FORM 51-102F4

BUSINESS ACQUISITION REPORT

Item 1 — Identity of Company

1.1 — Name and Address of Company

Cannabis One Holdings Inc. ("**Cannabis One**" or the "**Company**")
Suite 610- 700 West Pender Street
Vancouver, BC
V6C 1G8

1.2 — Executive Officer

Theresa Mohan, Interim Chief Financial Officer
(720) 399-0599

Item 2 — Details of Acquisition

2.1 — Nature of Business Acquired

Cannabis One, through its wholly-owned subsidiary, Bertram Capital Finance, Inc. ("**Bertram**"), completed the acquisition of the business and operating assets, inclusive of all intellectual property and certain equipment, of Washington-based Honu Enterprises, Inc. ("**Honu**"), a cannabis-infused products brand (the "**Acquisition**"). In accordance with Washington State regulations and legislation, neither the Company, nor Bertram, shall acquire any interest in regulated inventory or licenses related to the cultivation, manufacture, distribution, or sale of cannabis or cannabis-related products in connection with the Acquisition.

2.2 — Acquisition Date

May 6, 2019

2.3 — Consideration

Pursuant to the definitive asset purchase agreement dated May 6, 2019 (the "**Asset Purchase Agreement**"), the gross consideration payable to Honu in connection with the Acquisition will be up to US$10,280,811 payable through the issuance by the Company to Honu of Class "B" super voting shares in the capital of the Company ("**Super Voting Shares**") due in three equal parts upon closing of the Acquisition ("**Closing**") and subsequently upon the satisfaction of provisions applicable to two (2) earn-out consideration payments (each an "**Earn-Out**"). Upon Closing, Cannabis One issued to Honu 87,802 Super Voting Shares at a per Super Voting Share price equal to CDN$43.3165 (given that each Super Voting Share is convertible into ten (10) Class "A" subordinated voting shares in the capital of Cannabis One ("**Subordinate Voting Shares**")) for gross consideration of approximately US$2,837,952.80 (CDN$3,803,282.44), which figure is net of those funds previously advanced to Honu by Cannabis One or its subsidiaries prior to Closing.

The two (2) Earn-Out consideration payments will each be contingent on reaching certain annual revenue targets (the "**Annual Revenue Targets**") and will each consist of the issuance of up to such number of Super Voting Shares as is equal to a value of US$3,426,937. Each Earn-Out consideration will be payable within thirty (30) days following the audited validation of the applicable Annual Revenue Target. The per Super Voting Share price for each Earn-Out will be equal to ten (10) times (given that each Super Voting Share is convertible into ten (10) Subordinate Voting Shares) the greater of: (a) the maximum discount allowed under the policies of the Canadian Securities Exchange ("**CSE**") to the closing price of the Subordinate Voting Shares immediately prior to the date of the execution of the Asset Purchase Agreement and the announcement of the same by Cannabis One; and (b) the ten (10) day volume-weighted average price of the Subordinate Voting Shares on the CSE immediately preceding the closing date of the applicable Earn-Out, converted into United States Dollars using a ten (10) day simple average of the USD/CAD foreign exchange rate for the period immediately preceding the closing of the applicable Earn-Out, as published on www.federalreserve.gov.

Further information regarding the Acquisition can be found in the Company's press releases dated April 10, 2018 and May 6, 2019 and material change report dated May 13, 2019, copies of which have been filed under the Company's profile on SEDAR at www.sedar.com.

2.4 — Effect on Financial Position

The Company presently has no plans or proposals for material changes in the Company's business affairs or the affairs of the acquired business that may have a significant effect on the results of operations and financial position of the Company. See the financial statements and the accompanying notes thereto included in this Business Acquisition Report.

2.5 — Prior Valuations

No valuation opinion was required by securities legislation or a Canadian exchange or market within the last 12 months by Honu or Cannabis One to support the consideration paid by Cannabis One pursuant to the Acquisition.

2.6 — Parties to Transaction

The Acquisition was not with an informed person, associate or affiliate of Cannabis One or Bertram.

2.7 — Date of Report

July 19, 2019

Item 3 — Financial Statements and Other Information

As required by Part 8 of National Instrument 51-102 – *Continuous Disclosure Obligations*, the following financial statements are attached hereto:

- Annual financial statements of Honu for the years ended December 31, 2018 and December 31, 2017.

Honu Enterprises, Inc.

Financial Statements

December 31, 2018

(Unaudited – Prepared by Management)

Expressed in United States Dollars)

Honu Enterprises, Inc.

