Court File No. CV-21-00659187-00CL

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*, R.S.C. 1985, c. C-36, AS AMENDED

AND DOMENICO SERAFINO AS A PERSON INTERESTED IN THE MATTER OF A PLAN OF COMPRMISE OR ARRANGEMENT OF HYDRX FARMS LTD., CANNSCIENCE INNOVATIONS INC. AND SCIENTUS PHARMA INC.

Applicant

RESPONDING MOTION RECORD

March 29, 2021

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AFFIDAVIT OF RICHARD GOLDSTEIN
(sworn March 29, 2021)

I, Richard Goldstein, of the City of Toronto, in the Province of Ontario, MAKE OATH AND SAY:

1. I am the president of Cobra Ventures Inc. ("**Cobra**"), an Ontario corporation that is the senior secured creditor of HydRx Farms Inc. ("**HydRx**"). In my capacity as president and chief executive officer of Cobra, I have personal knowledge of the facts deposed to in this affidavit. Where I do not posses such personal knowledge, I have stated the source of my information and, in all such cases, believe the information to be true.

2. I swear this affidavit in response to the Affidavit of Domenico Serafino sworn March 19, 2021 (the "**Serafino Affidavit**") which was filed in support of Mr. Serafino's *ex parte* application heard on March 22, 2021 for an initial order (the "**Initial Order**") under the *Companies' Creditors Arrangement Act* ("**CCAA**") in respect of HydRx, Cannscience Innovations Inc. and Scientus

Pharma Inc. (collectively, the "**Debtors**") and in connection with the comeback hearing scheduled to be heard on March 31, 2021 (the "**Comeback Hearing**"). As of the time of my swearing this affidavit at approximately 3:00 p.m. on March 29, 2021, Mr. Serafino has not served any further motion materials in respect of the Comeback Hearing.

3. Mr. Serafino has obtained the Initial Order based on a misleading and inaccurate description of the events and circumstances leading up to the CCAA filing, including a number of serious (but false and meritless) allegations of misconduct by Cobra and myself.

4. Moreover, the CCAA application and Mr. Serafino's proposed approach to the CCAA proceeding (including the relief to be sought at the Comeback Hearing) is completely inappropriate and is highly prejudicial to Cobra's interests as secured creditor. I believe that Mr. Serafino's CCAA plans are nothing more than a veiled takeover of HydRx and its business by Mr. Serafino and a group of minority shareholders of HydRx – the so-called "**Re-Start Group**".

5. This CCAA process should instead be one that is fair and under the direction and control of an appropriate independent party (which is not Cobra or myself; nor is it Mr. Serafino and his Re-Start Group). In addition to ensuring the preservation and security of HydRx's assets and cannabis licences, the goal for this proceeding should be to have the independent CCAA Monitor implement a sale and investment solicitation process ("**SISP**") to solicit and identify a successful bidder for HydRx's business and/or assets, whether that is ultimately Cobra, Mr Serafino and his Re-Start Group or another party. I strongly believe that Mr. Serafino and his Re-Start Group should not have any authority to re-commence operations at HydRx, which have been suspended for more than one year. Only the eventual new ownership group identified in the SISP should be permitted to restart operations.

6. As detailed further herein, Cobra respectfully requests that at the Comeback Hearing, it would be appropriate for the Court to:

(a) order a brief (15-day) extension of the stay of proceedings for the parties to discuss and return to Court to seek approval of a SISP and DIP financing for the CCAA process;

(b) provide that any DIP financing required for the 15-day stay extension period may be provided by Cobra as first secured creditor, not by Mr. Serafino and the Re-Start Group; and

(c) order that during the 15-day period, the status quo be maintained under the supervision of the Monitor, including preservation of HydRx's assets and no changes to the operations.

MISCHARACTERIZATIONS AND INACCURACIES IN THE SERAFINO AFFIDAVIT

7. The Serafino Affidavit does not accurately tell the story of the situation surrounding HydRx and my and Cobra's involvement in it. The Serafino Affidavit contains numerous misstatements and mischaracterizations of the facts and events leading up to the CCAA filing which Mr. Serafino used in an attempt to show the Court that I was acting nefariously.

8. Mr. Serafino's allegations of non-disclosure, refusal to fund and improper dealings by Cobra and me personally are absolutely false.[1] As set out below, in come cases, Mr. Serafino has blatantly mispresented the evidence to the Court.

[1] See Serafino Affidavit, paragraphs 4 (a) – (c), 65, 72, 73, 74, 75, 77, 84-90.

9. Given the time available, the following is not a complete rebuttal to all of the inaccuracies contained in the Serafino Affidavit, but instead a highlight of the most significant ones and the ones that were being used to improperly underpin the relief Mr. Serafino seeks.

Cobra and My Interests Were Fully Disclosed

10. Mr. Serafino's claim that Cobra did not disclose its acquisition of the Aphria Secured Debenture (as defined at paragraph 28 of the Serafino Affidavit) when the assignment agreement was signed on July 28, 2020 until October 2020 is completely incorrect.[2]

11. On July 29, 2020, World Class Extractions Inc. (then the 50% owner of Cobra) issued a press release (the "**July Press Release**") that confirmed that Cobra had entered into an agreement to acquire the Aphria Secured Debenture. A copy of the July Press Release is attached as **Exhibit "A"** hereto.

12. The assignment did not close until the beginning of October 2020 at which point the further press release referred to at paragraph 73 of the Serafino Affidavit was issued and the assignment registrations were affected.

13. Likewise, Mr. Serafino's allegations that I did not disclose my interest in Cobra during that time is also false. To the contrary, the July Press Release expressly disclosed my interest in Cobra.

Cobra's Financial Arrangements Are Irrelevant

14. The Serafino Affidavit contains several pages of discussion of Cobra's own financial arrangements and complaints that Mr. Serafino was not aware of such arrangements and did not

[2] See Serafino Affidavit, paragraphs 72-73.

approve such arrangements.[3] How Cobra finances itself is irrelevant to HydRx and irrelevant to the debtor-creditor relationship between HydRx and Cobra.

15. Moreover, contrary to Mr. Serafino's suggestions, Cobra did not attempt to pledge HydRx's property or assets as security to Cobra's own lenders. Instead, what Cobra has done is pledge to its lenders *its* assets, including its security interests in HydRx (which is an asset of Cobra, not an asset of HydRx). That is not unusual or improper and is not something that HydRx has any interest in or right to consent to.

16. The Serafino Affidavit selectively refers to some of Cobra's financing documents and does so out of context and in a misleading way. For example, it contains an early commitment letter that referred to Cobra's lender receiving a mortgage on HydRx's property.[4] No such mortgage was granted nor would Cobra be entitled to grant such a mortgage, and this was explained to and accepted by the lender.

17. In the end, as noted, all that Cobra has done is grant its (ie. Cobra's) lenders a security interest in its assets, including its security over HydRx, all of which is completely appropriate. I do note that while Cobra's lenders registered an assignment of the Aphria Secured Debenture, the intent was that the lenders were to have an assignment by way of security. Cobra will be addressing those registrations.

18. Finally, Mr. Serafino's allegation that I somehow acted improperly by not offering Mr. Serafino personally (or possibly to HydRx) the opportunity to be Cobra's financier is illogical. Cobra had no obligation to offer Mr. Serafino the right to provide financing to Cobra nor was his

[3] See Serafino Affidavit, paragraphs 74, 75, 86.
[4] See Serafino Affidavit, Exhibit "O".

or HydRx's consent to Cobra obtaining financing required. Similarly, Mr. Serafino's assertion that changes to Cobra's own ownership somehow required approval by HydRx's board is baseless.[5]

Aphria Secured Debenture Acquisition Price is Irrelevant

19. Likewise, the complaints in the Serafino Affidavit concerning the circumstances of Cobra's acquisition of the Aphria Secured Debenture are also inaccurate and mischaracterized.[6] They are also irrelevant.

20. The fact that Aphria Inc. ("**Aphria**") was willing to sell the Aphria Secured Debenture to Cobra at a discount to its face value is irrelevant and does not change the fact that HydRx remains indebted to Cobra under the Aphria Secured Debenture for the entire face value of the debt (plus interest and costs).

21. Aphria ran a competitive process for the sale of the Aphria Secured Debenture and it is my understanding that there were several bidders interested in acquiring the Aphria Secured Debenture and that Cobra was the highest and therefore the successful bidder.

22. Frankly, the sole relevance of this is it demonstrates that Aphria (and apparently other interested parties) believed that HydRx and its business and assets are worth less than the secured debt owing. If Mr. Serafino, the Re-Start Group, or any other party believes that HydRx and its business and assets are worth more than the secured debt owing to Cobra, then we would not be here.

[5] See Serafino Affidavit, paragraphs 84-90.
[6] See Serafino Affidavit, paragraphs 28-30.

Health Canada License Accusations are Completely Inaccurate

23. The allegations in the Serafino Affidavit that I surreptitiously tried to have HydRx's Health Canada license transferred to Cobra are not only completely false, they are demonstrative of Mr. Serafino's selective and mischaracterized disclosure to the Court.

24. Paragraph 98 of the Serafino Affidavit states:

> My misgivings about Goldstein's motivation have been subsequently borne out. I have recently received a copy of an email dated January 21, 2021, written by Hemans to representatives of Health Canada in which he asks,
>
>> "*we kindly request that Health Canada provide us with guidance on how the current license of Hydrx can be transferred to Cobra Ventures (preferred option as this would help avoid further business disruptions) or an indication of how long a new license application would take to process given that the facility and operations (key positions, SOPs, GIPs, etc.) would remain predominantly the same as what has already been approved by Health Canada*....". [Emphasis added]

25. However, Mr. Serafino fails to quote the very sentence immediately preceding the above quote, in which Mr. Hemans said:

> Cobra has proposed a transfer of the secured assets of HydRx as settlement of its secured loans to Cobra ***through a court-approved sale process***. Cobra Ventures Inc. would then provide ongoing funding to support continuing operations and a path forward to profitability. [emphasis added]

26. There was never any attempt or intent to surreptitiously transfer the Health Canada license to Cobra without a proper process.

27. As some of the emails between Mr. Serafino and myself which are attached to the Serafino Affidavit indicate, over the course of our discussions I was imploring Mr. Serafino to consider cooperative CCAA options to address HydRx's situation. The excerpted communications with Health Canada were nothing more than discussions of process, given Health Canada's importance as a stakeholder.

HydRx's Facility Was Never Used By Canntab

28. Mr. Serafino's allegation that "Since at least December 16, 2020, the Hydrx Production Facility and production equipment has only been used by Goldstein for the benefit of Canntab" is absolutely false.[7]

29. There has been no production whatsoever occurring at HydRx's facility since I became involved with HydRx.

30. Personnel from Canntab Therapeutics Limited ("**Canntab**") have made attendances at the HydRx facility. The purpose of such attendances was to assess options that I was exploring to have Canntab effectively sub-lease the premises for value to HydRx to help generate revenue for HydRx which could not be economically realized by HydRx given its financial state.

31. Mr. Serafino was completely aware of that, as was Thomas Jefferd (HydRx's Head of Security).

32. Ultimately, Mr. Serafino did not agree with that Canntab plan and so it was never done. Although, while I have not seen the interested party contracts described in the Serafino Affidavit and sealed under the Initial Order, I note that it appears that Mr. Serafino is now proposing a very similar plan, but with parties connected to himself and this minority shareholder Re-Start Group instead of Canntab and with others with whom I engaged in discussions and introduced to HydRx and Mr. Serafino.

33. In any event, as I discuss further below, in light of the CCAA proceedings neither party's plans should be implemented in an *ad hoc* manner. Instead, the business and assets should be

[7] See Serafino Affidavit, paragraphs 115-117.

preserved and an independently managed SISP should be immediately implemented to determine the path forward for HydRx. The successful bidder in the SISP is the only natural party to decide how to restart operations.

HYDRX'S TRUE FINANCIAL CIRCUMSTANCES AND SITUATION

34. Contrary to the story Mr. Serafino has tried to present, HydRx's business and financial failure long preceded my and Cobra's involvement and in fact preceded the COVID-19 pandemic.

35. Since its inception in 2014, HydRx has received over $50 million of investment from private investors and has managed to make less than $1 million in cumulative gross revenue and sustained tens of millions of dollars in losses.

36. None of that was caused by Cobra or me. Instead, it is due to the mismanagement by HydRx's leadership teams, which includes Mr. Serafino as a longstanding director of HydRx and the team that Mr. Serafino is now trying to bring back to take control over HydRx, including Mr. Trevor Folk (co-founder and ex-CEO) and Mr. Thomas Jefferd (Head of Security).

37. The fact that Mr. Serafino has proposed to use the CCAA process to "re-start" and move from having no active operations and never having made money to making $9,000,000 a year is neither realistic nor appropriate, particularly if it is done to the prejudice of HydRx's secured creditor. It is my understanding that the true market value of HydRx's inventory is no more than approximately $250,000, or about 10% of the book value Mr. Serafino cites in his affidavit.[8]

[8] See Serafino Affidavit, paragraph 47.

38. Mr. Serafino's "plan" for this CCAA proceeding is simply a veiled attempt by the Re-Start Group (a select group a minority shareholders) to take over control of HydRx without paying the secured debt owing to Cobra.

39. Most appalling, Mr. Serafino proposes to appoint as my replacement director Trevor Folk. Mr. Folk was one of the co-founders of HydRx and was the CEO of HydRx until October 2017. HydRx's 2018 financial statements (audited by Ernst & Young Inc.) reported the following:

> During 2018, a previous key management employee reimbursed the Company $63,026 (2017 - $1,553,735) related to unauthorized personal expenditures paid by the Company from 2014 to 2017. The total amount reimbursed to date by the previous key management employee is $1,616,761. As at December 21, 2018, $1,787 [2017 - $64,813] thereof was due from the key management employee and is included in related party receivable. In addition, included in related party receivable.

