Adastra Holdings Ltd.

Condensed Interim Consolidated Financial Statements

For the six months ended June 30, 2024 and 2023

(Unaudited - Expressed in Canadian dollars)

Notice of Disclosure of Non-Auditor Review

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 Adastra Holdings Ltd. (the "Company") for the interim period ended June 30, 2024 and 2023, 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 have not performed a review of these condensed interim consolidated financial statements.

August 29, 2024

ADASTRA HOLDINGS LTD.
Condensed Interim Consolidated Statements of Financial Position
As at June 30, 2024 and December 31, 2023
(Unaudited - Expressed in Canadian dollars)

	Note	**June 30, 2024**	December 31, 2023
		$	$
ASSETS			
Current assets			
Cash		**1,163,584**	1,378,960
Amounts receivable	4	**3,695,460**	3,910,045
Prepaid expenses and deposits	5	**1,244,311**	1,277,699
Inventory	6	**6,115,236**	4,290,475
Income tax receivable		**20,778**	20,778
		12,239,369	10,877,957
Long-term deposits	5	**512,000**	512,000
Property and equipment	7	**8,824,912**	9,011,417
Intangible assets	8	**2,342,708**	2,505,208
Goodwill	9	**9,436,189**	9,436,189
Total assets		**33,355,178**	32,342,771
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	10,15	**15,653,345**	13,421,342
Current portion of lease liability	11	**17,292**	16,714
Mortgage payable	12	**3,496,913**	3,479,054
		19,167,550	16,917,110
Deferred tax liability		**593,000**	593,000
Lease liability	11	**78,874**	87,513
Government loan		**60,000**	60,000
Total liabilities		**19,899,424**	17,657,623
SHAREHOLDERS' EQUITY			
Share capital	14	**29,964,446**	29,964,446
Reserves	14	**6,474,732**	6,474,732
Deficit		**(22,983,424)**	(21,754,030)
Total shareholders’ equity		**13,455,754**	14,685,148
Total liabilities and shareholders’ equity		**33,355,178**	32,342,771

Nature of operations and going concern (Note 1)
Commitments and contingencies (Note 18)

Approved on behalf of the Board of Directors on August 29, 2024:

“Andrew Hale”
Director

“Jon Edwards”
Director

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

ADASTRA HOLDINGS LTD.
Condensed Interim Consolidated Statements of Loss and Comprehensive Loss
For the six months ended June 30, 2024 and 2023
(Unaudited - Expressed in Canadian dollars, except number of shares)

	Note	**Three months ended June 30, 2024**	**Three months ended June 30,** 2023	**Six months ended June 30, 2024**	**Six months ended June 30,** 2023
		$	$	**$**	$
Revenue		**12,426,553**	10,920,174	**23,363,147**	20,400,002
Excise taxes		**(5,556,264)**	(3,819,609)	**(9,964,468)**	(7,527,638)
Net Revenue		**6,870,289**	7,100,565	**13,398,679**	12,872,364
Cost of sales	6,7	**(3,840,408)**	(5,015,068)	**(8,540,861)**	(9,114,684)
Gross profit		**3,029,881**	2,085,497	**4,857,818**	3,757,680
Operating expenses					
General and administrative	20	**1,114,557**	963,982	**2,076,126**	2,044,830
Sales and marketing	20	**985,308**	1,237,143	**1,914,929**	1,941,544
Depreciation and amortization	7,8	**115,767**	131,631	**230,720**	259,494
Provision for expected credit losses	4	**(53,091)**	474,768	**738,526**	474,768
Total operating expenses		**2,162,541**	2,807,524	**4,960,301**	4,720,636
Loss from operations		**867,340**	(722,027)	**(102,483)**	(962,956)
Other income (expense)					
Interest expense	11,12,13	**(786,489)**	(316,034)	**(1,126,911)**	(431,705)
Loss before income taxes		**80,851**	(1,038,061)	**(1,239,663)**	(1,394,661)
Deferred income tax recovery		**-**	16,000	**-**	32,000
Income tax expense		**-**	(49,424)	**-**	(49,424)
Net loss and comprehensive loss		**80,851**	(1,071,485)	**(1,229,394)**	(1,412,085)
Net loss per share					
Basic and diluted		**0.00**	(0.02)	**(0.02)**	(0.03)
Weighted average number of common shares outstanding					
Basic and diluted		**55,970,547**	55,970,547	**55,970,547**	55,970,547

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

ADASTRA HOLDINGS LTD.
Condensed Interim Consolidated Statements of Cash Flows
For the six months ended June 30, 2024 and 2023
(Unaudited - Expressed in Canadian dollars)

