Court File No. CV-19-000632052-00CL

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 IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF AGMEDICA BIOSCIENCE INC., 2472602 ONTARIO INC., 2642466 ONTARIO INC., 8895309 CANADA INC., WELLWORTH HEALTH CORP., 8050678 CANADA INC., 8326851 CANADA INC., TAVIVAT NATURALS INC., WORLDWIDE BEVERAGE INNOVATIONS INC., UNIQUE BEVERAGES (USA) INC., and ESEELA INC.
(each an **"Applicant"** and collectively, the **"Applicants")**

THIRD REPORT OF THE MONITOR DATED JANUARY 22, 2020

INTRODUCTION

1. On December 1, 2019, the Applicants brought an application (the "**CCAA Application**") before this Court returnable on December 2, 2019, 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 restructure their business and affairs.

2. On December 2, 2019, the Court granted an initial order in these proceedings (the "**Initial Order**") that, among other things, appointed Ernst & Young Inc. as monitor of the Applicants in these CCAA proceedings (in such capacity, the "**Monitor**"), granted a stay of proceedings for the initial 10-day period (the "**Stay Period**"), granted certain Court-ordered charges, and approved certain interim financing.

3. On December 12, 2019, the Court granted an order (the "**Amended and Restated Initial Order**"), that among other things:

a. Authorized the Applicants to dispose of redundant or non-material assets not exceeding $500,000 in any one transaction or $1 million in the aggregate;

b. Extended the Stay Period until March 12, 2020; and

c. Authorized the Applicants to enter into a DIP facility agreement (the "**DIP Facility**") with SF V Bridge III, LP ("**Stabilis**"), an affiliate of one of the Applicants' secured creditors.

4. On December 12, 2019, the Court also granted an order (the "**Non-Core Real Estate Order**") approving the retention of CBRE Limited by the Applicants and authorizing the Applicants to market and sell the Non-Core Real Estate (as defined in the Non-Core Real Estate Order) with the assistance of the Monitor; and

5. On January 3, 2020, the Court granted:

a. An order approving the definitive DIP loan agreement between the Applicants and Stabilis; and

b. An order approving the Applicants' Sale and Investment Solicitation Process.

PURPOSE

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

a. the proposed sale of surplus light fixtures pursuant to the Bill of Sale and General Conveyance (the "**Light Sale Agreement**") made as of January 14, 2020 between AgMedica Bioscience Inc. ("**AgMedica**") and Lighting Plus Wholesale o/a 1128731 Ontario Inc. ("**Lighting Plus**"); and

b. the Monitor's recommendation with respect to the Applicants' motion for an order approving the Light Sale Agreement and authorizing AgMedica to enter into it.

TERMS OF REFERENCE

7. In preparing this Third Report and making the 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 Third Report in respect of the Cash Flow Forecast:

   a. the Monitor has reviewed the Information for reasonableness, internal consistency and use in the 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 Assurance Standards ("**GAAS**") pursuant to the Chartered Professional Accountants Canada 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 Report consists of forecasts and projections. An examination or review of the financial forecast and projections, as outlined in the Chartered Professional Accountants Canada 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 Third 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. The principal operating entity among the Applicants is AgMedica, which is a licensed producer of cannabis in accordance with the *Cannabis Act* and the *Cannabis Regulations*. The principal activities of AgMedica are the production, distribution, and sale of dried cannabis flower, pre-rolled cannabis, cannabis soft gel capsules, and cannabis oil.

12. AgMedica currently holds two site licenses:

    a. 1st Site license permits the cultivation, processing, and sale plants and seeds (dried and fresh), oils, extracts, edibles and topicals both for registered patients (medical use) and the recreational market (adult-use); and

    b. 2nd Site license permits the sale of cannabis plants and seeds (dried and fresh) and oils for registered patients only (medical use).

13. All the legal entities comprising the Applicants are privately held companies incorporated under the laws of Ontario or Canada, with the sole exception of Unique Beverages (USA) Inc., a dormant corporation incorporated under the laws of Delaware.

