

FORM 51-102F3

MATERIAL CHANGE REPORT

Item 1 Name and Address of Company

Adastra Labs Holdings Ltd. ("Adastra" or the "Company")
#2300-1177 West Hastings Street
Vancouver, British Columbia
V6E 2K3

Item 2 Date of Material Change

December 12, 2019
December 17, 2019
December 18, 2019
December 19, 2019

Item 3 News Release

A news release dated December 30, 2019 was disseminated through various other approved public media and filed on SEDAR with applicable securities commissions.

Item 4 Summary of Material Change(s)

On December 19, 2019, the Company closed its acquisition of all of the issued and outstanding common shares of Adastra Labs Holdings Ltd. ("**Adastra**") pursuant to a Share Exchange Agreement dated as of August 1, 2019 with Adastra and its shareholders whereby the parties completed a business combination by way of a transaction that constituted a reverse takeover of the Company by Adastra (the "**Transaction**"). Pursuant to the Share Exchange Agreement, the Company acquired all of the 81,138,333 Adastra shares in exchange for 81,138,333 common shares of the Company on the basis of one (1) common share of the Company for every Adastra share, as a result of which Adastra became a wholly-owned subsidiary of the Company.

In connection with the Transaction, the Company has completed the following (all of which were closing conditions):

- The voluntary delisting of the Company's common shares from the TSX Venture Exchange effective at the close of trading on December 17, 2019;
- A consolidation of its issued and outstanding common shares (the "**Consolidation**") based on one (1) post-Consolidation common share for every five (5) pre-Consolidation common shares, effective December 18, 2019. As a result of the Consolidation, the number of issued and outstanding common shares was reduced from 27,924,921 to 5,584,988;
- A non-brokered private placement (the "**Private Placement**") pursuant to which the Company issued 10,000,000 common shares (post-Consolidation) at a price of \$0.05 per share to raise gross proceeds of \$500,000, which proceeds are to be used for general working capital. The Private Placement shares are subject to a hold period expiring on April 20, 2020 in accordance with applicable securities laws;

- A name change from Arrowstar Resources Ltd. to “Adastra Labs Holdings Ltd.” effective December 19, 2019;
- A debt settlement with arm’s length and non-arm’s length creditors and pursuant to debt settlement agreements as a result of which the Company settled \$303,552 of debt for and in exchange of 6,071,046 (post-Consolidation) common shares of the Company at a deemed price of \$0.05 per share. This settlement included the issuance of 2,200,000 (post-Consolidation) common shares in settlement of \$110,000 of debt owed to certain officers and directors of the Company and two former directors;
- A non-brokered private placement (the “**Unit Private Placement**”) pursuant to which 5,892,455 units (post-Consolidation) of the Company (the “**Units**”) at a price of \$0.45 per Unit were issued for aggregate gross proceeds of \$2,651,604. Each Unit is comprised of one common share of the Company (a “**Unit Share**”) and one transferable common share purchase warrant, with each whole warrant (a “**Warrant**”) exercisable to purchase one common share of the Company (a “**Warrant Share**”) until December 19, 2021, at a price of \$0.60 per Warrant Share. The Private Placement Units are subject to a hold period expiring on April 20, 2020 in accordance with applicable securities laws;
- A private placement offering of 12% Secured Convertible Debentures (the “**Debentures**”) in the aggregate principal amount of \$3,177,000, which Debentures are payable on the earlier of two years from the date of issue or an event of default in accordance with the terms of the Debentures (the “**Maturity Date**”). In accordance with the terms of the Debentures, the principal amount plus accrued and unpaid interest of a Debenture (the “**Obligations**”) is convertible into units (“**Debenture Units**”) (post-Consolidation of the Company at \$0.45 (the “**Conversion Price**”) for a period from the date of issue to the Maturity Date. Each Debenture Unit consists of one common share (a “**Debenture Share**”) and share purchase warrant (a “**Debenture Warrant**”), with each Debenture Warrant exercisable into one common share of the Company (a “**Debenture Warrant Share**”) at a price of \$0.75 common share for a period of two years from the date of issuance of the Debenture Warrants. The Debenture Units are subject to a four month hold period in accordance with applicable securities laws; and
- Andrew Jarvis and Phillip Thomas resigned as directors and officer of the Company and George Routhier and Andy Hale were appointed directors of the Company. Andy Hale was appointed President and Chief Executive Officer of the Company and Stephen Brohman was appointed Chief Financial Officer and Secretary of the Company.

Item 5 Full Description of Material Change

5.1 Full Description of Material Change

On December 19, 2019, the Company closed its acquisition of all of the issued and outstanding common shares of Adastra Labs Holdings Ltd. pursuant to a Share Exchange Agreement dated as of August 1, 2019 with Adastra and its shareholders whereby the parties completed a business combination by way of a transaction that

constituted a reverse takeover of the Company by Aداstra. Pursuant to the Share Exchange Agreement, the Company acquired all of the 81,138,333 Aداstra shares in exchange for 81,138,333 common shares of the Company on the basis of one (1) common share of the Company for every Aداstra share, as a result of which Aداstra became a wholly-owned subsidiary of the Company. Of the common shares issued 26,000,000 common shares are held in escrow.

