

*A copy of this preliminary short form prospectus has been filed with the securities regulatory authorities in each of the provinces of Alberta, British Columbia, Manitoba and Ontario, but has not yet become final for the purpose of the sale of securities. Information contained in this preliminary short form prospectus may not be complete and may have to be amended. The securities may not be sold until a receipt for the short form prospectus is obtained from the securities regulatory authorities.*

**No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise.** This preliminary short form prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities.

The securities offered under this preliminary short form prospectus have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the "**U.S. Securities Act**") or any securities laws of any state of the United States. Accordingly, unless exemptions from the registration requirements of the U.S. Securities Act and applicable state securities laws are available, the securities may not be offered or sold in the United States (as such term is defined in Regulation S under the U.S. Securities Act) or to, or for the account or benefit of, "U.S. persons" (as such term is defined in Regulation S under the U.S. Securities Act). This preliminary short form prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of the securities offered hereby within the United States or to, or for the account or benefit of, U.S. persons. See "Plan of Distribution".

**Information has been incorporated by reference in this preliminary short form prospectus from documents filed with securities commissions or similar authorities in Canada.** Copies of the documents incorporated herein by reference may be obtained on request without charge from the Chief Executive Officer of Sproutly Canada, Inc., at Suite 1050, 1095 West Pender Street, Vancouver, BC V6E 2M6, Telephone (778) 025-6868, and are also available electronically at [www.sedar.com](http://www.sedar.com).

## PRELIMINARY SHORT FORM PROSPECTUS

New Issue

December 3, 2018



**SPROUTLY CANADA, INC.**  
Suite 1050, 1095 West Pender Street  
Vancouver, BC V6E 2M6

**\$20,760,000**

**15,400,000 Equity Units issuable upon exercise of 15,400,000 Equity Special Warrants,  
10,750 CD Units issuable upon exercise of 10,750 CD Special Warrants, 1,078,000 Broker Equity  
Warrants issuable upon exercise of 1,078,000 Broker Equity Special Warrants and 788,333 Broker CD  
Warrants issuable upon exercise of 788,333 Broker CD Special Warrants**

This short form prospectus (the "**Prospectus**") qualifies the distribution of (i) 15,400,000 equity units (the "**Equity Units**") of Sproutly Canada, Inc. (the "**Company**" or "**Sproutly**") issuable upon the deemed exercise of 15,400,000 equity special warrants (the "**Equity Special Warrants**") of the Company; and (ii) 10,750 convertible debenture units (the "**CD Units**") of the Company issuable upon the deemed exercise of 10,750 convertible debenture special warrants (the "**CD Special Warrants**" and, together with the Equity Special Warrants, the "**Special Warrants**") of the Company, previously issued on October 24, 2018 (the "**Closing Date**") to purchasers resident in Alberta, British Columbia, Manitoba and Ontario (in addition to offshore purchasers) on a private placement basis pursuant to prospectus exemptions under applicable securities legislation (the "**Offering**").

The Equity Special Warrants were issued at a price of \$0.65 per Equity Special Warrant (the "**Equity Special Warrant Price**") pursuant to the terms of an equity special warrant indenture (the "**Equity Special Warrant Indenture**") dated as of the Closing Date between the Company and TSX Trust Company ("**TSX**").

**Trust**”), as Special Warrant agent, and the Underwriting Agreement (as defined below). The CD Special Warrants were issued at a price of \$1,000 per CD Special Warrant (the “**CD Special Warrant Price**”) pursuant to the terms of a convertible debenture special warrant indenture (the “**CD Special Warrant Indenture**”) dated as of the Closing Date between the Company and TSX Trust, as Special Warrant agent, and the Underwriting Agreement. See “*Plan of Distribution*”.

