FORM 5A

ANNUAL LISTING SUMMARY

Introduction

The requirement to file this Form 5A does not apply to NV Issuers. NV Issuers must file a Form 51-102F2 Annual Information Form.

This Annual Listing Summary must be posted on or before the day on which the Issuer's annual financial statements are to be filed under the Securities Act. This statement is not intended to replace the Issuer's obligation to separately report material information forthwith upon the information becoming known to management or to post the forms required by the Exchange Policies.

General Instructions

(a) Prepare this Annual Listing Summary using the format set out below. The sequence of questions must not be altered nor should questions be omitted or left unanswered. The answers to the following items must be in narrative form. When the answer to any item is negative or not applicable to the Issuer, state it in a sentence. The title to each item must precede the answer.

(b) The term "Issuer" includes the Listed Issuer and any of its subsidiaries.

(c) Terms used and not defined in this form are defined or interpreted in Policy 1 – Interpretation and General Provisions.

Listed Issuer Name: Adastra Holdings Ltd. **Website:** www.adastraholdings.ca **Listing Statement Date:** January 3, 2020 **Description(s) of listed securities(symbol/type):** XTRX / Common Shares
Brief Description of the Issuer's Business: The Issuer extracts and processes cannabis for sale to the recreational and medical markets in Canada.
Description of additional (unlisted) securities outstanding: N/A
Jurisdiction of Incorporation: British Columbia

Fiscal Year End: December 31		
Date of Last Shareholders' Meeting and Date of Next Shareholders' Meeting (if scheduled): February 26, 2024		
Financial Information as at: April 23, 2024		
	Current	**Previous**
Cash	1,378,960	1,013,867
Current Assets	10,877,957	8,995,126
Non-current Assets	21,464,814	22,808,819
Current Liabilities	(16,917,110)	(12,660,207)
Non-current Liabilities	(740,513)	(913,948)
Shareholders' equity	(14,685,148)	(18,229,790)
Revenue	37,666,838	18,131,826
Net Income	(3,544,642)	(4,281,639)
Net Cash Flow from Operations	1,861,263	916,911

SUPPLEMENTARY INFORMATION

The supplementary information set out below must be provided when not included in the Schedules. If the required details are included in Schedule A or B, provide specific reference to the page or note.

1. Related party transactions

Provide disclosure of all transactions with a Related Person, including those previously disclosed on Form 10. Include in the disclosure the following information about the transactions with Related Persons:

(a) A description of the relationship between the transacting parties. Be as precise as possible in this description of the relationship. Terms such as affiliate, associate or related company without further clarifying details are not sufficient.
(b) A description of the transaction(s), including those for which no amount has been recorded.
(c) The recorded amount of the transactions classified by financial statement category.

(d) The amounts due to or from Related Persons and the terms and conditions relating thereto.
(e) Contractual obligations with Related Persons, separate from other contractual obligations.
(f) Contingencies involving Related Persons, separate from other contingencies.

The following is in response to (a), (b), (c), (d), (e) and (f) above:

The following related parties transacted with the Company or Company-controlled entities during the year ended December 31, 2023 and 2022:

(a) George Routhier was a Director. He is the owner of Pipedreemz Inc., which provides advisory services to the Company. He resigned on June 23, 2022.
(b) Michael Forbes was a Director and the Company's President and CEO. He was appointed on April 29, 2021 and is the owner of MDC Forbes, which provides CEO services to the Company. He resigned on March 29, 2024.
(c) Donald Dinsmore is a former Director and former COO of the Company. He was appointed on April 29, 2021 and left the Company on March 24, 2022.
(d) Oliver Foeste is the former CFO of the Company until January 1, 2023. He is the Managing Partner of Invictus Accounting Group LLP which provided the Company with CFO, accounting and tax services.
(e) Paul Morgan is a Director of the Company. He was appointed on July 14, 2021.
(f) Smoke Wallin is a Director of the Company. He was appointed on May 16, 2022.
(g) Lachlan McLeod was appointed CFO of the Company on January 1, 2023 and was an employee of Fehr & Associates CPA ("F&A"), which provided accounting services to the Company. On June 2, 2023, the Company hired Mr. McLeod as an employee and the F&A agreement was subsequently terminated.

During the year ended December 31, 2023, no options were granted to Officers and Directors (2022 - 300,000) having a fair value on grant of $nil (2022 - $138,713).

The aggregate value of transactions with key management personnel and directors and entities over which they have control or significant influence during the year ended December 31, 2023 and 2022 were as follows:

	2023	2022
	$	$
Donald Dinsmore	**-**	102,705
Fehr & Associates CPA	**129,971**	-
Invictus Accounting Group LLP	**-**	286,539
Lachlan McLeod	**89,551**	-
MDC Forbes Inc.	**194,250**	127,350
Pipedreemz Inc.	**-**	2,000
Smoke Wallin	**-**	138,713
	413,772	657,307

As at December 31, 2023 and 2022, the Company had an outstanding accounts payable balance with related parties as follows:

	December 31, 2023	December 31, 2022
	$	$
Fehr & Associates CPA	**24,754**	-
Invictus Accounting Group LLP	**12,915**	13,884
MDC Forbes Inc.	**115,338**	62,427
Michael Forbes	**-**	20,000
Pipedreemz Inc.	**-**	3,350
	153,007	99,661

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

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

(a) Consulting fees and professional fees

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

(b) Wages and salaries

Included services provided by Lachlan McLeod as CFO and Donald Dinsmore as former COO.

(c) Office expenses

Included rent of $36,750 paid to MDC Forbes Inc. for the PerceiveMD operations.

2. Summary of securities issued and options granted during the period.

Provide the following information for the Listed Issuer's fiscal year:

(a) summary of securities issued during the period, **N/A**

Date of Issue	Type of Security (common shares, convertible debentures, etc.)	Type of Issue (private placement, public offering, exercise of warrants, etc.)	Number	Price	Total Proceeds	Type of Consideration (cash, property, etc.)	Describe relationship of Person with Issuer (indicate if Related Person)	Commission Paid

(b) summary of options granted during the period,

Date	Number	Name of Optionee if Related Person and relationship	Generic description of other Optionees	Exercise Price	Expiry Date	Market Price on date of Grant
August 19, 2022	300,000	John Smoke Wallin, former director	N/A	$0.75	August 19, 2027	$0.63

3. Summary of securities as at the end of the reporting period.

Provide the following information in tabular format as at the end of the reporting period:

(a) description of authorized share capital including number of securities outstanding for each class, dividend rates on preferred shares and whether or not cumulative, redemption and conversion provisions,

55,970,547 Common Shares are issued and outstanding

(b) description of options, warrants and convertible securities outstanding, including number or amount, exercise or conversion price and expiry date, and any recorded value, and

Date of Issuance	Securities	Number of Common Shares Issued/Issuable or Aggregate Amount	Exercise or Purchase Price
January 30, 2020	options[1]	1,333,334	$1.35
August 5, 2020	options[1]	483,333	$2.34
August 5, 2021	options[1]	33,333	$1.35
October 25, 2021	options[1]	600,000	$1.06
October 28, 2021	options[1]	120,000	$0.95
August 19, 2022	options[1]	300,000	$0.75

Notes:
(1) Each option is exercisable for a period of 5 years from the date of issuance.

(c) number of shares in each class of shares subject to escrow or pooling agreements or any other restriction on transfer.

As at December 31, 2023, no common shares were held in escrow (2022 – 1,300,000).

4. List the names of the directors and officers and include the position(s) held and the date of appointment, as at the date this report is signed and filed.

Lachlan McLeod
Chief Financial Officer (January 1, 2023)
Interim Chief Executive Officer (April 12, 2024)
Corporate Secretary (April 2, 2024)

Paul G. Morgan - Director (July 13, 2021)
Andrew Hale – Director (March 13, 2024)
Jon Edwards - Director (April 2, 2024)

5. Financial Resources

a) State the business objectives that the Issuer expects to accomplish in the forthcoming 12-month period;

The Issuer's focus for the forthcoming 12-month includes the increased efficiency of its operations at its centralized processing facility in Langley, BC. For further details, refer to the MD&A in Schedule B.

b) Describe each significant event or milestone that must occur for the business objectives in (a) to be accomplished and state the specific time period in which each event is expected to occur and the costs related to each event;

Refer to the Issuer's MD&A in Schedule B for discussions on future cash management.

c) Disclose the total funds available to the Issuer and the following breakdown of those funds:

(i) the estimated consolidated working capital (deficiency) as of the most recent month end prior to filing the Listing Statement, and

(ii) the total other funds, and the sources of such funds, available to be used to achieve the objectives and milestones set out in paragraphs (a) and (b); and

(iii) describe in reasonable detail and, if appropriate, using tabular form, each of the principal purposes, with approximate amounts, for which the funds available described under the preceding paragraph will be used by the Issuer.

Please see the Issuer's MD&A dated April 23, 2024 attached hereto as "Schedule B" for a full discussion of the Company's liquidity and capital resources.

6. Status of Operations

During the fiscal year, did the Listed Issuer

(a) reduce or impair its principal operating assets; or

(b) cease or substantively reduce its business operations with respect to its stated business objectives in the most recent Listing Statement?

Please see the Issuer's MD&A dated April 23, 2024 attached hereto as "Schedule B" as well as the Issuer's Financial Statements for the year ended December 31, 2023 attached hereto as "Schedule A".

7. Business Activity

a) Activity for a mining or oil and gas Listed Issuer

(i) For the most recent fiscal year, did the Listed Issuer have positive cash flow, significant revenue from operations, or $50,000 in exploration or development expenditures?

N/A

(ii) If the response to (i) above is "no", for the three most recent fiscal years did the Listed Issuer have an aggregate of $100,000 in exploration or development expenditures?

N/A

b) Activity for industry segments other than mining or oil & gas

(i) For the most recent fiscal year, did the Listed Issuer have positive cash flow, or $100,000 in revenue from operations or $100,000 in development expenditures?

Please see attached Issuer's Financial Statements for the year ended December 31, 2023 attached hereto as "Schedule A"

(ii) If the response to (i) above is "no", for the three most recent fiscal years, did the Listed Issuer have either $200,000 in operating revenues or $200,000 in expenditures directly related to the development of the business?

Please see attached Issuer's Financial Statements for the year ended December 31, 2023 attached hereto as "Schedule A"

SCHEDULE A: AUDITED ANNUAL FINANCIAL STATEMENTS

Adastra Holdings Ltd.
(formerly Phyto Extractions Inc.)

Consolidated Financial Statements

For the years ended December 31, 2023 and 2022

(Expressed in Canadian dollars)

To the Shareholders and Directors of Adastra Holdings Ltd.:

Opinion

We have audited the consolidated financial statements of Adastra Holdings Ltd. and its subsidiaries (the "Company"), which comprise the consolidated statement of financial position as at December 31, 2023, and the consolidated statements of loss and other comprehensive loss, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2023, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company incurred a net loss during the year ended December 31, 2023 and, as of that date, the Company had a working capital deficiency and an accumulated deficit. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matter described in the Material Uncertainty Related to Going Concern section we have determined the matters described below to be the key audit matters to be communicated in our report.

MNP LLP
2000, 112 - 4th Avenue SW, Calgary AB, T2P 0H3 1.877.500.0792 T: 403.263.3385 F: 403.269.8450

Valuation of inventory

Key Audit Matter Description

We draw attention to Note 3 and Note 6 of the consolidated financial statements. The company values their inventory at the lower of cost and net realizable value. The company used the weighted average costing method to cost inventory of extracted cannabis and hemp oil. The costing consists of various inputs/compentents including: biomass; acquisition; analytical testing; labour; consumables; materials; packaging supplies; utilities; facility costs; and depreciation.

We considered this to be a key audit matter due to the significant judgements and estimates applied by management in determining the appropriate value of inventory held as at December 31, 2023. This resulted in a high degree of auditor judgement, subjectivity, and effort in performing procedures and evaluating audit evidence related to management's judgements and estiatmes.

Audit Response

We responded to this matter by performing audit procedures over the valuation of inventory. Our audit work in relation to this included, but was not restricted to, the following:

- Evaluated the incorporation of source data into the inventory costing model and tested the accuracy of formulas used, including testing management’s process for developing the inventory costing model.
- Tested management’s calculation of production costs and allocation of indirect costs including labour and overhead by assessing the appropriateness of the allocation method used and recalculating the allocations.
- Tested the quantities used in the model by physically observing and verifying inventory quantities on a sample basis.
- Tested whether finished goods inventory are recorded at the lesser of cost and net realizable value by comparing the cost of inventory to sales invoices subsequent to year-end.
- We performed price testing on raw material inputs purchased by tracing recorded costs to supporting third-party invoices to ensure accuracy and reasonableness.

Impairment assessment of goodwill - manufacturing unit

Key Audit Matter Description

We draw attention to Note 3 and Note 9 of the consolidated financial statements. The Company's goodwill balance for the manufacturing unit was $9.4M as of December 31, 2023. Management conducts an impairment assessment annually as of December 31 of each year. Any impairment charges are determined by comparing the recoverable amount of the manufacturing unit to its carrying value. The recoverable amount of the manufacturing unit is determined by management based on projected future cash flows. The projections for the manufacturing unit included a terminal growth rate, an after-tax discount rate, tax rate, an annual growth rate, and gross margin. Based on the result of the impairment assessment, no impairment charge was recognized for the manufacturing unit for the year ended December 31, 2023.

We considered this to be a key audit matter due to the significant judgements and estimates applied by management in determining the appropriate value of inventory held as at December 31, 2023. This resulted in a high degree of auditor judgement, subjectivity, and effort in performing procedures and evaluating audit evidence related to management's judgements and estimates.

Audit Response

We responded to this matter by performing audit procedures relating to the impairment assessment of goodwill - manufacturing unit. Our audit work in relation to this included, but was not restricted to, the following:

- Obtained the management's goodwill impairment assessment compared managements revenue growth rate forecasts to historical results, market trends and year-to-date actual earnings. We checked the mathematical accuracy of the formulas and ensured all relevant cash flows were captured in the model.
- Performed a sensitivity analysis on the key assumptions to assess the impact of reasonable changes on the determination of the recoverable amounts.
- We involved our internal valuations experts with specialized skills and knowledge to assist with the assessment of the valuation methodologies used within management's impairment model and the reasonability of significant assumptions including discount rates and other inputs by comparing them to industry data and other benchmarks.

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Except for the matter described in the Material Uncertainty Related to Going Concern section, we have determined that there are no other key audit matters to communicate in our report.

Other Matter

The consolidated financial statement for the year ended December 31, 2022 were audited by another auditor who expressed an unmodified opinion on those statements on May 1, 2023.

Other Information

Management is responsible for the other information. The other information comprises Management’s Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. We obtained Management’s Discussion and Analysis prior to the date of this auditor’s report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Elena Ruttan.