40. I was previously advised by Mr. Serafino himself that the key management employee being referred to is Mr. Folk. A copy of the 2018 financial statements are attached hereto as **Exhibit "B"**.

41. Respectfully, the CCAA Court should not be putting the former management team back in control of HydRx and its CCAA proceedings. As discussed further below, HydRx and the CCAA process should instead be put in the hands of an independent person.

COBRA WAS THE ONLY PARTY FINANCIALLY SUPPORTING HYDRX

42. It is also important to note that with the departure of the prior leadership team at HydRx and the cessation of operations, no one else stepped forward to financially support HydRx and ensure that its licenses and assets were protected. That includes Mr. Serafino and his Re-Start Group of unidentified minority shareholders.

43. Since Cobra's acquisition of the Aphria Secured Debenture, it has been Cobra providing funding to Hydrx. Cobra has provided the funding to keep the "lights on", including preserving and safe-guarding the assets and the cannabis licenses. As at March 25, 2021, Cobra's funding of preservation expenses reached a total of $417,722.05, comprised of:

(a) $73,319.73 in utilities, including substantial arrears owing for hydro, which were necessary to ensure that the facility was property powered and heated;

(b) $82,604.31 in insurance (including substantial arrears) and security costs;

(c) $43,918.68 in property taxes, including significant arrears; and

(d) $217,879.33 in costs for the necessary personnel to preserve the assets and licenses and small payables.

44. I would note that many of the individuals that Cobra has been funding are the same people that Mr. Serafino continues to have in those roles today, including Mr. Jefferd (Head of Security) and Carol-Ann Scott (Quality Assurance Person). In the case of Ms. Scott, Cobra's payments included funding her qualification to hold a Q.A.P. role.

45. In addition, Cobra funded the costs of Philip Hemans, HydRx's designated Responsible Person In Charge ("**RPIC**") who is the most critical person to have in place for Health Canada licensing requirements.

46. In that regard, Mr. Serafino's statement that Mr. Hemans is a "contractor to various cannabis entities owned by Goldstein, including Cobra" is absolutely false.[9] Mr. Hemans, who was one of the co-founders of HydRx, was HydRx's COO before I became involved with HydRx. Mr.

[9] See Serafino Affidavit, paragraph 60.

Hemans' only role in connection with Cobra (or any of my other cannabis interests) is with respect to his role as RPIC of HydRx.

47. Finally, contrary to the suggestion in the Serafino Affidavit, I never advised Mr. Serafino that I would simply not provide more funding. Instead, discussions concerning a consensual arrangement had seemingly come to an impasse. At that stage I advised Mr. Serafino that I would not simply continue to fund HydRx's expenses without a plan and path forward. Since then, Mr. Serafino indicates that he made an approximately $27,000 payment to Revenue Canada in connection with HydRx's excise tax obligations.

MY DIRECTOR POSITION IN HYDRX

48. I note that Mr. Serafino intends to seek an order from the Court seeking my removal as a director of HydRx. Although as of the time of my swearing this affidavit (noted above), Mr. Serafino has not served any further motion materials in respect of that request for the Comeback Hearing.

49. For some of the reasons I discuss above, I do not believe that Mr. Serafino's allegations against me are accurate or justified.

50. However, I have always been transparent as to my role with Cobra and transparent with Mr. Serafino about my intent to credit-bid Cobra's secured debt for HydRx's business and assets as part of any Court-supervised sale process.

51. Therefore, while I do not believe that my Court-ordered removal as a director is justified, I am willing to voluntarily resign as a director of HydRx, as well as resign from my position of alternate RPIC for HydRx. That is however subject to two conditions which are not for my personal benefit, but for the benefit and protection of HydRx and Cobra as the secured creditor of HydRx.

52. Firstly, control over HydRx and this CCAA process should be in the hands of an appropriate independent party to ensure that the process is conducted fairly. Given my interests in Cobra, I should not be the person running this CCAA process. But, likewise, given Mr. Serafino and his Re-Start Group's interest in effectively acquiring the company/business, they should not be running the process either.

53. I believe that the CCAA Monitor should be charged with independently running the SISP, the CCAA process and, the HydRx business. If the Monitor is not willing to supervise operational matters, a qualified and independent chief restructuring officer should be appointed to do so. I am willing to fund the costs of that under Court-ordered DIP financing.

54. Secondly, I would like confirmation that my resignation as a director and alternate RPIC will not cause Health Canada to suspend or terminate the licenses.

55. For companies such as HydRx who hold a licence for the cultivation, processing or sale of cannabis, the directors and officers of the company must hold a security clearance from Health Canada.

56. Mr. Serafino has been a director of HydRx for over six years. It is my understanding that Mr. Serafino does not have a valid security clearance from Health Canada. When he last applied for a security clearance, the application was rejected. I am also aware that as recently as March 10, 2021, Mr. Serafino's pending application was at risk of being terminated by Health Canada. I am not aware of the status of Mr. Serafino's application at this time (and it is not discussed in the Serafino Affidavit), but I am aware that Health Canada generally advises that it can take at minimum three months for Health Canada to review a security clearance application in conjunction with law enforcement.

57. Therefore, given that Mr. Serafino and I are the only directors of HydRx, and only I have the requisite security clearance, I want to ensure that my resignation as a director does not place HydRx's cannabis licence at risk.

OTHER CONCERNS REGARDING HYDRX AND RISK TO THE ASSETS

58. In addition to the other concerns expressed in this affidavit, issues have already arisen since the CCAA filing that raise serious concerns about risk to HydRx's property and assets (which are Cobra's secured collateral) with HydRx under the control over Mr. Serafino and his Re-Start Group.

59. Firstly, this past Saturday afternoon (March 27, 2021), I observed two semi-tractor trailers parked at the loading docks of HydRx's facility. Those trailers had not previously been there, at least as of the CCAA filing. Attached hereto and marked as **Exhibit "C"** to this affidavit are three pictures of the trailers taken on March 27, 2021.

60. I informed Cobra's legal counsel, Joseph Bellissimo of Cassels Brock & Blackwell LLP, who immediately emailed Mr. Serafino's counsel (Timothy Dunn) and the Monitor (Alan Page) raising concerns with this and asking for confirmation that no property or assets are being removed from the facility and that no property or assets will be moved without the prior consent of Cobra as secured creditor or order of the CCAA Court. Attached hereto and marked as **Exhibit "D"** to this affidavit is a copy of Mr. Bellissimo's email.

61. I am advised by Cobra's counsel that Mr. Dunn promptly responded stating: "Confirmation is being sought. I am not aware of any intention to remove assets from the production facility." Attached hereto and marked as **Exhibit "E"** to this affidavit is a copy of Mr. Dunn's email.

62. I am advised by Cobra's counsel that, as of the swearing of this affidavit (noted above), no further confirmation has been received from either Mr. Dunn or Mr. Page.

NEXT STEPS FOR THIS CCAA PROCEEDING

63. While I am disappointed by the circumstances of this CCAA filing and consider Mr. Serafino's pre-filing maneuvering and *ex parte* application inappropriate, HydRx is clearly at an inflection point and requires a Court-supervised proceeding to address its go-forward prospects. The secretive nature of Mr. Serafino's filing is highly prejudicial to the interests of Cobra as HydRx's secured creditor, who I believe is very likely the fulcrum creditor of HydRx.

64. That is particularly the case given that I had requested that Mr. Serafino consider a cooperative and consensual CCAA process to deal with this matter. In fact, it came to the point that I had no choice but to tell Mr. Serafino that Cobra would not simply continue to fund HydRx's costs without a viable path forward.

65. The focus should now be ensuring that this CCAA process is a productive use of resources, and is in the best interests of HydRx's stakeholders, including Cobra as its senior secured creditor and, for these past many months, sole funder.

66. I do not believe that Mr. Serafino and his Re-Start Group of minority shareholders have a viable go-forward plan. I believe their plan is certain to fail.

67. This business, which has been in financial crisis for some time, is not capable of simply restarting without committed long-term financing, the repayment in full of Cobra's secured debt, and a clear and viable go-forward plan. For nearly the entirety of 2020, the business was dormant, its employees were laid off and the only remaining consultants were those required to remain with the company to maintain the HydRx cannabis licence, at the expense of Cobra who funded their

continued services. To suggest that this business can be restarted from a practical standstill is simply not realistic or a good use of the CCAA process.

68. More importantly, given the current situation at HydRx, a "restart" of the business does not make any sense until it is known who will own the business going forward. It is that party (once identified as part of a proper and fair process) that should be deciding what their restart plan is. Until that time, restarting operations will only waste money and time and put the assets at unnecessary risk.

69. Therefore, Cobra firmly believes that this CCAA process must proceed as follows:

(a) Preservation of HydRx's Business and Assets: There should be no active operations (including no suggested restart) and HydRx should not be entitled to enter into any material or operational contracts without prior approval of the Court (on notice). Instead, operations should be limited to the necessary costs to protect and preserve the assets (including the licenses) which should be retained and safe-guarded.

(b) Control of HydRx: The Monitor should be charged with overseeing the preservation operations, free from the control of Mr. Serafino and his Re-Start Group and myself/Cobra. If the Monitor is not willing to do so, an appropriate independent chief restructuring officer should be appointed to do so.

(c) SISP: The Monitor should independently conduct a sale and investment solicitation process ("**SISP**") which should also not be controlled by Cobra/myself or Mr. Serafino and his Re-Start Group. Cobra would be willing to act as a stalking horse bidder for such SISP. However, I believe that it is more important for this process to move quickly and expeditiously and so I do not believe that the time and cost that would be necessary to prepare and negotiate a stalking horse bid is needed or warranted in these circumstances.

(d) DIP Financing: Cobra is prepared to provide DIP financing to fund the foregoing and has more than sufficient funds available. Cobra is willing to provide the Monitor and the Court with proof, as needed, that its funds are readily available. Given that the Serafino Affidavit indicates that Mr. Serafino intended to seek approval of DIP financing from the Re-Start Group, I am advised by Cobra's counsel that Mr. Bellissimo advised Mr. Dunn that Cobra would be opposed to any DIP financing in priority to its secured debt and that Cobra would be prepared to provide the DIP financing itself. I am further advised that Mr. Bellissimo requested that Mr. Dunn provide a copy of the DIP terms that the Re-Start Group proposed to provide for Cobra to consider. I am advised by Cobra's counsel that, as of the swearing of this affidavit (noted above), no DIP terms have been provided or communicated.

70. Cobra respectfully requests that the Court grant the relief set out in paragraph 6 above and that the parties be directed to discuss and return to Court to seek a further order in in accordance with the foregoing.

SWORN BEFORE ME by video conference by Richard Goldstein at the City of Toronto in the Province of Ontario, before me at the City of Toronto in the Province of Ontario on March 29, 2021 in accordance with O. Reg. 431/20, Administering Oath of Declaration Remotely.	
A commissioner for Taking Affidavits (or as may be)	Richard Goldstein

Commissioner: Benjamin Goodis, LSO# 70303H

This is Exhibit **"A"** referred to in the Affidavit of Richard Goldstein sworn March 29, 2021.

Commissioner for Taking Affidavits (or as may be)

WORLD-CLASS EXTRACTIONS

World-Class Extractions Acquires $11,500,000 Face Value Hydrx Farms Ltd. Debenture

July 29, 2020

~Senior Secured Convertible Debenture Acquired from a leading Canadian Licensed Producer

VANCOUVER, July 29, 2020 – World-Class Extractions Inc. (CSE:PUMP) (FRA:WCF) (OTCQB:WCEXF) (the "**Company**" or "**World-Class**") is pleased to announce that a company in which World-Class holds a 50% equity interest, Cobra Ventures Inc. ("**Cobra**"), has entered into an agreement to acquire a senior secured convertible debenture of HydRx Farms Ltd. o/a Scientus Pharma ("**HydRx**") in the principal amount of CDN$11,500,000, plus accrued and unpaid interest and charges (the "**Debenture**") from a leading Canadian Licensed Producer, subject to certain closing conditions. Cobra is purchasing the Debenture for CDN$5,000,000; closing is expected to occur within 60 days. The Debenture is secured against the assets of HydRx. HydRx is currently in default of its obligations under the Debenture.

First Republic Holdings Corporation ("**FRHC**") holds a 50% equity interest in Cobra. FRHC is the investment holding company of Mr. Richard Goldstein and his family. FRHC is a shareholder of First Republic Capital Corporation ("**FRCC**"). FRCC is not involved in the acquisition of the Debenture.

HydRx Farms Ltd o/a Scientus Pharma ("HydRx") – Description of its Business

HydRx owns and operates a 45,000-square foot manufacturing and distribution facility in Whitby, Ontario built to GMP and GPP standards. HydRx holds numerous licenses issued by Health Canada under the *Cannabis Act* to cultivate, produce and sell cannabis products, including the extraction of cannabis resin for use in formulations including cannabinoid based oils, capsules and other derivative products. HydRx also holds a Cannabis Drug License and is a Licensed Dealer under the *Narcotics Control Act*. HydRx is one of a limited number of Canadian licensees authorized to conduct R&D and fully handle cannabinoid products with the ability to wholesale, buy, process and sell cannabinoid derivatives, from and to other producers licensed under the *Cannabis Act*, as well as to international markets.

About World-Class Extractions

World-Class is an innovation-driven company with a principle focus on the rapidly evolving cannabis and hemp industries. Through its subsidiaries, Soma Labs Scientific Inc. and Greenmantle Products Inc., World-Class deploys and manages custom-built extraction centres utilizing its custom systems, technology and processes to efficiently produce high-quality cannabis and hemp concentrates and end-products. In addition, through its subsidiary Pineapple

Express Delivery Inc., the Company offers compliant and secure delivery of government regulated products, including medical and recreational cannabis in Ontario, Manitoba and Saskatchewan, and liquor delivery in certain jurisdictions in Saskatchewan.