Statements of Financial Position

(Unaudited – Prepared by Management)

Expressed in United States Dollars

As at December 31, 2018 and December 31, 2017

	Note	**December 31, 2018 $**	December 31, 2017 $
Assets			
Current assets			
Cash		137,060	-
Inventory	5	46,419	34,488
		183,479	34,488
Non-current assets			
Deposit	4	20,000	20,000
Property and equipment	6	735,127	764,267
Total assets		**938,606**	818,755
Liabilities and members' equity			
Current liabilities			
Accounts payable and accrued liabilities	10	863,340	985,320
Bank indebtedness		-	36,714
		863,340	1,022,034
Non-current liabilities			
Lease liabilities	6	233,835	269,006
Loans payable	7	1,849,410	1,100,646
Convertible note	8	150,000	150,000
Total liabilities		**3,096,585**	2,541,686
Shareholders' equity			
Share capital	9	907,836	907,836
Deficit		(3,065,815)	(2,630,767)
Total shareholders' equity		**(2,157,979)**	(1,722,931)
Total liabilities and shareholders' equity		**938,606**	818,755
Nature of operations and going concern	**1**		
Commitment	**14**		
Subsequent event	**17**		

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

Honu Enterprises, Inc.

Statements of Changes in Shareholders' Equity

(Unaudited – Prepared by Management)

Expressed in United States Dollars

For the years ended December 31, 2018 and December 31, 2017

	Common shares #	Share capital $	Deficit $	Total $
December 31, 2016	39,962,434	907,836	(870,667)	37,169
Loss and comprehensive loss for the year	-	-	(1,760,100)	(1,760,100)
December 31, 2017	39,962,434	907,836	(2,630,767)	(1,722,931)
December 31, 2017	39,962,434	907,836	(2,630,767)	(1,722,931)
Loss and comprehensive loss for the year	-	-	(435,048)	(435,048)
December 31, 2018	**39,962,434**	**907,836**	**(3,065,815)**	**(2,157,979)**

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

Honu Enterprises, Inc.

Statements of Loss and Comprehensive Loss

(Unaudited – Prepared by Management)

Expressed in United States Dollars

For the years ended December 31, 2018 and December 31, 2017

	Note	**2018** **$**	2017 $
Revenue		3,430,667	3,418,991
Cost of sales		2,460,849	3,914,572
		969,818	(495,581)
Operating expenses			
Depreciation	6	120,849	179,277
Finance cost	6	100,613	90,826
General and administrative		84,889	64,622
Interest expense	7, 8	690,166	16,355
Inventory write-off	5	-	402,311
Loss provision - receivables	4	28,415	57,875
Management fees	10	89,875	157,410
Marketing		26,927	26,601
Professional fees		159,341	87,683
Repairs and maintenance		5,874	3,769
Wages and benefits		97,917	177,790
Loss from operating expenses		**(1,404,866)**	(1,264,519)
Loss and comprehensive loss for the year		**(435,048)**	(1,760,100)
Loss per share			
Weighted average number of common shares outstanding			
- Basic #		**40,065,839**	39,962,434
- Diluted #		**40,065,839**	39,962,434
Basic loss per share $		**(0.01)**	(0.04)
Diluted loss per share $		**(0.01)**	(0.04)

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

Honu Enterprises, Inc.

Statements of Cash Flows

(Unaudited – Prepared by Management)

Expressed in United States Dollars

For the years ended December 31, 2018 and December 31, 2017

	Note	**2018** $	2017 $
Operating activities			
Loss and comprehensive loss for the year		(435,048)	(1,760,100)
Adjustment for non-cash items:			
Depreciation		120,849	179,277
Inventory write-off		-	402,311
Loss provision - receivables		28,415	57,875
Working capital adjustments:			
Receivables		(28,415)	(54,820)
Prepaid expenses		-	69,119
Inventory		(11,931)	(32,303)
Accounts payable and accrued liabilities		(121,980)	960,318
		(448,110)	(178,323)
Financing activities			
Loans payable		713,593	356,940
Convertible note		-	150,000
Bank indebtedness (repayment)		(36,714)	36,714
		676,879	543,654
Investing activities			
Purchases of property and equipment		(91,709)	(387,934)
		(91,709)	(387,934)
Net change in cash		**137,060**	(22,603)
Cash, beginning of year		**-**	22,603
Cash, end of year		**137,060**	-
Supplemental cash flow information	15		

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

1. Nature of operations and going concern

Honu Enterprises (the "Company") was incorporated in the State of Washington on February 3, 2014. Its registered business address is 1465 Industrial Way, Longview WA 98632. The Company operates exclusively in the State of Washington where the legal commercial production and vending of marijuana is permitted by Washington state law.

