Weldon Manor, LLC

Condensed Interim Consolidated Financial Statements

For the nine months ended

September 30, 2019

Unaudited – Prepared by Management

(Expressed in United States Dollars)

NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM FINANCIAL STATEMENTS

The accompanying unaudited condensed consolidated interim financial statements of Weldon Manor, LLC ("the Company") for the three and nine months ended September 30, 2019 and September 30, 2018, have been prepared by the management of the Company and approved by the Company's Audit Committee and the Company's Board of Directors.

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

The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by CPA Canada for a review of the condensed interim financial statements by an entity's auditor.

Weldon Manor, LLC

Condensed Interim Consolidated Statements of Financial Position

Unaudited – Prepared by Management

(Expressed in United States Dollars)

As at September 30, 2019 and December 31, 2018

	Note	**September 30, 2019 $**	December 31, 2018 $
Assets			
Current assets			
Cash		73,394	46,676
Receivables	4	166,914	43,621
Prepaid expenses	5	4,583	5,828
Inventory	6	323,782	235,736
		568,673	331,861
Non-current assets			
Deposits	5	104,500	104,500
Property and equipment	7	1,659,383	132,499
Total assets		**2,332,556**	568,860
Liabilities and members' equity (deficiency)			
Current liabilities			
Accounts payable and accrued liabilities		463,383	74,232
Accounts payable to related parties	10	116,029	14,100
Loan payable	10	402,800	-
Current portion of long-term debt	8	120,124	125,124
Current portion of obligation under finance lease	7	32,440	32,132
Current portion of lease liability	7	778,281	-
		1,913,057	245,588
Non-current liabilities			
Long-term debt	8	16,018	267,040
Obligation under finance lease	7	20,058	32,052
Lease liability	7	1,171,731	-
Total liabilities		**3,120,864**	544,680
Members' equity (deficiency)	9	(788,308)	24,180
Total liabilities and members' equity (deficiency)		**2,332,556**	568,860
Nature of operations and going concern	1		
Commitments	14		
Subsequent event	17		

Approved on behalf of the Board of Directors on November 27, 2019:

"Carl Saling" **Director**

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

Weldon Manor, LLC

Condensed Interim Consolidated Statements of Changes in Members' Equity (Deficiency)

Unaudited – Prepared by Management

(Expressed in United States Dollars)

For the nine months ended September 30, 2019 and September 30, 2018

	Common units	Class A preferred units	Class B preferred units	Total membership units	Members' equity (deficiency)
	#	#	#	#	$
December 31, 2017	6,111,667	-	444,445	6,556,112	298,892
Issuance of membership units	-	2,222,222	611,111	2,833,333	1,216,667
Loss and comprehensive loss for the period	-	-	-	-	(614,558)
September 30, 2018	6,111,667	2,222,222	1,055,556	9,389,445	901,001
December 31, 2018	6,111,667	2,222,222	1,055,556	9,389,445	24,180
Equity restructuring	53,078,333	(2,222,222)	(1,055,556)	49,800,555	-
Impact on adoption of IFRS 16 (Note 2)	-	-	-	-	(416,359)
Issuance of membership units	810,000	-	-	810,000	150,000
Loss and comprehensive loss for the period	-	-	-	-	(546,129)
September 30, 2019	**60,000,000**	**-**	**-**	**60,000,000**	**(788,308)**

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

Weldon Manor, LLC

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

Unaudited – Prepared by Management

(Expressed in United States Dollars)

