840,038)	(3,619,243)	(246,974)	(122,265)	(18,972)
Net loss	(2,335,980)	(28,759,023)	(399,350)	(236,780)	(29,314)
Comprehensive loss	(1,757,355)	(28,733,965)	(354,180)	(206,263)	(29,314)

Basic and diluted loss per share, basic and diluted	(0.03)	(0.52)	(3,689)	(2,063)	(523)

On a quarter-by-quarter basis the loss can fluctuate significantly due to a number of factors including first year of operations of a start-up cannabis Company, timing of stock option grants, changes in nature of the business and significant one-time transactions (RTO transaction) .

An analysis of the quarterly results over the quarters from inception shows a significant change in financial performance primarily due to the completion of the RTO and activities to go from a start-up to a listed public Company with revenues. The first period of the Company consisted of 16-days of start-up activities and as a result were less compared to the following quarters. In the quarter ended March 31, 2018, the Company had acquired significant fixed assets and had begun to build its operations in California. In the quarter ended June 30, 2018, the Company wrote off inventory of $136,857 due to changing regulations in California and equipment of $130,034 that wasn't built to specifications. In the quarter ended September 30, 2018, the Company completed an RTO transaction with Chemesis and 1145411 BC Ltd. and as a result, became the listed entity. Listing acquisition expense for that period was $25,278,174. The Company also issued stock-options with a fair value of $2,243,580. The Company began earning some revenues on sale of Cannabis related products of $1,919,030. In the quarter ending December 31, 2018, the Company continued earning some revenues on sale of Cannabis related products of $2,820,105, acquired Natural Ventures PR LLC and a number of licenses. The Company expects to the significant increase in revenues to continue with start-up operations set to begin during the next two quarters.

LIQUIDITY

The Company has generated cash from operations but is considered minimal to date. The Company has funded activities through raising capital from equity markets and plans to continue to pursue equity and debt sources of cash until operations reach profitability.

The Company has cash of $1,102,844 at December 31, 2018, inventory of $729,236 and $405,540 in accounts receivable. The Company has a working capital deficit of $2,857,221 (working capital at June 30, 2018 – $874,240).

During the six months ended December 31, 2018:

a. The Company received cash from completed acquisitions of $2,725,638; and

b. The Company received cash of $122,500 pursuant to the exercise of options; and

c. The Company received cash of $3,500,000 pursuant to the issuance of convertible debt; and

d. The Company received cash of $250,000 pursuant to subscriptions receipts;

The Company is in the process of closing a non-brokered private placement of up to $10,000,000 at a price of CDN $1.84 per unit. This will be used to fund operating capital needs.

The Company also has access to additional equity financing agreement for up to $25,000,000, with Alumina Partners, LLC, a New York-based private equity firm that has made substantial investments in the cannabis space.

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 Company has used $250,000 of this lending facility to date.

If additional funds are required, the Company plans to raise additional capital primarily through the private placement of its equity securities. Under such circumstances, there is no assurance that the Company will be able to obtain further funds required for the Company's continued working capital requirements.

LIQUIDITY AND CAPITAL RESOURCES

The Company has commitments with certain rental leases agreements in California. The Company has commitments related to acquisitions of its subsidiaries and newly acquired licenses. Please refer to note 16 and note 11 of the December 31, 2018 financial statements for summary of commitments and acquisitions respectively.

Operating Activities

The Company used net cash of $1,802,148 in operating activities during the six months ended December 31, 2018.

Investing Activities

The Company used net cash of $2,330,348 in investing activities during the six months ended December 31, 2018. Investing activities primarily consisted of cash received pursuant to acquisitions of $2,725,638; cash spent on leasehold improvements and equipment to be used in manufacturing and distribution of cannabis products of $1,276,283; cash paid of $3,633,419 on the acquisition of Dessert Zen and Natural Ventures PR LLC.

Financing Activities

The Company received $3,872,500 from financing activities during the six months ended December 31, 2018. Financing activities primarily consisted of cash of $122,500 received pursuant to the exercise of options; cash of $3,500,000 received pursuant to the issuance of convertible debt; cash received of $250,000 pursuant to subscription receipts.

OFF-BALANCE SHEET ARRANGEMENTS

The Company has not entered into any off-balance sheet arrangements.

TRANSACTIONS WITH RELATED PARTIES

As of December 31, 2018, $23,625 (June 30, 2018 - $nil) is owed to directors of the Company for unpaid fees and expenses.

During the six months ended December 31, 2018, the Company paid $84,191 included in consulting fees to Edgar Montero, the CEO and Director of the Company pursuant to CEO and Director services provided. Edgar Montero was also granted 500,000 options measured at a fair value of $324,025 recorded within share-based payments.

During the six months ended December 31, 2018, the Company paid $22,500 included in consulting fees to Mathew Lee, the previous CFO of the Company pursuant to CFO services provided. Mathew Lee was also granted 250,000 options measured at a fair value of $135,011 recorded within share-based payments.

During the six months ended December 31, 2018, the Company paid $62,500 included in consulting fees to Aman Parmar a Director of the Company pursuant to Director services provided. Aman Parmar was also granted 700,000 options measured at a fair value of $378,029 recorded within share-based payments.

During the six months ended December 31, 2018, the Company paid $19,500 included in consulting fees to Brian Thurston, the corporate secretary of the Company pursuant to corporate secretary services provided. Brian Thurston was granted 500,000 options measured at a fair value of $270,021 recorded within share-based payments.

During the six months ended December 31, 2018, the Company paid $40,000 in cash and granted 200,000 options to the new CFO of the Company measured at a fair value of $345,698 recorded within share-based payments.

PROPOSED TRANSACTIONS

There are no proposed transactions.

