



Hollister Biosciences Inc.

Condensed Interim Consolidated Financial Statements
For the three and nine months ended September 30, 2021, and 2020
(Expressed in United States Dollars) - Unaudited

Notice of Disclosure of Non-auditor Review of the Condensed Interim Consolidated Financial Statements for the three and nine months ended September 30, 2021 and 2020.

Pursuant to subsection 4.3(3)(a) of National Instrument 51-102 - Continuous Disclosure Obligations, issued by the Canadian Securities Administrators, if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim consolidated financial statements of Hollister Biosciences Inc. ("the Company" or "Hollister") for the interim period ended September 30, 2021, have been prepared in accordance with the International Accounting Standard 34 – *Interim Financial Reporting* as issued by the International Accounting Standards Board and are the responsibility of the Company's management.

The Company's independent auditors, Davidson & Company LLP, have not performed a review of these condensed interim consolidated financial statements.

November 26, 2021

Hollister Biosciences Inc.**Condensed Interim Consolidated Statements of Financial Position**

(Expressed in United States Dollars) - Unaudited

		September 30, 2021	December 31, 2020
	Note	\$	\$
Assets			
Current assets			
Cash		7,662,780	1,061,950
Receivables	5	5,074,840	2,849,775
Prepaid expenses		134,472	82,088
Inventory	6	5,367,417	2,203,133
Current portion of lease receivable	12	319,837	157,439
		18,559,346	6,354,385
Non-current assets			
Deposits		59,380	83,380
Property and equipment	7	3,912,526	3,152,638
Intangible assets	4(a),8	1,650,000	2,137,500
Lease receivable	12	1,505,879	879,484
Goodwill	4(a),8	2,220,628	2,220,628
Total assets		27,907,759	14,828,015
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable and accrued liabilities	9	2,613,377	3,142,782
Accounts payable to related parties	16	85,352	121,903
Income tax payable		3,215,000	777,000
Loans payable		6,261	6,261
Promissory notes payable	10	-	235,550
Current portion of deferred compensation payable	4(a)	500,000	500,000
Current portion of long-term debt	11	27,765	89,754
Current portion of lease liabilities	12	510,058	847,688
		6,957,813	5,720,938
Non-current liabilities			
Deferred compensation payable	4(a)	-	250,000
Long-term debt	11	22,541	31,370
Lease liabilities	12	4,274,688	3,130,955
Deferred tax liability		493,000	624,000
Total liabilities		11,748,042	9,757,263
Shareholders' equity			
Share capital	13	15,623,316	10,980,411
Commitment to issue shares	4(b),13	155,284	155,284
Reserves	13	4,027,290	1,621,879
Accumulated other comprehensive loss		(60,748)	(53,693)
Deficit		(3,585,425)	(7,633,129)
Total shareholders' equity		16,159,717	5,070,752
Total liabilities and shareholders' equity		27,907,759	14,828,015

Nature of operations and going concern (Note 1)
Subsequent events (Note 19)

Approved on behalf of the Board of Directors on November 26, 2021:

Eula Adams

Director

Jacob Cohen

Director

Hollister Biosciences Inc.

Condensed Interim Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)

For the three and nine months ended September 30, 2021 and 2020

(Expressed in United States Dollars, except share numbers) - Unaudited

	Note	Three months ended September 30,		Nine months ended September 30,	
		2021	2020	2021	2020
		\$	\$	\$	\$
Revenue from sale of goods		14,463,180	9,439,157	55,136,589	18,696,874
Revenue from provision of services		25,454	50,754	30,328	218,137
Gross revenue		14,488,634	9,489,911	55,166,917	18,915,011
Cost of sales		11,004,647	8,102,943	43,755,130	16,301,326
Gross profit		3,483,987	1,386,968	11,411,787	2,613,685
Operating expenses					
Accretion expense		-	3,150	-	9,451
Administrative expenses		278,857	270,115	741,420	545,641
Depreciation	7,8	333,739	445,045	964,861	574,098
Finance costs	12	123,300	107,274	332,905	327,135
Foreign exchange gain		(29,665)	-	(57,961)	-
Interest expense	10	342	37,750	20,356	87,750
Marketing		160,806	188,954	428,635	1,038,816
Professional fees and consulting	16	381,466	182,382	848,404	556,493
Research and development		-	-	12,225	-
Share-based compensation		527,475	561,247	768,214	561,247
Salaries and wages	16	420,142	224,229	1,123,136	486,993
Transaction costs		-	-	-	379,684
Travel and meals		8,228	3,615	17,708	5,116
Acquisition expense		-	-	-	535,478
		(2,204,690)	(2,023,761)	(5,199,903)	(5,107,902)
Income (loss) before undernoted items		1,279,297	(636,793)	6,211,884	(2,494,217)
Interest income	12	46,802	-	112,890	-
Gain on sublease	12	-	-	262,015	-
Gain on lease extinguishment		19,951	-	19,951	-
Lease renegotiation costs	12	(252,036)	-	(252,036)	-
Net income (loss) before income taxes		1,094,014	(636,793)	6,354,704	(2,494,217)
Income tax expense		(617,000)	(8,400)	(2,438,000)	(8,400)
Deferred income tax recovery		3,000	-	131,000	-
Net income (loss)		480,014	(645,193)	4,047,704	(2,502,617)
Foreign currency translation adjustment		(22,866)	(3,902)	(7,055)	(81,642)
Net income (loss) and comprehensive income (loss)		457,148	(649,095)	4,040,649	(2,584,259)
Weighted average number of common shares outstanding					
Basic		269,878,252	201,337,509	262,003,020	168,565,425
Diluted		274,286,268	201,337,509	271,225,621	168,565,425
Earnings (loss) per share					
Basic		0.00	(0.00)	0.02	(0.01)
Diluted		0.00	(0.00)	0.02	(0.01)

Hollister Biosciences Inc.**Condensed Interim Consolidated Statements of Cash Flows**