For the three and nine months ended September 30, 2019 and September 30, 2018

		Three months ended		Nine months ended	
		September 30, 2019	September 30, 2018	**September 30, 2019**	September 30, 2018
	Note	**$**	$	**$**	$
Revenue		236,603	200,132	664,830	299,307
Cost of sales		412,494	290,669	974,063	691,117
		(175,891)	(90,537)	**(309,233)**	(391,810)
Operating expenses					
Accretion expense	8	3,150	-	16,257	-
Administrative expenses		23,903	4,178	33,837	10,235
Depreciation	7	-	273	-	719
Finance costs	7,8	58,563	-	185,971	-
Licenses and permits		4,318	6,063	10,025	21,769
Management fees	10	62,500	40,150	150,000	61,650
Marketing	10	12,574	27,401	28,755	61,574
Professional fees and consulting	10	12,683	39,079	54,962	54,890
Rent		3,045	1,015	3,045	1,015
Travel and meals		3,023	2,250	6,680	5,896
Loss from operating expenses		**(183,759)**	(120,409)	**(489,532)**	(217,748)
Gain on modification of long-term debt	8	-	-	255,436	-
Interest expense	10,16	(2,800)	(3,334)	(2,800)	(5,000)
Loss and comprehensive loss for the period		**(362,450)**	(214,280)	**(546,129)**	(614,558)
Loss per share					
Weighted average number of units outstanding					
- Basic #		**60,000,000**	6,111,667	**59,736,593**	6,111,667
- Diluted #		**60,000,000**	6,111,667	**59,736,593**	6,111,667
Basic loss per share $		**(0.01)**	(0.04)	**(0.01)**	(0.10)
Diluted loss per share $		**(0.01)**	(0.04)	**(0.01)**	(0.10)

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

Weldon Manor, LLC

Condensed Interim Consolidated Statements of Cash Flows

Unaudited – Prepared by Management

(Expressed in United States Dollars)

For the nine months ended September 30, 2019 and September 30, 2018

	Note	**2019** $	2018 $
Operating activities			
Loss and comprehensive loss for the period		(546,129)	(614,558)
Adjustment for non-cash items:			
Accretion expense		16,257	-
Depreciation - cost of sales	7	393,948	13,827
Depreciation	7	-	719
Finance costs		185,971	-
Interest expense		2,800	-
Gain on modification of long-term debt		(255,436)	-
Working capital adjustments:			
Receivables		(123,293)	(80,217)
Prepaid expenses		1,245	4,242
Inventory		(38,267)	(73,249)
Accounts payable and accrued liabilities		389,151	(20,457)
Accounts payable to related parties		101,929	4,100
		128,176	(765,593)
Financing activities			
Proceeds from issuance of membership units		150,000	1,216,667
Repayments of long-term debt		(16,843)	(20,000)
Repayments of obligations under finance lease and lease liability		(607,887)	-
Proceeds from loan payable		400,000	-
Proceeds from short-term loan	16	-	50,000
Repayments of short-term loan	16	-	(50,000)
		(74,730)	1,196,667
Investing activities			
Purchases of equipment		(26,728)	(55,204)
		(26,728)	(55,204)
Net change in cash		**26,718**	375,870
Cash, beginning of period		**46,676**	78,751
Cash, end of period		**73,394**	454,621
Supplemental cash flow information	15		

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

1. Nature of operations and going concern

Weldon Manor, LLC (the "Company") was incorporated on January 13, 2017 as a Limited Liability Company (LLC) in the State of California, USA. Its head office and registered office address is 212 - 9921 Carmel Mtn RD, San Diego, CA, 95023. The Company, collectively with its subsidiaries, operates exclusively in the State of California where the legal commercial production and vending of marijuana is permitted by California state law under *Medicinal and Adult-Use Cannabis Regulation and Safety Act (MAUCRSA)*. The Company is a private licensed manufacturer and distributor of cannabis pre-roll and extract products in the State of California.

The Company operates as a licensed manufacturer and distributor of recreational cannabis and cannabis products and distributes its products through an arrangement with a cannabis distributor to licensed cannabis vendors in California. The Company commenced revenue generating activity during the year ended December 31, 2018. Continuance of operations is dependent upon maintaining the necessary licensing under California state law, and the ability to obtain the necessary financing to perform its operating activities and meet ongoing obligations.

On April 30, 2019, the Company entered into a letter of intent ("LOI") with Hollister Biosciences Inc. (formerly 1205600 B.C. Ltd.) ("Hollister") a private company incorporated on April 17, 2019, whereby Hollister will acquire all of the issued and outstanding membership interests of the Company (the "Transaction") and seek a public listing on the Canadian Securities Exchange ("CSE"). The LOI was superseded on July 9, 2019, by a Securities Exchange Agreement, and the Transaction closed on November 8, 2019. See Note 17 for further details.