SUBSEQUENT EVENTS

i) On January 8, 2019, the company issued 312,500 common shares at a price of $0.80 and issued 312,000 warrants at an exercise price of $1.50, for a period of five years from the closing date. This was pursuant to the Company receiving $250,000 from the $25,000,000 equity facility with Alumina Partners Ltd. (Note 19) on December 20, 2018.

ii) On January 9, 2019 the Company issued 6,400,000 common shares for the acquisition of 100% of La Finca Interacviva-Arachna Med SAS, an integrated cannabis company that has been operational since late 2017 and has $2,300,000 in working capital on hand. The Company will pay an additional $5,500,000 within the next 24 months to complete the acquisition.

iii) On January 23, 2019, the Company issued 65,000 common shares pursuant to options exercised with an exercise price of $1.00 per share;

iv) On February 25, 2019, the Company issued 101,240 common shares to settle USD$85,233 pursuant to the license agreement with Jay and Silent Bob, of which 64,792 of the common shares was issued to settle the remaining acquisition fee which totalled USD$400,000 (Note 10).

v) On March 1, 2019 the Company completed a private placement of 1,500,000 units at a price of $1.84 per unit. Each unit is comprised of one common share and one common share purchase warrant exercisable at $2.50 for a period of 60 months.

vi) 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 GEEM will then have an obligation to subscribe up to a maximum of $10,000,000.

ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective. The Company has not early adopted any of these standards and is currently evaluating the impact, if any, that these standards might have on its financial statements.

Accounting Standards Issued and Effective for the Company's year beginning July 1, 2019:

- IFRS 16 Leases;

FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

The Company's financial instruments are exposed to certain financial risks which are discussed in detail in note 17 of the Company's condensed consolidated interim financial statements for the six months ended December 31, 2018.

ADDITIONAL DISCLOSURE FOR VENTURE ISSUERS WITHOUT SIGNIFICANT REVENUE

During the six months ended December 31, 2018, the Company incurred the following expenses:

	2018
	$
Revenues	4,739,135
Cost of goods sold	4,117,003
Operating expenses	
Advertising and marketing	988,810
Consulting	516,091
Professional fees	648,048

Rent	486,208
Share-based payments	2,567,302
Other items	
Listing acquisition expense	25,278,174

An analysis of material components of the Company's general and administrative expenses is disclosed in the condensed consolidated interim financial statements for the six months ended December 31, 2018 to which this MD&A relates as well as in the *Discussion of Operations* section of this MD&A. An analysis of the material components of acquisitions and the reverse takeover is disclosed in the notes to the condensed consolidated financial statements for the six months ended December 31, 2018 to which this MD&A relates.

The Company completed an RTO with Chemesis and became a listed entity on the CSE under the symbol "CSI". Pursuant to which, the Company acquired Dessert Zen to facilitate growth and sales of Cannabis products which has resulted in $4,739,135 in revenues for the six months ended December 31, 2018.

DISCLOSURE OF OUTSTANDING SHARE DATA

Common Shares

The Company's common shares are listed on the CSE under the symbol "CSI". The Company's authorized share capital consists of an unlimited number of common shares without par value. As at March 1, 2019 the Company had 75,650,921 common shares issued and outstanding.

Share Purchase Warrants

As at March 1, 2019, the following share purchase warrants were outstanding:

Expiry date	Warrants	Exercise Price	
August 3, 2019	4,580,282	$	1.00
December 4, 2020	1,600,000	$	1.50
December 21, 2020	1,200,000	$	1.50
January 17, 2024	312,500	$	1.50

Stock Options

As at March 1, 2019, the following stock options were outstanding:

	Outstanding and exercisable			
Expiry date	Number of Options		Exercise price	Remaining contractual life (years)
September 18, 2019	150,000	$	1.00	0.72
June 9, 2022	350,000		0.50	3.44
August 18, 2022	250,000		1.10	3.63
July 22, 2023	4,485,000		1.00	4.56
September 27, 2023	200,000		1.74	4.74
September 27, 2023	300,000		1.40	4.85
	5,735,000			

RISK FACTORS

Much of the information included in this report includes or is based upon estimates, projections or other forward-looking statements. Such forward-looking statements include any projections or estimates made by the Company and its management in connection with the Company's business operations. While these forward-looking statements, and any assumptions upon which they are based, are made in good faith and reflect the Company's current judgment regarding the direction of its business, actual results will almost always vary, sometimes materially, from any estimates, predictions, projections, assumptions, or other future performance suggested herein. Except as required by law, the Company undertakes no obligation to update forward-looking statements to reflect events or circumstances occurring after the date of such statements.

Such estimates, projections or other forward-looking statements involve various risks and uncertainties as outlined below. The Company cautions readers of this report that important factors in some cases have affected and, in the future, could materially affect actual results and cause actual results to differ materially from the results expressed in any such estimates, projections or other forward-looking statements. In evaluating the Company, its business and any investment in its business, readers should carefully consider the following factors:

Risks Related to the Company's Business

Because of the unique difficulties and uncertainties inherent in mineral exploration ventures, the Company faces a high risk of business failure.

Potential investors should be aware of the difficulties normally encountered by mineral exploration companies and the high rate of failure of such enterprises. The likelihood of success must be considered in light of the problems, expenses, difficulties, complications and delays encountered in connection with the exploration program that the Company intends to undertake on its properties and any additional properties that the Company may acquire. These potential problems include unanticipated problems relating to exploration, and additional costs and expenses that may exceed current estimates. The expenditures to be made by the Company in the exploration of its properties may not result in the discovery of mineral deposits. Any expenditures that the Company may make in the exploration of any other mineral property that it may acquire may not result in the discovery of any commercially exploitable mineral deposits. Problems such as unusual or unexpected geological formations and other conditions are involved in all mineral exploration and often result in unsuccessful exploration efforts. If the results of the Company's exploration do not reveal viable commercial mineralization, the Company may decide to abandon some or all of its property interests.

Loss of Interest in Properties

The Company's ability to maintain an interest in the properties optioned by the Company will be dependent on its ability to raise additional funds by equity financing. Failure to obtain additional financing may result in the Company being unable to make the periodic payments required to keep the property interests in good standing and could result in the delay or postponement of further exploration and or the partial or total loss of the Company's interest in the properties optioned by the Company, including the Qualifying Property.

Because of the speculative nature of the exploration of mineral properties, there is no assurance that the Company's exploration activities will result in the discovery of any quantities of mineral deposits on its current properties or any other additional properties the Company may acquire.

The Company intends to continue exploration on its current properties and the Company may or may not acquire additional interests in other mineral properties. The search for mineral deposits as a business is extremely risky. The Company can provide investors with no assurance that exploration on its current properties, or any other property that the Company may acquire, will establish that any commercially exploitable quantities of mineral deposits exist. Additional potential problems may prevent the Company from discovering any mineral deposits. These potential problems include unanticipated problems relating to exploration and additional costs and expenses that may exceed current estimates. If the Company is unable to establish the presence of mineral deposits on its properties, its ability to fund future exploration activities will be impeded, the Company will not be able to operate profitably, and investors may lose all of their investment in the Company.

