

Adastra Labs Holdings (2019) Ltd. (formerly Adastra Labs Holdings Ltd.)
Condensed Interim Consolidated Financial Statements
For the six months ended October 31, 2019

NOTICE OF NO AUDITOR REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The accompanying unaudited condensed consolidated interim financial statements of Adastra Labs Holdings (2019) Ltd. (“the Company”) for the six months ended October 31, 2019 and October 31, 2018, have been prepared by the management of the Company and approved by the Company’s Audit Committee and the Company’s Board of Directors.

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

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

Adastra Labs Holdings (2019) Ltd. (formerly Adastra Labs Holdings Ltd.)
Condensed Interim Consolidated Statement of Financial Position
Unaudited – Prepared by Management
As at

	Note	October 31, 2019	April 30, 2019
ASSETS			
Current assets			
Cash		\$ 109,586	\$ 2,362,494
Receivables		195,439	28,283
Convertible debenture receivables	10	1,145,000	-
Prepaid expenses		1,608	8,682
Total current assets		1,451,633	2,399,459
Non-current assets			
Equipment deposits	3	677,047	20,823
Property plant and equipment	3	6,753,295	3,834,236
Total non-current assets		7,430,342	3,855,059
Total assets		\$ 8,881,975	\$ 6,254,518
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	5	\$ 434,586	\$ 137,044
Mortgage payable	8	2,428,501	2,407,463
Total current liabilities		2,863,087	2,544,507
Convertible debenture	10	2,321,403	-
Total non-current liabilities		2,321,403	-
Total liabilities		\$ 5,184,490	\$ 2,544,507
SHAREHOLDERS' EQUITY			
Share capital	4	4,614,000	4,614,000
Debenture - reserves	10	855,597	-
Deficit		(1,772,112)	(903,989)
Total shareholders' equity		3,697,485	3,710,011
Total liabilities and shareholders' equity		\$ 8,881,975	\$ 6,254,518
Nature and Continuance of Operations	1		
Subsequent Event	12		

Approved and Authorized by the Board on April 20, 2020:

"Andrew Hale" Director

"Blaine Bailey" Director

Adastra Labs Holdings (2019) Ltd. (formerly Adastra Labs Holdings Ltd.)
Condensed Interim Consolidated Statement of Loss and Comprehensive Loss
Unaudited – Prepared by Management

	Note	Three months ended		Six months ended	
		October 31, 2019	October 31, 2018	October 31, 2019	October 31, 2018
Expenses					
Advertising and promotion		\$ 38,423	\$ 15,500	\$ 38,423	\$ 15,500
Amortization of borrowing costs	8	12,527	-	21,038	-
Bank charges		62	41	270	69
Depreciation	3	25,886	-	52,151	-
Insurance		3,012	650	12,825	650
Management fees	5	-	-	-	39,638
Office		16,522	28,959	116,208	34,759
Professional fees and consulting	5	81,314	18,909	311,623	102,893
Rent		(4,968)	4,263	10,806	4,263
Travel		13,097	8,631	19,093	8,631
Wages and salaries	5	94,053	61,104	190,373	101,310
		(279,928)	(138,057)	(772,810)	(307,713)
Other (expenses) and income					
Interest expense		(54,465)	-	(100,897)	-
Interest income		1,103	13	5,584	13
Loss and comprehensive loss for the period		\$ (333,290)	\$ (138,044)	\$ (868,123)	\$ (307,700)
Loss and comprehensive loss per share - basic and diluted		\$ (0.00)	\$ -	\$ (0.01)	\$ -
Weighted average number of common shares outstanding - basic and diluted		81,138,333	-	81,138,333	-

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

Adastra Labs Holdings (2019) Ltd. (formerly Adastra Labs Holdings Ltd.)
Condensed Interim Consolidated Statement of Cash Flows
Unaudited – Prepared by Management

