Phyto Extractions Inc.

(Formerly Adastra Labs Holdings Ltd.)

MANAGEMENT DISCUSSION AND ANALYSIS

For the period ended March 31, 2021 and March 31, 2020

The following management discussion and analysis ("MD&A") of the financial condition and results of operations of Phyto Extractions Inc. (Formerly Adastra Labs Holdings Ltd.) ("Phyto" or the "Company") constitutes management's review of the factors that affected the Company's financial and operating performance for the three months period ended March 31, 2021. This MD&A has been prepared in compliance with the requirements of National Instrument 51-102 – Continuous Disclosure Obligation. This MD&A should be read in conjunction with Phyto's audited financial statements and related notes for the year ended December 31, 2020 and period ended December 31, 2019, which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). All monetary amounts in the MD&A are expressed in Canadian dollars, except per share amounts or as otherwise indicated.

Additional information regarding the Company is available on SEDAR at www.sedar.com, and the Company's website www.adastralabs.ca. This MD&A has been prepared effective as of May 31, 2021.

FORWARD-LOOKING STATEMENTS

This MD&A includes forward-looking statements that are based upon current expectations, which involve risks and uncertainties associated with our business and the environment in which the business operates. Any statements contained herein that are not statements of historical fact may be deemed to be forward looking statements, including those identified by the expressions "considers", "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved", or the negative of these terms or comparable terminology. In this document, certain forward-looking statements are identified by words including "may", "future", "expected", "will", "intends", and "estimates". By their very nature forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance, or achievements expressed or implied by the forward-looking statements. The Company provides no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements.

DESCRIPTION OF THE BUSINESS

Phyto Extractions Inc. (formerly Adastra Labs Holdings Ltd.; formerly Arrowstar Resources Ltd.) (the "Company" or "Arrowstar") was incorporated under the laws of the province of British Columbia on October 14, 1987. The Company changed its name to Phyto Extractions Inc. on April 9, 2021. The Company changed its name to Adastra Labs Holdings Ltd., on December 19, 2019. The Company is an extraction and processing solutions company. The Company's mission is to develop and deploy large-scale cannabis and hemp extraction technologies and provide turn-key processing solutions to help licensed standard and micro-cultivators maximize the value of every harvest. The Company is listed on the Canadian Securities Exchange ("CSE") under the symbol "XTRX". The Company's registered and records office is 5451 275th Street, Langley City, British Columbia, V4W 3X8.

Health Canada issued an Analytical Testing License to the Company's facility, Chemia Analytics Inc., ("Chemia"). Chemia is a wholly owned subsidiary of the Company. The license became effective March 17, 2020.

On December 20, 2019, Arrowstar acquired all of the issued and outstanding common shares of Adastra Labs Holdings (2019) Ltd. ("Adastra") a private British Columbia cannabis extraction and processing solutions company incorporated on June 18, 2018. The acquisition was completed by entering into a share exchange agreement whereby the parties completed a business combination by way of a transaction that constituted a reverse takeover ("RTO") of the Company by Adastra (the "Transaction"). The Transaction was accounted for as an RTO of Arrowstar by Adastra for accounting purposes, with Adastra being identified as the accounting acquirer, and accordingly, these financial statements are a continuation of Adastra. The net assets of Arrowstar at the date of the RTO are deemed to have been acquired by Adastra. This MD&A includes the results of operations of Arrowstar since December 20, 2019. At the time of the transaction the Company changed its financial year end from April 30 to December 31.

In March 2020, the World Health Organization declared COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and related adverse public health developments, have adversely affected workforces, economies, and financial markets globally, which may lead to economic downturn. The extent of the impact of COVID-19 on the Company's operational and financial performance will depend on various developments, including the duration and magnitude of the outbreak, and the impact on customers, employees and vendors, all of which are uncertain and cannot be predicted at this point.

REVERSE ACUISITION

On December 20, 2019, Arrowstar and Adastra completed the Transaction which constituted a reverse acquisition.

The Transaction resulted in the shareholders of Adastra obtaining control of the combined entity by obtaining control of the voting rights, governance and management decision making processes, and the resulting power to govern the financial and operating policies of the combined entity.