The potential profitability of mineral ventures depends in part upon factors beyond the control of the Company and even if the Company discovers and exploits mineral deposits, the Company may never become commercially viable and the Company may be forced to cease operations.

The commercial feasibility of an exploration program on a mineral property is dependent upon many factors beyond the Company's control, including the existence and size of mineral deposits in the properties the Company explores the proximity and capacity of processing equipment, market fluctuations of prices, taxes, royalties, land tenure, allowable production and environmental regulation. These factors cannot be accurately predicted and any one or a combination of these factors may result in the Company not receiving an adequate return on invested capital. These factors may have material and negative effects on the Company's financial performance and its ability to continue operations.

Exploration and exploitation activities are subject to comprehensive regulation which may cause substantial delays or require capital outlays in excess of those anticipated causing an adverse effect on the Company.

Exploration and exploitation activities are subject to federal, provincial, state and local laws, regulations and policies, including laws regulating the removal of natural resources from the ground and the discharge of materials into the environment. Exploration and exploitation activities are also subject to federal, provincial, state and local laws and regulations which seek to maintain health and safety standards by regulating the design and use of drilling methods and equipment.

Environmental and other legal standards imposed by federal, provincial, state or local authorities may be changed and any such changes may prevent the Company from conducting planned activities or may increase its costs of doing so, which would have material adverse effects on its business. Moreover, compliance with such laws may cause substantial delays or require capital outlays in excess of those anticipated, thus causing an adverse effect on the Company. Additionally, the Company may be subject to liability for pollution or other environmental damages that the Company may not be able to or elect not to insure against due to prohibitive premium costs and other reasons. Any laws, regulations or policies of any government body or regulatory agency may be changed, applied or interpreted in a manner which will alter and negatively affect the Company's ability to carry on its business.

Title to mineral properties is a complex process and the Company may suffer a material adverse effect in the event one or more of its property interests are determined to have title deficiencies.

Acquisition of title to mineral properties is a very detailed and time-consuming process. Title to, and the area of, mineral properties may be disputed. Although the Company has either staked property or entered into property option agreements or joint venture agreements on its existing Project interests, the Company cannot give an assurance that title to such property will not be challenged or impugned. Further, the Company cannot give an assurance that the existing description of mining titles will not be changed due to changes in policy, rulings, or law in the jurisdiction where the property is located. Mineral properties sometimes contain claims or transfer histories that examiners cannot verify. A successful claim that the Company does not have title to one or more of its properties could cause the Company to lose any rights to explore, develop and mine any minerals on that property, without compensation for its prior expenditures relating to such property.

The properties optioned by the Company may now or in the future be the subject of first nations land claims. The legal nature of aboriginal land claims is a matter of considerable complexity. The impact of any such claim on the Company's ownership interest in the properties optioned by the Company cannot be predicted with any degree of certainty and no assurance can be given that a broad recognition of aboriginal rights in the area in which the properties optioned by the Company are located, by way of a negotiated settlement or judicial pronouncement, would not have an adverse effect on the Company's activities. Even in the absence of such recognition, the Company may at some point be required to negotiate with first nations in order to facilitate exploration and development work on the properties optioned by the Company.

Because the Company's property interests may not contain mineral deposits and because it has never made a profit from its operations, the Company's securities are highly speculative and investors may lose all of their investment in the Company.

The Company's securities must be considered highly speculative, generally because of the nature of its business and its stage of operations. The Company currently has exploration stage property interests which may not contain mineral deposits. The Company may or may not acquire additional interests in other mineral properties, but the Company does not have plans to acquire rights in any specific mineral properties as of the date of this report. Accordingly, the Company has not generated significant revenues nor has it realized a profit from its operations to date and there is little likelihood that the Company will generate any revenues or realize any profits in the short term. Any profitability in the future from the Company's business will be dependent upon locating and exploiting mineral deposits on the Company's current properties or mineral deposits on any additional properties that the Company may acquire. The likelihood that any mineral properties that the Company may acquire or have an interest in will contain commercially exploitable mineral deposits is extremely remote. The Company may never discover mineral deposits in respect to its current properties or any other area, or the Company may do so and still not be commercially successful if the Company is unable to exploit those mineral deposits profitably. The Company may not be able to operate profitably and may have to cease operations, the price of its securities may decline and investors may lose all of their investment in the Company.

As the Company faces intense competition in the mineral exploration and exploitation industry, the Company will have to compete with the Company's competitors for financing and for qualified managerial and technical employees.

The Company's competition includes large established mining companies with substantial capabilities and with greater financial and technical resources than the Company. As a result of this competition, the Company may have to compete for financing and be unable to acquire financing on terms it considers acceptable. The Company may also have to compete with the other mining companies for the recruitment and retention of qualified managerial and technical employees. If the Company is unable to successfully compete for financing or for qualified employees, the Company's exploration programs may be slowed down or suspended, which may cause the Company to cease operations as a company.

The Company's future is dependent upon its ability to obtain financing and if the Company does not obtain such financing, the Company may have to cease its exploration activities and investors could lose their entire investment.

There is no assurance that the Company will operate profitably or will generate positive cash flow in the future. The Company requires additional financing in order to proceed with the exploration and development of its properties. The Company will also require additional financing for the fees it must pay to maintain its status in relation to the rights to the Company's properties and to pay the fees and expenses necessary to operate as a public company. The Company will also need more funds if the costs of the exploration of its mineral claims are greater than the Company has anticipated. The Company will require additional financing to sustain its business operations if it is not successful in earning revenues. The Company will also need further financing if it decides to obtain additional mineral properties. The Company currently does not have any arrangements for further financing and it may not be able to obtain financing when required. The Company's future is dependent upon its ability to obtain financing. If the Company does not obtain such financing, its business could fail and investors could lose their entire investment.

The Company's directors and officers are engaged in other business activities and accordingly may not devote sufficient time to the Company's business affairs, which may affect its ability to conduct operations and generate revenues.

*T*The Company's directors and officers are involved in other business activities. As a result of their other business endeavours, the directors and officers may not be able to devote sufficient time to the Company's business affairs, which may negatively affect its ability to conduct its ongoing operations and its ability to generate revenues. In addition, the management of the Company may be periodically interrupted or delayed as a result of its officers' other business interests.