Calgary, Alberta

MNP LLP

April 23, 2024

Chartered Professional Accountants

ADASTRA HOLDINGS LTD.
Consolidated Statements of Financial Position
As at December 31, 2023 and 2022
(Expressed in Canadian dollars)

	Note	**2023**	2022
		$	$
ASSETS			
Current assets			
Cash		**1,378,960**	1,013,867
Amounts receivable	4	**3,910,045**	3,561,765
Prepaid expenses and deposits	5	**1,277,699**	414,212
Inventory	6	**4,290,475**	4,005,282
Income tax receivable		**20,778**	-
		10,877,957	8,995,126
Long-term deposits	5	**512,000**	512,000
Property and equipment	7	**9,011,417**	9,726,822
Intangible assets	8	**2,505,208**	3,133,808
Goodwill	9	**9,436,189**	9,436,189
Total assets		**32,342,771**	31,803,945
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	10,15	**13,421,342**	8,455,390
Income tax payable		**-**	89,658
Current portion of lease liability	11	**16,714**	17,640
Mortgage payable	12	**3,479,054**	3,507,389
Loan payable	13	**-**	314,555
Deferred revenue		**-**	275,575
		16,917,110	12,660,207
Deferred tax liability	22	**593,000**	808,000
Lease liability	11	**87,513**	45,948
Government loan		**60,000**	60,000
Total liabilities		**17,657,623**	13,574,155
SHAREHOLDERS' EQUITY			
Share capital	14	**29,964,446**	29,964,446
Reserves	14	**6,474,732**	6,474,732
Deficit		**(21,754,030)**	(18,209,388)
Total shareholders’ equity		**14,685,148**	18,229,790
Total liabilities and shareholders’ equity		**32,342,771**	31,803,945

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

Approved on behalf of the Board of Directors on April 23, 2024:

“Andrew Hale”	*“Jon Edwards”*
Director	**Director**

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

ADASTRA HOLDINGS LTD.
Consolidated Statements of Loss and Comprehensive Loss
For the years ended December 31, 2023 and 2022
(Expressed in Canadian dollars, except number of shares)

	Note	**2023**	2022
		$	$
Revenue		**37,666,838**	18,131,826
Excise taxes		**(15,444,193)**	(4,836,748)
Net Revenue		**22,222,645**	13,295,078
Cost of sales	6,7	**(14,655,812)**	(7,183,029)
Gross profit		**7,566,833**	6,112,049
Operating expenses			
General and administrative	20	**4,011,594**	3,253,731
Sales and marketing	20	**4,623,912**	3,018,237
Depreciation and amortization	7,8	**536,467**	501,364
Provision for expected credit losses	4	**188,619**	-
Share-based payments	14,15	**-**	138,713
Total operating expenses		**9,360,592**	6,912,045
Loss from operations		**(1,793,759)**	(799,996)
Other income (expense)			
Gain on settlement of accounts payable		**95,355**	21,000
Interest expense	11,12,13	**(1,040,193)**	(343,918)
Impairment of goodwill	9	**-**	(1,672,233)
Impairment of intangible assets	8	**(220,800)**	-
Impairment of property and equipment	7	**(459,577)**	-
Loss on termination of license agreement	21	**(442,668)**	(1,542,492)
Loss before income taxes		**(3,861,642)**	(4,337,639)
Deferred income tax recovery	22	**215,000**	152,000
Income tax recovery (expense)	22	**102,000**	(96,000)
Net loss and comprehensive loss		**(3,544,642)**	(4,281,639)
Net loss per share			
Basic and diluted		**(0.07)**	(0.07)
Weighted average number of common shares outstanding			
Basic and diluted		**55,970,547**	59,230,848

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

ADASTRA HOLDINGS LTD.
Consolidated Statements of Cash Flows
For the years ended December 31, 2023 and 2022
(Expressed in Canadian dollars)

	2023	2022
	$	$
Operating activities		
Net loss and comprehensive loss for the year	**(3,544,642)**	(4,281,639)
Adjustments for non-cash items:		
Depreciation and amortization	**1,410,185**	1,376,008
Interest expense	**637,826**	343,918
Impairment of property and equipment	**459,577**	-
Impairment of intangible asset	**220,800**	-
Provision for expected credit losses	**188,619**	-
Share-based payments	**-**	138,713
Gain on settlement of accounts payable	**(95,355)**	(21,000)
Deferred income tax recovery	**(215,000)**	(152,000)
Impairment of goodwill	**-**	1,672,233
Impairment of inventory	**482,103**	-
Loss on termination of license agreement	**442,668**	1,542,492
Income tax recovery	**(102,000)**	-
Net change in non-cash working capital items:		
Amounts receivable	**(979,567)**	(3,606,445)
Prepaid expenses and deposits	**(863,487)**	(666,284)
Inventory	**(767,296)**	(2,177,109)
Accounts payable and accrued liabilities	**4,862,407**	6,472,449
Deferred revenue	**(275,575)**	275,575
Cash provided by operating activities	**1,861,263**	916,911
Investing activity		
Purchases of property and equipment	**(681,047)**	(625,037)
Cash used in investing activity	**(681,047)**	(625,037)
Financing activities		
Mortgage renewal fee	**(35,000)**	(35,000)
Interest paid - mortgage	**(391,810)**	(265,203)
Lease repayments	**(26,735)**	(22,345)
Proceeds (repayments) of short-term loan	**(361,578)**	300,000
Cash used in financing activities	**(815,123)**	(22,548)
Net increase in cash	**365,093**	269,326
Cash, beginning of year	**1,013,867**	744,541
Cash, end of year	**1,378,960**	1,013,867

Supplemental cash flow information (Note 16)

(Expressed in Canadian dollars, except number of shares)

	Common shares	Share capital	Shares to be cancelled	Reserves	Deficit	Total
	#	$	$	$	$	$
Balance, December 31, 2021	65,970,547	41,964,446	(12,000,000)	6,336,019	(13,927,749)	22,372,716
Shares returned to treasury	(10,000,000)	(12,000,000)	12,000,000	-	-	-
Share-based payments	-	-	-	138,713	-	138,713
Loss for the year	-	-	-	-	(4,281,639)	(4,281,639)
Balance, December 31, 2022	55,970,547	29,964,446	-	6,474,732	(18,209,388)	18,229,790
Loss for the year	-	-	-	-	(3,544,642)	(3,544,642)
Balance, December 31, 2023	**55,970,547**	**29,964,446**	**-**	**6,474,732**	**(21,754,030)**	**14,685,148**

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

NOTE 1 - NATURE OF OPERATIONS AND GOING CONCERN

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

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

As at December 31, 2023, the Company had a working capital deficiency of $6,039,153 (2022 - $3,665,081) and a deficit of $21,754,030 (2022 - $18,209,388). During the year ended December 31, 2023, the Company incurred a net loss and comprehensive loss of $3,544,642 (2022 - $4,281,639). These events and conditions indicate a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. If the going concern assumption were not appropriate for these consolidated financial statements, it could be necessary to restate the Company's assets and liabilities on a liquidation basis.

NOTE 2 - BASIS OF PRESENTATION

(a) Statement of compliance

These consolidated financial statements, including comparatives, 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 consolidated financial statements were approved by the Board of Directors and authorized for issue on April 23, 2024.

(b) Basis of measurement

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

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

(c) Principles of consolidation

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

(Expressed in Canadian dollars, except number of shares)

NOTE 2 - BASIS OF PRESENTATION (continued)

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

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

NOTE 3 - MATERIAL ACCOUNTING POLICIES

(a) Significant accounting judgements and key sources of estimate uncertainty

The preparation of the consolidated financial statements requires management to make judgements, and estimates that affect the application of accounting policies and the reported amounts of assets and liabilities, revenues and expenses. Management continually evaluates these judgements, estimates and assumptions based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates and judgements which may cause a material adjustment to the carrying amounts of assets and liabilities.

The areas which require management to make critical judgments include:

Going concern

These consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The assessment of the Company's ability to source future operations and continue as a going concern involves judgment. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. If the going concern assumption was not appropriate for the consolidated financial statements, adjustments to the carrying value of assets and liabilities, the reported expenses and the consolidated statement of financial position would be necessary. Such adjustments would be material.

Impairment of property and equipment

Property and equipment are reviewed for indicators of impairment at each reporting period end or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of an asset is the higher of its fair value, less costs to sell, and its value in use. If the carrying amount of an asset exceeds its recoverable amount, an impairment charge is recognized immediately in profit or loss by the amount by which the carrying amount of the asset exceeds the recoverable amount. If an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount, and the carrying amount that would have been recorded had no impairment loss been recognized previously.

NOTE 3 – MATERIAL ACCOUNTING POLICIES (continued)

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

Inventory

The Company reviews the net realizable value of, and demand for, its inventory regularly to provide assurance that recorded inventory is stated at the lower of cost or net realizable value. Factors that could impact estimated demand and selling prices include competitor actions, supplier prices, government regulations, and economic trends.

The weighted average costing method uses estimates in the allocation of direct and indirect inputs in the production of multiple product categories. These estimated allocations could be impacted by variations in manufacturing yields in production.

Useful lives and depreciation of property and equipment and intangible assets

The depreciation methods and useful lives reflect the pattern in which management expects the assets' future economic benefits to be consumed by the Company. Judgments are required in determining these expected useful lives.

Goodwill and intangible asset impairment

Management uses estimates in determining the recoverable amount of intangible assets and goodwill. The determination of the recoverable amount for the purpose of impairment testing requires the use of significant estimates, such as:

- future cash flows;
- terminal growth rates; and
- discount rates.

Management regularly evaluates these estimates and assumptions. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgment is also applied in choosing methods of amortizing intangible assets that management believes most accurately represent the consumption of those assets and are most representative of the economic substance of the intended use of the underlying assets. A change in the estimate would result in a change in the amount of amortization and, as a result, a charge to net loss recorded in the period in which the change occurs, with a similar change in the carrying value of the asset in the statement of financial position.

Valuation of receivables

The Company recognizes an impairment loss allowance for expected credit losses on trade accounts receivable using a probability-weighted estimate of credit losses. In its assessment, management estimates the expected credit losses based on actual credit loss experience and informed credit assessment, taking into consideration forward-looking information. If actual credit losses differ from estimates, future earnings would be affected.

Income taxes

In assessing the probability of realizing income tax assets, management makes estimates related to expectation of future taxable income, applicable tax opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified.

NOTE 3 – MATERIAL ACCOUNTING POLICIES (continued)

(b) Cash

Cash is comprised of deposits in financial institutions, and cash on hand.

(c) Inventory

Inventory is valued at the lower of cost and net realizable value. The cost of cannabis and hemp biomass is comprised of initial third-party acquisition costs, plus analytical testing costs. The Company uses the weighted average costing method to cost extracted cannabis and hemp oil inventory, costs comprised of initial acquisition cost of the biomass and all direct and indirect processing costs including labor related costs, consumables, materials, packaging supplies, utilities, facility costs, analytical testing costs, and production related depreciation. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated cost of completion and the estimated costs necessary to make the sale. Packaging and supplies are initially valued at cost and subsequently at the lower of cost and net realizable value.

(d) Property and Equipment

Property and equipment is measured at cost less accumulated depreciation and impairment losses. The cost of an item of property and 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. No depreciation is recorded in the year of disposal.

Depreciation is recognized over the following terms, intended to depreciate the cost of property and equipment, less its residual values if any, over its estimated useful lives:

Furniture and equipment	20% declining balance
Leasehold improvements	10 years straight line
Buildings	20 years straight line
Extraction equipment	20% declining balance
Laboratory equipment	20% declining balance
Computer software	20% declining balance
Right-of-use assets	4 years straight line over the lease term

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.

(e) Intangible assets

Intangible assets represent trademarks and patient relationships acquired from business acquisitions.

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

NOTE 3 – MATERIAL ACCOUNTING POLICIES (continued)

At the end of each reporting period, the Company reviews the carrying amounts of its intangible assets to determine whether there is any indication of impairment. Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired. Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount is less than the carrying amount, the carrying amount of the asset is reduced to its recoverable amount and an impairment loss is recognized immediately in profit or loss.

When an impairment subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been previously recognized. A reversal of an impairment loss is recognized immediately in profit or loss. An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset are recognized in profit or loss when the asset is derecognized.

The Company's intangible assets are comprised of trademarks and patient relationships which are amortized over their useful lives:

Trademarks	10 years straight line
Patient relationships	5 years straight line

During the year ended December 31, 2023, the Company wrote off the Patient Relationships (Note 8).

(f) Goodwill

The Company allocates goodwill arising from business combinations to each CGU or group of CGUs that are expected to receive the benefits from the business combination. The carrying amount of the CGU or group of CGUs to which goodwill has been allocated is tested annually for impairment or when there is an indication that the goodwill may be impaired. Any impairment is recognized as an expense immediately. Should there be a recovery in the value of a CGU, any impairment of goodwill previously recorded is not subsequently reversed.

(g) Leases liabilities

Leases are recognized as a right-of-use ("ROU") asset and a corresponding liability at the date at which the leased asset is available for use by the Company. Assets and liabilities arising from a lease are initially measured on a present value basis. Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs

The Company assesses whether a contract is or contains a lease, at inception of a contract. The Company recognizes a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Company uses its incremental borrowing rate.

NOTE 3 – MATERIAL ACCOUNTING POLICIES (continued)

The lease liability is subsequently measured by increasing its carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect lease payments made. The right-of-use asset is depreciated over the shorter of the lease term and the useful life of the underlying asset. The Company applies *IAS 36 - Impairment of Assets*, to determine whether the asset is impaired and account for any identified impairment loss.

As a practical expedient, IFRS 16 permits a lease not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Company has not used this practical expedient, and accordingly allocates the consideration in the contract to lease and non-lease components based on the stand-alone price of the lease component and aggregate stand-alone price of the non-lease components.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognized as an expense in the period in which the event or condition that triggers those payments occurs and are presented as such in profit or loss.

Recognition exemptions

The Company has elected not to recognize the ROU asset and lease obligations for short-term leases that have a lease term of 12 months or less or for leases of low-value assets. Payments associated with these leases are recognized as general and administrative expense on a straight-line basis over the lease term on the consolidated statement of loss and comprehensive loss.

(h) Government assistance

Government grants and assistance are recognized as a reduction in the related expense in the period in which the grant or assistance becomes receivable on all conditions, if any, have been satisfied.

During the year ended December 31, 2020, the Company qualified for a government-guaranteed bank loan of $60,000 which is interest-free. Funds can be used to pay non-deferrable operating expenses including payroll. As at December 31, 2023, the principal of $60,000 is outstanding (December 31, 2022 - $60,000). The loan is repayable on December 31, 2026 and accrues interest at 5% per year starting on January 19, 2024.