The transaction constitutes an RTO of Arrowstar by Adastra and has been accounted for as a reverse acquisition transaction in accordance with the guidance provided in IFRS 2, Share-based payments. As Arrowstar did not qualify as a business according to the definition in IFRS 3, the RTO does not constitute a business combination; rather it is treated as an issuance of common shares by Adastra for the net assets of Arrowstar and Arrowstars public listing, with Adastra as the continuing entity. Accordingly, no goodwill was recorded with respect to the transaction as it does not constitute a business.

For accounting purposes, Adastra was treated as an accounting parent company (legal subsidiary) and Arrowstar has been treated as the accounting subsidiary (legal parent) in the financial statements and MD&A. As Adastra was deemed to be the acquirer for accounting purposes, its assets, liabilities and operations since incorporation are included in these financial statements at their historical carrying values. Arrowstar's results of operations have been included from December 20, 2019.

	December 20, 2019
Net assets (liabilities) of Arrowstar acquired:	**$**
Cash	111,496
Receivables	10,802
Other assets	7,504
Accounts payable	(356,384)
Net liabilities acquired	**(226,582)**
Consideration paid in RTO of Arrowstar:	**$**
Common shares (fair value 21,656,034 common shares at $0.05 per share)	1,082,802
Total consideration paid	**1,082,802**
Listing expense	**1,309,384**

The Transaction was measured at the fair value of the shares that Adastra would have had to issue to the shareholders of Arrowstar, to give the shareholders of Arrowstar the same percentage equity interest in the combined entity that results from the reverse acquisition had it taken the legal form of Adastra acquiring Arrowstar.

OVERALL PERFORMANCE

As at March 31, 2021, the Company had a mortgage payable liability and was in a negative working capital position. The Company's focus for the period ended March 31, 2021, included the expansion of its centralized processing facility in Langley, BC. The Company received their Analytical Testing License on October 19, 2019 and received their Standard Processing License on March 16, 2020. These licenses became effective March 17, 2020. The company received an amendment to its Standard Processing license authorizing the sale of cannabis extract, cannabis edibles and cannabis topicals on March 13, 2021 and their Research license for organoleptic testing on April 16, 2021.

Operations and Facility

As of the date of this MD&A, the Company will focus on the generation of revenue through two primary activities, being wholesale activities and tolling services related to the production of cannabis extracts and related cannabis products.

As of April 23, 2020 the Company has completed the commissioning and commencement of operations at its 13,000 square feet Langley, British Columbia facility. It currently operates a primary supercritical CO_2 extraction line for the production of crude cannabis/hemp extracts, wiped film short path distillation plant for the production of high potency cannabis distillate, a formulation, filling line and packaging line for the manufacture of tincture bottles and vaporizer products as consumer-packaged goods.

At the Company's 13,000 sq. ft. Langley, British Columbia facility which has completed commissioning and commenced operations on April 23, 2020, operating a supercritical CO_2 primary extraction line for crude cannabis/hemp oil production, wiped film short path distillation line for production of high grade cannabis distillate, formulation and filling line for tincture bottles and vaporizer products, and packaging for finished packaged goods.

In September 2020, the Company installed and commissioned its cryo-ethanol extraction production line that triples the Company's cannabis oil production capacity while reducing overall costs. This production line allows the re-purposing of the CO_2 supercritical extraction line for other cannabis concentrate products such as high terpene full spectrum extracts.

During the quarter ending December 31, 2020, the Company installed and commissioned its hydrocarbon extraction production line using propane and butane or other solvent mixes. This production line allows the company to extract over 400 KG per day of cannabis biomass into a variety of high value, and rare hydrocarbon cannabis concentrate products.

Wholesale Bulk Extracts Production

During the period ended March 31, 2021, the Company continued processing their own inventory of dried cannabis through supercritical CO_2 and cryo-ethanol extraction lines and distillation lines for the purpose of selling the resulting bulk cannabis concentrates to licensed clients or using it to fulfill contract manufacturing orders, primarily for vaporizing cartridges. The Company has procured all of its bulk shipments of dried cannabis for its wholesale production lines from various licensed cultivators under the Cannabis Act. During the three months ended March 31, 2021, the Company recognized revenue of $ 589,138.

Contract Manufacturing

For the three months ending March 31, 2021, the Company has received and completed three purchase orders from CannMart Inc., a majority-owned subsidiary of Namaste Technologies Inc., for vaporizing formulation, filling and packaging for 46,009 units and testing and three purchase orders from Radient Technologies (Cannabis) Inc. for 39 kg of bulk distillate orders.