Each Equity Unit consists of one common share in the capital of the Company (a “**Common Share**”) and one-half of one common share purchase warrant of the Company (each whole warrant, a “**Warrant**”). Each Warrant will entitle the holder thereof to purchase one Common Share (a “**Warrant Share**”) at an exercise price of \$0.90 per Warrant Share at any time up to 2:00 p.m. (Vancouver time) on October 24, 2020 (the “**Warrant Expiry Time**”), pursuant to the terms of a warrant indenture (the “**Warrant Indenture**”) dated as of the Closing Date between the Company and TSX Trust, as Warrant agent. Each CD Unit consists of one \$1,000 principal amount 8% senior unsecured debenture of the Company (each, a “**Convertible Debenture**”) and 667 Warrants. Each Convertible Debenture is convertible into Common Shares (the “**Conversion Shares**”) at a price of \$0.75 per Conversion Share (the “**Conversion Price**”) until October 24, 2020, pursuant to the terms of a debenture indenture (the “**Debenture Indenture**”) dated as of the Closing Date between the Company and TSX Trust, as Debenture Trustee.

**There is no market through which the Equity Special Warrants, CD Special Warrants, Warrants or Convertible Debentures may be sold, and purchasers may not be able to resell the Equity Special Warrants, CD Special Warrants, Warrants or Convertible Debentures acquired pursuant to the Offering. This may affect the pricing of the Equity Special Warrants, CD Special Warrants, Warrants or Convertible Debentures in the secondary markets, the transparency and availability of trading prices, the liquidity of the Equity Special Warrants, CD Special Warrants, Warrants and Convertible Debentures and the extent of issuer regulation. See “*Risk Factors*”.**

**The Special Warrants are not available for purchase pursuant to this Prospectus and no additional funds are to be received by the Company from the distribution of the securities issuable upon deemed exercise of the Special Warrants.**

The Common Shares are listed for trading on the Canadian Securities Exchange (the “**CSE**”) under the symbol “**SPR**”. On September 25, 2018, the last trading day prior to the announcement of the Offering, the closing price of the Common Shares on the CSE was \$0.75 and on November 30, 2018, the last trading day prior to the filing of this Prospectus, the closing price of the Common Shares on the CSE was \$0.425.

The Company has made the required filings to the CSE to list the Common Shares, Warrant Shares, Conversion Shares and Broker Shares (as defined below). Listing will be subject to the fulfilment of all the listing requirements of the CSE.

The Offering is made pursuant to an underwriting agreement dated October 24, 2018 (the “**Underwriting Agreement**”) between Canaccord Genuity Corp., Eight Capital Corp., Haywood Securities Inc. (collectively, the “**Underwriters**”) and the Company. The terms of the Offering, including the Equity Special Warrant Price and the CD Special Warrant Price, were determined by arm’s length negotiation between the Company and the Underwriters. The Company announced the closing of the Offering, including the number of securities and the price thereof, by news release dated October 24, 2018. See “*Plan of Distribution*”.

	Offering Price	Underwriters' Fee <sup>(1)</sup>	Net Proceeds to the Company <sup>(2) (3)</sup>
Per Equity Special Warrant	\$0.65	\$0.0455	\$0.6045
Per CD Special Warrant	\$1,000	\$55	\$945
Total Offering	\$20,760,000	\$1,291,950	\$19,468,050