(i) 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. Common shares issued for consideration other than cash, are valued based on their market value at the date the shares are issued.

The Company uses the residual value method with respect to the measurement of common share purchase warrants attached to private placement units. The residual value method first allocates value to the more easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component. The Company considers the trading price of common shares to be the more easily measurable component. The balance, if any, is allocated to the common share purchase warrants. Any fair value attributed to the common share purchase warrants is recorded as reserves.

NOTE 3 – MATERIAL ACCOUNTING POLICIES (continued)

(j) Financial instruments

All financial instruments are recognized initially at fair value on the date at which the Company becomes a party to the contractual provisions of the instrument.

Classification and measurement of financial assets and liabilities

A financial asset is classified as measured at: amortized cost, fair value through other comprehensive income (“FVOCI”) or fair value through profit or loss (“FVTPL”). The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

The Company classifies its financial instruments in the following categories based on the purpose for which the asset was acquired: FVTPL, amortized cost and FVOCI. The Company’s financial assets and financial liabilities are classified and measured as follows:

Asset/Liability	**Classification**
Cash	Amortized cost
Amounts receivable	Amortized cost
Deposits	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Mortgage payable	Amortized cost
Loan payable	Amortized cost
Government loan	Amortized cost

Impairment

An ‘expected credit loss’ (“ECL”) model applies to financial assets measured at amortized cost. The Company’s receivables and deposits are measured at amortized cost and are therefore subject to the ECL model.

Financial assets, other than those classified at FVTPL, are assessed for indicators of impairment at each reporting date. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that 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.

(k) Revenue

Cannabis product sales

Revenue from the sale of products is recognized when the risks and rewards of the products have been substantially transferred to the customer (usually on delivery of the goods), which is the Company’s sole performance obligation. The Company experiences few product returns and, accordingly, does not record a provision for estimated returns. Net revenues are recorded net of excise taxes and discounts but inclusive of freight in the sale of goods. During the year ended December 31, 2023, the Company had cannabis product sales of $37,106,185 before excise taxes (2022 - $15,613,320).

NOTE 3 – MATERIAL ACCOUNTING POLICIES (continued)

White label manufacturing and tolling revenues

White label manufacturing and tolling revenues, earned under fee for service agreements, are recognized at a point in time when the Company is considered to have satisfied its performance obligations. The performance obligations are considered satisfied once all of the following have been met: (i) the manufacturing process (services) are complete; (ii) regulatory quality assurance, and customer quality assurance specifications (acceptance of the finished goods) have been met; and (iii) when the transaction price can be reliably measured in instances of variable consideration or non-monetary consideration.

At times, the Company may enter into contracts with customers where payment for the services provided by the Company is in the form of retention of a certain portion of the finished goods. In such instances, the consideration amount is variable and it's determined based on fair market values for the same or similar goods. As fair market values are readily available for cannabis concentrate, the level of estimation uncertainty is limited.

Net revenues are recorded net of excise taxes and discounts but inclusive of freight in the sale of goods. Once the customer has accepted the finished goods, the Company has no legal obligations for returns, refunds, warranties or similar obligations.

During the year ended December 31, 2023, the Company had revenue of $198,705 (2022 - $1,180,955) related to white label manufacturing and tolling revenues.

Consulting revenue

Medical Services Plan ("MSP") remittance revenue is received from the provincial government of British Columbia for providing medical assessments and consultations to British Columbian residents under the MSP. MSP remittance revenue is recognized at the point of service, being the provision of the consultation by the licensed physician. During the year ended December 31, 2023, the Company had MSP remittance revenues of $228,664 (2022 - $273,253).

Referral revenue (educational service fees) is earned under referral agreements with licensed producers ("LP's") of medical cannabis in Canada, duly licensed in accordance with the Cannabis Act. Under the agreements, LP's pay the Company an educational service fee of 20% of the gross revenue they receive from sales of all products purchased by customers who have been referred by the Company, including medicinal cannabis and any oils, derivatives, compounds, or other related products. During the year ended December 31, 2023, the Company had referral revenues of $133,284 (2022 – $154,967).

Licensing revenue

Licensing revenue is a royalty arrangement 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 "Licensee"). The Company recognizes revenue as a percentage of the Licensee's gross profit when the Licensee sells and delivers products to their customers. During the year ended December 31, 2023, the Company had licensing revenues of $nil (2022 - $909,331).

NOTE 3 – MATERIAL ACCOUNTING POLICIES (continued)

(l) Cost of sales

Cost of sales represents costs directly related to manufacturing and distribution of the Company's products and services. Primary costs include raw materials, packaging, direct labor, overhead, shipping and the depreciation of production equipment and facilities. Manufacturing overhead and related expenses include salaries, wages, employee benefits, utilities, maintenance and property taxes. The Company recognizes the cost of sales as the associated revenue is recognized.

Cost of inventories is determined as follows:

- Raw materials - at cost of purchase using the "weighted average" method.
- Work in progress and finished goods - on the basis of average costs including materials, labor and other direct and indirect manufacturing costs based on normal capacity.
- Purchased merchandise and products - using the weighted average cost method or using the "first-in, first-out" method.

(m) Share-based payments

The Company has a stock option plan that provides for the granting of options to Officers, Directors, related company employees and consultants to acquire shares of the Company. The fair value of the options is measured on grant date and is recognized as an expense with a corresponding increase in reserves as the options vest.

Options granted to employees and others providing similar services are measured at the grant date at the fair value of the instruments issued. Fair value is determined using the Black-Scholes option pricing model using the terms and conditions upon which the options were granted as inputs. The amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest. Each tranche in an award with graded vesting is considered a separate grant with a different vesting date and fair value. Each grant is accounted for on that basis.

Options granted to non-employees are measured at the fair value of the goods or services received, unless that fair value cannot be estimated reliably, in which case the fair value of the equity instruments issued is used. The value of the goods or services is recorded at the earlier of the vesting date, or the date the goods or services are received.

Over the vesting period, share-based payments are recorded as an operating expense and as an increase in reserves. When options are exercised the consideration received is recorded as share capital and the related share-based payments originally recorded as reserves are transferred to share capital. When an option is cancelled or expires, the initial recorded value is reversed from reserves and credited to deficit.

(n) Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence, related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

NOTE 3 – MATERIAL ACCOUNTING POLICIES (continued)

(o) 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 or "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 an 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.

(p) 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 year, using tax rates enacted or substantively enacted at the reporting date, adjusted for any amendments to tax payable in respect of previous years.

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 year 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.

(q) Loss per share

Basic loss per common share is calculated by dividing the loss attributed to shareholders for the period by the weighted average number of common shares outstanding in the period. Diluted loss per common share is calculated by adjusting the weighted average number of common shares outstanding to assume conversion of all dilutive potential common shares. Diluted loss per share is equal to basic loss per share for the periods presented as the effect would be anti-dilutive.

(Expressed in Canadian dollars, except number of shares)

NOTE 3 – MATERIAL ACCOUNTING POLICIES (continued)

(r) Certain comparative figures

Certain comparative figures have been reclassified to conform with the current year's presentation.

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

Amendments to IAS 1 - Presentation of Financial Statements

In October 2022, the IASB issued amendments to IAS 1, Presentation of Financial Statements titled Non- current liabilities with covenants. These amendments sought to improve the information that an entity provides when its right to defer settlement of a liability is subject to compliance with covenants within 12 months after the reporting period. These amendments to IAS 1 override but incorporate the previous amendments, Classification of liabilities as current or non-current, issued in January 2020, which clarified that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Liabilities should be classified as non-current if a company has a substantive right to defer settlement for at least 12 months at the end of the reporting period. The amendments are effective January 1, 2024, with early adoption permitted. Retrospective application is required on adoption. We do not expect these amendments to have a material effect on our financial statements.

NOTE 4 - AMOUNTS RECEIVABLE

As at December 31, 2023 and 2022, amounts receivables consisted of the following:

	December 31, 2023	December 31, 2022
	$	$
Trade receivables, net of expected credit losses (Note 17)	**3,910,045**	3,561,765
	3,910,045	3,561,765

During the year ended December 31, 2023, the Company recorded a provision for expected credit losses against trade receivables of $188,619 (2022 - $nil) related to overdue trade receivables.

NOTE 5 - PREPAID EXPENSES AND DEPOSITS

As at December 31, 2023 and 2022, prepaid expenses and deposits consisted of the following:

	December 31, 2023	December 31, 2022
	$	$
Prepaid expenses	**179,883**	379,456
Deposits	**1,097,816**	34,756
	1,277,699	414,212

As at December 31, 2023, deposits of $1,097,816 (2022 - $34,756) consist of $919,492 in deposits for inventory ordered, $74,608 in deposits for equipment that has been ordered and $103,716 in other deposits.

Long-term deposits of $512,000 (2022 - $512,000) consist of deposits held in trust with the Canadian Revenue Agency ("CRA") for excise bond.

(Expressed in Canadian dollars, except number of shares)

NOTE 6 - INVENTORY

As at December 31, 2023 and 2022, inventory consisted of the following:

	December 31, 2023	December 31, 2022
	$	$
Dried cannabis, hemp biomass and terpenes	**675,400**	262,517
Packaging	**1,138,676**	446,994
Production work in process	**1,216,893**	1,616,623
Finished goods	**1,259,506**	1,679,148
	4,290,475	4,005,282

Inventory expensed to cost of sales during the year ended December 31, 2023 was $12,610,912 (2022 - $4,327,949).

During the year ended December 31, 2023, the Company recognized $482,103 (2022 - $nil) in relation to the write down of expired inventory which was included in the cost of sales.

During the year ended December 31, 2023, the Company allocated $3,144,764 in wages and salaries to inventory (2022 - $1,255,838).

(Expressed in Canadian dollars, except number of shares)

NOTE 7 - PROPERTY AND EQUIPMENT

The following table summarizes the continuity of property and equipment as at December 31, 2023 and 2022:

	Land	Building	Furniture and equipment	Computer software	Laboratory equipment	Extraction equipment	Building improvements	Right-of-use asset	Total
	$	$	$	$	$	$	$	$	$
Cost									
Balance, December 31, 2021	1,592,232	1,999,328	157,784	12,105	469,215	3,253,988	3,928,281	40,376	11,453,309
Additions	-	-	21,361	-	772,956	45,652	30,127	49,968	920,064
Balance, December 31, 2022	1,592,232	1,999,328	179,145	12,105	1,242,171	3,299,640	3,958,408	90,344	12,373,373
Additions	-	-	263,067	-	158,807	259,173	-	82,333	763,380
Impairment	-	-	-	-	-	(1,022,586)	-	-	(1,022,586)
Disposals	-	-	-	-	-	-	-	(40,376)	(40,376)
Balance, December 31, 2023	**1,592,232**	**1,999,328**	**442,212**	**12,105**	**1,400,978**	**2,536,227**	**3,958,408**	**132,301**	**12,073,791**
Accumulated depreciation									
Balance, December 31, 2021	-	316,479	40,024	3,872	98,189	873,897	342,517	3,365	1,678,343
Depreciation	-	99,967	27,326	1,649	144,721	480,881	197,539	16,125	968,208
Balance, December 31, 2022	-	416,446	67,350	5,521	242,910	1,354,778	540,056	19,490	2,646,551
Depreciation	-	99,964	51,482	1,316	222,188	406,470	197,923	23,042	1,002,385
Impairment	-	-	-	-	-	(563,009)	-	-	(563,009)
Disposal	-	-	-	-	-	-	-	(23,553)	(23,553)
Balance, December 31, 2023	**-**	**516,410**	**118,832**	**6,837**	**465,098**	**1,198,239**	**737,979**	**18,979**	**3,062,374**
Carrying value									
Balance, December 31, 2022	1,592,232	1,582,882	111,795	6,584	999,261	1,944,862	3,418,352	70,854	9,726,822
Balance, December 31, 2023	**1,592,232**	**1,482,918**	**323,380**	**5,268**	**935,880**	**1,337,988**	**3,220,429**	**113,322**	**9,011,417**

During the year ended December 31, 2023, the Company allocated $873,717 (2022 - $874,644) of depreciation to the production of inventory and $128,668 (2022 - $93,564) to operating expenses.

During the year ended December 31, 2023, the Company recognized an impairment loss of $459,577 related to extraction equipment which was replaced due to advancements in the extraction processes. The impairment loss was based on a fair value less cost of disposal of $nil as at December 31, 2023.

(Expressed in Canadian dollars, except number of shares)

NOTE 8 - INTANGIBLE ASSETS

The following table summarizes the continuity of intangible assets as at December 31, 2023 and 2022:

	Trademarks	Patient relationships	Total
	$	$	$
Cost			
Balance, December 31, 2021 and 2022	3,250,000	414,000	3,664,000
Impairment	-	(414,000)	(414,000)
Balance, December 31, 2023	**3,250,000**	**-**	**3,250,000**
Accumulated depreciation			
Balance, December 31, 2021	94,792	27,600	122,392
Amortization	325,000	82,800	407,800
Balance, December 31, 2022	419,792	110,400	530,192
Amortization	325,000	82,800	407,800
Impairment	-	(193,200)	(193,200)
Balance, December 31, 2023	**744,792**	**-**	**744,792**
Carrying value			
Balance, December 31, 2022	2,830,208	303,600	3,133,808
Balance, December 31, 2023	**2,505,208**	**-**	**2,505,208**

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

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

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

NOTE 9 - GOODWILL

The following table summarizes the continuity of goodwill as at December 31, 2023 and 2022:

	December 31, 2023	December 31, 2022
	$	$
Opening balance	**9,436,189**	11,108,422
Impairment – PerceiveMD	**-**	(1,672,233)
Closing balance	**9,436,189**	9,436,189

(Expressed in Canadian dollars, except number of shares)

NOTE 9 – GOODWILL (continued)

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

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

PerceiveMD CGU

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

Manufacturing CGU

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

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

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

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

NOTE 10 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

As at December 31, 2023 and 2022, accounts payable and accrued liabilities consisted of the following:

	December 31, 2023	December 31, 2022
	$	$
Accounts payable	**2,113,918**	2,992,928
Accrued liabilities	**371,351**	549,747
Excise tax payable	**10,461,096**	4,153,096
Sales tax payable	**474,977**	759,619
	13,421,342	8,455,390

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

(Expressed in Canadian dollars, except number of shares)

NOTE 11 - LEASE LIABILITY

A summary of the Company's lease liabilities for the year ended December 31, 2023 and 2022 is as follows:

	December 31, 2023	December 31, 2022
	$	$
Opening balance	**63,588**	32,155
Additions - equipment	**82,333**	49,968
Disposal	**(25,516)**	-
Interest	**10,557**	3,810
Repayments	**(26,735)**	(22,345)
Closing balance	**104,227**	63,588
Less: current portion	**(16,714)**	(17,640)
Long-term portion	**87,513**	45,948

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

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

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

NOTE 12 - MORTGAGE PAYABLE

	Fourth Mortgage	**Fifth Mortgage**	**Sixth Mortgage**	**Total**
	$	$	$	$
Balance, December 31, 2021	3,501,554	-	-	3,501,554
New mortgage (refinancing)	(3,500,000)	3,500,000	-	-
Transaction costs	-	(35,000)	-	(35,000)
Finance expense	131,154	174,884	-	306,038
Repayments	(132,708)	(132,495)	-	(265,203)
Balance, December 31, 2022	-	3,507,389	-	3,507,389
New mortgage (refinancing)	-	(3,500,000)	3,500,000	-
Transaction costs	-	-	(35,000)	(35,000)
Finance expense	-	216,859	181,616	398,475
Repayments	-	(224,248)	(167,562)	(391,810)
Balance, December 31, 2023	**-**	**-**	**3,479,054**	**3,479,054**

NOTE 12 - MORTGAGE PAYABLE (continued)

a) On July 9, 2021, the Company refinanced the third mortgage and increased the facility to $3,500,000 (the "Fourth Mortgage") which bears interest at the rate of 6.5% per annum, calculated monthly, for one year. The Forth Mortgage has a maturity date of July 1, 2022 and is secured by the mortgage property and building improvements.