	Six months ended	
	October 31, 2019	October 31, 2018
Note		
Cash flows from (used in) operating activities		
Loss for the period	\$ (868,123)	\$ (307,700)
Items not involving cash:		
Depreciation	52,151	-
Amortization of borrowing costs	21,038	-
Interest expense	100,897	-
Interest income	(5,584)	-
Changes in non-cash working capital:		
Receivables	(167,156)	-
Prepaid expenses	7,074	(7,390)
Accounts payable and accrued liabilities	297,542	(265,503)
	<u>(562,161)</u>	<u>(580,593)</u>
Cash flows used in investing activities		
Acquisition of property plant and equipment	(2,971,210)	(11,824)
Equipment deposits	(656,224)	(20,823)
Interest income	5,584	-
	<u>(3,621,850)</u>	<u>(32,647)</u>
Cash flows from financing activities		
Subscription advances	-	1,565,000
Proceeds from convertible debenture	2,032,000	-
Interest paid - mortgage	(100,897)	-
	<u>1,931,103</u>	<u>1,565,000</u>
Change in cash	(2,252,908)	951,760
Cash, beginning of period	<u>2,362,494</u>	<u>-</u>
Cash, end of period	<u>\$ 109,586</u>	<u>\$ 951,760</u>

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

Adastra Labs Holdings (2019) Ltd. (formerly Adastra Labs Holdings Ltd.)
Condensed Interim Consolidated Statement of Changes in Shareholders' Equity
Unaudited – Prepared by Management
For the six months ended October 31, 2019 and 2018

	Common Shares	Share Capital	Debenture - reserves	Deficit	Total
Issuance of incorporation share, June 18, 2018	1	\$ 1	\$ -	\$ -	\$ 1
Loss for the period	-	-	-	(307,700)	(307,700)
Balance at October 31, 2018	1	\$ 1	\$ -	\$ (307,700)	\$ (307,699)
Balance at April 30, 2019	81,138,333	\$ 4,614,000	\$ -	\$ (903,989)	\$ 3,710,011
Equity component - convertible debenture	-	-	855,597	-	855,597
Loss for the period	-	-	-	(868,123)	(868,123)
Balance at October 31, 2019	81,138,333	\$ 4,614,000	\$ 855,597	\$ (1,772,112)	\$ 3,697,485

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

Adastra Labs Holdings (2019) Ltd. (formerly Adastra Labs Holdings Ltd.)
Notes to the Condensed Interim Consolidated Financial Statements
Unaudited – Prepared by Management
For the six months ended October 31, 2019 and 2018

1. NATURE AND CONTINUANCE OF OPERATIONS

Adastra Labs Holdings (2019) Ltd. (formerly Adastra Labs Holdings Ltd.) (the “Company” or “Adastra”) was incorporated under the laws of the province of British Columbia on June 18, 2018. The Company is an extraction and processing solutions company. The Company’s mission is to develop and deploy large-scale cannabis and hemp extraction technologies and provide turn-key processing solutions to help licensed standard and micro-cultivators maximize the value of every harvest. The Company’s registered and records office is 5451 275th Street, Langley City, British Columbia, V4W 3X8.

These condensed interim consolidated financial statements (the “financial statements”) have been 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. These 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 has been incurring losses and generating negative cash flows since inception. Although the Company has been successful in raising funds to date, there can be no assurance that adequate or sufficient funding will be available in the future or available under terms acceptable to the Company, or that the Company will generate sufficient revenue and positive cash flows from operations. These material uncertainties may cast significant doubt on the Company’s ability to continue as a going concern.

Adastra Labs Holdings (2019) Ltd. (formerly Adastra Labs Holdings Ltd.)
Notes to the Condensed Interim Consolidated Financial Statements
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2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These financial statements have been prepared in conformity with International Accounting Standard (“IAS”) 34, Interim Financial Reporting, using the same accounting policies as detailed in the Company’s annual audited financial statements for the year ended April 30, 2019, and do not include all the information required for full annual financial statements in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”). It is suggested that these financial statements be read in conjunction with the annual audited financial statements.

These financial statements have been prepared on an historical cost basis, except for financial instruments which are classified as fair value through profit or loss, and have been prepared using the accrual basis of accounting, except for cash flow information.

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

Principles of consolidation

These financial statements include the accounts of the Company and its wholly-owned subsidiaries as follows:

Adastra Labs Holdings (2019) Ltd. (Formerly Adastra Labs Holdings Ltd.)	Parent company
Adastra Labs Inc.	100% owned Subsidiary
Chemia Analytics Inc.	100% owned Subsidiary
1178562 B.C. Ltd.	100% owned Subsidiary
Adastra Brands Inc.	100% owned Subsidiary

A subsidiary is an entity controlled by the Company and is included in the financial statements from the date that control commences until the date that control ceases. The accounting policies of a subsidiary are changed where necessary to align them with the policies adopted by the Company.

