

FORM 7

MONTHLY PROGRESS REPORT

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

Trading Symbol: **XTRX**

Number of Outstanding Listed Securities: **65,970,547**

Date: November 4, 2021

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.

Supply and Purchase Agreement

On October 8, 2021, Adastra announced that it signed a definitive agreement with Sitka Weed Works Inc. ("Sitka") regarding the supply of premium craft cannabis grown by Sitka. Sitka is a cultivator and operator of craft cannabis flower in Sooke, British Columbia and breeds new cannabis strains grown from unique genetics. Sitka is Canada's largest micro park with 51 micros specializing in quad craft cannabis which, according to 3rd party testing, recently achieved one of the highest THC percentages at 34.66%. Sitka is positioned to maximize the market opportunity in British Columbia by creating exciting new products for domestic and global cannabis markets, featuring veteran growers and a vast genetics portfolio.

Under this arrangement, Sitka has agreed to provide cannabis to Adastra, and Adastra has agreed to package, excise, and sell finished goods directly to provincial wholesalers. Adastra expects initial shipments in the following months.

Product Growth Update and Announcement of Insider Open-Market Stock Purchases

On October 15, 2021, Adastra announced positive operational and financial developments as Adastra continues to pursue its mission to be a leader in the development and manufacture of pharma-quality, cannabis API and derivative products. These developments include record shipments in September, product portfolio expansion, and continued progress with Health Canada regarding its Controlled Substances Dealers License application.

Record September Shipments

Adastra shipped 68,272 consumer-packaged units and 20,000g of bulk extract in September 2021 compared to 41,571 units in September 2020, a 64% increase year over year.

Psychedelics

Adastra received a request for additional information from Health Canada as part of the agency's formal review of Adastra's application for a Controlled Drugs and Substances Dealer's License, which was submitted and formally accepted in late August 2021. Adastra believes that the request for information is the next step toward attaining approval. In addition, Health Canada advised it commits to a 270 calendar day review period from the date of receipt for

processing these applications. As a result, management expects Health Canada to finish reviewing Adastra's application by March 2022. Adastra has now begun setting up its psychedelic extraction and processing lab on site.

New Products

Adastra is moving aggressively to expand its Phyto Extraction branded products portfolio to take full advantage of the shift in Canadian consumer preference for derivative hydrocarbon extract products. Planned new products include:

- **THCA Diamonds & Sauce.** Adastra has commenced production of a THCA diamond concentrate that it intends to introduce to the market under the Phyto Extractions brand label in December 2021. Known popularly as the "super concentrate," THCA diamond is a highly potent variety of concentrate that gives users the option to inhale nearly pure THC and is currently the best-selling concentrate product type across Canada based on recent Headset data.
- **White Widow Shatter.** Adastra is introducing a 1g version of White Widow. This balanced hybrid strain is a cross between a Brazilian sativa landrace and a resin-heavy South Indian indica that is expected to be available across Canada in December 2021.
- **Vapes.** Adastra is introducing a 1g Black Cherry Distillate vape cartridge that management believes will capture the market's excitement in new vape products.

Operational Changes

Adastra is hiring to scale up and meet increasing order demand by increasing capacity across two shifts (Mon-Fri) and by adding a weekend shift primarily for packaging. Adastra Labs Inc. is actively hiring staff across two shifts to meet increasing order demand for Phyto Extraction products. In addition, a weekend shift was also added to meet the growing demand for packaged goods.

Insider Open Market Purchases of Adastra Common Stock

Adastra's Chief Executive Officer and Chief Operating Officer have recently purchased shares of Adastra on the open market, the details of which will be set out in their respective SEDI reports.

Private Placement

On October 18, 2021, Adastra announced it completed a private placement financing (the "Financing"), pursuant to which it issued 122,727 units (each, a "Unit") at a price of \$1.10 per Unit for gross proceeds of \$135,000.

Each Unit is comprised of one common share of the Company and one transferrable common share purchase warrant (each, a "Warrant"), with each Warrant entitling the holder thereof to acquire one common share of Adastra (each, a "Warrant Share") at a price of \$1.75 per Warrant Share until 5:00 p.m. (Vancouver time) two years from the closing of the Financing.

The Warrants are subject to an acceleration provision whereby, at any time on or after the closing of the Financing, if the daily closing price of the common shares of Adastra as quoted on the Canadian Securities Exchange closes at or above \$2 per share for 50 consecutive trading

days, then Adastra may accelerate the expiration date of the Warrants to the date that is 30 trading days from the date that notice of such acceleration is given via news release. From and after the new accelerated expiration date, no Warrants may be exercised, and all unexercised Warrants will be void.

All securities issued in connection with the Financing are subject to a statutory hold period expiring four months and one day after the closing of the Financing. Adastra intends to use the proceeds of the Financing towards general working capital.

Engagement with Hybrid Financial Ltd.

On October 21, 2021, Adastra announced that it retained Hybrid Financial Ltd. (“Hybrid”) to provide marketing services to Adastra. Hybrid has been engaged to heighten market and brand awareness for Adastra and to broaden Adastra’s reach within the investment community.

Hybrid has agreed to comply with all applicable securities laws and the policies of the Canadian Securities Exchange in providing the services.

Hybrid has been engaged by Adastra for an initial period of six (6) months starting May 3, 2021 (the “Initial Term”) and then shall be renewed automatically for successive three (3) month periods thereafter, unless terminated by Adastra in accordance with the agreement. Hybrid will be paid a monthly fee of \$22,500, plus applicable taxes, during the Initial Term.

Grant of Stock Options

On October 27, 2021, Adastra announced it granted an aggregate of 933,333 stock options (each, an “Option”) of which 900,000 Options were granted on October 25, 2021 to certain directors and officers for the purchase of up to 900,000 common shares of Adastra at a price of \$1.06 per common share and 33,333 Options were granted on August 4, 2021 to a consultant for the purchase of up to 33,333 common shares of Adastra at a price of \$1.35 per common share. Each Option is exercisable for a period of five (5) years.

On October 28, 2021 Adastra announced it granted an aggregate of 215,000 Options to certain employees and a consultant for the purchase of up to 215,000 common shares of Adastra at a price of \$0.95 per common share. Each Option is exercisable for a period of five (5) years.

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.

None.

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.

See Item 1 above.

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.

See Item 1 above.

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 November 4, 2021

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 October 2021	Date of Report YY/MM/DD 2021/11/04
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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