HERBAL DISPATCH INC.

Condensed Interim Consolidated Financial Statements

Three Months Ended March 31, 2024
(Expressed in Canadian dollars)

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

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

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 unaudited condensed interim consolidated financial statements have been prepared using accounting policies in compliance with International Financial Reporting Standards for the preparation of unaudited interim consolidated financial statements and are in accordance with International Accounting Standard 34 - Interim Financial Reporting.

The Company's independent auditor has not performed a review of these unaudited condensed interim consolidated financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity’s auditor.

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Herbal Dispatch Inc.

Condensed Interim Consolidated Statements of Financial Position

(unaudited)

(expressed in Canadian dollars)

	March 31 2024	December 31 2023
Assets		
Current assets:		
Cash	$ 213,668	$ 222,392
Trade and other receivables	304,454	704,318
Prepaid expenses and deposits	161,664	139,131
Inventory	1,699,458	1,242,439
Total current assets	2,379,244	2,308,280
Long-term assets		
Property, plant & equipment	54,692	58,533
Intangible assets	3,039,466	3,102,828
Right of use asset *(Note 3)*	483,915	515,474
Loan receivable (*Note 12*)	453,357	453,357
Goodwill	1,748,458	1,748,458
Total assets	**$ 8,159,132**	**$ 8,186,930**
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable and accrued liabilities	$ 2,879,604	$ 2,197,075
Deferred revenue	82,695	90,900
Income taxes payable	39,394	38,598
Current portion of right of use lease *(Note 3)*	110,959	107,114
Loans payable *(Note 4)*	1,134,589	140,000
Total current liabilities	4,247,241	2,573,687
Long-term liabilities		
Right of use lease *(Note 3)*	408,960	438,357
Loans payable *(Note 4)*	60,000	933,645
Total liabilities	4,716,201	3,945,689
Shareholders' equity		
Share capital *(Note 5)*	76,760,128	76,760,128
Contributed surplus	3,635,443	3,635,443
Accumulated other comprehensive loss	(821,110)	(820,310)
Deficit	(76,131,530)	(75,334,020)
Total shareholders' equity	3,442,931	4,241,241
Total liabilities and shareholders' equity	**$ 8,159,132**	**$ 8,186,930**

Herbal Dispatch Inc.

Condensed Interim Consolidated Statements of Operations

(unaudited)

(expressed in Canadian dollars)

	For the three months ended	
	March 31 2024	**March 31 2023**
Revenue:		
Sales	$ 1,637,610	$ 383,101
Excise duties	(366,427)	(87,873)
Net Revenue	1,271,183	295,318
Cost of sales	1,157,243	266,128
Gross profit	113,940	29,190
Expenses:		
General and administration *(Note 10)*	544,081	459,931
Selling and marketing *(Note 10)*	198,377	143,104
Depreciation & amortization	100,533	89,273
	842,991	692,308
Loss from operations	(729,051)	(663,118)
Other expenses (income)		
Interest and other	48,091	14,338
Loss on settlement of debt	20,000	-
(Gain) loss on foreign exchange	(575)	1,733
Accretion expense	943	6,578
	68,459	22,649
Net loss	(797,510)	(685,767)
Other comprehensive loss		
Currency translation adjustment	(800)	(659)
Comprehensive loss	$ (798,310)	$ (686,426)
Basic and diluted loss per share	$ (0.01)	$ (0.01)
Weighted average number of common shares outstanding	73,627,699	61,354,773

Herbal Dispatch Inc.

