**Phyto Extractions Inc.**
(formerly Adastra Labs Holdings Ltd.)

**Condensed Interim Consolidated Financial Statements**

**For the three and six months ended**
**June 30, 2021 and 2020**

(Expressed in Canadian dollars – Unaudited)

## NOTICE OF NON AUDITOR REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIALSTATEMENTS

The accompanying unaudited condensed interim consolidated financial statements of Phyto Extractions Inc. (the "Company") for the three and six months ended June 30, 2021 and 2020, have been prepared by the management of the Company and approved by the Company's Audit Committee and the Company's Board of Directors.

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

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

August 30, 2021

**PHYTO EXTRACTIONS INC. (formerly Adastra Labs Holdings Ltd.)**
**Condensed Interim Consolidated Statements of Financial Position**
(Expressed in Canadian dollars – Unaudited)

| | Note | **June 30, 2021** | December 31, 2020 |
|---|---|---|---|
| | | **$** | $ |
| **ASSETS** | | | |
| Current assets | | | |
| Cash | | **440,741** | 1,145,461 |
| Receivables and prepayments | 4 | **558,629** | 1,129,189 |
| Inventory | 5 | **1,936,128** | 1,421,237 |
| Deposits | | **28,750** | - |
| | | **2,964,248** | 3,695,887 |
| Long-term deposits | | **122,328** | 4,000 |
| Property, plant and equipment | 6 | **9,995,425** | 10,037,063 |
| **Total assets** | | **13,082,001** | 13,736,950 |
| **LIABILITIES** | | | |
| Current liabilities | | | |
| Accounts payable and accrued liabilities | 8 | **1,240,655** | 1,147,964 |
| Mortgage payable | 10 | **2,433,592** | 2,442,830 |
| | | **3,674,247** | 3,590,794 |
| Government loan | | **60,000** | 60,000 |
| **Total liabilities** | | **3,734,247** | 3,650,794 |
| **EQUITY** | | | |
| Share capital | 7 | **15,822,152** | 15,822,152 |
| Reserves | 7 | **5,441,814** | 5,441,814 |
| Subscriptions received | | **135,000** | - |
| Deficit | | **(12,051,212)** | (11,177,810) |
| **Total equity** | | **9,347,754** | 10,086,156 |
| **Total liabilities and equity** | | **13,082,001** | 13,736,950 |

Nature of operations and going concern (Note 1)
Subsequent events (Note 13)

Approved on behalf of the Board of Directors on August 30, 2021:

*"Michael Forbes"*
**Director**

*"George Routhier"*
**Director**

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

**PHYTO EXTRACTIONS INC. (formerly Adastra Labs Holdings Ltd.)**
**Condensed Interim Consolidated Statements of Loss and Comprehensive Loss**
(Expressed in Canadian dollars, except number of shares – Unaudited)

| | Note | Three months ended June 30, **2021** | 2020 | Six months ended June 30, **2021** | 2020 |
|---|---|---|---|---|---|
| | | **$** | $ | **$** | $ |
| **Revenue** | | **1,241,763** | 428,355 | **1,830,901** | 428,355 |
| **Cost of sales** | | **696,122** | 213,236 | **1,098,338** | 213,236 |
| **Gross profit** | | **545,641** | 215,119 | **732,563** | 215,119 |
| **Operating expenses** | | | | | |
| Advertising and promotion | | **105,165** | 206,704 | **135,352** | 260,521 |
| Accretion | 11 | **-** | 22,549 | **-** | 43,637 |
| Depreciation | 6 | **20,489** | 14,198 | **42,112** | 48,511 |
| Insurance | | **21,375** | 18,938 | **37,104** | 30,401 |
| Office expenses | | **60,065** | 93,696 | **150,109** | 239,481 |
| Professional fees and consulting | 8 | **114,463** | 109,606 | **207,650** | 395,901 |
| Research expenses | | **12,210** | - | **46,664** | - |
| Share-based payments | 7,8 | **-** | - | **-** | 2,537,300 |
| Travel | | **1,862** | 935 | **2,373** | 1,635 |
| Wages and salaries | 8 | **311,799** | 86,525 | **493,835** | 198,987 |
| **Total operating expenses** | | **647,428** | 553,151 | **1,115,199** | 3,756,374 |
| **Loss from operations** | | **(101,787)** | (338,032) | **(382,636)** | (3,541,255) |
| **Other income (expense)** | | | | | |
| Interest expense | 10,11 | **(48,141)** | (130,488) | **(107,354)** | (272,323) |
| Interest income | | **39** | 936 | **600** | 4,460 |
| Gain on settlement of accounts payable | | **-** | - | **57,500** | - |
| Impairment of property, plant and equipment | | **(150,000)** | - | **(150,000)** | - |
| Realized loss on marketable securities | | **-** | - | **-** | (1,500) |
| Write-down of inventory | | **(210,001)** | - | **(291,512)** | - |
| **Net loss and comprehensive loss for the period** | | **(509,890)** | (467,584) | **(873,402)** | (3,810,618) |
| **Net loss per share** | | | | | |
| Basic and diluted | | **(0.01)** | (0.01) | **(0.02)** | (0.10) |
| **Weighted average number of common shares outstanding** | | | | | |
| Basic and diluted | | **43,334,100** | 36,685,635 | **43,334,100** | 36,628,319 |

