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")

FOURTH REPORT OF THE MONITOR

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INTRODUCTION

- 1. On March 22, 2021, Domenic Serafino, as an interested person of the Applicants (the "Serafino Group"), brought an application (the "CCAA Application") before this Court 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 (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 Period 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 Farms Ltd. ("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.
- 5. On July 26, 2021, the Court approved:
 - (a) an expansion of the powers of the Monitor to allow the Monitor, among other things, to enter into agreements for and on behalf of HydRx and in respect of HydRx's property; and
 - (b) an extension of the Stay of Proceeding to October 28, 2021.

PURPOSE

- 6. The purpose of this Fourth Report of the Monitor (the "Fourth Report") is to provide information to the Court on:
 - (a) HydRx's activities since the Third Report of the Monitor dated July 21, 2021(the "Third Report");
 - (b) the Monitor's activities since the Third Report dated July 21, 2021;

- (c) the motion for an order extending the Stay Period to January 28, 2022; and
- (d) the Monitor's recommendations with respect to the above.

TERMS OF REFERENCE

- 7. In preparing this Fourth 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:
 - 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.

- 8. 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.
- 9. 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.
- Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian dollars.

BACKGROUND

- 11. HydRx is a private corporation incorporated under the Canada Business Corporations Act on April 29, 2014.
- 12. 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.

- 13. HydRx is a vertically-integrated biopharmaceutical company with a focus on developing and commercializing pharmaceutical grade cannabinoid derivative products.
- 14. 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.
- 15. HydRx operates out of a 46,000 square foot facility which it owns at 1130 Champlain Court, Whitby, Ontario.

HYDRX'S ACTIVITIES SINCE THE THIRD REPORT

- 16. Since the filing of the Third Report, HydRx has carried out the following activities, among others:
 - until October 5, 2021, sold products through the Ontario Cannabis Store and sold 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 July 31, 2021 to October 29, 2021;
 - (c) prepared a new cash flow for the period October 22, 2021 to January 28,2022, which is included as Appendix 1 in this Report;
 - (d) continued working with Libra Advisory Inc. regarding regulatory and compliance support to help HydRx administer its licenses and address regulatory issues with Health Canada;

- (e) maintained all required filings with Health Canada including the renewal and payment of the Health Canada and Excise Tax licences;
- (f) addressed all outstanding compliance issues with Canada Revenue Agency;
- (g) worked with the Monitor and the Chief Restructuring Officer (the "CRO"), Jim Macpherson of Macpherson & Associates Inc., in conducting the Sale and Investment Solicitation Process (the "SISP"); and
- (h) wound-down operations as of October 5, 2021.

ACTIVITIES OF THE MONITOR SINCE THE THIRD REPORT

- 17. Since the Third 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 licences;
 - (c) along with the CRO, reviewed HydRx's weekly cash flow for the period August 1, 2021 to October 29, 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 October 22, 2021 to January 28, 2022, to ensure it is fair and reasonable and that HydRx will have sufficient liquidity to fund its operations;
- (e) with the CRO, managed the wind-down of HydRx's operations; and
- (f) with the CRO, actively solicited and engaged numerous parties through the SISP;
- (g) updated its website as necessary from time to time to post copies of all courtorders, 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.

THE COBRA CLAIMS PROCESS

- 18. The Serafino Group brought a motion seeking, among other things, to prevent Cobra, the holder of the first-ranking secured debenture (the "Debenture"), from credit-bidding the full quantum of the indebtedness under Debenture in the SISP and to determine the quantum of the indebtedness under the Debenture.
- 19. Justice Wilton-Siegel heard the motion on June 30, 2021.
- 20. In an endorsement released on July 12, 2021, Justice Wilton-Siegel determined that the Cobra could credit bid the full amount of the indebtedness owing under the debenture being \$14,857,014.00 as at March 31, 2021 in the SISP (the "Cobra Claims Decision").

- 21. On July 14, 2021, the Serafino Group served a Notice of Motion for Leave to Appeal from the Cobra Claims Decision (the "Leave Motion").
- 22. On August 16, 2021, Cobra filed its Responding Factum in response to the Leave Motion.
- 23. As of the date of this Fourth Report, the Court of Appeal has not rendered a decision on the Leave Motion.
- 24. The sale transaction contemplated in the SISP (described below) cannot be completed until the appeal of the Cobra Claims Decision is dealt with by the Court of Appeal.

SALES AND INVESTMENT SOLICITATION PROCESS (SISP)

- 25. This Court approved the SISP 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.
- 26. In the Third Report, the Monitor described the steps taken to solicit interest under the SISP.
- 27. Phase 1 of the SISP contemplated that potentially interested parties were required to deliver non-binding expressions of interest by the Phase 1 Bid Deadline which the Monitor set for for July 27, 2021 at 5:00 PM EST.
- 28. After receiving and reviewing several Letters of Interest (an "LOI") by the Phase I Bid Deadline, the Monitor determined that none of the LOIs was close in value to

- the Letter of Intent that Cobra submitted to acquire the HydRx assets by way of a credit bid of its indebtedness (the "Credit Bid Transaction").
- 29. Consequently, the Monitor determined that, in accordance with the SISP, there was no reason to proceed with Phase 2 of the SISP. Instead, the Monitor determined that the Credit Bid Transaction was far superior than any of the other bids.
- 30. The Monitor's counsel has been working with Cobra's counsel to finalize the documentation to give effect to the Credit Bid Transaction. At the same time, Cobra has been in discussions with members of the Serafino Group to potentially assign its interest in the Credit Bid Transaction.
- 31. Once the necessary documentation is completed, the Monitor will return to this Court to seek approval for the Cobra Bid Transaction and the entering into of the necessary transactional documents.

