HOLLISTER BIOSCIENCES INC.

BUSINESS ACQUISITION REPORT

FORM 51-102F4

Item 1.Identity of Company

1.1 Name and Address of Company

Hollister Biosciences Inc. (the "**Company**")
Suite 1500 - 1055 West Georgia Street
Vancouver, BC V6E 4N7

1.2 Executive Officer

The following executive officer of the Company is knowledgeable about the significant acquisition and this business acquisition report:

Carl Saling, Chief Executive Officer
Telephone: 604 961-0296

Item 2. Details of Acquisition

2.1 Nature of Business Acquired

The Company has completed the transformational acquisition (the "**Acquisition**") of Labtronix, Inc. d/b/a Venom Extracts ("**Labtronix**"), a leading Arizona cannabis extract brand and one of the state's largest producers of award-winning medical cannabis distillate and related products pursuant to a Securities Exchange Agreement made effective March 16, 2020 and as amended on March 19, 2020 (the "**Definitive Agreement**") among the Company, Labtronix, the holders of all of the issued and outstanding Labtronix Shares (the "**Shareholders**") and the holders (the "**Warrantholders**") of all of the issued and outstanding warrants of Labtronix (the "**Labtronix Warrants**").

2.2 Date of Acquisition

The Company completed the Acquisition on March 24, 2020.

2.3 Consideration

Pursuant to the terms of the Definitive Agreement and as consideration of the Acquisition, the Company issued 70,390,672 common shares in the capital of the Company (the "**Payment Shares**") at a deemed value of CDN$0.20 per Payment Share on March 24, 2020 (the "**Closing Date**") pro rata to the shareholders of Labtronix. An additional 29,610,054 common shares in the capital of the Company (the "**Earn-Out Shares**") will be issued to certain former shareholders of Labtronix at a deemed value of

CDN$0.20 per Earn-Out Share on the earlier of (i) December 31, 2021, or (ii) when and if the following milestones have been met:

- 19,740,036 Earn-Out Shares will be issued when revenue of Labtronix reaches CDN$30,000,000 (calculated in accordance with IFRS from January 1, 2020); and

- An additional 9,870,018 Earn-Out Shares will be issued when revenue of Labtronix reaches CDN$40,000,000 (calculated in accordance with IFRS from January 1, 2020).

In connection with the Acquisition, the Company issued 6,000,000 common shares (the "**Finder Shares**") to an arm's length third party finder at a deemed price of $0.20 per Finder Share.

2.4 Effect on Financial Position

The Company does not have any current plans or proposals for material changes in its business affairs or the affairs of any of its subsidiaries, including Labtronix, which may have a significant effect on the results of operations and financial position of the Company.

2.5 Prior Valuations

Not Applicable

2.6 Parties to the Transaction

The Acquisition was not with an informed person, associate or affiliate of the Company as defined in Section 1.1 of National Instrument 51 – 102 *Continuous Disclosure Obligations*.

2.7 Date of Report

July 24, 2020

Item 3.Financial Statements

The following financial statements are attached to this Business Acquisition Report:

- audited financial statements of Labtronix for the financial years ended December 31, 2019 and 2018;

The Company has obtained the consent of the auditor of Labtronix to incorporate the auditor's report for the audited financial statements for the years ended December 31, 2019 and 2018 in this Business Acquisition Report.

FINANCIAL STATEMENTS OF LABTRONIX, INC.

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Labtronix, Inc.

FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 and 2018

(Expressed in United States dollars)

INDEPENDENT AUDITOR'S REPORT

To the Director of
Labtronix, Inc.

Qualified Opinion

We have audited the accompanying financial statements of Labtronix, Inc. (the "Company"), which comprise the statements of financial position as at December 31, 2019 and 2018 and the statements of income and comprehensive income, changes in equity and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects on the corresponding figures of the matter described in the Basis for Qualified Opinion section of our report, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Qualified Opinion

We were not able to observe the count of physical inventories at December 31, 2018 and 2017, since that day was prior to our appointment as auditors of the Company, and we were not able to satisfy ourselves concerning those inventory quantities by alternative means. Since opening inventories affect the determination of the results of operations, we were unable to determine whether adjustments to the results of operations and opening retained earnings may be necessary for 2019 and 2018. Our audit opinion on the financial statements for the years ended December 31, 2019 and 2018 was modified accordingly. Our opinion on the current year's financial statements is also modified because of the possible effects of this matter on the comparability of the current year's figures and the corresponding figures.