Consolidated Statements of Shareholders' Equity

(unaudited)

(expressed in Canadian Dollars)

	Common Shares		Contributed Surplus	Accumulated other comprehensive loss	Deficit	Shareholder's Equity
	Number	$	$	$	$	$
Balance, December 31, 2022	**73,354,562**	**76,744,245**	**3,614,977**	**(819,430)**	**(73,262,710)**	**6,277,082**
Shares issued - acquisitions	273,137	15,883	-	-	-	15,883
Issuance of convertible debenture	-	-	20,466	-	-	20,466
Currency translation adjustment	-	-	-	(880)	-	(880)
Net loss for the period	-	-	-	-	(2,071,310)	(2,071,310)
Balance, December 31, 2023	**73,627,699**	**76,760,128**	**3,635,443**	**(820,310)**	**(75,334,020)**	**4,241,241**
Currency translation adjustment	-	-	-	(800)	-	(800)
Net loss for the period	-	-	-	-	(797,510)	(797,510)
Balance, March 31, 2024	**73,627,699**	**76,760,128**	**3,635,443**	**(821,110)**	**(76,131,530)**	**3,442,931**

Herbal Dispatch Inc.

Condensed Interim Consolidated Statements of Cash Flows

(unaudited)

(expressed in Canadian Dollars)

	For the three months ended	
	March 31 2024	**March 31 2023**
Cash provided by (used for):		
Operating activities:		
Net loss for the period	$ (797,510)	$ (685,767)
Items not affecting cash:		
Depreciation & amortization	100,533	89,273
Loss on settlement of debt	20,000	-
(Gain) loss on foreign exchange	(575)	1,733
Accretion expense	943	6,578
Changes in non-cash working capital balances:		
Trade and other receivables	399,864	101,670
Prepaid expenses and deposits	(22,534)	(38,079)
Inventory	(457,019)	(187,864)
Accounts payable and accrued liabilities	682,529	146,341
Deferred revenue	(8,205)	-
Cash used in operating activities	(81,974)	(566,115)
Investing activities:		
Purchase of property, plant and equipment	(1,771)	(2,830)
Cash used in investing activities	(1,771)	(2,830)
Financing activities:		
Advances of loans payable	100,000	-
Repayment of acquisition consideration payable	-	(19,920)
Repayment of right of use lease liability	(25,552)	(15,083)
Cash provided by (used in) financing activities	74,448	(35,003)
Decrease in cash	(9,297)	(603,948)
Effect of exchange rate changes on cash	573	(1,087)
Cash, beginning of period	222,392	1,203,594
Cash, end of period	**$ 213,668**	**$ 598,559**

Note 1 – Nature of Operations and Going Concern

Herbal Dispatch Inc. (formerly Luff Enterprises Ltd.) ("Herbal Dispatch" or the "Company") owns and operates leading cannabis e-commerce platforms and is dedicated to providing top quality cannabis to informed consumers at affordable pricing. The Company's flagship cannabis marketplace, Herbal Dispatch, is a trusted source for exclusive access to small-batch craft cannabis flower and a wide-array of other product formats.

The Company was incorporated under the Business Corporations Act (British Columbia) on May 30, 2013 under the name Ascent Industries Corp. ("Ascent"). On May 15, 2020 the Company changed its name to Luff Enterprises Ltd. and on January 20, 2023, the Company changed its name to Herbal Dispatch Inc. The Company's head office and principal address is located at Suite 1750 – 1055 West Georgia Street, Vancouver, BC V6E 3P3.

The common shares of the Company trade on the Canadian Securities Exchange (the "Exchange") under the trading symbol "***HERB***"***.***

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") on a going concern basis which assumes that the Company will continue to operate for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. In the three months ended March 31, 2024, the Company incurred a net loss of $797,510 ($685,767 for the three months ended March 31, 2023). The continuation of the Company as a going concern will be dependent on the ability of the Company to achieve positive cash flow from operations and/or obtain necessary equity or other financing. The ability of the Company to be successful in obtaining additional future financing cannot be predicted at this present time.

These consolidated financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern.

Note 2 – Basis of Preparation

a) Statement of compliance and basis of presentation

These unaudited condensed interim consolidated financial statements for the three months ended March 31, 2024, have been prepared in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB"). The unaudited condensed interim consolidated financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the annual financial statements for the year ended December 31, 2023, which have been prepared in accordance with IFRS.