## Notes:

- (1) In consideration for the services rendered by the Underwriters in connection with the Offering, the Company paid to the Underwriters an aggregate cash commission of \$1,291,950, representing (i) 7.0% of the gross proceeds from the sale of the Equity Special Warrants; and (ii) 5.5% of the gross proceeds from sale of the CD Special Warrants (the "**Underwriters' Fee**"). In addition, the Underwriters were issued (i) an aggregate of 1,078,000 non-transferable broker equity special warrants of the Company (the "**Broker Equity Special Warrants**"), being an amount equal to 7% of the number of Equity Special Warrants sold pursuant to the Offering; and (ii) an aggregate of 788,333 non-transferable broker convertible debenture special warrants of the Company (the "**Broker CD Special Warrants**"), being an amount equal to 5.5% of the aggregate dollar value of the CD Special Warrants sold pursuant to the Offering, divided by \$0.75. Each Broker Equity Special Warrant is exercisable without the payment of additional consideration and without any further action on the part of the holder to acquire one non-transferable broker equity warrant of the Company (the "**Broker Equity Warrants**"). Each Broker Equity Warrant is exercisable at the Equity Special Warrant Price to acquire one Equity Unit (each, a "**Broker Warrant Unit**") until October 24, 2020. Each Broker Warrant Unit shall be comprised of one common share of the Company (each, a "**Broker Share**") and one-half of one Warrant. Each Broker CD Special Warrant is exercisable, without the payment of additional consideration and without any further action on the part of the holder to acquire one non-transferable broker convertible debenture warrant of the Company (the "**Broker CD Warrants**"). Each Broker CD Warrant is exercisable at the Conversion Price to acquire one convertible compensation unit (each, a "**Convertible Compensation Unit**") until October 24, 2020. Each Convertible Compensation Unit shall be comprised of one Broker Share and one-half of one Warrant. The Broker Equity Warrants and the Broker CD Warrants issuable upon exercise of the Broker Equity Special Warrants and Broker CD Special Warrants, respectively, are also being qualified by this Prospectus. See "*Plan of Distribution*".
- (2) After deducting the Underwriters' Fee, but before deducting the expenses of the Offering and the qualification for distribution of the Equity Units, CD Units, Broker Equity Warrants and the Broker CD Warrants, estimated to be \$897,800, which will be paid from the proceeds of the Offering.
- (3) The distribution of the Equity Units and CD Units upon the deemed exercise of the Equity Special Warrants and CD Special Warrants, respectively, will not result in any proceeds being received by the Company.

Each Special Warrant will be deemed to be automatically exercised on behalf of, and without any further action or payment required on the part of, the holder thereof on the date (the "**Deemed Exercise Date**") that is the earlier of: (i) the third business day after the date a receipt (a "**Receipt**") is issued for a final prospectus qualifying the distribution of the securities hereunder by the securities regulatory authorities in each of the provinces of Alberta, British Columbia, Manitoba and Ontario (the "**Qualification Date**"); and (ii) February 25, 2019, being the date that is four months and one day following the Closing Date. See "*Plan of Distribution*" and "*Description of Securities Being Distributed*".

In the event that the Qualification Date has not occurred on or before December 23, 2018 (the "**Qualification Deadline**"), each unexercised Equity Special Warrant will thereafter entitle the holder to receive upon the exercise thereof, at no additional consideration (the "**Penalty Provision**"), 1.05 Equity Units (the "**Equity Penalty Units**") and each unexercised CD Special Warrant will thereafter entitle the holder to receive upon the exercise thereof, at no additional consideration, 1.05 CD Units (the "**CD Penalty Units**", and collectively with the Equity Penalty Units, the "**Penalty Units**"). This Prospectus also qualifies the distribution of any Penalty Units upon deemed exercise of the Special Warrants. Unless the context otherwise requires, all references herein to the "Offering", "Equity Units", "CD Units", "Common Shares", "Warrants" and "Convertible Debentures" shall include any underlying securities comprising the Penalty Units that may be issued in connection with the Penalty Provision. See "*Plan of Distribution*".

Underwriter's Position	Maximum number of securities available	Exercise period	Exercise price
Broker Equity Warrants	1,078,000 Common Shares and 539,000 Warrants	October 24, 2020	\$0.65 per Broker Warrant Unit
Broker CD Warrants	788,333 Common Shares and 394,166 Warrants	October 24, 2020	\$0.75 per Convertible Compensation Unit
Warrants <sup>(1)</sup>	933,166 Warrant Shares	October 24, 2020	\$0.90 per Warrant Share
Total securities issuable to Underwriters	1,866,333 Common Shares and 933,166 Warrant Shares	N/A	N/A

Notes:

- (1) Comprises the Warrants underlying the Broker Warrant Units and the Convertible Compensation Units.

