

**FORM 51-102F3
MATERIAL CHANGE REPORT**

Item 1. Name and Address of Company

Adastra Holdings Ltd. (the “**Company**”)
5451 – 275 Street
Langley, BC V4W 3X8

Item 2. Date of Material Change

September 17, 2021

Item 3. News Release

The news release was issued and disseminated via Cision on September 20, 2021 and filed on SEDAR at www.sedar.com.

Item 4. Summary of Material Change

The Company announced that it has acquired all of the issued and outstanding shares in the capital of 1204581 B.C. Ltd., doing business as Phyto Extractions, from the shareholders thereof (each, a “**Vendor**”), pursuant to the terms of a share purchase agreement dated September 15, 2021 (the “**Acquisition**”).

In consideration for the Acquisition, the Company issued 20,000,000 common shares (each, a “**Consideration Share**”) to the Vendors at a deemed price of \$0.96 per Consideration Share, for a total purchase price of \$19,200,000. The Consideration Shares are subject to a voluntary restricted period of four months and one day from the closing date of the Acquisition. The Acquisition was an arm's length transaction and there was no finder's fee paid on closing.

Item 5. Full Description of Material Change

5.1 Full Description of Material Change

A full description of the material change is described in Item 4 above and in the attached news release.

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

None.

Item 8. Executive Officer

Michael Forbes, CEO and Director (Chairman)
Telephone: (778) 715-5011

Item 9. Date of Report

September 27, 2021

Adastra Holdings Completes Acquisition of Phyto Extractions

*Provides additional detail on the strategy to leverage the Phyto brand to drive accelerated growth
The Company expects \$5 million in monthly sales by July 2022*

LANGLEY, BC, Sept. 20, 2021 /CNW/ - Adastra Holdings Ltd. (formerly Phyto Extractions Inc.) (CSE: XTRX) (FRA: D2EP) ("Adastra" or the "Company"), today announced the completion of its previously-announced acquisition of privately held 1204581 B.C. Ltd., doing business as Phyto Extractions ("Phyto Extractions"), the owner of the intellectual property rights for the Phyto Extractions brand. With complete control of the popular Phyto Extractions brand asset, Adastra intends to leverage Phyto Extractions's 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 Adastra.



The Acquisition provides additional detail on the strategy to leverage the Phyto brand to drive accelerated growth. The Company expects \$5 million in monthly sales by July 2022 (CNW Group/Adastra Holdings Ltd.)

"As a cannabis retail operator, I recognize the tremendous value Phyto Extractions will bring to Adastra," said Michael Forbes, Chief Executive Officer of Adastra. "Phyto Extractions has already gained the trust of over 1,400 retailers and consumers across Canada, representing over 70% of all regulated Cannabis retail stores. I am confident that Adastra will leverage this position in the Canadian cannabis market to accelerate overall growth over the coming quarters as we enter new product categories. Adding flower and other SKUs, we expect to achieve \$5 million in monthly sales by July 2022."

Strategy to Drive Accelerated Growth and Profitability

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

New Product Introduction: Adastra 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, Adastra 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, Adastra 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, Adastra plans to launch edibles that will be created and sold through Adastra Labs without additional capital expenditures.

Optimize In-Store: With full ownership of the Phyto Extraction brand asset, Adastra 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: Adastra 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: Adastra 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: Adastra expects to realize operating synergies on unified management through leveraging Adastra Labs' state-of-the-art 13,000 sq. ft. agricultural scale facility.

Transaction Overview

At closing, Adastra 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. Pursuant to the terms of the Share Purchase Agreement dated September 15, 2021, the Vendors have agreed to a voluntary restricted period of four months and one day from the closing date of the acquisition. The acquisition is an arm's length transaction, and there is no finder's fee payable on closing.

About Adastra Holdings Ltd.