SELECTED ANNUAL INFORMATION

The following table summarizes the results of operations for the three most recent fiscal years ended December 31:

		December 31, 2020		For the eight months ended December 31, 2019
Expenses	$	(7,160,250)	$	(1,128,382)
Loss and comprehensive loss	$	(7,615,864)	$	(2,657,957)
Weighted average number of common shares outstanding - basic and diluted		39,695,235		27,495,882
Loss and comprehensive loss per share - basic and diluted		(0.19)		(0.03)

	December 31, 2020 $	For the eight months December 31, 2019 $
Total assets	13,736,950	11,351,010
Working capital surplus (deficiency)	105,093	(471,084)
Total liabilities	3,650,794	6,266,088
Non-current liabilities	60,000	2,955,511
Shareholders' equity	10,086,156	5,084,922
Deficit	(11,177,810)	(3,561,946)

For the year ended December 31, 2020, the Company had expenses of $7,160,250 and comprehensive loss of $7,615,864, compared to expenses of $1,128,382 and comprehensive loss of $2,657,957.

This increase in expenses and comprehensive loss in 2020 as compared to 2019 was the result of the Company's expenses with respect to office, professional fees and consulting, and wages and salaries have increased as the Company expands its development efforts relating to the build out of its centralized processing facility and has engaged in further marketing activity in relation to the general development, promotion, and expansion of its business during the year ended December 31, 2020, and relative to the comparative year ended December 31, 2019.

Results of Operations

For the three months ended March 31, 2021 and March 31, 2020, the Company had operating expenses of $467,771 and comprehensive loss of $363,512, compared to operating expenses of $3,203,223 and comprehensive loss of $3,343,034.

This decrease in operating expenses and comprehensive loss in 2021 as compared to 2020 was the result of the Company's expenses with respect to advertising and promotion, accretion, depreciation, office, professional fees and consulting. Insurance research and wages and salaries have increased as the Company expands its development efforts relating to the build out of its centralized processing facility and expansion of its business during the three months ended March 31, 2021, and relative to the comparative three months ended March 31, 2020. More specifically:

- Revenues increase to $589,138 from processing of cannabis biomass for third party licensed producers and in-house distillate production.
- Cost of sales of $402,216 consists of biomass, labor, solvents and an allocation of production overheads such as facility costs and amortization of production equipment.
- Gross profit of $186,922 (31.7% gross margin) was generated by production during the three months ending March 31, 2021.
- Advertising and promotion decreased by $23,630 due to developing a more focused investor awareness campaigns.
- Accretion decreased $21,088 due to the conversion of the convertible debentures.
- Depreciation deceased $12,690 due to allocation of expenses to production.
- Insurance increased $4,266 due to increased coverage and associated premiums to cover added production equipment and general liabilities resulting from sales activities.
- Office expenses decrease by $55,741 to $ 90,044 as the Company is moving past startup and into regular production.
- Professional fees and consulting decreased by $193,108 to $93,187 primarily due to the decrease of consultants needed to prepare the extraction process, commissioning of equipment and testing.
- Research expenses increased to $34,454 due to increased production and testing.
- Share-based payments of $ 2,537,300 is a non-cash expense that occurred during the three months ended March 31,2020. This represented the fair value of options granted using the Black-Scholes option pricing model. No stock option grants occurred during the quarter ended March 31, 2021.
- Wages and salaries increased by $69,574 to $182,036 due to increased hiring activity and production output for the Company in their initial year of operations.
- Interest expense decreased by $82,622 to $59,213 due to the conversion of the Convertible debenture.
- Inventory was written down by $81,511 in accordance with IFRS requirements to value inventory at the lower of cost or market.
- Gain on settlement of accounts results from the settlement of accounts payable during the period.

