Form 51-102F4
Business Acquisition Report

Item 1 Identity of Company

1.1 Name and Address of Company

Adastra Holdings Ltd. ("**Adastra**" or the "**Company**")

5451 275 Street, Langley, BC, Canada V4W 3X8

1.2 Executive Officer

Michael Forbes, Chief Executive Officer and Chairman

778-715-5011

Item 2 Details of Acquisition

2.1 Nature of Business Acquired

On September 17, 2021, the Company acquired all of the issued and outstanding shares in the capital of 1204581 B.C. Ltd., doing business as Phyto Extractions ("**Phyto**"), from the shareholders thereof (each, a "**Vendor**"), pursuant to the terms of a share purchase agreement (the "**SPA**") dated September 15, 2021 (the "**Acquisition**").

Phyto is a well known brand in Canadian cannabis concentrates. Incorporated in 2019 in the Province of British Columbia, Phyto is engaged in the marketing and promotion of cannabis concentrate products in Canada under the *Cannabis Regulations* (Canada). Phyto licenses its intellectual property to Canadian cannabis license holders and collects royalties generated by selling cannabis consumer packaged goods to provincial distributors and retailers across the country.

For more information on the Acquisition, including a copy of the SPA, see the Company's news release dated September 20, 2021 filed under the Company's profile on SEDAR at www.sedar.com.

2.2 Acquisition Date

September 17, 2021.

2.3 Consideration

In consideration for the Acquisition, the Company issued 20,000,000 common shares (each, a "**Consideration Share**") to the Vendors, on a pro rata basis, at a deemed price of $0.96 per Consideration Share, for a total purchase price of $19,200,000. The Consideration Shares are subject to a voluntary restricted period of four months and one day from the closing date of the Acquisition.

2.4 Effect on Financial Position

Except as otherwise publicly disclosed and in the ordinary course of the Company's business, the Company does not currently have any plans or proposals for material changes in the business of Phyto acquired pursuant to the Acquisition which may have a significant impact on the financial performance and financial position of the Company.

2.5 Prior Valuations

To the knowledge of the Company, there has been no valuation opinion obtained in the last 12 months by the Company or Phyto required by securities legislation or a Canadian exchange or market to support the consideration paid by the Company for Phyto.

2.6 Parties to Transaction

The Acquisition was not with any "informed person", as defined in National Instrument 51-102 – *Continuous Disclosure Obligations* ("**NI 51-102**"), associate or affiliate of Phyto.

2.7 Date of Report

November 29, 2021

Item 3 Financial Statements and Other Information

Pursuant to Part 8 of NI 51-102, the following financial statements are attached hereto and form part of this Report:

Attached as Schedule A are the following financial statements of Phyto:

a) Audited annual financial statements of Phyto as at and for the year ended September 30, 2020 and for the period from incorporation on April 9, 2019 to September 30, 2019, together with the notes thereto and the auditors' report thereon; and

b) Unaudited interim financial statements of Phyto as at and for the nine months ended June 30, 2021 and 2020.

Forward-Looking Statements

This Report may contain certain "forward-looking statements" or "forward-looking information" under applicable securities laws. Forward-looking terms such as "may," "will," "could," "should," "would," "plan," "potential," "intend," "anticipate," "project," "target," "believe," "estimate" or "expect" and other words, terms and phrases of similar nature are often intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. Forward-looking statements are based on the opinions and estimates of management as of the date such statements are made and represent management's best judgment based on facts and assumptions that management considers reasonable. Any such forward-looking statements are subject to a number of risks and uncertainties that could cause actual results and expectations to differ materially from the anticipated results or expectations expressed in this Report. The Company cautions readers that should certain risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results the Company's most recent Management Discussion and Analysis and other documents on file with the Canadian securities regulatory authorities, which are available online under the Company's SEDAR profile at www.sedar.com. The forward-looking statements and information contained in this Report represent the Company's views only as of today's date. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether because of new information, future events or otherwise, other than as required by law, rule or regulation. You should not place undue reliance on forward-looking statements.

SCHEDULE A

PHYTO FINANCIAL STATEMENTS

[see attached]

1204581 B.C. Ltd.

Financial Statements

September 30, 2020 and for the period from incorporation on April 9, 2019 to September 30, 2019

(Expressed in Canadian Dollars)

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Directors of
1204581 B.C. Ltd.

Opinion on the Financial Statements

We have audited the accompanying statements of financial position of 1204581 B.C. Ltd. (the "Company"), as of September 30, 2020 and 2019, and the related statements of income (loss) and comprehensive income (loss), cash flows, and changes in shareholders' equity (deficiency) for the year ended September 30, 2020 and for the period from incorporation on April 9, 2019 to September 30, 2019, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of September 30, 2020 and 2019, and the results of its operations and its cash flows for the year ended September 30, 2020 and for the period from incorporation on April 9, 2019 to September 30, 2019 in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Going Concern

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, certain events and circumstances raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1, the financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatements of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

We have served as the Company's auditor since 2020.