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

**PHYTO EXTRACTIONS INC. (formerly Adastra Labs Holdings Ltd.)**
**Condensed Interim Consolidated Statements of Changes in Equity**
(Expressed in Canadian dollars, except number of shares – Unaudited)

| | Note | Common shares | Share capital | Debenture reserves | Reserves | Subscriptions received | Deficit | Total equity |
|---|---|---|---|---|---|---|---|---|
| | | # | $ | $ | $ | $ | $ | $ |
| **December 31, 2019** | | **36,228,941** | **8,348,407** | **298,461** | **-** | **-** | **(3,561,946)** | **5,084,922** |
| Convertible debentures - settlement | 7,11 | 456,694 | 616,537 | (56,366) | - | - | - | 560,171 |
| Share-based payments | 7 | - | - | - | 2,537,300 | - | - | 2,537,300 |
| Subscriptions received | | - | - | - | - | 230,500 | - | 230,500 |
| Loss for the period | | - | - | - | - | - | (3,810,618) | (3,810,618) |
| **June 30, 2020** | | **36,685,635** | **8,964,944** | **242,095** | **2,537,300** | **230,500** | **(7,372,564)** | **4,602,275** |
| Convertible debentures - settlement | 7,11 | 2,075,446 | 2,801,853 | (242,095) | 70,814 | - | - | 2,630,572 |
| Units issued for cash | 7 | 3,882,667 | 3,494,400 | - | - | (230,500) | - | 3,263,900 |
| Share issue costs | 7 | - | (60,100) | - | 38,500 | - | - | (21,600) |
| Shares issued for cash - warrants | 7 | 42,967 | 77,340 | - | - | - | - | 77,340 |
| Shares issued for services | 7 | 156,894 | 131,791 | - | - | - | - | 131,791 |
| Shares issued for debt settlement | 7 | 490,491 | 411,924 | - | - | - | - | 411,924 |
| Share-based payments | 7 | - | - | - | 2,795,200 | - | - | 2,795,200 |
| Loss for the period | | - | - | - | - | - | (3,805,246) | (3,805,246) |
| **December 31, 2020** | | **43,334,100** | **15,822,152** | **-** | **5,441,814** | **-** | **(11,177,810)** | **10,086,156** |
| Subscriptions received | | - | - | - | - | 135,000 | - | 135,000 |
| Loss for the period | | - | - | - | - | - | (873,402) | (873,402) |
| **June 30, 2021** | | **43,334,100** | **15,822,152** | **-** | **5,441,814** | **135,000** | **(12,051,212)** | **9,347,754** |

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

**PHYTO EXTRACTIONS INC. (formerly Adastra Labs Holdings Ltd.)**
**Condensed Interim Consolidated Statements of Cash Flows**
(Expressed in Canadian dollars – Unaudited)

| | Six months ended June 30, 2021 | 2020 |
|---|---|---|
| | **$** | $ |
| **Operating activities** | | |
| Loss for the period | **(873,402)** | (3,810,618) |
| Adjustments for non-cash items: | | |
| Accretion | **-** | 43,637 |
| Depreciation | **42,112** | 48,511 |
| Depreciation – cost of sales | **411,567** | 132,350 |
| Interest expense | **107,354** | 272,323 |
| Interest income | **(600)** | (4,460) |
| Share-based payments | **-** | 2,537,300 |
| Realized loss on marketable securities | **-** | 1,500 |
| Write-down of inventory | **291,512** | - |
| Impairment of property, plant and equipment | **150,000** | - |
| Net change in non-cash working capital items: | | |
| Receivables and prepayments | **705,560** | (347,494) |
| Inventory | **(806,403)** | (550,688) |
| Deposits | **(147,078)** | - |
| Accounts payable and accrued liabilities | **(120,154)** | 678,788 |
| **Cash used in operating activities** | **(239,532)** | (998,851) |
| **Financing activities** | | |
| Subscriptions received | **-** | 230,500 |
| Borrowing costs mortgage | **(9,238)** | (18,345) |
| Interest paid - mortgage | **(107,354)** | (98,859) |
| Loan proceeds | **-** | 40,000 |
| **Cash (used in) provided by financing activities** | **(116,592)** | 153,296 |
| **Investing activities** | | |
| Acquisition of property, plant and equipment | **(349,196)** | (595,166) |
| Interest income | **600** | 4,460 |
| **Cash used in investing activities** | **(348,596)** | (590,706) |
| Net decrease in cash | **(704,720)** | (1,436,261) |
| Cash, beginning of period | **1,145,461** | 2,376,826 |
| **Cash, end of period** | **440,741** | 940,565 |

Supplemental cash flow information (Note 9)

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

## NOTE 1 – NATURE OF OPERATIONS AND GOING CONCERN

Phyto Extractions Inc. (formerly Adastra Labs Holdings Ltd.) (the "Company") was incorporated under the laws of the province of British Columbia on October 14, 1987. The Company changed its name to Adastra Labs Holdings Ltd. (formerly Arrowstar Resources Ltd.), on December 19, 2019. 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 is listed on the Canadian Securities Exchange ("CSE") under the symbol "XTRX". The Company's registered and records office is 5451 275th Street, Langley City, British Columbia, V4W 3X8.