These condensed interim consolidated financial statements (the "financial statements") are prepared on the basis that the Company will continue as a going concern, which assumes that the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitment in the normal course of operations. As at September 30, 2019, the Company had a working capital deficiency of $1,344,384 (December 31, 2018 – working capital of $86,273) and members' deficiency of $788,308 (December 31, 2018 – members' equity of $24,180). The Company will continue to seek the funding necessary to enable it to carry on as a going concern, but management cannot provide assurance that the Company will be able to raise additional capital or maintain the appropriate licensing due to regulatory uncertainties. If the Company is unable to raise additional funds and maintain licensing in the immediate future, management expects that the Company may need to liquidate assets, seek additional capital on less favorable terms and/or pursue other remedial measures. Management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. These financial statements do not include any adjustments related to the recoverability and classification of assets or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

Several states in the United States have enacted legislation to regulate the sale and use of medical cannabis without limits on tetrahydrocannabinol ("THC"), while other states have regulated the sale and use of medical cannabis with strict limits on the levels of THC. Notwithstanding the permissive regulatory environment of adult-use recreational and medical 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, cannabis-related practices or activities, including without limitation, the manufacture, importation, possession, use or distribution of cannabis are illegal under United States federal law. Strict compliance with state laws with respect to cannabis will neither absolve the Company of liability under United States federal law, nor provide a defense to any federal proceeding which may be brought against the Company. Any such proceedings brought against the Company may adversely affect the Company's operations and financial performance.

2. Significant accounting policies

Basis of presentation

These financial statements have been prepared in conformity with International Accounting Standard ("IAS") 34, Interim Financial Reporting, using the same accounting policies as detailed in the Company's annual audited financial statements for the year ended December 31, 2018, and do not include all the information required for full annual financial statements in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). It is suggested that these financial statements be read in conjunction with the annual audited financial statements.

These financial statements have been prepared on an historical cost basis, except for financial instruments measured at fair value. In addition, these financial statements have been prepared using the accrual basis of accounting, except for cash flow information. The accounting policies set out below have been applied consistently by the Company.

All amounts in these financial statements are presented in United States ("U.S.") dollars, which is the functional currency of the Company, and its subsidiaries.

Basis of consolidation

Subsidiaries are entities controlled by the Company and are included in these financial statements from the date that control commences until the date that control ceases. Control exists when the Company has the power, directly and indirectly, to govern the financial and operating policies of an entity and be exposed to the variable returns from its activities.

These financial statements include the accounts of the Company and the following wholly-owned subsidiaries:

- Hollister Holistics 1 ("HH1"): incorporated on July 28, 2014 in the State of California; and
- Hollister Holistics 2 ("HH2"): incorporated on June 12, 2017 in the State of California.

On June 4, 2018, both HH1 and HH2 became wholly-owned subsidiaries of the Company and the existing members of HH1 and HH2 became members of Weldon Manor, LLC, with no change occurring to the members' respective ownership percentages.

Inter-company balances and transactions, and any unrealized income and expenses arising from inter-company transactions, are eliminated in preparing these financial statements.

Estimates and critical judgments by management

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, revenues and expenses. Management continually evaluates these judgments, estimates and assumptions based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates and judgments which may cause a material adjustment to the carrying amounts of assets and liabilities. There were no significant changes to the estimates prepared by management during the nine months ended September 30, 2019.

2. Significant accounting policies (continued)

New standards adopted during the period

The Company adopted the following accounting standards that are effective for accounting periods beginning on or after January 1, 2019.

New standard IFRS 16 - Leases

IFRS 16, Leases ("IFRS 16") was issued by the IASB on January 13, 2016, and will replace IAS 17, Leases. It was effective for annual periods beginning on or after January 1, 2019, with earlier application permitted. IFRS 16 eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, IFRS 16 requires a single, on-balance sheet accounting model that is similar to current finance lease accounting. Leases become an on-balance sheet liability that attract interest, together with a new asset.

The most significant effect of the new standard is the lessee's recognition of the initial present value of unavoidable future lease payments as right-of-use ("ROU") assets and lease liabilities on the statement of financial position, including those for most leases that would have formerly been accounted for as operating leases.

