Court File No. 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 COMPROMISE OR ARRANGMENT OF HYDRX FARMS LTD., CANNSCIENCE INNOVATIONS INC. AND SCIENTUS PHARMA INC.

(the "Applicants")

THIRD REPORT OF THE MONITOR

INTRODUCTION

1. On March 22, 2021, the Applicants brought an application (the "CCAA Application") before this Court returnable on March 22, 2021, seeking an initial order pursuant to the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36 as amended ("CCAA") to, among other things, obtain a stay of proceedings to allow them an opportunity to obtain funding to restructure the affairs of the company or to market the company for sale.

2. On March 22, 2021, the Court granted an initial order in these proceedings (the "Initial Order") that, among other things, appointed Schwartz Levitsky Feldman Inc. ("SLF") as monitor of the Applicants in these CCAA proceedings (in such capacity, the "Monitor"), and granted a stay of proceedings for the initial 10-day period (the "Stay Period").

3. On March 31, 2021, the Court extended the Stay of Proceedings to May 3, 2021 and granted an Administration Charge in first ranking priority to a maximum of $250,000.00.

4. On April 30, 2021, the Court approved:

(a) the appointment of Macpherson & Associates Inc. as the Chief Restructuring officer (the "CRO") of HydRx;

(b) the Sale and Investment Solicitation Process ("SISP");

(c) an increase in the Administration Charge to $400,000;

(d) a process for determining the value of the claim of Cobra Ventures Inc. ("Cobra"), Hydrx's first secured creditor (the "Cobra Claims Process"); and

(e) an extension of the Stay of Proceedings to July 30, 2021.

PURPOSE

5. The purpose of this Third report of the Monitor (the "Third Report") is to provide information to the Court on:

(a) HydRx's activities since the Second Report of the Monitor dated April 26, 2021 (the "Second Report");

(b) the Monitor's activities since the Second Report dated April 26, 2021;

(c) the Applicant's motion for an order extending the Stay Period to October 28, 2021; and

(d) the Monitor's recommendations with respect to the above.

TERMS OF REFERENCE

6. In preparing this Third Report, and making comments herein, the Monitor has been provided with, and has relied upon, unaudited financial information, books and records prepared by the Applicants, discussions with management of the Applicants ("Management"), and information from other third-party sources (collectively, the "Information"). Except as described in this Report:

(a) the Monitor has reviewed the Information for reasonableness, internal consistency and use in context in which it was provided. However, the Monitor has not audited or otherwise attempted to verify the accuracy or completeness of such information in a manner that would wholly or partially comply with Generally Accepted Auditing Standards ("GAAS") pursuant to the Chartered Professional Accountants Handbook and, accordingly, the Monitor expresses no opinion or other form of assurance contemplated under GAAS in respect of the Information; and

(b) some of the information referred to in this Third Report consists of forecasts and projections. An examination or review of the financial forecast and projections, as outlined in the Chartered Professional Accountants Handbook, has not been performed.

7. Future oriented financial information referred to in this Third Report was prepared based on Management's estimates and assumptions. Readers are cautioned that since

projections are based upon assumptions about future events and conditions that are not ascertainable, the actual results will vary from the projections, even if the assumptions materialize, and the variations could be significant.

8. Unless otherwise indicated, the Monitor's understanding of factual matters expressed in this Report concerning the Applicants' and their business is based on the Information, and not independent factual determinations made by the Monitor.

9. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian dollars.

BACKGROUND

10. HydRx Farms Ltd. ("HydRx") is a private corporation incorporated under the *Canada Business Corporations Act* on April 29, 2014.

11. HydRx has two wholly owned subsidiaries, Scientus Pharma Inc. (Scientus Pharma") and CannScience Innovations Inc. ("CannScience"). Scientus Pharma was incorporated with the expectation that it would be the corporate vehicle through which HydRx would carry on business in the event of an initial public offering. CannScience was acquired in March 2017 principally for its patents. Neither company has carried on any active business while owned by HydRx.