SUMMARY OF QUARTERLY RESULTS

The following table shows results from the previous quarters since incorporation on June 18, 2018:

Period Ending	Revenue $	Net income (loss and comprehensive loss) $	Basic and Diluted Net income (loss) Per Share $
March 31,2021	589,138	(363,512)	(0.01)
December 31, 2020	1,245,097	90,470	-
September 30, 2020	825,903	(3,895,719)	(0.03)
June 30, 2020	428,355	(467,584)	(0.01)
March 31, 2020	-	(3,343,034)	(0.03)
December 31, 2019	-	(1,785,818)	(0.02)
October 31, 2019	-	(333,290)	(0.00)
July 31, 2019	-	(538,849)	(0.01)
April 30, 2019	-	(390,012)	(0.07)

The Company's loss and comprehensive loss for the period ended March 31, 2021, was $363,512. Revenues of $589,138 represent the Company's fourth quarter of production revenue. The Company incurred $182,036 in wages and salaries which represents the buildup of production employees. Inventory write down of $81,511 represents the total of fair market valuation adjustments to inventory and the gain on settlement of accounts of $57,500 represents the value of consulting fees that were forgiven.

The Company's loss and comprehensive loss for the year ended December 31, 2020, is $7,615,864. The incurred amount was offset by revenues of $2,499,355 which represent the Company's year of product sale and production revenue. The Company incurred $ 749,258 in advertising and promotion expenses during the year represents the Company's investor awareness campaign. The Company incurred $5,332,500 in non-cash expenses for stock-based payments for Directors, Officers, employees and consultants.

The Company's net income for the quarter ended December 31, 2020 was $90,470. Revenues of $1,245,097 represent the Company's third quarter of production revenue. The Company incurred $54,878 in advertising and promotion expenses during the three months ended December 31, 2020 which represents the Company's investor awareness campaign.

The Company's loss and comprehensive loss for the period ended September 30, 2020, was $3,895,719. The incurred amount was offset by revenues of $825,903 which represent the Company's second quarter of production revenue. The Company incurred $433,859 in advertising and promotion expenses during the three months ended September 30, 2020 which represent the Company's investor awareness campaign. The Company incurred $2,795,200 in non-cash expenses for stock-based payment for Directors, Officers, employees and consultants.

The Company's loss and comprehensive loss for the period ended June 30, 2020, was $ 467,584. The incurred amount was offset by revenues of $ 428,555 which represents the Company's first quarter of production revenue. The Company incurred $ 206,704 in advertising and promotion expenses during the three months ended June 30, 2020 which represents the Company's investor awareness campaign.

The Company's loss and comprehensive loss for the period ended December 31, 2019, was $1,785,818. The incurred amount is due in large part to the increased activity and related expenditures above specific to the Company's efforts to expand the business, build its facility, and obtain a public listing. Approximately $ 1,300,000 represented the excess of the non-cash consideration paid over the net assets of Arrowstar.

The Company's loss and comprehensive loss for the period from incorporation on June 18, 2018 to April 30, 2019, is $903,989. The incurred amount is due in large part to the increased activity and related expenditures specific to the Company's efforts to expand the business, build its facility, and obtain a public listing.

LIQUIDITY AND CAPITAL RESOURCES

The Company's objectives when managing its liquidity and capital structure are to support further advancement of the Company's business objectives and existing service offerings, as well as to ensure that the Company is able to meet its financial obligations as they come due.

Cash and working capital

As at March 31, 2021 the Company has working capital deficit of $490,159 (deficit of 4,097,131 March 31, 2020).

Cash flow activity

For the period ending March 31, 2021 operating activities consumed $298,090. The company invested a further amount of $157,889 in extraction equipment and $67,265 mortgage related expenses. These amounts were offset by cashflows from investing activities of $561 resulting in a net decrease in cash of $522,683 and an ending cash balance of $622,778.

For the period ending March 31, 2020 operating activities consumed $478,322. The company invested a further amount of $593,756 in extraction equipment and $68,284 mortgage related expenses. These amounts were offset by cashflows from investing activities of $3,524 resulting in a net decrease in cash of $1,136,838 and an ending cash balance of $1,239,988.

Capital resource management

The Company defines capital as the components of shareholders' equity. The Company's objectives when managing capital are to support further advancement of the Company's business objectives, as well as to ensure that the Company is able to meet its financial obligations as they come due.

The Company manages its capital structure to maximize its financial flexibility making adjustments to it in response to changes in economic conditions and the risk characteristics of the underlying assets and business opportunities. The Company relies on the expertise of the Company's management to sustain the future development of the business. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the period ended March 31, 2021. The Company is not subject to externally imposed capital requirements.

SHARE CAPITAL INFORMATION

Authorized

Unlimited number of common shares with no par value.

Issued and Outstanding

As at March 31, 2021, 43,334,100 (2020: 36,685,635) common shares were issued and outstanding. 43,334,100 common shares are issued and outstanding to date of this report.