	Six months ended June 30,	
	2024	2023
	$	$
Operating activities		
Net loss and comprehensive loss for the period	**(1,229,394)**	(1,412,085)
Adjustments for non-cash items:		
Depreciation and amortization	**608,028**	683,828
Interest expense	**1,126,911**	431,705
Provision for expected credit losses	**738,526**	474,768
Deferred income tax recovery	**-**	(32,000)
Income tax expense	**-**	49,424
Net change in non-cash working capital items:		
Amounts receivable	**(523,941)**	(629,804)
Prepaid expenses and deposits	**33,388**	141,822
Inventory	**(1,824,761)**	189,886
Accounts payable and accrued liabilities	**1,331,063**	1,771,677
Deferred revenue	**-**	(275,575)
Cash provided by (used in) operating activities	**259,820**	1,875,749
Investing activity		
Purchases of property and equipment	**(259,023)**	(653,605)
Cash used in investing activity	**(259,023)**	(653,605)
Financing activities		
Interest paid - mortgage	**(201,075)**	(184,767)
Lease repayments	**(15,098)**	(12,307)
Cash used in financing activities	**(216,173)**	(197,074)
Net increase in cash	**(215,376)**	1,025,070
Cash, beginning of the period	**1,378,960**	1,013,867
Cash, end of the period	**1,163,584**	2,038,937

Supplemental cash flow information (Note 16)

(Unaudited - Expressed in Canadian dollars, except number of shares)

	Common shares	Share capital	Reserves	Deficit	Total
	#	$	$	$	$
Balance, December 31, 2022	55,970,547	29,964,446	6,474,732	(18,209,388)	18,229,790
Loss for the period	-	-	-	(1,412,085)	(1,412,085)
Balance, June 30, 2023	55,970,547	29,964,446	6,474,732	(19,621,473)	16,817,705
Balance, December 31, 2023	55,970,547	29,964,446	6,474,732	(21,754,030)	14,685,148
Loss for the period	-	-	-	(1,229,394)	(1,229,394)
Balance, June 30, 2024	**55,970,547**	**29,964,446**	**6,474,732**	**(22,983,424)**	**13,455,754**

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

NOTE 1 - NATURE OF OPERATIONS AND GOING CONCERN

Adastra Holdings Ltd. (the "Company") was incorporated under the laws of the province of British Columbia on October 14, 1987. The Company extracts and processes cannabis for sale to the recreational and medical markets in Canada. The Company is listed on the Canadian Securities Exchange ("CSE") under the symbol "XTRX". The Company's registered and records office is located at 5451 275th Street, Langley City, British Columbia, V4W 3X8.

These 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 its operations for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of operations. These condensed interim consolidated financial statements do not include any adjustments relating to the recoverability and classification of assets and liabilities that might be necessary should the Company be unable to continue in existence. The Company's ability to continue as a going concern is dependent on its ability to generate positive cash flows from operations, complete additional financings, and/or extend or modify its mortgage payable (Note 12).

As at June 30, 2024, the Company had a working capital deficiency of $6,928,181 (December 31, 2023 - $6,039,153) and a deficit of $22,983,424 (December 31, 2023 - $21,754,030). During the six months ended June 30, 2024, the Company incurred a net loss and comprehensive loss of $1,229,394 (2023 - $478,136). These events and conditions indicate a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. If the going concern assumption were not appropriate for these condensed interim consolidated financial statements, it could be necessary to restate the Company's assets and liabilities on a liquidation basis.

NOTE 2 - BASIS OF PRESENTATION

(a) Statement of compliance

These condensed interim consolidated 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 interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). As such, these condensed interim consolidated 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, 2023 and 2022.

These condensed interim consolidated financial statements were approved by the Board of Directors and authorized for issue on August 29, 2024.

(b) Basis of measurement

These condensed interim consolidated financial statements have been prepared on a historical cost basis except for those financial instruments which have been classified at fair value through profit or loss. In addition, except for cash flow information, these condensed interim consolidated financial statements have been prepared using the accrual method of accounting.

All amounts on these condensed interim consolidated financial statements are presented in Canadian dollars which is the functional currency of the Company and its subsidiaries.

(c) Principles of consolidation

These condensed interim consolidated financial statements include the financial information of the Company and entities controlled by the Company. Control exists where the parent entity has power over the investee and is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries are included in the condensed interim consolidated financial statements from the date control commences until the date control ceases. All intercompany transactions and balances are eliminated on consolidation. The accounting policies of subsidiaries are changed where necessary to align them with the policies adopted by the Company.