12. HydRx is a vertically-integrated biopharmaceutical company with a focus on developing and commercializing pharmaceutical grade cannabinoid derivative products.

13. The company was approved by Health Canada as a Controlled Dry Substance Licensed Dealer in October of 2016 and subsequently received a Licensed Product Cultivation License in September of 2017 which was subsequently amended to include among other things:

(a) cultivation;

(b) the sale of dried flowers;

(c) the processing of capsules and oils;

(d) the sale of capsules and oils; and

(e) the processing and sale of edibles and extracts.

14. HydRx operates out of a 46,000 square foot facility which it owns at 1130 Champlain Court, Whitby, Ontario.

HYDRX'S ACTIVITIES SINCE THE SECOND REPORT

15. Since the filing of the Second Report, HydRx has carried out the following activities, among others:

(a) continued limited operations, including by signing a contract to become a supplier to the Ontario Cannabis Store and obtaining licenses to sell retail cannabis flower, oils, extracts and edibles in Saskatchewan, Manitoba and New Brunswick.

(b) managed its cash flow and made disbursements in accordance with its cash flow for the period March 22, 2021 to July 31, 2021.

(c) prepared a new cash flow for the period July 12, 2021 to October 29, 2021 which is included as Appendix 1 in this Report.

(d) worked with Libra Advisory Inc. to obtain regulatory and compliance support to help HydRx administer its licenses and address regulatory issues with Health Canada. A copy of Libra's latest report dated July 19, 2021 in Appendix 2 to this Report.

(e) maintained all required filings with Health Canada and replaced Philip Hemans with Tom Jerrard as the Responsible Person for HydRx.

(f) held a shareholders meeting on April 28, 2021 whereby Robert Goldstein resigned as director and Tom Jerrard was appointed a director.

(g) worked with the Monitor and CRO in conducting the SISP process; and

(h) canvassed the market to engage with potentially interested parties in the SISP Process and by responding to parties who have contacted the Company about the SISP Process. The SISP Process is described in further detail below.

ACTIVITIES OF THE MONITOR SINCE THE SECOND REPORT

16. Since the Second Report, the Monitor has undertaken the following activities:

(a) communicated with various suppliers and stakeholders of HydRx to provide them with information about the CCAA Proceedings and to answer any questions;

(b) assisted HydRx in respect to its communications with Health Canada regarding the CCAA Proceedings and the preservation of HydRx licenses;

(c) along with the CRO, reviewed HydRx's weekly cash flow for the period March 22, 2021 to July 31, 2021 to ensure all payments made by HydRx were consistent with previously filed cash flow statements and consisted of essential payments and reimbursements to the secured creditor for any essential payments made by the secured creditor after the CCAA filing;

(d) along with the CRO, reviewed the updated HydRx cash flow for the period July 12, 2021 to October 29, 2021 to ensure it is fair and reasonable and that HydRx will have sufficient liquidity to fund its operations;

(e) with the CRO, actively solicited and engaged numerous interested parties in the SISP; and

(f) with the CRO, toured the premises with numerous interested parties and the secured creditor; and

(g) updated its website as necessary from time to time to post copies of all court orders, motion materials and related documents; and

(h) maintained an information hotline (phone: 1-844-572-2235; email: insolvency@slf.ca) and responded to all inquiries regarding the CCAA proceedings.

CHIEF RESTRUCTURING OFFICER

17. Pursuant to the Court Order dated April 30, 2021, HydRx appointed Macpherson & Associates Inc. as the Chief Restructuring Officer (the "CRO") of HydRx. The role of the CRO has been to:

(a) provide direction in respect of HydRx's limited operations, including, among other things, by reviewing any short-term supply and distribution contracts and ensuring compliance with Health Canada and other regulatory requirements;

(b) provide direction in respect of the preparation of ongoing cash flow projections and statements, liaising with HydRx's former accountant, managing cash requirements and ensuring adequate funding is available and in place;

(c) attend to HydRx's banking needs and establishing a protocol for receipts and disbursements whereby the CRO is acting as signatory to HydRx's operating account;