   The Fourth Mortgage payable was recorded at amortized cost (principal value less $42,778 transaction costs). The Company maintained minimum interest-only payments of $18,959 per month. On September 28, 2022, the Forth Mortgage was refinanced.

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

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

c) On July 26, 2023, the Company refinanced the Fifth Mortgage (the "Sixth Mortgage") which bears interest at the greater of 11.49% or the prime rate plus 4.29% per annum, calculated monthly, for one year. The interest rate will increase to 15.99% or the prime rate plus 8.79% for the remainder of the term. The Sixth Mortgage has a maturity date of November 1, 2024 and is secured by the mortgage property and building improvements. The Sixth Mortgage payable was recorded at amortized cost (principal value less $35,000 transaction costs). At December 31, 2023, the carrying value of the Sixth Mortgage was $3,479,054 (December 31, 2022 - $nil).

   At December 31, 2023, The Company maintains minimum interest-only payments of $33,513 per month. As at December 31, 2023, the total non-discounted remaining scheduled payments related to the mortgage including interest payments totaled $3,874,500. Total interest expense during the year ended December 31, 2023 was $398,475 (2022 - $306,038).

NOTE 13 – LOAN PAYABLE

During the year ended December 31, 2022, the Company received a short-term loan of $300,000 with an interest rate of 1.5% per month. The loan is unsecured and is due on demand. Total interest expense related to the loan during the year ended December 31, 2023 was $47,023 (2022 - $14,555). On July 19, 2023, the Company fully repaid the loan balance and the accrued interest.

NOTE 14 - SHARE CAPITAL

(a) Authorized

Unlimited number of voting common shares without par value.

(b) Issued share capital

As at December 31, 2023, 55,970,547 common shares were issued and outstanding.

(c) Share issuances

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

During the year ended December 31, 2022, the Company had the following share transactions:

- On April 29, 2022, 10,000,000 common shares related to the amended agreement between the Company and former owners of Phyto BrandCo were returned to treasury and cancelled for no consideration.

(Expressed in Canadian dollars, except number of shares)

NOTE 14 - SHARE CAPITAL (continued)

(d) Escrow shares

The Company entered into an Escrow Agreement in connection with closing the Reverse takeover ("RTO") on December 20, 2019, in relation to certain of its common shares which were placed in escrow. Pursuant to the Escrow Agreement the escrowed common shares are subject to a timed-release schedule whereby a 10% portion of the escrow shares will be released beginning on listing date, and 15% every six months thereafter until January 6, 2023. As at December 31, 2023, no common shares were held in escrow (2022 – 1,300,000).

(e) Stock options

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

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

During the year ended December 31, 2023, the Company had no stock option grants.

During the year ended December 31, 2022, the Company had the following grants:

(i) On August 19, 2022, the Company granted 300,000 stock options to a certain director for the purchase of up to 300,000 common shares at a price of $0.75 per share. Each stock option vested immediately and is exercisable for a period of five years. The fair value of these options was $138,713 ($0.46 per option) and was recognized as a share-based payment expense.

The fair value of the stock options granted during the year ended December 31, 2023 and 2022 was estimated using the Black-Scholes option pricing model using the following assumptions:

	2023	2022
Risk-free interest rate	**n/a**	3.13%
Annualized volatility	**n/a**	100%
Expected dividend yield	**n/a**	0.00%
Expected life	**n/a**	5 years

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

	Stock options outstanding and exercisable	**Weight average exercise price**
	#	$
As at December 31, 2021	3,715,001	1.45
Granted	300,000	0.75
Cancelled	(283,334)	1.51
Expired	(66,667)	1.35
As at December 31, 2022	3,665,000	1.35
Forfeited	(795,000)	1.38
As at December 31, 2023	**2,870,000**	**1.38**

(Expressed in Canadian dollars, except number of shares)

NOTE 14 - SHARE CAPITAL (continued)

As at December 31, 2023, the Company had stock options outstanding and exercisable as follows:

Expiry date	Options outstanding and exercisable	Weighted average exercise price	Weighted average remaining life
	#	$	Years
January 30, 2025	1,333,334	1.35	1.08
August 5, 2025	483,333	2.34	1.60
August 5, 2026	33,333	1.35	2.60
October 25, 2026	600,000	1.06	2.82
October 28, 2026	120,000	0.95	2.83
August 19, 2027	300,000	0.75	3.64
	2,870,000	**1.38**	**1.89**

(f) Warrants

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

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

	Warrants outstanding and exercisable	Weight average exercise price
	#	$
As at December 31, 2021	8,458,719	1.80
Expired	(8,335,992)	1.80
As at December 31, 2022	122,727	1.75
Expired	(122,757)	1.75
As at December 31, 2023	**-**	**-**

(g) Compensation options

During the year ended December 31, 2022, 24,067 compensation options with an exercise price of $0.50 expired. As at December 31, 2023, the Company has nil (2022 – nil) compensation options outstanding and exercisable.

NOTE 15 - RELATED PARTY TRANSACTIONS

Key management personnel are those having the authority and responsibility for planning, directing, and controlling the Company. There were no loans to key management personnel or directors, or entities over which they have control or significant influence during the year ended December 31, 2023 and 2022.

During the year ended December 31, 2023, no options were granted to Officers and Directors (2022 - 300,000) having a fair value on grant of $nil (2022 - $138,713).

(Expressed in Canadian dollars, except number of shares)

NOTE 15 - RELATED PARTY TRANSACTIONS (continued)

The following related parties transacted with the Company or Company-controlled entities during the year ended December 31, 2023 and 2022:

a) George Routhier was a Director. He is the owner of Pipedreemz Inc., which provides advisory services to the Company. He resigned on June 23, 2022.
b) Michael Forbes was a Director and the Company's President and CEO. He was appointed on April 29, 2021 and is the owner of MDC Forbes, which provides CEO services to the Company. He resigned on March 29, 2024.
c) Donald Dinsmore is a former Director and former COO of the Company. He was appointed on April 29, 2021 and left the Company on March 24, 2022.
d) Oliver Foeste is the former CFO of the Company until January 1, 2023. He is the Managing Partner of Invictus Accounting Group LLP which provided the Company with CFO, accounting and tax services.
e) Paul Morgan is a Director of the Company. He was appointed on July 14, 2021.
f) Smoke Wallin is a Director of the Company. He was appointed on May 16, 2022.
g) Lachlan McLeod was appointed CFO of the Company on January 1, 2023 and was an employee of Fehr & Associates CPA ("F&A"), which provided accounting services to the Company. On June 2, 2023, the Company hired Mr. McLeod as an employee and the F&A agreement was subsequently terminated.

The aggregate value of transactions with key management personnel and directors and entities over which they have control or significant influence during the year ended December 31, 2023 and 2022 were as follows:

	2023	2022
	$	$
Donald Dinsmore	**-**	102,705
Fehr & Associates CPA	**129,971**	-
Invictus Accounting Group LLP	**-**	286,539
Lachlan McLeod	**89,551**	-
MDC Forbes Inc.	**194,250**	127,350
Pipedreemz Inc.	**-**	2,000
Smoke Wallin	**-**	138,713
	413,772	657,307

As at December 31, 2023 and 2022, the Company had an outstanding accounts payable balance with related parties as follows:

	December 31, 2023	December 31, 2022
	$	$
Fehr & Associates CPA	**24,754**	-
Invictus Accounting Group LLP	**12,915**	13,884
MDC Forbes Inc.	**115,338**	62,427
Michael Forbes	**-**	20,000
Pipedreemz Inc.	**-**	3,350
	153,007	99,661

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

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

(a) Consulting fees and professional fees

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

(Expressed in Canadian dollars, except number of shares)

NOTE 15 - RELATED PARTY TRANSACTIONS (continued)

(b) Wages and salaries

Included services provided by Lachlan McLeod as CFO and Donald Dinsmore as former COO.

(c) Office expenses

Included rent of $36,750 paid to MDC Forbes Inc. for the PerceiveMD operations.

NOTE 16 - SUPPLEMENTAL CASH FLOW INFORMATION

	2023	2022
	$	$
Non-cash financing activities		
Shares returned to treasury	**-**	12,000,000
Non-cash investing activities		
Equipment purchases included in accounts payable and accrued liabilities	**-**	(442,785)
Equipment acquired through a lease agreement	**(82,333)**	(49,968)

Total income tax paid in the year ended December 31, 2023 was $nil (2022 - $nil).

NOTE 17 - FINANCIAL RISK MANAGEMENT

(a) Capital management

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

There were no changes in the Company's approach to capital management during the year ended December 31, 2023. The Company is not subject to externally imposed capital requirements.

(b) Financial instruments - fair value

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

As at December 31, 2023, the carrying values of cash, trade receivables, deposits and accounts payable approximate their fair value because of the short-term nature of these instruments.

(c) Financial instruments - risk

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

Credit risk

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

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

(Expressed in Canadian dollars, except number of shares)

NOTE 17 - FINANCIAL RISK MANAGEMENT (continued)

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

	December 31, 2023	December 31, 2022
	$	$
Current	**3,206,312**	2,342,864
1 – 30 days	**224,585**	566,453
31- 60 days	**183,676**	182,463
61 – 90 days	**-**	153,430
Over 90 days	**484,091**	316,555
Total accounts receivable	**4,098,664**	3,561,765
Provision for expected credit losses	**(188,619)**	-
Balance, December 31, 2023	**3,910,045**	3,561,765

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

The objective of managing credit risk is to minimize potential losses on financial assets. The Company assesses the quality of its counterparties, taking into account their credit worthiness and reputation, past performance and other factors. The Company has recognized a provision for expected credit losses on its trade receivables. At December 31, 2023, 74% (2022 – 87%) of the Company's amounts receivable are held with provincial governments with low credit risk.

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

Liquidity risk

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

A summary of undiscounted liabilities and future operating commitments as at December 31, 2023, are as follows:

	Total	**Within 1 year**	**1 – 3 years**	**3 – 5 years**
Maturity analysis of financial liabilities	**$**	$	$	$
Accounts payable and accrued liabilities	13,421,342	13,421,342	-	-
Lease liability	104,803	30,197	60,394	14,212
Mortgage payable	3,874,500	3,874,500	-	-
Government loan	69,458	-	69,458	-
	17,470,103	**17,326,039**	**129,852**	**14,212**

As at December 31, 2023, the Company had a cash balance of $1,378,960 and current liabilities of $16,917,110 (December 31, 2022 - $1,013,867 and $12,660,207 respectively).

Interest rate risk

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

(Expressed in Canadian dollars, except number of shares)

NOTE 17 - FINANCIAL RISK MANAGEMENT (continued)

(d) Economic dependence

Economic dependence risk is the risk of reliance upon a select number of customers which significantly impact the financial performance of the Company. The Company had the following breakdown of customers with greater than 10% of overall revenue.

	2023	2022
Customer A	**37%**	12%
Customer B	**28%**	14%
Customer C	**18%**	30%
Customer D	**7%**	29%

NOTE 18 – COMMITMENTS AND CONTINGENCIES

Contingencies

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

Equipment purchases

The Company is committed to payments of $5,843 pertaining to equipment purchases for the production facilities currently in the process of being manufactured or delivered by various suppliers.

NOTE 19 - SEGMENTED INFORMATION

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

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

(Expressed in Canadian dollars, except number of shares)

NOTE 20 – EXPENSES

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

	General and administrative	Sales and marketing	Total
Year ended December 31, 2023	$	$	**$**
Advertising and promotion	-	2,636,391	2,636,391
Data program expenses	-	1,438,277	1,438,277
Insurance	55,128	-	55,128
Office expenses	1,134,991	-	1,134,991
Professional fees and consulting	1,054,649	-	1,054,649
Repair and maintenance expenses	175,676	-	175,676
Travel	-	124,443	124,443
Wages and salaries	1,591,150	424,801	2,015,951
	4,011,594	**4,623,912**	**8,635,506**

	General and administrative	Sales and marketing	Total
Year ended December 31, 2022	$	$	**$**
Advertising and promotion	-	1,277,728	1,277,728
Data program expenses	-	1,042,216	1,042,216
Insurance	178,930	-	178,930
Office expenses	686,748	-	686,748
Professional fees and consulting	910,564	-	910,564
Repair and maintenance expenses	219,169	-	219,169
Travel	-	122,531	122,531
Wages and salaries	1,258,320	575,762	1,834,082
	3,253,731	**3,018,237**	**6,271,968**

NOTE 21 – CANCELLATION OF LICENSE AGREEMENT

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

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

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

(Expressed in Canadian dollars, except number of shares)

NOTE 22 – INCOME TAXES

Income tax expense differs from the amount that would result by applying the combined Canadian federal and provincial income tax rates to net income before income taxes. The statutory rate in Canada was 27% for the year ended December 31, 2023 (2022 – 27%).