(Expressed in Canadian dollars, except number of shares)

NOTE 2 - BASIS OF PRESENTATION (continued)

These condensed interim consolidated financial statements incorporate the accounts of the Company and the following Canadian subsidiaries:

	Functional currency	Ownership percentage
Adastra Labs Holdings (2019) Ltd. (formerly Adastra Labs Holdings Ltd.)	CAD	100%
Adastra Labs Inc.	CAD	100%
1178562 B.C. Ltd.	CAD	100%
Adastra Brands Inc.	CAD	100%
Chemia Analytics Inc.	CAD	100%
1225140 B.C. Ltd ("PerceiveMD")	CAD	100%
1204581 B.C. Ltd. ("Phyto BrandCo")	CAD	100%

NOTE 3 - MATERIAL ACCOUNTING POLICIES

The accounting policies applied in the preparation of these condensed interim consolidated financial statements are consistent with those applied and disclosed in Note 3 of the consolidated financial statements for the years ended December 31, 2023 and 2022.

The preparation of the condensed interim 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 consolidated financial statements for the years ended December 31, 2023 and 2022.

(a) 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 July 1, 2024. The Company has reviewed these updates and determined that many of these updates are not applicable or consequential to the Company and have been excluded from discussion within these significant accounting policies.

(Expressed in Canadian dollars, except number of shares)

NOTE 4 - AMOUNTS RECEIVABLE

As at June 30, 2024 and December 31, 2023, amounts receivables consisted of the following:

	June 30, 2024	December 31, 2023
	$	$
Trade receivables, net of expected credit losses (Note 17)	**3,695,460**	3,910,045
	3,695,460	3,910,045

During the six months ended June 30, 2024, the Company recorded a provision for expected credit losses against trade receivables of $738,526 (2023 - $474,768) related to overdue trade receivables.

NOTE 5 - PREPAID EXPENSES AND DEPOSITS

As at June 30, 2024 and December 31, 2023, prepaid expenses and deposits consisted of the following:

	June 30, 2024	December 31, 2023
	$	$
Prepaid expenses	**284,310**	179,883
Deposits	**960,001**	1,097,816
	1,244,311	1,277,699

As at June 30, 2024, deposits of $960,001 (December 31, 2023 - $1,097,816) consist of $760,686 in deposits for inventory ordered, $nil in deposits for equipment that has been ordered and $199,133 in other deposits.

Long-term deposits of $512,000 (December 31, 2023 - $512,000) consist of deposits held in trust with the Canadian Revenue Agency ("CRA") for excise bond.

NOTE 6 - INVENTORY

As at June 30, 2024 and December 31, 2023, inventory consisted of the following:

	June 30, 2024	December 31, 2023
	$	$
Dried cannabis, hemp biomass and terpenes	**1,047,177**	675,400
Packaging	**2,326,660**	1,138,676
Production work in process	**1,516,931**	1,216,893
Finished goods	**1,224,468**	1,259,506
	6,115,236	4,290,475

Inventory expensed to cost of sales during the six months ended June 30, 2024 was $7,322,143 (2023 - $5,112,630).

During the six months ended June 30, 2024, the Company allocated $889,393 in wages and salaries to inventory (2023 - $844,426).

(Expressed in Canadian dollars, except number of shares)

NOTE 7 - PROPERTY AND EQUIPMENT

The following table summarizes the continuity of property and equipment as at June 30, 2024 and December 31, 2023:

	Land	Building	Furniture and equipment	Computer software	Laboratory equipment	Extraction equipment	Building improvements	Right-of-use asset	Total
	$	$	$	$	$	$	$	$	$
Cost									
Balance, December 31, 2022	1,592,232	1,999,328	179,145	12,105	1,242,171	3,299,640	3,958,408	90,344	12,373,373
Additions	-	-	263,067	-	158,807	259,173	-	82,333	763,380
Impairment	-	-	-	-	-	(1,022,586)	-	-	(1,022,586)
Disposals	-	-	-	-	-	-	-	(40,376)	(40,376)
Balance, December 31, 2023	1,592,232	1,999,328	442,212	12,105	1,400,978	2,536,227	3,958,408	132,301	12,073,791
Additions	-	-	78,028	-	67,949	113,046	-	-	259,023
Balance, June 30, 2024	**1,592,232**	**1,999,328**	**520,240**	**12,105**	**1,468,927**	**2,649,273**	**3,958,408**	**132,301**	**12,332,814**
Accumulated depreciation									
Balance, December 31, 2022	-	416,446	67,350	5,521	242,910	1,354,778	540,056	19,490	2,646,551
Depreciation	-	99,964	51,482	1,316	222,188	406,470	197,923	23,042	1,002,385
Impairment	-	-	-	-	-	(563,009)	-	-	(563,009)
Disposal	-	-	-	-	-	-	-	(23,553)	(23,553)
Balance, December 31, 2023	-	516,410	118,832	6,837	465,098	1,198,239	737,979	18,979	3,062,374
Depreciation	-	49,983	41,641	527	98,156	145,133	98,961	11,127	445,528
Balance, June 30, 2024	**-**	**566,393**	**160,473**	**7,364**	**563,254**	**1,343,372**	**836,940**	**30,106**	**3,507,902**
Carrying value									
Balance, December 31, 2023	1,592,232	1,482,918	323,380	5,268	935,880	1,337,988	3,220,429	113,322	9,011,417
Balance, June 30, 2024	**1,592,232**	**1,432,935**	**359,767**	**4,741**	**905,673**	**1,305,901**	**3,121,468**	**102,195**	**8,824,912**