Issuances of shares for cash

No transactions for the issue of share capital during the three months ended March 31, 2021

Transactions for the issue of share capital during the three months ended March 31, 2020:

On January 17, 2020, the Company issued 189,934 units on conversion of $250,000 of principal and $6,411 of accrued interest of the convertible debenture. Each unit consists of one common share of the Company and one share purchase warrant exercisable at $2.25 for two years from the date of conversion. No value was attributed to the warrant component of the units issued.

On January 27, 2020, the Company issued 266,760 units on conversion of $350,000 of principal and $10,126 of accrued interest of the convertible debenture. Each unit consists of one common share of the Company and one share purchase warrant exercisable at $2.25 for two years from the date of conversion. No value was attributed to the warrant component of the units issued.

Escrowed shares

The Company entered into an Escrow Agreement in connection with closing the RTO on December 20, 2019, in relation to certain of its common shares which were placed in escrow. Pursuant to the Escrow Agreement the escrowed common shares are subject to a timed release schedule whereby a 10% portion of the escrow shares will be released beginning on listing date, and 15% every six months thereafter until January 6, 2023.

As at March 31, 2021, 5,200,000 common shares were held in escrow (December 31, 2020 – 6,500,000).

Stock options

As at the date of this MD&A, the Company has 4,166,667 stock options outstanding.

A summary of the status of the Company's options as at March 31, 2021 and December 31, 2020 and changes during the period/year then ended is as follows:

	Period ended March 31, 2021		Year ended December 31, 2020	
	Options #	Weighted average exercise price $	Options #	Weighted average exercise price $
Options outstanding, beginning of period/year	4,166,667	1.73	-	-
Granted	-	-	4,206,667	1.73
Cancelled	-	-	(40,000)	1.35
Options outstanding, end of period/year	**4,166,667**	**1.73**	4,166,667	1.73

As at March 31, 2021, the Company has stock options outstanding and exercisable as follows:

Options outstanding #	Options exercisable #	Exercise Price $	Expiry date	Weighted average remaining life (years)
2,483,333	2,483,333	1.35	January 30, 2025	3.83
66,667	66,667	1.35	June 1, 2022	1.17
1,616,667	1,616,667	2.34	August 5, 2025	4.35
4,166,667	**4,166,667**			**3.99**

Compensation Options

As at March 31, 2021, the Company has Compensation Options outstanding and exercisable as follows:

Options outstanding #	Options exercisable #	Exercise Price $	Expiry date	Weighted average remaining life (years)
12,000	12,000	0.90	July 13, 2022	1.28
12,000	**12,000**			**1.28**

Warrants

As at the date of this MD&A, the Company has 8,335,992 warrants outstanding.

A summary of the status of the Company's warrants as at March 31, 2021 and December 31, 2020 and changes during the period/year then ended is as follows:

	Period ended March 31, 2021		Year ended December 31, 2020	
	Warrants #	Weighted average exercise price $	Warrants #	Weighted average exercise price $
Warrants outstanding, beginning of period	8,335,992	1.80	2,470,552	2.19
Issued - attached to units	-	-	6,414,807	1.80
Exercised	-	-	(42,967)	1.80
Expired	-	-	(506,400)	2.76
Warrants outstanding, end of period	**8,335,992**	**1.80**	8,335,992	1.80

As at March 31, 2021, the Company had warrants outstanding and exercisable as follows:

Warrants outstanding #	Warrants exercisable #	Exercise Price $	Expiry date	Weighted average remaining life (years)
1,921,185	1,921,185	1.80	December 19, 2022	1.72
189,934	189,934	2.25	January 17, 2022	0.80
266,760	266,760	2.25	January 27, 2022	0.83
200,589	200,589	2.25	July 10, 2022	1.28
3,882,667	3,882,667	1.50	July 13, 2022	1.28
759,605	759,605	2.25	July 16, 2022	1.29
953,564	953,564	2.25	July 28, 2022	1.33
161,688	161,688	2.25	August 5, 2022	1.35
8,335,992	**8,335,992**			1.37

OFF-BALANCE SHEET ARRANGEMENTS

The Company has not engaged in any off-balance sheet arrangements such as obligations under guarantee contracts, a retained or contingent interest in assets transferred to an unconsolidated entity, any obligation under derivative instrument or any obligation under a material variable interest in an unconsolidated entity that provides financing, liquidity, market risk or credit risk support to the Company or engages in leasing or hedging services with the Company.