/s/ DAVIDSON & COMPANY LLP

Vancouver, Canada

Chartered Professional Accountants

November 2, 2021

1204581 B.C. Ltd.
Statements of Financial Position
As at September 30, 2020 and September 30, 2019
(Expressed in Canadian Dollars)

	Note	**September 30, 2020 $**	September 30, 2019 $
Assets			
Current assets			
Cash		**26,100**	-
Receivables and prepayments	3,12	**127,062**	-
		153,162	-
Non-current assets			
Due from shareholder	6	**-**	1
Property and equipment	4	**5,250**	-
Intangible assets	5	**23,180**	9,762
Total assets		**181,592**	9,763
Liabilities and shareholders' equity (deficiency)			
Current liabilities			
Accounts payable and accrued liabilities		**35,171**	17,081
		35,171	17,081
Non-current liabilities			
Due to shareholders	7	**142,599**	-
Total liabilities		**177,770**	17,081
Shareholders' equity (deficiency)			
Share capital	6	**1**	1
Retained earnings (deficit)		**3,821**	(7,319)
Total shareholders' equity (deficiency)		**3,822**	(7,318)
Total liabilities and shareholders' equity (deficiency)		**181,592**	9,763

Nature of operations and going concern	1
Subsequent events	14

Approved on behalf of the Board of Directors on November 2, 2021:

"Michael Forbes" **Director** *"Donald Dinsmore"* **Director**

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

1204581 B.C. Ltd.
Statements of Income (Loss) and Comprehensive Income (Loss)
(Expressed in Canadian Dollars)

	Note	**September 30, 2020** **$**	For the period from incorporation on April 9, 2019 to September 30, 2019 $
Revenue			
Licensing revenue	12	**212,654**	-
Expenses			
Advertising		**104,482**	-
Amortization	5	**1,788**	514
Bank charges		**367**	-
Delivery and freight		**756**	-
Depreciation	4	**583**	-
Meals and entertainment		**10**	-
Office expense		**7,401**	-
Professional fees and consulting		**78,300**	6,805
Supplies		**7,447**	-
Travel		**380**	-
Loss from operating expenses		**(201,514)**	(7,319)
Income (loss) and comprehensive income (loss) for the period		**11,140**	(7,319)
Loss per share			
Weighted average number of common shares outstanding:			
Basic #		**1,000**	1,000
Diluted #		**1,000**	1,000
Basic gain (loss) per share		**11.14**	(7.32)
Diluted gain (loss) per share		**11.14**	(7.32)

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

1204581 B.C. Ltd.
Statements of Cash Flows
(Expressed in Canadian Dollars)

	September 30, 2020 $	For the period from incorporation on April 9, 2019 to September 30, 2019 $
Operating activities		
Income (loss) for the period	**11,140**	(7,319)
Adjustments for:		
Amortization	**1,788**	514
Depreciation	**583**	-
Non-cash working capital items:		
Receivables and prepayments	**(127,062)**	-
Due to shareholders	**91,599**	
Accounts payable and accrued liabilities	**18,090**	17,081
	(3,862)	10,276
Investing activities		
Purchases of property and equipment	**(5,833)**	-
Payments for intangible assets	**(15,206)**	(10,276)
	(21,039)	(10,276)
Financing activities		
Due to shareholders	**51,001**	(1)
Proceeds from share capital	**-**	1
	51,001	-
Increase in cash	**26,100**	-
Cash, beginning of period	**-**	-
Cash, end of period	**26,100**	-

Refer to note 9 for supplemental cash flow information.

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

1204581 B.C. Ltd.

Statements of Changes in Shareholders' Equity (Deficiency)

For the periods ended September 30, 2020 and September 30, 2019

(Expressed in Canadian Dollars)

	Common shares #	Share capital $	Retained earnings (deficit) $	Total Shareholders' equity (deficiency) $
Issuance of incorporation share	1,000	1	-	1
Loss and comprehensive loss for the period	-	-	(7,319)	(7,319)
September 30, 2019	1,000	1	(7,319)	(7,318)
October 1, 2019	1,000	1	(7,319)	(7,318)
Income and comprehensive income for the year	-	-	11,140	11,140
September 30, 2020	1,000	1	**3,821**	**3,822**

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

1. NATURE OF OPERATIONS AND GOING CONCERN

1204581 B.C. Ltd. (the "Company") was incorporated under the laws of the province of British Columbia on April 9, 2019. The Company's records office is located at 704 - 595 Howe Street, Vancouver, British Columbia V6C 2T5.

The Company has developed an intellectual property ("IP") portfolio, which includes several issued and pending trademarks (Note 5). The Company commercializes its intellectual property portfolio through IP licensing.

In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company's business or results of operations. There are travel restrictions and health and safety concerns that may delay the Company's operational objectives. Operations depend on safeguarding all personnel during the outbreak, which may be prohibitive in certain aspects.

These financial statements (the "financial statements") are prepared on the basis that the Company will continue as a going concern, which assumes that the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. 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.

As at September 30, 2020, the Company had working capital of $117,991 and has been generating positive cash flows. Although the Company has been successful in raising funds through shareholder loans 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. The continuance of operations is dependent on the Company's continued licensing revenue, generating profitable and cash flow positive commercial operations, and continuing to obtain financing on acceptable terms. These conditions may cast significant doubt about the Company's ability to continue as a going concern. Subsequent to year end the Company has been fully acquired by Adastra Labs Inc (Note 14).

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

These financial statements have been prepared 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").

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 in these financial statements are presented in Canadian dollars, which is the functional currency of the Company.

Revenue recognition

Revenue is comprised of intellectual property licensing.