Investor Contact

Daniel Mogil

World-Class Investor Relations

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Neither the Canadian Securities Exchange nor its Regulation Service Provider (as that term is defined in the policies of the Canadian Securities Exchange) accepts responsibility for the adequacy or accuracy of this press release, which has been prepared by management of the Company.

Cautionary Note Regarding Forward-Looking Statements

All statements in this press release, other than statements of historical fact, are "forward-looking information" with respect to the Company within the meaning of applicable securities laws, including with respect to the ability of Cobra Ventures Inc. to close on the acquisition of the Debenture. The Company provides forward-looking statements for the purpose of conveying information about current expectations and plans relating to the future and readers are cautioned that such statements may not be appropriate for other purposes. By its nature, this information is subject to inherent risks and uncertainties that may be general or specific and which give rise to the possibility that expectations, forecasts, predictions, projections or conclusions will not prove to be accurate, that assumptions may not be correct and that objectives, strategic goals and priorities will not be achieved. These risks and uncertainties include but are not limited those identified and reported in the Company's public filings under the Company's SEDAR profile at www.sedar.com. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking information, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that such information will prove to be accurate as actual results and future events could differ materially from those anticipated in such statements. The Company disclaims any intention or obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise unless required by law.

World-Class Extractions

World-Class Extractions is a Vancouver based publicly traded company that operates through two vertically integrated subsidiaries: Soma Labs Scientific, and Greenmantle Products. From proprietary industrial grade equipment, custom build processing facilities, ancillary products and scientific services. World-Class Extractions provides turn-key extraction and processing solutions for the cannabis industry from green to gold.

About

World-Class Extractions

World-Class Extractions Inc. aims to be a global leader in industrial-grade cannabis extraction and innovative processing solutions with a robust background in cannabis science & technology. From developing ground-breaking equipment to deploying purpose-built processing centres, World-Class is uniquely positioned to satisfy the needs of the rapidly evolving cannabis industry. World-Class Extractions – From Green To Gold

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This is Exhibit **“B”** referred to in the Affidavit of Richard Goldstein sworn March 29, 2021.

Commissioner for Taking Affidavits (or as may be)

HydRx Farms Ltd.

Consolidated financial statements
December 31, 2018

Building a better working world

Independent auditor's report

To the Board of Directors of
HydRx Farms Ltd.

Opinion

We have audited the consolidated financial statements of **HydRx Farms Ltd.** (the Company), which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statement of loss and comprehensive loss, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to Note 1 in the consolidated financial statements, which indicates that the Company has an accumulated deficit of $43.7 million and a working capital position is in a deficit of $4.7 million comprised primarily of a convertible debenture in the amount of $11.0 million due on August 14, 2019. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
March 29, 2019

HydRx Farms Ltd.

Consolidated statements of financial position

[expressed in Canadian dollars]

[see going concern uncertainty – note 1]

As at December 31,

	2018	2017
	$	$
Assets		
Current		
Cash	**5,475,875**	3,107,598
Other receivables *[note 5]*	**641,176**	1,840,748
Biological assets *[note 7]*	**400,283**	—
Inventories *[note 6]*	**375,506**	—
Prepaid expenses and deposits	**398,789**	472,726
Total current assets	**7,291,629**	5,421,072
Intangible assets, net *[note 9]*	**30,219,364**	35,808,023
Goodwill *[note 9]*	**16,072,080**	16,072,080
Property, plant and equipment, net *[note 8]*	**14,259,766**	12,459,630
	67,842,839	69,760,805
Liabilities and shareholders' equity		
Current		
Trade and other payables	**950,264**	1,279,575
Convertible debentures *[note 12]*	**10,993,726**	350,356
Total current liabilities	**11,943,990**	1,629,931
Deferred tax liability *[note 16]*	**7,955,912**	9,489,126
Convertible debentures *[note 12]*	**—**	10,263,548
Total liabilities	**19,899,902**	21,382,605
Commitments and contingencies *[note 19]*		
Shareholders' equity		
Common shares *[note 13[b]]*	**84,199,731**	57,341,691
Warrants *[note 13[b]]*	**1,975,138**	11,430,027
Contributed surplus *[note 14]*	**5,448,971**	6,983,765
Deficit	**(43,680,903)**	(27,377,283)
Total shareholders' equity	**47,942,937**	48,378,200
	67,842,839	69,760,805

See accompanying notes

On behalf of the Board:

"Signed"
Director - Har Grover

"Signed"
Director - Bruce Cousins

HydRx Farms Ltd.

Consolidated statements of loss and comprehensive loss

[expressed in Canadian dollars, except share amounts]

Years ended December 31,

	2018	2017
	$	$
Revenue	**3,912**	—
Cost of sales	**1,160,913**	—
Gross loss before fair value adjustments	**(1,157,001)**	—
Fair value adjustment on growth of biological assets *[note 7]*	**(156,155)**	—
Gross loss	**(1,000,846)**	—
Expenses		
General and administrative *[note 17]*	**6,737,538**	7,159,192
Research and development *[note 18]*	**1,363,926**	1,855,685
Share-based compensation – employees *[note 14]*	**385,619**	2,474,621
Depreciation and amortization *[notes 8 and 9]*	**6,815,810**	5,498,479
Loss from operations	**(16,303,739)**	(16,987,977)
Loss from changes in fair value of convertible notes *[note 11]*	—	4,885,249
Finance costs	**1,533,095**	728,316
Loss before income taxes	**(17,836,834)**	(22,601,542)
Deferred income tax recovery *[note 16]*	**(1,533,214)**	(1,625,155)
Net loss and comprehensive loss for the year	**(16,303,620)**	(20,976,387)
Net loss per share, basic and diluted *[note 15]*	**(0.38)**	(0.94)
Weighted average number of shares outstanding – basic and diluted	**42,737,471**	22,317,380

See accompanying notes

HydRx Farms Ltd.

Consolidated statements of changes in shareholders' equity

[expressed in Canadian dollars]

	Common shares		Preferred shares		Warrants		Contributed surplus	Deficit	Total
	#	$	#	$	#	$	$	$	$
Balance, December 31, 2016	**6,049,855**	**2,425,466**	**5,708,703**	**3,323,511**	**6,212,398**	**458,295**	**345,002**	**(6,400,896)**	**151,378**
Net loss and comprehensive loss for the year	—	—	—	—	—	—	—	(20,976,387)	(20,976,387)
Issuance of common shares and warrants pursuant to business acquisition *[note 4]*	14,295,732	37,168,903	—	—	8,579,726	8,635,906	—	—	45,804,809
Issuance of common shares, net of issuance costs *[note 13[b]]*	3,019,838	7,836,543	—	—	—	—	—	—	7,836,543
Conversion of convertible notes *[note 11]*	—	—	2,383,328	6,388,121	2,383,328	2,335,826	—	—	8,723,947
Additional contribution from a shareholder	—	—	—	—	—	—	200,000	—	200,000
Conversion of promissory note *[note 11]*	153,846	199,147	—	—	—	—	—	—	199,147
Conversion of preferred shares *[note 13[b]]*	8,092,031	9,711,632	(8,092,031)	(9,711,632)	—	—	—	—	—
Warrants expired	—	—	—	—	(50,000)	—	—	—	—
Convertible debentures, conversion feature, net of tax *[note 12]*	—	—	—	—	—	—	1,052,495	—	1,052,495
Share-based compensation *[note 14]*	—	—	—	—	—	—	5,386,268	—	5,386,268
Balance, December 31, 2017	**31,611,302**	**57,341,691**	**—**	**—**	**17,125,452**	**11,430,027**	**6,983,765**	**(27,377,283)**	**48,378,200**
Net loss and comprehensive loss for the year	—	—	—	—	—	—	—	(16,303,620)	(16,303,620)
Issuance of common shares, net of issuance costs *[note 13[b]]*	3,988,036	14,549,788	—	—	—	—	—	—	14,549,788
Broker warrants issued *[note 13[b]]*	—	—	—	—	156,980	214,076	—	—	214,076
Issuance of common shares for services *[note 13[b]]*	863,905	2,289,348	—	—	—	—	(2,289,348)	—	—
Stock options exercised	112,000	114,240	—	—	—	—	(30,240)	—	84,000
Warrants exercised *[note 13[b]]*	10,098,937	9,904,664	—	—	(14,363,904)	(9,668,965)	—	—	235,699
Share-based compensation *[note 14]*	—	—	—	—	—	—	784,794	—	784,794
Balance, December 31, 2018	**46,674,180**	**84,199,731**	**—**	**—**	**2,918,528**	**1,975,138**	**5,448,971**	**(43,680,903)**	**47,942,937**

See accompanying notes

HydRx Farms Ltd.

Consolidated statements of cash flows

[expressed in Canadian dollars]

Years ended December 31,

	2018	2017
	$	$
Operating activities		
Net loss for the year	**(16,303,620)**	(20,976,387)
Add (deduct) items not affecting cash		
Share-based compensation expense – non-employees	**399,175**	2,978,145
Share-based compensation expense – employees	**385,619**	2,474,621
Fair value adjustment on growth of biological assets	**(156,155)**	—
Loss from changes in fair value of convertible notes	**-**	4,885,249
Finance costs	**1,533,095**	728,316
Deferred income taxes	**(1,533,214)**	(1,625,155)
Depreciation and amortization	**7,286,640**	5,498,479
Interest paid	**(1,270,356)**	(101,929)
Changes in non-cash working capital balances related to operations		
Other receivables	**999,572**	(318,314)
Biological assets	**(92,945)**	—
Inventories	**(375,506)**	—
Prepaid expenses and deposits	**73,937**	(399,259)
Trade and other payables	**(266,331)**	212,873
Cash used in operating activities	**(9,320,089)**	(6,643,361)
Investing activities		
Cash acquired on business combination *[note 4]*	**—**	36,706
Purchase of property, plant and equipment	**(3,284,306)**	(7,604,670)
Purchase of intanigble assets	**(211,048)**	
Cash used in investing activities	**(3,495,354)**	(7,567,964)
Financing activities		
Issuance of common shares *[note 13[b]]*	**14,679,720**	7,570,045
Stock options exercised	**84,000**	—
Warrants exercised	**220,000**	—
Additional contribution from a shareholder	**200,000**	—
Issuance of convertible debentures	—	11,448,856
Repayment of obligations under borrowings *[note 10]*	**—**	(1,896,836)
Cash provided by financing activities	**15,183,720**	17,122,065
Net increase in cash during the year	**2,368,277**	2,910,740
Cash, beginning of year	**3,107,598**	196,858
Cash, end of year	**5,475,875**	3,107,598

See accompanying notes

1. Nature of business and going concern uncertainty

HydRx Farms Ltd. [the “Company” or “HydRx”] is a licensed producer under the Cannabis Act and Cannabis Regulations and the Access to Cannabis for Medical Purposes Regulations of Canada. The Company’s license permits the cultivation, processing and sale of cannabis for medical purposes and for the processing of bottled cannabis oil and encapsulated cannabis oil. The Company is pursuing their license to sell its bottled cannabis oil and encapsulated cannabis oil. The Company was incorporated under the *Canada Business Corporations Act* on April 29, 2014.

The Company’s head office is located at 1130 Champlain Court, Whitby, Ontario, L1N 5R7.

Going concern uncertainty

The consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. These consolidated financial statements do not include any adjustments to the amounts and classification of assets and liabilities that would be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

As at December 31, 2018, the Company is pre-revenue, has not initiated commercial sale of product and has an accumulated deficit of $43.7 million comprised of cash and non-cash items. In addition, the Company’s working capital position as at December 31, 2018 is in a deficit position of $4.7 million comprised primarily of a convertible debenture in the amount of $11.0 million due on August 14, 2019. The maturity value of the convertible debenture is $11.5 million. Whether, and when, the Company can attain profitability and positive cash flows from operations is subject to material uncertainty. In addition, there is uncertainty as to whether the holders of the convertible debenture will exercise their right to convert or require the Company to pay or refinance the convertible debenture. The above events and conditions indicate there is a material uncertainty that may cast significant doubt about the Company’s ability to continue as a going concern. The application of the going concern assumption is dependent upon the Company’s ability to generate future profitable operations and obtain necessary financing to do so. The Company will need to raise additional capital in order to fund its planned operations and meet its obligations. While the Company has been successful in obtaining financing to date and believes it will be able to obtain sufficient funds in the future and ultimately achieve profitability and positive cash flows from operations, there can be no assurance that the Company will achieve profitability and be able to do so in the future on terms favourable for the Company.

2. Basis of presentation

Statement of compliance

These consolidated financial statements [“financial statements”] have been prepared by management in accordance with generally accepted accounting principles in Canada for publicly accountable enterprises, as set out in the *CPA Canada Handbook – Accounting*, which incorporates International Financial Reporting Standards [“IFRS”] as issued by the International Accounting Standards Board [“IASB”]. The policies set out below have been consistently applied to all periods presented, unless otherwise noted.

These financial statements were approved and authorized for issuance by the Board of Directors of the Company on March 20, 2019.

Basis of measurement

These financial statements have been prepared on a historical cost basis, except for convertible notes and biological assets that are measured at fair value and fair value less costs to sell. Historical costs are generally based upon the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 - *Share-based Payments* and measurements that have some similarities to fair value but are not fair value, such as value in use in IAS 36 - *Impairment of Assets*.

Functional currency and presentation currency

These financial statements are presented in Canadian dollars, which is the Company's functional currency.

Use of estimates and judgments

The preparation of these financial statements in conformity with IFRS requires management to make estimates, judgments and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities as at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

Estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgments, apart from those involving estimations, that management has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the financial statements:

[i] Going concern

At each reporting period, management assesses the basis of preparation of the financial statements. These financial statements have been prepared on a going concern basis in accordance with IFRS. The going concern basis of presentation assumes that the Company will continue its operations for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

[ii] Estimated useful lives, residual values and depreciation of property, plant and equipment

Depreciation of property, plant and equipment is dependent upon estimates of useful lives and residual values, which are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of assets.