On April 9, 2021, the Company consolidated the Company's issued share capital on a ratio of three (3) old common shares for every one (1) new post-consolidated common share. All current and comparative references to the number of common shares, weighted average number of common shares, loss per share, stock options and warrants have been restated to give effect to this Share Consolidation. Additionally, the Company changed their name to Phyto Extractions Inc.

On October 19, 2019, Health Canada issued a Analytical testing license on the Company's facility to Chemia Analytics Inc., ("Chemia"). Chemia is a wholly owned subsidiary of the Company. On March 13, 2020, Health Canada issued a Standard Processing License to the Company's facility to Adastra labs Inc., ("Labs"). Labs is a wholly owned subsidiary of the Company.

On December 20, 2019, Arrowstar Resources Ltd. ("Arrowstar") acquired all of the issued and outstanding common shares of Adastra Labs Holdings (2019) Ltd. ("Adastra") a private British Columbia cannabis extraction and processing solutions company incorporated on June 18, 2018. The acquisition was completed by entering into a share exchange agreement whereby the parties completed a business combination by way of a transaction that constituted a reverse takeover ("RTO") of the Company by Adastra (the "Transaction"). The Transaction was accounted for as an RTO of Arrowstar by Adastra for accounting purposes, with Adastra being identified as the accounting acquirer, and accordingly, these financial statements are a continuation of Adastra. The net assets of Arrowstar at the date of the RTO are deemed to have been acquired by Adastra (Note 3). These unaudited condensed interim consolidated financial statements (the "financial statements") include the results of operations of Arrowstar since December 20, 2019. The comparative figures are those of Adastra prior to the RTO. At the time of the transaction the Company changed its fiscal year end from April 30 to December 31.

These 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 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. 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'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 10).

As at June 30, 2021, the Company had a working capital deficiency of $709,999 (December 31, 2020 – working capital surplus of $105,093) and has incurred losses since inception. 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 financial statements it could be necessary to restate the Company's assets and liabilities on a liquidation basis.

## NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

### (a) Basis of presentation

These financial statements have been prepared in conformity with International Accounting Standard 34 – *Interim Financial Reporting*, using the same accounting policies as detailed in the Company's annual audited financial statements for the year ended December 31, 2020, and do not include all the information required for full annual financial statements in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). It is suggested that these financial statements be read in conjunction with the annual audited financial statements.

These financial statements have been prepared on an historical cost basis, except for financial instruments measured at fair value. In addition, these financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

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

### (b) Reclassification of prior amounts

The Company has reclassified certain items on the condensed interim consolidated statements of cash flows to conform with current period presentation.

### (c) Principles of consolidation

These financial statements include the financial information of the Company and its subsidiaries. The financial statements include the accounts of the Company and the following 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% |

Subsidiaries are entities controlled by the Company and are included in the financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries are changed where necessary to align them with the policies adopted by the Company.

These financial statements account for Arrowstar as a controlled entity (accounting acquiree) requiring consolidation since the date of the RTO (Note 1 and 3), effective December 20, 2019.

The accounting policies, estimates and critical judgments, methods of computation and presentation applied in these financial statements are consistent with those of the most recent annual audited financial statements and are those the Company expects to adopt in its annual financial statements for the year ended December 31, 2021. Accordingly, these financial statements should be read in conjunction with the Company's most recent annual audited financials.

### (d) 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, 2021. 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.

## NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (continued)

### (e) Significant accounting judgements and key sources of estimate uncertainty

The information about significant areas of estimation uncertainty considered by management in preparing these financial statements is as follows

*COVID-19 estimation uncertainty*

On March 11, 2020, the World Health Organization declared the outbreak of the novel coronavirus (COVID-19) a global pandemic. This has resulted in governments worldwide, including the Canadian government, to enact emergency measures to combat the spread of the virus. These measures, which include social distancing, the implementation of travel bans, and closures of non-essential businesses, have caused material disruption to businesses globally, resulting in an economic slowdown. The production and sale of cannabis have been recognized as essential services across Canada. As at June 30, 2021, the Company has not observed any material impairments of assets or a significant change in the fair value of assets, due to the COVID-19 pandemic.

The situation is dynamic and the ultimate duration and magnitude of the impact of COVID-19 on the economy and the financial effect on our business, financial position and operating results remain unknown at this time. In addition, it is possible that estimates in the Company's financial statements will change in the near term as a result of COVID-19 and the effect of any such changes could be material, which could result in, among other things, impairment of long-lived assets. The Company is closely monitoring the impact of the pandemic on all aspects of its business.

*Fair value of stock options and finders' compensation options*

Determining the fair value of stock options and compensatory options (finders' options) requires estimates related to the choice of a pricing model, the estimation of stock price volatility, the fair value of the Company's common shares, the expected forfeiture rate and the expected term of the underlying instruments. Any changes in the estimates or inputs utilized to determine fair value could have a significant impact on the Company's future operating results or on other components of shareholders' equity.