14. All court documents and materials related to this CCAA proceedings have been posted on the Monitor's website at www.ey.com/ca/agmedica (the "**Monitor's Website**").

SALE OF SURPLUS LIGHTS

Background

15. Over the past few months, the Applicants have pursued and evaluated various restructuring activities, including reassessing their operational needs and taking inventory of assets that are surplus, non-core or redundant to their current operations. Upon this review, the Applicants determined there were a certain type of LED lights (the "**Lights**") that were not required for their current operations.

16. The Lights were purchased approximately one year ago, when the Applicants were testing different types of lights to evaluate whether they may assist the propagation techniques anticipated to be used in the future operations at the 715 Richmond Street location ("**715**"). The Lights can be used in both greenhouse and indoor agricultural facilities. The Lights remained in storage for several months. Over the past year, minimal construction had occurred at 715 and, in and around September 2019, the Applicants decided to halt further construction or build-out of a propagation area at 715. Following the commencement of these CCAA proceedings, 715 was determined to be a non-core asset and pursuant to the Non-Core Real Estate Order, is currently being listed for sale. As such, the Lights are no longer needed for the current or future operations of the Applicants and are considered a surplus asset.

17. The Lights emit a certain spectrum of ultraviolet light that is believed to be beneficial for propagation. However, based on the testing conducted by the Applicants, it is believed that the Lights would not be as beneficial for propagation as the lights used in their current propagation rooms. In addition, the Lights cannot be utilized in AgMedica's Phase II facility, as those rooms are allocated for a different part of the cultivation process that the Lights are not appropriate for.

18. On the basis that the Lights were surplus assets, the Applicants reached out to Lighting Plus, which is a wholesaler based in Amherstburg, Ontario, in November 2019 to canvass potential buyers for the Lights.

Solicitation Process

19. The Monitor discussed the solicitation process with Lighting Plus to understand the efforts that had been carried out. The follow is a summary of those efforts based on the Monitor's discussion with Lighting Plus.

20. Lighting Plus is both a seller as well as installer of lights used in both greenhouse and indoor facilities and is very familiar with the Lights and similar products. Lighting Plus reached out to approximately 30 different companies across Canada that have indoor and greenhouse facilities, across various industries. Lighting Plus identified the following

difficulties that selling the Lights would pose, based on Lighting Plus's own experience and as a result of discussions with potential buyers:

a. The Lights were not a desirable product due to the shadowing the Lights cause and their low output;

b. Since the time that the Applicants purchased the Lights, the manufacturer had ceased to operate its light fixture line and therefore does not have any further lights in stock to offer warranty to a purchaser of the Lights;

c. The manufacturer of the Lights was willing to purchase the Lights but the price was significantly lower than the price offered in the proposed Light Sale Agreement;

d. the price of LED lights has decreased over the past year; and

e. there are not many companies in the construction phase that require lights currently.

21. The Monitor is of the view that Lighting Plus has made appropriate efforts to solicit potential buyers for the Lights.

Light Sale Agreement

22. After solicitation for the past three months, Lighting Plus made an offer to purchase the lights itself which was acceptable to AgMedica. The Monitor understands that Lighting Plus intends to sell a portion of the Lights to a third party in the U.S. and retain a portion in its inventory for future potential sales.

23. The proposed sales transaction is for an amount that is above $500,000 and therefore requires court approval.

24. The following are material terms of the Light Sale Agreement, a copy of which is attached hereto as Appendix "A":

a. the Lights are being purchased on an 'as is' basis;

b. Lighting Plus will arrange for its own pick-up of the Lights;

c. the purchase price for the Lights is $576,300, inclusive of applicable taxes; and

d. the sale will close as soon as practically possible following approval of the Light Sale Agreement by the Court.

25. The Monitor has reviewed the Light Sale Agreement and believes that the terms and price are reasonable and recommends that the Court approve the Light Sale Agreement and authorize the Applicants to enter into it, if the Court sees fit.