For the nine months ended September 30, 2021 and 2020

(Expressed in United States Dollars) - Unaudited

	September 30, 2021	September 30, 2020
	\$	\$
Operating activities		
Net income (loss)	4,047,704	(2,502,617)
Adjustment for non-cash items:		
Accretion expense	-	9,451
Depreciation - cost of sales	6,477	320,048
Depreciation	964,861	574,099
Finance costs	332,905	-
Share-based compensation	768,214	561,247
Transaction costs	-	379,684
Acquisition expense	-	535,478
Interest income	(112,890)	-
Gain on sublease	(262,015)	-
Gain on lease extinguishment	(19,951)	-
Income tax expense	2,438,000	-
Deferred income tax recovery	(131,000)	-
Shares for services	-	62,075
Working capital adjustments:		
Receivables	(2,219,519)	(248,897)
Prepaid expenses	(52,384)	13,916
Inventory	(3,166,713)	(659,856)
Deferred revenue	-	(50,000)
Deposits	24,000	(4,112)
Accounts payable and accrued liabilities	(529,405)	238,457
Accounts payable to related parties	(36,551)	(47,791)
Net cash provided by (used in) operating activities	2,051,733	(818,818)
Investing activities		
Purchases of property and equipment	(772,504)	(342,009)
Deferred compensation paid with Venom Extracts acquisition	(250,000)	(1,250,000)
Cash acquired with Venom Extracts acquisition	-	2,091,219
Net cash (used in) provided by investing activities	(1,022,504)	499,210
Financing activities		
Proceeds from private placement of special warrants	6,237,368	1,115,624
Share issue costs	(638,471)	(83,420)
Proceeds from option exercise	71,680	56,848
Proceeds from warrant exercise	601,626	12,633
Proceeds from warrants issued from Finders Units exercise	7,899	-
Repayments of promissory notes payable, net	(235,550)	(8,500)
Repayments of long-term debt	(70,818)	(42,143)
Repayments of obligations under lease, net	(395,078)	(302,944)
Net cash provided by financing activities	5,578,656	748,098
Impact of foreign exchange on cash	(7,055)	9,822
Net change in cash	6,600,830	438,312
Cash, beginning of period	1,061,950	1,456,149
Cash, end of period	7,662,780	1,894,461

Supplemental cash flow information (Note 18)

Hollister Biosciences Inc.

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity

For the nine months ended September 30, 2021 and 2020

(Expressed in United States Dollars, except share numbers) - Unaudited

	Number of shares	Share capital	Commitment to issue shares	Reserves	Accumulated other comprehensive income (loss)	Deficit	Total shareholders' equity
	#	\$	\$	\$	\$	\$	\$
December 31, 2019	108,777,373	4,390,331	-	631,431	29,595	(4,061,320)	990,037
Shares issued on purchase of Venom	70,390,672	3,103,851	-	-	-	-	3,103,851
Shares commitment to be issued pursuant to Venom acquisition	-	-	1,873,788	-	-	-	1,873,788
Shares issued as Transaction costs	6,000,000	379,693	-	-	-	-	379,693
Shares issued on purchase of AlphaMind	4,200,000	362,329	-	-	-	-	362,329
Shares issued on exercise of stock options	750,000	56,848	-	-	-	-	56,848
Reallocation of fair value upon exercise of options	-	54,949	-	(54,949)	-	-	-
Shares issued on exercise of warrants	166,666	12,633	-	-	-	-	12,633
Shares issued for marketing services	703,400	62,075	-	-	-	-	62,075
Shares issued as settlement of debt	566,883	45,015	-	-	-	-	45,015
Private placement	17,646,889	670,978	-	444,646	-	-	1,115,624
Share issue costs	-	(171,537)	-	88,117	-	-	(83,420)
Share-based compensation	-	-	-	561,247	-	-	561,247
Net loss and comprehensive loss for the period	-	-	-	-	(81,642)	(2,502,617)	(2,584,259)
September 30, 2020	209,201,883	8,967,165	1,873,788	1,670,492	(52,047)	(6,563,937)	5,895,461
Earn out shares released to Venom sellers	29,610,054	1,873,788	(1,873,788)	-	-	-	-
Shares committed to be issued pursuant to AlphaMind acquisition	-	-	155,284	-	-	-	155,284
Shares issued on exercise of stock options	250,000	21,682	-	-	-	-	21,682
Reallocation of fair value upon exercise of options	-	20,512	-	(20,512)	-	-	-
Shares issued on exercise of warrants	816,176	62,639	-	-	-	-	62,639
Reallocation of fair value upon exercise of warrants	-	21,024	-	(21,024)	-	-	-
Shares issued on exercise of Finders Units	100,000	6,524	-	-	-	-	6,524
Reallocation of fair value upon exercise of Finders Units	-	7,077	-	(7,077)	-	-	-
Net loss and comprehensive loss for the period	-	-	-	-	(1,646)	(1,069,192)	(1,070,838)
December 31, 2020	239,978,113	10,980,411	155,284	1,621,879	(53,693)	(7,633,129)	5,070,752

Hollister Biosciences Inc.**Condensed Interim Consolidated Statements of Changes in Shareholders' Equity**

For the nine months ended September 30, 2021 and 2020

(Expressed in United States Dollars, except share numbers) - Unaudited

	Number of shares	Share capital	Commitment to issue shares	Reserves	Accumulated other comprehensive income (loss)	Deficit	Total shareholders' equity
	#	\$	\$	\$	\$	\$	\$
December 31, 2020	239,978,113	10,980,411	155,284	1,621,879	(53,693)	(7,633,129)	5,070,752
Shares issued on exercise of warrants issued from Finders Units	100,000	7,899	-	-	-	-	7,899
Reallocation of fair value upon exercise of warrants issued from Finders Units	-	6,958	-	(6,958)	-	-	-
Shares issued on exercise of stock options	750,000	71,680	-	-	-	-	71,680
Reallocation of fair value upon exercise of options	-	67,810	-	(67,810)	-	-	-
Shares issued on exercise of warrants	7,415,045	601,626	-	-	-	-	601,626
Reallocation of fair value upon exercise of warrants	-	279,847	-	(279,847)	-	-	-
Private placement of special warrants	21,635,094	4,281,333	-	1,956,035	-	-	6,237,368
Share issue costs	-	(674,248)	-	35,777	-	-	(638,471)
Share-based compensation	-	-	-	768,214	-	-	768,214
Net income and comprehensive income for the period	-	-	-	-	(7,055)	4,047,704	4,040,649
September 30, 2021	269,878,252	15,623,316	155,284	4,027,290	(60,748)	(3,585,425)	16,159,717

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

Hollister Biosciences Inc.

Notes to the Condensed Interim Consolidated Financial Statements

(Expressed in United States Dollars) - Unaudited

For the three and nine months ended September 30, 2021 and 2020

1. Nature of operations and going concern

Hollister Biosciences Inc. was incorporated on April 17, 2019 under the laws of the Province of British Columbia, Canada. (collectively herein referred to as the "Company" or "Hollister"). The Company's registered and records office is located at 1055 West Georgia Street, 1500 Royal Centre, P.O. Box 11117, Vancouver, British Columbia, Canada, V6E 4N7. The Company, through its wholly owned subsidiaries, operates as licensed manufacturer and distributor of cannabis pre-roll and extract products in the States of California and Arizona. The Company is listed on the CSE under the symbol "HOLL".

