

## FORM 7

### MONTHLY PROGRESS REPORT

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

Trading Symbol: XTRX

Number of Outstanding Listed Securities: 65,847,820

Date: October 7, 2021

#### **Report on Business**

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

#### **Application for Controlled Drugs and Substances Dealer's License**

On September 1, 2021, the Issuer announced that its wholly owned subsidiary Adastra Labs Inc. ("Adastra Labs") has received acceptance of its application for a Controlled Drugs and Substances Dealer's License by Health Canada. Health Canada is now formally reviewing the application.

Known for its renowned cannabis concentrate products, the Issuer has now successfully taken the first steps to become a licensed cultivator, tester, extractor, and seller of controlled substances, including Psilocybin, Psilocin, MDMA, N, N-Dimethyltryptamine (DMT), 5-MeO-DMT, and LSD. When the Dealer's license is formally approved, Adastra Labs expects to conduct the majority of this work out of its 13,500 square foot, state-of-the-art extraction, and production facility located in Langley, BC.

Health Canada has advised that it commits to 270 calendar days from the date of receipt for processing the applications and expects to finish the review of Adastra Labs' application by March 2022.

#### **New Products**

On September 3, 2021, the Issuer announced the acceptance of its first Shatter vaporizer cartridge, under the Phyto Extractions brand. This product line represents a category expansion at the Ontario Cannabis Store ("OCS") as it is a novel product, offering a convenient-use format to the fast-growing extracts segment of the Canadian adult-use marketplace.

Hydrocarbon extracted shatter containing cannabis terpenes with 79-82% THC potency; A first-of-its-kind product, targeting first-time consumers of cannabis products.

Designed with two strain-specific varieties, Santa Cruz Haze and Jet Fuel, the Shatter vaporizer cartridge product line is a hydrocarbon extracted concentrate containing 3-5% total cannabis derived terpenes with 79-82% THC potency. Phyto Extractions' iconic Shatter, sought after by retailers and consumers, is formulated and filled for convenient use in a CCELL® 510 thread 1g cartridge.

The Shatter cartridge is expected to launch in licensed adult-use retailers in Ontario this fall and next to British Columbia, Alberta, Saskatchewan, and Manitoba.

On September 9, 2021, the Issuer announced that its retail brand, Phyto Extractions, has received a product listing from the OCS for its submitted innovative new product – the Santa Cruz Haze Shatter Vape Cartridge. The product is expected to be available in Ontario at the [osc.ca](https://osc.ca) in November 2021.

The OCS is the largest provincial distributor of cannabis products in Canada, the only regulated online retailer of adult-use cannabis products in Ontario, and a wholesaler of cannabis products to all licensed retailers in the province.

The Santa Cruz Haze Shatter Vape Cartridge is a new format of a full spectrum product and has been picked up by the OCS. The availability of full-spectrum concentrate cartridges is limited, and this will stand out against the competition. This product will appeal to new consumers looking to embark on their concentrate journey and experienced consumers looking for a portable, full spectrum hydrocarbon-derived extract option.

#### Acquisition of Phyto Extractions

On September 20, 2021, the Issuer announced the completion of a share purchase agreement dated September 15, 2021 (the "Share Purchase Agreement") pursuant to which the Issuer acquired all the issued and outstanding shares of 1204581 B.C. Ltd., doing business as Phyto Extractions from the shareholders of Phyto Extractions, the owner of the intellectual property rights for the Phyto Extractions brand (the "Acquisition"). On closing of the Acquisition, the Issuer issued 20 million common shares to the former shareholders of Phyto Extractions at a deemed share price of \$0.96 per share, for total consideration of approximately \$19.2 million.

With complete control of the popular Phyto Extractions brand asset, the Issuer intends to leverage Phyto Extractions' proven product development expertise, skilled coast-to-coast sales force, and existing relationships with over 1,400 retail stores across Canada to drive accelerated growth and profitability for an expanded portfolio of Phyto Extractions branded cannabis products. The acquisition is expected to be immediately accretive to the Issuer.

The Acquisition provides additional detail on the strategy to leverage the Phyto Extractions brand to drive accelerated growth.

Having completed its acquisition of Phyto Extractions, the Issuer intends to drive accelerated growth and profitability through a comprehensive strategy of product innovation and enhanced retail engagement. Key elements include:

***New Product Introduction:*** The Issuer plans to increase the number of provincially listed Phyto Extractions branded SKUs in the Canadian market from 18 to 48 over the next year by expanding its offering into new product categories that meet the evolving preferences of Canadian cannabis consumers. In flower, the Issuer plans to introduce new 28g and 3.5g weight formats and pre-rolls under various strains and sizes, targeted at the value and premium craft segments. In extracts, the Issuer plans to release solvent-less cannabis extract products. These are expected to include the already announced shatter pen, along with sugar

waxes and crumbles. And in Cannabis 2.0 products, the Issuer plans to launch edibles that will be created and sold through the Issuer's Labs without additional capital expenditures.