	2023	2021
	$	$
Loss for the year	**(3,861,642)**	(4,337,639)
Combined federal and provincial statutory income tax rates	**27%**	27%
Expected income tax (recovery)	**(1,043,000)**	(1,171,000)
Change in statutory rates and other	**(7,000)**	(2,000)
Non-deductible items	**159,000**	503,000
Adjustment to prior years provision versus statutory tax returns	**8,000**	(319,000)
Change in unrecognized deferred tax assets	**566,000**	933,000
Total income tax recovery	**(317,000)**	(56,000)
Current income tax expense (recovery)	**(102,000)**	96,000
Deferred tax (recovery)	**(215,000)**	(152,000)

The change for the year in in the Company's net deferred tax liability was as follows:

	2023	2022
	$	$
Balance, beginning of year	**(808,000)**	(960,000)
Deferred tax recovery	**215,000**	152,000
Balance, end of year	**(593,000)**	(808,000)

The components of the Company's deferred tax assets and liabilities are as follows:

	2023	2022
	$	$
Deferred tax assets (liabilities)		
Property equipment and other	**(323,000)**	(228,000)
Intangible assets	**(676,000)**	(846,000)
Non-capital losses	**406,000**	266,000
Deferred tax liability	**(593,000)**	(808,000)

The significant components of the Company's deductible temporary differences, unused tax credits and unused tax losses that have not been included on the consolidated statement of financial position are as follows:

	December 31, 2023	**Expiry Date Range**	December 31, 2022
	$		$
Property equipment and other	**1,988,000**	**No expiry date**	354,000
Non-Capital losses	**9,910,000**	**2035 to 2043**	9,441,000

The Company has non-capital losses, for which deductions against future taxable income are uncertain, of approximately $9,910,000 (2022 - $9,441,000) which, if not utilized, will expire from 2035 through 2043. Tax attributes are subject to review, and potential adjustment, by tax authorities.

SCHEDULE B: MANAGEMENT DISCUSSION AND ANALYSIS

Adastra Holdings Ltd.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the years ended December 31, 2023 and 2022

This management's discussion and analysis ("**MD&A**") of the financial condition and results of operations of Adastra Holdings Ltd., together with its wholly-owned subsidiaries (the "**Company**" or "**Adastra**") constitutes management's review of the factors that affected the Company's financial and operating performance for years ended December 31, 2023 and 2022. This MD&A has been prepared in compliance with the requirements of National Instrument 51-102 *Continuous Disclosure Obligations*. This MD&A should be read in conjunction with Adastra's audited consolidated financial statements ("**financial statements**") for the years ended December 31, 2023 and 2022 which have been prepared in accordance with International Financial Reporting Standards ("**IFRS**").

The results for the periods presented are not necessarily indicative of the results that may be expected for any future period. Except as otherwise indicated, all financial data in this MD&A has been prepared in accordance with IFRS issued by the International Accounting Standards Board and interpretations of the International Financial Reporting Interpretations Committee.

All monetary amounts in the MD&A are expressed in Canadian dollars, except number of shares, or as otherwise indicated. Additional information regarding the Company is available on SEDAR at www.sedar.com, and the Company's website www.adastraholdings.ca. This MD&A has been prepared effective as of April 23, 2024.

The Company's financial statements have been prepared on the basis that the Company will continue as a going concern, which assumes that the Company will be able to continue its operations for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of operations. The Company's ability to continue as a going concern is dependent on its ability to generate positive cash flows from operations, complete additional financings, and/or extend or modify its mortgage payable. The Company's 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.

FORWARD-LOOKING STATEMENTS

This MD&A contains certain forward-looking information within the meaning of Canadian securities laws (collectively referred to herein as "**forward looking statements**"). These statements relate to future events or the Company's future performance. All statements other than statements of historical fact are forward-looking statements. Any statements contained herein that are not statements of historical fact may be deemed to be forward looking statements, including those identified by the expressions "considers", "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved", or the negative of these terms or comparable terminology. In this document, certain forward-looking statements are identified by words including "may", "future", "expected", "will", "intends", and "estimates".

Such forward-looking statements are based on numerous assumptions, including among others, the Company's ability to create long-term value for its shareholders and establish itself as a premier cannabis processing company; the Company's ability to grow market share; the Company's ability to develop new and innovative products, including but not limited to cannabis extracts such as oils, tinctures, sprays, capsules and soft gels; the Company's ability to operate in a cost-efficient manner; the Company's ability to fulfill consumer demand in Canada; the Company's expectations with respect to future increases in product output; the Company's ability to fulfill current and future orders; the Company's expectations with respect to continuing demand for its products; the Company's expectations with respect to the expansion of its line of cannabis products; the Company's ability to achieve positive cash flow from operations; the Company's ability to expand into new provincial and territorial markets; the Company's expectations with respect to maintaining a competitive advantage over competitors; the impact of changes on accounting standards on the

Company’s financial statements; the Company’s ability to finance operating costs with current cash on hand and cash flow from operations; the Company’s expectations with respect to other economic, business, and/or competitive factors; the Company’s expectations with respect to the validity, use and scope of its licences throughout Canada; and the Company’s expectations with respect to its regulatory and statutory obligations.

Forward-looking statements are not guarantees of future performance, but are instead based on the reasonable assumptions and estimates of management of the Company at the time they are made and involve known and unknown risks, uncertainties and other factors that may cause actual results and developments to differ materially from those expressed or implied by the forward-looking statements contained in this MD&A. Such factors include, but are not limited to the factors discussed in the section entitled “Risks and Uncertainties” herein.

Forward-looking statements contained herein are made as of the date of this MD&A and, other than as required by law, the Company disclaims any obligation to update publicly or otherwise revise any forward-looking statements or the foregoing list of factors, whether as a result of new information, future events or results or otherwise. Additionally, the Company undertakes no obligation to comment on analysis, expectations or statements made by third parties in respect of its financial/operating results or securities.

There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Readers are cautioned that the foregoing list of important factors and assumptions is not exhaustive and all forward-looking statements herein are qualified by this cautionary statement. Accordingly, readers should not place undue reliance on forward-looking statements.

The forward-looking statements contained herein are based on information available as of April 23, 2024.

ABOUT ADASTRA

Adastra Holdings Ltd. was incorporated under the laws of the Province of British Columbia on October 14, 1987. The Company extracts and processes cannabis for sale to the recreational and medical markets in Canada using its state-of-the-art large scale extraction facility (the “Facility”) to produce a variety of products including vape pens, wax, resin, infused pre-rolls, diamonds and shatter. The Company is listed on the Canadian Securities Exchange (“**CSE**”) under the symbol “XTRX”. The Company’s head office is located at 5451 275th Street, Langley City, British Columbia, V4W 3X8 and its registered and records office is located at 2200-885 West Georgia Street, Vancouver, British Columbia, V6C 3E8.

On September 1, 2021, the Company changed its name to Adastra Holdings Ltd. Trading of the Company's common shares resumed under the new name and under the same ticker symbol "XTRX" on the CSE as the market opened on September 1, 2021.

RECENT HIGHLIGHTS

The Company’s focus for the year ended December 31, 2023 included the expansion and increased efficiency of its operations at its centralized processing facility in Langley, BC. As of the date of this MD&A, the Company is focused on generating revenue from four primary verticals: cannabis manufacturing and direct sales of cannabis products; MSP fees for cannabis consultations; educational fees for clients’ referral to licenced cannabis producers; and the licensing of cannabis trademarks.

During the year ended December 31, 2023, the Company had the following breakdown of revenues:

- Cannabis manufacturing revenues
  - Cannabis product sales of $37,106,185 before excise taxes (2022 - $15,613,320)
  - White label manufacturing and tolling revenues of $198,705 (2022 - $1,180,955)
- MSP remittance revenue $228,664 (2022 - $273,253)
- Cannabis educational fees and referral revenues of $133,284 (2022 – $154,967)
- Licensing revenues of $nil (2022 - $909,331)

The Company had gross revenue of $37,666,838 for the year ended December 31, 2023 compared to $18,131,826 for the year ended December 31, 2022. This represents a 108% increase in gross revenues from the comparable period.

Excise taxes of $15,444,193 were incurred during the year ended December 31, 2023 compared to $4,836,748 in the comparable period. The increase in excise taxes are primarily due to the Company selling more products subject to excise tax directly to retailers and wholesalers. As at December 31, 2023, the Company is in arrears on payments of excise taxes which will consume significant cash flows in future periods.

The Company achieved a gross profit of $7,566,833 for the year ended December 31, 2023 compared to $6,112,049 in the comparable period, achieving a growth of 24%. This was mainly achieved by increasing total sales revenue during the year.

Operating expenses increased from $6,912,045 in the year ended December 31, 2022 to $9,360,592 during the year ended December 31, 2023. This represents an increase in operating expenses of 35% from the comparable period. The Company reduced operating expenses as a percentage of gross revenues from 38% during the year ended December 31, 2022 to 25% during the year ended December 31, 2023. This reduction in operating expenses as a percentage of revenues demonstrates the Company's ability to keep operation costs stable while continuing to grow revenues.

For the year ended December 31, 2023, the Company had a net loss and comprehensive loss of $ 3,544,642 (2022 - $4,281,639). During the year ended December 31, 2023, the net loss and comprehensive loss included a $442,668 one-time charge to loss on termination of license agreement, a $220,800 impairment of intangible asset, a $482,103 one-time charge to the impairment of inventory, and a $459,577 impairment of property and equipment. During the year December 31, 2022, the Company had a one-time charge to impairment of PerceiveMD goodwill for $1,672,233 and a loss on termination of license agreement for $1,542,492.

The Company had cash of $1,378,960 at December 31, 2023 compared to $1,013,867 as at December 31, 2022. The Company continues to closely monitor and manage cash.

Working capital deficit as at December 31, 2023 was $6,039,153 compared to $3,665,081 as at December 31, 2022. During the year ended December 31, 2023, the Company renewed the $3,500,000 mortgage with a new maturity date of November 1, 2024. The Company expects to renew the mortgage for another year with similar terms.

On March 15, 2023, the Company announced that it has been served with a civil claim filed in the Supreme Court of British Columbia pursuant to the *Class Proceedings Act, R.S.B.C. 1996, c. 50* alleging that the Company's press release of February 22, 2023 (the "**Press Release**") misstated certain material facts which misled the plaintiff in the claim. The suit also names the Company's wholly-owned subsidiary Adastra Labs Inc. ("**ALI**") and the Company's Former Chief Executive Officer, Mr. Michael Forbes. The Company denies the allegations in the claim and specifically that the Press Release was misleading, and the Company intends to vigorously defend against these allegations should the class action be certified. Currently, no specific amount of damages is claimed.

On March 16, 2023, the Company announced that it has engaged Hybrid Brand Management ("**Hybrid**") to expand its sales coverage and product sell-through in British Columbia, Alberta, Saskatchewan, Manitoba, and Ontario, with regular in-store activations and staff product education sessions. Hybrid serves approximately 2,800 cannabis retailers in Canada. In addition, the Company announced that during January and February 2023 it has shipped a record volume of 379,343 grams of cannabis products and achieved this result with over 1,300 orders. The Company subsequently terminated the engagement with Hybrid on December 31, 2023.

On April 6, 2023, the Company announced that it had entered into an investor relations agreement with Apollo Shareholder Relations Ltd. ("**Apollo**") for a monthly fee of $15,000 for an initial three-month term, continuing on a monthly basis thereafter. Apollo provides investor communications and is based out of Victoria, British Columbia which provides email marketing, investor outreach, content creation and live events.

On October 11, 2023, the Company announced that Adastra's in-house brand, Endgame Extracts ("**Endgame**"), won "Brand of the Year" at the 2023 Growup Awards and Gala. In addition, Creed Taylor, an Adastra employee, won the Extraction Specialist of the Year award for his contributions on the Endgame brand.

On December 15, 2023, the Company announced a change of auditor to MNP LLP.

On March 1, 2024, the Company announced that it had received a record single purchase order from the Alberta Gaming, Liquor & Cannabis agency totalling $1,047,439. The purchase order was secured by the Company in early February and included a wide range of Adastra's product mix, including offerings from its in-house brand, Endgame.

On March 14, 2024, the Company announced a record in total purchase orders received in January and February 2024 of approximately $8.3M.

Recent Management Changes

On February 14, 2023, the Company announced that it had appointed Lachlan McLeod as the Chief Financial Officer. On April 2, 2024, Mr. McLeod was additionally appointed as Corporate Secretary of the Company.

On February 29, 2024, the Company announced that Michael Forbes resigned as CEO, Director and Corporate Secretary, to be effective on March 29, 2024. Mr. Forbes will be focusing on his other ventures in the cannabis and health space.

On March 13, 2024, Andrew Hale, MBA, BSAE, PMP, joined the Company's Board of Directors. Mr. Hale is the founding CEO of Adastra and a seasoned leader of high performing teams delivering operations and complex program excellence. He brings decades of leadership and management experience to the Company. Mr. Hale commanded three nuclear-powered submarines in the U.S. Navy, overseeing US$4B in national assets. Later, he managed a $3B construction program at Seaspan Vancouver Shipyards as Program Director, before becoming Vice President, Program Delivery, overseeing all major projects under the Canadian National Shipbuilding Strategy. Mr. Hale holds a Bachelor of Science in Aerospace Engineering from the United States Naval Academy and an MBA from the University of Massachusetts at Amherst.

On April 2, 2024, Jon Edwards joined the Company's board of directors. With over 15 years of experience, Mr. Edwards has held various positions within the B.C. Public Service, specializing in interpreting and applying legislation for the Ministry of Justice and Housing. He holds a Bachelor of Arts in Justice Studies and a Master of Arts in Conflict Analysis and Management, both from Royal Roads University.

On April 12, 2024, Smoke Wallin resigned from the Board of Directors of the Company and Lachlan McLeod was appointed as Interim CEO of the Company, in addition to his duties as CFO and Corporate Secretary.

Licences

On March 13, 2020, the Company, through its wholly-owned subsidiary, ALI, received a Standard Processing licence for the Company's Facility in Langley authorizing the sale of cannabis extract, cannabis edibles, and cannabis topicals.

On April 16, 2021, the Company received an amendment to its Analytical Testing Licence allowing for organoleptic testing of its products.

In August 2021, the Company submitted a further sales licence amendment for dried flower and a controlled substance dealer's licence for cannabis products. On December 16, 2021 the Company received its Flower Sales Licence from Health Canada, that permits the Company to sell dried cannabis flower products provincially and territorially in Canada.

On August 12, 2022, the Company received its medical sales licence (the "**Medical Sales Licence**") that permits the Company to sell cannabis extracts to medical cannabis patients and licenced health practitioners and to develop products classed as cannabis extracts such as tinctures, oils, capsules, soft gels and sprays.

On August 24, 2022, the Company received its Controlled Substances Dealer's Licence (the "**Dealer's Licence**") which allows the Company to procure and process controlled substances, including synthesis, propagation, cultivation, and harvesting of psychedelic mushrooms for psilocybin extraction, research and manufacture controlled substances such as psilocybin and business-to-business sale of controlled substances, including by export. The Dealer's License does not permit the Company to sell controlled substances to the public. For such substances, the Company is only permitted to sell to other licensed dealers who have such substances listed on their license including pharmacists, practitioners, hospitals, or the holder of a Section 56(1) exemption for research purposes under the *Controlled Drugs and Substances Act* (the "**CDSA**").