The condensed interim consolidated financial statements were authorized for issue by the Board of Directors on May 27, 2024.

These unaudited condensed interim consolidated financial statements follow the same accounting policies and methods of application as the consolidated financial statements as at and for the year ended December 31, 2023. These consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency.

(Expressed in Canadian Dollars)

b) Basis of consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. The Company's current active subsidiaries include Rosebud Productions Inc. and Coco Pure Beverage Corp. All inter-company balances and transactions have been eliminated on consolidation.

Note 3 - Obligations Under Right-of-Use Lease

During the year ended December 31, 2023, the company entered into a five-year lease agreement for a property, which resulted in a right of use asset and liability of $631,193 being recognized. The Company recognizes its obligations under the right of use lease at the present value of future lease payments due. The obligations under the right of use lease at March 31, 2024 incurs interest at an annual rate of 8.7% per annum and is repayable in current monthly blended principal and interest payments of $12,572, and maturing in January 2028. The lease liability corresponds with a right of use asset with a net book value of $483,915 at March 31, 2024 (December 31, 2023 - $515,474).

Future minimum lease payments required over the five years for the obligations under the right of use lease were as follows:

	March 31 2023 $	December 31 2023 $
Within one year	**151,873**	150,385
Thereafter	**463,893**	502,616
Total minimum lease payments	**615,766**	653,001
Less: amount representing interest	**(95,847)**	(107,530)
Present value of minimum lease payments	**519,919**	545,471
Less: current portion	**(110,959)**	(107,114)
	408,960	438,357

(Expressed in Canadian Dollars)

Note 4 – Loans Payable

	March 31 2023 $	December 31 2022 $
Debenture A	**434,589**	433,645
Debenture C	**500,000**	500,000
Other loans	**200,000**	100,000
CEBA loan	**60,000**	40,000
	1,194,589	1,073,645
Less: current portion	**(1,134,589)**	(140,000)
	60,000	933,645

Debenture A

The Company has an outstanding unsecured convertible debenture in the principal amount of $438,000 (the “Debenture A”) owing to a company controlled by a director and shareholder of the Company. The Debenture A has a coupon rate of 14% per annum, payable monthly, and matures on January 31, 2025. The Debenture A is convertible, at the holder’s option into common shares of the Company at $0.50 per share, and at the Company’s election, during any period where the trading price of the Company’s common shares is $1.00 or greater for a period of 20 consecutive trading days.

The Debenture A was discounted to its net present value using a yield rate of 15%. The debt discount balance of $20,466 is being amortized over the term of the note using the effective interest rate.

Debenture C

The company has an outstanding unsecured convertible debenture (the “Debenture C”) with a principal amount of $500,000 owing to a director and shareholder of the Company. The Debenture C has an annual coupon rate of 14% per annum, payable monthly, and matures on January 31, 2025. The Debenture C is convertible, at the holder’s option into common shares of the Company at $0.50 per share, and at the Company’s election, during any period where the trading price of the Company’s common shares is $1.00 or greater for a period of 20 consecutive trading days.

Other loans

In October 2023, the Company received a short-term loan in the amount of $100,000 from a director and shareholder of the Company to support its working capital needs. The loan bears interest at an annual rate of 14% per annum, payable monthly, and matures on the earlier of (i) October 31, 2024; and (ii) within 30 days of a redemption notice being issued to the Company by the holder. In May 2024, the loan was extinguished with the proceeds used to subscribe for Units under the Company’s May 2024 equity private placement.

(Expressed in Canadian Dollars)

In March 2024, the Company received $100,000 from the President & CEO of the Company. This advance was non-interest bearing and had no terms of repayment and was used to subscribe for Units under the Company's May 2024 equity private placement.

