

FORM 7

MONTHLY PROGRESS REPORT

Name of Issuer: **Adastra Holdings Ltd.** (the “Adastra”).

Trading Symbol: **XTRX**

Number of Outstanding Listed Securities: **55,970,547**

Date: September 6, 2022

Report on Business

1. Provide a general overview and discussion of the development of Adastra’s business and operations over the previous month. Where Adastra was inactive disclose this fact.

On August 17, 2022, Adastra announced it has received its medical sales license (the “Medical Sales License”) from Health Canada, which authorizes Adastra to sell cannabinoid-containing products that are formulated for and distributed to the medical cannabis market.

With its Medical Sales License, Adastra is now authorized to:

- **Sell cannabis extracts and dried cannabis to medical cannabis patients and licensed health practitioners; and**
- **Develop a broad range of products classified as cannabis extracts including:**
 - **Inhaled (vaporizer cartridge and shatter),**
 - **Ingested (tincture, oil, capsule, soft gel and oral spray), and**
 - **Other (suppository).**

Adastra’s Medical Sales License will enable Adastra to maximize the full potential of PerceiveMD, Adastra’s wholly-owned platform, that assesses patients seeking alternative treatments and remedies and provides documentation to enable access.

On August 22, 2022, Adastra announced it has granted 300,000 stock options (each, an “Option”) to a certain director for the purchase of up to 300,000 common shares of the Company at a price of \$0.75 per common share. Each Option is exercisable for a period of five (5) years.

On August 26, 2022, Adastra announced the filing of its consolidated financial statements and related management discussion and analysis for the three and six months ended June 30, 2022.

On August 30, 2022, Adastra announced it has entered into an agreement effective August 30, 2022, with a third party (the “Agreement”), whereby Adastra has the right and option to terminate an exclusive amended license agreement dated December 4, 2020 (the “Phyto License Agreement”) between the third party and 1204581 B.C. Ltd. (“Phyto”), a wholly-owned subsidiary of Adastra which was acquired by Adastra on September 15, 2021. The Phyto License Agreement was a legacy contract of Phyto, whereby Phyto utilized the third party’s licensing status with Health Canada to exclusively package and sell its popular “Phyto”

branded cannabis consumer packaged products on its behalf in consideration for payment of royalties back to Phyto. Pursuant to the terms of the Agreement, Adastra (which independently has the licensing and operations to package, distribute and sell the “Phyto” branded products “in-house”) negotiated terms with the third party to terminate the Phyto License Agreement, provided that Adastra satisfies the following three conditions on or before September 30, 2022:

- Firstly, Adastra must pay the third party 50% of the third party’s historical fees and expenses charged by a data company under a cannabis data sales agreement. The amount is to be set off against amounts owed by the third party to Adastra. Adastra will continue to be responsible for the payment of 50% of the ongoing fees and expenses owed by the third party to the data company under the cannabis data sales agreement until Adastra enters into a separate agreement with the data company for the provision of data relating services related to the sale of Adastra’s cannabis products. Once Adastra and the data company execute such an agreement, Adastra will provide the third party with payment of a final amount of 50% of the fees and expenses owed by the third party to the data company, being fees and expenses incurred up to the date of the Adastra/data company agreement.
- Secondly, Adastra must complete delivery, on or before September 30, 2022, of 250,000 units of unfinished “Roilty” or “Phyto” branded cannabis products (not packaged, labelled or excise stamped) to the third party, with a discount for the benefit of the third party.
- Thirdly, Adastra must pay in cash an amount representing all functional outstanding unfinished Phyto branded product and all functional Phyto branded packaging material held by the third party as of September 30, 2022.

Under the Agreement, Adastra may deliver a notice and certification to the third party certifying that the foregoing conditions have been met on or before September 30, 2022. The third party will have three business days to deliver a dispute notification, setting out in reasonable detail the reasons for disputing the certification. If no dispute notice is sent, the Phyto License Agreement terminates ten days from the date of delivery of the certification.

Additionally, under the Agreement, Phyto has agreed to reduce fees owed to Phyto under the Phyto License Agreement to 0% of the gross profit on product sales by the third party (of product manufactured by Adastra) from March 1, 2022, to November 30, 2022.

If Adastra opts-out or fails to meet the foregoing conditions by September 30, 2022, the Phyto License Agreement will continue to October 31, 2023, except that fees due to Phyto for product sales (on product manufactured by Adastra) will be increased from zero percent (0%) to fifty percent (50%) of the gross profit of the third party from all sales of such product made by the third party on or after December 1, 2022 until October 31, 2023.