<u>Licensing revenue:</u>

Licensing revenue is a royalty arrangement (Note 12) whereby the Company recognizes revenue from the licensing of its intellectual property for the sale of consumer packaged goods ("CPG") by a third party (the "Licencee"). The Company recognizes revenue as a percentage of the Licencee's gross revenue when the Licencee sells and delivers products to their customers.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

New accounting standards adopted during the year

New standard IFRS 16 - Leases

IFRS 16 - Leases ("IFRS 16") was issued by the IASB on January 13, 2016, replaced IAS 17, Leases. It was effective for annual periods beginning on or after January 1, 2019, with earlier application permitted. IFRS 16 eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, IFRS 16 requires a single, on-balance sheet accounting model that is similar to current finance lease accounting. Leases become an on-balance sheet liability that attract interest, together with a new asset.

The most significant effect of the new standard is the lessee's recognition of the initial present value of unavoidable future lease payments as right-of-use ("ROU") assets and lease liabilities on the statement of financial position, including those for most leases that would have formerly been accounted for as operating leases.

On adoption, the following practical expedients were permitted by IFRS 16, but were not applicable to the Company:

- Accounting for leases with a remaining term of less than twelve months as at October 1, 2019, as short-term leases; and
- Accounting for lease payments as an expense for leases of low-value assets.

The modified retrospective approach does not require restatement of prior period comparative financial information and is applied prospectively. The application of IFRS 16 requires the Company to make judgments that affect the valuation of the lease liabilities and the valuation of ROU assets. These include determining contracts that are within the scope of IFRS 16; determining the contract term; and determining the interest rate used for the discounting of future cash flows.

There were no reporting changes as a result of adopting the new interpretation.

New Interpretation IFRIC 23 - Uncertainty over Income Tax Treatments

On June 7, 2017, the IASB issued IFRIC Interpretation 23 - Uncertainty over Income Tax Treatments. The Interpretation provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The Interpretation is applicable for annual periods beginning on or after January 1, 2019. There were no reporting changes as a result of adopting the new Interpretation.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting judgments, estimates and assumptions

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at each reporting date and the reported amounts of income and expenses during each reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

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

Useful lives of property and equipment and intangible assets

The estimated useful lives of property and equipment and intangible assets are reviewed by management and adjusted if necessary. To estimate their useful life, management must use its past experience with the same or similar assets, review industry practices for similar pieces of equipment and/or apply statistical methods to assist in its determination of useful life.

Collectability of financial assets

The estimate of the collectability of financial assets is subject to estimation as to the credit-risk and likelihood of default by the counterparty. Refer to the disclosure under "Credit risk" within Note 8 for details.

Income taxes

Tax provisions are based on enacted or substantively enacted laws. Changes in those laws could affect amounts recognized in profit or loss both in the period of change, which would include any impact on cumulative provisions, and in future periods. Deferred tax assets (if any) are recognized only to the extent it is considered probable that those assets will be recoverable. This involves an assessment of when those deferred tax assets are likely to reverse and a judgment as to whether there will be sufficient taxable profits available to offset the tax assets when they do reverse. This requires assumptions regarding future profitability and is therefore inherently uncertain. To the extent assumptions regarding future profitability change, there can be an increase or decrease in the amounts recognized in respect of deferred tax assets as well as the amounts recognized in profit or loss in the period in which the change occurs.

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.

Commencement of depreciation and amortization of property and equipment and intangible assets

Judgment is used to determine the commencement date of depreciation/amortization of an item of property and equipment/intangible assets. The commencement date is when an item is available for use in the location and condition as intended by management.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment

Property and equipment is measured at cost less accumulated depreciation and impairment losses. The cost of an item of equipment consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use, and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, if applicable.
Depreciation is recognized using the following rates/terms, intended to depreciate the cost of equipment, less its residual values, if any, over its estimated useful lives:

Furniture and equipment	20% declining balance

Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably. Repairs and maintenance costs are charged to profit or loss during the period they are incurred. Any gain or loss on the disposal or retirement of equipment is recognized in profit or loss.

Intangible assets

Intangible assets with finite lives are measured at cost less accumulated amortization and impairment losses. These intangible assets 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.

The Company's intangible assets are comprised solely of trademarks which are amortized over a 10-year useful life.

Impairment of non-financial assets

The carrying amount of the Company's long-lived assets is reviewed for an indication of impairment at the end of each reporting period. If an indication of impairment exists, the Company makes an estimate of the asset's recoverable amount. Individual assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets (cash generating units "CGU"). The recoverable amount of an asset group is the higher of its fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are adjusted for the risks specific to the CGU and are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money.

Where the carrying amount of an asset group exceeds its recoverable amount, the CGU is considered impaired and is written down to its recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated to reduce the carrying amounts of the assets in the CGU on a pro rata basis.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Share capital

Common shares are classified as shareholders' equity. Transaction costs directly attributable to the issue of common shares are recognized as a deduction from shareholders' equity, as share issue costs. Common shares issued for consideration other than cash, are valued based on their fair value on the date the shares are issued if it is impracticable to estimate reliably the fair value of the goods or services received.

Loss per share

Basic loss per share is computed by dividing the net loss attributable to common shareholders by the weighted average number of common shares outstanding during the reporting period.

Diluted loss per share is computed similar to basic loss per share except that net loss attributable to common shareholders are adjusted for the dilutive effect of warrants and stock options. Under this method, the Company assumes that outstanding dilutive stock options and warrants were exercised and that the proceeds from such exercises (after adjustment of any unvested portion of stock options) were used to acquire common shares at the average market price during the reporting periods. For the periods presented, diluted loss per share equals basic loss per shares as the effect of all dilutive stock options and warrants would have been anti-dilutive.