Sales of Substantial Amounts of the Shares May Have an Adverse Effect on the Market Price of the Shares

Sales of substantial amounts of the Shares of the Company, or the availability of such securities for sale, could adversely affect the prevailing market prices for the Common Shares. A decline in the market prices of the Shares of the Company could impair the Company's ability to raise additional capital through the sale of securities should it desire to do so.

Volatile Market Price for the Shares

The market price for the Shares of the Company may be volatile and subject to wide fluctuations in response to numerous factors, many of which will be beyond the Company's control, including, but not limited to the following:

- actual or anticipated fluctuations in the Company's quarterly results of operations;
- recommendations by securities research analysts;
- changes in the economic performance or market valuations of companies in the industry in which the Company will operate;
- addition or departure of the Company's executive officers and other key personnel;
- release or expiration of transfer restrictions on outstanding Shares of the Company;
- sales or perceived sales of additional Shares of the Company;
- operating and financial performance that vary from the expectations of management, securities analysts and investors;
- regulatory changes affecting the Company's industry generally and its business and operations both domestically and abroad;
- announcements of developments and other material events by the Company or its competitors;
- fluctuations to the costs of vital production materials and services;
- changes in global financial markets and global economies and general market conditions, such as interest rates and pharmaceutical product price volatility;
- significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving the Company or its competitors;
- operating and share price performance of other companies that investors deem comparable to the Company or from a lack of market comparable companies; and
- news reports relating to trends, concerns, technological or competitive developments, regulatory changes and other related issues in the Company's industry or target markets.

Financial markets have recently experienced significant price and volume fluctuations that have particularly affected the market prices of equity securities of companies and that have often been unrelated to the operating performance, underlying asset values or prospects of such companies. Accordingly, the market price of the Shares of the Company may decline even if the Company's operating results, underlying asset values or prospects have not changed. Additionally, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses. There can be no assurance that continuing fluctuations in price and volume will not occur. If such increased levels of volatility and market turmoil continue, the Company's operations could be adversely impacted, and the trading price of the Shares of the Company may be materially adversely affected.

Additional Financing

There is no guarantee that the Company will be able to achieve its business objectives. The continued development of the Company may require additional financing. The failure to raise such capital could result in the delay or indefinite postponement of current business objectives or the Company going out of business. There can be no assurance that additional capital or other types of financing will be available if needed or that, if available, the terms of such financing will be favourable to the Company. If additional funds are raised through issuances of equity or convertible debt securities, existing shareholders could suffer significant dilution, and any new equity securities issued could have rights, preferences and privileges superior to those of holders of Shares. In addition, from time to time, the Company may enter into transactions to acquire assets or the shares of other corporations. These transactions may be financed wholly or partially with debt, which may temporarily increase the Company's debt levels above industry standards. Any debt financing secured in the future could involve restrictive covenants relating to capital raising activities and other financial and operational matters, which may make it more difficult for the Company to obtain additional capital and to pursue business opportunities, including potential acquisitions.

The Company's business activities will rely on newly established and/or developing laws and regulations in California. These laws and regulations are rapidly evolving and subject to change with minimal notice. Regulatory changes may adversely affect the Company's profitability or cause it to cease operations entirely. The cannabis industry may come under the scrutiny or further scrutiny by the U.S. Food and Drug Administration, Securities and Exchange Commission, the Department of Justice, the Financial Industry Regulatory Advisory or other federal, California or other applicable state or nongovernmental regulatory authorities or self-regulatory organizations that supervise or regulate the production, distribution, sale or use of cannabis for medical or nonmedical purposes in the United States. It is impossible to determine the extent of the impact of any new laws, regulations or initiatives that may be proposed, or whether any proposals will become law. The regulatory uncertainty surrounding the industry may adversely affect the business and operations of the Company, including without limitation, the costs to remain compliant with applicable laws and the impairment of its business or the ability to raise additional capital.

The Company will require additional financing to fund its operations to the point where it is generating positive cash flows. Continued negative cash flow may restrict the Company's ability to pursue its business objectives.

Commercial banks, private equity firms and venture capital firms have approached the cannabis industry cautiously to date. However, there are increasing numbers of high net worth individuals and family offices that have made meaningful investments in companies and projects similar to the Company's projects. Although there has been an increase in the amount of private financing available over the last several years, there is neither a broad nor deep pool of institutional capital that is available to cannabis license holders and license applicants. There can be no assurance that any such financing will be available to the Company when needed or on terms which are acceptable. The Company's inability to raise financing to fund capital expenditures or acquisitions could limit its growth and may have a material adverse effect upon future profitability.

Co-ownership Arrangement

Bonhomie currently owns 80% of the share capital of SAP, with one other party holding the remaining 20%. This arrangement is subject to the risks normally associated with the conduct of co-ownership structures. The existence or occurrence of one or more of the following circumstances and events could have a material adverse impact on the Company's business prospects, results of operations and financial condition, including the viability of its interest in SAP, the company that owns or is the assignee of various cannabis licenses in the State of California: (i) disagreements between parties on how to conduct business operations; (ii) inability of the parties to meet their obligations to third parties; and (iii) disputes or litigation between the parties regarding budgets, business activities, business and contractual requirements and other matters.

Regulation of Marijuana in the United States

Unlike in Canada which has proposed to have federal legislation uniformly governing the cultivation, distribution, sale and possession of medical cannabis under the Access to Cannabis for Medical Purposes Regulations (Canada), investors are cautioned that in the United States, cannabis is largely regulated at the State level. To the Company's knowledge, there are to date a total of 29 States, plus the District of Columbia, that have legalized cannabis in some form. The State of California is among those States.

Notwithstanding the permissive regulatory environment of cannabis at the State level, cannabis continues to be categorized as a controlled substance under the Controlled Substances Act (the "CSA") in the United States and as such, remains illegal under federal law in the United States.

As a result of the conflicting views between State legislatures and the federal government regarding cannabis, investments in cannabis businesses in the United States are subject to inconsistent legislation and regulation. The response to this inconsistency was addressed in August 2013 when then Deputy Attorney General, James Cole, authored a memorandum (the "Cole Memorandum") addressed to all United States district attorney acknowledging that, notwithstanding the designation of cannabis as a controlled substance at the federal level in the United States, several US States had enacted laws relating to cannabis for medical purposes.