CEBA loan

In conjunction with a business acquisition, the Company assumed a loan received from the Canada Emergency Business Account ("CEBA"). The CEBA loan bears interest at 5.0% per annum beginning January 18, 2024. The Company had originally recorded the CEBA loan at $40,000, representing its original issue amount of $60,000 less the expected loan forgiveness amount of $20,000. However, in March 2024, the Company decided not to repay the loan by the March 28, 2024 deadline, thereby extending the maturity date until December 31, 2026. As the Company no longer qualifies for partial loan forgiveness, a loss on settlement of debt in the amount of $20,000 was recognized during the three months ended March 31, 2024.

Note 5 – Share Capital

Authorized – Unlimited common shares with no par value	Number of shares	Amount $
Issued and outstanding at December 31, 2023	73,627,699	76,760,128
Activity during the three months ended March 31, 2024	-	-
Issued and outstanding at March 31, 2024	**73,627,699**	**76,760,128**

Share consolidation

On February 23, 2024, the Company consolidated the common shares issued in the capital of the Company on the basis of 10 pre-consolidated common shares for 1 post-consolidated common share. As a result, the number of shares outstanding have been adjusted and restated for all periods presented to reflect the effect of the share consolidation.

The Company's outstanding warrants, options, and other convertible securities have also been adjusted on the same basis with respect to the underlying common shares exercisable pursuant to the warrants, options, and other convertible securities, with proportionate adjustments being made to applicable exercise or conversion prices, as applicable.

Note 6 – Share Purchase Warrants

	Amount	Weighted Average Exercise Price per Share $
Balance as at December 31, 2023	2,765,600	0.50
Warrants issued	-	-
Balance as at March 31, 2024	**2,765,600**	**0.50**

(Expressed in Canadian Dollars)

The following table summarizes the warrants that were outstanding as at March 31, 2024:

Exercise Price	Number of Warrants	Expiry Date
$0.50	2,765,000	October 26, 2024

Note 7 – Share-Based Compensation

The Company has adopted a stock option plan and a restricted share unit ("RSU") plan for the benefit of its directors, officers, employees and other key personnel. The stock option plan provides that the option terms and price shall be fixed by the directors subject to the price restrictions and other requirements of the Exchange. Common shares reserved for issuance pursuant to the RSU plan and the stock option plan, on a combined basis, shall not exceed 10% of the Company's issued and outstanding common shares, from time to time.

Stock options

The Company recorded the following activity related to stock options during the three months ended March 31, 2024:

	Amount	Exercise Price per Share $
Balance, December 31, 2023	40,000	0.20
Stock options activity	-	-
Balance, March 31, 2024	**40,000**	**0.20**

The outstanding 40,000 stock options expire on July 28, 2025 and were fully vested at March 31, 2024.

Note 8 – Segmented Information

The Company generates revenue in one reportable segment: cannabis and cannabis related products. All of the Company's business activities, property and equipment, intangible assets and goodwill are located in Canada. Disaggregated revenue information by sales channel is disclosed as follows:

Three months ended	March 31 2024 $	March 31 2023 $
Net revenue		
Direct to consumer medical sales	**369,764**	178,479
Recreational cannabis sales	**782,546**	112,054
Other revenue	**118,873**	4,785
Total net revenue	**1,271,183**	295,318

There were no export sales during the three months ended March 31, 2024 or 2023.

(Expressed in Canadian Dollars)

Note 9 – Related Party Transactions

Balances and transactions between the Company and its wholly owned and controlled subsidiaries have been eliminated on consolidation and are not disclosed in this note. Details of the transactions between the Company and other related parties are disclosed below:

Three months ended	**March 31 2024 $**	March 31 2023 $
Salaries, benefits and management fees	**67,620**	78,070
Directors' fees	**30,000**	30,000
Total compensation to key management	**97,620**	108,070

The amounts disclosed in the table are the amounts recognized as an expense related to key management personnel and directors during the respective reporting periods.

During the three months ended March 31, 2024, the Company incurred interest expense of $36,331 (three months ended March 31, 2023 - $6,568), related to convertible debentures owing to directors and shareholders of the Company.