The Company has a lease on its indoor cannabis manufacturing facility. In the context of IFRS 16, a ROU asset of $1,943,883 and a lease liability of $2,360,242 was recognized as at January 1, 2019 (Note 7), in accordance with the modified retrospective approach. The lease liability was measured at the present value of the remaining lease payments, discounted using the Company's weighted average incremental borrowing rate of approximately 10% on January 1, 2019. The ROU asset (recognized within property and equipment) was measured at an amount equal to the corresponding initial lease liability. The Company also has a lease on manufacturing equipment. The adoption of this new standard did not have an impact on the accounting for the lease of manufacturing equipment.

On adoption, the following practical expedients were permitted by IFRS 16, but were not applicable to the Company:

- Accounted for leases with a remaining term of less than twelve months as at January 1, 2019, as short-term leases; and
- Accounted for lease payments as an expense for leases of low-value assets.

The modified retrospective approach does not require restatement of prior period comparative financial information and is applied prospectively. The application of IFRS 16 requires the Company to make judgments that affect the valuation of the lease liabilities and the valuation of ROU assets. These include: determining contracts that are within the scope of IFRS 16; determining the contract term; and determining the interest rate used for the discounting of future cash flows.

The impact on profit or loss was an elimination of rent expense (either within cost of sales or operating expenses), and the recognition of depreciation of the ROU asset, and interest (finance costs) on the lease liability. The Company's lease is denominated in U.S. dollars, therefore there was no additional volatility in foreign exchange amounts recognized in profit or loss. See Note 7 for additional details.

New Interpretation IFRIC 23 - Uncertainty over Income Tax Treatments

On June 7, 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.

There were no material reporting changes as a result of adopting the new Interpretation.

(Expressed in United States Dollars)

3. Mighty Meds Inventory and Intangible Asset

On December 7, 2017, the Company completed an Asset Purchase Agreement (the "Agreement") with certain sellers (the "Sellers"), to acquire specified assets from the Sellers, including but not limited to Mighty Meds branded inventory, marketing materials, domain names/websites, and product formulations.

As the acquired assets did not qualify as a business according to the definition of IFRS 3, *Business Combinations,* the acquisition does not constitute a business combination; rather it is treated as an acquisition of assets including inventory, and intangible asset which is attributable collectively to the domain names/websites, product formulations, and branding acquired.

	December 7, 2017
Net assets acquired:	**$**
Inventory	37,096
Intangible asset	512,904
Total	**550,000**

Present value of consideration paid:	**$**
Long-term debt (Note 8)	390,407
Total	**390,407**

In accordance with the Agreement, and prior to the amendment discussed below, the Company was required to make cash payments totalling $550,000 (amended to $200,000) as follows:

- $30,000 from January 2018 to June 2018 (a minimum of $5,000 per month) (completed); and
- $520,000 from July 2018 to October 2022 (a minimum of $10,000 per month) ($20,000 completed prior to the amendment on April 25, 2019 below).

On April 25, 2019, the Company and the Sellers amended the Agreement to reduce the purchase price payable to $200,000, of which $50,000 was paid during the year ended December 31, 2018. In accordance with the amendment, the Company is required to make payments as follows:

- $3,000 from May 2019 to July 2019 ($1,000 per month) (completed);
- $15,000 from August 2019 to October 2019 ($5,000 per month) (completed $10,000 as at September 30, 2019);
- $132,000 from November 2019 to December 2020 ($10,000 per month until the balance is paid in full).

As a result of the amendment, the Company recognized a gain on modification of long-term debt during the nine months ended September 30, 2019, in the amount of $255,436 (Note 8).

During the nine months ended September 30, 2019, the Company made cash payments of $13,000 (2018 - $20,000) towards the purchase price consideration payable which was applied against long-term debt.

As at September 30, 2019, the undiscounted amount of the balance payable to the Sellers was $137,000 (December 31, 2018 - $500,000). The balance payable by the Company is personally guaranteed by the Company's CEO.

Intangible asset:

As at December 31, 2018, the Company recorded an impairment of intangible asset in the amount of $512,904. During the year then ended, the Company determined that there were indicators that the carrying value of the intangible asset was impaired. These impairment indicators included, but are not limited to, underperforming sales of the product line, and the resulting downward revision to the consideration payable agreed upon between the Company and the Seller which occurred on April 25, 2019.