These unaudited condensed interim consolidated 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 in the normal course of operations. The continuation of the Company is dependent upon the continuation of the Company's manufacturing and distribution business in the United States and the generation of positive cash flows and profitable operations therewith. If the going concern assumption were not appropriate for these interim financial statements, it would be necessary to restate the Company's assets and liabilities on a liquidation basis.

Historically, management has been successful in obtaining enough funding for operating and capital requirements. There is, however, no assurance that the Company will generate profits from operations or that additional future funding will be available to the Company, or that such funding will be both adequate to cover its obligations and available on terms which are acceptable to the management of the Company.

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.

In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, 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 Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company's business or results of operations at this time. These conditions indicate the existence of material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

2. Basis of preparation

a) Statement of compliance

These unaudited condensed interim consolidated financial statements ("interim financial statements") were approved by the Board of Directors and authorized for issue on November 26, 2021.

These interim financial statements have been prepared in accordance with International Accounting Standard 34 - *Interim Financial Reporting* using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC"). As such, these interim financial statements do not contain all the disclosures required by IFRS for annual financial statements and should be read in conjunction with the Company's audited annual consolidated financial statements for the years ended December 31, 2020 and 2019 ("annual financial statements").

2. Basis of preparation (continued)

Hollister Biosciences Inc.

Notes to the Condensed Interim Consolidated Financial Statements (Expressed in United States Dollars) - Unaudited

For the three and nine months ended September 30, 2021 and 2020

b) Basis of measurement

These interim financial statements have been prepared in United States ("U.S.") dollars on a historical cost basis except for cash measured at fair value. Historical cost is generally based upon the fair value of the consideration given in exchange for assets.

c) Functional and presentation currency

These interim financial statements are presented in U.S. dollars. The functional currency of the Company is the Canadian dollar ("CAD"). See "Basis of consolidation" for the functional currency of the Company's subsidiaries.

d) Basis of consolidation

Subsidiaries are entities controlled by the Company and are included in these interim 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.

All inter-company balances, transactions, revenues and expenses have been eliminated on consolidation. These interim financial statements incorporate the accounts of the Company and the following subsidiaries:

Name of subsidiary	Abbreviation	Country of incorporation	Percentage ownership	Functional currency	Principal activity
Hollister Biosciences Inc	Hollister	Canada	100%	CAD	Holding company
Hollister Holistics 1	HH1	USA	100%	USD	Operating company
Hollister Holistics 2	HH2	USA	100%	USD	Operating company
Venom Extracts *	Venom Extracts	USA	100%	USD	Operating company
Rebel Hemp Company	Rebel Hemp	USA	100%	USD	Operating company
AlphaMind Brands Inc.**	AlphaMind	Canada	100%	CAD	Research company

*On March 24, 2020, the Company acquired a 100% interest in Venom Extracts (Note 4(a)).

**On April 30, 2020, the Company acquired a 100% interest in AlphaMind (Note 4(b)).

e) Comparative figures

Certain comparative figures have been reclassified to conform with current year presentation.

3. Significant accounting policies

The accounting policies applied in the preparation of these interim financial statements are consistent with those applied and disclosed in note 3 to the annual audited financial statements.

a) Estimates and critical judgments by management

The preparation of consolidated 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. The Company's interim results are not necessarily indicative of its results for a full year. The critical judgements and estimates applied in the preparation of these interim financial statements are consistent with those applied and disclosed in note 3 to the annual financial statements.

4. Transactions

a) Acquisition of Venom Extracts

Hollister Biosciences Inc.

Notes to the Condensed Interim Consolidated Financial Statements

(Expressed in United States Dollars) - Unaudited

For the three and nine months ended September 30, 2021 and 2020

On March 24, 2020, the Company closed its acquisition of Labtronix doing business as Venom Extracts ("Venom Extracts") that owns Venom Extracts, an Arizona cannabis extract brand (the "Acquisition").

Pursuant to the terms of the Acquisition, the Company acquired Venom Extracts for consideration of \$6,328,262 which was satisfied by the issuance of 70,390,672 Hollister common shares (the "Venom Payment Shares") at a fair value of \$0.063 (C\$0.092) per share (one month volume-weighted average share price on closing date) pro rata to the shareholders of Venom Extracts and a commitment to issue an additional 29,610,054 common shares (the "Venom Earn-Out Shares") at a fair value of \$0.063 (C\$0.092) per share to former shareholders of Venom Extracts on the earlier of (i) Venom Extracts reaching certain revenue milestones (detailed below), or (ii) December 31, 2021. The Earn-Out Shares were valued at \$1,873,788 using the one-month volume weighted average share price on closing date and are recorded as the Company's commitment to issue shares. Pursuant to the terms of the acquisition agreement, there are certain restrictions on the sale of the Venom Payment Shares. Accordingly, the fair value of the Venom Payment Shares are adjusted for a discount for lack of marketability ("DOLM"). The DOLM was based on a Black-Scholes model using both internal and external data, including estimated volatility.

- The Venom 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 Venom Earn-Out Shares will be issued when revenue of Venom Extracts exceeds C\$30,000,000 (calculated in accordance with IFRS from January 1, 2020); and
 - An additional 9,870,018 Venom Earn-Out Shares will be issued when revenue of Venom Extracts exceeds C\$40,000,000 (calculated in accordance with IFRS from January 1, 2020).

All the Venom Earn-Out Shares were issued during the three months ended December 31, 2020, as Venom Extracts achieved both milestones as described above.

In connection with the Acquisition, the Company issued 6,000,000 common shares (the "Finder Shares") to an arm's length third party finder with a fair value of \$379,693.

The transaction has been accounted for by the Company as a business combination under IFRS 3, *Business Combinations*, with the assets and liabilities acquired recorded at their fair values at the acquisition date

The Company has determined Venom Extracts is a business by assessing that the following exist: Inputs – tangible and intangible assets, Processes – business operations, management and staff, Outputs – revenue generating from operations. The Company is required to allocate the purchase price to tangible and identifiable intangible assets acquired and liabilities assumed based on their fair values. The excess of the purchase price over those fair values of the net assets acquired is recorded as goodwill.