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

Material Uncertainty Related to Going Concern

We draw attention to Note 1 of the financial statements, which indicates that the Company has incurred net income since inception however the ability of the Company to continue as a going-concern depends upon its ability to develop profitable operations and to continue to raise adequate financing. As stated in Note 1, these events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

"DAVIDSON & COMPANY LLP"

Vancouver, Canada

Chartered Professional Accountants

July 22, 2020

LABTRONIX, INC.
STATEMENTS OF FINANCIAL POSITION
(Expressed in United States Dollars)
AS AT DECEMBER 31

	2019	2018
	$	$
ASSETS		
Current assets		
Cash	**606,025**	11,405
Accounts receivable (Note 4)	**1,115,067**	320,477
Inventory (Note 5)	**782,869**	364,141
Prepaid	**30,593**	-
	2,534,554	696,023
Property and equipment (Note 6)	**447,217**	203,212
Right of use asset (Note 7)	**119,805**	-
TOTAL ASSETS	**3,101,576**	899,235
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable and accrued liabilities (Notes 8 and 12)	**790,813**	172,043
Lease liability (Note 9)	**45,860**	-
Loans payable (Note 10)	**751,069**	45,000
	1,587,742	217,043
Lease liability (Note 9)	**84,063**	-
Total liabilities	**1,671,805**	217,043
EQUITY		
Capital contributions (Note 11)	**131,100**	100
Contributed surplus (Note 12)	**234,928**	394,920
Retained earnings	**1,063,743**	287,172
Total equity	**1,429,771**	682,192
TOTAL LIABILITIES AND EQUITY	**3,101,576**	899,235

Nature and continuance of operations (Note 1)
Subsequent event (Note 18)

"Carl Saling"
Director

Approved and authorized by the Board on July 22, 2020.

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

LABTRONIX, INC.
STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(Expressed in United States Dollars)
Year Ended December,

	2019	2018
	$	$
REVENUE	**13,046,783**	5,107,666
COST OF GOODS SOLD	**(10,923,479)**	(4,367,067)
	2,123,304	740,599
OPERATING EXPENSES		
Amortization (Notes 6 and 7)	**(11,037)**	(1,603)
Interest (Notes 9 and 10)	**(344,583)**	(3,000)
Marketing fees	**(168,935)**	(182,820)
Office and general	**(45,736)**	(42,579)
Professional fees	**(340,438)**	(108,440)
Rent	**(9,424)**	(3,089)
Repair and maintenance expense	**(5,026)**	(1,002)
Travel	**(23,424)**	(19,344)
Wages and benefits (Note 12)	**(318,931)**	(186,623)
	(1,267,534)	(548,500)
Operating Income	**855,770**	192,099
Impairment of property and equipment (Note 6)	**(79,199)**	-
Income and comprehensive income for the year	**776,571**	192,099
Weighted average number of common shares outstanding	**46,189,163**	46,000,000
Basic and diluted earnings per common share	**$0.02**	$0.01

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

LABTRONIX, INC.
STATEMENTS OF CASH FLOWS
(Expressed in United States Dollars)
Year Ended December 31,

	2019	2018
	$	$
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income for the year	**776,571**	192,099
Items not affecting cash:		
Accretion	**4,777**	-
Amortization	**46,135**	15,604
Impairment of inventory	**-**	55,212
Impairment of property and equipment	**79,199**	-
Interest	**339,806**	-
Changes in non-cash working capital items:		
Accounts receivable	**(794,590)**	(320,477)
Accounts payable and accrued liabilities	**577,614**	159,755
Inventory	**(407,356)**	(300,791)
Prepaids	**(30,593)**	-
Cash provided by (used in) operating activities	**591,563**	(198,598)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of equipment	**(373,376)**	(220,242)
Cash provided by (used in) investing activities	**(373,376)**	(220,242)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of units	**131,000**	-
Receipt of loans	**1,162,044**	45,000
Repayment of loans	**(754,625)**	-
Shareholder contributions (withdrawals)	**(159,992)**	109,430
Lease payments	**(1,994)**	-
Cash provided by (used in) financing activities	**(376,433)**	154,430
Change in cash during the year	**594,620**	(264,410)
Cash, beginning of year	**11,405**	275,815
Cash, end of year	**606,025**	11,405

Supplemental information:		**2019**		2018
Interest Paid	**$**	296,650	**$**	-
Income Taxes Paid	**$**	-	**$**	-
Other Non-cash Investing and Financing Activities				
Depreciation included in inventory	**$**	11,372	**$**	1,426

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

LABTRONIX, INC.
STATEMENTS OF CHANGES IN EQUITY
(Expressed in United States Dollars)

	Units	Amount	Contributed surplus	Retained earnings	Total
Balance, December 31, 2017	46,000,000	$ 100	$ 285,490	$ 95,073	$ 380,663
Shareholder contributions	-	-	109,430	-	109,430
Comprehensive income for the year	-	-	-	192,099	192,099
Balance, December 31, 2018	46,000,000	100	394,920	287,172	682,192
Shares issued for cash	485,185	131,000	-	-	131,000
Shareholder contributions	-	-	(159,992)	-	(159,992)
Comprehensive income for the year	-	-	-	776,571	776,571
Balance, December 31, 2019	46,485,185	$ 131,100	$ 234,928	$ 1,063,743	$ 1,429,771

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

1. NATURE AND CONTINUANCE OF OPERATIONS

Labtronix, Inc. (the "Entity" or "Labtronix") was incorporated on May 17, 2017 under the laws of Phoenix, Arizona, U.S.A. The Entity operates under the business name of Venom Extracts. The Entity's business operations entail the manufacturing of concentrates, Propane Hash Oil (P.H.O.) concentrates and cartridges and distribution of products for medical use in the state of Arizona. The Entity's registered corporate office is 2328 E Osborn Road, Phoenix, AZ 85016 United States of America.