(Expressed in United States Dollars)

4. Receivables

Receivables consist of the following:

	September 30, 2019 $	December 31, 2018 $
Trade receivables	166,914	45,972
Allowance for doubtful accounts	-	(2,351)
	166,914	43,621

During the nine months ended September 30, 2019 and September 30, 2018, the Company did not incur any loss provisions against receivables for estimated bad debt expense. During the nine months ended September 30, 2019, the Company applied $2,351 (2018 - $nil) from allowance for doubtful accounts to trade receivables as it was determined that there is no reasonable expectation to collect the balance due from the customer.

5. Prepaid expenses and deposits

Prepaid expenses and deposits consist of the following:

	September 30, 2019 $	December 31, 2018 $
Prepaid expenses:		
Prepaid permitting costs	4,583	5,828
	4,583	5,828
Deposits:		
Security deposit on Facility Lease (Note 14)	100,000	100,000
Equipment lease deposit	4,500	4,500
	104,500	104,500

6. Inventory

Inventory consists of the following:

	September 30, 2019 $	December 31, 2018 $
Raw materials	103,810	54,660
Concentrates (finished goods)	80,001	57,541
Pre-rolls (finished goods)	129,984	88,256
Packaging and supplies	9,987	35,279
	323,782	235,736

During the nine months ended September 30, 2019, the Company recorded an inventory write-down of $35,428 within cost of sales in respect of slow moving vape cartridges (concentrates) (2018 - $nil).

During the nine months ended September 30, 2019, the portion of cost of sales relating specifically to inventory amounted to $428,413 (2018 - $635,180).

(Expressed in United States Dollars)

7. Property and equipment

	Furniture and fixtures $	Leasehold improvements $	Vehicle $	Manufacturing equipment $	Right-of-use asset - Facility $	Total $
Cost						
December 31, 2017	3,823	-	-	18,351	-	22,174
Additions	973	-	21,600	137,586	-	160,159
December 31, 2018	4,796	-	21,600	155,937	-	182,333
Accumulated depreciation						
December 31, 2017	765	-	-	3,670	-	4,435
Depreciation	959	-	4,320	40,120	-	45,399
December 31, 2018	1,724	-	4,320	43,790	-	49,834
Cost						
December 31, 2018	4,796	-	21,600	155,937	-	182,333
Additions	9,041	4,941	-	12,746	-	26,728
Adoption of IFRS 16 on January 1, 2019 (Note 2)	-	-	-	-	1,943,883	1,943,883
September 30, 2019	13,837	4,941	21,600	168,683	1,943,883	2,152,944
Accumulated depreciation						
December 31, 2018	1,724	-	4,320	43,790	-	49,834
Depreciation	2,076	426	2,700	32,002	406,523	443,727
September 30, 2019	**3,800**	**426**	**7,020**	**75,792**	**406,523**	**493,561**
Net book value						
December 31, 2018	3,072	-	17,280	112,147	-	132,499
September 30, 2019	**10,037**	**4,515**	**14,580**	**92,891**	**1,537,360**	**1,659,383**

Depreciation:

During the nine months ended September 30, 2019, depreciation was allocated to cost of sales, and inventory as the Company's property and equipment substantially relates to, and is used in, manufacturing activity to generate revenue.

- $393,948 (2018 - $13,827) within cost of sales; and
- $49,779 (2018 - $nil) within inventory as part of concentrates (finished goods) and pre-rolls (finished goods).

(Expressed in United States Dollars)

7. **Property and equipment** (continued)

Right-of-use ("ROU") asset:

The Company's ROU asset includes the following lease:

- Indoor cannabis manufacturing facility in Hollister, California (Note 14).

Effective January 1, 2019 on adoption of IFRS 16, the Company capitalized the facility as a ROU asset with an offsetting lease liability.

Lease liability:

A reconciliation of the carrying amount of the lease liability recognized on initial adoption of IFRS 16, and for the nine months ended September 30, 2019 is as follows:

	September 30, 2019 **$**
January 1, 2019 (Note 2)	2,360,242
Lease payments	(583,711)
Lease interest (finance costs)	173,481
September 30, 2019	**1,950,012**
Current portion of lease liability	**778,281**
Non-current portion of lease liability	**1,171,731**
	1,950,012

As at September 30, 2019, the total undiscounted amount of the estimated future cash flows to settle the Company's lease liability over the remaining lease terms is $2,269,986.