[iii] Estimated useful life and amortization of intangible assets

The Company employs significant estimates to determine the estimated useful life of intangible assets, considering industry trends, contractual rights, past experience, expected use and review of asset useful lives. The Company reviews amortization methods and useful lives annually or when circumstances change and adjusts its amortization methods and assumptions prospectively.

[iv] Impairment of property, plant and equipment, intangible assets and goodwill

Property, plant and equipment, intangible assets and goodwill impairment testing requires management to make estimates in the impairment testing model. On an annual basis, the Company tests whether goodwill is impaired. Impairment of property, plant and equipment, intangible assets and goodwill is influenced by judgment in defining a CGU and determining the indicators of impairment, and estimates used to measure impairment losses. The recoverable value of property, plant and equipment, intangible assets and goodwill is determined using discounted future cash flow models, which incorporate assumptions regarding future events, specifically future cash flows, growth rates and discount rates.

[v] Valuation of share-based payments and warrants

Management measures the costs for share-based payments and warrants using market-based option valuation techniques. Assumptions are made and estimates are used in applying the valuation techniques. These include estimating the future volatility of the share price, expected dividend yield, expected risk-free interest rate and the rate of forfeiture. Such estimates and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates of share-based payments and warrants.

[vi] Business combinations

In a business combination, substantially all identifiable assets, liabilities and contingent liabilities acquired are recorded at the date of acquisition at their respective fair values. One of the most significant areas of judgement and estimation relates to the determination of the fair value of these assets and liabilities, including the fair value of consideration given. If any intangible assets are identified, depending on the type of intangible asset and the complexity of determining its fair value, the Company determines the fair value, using appropriate valuation techniques, which are generally based on a forecast of the total expected future net cash flows. These valuations are linked closely to the assumptions made by management regarding the future performance of the assets concerned and the discount rate applied.

[vii] Convertible notes

Convertible notes are classified as fair value through profit or loss. The fair value of convertible notes is based on the underlying value of the equity instruments that the convertible notes are convertible into, which in turn requires estimates of the inherent value of the Company, considering value indicators including recent rounds of financing and market comparable valuation metrics.

[viii] Convertible debentures and convertible promissory note

Separating the liability and equity components requires the Company to estimate a market rate for an equivalent non-convertible instrument and in allocating the remainder to the conversion feature that is an equity instrument.

[ix] Valuation of the fair value less costs to sell of biological assets and agricultural produce

Biological assets, consisting of medical cannabis plants and agricultural produce, are measured at fair value less costs to sell up to the point of harvest. The determination of the fair values of the biological assets requires the Company to make assumptions with respect to how market participants would estimate fair value.

3. Significant accounting policies

[a] Cash

Cash includes cash deposits in financial institutions.

[b] Foreign currency translation

Foreign currency transactions are translated into Canadian dollars at exchange rates in effect on the date of the transactions. At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the foreign exchange rate applicable at that period-end date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Expenses are translated at the exchange rates that approximate those in effect on the date of the transaction. Realized and unrealized exchange gains and losses are recognized in the consolidated statements of loss and comprehensive loss.

[c] Biological assets

While the Company's biological assets are within the scope of IAS 41 - *Agriculture*, the direct and indirect costs of biological assets are determined using an approach similar to the capitalization criteria outlined in IAS 2 *Inventories*. They include the direct cost of seeds and growing materials as well as other indirect costs such as utilities and supplies used in the growing process. Indirect labour for individuals involved in the growing and quality control process is also included, as well as depreciation on production equipment and overhead costs such as rent to the extent it is associated with the growing space. All direct and indirect costs of biological assets are capitalized as they are incurred and they are all subsequently recorded within the line item "cost of sales" in the consolidated statements of loss and comprehensive loss in the period that the related product is sold. Unrealized fair value gains/losses on growth of biological assets are recorded in a separate line on the face of the consolidated statements of loss and comprehensive loss. Biological assets are measured at their fair value less costs to sell on the statement of financial position.

[d] Inventories

The direct and indirect costs of inventory initially include the fair value of the biological asset at the time of harvest. They also include subsequent costs such as materials, labour and depreciation expense on equipment involved in packaging, labeling and inspection. All direct and indirect costs related to inventory are capitalized as they are incurred and they are subsequently recorded within "cost of sales" in the consolidated statements of loss and comprehensive loss at the time cannabis is sold, except for realized fair value amounts included in inventory sold which are recorded as a separate line on the face of the consolidated statements of loss and comprehensive loss. Inventory is measured at lower of cost or net realizable value on the consolidated statements of financial position.

[e] Property, plant and equipment

The Company's property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

The cost of an item of property, plant and equipment includes expenditures that are directly attributable to the acquisition or construction of the asset. The cost includes the cost of materials and direct labour, site preparation costs, installation and assembly costs, and any other costs directly attributable to bringing the assets to the location and condition necessary for the assets to be capable of operating in the manner intended by management. The cost of property, plant and equipment also includes any applicable borrowing costs. Borrowing costs are capitalized to property, plant and equipment until such time that the constructed asset is substantially complete and ready for its intended use.

Depreciation is recorded over the estimated useful lives as outlined below:

Building	25 years
Production equipment	5 years
Computer equipment	3–4 years
Furniture and fixtures	5 years

The Company assesses an asset's residual value, useful life and depreciation method at each financial year-end and makes adjustments if appropriate.

Gains and losses on disposal of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of the property, plant and equipment and are recognized in the consolidated statements of loss and comprehensive loss.

[f] Intangible assets and goodwill

[i] *Intangible assets*

Intangible assets consist of acquired intellectual property with a finite life in a business combination and capitalized costs of an internal use software. Intangible assets are amortized on a straight-line basis over their estimated useful lives and are measured at cost less accumulated amortization and accumulated impairment losses. At each reporting period, the useful lives of such assets are reviewed to determine whether events and circumstances continue to support the useful life assessment for the asset. Costs for intangible assets acquired in a business combination represent the fair value of the asset at the time of the acquisition. Intellectual property intangibles are amortized over a 7 year period and software intangible is amortized over a 5 year period.

[ii] *Goodwill*

Goodwill represents the excess of consideration over the fair value of the net identifiable assets acquired in a business combination. Goodwill is recorded at cost less accumulated impairment losses, if any. Goodwill is not amortized. For the purpose of impairment testing, goodwill is allocated to each of the Company's cash-generating units ["CGU" or "CGUs"] that benefit from the acquisition, irrespective of whether other assets or liabilities acquired are assigned to those units. As at December 31, 2018, the Company had one CGU.

Goodwill is tested annually for impairment, or more frequently when there is an indication that goodwill may be impaired. If the recoverable amount, representing the higher of its fair value less cost to sell and its value in use, of the CGU is less than its carrying amount, any resulting impairment loss is first allocated to goodwill and subsequently to other assets on a pro rata basis for the CGU. Any goodwill impairment loss is recorded to the consolidated statements of loss and comprehensive loss in the period of impairment. Previously recognized impairment losses for goodwill are not reversed in subsequent periods.

The Company completes its annual impairment test as at December 31.

[g] Impairment of non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed for impairment at each consolidated statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets. The recoverable amount of an asset or a CGU is the higher of its fair value, less cost to sell, and its value in use. If the carrying amount of an asset exceeds its recoverable amount, an impairment charge is recognized immediately in profit or loss by the amount by which the carrying amount of the asset exceeds the recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount and the carrying amount that would have been recorded had no impairment loss been recognized previously.

[h] Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at its inception date, whether fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement. Leases are classified as finance leases whenever the terms of the lease transfer substantially all of the risks and rewards of ownership to the lessee. All other leases are classified operating leases.

Finance leases that transfer to the Company substantially all of the risks and benefits incidental to ownership of the leased item are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in finance costs in the consolidated statements of loss and comprehensive loss.

Operating lease payments are recognized as an operating expense in the consolidated statements of loss and comprehensive loss on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which the economic benefits are consumed.

[i] Income taxes

Income tax expense represents the sum of the income tax currently payable and deferred tax.

The income tax currently payable is based on taxable profit for the year. Taxable profit differs from "loss before income taxes" as reported in the consolidated statements of loss and comprehensive loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the year.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition [other than in a business combination] of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill.

The carrying amount of deferred tax assets is reviewed at the end of each year and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the year in which the liability is settled or the asset realized, based on tax rates [and tax laws] that have been enacted or substantively enacted by the end of the year.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the year, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred taxes are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive loss or directly in equity, in which case the current and deferred taxes are also recognized in other comprehensive loss or directly in equity, respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

[j] Share-based payments

The Company measures equity-settled share-based payments based on their fair value at the grant date and recognizes compensation expense over the period in which the service and, where applicable, the performance conditions are fulfilled [the vesting period] with a corresponding increase in equity [contributed surplus]. Fair value is measured using the Black-Scholes option pricing model. The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the consolidated statements of loss and comprehensive loss for a period represents the movement in cumulative expense recognized as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Company's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

No expense is recognized for awards that do not ultimately vest because non-market performance and/or service conditions have not been met. Where awards include a market or non-vesting condition, the transactions are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

When the terms of an equity-settled award are modified, the minimum expense recognized is the grant date fair value of the unmodified award, provided the original terms of the award are met. An additional expense, measured as at the date of modification, is recognized for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee. Where an award is cancelled by the entity or by the counterparty, any remaining element of the fair value of the award is expensed immediately through the consolidated statements of loss and comprehensive loss.

[k] Loss per share

The Company presents basic and diluted loss per share data for its common shares. Basic loss per share is calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the year. Diluted loss per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for the effects of all dilutive potential common shares, which comprise preferred shares, warrants, share options and convertible debentures issued.

[l] Financial instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities [other than financial assets and financial liabilities at fair value through profit or loss] are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

[i] Financial assets

On initial recognition, a financial asset is classified as measured at amortized cost, fair value through other comprehensive income [‘‘FVOCI’’], or fair value through profit and loss [‘‘FVTPL’’]. The classification of financial assets is based on the business model in which a financial asset is managed and its contractual cash flow characteristics. Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated. Instead, the hybrid financial asset as a whole is assessed for classification.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- It is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income ["OCI"]. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

A financial asset [unless it is a trade receivable without a significant financing component that is initially measured at the transaction price] is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition.

The following accounting policies apply to the subsequent measurement of financial assets.

Financial assets at FVTPL	Subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.
Financial assets at amortized cost	Subsequently measured at amortized cost using the effective interest method, less any impairment losses. Interest income, foreign exchange gains and losses and impairment losses are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.
Debt investments at FVOCI	Subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment losses are recognized in profit or loss. Other net gains and losses are recognized in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity investments at FVOCI	Subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in OCI and are not reclassified to profit or loss, even upon derecognition.

[ii] Financial liabilities

The Company initially recognizes financial liabilities at fair value on the date at which the Company becomes a party to the contractual provisions of the instrument.

The Company classifies its financial liabilities as either financial liabilities at FVTPL or other liabilities.

Subsequent to initial recognition, other liabilities are measured at amortized cost using the effective interest method. Financial liabilities at fair value are stated at fair value with changes being recognized in profit or loss.

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

[iii] Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued by the Company are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by a group entity are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

[iv] Classification of financial instruments

The Company classifies its financial assets and liabilities depending on the purpose for which the financial instruments were acquired, their characteristics and management intent as outlined below:

Financial assets/liabilities	Classification
Cash	Financial assets at FVTPL
Other receivables	Financial assets at amortized cost
Trade and other payables	Other liabilities
Convertible debentures	Other liabilities

[v] Impairment of financial assets

Financial assets, other than those classified as FVTPL, incorporate an allowance for expected credit losses.

[m] Convertible notes

Each convertible note is convertible into one preferred share and one common share purchase warrant. Convertible notes issued in 2016 and 2015 met the definition of financial liabilities subject to measurement at fair value at each reporting period-end with changes in fair value to be reflected in the Company's consolidated statements of loss and comprehensive loss. The Company determined that the convertible notes did not meet the IFRS definition of equity due to the variability of the conversion ratio, which is based on the timing of conversion by the holder of the instrument.

Transaction costs are expensed as incurred.

[n] Convertible debentures and convertible promissory note

Convertible debentures and convertible promissory note are separated into liability and equity components based on the terms of the contract.

On issuance of the instruments, the fair value of the liability component is determined using a market rate for an equivalent non-convertible instrument. This amount is classified as a financial liability measured at amortized cost (net of transaction costs) until it is extinguished on conversion or redemption.

The remainder of the proceeds is allocated to the equity component that is recognized and included in equity. Transaction costs are deducted from equity, net of associated income tax. The carrying amount of the conversion option is not remeasured in subsequent periods.

[o] New standards, amendments and interpretations adopted by the Company

The following new accounting standards applied or adopted during the year ended December 31, 2018 had no material impact on the financial statements:

[i] Amendments to IFRS 2 – Share-based Payment ["IFRS 2"]

Amendments to IFRS 2, Share-based Payment were issued in June 2016 and are effective for annual periods beginning on or after January 1, 2018, to be applied prospectively. The amendments clarify the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; provide guidance on the classification of share-based payment transactions with net settlement features for withholding tax obligations; and clarify accounting for modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The Company concluded that there is no impact from adoption of amendments to IFRS 2 on the financial statements of the Company.

[ii] IFRS 9 – Financial Instruments ["IFRS 9"]

The adoption of IFRS 9 did not have any impact on the Company's consolidated financial statements. IFRS 9 largely retains the existing requirements in IAS 39 – *Financial Instruments: Recognition and Measurement* ["IAS 39"] for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale.

The adoption of IFRS 9 did not had a significant effect on the Company's accounting policies related to financial liabilities and derivative financial instruments.