26. The proceeds of the Light Sale Agreement will be used to pay down a portion of the amount currently outstanding under the DIP Facility, as required by section 18(b) of the DIP Facility.

CONCLUSIONS AND RECOMMENDATIONS

27. For the reasons stated herein, the Monitor recommends that the Court approve the proposed Light Sale Agreement, should it see fit to do so.

All of which is respectfully submitted this 22nd day of January, 2020.

ERNST & YOUNG INC., in its capacity as Monitor of the Applicants, and not in its corporate or personal capacity.

per:

Alex Morrison, CPA, CA
Senior Vice President

APPENDIX "A"

LIGHT SALE AGREEMENT

BILL OF SALE AND GENERAL CONVEYANCE

THIS AGREEMENT made as of the 14 day of January 2020.

BETWEEN:

AGMEDICA BIOSCIENCE INC.

(hereinafter called the "**Vendor**")

- and –

LIGHTING PLUS WHOLESALE
O/A 1128731 ONTARIO INC.

(hereinafter called the "**Purchaser**")

WHEREAS the Purchaser has offered to purchase the Purchased Assets (as defined below) and the Vendor has accepted such offer and wishes to sell the Purchased Assets to the Purchaser on the terms described herein;

AND WHEREAS the Vendor sought and obtained creditor protection pursuant to the *Companies' Creditors Arrangement Act* ("**CCAA**") pursuant to the Initial Order of Justice Hainey dated December 2, 2019, as amended, and, as such, the Vendor and the Purchaser agree that the transaction contemplated by this Agreement is subject to, and conditional upon, Court approval as required under the CCAA.

NOW THEREFORE IN CONSIDERATION of the mutual covenants and agreements contained herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties do covenant and agree as follows:

PURCHASE AND SALE OF ASSETS

1.01 - Purchase and Sale

Subject to the terms and conditions of this Agreement, the Vendor agrees to sell to the Purchaser and the Purchaser agrees to purchase from the Vendor, certain assets as more particularly described in Schedule "A" to this Agreement (the "**Purchased Assets**").

The Purchaser hereby acknowledges to and in favour of the Vendor that it has inspected the Purchased Assets and examined and satisfied itself as to the title thereto and that no representation, warranty, term, condition, understanding or collateral agreement, statutory or otherwise, is expressed or implied by the Vendor or any other party with respect to title, merchantability, condition, description, fitness for purpose, country of origin, quality, quantity or any other thing, affecting the Purchased Assets or in respect of any other matter or thing whatsoever except as expressly stated herein. The Purchaser acknowledges that any and all conditions, warranties and representations, expressed or implied, pursuant to the *Sale of Goods Act* (Ontario), or any other Act or Regulation pursuant to the laws of Ontario or Canada, as applicable, do not apply to the sale of any of the Purchased Assets and have been waived by the Purchaser for the consideration described herein.

Without limiting the generality of the foregoing, the Purchaser acknowledges and agrees that the Purchased Assets are specifically offered on an "as is where is" basis as the Purchased Assets will exist on the closing of this transaction, which shall take place on the date on which the Court approves this Agreement or as soon as practicable thereafter (the "**Closing Date**") and no adjustment shall be allowed to the Purchaser for changes in condition or quantities of the Purchased Assets.

Notwithstanding anything contained in this Agreement, the parties hereto agree that the transaction contemplated herein is subject to, and conditional upon, Court approval.

1.02 - Purchase Price

The consideration for the Purchased Assets is the sum of CAD$576,300.00 (the "**Purchase Price**"). For greater certainty, the Purchase Price includes any applicable federal and provincial sales taxes required in connection with this Agreement paid by the Purchaser as provided for in Section 1.03.

1.03 - Taxes

On the Closing Date, the Purchaser will pay to the Vendor any federal and provincial taxes that are payable in connection with the transaction described herein, if necessary and applicable.

If necessary and applicable, the Vendor and the Purchaser shall jointly make an election under subsection 167(1) of the *Excise Tax Act* if the Vendor and the Purchaser, acting reasonably, agree that such elections are legally available to be made in respect of the sale and transfer of the Purchased Assets pursuant to this Agreement.