(d) provide direction in respect of communications between HydRx and its stakeholders, including, where necessary, dealings with HydRx's

lenders, creditors, and other stakeholders in connection with the CCAA proceedings;

(e) help maintain stable and efficient business operations throughout the SISP Process;

(f) manage costs in connection with the successful consummation of the CCAA restructuring, whether by way of the SISP Process or otherwise;

(g) provide information, advice and assistance required by the CCAA Monitor in its administration of the SISP Process and in its reporting to Court;

(h) report to the directors and secured creditor on a bi-weekly basis; and

(i) assist with the preparation of all filings, applications or similar materials necessary or desirable for any regulatory approvals in connection with the CCAA proceedings.

COBRA CLAIM PROCESS

18. On June 30, 2021, the Honourable Justice Wilton-Siegel heard the issues arising out of the Cobra Claims Process including the value of the claim that Cobra could assert by way of a credit bid as part of the SISP Process.

19. In an endorsement released on July 12, 2021, Justice Wilton-Siegel determined that the Cobra could credit bid in the full amount of the indebtedness owing under the debenture being $14,857,014.00 as at March 31, 2021 in the SISP Process (the "Cobra Claims Decision").

20. On July 14, 2021, the Serafino Group served a Notice of Motion for Leave to Appeal from the Cobra Claims Decision.

SALES AND INVESTMENT SOLICITATION PROCESS (SISP)

21. In the Monitor's Second Report, the Monitor provided a summary of the proposed SISP Process, which was subsequently approved pursuant to the CRO Appointment and SISP Approval Order dated April 30, 2021. The SISP Procedure is attached to the CRO Appointment and SISP Approval Order. All capitalized terms not defined herein are otherwise defined in the SISP Procedure.

22. As of the date of this Third Report, the Monitor and/or CRO have taken the following steps in furtherance of the SISP Process:

(a) prepared a list of potential bidders including:

(i) parties that have approached the company or the Monitor indicating an interest in the Opportunity; and

(ii) local and international strategic and financial parties who the Company, in consultation with the Monitor, believes may be interested in purchasing all or part of the Business or Property or investing in the Company pursuant to the SISP (collectively, the "Known Potential Bidders");

(b) arranged for a notice of the SISP to be published in the Globe and Mail (National Edition) which occurred on May 14, 2021; and

(c) prepared a Teaser Letter (as defined in the SISP) and a non-disclosure agreement in form and substance satisfactory to the Company and the Monitor (the "NDA").

23. Parties who request a copy of the Teaser Letter and NDA, or who are identified by the Company as a potential bidder, were provided with the Teaser Letter and NDA as soon as reasonably practicable after such request or identification. In total, as of the date of this Third Report:

(a) 127 Parties were sent the Teaser Letter;

(b) 12 NDAs have been sent to Known Potential Bidders;

(c) 9 NDAs have been executed;

(d) 9 parties have accessed the Company's data room;

(e) several parties have had calls with management, the Monitor or the CRO (or a combination thereof) and the Monitor is not aware of any party who has requested a meeting and not received such a meeting; and

(f) certain parties have requested to schedule site visits at the Company's operating facility, and such site visits have all taken place.

24. Phase 1 of the SISP Process contemplates that potentially interested parties shall deliver non-binding expressions of interest by the Phase 1 Bid Deadline. In accordance with the SISP Process, the Monitor set the Phase 1 Bid Deadline for July 27, 2021 at 5:00 PM EST.

STAY EXTENSION

25. The Stay Period is currently set to expire on July 30, 2021. The Applicants are requesting an extension of the Stay Period until October 28, 2021.