On December 18, 2018, the Company's licenses, permits, and certain inventory were confiscated and destroyed by the Washington State Liquor and Cannabis Board and the Company ceased operations. Prior to this date, the Company was a licensed manufacturer and distributor of cannabis products in the State of Washington. As at December 31, 2018, the carrying value of inventory represents items that remain in the Company's possession and is primarily comprised of packaging and supplies.

Although the Company ceased operations on December 18, 2018, these financial statements are prepared on the basis that the Company will continue as a going concern since the Company continues to be party to lease and sublease agreements and is able to perform operating activities which do not directly involve the procurement, use, or distribution of cannabis, or cannabis derivative products. The going concern basis 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 commitments in the normal course of operations. As at December 31, 2018, the Company had a working capital deficiency of $679,861 and shareholders' deficiency of $2,157,979.

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 continue operations in a manner that will be profitable in the future. If the Company is unable to raise additional funds and generate profitable operations 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 accordance with International Financial Reporting Standards and Interpretations (collectively, "IFRS"), as issued by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC").

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.

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.

2. Significant accounting policies

Estimates and critical judgments by management (continued)

The areas which require management to make critical judgments include:

- *Impairment of property and equipment*

  The impairment of property and equipment is influenced by judgment in defining a cash-generating unit and determining the indicators of impairment and estimates used to measure impairment losses. The Company is required to measure the recoverable amount of property and equipment when there are indicators that its carrying value may be impaired. The assessment of any impairment of property and equipment is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and useful lives of the assets.

- *Useful lives and depreciation of property and equipment*

  The depreciation methods and useful lives reflect the pattern in which management expects the assets' future economic benefits to be consumed by the Company. Judgments are required in determining these expected useful lives.

The areas which require management to make significant estimates and assumptions include:

- *Inventory*

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

- *Fair value of financial instruments*

  Determining the fair value requires judgment and is based on market prices or management's best estimate if there is no active market. When the fair value of a financial instrument cannot be derived from an active market, it is determined using other valuation techniques including discounted cash flows. The inputs to these models are taken from observable markets where possible, however, when not feasible, a degree of judgment is required in establishing fair values. The estimate includes consideration of inputs such as liquidity risk and credit risk. Changes in the assumptions about these factors may affect the reported fair value of financial instruments.

Expressed in United States Dollars

2. Significant accounting policies (continued)

New accounting policies

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments became effective on January 1, 2018. These financial statements are the first set of financial statements prepared by the Company. The effect of applying this standard effective January 1, 2018, had no impact on the Company's comparative financial statements as at and for the year ended December 31, 2017, included herein.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. IFRS 15 became effective on January 1, 2018. As the Company had no revenue during the year ended December 31, 2017, there was no impact on the financial statements for the year then ended on adoption of this standard effective January 1, 2018.

Financial instruments

All financial instruments are recognized initially at fair value on the date at which the Company becomes a party to the contractual provisions of the instrument.

Classification and measurement of financial assets and liabilities

A financial asset is classified as measured at: amortized cost; fair value through other comprehensive income ("FVOCI") or fair value through profit or loss ("FVTPL"). The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

The Company classifies its financial instruments in the following categories based on the purpose for which the asset was acquired: FVTPL, amortized cost, and FVOCI. The Company's financial assets and financial liabilities are classified and measured as follows:

Asset/Liability	**Measurement Category**	**Subsequent measurement**
Cash	FVTPL	Fair value
Receivables	Amortized cost	Amortized cost
Accounts payable and accrued liabilities	Amortized cost	Amortized cost
Bank indebtedness	Amortized cost	Amortized cost
Lease liabilities	Amortized cost	Amortized cost
Loans payable	Amortized cost	Amortized cost
Convertible note	Amortized cost	Amortized cost

2. Significant accounting policies (continued)

Impairment

Financial assets

An ‘expected credit loss’ (“ECL”) model applies to financial assets measured at amortized cost. The Company’s receivables are measured at amortized cost and are therefore subject to the ECL model.

Financial assets, other than those classified at FVTPL, are assessed for indicators of impairment at each reporting date. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset (a “loss event”), and that loss event has an impact on the estimated future cash flows of that asset. Objective evidence may include significant financial difficulty of the debtor/obligor and/or delinquency in payment. When impairment has occurred, the cumulative loss is recognized in profit or loss.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the financial asset’s original effective interest rate. Impairment losses may be reversed in subsequent periods.