Hollister Biosciences Inc.**Notes to the Condensed Interim Consolidated Financial Statements
(Expressed in United States Dollars) - Unaudited
For the three and nine months ended September 30, 2021 and 2020**

4. Transactions (continued)

The following table summarizes the purchase price allocation for Venom Extracts:

	March 24, 2020
	\$
Cash and cash equivalents	1,943,135
Receivables	1,112,345
Prepaid expenses	31,013
Inventory	1,390,274
Property and equipment	471,397
Right-of-use assets	113,133
Brand	1,350,000
Intellectual property	1,275,000
Goodwill	2,220,628
Total assets acquired	9,906,925
Accounts payable and accrued liabilities	(1,135,848)
Deferred compensation payable	(2,250,000)
Loans payable	(216,216)
Promissory note	(430,550)
Lease liability	(129,672)
Deferred income tax liability	(767,000)
Total liabilities assumed	(4,929,295)
Net assets acquired	4,977,630
Consideration	
Fair value of 70,390,672 common shares issued – Venom Payment Shares	4,454,474
Fair value of 29,610,540 common shares issued – Venom Earn-Out Shares	1,873,788
Discount on valuation of Payment Shares	(1,350,623)
Total consideration	4,977,639

The results of operations are included in the Company's condensed interim consolidated income (loss) and comprehensive income (loss) for the period since the acquisition date. From the closing date of the acquisition on March 24, 2020, to September 30, 2020, Venom Extracts contributed revenues of \$17,764,307 and net income of \$1,055,593 to the Company's results. If the acquisition occurred on January 1, 2020, management estimates that revenue and net income for the nine months ending September 30, 2020 would have been increased by approximately \$26,121,244 and \$2,741,653, respectively. The goodwill generated as a result of this acquisition relates to expected synergies from combining operations of the Company and Venom Extracts and other intangible assets that do not qualify for separate recognition.

Hollister Biosciences Inc.

Notes to the Condensed Interim Consolidated Financial Statements

(Expressed in United States Dollars) - Unaudited

For the three and nine months ended September 30, 2021 and 2020

4. Transactions (continued)

A total of 90% of the Venom Payment shares issued pursuant to the acquisition of Venom Extracts are subject to an escrow condition as follows:

- 10,558,601 to be released on May 25, 2020.
- 10,558,601 to be released on November 25, 2020.
- 10,558,601 to be released on May 25, 2021.
- 10,558,601 to be released on November 25, 2021.
- 10,558,601 to be released on May 25, 2022.
- 10,558,601 to be released on November 25, 2022.

As part of the Venom Extracts acquisition, the Company acquired loans payable for \$216,216, which the company repaid \$nil during the three months ended September 30, 2021. On September 30, 2021, the remaining balance was \$6,261 (December 31, 2020 - \$6,261).

b) Acquisition of AlphaMind Brands Inc.

On April 30, 2020, the Company closed its acquisition of AlphaMind Brands Inc (“AlphaMind”), a growth stage company, which is engaged in the development of certified legal mushroom based natural health products (the “AlphaMind Acquisition”).

Pursuant to the terms of the AlphaMind Acquisition, the Company acquired AlphaMind for consideration of \$517,613 which was satisfied by the issuance of 4,200,000 Hollister common shares (the “AlphaMind Payment Shares”) at a fair value of \$0.09 (CAD\$0.12) per share (the Company’s share price on April 30, 2020) pro rata to the shareholders of AlphaMind and a commitment to issue an additional 1,800,000 common shares (the “AlphaMind Earn-Out Shares”) at a fair value of \$0.09 (CAD\$0.12) per share to former shareholders of AlphaMind on the earlier of (i) AlphaMind’s first production run or its first sales of product, or (ii) December 31, 2021.

The acquisition has been accounted for by the Company as an acquisition expense as AlphaMind did not qualify as a business combination under IFRS 3, *Business Combinations*, as the significant inputs, processes and outputs, that together constitute a business, did not exist in AlphaMind at the time of acquisition, nor did AlphaMind constitute an asset acquisition under IAS 38, *Intangible Assets*, as it did not have rights to intellectual property or contracts material to the business and operations.

The following table summarizes the preliminary purchase price allocation for AlphaMind:

	April 30, 2020
	\$
Accounts payable and accrued liabilities	(17,865)
Net liabilities acquired	(17,865)
Consideration	
Fair value of 4,200,000 common shares issued – AlphaMind Payment Shares	362,329
Fair value of 1,800,000 common shares issued – AlphaMind Earn-Out Shares (Note 13(h))	155,284
Total consideration	517,613
Excess of purchase price over net liabilities acquired recorded as acquisition expense	535,478

Hollister Biosciences Inc.**Notes to the Condensed Interim Consolidated Financial Statements
(Expressed in United States Dollars) - Unaudited
For the three and nine months ended September 30, 2021 and 2020**

5. Receivables

	September 30, 2021	December 31, 2020
	\$	\$
Trade receivables	4,980,219	2,805,645
Other receivables	94,621	44,130
	5,074,840	2,849,775

The aging analysis of accounts receivable as at September 30, 2021 and December 31, 2020 is as follows:

	Total	Neither past due nor impaired	Past due but not impaired		
			31-60 days	61-90 days	90+ days
	\$	\$	\$	\$	\$
September 30, 2021	4,980,219	4,254,107	327,564	106,799	291,749
December 31, 2020	2,805,645	2,574,629	181,863	47,518	1,635

6. Inventory

The Company 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 oil. Finished goods inventory includes pre-rolls, cannabis oil in cartridges and batteries for vaporizer pen cartridges. Inventory consists of the following:

	September 30, 2021	December 31, 2020
	\$	\$
Raw materials	628,397	771,784
Work in progress	2,867,759	240,664
Finished goods	1,717,922	1,136,745
Packaging and supplies	153,339	53,940
	5,367,417	2,203,133

The Company 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 cost of goods sold for the three and nine months ending September 30, 2021 of \$11,128,223 and \$42,588,201, respectively, (2020 - \$8,102,943 and \$16,301,326, respectively) and valued at cost. Direct product costs are valued on a weighted average basis and major production costs such as labor and testing are allocated to inventory.

Hollister Biosciences Inc.