PROPOSED TRANSACTIONS

On March 16, 2021, the Company made its acquisition of a 51% in Phyto Extractions™ brands binding, with the Company agreeing to pay 38,400,000 common shares priced at $1.10 per share, or $42,240,000 to acquire the controlling interest in the brands in accordance with a fairness opinion and valuations issued by RwE Growth Partners Inc. This transaction is subject to the completion of a definitive agreement and regulatory approvals.

MORTGAGE PAYABLE

a) On January 7, 2019, the Company entered into a mortgage for $2,446,000 (the “First Mortgage”) which bore interest at the rate of 8.25% per annum, calculated monthly. The First Mortgage matured on February 1, 2020 and was renewed as discussed below.

   The First Mortgage payable was recorded at amortized cost and bore an effective interest rate of 10.44%.

   The carrying value of the First Mortgage at December 31, 2019 was $2,437,175. Included in mortgage payable on initial recognition were the related mortgage transaction costs of $50,755 which were amortized over the term of the First Mortgage using the effective interest rate method.

   The Company maintained minimum interest only payments of $16,816 per month in connection with the First Mortgage. Total interest expense of the First Mortgage during the period ended March 31, 2021 was $nil (2020 - $33,632).

b) On February 1, 2020, the Company renewed the First Mortgage of $2,446,000 (the “Second Mortgage”) which bears interest at the rate of 8.00% per annum, calculated monthly. The Second Mortgage matures on February 1, 2021 and can be repaid before maturity without penalty and is secured by the mortgage property and building improvements.

   The Second Mortgage payable was recorded at amortized cost and bares an effective interest rate of 8.79%.

   The carrying value of the Second Mortgage payable at December 31, 2020 was $2,442,830. Included in mortgage payable (on initial recognition) were the related mortgage transaction costs of $18,345 which are being amortized over the term of the Second Mortgage using the effective interest rate method.

   The Company maintained minimum interest only payments of $16,307 per month. Total interest expense during the period ended March 31, 2021 was $35,783 (2020 - $16,307).

c) On February 1, 2021, the Company renewed the Second Mortgage of $2,446,000 (the "Third Mortgage") which bears interest at the rate of 8.00% per annum, calculated monthly. The Third Mortgage matures on February 1, 2022 and can be repaid before maturity without penalty and is secured by the mortgage property and building improvements.

   The Third Mortgage payable was recorded at amortized cost and bares an effective interest rate of 8.79%.

   The carrying value of the Third Mortgage payable at March 31, 2021 was $2,429,123. Included in mortgage payable are the related mortgage transaction costs of $18,345 which are being amortized over the term of the Third Mortgage using the effective interest rate method.

   The Company maintains minimum interest only payments of $16,307 per month. As at March 31, 2021 the total non-discounted remaining scheduled payments related to the mortgage including interest payments, total $2,625,373. Total interest expense during the period ended March 31, 2021 was $17,775 (2020 - $nil).

CONVERTIBLE DEBENTURE

On October 31, 2019, the Company closed a 2,353,333 convertible debenture unit offering at a price of $1.35 per debenture unit for gross proceeds $3,177,000. Each debenture consisted of a 12% secured convertible debenture with a maturity of two years from the date of issuance. If the holder converted their debenture unit, they were entitled to one common share and one share purchase warrant exercisable at $2.25 per share exercisable two years from the date of the convertible debenture closing October 31, 2021 at the holder's discretion.

If the closing price of the Common Shares of the Company was higher than $3.00 for any 10 consecutive trading days, the expiry date of the Warrants may be accelerated to the 30th day after the date of a news release announcing such acceleration. The debentures were secured to the facility subordinate to the mortgage currently on the facility.

As the debentures were convertible into units, the liability and equity components were presented separately on the consolidated statement of financial position. The initial carrying amount of the financial liability was determined by discounting the stream of future payments of interest and principal at a market interest rate of 16% totaling $2,878,539. Using the residual method, the carrying amount of the conversion feature is the difference between the principal amount and the initial carrying value of the financial liability. The equity component was recorded in debenture reserves on the consolidated statement of financial position totaling $298,461. The debentures, net of the equity components were accreted using the effective interest method over the term of the debentures, such that the carrying amount of the financial liability was equal the principal balance at maturity.