Short-term leases are leases with a lease term of twelve months or less. As at September 30, 2019 and December 31, 2018, the Company did not have any short-term leases. As at September 30, 2019, there were no extension options that were reasonably certain to be exercised included in the measurement of the lease liability, and there were no leases with residual value guarantees.

(Expressed in United States Dollars)

7. Property and equipment (continued)

Obligation under finance lease:

The Company's obligation under finance lease arises from the lease of manufacturing equipment which includes various items leased from a single commercial lessor (Note 14). The lease is personally guaranteed by the Company's CEO.

A reconciliation of the carrying amount of the obligation under finance lease for the nine months ended September 30, 2019 is as follows:

	September 30, 2019	December 31, 2018
	$	$
Opening balance	64,184	-
Additions	-	67,000
Repayments	(24,176)	(6,300)
Finance costs	12,490	3,484
	52,498	64,184
Less: current portion	**32,440**	32,132
Long-term portion	**20,058**	32,052

As at September 30, 2019, the total undiscounted amount of the estimated future cash flows to settle the Company's obligation under finance lease over the remaining lease term is $70,467 (December 31, 2018 - $93,970).

During the year ended December 31, 2018, the Company incurred finance costs of $6,946 which represented interest expense of $3,484 implicit in the manufacturing equipment lease, with the remainder attributable to holding costs (included in operating expenses) paid prior to the commencement date of the lease.

(Expressed in United States Dollars)

8. Long-term debt

	September 30, 2019	December 31, 2018
Vehicle loan	**$**	$
Opening balance	18,738	-
Additions	-	21,600
Repayments	(3,843)	(2,862)
	14,895	18,738
Mighty Meds consideration payable (Note 3)		
Opening balance	373,426	390,407
Repayments	(13,000)	(50,000)
Gain on modification of long-term debt	(255,436)	-
Accretion expense	16,257	33,019
	121,247	373,426
Total long-term debt	**136,142**	392,164
Less: current portion	120,124	125,124
Long-term debt	**16,018**	267,040

<u>Vehicle loan:</u>

During the year ended December 31, 2018, the Company financed the purchase of a vehicle used within the Company's procurement and sales activities. The vehicle cost $21,600 including applicable sales taxes and fees and was financed entirely by the seller (the "Vehicle Loan").

The Vehicle Loan is repayable in monthly installments, financed at an annual percentage rate of 12.39%, and maturing on May 23, 2024. Payments are due as follows:

- 71 monthly payments of $427 beginning on June 23, 2018; and
- 1 final payment of $390 on May 23, 2024.

The Company is in compliance with the scheduled payments. The Vehicle Loan is personally guaranteed by the Company's CEO.

9. Members' equity (deficiency)

As at September 30, 2019, the authorized members' equity of the Company consists of Membership Units ("Units") designated as Common Units.

During the nine months ended September 30, 2019, the Company amended its authorized members' equity structure. The Company's former structure consisted of the following Units as at December 31, 2018:

- Two classes of Units designated as Preferred Units:
    - Class A Preferred Units; and
    - Class B Preferred Units.

- One class of Units designated as Common Units:
    - Class A Common Units ("Common Units").

Class A Preferred Units and Class B Preferred Units took equal priority on distributions equal to $0.90 per unit. Common Units took priority thereafter. In the event of liquidation, Class A Preferred Units took first priority, Class B Preferred Units took second priority, and Common Units took final priority on liquidation.

Transactions for the issue of Membership Units during the nine months ended September 30, 2019:

- The Company completed a restructuring of its members' equity such that 2,222,222 Class A Preferred Units, and 1,055,556 Class B Preferred Units were replaced with 53,078,333 Common Units.

- The Company issued 810,000 Common Units at $0.185 per Unit for proceeds of $150,000.

Transactions for the issue of Membership Units during the nine months ended September 30, 2018:

- The Company issued 611,111 Class B Preferred Units at $0.90 per Unit for proceeds of $550,000.