Medicinal cannabis infused products are legal under the laws of Arizona and several other U.S. States with differing restrictions. The United States Federal Controlled Substances Act classifies all "marijuana" as a Schedule 1 drug, whether for medical or recreational use. Under U.S. federal law, a Schedule 1 drug or substance has a high potential for abuse, no accepted medical use in the United States and a lack of safety for use under medical supervision.

On March 24, 2020, the Entity was acquired by Hollister Biosciences Inc. ("Hollister") a cannabis branding company. Pursuant to the terms of the Acquisition, Hollister has acquired Labtronix for consideration of CDN$20,000,145 which was satisfied by the issuance of 70,390,672 Hollister common shares (the "Payment Shares") at a deemed value of CDN$0.20 per share pro rata to the shareholders of Labtronix and an additional 29,610,054 common shares (the "Earn-Out Shares") at a value of CDN$0.20 per share to certain former shareholders of Labtronix on the earlier of (i) Labtronix reaching certain revenue milestones (detailed below), or (ii) December 31, 2021.

• The Earn-Out Shares will be issued on the earlier of (i) December 31, 2021, or (ii) when and if the following milestones have been met:

- 19,740,036 Earn-Out Shares will be issued when revenue of the Entity exceeds CDN$30,000,000 (calculated in accordance with IFRS from January 1, 2020); and

- An additional 9,870,018 Earn-Out Shares will be issued when revenue of the Entity exceeds CDN$40,000,000 (calculated in accordance with IFRS from January 1, 2020).

These financial statements have been prepared assuming the Entity will continue on a going-concern basis. The Entity has incurred net income since inception however the ability of the Entity to continue as a going-concern depends upon its ability to develop profitable operations and to continue to raise adequate financing.

There can be no assurance that the Entity will be able to continue to raise funds, in which case the Entity may be unable to meet its obligations. Should the Entity be unable to realize its assets and discharge its liabilities in the normal course of business, the net realizable value of its assets may be materially less than the amounts recorded in these financial statements.

The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Entity be unable to continue in existence.

1. NATURE AND CONTINUANCE OF OPERATIONS *(cont'd…)*

In March 2020 the World Health Organization declared coronavirus COVID-19 a global pandemic. This pandemic, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. It is not possible for the Entity to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Entity's business or ability to raise funds. The Entity will continue to follow the guidance of local, state, national and international health authorities to make informed decisions and provide its clients and staff with information as the Entity's priority is on the safety and well-being of its employees and clients.

These conditions indicate the existence of material uncertainties that may cast significant doubt about the Entity's ability to continue as a going concern

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance and basis of presentation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Interpretations of the IFRS Interpretations committee ("IFRIC") in effect for the year ended December 31, 2019. These financial statements were approved by the Director and authorized for issue on July 22, 2020.

Basis of measurement

These financial statements are presented in United States ("US") dollars and are prepared under the historical cost basis, except for financial instruments classified as and measured at fair value through profit or loss. These financial statements have been prepared on an accrual basis, except for cash flow information.

Functional currency

The functional currency of the Entity is the US dollar.

Cash

Cash is comprised of cash on hand.

Accounts receivable

Accounts receivable are initially recognized at fair value and subsequently measured at amortized cost less a provision of doubtful accounts based on expected future credit losses. Changes to the provision for doubtful accounts and any subsequent collection of accounts previously written off as uncollectable are included as other income in the statement of operations and comprehensive loss. When a receivable is determined to be uncollectable, it is written off.

2. SIGNIFICANT ACCOUNTING POLICIES *(cont'd…)*

Inventory

Inventory is valued at the lower cost and net realizable value. Cost comprises all costs of purchases and other costs incurred in bringing inventories to their location and condition at period end date. The Entity uses the weighted average method to track and cost inventory items. The Entity maintains three categories of inventory: raw materials, work in process and finished goods inventory.

Inventory is written down to net realizable value by item when a decline in the price of items indicated that the cost is higher than the net realizable value. When events having caused a decline in the valuation of inventories no longer exist, the amount of the write-down is reversed so that the new carrying amount is the lower of the costs and the revised net realizable value.