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7. Property and equipment

	Furniture and fixtures	Vehicle	Manufacturing equipment	Leasehold improvements	Buildings	ROU assets	Total
	\$	\$	\$	\$		\$	\$
Cost							
December 31, 2019	13,203	21,600	177,521	26,469	-	3,987,857	4,226,650
Additions from acquisition	18,604	-	300,568	152,225	-	113,133	584,530
Additions	21,099	80,088	117,944	223,609	-	-	442,740
Sublease deduction	-	-	-	-	-	(1,092,581)	(1,092,581)
December 31, 2020	52,906	101,688	596,033	402,303	-	3,008,409	4,161,339
Additions	32,139	8,075	594,367	59,375	78,548	1,239,657	2,012,161
Disposal	-	-	-	-	-	(127,140)	(127,140)
Sublease deduction	-	-	-	-	-	(1,092,580)	(1,092,580)
September 30, 2021	85,045	109,763	1,190,400	461,678	78,548	3,028,346	4,953,780
Accumulated depreciation							
December 31, 2019	4,793	7,920	87,799	4,560	-	460,137	565,209
Depreciation	15,219	14,755	185,438	102,810	-	480,360	798,582
Disposal	-	-	-	-	-	(355,090)	(355,090)
December 31, 2020	20,012	22,675	273,237	107,370	-	585,407	1,008,701
Depreciation	8,948	13,298	142,283	73,180	495	248,751	486,955
Disposal	-	-	-	-	-	(53,790)	(53,790)
Sublease deduction	-	-	-	-	-	(400,612)	(400,612)
September 30, 2021	28,960	35,973	415,520	180,550	495	379,756	1,041,254
Carrying amount							
December 31, 2020	32,894	79,013	322,796	294,933	-	2,423,002	3,152,638
September 30, 2021	56,085	73,790	774,880	281,128	78,053	2,648,590	3,912,526

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7. Property and equipment (continued)

Depreciation:

During the three and nine months ended September 30, 2021, depreciation was allocated to cost of sales, operating expenses and inventory as the Company's property and equipment substantially relates to, and is used in, manufacturing activity to generate revenue, as follows:

- \$54,032 and \$154,451, respectively, (2020 - \$89,476 and \$208,460, respectively) within cost of sales;
- \$107,788 and \$330,075, respectively (2020 - \$51,954 and \$129,053, respectively) within operating expenses; and
- As at September 30, 2021 \$2,429 (December 31, 2020 - \$70,365) within inventory as part of finished goods.

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

The Company's ROU assets include the following leases:

- Indoor cannabis manufacturing facility in Hollister, California,
- Equipment at manufacturing facility in Hollister, California,
- Indoor cannabis manufacturing facility in Phoenix, Arizona.

8. Goodwill and intangible assets

A continuity of the Company's intangible assets is as follows:

	Brand	Intellectual property	Total
Cost	\$	\$	\$
December 31, 2019	-	-	-
Additions – Venom Extracts acquisition (Note 4(a))	1,350,000	1,275,000	2,625,000
December 31, 2020 and September 30, 2021	1,350,000	1,275,000	2,625,000
Accumulated depreciation			
December 31, 2019	-	-	-
Depreciation	(168,750)	(318,750)	(487,500)
December 31, 2020	(168,750)	(318,750)	(487,500)
Depreciation	(168,750)	(318,750)	(487,500)
September 30, 2021	(337,500)	(637,500)	(975,000)
Carrying amount			
December 31, 2020	1,181,250	956,250	2,137,500
September 30, 2021	1,012,500	637,500	1,650,000

A continuity of the Company's goodwill is as follows:

	September 30, 2021	December 31, 2020
	\$	\$
Opening balance	2,220,628	-
Additions – Venom Extracts acquisition (Note 4(a))	-	2,220,628
Ending balance	2,220,628	2,220,628

9. Accounts payable and accrued liabilities

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	September 30, 2021	December 31, 2020
	\$	\$
Trade payables	2,515,906	2,613,284
Accrued liabilities	97,471	529,498
	2,613,377	3,142,782

10. Promissory notes payable

	September 30, 2021	December 31, 2020
	\$	\$
Opening balance	235,550	-
Additions – Venom Extracts acquisition (Note 4(a))	-	430,550
Interest expense	20,000	106,250
Repayments	(255,550)	(301,250)
Ending balance	-	235,550

Included in promissory notes payable is a principal balance of \$nil which bore interest at the rate of three percent (3%) per annum and was due on demand.

11. Long-term debt

	September 30, 2021	December 31, 2020
	\$	\$
Vehicle loan:		
Opening balance	46,508	13,614
Additions	-	44,351
Repayments	(11,818)	(11,457)
Ending balance	34,690	46,508
Mighty Meds consideration payable:		
Opening balance	74,616	104,014
Repayments	(59,000)	(42,000)
Accretion expense	-	12,602
Ending balance	15,616	74,616
Total long-term debt	50,306	121,124
Less: current portion	27,765	89,754
Long-term portion	22,541	31,370

Hollister Biosciences Inc.

Notes to the Condensed Interim Consolidated Financial Statements (Expressed in United States Dollars) - Unaudited For the three and nine months ended September 30, 2021 and 2020

11. Long-term debt (continued)

a) Vehicle loan:

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 "1st Vehicle Loan"). The 1st Vehicle Loan is repayable in monthly installments, financed at an annual percentage rate of 12.39%, and maturing on May 23, 2024. The Company is in compliance with the scheduled payments. The 1st Vehicle Loan is personally guaranteed by the Company's CEO.

During the year ended December 31, 2020, the Company financed the purchase of vehicles used within the Company's procurement and sales activities. The vehicle loans are repayable in monthly installments, financed at an annual interest rate of 5.89%, and will mature though to June 2024. The Company is in compliance with the scheduled payments.

12. Lease liabilities and lease receivables

a) Lease liabilities

	September 30, 2021	December 31, 2020
	\$	\$
Opening balance	3,978,643	4,273,924
Additions - Venom Extracts acquisition (Note 4(a))	-	129,672
Additions	1,239,657	-
Disposal	(93,301)	-
Repayments	(673,158)	(856,364)
Finance costs	332,905	431,411
Ending balance	4,784,746	3,978,643
Less: current portion	510,058	847,688
Long-term portion	4,274,688	3,130,955

During the three and nine months ended the Company incurred lease renegotiation costs of \$252,036 (2020 - \$nil and \$nil, respectively) for a down payment and subsequent monthly payments for a lease that was later cancelled.

The addition to lease liabilities is due to a new lease agreement negotiated on the Phoenix manufacturing facility. On August 1, 2021, the Company entered into a 120-month lease agreement for the facility. The base monthly payment is \$20,000 with no upfront payment. The incremental borrowing rate used to determine discount the lease liability was 15%. The Company has recognized a corresponding right of use asset for this facility (Note 7).

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12. Lease liabilities and lease receivables (continued)b) Lease receivables

	September 30, 2021	December 31, 2020
	\$	\$
Opening balance	1,036,923	-
Additions	953,983	1,049,299
Lease payments received by the Company	(278,080)	(21,120)
Interest income	112,890	8,744
Ending balance	1,825,716	1,036,923
Less: current portion	319,837	157,439
Long-term portion	1,505,879	879,484

During the year ended December 31, 2020, the Company entered into a sublease agreement with a third party with respect to its facility in California. The lease commenced on December 1, 2020, with monthly lease payments starting at \$21,120 and increasing by 3% per year until December 1, 2025.