Non-financial assets

Non-financial assets comprise property and equipment which are reviewed for impairment at each reporting date or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. For purposes of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit, or "CGU"). The recoverable amount of an asset or a CGU is the higher of its fair value less costs to sell and its value in use. Value in use is based on the estimated cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. If the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognized immediately in profit or loss by the amount by which the carrying amount of the asset exceeds the recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount, and the carrying amount that would have been recorded had no impairment loss been recognized previously.

Cash

Cash is comprised of deposits in financial institutions, and cash on hand.

Inventory

Inventory includes raw materials, finished goods, and packaging and supplies. Inventory is valued at the lower of cost and net realizable value. Cost is determined using the average costing method. Net realizable value is determined as the estimated selling price in the ordinary course of business, less the estimated costs to sell. The Company reviews inventory for obsolete, redundant and slow moving goods and any such inventory identified is written-down to the net realizable value.

2. Significant accounting policies (continued)

Property and equipment

Property and equipment is stated at cost less accumulated depreciation and accumulated impairment losses, if any.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of replaced parts are derecognized. All other repairs and maintenance are charged to profit or loss during the year in which they are incurred.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset, using the following terms and methods:

- Furniture and fixtures — 10 Years
- Leasehold improvements — 10 Years (term of lease)
- Manufacturing equipment — 5 Years
- Manufacturing equipment under lease — 5 Years (term of lease)

The estimated useful lives, residual values and depreciation methods are reviewed at the end of each reporting period, with the effect of any changes in estimates accounted for on a prospective basis. The determination of appropriate useful lives and residual values are based on management's judgement; therefore, the resulting depreciation is subject to estimation uncertainty.

Items of property and equipment are derecognized upon disposal or when no future economic benefits are expected to arise from their continued use. Any gain or loss arising from disposal or retirement is determined as the difference between the consideration received and the carrying amount of the asset and is recognized in profit or loss.

2. Significant accounting policies (continued)

Revenue recognition

Revenue from the sale of goods by the Company is recognized at the fair value of consideration received or receivable when all of the following conditions are met which are generally met once the products are delivered to customers:

- The amount of the revenue can be measured reliably;
- It is probable that economic benefits associated with the transaction will flow to the Company;
- The Company has transferred the significant risks and rewards of ownership of the goods to the customer and retains no continuing managerial involvement, ownership, or effective control over the goods; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

For the years ended December 31, 2018, and 2017, there were no allowances, discounts, or rebates recorded against revenues.

Cost of sales

Cost of sales includes cost of inventory expensed, packaging costs, and shipping costs and related labour, and overhead allocations.

Provisions

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

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the obligation. An amount equivalent to the discounted provision is capitalized within the non-financial assets and is depreciated over the useful lives of the related assets. The increase in the provision due to passage of time is recognized as interest expense.

2. Significant accounting policies (continued)

Income taxes

Income tax expense is recognized in profit or loss based on the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at year end. For the year ended December 31, 2018, Federal and State income tax expense totaled $nil (2017 –$nil). As the Company is registered as a C Corp. it is taxed at a flat federal income tax rate of 21%.

Deferred tax assets and liabilities and the related deferred income tax expense or recovery, if any, are recognized for deferred tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized, or the liability settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in profit or loss in the year that substantive enactment occurs. At December 31, 2018, and 2017, no deferred income tax assets or liabilities were recorded by the Company.

As the Company operates in the cannabis industry, it is subject to the limits of IRC Section 280E under which the Company is only allowed to deduct expenses directly related to sales of product (inventory). This results in permanent differences between ordinary and necessary business expenses deemed non-allowable under IRC Section 280E.

Standards issued but not yet effective

Certain pronouncements have been issued by the IASB or IFRIC that are effective for accounting periods beginning on or after January 1, 2019. Many of these updates are not applicable or consequential to the Company and have been excluded from the discussion below.

Effective for annual 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 is 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 extent of the impact of adoption of the standard has not yet been determined. However, upon adoption of IFRS 16, the Company’s facility lease will likely constitute a right-of-use asset which will be included in property and equipment, with a corresponding lease liability.

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.

The Company has determined that there will be no material reporting changes as a result of adopting the Interpretation.