- The Company issued 2,222,222 Class A Preferred Units at $0.30 per Unit for proceeds of $666,667.

During the nine months ended September 30, 2019 and September 30, 2018, there was $nil cash distributions to members.

(Expressed in United States Dollars)

10. Related party transactions and balances

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly. Key management personnel include officers and directors of the Company.

Transactions with key management personnel:

The remuneration of the Company's key management personnel during the nine months ended September 30, 2019 and September 30, 2018, are as follows:

	2019	2018
	$	$
Management fees	150,000	44,000
Consulting (included within professional fees and consulting)	1,250	-
Marketing	-	17,500
	151,250	61,500

Accounts payable to related parties:

Accounts payable to related parties included the following:

	September 30, 2019	December 31, 2018
	$	$
Due to CEO - expense reimbursements and management fees	60,279	9,100
Due to VP Business Development - marketing fees	-	5,000
Due to VP Production - management fees	55,750	-
	116,029	14,100

These amounts are unsecured, non-interest bearing and are due on demand.

Loan payable:

<u>Loan from Hollister Biosciences Inc.</u>

On July 8, 2019, and as amended on August 26, 2019, and October 2, 2019, the Company entered into a loan agreement with Hollister Biosciences Inc. ("Hollister") for the purpose of obtaining working capital funds from Hollister until closing of the Transaction. Interest is payable at 8% per annum, and the loan is secured by a General Security Agreement over certain financial and non-financial assets of the Company. The loan matured on November 25, 2019, the date the Company obtained a public listing on the CSE. As at September 30, 2019, the loan payable totalled $402,800 ($400,000 principal and $2,800 accrued interest expense).

11. Capital management

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to maintain operations. The Board of Directors which comprises members of management, does not establish quantitative return on capital criteria, but rather relies on their expertise to sustain future development of the business. The Company defines capital that it manages as members' equity (deficiency).

The Company has historically relied on financing from the issuance of Units, other arm's length financing arrangements, and the contributions of its officers to fund its activities. Management reviews its capital management approach on an on-going basis and believes that this approach, given the relative size of the Company, is reasonable. The Company currently is not subject to externally imposed capital requirements. There were no changes in the Company's approach to capital management during the nine months ended September 30, 2019.

12. Financial risk management and financial instruments

Fair value of financial instruments

IFRS 13 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The three levels of the fair value hierarchy are as follows:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

The fair value of cash is measured using Level 1 inputs. The carrying values of receivables, accounts payable and accrued liabilities, accounts payable to related parties, and loan payable approximate their respective fair values due to the short-term nature of these instruments. Long-term debt, obligation under finance lease, and lease liability also approximate their respective fair values as these instruments are either discounted using market rates of interest or bear a market rate of interest.

Economic dependence

The Company derived 62% (2018 – 49%) of its revenues from its top five customers who individually make up from 4% to 34% of revenues (2018 – 5% to 17%). These customers accounted for $410,477 of revenue during the nine months ended September 30, 2019 (2018 - $171,548).

Financial instruments - risk

The Company is exposed to varying degrees to a variety of financial instrument related risks. The type of risk exposure and the way in which such exposure is managed is as follows:

(a) Credit risk

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

Most of the Company's cash is held with a major U.S. financial institution, and management believes the exposure to credit risk with respect to the financial institution is not significant.

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

The Company 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 which began during the year ended December 31, 2018, 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.

12. Financial risk management and financial instruments

(a) Credit risk (continued)

As at September 30, 2019, there is $nil recorded as a loss allowance against trade receivables. As at December 31, 2018, $2,351 was recorded as a loss allowance provision relating to receivables aged 90+ days overdue.

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. During the nine months ended September 30, 2019, $2,351 of a former loss allowance provision was applied directly as a write-off to trade receivables.

Loss provisions are included within administrative expenses. Subsequent recoveries of amounts previously written-off are credited against the same line item.

As at September 30, 2019, 99% of trade receivables were due from two customers (December 31, 2018 – 78% due from three customers).

(b) Interest rate risk

The Company is exposed to interest rate risk because of fluctuating interest rates on its cash balances held on deposit in a financial institution. Management does not believe that the Company's exposure to interest rate risk is significant. The Company does not have any interest-bearing debt instruments with variable rates.