On August 31, 2022 announced that Adastra has received its Controlled Drug and Substances Dealer’s License (“Dealer’s License”). This license allows Adastra to process psilocybin and psilocin, the active compounds derived from psychedelic mushrooms.

Under the Dealer’s License, Adastra can possess up to 1,000 grams of psilocybin and psilocin at any time and can transfer the extracted material to other companies who hold a valid Dealer’s License. Adastra intends to utilize its in-house analytical testing lab, Chemia Analytics, to

validate and develop its extraction processes, to optimize and enhance efficiency ahead of any future potential regulatory modifications to the existing psychedelics framework.

2. Provide a general overview and discussion of the activities of management.

See Item 1 above.

3. Describe and provide details of any new products or services developed or offered. For resource companies, provide details of new drilling, exploration or production programs and acquisitions of any new properties and attach any mineral or oil and gas or other reports required under Ontario securities law.

See Item 1 above.

4. Describe and provide details of any products or services that were discontinued. For resource companies, provide details of any drilling, exploration or production programs that have been amended or abandoned.

None.

5. Describe any new business relationships entered into between Adastra, Adastra's affiliates or third parties including contracts to supply products or services, joint venture agreements and licensing agreements etc. State whether the relationship is with a Related Person of Adastra and provide details of the relationship.

See Item 1 above.

6. Describe the expiry or termination of any contracts or agreements between Adastra, Adastra's affiliates or third parties or cancellation of any financing arrangements that have been previously announced.

See Item 1 above.

7. Describe any acquisitions by Adastra or dispositions of Adastra's assets that occurred during the preceding month. Provide details of the nature of the assets acquired or disposed of and provide details of the consideration paid or payable together with a schedule of payments if applicable, and of any valuation. State how the consideration was determined and whether the acquisition was from or the disposition was to a Related Person of Adastra and provides details of the relationship.

None.

8. Describe the acquisition of new customers or loss of customers.

None.

9. Describe any new developments or effects on intangible products such as brand names, circulation lists, copyrights, franchises, licenses, patents, software, subscription lists and trademarks.

None.

- 10.** Report on any employee hiring's, terminations or lay-offs with details of anticipated length of lay-offs.

None.

- 11.** Report on any labour disputes and resolutions of those disputes if applicable.

None.

- 12.** Describe and provide details of legal proceedings to which Adastra became a party, including the name of the court or agency, the date instituted, the principal parties to the proceedings, the nature of the claim, the amount claimed, if any, if the proceedings are being contested, and the present status of the proceedings.

None.

- 13.** Provide details of any indebtedness incurred or repaid by Adastra together with the terms of such indebtedness.

None.

- 14.** Provide details of any securities issued and options or warrants granted.

See Item 1 above.

- 15.** Provide details of any loans to or by Related Persons.

None.

- 16.** Provide details of any changes in directors, officers or committee members.

None.

- 17.** Discuss any trends which are likely to impact Adastra including trends in Adastra's market(s) or political/regulatory trends.

As a result of the COVID-19 novel coronavirus, including quarantine initiatives of the federal and provincial governments and trade and travel restrictions, Adastra could be subject to material disruptions to its business operations, including but not limited to, unavailability of sufficient safety equipment, mandatory quarantine of key persons, restrictions on import or export of products, and transport inefficiencies. To date, Issuer has not experienced any material disruptions.

Certificate Of Compliance

The undersigned hereby certifies that:

1. The undersigned is a director and/or senior officer of Adastra and has been duly authorized by a resolution of the board of directors of Adastra to sign this Certificate of Compliance.
2. As of the date hereof there is no material information concerning Adastra which has not been publicly disclosed.
3. The undersigned hereby certifies to CNSX that Adastra is in compliance with the requirements of applicable securities legislation (as such term is defined in National Instrument 14-101) and all CNSX Requirements (as defined in CNSX Policy 1).
4. All of the information in this Form 7 Monthly Progress Report is true.

Dated September 6, 2022

Michael Forbes

Name of Director/Senior Officer

"Michael Forbes"

Signature

Chief Executive Officer and Director

Official Capacity

Issuer Details Name of Issuer Adastra Holdings Ltd.	For Month End August, 2022	Date of Report YY/MM/DD 2022/09/06
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 Michael Forbes	Contact Position Chief Executive Officer and Director	Contact Telephone No. 778.715.5011
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