During the six months ended June 30, 2024, the Company allocated $377,306 (2023 - $424,334) of depreciation to the production of inventory and $68,222 (2023 - $55,595) to operating expenses.

(Expressed in Canadian dollars, except number of shares)

NOTE 8 - INTANGIBLE ASSETS

The following table summarizes the continuity of intangible assets as at June 30, 2024 and December 31, 2023:

	Trademarks	Patient relationships	Total
	$	$	$
Cost			
Balance, December 31, 2022	3,250,000	414,000	3,664,000
Impairment	-	(414,000)	(414,000)
Balance, June 30, 2024 and December 31, 2023	**3,250,000**	**-**	**3,250,000**
Accumulated depreciation			
Balance, December 31, 2022	419,792	110,400	530,192
Amortization	325,000	82,800	407,800
Impairment	-	(193,200)	(193,200)
Balance, December 31, 2023	744,792	-	744,792
Amortization	162,500	-	162,500
Balance, June 30, 2024	**907,292**	**-**	**907,292**
Carrying value			
Balance, December 31, 2023	2,505,208	-	2,505,208
Balance, June 30, 2024	**2,342,708**	**-**	**2,342,708**

During the year ended December 31, 2021, the Company acquired a total of $3,250,000 in Trademarks. These Trademarks have a useful life of 10 years and are measured at cost less accumulated amortization and impairment losses. These Trademarks are amortized on a straight-line basis over their estimated useful lives. Useful lives, residual values, and amortization methods for intangible assets with finite useful lives are reviewed at least annually.

On October 3, 2022, the Company terminated the license agreement with the previous Trademark licensee who had sole use of the Trademarks acquired pursuant to the Phyto BrandCo acquisition. As a result, the Company now retains all rights to the Trademarks and sells the related cannabis consumer packaged goods directly to provincial distributors and retailers.

During the year ended December 31, 2021, the Company acquired a total of $414,000 in Patient Relationships. These relationships have a useful life of 5 years and are measured at cost less accumulated amortization and impairment losses. These relationships are amortized on a straight-line basis over their estimated useful lives. Useful lives, residual values, and amortization methods for intangible assets with finite useful lives are reviewed at least annually. During the year ended December 31, 2023, the Company impaired Patient Relationships by $220,800 due to the Company's inability to hire enough doctors to leverage the Patient Relationships.

NOTE 9 - GOODWILL

The following table summarizes the continuity of goodwill as at June 30, 2024 and December 31, 2023:

	June 30, 2024	December 31, 2023
	$	$
Opening balance	**9,436,189**	9,436,189
Impairment	**-**	-
Closing balance	**9,436,189**	9,436,189

(Expressed in Canadian dollars, except number of shares)

NOTE 9 – GOODWILL (continued)

Annual impairment testing involves determining the recoverable amount of the CGU groups to which goodwill is allocated and comparing this to the carrying value of the CGU groups. To estimate the recoverable amount of each CGU, management calculated the value in use using an income approach over a five-year projection period, which is a Level 3 measurement within the fair value hierarchy.

The Company has two CGUs, PerceiveMD operations and manufacturing operations, in which Phyto BrandCo operates. The Company used the following key assumptions to calculate the recoverable amounts for the CGUs. Included in management's projection of future cash flows were based on consideration of economic, industry and entity-specific risks and incorporated external information sources.

PerceiveMD CGU

During the year ended December 31, 2022, the Company recognized an impairment expense of $1,672,233 related to the PerceiveMD goodwill. The Company had been delayed in its ability to realize the business synergies and allow sales directly to clinical patients and therefore management believed the carrying value was no longer supportable.

Manufacturing CGU

The manufacturing CGU contains the Phyto BrandCo goodwill of $9,436,189. The following key assumptions were used for the Manufacturing CGU as outlined below. The values assigned to the key assumptions represent management's assessment of the future trends in the industry and have been based on historical data from both external and internal resources.