Expressed in United States Dollars

3. Receivables

Receivables consists of the following:

	December 31, 2018	December 31, 2017
	$	**$**
Trade receivables	28,415	57,875
Allowance for doubtful accounts	(28,415)	(57,875)
	-	-

During the year ended December 31, 2018, the Company recorded a loss provision against receivables for estimated bad debt expense due to certain customers going out of business. The loss provision totalled $28,415 (2017 - $57,875).

4. Deposit

Deposit consists of the following:

	December 31, 2018	December 31, 2017
	$	**$**
Deposit:		
Security deposit on facility lease	20,000	20,000
	20,000	20,000

5. Inventory

Inventory consists of the following:

	December 31, 2018	December 31, 2017
	$	**$**
Work-in-progress	22,825	22,825
Packaging and supplies	23,594	11,663
	46,419	34,488

During the year ended December 31, 2018, the Company wrote-down inventory in the amount of $nil.

Expressed in United States Dollars

6. Property and equipment

	Furniture and fixtures $	Leasehold improvements $	Manufacturing equipment $	Total $
Cost				
December 31, 2016	112,889	468,123	309,530	890,542
Additions	4,000	118,628	265,306	387,934
December 31, 2017	116,889	586,751	574,836	1,278,476
Accumulated depreciation				
December 31, 2016	63,150	58,675	213,107	334,932
Depreciation	11,689	53,866	113,722	179,277
December 31, 2017	74,839	112,541	326,829	514,209
Cost				
December 31, 2017	116,889	586,751	574,836	1,278,476
Additions	-	2,761	88,948	91,709
December 31, 2018	116,889	589,512	663,784	1,370,185
Accumulated depreciation				
December 31, 2017	74,839	112,541	326,829	514,209
Depreciation	11,689	58,951	50,209	120,849
December 31, 2018	**86,528**	**171,492**	**377,038**	**635,058**
Net book value				
December 31, 2017	42,050	474,210	248,007	764,267
December 31, 2018	**30,361**	**418,020**	**286,746**	**735,127**

During the year ended December 31, 2017, the Company entered into two lease agreements that constituted finance leases for the lease of manufacturing equipment. As at December 31, 2018, manufacturing equipment includes $178,800 (2017 - $238,400) in finance leases. As at December 31, 2018, lease liabilities include $233,835 (2017 - $269,006) associated with these finance leases.

Lease interest included in finance costs was $100,613 during the year ended December 31, 2018, (2017 - $90,826). The total undiscounted amount of the estimated future cash flows to settle the Company's lease liability over the remaining lease term is $450,718 (2017 - $593,050).

7. Loans payable

The Company has loans payable outstanding with interest rates ranging from 8% to 12% per annum, and maturities ranging from five to eight years. All loans require monthly installment payments of principal and interest and are secured by the Company's property and equipment.

During the year ended December 31, 2018, the Company incurred $690,166 (2017 - $16,355) in interest expense in connection with these loans. As at December 31, 2018, and 2017, loans payable includes principal and accrued interest.

8. Convertible note

a) On February 10, 2016, the Company issued a secured convertible promissory note in the principal amount of $150,000 for the purpose of financing equipment purchases. The note is secured by certain cultivation equipment.

The note matures on February 10, 2021 and bears interest at 23% per annum. The Company is required to make equal monthly payments of principal and interest of $4,228.

The net proceeds were allocated entirely to the liability component of the convertible note, as the equity conversion feature failed the fixed-for-fixed test and accordingly was classified as a derivative liability with a $nil fair value.

Interest expense accrued on the convertible note is included in accounts payable and accrued liabilities as at December 31, 2018, and 2017.

Expressed in United States Dollars

9. Shareholders' equity

The authorized shareholders' equity of the Company consists of unlimited number of common shares with a par value of $0.001.

Transactions for the issue of share capital during the year ended December 31, 2017:

- There were no transactions for the issue of share capital during the year ended December 31, 2017.

Transactions for the issue of share capital during the year ended December 31, 2018:

- There were no transactions for the issue of share capital during the year ended December 31, 2018.

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. The remuneration of the Company's key management personnel during the years ended December 31, 2018 and December 31, 2017 are as follows:

	2018	2017
	$	$
Management fees	89,875	157,410
	89,875	157,410

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 shareholders' equity.

The Company has historically relied on financing from its founding shareholders, third-party loans 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 year ended December 31, 2018.

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 and bank indebtedness is measured using Level 1 inputs. The carrying values of receivables, accounts payable and accrued liabilities, approximate their respective fair values due to the short-term nature of these instruments. The fair value of loans payable, and convertible note approximates its fair value as the loans and note bear market rates of interest.