[iii] IFRS 15 - Revenue from Contracts with Customers ["IFRS 15"]

In May 2014, the IASB issued IFRS 15, which covers principles for reporting about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The core principle of the new standard is that an entity recognizes revenue to represent the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard also provides a model for the recognition and measurement of gains or losses of non-financial assets. IFRS 15 is effective for annual periods beginning on or after January 1, 2018. The standard permits the use of either full or modified retrospective application. This new accounting guidance will also result in enhanced disclosures about revenue. The Company does not have any material contracts with customers and, therefore, there is no impact from adoption of IFRS 15 on the financial statements of the Company.

[p] New standards, amendments and interpretations not yet adopted by the Company

The Company has not applied the following new and revised IFRS that have been issued but are not yet effective:

[i] IFRS 16 - Leases ["IFRS 16"]

In January 2016, the IASB issued IFRS 16, which specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019, and a lessee shall either apply IFRS 16 with full retrospective effect or alternatively not restate comparative information but recognize the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application. Early adoption is permitted if IFRS 15 has also been adopted. The Company is in the process of evaluating the impact of IFRS 16 on the Company's financial statements.

[ii] IFRIC 23 – Uncertainty over Income Tax Treatment ["IFRIC 23"]

In June 2017, the IASB issued IFRIC 23, which clarifies the accounting for uncertainties in income taxes. IFRIC 23 is effective for annual periods beginning on or after January 1, 2019. The requirements are applied by recognizing the cumulative effect of initially applying them in retained earnings, or in other appropriate components of equity, at the start of the reporting period in which the Company first applies them, without adjusting comparative information. Full retrospective application is permitted, if the Company can do so without using hindsight. The Company is in the process of evaluating the impact of IFRIC 23 on the Company's financial statements.

4. Business combinations

Acquisition of CannScience Innovations Inc.

On March 10, 2017, the Company acquired 100% of the outstanding shares of CannScience Innovations Inc. ["CSI"] located in Toronto, Ontario, Canada. The transaction was accounted for as a business combination. CSI is a R & D cannabinoid-based biopharmaceutical company. Its primary mission is biochemical research and product development of therapies targeting the human endocannabinoid system. CSI has developed a proprietary product platform with an intellectual property portfolio related to the use of cannabinoids in the treatment of a range of indications including oncology, pain management and central nervous system disorders.
The estimated purchase price for CSI was $45,804,809. The consideration for the transaction was 14,295,732 common shares issued at a price of $2.60 per common share and 8,579,726 common share purchase warrants with exercise price of $1.50 per common share for a period of four years commencing September 22, 2017.

The Company also issued 1,200,000 stock options with exercise price of $0.75 per common share for 600,000 stock options and $1.30 per common share for the remainder 600,000 stock options to executives of CSI on signing an employment agreement with the Company. These options vested immediately.

Fair value of the common share purchase warrants was determined using the Black-Scholes option pricing model with a market price per common share of $2.60, a risk-free interest rate of 1.26%, an expected annualized volatility of 60% and expected dividend yield of 0%.

[expressed in Canadian dollars, except share amounts]

The purchase price was determined as follows:

	Number of units	Fair value per unit	Total consideration
	#	$	$
Common shares	14,295,732	2.60	37,168,903
Warrants	8,579,726	1.01	8,635,906
Total	**22,875,458**		**45,804,809**

Purchase price allocation was as follows:

	$
Cash	36,706
Other receivables	513,328
Intangible asset - Intellectual property	40,500,000
Goodwill	16,072,080
Trade and other payables	(584,805)
Deferred tax liability	(10,732,500)
Total purchase price	**45,804,809**

Goodwill arising on the acquisition reflected the benefits attributable to synergies, revenue growth, future market development and the estimated fair value of the assembled workforce. These benefits were not recognized separately from goodwill because they did not meet the recognition criteria for identifiable intangible assets.

The net cash outflow related to the acquisition of CSI was as follows:

	$
Consideration paid in cash	-
Less: cash balances acquired	36,706
Net cash received on acquisition	(36,706)

5. Other receivables

The Company's other receivables include the following:

	2018	2017
	$	$
Input tax receivable	**217,694**	1,145,608
Refundable investment tax credits	**328,969**	421,402
Related party receivable *[note 18]*	**1,787**	264,813
Other receivables	**92,726**	8,925
	641,176	1,840,748

During 2018, a previous key management employee reimbursed the Company $63,026 (2017 – $1,553,735) related to unauthorized personal expenditures paid by the Company from 2014 to 2017. The total amount reimbursed to date by the previous key management employee is $1,616,761. As at December 31, 2018, $1,787 [2017 - $64,813] thereof was due from the key management employee and is included in related party receivable. In addition, included in related party receivable as at December 31, 2017 is $200,000 receivable from a shareholder as an additional contribution in the Company, which was received in 2018.

[expressed in Canadian dollars, except share amounts]

6. Inventories

	Capitalized costs	Biological assets fair value adjustment	Carrying value
	$	$	$
Harvested Cannabis			
Raw materials	409,699	(139,821)	269,878
Finished goods	9,850	(3,399)	6,451
	419,549	(143,219)	276,330
Oils and Capsules			
Work in process	38,294	(1,347)	36,947
Finished goods	35,257	(1,218)	34,039
	73,551	(2,565)	70,987
Supplies and consumables	28,190	-	28,190
Balance as at December 31, 2018	**521,290**	**(145,784)**	**375,506**

On December 21, 2018, the Company received a license to sell cannabis for medical purposes under the *Cannabis Act*. As all cannabis harvested in the period was prior to the Company obtaining the sales license, the Company recognized a fair value of nil upon harvest of cannabis plants resulting in cost of nil being transferred from biological assets to inventory. The fair value adjustment for costs previously capitalized and then written off upon transfer from biological assets to inventory was $145,784 for the year.

Cost of sales primarily relate to production related expenditures not capitalized due to start-up costs and underutilization.

7. Biological assets

Biological assets consist of cannabis on plants. The changes in the carrying value of biological assets are as follows:

Balance at December 31, 2017	—
Production costs capitalized	244,128
Changes in fair value less costs to sell due to biological transformation	156,155
Transferred to inventory upon harvest	—
Balance as at December 31, 2018	**400,283**

The Company measures its biological assets at their fair value less costs to sell. This is determined using a model that estimates the expected harvest yield in grams for plants currently being cultivated, and then multiplies that amount by the expected wholesale selling price.

The fair value measurements for biological assets have been categorized as Level 3 fair values based on the inputs to the valuation technique used. The Company's method of accounting for biological assets attributes value accretion on a straight-line basis throughout the life of the biological asset from initial cloning to the point of harvest.

[expressed in Canadian dollars, except share amounts]

The following table quantifies each significant unobservable input, and provides the impact a 10% increase/decrease in each input would have on the fair value of biological assets:

Assumptions:		**As at December 31, 2018**	
		Input	10% Change
i	Expected yields for cannabis plants (average grams per plant) (a)	170	$ 40,028
ii	Weighted average number of growing weeks completed as a percentage of total expected growing weeks as at period end	92%	$ 40,028
iii	Estimated selling price (per gram) (b)	$ 2.82	$ 40,028

[a] The expected yield for cannabis includes expected dry flower yield and expected dry trim yield.

[b] The estimated selling price per gram reflects the price paid by the Company to acquire dried flower from external parties, and the estimated selling price for trim represents wholesale market prices for trim.

The Company obtained its sales license in December 2018. Prior to obtaining its sales license, the fair value of biological assets was determined to be nil.

These estimates are subject to volatility in market prices and a number of uncontrollable factors, which could significantly affect the fair value of biological assets in future periods. The Company's estimates are, by their nature, subject to change, and differences from the anticipated yield and the other assumptions will be reflected in the gain or loss on biological assets in future periods.

As at December 31, 2018, it is expected that the Company's cannabis plants biological assets will yield approximately 109,000 grams of dry cannabis and approximately 42,000 grams of dry trim.

[expressed in Canadian dollars, except share amounts]

8. Property, plant and equipment

Cost	Furniture and fixtures $	Computer equipment $	Production equipment $	Building $	Land $	Total $
As at December 31, 2016	180,229	163,795	460,206	4,430,614	1,020,000	6,254,844
Additions	56,829	173,707	3,567,047	3,807,087	—	7,604,670
As at December 31, 2017	**237,058**	**337,502**	**4,027,253**	**8,237,701**	**1,020,000**	**13,859,514**
Additions	97,481	384,316	1,601,770	1,200,739	—	3,284,306
As at December 31, 2018	**334,539**	**721,818**	**5,629,023**	**9,438,440**	**1,020,000**	**17,143,820**

Accumulated depreciation	Furniture and fixtures $	Computer equipment $	Production equipment $	Building $	Land $	Total $
As at December 31, 2016	73,870	42,994	120,382	356,136	—	593,382
Depreciation	41,729	62,662	448,745	253,366	—	806,502
As at December 31, 2017	**115,599**	**105,656**	**569,127**	**609,502**	—	**1,399,884**
Depreciation	64,151	101,392	946,913	371,714	—	1,484,170
As at December 31, 2018	**179,750**	**207,048**	**1,516,040**	**981,216**	—	**2,884,054**

Net book value	Furniture and fixtures $	Computer equipment $	Production equipment $	Building $	Land $	Total $
As at December 31, 2017	121,459	231,846	3,458,126	7,628,199	1,020,000	12,459,630
As at December 31, 2018	**154,789**	**514,770**	**4,112,983**	**8,457,224**	**1,020,000**	**14,259,766**

[expressed in Canadian dollars, except share amounts]

9. Intangible assets and goodwill

Cost	Software $	Intellectual property $	Goodwill $
As at December 31, 2016	—	—	—
Acquired from business combination	—	40,500,000	16,072,080
As at December 31, 2017	—	40,500,000	16,072,080
Additions	**211,048**	**—**	**—**
As at December 31, 2018	**211,048**	**40,500,000**	**16,072,080**
Accumulated amortization			
As at December 31, 2016	—	—	—
Amortization	—	4,691,977	—
As at December 31, 2017	—	4,691,977	—
Amortization	13,993	5,785,714	**—**
As at December 31, 2018	**13,993**	**10,477,691**	**—**
Net book value			
As at December 31, 2017	—	35,808,023	16,072,080
As at December 31, 2018	**197,055**	**30,022,309**	**16,072,080**

The Company performs a goodwill impairment test annually on December 31 and whenever there is an indication of impairment. No impairment of goodwill was identified as a result of the Company's most recent annual impairment test.

The key assumptions used in performing the impairment test were as follows:

Recoverable amount

Recoverable amount was based on value in use. Management's past experience and future expectations of the business performance are used to make a best estimate of the expected cash flows for a ten year period.

Discount rate

The discount rate applied was 20% and is a pre-tax rate that reflects the time value of money and risk associated with the business.

Perpetual growth rate

The perpetual growth rate applied was 2.5% and is management's current assessment of the long-term growth prospect of the Company in the jurisdictions in which it operates.

Sensitivity analysis

Management performs sensitivity analysis on the key assumptions. Sensitivity analysis indicates reasonable changes to key assumptions will not result in an impairment loss.

10. Borrowings

Mortgage

On September 15, 2014, the Company entered into a $2,000,000 fixed rate mortgage facility [the “Mortgage”] with a Canadian-based lender to assist with the purchase of property located at 1130 Champlain Court, Whitby, Ontario, over which the Mortgage was secured. Interest on the mortgage facility was accrued monthly at a fixed rate of 6.0%. The Mortgage had a term of 4 years.

On initial recognition, the Mortgage was designated as an “other financial liability” and recorded at fair value less transaction costs. The Mortgage was subsequently measured at amortized cost using the effective interest method.

In August 2017, the Mortgage was fully repaid, resulting in outstanding balance of nil as at December 31, 2017.

Demand loan

During the year ended December 31, 2016, the Company received $200,000 as an advance for a share subscription. The advance was subject to nil interest and was payable on demand. In February 2017, the advance was converted into common shares of the Company at $2.60 per common share, resulting in the issuance of 76,923 common shares of the Company.

11. Convertible notes and convertible promissory note

Convertible notes

On November 26, 2015, the Company entered into a letter agreement [the “RTO Agreement”] with a Capital Pool Company [“the CPC”] and a facilitation and advisory company [“the Advisor”] that outlines the general terms and conditions pursuant to which the Company, the CPC and the Advisor proposed to complete a business combination transaction that would have resulted in a reverse take-over [“RTO”] of the CPC by the shareholders of the Company and the Advisor. The Company entered into an amended definitive RTO Agreement under similar terms and conditions on January 12, 2016. The definitive RTO Agreement was terminated in 2017.

On November 30, 2015, the Company completed a private placement of secured convertible notes in the aggregate principal amount of $1,000,000. These convertible notes bore a fixed interest rate of 1.0% per quarter, compounded quarterly, and had a maturity date on the earlier of the [i] closing of the RTO transaction and [ii] termination of the RTO Agreement [the “Maturity Date”]. Furthermore, the convertible notes were convertible, in whole or in part [i] at the option of the convertible note holder at any time prior to the issuance by Health Canada to the Company of the ACMPR License at a conversion price of $0.75 or [ii] automatically on issuance of the ACMPR License at a conversion price of $1.00, into one preferred share of the Company and one common share purchase warrant [the “Preferred Share Unit”].

Each common share purchase warrant is exercisable to purchase one common share of the Company at an exercise price of $1.50 per common share for a period of four years from the earlier of: [i] the date of issuance of ACMPR License; and [ii] the date the Company completed an initial public offering and listing on a recognized stock exchange in Canada.

The Company also had the right to redeem, at $0.75 per Preferred Share Unit, the principal amount and other amounts payable under the terms of the convertible notes on the day after the initial closing date by which the Company had raised, cumulatively (in one or more closings) equity capital of at least $3,000,000.