Note 10 – Operating Expenses

Three months ended	**March 31 2024 $**	March 31 2023 $
General and Administrative	**544,081**	459,931
Personnel	**338,240**	266,218
Professional fees	**130,280**	134,899
Other operating expenses	**75,561**	58,814
Sales and Marketing	**198,377**	143,104
Advertising, promotions and selling costs	**131,627**	100,604
Personnel	**66,750**	42,500

(Expressed in Canadian Dollars)

Note 11 – Capital Management

The Company's objectives when managing capital are to ensure that there are adequate capital resources to safeguard the Company's ability to continue as a going concern and to maintain adequate levels of funding to support its ongoing operations and development. The Company's capital consists of items included in shareholders' equity and debt, which was as follows:

	March 31 2024 $	December 31 2023 $
Current portion of loans payable	**60,000**	140,000
Loans payable	**1,134,589**	933,645
Funded debt	**1,194,589**	1,073,645
Shareholders' equity	**3,442,931**	4,241,241
Total capital	**4,637,520**	5,314,886

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the Company's underlying assets. In order to maintain or adjust its capital structure, the Company may issue new shares or seek additional debt financing to ensure that it has sufficient working capital to meet its short-term business requirements.

Note 12 – Financial Instruments

The financial instruments recognized on the consolidated statement of financial position are comprised of cash, trade and other receivables, loan receivable, accounts payable and accrued liabilities, right of use lease liabilities and loans payable.

Fair value

The carrying values of cash, trade and other receivables, accounts payable and accrued liabilities, approximate their fair values due to the short-term nature of these instruments.

In evaluating fair value information, considerable judgment is required to interpret the market data used to develop the estimates. The use of different market assumptions and different valuation techniques may have a material effect on the estimated fair value amounts. Accordingly, the estimates of fair value presented herein may not be indicative of the amounts that could be realized in a current market exchange.

(Expressed in Canadian Dollars)

Fair value measurements of loan receivable and loans payable are as follows:

		Fair Value Measurements		
	Carrying Amount	**Level 1**	**Level 2**	**Level 3**
	$	**$**	**$**	**$**
March 31, 2024				
Loan receivable	453,357	-	-	453,357
Loans payable	1,194,589	-	1,194,589	-
December 31, 2023				
Loan receivable	453,357	-	-	453,357
Loans payable	1,073,645	-	1,073,645	-

Level 1 – unadjusted quoted prices in active markets for identical assets or liabilities. An active market for an asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

> As at March 31, 2024 and December 31, 2023, the Company measured its loans payable at Level 2 fair value as there is no active market for these items.

Level 3 – unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

> The loan receivable in Enhanced Pet Sciences Corp. ("EPS") is measured at fair value, but as the investment is privately held and there is no quoted market price for its common shares, fair value was estimated using Level 3 inputs.

There were no transfers between levels 1, 2 and 3 inputs during the three months ended March 31, 2024.

Risk Management

The Company is exposed to risks of varying degrees of significance from its use of financial instruments which could affect its ability to achieve its strategic objectives for growth and stakeholder returns. The principal risks to which the Company is exposed, and the actions taken to manage them, are described below.

Credit Risk

Credit risk is the risk of a potential loss to the Company if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's exposure to credit risk from its cash is very limited as it holds its cash with highly rated financial institutions.

The Company has moderate exposure to credit risk related to its trade and other receivables. The risk exposure is limited to its carrying amount at the balance sheet date. The Company provides credit to its business customers in the normal course and has established credit evaluation and monitoring processes to mitigate this credit risk. The Company's exposure to credit risk related to direct-to-consumer sales is limited as the majority of these sales are transacted with credit cards at the time the sale is completed.

Loan receivable from Enhanced Pet Sciences Corp. ("EPS")

The Company is exposed to significant credit risk associated with its loan receivable from EPS.

On January 28, 2020 the Company entered into a secured loan agreement with EPS for USD $500,000. The loan bears interest at 8% per annum, is secured by collateral security as well as guarantees from certain principals of EPS and was initially due on December 31, 2020.