*Acquisitions*

Determination of whether a set of assets acquired and liabilities assumed constitute the acquisition of a business or asset requires the Company to make certain judgments as to whether or not the assets acquired and liabilities assumed include the inputs, processes and outputs necessary to constitute a business as defined in IFRS 3 Business Combinations. If an acquired set of assets and liabilities includes goodwill, the set is presumed to be a business. Based on an assessment of relevant facts and circumstances, the Company concluded that the acquisition disclosed in Note 3 was acquisition of assets. The values assigned to common shares and the allocation of the purchase price to the net liabilities in the acquisition are based on numerous estimates and judgements of the relative fair values of net liabilities.

The information about significant areas of judgment considered by management in preparing these financial statements is as follows:

*Going concern*

The assessment of the Company's ability to continue as a going concern as discussed in Note 1 involves judgment regarding future funding available for its operations and working capital requirements.

(Expressed in Canadian dollars – Unaudited)

## NOTE 3 – REVERSE ACQUISITION

As described in Note 1, on December 20, 2019, Arrowstar and Adastra completed the Transaction which constituted a reverse acquisition.

The Transaction resulted in the shareholders of Adastra obtaining control of the combined entity by obtaining control of the voting rights, governance and management decision making processes, and the resulting power to govern the financial and operating policies of the combined entity.

The transaction constitutes an RTO of Arrowstar by Adastra and has been accounted for as a reverse acquisition transaction in accordance with the guidance provided in IFRS 2, Share-based payments. As Arrowstar did not qualify as a business according to the definition in IFRS 3, the RTO does not constitute a business combination; rather it is treated as an issuance of common shares by Adastra for the net assets of Arrowstar and Arrowstar's public listing, with Adastra as the continuing entity. Accordingly, no goodwill was recorded with respect to the transaction as it does not constitute a business combination.

For accounting purposes, Adastra was treated as an accounting parent company (legal subsidiary) and Arrowstar has been treated as the accounting subsidiary (legal parent) in these financial statements. As Adastra was deemed to be the acquirer for accounting purposes, its assets, liabilities, and operations since incorporation are included in these financial statements at their historical carrying values. Arrowstar's results of operations have been included from December 20, 2019.

| | December 20, 2019 |
|---|---|
| **Assets and (liabilities) of Arrowstar acquired** | $ |
| Cash | 111,496 |
| Receivables | 10,802 |
| Other assets | 7,504 |
| Accounts payable | (356,384) |
| **Net liabilities acquired** | **(226,582)** |
| | |
| **Consideration paid in RTO of Arrowstar** | |
| Common shares (7,218,678 common shares at $0.15 fair value per share) | 1,082,802 |
| | |
| **Listing expense** | **1,309,384** |

The Transaction was measured at the fair value of the shares that Adastra would have to issue to the shareholders of Arrowstar, to give the shareholders of Arrowstar the same percentage of equity interest in the combined entity that results from the reverse acquisition had it taken the legal form of Adastra acquiring Arrowstar.

(Expressed in Canadian dollars – Unaudited)

### NOTE 4 – RECEIVABLES AND PREPAYMENTS

Receivables and prepayments consisted of the following:

| | **June 30, 2021** | December 31, 2020 |
|---|---|---|
| | **$** | $ |
| Trade accounts receivable | **213,181** | 971,102 |
| Sales tax recoverable | **7,239** | 1,578 |
| Prepaid expenses | **338,209** | 156,509 |
| | **558,629** | 1,129,189 |

### NOTE 5 – INVENTORY

Inventory consisted of the following:

| | **June 30, 2021** | December 31, 2020 |
|---|---|---|
| | **$** | $ |
| Extracted cannabis and hemp oils (finished goods) | **1,477,606** | 908,117 |
| Production work in process – distillate | **141,430** | 273,937 |
| Dried cannabis and hemp biomass | **317,092** | 239,183 |
| | **1,936,128** | 1,421,237 |

Inventory expensed to cost of sales in the three and six months ended June 30, 2021 was $570,627 and $974,864, respectively (three and six months ended June 30, 2020 - $213,216 and $213,216, respectively).

(Expressed in Canadian dollars – Unaudited)

**NOTE 6 – PROPERTY, PLANT AND EQUIPMENT**

| | Land | Building | Furniture and equipment | Computer software | Laboratory equipment | Extraction equipment | Building improvements | Total |
|---|---|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ | $ | $ |
| **Cost** | | | | | | | | |
| December 31, 2019 | 1,592,232 | 1,999,328 | 59,442 | 12,105 | 62,295 | 1,048,502 | 3,863,759 | 8,637,663 |
| Additions | - | - | 25,407 | - | 149,100 | 1,862,707 | 64,522 | 2,101,736 |
| December 31, 2020 | 1,592,232 | 1,999,328 | 84,849 | 12,105 | 211,395 | 2,911,209 | 3,928,281 | 10,739,399 |
| Additions | - | - | 8,313 | 150,000 | 152,920 | 250,808 | - | 562,041 |
| Impairment | - | - | - | (150,000) | - | - | - | (150,000) |
| **June 30, 2021** | **1,592,232** | **1,999,328** | **93,162** | **12,105** | **364,315** | **3,162,017** | **3,928,281** | **11,151,440** |
| | | | | | | | | |
| **Accumulated depreciation** | | | | | | | | |
| December 31, 2019 | - | 122,679 | 7,467 | - | - | - | - | 130,146 |
| Depreciation | - | 93,832 | 12,936 | 1,816 | 20,527 | 296,978 | 146,101 | 572,190 |
| December 31, 2020 | - | 216,511 | 20,403 | 1,816 | 20,527 | 296,978 | 146,101 | 702,336 |
| Depreciation | - | 46,916 | 6,748 | 1,028 | 26,732 | 272,723 | 99,532 | 453,679 |
| **June 30, 2021** | **-** | **263,427** | **27,151** | **2,844** | **47,259** | **569,701** | **245,633** | **1,156,015** |
| | | | | | | | | |
| Carrying value | | | | | | | | |
| December 31, 2020 | 1,592,232 | 1,782,817 | 64,446 | 10,289 | 190,868 | 2,614,231 | 3,782,180 | 10,037,063 |
| **June 30, 2021** | **1,592,232** | **1,735,901** | **66,011** | **9,261** | **317,056** | **2,592,316** | **3,682,648** | **9,995,425** |