Income taxes

Income tax comprises current and deferred income taxes. Current income tax and deferred income tax are recognized in profit or loss, except to the extent that they relate to items recognized directly in shareholders' equity.

Current income tax is the expected tax payable or receivable on the taxable profit or loss for the period, using tax rates enacted or substantively enacted at the reporting date, adjusted for any amendments to tax payable in respect of previous periods.

Deferred income tax is provided for, based on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

For the periods presented, the Company's financial instruments are classified within the following categories: fair value through profit or loss ("FVTPL"), financial assets at amortized cost, and other financial liabilities. The classification depends on the purpose for which the financial assets or liabilities were acquired. Management determines the classification of financial assets and liabilities at initial recognition. The Company accounts for non-derivative financial assets and liabilities as follows:

Recognition

The Company recognizes financial assets and financial liabilities on the date the Company becomes a party to the contractual provisions of the instruments.

Classification

The Company classifies its financial instruments based on the purpose for which they were acquired, in one of the following categories: FVTPL, amortized cost, FVOCI, and other financial liabilities. The fair value and classification of the Company's financial instruments are detailed in Note 8.

Impairment of financial assets

An 'expected credit loss' ("ECL") model applies to financial assets measured at amortized cost. The Company has certain financial assets that are subject to the ECL model (see, "Credit risk" within Note 8).

Financial assets, other than those classified at FVTPL, are assessed for indicators of impairment at each reporting date. Financial assets are impaired when there is objective evidence that one or more events have occurred after the initial recognition of the financial asset (a "loss event"), and that loss event has an impact on the estimated future cash flows of that asset. Objective evidence may include significant financial difficulty of the debtor/obligor and/or delinquency in payment. When impairment has occurred, the cumulative loss is recognized in profit or loss. For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. Impairment losses may be reversed in subsequent periods.

3. RECEIVABLES AND PREPAYMENTS

Receivables and prepayments comprise the following:

	September 30, 2020 **$**	September 30, 2019 $
Prepaid expenses	**9,000**	-
Trade receivables	**118,062**	-
	127,062	-

(Expressed in Canadian Dollars)

4. PROPERTY AND EQUIPMENT

	Furniture and equipment $	Total $
Cost		
September 30, 2019	-	-
Additions	5,833	5,833
September 30, 2020	**5,833**	**5,833**
Accumulated depreciation		
September 30, 2019	-	-
Depreciation	583	583
September 30, 2020	**583**	**583**
Net book value		
September 30, 2019	-	-
September 30, 2020	**5,250**	**5,250**

5. INTANGIBLE ASSETS

	Registered trademarks $	Total $
Cost		
April 9, 2019 (Incorporation)	-	-
Additions	10,276	10,276
September 30, 2019	10,276	10,276
Additions	15,206	15,206
September 30, 2020	**25,482**	**25,482**
Accumulated amortization		
April 9, 2019 (Incorporation)	**-**	**-**
Amortization	514	514
September 30, 2019	514	514
Amortization	1,788	1,788
September 30, 2020	**2,302**	**2,302**
Net book value		
September 30, 2019	9,762	9,762
September 30, 2020	**23,180**	**23,180**

Trademarks

During the year ended September 30, 2020, the Company has 16 registered trademarks with the Canadian Intellectual Property Office ("CIPO") and 6 trademark applications currently in process with CIPO. These trademarks have finite lives and are measured at cost less accumulated amortization and impairment losses. These intangible assets 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.

(Expressed in Canadian Dollars)

6. SHAREHOLDERS' EQUITY

The authorized share capital of the Company consists of unlimited common shares without par value. All issued shares are fully paid.

Issued and Outstanding

No transactions for the issue of share capital during the year ended September 30, 2020.

Transactions for the issue of share capital during the period ended September 30, 2019:

- On April 9, 2019, the Company issued 1,000 common share for $0.001 on incorporation.

Subsequent to year end, the Company completed a share split (Note 11). All information with respect to the number of common shares and issuance prices for the periods prior to the share split have been restated to reflect the share split.

7. RELATED PARTY TRANSACTIONS

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, significant shareholders and companies controlled by them.

Key management personnel compensation

There was no remuneration of key management for the year ended September 30, 2020 or for the period from incorporation on April 9, 2019 to September 30, 2019.

Related party balances

Related party balances as at September 30, 2020 and September 30, 2019 are as follows:

	September 30, 2020	September 30, 2019
	$	$
Due to shareholder	**142,599**	-

During the year ended September 30, 2020, the Company received shareholder advances. These advances are unsecured, non-interest bearing and due on demand.

8. FINANCIAL INSTRUMENTS

Fair value

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

Classification of financial instruments

Financial assets:	Initial Recognition:	Subsequent measurement:
Cash	Fair value	Amortized cost
Receivables	Fair value	Amortized cost

Financial liabilities:	Initial Recognition:	Subsequent measurement:
Accounts payable and accrued liabilities	Fair value	Amortized cost

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

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 year ended September 30, 2020, the Company's licensing revenue was generated from a single customer.

Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. As at September 30, 2020, credit risk for the Company arises from cash and trade receivables. The carrying amount of these financial assets represents the maximum credit exposure as at September 30, 2020.

Cash is held with a Canadian chartered bank and accordingly, the Company's exposure to credit risk on cash is considered insignificant. As at September 30, 2020, the Company's trade receivables were due from one customers. The Company's trade receivables are current, and management considers the credit risk to be low.

8. FINANCIAL INSTRUMENTS (continued)

Impairment of financial assets

The Company has the following financial assets that are subject to the expected credit loss model:

- Trade receivables.