**An investment in the securities of the Company is highly speculative and involves significant risks that should be carefully considered by prospective investors before purchasing such securities. The risks outlined in this Prospectus and in the documents incorporated by reference herein should be carefully reviewed and considered by prospective investors in connection with an investment in such securities. See "Risk Factors" and "Cautionary Statement Regarding Forward Looking Information". Potential investors are advised to consult their own legal counsel and other professional advisers in order to assess income tax, legal and other aspects of this investment.**

The Offering was conducted through a book-based system through CDS Clearing and Depository Services Inc. ("CDS") and the securities issued pursuant to the Offering were deposited with CDS on the Closing Date in electronic form. The Common Shares, Warrants, Warrant Shares, Convertible Debentures and Conversion Shares to be issued upon deemed exercise or conversion of the Equity Special Warrants, CD Special Warrants, Warrants and Convertible Debentures, as applicable, will also be held by CDS (other than in respect of certain purchasers of the Special Warrants) and purchasers of the Special Warrants will not receive definitive certificates representing the Common Shares, Warrants, Warrant Shares or Convertible Debentures, except in certain limited circumstances. See "*Plan of Distribution*".

**Investors should rely only on the information contained or incorporated by reference in this Prospectus. The Company and the Underwriters have not authorized anyone to provide investors with information different from that contained or incorporated by reference in this Prospectus. Readers should not assume that the information contained in this Prospectus is accurate as of any date other than the date on the cover page of this Prospectus.**

**Investors are advised to consult their own tax advisors regarding the application of Canadian federal income tax laws to their particular circumstances, as well as any other provincial, foreign and other tax consequences of acquiring, holding or disposing of the Special Warrants, the Common Shares, Warrants, Warrant Shares, Convertible Debentures or Conversion Shares, including the Canadian federal income tax consequences applicable to a foreign controlled Canadian corporation that acquires the Equity Special Warrants, CD Special Warrants, Common Shares, Warrants, Warrant Shares, Convertible Debentures or Conversion Shares.**

The registered and records office of the Company is located at 10<sup>th</sup> Floor, 595 Howe Street, Vancouver, BC V6C 2T5 and its head office is located at Suite 1050, 1095 West Pender Street, Vancouver, BC V6E 2M6.

Certain legal matters in connection with the Offering are being reviewed on behalf of the Company by DuMoulin Black LLP and on behalf of the Underwriters by McMillan LLP.

Unless otherwise specifically stated, all dollar amounts in this Prospectus are expressed in Canadian dollars.

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## ENFORCEMENT OF JUDGMENTS AGAINST FOREIGN PERSONS

One of the Company's directors, Dr. Arup Sen, resides outside of Canada. Dr. Sen has appointed DuMoulin Black LLP as agents for service of process at the following address: 10<sup>th</sup> Floor, 595 Howe Street, Vancouver, British Columbia V6C 2T5. Investors are advised that it may not be possible for investors to enforce judgments obtained in Canada against any person who resides outside of Canada, even if that person has appointed an agent for service of process. See "*Risk Factors*".

## CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

Certain information contained in this Prospectus and the documents incorporated by reference herein may constitute "forward-looking information" within the meaning of applicable Canadian securities laws ("**forward-looking information**"). Such forward-looking information is based upon the Company's and its management's current internal predictions, expectations, beliefs, plans, projections, objectives, goals, strategies, assumptions, priorities, intentions or estimates, including, but not limited to, anticipated results and developments in the Company's operations in future periods and other matters that may occur in the future. In certain cases, forward-looking information can be identified by the use of words such as "plans", "expects", "is expected", "budget", "target", "scheduled", "estimates", "forecasts", "intends", "anticipates", "determine", "continue", "projects", "potential", "proposed" or "believes", or variations or the negative of such words and phrases, or statements that certain actions, events or results "may", "could", "whether to", "would", "should", "likely", "might" or "will be taken", "occur" or "be achieved" or the negative of these terms or comparable terminology. Forward-looking information may also include, without limitation, any statement relating to future events, conditions or circumstances. The Company cautions the reader not to place undue reliance upon any such forward-looking information.