	2023	2022
After-tax discount rate	**20.5%**	20%
Budgeted earnings growth rate (average of next 5 years)	**18%**	10%
Year 1 growth rate	**56%**	17%
Gross margin	**46%**	51%

As at December 31, 2023, Management has performed an assessment to determine whether an impairment would have been recognized if there was a change in any of the key assumptions identified above. Management determined no impairment charge would have resulted if the following reasonable changes in key assumptions were used in isolation:

- After-tax discount rate increased by 1.5%.
- A decrease of 5% of the first-year growth rate, which decreases the budgeted earnings growth rate for the next 5 years by 1%.
- Gross margin decreased by 1%.

NOTE 10 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

As at June 30, 2024 and December 31 ,2023, accounts payable and accrued liabilities consisted of the following:

	June 30, 2024	December 31, 2023
	$	$
Accounts payable	**2,123,817**	2,113,918
Accrued liabilities	**341,189**	371,351
Excise tax payable	**12,744,605**	10,461,096
Sales tax payable	**443,734**	474,977
	15,653,345	13,421,342

Effective October 17, 2018, Canada Revenue Agency ("CRA") began levying an excise tax on the sale of medical and consumer cannabis products. The Company becomes liable for these excise duties when cannabis products are delivered to the customer.

(Expressed in Canadian dollars, except number of shares)

NOTE 11 - LEASE LIABILITY

A summary of the Company's lease liabilities for the six months ended June 30, 2024 and the year ended December 31, 2023 is as follows:

	June 30, 2024	December 31, 2023
	$	$
Opening balance	**104,227**	63,588
Additions - equipment	**-**	82,333
Disposal	**-**	(25,516)
Interest	**7,037**	10,557
Repayments	**(15,098)**	(26,735)
Closing balance	**96,166**	104,227
Less: current portion	**(17,292)**	(16,714)
Long-term portion	**78,874**	87,513

On October 15, 2020, prior to being acquired by the Company, Phyto BrandCo entered into a four-year lease agreement for a promotional vehicle. The base monthly payment is $1,119 with an initial payment of $9,732. The incremental borrowing rate used to discount the lease liability was 10%. During the year ended December 31, 2023, the vehicle was traded in for another promotional vehicle and the remaining lease liability of $25,516 was removed.

On August 15, 2022, the Company entered into a five-year lease agreement for a forklift. The base monthly payment is $815 with an initial payment of $6,477. The incremental borrowing rate used to discount the lease liability was 10%.

On June 15, 2023, the Company entered into a four-year lease for a promotional vehicle. The base monthly payment is $1,188 with an initial payment of $9,806. The incremental borrowing rate used to discount the lease liability was 16%.

NOTE 12 - MORTGAGE PAYABLE

	Fifth Mortgage	**Sixth Mortgage**	**Total**
	$	$	$
Balance, December 31, 2022	3,507,389	-	3,507,389
New mortgage (refinancing)	(3,500,000)	3,500,000	-
Transaction costs	-	(35,000)	(35,000)
Finance expense	216,859	181,616	398,475
Repayments	(224,248)	(167,562)	(391,810)
Balance, December 31, 2023	-	3,479,054	3,479,054
Finance expense	-	218,934	218,934
Repayments	-	(201,075)	(201,075)
Balance, June 30, 2024	**-**	**3,496,913**	**3,496,913**

NOTE 12 - MORTGAGE PAYABLE (continued)

a) On September 28, 2022, the Company refinanced the fourth mortgage (the "Fifth Mortgage") which bears interest at the greater of 9.75% or the prime rate plus 4.30% per annum, calculated monthly, for one year. The Fifth Mortgage has a maturity date of November 1, 2023 and is secured by the mortgage property and building improvements.

   The Fifth Mortgage payable was recorded at amortized cost (principal value less $35,000 transaction costs). The Company maintained minimum interest-only payments of $28,438 per month. On July 26, 2023, the Fourth Mortgage was refinanced.

b) On July 26, 2023, the Company refinanced the Fifth Mortgage (the "Sixth Mortgage") which bears interest at the greater of 11.49% or the prime rate plus 4.29% per annum, calculated monthly, for one year. The interest rate will increase to 15.99% or the prime rate plus 8.79% for the remainder of the term. The Sixth Mortgage has a maturity date of November 1, 2024 and is secured by the mortgage property and building improvements. The Sixth Mortgage payable was recorded at amortized cost (principal value less $35,000 transaction costs). At June 30, 2024, the carrying value of the Sixth Mortgage was $3,496,913 (December 31, 2023 - $3,479,054).

   At June 30, 2024, The Company maintains minimum interest-only payments of $33,513 per month. As at June 30, 2024, the total non-discounted remaining scheduled payments related to the mortgage including interest payments totaled $3,673,425. Total interest expense during the six months ended June 30, 2024 was $218,934 (2023 - $163,889).