On February 22 and March 3, 2023, the Company announced that its wholly-owned subsidiary, ALI, received approval from Health Canada on February 17, 2023, for its amendment of the Dealer's License to include the following regulated activities: possession, production, assembling, sale/provision and sending, transportation and delivery of certain controlled substances in limited quantities. The Dealer's Licence does not permit ALI to sell controlled substances to the general public. Under the Dealer's Licence, ALI is only permitted to sell to other licenced dealers who have such controlled substances listed on their licence including pharmacists, practitioners, hospitals or the holder of a section 56(1) exemption for research purposes under the CDSA. On August 1, 2023, the Dealer's License was renewed with an expiry date of July 31, 2026.

The Company is not currently undertaking any activities with psilocybin, cocaine, or coca leaf under the Dealer's Licence, including selling to other licenced dealers, business-to-business sale, or export, and does not intend to undertake any activities relating to controlled substances for the foreseeable future. As such, the Company has no plan to use or rely upon the Dealer's Licence as at the date of this MD&A. At this time, and for the foreseeable future, the Company solely intends to pursue its cannabis extracts business.

Below is a chart containing all of the Company's current licences, the activities permitted under each licence, any restrictions on the use of each licence, and expiry dates:

Licence	Permitted Activities	Restrictions	Expiry Date
Standard Processing (Health Canada Licence No. LIC-SRIM66H586-2023)	• To possess cannabis • To produce cannabis, other than obtain it by cultivating, propagating or harvesting it • To sell cannabis in accordance with subsection 17(5) of the Cannabis Regulations	• The licence holder must meet the requirements set out in the Health Canada document entitled "*Mandatory cannabis testing for pesticide active ingredients - Requirements*" • The only cannabis products that the licence holder may sell or distribute to a holder of (i) a licence for sale, and (ii) a person that is authorized under a provincial act referred to in subsection 69(1) of the *Cannabis Act* (the "**Act**") to sell cannabis, are as follows: cannabis plants, cannabis plant seeds, dried cannabis, fresh cannabis, cannabis topicals, cannabis extracts, and edible cannabis. • The only cannabis products that the licence holder may send or deliver to the purchaser at the request of (i) a holder of a licence for sale, and (ii) a person that is authorized under a provincial act referred to in subsection 69(1) of the Act to sell cannabis, are as follows: cannabis plants; cannabis plant seeds; dried cannabis; fresh cannabis; cannabis topicals; cannabis extracts; and edible cannabis.	February 16, 2028
Sale for Medical Purposes (Health Canada Licence No. LIC-SRIM66H586-2023)	• To possess cannabis • To sell cannabis products in accordance with section 27 and Part 14, Division 1 of the Cannabis Regulations	N/A	February 16, 2028
Analytical Testing (Health Canada Licence No. LIC-WOUX7802CE-2022) [issued to Chemia Analytics Inc.]	• To possess cannabis for the purpose of testing • To obtain cannabis by altering its chemical or physical properties by any means for the purpose of testing	• Any pesticide testing activities conducted under the scope of Health Canada's "Mandatory cannabis testing for pesticide active ingredients–Requirements" must meet the requirements set out in that document	August 24, 2027
Research (Health Canada Licence No. LIC-ZIDPSA6BYY-2021-2)	• To possess cannabis for the purpose of research • To produce cannabis for the purpose of research	• This licence is restricted, in addition to all other applicable conditions, in that all research conducted under this licence is based on the Research Protocol "Organoleptic - Sensory – Taste Testing of Cannabis Products" provided to Health	April 16, 2026

		Canada on January 26, 2021 • The maximum quantity of cannabis to be stored for the purpose of research at the address indicated on this licence is: 11 kg of dried cannabis (or equivalent) at any given time • The researcher may only possess and produce cannabis if such possession and production is to use in accordance with the research protocol submitted • With respect to research involving the administration or distribution of cannabis to human research subjects for assessments of taste, sight, smell or touch of cannabis, in addition to any other conditions listed in this licence, the researcher must meet the requirements set out in the document entitled *Appendix: Additional conditions for licenced researchers administering or distributing cannabis to human research subjects using cannabis obtained from a holder of a licence for processing in the final form of cannabis* • All record keeping requirements pertaining to this research licence must be met in accordance with Part 11 of the Cannabis Regulations • At the end of the research, all cannabis must be destroyed in accordance with s.43 of the Cannabis Regulations unless distributed in a manner authorized by the Cannabis Regulations	
Dealer's Licence (Health Canada Licence No. 6-1360)	• Possession, production, assembling, sale/provision, sending, transportation and delivery of controlled substances, including their salts as listed in the Regulations and specified by this licence • List of controlled substances, including their salts, that are specified in the licence are as follows: psilocybin (up to 1000g), and cocaine (up to 250g)	• Under the Dealer's Licence, holder is only permitted to sell to other licenced dealers who have such substances listed on their licence including pharmacists, practitioners, hospitals or the holder of a section 56(1) exemption for research purposes under the CDSA • Psilocybin may only be sold or provided to the holder of a dealer's licence for controlled substances or the holder of an authorization issued under subsection J.01.059(4) of Part J of the Food and Drug Regulations • Any sale or provision of psilocybin or psilocybin-containing fungi, other than to another licenced dealer, must be approved in writing by Health Canada prior to the sale or provision taking place • Sale or provision to the holder of a CDSA subsection 56(1) exemption is strictly prohibited • The sale or provision of psilocybin to a licenced dealer or authorization holder may only be for clinical testing in the institution by qualified investigators for the purpose of determining the hazards and efficacy of the drug; or laboratory research in the institution by qualified investigators; or	July 31, 2026

		destruction • Room 121 is a restricted room at the Langley facility • Access to room 121 is restricted to the following individuals: designated personnel for this licence, as per the most recent list of approved personnel issued by Health Canada; or employees conducting activities under this licence and under the supervision of designated personnel for this licence • This licence does not authorize the cultivation of fungi or plants containing controlled substance(s)	

SELECTED ANNUAL INFORMATION

	Year ended December 31, 2023 (Audited) $	Year ended December 31, 2022 (Audited) $	Year ended December 31, 2021 (Audited) $
Revenue	**37,666,838**	18,131,826	5,628,616
Excise taxes	**(15,444,193)**	(4,836,748)	-
Net loss	**(3,544,642)**	(4,281,639)	(2,749,939)
Loss per share (basic and diluted)	**(0.07)**	(0.07)	(0.05)
Cash provided by (used in) operating activities	**1,861,263**	1,319,111	(1,054,093)

Consolidated Statements of Financial Position	**At December 31, 2023 (Audited) $**	At December 31, 2022 (Audited) $	At December 31, 2021 (Audited) $
Assets			
Current assets	**10,877,957**	8,995,126	4,220,654
Non-current assets	**21,464,814**	22,808,819	24,534,796
Total assets	**32,342,771**	31,803,945	28,755,450
Liabilities			
Current liabilities	**16,917,110**	12,660,207	5,341,267
Non-current liabilities	**740,513**	913,948	1,041,467
Total liabilities	**17,657,623**	13,574,155	6,382,734
Total shareholders’ equity	**14,685,148**	18,229,790	22,372,716
Total liabilities and shareholders’ equity	**32,342,771**	31,803,945	28,755,450

Over the prior three years, the Company has continued to grow total sales and total assets. During the year ended December 31, 2023, the Company had increased sales by 108% from the prior year. Sales of the Company’s Endgame brand have gained traction in the market. During the year ended December 31, 2023, the Company was focused on increasing sales and the throughput of the Facility. The Company expects the trend of increasing sales to continue into 2024 but at a slower rate. Management has noted that many of our direct competitors have cease operations in F2023 and so far in F2024.

The net loss in the year ended December 31, 2023 decreased from the prior year by $410,573 or 9.6%. The Company expects the net loss to continue to decrease as sales increase in 2024. This is expected to be achieved by the Company maintaining operating costs at similar levels in future years.

Discussion of Operations for the year ended December 31, 2023 compared to the year ended December 31, 2022:

Revenues increased to $37,666,838 during the year ended December 31, 2023 ("**F2023**"), compared to $18,131,826 during the year ended December 31, 2022 ("**F2022**"), due to revenue from a range of provincial distributors which were only beginning to come online in 2022. These sales augmented the existing revenue from the processing of cannabis biomass for third-party licenced producers, in-house distillate production, hydrocarbon extraction, licensing revenues from the acquisition of 1204581 B.C. Ltd. dba Phyto Extractions ("**Phyto**"), and MSP remittance and referral revenue from the acquisition of 1225140 B.C. Ltd. dba PerceiveMD ("**PerceiveMD**").

Excise taxes of $15,444,193 are included in the net sales in F2023 compared to $4,836,748 in F2022. In the comparable period, the Company had more sales which did not require excise taxes to be charged. In late 2022 and throughout 2023, the Company increased sales to distributors and retailers which require excise stamps to be used on the sale.

Cost of sales increased to $14,655,812 during F2023, compared to $7,183,029 during F2022, driven by increased sales. Cost of sales consists of biomass, terpenes, solvents, packaging, production labour, and an allocation of production overheads such as facility costs, product recall insurance, utilities, and depreciation of production equipment and the building. During the year ended December 31, 2023, the cost of sales included an impairment of inventory totalling $482,103. The overall cost of sales as a percentage of gross revenues has decreased from 40% during F2022 as compared to 39% during F2023 because of increasing economies of scale and reduced pricing of inputs of production.

During F2023, the Company had operating expenses of $9,360,592 and a net loss and comprehensive loss of $3,544,642, compared to operating expenses of $6,912,045 and net loss and comprehensive loss of $4,281,639 during F2022. The change in operating expenses were the result of the Company's expansion during the period. The most significant changes in operating expenses were as follows:

- General and administrative expenses increased to $4,011,594 during F2023, compared to $3,253,731 during F2022, due to the following changes:
  - Wages and salaries increased $332,830 to $1,591,150 during F2023 due to the Company hiring more staff to support growing operations.
  - Office expenses increased by $448,243 to $1,134,991 during F2023 due to an increase in regulatory compliance expenses, software subscriptions, and rent expenses for a non-cannabis storage warehouse.
  - Insurance expenses decreased by $123,802 to $55,128 during F2023 due to more insurance costs being allocated to production of inventory.
  - Professional fees and consulting increased by $144,085 to $1,054,649 in F2023 due to increased legal fees associated with the class action lawsuit.
- Sales and marketing expenses increased to $4,623,912 during F2023, compared to $3,018,237 during F2022 due to the following changes:
  - Wages and salaries decreased $150,961 to $424,801 during F2023 due to the Company engaging a third-party consulting company for sales services included in advertising and promotion expenses.
  - Advertising and promotion expenses increased by $1,358,663 to $2,636,391 in F2023 due to the Company using a third-party sales consulting firm. Also, the Company increase promotional activities during F2023 to grow the Endgame brand awareness.
  - Data program expenses increased $396,061 to $1,438,277 in F2023 due to the Company increasing the use of data subscriptions during the year.
- Depreciation and amortization charged to operating expenses increased to $536,467 during F2023, compared to $501,364 during F2022, due to the Company having capital asset additions of $718,651 during F2023.
- Provision for expected credit losses increased to $188,619 in F2023 (2022 - $nil) due to the Company estimating the amount of receivables that will be uncollectible.

During F2023, the Company had the following other income (expenses):

- Interest expense increased to $1,040,193 in F2023 (2022 - $343,918) due to the increase in interest rates on the mortgage as well as the increased balance of the excise taxes owed to the Canada Revenue Agency.
- During F2023, the Company recognized an impairment of intangible assets totalling $220,800 due to the Company's inability to leverage the patient list acquired with PerceiveMD.
- During F2023, the Company recognized an impairment loss of $459,577 related to extraction equipment which

was replaced due to advancements in the extraction processes. The impairment loss was based on a fair value less cost of disposal of $nil as at December 31, 2023.
- During F2023, the Company recognized a loss on termination of license agreement for $442,668 due to uncollectible accounts receivable related to the termination of the Phyto license agreement.

SELECTED QUARTERLY INFORMATION

Discussion of Operations for the three months ended December 31, 2023 (“**Q4 2023**”) **compared to the three months ended December 31, 2022** (“**Q4 2022**”)**:**

Revenues increased to $9,124,611 during Q4 2023, compared to $6,817,412 during Q4 2022, due to revenue from a range of provincial distributors which were only beginning to come online in 2022. These sales augmented the existing revenue from the processing of cannabis biomass for third-party licenced producers, in-house distillate production, hydrocarbon extraction, licensing revenues from the acquisition of Phyto, and MSP remittance and referral revenue from the acquisition of PerceiveMD.

Excise taxes of $4,124,459 are included in total sales in Q4 2023 compared to $2,664,396 in Q4 2022. In the comparable period, the Company had more sales which did not require excise taxes to be charged. In Q4 2023, the Company is now selling significantly more to distributors and retailers which require excise stamps to be used on the sale which has increased excise taxes significantly.

Cost of sales increased to $3,415,344 during Q4 2023, compared to $1,598,204 during Q4 2022. Cost of sales consists of biomass, terpenes, solvents, packaging, production labour, and an allocation of production overheads such as facility costs, product recall insurance, utilities, and depreciation of production equipment and the building.

During Q4 2023, the Company had operating expenses of $2,468,309 and a net loss and comprehensive loss of $1,490,366, compared to operating expenses of $1,912,734 and net loss and comprehensive loss of $2,631,073 during Q4 2022.

The change in operating expenses and net loss and comprehensive loss were the result of the Company’s expansion during the period. The most significant changes in operating expenses and other expenses were as follows:

- Advertising and promotion increased to $691,879 during Q4 2023, compared to $413,487 during Q4 2022, as the Company raised awareness of its operational successes and incurred costs by the sales team as it expanded its reach to more provincial distributors. The Company also worked to build brand awareness of the Endgame and Phyto Extractions product lines by hosting events. These investments in the brand are expected to result in higher sales for future periods.
- Data program expenses increased to $430,956 during Q4 2023, compared to $213,846 during Q4 2022, as the Company incurred higher costs for programs that share sales data from stores across Canada to help manage the Company’s product mix, pricing strategies, and production planning.
- Office expenses increased to $297,400 during Q4 2023, compared to $177,274 during Q4 2022 due to additional costs in relation to computer software, internet, utilities as well as equipment and vehicle rentals.
- Professional fees and consulting expenses increased to $270,113 during Q4 2023, compared to $116,467 during Q4 2022 due the defense relate to the ongoing class action lawsuit.
- Wages and salaries decreased to $536,916 during Q4 2023, compared to $792,528 during Q4 2022. This decrease is due to the Company allocating more salaries and wages to cost of sales in comparison to the prior year.