Founded in 2018 and formerly known as Phyto Extractions Inc., Adastra is a leading manufacturer and supplier of innovative ethnobotanical and cannabis science products designed for the adult-use and medical markets and forward-looking therapeutic applications. Adastra is renowned throughout Canada for its popular line of Phyto Extractions branded cannabis concentrate products available on shelves at over 1,400 adult-use retailers across the country. The Company also operates Adastra Labs, a 13,500 sq. ft. agricultural-scale Health Canada licensed facility located in Langley, BC., focused on extraction, distillation, and manufacturing of cannabis-derived products. Adastra has now successfully taken the first steps in becoming a licensed cultivator, tester, extractor, and seller of controlled substances, including Psilocybin, Psilocin, MDMA, N, N-Dimethyltryptamine (DMT), 5-MeO-DMT, and LSD by applying for a Controlled Substances Dealer's Licence, which is under review by Health Canada. Pending Health Canada approval, Adastra is poised to be a drug formulation and development leader in this emerging sector. In addition, with the recent acquisition of 1225140 B.C. Ltd., doing business as PerceiveMD, Adastra operates a multidisciplinary centre for medical cannabis and psychedelic therapies, working alongside doctors and healthcare professionals within the regulated environment to help create efficacious remedies that address the actual needs of patients.

ON BEHALF OF THE BOARD
ADASTRA HOLDINGS LTD. (CSE: XTRX)

Forward-Looking Information

This news release contains forward-looking information within the meaning of Canadian securities legislation, concerning the business of the Company. Forward-looking information is based on certain key expectations and assumptions made by the management of the Company. Although the Company believes that the expectations and assumptions on which such forward-looking information is based are reasonable, undue reliance should not be placed on the forward-looking information because the Company can give no assurance that they will prove to be correct. Forward-looking information in this news release includes statements with respect to plans to leverage Phyto Extraction's product development expertise, sales force and existing relationships, the expectation that the acquisition will be immediately accretive to the Company; expectations of accelerated growth and profitability; the roll-out of additional SKUs and new product categories such as flower, pre-roll products, solvent-less cannabis extracts, branded beverages and other edibles; the expectation of sales growth increasing to \$5 million in monthly sales by July 2022; plans to engage in a targeted retail engagement strategy; retail footprint expansion plans; the Company's intended sales force expansion; expected operating synergies between the Company and Phyto Extractions; and timelines associated with new product offerings and SKUs. There are numerous risks and uncertainties that could cause actual results and the Company's plans and objectives to differ materially from those expressed in the forward-looking information. Important factors that could cause actual results to differ materially from those expressed in the forward-looking information include that the parties may not close the transaction at all or on the anticipated timeline stated herein; changes in regulations or licensing affecting the Company's business; reduced demand for cannabis and cannabis related products; reductions in the Company's retail space and store locations; and other factors beyond the control of the Company. These and all subsequent written and oral forward-looking information are based on estimates and opinions of management on the dates they are made and are expressly qualified in their entirety by this notice. Except as required by law, the Company does not intend to update these forward-looking statements.

This news release contains future-oriented financial information and financial outlook information (collectively, "FOFI") about the Company's expected increase in sales on a post-closing and pro forma basis, which is subject to the same assumptions, risk factors, limitations, and qualifications as set out in the above paragraphs. The actual financial results of the Company on a post-closing basis may vary from the amounts set out herein and such variation may be material. The Company and its management believe that the FOFI has been prepared on a reasonable basis, reflecting management's best estimates and judgments. However, because this information is subjective and subject to numerous risks, it should not be relied on as necessarily indicative of future results. Except as required by applicable securities laws, the Company undertakes no obligation to update such FOFI. FOFI contained in this news release was made as of the date hereof and was provided for the purpose of providing further information about the Company's anticipated future business operations on a post-closing basis. Readers are cautioned that the FOFI contained in this news release should not be used for purposes other than for which it is disclosed herein.

Financial information regarding Phyto Extractions has been provided by Phyto Extractions and has not been independently verified by the Company as of the date hereof.

The Canadian Securities Exchange has not reviewed or approved the contents of this news release.

SOURCE Adastra Holdings Ltd.

View original content to download multimedia:

<http://www.newswire.ca/en/releases/archive/September2021/20/c8190.html>

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CO: Adastra Holdings Ltd.

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