Adastra Labs Holdings (2019) Ltd. (formerly Adastra Labs Holdings Ltd.)
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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

New accounting standards

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

- New standard IFRS 16 - *Leases*

IFRS 16, Leases (“IFRS 16”) was issued by the IASB on January 13, 2016, and replaced IAS 17, Leases. 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 Company does not have any leases and accordingly, there was no impact to the Company’s financial statements as a result of adopting this new standard.

- New Interpretation IFRIC 23 - Uncertainty over Income Tax Treatments

On June 7, 2017, the IASB issued IFRIC Interpretation 23 - Uncertainty over Income Tax Treatments (“IFRIC 23”). IFRIC 23 provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. There was no impact to the Company’s financial statements as a result of adopting this new standard.

Adastra Labs Holdings (2019) Ltd. (formerly Adastra Labs Holdings Ltd.)
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3. PROPERTY, PLANT AND EQUIPMENT

	Land	Building	Furniture and equipment	Building improvements	Total
	\$	\$	\$	\$	\$
<u>Cost</u>					
June 18, 2018 (incorporation)	-	-	-	-	-
Additions	1,592,232	1,982,512	11,823	299,643	3,886,210
April 30, 2019	1,592,232	1,982,512	11,823	299,643	3,886,210
<u>Accumulated depreciation</u>					
June 18, 2018 (incorporation)	-	-	-	-	-
Depreciation	-	49,563	2,411	-	51,974
April 30, 2019	-	49,563	2,411	-	51,974
<u>Cost</u>					
April 30, 2019	1,592,232	1,982,512	11,823	299,643	3,886,210
Additions	-	16,816	100	2,954,294	2,971,210
October 31, 2019	1,592,232	1,999,328	11,923	3,253,937	6,857,420
<u>Accumulated depreciation</u>					
April 30, 2019	-	49,563	2,411	-	51,974
Depreciation	-	48,744	3,407	-	52,151
October 31, 2019	-	98,307	5,818	-	104,125
<u>Net book value</u>					
April 30, 2019	1,592,232	1,932,949	9,412	299,643	3,834,236
October 31, 2019	1,592,232	1,901,021	6,105	3,253,937	6,753,295

Certain of the Company's property, plant and equipment was not yet in use as at October 31, 2019 and April 30, 2019. Depreciation is taken when items are in the location and condition necessary for it to be capable of operating in a manner intended by management.

As at October 31, 2019, the Company had paid cash deposits for additional cannabis extraction equipment in the amount of \$677,047 (April 30, 2019 - \$20,823).

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4. SHAREHOLDERS' EQUITY

Authorized

Unlimited number of common shares with no par value.

Issued and Outstanding

As at October 31, 2019, the total issued and outstanding share capital consists of 81,138,333 common shares.

On June 20, 2018, the Company issued 1 common share for \$1 on incorporation, the Company cancelled the incorporation share on February 7, 2019;

No share issuances during the period ended October 31, 2019.

5. RELATED PARTY PAYABLES AND TRANSACTIONS

Key management personnel

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of executive and non-executive members of the Company's Board of Directors and Corporate Officers.

The remuneration of key management for the period October 31, 2019 and 2018 are as follows:

	2019	2018
	\$	\$
Consulting fees	15,000	-
Management fees	-	39,638
Professional fees	76,268	5,000
Wages and salaries	90,085	7,500
Total	181,353	52,138

As at October 31, 2019 and April 30, 2019, accounts payable and accrued liabilities included \$nil (April 30, 2019 - \$9,236)

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6. FINANCIAL INSTRUMENTS

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- 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 assets or liability either directly or indirectly;
- Level 3 - Inputs that are not based on observable market data.

Fair value risk

The Company's financial instruments consist of cash, receivables, accounts payable and accrued liabilities, and mortgage payable.

The Company's financial instruments approximate their fair values due to their short term natures. Cash, under the fair value hierarchy is based on Level 1 quoted prices in active markets for identical assets or liabilities.

Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations.

The Company's cash is held with a Canadian chartered bank and accordingly, the Company's exposure to credit risk is considered insignificant. The Company's exposure to its receivables equates to their carrying value. The Company's receivable represents refunds due from the Government of Canada and the exposure to credit risk on this amount is considered to be limited.

Liquidity risk

The Company manages liquidity risk by maintaining an adequate level of cash to meet its ongoing obligations. The Company has been successful in raising equity financing in the past; however, there is no assurance that it will be able to do so in the future. As at October 31, 2019, the Company had working capital deficiency of \$1,411,454 and requires additional financing to meet its business objectives.