During the three and six months ended June 30, 2021, the Company allocated $207,027 and $411,567, respectively (three and six months ended June 30, 2020 - $132,350 and $132,350, respectively) of depreciation to cost of sales and $20,489 and $42,112, respectively (three and six months ended June 30, 2020 - $14,198 and $48,511, respectively) to operating expense.

## NOTE 7 – SHARE CAPITAL

### (a) Authorized

Unlimited number of voting common shares without par value.

### (b) Issued share capital

As at June 30, 2021 and December 31, 2020, 43,334,100 common shares were issued and outstanding.

### (c) Share issuances

There were no share issuances during the six months ended June 30, 2021.

(i) During the six months ended June 30, 2021, the Company recorded a subscription received for 122,727 units at $1.10 per unit for gross proceeds of $135,000. Each unit will consist of one common share and one transferable common share purchase warrant. These proceeds are included in as subscriptions received and will be applied against a future financing.

During the year ended December 31, 2020, the Company had the following share transactions:

(i) On January 17, 2020, the Company issued 189,934 units on conversion of $250,000 of principal and $6,411 of accrued interest of the convertible debenture. Each unit consists of one common share of the Company and one share purchase warrant exercisable at $2.25 for two years from the date of conversion. No value was attributed to the warrant component of the units issued.

(ii) On January 27, 2020, the Company issued 266,760 units on conversion of $350,000 of principal and $10,126 of accrued interest of the convertible debenture. Each unit consists of one common share of the Company and one share purchase warrant exercisable at $2.25 for two years from the date of conversion. No value was attributed to the warrant component of the units issued.

(iii) On July 10, 2020, the Company issued 200,589 units on conversion of $250,000 of principal and $20,795 of accrued interest of the convertible debenture. Each unit consists of one common share of the Company and one share purchase warrant exercisable at $2.25 for two years from the date of conversion. No value was attributed to the warrant component of the units issued.

(iv) On July 13, 2020, the Company completed a non-brokered private placement whereby 3,882,667 units were issued at a price of $0.90 per unit for gross proceeds of $3,494,400. Each unit consists one common share and one common share purchase warrant with each warrant exercisable into one common share at an exercise price of $1.50 until July 13, 2022.

In conjunction with the financing, finders' fees of $21,600 in cash were paid and 24,067 compensation options (each a "Compensation Option") were granted. Each Compensation Option entitles the holder to purchase a unit on the same terms as the offering for a period of two years from the date of issuance. Each underlying common share purchase warrant (a "Compensation Option Warrant") will be subject to the same terms as the warrants attached to the units sold in the financing. If the Compensation Option Warrants are accelerated prior to the exercise of the Compensation Option, each Compensation Option Warrant will expire 30 days after the date of exercise of the Compensation Option. The fair value of the Compensation Option was $38,500 ($1.59 per Compensation Option) and was recognized as a share issuance cost. The fair value of the Compensation Options was estimated using the Black-Scholes option pricing model using the following assumptions: risk-free interest rate of 0.28%, annualized volatility of 100%, expected dividend yield of nil%, and an expected life of 2 years.

**NOTE 7 – SHARE CAPITAL (continued)**

Additionally, the Company settled services and outstanding indebtedness of $543,715 through the issuance of 647,385 common shares at a fair value price of $0.84 per common share. The common shares issued in connection with the services and debt settlement are subject to a hold period that expires four months and one day from the date of issuance.

(v) On July 16, 2020, the Company issued 759,605 units on conversion of $945,000 of principal and $80,467 of accrued interest of the convertible debenture. Each unit consists of one common share of the Company and one share purchase warrant exercisable at $2.25 for two years from the date of conversion. No value was attributed to the warrant component of the units issued.

(vi) On July 28, 2020, the Company issued 953,564 units on conversion of $1,182,000 of principal and $105,311 of accrued interest of the convertible debenture. Each unit consists of one common share of the Company and one share purchase warrant exercisable at $2.25 for two years from the date of conversion. No value was attributed to the warrant component of the units issued.

(vii) On August 5, 2020, the Company issued 161,688 units on conversion of $200,000 of principal and $18,279 of accrued interest of the convertible debenture. Each unit consists of one common share of the Company and one share purchase warrant exercisable at $2.25 for two years from the date of conversion. No value was attributed to the warrant component of the units issued.

(viii) During the year ended December 31, 2020, the Company issued 42,967 common shares related to the exercise of 42,967 warrants at an exercise price of $1.80 for proceeds of 77,340.