Property and equipment

Property and equipment are measured at cost, less accumulated depreciation and impairment losses. Depreciation is provided on a straight-line basis over the asset's useful life commencing from the time the asset is available for use. The depreciation lives used for each class of depreciable asset are:

Asset	Basis	Period and Rate
Automotive	Declining balance	30%
Computer equipment	Declining balance	30%
Furniture and fixtures	Declining balance	20%
Leasehold improvements	Straight line	5 year
Machinery and equipment	Declining balance	20%

An asset's residual value and useful life are reviewed during each financial year and adjusted if appropriate. Gains and losses on disposal of an item are determined by comparing the proceeds from disposal with the carrying amount of the item and recognized in profit or loss.

Impairment of long-lived assets

Long-lived assets, including property and equipment are reviewed to determine whether there is any indication that these assets have impairment at each statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount of an asset may exceed its recoverable amount. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets (the cash-generating unit, or "CGU"). The recoverable amount of an asset or a CGU is the higher of its fair value, less costs to sell, and its value in use. If the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognized immediately in profit or loss by the amount by which the carrying amount of the asset exceeds the recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount, and the carrying amount that would have been recorded had no impairment loss been recognized previously.

Members' contributions

Capital contributions by members are classified as equity. Incremental costs directly attributable to the issue of units and unit-based payments are recognized as a deduction from equity, net of any tax effects.

2. SIGNIFICANT ACCOUNTING POLICIES *(cont'd…)*

Revenue recognition

The Entity generates revenue through the sale of cannabis and cannabis related products, largely on a point-of-sale basis. Revenue is recognized based on the following five step process:

1. The parties have entered into a customer contract (written or oral).
2. The performance obligations associated with the contract are known.
3. The amount to be paid and the terms of the payment have been identified.
4. The Entity's cash flows are expected to change as a result of fulfilling the contract.
5. It is probable that the Entity will collect the consideration to which it is entitled.

The Entity recognizes revenue once all performance obligations are met. Performance is met by the Entity once the cannabis or cannabis related products are transferred to the customer. The Entity does not grant credit to customers related to the retail sale of cannabis and cannabis related products, and therefore, delivery of the product does not occur unless cash is collected from the customer by the Entity. Credit is granted to customers related to the sale of cannabis to wholesale distributors. The Entity recognizes revenue at the time the cannabis is delivered to the wholesale distributor as a detailed credit assessment of each wholesale distributor is conducted prior to delivering the product.

The Entity does not have any contracts to provide products or services to customers over a period of time or for which multiple performance obligations exist.

Income taxes

Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities for accounting purposes, and their respective tax basis. Deferred income tax assets and liabilities are measured using tax rates that have been enacted or substantively enacted applied to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in statutory tax rates is recognized in profit or loss in the year of change. Deferred income tax assets are recorded when their recoverability is considered probable and are reviewed at the end of each reporting period.

Financial instruments

Financial assets:

Financial assets are recognized and measured using a single approach to determine whether a financial asset is classified and measured at amortized cost or at fair value. The classification and measurement of financial assets is based on the Entity's business models for managing its financial assets and whether the contractual cash flows represent solely payments of principal and interest ("SPPI"). Financial assets are initially measured at fair value and are subsequently remeasured at either (i) amortized cost, (ii) fair value through other comprehensive income ("FVTOCI"), or (iii) at fair value through profit or loss ("FVTPL").

2. SIGNIFICANT ACCOUNTING POLICIES *(cont'd…)*

Financial assets that are subsequently remeasured at amortized cost are those assets that are held with the objective to collect contractual cash flows, and those contractual flows represent SPPI. Amortized cost is determined using the effective interest method. The Entity measures its cash and accounts receivable at amortized cost. Financial assets that are remeasured at amortized cost are assessed for impairment based on expected future credit losses. The Entity measures expected future credit losses based on lifetime expected credit losses taking into consideration historical credit loss experience and financial factors specific to debtors and other relevant factors.

Financial assets that are subsequently remeasured at FVTOCI are those assets that are held with the objective to both (i) collect contractual cash flows (and those contractual cash flows represent SPPI), and (ii) sell the financial asset. The fair value of these financial assets is remeasured at each reporting period date with the resulting changes included as other comprehensive income with no transfer to profit or loss of any gains or losses arising on the derecognition of the financial asset. The Entity does not measure any financial instruments at FVTOCI.

Financial assets that are subsequently remeasured at FVTPL are those financial assets that do not meet the criteria to be classified at amortized cost or at FVTOCI. This category generally includes debt instruments whose cash flow characteristics are not SPPI or are not held with the objective to collect contractual cash flows, or to both collect contractual cash flows and sell the financial asset. In addition, derivative instruments and certain equity instruments that are not designated as FVTOCI are included in this category. The Entity does not measure any financial instruments at FVTPL.

Financial liabilities

Financial liabilities are initially measured at fair value and subsequently remeasured at amortized cost. The Entity's financial liabilities are accounts payable and loans payable.