The Cole Memorandum outlined the priorities for the Department of Justice relating to the prosecution of cannabis offenses. In particular, the Cole Memorandum noted that in jurisdictions that have enacted laws legalizing cannabis in some form and that have also implemented strong and effective regulatory and enforcement systems to control the cultivation, distribution, sale and possession of cannabis, conduct in compliance with those laws and regulations is less likely to be a priority at the federal level. Notably, however, the Department of Justice never provided specific guidelines for what regulatory and enforcement systems it deemed sufficient under the Cole Memorandum standard. In light of limited investigative and prosecutorial resources, the Cole Memorandum concluded that the Department of Justice should be focused on addressing only the most significant threats related to cannabis. States where medical cannabis had been legalized were not characterized as a high priority.

In March 2017, the newly appointed Attorney General Jeff Sessions again noted limited federal resources and acknowledged that much of the Cole Memorandum had merit. However, on January 4, 2018, Mr. Sessions issued a new memorandum that rescinded and superseded the Cole Memorandum effective immediately (the "Sessions Memorandum"). The Sessions Memorandum stated, in part, that current law reflects "Congress' determination that cannabis is a dangerous drug and cannabis activity is a serious crime", and Mr. Sessions directed all U.S. Attorneys to enforce the laws enacted by Congress and to follow well-established principles when pursuing prosecutions related to marijuana activities. The inconsistency between federal and state laws and regulations is a major risk factor.

Federal law pre-empts state law in these circumstances, so that the federal government can assert criminal violations of federal law despite state law. The level of prosecutions of state-legal cannabis operations is entirely unknown, nonetheless the stated position of the current administration is hostile to legal cannabis, and furthermore may be changed at any time by the Department of Justice, to become even more aggressive. The Sessions Memorandum lays the groundwork for United States Attorneys to take their cues on enforcement priority directly from Attorney General Jeff Sessions by referencing federal law enforcement priorities set by the Attorney General Jeff Sessions. If the Department of Justice policy under Attorney General Jeff Sessions was to aggressively pursue financiers or equity owners of cannabis-related business, and United States Attorneys followed such Department of Justice policies through pursuing prosecutions, then the Company could face (i) seizure of its cash and other assets used to support or derived from its cannabis subsidiaries, (ii) the arrest of its employees, officers, managers and investors, and charges of ancillary criminal violations of the CSA for aiding and abetting and conspiring to violate the CSA by virtue of providing financial support to cannabis companies that service or provide goods to state-licensed or permitted cultivators, processors, distributors, and/or retailers of cannabis.

Notably, current federal law (in the form of budget bills) prevents the Department of Justice from expending funds to intervene with states' rights to legalize cannabis for medical purposes. The Ninth Circuit Court of Appeals, which governs California federal courts, has ruled that this federal law means that the Department of Justice cannot spend any federal funds to shut down state-law compliant medical cannabis operators. In the event Congress fails to renew this federal law in its next budget bill, the foregoing protection for medical cannabis operators will be void.

Now that the Cole Memorandum has been repealed by Attorney General Jeff Session, the Department of Justice under the current administration or an aggressive federal prosecutor could allege that the Company and its Board and, potentially its shareholders, "aided and abetted" violations of federal law by providing finances and services to its portfolio cannabis companies. Under these circumstances, it is possible that the federal prosecutor would seek to seize the assets of the Company, and to recover the "illicit profits" previously distributed to shareholders resulting from any of the foregoing financing or services. In these circumstances, the Company's operations would cease, shareholders may lose their entire investment and directors, officers and/or shareholders may be left to defend any criminal charges against them at their own expense and, if convicted, be sent to federal prison.
On January 12, 2018, the Canadian Securities Administrators issued a statement that they are considering whether the disclosure-based approach for issuers with U.S. marijuana-related activities remains appropriate in light of the rescission of the Cole Memorandum.

Notwithstanding the foregoing, in March 2018, as part of the Congressional omnibus spending bill, Congress renewed, through the end of September 2018, the Rohrabacher Blumenauer Amendment ("RBA") which prohibits the Department of Justice from expending any funds for the prosecution of medical cannabis businesses operating in compliance with state and local laws. Should the RBA not be renewed upon expiration in subsequent spending bills there can be no assurance that the federal government will not seek to prosecute cases involving medical cannabis businesses that are otherwise compliant with state law. Such potential proceedings could involve significant restrictions being imposed upon the Company or third parties, while diverting the attention of key executives. Such proceedings could have a material adverse effect on the Company's business, revenues, operating results and financial condition as well as the Company's reputation, even if such proceedings were concluded successfully in favour of the Company.

Violations of any federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions or settlements arising from civil proceedings conducted by either the federal government or private citizens, or criminal charges, including, but not limited to, disgorgement of profits, cessation of business activities or divestiture. This could have a material adverse effect on the Company, including its reputation and ability to conduct business, its holding (directly or indirectly) of cannabis licenses in the United States, the listing of its securities on various stock exchanges, its financial position, operating results, profitability or liquidity or the market price of its publicly traded shares. In addition, it is difficult for the Company to estimate the time or resources that would be needed for the investigation of any such matters or its final resolution because, in part, the time and resources that may be needed are dependent on the nature and extent of any information requested by the applicable authorities involved, and such time or resources could be substantial.

Proceeds of Crime Statutes

The Company will be subject to a variety of laws and regulations domestically and in the United States that involve money laundering, financial recordkeeping and proceeds of crime, including the Currency and Foreign Transactions Reporting Act of 1970 (commonly known as the Bank Secrecy Act), as amended by Title III of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (USA PATRIOT Act), the Proceeds of Crime (Money Laundering) and Terrorist Financing Act (Canada), as amended and the rules and regulations thereunder, the Criminal Code (Canada) and any related or similar rules, regulations or guidelines, issued, administered or enforced by governmental authorities in the United States and Canada.

In the event that any of the Company's license agreements, or any proceeds thereof, in the United States were found to be in violation of money laundering legislation or otherwise, such transactions may be viewed as proceeds of crime under one or more of the statutes noted above or any other applicable legislation. This could be materially averse to the Company and, among other things, could restrict or otherwise jeopardize the ability of the Company to declare or pay dividends, effect other distributions or subsequently repatriate such funds back to Canada.