Forward-looking information does not constitute historical fact but rather reflects the current expectations of the Company regarding future results or events based on information that is currently available. By its nature, forward-looking information involves numerous assumptions, known and unknown risks and uncertainties, both general and specific, that contribute to the possibility that the results, performance, achievements, predictions, forecasts, projections and other forward-looking information will not occur or will differ materially from such anticipated results, performance, achievements, predictions, forecasts, projections or other forward-looking information. Forward-looking information contained in this Prospectus includes, but is not limited to, statements regarding:

- the competitive and business strategies of the Company;
- the Company's ongoing investment strategy;
- market prices, values and other economic indicators;
- receipt and timing of governmental approvals, including Health Canada approvals;
- the performance of the Company's business and operations;
- the intention to grow the business, operations and potential activities of the Company;
- the expected production capacity and revenue of the Company's projects;

- the Company's expectations regarding revenues, expenses and anticipated costs;
- the Company's anticipated cash needs and its needs for additional financing;
- the competitive conditions of the industry;
- the anticipated changes to Canadian federal laws regarding the use of recreational cannabis and the business impacts on the Company;
- whether the Company will continue to be in compliance with regulatory requirements;
- the Company's intention to build a brand and develop cannabis products;
- the Company's intention to build valuable intellectual property and the anticipated benefits therefrom including accelerated sales growth and profit margins;
- analyses and other information based on expectations of future performance and planned products;
- possible events, conditions or financial performance that is based on assumptions about future economic conditions and courses of action;
- timing, costs and potential success of future activities on the Company's facilities and projects;
- future outlook and goals;
- permitting time lines and requirements, regulatory and legal changes and requirements for additional capital;
- whether the Company will have sufficient working capital and its ability to raise additional financing required in order to develop its business and continue operations;
- planned expenditures and budgets and the execution thereof; and
- the use of net proceeds of the Offering.

Forward-looking information is not a guarantee of future performance and is based upon a number of estimates and assumptions of management in light of management's experience and perception of trends, current conditions and expected developments, as well as other factors that management believes to be relevant and reasonable in the circumstances, including, without limitation, assumptions about:

- the Company will continue to hold its licence from Health Canada and be able to renew such licence on a timely basis;
- the laws, regulations and guidelines generally applicable to the medical and recreational cannabis industry not changing in ways currently unforeseen by the Company;



- future clinical research studies on the effects of medical cannabis do not lead to conclusions that dispute or conflict with the Company's understanding and belief regarding the medical benefits, viability, safety, efficacy, dosing and social acceptance of cannabis;
- the medical cannabis industry and market in Canada will continue to grow, and the Company will be successful in this new industry and market;
- the Company has the ability to compete for market share with other companies, including Licensed Producers, which may have longer operating histories and more financial resources, manufacturing and marketing experience than the Company;
- possible events, conditions or financial performance that is based on assumptions about future economic conditions and courses of action;
- revenue from the Company's proposed operations;
- general economic, financial market, regulatory and political conditions in which the Company operates;
- general demand and consumer interest in the Company's products;
- competition;
- anticipated and unanticipated costs;
- the future market price of medical and recreational cannabis;
- the ability of the Company to generate cash flow from operations and obtain necessary financing on acceptable terms;
- government regulation of the Company's activities and products, including in the areas of taxation and environmental protection;
- the timely receipt of any required regulatory approvals;
- the ability of the Company to obtain qualified staff, equipment and services in a timely and cost-efficient manner;
- the ability of the Company to conduct operations in a safe, efficient and effective manner; and
- the use of proceeds of the Offering;

While the Company considers these assumptions to be reasonable, the assumptions are inherently subject to significant business, social, economic, political, regulatory, competitive and other risks and uncertainties, contingencies and other factors that could cause actual actions, events, conditions, results, performance or achievements to be materially different from those projected in the forward-looking information. Many assumptions are based on factors and events that are not within the control of the Company and there is no assurance they will prove to be correct.