In connection with the Transaction, the Company has completed the following (all of which were closing conditions):

- The voluntary delisting of the Company's common shares from the TSX Venture Exchange effective at the close of trading on December 17, 2019;
- A Consolidation of its issued and outstanding common shares based on one (1) post-Consolidation common share for every five (5) pre-Consolidation common shares, effective December 18, 2019. As a result of the Consolidation, the number of issued and outstanding common shares was reduced from 27,924,921 to 5,584,988;
- A non-brokered Private Placement pursuant to which the Company issued 10,000,000 common shares (post-Consolidation) at a price of \$0.05 per share to raise gross proceeds of \$500,000, which proceeds are to be used for general working capital. The Private Placement shares are subject to a hold period expiring on April 20, 2020 in accordance with applicable securities laws;
- A name change from Arrowstar Resources Ltd. to "Aداstra Labs Holdings Ltd." effective December 19, 2019;
- A debt settlement with arm's length and non-arm's length creditors and pursuant to debt settlement agreements as a result of which the Company settled \$303,552 of debt for and in exchange of 6,071,046 (post-Consolidation) common shares of the Company at a deemed price of \$0.05 per share. This settlement included the issuance of 2,200,000 (post-Consolidation) common shares in settlement of \$110,000 of debt owed to certain officers and directors of the Company and two former directors;
- A non-brokered Unit Private Placement pursuant to which 5,892,455 Units (post-Consolidation) of the Company at a price of \$0.45 per Unit were issued for aggregate gross proceeds of \$2,651,604. Each Unit is comprised of one Unit Share and one transferable Warrant, with each whole Warrant exercisable to purchase one Warrant Share until December 19, 2021, at a price of \$0.60 per Warrant Share. The Private Placement Units are subject to a hold period expiring on April 20, 2020 in accordance with applicable securities laws;
- A private placement offering of 12% Secured Convertible Debentures in the aggregate principal amount of \$3,177,000, which Debentures are payable on the earlier of two years from the date of issue or an event of default in accordance with the terms of the Debentures. In accordance with the terms of the Debentures, the principal amount plus accrued and unpaid interest of a Debenture is convertible into Debenture Units (post-Consolidation of the Company at \$0.45 for a period from the date of issue to the Maturity Date. Each Debenture Unit consists of one Debenture Share and a Debenture Warrant), with

each Debenture Warrant exercisable into one Debenture Warrant Share at a price of \$0.75 common share for a period of two years from the date of issuance of the Debenture Warrants. The Debenture Units are subject to a four month hold period in accordance with applicable securities laws; and

- Andrew Jarvis and Phillip Thomas resigned as directors and officer of the Company and George Routhier and Andy Hale were appointed directors of the Company. Andy Hale was appointed President and Chief Executive Officer of the Company and Stephen Brohman was appointed Chief Financial Officer and Secretary of the Company.

Participation by insiders constitutes a related party transaction as defined under Multilateral Instrument 61-101 – Protection of Minority Security Holders in Special Transactions (“**MI 61-101**”). The Company relied upon exemptions from the valuation and minority shareholder approval requirements of MI 61-101 contained in sections 5.5(a) and 5.7(1)(a), respectively, with respect to the issuance of the debt settlement shares and private placement shares to the directors and officers, as the Company is not listed on a senior specified stock exchange and the fair market value of the participation in the transaction by directors and officers does not exceed 25% of the market capitalization of the Company, as determined in accordance with MI 61-101.

Insiders, each being a "related party" of the Company (as such term is defined under MI 61-101) acquired a total of 2,200,000 debt settlement shares (the “**Debt Settlement Shares**”), 200,000 Private Placement Shares, and 700,000 common shares (the “**Share Exchange Shares**”) pursuant to the Share Exchange Agreement (the “**Closing Transactions**”).

Blaine Bailey (a director of the Company) acquired 500,000 Debt Settlement Shares and 200,000 Share Exchange Shares, Oaksid Advisory Ltd., a company owned by Stephen Brohman (Chief Financial Officer and a director of the Company) acquired 500,000 Debt Settlement Shares, Stephen Brohman acquired 200,000 Private Placement Shares and 500,000 Share Exchange Shares. Andrew Jarvis (a former director of the Company) acquired 200,000 Debt Settlement Shares, and Panopus PLC, a company owned by Phillip Thomas (former President, Chief Executive Officer and a former director of the Company) acquired 1,000,000 Debt Settlement Shares.

Prior to the debt settlement and Share Exchange Agreement, Blaine Bailey beneficially owned or controlled 169,316 common shares of the Company (224,656 common shares fully diluted) directly and indirectly representing approximately 3.03% (3.98% fully diluted) of the issued and outstanding common shares of the Company and, following the Closing Transactions, he now beneficially owns or controls 869,316 common shares (924,656 common shares fully diluted) of the Company representing approximately 0.80% (0.85% fully diluted) of the issued and outstanding common shares of the Company.

Prior to the debt settlement, Private Placement and Share Exchange Agreement, Stephen Brohman beneficially owned or controlled 54,000 common shares (94,000 common shares fully diluted) of the Company directly and indirectly representing approximately 0.97% (1.67% fully diluted) of the issued and outstanding common shares of the Company and, following the Closing Transactions, he now beneficially owns or controls 1,254,000 common shares (1,290,000 common shares fully diluted) of the

Company, directly and indirectly representing approximately 1.15% (1.19% fully diluted) of the issued and outstanding common shares of the Company.

Each of Blaine Bailey, Stephen Brohman, Phillip Thomas, and Andrew Jarvis, disclosed their interest in the debt settlement to the Company and, as directors of the Company, abstained from voting on the approval thereof as it relates to their debt settlement.

This material change report is being filed less than 21 days prior to the closing of the debt settlement and private placement. The shorter period was necessary in order to permit the Company to close the debt settlement and private placement in a timeframe consistent with usual market practice for transactions of this nature.

5.2 Disclosure for Restructuring Transactions

Not applicable.

Item 6 Reliance on subsection 7.1(2) of National Instrument 51-102

Not applicable.

Item 7 Omitted Information

Not applicable.

Item 8 Executive Officer

Stephen Brohman, Chief Financial Officer
Tel: 604 687-7828

Item 9 Date of Report

December 30, 2019