**(d) Escrow shares**

The Company entered into an Escrow Agreement in connection with closing the RTO on December 20, 2019, in relation to certain of its common shares which were placed in escrow. Pursuant to the Escrow Agreement the escrowed common shares are subject to a timed-release schedule whereby a 10% portion of the escrow shares will be released beginning on listing date, and 15% every six months thereafter until January 6, 2023.

As at June 30, 2021, 5,200,000 common shares were held in escrow (December 31, 2020 – 6,500,000).

**(e) 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.

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, 2021, the Company granted nil stock options.

During the year ended December 31, 2020, the Company had the following grants:

(i) On January 30, 2020, the Company granted 2,523,333 stock options with exercise price of $1.35 to certain Directors, Officers, employees, and consultants. The options expire five years from the date of grant and vest immediately. The fair value of these options was $2,537,300 ($1.02 per option) and was recognized as a share-based payments.

(Expressed in Canadian dollars – Unaudited)

**NOTE 7 – SHARE CAPITAL (continued)**

(ii) On June 1, 2020, the Company granted 66,667 stock options with exercise price of $1.35 to an employee. The options expire two years from the date of grant and vest immediately. The fair value of these options was $22,200 ($0.33 per option) and was recognized as share-based payments.

(iii) On August 5, 2020, the Company granted 1,616,667 stock options with exercise price of $2.34 to certain Directors, Officers, employees, and consultants. The options expire five years from the date of grant and vest immediately. The fair value of these options was $2,813,800 ($1.74 per option) and was recognized as a share-based payments.

The fair value of the stock options granted during the six months ended June 30, 2021 and 2020 was estimated using the Black-Scholes option pricing model using the following assumptions:

| | **2021** | 2020 |
|---|---|---|
| Risk-free interest rate | - | 0.39 – 1.29% |
| Annualized volatility | - | 100% |
| Expected dividend yield | - | 0.00% |
| Expected life | - | 2 – 5 years |

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

| | Stock options | Weight average exercise price |
|---|---|---|
| | # | $ |
| Outstanding, December 31, 2019 | - | - |
| Granted | 4,206,667 | 1.73 |
| Cancelled | (40,000) | 1.35 |
| Outstanding, December 31, 2020 | 4,166,667 | 1.73 |
| Cancelled | (766,666) | 1.85 |
| **Outstanding, June 30, 2021** | **3,400,001** | **1.71** |
| Exercisable, December 31, 2020 | 4,166,667 | 1.73 |
| **Exercisable, June 30, 2021** | **3,400,001** | **1.71** |

As at June 30, 2021, the Company had stock options outstanding and exercisable as follows:

| Options outstanding and exercisable | Exercise price | Expiry date | Weighted average remaining life (years) |
|---|---|---|---|
| # | $ | | |
| 66,667 | 1.35 | June 1, 2022 | 0.92 |
| 2,100,001 | 1.35 | January 30, 2025 | 3.59 |
| 1,233,333 | 2.34 | August 5, 2025 | 4.10 |
| **3,400,001** | | | **3.73** |

**(f) Compensation options**

As at June 30, 2021, the Company has 12,000 compensation options outstanding and exercisable. These options have an exercise price of $0.90 and expire on July 13, 2022.

**(g) Warrants**

As an incentive to complete a private placement the Company may issue units which include common shares and common share purchase warrants. Using the residual value method, the Company determines whether a value should be allocated to the warrants attached to private placement units. Finders' warrants may be issued as a private placement share issue cost and are valued using the Black-Scholes option pricing model.

(Expressed in Canadian dollars – Unaudited)

**NOTE 7 – SHARE CAPITAL (continued)**

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

| | Warrants | Weight average exercise price |
|---|---|---|
| | # | $ |
| Outstanding, December 31, 2019 | 2,470,552 | 2.19 |
| Issued | 6,414,807 | 1.80 |
| Exercised | (42,967) | 1.80 |
| Expired | (506,400) | 2.76 |
| **Outstanding, December 31, 2020 and June 30, 2021** | **8,335,992** | **1.80** |

As at June 30, 2021, the Company had warrants outstanding and exercisable as follows:

| Warrants outstanding and exercisable | Exercise price | Expiry date | Weighted average remaining life (years) |
|---|---|---|---|
| # | $ | | |
| 189,934 | 2.25 | January 17, 2022 | 0.56 |
| 266,760 | 2.25 | January 27, 2022 | 0.58 |
| 200,589 | 2.25 | July 10, 2022 | 1.03 |
| 3,882,667 | 1.50 | July 13, 2022 | 1.04 |
| 759,605 | 2.25 | July 16, 2022 | 1.04 |
| 953,564 | 2.25 | July 28, 2022 | 1.08 |
| 161,688 | 2.25 | August 5, 2022 | 1.10 |
| 1,921,185 | 1.80 | December 19, 2022 | 1.47 |
| **8,335,992** | | | **1.12** |

**NOTE 8 – RELATED PARTY TRANSACTIONS**

A number of key management personnel and Directors hold positions in other entities that result in them having control or significant influence over the financial or operating policies of these entities. There were no loans to key management personnel or Directors, or entities over which they have control or significant influence during the periods ended June 30, 2021 or June 30, 2020.