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, receivables, and deposit.

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 receivables which include credit exposures to customers and their outstanding trade receivables balances.

<u>Impairment of financial assets</u>

The Company' sole financial asset that is subject to the expected credit loss model is receivables (which comprise trade receivables) arising from product revenue. While cash, and deposit are 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, receivables have been grouped based on specific credit risk characteristics, debtor circumstances, and the days past due. The volume of debtors in these respective categories is low. The expected loss amounts are based on payment profiles since commencement of revenue-generating activity during the year ended December 31, 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)

On this basis, the loss allowance as at December 31, 2018 was determined as noted in Note 3 to be attributable to trade receivables deemed uncollectible as a result of deterioration of customers' credit worthiness.

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, 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, and insolvency of a debtor

Loss provisions is presented separately within profit or loss. Subsequent recoveries of amounts previously written-off are credited against the same line item.

(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 feel as though 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 December 31, 2018, the Company had $137,060 in cash to settle current liabilities in the amount of $863,340. The Company will require additional funding to meet its ongoing obligations (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.

Exposure to price risk at this time is limited, as the Company has ceased operations as it is no longer licensed to sell cannabis-derived products or produce such products (Note 1).

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.

Prior to ceasing operations on December 18, 2018 (Note 1), The Company operates in a single reportable segment, being the manufacture and distribution of cannabis products in the United States within the State of Washington. All of the Company's revenue were generated through sales in the State of Washington, and all of the Company's property and equipment is located in Washington.

Expressed in United States Dollars

14. Commitment

Facility Lease:

On November 1, 2014, the Company commenced a lease with an arm's length party for the use of approximately 21,600 sq. ft. of a building to be used as a cultivation facility for cannabis. The lease has a term of 10 years expiring on October 31, 2024.

The Company's minimum annual commitments are as follows:

Year	Future payments $
2019	234,446
2020	241,478
2021	248,726
2022	256,190
2023	263,872
2024	225,360
	1,470,072

Facility Sublease:

On December 25, 2018, the Company commenced a sublease agreement with a third party for a period of 5 years expiring on December 31, 2023.

Subsequent to December 31, 2018, the Company entered into an agreement with Cannabis One Holdings Inc., to assign the sublease agreement to Cannabis One Holdings Inc., in connection with the "Cannabis One Holdings Agreement" detailed in Note 17.

15. Supplemental cash flow information

During the years ended December 31, 2018, and December 31, 2017, no amounts were paid for interest or income tax expenses.

Expressed in United States Dollars

16. Income taxes

Income tax (expense) recovery varies from the amount that would be computed from applying the combined federal and state corporate income tax rate to income (loss) before income taxes as follows:

	December 31, 2018 $	December 31, 2017 $
Loss before income taxes	(435,048)	(1,760,100)
Effective rate	21.00%	39.83%
Anticipated income tax (expense) recovery	91,360	701,048
Change in tax resulting from:		
Unrecognized items for tax purposes	(91,360)	(701,048)
Income taxes	**-**	-

Effective January 1, 2018, the effective corporate tax rate in the United States changed to 21%. Income tax attributes are subject to review, and potential adjustments, by tax authorities.

17. Subsequent event

Disposal of assets to Cannabis One Holdings Inc.:

Cannabis One Holdings Agreement:

On May 5, 2019, the Company closed on a Definitive Asset Purchase Agreement ("APA") with Cannabis One Holdings Inc ("Cannabis One") whereby the Company sold certain of its operating assets including intellectual property, and equipment (the "Transaction").

Shareholders of the Company are required to receive additional Cannabis One Super Voting Shares ("CBIS SVS Shares") upon the satisfaction of provisions applicable to two earn-out considerations (the "Earn-Outs"), as follows:

- First Earn-Out: Shareholders of the Company are entitled to receive CBIS SVS Shares with a fair value $3,426,937 upon revenues from the sale by Cannabis One of Honu branded products reaching $3,426,937 for the thirteen months ended January 31, 2020;

- Second Earn-Out: Shareholders of the Company are entitled to receive CBIS SVS Shares with a fair value of $3,426,937 upon revenues from the sale of Honu branded products by Cannabis One reaching $3,426,937 for twelve months ended January 31, 2021.

Each CBIS SVS Share is convertible into 10 Class A Subordinated Voting Shares (CBIS SUB Shares). The Earn-Outs are receivable if, and only if, applicable annual revenue targets have been met.