While cash is also subject to the impairment requirements of IFRS 9, the risk is insignificant.

The Company applies the IFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for its trade receivables. The Company applies the general approach using practical expedients to loans receivable which involves recognition at each reporting date of a loss allowance based on a 12-month expected credit loss model without the requirement to re-assess whether any significant increases in credit risk have occurred at each reporting date.

To measure the expected credit losses, trade receivables are grouped by debtor, and each debtor's circumstances are reviewed. The expected loss amount, if any, is based on historical payment profiles, and the corresponding historical credit losses experienced within this period for the debtors.

As at September 30, 2020, the loss allowance was $nil for trade receivables. There has been no historical loss allowance recorded on these items.

Amounts are written-off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, failure of a debtor to engage in a repayment plan with the Company (if applicable), and failure by the debtor to make contractual payments for a period of greater than 120 days past due, or shorter if specific circumstances suggest otherwise.

Impairment losses are presented as loss provisions within profit or loss. Subsequent recoveries of amounts previously written-off are credited against the same line item.

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 revenue generation and shareholder loans in the past; however, there is no assurance that it will be able to do so in the future. As at September 30, 2020, the Company had working capital of $117,991 (2019 - working capital deficiency of $7,318), which is considered sufficient to fund future operations and obligations as they come due, and to allow the Company to meet business objectives for at least the next twelve months (note 1).

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 as follows:

Interest rate risk

The Company is not significantly 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.

9. SUPPLEMENTAL CASH FLOW INFORMATION

The Company did not incur any non-cash investing and financing activities during the year ended September 30, 2020 or during the period from incorporation on April 9, 2019 to September 30, 2019.

During the year ended September 30, 2020 or the period from incorporation on April 9, 2019 to September 30, 2019, no amounts were paid for interest or income tax expenses.

10. CAPITAL RISK MANAGEMENT

The Company defines capital as the components of shareholders' equity (deficiency). 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 can meet its financial obligations as they come due.

The Company manages its capital structure to maximize its financial flexibility adjusting 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 year ended September 30, 2020. The Company is not subject to externally imposed capital requirements.

11. SEGMENTED INFORMATION

The Company has a single reportable segment: the provision of intellectual property licensing to the cannabis industry in Canada. All the Company's revenues are generated in Canada, and its non-current assets are located in Canada.

12. LICENSING REVENUE

On March 12, 2020 (subsequently amended December 4, 2020), the Company entered into a Licence and Distribution Royalty Agreement (the "Royalty Agreement") with a private Ontario company (the "Licensee"). Pursuant to the Royalty Agreement, the Company granted the Licensee an exclusive Licence for the use of certain registered and pending trademarks (the "Registered trademarks") in exchange for a 50% royalty on the Licensee's gross profit from the sales of said cannabis products. The Royalty Agreement shall terminate upon the second anniversary of the Butane Hash Oil ("BHO") or Propane Hash Oil ("PHO") concentrate products (Shatter, Wax, Live resin, Crystals) becoming available in a Provincial retail outlet. The term shall automatically renew for an additional one-year term provided that the gross sales revenue is equal to or greater than $4,000,000 by the end of the initial term.

During the year ended September 30, 2020, the Company recognized licensing revenue of $212,654 (2019 - $nil) in connection with the Royalty Agreement and $118,062 (2019 - $nil) in trade receivables at year end. The trade receivables have been collected subsequent to year end.

(Expressed in Canadian Dollars)

13. INCOME TAXES

A reconciliation of income taxes at statutory rates with the reported taxes for the year ended September 30, 2020, and for the period from incorporation on April 9, 2019 to September 30, 2019, is as follows:

	September 30, 2020 **$**	For the period from incorporation on April 9, 2019 to September 30,2019 **$**
Income (loss) for the period	**11,140**	(7,319)
Expected income tax (recovery)	**3,000**	(2,000)
Change in tax resulting from:		
Permanent differences	**-**	(1,000)
Change in recognized deductible temporary differences and other	**(1,000)**	3,000
Adjustment to prior period provision versus statutory tax returns	**(2,000)**	-
Total income tax expense (recovery)	**-**	-

The Company's unused temporary differences, and unused tax losses that have not been included on the statements of financial position as at September 30, 2020, and September 30, 2019, are as follows:

	2020 **$**	**Expiry Date Range**	2019 **$**	Expiry Date Range
Equipment & intangible assets	**5,000**	**No expiry**	6,000	No expiry
Non-capital loss carry forwards	**7,000**	**2037 to 2040**	7,000	2037 to 2039

Tax attributes are subject to review, and potential adjustment, but tax authorities.

14. SUBSEQUENT EVENTS

On November 13, 2020, the Company issued 99 common shares valued at $0.001 per share for gross proceeds of $0.10.

On March 16, 2021 the Company underwent a share split at 1,000 to one, increasing the number of common shares from 100 to 100,000.

On September 15, 2021 all the issued and outstanding shares of the Company were acquired by Adastra Holdings Ltd, a British Columbia corporation. The consideration paid was 20,000,000 common shares in Adastra Holdings Ltd.

1204581 B.C. Ltd.

Condensed Interim Financial Statements

Nine months ended June 30, 2021 and 2020

(Expressed in Canadian Dollars - Unaudited)

Notice of Disclosure of Non-Auditor Review of the Condensed Interim Financial Statements for the Nine Months ended June 30, 2021 and 2020.