During the year ended December 31, 2020, the Company settled principal plus accrued interest of $3,418,390 relating to the debentures through the issuance of 2,532,140 units. The Company reversed $298,461 from debenture reserves in connection with the settlement.

During the three months ended March 31, 2021, the Company recorded interest expense of $nil (2020 - $81,602) and accretion expense of $nil (2020 - $21,088).

TRANSACTIONS WITH RELATED PARTIES

A number of key management personnel and Directors hold positions in other entities that result in them having control or significant influence over the financial or operating policies of these entities. There were no loans to key management personnel or Directors, or entities over which they have control or significant influence during the periods ended March 31, 2021 or March 31, 2020.

During the period ended March 31, 2021, no options were granted (2020 – 1,133,333) to Officers and Directors having a fair value on grant of $nil (2020 – $1,139,612).

The following related parties transacted with the Company or Company controlled entities during the periods:

(a) Andrew Hale is a Director and the Company's President and CEO.

(b) Blaine Bailey is a Director and Chairman of the Company's Audit Committee.

(c) Stephen Brohman is the Company's CFO. He is a principal of Donaldson Brohman Martin CPA Inc. ("DBM CPA") a firm in which he has significant influence. DBM CPA provides the Company with accounting and tax services.

(d) George Routhier is a Company Director. He is the owner of Pipedreemz Inc. ("Pipedreemz"), which provides advisory services to the Company.

The aggregate value of transactions and outstanding balances with key management personnel and Directors and entities over which they have control or significant influence were as follows:

The aggregate value of transactions and outstanding balances with key management personnel and Directors and entities over which they have control or significant influence were as follows:

	Transactions three months ended March 31, 2021	Transactions three months ended March 31, 2020	**Balances outstanding March 31, 2021**	Balances outstanding December 31, 2020
	$	$	**$**	$
DBM CPA	30,000	36,000	8,400	150,900
Andrew Hale	47,479	45,028	-	180,091
Pipedreemz	-	2,500	-	2,500
	77,479	83,528	**8,400**	333,491

All related party balances are unsecured and are due within thirty days without interest.

The transactions with the key management personnel and Directors are included in operating expenses as follows:

(a) Consulting fees

- Includes the advisory services of Director, George Routhier, charged to the Company by Pipedreemz.

(b) Professional fees

- Includes the accounting and tax services of the Company's CFO, Stephen Brohman, charged to the Company by DBM CPA.

(g) Wages and salaries

- Includes charges by Andrew Hale for salaries paid to Officer.

NEW ACCOUNTING STANDARDS

Accounting standards issued but not yet effective

Certain pronouncements have been issued by the IASB or IFRIC that are effective for accounting periods beginning on or after January 1, 2021. The Company has reviewed these updates and determined that many of these updates are not applicable or consequential to the Company and have been excluded from discussion within these significant accounting policies.

RISKS AND UNCERTAINTIES

The Company operates in rapidly changing environment that involves risks and uncertainties and as a result management expectation may not be realized for a number of reasons. An investment in the Company common shares is speculative and involves a high degree of risk and uncertainty. The current regulatory uncertainty poses additional risks and uncertainties which may materially affect management's expectations.

Regulatory Risks

The operations of the Company will be subject to various laws governing the production and distribution of cannabis oil, taxes, labour standards and occupational health, toxic substances, land use, water use, and other matters.

The Cannabis Act is a new regime and as such, revisions to the regime could be implemented which could have an impact on operations.

Furthermore, although the operations of each of the Company are currently carried out in accordance with all applicable rules and regulations, no assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner which could limit or curtail the ability to produce cannabis oil and related products. Amendments to current laws and regulations governing the distribution, transportation and/or production of cannabis oil or related products, or more stringent implementation thereof could have a substantial adverse impact.

Ongoing Need for Financing

The Company's ability to continue operations will be largely reliant on its continued attractiveness to equity investors. The Company is expected to incur operating losses as it continues to expend funds to develop its business operations. Even if its financial resources are sufficient to fund its current operations, there is no guarantee that the Company will be able to achieve its business objectives. The continued development of Adastra will require substantial additional financing. The failure to raise such capital could result in the delay or indefinite postponement of current business objectives or the going out of business. The primary source of funding available to the Company will consist of equity financing. There can be no assurance that additional capital or other types of financing will be available if needed or that, if available, the terms of such financing will be favorable. In addition, from time to time, the Company may enter into transactions to acquire assets or the shares of other corporations. These transactions may be financed wholly or partially with debt, which may temporarily increase the Company's debt levels above industry standards.