During the year ended December 31, 2020, the Company recognized a gain totalling \$311,808 which represents the difference between the portion of ROU asset derecognized and the net investment in lease receivable. The Company used a 0.83% per month interest rate, its incremental borrowing rate to calculate the present value of the lease payments as well as to calculate the monthly accretion expense.

During the nine months ended September 30, 2021, the Company entered into a second sublease agreement with a third party with respect to a separate section of its facility in California. The lease commenced on May 1, 2021, with monthly lease payments starting at \$17,600 and increasing to \$21,120 starting May 1, 2022.

During the nine months ended September 30, 2021, the Company recognized a gain totalling \$262,015 which represents the difference between the portion of ROU asset derecognized and the net investment in lease receivable. The Company used a 0.83% per month interest rate, its incremental borrowing rate to calculate the present value of the lease payments as well as to calculate the monthly accretion expense.

Future minimum payments per the lease receivable are as follows:

	Future payments
	\$
2021	116,794
2022	501,056
2023	522,987
2024	531,073
2025	514,918
2026	84,480
Total future minimum lease payments	2,271,308
Effects of discounting	(445,592)
Total lease receivable	1,825,716
Less: current portion	319,837
Long-term portion	1,505,879

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12. Lease liabilities and lease receivables (continued)

c) Obligation under finance leases

In addition to the facility lease, the Company's obligation under finance lease arises from the lease of various manufacturing equipment and is payable to a single commercial lessor for the lease of various manufacturing equipment 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 finance lease is personally guaranteed by the Company's CEO.

As at September 30, 2021, 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 \$5,407 (December 31, 2020 - \$37,488).

During the three and nine months ended September 30, 2021, the Company incurred finance costs of \$708 and \$3,536, respectively (2020 - \$2,448 and \$8,418, respectively) which represented interest expense implicit in the manufacturing equipment lease.

13. Shareholders' equity

a) **Authorized share capital**

The authorized share capital of the Company consists of unlimited common shares without par value.

As at September 30, 2021, in addition to the common shares of the Company held in escrow pursuant to the Venom Extracts acquisition (Note 4(a)), 13,266,540 common shares were held in escrow (December 31, 2020 - 17,688,720).

b) **Share capital transactions**

During the nine months ended September 30, 2021, the Company completed the following transactions:

- Issued 100,000 common shares for proceeds of \$7,899 (CAD\$10,000) for warrants issued from Finders' units exercised.
- Issued 750,000 common shares for proceeds of \$71,680 (CAD\$90,750) for stock options exercised.
- Issued 7,415,045 common shares for proceeds of \$601,626 (CAD\$755,038) for warrants exercised.
- On March 17, 2021, pursuant to the conversion of Special Warrants issued on March 4, 2021, the Company issued 21,635,094 units for \$0.288 (CAD\$0.365) per unit for gross proceeds of \$6,237,368 (CAD\$7,896,809). Each unit is comprised of one common share and one-half common share purchase warrant. Each warrant entitles the holder to acquire one half a common share at a price of \$0.395 (CAD\$0.500) per share for a period of forty-eight months following the closing date of the financing. Share issue costs included cash payments of \$638,471 (CAD\$808,334) and the issuance of 1,441,580 Special Brokers' warrants valued at \$343,824 (CAD\$435,298) using the Black-Scholes option pricing model with the following assumptions: a two-year expected average life, share price of \$0.300 (CAD\$0.380); 177% volatility, risk-free interest rate of 0.25%, and an expected dividend yield of 0%. The units were valued using the relative fair value method: fair value of \$308,046 (CAD\$390,002) attributed to warrants was recorded to warrant reserve and fair value of \$674,248 (CAD\$853,630) attributed to shares was recorded to issued capital.

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13. Shareholders' equity (continued)

During the year ended December 30, 2020, the Company completed the following transactions:

- On August 10, 2020, pursuant to a private placement financing, the Company issued 17,646,889 units for \$0.07 (CAD\$0.085) per unit for gross proceeds of \$1,115,624 (CAD\$1,499,986). Each unit is comprised of one common share and one common share purchase warrant. Each warrant entitles the holder to acquire one common share at a price of \$0.07 (CAD\$0.10) per share for a period of twenty-four months following the closing date of the financing. Share issue costs included cash payments of \$83,420 and the issuance of 1,272,959 Finders' Options valued at \$88,117 (CAD\$117,377) using the Black-Scholes option pricing model with the following assumptions: a two-year expected average life, share price of \$0.06 (CAD\$0.085); 117% volatility, risk-free interest rate of 0.23%, and an expected dividend yield of 0%. The units were valued using the relative fair value method: fair value of \$444,646 (CAD\$592,296) attributed to warrants was recorded to warrant reserve and fair value of \$670,978 (CAD\$907,691) attributed to shares was recorded to issued capital.
- As part of the Venom Extracts Acquisition (Note 4(a)), the Company issued 70,390,672 common shares of the Company with a fair value of \$4,454,474 (CAD\$6,454,825) or \$0.063 (CAD\$0.092) per common share. In addition, the Company issued 6,000,000 Finder Shares with a fair value of \$379,683 (CAD\$550,200) or \$0.063 (CAD\$0.092) per common share.
- Pursuant to the terms of the Venom Extracts acquisition (Note 4(a)), the release conditions related to the Venom Earn-Out shares were met, and as a result all 29,610,054 of the Venom Earn-Out Shares were issued by the Company to the applicable former shareholders of Venom Extracts.
- As part of the AlphaMind Acquisition (Note 4(b)), the Company issued 4,200,000 common shares of the Company with a fair value of \$362,329 (CAD\$504,000) or \$0.09 (CAD\$0.12) per common share.
- The Company issued 1,000,000 common shares for proceeds of \$78,530 (CAD\$107,000) for stock options exercised.
- The Company issued 982,842 common shares for proceeds of \$75,272 (CAD\$99,118) for warrants exercised.
- The Company issued 100,000 common shares for proceeds of \$6,524 (CAD\$8,500) for Finders Units exercised.
- The Company issued 703,400 common shares for consulting and marketing agreements with a fair value of \$62,075 (CAD\$85,990).
- The Company issued 566,883 common shares for the repayment of \$45,015 (CAD\$62,357) debt.

c) Special warrant financing

On March 4, 2020, the Company completed an offering of 21,635,094 Special Warrants at a price of \$0.288 (CAD\$0.365) each for gross proceeds of \$6,237,368 (CAD\$7,896,809). These Special Warrants were deemed exercised into 21,635,094 common shares of the Company on March 17, 2021.