Market risk

Market risk is the risk that the fair value or future cash flows from a financial instrument will fluctuate because of changes in market prices or prevailing conditions. Market risk comprises three types of risk: currency risk, interest rate risk, and price risk as follows:

(i) Currency risk

Currency risk is the risk of change in profit or loss that arises from fluctuations of foreign exchange rates and the degree of volatility of these rates. The Company is exposed to currency risk as it occasionally incurs equipment purchases denominated in the United States dollar. As at October 31, 2019 the Company is not exposed to currency risk.

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6. FINANCIAL INSTRUMENTS (continued)

(ii) Interest rate risk

The Company is not exposed to interest rate risk because it does not have any assets or liabilities subject to variable rates of interest, except for cash held in interest-bearing accounts which poses an insignificant risk exposure.

(iii) Price risk

Equity price risk is defined as the potential adverse impact on the Company's results of operations due to movements in individual equity prices or general movements in the level of the stock market. The Company currently operates as a private company which limits its exposure to price risk, however, the Company has completed several private placement financings, and therefore it is exposed to price risk with respect to equity prices set on its offerings which may impact the level of funds raised and number of common shares issued in those financings.

7. CAPITAL RISK MANAGEMENT

The Company defines capital as the components of shareholders' equity. The Company's objectives when managing capital are to support further advancement of the Company's business objectives, as well as to ensure that the Company is able to meet its financial obligations as they come due.

The Company manages its capital structure to maximize its financial flexibility making adjustments to it in response to changes in economic conditions and the risk characteristics of the underlying assets and business opportunities. The Company relies on the expertise of the Company's management to sustain the future development of the business. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the period ended October 31, 2019. The Company is not subject to externally imposed capital requirements.

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8. MORTGAGE PAYABLE

On January 7, 2019, the Company entered a mortgage for \$2,446,000 which bears interest at the rate of 8.25% per annum, calculated monthly. The mortgage matures on February 1, 2020 and can be repaid before maturity without penalty and is secured by the mortgage property and building improvements.

The mortgage payable is recorded at amortized cost and bears an effective interest rate of 10.44% as at October 31, 2019 and April 30, 2019.

The carrying value of the mortgage payable at October 31, 2019 and April 30, 2019 was \$2,428,501 and \$2,407,463. Included in mortgage payable on initial recognition were the related mortgage transaction costs of \$50,755 which are amortized over the term of the mortgage using the effective interest rate method.

The Company maintains minimum interest only payments of \$16,816 per month. As at October 31, 2019 the total non-discounted remaining scheduled payments related to the mortgage including interest payments, total \$2,395,551.

Adastra Labs Holdings (2019) Ltd. (formerly Adastra Labs Holdings Ltd.)

Notes to the Condensed Interim Consolidated Financial Statements

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9. SUPPLEMENTAL CASH FLOW INFORMATION

There were no non-cash items during the period October 31, 2019 and 2018

During the period ended October 31, 2019 and 2018 amounts paid for interest were \$100,897 and \$nil. No amounts were paid for income tax expenses.

10. CONVERTIBLE DEBENTURE

On October 31, 2019, the Company closed a 7,060,000 convertible debenture unit offering at a price of \$0.45 per debenture unit for gross proceeds \$3,177,000. Each debenture consists of a 12% secured convertible debenture with a maturity of two years from the date of issuance. If the holder converts their debenture unit they are entitled to one common share and one share purchase warrant exercisable at \$0.75 per share exercisable two years from the date of the convertible debenture closing October 31, 2021 at the holders discretion.

If the closing price of the Common Shares of the Company is higher than \$1.00 for any 10 consecutive trading days the expiry date of the Warrants may be accelerated to the 30th day after the date of a news release announcing such acceleration. The debentures will be secured to the facility subordinate to the mortgage currently on the facility.

As the debentures are convertible into common shares, the liability and equity components are presented separately on the consolidated statement of financial position. The initial carrying amount of the financial liability was determined by discounting the stream of future payments of interest and principal at a market interest rate of 16% totaling \$2,321,403. Using the residual method, the carrying amount of the conversion feature is the difference between the principal amount and the initial carrying value of the financial liability. The equity component is recorded in debenture reserves on the consolidated statement of financial position totaling \$855,597. The debentures, net of the equity component are accreted using the effective interest method over the term of the debentures, such that the carrying amount of the financial liability will equal the principal balance at maturity.

