

FORM 7

MONTHLY PROGRESS REPORT

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

Trading Symbol: **XTRX**

Number of Outstanding Listed Securities: **45,847,820**

Date: **September 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.

On August 11, 2021, the Issuer announced that it entered into a share purchase agreement dated August 10, 2021 (the "Share Purchase Agreement") pursuant to which the Company agreed to acquire, indirectly through its wholly-owned subsidiary Adastra Labs Inc. ("Adastra"), all the issued and outstanding shares of 1225140 B.C. Ltd., doing business as PerceiveMD ("PerceiveMD"), from the shareholders (the "Vendors") of PerceiveMD (the "Acquisition").

PerceiveMD was incorporated in 2019 and carries on the business of a multidisciplinary centre for medical cannabis and psychedelic therapies in British Columbia under the trade name of 'PerceiveMD'. PerceiveMD offers a holistic, team-based approach to patient care. Its team of nurses, pharmacists, physicians, specialists, and educators work together to ensure that patients are appropriately assessed, informed, and prescribed treatment where appropriate, and monitored. PerceiveMD provides its therapeutic services through a virtual platform to a wide range of clinics across British Columbia and serves an estimated 4,500 patients. Over the past 12 months, PerceiveMD has generated average unaudited revenues of approximately \$53,000 per month. In addition, as of the date of the Share Purchase Agreement, PerceiveMD had no material long-term debt and had positive working capital.

In October 2020, the Issuer's marketing and sales team initiated a project to build relationships and support licensed cannabis retailers across the country. With many retailers facing detrimental lockdown restrictions on their businesses, the sales team set out on a cross-country RV tour to bring product knowledge to retail managers and budtenders in a safe way; while following all applicable laws and regulations throughout the journey. The sales team visited 158 licensed cannabis retailers from British Columbia to Ontario during the RV tour's inaugural run.

This summer, as Shatter, the Issuer's newest product line, hit shelves across the country, a second RV tour, named "The Shatter Run" was organized, retracing its route to its home base in British Columbia with the re-stated goals of connecting and building relationships with retail managers and staff; providing education and in-store visual merchandising displays; and enhancing brand awareness in order to encourage product sell-through.

The initial goal was to visit 250+ retailers by August, 2021; however, by August 14, 2021, the sales team surpassed their goal and visited the 420th store - Bluewater Cannabis in Penticton,

British Columbia – an achievement celebrated with a community BBQ event to further strengthen support for private retail.

The Shatter Run concluded August 20, 2021 in Langley, British Columbia, with other sales and marketing initiatives planned for Fall 2021.

The Issuer is a holder of a federal licence to process and sell cannabis extract products, edibles, and topicals under the Cannabis Act. On August 19, 2021, the Issuer announced that it has submitted a licence amendment to Health Canada that, if approved, will enable the Issuer to sell dried cannabis flower to provincially authorized distributors and retailers and registered medical patients. The licence amendment would allow the Issuer's wholly owned Health Canada licenced subsidiary, Adastra, to leverage its agricultural product fulfillment capabilities to package, produce and sell dried flower based products across Canada, which would open the pathway to higher profit margins by eliminating the necessity to sell to other licence holders.

On August 24, 2021, the Issuer announced that it continues to proceed towards the acquisition of 1204581 B.C. Ltd, doing business as Phyto Extractions. Originally structured as an acquisition to acquire an initial 51% equity interest with a right of first refusal to acquire the remaining 49% interest, the parties are proceeding on the basis of acquiring a 100% interest on the closing date. The parties continue to negotiate definitive terms and conduct further due diligence.

On August 27, 2021, the Issuer announced that it intended to change its name from "Phyto Extractions Inc." to "Adastra Holdings Ltd." (the "Name Change"), to be effective on September 1, 2021. Trading of the Issuer's common shares is expected to resume under the new name and under the same ticker symbol "XTRX" on the Canadian Securities Exchange as of market open on September 1, 2021. In connection with the Name Change, the Issuer's new CUSIP will be 00654D100 and the new ISIN will be CA00654D1006. There is no consolidation of shares associated with the Name Change.

The Name Change is part of a re-branding initiative in order to better align the Issuer's name and image as a comprehensive leader in cannabis extraction, distillation and product manufacturing. Following a change in management, the Company decided to proceed with the Name Change for several reasons: (i) "Phyto" does not have the same brand awareness outside of Canada; (ii) the use of "extractions" in the Issuer's name limits the Issuer's plans to be a diversified cannabis issuer; and (iii) following internal market research in the cannabis space, the Issuer believes that "Adastra Holdings Ltd." holds broader appeal to consumers for marketing purposes.

On August 31, 2021, the Issuer announced that it acquired, indirectly through its wholly-owned subsidiary, Adastra, all of the issued and outstanding shares of PerceiveMD from the Vendors of PerceiveMD, pursuant to the terms of the Share Purchase Agreement.

In consideration for the acquisition of PerceiveMD, the Issuer paid to the Vendors, on a pro rata basis, an aggregate purchase price of \$2,300,000 (the "Purchase Price") consisting of: (i) \$10,000 by Adastra as a non-refundable deposit on the execution of the Share Purchase Agreement; and (ii) \$2,290,000 by way of the issuance by the Issuer, on behalf of Adastra, of 2,513,720 unrestricted common shares in the capital of the Issuer.

The Issuer's acquisition of PerceiveMD constitutes a "related party transaction" as defined within the meaning of Multilateral Instrument 61-101 Protection of Minority Security Holders in Special Transactions ("MI 61-101") as Michael Forbes, Chief Executive Officer and a director of the Issuer, is also a director and controlling shareholder of PerceiveMD. Payment of the Purchase Price by the issuance of the Issuer's shares to Michael Forbes is considered a "related party transaction" within the meaning of MI 61-101, but such issuance is exempt from the valuation requirement of MI 61-101 by virtue of the exemption contained in section 5.5(b) as the Issuer's shares are not listed on a specified market and from the minority shareholder approval requirements of MI 61-101 by virtue of the exemption contained in section 5.7(a) of MI 61-101 in that the fair market value of the consideration of the Issuer's shares issued to Michael Forbes did not exceed 25% of the Issuer's market capitalization.

The Issuer filed its interim Financial Statements, MD&A and Certifications for the period ended June 30, 2021.

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.



Dee Item 1 above.

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 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 September 7, 2021

Donald Dinsmore

Name of Director/Senior Officer

"Donald Dinsmore"

Signature

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

Official Capacity

<i>Issuer Details</i> Name of Issuer Adastra Holdings Ltd.	For Month End August 2021	Date of Report YY/MM/DD 2021/09/07
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 Donald Dinsmore	Contact Position Chief Operating Officer, Corporate Secretary and Director	Contact Telephone No. 778.715.5011
Contact Email Address donald@adastralabs.ca	Web Site Address https://adastralabs.ca/	