***Optimize In-Store:*** With full ownership of the Phyto Extraction brand asset, the Issuer intends to engage in a targeted retail engagement strategy to optimize its existing in-store presence. This is expected to include leveraging its strong brand and existing relationships with distributors and retailers to get new products into provincial listings, maximize shelf space with retailers, and develop store promotion programs.

***New Store Penetration:*** The Issuer intends to continue to expand its retail footprint by leveraging the strength of the Phyto Extractions brand and its coast-to-coast sales force across seven provinces and territories. According to Leafly, there were over 2,100 cannabis retail stores across Canada as of July 2021.

***Sales Force Expansion:*** The Issuer employs a highly-skilled inside sales force of 8 salespeople across Canada that it intends to continue to scale and support as the business grows.

***Operating Synergies:*** The Issuer expects to realize operating synergies on unified management through leveraging Adastralabs' state-of-the-art 13,000 sq. ft. agricultural scale facility.

#### **Additional New Products**

On September 29, 2021, the Issuer announced the creation of CBD Isolate. The composition of CBD isolate enables the development and commercialization of recreational, medical, and cosmetic products.

Designed specifically for patients and consumers seeking the benefits of CBD but in a THC-free experience, this 99% pure CBD crystalline isolate is nearly free of THC, eliminating the psychoactive effects. Available in a crystalline powder, CBD isolate can be formulated into a wide range of products, including tinctures, oils, topicals, vapes, and capsules.

The Issuer plans to distribute its line of CBD isolate products through multiple channels. With the recently completed PerceiveMD acquisition, the Issuer has access to over 4,500 patients seeking holistic remedies. Additionally, the Issuer will pursue immediate distribution through the Ageless Living clinics in British Columbia and Alberta and third-party clinics throughout Canada.

On September 30, 2021, the Issuer announced that Phyto Extractions branded concentrate products are now listed in the Yukon territory. The recent acceptance by Cannabis Yukon expands the national availability of Phyto Extractions products to five provinces and one territory across Canada, and is the first footprint expansion since the Issuer announced the pending acquisition of the popular Phyto Extraction brand and intellectual property from 1204581 B.C. Ltd. in mid-September. With complete control of the Phyto Extractions brand asset, the Issuer intends to leverage its proven product development expertise, coast-to-coast sales force, and existing relationships with over 1,400 retail stores across Canada to drive growth and profitability for an expanded portfolio of Phyto Extractions branded products.

The Yukon territory leads Canada in per capita legal sales and is home to four licensed cannabis retailers. The initial listing in Yukon as of July 28, 2021 consists of 14 products. These

**include 13 vape cartridges, including the newest popular flavour offering 1g Blue Raspberry, along with one live resin SKU.**

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 the Issuer, the Issuer'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 the Issuer and provide details of the relationship.

**See Item 1 above.**

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

**None.**

7. Describe any acquisitions by the Issuer or dispositions of the Issuer'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 the Issuer and provides details of the relationship.

**See Item 1 above.**

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.

**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 the Issuer 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 the Issuer 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 the Issuer including trends in the Issuer'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, the Issuer 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 the Issuer and has been duly authorized by a resolution of the board of directors of the Issuer to sign this Certificate of Compliance.
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 CNSX 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 CNSX Requirements (as defined in CNSX Policy 1).
4. All of the information in this Form 7 Monthly Progress Report is true.

Dated October 7, 2021

**Donald Dinsmore**

Name of Director/Senior Officer

*"Donald Dinsmore"*

Signature

**Chief Operating Officer, Corporate  
Secretary and Director**

Official Capacity

<b>Issuer Details</b> Name of Issuer <b>Adastra Holdings Ltd.</b>	For Month End <b>September 2021</b>	Date of Report YY/MM/DD <b>2021/10/06</b>
Issuer Address <b>5451 – 275 Street</b>		
City/Province/Postal Code <b>Langley, BC V4W 3X8</b>	Issuer Fax No. <b>844.874.9893</b>	Issuer Telephone No. <b>778.715.5011</b>
Contact Name <b>Donald Dinsmore</b>	Contact Position <b>Chief Operating Officer, Corporate Secretary and Director</b>	Contact Telephone No. <b>778.715.5011</b>
Contact Email Address <b>donald@adastralabs.ca</b>	Web Site Address <a href="https://adastralabs.ca/">https://adastralabs.ca/</a>	