Regulatory Scrutiny of the Company's Interests in the United States

For the reasons set forth above, the Company's interests in the United States cannabis market, and future licensing arrangements, may become the subject of heightened scrutiny by regulators, stock exchanges, clearing agencies and other authorities in Canada. As a result, the Company may be subject to significant direct and indirect interaction with public officials. There can be no assurance that this heightened scrutiny will not in turn lead to the imposition of certain restrictions on the Company's ability to carry on its business in the United States.

Government policy changes or public opinion may also result in a significant influence over the regulation of the cannabis industry in Canada, the United States or elsewhere. A negative shift in the public's perception of cannabis in the United States or any other applicable jurisdiction could affect future legislation or regulation. It has been reported by certain publications in Canada that The Canadian Depository for Securities Limited is considering a policy shift that would see its subsidiary, CDS Clearing and Depository Services Inc. ("CDS"), refuse to settle trades for cannabis issuers that have investments in the United States. CDS is Canada's central securities depository, clearing and settlement hub settling trades in the Canadian equity, fixed income and money markets. CDS or its parent company has not issued any public statement in regard to these reports. However, if CDS were to proceed in the manner suggested by these publications, and apply such a policy to the Company, it would have a material adverse effect on the ability of holders of Common Shares to make trades. In particular, the Common Shares would become highly illiquid as investors would have no ability to affect a trade of the Common Shares through the facilities of a stock exchange.

Government policy changes or public opinion may also result in a significant influence over the regulation of the cannabis industry in Canada, the United States or elsewhere. A negative shift in the public's perception of medical or recreational cannabis in the United States or any other applicable jurisdiction could affect future legislation or regulation. Among other things, such a shift could cause state jurisdictions to abandon initiatives or proposals to legalize medical and/or recreational cannabis, thereby limiting the number of new state jurisdictions into which the Company could expand. In addition, third party service providers could suspend or withdraw services. Any inability to fully implement the Company's expansion strategy may have a material adverse effect on the Company's business, financial condition and results of operations.

Our business is dependent on laws pertaining to the marijuana industry.

Continued development of the marijuana industry is dependent upon continued legislative authorization of the use and cultivation of marijuana at the State level. Any number of factors could slow or halt progress in this area. Further, progress, while encouraging, is not assured. While there may be ample public support for legislative action, numerous factors impact the legislative process. Any one of these factors could slow or halt use of marijuana, which would negatively impact our proposed business.

Currently, twenty-nine states and the District of Columbia allow its citizens to use medical marijuana. Additionally, nine states have legalized cannabis for adult use, including the State of California. The state laws are in conflict with the federal CSA, which makes marijuana use and possession illegal on the federal level. The Obama administration, pursuant to the Cole Memorandum, previously effectively stated that it is not an efficient use of resources to direct law federal law enforcement agencies to prosecute those lawfully abiding by state-designated laws allowing the use and distribution of medical marijuana. However, the Sessions Memorandum under the Trump administration has reversed this position which creates a risk of prosecution by a number of federal agencies. Additionally, there can be no assurance as to the position any new administration may take on cannabis and could decide to enforce the federal laws strongly. Any enforcement of current federal laws could cause significant financial damage to the Company and its shareholders.

Marijuana remains illegal under Federal law

Marijuana is a Schedule 1 controlled substance and is illegal under federal U.S. law. Even in those states in which the use of marijuana has been legalized, its use remains a violation of federal law. Since federal law criminalizing the use of marijuana pre-empts state laws that legalize its use, strict enforcement of federal law regarding marijuana would harm the Company’s business, prospects, results of operation, and financial condition.

Unfavorable Tax Treatment of Cannabis Businesses

Under Section 280E of the U.S. Internal Revenue Code (“Section 280E”), “no deduction or credit shall be allowed for any amount paid or incurred during the taxable year in carrying on any trade or business if such trade or business (or the activities which comprise such trade or business) consists of trafficking in controlled substances (within the meaning of schedule I and II of the Controlled Substances Act) which is prohibited by Federal law or the law of any State in which such trade or business is conducted.” This provision has been applied by the IRS to cannabis operations, prohibiting them from deducting expenses directly associated with the sale of cannabis. Section 280E therefore has a significant impact on the retail side of cannabis, but a lesser impact on cultivation and manufacturing operations. A result of Section 280E is that an otherwise profitable business may, in fact, operate at a loss, after taking into account its income tax expenses.

State Regulatory Uncertainty

The rulemaking process for cannabis operators at the state level in any state will be ongoing and result in frequent changes. As a result, a compliance program is essential to manage regulatory risk. The Company’s legal team will provide guidance in regard to any rulemaking processes and resulting regulatory changes. All operating policies and procedures implemented in the operation will be compliance-based and derived from the state regulatory structure governing ancillary cannabis businesses and their relationships to state-licensed or permitted cannabis operators, if any. Notwithstanding the Company’s efforts, regulatory compliance and the process of obtaining regulatory approvals can be costly and time-consuming. No assurance can be given that the Company will receive the requisite licenses, permits or cards to operate its businesses.

In addition, local laws and ordinances could restrict the Company’s business activity. Although legal under California state law, local governments have the ability to limit, restrict, and ban cannabis businesses from operating within their jurisdiction. Land use, zoning, local ordinances, and similar laws could be adopted or changed, and have a material adverse effect on the Company’s business.

Restricted Access to Banking

In February 2014, the Financial Crimes Enforcement Network (“FinCEN”) bureau of the U.S. Treasury Department issued guidance (which is not law) with respect to financial institutions providing banking services to cannabis business, including burdensome due diligence expectations and reporting requirements. This guidance does not provide any safe harbors or legal defenses from examination or regulatory or criminal enforcement actions by the Department of Justice, FinCEN or other federal regulators. Thus, most banks and other financial institutions in the United States do not appear to be comfortable providing banking services to cannabis-related businesses, or relying on this guidance, which can be amended or revoked at any time by the Trump Administration. In addition to the foregoing, banks may refuse to process debit card payments and credit card companies generally refuse to process credit card payments for cannabis-related businesses. As a result, the Company may have limited or no access to banking or other financial services in the United States. In addition, federal money laundering statutes and Bank

Secrecy Act regulations discourage financial institutions from working with any organization that sells a controlled substance, regardless of whether the state it resides in permits cannabis sales. The inability or limitation in the Company's ability to open or maintain bank accounts, obtain other banking services and/or accept credit card and debit card payments may make it difficult for the Company to operate and conduct its business as planned or to operate efficiently.