Competition

The marijuana production industry is competitive in all of its phases. The Company will face strong competition from other companies in connection with such matters. Many of these companies have greater financial resources, operational experience and technical capabilities than Phyto. As a result of this competition, the Company may be unable to maintain its operations or develop them as currently proposed, on terms it considers acceptable or at all. Consequently, the revenues, operations and financial condition of the Company could be materially adversely affected.

Because of early stage of the industry in which Phyto operates, the Company may face additional competition from new entrants. If the number of users of marijuana in Canada increases, the demand for products will increase and expects that competition will become more intense, as current and future competitors begin to offer an increasing number of diversified products. To remain competitive, the Company will require a continued high level of investment in research and development, marketing, sales and client support. The Company may not have sufficient resources to maintain research and development, marketing, sales and client support efforts on a competitive basis which could materially and adversely affect the business, financial condition and results of operations.

COVID-19 Pandemic

COVID19 outbreak continues to rapidly evolve and is causing business disruptions across the entire global economy and society. We have taken various measures to prioritize the health and safety of our employees, customers and partners, including: restricted work travel and site access; improved safety & hygiene; and the requirement of nonessential staff members to work remotely. As a manufacturer of consumable and medicinal products, our practice is always to operate to global pharma-quality standards to the best of our abilities with strict hygiene practices and mandated personal protective equipment. The extent of the impact on COVID-19 on the Company's operational and financial performance will depend on various developments, including the duration and magnitude of the outbreak, and the impact on customers, employees and vendors, all of which are uncertain and cannot be predicted at this point.

FINANCIAL RISK MANAGEMENT

Financial instruments - fair value

The Company's financial instruments consist of cash, trade receivables, deposits, accounts payable and accrued liabilities, mortgage payable and loan payable.

The carrying value of accounts payable and accrued liabilities, and loan payable approximated their fair value because of the short-term nature of these instruments. Mortgage payable approximate fair value due to its market rates of interest charged.

Financial instruments measured at fair value on the consolidated statements of financial position are summarized into the following fair value hierarchy levels:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1 $	Level 2 $	Level 3 $	Total $
March 31, 2021				
Cash	622,778	-	-	622,778
Deposits	4,000	-	-	4,000
	626,778	**-**	**-**	**626,778**
December 31, 2020				
Cash	1,145,461	-	-	1,145,461
Deposits	4,000	-	-	4,000
	1,149,461	-	-	1,149,461

Financial instruments - risk

The Company's financial instruments are exposed to certain financial risks, including credit risk, liquidity risk and currency risk.

(a) Credit risk

The Company is exposed to credit risk by holding cash. This risk is minimized by holding the funds in Canadian banks and credit unions or with Canadian governments. The Company has minimal receivable exposure, and its various refundable credits are due from Canadian governments.

(b) Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its financial obligations as they come due. The Company manages this risk by careful management of its working capital to ensure its expenditures will not exceed available resources.

(c) Currency risk

The Company is not exposed to currency risk.

Economic dependence

Economic dependence risk is the risk of reliance upon a select number of customers which significantly impact the financial performance of the Company. During the period ended March 31, 2021, the Company's sales were generated by two customers representing approximately 59% and 41%.

CRITICAL ACCOUNTING ESTIMATES AND FINANCIAL INSTRUMENTS

Refer to the Company's annual audited financial statements for the year ended December 31, 2020.

SUBSEQUENT EVENT

(a) On April 30, 2021, the Company announced the resignation of J. Scott Munro as President, CEO and Director.

(b) On May 10, 2021, the Company announced the appointment of Michael Forbes as President, CEO and Director in conjunction with the resignation of J. Scott Munro from said position. Additionally, Donald Dinsmore, Chief Operating Officer of the Company was appointed director.

CONTACT

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OFFICERS AND DIRECTORS

Directors:	Michael Forbes Stephen Brohman Georges Routhier Donald Dinsmore
Officers:	Michael Forbes, President and CEO Stephen Brohman, CFO Donald Dinsmore, COO and Corp. Secretary