26. The Monitor is of the view that the requested extension of the Stay Period is appropriate for the following reasons:

(a) it appears to the Monitor that HydRx and the Applicant have been acting in good faith and with due diligence since the date of the Initial Order;

(b) HydRx will require at least 3 more months to complete the SISP, have the Leave to Appeal determined (and, if successful, the appeal itself) and the balance of its restructuring. In the Monitor's view, an extension of less than 3 months will only serve to increase costs;

(c) Hyrdrx's updated cash flow statement for the period July 12, 2021 to October 29, 2021, which the Monitor believes to be a fair and reasonable forecast and indicates that HydRx will have sufficient liquidity to fund its operations through to the end of the proposed Stay Period; and

(d) the Monitor will take steps to immediately report to stakeholders and the court in the event of a material change in circumstances.

CONCLUSIONS AND RECOMMENDATIONS

27. In view of the foregoing, the Monitor recommends that the Stay Period be extended to October 28, 2021.

All of which is respectfully submitted this 21st day of July 2021.

SCHWARTZ LEVITSKY FELDMAN INC., in its capacity as Monitor of the Applicants, and not in Its corporate or personal capacity.

Per: Alan Page, CPA, CA, CIRP, LIT

Appendix 1

Hydra Farms Ltd.
Cash Flow Projections to October 29, 2021

Revised Forecast (1)

Unaudited Cash Flow - Prepared By Management

Week Ending (Friday)	Notes	Week 1 16-Jul	Week 2 23-Jul	Week 3 30-Jul	Week 4 06-Aug	Week 5 13-Aug	Week 6 20-Aug	Week 7 27-Aug	Week 8 03-Sep	Week 9 10-Sep	Week 10 17-Sep	Week 11 24-Sep	Week 12 01-Oct	Week 13 08-Oct	Week 14 15-Oct	Week 15 22-Oct	Week 16 29-Oct	Total
RBC Bank account (07842-1012350)																		
Receipts																		
Medical Cannabis Sales		750	750	750	750	750	750	750	750	750	750	750	750	750	750	750	750	12,000
Extraction B2B	2		25,800															25,800
Beverage Line - OCS	3		127,000		25,575	25,575				75,620				25,579				279,349
Retail/Provincial Sales	3			15,886			78,600	90,857		113,400						63,750		362,493
Bulk sales of product	4	21,852		21,852														43,704
Advances																		-
Total Receipts		22,602	153,550	38,488	26,325	26,325	79,350	91,607	750	189,770	750	750	750	26,329	750	64,500	750	723,346
Operating Disbursments																		
Consulting Fees			27,500	27,500		27,500		27,500		27,500	-	27,500	-	27,500	-	27,500	-	220,000
General Labour		-		-														-
COGS		-	-	-														-
Supplies and Raw Materials				-			31,000											31,000
Regulatory Advisor			3,500				3,500				3,500					3,500		14,000
Office Administration		1,000	7,000	1,000	-	1,000	-	1,000	-	1,000	-	1,000	-	1,000	-	1,000	-	15,000
Insurance										20,000				12,500				32,500
Utilities			14,000			20,000				22,000				22,000			25,000	103,000
Other operating costs		8,300		8,300		8,300				8,300			8,300			8,300		49,800
Bank fees/interest					500				750				750				750	2,750
CRA Excise Taxes			2,100	300					36,300				4,000				4,000	46,700
Total Operating Disbursments		9,300	54,100	37,100	500	56,800	34,500	28,500	37,050	78,800	3,500	28,500	13,050	63,000	-	40,300	29,750	514,750
Restructuring Professional Fees		15,000	27,500	-	37,500	-	-	32,500	-	-	32,500	-	-	32,500	-	-	-	177,500
Net Cash Inflows / (Outflows)		- 1,698	71,950	1,388	- 11,675	- 30,475	44,850	30,607	- 36,300	110,970	- 35,250	- 27,750	- 12,300	- 69,171	750	24,200	- 29,000	31,096
Cash																		
Beginning Balance		33,755	32,057	104,007	105,395	93,720	63,245	108,095	138,702	102,402	213,372	178,122	150,372	138,072	68,901	69,651	93,851	33,755
Net Cash Inflows / (Outflows)		- 1,698	71,950	1,388	- 11,675	- 30,475	44,850	30,607	- 36,300	110,970	- 35,250	- 27,750	- 12,300	- 69,171	750	24,200	- 29,000	31,096
Ending Balance		32,057	104,007	105,395	93,720	63,245	108,095	138,702	102,402	213,372	178,122	150,372	138,072	68,901	69,651	93,851	64,851	64,851