Limited Trademark Protection

The Company will not be able to register any United States federal trademarks for its cannabis products. Because producing, manufacturing, processing, possessing, distributing, selling, and using cannabis is a crime under the CSA, the United States Patent and Trademark Office will not permit the registration of any trademark that identifies cannabis products. As a result, the Company likely will be unable to protect its cannabis product trademarks beyond the geographic areas in which it conducts business. The use of its trademarks outside the State of California by one or more other persons could have a material adverse effect on the value of such trademarks.

Potential FDA Regulation

Should the federal government legalize cannabis, it is possible that the U.S. Food and Drug Administration (the "FDA"), would seek to regulate it under the Food, Drug and Cosmetics Act of 1938. Additionally, the FDA may issue rules and regulations including certified good manufacturing practices, related to the growth, cultivation, harvesting and processing of medical cannabis. Clinical trials may be needed to verify efficacy and safety. It is also possible that the FDA would require that facilities where medical-use cannabis is grown register with the FDA and comply with certain federally prescribed regulations. In the event that some or all of these regulations are imposed, the impact would be on the cannabis industry is unknown, including what costs, requirements and possible prohibitions may be enforced. If Company is unable to comply with the regulations or registration as prescribed by the FDA it may have an adverse effect on the Company's business, operating results and financial condition.

Legality of Contracts

Because the Company's contracts involve cannabis and other activities that are not legal under U.S. federal law and in some jurisdictions, the Company may face difficulties in enforcing its contracts in U.S. federal and certain state courts.

Nature of Licenses

Certain licenses, the rights to which are owned by or assigned to SAP, will be relied upon by the Company to operate its business. These licenses, which include two licenses for the manufacturing of medical and adult-use cannabis granted by the Department of Public Health, Manufactured Cannabis Safety Branch and two medical cannabis business local licenses granted by Cathedral City are temporary and their renewal is not guaranteed. The licenses granted by the Department of Public health, Manufactured Cannabis Safety Branch are set to expire on April 30, 2018 and the licenses granted by Cathedral City are set to expire on May 18, 2019. Due to the temporary nature of the licenses, there is a risk that the Company will be unable to renew these licenses and to continue to rely on their terms to operate its business.

The Company has no operating history

The Company has no operating history and may not succeed. The Company is subject to all risks inherent in a developing business enterprise. The Company's likelihood of continued success must be considered in light of the problems, expenses, difficulties, undercapitalization, cash shortages, limitations with respect to personnel, financial and other resources, lack of revenues, complications, and delays frequently encountered in connection with the competitive and regulatory environment in which it operates. For example, the adult use marijuana industry is a relatively new industry which, as a whole may not succeed, particularly should the federal government of the United States decide to prosecute various parties under federal law. There is no assurance that the Company will be successful in achieving a return on shareholders' investment and the likelihood of success must be considered in light of the early stage of operations.

The Company’s products

As a relatively new industry, there are not many established players in the recreational cannabis industry whose business model the Company can follow or build on the success of. Similarly, there is no information about comparable companies available for potential investors to review in making a decision about whether to invest in the Company.

Shareholders and investors should further consider, among other factors, the Company’s prospects for success in light of the risks and uncertainties encountered by companies that, like the Company, are in their early stages. For example, unanticipated expenses and problems or technical difficulties may occur, and they may result in material delays in the operation of The Company’s business. The Company may not successfully address these risks and uncertainties or successfully implement its operating strategies. If the Company fails to do so, it could materially harm the Company’s business to the point of having to cease operations and could impair the value of the Company Shares to the point investors may lose their entire investment.

The Company has committed, and expects to continue to commit, significant resources and capital to develop and market existing products and new products and services. These products are relatively untested, and the Company cannot assure shareholders and investors that it will achieve market acceptance for these products, or other new products and services that The Company may offer in the future. Moreover, these and other new products and services may be subject to significant competition with offerings by new and existing competitors in the business. In addition, new products and services may pose a variety of challenges and require the Company to attract additional qualified employees. The failure to successfully develop and market these new products and services could seriously harm the Company’s business, financial condition and results of operations.

Unfavourable Publicity or Consumer Perception

Proposed management of the Company believes the recreational cannabis industry is highly dependent upon consumer perception regarding the safety, efficacy and quality of the recreational cannabis produced. Consumer perception of the Company’s proposed products may be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity regarding the consumption of recreational cannabis products. There can be no assurance that future scientific research, findings, regulatory proceedings, litigation, media attention or other research findings or publicity will be favourable to the recreational cannabis market or any particular product, or consistent with earlier publicity. Future research reports, findings, regulatory proceedings, litigation, media attention or other publicity that are perceived as less favourable than, or that question, earlier research reports, findings or publicity could have a material adverse effect on the demand for the Company’s proposed products and the business, results of operations, financial condition and cash flows of the Company. The Company’s dependence upon consumer perceptions means that adverse scientific research reports, findings, regulatory proceedings, litigation, media attention or other publicity, whether or not accurate or with merit, could have a material adverse effect on the Company, the demand for the Company’s proposed products, and the business, results of operations, financial condition and cash flows of the Company. Further, adverse publicity reports or other media attention regarding the safety, efficacy and quality of recreational cannabis in general, or the Company’s proposed products specifically, or associating the consumption of recreational cannabis with illness or other negative effects or events, could have such a material adverse effect. Such adverse publicity reports or other media attention could arise even if the adverse effects associated with such products resulted from consumers’ failure to consume such products appropriately or as directed.

History of Losses

The Company has incurred losses in recent periods. The Company may not be able to achieve or maintain profitability and may continue to incur significant losses in the future. In addition, the Company expects to continue to increase operating expenses as it implements initiatives to continue to grow its business. If the Company’s revenues do not increase to offset these expected increases in costs and operating expenses, it will not be profitable.

Risks Inherent in an Agricultural Business

The Company’s business may, in the future, involve the growing of recreational cannabis, an agricultural product. Such business will be subject to the risks inherent in the agricultural business, such as insects, plant diseases and similar agricultural risks. Although all such growing is expected to be completed indoors under climate-controlled conditions, there can be no assurance that natural elements will not have a material adverse effect on any such future production.