1.04 - Delivery of the Assets

The Purchased Assets shall be surrendered to the possession of the Purchaser on the Closing Date or as soon as practicable thereafter for the Purchaser to take delivery. For greater certainty, the Vendor shall not be liable for any costs, fees, taxes, duties, brokerage or warehouse charges associated with the removal of the Purchased Assets or transportation or delivery of the Purchased Assets. The Purchaser shall be solely responsible and liable for all risks and costs associated with delivery and transportation of the Purchased Assets.

Title to, and risk of damage or loss in connection with, the Purchased Assets shall be transferred and surrendered to the Purchaser upon the Purchaser or any of its agents, employees, or counterparties taking possession and receipt of the Purchased Assets.

1.05- Further Assurances

Each of the Vendor and the Purchaser shall, from time to time, at the cost of the requesting party, execute and deliver all such further documents and instruments and do all acts and things as the other party may, either before or after the Closing Date, reasonably require to properly give effect to the sale, assignment and transfer of the Purchased Assets to the Purchaser.

The Vendor agrees that it shall use its best efforts to assist the Purchaser in obtaining any consents, approvals or any further documentation or assurances which may be required to carry out the terms of this Agreement, including, without limitation, any approvals with respect to assets subject to lease or any of the Purchased Assets which are not assignable without the consent or other action of a third party (or parties).

1.06 - Purchaser's Representations and Warranties

The Purchaser represents and warrants to the Vendor as follows and acknowledges that the Vendor is relying on such representations and warranties in entering into this Agreement:

(a) the Purchaser has the requisite power and authority to enter into and complete the transaction of purchase and sale contemplated hereby and all necessary corporate action will be taken by the Closing Date to authorize the execution and delivery of this Agreement and all documents contemplated hereby; and

(b) the Purchaser's representations and warranties shall survive the completion of this Transaction.

1.07 - Vendor's Representations and Warranties

The Vendor represents and warrants to the Purchaser as follows and acknowledges that the Purchaser is relying on such representations and warranties in entering into this agreement:

(a) the Vendor has the requisite power and authority to enter into and complete the transaction of purchase and sale contemplated hereby, subject only to Court approval, and all necessary corporate action will be taken by the Closing Date to authorize the execution and delivery of this Agreement and all documents contemplated hereby; and

(b) the Vendor's representations and warranties shall survive the completion of this transaction.

1.08 Time shall be of the essence of this Agreement.

1.09 No modification of or amendment to this Agreement shall be valid or binding unless set forth in writing and duly executed by both of the parties hereto and no waiver of any breach of any term or provision of this Agreement shall be effective or binding unless made in writing and signed by the party purporting to give same and, unless otherwise provided, shall be limited to the specific breach so waived.

1.10 This Agreement may not be assigned by the Vendor or the Purchaser without the prior written consent of the other.

1.11 This Agreement shall be governed by and construed in accordance with the laws of the Province of Ontario and the laws of Canada applicable therein.

1.12 This Agreement may be executed in counterparts and/or in portable document format (pdf).

[EXECUTIONS ON SEPARATE PAGE]

IN WITNESS WHEREOF the parties have executed this Agreement this 14 day of January, 2020.

LIGHTING PLUS WHOLESALE O/A 1128731 ONTARIO INC.

Per: ______________________ c/s
Name: FRANK HUNT
Title: President
I have the authority to bind the Corporation.

AGMEDICA BIOSCIENCE INC.

Per: William Demers c/s
Name: WILLIAM DEMERS
Title: CFO
I have the authority to bind the Corporation.

SCHEDULE "A"

Purchased Assets

Illumitex LED lights
Quantity: 1,275 individual lights
Part #: DHW7S12NLX6HDWH10
Description: NEOPAR HORT, WET LOC, 7BAR, STD, 120DEG, NO LNS, X6, 277-480V, DIM, WHT, 10FT