[expressed in Canadian dollars, except share amounts]

The Company determined that the convertible notes did not meet the IFRS definition of equity due to the variability of the conversion price. Accordingly, the convertible notes were treated as financial liabilities measured at fair value through profit or loss. The fair values of the convertible notes were classified as Level 3 in the fair value hierarchy.

The Company issued 80,000 common share purchase warrants as transaction costs to the brokers. Each common share purchase warrant entitles the holder to purchase one common share at an exercise price of $1.25 for up to four years from the closing date of the transaction. Based on the Black-Scholes option pricing model, the fair value of the warrants was $9,200 using the following assumptions:

Grant date share price	$0.645
Exercise price	$1.25
Risk-free interest rate	1.27%
Expected life [years]	4 years

In February 2017, these convertible notes were converted into Preferred Share Units at a conversion price of $0.75 resulting in issuance of 1,333,328 preferred shares and 1,333,328 common share purchase warrants of the Company. Immediately prior to conversion, the fair value of the convertible notes was $4,963,039 resulting in recognition of loss from change in fair value of convertible notes in the amount of $2,777,263. On conversion, the Company paid accrued interest of $48,328 in cash. The remaining total value of $4,914,711 was allocated to preferred shares and common share purchase warrants in the amount of $3,598,803 and $1,315,908, respectively.

On May 13, 2016, the Company completed a private placement of secured convertible notes in the aggregate principal amount of $1,050,000. These convertible notes bore a fixed interest rate of 1.0% per quarter, compounded quarterly, and had a maturity date on the earlier of the [i] closing of the RTO transaction and [ii] termination of the RTO Agreement. Furthermore, the convertible notes were convertible, in whole or in part [i] at the option of the convertible note holder at any time prior to the issuance by Health Canada to the Company of the Medical Marijuana Purpose Regulation License at a conversion price of $1.00 or [ii] automatically on issuance of the ACMPR License at a conversion price of $1.30, into one preferred share of the Company and one common share purchase warrant.

Each common share purchase warrant is exercisable to purchase one common share of the Company at an exercise price of $1.50 per common share for a period of four years from the earlier of: [i] the date of issuance of ACMPR License; and [ii] the date the Company completed an initial public offering and listing on a recognized stock exchange in Canada.

The Company also had the right to redeem, at $1.00 per Preferred Share Unit, the principal amount and other amounts payable under the terms of the convertible notes on the day after the initial closing date by which the Company had raised, cumulatively in one or more closings, equity capital of at least $6,000,000.

[expressed in Canadian dollars, except share amounts]

The Company determined that the convertible notes did not meet the IFRS definition of equity due to the variability of the conversion price. Accordingly, the convertible notes are treated as financial liabilities measured at fair value through profit or loss. The fair values of the convertible notes are classified as Level 3 in the fair value hierarchy. The Company issued 95,750 common share purchase warrants as transaction costs to the brokers. Each common share purchase warrant entitles the holder to purchase one common share at an exercise price of $1.25 – $1.50 for up to four years from the closing date of the transaction. Based on the Black-Scholes option pricing model, the fair value of the warrants is $10,755 using the following assumptions:

Grant date share price	$0.645
Exercise price	$1.25–$1.50
Risk-free interest rate	1.04%
Expected life [years]	4 years

In February 2017, these convertible notes were converted into Preferred Share Units at a conversion price of $1.00 resulting in the issuance of 1,050,000 preferred shares and 1,050,000 common share purchase warrants of the Company. Immediately prior to conversion, the fair value of the convertible notes was $3,840,995 resulting in recognition of loss from change in fair value of convertible notes in the amount of $2,107,986. On conversion, the Company paid accrued interest of $31,759 in cash. The remaining value of $3,809,236 was allocated to preferred shares and common share purchase warrants in the amount of $2,789,318 and $1,019,918, respectively.

Convertible promissory note

On October 11, 2016, the Company issued a $200,000 non-interest-bearing convertible promissory note with a maturity date of October 11, 2021. The promissory note was convertible at the option of the holder at any time into common shares of the Company at a conversion price of $1.30 per common share. Furthermore, the convertible promissory note was automatically convertible at the earlier of: [i] the date the Company obtains the ACMPR License from Heath Canada under Marijuana for Medical Purposes Regulations; [ii] the date the Company completes an initial public offering and listing on a recognized stock exchange in Canada; and [iii] the date of and immediately prior to an acquisition by any person or persons of more than 66.66% of the outstanding common shares of the Company.

The Company used a discount rate of 15% to calculate the fair value of the liability portion of the convertible promissory note with the difference between the fair value and the proceeds being ascribed to the conversion feature. The fair value of the liability portion was calculated to be $173,913, resulting in $26,087 being allocated to the conversion feature, which was recognized in contributed surplus.

In September 2017, the convertible promissory note was converted into 153,846 common shares of the Company. The book value of this convertible promissory note of $199,147 was credited to share capital on conversion.

12. Convertible debentures

On August 14, 2017, the Company completed an $11,500,000 financing by issuing convertible debentures ["Debentures"]. The Debentures bear an interest rate of 8% per annum and are convertible into common shares of the Company at a conversion price of $2.75 per common share. The Debentures have a maturity date of August 14, 2019. The Debentures are secured by all of the property, undertakings, assets and rights of the Company now owned or hereafter acquired and all of the property and undertakings in which the Company now has or hereafter acquires any interest.

[expressed in Canadian dollars, except share amounts]

The Company used a discount rate of 15% to calculate the fair value of the liability portion of the Debentures with the difference between the fair value and the proceeds being ascribed to the conversion feature. The fair value of the liability portion was calculated to be $10,059,317, resulting in $1,440,683 being allocated to the conversion feature, which was recognized in contributed surplus. The Company incurred cash transaction costs of $51,144, which were allocated on a proportionate basis to the liability portion and the equity portion in the amount of $44,737 and $6,407, respectively. Interest expense of $1,650,178 was recognized during the year ended December 31, 2018 [2017 - $599,324] with a corresponding increase in Debentures using the effective interest rate method.

The balance of the debt component as at December 31, 2018 and 2017 consists of the following:

	2018	2017
	$	$
Principal balance	**11,500,000**	11,500,000
Less		
Issuance costs	**(51,144)**	(51,144)
Conversion feature at inception	**(1,434,276)**	(1,434,276)
Interest payments	**(1,270,356)**	—
Interest and accretion expense	**2,249,502**	599,324
Balance as at December 31	**10,993,726**	10,613,904
Current	**10,993,726**	350,356
Non-current	—	10,263,548

13. Share capital

[a] Authorized

The authorized share capital of the Company consists of an unlimited number of common shares and unlimited number of preferred shares.

Preferred shares are entitled to receive any dividends declared by the Company on preferred shares and common shares. Preferred shares are equal rank to common shares in the event of dissolution. Preferred shares automatically convert into common shares of the Company one for one on the earlier of: [i] the date the Company obtains a producer's license from Health Canada under the Marijuana for Medical Purposes Regulations; [ii] the date the Company completes an initial public offering on a recognized stock exchange in Canada; and [iii] the date of and immediately prior to an acquisition by any persons of more than 66.66% of the outstanding shares of the Company.

On September 22, 2017, the Company received its ACMPR producer's license from Health Canada. As a result, all outstanding preferred shares were converted one for one into common shares of the Company. The expiration date of all outstanding warrants was also fixed to 4 years from September 22, 2017.

[expressed in Canadian dollars, except share amounts]

[b] Issued and outstanding

Reconciliation of the Company's share capital is as follows:

	Common shares		Preferred shares		Warrants	
	#	$	#	$	#	$
Balance, December 31, 2016	6,049,855	2,425,466	5,708,703	3,323,511	6,212,398	458,295
Issuance of common shares and warrants pursuant to business combination *[note 4]*	14,295,732	37,168,903	—	—	8,579,726	8,635,906
Issuance of common shares, net of issuance costs	3,019,838	7,836,543	—	—	—	—
Warrants expired	—	—	—	—	(50,000)	—
Conversion of convertible notes	—	—	2,383,328	6,388,121	2,383,328	2,335,826
Conversion of promissory note	153,846	199,147	—	—	—	—
Conversion of preferred shares	8,092,031	9,711,632	(8,092,031)	(9,711,632)	—	—
Balance, December 31, 2017	31,611,302	57,341,691	—	—	17,125,452	11,430,027
Issuance of common shares, net of issuance costs [i]	**3,988,036**	**14,549,788**	—	—	—	—
Broker warrants issued [i]	—	—	—	—	**156,980**	**214,076**
Issuance of common shares for services [ii]	**863,905**	**2,289,348**	—	—	—	—
Stock options exercised	**112,000**	**114,240**	—	—	—	—
Warrants exercised [iii]	**10,098,537**	**9,904,664**	—	—	**(14,363,904)**	**(9,668,965)**
Balance, December 31, 2018	**46,673,780**	**84,199,731**	—	—	**2,918,528**	**1,975,138**

[i] On February 15, 2018, the Company issued 3,924,500 common shares for total proceeds of $15,698,000. Transaction costs consisted of $1,188,280 in cash and issuance of 156,980 common share warrants to the brokers. Each warrant is exercisable to acquire one common share at an exercise price of $4 per common share for a period of two years from the date of issuance. Fair value of the common share purchase warrants was determined to be $1.36 per warrant using the Black-Scholes option pricing model with a market price per common share of $4, a risk-free interest rate of 1.84%, an expected annualized volatility of 60% and expected dividend yield of 0%.

In April 2018, the Company issued 21,036 common shares in settlement of accrued liabilities. The fair value of the common shares issued was $84,144, resulting in additional expense of $26,295 for the year ended December 31, 2018.

On June 1, 2018, the Company issued 42,500 common shares for total proceeds of $170,000. There were no transaction costs.

[ii] On May 23, 2017, an advisory company ["Advisor"] terminated the advisory and transaction facilitation agreement ("Facilitation Agreement") with the Company and asserted that under the termination provisions of the Facilitation Agreement that the Company was required to issue 863,905 common shares of the Company. The Company disputed Advisor's assertion for a number of reasons, including non-performance under the Facilitation Agreement, and accordingly did not issue 863,905 common shares to the Advisor. The Advisor filed a claim against the Company and a judgment was made by the Supreme Court of British Columbia against the Company on July 10, 2018. The judgment requires: the Company to issue 863,905 common shares of the Company to the Advisor; the Advisor is to redeem or buy back its outstanding shares by exchanging the Company shares received for the same number of shares in the hands of its shareholders; and the Advisor is to deliver its redeemed or bought back shares to the Company.

The transaction arising from the judgement was measured at the fair value of the underlying common shares issuable as the fair value of services received could not be measured reliably. The fair value of the underlying common shares at the time of the termination of the agreement by the Advisor was $2.65 per common share. The common shares issuable in exchange for services resulted in a recognition of expense in the amount of $2,289,348 in the consolidated statements of loss and comprehensive loss. The expense was classified as consulting expense and is included in general and administrative expenses in the consolidated statements of loss and comprehensive loss.

In August 2018, the Company issued the 863,905 common shares to the Advisor as required by the judgment, however, the Company and the Advisor have not agreed on the form of the implementation of the judgement. The Company and the Advisor are scheduled to reappear before the court on May 16, 2019 for further submission on the form of the judgement, including method of implementation.

[iii] In March 2018, the Company issued 100,000 common shares in exchange for 100,000 warrants exercised. Total cash proceeds were $150,000. In addition, $15,750 was transferred from warrants to common shares.

On April 12, 2018, 14,205,570 warrants were exercised on a cashless basis at the then current common share price of $4 per common share plus a 12% premium resulting in issuance of 9,940,203 common shares. Included in the 14,205,570 warrants exercised were 103,650 warrants issued to brokers for services. Warrants issued for services were initially classified to be within the scope of IFRS 2. Therefore, modification of these warrants resulted in recognition of an expense for the increase in the fair value of the warrants measured immediately before and after the modification. This resulted in recognition of additional expense of $15,699. All other warrants exercised were issued with common shares and were initially classified to be within the scope of *IAS 32 – Financial Instruments: Presentation,* resulting in no impact on modification. In addition, 58,334 warrants were exercised for total cash proceeds of $70,000. For the warrants exercised, $9,653,215 was transferred from warrants to common shares.

14. Stock options

The Company has established a stock option plan [the “Option Plan”] for directors, officers, employees and consultants of the Company. The Company’s Board of Directors determines, among other things, the eligibility of individuals to participate in the Option Plan and the term, vesting periods, and the exercise price of options granted to individuals under the Option Plan.

Each share option converts into one common share of the Company on exercise. No amounts are paid or payable by the individual on receipt of the option. The options carry neither rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry.

The Company’s Option Plan provides that the number of common shares reserved for issuance may not exceed 10% of the aggregate number of common shares and preferred shares that are outstanding unless the Board shall have increased such limit by a Board resolution. If any options terminate, expire, or are cancelled as contemplated by the Option Plan, the number of options so terminated, expired or cancelled shall again be available under the Option Plan.

[expressed in Canadian dollars, except share amounts]

Share-based payment arrangements

The changes in the number of stock options during the years were as follows:

[a] Employee stock options

	Number of options #	Weighted average exercise price $
Outstanding as at December 31, 2016	924,425	0.90
Granted	1,485,000	1.25
Forfeited	(350,000)	1.46
Outstanding as at December 31, 2017	**2,059,425**	**1.06**
Granted	470,000	4.00
Forfeited	(35,000)	1.28
Exercised	(75,000)	0.75
Outstanding as at December 31, 2018	**2,419,425**	**1.64**

[b] Non-employee stock options

	Number of options #	Weighted average exercise price $
Outstanding as at December 31, 2016	271,500	0.91
Granted	500,000	2.12
Forfeited	(50,000)	0.75
Outstanding as at December 31, 2017	**721,500**	**1.76**
Granted	135,000	4.00
Exercised	(37,000)	0.75
Outstanding as at December 31, 2018	**819,500**	**2.17**

[expressed in Canadian dollars, except share amounts]

Measurement of fair values

The fair value of share options granted during the years ended December 31, 2018 and 2017 was estimated at the date of grant using the Black-Scholes option pricing model using the following inputs:

		2018	2017
Grant date share price	$	**4.00**	$2.60 – $2.75
Exercise price	$	**4.00**	$0.75 – $2.60
Expected dividend yield		**0%**	0%
Risk free interest rate		**2.02% – 2.13%**	1.05% – 1.57%
Expected option life		**4 years**	4 years – 5.60 years
Expected volatility		**60%**	60%

Employee and non-employee options

Expected volatility was estimated by using the historical volatility of other companies that the Company considers comparable that have trading and volatility history. The expected option life represents the period of time that options granted are expected to be outstanding. The risk-free interest rate is based on government bonds with a remaining term equal to the expected life of the options.