NOTE 13 – LOAN PAYABLE

During the year ended December 31, 2022, the Company received a short-term loan of $300,000 with an interest rate of 1.5% per month. The loan is unsecured and is due on demand. Total interest expense related to the loan during the six months ended June 30, 2023 was $44,129. On July 19, 2023, the Company fully repaid the loan balance and the accrued interest.

NOTE 14 - SHARE CAPITAL

(a) Authorized

Unlimited number of voting common shares without par value.

(b) Issued share capital

As at June 30, 2024, 55,970,547 common shares were issued and outstanding.

(c) Share issuances

During the six months ended June 30, 2024, the Company had no share transactions.

During the year ended December 31, 2023, the Company had no share transactions.

(Expressed in Canadian dollars, except number of shares)

NOTE 14 - SHARE CAPITAL (continued)

(d) Stock options

The Company has an incentive stock option plan (the "Plan") which provides for the granting of options. Under the Plan the maximum number of stock options issued cannot exceed 10% of the Company's currently issued and outstanding common shares. Options granted under the Plan may have a maximum term of ten years. A participant, who is not a consultant conducting investor relations activities, who is granted an option that is exercisable at the market price at the date of grant, will have their options vest immediately, unless otherwise determined by the Board of Directors. Options granted at below market prices will vest one-sixth every three months.

Options belonging to a participant who is a consultant conducting investor relations activities who is granted an option under the Plan will become vested with the right to exercise one-quarter of the option upon conclusion of every three months subsequent to the grant date. All options are to be settled by physical delivery of shares.

During the six months ended June 30, 2024 and the year ended December 31, 2023, the Company had no stock option grants.

A summary of the changes in the Company's stock options outstanding and exercisable is as follows:

	Stock options outstanding and exercisable	Weight average exercise price
	#	$
As at December 31, 2022	3,665,000	1.35
Forfeited	(795,000)	1.38
As at December 31, 2023 and June 30, 2024	**2,870,000**	**1.38**

As at June 30, 2024, the Company had stock options outstanding and exercisable as follows:

Expiry date	Options outstanding and exercisable	Weighted average exercise price	Weighted average remaining life
	#	$	Years
January 30, 2025	1,333,334	1.35	0.59
August 5, 2025	483,333	2.34	1.10
August 5, 2026	33,333	1.35	2.10
October 25, 2026	600,000	1.06	2.32
October 28, 2026	120,000	0.95	2.33
August 19, 2027	300,000	0.75	3.14
	2,870,000	**1.38**	**1.39**

(e) Warrants

As an incentive to complete a private placement the Company may issue units which include common shares and common share purchase warrants. Finders' warrants may be issued as a private placement share issue cost and are valued using the Black-Scholes option pricing model.

A summary of the changes in the Company's warrants outstanding and exercisable is as follows:

	Warrants outstanding and exercisable	Weight average exercise price
	#	$
As at December 31, 2022	122,727	1.75
Expired	(122,757)	1.75
As at December 31, 2023 and June 30, 2024	**-**	**-**

(Expressed in Canadian dollars, except number of shares)

NOTE 15 - RELATED PARTY TRANSACTIONS

Key management personnel are those having the authority and responsibility for planning, directing, and controlling the Company. There were no loans to key management personnel or directors, or entities over which they have control or significant influence during the six months ended June 30, 2024 and the year ended December 31, 2023.

The following related parties transacted with the Company or Company-controlled entities during the six months ended June 30, 2024 and the year ended December 31, 2023:

a) Michael Forbes was a Director and the Company's President and CEO. He was appointed on April 29, 2021 and is the owner of MDC Forbes, which provides CEO services to the Company. He resigned on March 29, 2024.
b) Oliver Foeste is the former CFO of the Company until January 1, 2023. He is the Managing Partner of Invictus Accounting Group LLP which provided the Company with CFO, accounting and tax services.
c) Paul Morgan is a Director of the Company. He was appointed on July 14, 2021.
d) Smoke Wallin is a Director of the Company. He was appointed on May 16, 2022 and subsequently resigned on April 12, 2024
e) Lachlan McLeod was appointed CFO of the Company on January 1, 2023 and was an employee of Fehr & Associates CPA ("F&A"), which provided accounting services to the Company. On June 2, 2023, the Company hired Mr. McLeod as an employee and the F&A agreement was subsequently terminated. Mr. McLeod was appointed as Corporate Secretary on April 2, 2024 and Interim CEO on April 12, 2024.