Fair value determination

Financial assets and liabilities recorded at fair value in the statement of financial position are categorized based on the level of judgment associated with the inputs used to measure their fair value. The levels are based on the amount of subjectivity associated with the inputs in the fair value determination and are as follows:

Level I – Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date.

Level II – Inputs (other than quoted prices included in Level I) are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the instrument's anticipated life.

Level III – Inputs reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date as observable market data is unavailable. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model.

2. SIGNIFICANT ACCOUNTING POLICIES *(cont'd…)*

Critical accounting estimates and judgments

The preparation of the financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Allowance for doubtful accounts
The Entity recognizes an impairment loss allowance for expected credit losses on trade accounts receivable using a probability-weighted estimate of credit losses. In its assessment, management estimates the expected credit losses based on actual credit loss experience and informed credit assessment, taking into consideration forward-looking information. If actual credit losses differ from estimates, future earnings would be affected.

Discount rate for leases
IFRS 16 Leases requires lessees to discount lease payments using the rate implicit in the lease if that rate is readily available. If that rate cannot be readily determined, the lessee is required to use its incremental borrowing rate. The Entity generally uses the incremental borrowing rate when initially recording real estate leases as the implicit rates are not readily available as information from the lessor regarding the fair value of underlying assets and initial direct costs incurred by the lessor related to the leased assets is not available. The Entity determines the incremental borrowing rate as the interest rate the Entity would pay to borrow over a similar term the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

Estimated useful lives and depreciation of property and equipment
Depreciation and amortization of property and equipment are dependent upon estimates of useful lives and when the asset is available for use, which are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that consider factors such as economic and market conditions and the useful lives of assets.

Inventory
The Entity reviews the net realizable value of, and demand for, its inventory regularly to provide assurance that recorded inventory is stated at the lower of cost or net realizable value. Factors that could impact estimated demand and selling prices include competitor actions, supplier prices and economic trends.

Income taxes
In assessing the probability of realizing income tax assets, management makes estimates related to expectation of future taxable income, applicable tax opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified.

2. SIGNIFICANT ACCOUNTING POLICIES *(cont'd…)*

Critical accounting estimates and judgments *(cont'd…)*

Impairment of property and equipment
Indicators of impairment are assessed by management using judgement, considering future plans, market conditions and cannabis prices. In assessing the recoverability, each CGU's carrying value is compared to its recoverable amount, defined as the greater of its fair value less cost to sell and value in use. 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.

3. CHANGES IN ACCOUNTING POLICIES

The Entity adopted the following accounting standards and amendments to accounting standards effective January 1, 2019:

IFRS 16 Leases

On January 1, 2019 the Entity adopted IFRS 16 – Leases ("IFRS 16") which replaced IAS 17 – Leases and IFRIC 4 – Determining Whether an Arrangement Contains a Lease. IRFS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. The standard is effective for annual periods beginning on or after January 1, 2019. IFRS 16 eliminates classification of leases as either operating leases or finance leases for the lessee. Instead, all leases are treated in a similar way to finance leases applied in IAS 17. IFRS 16 does not require a lessee to recognize assets and liabilities for short-term leases (i.e. leases of 12 months or less) and leases of low value assets.

The Entity applied IFRS 16 using the modified retrospective method. Under this method, financial information will not be restated and will continue to be reported under the accounting standards in effect for those periods. The Entity will recognize lease liabilities related to its lease commitments for its office lease. The lease liability will be measured at the present value of the remaining lease payments, discounted using the Entity's incremental borrowing rate as at January 1, 2019, the date of the initial application, resulting in no adjustment to the opening balance of deficit. The associated right-of-use ("ROU") assets will be measured at the lease liabilities amount, plus prepaid lease payments made by the Entity.

The Entity has implemented the following accounting policies permitted under the new standard:

- Leases of low dollar value will continue to be expensed as incurred; and
- The Entity will not apply any grandfathering practical expedients.

New accounting policy for leases under IFRS 16

The following is the accounting policy for leases as of January 1, 2019 upon adoption of IFRS 16:

3. CHANGES IN ACCOUNTING POLICIES *(cont'd…)*

IFRS 16 Leases (cont'd…)

The Entity assesses whether a contact is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Entity assess whether the contract involves the use of an identified asset, whether the right to obtain substantially all of the economic benefits from use of the asset during the term of the arrangement exists, and if the Entity has the right to direct the use of the asset. At inception or on reassessment of a contract that contains a lease component, the Entity allocates the consideration in the contract to each lease component on the basis of their relative standalone prices.

As a lessee, the Entity recognizes a right-of-use asset and a lease liability at the commencement date of a lease. The right-to-use asset is initially measured at cost, which is comprised of the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any decommissioning and restoration costs, less any lease incentives received.