STAY EXTENSION

- 32. The Stay Period is currently set to expire on October 28, 2021. The Applicants are requesting an extension of the Stay Period until January 28, 2022.
- 33. 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 Credit Bid Transaction, 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 October 22, 2021 to January 28, 2022, 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

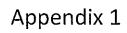
34. In view of the foregoing, the Monitor recommends that the Stay Period be extended to January 28, 2022.

All of which is respectfully submitted this 22nd day of October, 2021.

SCHWARTZ LEVITSKY FELDMAN INC.,

in its capacity as Monitor of the Applicants, and not in its corporate or personal capacity.

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



Ending Balance	Net Cash Inflows / (Outflows)	Beginning Balance	Cash	Net Cash Inflows / {Outflows}	Restructuring Professional Fees	Total Operating Disbursments	CRA Excise Taxes/HST	Capital Expanditures	Bank feet/Interest	Other operating costs	Utilities - Operating costs	Unilities - Security Deposits	las irance	Office Administration	Regulatory Advisor	Supplies and Raw Materials	cogs	General Labour	Consulting Fees	Operating Disbursments	Total Receipts	Advances	Bulk sales of product	OCS - various SKU's	B2B Contract Processing	Collection of accounts receivable	Receipts Medical Cannabis Sales	Week Ending (Friday)	
							7			7	7		5						7			Ç,	4	ω	2	1		Notes	
11,526	53,474	65,000		- 53,474	15,000	50,060			j.	8.300	2 300	,,,,,,,,	7 460	1.000	3,500				27,500		11,586					10,836	750	22-0ct	Week 24
30,506	18,980	11,526		18,980 -	,	48,450	15,500	ç	0.58	7.500	12 500	12 100		•					,		67,430	50,000				15,680	750	29-0ct	Week 25
24,741	- 5,765	30,506		- 5,765		36,515		Š	750			,,200	7 765	1.000					27,500		30,750		30,000				750	5-Nov	Week 26
46,241	21,500	24,741		21,500 -	20,000	•															41,500			40,750			750	12-Nov	Week 27
4,391	41,850	46,241		41,850		42,600				8.300	3 300		1	1,000	3,500				27,500		750						750	19-Nov	Week 28
37,761	33,370	4,391		33,370 -		51,410	15,000		0.58	7.500	8 500	12 100	7 450								84,780	50,000			9,600	24,430	750	Z6-Nov	Week 29
31,361	6,400	37,761		6,400	25,000	24,250		, , ,	750				į	1.000					22,500		42,850				42,100		750	3-Dec	Week 30
99,546	68,185	31,361		68,185 -		7,265						,,600	7 255								75,450				9,600	65,100	750	10-Dec	Week 31
71,096	- 28,450	99,546		- 28,450 -		38,800			47444	8 300	3 500		į	1.000	3,500				22,500		10,350				9,600		750	17-Dec	Week 32
965'09	10,500	71,096		- 10,500		20,850		o d	0.58	7.500	10 500										10,350				9,600		750	24-Dec	Week 33
123,236	62,640	60,596		62,640	25,000	31,710		č	750			,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,	7.460	1.000					22,500		119,350	50,000			42,100	26,500	750	31-Dec	Week 34
123,236		123,236				•																			9,600		750	7-Jan	Week 35
77,171	- 46,065	123,236		- 46,065		46,065			1,000	8.300	3 500	,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,	7 765	1,000	3,500				22,500						9,600		750	14-Jan	Week 36
56,321	- 20,850	77,171		- 20,850 -		20,850		000	850	7.500	12 500														9,600		750	21-Jan	Week 37
24,611	- 31,710	56,321		- 31,710		31,710			750			,,,,,,,,	7 460	1,000					22,500						9,600		750	28-Jan	Week 38
24,611	- 40,389	65,000		- 40,389	85,000	450,535	30,500	, ,,,,,,,	6 400	63,200	57,600	74 200	51 635	8,000	14,000				195,000		536,546	150,000	30,000	40,750	161,000	143,546	11,250	Total	!

Notes:

- Collections of accounts receivable as at October 15, 2021 in the ordinary course on their normal terms.
 There are purchase orders for in place for regular supply of finsihed product on an LP to Lp basis.
 There is currently one purchase order from OCS for various SKU's for delivery in the week of November 12, 2021.
- 4. There is a pending agreeent with respect to the sale of dry leaf product.

- 5. In the event that working capital funding is required there is an undertaking pursuant to the indemnity to fund any shortfalls.
 6. Insurance premiums for product recall and asset and commercial liability has been financed through First Insurance Funding of Canada and the premiums are payable monthly.
 7. While production is halted at this time, operations may recommence in the short term as a result of an agreement pending between Cobra Ventures and the Re-Start Group. On that basis operating costs reflect the level of activity anticipated.