In connection with the Special Warrant Financing, the Company paid \$638,471 (CAD\$808,334) in cash share issue costs including finder's fees, filing fees, administrative and other expenses, and legal fees. Additionally, the Company issued 1,441,580 finder's warrants with an aggregate fair value of \$343,824 (CAD\$435,298). Each finder's warrant entitles the holder to acquire one common share of the Company at a price of \$0.288 (CAD\$0.365) per share until March 17, 2023.

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13. Shareholders' equity (continued)**d) Warrants**

The following is a summary of the Company's warrants:

	Number of warrants	Weighted average exercise price
		\$CAD
Balance, December 31, 2019	2,873,313	0.105
Exercised	(982,842)	0.101
Issued	17,646,889	0.100
Balance, December 31, 2020	19,537,360	0.101
Exercised	(7,515,045)	0.102
Issued	10,917,547	0.500
Balance, September 30, 2021	22,939,862	0.290

As at September 30, 2021, the Company had the following warrants outstanding:

Date of expiry	Exercise price	Number of warrants	Weighted average life (years)
	\$CAD		
August 10, 2022	0.100	12,122,315	0.86
March 17, 2025	0.500	10,817,547	3.46
		22,939,862	2.09

The assessed relative fair value at issuance date of warrants during the nine months ended September 30, 2021 was \$1,673,833 (CAD\$2,086,432) (year ended December 31, 2020 - \$444,646).

The fair value at issuance date is determined using the Black Scholes model. Weighted-average assumptions used in the option-pricing model are as follows:

	September 30, 2021	December 31, 2020
Risk-free interest rate	0.66%	0.23%
Expected life	4 years	2 years
Expected volatility	177%	117%
Forfeiture rate	0.0%	0.0%
Dividend rate	0.0%	0.0%

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13. Shareholders' equity (continued)**e) Stock options**

The Company has a stock option plan for directors, employees, and consultants. The aggregate number of common shares issuable pursuant to stock options granted under the plan is 10% of the issued and outstanding common shares. The board of directors has the exclusive power over the granting of stock options, the exercise price, the term, and their vesting and cancellation provisions.

The following is a continuity of the Company's stock options:

	Number of options	Weighted average exercise price
		\$CAD
Balance, December 31, 2019	8,266,666	0.110
Exercised	(1,000,000)	0.107
Granted	6,500,000	0.125
Balance, December 31, 2020	13,766,666	0.117
Exercised	(750,000)	0.121
Granted	5,955,000	0.400
Balance, September 30, 2021	18,971,666	0.206

As at September 30, 2021, the Company had the following stock options outstanding:

Date of expiry	Exercise price	Number of options	Weighted average life (years)
	\$CAD		
November 25, 2024	0.105	6,716,666	3.16
August 25, 2025	0.125	6,300,000	3.90
May 31, 2026	0.400	5,955,000	4.67
		18,971,666	3.88

The assessed fair value at grant date of options granted during the nine months ended September 30, 2021 was \$1,257,654 (CAD\$1,544,624) (year ended December 31, 2020 - \$561,247). During the three and nine months ended September 30, 2021, the Company recorded \$527,475 and \$768,214, respectively (2020 - \$561,247 and \$561,247, respectively) as share-based compensation expense for stock options vested. The fair value at grant date is determined using the Black Scholes model. Weighted-d-average assumptions used in the option-pricing model are as follows:

	September 30, 2021	December 31, 2020
Risk-free interest rate	0.74%	0.33%
Expected life	5 years	5 years
Expected volatility	177%	156%
Forfeiture rate	0.0%	0.0%
Dividend rate	0.0%	0.0%

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13. Shareholders' equity (continued)**f) Finders' Options**

The following is a continuity of the Company's Finders' Options:

	Number of Finders' options	Weighted average exercise price
		\$CAD
Balance, December 31, 2019	-	-
Granted	1,272,959	0.085
Exercised	(100,000)	0.085
Balance, December 31, 2020 and September 30, 2021	1,172,959	0.085

On August 10, 2020, as part of private placement, the Company issued non-transferable compensation options ("Finder's Options") to finders to acquire up to a total of 1,272,959 units ("Finder's Units"), at a price of \$0.06 (CAD\$0.085) per Finder's Option on or before August 10, 2022. Each Finder's Unit will consist of one share and one non-transferable share purchase warrant (the "Finder's Warrant").

Each Finder's Warrant will entitle the holder to purchase one share of the Company at a price of \$0.10 per share on or before August 10, 2022. At September 30, 2021, the weighted average exercise life remaining of each Finder's Option is 0.86 years. The assessed fair value at grant date of Finder's Options on the August 10, 2020 grant date was \$88,117 (CAD\$117,377). The fair value at grant date is determined using the Black Scholes model. Weighted-average assumptions used in the option-pricing model are as follows:

	2021	2020
Risk-free interest rate	-	0.23%
Expected life	-	2 years
Expected volatility	-	117%
Forfeiture rate	-	0.0%
Dividend rate	-	0.0%

g) Special Brokers' Warrants

The following is a continuity of the Company's Special Brokers' Warrants:

	Number of Special Brokers' warrants	Weighted average exercise price
		\$CAD
Balance, December 31, 2019 and December 31, 2020	-	-
Issued	1,441,580	0.365
Balance, September 30, 2021	1,441,580	0.365

On March 17, 2021, as part of a private placement, the Company issued non-transferable brokers' warrants ("Special Brokers' Warrants") to brokers to acquire up to a total of 1,441,580 units ("Brokers' Units"), at a price of \$0.288 (CAD\$0.365) per Special Brokers' Warrant on or before March 17, 2023. Each Brokers' Unit will consist of one share and one-half share purchase warrant (the "Brokers' Warrant").

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13. Shareholders' equity (continued)

Two Brokers' Warrants will entitle the holder to purchase one share of the Company at a price of \$0.288 (CAD\$0.365) per Brokers' Warrant on or before March 31, 2023. At September 30, 2021, the weighted average exercise life remaining of each Special Brokers' Warrant is 1.46 years. The assessed fair value at grant date of Special Brokers' Warrants on the March 17, 2021 grant date was \$343,824 (CAD\$435,298). The fair value at grant date is determined using the Black Scholes model. Weighted-average assumptions used in the option-pricing model are as follows:

	2021	2020
Risk-free interest rate	0.25%	-
Expected life	2 years	-
Expected volatility	177%	-
Forfeiture rate	0.0%	-
Dividend rate	0.0%	-

h) Commitment to issue shares

The following is a continuity of the Company's commitment to issuing earn out shares as part of its acquisitions:

	September 30, 2021	December 31, 2020
	\$	\$
Opening balance	155,284	-
Additions – AlphaMind acquisition (Note 4(b))	-	155,284
	155,284	155,284

14. 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 shareholders' equity.