During the period ended June 30, 2021, no options were granted (2020 – 1,133,333) to Officers and Directors having a fair value on grant of $nil (2020 – $1,139,612).

The following related parties transacted with the Company or Company controlled entities during the periods:

(a) Andrew Hale was a Director and the Company's President and CEO. He resigned on March 1, 2021.
(b) Blaine Bailey was a Director and Chairman of the Company's Audit Committee. He resigned on March 26, 2021.
(c) Stephen Brohman is the Company's CFO. He is a principal of Donaldson Brohman Martin CPA Inc. ("DBM CPA") a firm in which he has significant influence. DBM CPA provides the Company with accounting and tax services. Stephen Brohman resigned on July 14, 2021 (Note 13).
(d) George Routhier is a Company Director. He is the owner of Pipedreemz Inc. ("Pipedreemz"), which provides advisory services to the Company.
(e) Michael Forbes is 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.
(f) Donald Dinsmore is a Director and the Company's COO. He was appointed on April 29, 2021.

(Expressed in Canadian dollars – Unaudited)

## NOTE 8 – RELATED PARTY TRANSACTIONS (continued)

The aggregate value of transactions key management personnel and Directors and entities over which they have control or significant influence were as follows:

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| | **2021** | 2020 | **2021** | 2020 |
| | **$** | $ | **$** | $ |
| DBM CPA | **31,091** | 36,000 | **61,091** | 72,000 |
| Andrew Hale | **-** | 45,021 | **47,479** | 90,049 |
| Donald Dinsmore | **20,833** | - | **20,833** | - |
| MDC Forbes | **10,000** | - | **10,000** | - |
| Pipedreemz | **-** | - | - | 2,500 |
| | **61,924** | 81,021 | **139,403** | 164,549 |

As at June 30, 2021, the Company had an outstanding accounts payable balance with related parties of $25,500 (December 31, 2020 - $12,915).

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**

Includes advisory services of George Routhier, charged to the Company via Pipedreemz, and CEO services by Michael Forbes, charged to the Company via MDC Forbes.

**(b) Professional fees**

Includes accounting and tax services of the Company's prior CFO, Stephen Brohman, charged to the Company via DBM CPA.

**(c) Wages and salaries**

Includes services by Andrew Hale as the prior CEO, and Donald Dinsmore as COO.

## NOTE 9 – SUPPLEMENTAL CASH FLOW INFORMATION

| | Six months ended June 30, | |
|---|---|---|
| | **2021** | 2020 |
| | **$** | $ |
| Non-cash operating activities | | |
| Share subscription for prepaid expenses | **135,000** | - |
| Non-cash financing activities | | |
| Convertible debentures settlement | **-** | (616,537) |
| Convertible debentures -reserves | **-** | 56,366 |
| Non-cash investing activities | | |
| Equipment purchases included in accounts payable and accrued liabilities | **212,845** | 754,599 |

During the six months ended June 30, 2021 and 2020 no amounts were paid for income tax expense.

## NOTE 10 – MORTGAGE PAYABLE

a) On January 7, 2019, the Company entered into a mortgage for $2,446,000 (the "First Mortgage") which bore interest at the rate of 8.25% per annum, calculated monthly. The First Mortgage matured on February 1, 2020 and was renewed as discussed below.

The First Mortgage payable was recorded at amortized cost and bore an effective interest rate of 10.44%.

The carrying value of the First Mortgage at December 31, 2019 was $2,437,175. Included in mortgage payable on initial recognition were the related mortgage transaction costs of $50,755 which were amortized over the term of the First Mortgage using the effective interest rate method.

The Company maintained minimum interest-only payments of $16,816 per month in connection with the First Mortgage. Total interest expense of the First Mortgage during the six months ended June 30, 2021 was $nil (2020 - $33,632).

b) On February 1, 2020, the Company renewed the First Mortgage of $2,446,000 (the "Second Mortgage") which bears interest at the rate of 8.00% per annum, calculated monthly. The Second Mortgage matured on February 1, 2021 and was renewed as discussed below.

The Second Mortgage payable was recorded at amortized cost and bore an effective interest rate of 8.79%.

The carrying value of the Second Mortgage payable as at December 31, 2020 was $2,442,830. Included in mortgage payable on initial recognition were the related mortgage transaction costs of $18,345 which were being amortized over the term of the Second Mortgage using the effective interest rate method.

The Company maintained minimum interest-only payments of $16,307 per month in connection with the Second Mortgage. Total interest expense of the Second Mortgage during the three and six months ended June 30, 2021 was $nil and $35,783, respectively (2020 - $32,613 and $48,920, respectively).

c) On February 1, 2021, the Company renewed the Second Mortgage of $2,446,000 (the "Third Mortgage") which bears interest at the rate of 8.00% per annum, calculated monthly. The Third Mortgage matures on February 1, 2022 and can be repaid before maturity without penalty and is secured by the mortgage property and building improvements.

The Third Mortgage payable was recorded at amortized cost and bares an effective interest rate of 8.79%.
The carrying value of the Third Mortgage payable at June 30, 2021 was $2,433,592. Included in mortgage payable are the related mortgage transaction costs of $18,345 which are being amortized over the term of the Third Mortgage using the effective interest rate method. Subsequent to period end, this mortgage was refinanced (Note 13).