The following table is a summary of the Company's share options outstanding as at December 31, 2018:

	Options outstanding		Options exercisable	
Exercise price range	Number outstanding	Weighted average remaining contractual life [years]	Weighted average exercise price	Number exercisable
$	#	#	$	#
0.75	1,130,000	2.58	0.75	1,130,000
1.30	928,925	2.04	1.30	928,925
2.00	400,000	2.22	2.00	400,000
2.60	175,000	3.28	2.60	108,333
4.00	605,000	3.36	4.00	185,000
1.77	3,238,925	2.56	1.41	2,752,258

The following table is a summary of the Company's share options outstanding as at December 31, 2017:

	Options outstanding		Options exercisable	
Exercise price range	Number outstanding	Weighted average remaining contractual life [years]	Weighted average exercise price	Number exercisable
$	#	#	$	#
0.75	1,267,000	3.41	0.75	1,267,000
1.30	928,925	3.04	1.30	928,925
2.00	400,000	3.22	2.00	200,000
2.60	185,000	4.25	2.60	45,833
1.24	2,780,925	3.31	1.10	2,441,758

[expressed in Canadian dollars, except share amounts]

Share-based compensation expense

Employee options

The Company recognized $385,619 of share-based compensation expense to employees during the year ended December 31, 2018 [2017 - $2,474,621], with a corresponding amount recognized as a contributed surplus. See above per “Measurement of fair values” for significant assumptions used.

Non-employee options

The Company recognized $399,175 of share-based compensation expense to non-employees during the year ended December 31, 2018 [2017 - $2,978,145], with a corresponding amount recognized as contributed surplus. The expense was classified as consulting expense and is included in general and administrative expenses in the consolidated statements of loss and comprehensive loss. See above per “Measurement of fair values” for significant assumptions used.

15. Loss per share

Net loss per common share represents net loss attributable to common shareholders divided by the weighted average number of common shares outstanding during the year.

Diluted loss per common share is calculated by dividing the applicable net loss by the sum of the weighted average number of common shares outstanding and all additional common shares that would have been outstanding if potentially dilutive common shares had been issued during the year.

For all the years presented, diluted loss per share equals basic loss per share due to the anti-dilutive effect of convertible debentures, warrants and share options. The outstanding number and type of securities that could potentially dilute basic net loss per share in the future but would have decreased the loss per share [anti-dilutive] for the years presented are as follows:

	2018	2017
	#	#
Convertible debentures	**4,181,818**	4,181,818
Warrants	**2,918,528**	17,125,452
Share options	**3,238,925**	3,644,830
	10,339,271	24,952,100

16. Income taxes

Income tax expense varies from the amount that would be computed by applying the basic federal and provincial tax rates to net loss before income taxes, shown as follows:

	2018	2017
	$	$
Net loss before income tax	**(17,836,834)**	(22,601,542)
Expected tax rate	**26.50%**	26.50%
Expected tax benefit resulting from loss	**(4,726,761)**	(5,989,409)
Permanent differences	**1,635,403**	1,950,366
Reversal of temporary differences	**(1,726,712)**	(1,295,797)
Deferred tax asset not recognized	**3,284,856**	3,709,685
Deferred income tax recovery	**(1,533,214)**	(1,625,155)

Deferred tax assets have not been recognized in respect of tax losses because it is not probable that future taxable profit will be available against which the Company can utilize the benefits therefrom.

The Company's deferred tax liability is the result of the origination and reversal of temporary differences and comprise the following:

	2018	2017
	$	$
Deferred tax asset		
Non-capital loss carryforwards	**134,163**	327,660
Deferred tax liability		
Intangible assets	**7,955,912**	9,489,126
Convertible debentures	**134,163**	327,660
Net deferred tax liability	**7,955,912**	9,489,126

As at December 31, 2018, The Company's estimated non-capital losses that can be applied against future taxable profit amount to is approximately $26.7 million. These non-capital losses expire in the years ended as follows:

	$
	in millions
2034	1.1
2035	1.0
2036	2.2
2037	10.9
2038	11.5
	26.7

[expressed in Canadian dollars, except share amounts]

17. General and administrative

Components of general and administrative expenses for the years ended December 31 were as follows:

	2018	2017
	$	$
Salaries and wages	**2,594,564**	1,994,768
General office	**1,455,969**	954,793
Professional fees	**1,803,066**	1,430,131
Consulting fees	**499,149**	2,378,143
Advertising and promotion	**384,790**	401,357
	6,737,538	7,159,192

18. Research and development

Research and development expenses for the years ended December 31, 2018 and 2017 are composed of and presented as follows:

	2018	2017
	$	$
Salaries and wages	**436,571**	200,779
Share based compensation - employees	**17,234**	22,688
External research and development fees	**1,231,616**	1,970,604
	1,685,421	2,194,071
Less: refundable investment tax credits	**304,261**	315,698
	1,381,160	1,878,373
Presented as:		
Share based compensation - employees	**17,234**	22,688
Research and development	**1,363,926**	1,855,685
	1,381,160	1,878,373

19. Commitments and contingencies

Commitments

In June 2017, the Company entered into a cannabis plant acquisition agreement with Aphria for an initial period of one year with an annual purchase commitment of $4,860,000. The Company has not purchased any plants during the year, and the outstanding purchase commitment as at December 31, 2018 is $4,860,000. The agreement is automatically renewed for additional one-year periods unless terminated with 120 days' prior written notice by either party.

[expressed in Canadian dollars, except share amounts]

In addition, as at December 31, 2018, the Company is committed under an operating lease for office space for the following minimum annual rentals:

	$
2019	85,731
2020	85,731
2021	85,731
2022	85,731
2023	92,455
Thereafter	169,501
	604,880

Contingencies

[i] *Amalgamation agreement*

In January 2017, a Capital Pool Company ["CPC"] filed a claim against the Company relating to an alleged breach of contract associated with an amalgamation agreement that the Company had terminated. The Company believes that this claim is without merit. The matter is not sufficiently advanced for the outcome to be presently determinable and, accordingly, no provision for this claim has been made in these financial statements. In the event the matter is not resolved in favour of the Company, the Company may be required to issue up to 980,221 shares of the Company to the shareholders of the CPC.

[ii] *Financing and advisory agreement*

In July 2018, a Canadian broker dealer and its principal, both of whom have been suspended by the Investment Industry Regulatory Organization of Canada, filed a claim against the Company to deliver 421,377 common shares, 165,329 common share purchase warrants, damages of $162,296 representing unpaid cash commissions and reimbursement of $45,000 of expenses under a financing and advisory agreement. The Company believes that the claim is without merit. The matter is not sufficiently advanced for the outcome to be presently determinable and, accordingly, no provision for this claim has been made in these financial statements.

Should the Company be required to issue additional equity instruments, an equal number of additional equity instruments may also have to be issued to CSI shareholders to preserve the agreed-upon share exchange ratio in connection with the Company's March 2017 acquisition of CSI *[note 4]*.

[iii] *Other*

In the ordinary course of business, from time to time the Company is involved in various claims related to operations, rights, commercial, employment or other claims. Although such matters cannot be predicted with certainty, management does not consider the Company's exposure to these claims to be material to these financial statements.

20. Related party transactions

Key management personnel are those persons having the authority and responsibility for planning, directing and controlling activities of the entity, directly or indirectly, including the Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, Chief Technology Officer and equivalent, and Directors.

[expressed in Canadian dollars, except share amounts]

Compensation expense for the Company's key management personnel for the years ended December 31, 2018 and 2017 is as follows:

	2018	2017
	$	$
Salaries, benefits and consulting fees	1,301,458	1,080,822
Share-based compensation	318,831	2,350,146
	1,620,289	3,430,968

During 2018, a previous key management employee reimbursed the Company $63,026 (2017 – $1,553,735)related to unauthorized personal expenditures paid by the Company from 2014 to 2017. The total amount reimbursed to date by the previous key management employee is $1,616,761. As at December 31, 2018, $1,787 [2017 - $64,813] thereof was due from the key management employee and is included in other receivables *[note 5]*. In addition, $200,000 receivable as at December 31, 2017 was received during the year ended December 31, 2018 from a shareholder as additional contribution in the Company *[note 5]*.

21. Capital management

HydRx is an early-stage company and is dependent on raising further capital, primarily equity, to fund its capital expenditures and its operating expenses in excess of revenue until such time as it reaches cash break-even. As at December 31, 2018, the Company had raised, net of issuance costs, approximately $50 million by the issuance of common shares, preferred shares, convertible debentures, convertible notes and warrants. The Company may raise additional equity in the future, although there can be no assurance that the Company will be successful in doing so *[note 1]*.

22. Financial instruments and risk management

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from deposits with banks and outstanding receivables. The Company does not hold any collateral as security but mitigates this risk by dealing only with what management believes to be financially sound counterparties and, accordingly, does not anticipate significant loss for non-performance.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's exposure to liquidity risk is dependent on the Company's ability to raise additional financing to meet its commitments and sustain operations. The Company mitigates liquidity risk by management of working capital, cash flows and the issuance of share capital.

The Company is obligated to the following contractual maturities of undiscounted cash flows:

	Carrying amount	Contractual cash flows	Year 1	Year 2 and beyond
	$	$	$	$
Trade and other payables	950,264	950,264	950,264	-
Convertible debentures	10,993,726	12,533,425	12,533,425	-
	11,943,990	**13,483,689**	**13,483,689**	**-**

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Currency risk

Currency risk is the risk to the Company's earnings that arises from fluctuations of foreign exchange rates. The Company is not exposed to foreign currency exchange risk as it has minimal financial instruments denominated in a foreign currency and substantially all of the Company's transactions are in Canadian dollars, which is also the Company's functional currency.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is not exposed to interest rate risk as at December 31, 2018 as the interest rate on the convertible debentures is fixed at 8% per annum.

Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices [other than those arising from interest rate risk or currency risk], whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Company is not exposed to other price risks as at December 31, 2018.

Fair values

The fair value of the Debentures as at December 31, 2018 was approximately $10,650,542. The fair value was determined using the discounted cash flow method using the discount rate of 15%.

The carrying values of cash, other receivables and trade and other payables approximate the fair values due to the short-term nature of these items. The risk of material change in fair value is not considered to be significant due to a relatively short-term nature. The Company does not use derivative financial instruments to manage this risk.

Financial instruments recorded at fair value on the consolidated statements of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The Company categorizes its fair value measurements according to a three-level hierarchy. The hierarchy prioritizes the inputs used by the Company's valuation techniques. A level is assigned to each fair value measurement based on the lowest-level input significant to the fair value measurement in its entirety. The three levels of the fair value hierarchy are defined as follows:

- Level 1 – Unadjusted quoted prices as at the measurement date for identical assets or liabilities in active markets.

- Level 2 – Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

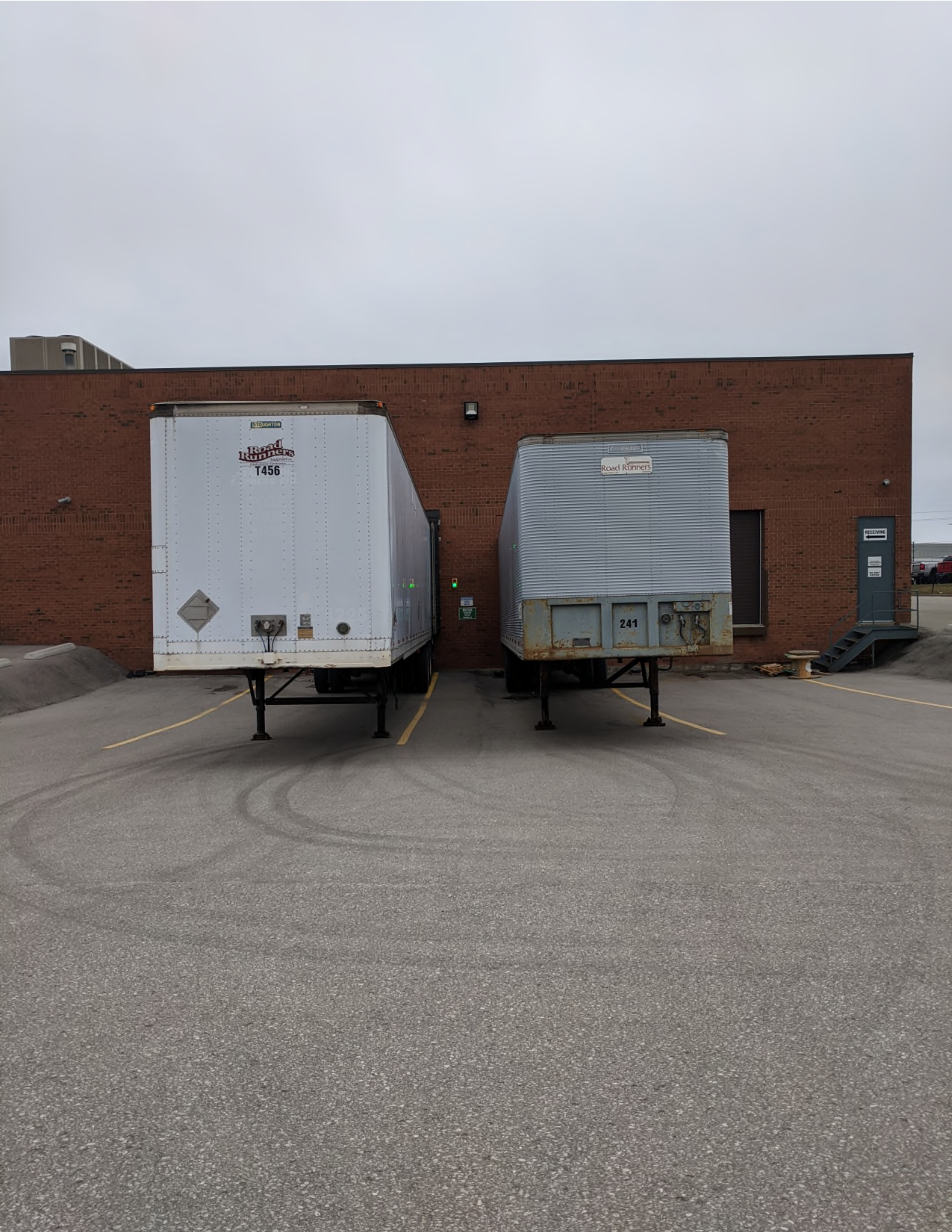
- Level 3 – Significant unobservable inputs that are supported by little or no market activity. The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

Convertible notes were classified as a Level 3 financial instrument. During the year, there were no transfers of amounts between levels. The convertible debentures fair value disclosure at December 31, 2018 is Level 3.