The aggregate value of transactions with key management personnel and directors and entities over which they have control or significant influence during the six months ended June 30, 2024 and 2023 were as follows:

Six months ended June 30,	**2024**	2023
	$	$
Fehr & Associates CPA	**-**	106,949
Lachlan McLeod	**118,579**	11,427
MDC Forbes Inc.	**85,571**	60,000
Paul Morgan	**16,833**	-
Smoke Wallin	**12,010**	138,713
	232,993	317,089

As at June 30, 2024 and December 31, 2023, the Company had an outstanding accounts payable balance with related parties as follows:

	June 30, 2024	December 31, 2023
	$	$
Fehr & Associates CPA	**-**	24,754
Lachlan McLeod	**4,200**	-
Invictus Accounting Group LLP	**-**	12,915
MDC Forbes Inc.	**16,750**	115,338
	20,950	153,007

All related party balances are unsecured and are due within thirty days without interest and incurred in the normal course of business.

The transactions with the key management personnel and directors are included in operating expenses as follows:

(a) Consulting fees and professional fees

Included CEO services by Michael Forbes, charged to the Company via MDC Forbes Inc., and accounting services of the Company's CFO, Lachlan McLeod, charged to the Company via F&A. During the year ended December 31, 2023, the Company incurred a placement fee of $52,500 to employ Lachlan McLeod directly and terminate the F&A agreement.

During the six months ended June 30, 2024, the Company agreed to pay Lachlan McLeod $4,000 per month for corporate secretary services.

(Expressed in Canadian dollars, except number of shares)

NOTE 15 - RELATED PARTY TRANSACTIONS (continued)

(b) Wages and salaries

Included services provided by Lachlan McLeod as CFO and Interim CEO.

(c) Office expenses

Included rent of $36,750 paid to MDC Forbes Inc. for the PerceiveMD operations during the year ended December 31, 2023.

NOTE 16 - SUPPLEMENTAL CASH FLOW INFORMATION

	Six months ended June 30,	
	2024	2023
	$	$
Non-cash investing activities		
Equipment purchases included in accounts payable and accrued liabilities	**-**	-

Total income tax paid in the six months ended June 30, 2024 was $nil (2023 - $nil).

NOTE 17 - FINANCIAL RISK MANAGEMENT

(a) Capital management

The Company's capital structure consists of all components of shareholders' equity. The Company's objective when managing capital is to maintain adequate levels of funding to support the current operations including corporate and administrative functions and to support operations. The Company obtains funding primarily through issuing common stock and through its mortgage payable. Future financings are dependent on market conditions and there can be no assurance the Company will be able to raise funds in the future.

There were no changes in the Company's approach to capital management during the six months ended June 30, 2024. The Company is not subject to externally imposed capital requirements.

(b) Financial instruments - fair value

The Company's financial instruments consist of cash, trade receivables, deposits, accounts payable, mortgage payable, and government loan, all of which are classified as and measured at amortized cost.

As at June 30, 2024, the carrying values of cash, trade receivables, deposits and accounts payable approximate their fair value because of the short-term nature of these instruments.

(c) Financial instruments - risk

The Company's financial instruments are exposed to certain financial risks, including credit risk, liquidity risk and interest rate risk.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to fulfill its contractual obligations.

The Company is exposed to credit risk through its cash balances held in financial institutions and trade receivables. The maximum exposure to credit risk is equal to the carrying value of such financial assets.

(Expressed in Canadian dollars, except number of shares)

NOTE 17 - FINANCIAL RISK MANAGEMENT (continued)

The aging of the Company's accounts receivable as at June 30, 2024 and December 31, 2023 was as follows:

	June 30, 2024	December 31, 2023
	$	$
Current	**3,051,281**	3,206,312
1 – 30 days	**424,464**	224,585
31- 60 days	**45,787**	183,676
61 – 90 days	**14,394**	-
Over 90 days	**1,086,680**	484,091
Total accounts receivable	**4,622,606**	4,098,664
Provision for expected credit losses	**(927,146)**	(188,619)
	3,695,460	3,910,045

Accounts receivable for cannabis sales are paid by most provinces in less than 60 days from receipt of goods.

The objective of managing credit risk is to minimize potential losses on financial assets. The Company assesses the quality of its counterparties, taking into account their credit worthiness and reputation, past performance and other factors. The Company has recognized a provision for expected credit losses on its trade receivables. At June 30, 2024, 82% (December 31, 2023 – 74%) of the Company's amounts receivable are held with provincial governments with low credit risk.

Cash is only deposited with or held by institutions of high credit worthiness.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities. The Company manages its liquidity risk by reviewing on an ongoing basis its cash position and if required raises funding through additional share capital issuances or debt financing.