The right-of-use asset is subsequently depreciated from the commencement date to the earlier of the end of the lease term or the end of the useful life of the asset. In addition, the right-of-use asset may be reduced due to impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

A lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by the interest rare implicit in the lease, or if that rate cannot be readily determined, the incremental borrowing rate. Lease payments included in the measurement of the lease liability are comprised of:

- Fixed payments, including in-substance fixed payments, less any lease incentives receivable;
- Variable lease payments that depends on an index or a rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable under a residual value guarantee;
- Exercise prices of purchase options if the Entity is reasonably certain to exercise that option; and
- Payments of penalties for terminating the lease, of the lease term reflects the lessee exercising an option to terminate the lease.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is change in future lease payments arising from a change in an index or rate, or if there is a change in the estimate or assessment of the expected amount payable under a residual value guarantee, purchase, extension or termination option. Variable lease payments not included in the initial measurement of the lease liability are charged directly to profit or loss.

The Entity does not recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The lease payments associated with these leases are charged directly to profit or loss on a straight-line basis over the lease term.

For the purposes of preparing and presenting the Entity's financial statements, the Entity has adopted all applicable standards and interpretations issued.

3. CHANGES IN ACCOUNTING POLICIES *(cont'd…)*

IFRIC interpretation 23 Uncertainty over income Tax Treatments

In June 2017, the IASB issued IFRIC Interpretation 23 Uncertainty over Income Tax Treatments. The Interpretation provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The Interpretation is applicable for annual periods beginning on or after January 1, 2019. At January 1, 2019, the Entity adopted this standard and there was no material impact on the Entity's financial statements.

Accounting standards issued but not yet applied:

In October 2018, the IASB issued amendments to IFRS 3 "Definition of a Business" that narrowed and clarified the definition of a business. The amendments permit a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business. The amendments are effective January 1, 2020 with earlier adoption permitted. The amendments apply to business combinations after the date of adoption. The Entity prospectively adopted the amendments on January 1, 2020 and has concluded this standard will not have a material impact on its financial statements.

In October 2018, the IASB issued amendments to IAS 1 "Presentation of Financial Statements" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors". The amendments make minor changes to the definition of the term "material" and align the definition across all IFRS Standards. Materiality is used in making judgments related to the preparation of financial statements. The amendments are effective January 1, 2020 with earlier adoption permitted. The Entity prospectively adopted the amendments on January 1, 2020 and has concluded this standard will not have a material impact its financial statements.

4. ACCOUNTS RECEIVABLE

Accounts receivable are measured at amortized cost, net of allowance for uncollectible amounts. The Entity determines its expected credit loss based on a number of factors, including length of time an account is past due, the customer's previous loss history, and the ability of the customer to pay its obligation to the Entity. The Entity writes off receivables when they become uncollectible.

As at:	December 31, 2019	December 31, 2018
1-30 days	$ 997,970	$ 112,586
30-60 days	88,315	24,882
60-90 days	28,782	183,009
	$ 1,115,067	$ 320,477

Provision for doubtful accounts amounts are included in general and administration expenses. All of the Entity's trade and other receivables have been reviewed for indicators of impairment. During the year ended December 31, 2019, the Entity recorded $Nil (2018 - $Nil) as provision of doubtful accounts.

5. INVENTORY

The Entity maintains three classes of inventory: raw materials, work in process ("WIP") and finished goods. Raw materials consist of cannabis "trim" and various packaging and incidental items. WIP consists primarily of inventory in the process of being converted from trim to concentrate or cannabis oil. Finished goods inventory includes concentrate, cannabis oil, cannabis oil in cartridges and packages of concentrate.

As at:	December 31, 2019	December 31, 2018
Raw materials	$ 177,039	$ 193,581
Work in progress	248,246	74,360
Finished goods	357,584	96,200
Total	$ 782,869	$ 364,141

The Entity allocates various production and overhead costs and expenses to inventory items. As such, the cost of inventory is recognized as an expense, and included in costs of goods sold for the year end December 31, 2019, in the amount of $143,930(2018 - $35,461) and valued at cost. Direct product costs are valued on a weighted average basis and major production cost such as labor and testing are allocated to inventory.

During the year ended December 31, 2019, the Entity wrote-down inventory in the amount of $Nil (2018 - $55,212) included within cost of sales.

6. PROPERTY AND EQUIPMENT

	Computer equipment	Machinery and equipment	Leasehold improvements	Furniture and fixtures	Total
	$	$	$		$
Balance at January 1, 2018	-	-	-	-	-
Additions	837	154,276	50,357	14,772	220,242
Balance at December 31, 2018	837	154,276	50,357	14,772	220,242
Additions	-	187,010	178,067	8,300	373,376
Impairment	-	-	(79,199)	-	(79,199)
Balance at December 31, 2019	837	341,286	149,225	23,072	514,420
Accumulated Depreciation					
Balance at January 1, 2018	-	-	-	-	-
Depreciation for the year	126	15,427	-	1,477	17,030
Balance at December 31, 2018	126	15,427	-	1,477	17,030
Depreciation for the year	213	46,470	-	3,489	50,173
Balance at December 31, 2019	339	61,897	-	4,966	67,203
Carrying Amounts					
At December 31, 2018	712	138,849	50,357	13,295	203,212
At December 31, 2019	498	279,389	149,225	18,106	447,217

6. PROPERTY AND EQUIPMENT *(cont'd…)*

Depreciation expense for the year ended December 31, 2019, totaled $50,173 (December 31, 2018 - $17,030), of which $46,471 (December 31, 2018 - $15,427) is included in cost of goods sold.