Notes:

1. These cash flows have been revised to reflect the projected cash receipts and disbursements from the limited business operations for the period from the week ending July 16, 2021 to the week ending October 29, 2021. They are subject to any uncontrollable externalities or barriers to execution, which may arise.
2. This specific work has been completed and the invoice is due and payable prior to shipping.
3. Based on specific Purchase Orders from either OCS or provincial customers.
4. Where certain customers are unable or unwilling to agree to COD terms, Hydra has acccess to a factoring facility to ensure cash is received prior to shipment and will hold minimal, if any, accounts receivable at any one time.

Appendix 2

LIBRA ADVISORY

Regulatory and Operational Compliance Monitoring Report #3 for Hydrx Farms Ltd.

Prepared By: Samuel Bouabane — July 19, 2021
Principal Consultant — Signature — Date
Libra Advisory Inc.

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Monitoring Report #3
Regulatory and Operational Compliance
Hydrx Farms Ltd.

Background:

Hydrx Farms Ltd. requires a third-party firm to provide regulatory and operational compliance monitoring services with respect the Cannabis Act and Regulations, and specifically, Good Production Practices (GPP) as outlined in the Regulations.

Libra Advisory Inc. is a privately owned, independently operated consulting firm that provides quality, regulatory and compliance consultation services to operators in consumer packaged goods industries including pharmaceuticals, controlled substances, natural health products, food and cannabis.

Libra Advisory Inc. is qualified to practice such activities based on quality, regulatory and industry experience. Please refer to the enclosed curriculum vitae for Samuel Bouabane, Principal Consultant, Libra Advisory Inc. that was previously provided.

Executive Summary:

An 7.5 hour onsite follow up visit was performed at Hydrx Farms Ltd. on June 24, 2021 which included a discussion with Quality Assurance and the Responsible Person, a tour and a review of select site documentation with respect to site regulatory and operational compliance. The review was conducted by Samuel Bouabane, Principal Consultant, Libra Advisory Inc., and will be conducted as part of an ongoing review of regulatory and operational compliance.

Based on the follow up visit, a number of concerns were identified and addressed immediately or are minor in nature and are subject to follow up during the next site monitoring visit. These concerns are detailed in this report.

Nonetheless, the site was found to be compliant and operating within the permissions of the site licence that was issued under the Cannabis Regulations, which include standard cultivation, standard processing, medical sales and sales authorization for all classes of cannabis products.

Note: Consistent with Health Canada's model for inspection, major and critical observations are only issued in cases where public safety concerns, fraud or malicious/illegal activity are observed.

Libra Advisory Inc.
[redacted]

Monitoring Report #3
Regulatory and Operational Compliance
Hydrx Farms Ltd.

LIBRA ADVISORY

Scope:

The enclosed report provides a point-in-time review of regulatory and operational compliance of the Hydrx Farms Ltd. site located at 1130 Champlain Court, Whitby, ON, L1N 6K9, as assessed by Samuel Bouabane, Principal Consultant, Libra Advisory Inc., as an 7.5 hour onsite follow up visit on June 24, 2021 which included a discussion with Quality Assurance and the Responsible Person, a tour and a review of select site documentation with respect to site regulatory and operational compliance.

The on-site meeting was hosted by the following attendees from Hydrx Farms Ltd.:

- Thomas Jefferd, Responsible Person, Head of Security, Hydrx Farms Ltd.
- Carol-Ann Scott, Quality Assurance Person (QAP), Hydrx Farms Ltd.

The following was reviewed:

- Follow up items from Monitoring Report #2
- Licence administration
- Operational, quality and regulatory concerns

This report serves solely to describe observations and recommendations as presented. It does not require any response.