11. REVERSE TAKEOVER

On August 1, 2019, the Company entered into a Share Exchange Agreement (the "SEA") with Arrowstar Resources Ltd. ("Arrowstar") whereby the parties will complete a business combination by way of a transaction that will constitute a reverse takeover of Arrowstar by the Company (the "Transaction"). Pursuant to the Transaction, Arrowstar will first apply to delist from the TSX Venture Exchange (the "TSXV"), then on closing of the Transaction (the "Closing") all of the issued and outstanding common shares of the Company (the "Adastra Shares") will be exchanged for common shares of Arrowstar (the "AWS Shares"), which will result in the Company becoming a wholly-owned subsidiary of Arrowstar or otherwise combining its corporate existence with a wholly-owned subsidiary of Arrowstar. The resulting issuer upon completion of the Transaction (the "Resulting Issuer") will change its business from mining to cannabis standard processor and analytical testing laboratory and apply to be listed on the Canadian Securities Exchange (the "CSE").

Adastra Labs Holdings (2019) Ltd. (formerly Adastra Labs Holdings Ltd.)

Notes to the Condensed Interim Consolidated Financial Statements

Unaudited – Prepared by Management

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12. SUBSEQUENT EVENTS

On November 4, 2019, the Company, in concert with Arrowstar, received conditional approval on their submitted Information Circular to the CSE of the Plan of Arrangement and Change of Business and received approval. Under the following terms:

Arrowstar had entered into an Arrangement Agreement (the "Agreement") with the Company to affect a reverse takeover transaction and conduct a concurrent private placement of subscription receipts (the "Subscription Receipts") and secured convertible debenture offering (Note 10).

Arrowstar acquired all the issued and outstanding securities of The Company in return for common shares of Arrowstar at a conversion rate of 1.0 common shares of Arrowstar for every one common share held of The Company (the "Share Exchange"). The result of the Share Exchange constituted a reverse takeover of Arrowstar by the shareholders of The Company (the "Transaction").

The resulting issuer of the Transaction (the "Resulting Issuer") continued towards the implementation of The Company's business plan and overall operations.

Upon Closing of the Transaction and approvals of the TSX Venture Exchange (the "TSXV") for the delisting of Arrowstar shares from the TSXV (the "TSXV Delisting") and the Canadian Securities Commission (the "CSE") for the listing of Arrowstar shares on the CSE (the "CSE Listing"), the listing of Company shares were transferred from the TSXV to the CSE. The TSXV Delisting was subject to Arrowstar receiving approval from the TSXV which occurred on December 17, 2019 and the CSE Listing was subject to Arrowstar receiving approval from the CSE on January 3, 2020.

Prior to the completion of the Transaction, Arrowstar called a meeting of its shareholders for the purpose of approving, among other matters, (i) the TSXV Delisting; (ii) the Listing on the CSE; and (iii) the approval of the Proposed Transaction. The meeting was held on November 22, 2019, all matters before the shareholders were approved.

Non-Brokered Private Placement The Company

On December 2, 2019, The Company closed 5,892,456 unit offering at a price of \$0.45 per unit for gross proceeds of \$2,651,605, with each unit consisting of one (1) underlying common share of The Company and one underlying The Company share purchase warrant exercisable three years from the date of closing December 2, 2022.

Reverse Stock Split

In conjunction with the execution of the Agreement Arrowstar split its securities on a 5-to-1 basis, such that the share capital of Arrowstar consisted of 5,584,984 common shares (exclusive of the Company Shares), 1,519,200 share purchase warrants (exclusive of the Company Warrants), and, immediately prior to the Transaction.

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12. SUBSEQUENT EVENTS (continued)

Non-brokered Private Placement and Shares for Debt Arrowstar

On December 2, 2019, Arrowstar closed 10,000,000 common share shares private placement at a price of \$0.05 per common share and gross proceeds of \$500,000. Additionally, completed a settlement of liabilities representing 6,071,046 at a price of \$0.05 for total amounts equal to \$303,552.

On January 3, 2020, Adastra Labs Holdings Ltd. (formerly Arrowstar) were approved for listing on the CSE.

On January 31, 2020, the Company granted 7,570,000 stock options to certain directors, officers, employees and consultants. The options expire five years from the date of grant, vest immediately and are exercisable at a price of \$0.45 per common share.