A summary of undiscounted liabilities and future operating commitments as at June 30, 2024, are as follows:

	Total	**Within 1 year**	**1 – 3 years**	**3 – 5 years**
Maturity analysis of financial liabilities	**$**	$	$	$
Accounts payable and accrued liabilities	15,653,345	15,653,345	-	-
Lease liability	124,994	30,197	93,982	815
Mortgage payable	3,673,425	3,673,425	-	-
Government loan	69,458	-	69,458	-
	19,521,222	**19,356,967**	**163,440**	**815**

As at June 30, 2024, the Company had a cash balance of $1,163,584 and current liabilities of $19,167,550 (December 31, 2023 - $1,378,960 and $16,917,110 respectively).

Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company's mortgage payable and lease liabilities carry fixed interest rates and as such, the Company is not exposed to interest rate risk.

(Expressed in Canadian dollars, except number of shares)

NOTE 17 - FINANCIAL RISK MANAGEMENT (continued)

(d) Economic dependence

Economic dependence risk is the risk of reliance upon a select number of customers which significantly impact the financial performance of the Company. The Company had the following breakdown of customers with greater than 10% of overall revenue for the six months ended June 30, 2024 and 2023.

Six months ended June 30,	**2024**	2023
Customer A	**40%**	32%
Customer B	**33%**	30%
Customer C	**16%**	19%

NOTE 18 – COMMITMENTS AND CONTINGENCIES

Contingencies

On March 15, 2023, the Company was served with a civil claim filed in the Supreme Court of British Columbia pursuant to the Class Proceedings Act, R.S.B.C. 1996, c. 50 alleging that the Company's press release of February 22, 2023 misstated certain material facts which mislead the plaintiff in the claim. The suit also names the Company's subsidiary ALI. and the Company's Chief Executive Officer. The Company denies the allegations in the claim and specifically that the press release was misleading. No specific amount of damages is claimed.

NOTE 19 - SEGMENTED INFORMATION

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

The Company's chief operating decision makers are the Chief Executive Officer and the Chief Financial Officer. They review the operating performance of the Company by two segments comprised of manufacturing and non-manufacturing operations. The manufacturing operations includes the manufacturing, sale and distribution of cannabis related products. The non-manufacturing operations include PerceiveMD. The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The chief operating decision makers utilize gross profit as a key measure in making operating decisions and assessing performance. The non-manufacturing segment is immaterial and, accordingly, segmented figures are not presented.

NOTE 20 – EXPENSES

The Company presents its Condensed Interim Consolidated Statements of Net Income and Comprehensive Income on a functional basis in which expenditures are aggregated to the function to which they relate. The Company has identified the major functions as general and administrative and sales and marketing.

	General and administrative	**Sales and marketing**	**Total**
Six months ended June 30, 2024	$	$	**$**
Advertising and promotion	-	524,014	524,014
Data program expenses	-	1,082,139	1,082,139
Insurance	89,823	-	89,823
Office expenses	431,751	-	431,751
Professional fees and consulting	505,466	-	505,466
Repair and maintenance expenses	86,950	-	86,950
Travel	-	32,983	32,983
Wages and salaries	962,136	275,793	1,237,929
	2,076,126	**1,914,929**	**3,991,055**

(Expressed in Canadian dollars, except number of shares)

NOTE 20 – EXPENSES (continued)

	General and administrative	Sales and marketing	Total
Six months ended June 30, 2023	$	$	**$**
Advertising and promotion	-	1,049,684	1,049,684
Data program expenses	-	571,763	571,763
Insurance	101,941	-	101,941
Office expenses	580,091	-	580,091
Professional fees and consulting	594,446	-	594,446
Repair and maintenance expenses	90,928	-	90,928
Travel	-	57,728	57,728
Wages and salaries	677,424	262,369	939,793
	2,044,830	**1,941,544**	**3,986,374**

NOTE 21 – CANCELLATION OF LICENSE AGREEMENT

On October 3, 2022, the Company terminated the license agreement with the previous Trademark licensee who had sole use of the Trademarks acquired pursuant to the Phyto BrandCo acquisition. As a result, the Company now retains all rights to the Trademarks and is selling the related cannabis consumer packaged goods directly to provincial distributors and retailers.

In exchange for the cancellation of the license agreement, the Company issued a $1,542,492 credit note to the former Trademark licensee. In addition, the Company offset $705,301 of the Company’s accounts payable due to the former Trademark licensee with accounts receivable owing from them. Lastly, the Company bought back inventory at a cost of $1,776,589 by issuing another credit memo to the former Trademark licensee, less $600,000 which was prepaid during the year ended December 31, 2022.

During the year ended December 31, 2023, the Company recorded a loss on termination of license agreement totalling $442,668 to write off the remaining accounts receivable owed from the former Trademark licensee.