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

The accompanying unaudited condensed interim financial statements of 1204581 B.C. Ltd. (the "Company") for the interim period ended June 30, 2021 and 2020, have been prepared in accordance with the International Accounting Standard 34 - *Interim Financial Reporting* as issued by the International Accounting Standards Board, and are the responsibility of the Company's management.

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

November 26, 2021

1204581 B.C. Ltd.
Condensed Interim Statements of Financial Position
(Expressed in Canadian Dollars - Unaudited)

	Note	**June 30, 2021** **$**	September 30, 2020 $
Assets			
Current assets			
Cash		**31,204**	26,100
Receivables and prepayments	3,13	**676,046**	127,062
		707,250	153,162
Non-current assets			
Property and equipment	4	**90,561**	5,250
Intangible assets	5	**34,572**	23,180
Total assets		**832,383**	181,592
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable and accrued liabilities		**400,776**	35,171
Current portion of lease liability	6	**10,169**	-
		410,945	35,171
Non-current liabilities			
Due to shareholders	8	**108,753**	142,599
Lease liability	6	**26,944**	-
Total liabilities		**546,642**	177,770
Shareholders' equity			
Share capital	7	**1**	1
Retained earnings		**285,740**	3,821
Total shareholders' equity		**285,741**	3,822
Total liabilities and shareholders' equity		**832,383**	181,592

Nature of operations and going concern (Note 1)
Subsequent events (Note 14)

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

Michael Forbes — Director

Donald Dinsmore — Director

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

1204581 B.C. Ltd.
Condensed Interim Statements of Income (Loss) and Comprehensive Income (Loss)
(Expressed in Canadian Dollars, except number of shares - Unaudited)

		Nine months ended June 30,	
		2021	2020
	Note	**$**	$
Revenue			
Licensing revenue	13	**1,030,893**	39,537
Expenses			
Advertising and promotion		**279,020**	62,168
Professional fees and consulting		**224,862**	43,175
Office expenses		**175,691**	-
Travel		**19,291**	-
Depreciation	4	**12,770**	-
Rent		**7,544**	-
Automobile expense		**7,100**	-
Meals and entertainment		**6,987**	18
Insurance		**4,673**	-
Interest expense	6	**3,078**	-
Commission expense		**2,000**	-
Amortization	5	**2,924**	1,372
Bank charges		**371**	339
		746,311	107,072
Income (loss) from operations		**284,582**	(67,535)
Other expense			
Foreign exchange		**2,663**	-
Net income (loss) and comprehensive income (loss) for the period		**281,919**	(67,535)
Earnings (loss) per share – basic and diluted		**3.35**	(67.54)
Weighted average number of common shares outstanding – basic and diluted		**84,044**	1,000

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

1204581 B.C. Ltd.
Condensed Interim Statements of Cash Flows
(Expressed in Canadian Dollars - Unaudited)

	Nine months ended June 30, 2021 $	2020 $
Operating activities		
Income (loss) for the period	**281,919**	(67,535)
Items not affecting cash:		
Depreciation	**12,770**	-
Amortization	**2,924**	1,372
Interest expense	**3,078**	-
Change in non-cash working capital items:		
Receivables and prepayments	**(548,984)**	(1,277)
Accounts payable and accrued liabilities	**365,605**	(7,090)
Cash provided by (used in) operating activities	**117,312**	(74,530)
Investing activities		
Purchases of intangible assets	**(14,316)**	(8,020)
Purchases of property and equipment	**(44,246)**	-
Cash used in investing activities	**(58,562)**	(8,020)
Financing activities		
Advances to (from) shareholders	**(33,846)**	89,506
Payment of interest on lease liability	**(3,078)**	-
Payment of principal on lease liability	**(16,722)**	-
Cash (used in) provided by financing activities	**(53,646)**	89,506
Change in cash	**5,104**	6,956
Cash, beginning of period	**26,100**	-
Cash, end of period	**31,204**	6,956

Refer to Note 10 for supplemental cash flow information.

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

1204581 B.C. Ltd.
Condensed Interim Statements of Changes in Shareholders' Equity
For the nine months ended June 2021 and 2020
(Expressed in Canadian Dollars, except number of shares - Unaudited)

	Common shares #	Share capital $	Retained earnings (deficit) $	Total Shareholders' equity (deficiency) $
Balance, September 30, 2019	**1,000**	**1**	**(7,319)**	**(7,318)**
Net loss for the period	-	-	(67,535)	(67,535)
Balance, June 30, 2020	**1,000**	**1**	**(74,854)**	**(74,853)**
Net income for the period	-	-	78,675	78,675
Balance, September 30, 2020	**1,000**	**1**	**3,821**	**3,822**
Shares issued for private placement	99,000	-	-	-
Net income for the period	-	-	281,919	281,919
Balance, June 30, 2021	**100,000**	**1**	**285,740**	**285,741**

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

1. NATURE OF OPERATIONS AND GOING CONCERN

1204581 B.C. Ltd. (the "Company") was incorporated under the laws of the province of British Columbia on April 9, 2019. The Company's records office is located at 704 - 595 Howe Street, Vancouver, British Columbia V6C 2T5.

The Company has developed an intellectual property ("IP") portfolio, which includes several issued trademarks (Note 5). The Company commercializes its intellectual property portfolio through IP licensing.

In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company's business or results of operations. There are travel restrictions and health and safety concerns that may delay the Company's operational objectives. Operations depend on safeguarding all personnel during the outbreak, which may be prohibitive in certain aspects.