Leasehold improvements relate to capital costs incurred by the Entity which were not yet available for use.

7. RIGHT OF USE ASSET

The Entity recognized an ROU asset totaling $127,140 in connection with the Entity's office lease. This amount represents the present value of future minimum lease payments using a discount rate of 15%. The following table reconciles the changes attributable to the Entity's right of use asset:

Cost:		
At December 31, 2017 and 2018	$	-
Additions		127,140
At December 31, 2019		127,140
Depreciation:		
At December 31, 2017 and 2018	$	-
Depreciation		7,335
At December 31, 2019		7,335
Net book value:		
At December 31, 2018	$	-
At December 31, 2019	$	119,805

Depreciation of right-of-use assets is calculated using the straight-line method over the lease term.

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities are comprised of:

	December 31, 2019	**December 31, 2018**
Accounts payable	$592,713	$139,646
Accrued payroll liabilities and taxes	198,100	32,397
	$790,813	$172,043

9. LEASES OBLIGATIONS

During the year ended December 31, 2019, the Entity recognized a discounted lease obligation of $127,140. A reconciliation of the discounted lease obligation is set forth below:

Lease liabilities recognized as at January 1, 2019	$	-
Leases entered into during the year		127,140
Lease payments made		(1,994)
Accretion expense		4,777
		129,923
Less: current portion		(45,860)
At December 31, 2019	$	84,063

Undiscounted least payments

Not later than 1 year	$	38,716
Later than 1 year and not later than 5 years		137,980
At December 31, 2019	$	176,696

10. LOANS PAYABLE

During the year ended December 31, 2019, the Entity received loans amount of $1,162,044 (2018 - $45,000) from various arms' length parties. The Entity incurred interest expense in the amount of $298,650 (2018 - $Nil) and paid down these loans in the amount of $754,625 (2018 - $Nil) resulting in an outstanding balance of $751,069 (2018 - $45,000). Interest rates vary from 2% to 18%. These loans are guaranteed by a lien on all equipment owned by the Entity and are current.

11. MEMBERS' EQUITY

The Entity is a limited liability company organized in the state of Arizona. The Entity is authorized to issue 75,000,000 common shares with $0.0001 par value per share. Of the total authorized common stock. 9,000,000 shares are non-voting common stock.

During the year ended December 31, 2019, the Entity issued 485,185 shares (2018 - $Nil) for proceeds of $131,000 (2018 - $Nil).

12. RELATED PARTIES

In addition to related party transactions described elsewhere in the notes to the financial statements, the Entity had the following related party transactions:

Key management personnel include persons having the authority and responsibility for planning, directing and controlling the activities of the Entity as a whole. The key management personnel of the Entity are the members of the Entity's executive management team and ownership members.

Compensation provided to key management is as follows:

	December 31, 2019	December 31, 2018
Wages and benefits	$281,424	$68,896
	$281,424	$68,896

During the year ended December 31, 2019, the Entity distributed a total of $159,992 (2018 – contributed $109,430) in contributions to/from Shareholders of the Entity and was recorded in contribution surplus resulting in a balance in contributed surplus of $234,928 (2018 – $394,920). The contribution is non-repayable and does not confer equity interest.

Accounts payable and accrued liabilities include amounts due to executive management team and ownership members of the Entity at December 31, 2019 of $146,296 (December 31, 2018 - $Nil). All amounts are non-interest bearing and have no formal terms of repayment.

13. INCOME TAX

A reconciliation of income taxes expense at statutory rates with the reported taxes for the year ended December 31, is as follows:

	2019	2018
Net income for the year	**$ 776,571**	$ 192,099
Pass through items	**(776,571)**	(192,099)
Net income for the year	**-**	-

No deferred tax asset has been recognized in respect of the above because the amount of future taxable profit that will be available to realize such assets is not probable.

For the years ended December 31, 2019 and 2018, the Entity was taxed as a limited liability company and, accordingly, taxable income and losses flowed through to the respective members.

14. FINANCIAL INSTRUMENTS

Fair value

Financial assets and liabilities are classified in the fair value hierarchy according to the lowest level of input that is significant to the fair value measurement. Assessment of the significance of a particular input to the fair value measurement requires judgement and may affect placement within the fair value hierarchy levels. The hierarchy is as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2: inputs other than quotes prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The carrying value of cash, accounts receivable, accounts payable and accrued liabilities, and loans payable approximates fair value due to the short-term nature of the financial instruments.