(c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations associated with financial liabilities as they come due. The Company manages its liquidity risk by reviewing on an ongoing basis its capital requirements. As at September 30, 2019, the Company had $73,394 in cash to settle current liabilities in the amount of $1,913,057. The Company will require additional funding to meet its ongoing obligations, as discussed in Note 1.

(d) Price risk

The Company 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 Company 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 Company.

(Expressed in United States Dollars)

13. Segmented information

Reportable segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources, and in assessing performance.

The Company operates in a single reportable segment, being the manufacture and distribution of cannabis pre-roll and extract products in the United States within the State of California. All of the Company's revenue were generated through sales in the State of California, and all of the Company's property and equipment is located in California.

14. Commitments

Facility Lease (Lease liability):

On August 28, 2017, the Company entered into an Agreement for Lease (the "Lease") with an arm's length party for the lease of approximately 37,000 sq. ft. of a building to be used as its head office and manufacturing facility. The lease has a term of five years commencing on September 1, 2017, until August 31, 2022. The Facility Lease is renewable for three additional 5-year terms at the option of the Company.

The Company's minimum annual commitment on the facility is as follows:

Year	Future payments $
2019 (remainder)	194,570
2020	778,281
2021	778,281
2022	518,854
	2,269,986

The Facility Lease payments are personally guaranteed by the Company's CEO.

Manufacturing Equipment Lease (Obligation under finance lease):

The Company leases various items from a single commercial lessor under a single lease agreement with interest of approximately 2.3%, and a term of 37 months maturing in December 2021. On maturity of the finance lease, the Company has a purchase option to buy the equipment at fair market value. The lease is personally guaranteed by the Company's CEO.

The Company's minimum annual commitment on the manufacturing equipment is shown below. Finance costs which represent the cost of interest to be incurred over the term of the lease are deducted from the total contractual payments to arrive at the carrying value as at September 30, 2019 of the obligation under finance lease.

Year	Lease payments $
2019 (remainder)	8,110
2020	32,440
2021	29,917
	70,467
Future finance costs	(17,969)
Total (Note 7)	**52,498**

(Expressed in United States Dollars)

15. Supplemental cash flow information

During the nine months ended September 30, 2019 and September 30, 2018, the Company incurred non-cash investing and financing activities as follows:

	September 30, 2019 $	September 30, 2018 $
Non-cash investing activities:		
Property and equipment depreciation included in inventory	49,779	-
Property and equipment addition (vehicle) - financed by long-term debt	-	21,600
Property and equipment additions - ROU asset (adoption of IFRS 16)	1,943,883	-
Non-cash financing activities:		
Lease liability - ROU asset (adoption of IFRS 16)	2,360,242	-

During the nine months ended September 30, 2019 and September 30, 2018, the Company did not incur any cash payments for income tax expense or interest expense.

16. Short-term loan

Effective February 22, 2018, the Company entered into a Loan Agreement for $50,000 with a private arm's length lender. The loan matured on August 31, 2018 and bore interest at 10% per annum.

During the nine months ended September 30, 2018, the Company repaid the loan in full via monthly repayments, and also incurred $5,000 in interest expense. As at September 30, 2019, and December 31, 2018, there was $nil owing on this loan.

17. Subsequent event

As discussed in Note 1, on April 30, 2019, the Company entered into an LOI with Hollister. The LOI was superseded by a Securities Exchange Agreement dated July 9, 2019, between Hollister, the Company, and the Company's members.

Effective November 8, 2019, the Transaction closed whereby Hollister acquired all of the issued and outstanding membership interests of the Company by the issuance of 60,000,000 common shares of Hollister to the members of the Company (of which 8,580,000 were issued to Hollister in respect of its membership interest in the Company which were subsequently returned to treasury). Additionally, Hollister issued 1,200,000 common shares as "Finder Fee Shares" to an arm's length Finder that facilitated the Transaction.

Concurrent with closing of the Transaction, Hollister's common shares commenced trading on the CSE on November 25, 2019, under the symbol, "HOLL". All issued and outstanding common shares of Hollister were consolidated on a 1.5:1 basis immediately prior to listing on the CSE.