

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")

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:
- (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.

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.
10. 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:
 - (a) 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 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.

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 1 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;

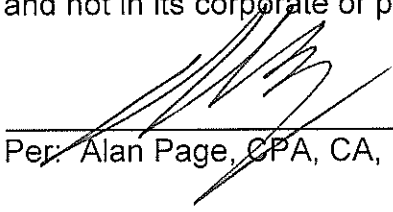
- (c) Hydrx's updated cash flow statement for the period October 22, 2021 to January 28, 2022, which the Monitor believes to be a fair and reasonable forecast and indicates that Hydrx will have sufficient liquidity to fund its operations through to the end of the proposed Stay Period; and
- (d) the Monitor 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, CPA, CA, CIRP, LIT

Appendix 1