There have been no transfers between fair value levels during the year.

Financial risk factors

The Entity risk exposure and the impact on the Entity's financial instruments are summarized below:

Economic dependence
The Entity derived 21% (2018 – 24%) of its revenues from two customers (2018 – two) that accounted for $2,773,134 (2018 - $1,191,393) of revenue during the year ended December 31, 2019.

Liquidity risk
The Entity's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at December 31, 2019, the Entity's financial liabilities consist of accounts payable and accrued liabilities, lease liability and loans payable. The Entity manages liquidity risk by reviewing its capital requirements on an ongoing basis. Historically, the Entity's main source of funding has been additional funding from members, or the addition of new members. The Entity's access to financing is always uncertain. There can be no assurance of continued access to significant financing.

14. FINANCIAL INSTRUMENTS *(cont'd…)*

Credit risk

Credit risk is the risk of a potential loss to the Entity if a customer or third party to a financial instrument fails to meet its contractual obligations. The maximum credit exposure to the Entity is the carrying amount of cash, and receivables.

Most of the Entity's cash is held in trust accounts and with major U.S. financial institutions, and management believes the exposure to credit risk with respect to these institutions is not significant.

The Entity is exposed to credit risk inherent in its trade receivables which include credit exposures to customers and their outstanding trade receivables balances.

Impairment of financial assets

The Entity' sole financial asset that is subject to the expected credit loss model is trade receivables arising from product revenue. While cash is also subject to the impairment requirements of IFRS 9, the risk is insignificant.

The Entity applies the IFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

To measure the expected credit losses, trade receivables have been grouped based on specific credit risk characteristics, debtor circumstances, and the days past due. The volume of debtors in these respective categories is low. The expected loss amounts are based on payment profiles since commencement of revenue-generating activity during the year ended December 31, 2019, and the corresponding historical credit losses experienced within this period for these debtors. The historical loss rates, if any, are considered and adjusted in respect of aged trade receivables to reflect current and forward-looking information on factors specific to the customers' ability to settle the amounts.

Trade receivables are written-off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, failure of a debtor to engage in a repayment plan, and a failure by the debtor to make contractual payments for a period of greater than 90 days past due, or shorter if specific circumstances suggest otherwise.

As at December 31, 2019, 54% (December 31, 2018 – 41%) of trade receivables were due from three customers (December 31, 2018 – three).

Concentration Risk
The Entity only operates in Arizona. Should economic conditions deteriorate within that region, its results of operations and financial position would be negatively impacted.

Foreign currency risk
Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency rates. The Entity is not exposed to currency risk.

Interest rate risk
Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Entity currently does not carry variable interest-bearing debt. It is management's opinion that the Entity is not exposed to significant interest rate risk.

Price risk
The Entity is exposed to price risk with respect to movements in market prices for goods which may impact revenue, cost of sales and the results of operations. The Entity closely monitors demand and market prices of its finished goods and raw materials to determine the appropriate course of action to be taken by the Entity.

15. CAPITAL MANAGEMENT

The Entity defines capital as members' equity (deficiency). The Entity manages its capital structure and makes adjustments in order to have the funds available to support their operating activities.

The Entity's objective when managing capital is to safeguard the Entity's ability to continue as a going concern in order to pursue the development of their businesses. The Entity manages its capital structure and adjusts it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust their capital structure, the Entity may issue new equity instruments, new debt, or acquire and/or dispose of assets. As discussed in Note 1, the Entity's ability to continue as a going concern is uncertain and dependent upon the continued financial support of their shareholders, future profitable operations, the lack of adverse political developments in the United States with respect to cannabis legislation and securing additional financing.

Management reviews their capital management approach on an ongoing basis. There were no changes in the Entity's approach to capital management during the years presented. The Entity is not subject to externally imposed capital requirement other than noted in Note 10.

16. SEGMENTED INFORMATION

The Entity operates in one business segment, manufacturing entail manufacturing: concentrates, P.H.O. concentrates and cartridges and distributing products for medical use. The Entity's location and source of sales is in Arizona, USA. All non-current assets are located in the USA.

17. CONTINGENCIES

The Entity may be involved in legal proceedings from time to time, arising in the ordinary course of its business. Management of the Entity is not currently aware of any claims or actions that would materially affect the Entity's reported financial position or results from operations.

18. SUBSEQUENT EVENTS

Subsequent to December 31, 2019,

a) The Entity issued 37,037 shares for proceeds of $10,000.
b) An employment agreement with a former officer was terminated. The Entity will pay the former officer a total of $225,000 over a term of 20 months as settlement of the dispute.
c) In connection with the acquisition by Hollister, the Entity issued 6,669,555 shares to certain officers and consultants.