This is Exhibit **"C"** referred to in the Affidavit of Richard Goldstein sworn March 29, 2021.

Commissioner for Taking Affidavits (or as may be)


Road Runners
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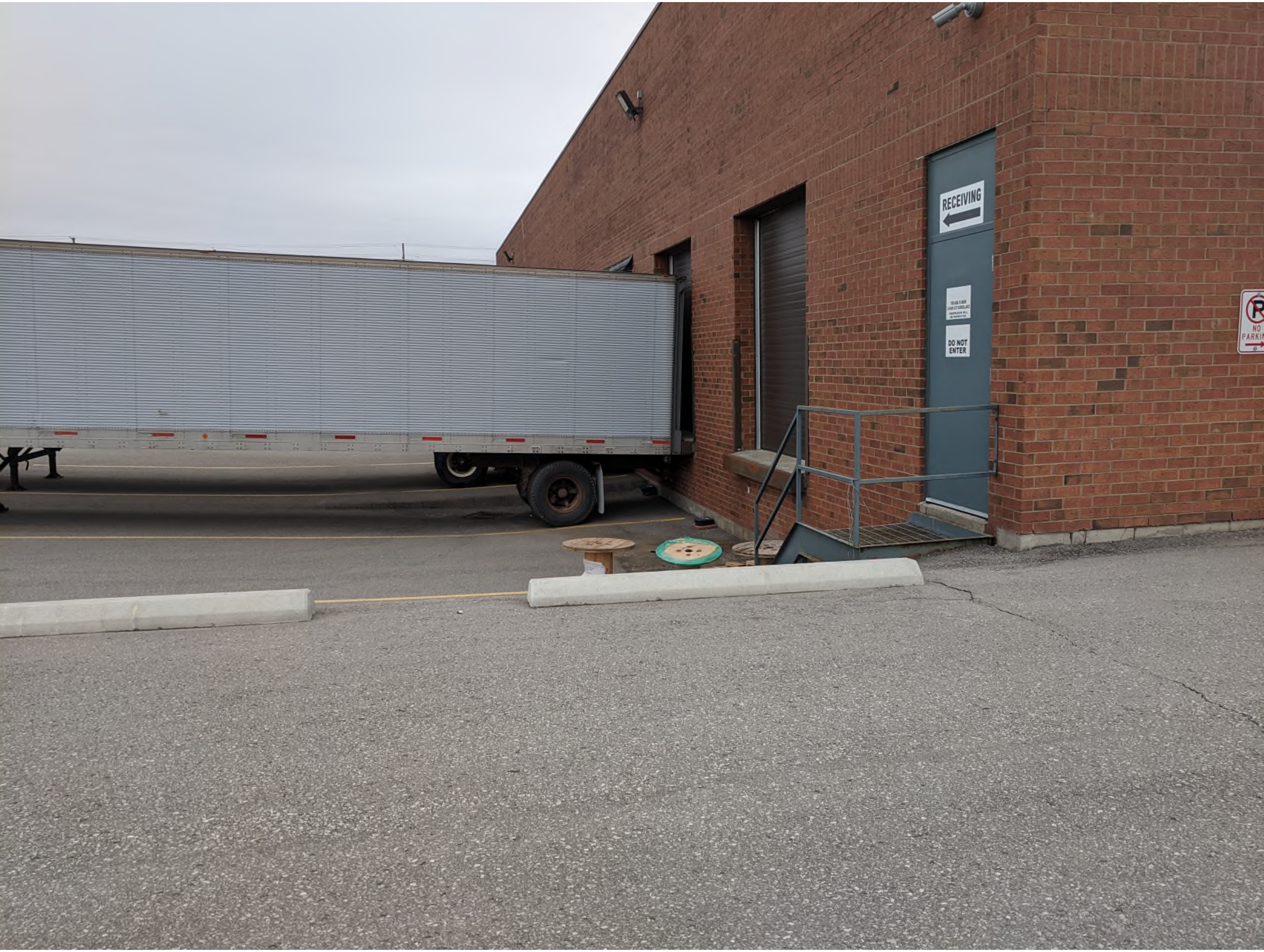
Road Runners
241
RECEIVING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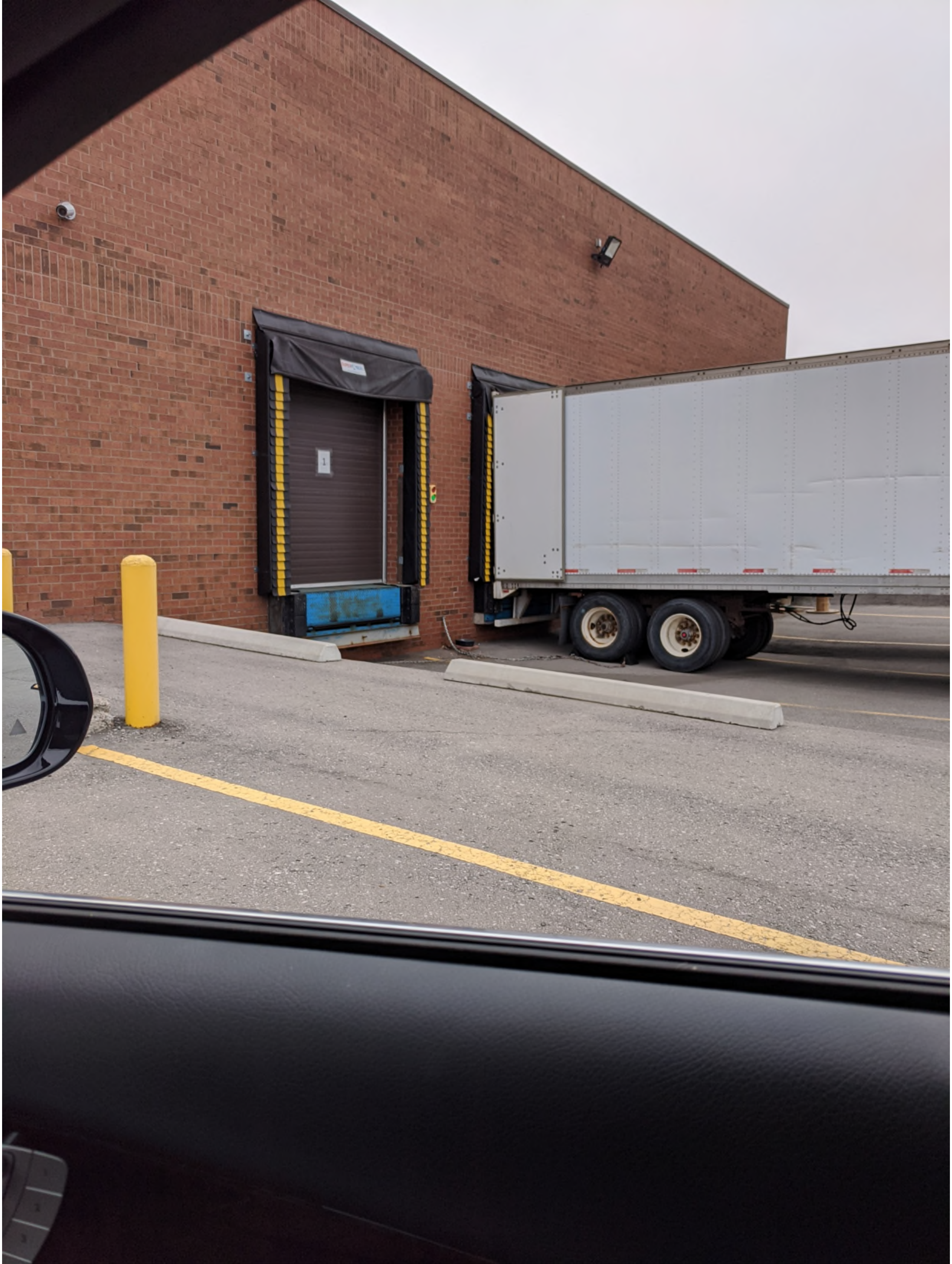
1

This is Exhibit **"D"** referred to in the Affidavit of Richard Goldstein sworn March 29, 2021.

Commissioner for Taking Affidavits (or as may be)

From: Bellissimo, Joseph
Sent: Saturday, March 27, 2021 3:05 PM
To: Timothy Dunn; Alan Page
Cc: Goodis, Ben
Subject: HydRx Farms Ltd
Attachments: IMG_20210327_132407.jpg; IMG_20210327_132320.jpg; IMG_20210327_132338.jpg

Tim and Alan,

I understand from my client that there are two trailers currently backed up to the loading dock at the HydRx facility which were not there previously (see pictures attached). This is obviously very concerning for Cobra.

Can you please confirm as soon as possible that no property or assets are being removed from the facility and that no property or assets will be moved without the prior consent of Cobra as secured creditor or order of the CCAA Court.

Regards,
Joe

Cassels | **JOSEPH J. BELLISSIMO**
t: +1 416 860 6572
e: jbellissimo@cassels.com

Cassels Brock & Blackwell LLP | **cassels.com**
Suite 2100, Scotia Plaza, 40 King St. W.
Toronto, ON M5H 3C2 Canada
Services provided through a professional corporation

This is Exhibit **"E"** referred to in the Affidavit of Richard Goldstein sworn March 29, 2021.

Commissioner for Taking Affidavits (or as may be)

From: Timothy Dunn <TDunn@mindengross.com>
Sent: Saturday, March 27, 2021 3:14 PM
To: Bellissimo, Joseph
Cc: Alan Page; Goodis, Ben
Subject: Re: HydRx Farms Ltd

Thanks Joe.

Confirmation is being sought. I am not aware of any intention to remove assets from the production facility.

TIMOTHY R. DUNN*
T: 416.369.4335<tel:416.369.4335> F: 416.864.9223 www.mindengross.com<http://www.mindengross.com>
145 King St. West, Suite 2200, Toronto, ON M5H 4G2
Save contact details: Timothy R. Dunn<http://www.mindengross.com/vcard.aspx?ID=Timothy-Dunn>
*Partner through Professional Corporation

MERITAS LAW FIRMS WORLDWIDE

On Mar 27, 2021, at 15:06, Bellissimo, Joseph <jbellissimo@cassels.com> wrote:

Tim and Alan,

I understand from my client that there are two trailers currently backed up to the loading dock at the HydRx facility which were not there previously (see pictures attached). This is obviously very concerning for Cobra.

Can you please confirm as soon as possible that no property or assets are being removed from the facility and that no property or assets will be moved without the prior consent of Cobra as secured creditor or order of the CCAA Court.

Regards,
Joe

[CASSELS]

Joseph J. Bellissimo
t: +1 416 860 6572
e: jbellissimo@cassels.com<mailto:jbellissimo@cassels.com>

Cassels Brock & Blackwell LLP |
cassels.com<https://linkprotect.cudasvc.com/url?a=https%3a%2f%2fcassels.com&c=E,1,wXfp3YL2H8N-9Z5GlnS3a4HOtKikzrfIDdxLR1sKfHqX3dJIF5t5P_xe4CxV1XykDwvw_sNmMT3DRdBgIzFqEQLKV6nUyUgAuIdb87KztMGm&typo=1&ancr_add=1>
Suite 2100, Scotia Plaza, 40 King St. W.
Toronto, ON M5H 3C2 Canada
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IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*, R.S.C. 1985, c. C-36, AS AMENDED

AND DOMENICO SERAFINO AS A PERSON INTERESTED IN THE MATTER OF A PLAN OF COMPRMISE OR ARRANGEMENT OF HYDRX FARMS LTD., CANNSCIENCE INNOVATIONS INC. AND SCIENTUS PHARMA INC. (the "Applicant")

Court File No.: CV-21-00659187-00CL

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SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

PROCEEDING COMMENCED AT TORONTO

AFFIDAVIT OF RICHARD GOLDSTEIN
(Sworn March 29, 2021)

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Lawyers for Cobra Ventures Inc.

IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*, R.S.C. 1985, c. C-36, AS AMENDED

AND DOMENICO SERAFINO AS A PERSON INTERESTED IN THE MATTER OF A PLAN OF COMPRMISE OR ARRANGEMENT OF HYDRX FARMS LTD., CANNSCIENCE INNOVATIONS INC. AND SCIENTUS PHARMA INC. (the "Applicant")

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RESPONDING MOTION RECORD

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