The Company has historically relied on financing from the issuance of common shares, 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, 2021.

15. 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.

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15. Financial risk management and financial instruments (continued)

The carrying values of cash, receivables, accounts payable and accrued liabilities, deferred compensation payable, promissory note and accounts payable to related parties approximate their respective fair values due to the short-term nature of these instruments. Long-term debt and lease obligations 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

During the three and nine months ended September 30, 2021, the Company derived 50% and 50%, respectively, of its revenues from six customers (2020 - 41% and 37%, respectively, from four customers).

16. 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. The remuneration of the Company's key management personnel during the three and nine months ended September 30, 2021 and 2020 are as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
	\$	\$	\$	\$
Salaries and wages	-	-	82,913	83,333
Professional and consulting fees	21,772	20,083	120,032	59,119
	21,772	20,083	202,945	142,452

As at September 30, 2021, accounts payable to Amasa Lacy (a Vice President, Production and director of the Company) totalled \$44,083 (December 31, 2020 - \$59,083) and accounts payable to Carl Saling (CEO and director of the Company) totalled \$43,110 (December 31, 2020 - \$63,612). These amounts are unsecured, non-interest bearing and are due on demand.

Hollister Biosciences Inc.**Notes to the Condensed Interim Consolidated Financial Statements****(Expressed in United States Dollars) - Unaudited****For the three and nine months ended September 30, 2021 and 2020**

17. 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 following table presents the Company's operations by segment for the three months ended September 30, 2021:

	California	Arizona	Corporate	Consolidated
	\$	\$	\$	\$
Total revenue	595,113	13,893,521	-	14,488,634
Gross profit	3,622	3,480,365	-	3,483,987
Operating expenses:				
Administrative expenses	197,854	50,240	30,763	278,857
Depreciation	80,453	90,786	162,500	333,739
Finance costs	89,971	33,329	-	123,300
Foreign exchange gain	(29,665)	-	-	(29,665)
Interest expense	342	-	-	342
Marketing	73,884	68,900	18,022	160,806
Professional fees and consulting	57,294	46,855	277,317	381,466
Share-based compensation	-	-	527,475	527,475
Salaries and wages	193,501	226,641	-	420,142
Travel and meals	7,711	517	-	8,228
Other loss (income):				
Interest income	(46,802)	-	-	(46,802)
Gain on lease extinguishment	-	(19,951)	-	(19,951)
Lease renegotiation costs	252,036	-	-	252,036
Current income tax expense	-	-	617,000	617,000
Deferred income tax recovery	-	-	(3,000)	(3,000)
Net (loss) income	(872,957)	2,983,048	(1,630,077)	480,014

Hollister Biosciences Inc.**Notes to the Condensed Interim Consolidated Financial Statements****(Expressed in United States Dollars) - Unaudited****For the three and nine months ended September 30, 2021 and 2020**

17. Segmented information (continued)

The following table presents the Company's operations by segment for the nine months ended September 30, 2021:

	California	Arizona	Corporate	Consolidated
	\$	\$	\$	\$
Total revenue	1,111,765	54,055,152	-	55,166,917
Gross profit (loss)	(101,032)	11,529,287	(16,468)	11,411,787
Operating expenses:				
Administrative expenses	544,222	127,483	69,715	741,420
Depreciation	252,991	224,370	487,500	964,861
Finance costs	287,754	45,151	-	332,905
Foreign exchange gain	(57,961)	-	-	(57,961)
Interest expense	356	20,000	-	20,356
Marketing	205,892	164,263	58,480	428,635
Professional fees and consulting	78,237	130,081	640,086	848,404
Research and development	-	12,225	-	12,225
Share-based compensation	-	-	768,214	768,214
Salaries and wages	539,490	583,646	-	1,123,136
Travel and meals	10,971	6,737	-	17,708
Other loss (income):				
Interest income	(112,890)	-	-	(112,890)
Gain on sublease	(262,015)	-	-	(262,015)
Gain on lease extinguishment	-	(19,951)	-	(19,951)
Lease renegotiation costs	252,036	-	-	252,036
Current income tax expense	-	-	2,438,000	2,438,000
Deferred income tax recovery	-	-	(131,000)	(131,000)
Net (loss) income	(1,840,115)	10,235,282	(4,347,463)	4,047,704
As at September 30, 2021				
Assets	7,071,808	16,534,933	4,301,018	27,907,759
Liabilities	4,097,535	3,783,585	3,866,922	11,748,042

Hollister Biosciences Inc.

Notes to the Condensed Interim Consolidated Financial Statements

(Expressed in United States Dollars) - Unaudited

For the three and nine months ended September 30, 2021 and 2020

18. Supplemental cash flow information

During the nine months ended September 30, 2021, and 2020, the Company incurred non-cash investing and financing activities as follows:

	2021	2020
	\$	\$
Non-cash investing activities:		
Derecognition of ROU asset from sublease	691,967	-
Shares issued for acquisition of AlphaMind Brand (Note 4(b))	-	362,329
Shares issued for acquisition of Venom Extracts (Note 4(a))	-	2,428,772
Shares issued as Finders Shares	-	207,025
Warrants issued as finders fee	-	172,300
Non-cash financing activities:		
Warrants issued as Special Brokers' Warrants	343,824	-

During the three and nine months ended September 30, 2021, the Company paid \$134,707 and \$313,867, respectively (2020 - \$37,729 and \$87,729, respectively) in interest expense, and \$2,400 and \$2,400, respectively (2020 - \$nil and \$nil, respectively) for income tax expense.

19. Subsequent events

On October 8, 2021 the Company issued 2,135,000 common shares pursuant to the exercise of 2,135,000 stock options.

On October 11, 2021 the Company issued 433,333 common shares pursuant to the exercise of 433,333 stock options.

On October 11, 2021, the Company granted an aggregate of 4,375,000 stock options at an exercise price of \$0.22 per share. Each stock option is exercisable for a period of five years.

On October 12, 2021 the Company announced significant changes to its board and executive team. Jake Cohen was appointed CEO. Eula Adams was appointed interim CFO and a nominated board member and Chris Lund was appointed CCO. Carl Sailing resigned as CEO and Director of the Company and has been appointed Senior Advisor to the Board.

On October 27, 2021 the Company issued 28,368 common shares at \$0.22 per share as part of a consulting agreement.