On April 15, 2021, the loan agreement was revised and the maturity date extended to December 31, 2021. Outstanding interest of USD $36,995 was rolled into the principal balance of the loan making the new outstanding loan balance USD $536,995. The revised agreement also provided the option for the Company to convert the loan into common shares of EPS at a fixed value of $0.20 per common share with 10 days written notice at any time up to the maturity date. The interest and security collateral terms remained the same.

On November 24, 2021, the Company signed an additional extension agreement for the loan receivable. Under the terms of the extension, the loan now matured on December 31, 2022. EPS made a USD $40,000 prepayment and agreed to an additional USD $40,000 payment to be made by June 30, 2022. In addition, EPS agreed to pay to the Company either a USD $10,000 payment or an additional USD $20,000 in common shares of the Borrower at CAD $0.20 per share by February 28, 2022, at the election EPS. On February 28, 2022, EPS issued to the Company 50,880 common shares at a deemed price of CAD $0.50 per share (post 2.5 to 1 share consolidation).

The loan receivable is now past due and in default. The Company attempted to work with EPS to obtain a mutually satisfactory repayment plan, but was unsuccessful in these efforts. In the first quarter of 2024, the Company commenced litigation against EPS and the guarantors. Subsequent to March 31, 2024, and as part of EPS's defence strategy, EPS filed a counter suit against the Company in the State of Kentucky for unspecified damages pertaining to an unfulfilled lease agreement and failed negotiations related to a potential plan of arrangement between the two companies in early 2020. EPS has also alleged that the loan should be considered an advance of funds for transition steps in the plan of arrangement and not be enforceable against EPS or its guarantors. The parties entered into a non-binding letter of intent in January 2020 regarding a potential plan of arrangement. The letter of intent expired on March 30, 2020. The Company does not believe the counter suit has any merit.

The Company expects that it will eventually be successful in collecting on the loan receivable from either EPS or its guarantors. However, due to the nature of a litigation process, it is uncertain when the loan receivable will be collected.

The company currently recognizes the loan receivable at is estimated fair value of $453,357. This represents a substantial discount against the full balance owing, given the credit risk and expected time it will take to successfully collect the loan receivable from EPS or its guarantors. The full loan balance outstanding including accrued interest at March 31, 2024 approximated $636,000 USD ($861,000 CAD).

Interest Rate Risk

Interest rate risk is the risk that the value of a financial instrument and associated cash flows might be adversely affected by a change in interest rates. In seeking to minimize the risks from interest rate fluctuations, the Company manages exposure through its normal operating and financing activities. The Company has obtained primarily fixed rate debt which limits its exposure to interest rate fluctuations.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations associated with financial liabilities. The Company manages liquidity risk through the management of its capital structure. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to settle obligations and liabilities when due.

At March 31, 2024 the undiscounted contractual obligations related to financial liabilities were as follows:

	Less than 1 year $	1-5 Years $	Total $
Accounts payable and accrued liabilities	2,879,604	-	**2,879,604**
Loans payable	1,138,000	60,000	**1,198,000**
Right of use lease	151,873	463,893	**615,766**

Foreign Currency Risk

The Company is exposed to foreign currency risk in relation to its loan receivable and a portion of its cash and cash equivalents, which are denominated in USD. Based on the balances of cash and loan receivables denominated in USD at March 31, 2024, a 5% increase or decrease in the exchange rate would result in a foreign currency gain or loss of $25,192. As at March 31, 2024, the Company held cash denominated in USD of USD $30,912.

Note 13 – Subsequent Events

Equity Private Placement

On May 8, 2024 the Company completed a non-brokered equity private placement ("Private Placement") of 8,153,000 units (each a "Unit") for gross proceeds of $407,650. Each Unit consisted of one common share and one common share warrant (a "Warrant") with each Warrant entitling the holder thereof to acquire one common share for a period of two years at an exercise price of $0.06 per common share. Proceeds from the Private Placement are being used for working capital in support of the Company's growth.