These condensed interim financial statements (the "financial statements") are prepared on the basis that the Company will continue as a going concern, which assumes that the Company will be able to continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. 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.

As at June 30, 2021, the Company had working capital of $296,305 (September 30, 2020 - $117,991) and has been generating positive cash flows from operations. Although the Company has been successful in raising funds through shareholder loans 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. The continuance of operations is dependent on the Company's continued licensing revenue, generating profitable and cash flow positive commercial operations, and continuing to obtain financing on acceptable terms. These conditions may cast significant doubt about the Company's ability to continue as a going concern.

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied in the preparation of these financial statements are consistent with those applied and disclosed in note 2 to the annual audited financial statements for the year ended September 30, 2020. It is suggested that these financial statements be read in conjunction with the annual audited financial statements.

Basis of presentation

These financial statements have been prepared 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").

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 in these financial statements are presented in Canadian dollars, which is the functional currency of the Company.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant accounting judgments, estimates and assumptions

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at each reporting date and the reported amounts of income and expenses during each reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

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

Useful lives of property and equipment and intangible assets

The estimated useful lives of property and equipment and intangible assets are reviewed by management and adjusted if necessary. To estimate their useful life, management must use its past experience with the same or similar assets, review industry practices for similar pieces of equipment and/or apply statistical methods to assist in its determination of useful life.

Collectability of financial assets

The estimate of the collectability of financial assets is subject to estimation as to the credit-risk and likelihood of default by the counterparty. Refer to the disclosure under "Credit risk" within Note 9 for details.

Income taxes

Tax provisions are based on enacted or substantively enacted laws. Changes in those laws could affect amounts recognized in profit or loss both in the period of change, which would include any impact on cumulative provisions, and in future periods. Deferred tax assets (if any) are recognized only to the extent it is considered probable that those assets will be recoverable. This involves an assessment of when those deferred tax assets are likely to reverse and a judgment as to whether there will be sufficient taxable profits available to offset the tax assets when they do reverse. This requires assumptions regarding future profitability and is therefore inherently uncertain. To the extent assumptions regarding future profitability change, there can be an increase or decrease in the amounts recognized in respect of deferred tax assets as well as the amounts recognized in profit or loss in the period in which the change occurs.

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.

Commencement of depreciation and amortization of property and equipment and intangible assets

Judgment is used to determine the commencement date of depreciation/amortization of an item of property and equipment or intangible assets. The commencement date is when an item is available for use in the location and condition as intended by management.

(Expressed in Canadian Dollars - Unaudited)

3. RECEIVABLES AND PREPAYMENTS

Receivables and prepayments comprise the following:

	June 30, 2021	September 30, 2020
	$	$
Trade receivables	**663,046**	118,062
Prepaid expenses	**13,000**	9,000
	676,046	127,062

4. PROPERTY AND EQUIPMENT

	Furniture and equipment $	**Vehicles $**	**Total $**
Cost			
September 30, 2019	-	-	-
Additions	5,833	-	5,833
September 30, 2020	5,833	-	5,833
Additions	44,246	53,835	98,081
June 30, 2021	**50,079**	**53,835**	**103,914**
Accumulated depreciation			
September 30, 2019	-	-	-
Depreciation	583	-	583
September 30, 2020	583	-	583
Depreciation	2,676	10,094	12,770
June 30, 2021	**3,259**	**10,094**	**13,353**
Net carrying value			
September 30, 2020	5,250	-	5,250
June 30, 2021	**46,820**	**43,741**	**90,561**

The right of use asset associated with the lease liability (Note 6) is included above within vehicles.

(Expressed in Canadian Dollars - Unaudited)

5. INTANGIBLE ASSETS

	Registered trademarks $	Total $
Cost		
September 30, 2019	10,276	10,276
Additions	15,206	15,206
September 30, 2020	25,482	25,482
Additions	14,316	14,316
June 30, 2021	**39,798**	**39,798**
Accumulated amortization		
September 30, 2019	514	514
Amortization	1,788	1,788
September 30, 2020	2,302	2,302
Amortization	2,924	2,924
June 30, 2021	**5,226**	**5,226**
Net carrying value		
September 30, 2020	23,180	23,180
June 30, 2021	**34,572**	**34,572**

Trademarks

As at June 30, 2021, the Company has 21 registered trademarks with the Canadian Intellectual Property Office ("CIPO"). These trademarks have finite lives and are measured at cost less accumulated amortization and impairment losses. These intangible assets 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.

6. LEASE LIABILITY

On October 15, 2020, the Company entered into a four-year lease agreement for a promotional vehicle. The base monthly payment is $1,118.55 with an initial payment of $9,732.26. The incremental borrowing rate used to determine discount the lease liability was 10%.

	June 30, 2021 **$**	September 30, 2020 $
Opening balance	**-**	-
Additions	**53,835**	-
Repayments	**(19,800)**	-
Finance costs	**3,078**	-
Ending balance	**37,113**	-
Less: current portion	**(10,169)**	**-**
Long-term portion	**26,944**	-

(Expressed in Canadian Dollars - Unaudited)

7. SHAREHOLDERS' EQUITY

The authorized share capital of the Company consists of unlimited common shares without par value. All issued shares are fully paid.

Issued and Outstanding

Nine months ended June 30, 2021

On November 13, 2020, the Company issued 99 common shares valued at $0.001 per share for gross proceeds of $0.10.