During Q4 2023, the Company included the following in other expenses:

- Interest expense increased to $ 348,267 in Q4 2023 (Q4 2022 - $ 153,426) due to the increase in interest rates on the mortgage as well as the increased balance of the excise taxes owed to the Canadian Revenue Agency.
- During Q4 2023, the Company recognized an impairment of intangible assets totalling $220,800 due to the Company’s inability to leverage the patient list acquired with PerceiveMD.
- During Q4 2023, the Company recognized an impairment loss of $459,577 related to extraction equipment which was replaced due to advancements in the extraction processes. The impairment loss was based on a fair value less cost of disposal of $nil as at December 31, 2023.

SUMMARY OF QUARTERLY RESULTS

The following table shows results from the previous eight fiscal quarters:

Quarter ended	Revenue, net of excise tax	Net loss and comprehensive loss	Weighted average number of shares	Basic and diluted (loss) income per share
	$	$	#	$
December 31, 2023	5,000,152	(1,490,366)	55,970,547	(0.03)
September 30, 2023	4,350,129	(642,191)	55,970,547	(0.01)
June 30, 2023	7,100,565	(1,103,459)	55,970,547	(0.02)
March 31, 2023	5,771,799	(308,626)	55,970,547	(0.01)
December 31, 2022	4,153,016	(2,679,924)	55,970,547	(0.05)
September 30, 2022	3,803,787	(459,265)	55,970,547	(0.01)
June 30, 2022	3,051,554	(478,136)	59,081,658	(0.01)
March 31, 2022	2,286,721	(664,314)	65,970,547	(0.01)

During Q4 2023, the Company's revenue net of excise taxes increased by $650,023 as compared to Q3 2023. The increase in net sales from the previous quarter was due to seasonality of the Company's concentrate products. The comprehensive loss increased by $880,149 from the previous quarter mainly due to other expenses in Q4 2023 related to impairment of intangible assets expense and impairment of property and equipment.

During Q3 2023, the Company's revenue net of excise taxes decreased by $2,750,436 as compared to Q2 2023. The decrease in net sales from the previous quarter was due to the Company focusing on increasing the efficiency of production and lowering cost of inputs. The comprehensive loss decreased by $429,294 from the previous quarter mainly due to other expenses in Q2 2023 related to bad debt expense and impairment of inventory.

During Q2 2023, the Company's revenue net of excise taxes increased by $1,328,766 as compared to Q1 2023. The 23% increase in net sales from the previous quarter was due to the Company continuing to focus on reducing the amount of time to fulfill the incoming purchase orders. The comprehensive loss increased by $762,859 from the previous quarter mainly due to the bad debt expense and impairment of inventory charges which totalled $956,871.

The Company's revenue net of excise taxes in Q1 2023 increased by $1,618,783 as compared to Q4 2022. The 39% increase in sales from the previous quarter was due to the Company continuing to focus on reducing the amount of time of packaging and shipping products to increase the amount of inventory turnover in the Facility.

The Company's revenue in Q4 2022 increased by $349,229 as compared to Q3 2022. The 9% increase in sales from the previous quarter was due to the Company increasing the flowthrough of shipments being delivered out of the Facility. The Company expects revenues to continue to increase in future quarters and the Company pushes to increase inventory turnover and production rates. The comprehensive loss increased $2,220,659 from Q3 2022 due to the loss on the termination of the Phyto license agreement and the impairment of the PerceiveMD goodwill. This was offset by increased sales and gross profits as compared to Q3 2022.

The Company's net revenue and net loss and comprehensive loss in Q3 2022 were $3,803,787 and $459,265, respectively. The increase of revenues and movement in net loss and comprehensive loss are driven by factors noted in Results of Operations.

The Company's revenue and net loss and comprehensive loss in Q2 2022 were $3,051,554 and $478,136, respectively. The increase of revenues was driven by significant revenue from a range of provincial distributors which were not present in Q1 2022. The decrease in net loss was caused by the higher revenue and thus higher gross profit which more than offset any rise in operating expenses form the growth.

During Q1 2022, the increase of revenues to $2,286,721 was driven primarily by the licensing revenue in Phyto and increased processing services of cannabis biomass for third-party licenced producers. The decrease in operating expenses was due to a reduction in share-based compensation as a significant number options and warrants were issued during Q4 2021 and share-based compensation related to these equity instruments was fully recognized during that period.

LIQUIDITY AND CAPITAL RESOURCES

Capital resource management

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

There were no changes in the Company's approach to capital management during the year ended December 31, 2023. The Company is not subject to externally imposed capital requirements.

Cash and working capital

As at December 31, 2023, the Company had a working capital deficit of $6,039,153 (December 31, 2022 - $3,665,081) and has no working capital requirements.

On July 26, 2023, the Company refinanced its mortgage on the Facility (the "**Sixth Mortgage**") which bears interest at the greater of 11.49% or the prime rate plus 4.29% per annum, calculated monthly, for one year. The interest rate will increase to 15.99% or the prime rate plus 8.79% for the remainder of the term. The Sixth Mortgage has a maturity date of November 1, 2024 and is secured by the mortgage property and building improvements. The Sixth Mortgage payable was recorded at amortized cost (principal value less $35,000 transaction costs). At December 31, 2023, the carrying value of the Sixth Mortgage was $3,479,054 (December 31, 2022 - $nil).

As at December 31, 2023, the Company has total taxes payable of $11,066,719 which relates mainly to excise taxes and GST. The Company is working with the Canada Revenue Agency ("**CRA**") to pay down the balance which will require a significant amount of funds in future periods. The Company has also applied for a reduction in the outstanding fees and accrued interest to pay off the balance faster. The balance is accruing interest at the CRA's prescribed rate.

Cash flow activity

	2023	2022
	$	$
Cash provided by (used in) operating activities	**1,861,263**	916,911
Cash provided by (used in) investing activities	**(681,047)**	(625,037)
Cash provided by (used in) financing activities	**(815,123)**	(22,548)
Net increase (decrease) in cash	**365,093**	269,326
Cash, beginning of period	**1,013,867**	744,541
Cash, end of period	**1,378,960**	1,013,867

Cash provided by operating activities of $1,861,263 during the year ended December 31, 2023 was the result of operating losses as noted in Results of Operations which were more than offset by adjustments for non-cash items and working capital movements. During 2023, the cash provided by operating activities was mainly the result of excise taxes payable increasing. In the comparable period, the operating activities provided cash of $916,911.

Cash used in investing activities of $681,047 during the year ended December 31, 2023 (2022 - $625,037) was the result of equipment purchases.

Cash used in financing activities of $815,123 during the year ended December 31, 2023 (2022 - $22,548) was the result of interest paid on the mortgage payable, payments on the lease liability, a $35,000 mortgage renewal fee, and the repayment of $361,578 of loans.

Commitments and contingencies

Contingencies

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

Equipment purchases

The Company is committed to payments of $5,843 pertaining to equipment purchases for the production facilities currently in the process of being manufactured or delivered by various suppliers.

OFF-BALANCE SHEET ARRANGEMENTS

The Company had no off-balance sheet arrangements that are not disclosed above as at December 31, 2023, and as at the date of this MD&A.

TRANSACTIONS BETWEEN RELATED PARTIES

Key management personnel are those having the authority and responsibility for planning, directing, and controlling the Company. There were no loans to key management personnel or directors, or entities over which they have control or significant influence during the year ended December 31, 2023 and 2022.

During the year ended December 31, 2023, no options were granted to Officers and Directors (2022 - 300,000) having a fair value on grant of $nil (2022 - $138,713).

The following related parties transacted with the Company or Company-controlled entities during the year ended December 31, 2023 and 2022:

(i) George Routhier was a Director. He is the owner of Pipedreemz Inc., which provides advisory services to the Company. He resigned on June 23, 2022.
(ii) Michael Forbes was a Director and the Company's President and CEO. He was appointed on April 29, 2021 and is the owner of MDC Forbes Inc., which provides CEO services to the Company. He resigned on March 29, 2024.
(iii) Donald Dinsmore is a former Director and former COO of the Company. He was appointed on April 29, 2021 and left the Company on March 24, 2022.
(iv) Oliver Foeste was a former CFO of the Company until January 1, 2023. He is the Managing Partner of Invictus Accounting Group LLP which provided the Company with CFO, accounting and tax services.
(v) Paul Morgan is a Director of the Company. He was appointed on July 14, 2021.
(vi) Smoke Wallin was a Director of the Company. He resigned on April 12, 2024.
(vii) Lachlan McLeod was appointed CFO of the Company on January 1, 2023, as interim CEO on April 12, 2024 and was an employee of Fehr & Associates CPA ("**F&A**"), which provided accounting services to the Company. On June 2, 2023, the Company hired Mr. McLeod as an employee and the F&A agreement was subsequently terminated.

The aggregate value of transactions with key management personnel and directors and entities over which they have control or significant influence during the year ended December 31, 2023 and 2022 were as follows:

	2023	2022
	$	$
Donald Dinsmore	**-**	102,705
Fehr & Associates CPA	**129,971**	-
Invictus Accounting Group LLP	**-**	286,539
Lachlan McLeod	**89,551**	-
MDC Forbes Inc.	**194,250**	127,350
Pipedreemz Inc.	**-**	2,000
Smoke Wallin	**-**	138,713
	413,772	657,307

As at December 31, 2023 and 2022, the Company had an outstanding accounts payable balance with related parties as follows:

	December 31, 2023	December 31, 2022
	$	$
Fehr & Associates CPA	**24,754**	-
Invictus Accounting Group LLP	**12,915**	13,884
MDC Forbes Inc.	**115,338**	62,427
Michael Forbes	**-**	20,000
Pipedreemz Inc.	**-**	3,350
	153,007	99,661

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

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

(a) Consulting fees and professional fees

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

(b) Wages and salaries

Included services provided by Lachlan McLeod as CFO and Donald Dinsmore as former COO.

(c) Office expenses

Included rent of $36,750 paid to MDC Forbes Inc. for the PerceiveMD operations.

PROPOSED TRANSACTIONS

As at December 31, 2023, the Company had no proposed transactions.

CHANGES IN ACCOUNTING STANDARDS

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

Amendments to IAS 1 - Presentation of Financial Statements

In October 2022, the IASB issued amendments to IAS 1, Presentation of Financial Statements titled Non-current liabilities with covenants. These amendments sought to improve the information that an entity provides when its right to defer settlement of a liability is subject to compliance with covenants within 12 months after the reporting period. These amendments to IAS 1 override but incorporate the previous amendments, Classification of liabilities as current or non-current, issued in January 2020, which clarified that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Liabilities should be classified as non-current if a company has a substantive right to defer settlement for at least 12 months at the end of the reporting period. The amendments are effective January 1, 2024, with early adoption permitted. Retrospective application is required on adoption. We do not expect these amendments to have a material effect on our financial statements.

FINANCIAL RISK MANAGEMENT

Financial instruments - fair value

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

As at December 31, 2023, the carrying values of cash, trade receivables, deposits and accounts payable approximate their fair value because of the short-term nature of these instruments.

Financial instruments - risk

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

Credit risk

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

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

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

	December 31, 2023	December 31, 2022
	$	$
Current	**3,206,312**	2,342,864
1 – 30 days	**224,585**	566,453
31- 60 days	**183,676**	182,463
61 – 90 days	**-**	153,430
Over 90 days	**484,091**	316,555
Total accounts receivable	**4,098,664**	3,561,765
Provision for expected credit losses	**(188,619)**	-
Balance, December 31, 2023	**3,910,045**	3,561,765

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

The objective of managing credit risk is to minimize potential losses on financial assets. The Company assesses the quality of its counterparties, taking into account their credit worthiness and reputation, past performance and other factors. The Company has recognized a provision for expected credit losses on its trade receivables. At December 31, 2023, 74% (2022 – 87%) of the Company's amounts receivable is held with provincial governments with low credit risk.

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

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities. The Company manages its liquidity risk by reviewing on an ongoing basis its cash position and if required raises funding through additional share capital issuances or debt financing. A summary of undiscounted liabilities and future operating commitments as at December 31, 2023, are as follows:

	Total	**Within 1 year**	**1 – 3 years**	**3 – 5 years**
Maturity analysis of financial liabilities	**$**	$	$	$
Accounts payable and accrued liabilities	13,421,342	13,421,342	-	-
Lease liability	104,803	30,197	60,394	14,212
Mortgage payable	3,874,500	3,874,500	-	-
Government loan	69,458	-	69,458	-
	17,470,103	**17,326,039**	**129,852**	**14,212**

As at December 31, 2023, the Company had a cash balance of $1,378,960 and current liabilities of $16,917,110 (December 31, 2022 - $1,013,867 and $12,660,207 respectively).

Interest rate risk

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

Economic dependence

Economic dependence risk is the risk of reliance upon a select number of customers which significantly impact the financial performance of the Company. The Company had the following breakdown of customers with greater than 10% of overall revenue.

	2023	2022
Customer A	**37%**	12%
Customer B	**28%**	14%
Customer C	**18%**	30%
Customer D	**7%**	29%

OUTSTANDING SHARE DATA

The Company's authorized share capital consists of an unlimited number of voting common shares without par value. The Company had the following securities outstanding as at December 31, 2023 and the date of this MD&A:

	December 31, 2023	**Date of this MD&A**
	#	**#**
Common shares	55,970,547	**55,970,547**
Stock options	2,870,000	**2,870,000**
Warrants	-	**-**
Fully diluted securities	58,840,547	**58,840,547**

RISKS AND UNCERTAINTIES

The Company operates in a rapidly changing environment that involves risks and uncertainties and as a result, management's expectation may not be realized for a number of reasons. An investment in the Company's common shares is speculative and involves a high degree of risk and uncertainty. The current regulatory uncertainty poses additional risks and uncertainties which may materially affect management's expectations.

Regulatory risks

The industry in which the Company operates requires compliance with federal, provincial, and local laws and regulations, which could include, among others, laws and regulations relating to cannabis, controlled substances, personally identifiable information, wage and hour restrictions, health and safety matters, consumer protection and environmental matters. The Company's business objectives are contingent upon, in part, compliance with regulatory requirements enacted by these governmental authorities and regulatory bodies and obtaining all regulatory approvals, where necessary, for the delivery of its services and the services delivered by those regulated professionals within its network. The Company cannot predict the time required to secure all appropriate regulatory approvals for such services. Compliance with such laws and regulations may be costly and a failure to comply with such laws and regulations could result in fines, penalties, litigation and other liability that could materially adversely affect the Company.