Furthermore, by their very nature, forward-looking information involves a variety of known and unknown risks, uncertainties and other factors which may cause the actual plans, intentions, events, results,

performance or achievements of the Company to be materially different from those expressed or implied by such forward-looking information. Such risks, uncertainties and other factors include, without limitation, those related to:

- the industry-wide risks;
- fluctuations in capital markets and share prices;
- risks related to the ability to obtain financing needed to fund the continued development of the Company's business;
- the Company's ability to manage anticipated and unanticipated costs;
- risks related to securing users and customers of the Company's products;
- risks related to securing and protecting the Company's intellectual property rights;
- risks related to the Company's failure to economically commercialize its product;
- risks related to delays or other problems in the third-party manufacturing process;
- risks related to the Company's failure to obtain necessary Health Canada approvals as scheduled or at all;
- risks related to the Company's inability to maintain or improve its competitive position;
- risks related to the Company's ability to establish its business internationally;
- risks related to the Company's ability to maintain or improve upon the medical effectiveness and usefulness of its product to intended users in the medical services industry;
- risks related to the Company's failure to retain key personnel and hire additional personnel needed to develop its business;
- risks related to the Company's failure to adequately evaluate its current business and its future prospects;
- risks related to the Company's business practice reputation being negatively affected by unfavourable publicity or consumer perception of the cannabis industry or the Company;
- the impact of any negative scientific studies on the effects of cannabis;
- market conditions, volatility and global economic conditions;
- risks associated with agreements with third parties relating to the Company's business, including agreements to manufacture and sell the Company's product and the ability to conclude such agreements on favorable terms;
- environmental risks;

- governmental regulations;
- restrictions imposed by the Canadian Securities Exchange and other regulatory authorities on the Company's business;
- the uncertainty of profitability based upon the Company's history of losses;
- risks related to foreign exchange rate fluctuations, as applicable;
- insurance and tax risks;
- general risks and uncertainties related to the Company's 's prospects and business strategy; and
- the risks described in the section of this Prospectus entitled "*Risk Factors*".

This is not an exhaustive list of the risks and factors that may affect the Company's forward-looking information. Although the Company has attempted to identify important factors that could affect the Company and may cause actual actions, events, conditions, results, performance or achievements to differ materially from those described in the forward-looking information, there may be other factors that cause actions, events, conditions, results, performance or achievements not to be as anticipated, estimated or intended. In addition to those discussed in this Prospectus, please refer to the risks described in the Company's public disclosure record.

The Company cautions that the foregoing lists of important assumptions and factors are not exhaustive. Other events or circumstances could cause actual results to differ materially from those estimated or projected and expressed in, or implied by, the forward-looking information contained in this Prospectus. There can be no assurance that forward-looking information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such information. Accordingly, readers should not place undue reliance on forward-looking information. The Company does not undertake any obligation to publicly update or revise any forward-looking information other than as required under applicable securities laws

#### **OTHER CAUTIONARY STATEMENTS**

This Prospectus and the documents incorporated by reference herein have been prepared in accordance with the requirements of the securities laws in effect in Canada, which differ from the requirements of United States securities laws.

All financial information in this Prospectus is prepared in Canadian dollars, unless otherwise indicated, has been prepared in accordance with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board ("**IASB**").

#### **DOCUMENTS INCORPORATED BY REFERENCE**

**Information has been incorporated by reference in this Prospectus from documents filed with securities commissions or similar authorities in Alberta, British Columbia, Manitoba and Ontario (the "Commissions").** Copies of the documents incorporated herein by reference may be obtained on request without charge from the Chief Executive Officer of Sproutly Canada, Inc., at Suite 1050, 1095 West Pender

Street, Vancouver, BC V6E 2M6, Telephone (778) 945-6868 and are also available electronically on SEDAR which can be accessed electronically at [www.sedar.com](http://www.sedar.com).

The following documents of the Company, which have been filed with the Commissions, are specifically incorporated by reference into, and form an integral part of, this Prospectus:

- (a) the annual information form of the Company (the "**Annual Information Form**") dated November 1, 2018 for the year ended February 28, 2018 and filed on SEDAR on November 2, 2018;
- (b) the audited consolidated financial statements of the Company for the years ended February 28, 2018 and 2017, together with the notes thereto and the auditor's report thereon and related management's discussion and analysis, filed on SEDAR on June 4, 2018;
- (c) the unaudited condensed interim consolidated financial statements of the Company for the three and six months ended August 31, 2018 and 2017, together with the notes thereto and related management's discussion and analysis, filed on SEDAR on October 30, 2018;
- (d) the annual audited financial statements of Sproutly, Inc. ("**Sproutly Sub**") for the year ended February 28, 2018, together with the notes thereto and the independent auditors' report thereon, attached as Appendix "K" to the listing statement of Sproutly Sub dated June 29, 2018 and filed on SEDAR on July 6, 2018 (the "**Listing Statement**");
- (e) Schedule "L" – *Information Concerning Sproutly* to the management information circular of Sproutly Sub dated February 28, 2018 prepared in connection with Sproutly Sub's special meeting of shareholders held on April 28, 2018, attached as Appendix "A" to the Listing Statement;
- (f) the management information circular of the Company dated January 2, 2018 and filed on SEDAR on January 19, 2018 prepared in connection with the Company's special general meeting of shareholders held on February 8, 2018;
- (g) the business acquisition report dated November 26, 2018 (the "**Business Acquisition Report**") with respect to the Acquisition (as defined below);
- (h) the material change report of the Company dated July 9, 2018 and filed on SEDAR on July 9, 2018 with respect to the closing of the Arrangement (as defined below);
- (i) the material change report of the Company dated August 10, 2018 and filed on SEDAR on August 10, 2018 with respect to the closing of the Acquisition (as defined below); and
- (j) the material change report of the Company dated October 31, 2018 and filed on SEDAR on October 31, 2018 with respect to the closing of the Offering.

Any documents of the type required by National Instrument 44-101 – *Short Form Prospectus Distributions* to be incorporated by reference in a short form prospectus, including any annual information form, material change reports (excluding confidential material change reports), any interim and annual consolidated financial statements and the independent auditors' report thereon, management discussion and analysis of financial condition and results of operations, information circulars (excluding those portions that, pursuant to National Instrument 44-101 of the Canadian Securities Administrators, are not

required to be incorporated by reference herein), business acquisition reports, any news releases or public communications containing financial information about the Company for a financial period more recent than the periods for which financial statements are incorporated herein by reference, and any other disclosure documents required to be filed pursuant to an undertaking to a provincial or territorial securities regulatory authority that are filed by the Company with the securities commissions or similar authorities in Canada after the date of this Prospectus and prior to the completion of the distribution of the Common Shares, Warrants, Convertible Debentures, Broker Equity Warrants and Broker CD Warrants are deemed to be incorporated by reference in this Prospectus.

**Any statement contained in this Prospectus or in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Prospectus to the extent that a statement contained herein or in any other subsequently filed document which also is, or is deemed to be, incorporated by reference herein, modifies or supersedes such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document it modifies or supersedes. The making of a modifying or superseding statement shall not be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not constitute a part of this Prospectus, except as so modified or superseded.**

#### MARKETING MATERIALS

Any "template" version of any "marketing materials" (as such terms are defined under applicable Canadian securities laws) filed on the Company's profile on SEDAR ([www.sedar.com](http://www.sedar.com)) after the date of this Prospectus and before the termination of the distribution under the Offering is deemed to be incorporated by reference into this Prospectus.