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Key Observations/Recommendations:

1. **Follow-up Items from Monitoring Report #2 (MR2):**

a) Responsible Person Changes (MR2 Item 1a)

As part of changes to the Responsible Person at the site, the site is required to continue to file monthly Canada Revenue Agency (CRA) Excise Tax reports. It was confirmed that the site is indeed filing it's monthly CRA reports. However, additionally, as per Section 158.3 (a)(iv) of the Excise Act, 2001, the site is required to seek CRA approval for changes to the manner in which cannabis is destroyed.

During discussion with the Mr. Jefferd, the Responsible Person, it became apparent that the site had not yet informed the CRA of changes to the method of destruction, which includes shredding followed by composting, which the site had adopted into it's standard operating procedures in May/June 2021. Although there are no concerns with the method of destruction since it has been previously approved by the CRA, the concern remains that the site did not inform or seek approval from the CRA prior to using the new destruction method.

The site is recommended to document a deviation and inform the CRA immediately. This matter will be followed up during the next site monitoring event.

a) Research and Development (R&D) Batch Records (MR2 Item 2a)

Discussions held on June 24, 2021 were focused on commercial product manufacture based on business urgency. As such, review to determine if an R&D batch record program had been established was not performed. This matter will be followed up during the next site monitoring event.

b) Product Formulation (MR2 Item 2b)

During discussions held on June 24, 2021, the site was still actively working toward commercialization of the following products: a dried cannabis product, cannabis beverage, a cannabis concentrate and a cannabis topical. The site continues to advance quickly on product development, including making decisions related to ingredients, packaging and labelling, which are heavily regulated. Mistakes due to requests for rapid assessment, poor implementation of changes, or missed regulatory steps could lead to recall or non-compliance. The site is still recommended to hire a QA project manager to help ensure key operational, quality and regulatory tasks/milestones are met for product launches, and that the time to complete such tasks is appropriately planned and allocated to avoid costly mistakes that could occur during rush situations.

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c) Compliant Packaging and Labelling (MR2 Item 2c)

During the onsite assessment held on June 24, 2021, the site provided the finalized packaging and labelling for it's prospective cannabis concentrate product. The finalized packaging configuration packaging includes an opaque external child resistant bag serving as the principal display, and an interior vessel which contains the cannabis concentrate product. The packaging configuration and labelling were found to be compliant based on the Cannabis Regulations.

The dried cannabis product label was also reviewed and found to be complaint.

No further follow up is required for either of the above mentioned products with respect to packaging configuration and labelling.

d) Conduct of Activities by Trained Individuals (MR2 Item 2d)

During the tour conducted as part of the onsite assessment, the sanitation record for the Trimming Room, being used for cannabis concentrate manufacture, was reviewed. Sanitation records were found to be inconsistent or incomplete.

The matter was immediately addressed by the site QAP who informed area staff of the deficiencies. Staff confirmed that they had already been trained on how to complete and record sanitation tasks but that the sanitation log had been misplaced. Staff were reminded to escalate missing records situations to the QAP immediately.

No further follow up is required for this matter.

2. Kalvara Cannabis Beverage:

a) Images on the Product Packaging

Images such as branding and logos are regulated, and they must meet regulatory requirements with respect to image size. The instructional use images found on the product packaging were deemed acceptable since they are not related to the brand or logo. As such, they qualify as "other information" which is permitted under of Section 130(8) of the Cannabis Regulations, which could include instructional information such as direction for use. This permission is further clarified under Section 8.4 of Health Canada's *Packaging and Labelling Guide for Cannabis Products*.

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b) Shiny or Metallic Colour on Label

Section 113 (2)(a)(b) of the Cannabis Regulations indicates that the exterior surface and panel a cannabis product must not have a lustre of metal or have metallic properties in the ink, such as Pantone Metallics or Pantone Premium Metallics. Packaging must also not be fluorescent, have fluorescent properties in the ink or have pigments that absorb ultraviolet energy and transmit it as a longer wavelength, such as the Pantone 800 series.