Furthermore, although the operations of the Company are currently carried out in accordance with all applicable rules and regulations, no assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner which could limit or curtail the Company's ability to conduct its business, including the development of new or existing markets and products. The Company has little or no control over potential changes to laws or regulations that may affect its business. Changes in applicable laws and regulations are unpredictable and could have a material adverse effect on the business, results of operations and financial condition of the Company.

Additionally, governmental regulations affect taxes and levies, healthcare costs, energy usage and labor issues, all of which may have a direct or indirect effect on the Company's business and its clients or suppliers. Changes in these laws or regulations, or the introduction of new laws or regulations, could increase the costs of doing business for the Company, or its customers or suppliers, or restrict the Company' actions, causing the Company to be materially adversely affected.

Laws, regulations and guidelines relating to controlled substances

The Company is not currently undertaking any activities involving controlled substances, nor does it intend to undertake any activities regarding controlled substances at this time. However, as a holder of a Controlled Substance Dealer’s Licence issued by Health Canada, the Company is subject to regulatory and statutory obligations relating to controlled substances. The CDSA is Canada's federal drug control statute. Controlled substances are categorized into eight Schedules based upon their perceived danger. Schedule 1 substances, including cocaine and coca leaves, are deemed to have the highest potential for abuse and carry the most severe penalties for violations – the severity of the penalties decreases for subsequent scheduled substances. Most psychedelics are Schedule 3 substances, including psilocybin. The CDSA generally prohibits all uses of controlled substances unless an exemption is granted under Section 56 of the CDSA or the regulations allow otherwise, including through a clinical trial. The Canadian Minister of Health can grant exemptions under Section 56 of the CDSA to use controlled substances if it is deemed to be necessary for a medical or scientific purpose or is otherwise in the public interest.

Despite the general prohibition on controlled substances, the *Food and Drug Regulations* and *Narcotics Control Regulations* allows authorized persons to obtain a dealer’s licence to possess, produce, sell, import/export, and transport certain controlled substances. These regulations contain strict requirements as to the handling of controlled substances, including where the controlled substance is stored and processed, who has access to the controlled substance, who may purchase or receive the controlled substance, and the types of activities that may be performed using the controlled substance. These regulations provide a framework for expanding and monitoring the legal use of controlled substances in Canada as well as, importantly, issuing licences to dealers such as the Company’s Dealer's Licence. However, amendments to current laws and regulations governing the importation, distribution, transportation and/or production of controlled substances, or more stringent implementation thereof could have a substantial adverse impact on the Company. Local, provincial, and federal laws and enforcement policies concerning controlled substances are changing rapidly and will continue to do so for the foreseeable future.

Should the Company choose to engage in permitted activities as authorized by its Dealer’s Licence at a later date, the Company’s operations will be required to be conducted in strict compliance with the laws and regulations regarding its activities with controlled substances. The Company does not have any direct or indirect involvement with the illegal selling, production or distribution of any substances in the jurisdictions in which it operates and does not intend to have any such involvement at this time. However, a violation of any applicable laws and regulations, such as the CDSA, could result in significant fines, penalties, administrative sanctions, convictions or settlements arising from civil proceedings initiated by the government entities in the jurisdictions in which the Company operates, private citizens or criminal charges. Any such violations could have a material adverse effect on the business, results of operations and financial condition of the Company.

Reliance on licences

The Company's ability to produce and sell cannabis products in Canada is dependent on maintaining its licences with Health Canada. All of the Company’s licences are, or will be, subject to ongoing compliance and reporting requirements. Failure to comply with the requirements of the licences, to maintain its licences, and to renew the licences after their expiry dates would have a material adverse impact on the business, financial condition and operating results of the Company.

If the Company opts to pursue commercialization strategies involving the permitted activities pursuant to its Dealer’s Licence, the Company’s ability to engage in such permitted activities will depend on maintaining its Dealer’s Licence with Health Canada. Failure to comply with the requirements of the licence, to maintain its licence, and to renew the licence after its expiry date may have a material adverse impact on the business, financial condition and operating results of the Company.

Should Health Canada not extend or renew existing licences, renew existing licences on different terms, or refuse applications for new licences, the business, financial condition and operating results of the Company would be materially adversely affected.

Fluctuating Prices of Raw Materials

The Company's revenues are largely derived from the production, sale and distribution of agricultural products or products related to the growth of such agricultural products. The price of production, sale and distribution of these products will fluctuate widely and is affected by numerous factors beyond the Company's control, including international, economic and political trends, expectations of inflation, currency exchange fluctuations, interest rates, global or regional consumptive patterns, speculative activities and increased production due to new production and distribution developments and improved production and distribution methods. The effect of these factors on the price of the Company's products and, therefore, the economic viability of any of the Company's business, cannot accurately be predicted.

In addition, the current economic environment may result in significant inflationary pressures for the price of the Company's inputs and labour, which could have a material effect on the Company's business, financial condition or results of operations. The Company may not be able to fully offset such higher costs through price increases. The Company's inability or failure to do so could harm its business, financial condition and results of operations.

Industry volatility

The cannabis industry and businesses ancillary to and directly involved with cannabis businesses are undergoing rapid growth and substantial change, which has resulted in an increase in competitors, consolidation and formation of strategic relationships. Acquisitions or other consolidating transactions could harm the Company in a number of ways, including by losing strategic partners if they are acquired by or enter into relationships with a competitor, losing customers, revenue and market share, or forcing the Company to expend greater resources to meet new or additional competitive threats, all of which could harm the Company's operating results. As competitors enter the market and become increasingly sophisticated, competition in the Company's industry may intensify and place downward pressure on retail prices for its products and services, which could negatively impact its profitability.

Although the Company currently has no intention of pursuing any activities under its Dealer's License, should the Company choose to engage in permitted activities as authorized by its Dealer's Licence in the future, the Company may face challenges related to the relatively new and rapidly evolving commercial environment relating to controlled substances, including managing a complex and highly regulated supply chain, developing and scaling operations, attracting and retaining talent necessary to perform the permitted activities under the conditions imposed by the Dealer's Licence and other regulatory restrictions, and the public perception of controlled substances. Since the industry for controlled substances is still in a very early stage in Canada, there are significant risks that any expenditures in developing a business that relies in part on commercialization of its Dealer's Licence will not result in profitable operations.

Ongoing need for financing

The Company's ability to continue operations will be largely reliant on its continued attractiveness to equity investors. The Company is expected to incur operating losses as it continues to expend funds to develop its business operations. Even if its financial resources are sufficient to fund its current operations, there is no guarantee that the Company will be able to achieve its business objectives. The continued development of the Company will require substantial additional financing. The failure to raise such capital could result in the delay or indefinite postponement of current business objectives or the going out of business. The primary source of funding available to the Company will consist of equity financing. There can be no assurance that additional capital or other types of financing will be available if needed or that, if available, the terms of such financing will be favorable. In addition, from time to time, the Company may enter into transactions to acquire assets or the shares of other corporations. These transactions may be financed wholly or partially with debt, which may temporarily increase the Company's debt levels above industry standards.

Ongoing costs and obligations

The Company's efforts to grow its business may be costlier than the Company expects, and the Company may not be able to increase its revenue enough to offset its higher operating expenses. The Company may incur significant losses in the future for a number of reasons and unforeseen expenses, difficulties, complications and delays, and other unknown events. If the Company is unable to achieve and sustain profitability, the market price of the common shares may significantly decrease.

Competition

The cannabis production industry is competitive in all of its phases. The Company will face strong competition from other companies in connection with such matters. Many of these companies have greater financial resources, operational experience and technical capabilities than Adastra. As a result of this competition, the Company may be unable to maintain its operations or develop them as currently proposed, on terms it considers acceptable or at all. Consequently, the revenues, operations and financial condition of the Company could be materially adversely affected. Because of the early stage of the industry in which the Company operates, the Company may face additional competition from new entrants. If the number of users of cannabis products in Canada increases, the demand for products will increase and management expects that competition will become more intense as current and future competitors begin to offer an increasing number of diversified products. To remain competitive, the Company will require a continued high level of investment in research and development, marketing, sales and client support. The Company may not have sufficient resources to maintain research and development, marketing, sales and client support efforts on a competitive basis which could materially and adversely affect the business, financial condition and results of operations.

Proprietary and intellectual property rights

The Company's ability to compete may depend on the superiority, uniqueness and value of any intellectual property and technology that it may develop. To the extent the Company is able to do so, to protect any proprietary rights of the Company, the Company intends to rely on a combination of patent, trademark, copyright and trade secret laws, confidentiality agreements with its employees and third parties, and protective contractual provisions. Despite these efforts, any of the following occurrences may reduce the value of any of the Company's intellectual property:

- Patents in the cannabis industry involve complex legal and scientific questions, and patent protection may not be available for some or any products; the Company's applications for trademarks and copyrights relating to its business may not be granted, and, if granted, may be challenged or invalidated;
- Issued patents, trademarks and registered copyrights may not provide the Company with competitive advantages; the Company's efforts to protect its intellectual property rights may not be effective in preventing misappropriation of any of its products or intellectual property;
- The Company's efforts may not prevent the development and design by others of products or marketing strategies similar to or competitive with or superior to those the Company develops;
- Another party may assert a blocking patent and the Company would need to either obtain a licence or design around the patent in order to continue to offer the contested feature or service in its products; or
- The expiration of patent or other intellectual property protections for any assets owned by the Company could result in significant competition, potentially at any time and without notice, resulting in a significant reduction in sales. The effect of the loss of these protections on the Company and its financial results will depend, among other things, upon the nature of the market and the position of the Company's products in the market from time to time, the growth of the market, the complexities and economics of manufacturing a competitive product, and regulatory approval requirements, but the impact could be material and adverse

Key personnel

If the Company is unable to attract and retain key personnel, it may not be able to compete effectively in the market. The Company's success has depended and continues to depend upon its ability to attract and retain key management, including the Company's CEO, CFO and technical experts. The Company will attempt to enhance its management and technical expertise by continuing to recruit qualified individuals who possess desired skills and experience in certain targeted areas. The Company's inability to retain employees and attract and retain sufficient additional employees or engineering and technical support resources could have a material adverse effect on the Company's business, results of operations, sales, cash flow or financial condition. Shortages in qualified personnel or the loss of key personnel could adversely affect the financial condition of the Company, results of operations of the business, and could limit the Company's ability to develop and market its products. The loss of any of the Company's senior management or key employees could materially adversely affect the Company's ability to execute the Company's business plan and strategy, and the Company may not be able to find adequate replacements on a timely basis, or at all. The Company does not maintain key person life insurance policies on any of the Company's employees.

Product liability

As a processor and distributor of products designed to be ingested by humans, the Company faces an inherent risk of exposure to product liability claims, regulatory action, and litigation if its products are alleged to have caused significant loss or injury. Previously unknown adverse reactions resulting from human consumption of cannabis or other products alone or in combination with other medications or substances could occur. As a processor and distributor and of such products or in its role as an investor in or service provider to an entity that is a manufacturer, distributor and/or retailer of adult-use of such products, the Company may be subject to various product liability claims, including, among others, that the product caused injury or illness, include inadequate instructions for use or include inadequate warnings concerning possible side effects or interactions with other substances.

A product liability claim or regulatory action against the Company could result in increased costs, could adversely affect the Company's reputation with its clients and consumers generally, and could have a material adverse effect on the business, results of operations, financial condition or prospects of the Company. There can be no assurances that the Company will be able to maintain product liability insurance on acceptable terms or with adequate coverage against potential liabilities. Such insurance is expensive and may not be available in the future on acceptable terms, or at all. The inability to maintain sufficient insurance coverage on reasonable terms or to otherwise protect against potential product liability claims could prevent or inhibit the commercialization of the Company's potential products or otherwise have a material adverse effect on the business, results of operations, financial condition or prospects of the Company.

Reputational risk and negative public opinion

Damage to the Company's reputation can result from the actual or perceived occurrence of any number of events, including any negative publicity, whether true or not. As a distributor of cannabis, which was previously a controlled substance in Canada, and as a holder of a Dealer's Licence permitting certain activities relating to substances currently classified as controlled substances, there is a risk that the Company's business may attract negative publicity due to association of such products or substances with violence and criminal activities. There is also a risk that the actions of other licence holders, permitted retailers or other companies and service providers in the cannabis industry or entities authorized to deal with controlled substances, including those in the cannabis industry with whom the Company has or will enter into agreements with, may negatively affect the reputation of the industry as a whole and thereby negatively impact the Company's reputation.

The increased usage of social media and other web-based tools used to generate, publish and discuss user-generated content and to connect with other users has made it increasingly easier for individuals and groups to communicate and share negative opinions and views in regard to the Company's activities and the industry in general, whether true or not. The Company does not ultimately have direct control over how the Company, the cannabis industry, or the controlled substance licensing regime is perceived by others. Reputational issues may result in decreased investor confidence, increased challenges in developing and maintaining community relations and present an impediment to the Company's overall ability to advance its business strategy and realize on its growth prospects, which could have a material adverse effect on the Company's business, financial condition or results of operations.

Litigation

The Company may become subject to litigation, including for possible product liability claims, which may have a material adverse effect on the Company's reputation, business, results from operations and financial condition. The Company may be named as a defendant in a lawsuit or regulatory action. The Company may also incur uninsured losses for liabilities, which arise in the ordinary course of business, or which are unforeseen, including, but not limited to, employment liability and business loss claims. Any such losses could have a material adverse effect on the Company's business, results of operations, sales, cash flow or financial condition.

Certificate Of Compliance

The undersigned hereby certifies that:

1. The undersigned is a director and/or senior officer of the Issuer and has been duly authorized by a resolution of the board of directors of the Issuer to sign this Annual Listing Summary.

2. As of the date hereof there is no material information concerning the Issuer which has not been publicly disclosed.

3. The undersigned hereby certifies to the Exchange that the Issuer is in compliance with the requirements of applicable securities legislation (as such term is defined in National Instrument 14-101) and all Exchange Requirements (as defined in CNSX Policy 1).

4. All of the information in this Form 5 Quarterly Listing Statement is true.

Dated April 23, 2024 ____________________.

Lachlan McLeod
Name of Director or Senior Officer

s/Lachlan McLeod
Signature

CFO and Interim CEO
Official Capacity

Issuer Details Name of Issuer **Adastra Holdings Ltd.**	For Year Ended **December 31, 2023**	Date of Report YY/MM/D **2023/04/23**
Issuer Address **5451 – 275 Street**		
City/Province/Postal Code **Langley, BC V4W 3X8**	Issuer Fax No. **844.874.9893**	Issuer Telephone No. **778.715.5011**
Contact Name **Lachlan McLeod**	Contact Position **Chief Financial Officer, Interim Chief Executive Officer, Corporate Secretary**	Contact Telephone No. **778.715.5011**
Contact Email Address info@adastraholdings.ca	Web Site Address https://adastraholdings.ca/	