The Company maintains minimum interest-only payments of $16,307 per month. As at June 30, 2021 the total non-discounted remaining scheduled payments related to the mortgage including interest payments totaled $2,576,453. Total interest expense during the three and six months ended June 30, 2021 was $53,389 and $71,164, respectively (three and six months ended June 30, 2020 - $nil and $nil, respectively).

## NOTE 11 – CONVERTIBLE DEBENTURES

On October 31, 2019, the Company closed a 2,353,333 convertible debenture unit offering at a price of $1.35 per debenture unit for gross proceeds $3,177,000. Each debenture consisted of a 12% secured convertible debenture with a maturity of two years from the date of issuance. If the holder converted their debenture unit, they were entitled to one common share and one share purchase warrant exercisable at $2.25 per share two years from the date of the convertible debenture closing October 31, 2021 at the holder's discretion.

If the closing price of the Common Shares of the Company was higher than $3.00 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 were secured to the facility subordinate to the mortgage currently on the facility.

As the debentures were convertible into units, the liability and equity components were 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 $2,878,539. 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 was recorded in debenture reserves on the consolidated statement of financial position totaling $298,461. The debentures, net of the equity components were accreted using the effective interest method over the term of the debentures, such that the carrying amount of the financial liability was equal to the principal balance at maturity.

During the year ended December 31, 2020, the Company settled principal plus accrued interest of $3,418,390 relating to the debentures through the issuance of 2,532,140 units. The Company reversed $298,461 from debenture reserves in connection with the settlement.

During the three and six months ended June 30, 2021, the Company recorded interest expense of $nil and $nil, respectively (2020 - $77,098 and $158,700, respectively) and accretion expense of $nil and $nil, respectively (2020 - $22,549 and $43,637, respectively).

## NOTE 12 – FINANCIAL RISK MANAGEMENT

### (a) Capital 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 six months ended June 30, 2021. 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 and accrued liabilities, mortgage payable and loan payable.

The carrying value of accounts payable and accrued liabilities, and loan payable approximated their fair value because of the short-term nature of these instruments. Mortgage payable approximate fair value due to its market rates of interest charged.

**NOTE 12 – FINANCIAL RISK MANAGEMENT (continued)**

Financial instruments measured at fair value on the condensed interim consolidated statements of financial position are summarized into the following fair value hierarchy levels:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As at June 30, 2021, the carrying values of cash, receivables and prepayments, accounts payable and accrued liabilities and mortgage payable approximate their fair values because of their nature and relatively short maturity dates or durations.

**(c) Financial instruments – risk**

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

*Credit risk*

The Company is exposed to credit risk by holding cash. This risk is minimized by holding the funds in Canadian banks and credit unions or with Canadian governments. The Company has minimal receivable exposure, and its various refundable credits are due from Canadian governments.

*Liquidity risk*

Liquidity risk is the risk that the Company is unable to meet its financial obligations as they come due. The Company manages this risk by careful management of its working capital to ensure its expenditures will not exceed available resources.

*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. During the three and six months ended June 30, 2021, the Company's sales were generated by two customers representing approximately 74% and 26% (December 31, 2020 – one customer representing 100% of sales).

**NOTE 13 – SUBSEQUENT EVENTS**

(a) During the period subsequent to June 30, 2021, the Company cancelled 600,000 stock options.

(b) On July 6, 2021, 1,300,000 shares were released from escrow.

(c) On July 14, 2021, the Company appointed Oliver Foeste as CFO in conjunction with the resignation of Stephen Brohman. On the same day, the Company also appointed Paul Morgan as a Director of the Company.

(d) On August 1, 2021, the Company refinanced the Third Mortgage and increased the facility to $3,500,000 which bears interest at the rate of 6.50% per annum, calculated monthly for one year. The mortgage matures on July 1, 2022 and is secured by the mortgage property and building improvements.

**NOTE 13 – SUBSEQUENT EVENTS (continued)**

(e) On August 24, 2021, the Company announced that the Phyto Extractions™ brands acquisition, previously announced on March 16, 2021, would be revised to a 100% interest on closing date and that the parties were working to finalize definitive terms and anticipate to sign a definitive share purchase agreement on or before September 15, 2021. The original agreement was for a 51% acquisition of Phyto Extractions™ brands (with a right of first refusal for the remaining 49% interest) for 38,400,000 common shares. Closing of the acquisition is subject to satisfactory due diligence and regulatory approval, as applicable.

(f) On August 27, 2021, the Company announced that it entered into a share purchase agreement dated August 10, 2021 (the "Share Purchase Agreement") pursuant to which the Company agreed to acquire, indirectly through its wholly-owned subsidiary Adastra Labs Inc., all the issued and outstanding shares of 1225140 B.C. Ltd., doing business as PerceiveMD ("PerceiveMD"), from the shareholders of PerceiveMD (the "Acquisition"), for a total purchase price of $2,300,000 comprising a $10,000 non-refundable deposit paid on execution of the Share Purchase Agreement; and $2,290,000 by way of the issuance of unrestricted common shares of the Company. Closing of the acquisition is subject to satisfactory due diligence and regulatory approval, as applicable.

(g) On August 27, 2021, the Company announced that it will change its name to Adastra Holdings Ltd. effective September 1, 2021