The packaging for the Kalvara Cannabis Beverage was found to be a shiny metallic orange which may contravene the Section 113(2)(a) or (b) of the Cannabis Regulations. The site is required to demonstrate the Pantone colour that is being used. This matter will be followed up in a subsequent site monitoring event.

c) Q-Naturelle (Quijila extract, or soap bark extract), and Other Ingredient Assessments

Quijila bark is a known poisonous substance that is not fit for human consumption. Nonetheless, once it is processed, it is made safe for human consumption and it is used in the manufacturing of a number of commercially available Canadian food products as an emulsifying agent (eg. root beer).

The site has performed sufficient due diligence to demonstrate that Quijila bark extract manufactured and distributed by Ingredion Canada Inc. is suitable for human use as an emulsifying agent. This was performed by review of the supplier's certificate of analysis, manufacturing statements, statements indicating food safety and quality standard during manufacture.

Supplementally, the site was also able to demonstrate records of assessment of the following concerns to qualify the ingredient as suitable for human use, including meeting ingredient prohibition requirements outlined in the Cannabis Regulations:

i. Temporary Marketing Authorization Letter (TMAL) search to determine if the particular ingredient is listed as a TMAL ingredient. TMAL ingredients are prohibited under Section 102(2) of the Cannabis Regulations;
ii. Assessment of ethyl alcohol which is limited to 0.5% w/w in cannabis edible products, which is required under Section 102.3 of the Cannabis Regulations;
iii. Assessment of caffeine content which may only be naturally occurring and not be in excess of 30 mg per unit, which is required under Sectoin 102.2 of the Cannabis Regulations; and,
iv. Assessment of allergens which must be declared on the label if present, including in trace quantities, which is required in cannabis extract and edible products, based on the Cannabis Regulations.

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The QAP also demonstrated acceptable assessments for the other ingredients used in the manufacture the Kalvara Cannabis Beverage product, including the use of reverse osmosis water and reverse osmosis + ozonated water, citrus flavour, Stevia, Monk Fruit extract, glycerin, caramel colour, malic acid and nitrogen gas.

Of note, for the malic acid ingredient, the site is still pending completion of supplier qualification and receipt of documentation to demonstrate that the ingredient is suitable for human use. This matter will be followed up during the next site monitoring visit.

3. **Deficiencies During Tour:**

a) During the tour, the following deficiencies were identified based on industry best practices and Good Production Practices (GPP) as defined by the Cannabis Regulations. The address of the deficiencies will be followed up during the next site monitoring visit.

Kalvara Bottling Room:

i. Standing water was found present in a pail in bottling room. Based on discussion, the water originated from the previous day's equipment flush and should have been discarded. Standing water, especially when kept in an unmarked container is not acceptable as it could contaminate cannabis.
ii. Labelling was missing for the following containers: Wastewater; Rejected cannabis materials; and Unused caps.
iii. Stress mats were found in the room were found to be porous and could serve as a potential source of contamination.
iv. No controlled area/location was defined for labelling of cannabis beverage bottles.

Drying Room:

i. Frozen, thawing cannabis product was placed in plastic bags on the drying room floor. Although the material was thawing and pending drying/processing, storing cannabis on the floor does not meet GPP requirements as the floor can serve as a point of contamination – even if the cannabis was cultivated outdoors.
ii. As mentioned in Item 1d (above), sanitation records were found to be inconsistent or incomplete.

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Secure Storage Room:

i. Q-Naturelle, a non-cannabis containing ingredient, was being stored inside the Secure Storage Room which is intended for cannabis material storage only per the Cannabis Regulations. The material was being stored in the Secure Storage Room to limit access and also to keep it under refrigeration, since there were already refrigerator units located inside the Secure Storage Room. It has since been confirmed that both the refrigerator and Q-Naturelle were relocated to an alternate storage area outside of the Secure Storage Room.

Conclusion:

Based on the point-in-time on-site inspection conducted on June 24, 2021, the site was found to be operating in compliance with the Cannabis Act and Regulations.

Additional monitoring will be performed and reported on an ongoing basis.

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