Energy Costs

The Company's recreational cannabis growing operations will consume considerable energy, which will make it vulnerable to rising energy costs. Accordingly, rising or volatile energy costs may, in the future, adversely impact the business of the Company and its ability to operate profitably.

Reliance on Management

Another risk associated with the production and sale of recreational cannabis is the loss of important staff members. The Company is currently in good standing with all high-level employees and believes that with well managed practices will remain in good standing. The success of the Company will be dependent upon the ability, expertise, judgment, discretion and good faith of its senior management and key personnel. While employment agreements are customarily used as a primary method of retaining the services of key employees, these agreements cannot assure the continued services of such employees. Any loss of the services of such individuals could have a material adverse effect on the Company's business, operating results or financial condition.

Insurance and Uninsured Risks

The Company's business is subject to a number of risks and hazards generally, including adverse environmental conditions, accidents, labour disputes and changes in the regulatory environment. Such occurrences could result in damage to assets, personal injury or death, environmental damage, delays in operations, monetary losses and possible legal liability.

Although the Company intends to continue to maintain insurance to protect against certain risks in such amounts as it considers to be reasonable, its insurance will not cover all the potential risks associated with its operations. The Company may also be unable to maintain insurance to cover these risks at economically feasible premiums. Insurance coverage may not continue to be available or may not be adequate to cover any resulting liability. Moreover, insurance against risks such as environmental pollution or other hazards encountered in the operations of the Company is not generally available on acceptable terms. The Company might also become subject to liability for pollution or other hazards which may not be insured against or which the Company may elect not to insure against because of premium costs or other reasons. Losses from these events may cause the Company to incur significant costs that could have a material adverse effect upon its financial performance and results of operations.

The Company Will Be an Entrant Engaging in a New Industry

The recreational cannabis industry is fairly new. There can be no assurance that an active and liquid market for shares of the Company will develop and shareholders may find it difficult to resell their shares. Accordingly, no assurance can be given that the Company will be successful in the long term.

Dependence on Suppliers and Skilled Labour

The ability of the Company to compete and grow will be dependent on it having access, at a reasonable cost and in a timely manner, to skilled labour, equipment, parts and components. No assurances can be given that the Company will be successful in maintaining its required supply of skilled labour, equipment, parts and components. This could have an adverse effect on the financial results of the Company.

Difficulty to Forecast

The Company must rely largely on its own market research to forecast sales as detailed forecasts are not generally obtainable from other sources at this early stage of the recreational cannabis industry in the State of California. A failure in the demand for its products to materialize as a result of competition, technological change or other factors could have a material adverse effect on the business, results of operations and financial condition of the Company.

Management of Growth

The Company may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. The ability of the Company to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The inability of the Company to deal with this growth may have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

Internal Controls

Effective internal controls are necessary for the Company to provide reliable financial reports and to help prevent fraud. Although the Company will undertake a number of procedures and will implement a number of safeguards, in each case, in order to help ensure the reliability of its financial reports, including those imposed on the Company under Canadian securities law, the Company cannot be certain that such measures will ensure that the Company will maintain adequate control over financial processes and reporting. Failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm the Company's results of operations or cause it to fail to meet its reporting obligations. If the Company or its auditors discover a material weakness, the disclosure of that fact, even if quickly remedied, could reduce the market's confidence in the Company's consolidated financial statements and materially adversely affect the trading price of the Company's shares.

Liquidity

The Company cannot predict at what prices the Company will trade and there can be no assurance that an active trading market will develop or be sustained. There is a significant liquidity risk associated with an investment in the Company.

Litigation

The Company may become party to litigation from time to time in the ordinary course of business which could adversely affect its business. Should any litigation in which the Company becomes involved be determined against the Company such a decision could adversely affect the Company's ability to continue operating and the market price for Reporting Issuer's shares and could use significant resources. Even if the Company is involved in litigation and wins, litigation can redirect significant Reporting Issuer resources.

Product Liability

The Company faces an inherent risk of exposure to product liability claims, regulatory action and litigation if its products are alleged to have caused significant loss or injury. In addition, the sale of the Company's products would involve the risk of injury to consumers due to tampering by unauthorized third parties or product contamination. Previously unknown adverse reactions resulting from human consumption of the Company's products alone or in combination with other medications or substances could occur. The Company may be subject to various product liability claims, including, among others, that the Company's products caused injury or illness, include inadequate instructions for use or include inadequate warnings concerning possible side effects or interactions with other substances. A product liability claim or regulatory action against the Company could result in increased costs, could adversely affect the Company's reputation with its clients and consumers generally, and could have a material adverse effect on the results of operations and financial condition of the Company. There can be no assurances that the Company will be able to obtain or maintain product liability insurance on acceptable terms or with adequate coverage against potential liabilities. Such insurance is expensive and may not be available in the future on acceptable terms, or at all. The inability to obtain sufficient insurance coverage on reasonable terms or to otherwise protect against potential product liability claims could prevent or inhibit the commercialization of the Company's potential products.

Product Recalls

Manufacturers and distributors of products are sometimes subject to the recall or return of their products for a variety of reasons, including product defects, such as contamination, unintended harmful side effects or interactions with other substances, packaging safety and inadequate or inaccurate labeling disclosure. If any of the Company's products are recalled due to an alleged product defect or for any other reason, the Company could be required to incur the unexpected expense of the recall and any legal proceedings that might arise in connection with the recall. The

Company may lose a significant amount of sales and may not be able to replace those sales at an acceptable margin or at all. In addition, a product recall may require significant management attention. Although the Company has detailed procedures in place for testing its products, there can be no assurance that any quality, potency or contamination problems will be detected in time to avoid unforeseen product recalls, regulatory action or lawsuits. Additionally, if one of the Company's significant brands were subject to recall, the image of that brand and the Company could be harmed. A recall for any of the foregoing reasons could lead to decreased demand for the Company's products and could have a material adverse effect on the results of operations and financial condition of the Company. Additionally, product recalls may lead to increased scrutiny of the Company's operations by the U.S. Food and Drug Administration, the California Department of Public Health, or other regulatory agencies, requiring further management attention and potential legal fees and other expenses.

ADDITIONAL INFORMATION

Additional information about the Company is available on SEDAR at http://www.sedar.com.

BOARD APPROVAL

The board of directors of the Company has approved this MD&A.