On March 16, 2021 the Company underwent a share split at 1,000 to one, increasing the number of common shares from 100 to 100,000. All information with respect to the number of common shares and issuance prices for the periods prior to the share split have been restated to reflect the share split.

Year end September 30, 2020

No transactions for the issue of share capital during the year ended September 30, 2020.

8. RELATED PARTY TRANSACTIONS

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, significant shareholders and companies controlled by them.

Key management personnel compensation

There was no remuneration of key management for the nine months ended June 30, 2021 or June 30, 2020.

Related party balances

Related party balances as at June 30, 2021 and September 30, 2020 are as follows:

	June 30, 2021 **$**	September 30, 2020 $
Due to shareholder	**108,753**	142,599

During the nine months ended June 30, 2021, the Company received shareholder advances. These advances are unsecured, non-interest bearing and due on demand.

9. FINANCIAL INSTRUMENTS

Financial instrument - fair value

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 - Quoted prices (unadjusted) 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 for the asset or liability that are not based on observable market data (unobservable inputs).

(Expressed in Canadian Dollars - Unaudited)

9. FINANCIAL INSTRUMENTS (continued)

Classification of financial instruments

Financial assets	Initial Recognition	Subsequent measurement
Cash	Fair value	Amortized cost
Receivables	Fair value	Amortized cost

Financial liabilities	Initial Recognition:	Subsequent measurement
Accounts payable and accrued liabilities	Fair value	Amortized cost
Lease liability	Fair value	Amortized cost

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

Impairment of financial assets

The Company has trade receivables that are subject to the expected credit loss model.

While cash is also subject to the impairment requirements of IFRS 9, the risk is insignificant.

The Company applies the IFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for its trade receivables. The Company applies the general approach using practical expedients to loans receivable which involves recognition at each reporting date of a loss allowance based on a 12-month expected credit loss model without the requirement to re-assess whether any significant increases in credit risk have occurred at each reporting date.

To measure the expected credit losses, trade receivables are grouped by debtor, and each debtor's circumstances are reviewed. The expected loss amount, if any, is based on historical payment profiles, and the corresponding historical credit losses experienced within this period for the debtors.

Amounts are written-off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, failure of a debtor to engage in a repayment plan with the Company (if applicable), and failure by the debtor to make contractual payments for a period of greater than 120 days past due, or shorter if specific circumstances suggest otherwise.

As at June 30, 2021, the loss allowance was $nil for trade receivables. There has been no historical loss allowance recorded on these items.

Impairment losses are presented as loss provisions within profit or loss. Subsequent recoveries of amounts previously written-off are credited against the same line item.

<u>Financial instruments - risk</u>

Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. As at June 30, 2021, credit risk for the Company arises from cash and trade receivables. The carrying amount of these financial assets represents the maximum credit exposure as at June 30, 2021.

Cash is held with a Canadian chartered bank and accordingly, the Company's exposure to credit risk on cash is considered insignificant. As at June 30, 2021, the Company's trade receivables were due from one customer. The Company's trade receivables are current, and management considers the credit risk to be low.

9. FINANCIAL INSTRUMENTS (continued)

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 revenue generation and shareholder loans in the past; however, there is no assurance that it will be able to do so in the future.

As at June 30, 2021, the Company had a cash balance of $31,204 (September 30, 2020 - $26,100) to settle accounts payable and accrued liabilities and the current portion of the lease payable totalling of $410,945 (September 30, 2020 - $35,171).

Interest rate risk

The Company is not significantly 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.

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 nine months ended June 30, 2021, the Company's licensing revenue was generated from a single customer.

10. SUPPLEMENTAL CASH FLOW INFORMATION

The Company did not incur any non-cash investing and financing activities during the nine months ended June 30, 2021 and 2020.

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

11. 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 can meet its financial obligations as they come due.

The Company manages its capital structure to maximize its financial flexibility, adjusting 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 nine months ended June 30, 2021. The Company is not subject to externally imposed capital requirements.

12. SEGMENTED INFORMATION

The Company has a single reportable segment: the provision of intellectual property licensing to the cannabis industry in Canada. All the Company's revenues are generated in Canada, and its non-current assets are located in Canada.

13. LICENSING REVENUE

On March 12, 2020 (subsequently amended December 4, 2020), the Company entered into a Licence and Distribution Royalty Agreement (the "Royalty Agreement") with a private Ontario company (the "Licensee"). Pursuant to the Royalty Agreement, the Company granted the Licensee an exclusive Licence for the use of certain registered and pending trademarks (the "Registered trademarks") in exchange for a 50% royalty on the Licensee's gross profit from the sales of said cannabis products. The Royalty Agreement shall terminate upon the second anniversary of the Butane Hash Oil ("BHO") or Propane Hash Oil ("PHO") concentrate products (Shatter, Wax, Live resin, Crystals) becoming available in a Provincial retail outlet. The term shall automatically renew for an additional one-year term provided that the gross sales revenue is equal to or greater than $4,000,000 by the end of the initial term.

During the nine months ended June 30, 2021, the Company recognized $1,030,893 (2020 - $39,537) of licensing revenue in connection with the Royalty Agreement and as at June 30, 2021, there was $663,046 (September 30, 2020 - $118,062) in trade receivables.

14. SUBSEQUENT EVENTS

On September 15, 2021, all the issued and outstanding shares of the Company were acquired by Adastra Labs Inc., whereby the shareholders of the Company received consideration comprising 20,000,000 common shares of Adastra Holdings Ltd., the parent company of Adastra Labs Inc.