#### SUMMARY DESCRIPTION OF BUSINESS

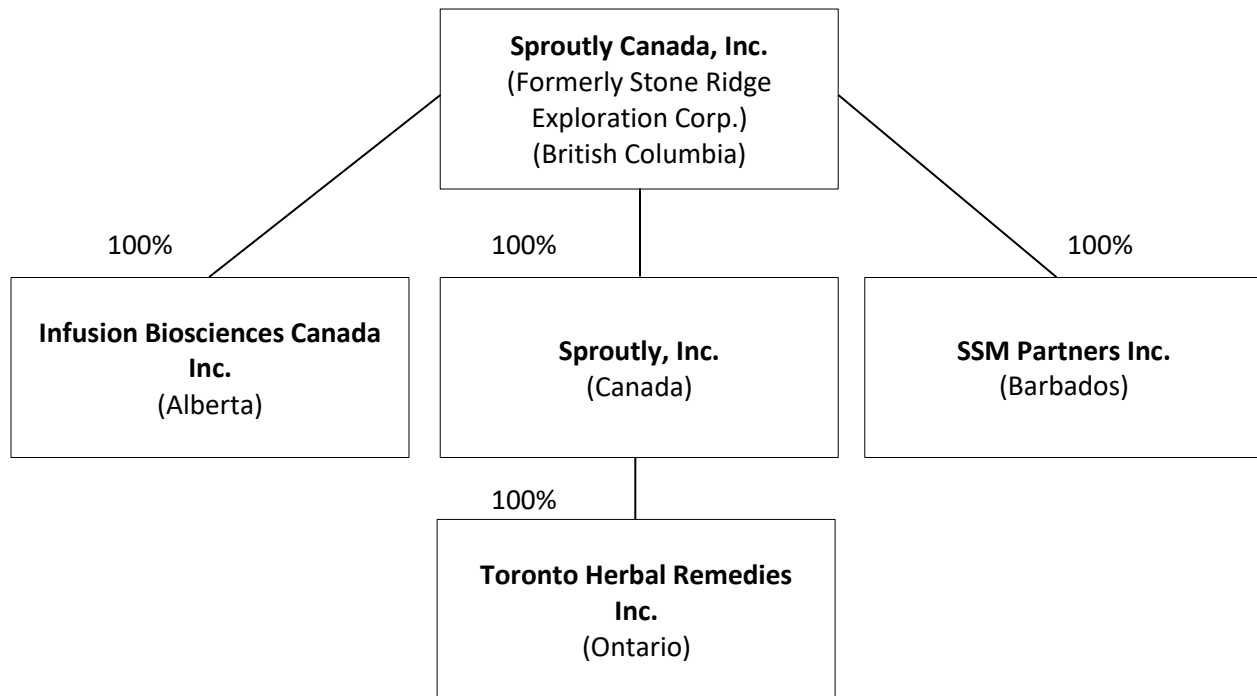
The Company was incorporated under the *Business Corporations Act* (British Columbia) ("**BCBCA**") on January 26, 2012 under the name "Stone Ridge Exploration Corp." ("**Stone Ridge**"). On July 6, 2018, the Company closed a plan of arrangement (the "**Arrangement**") under the *Canada Business Corporations Act* ("**CBCA**") pursuant to which, among other things, Sproutly Sub completed a reverse takeover of Stone Ridge. Pursuant to the Arrangement, Stone Ridge changed its name to "Sproutly Canada, Inc." and Sproutly Sub became a wholly-owned subsidiary of the Company.

The Arrangement constituted a "fundamental change" (as such term is defined in the policies of the CSE) and the Common Shares began trading on the CSE on July 9, 2018 under the trading symbol "SPR". The Company is also quoted on the Frankfurt, Berlin and Munich exchanges under the symbol "38G" and approved for trading on the OTCQB Venture Market in the United States ("**OTCQB**") under the symbol "SRUTF".

The head office of the Company is located at #1050 - 1095 W. Pender Street, Vancouver, BC V6E 2M6 and the registered office is located at 10<sup>th</sup> Floor, 595 Howe Street, Vancouver, BC V6C 2T5.

## Inter-Corporate Relationships

As of the date hereof, the Company has three wholly owned direct subsidiaries and one wholly-owned indirect subsidiary, which is reflected in the organization chart below:



## General

The Company's objective is to capitalize on the growing medicinal and legal recreational cannabis markets in Canada, as well as in other global jurisdictions that are legally regulated for cannabis sales both medically and recreationally by legislation similar to the *Cannabis Act* (Canada), the *Cannabis Regulations* and other applicable law. The Company's vision is to become a leader in the production of cannabis and cannabis-based products specifically in the beverage and consumables markets by utilizing the "Aqueous Phytorecovery Process" cannabis extraction technology (the "**APP Technology**") acquired in the Company's acquisition of Infusion Biosciences Canada Inc. ("**Infusion Biosciences Canada**"). The Company intends to work with partners to formulate, brand and distribute cannabis-infused beverages and other consumer packaged goods products to the market as well as developing a proprietary line of consumable products.

Once the Company has obtained its licence to sell cannabis from Health Canada, the Company intends to distribute its products through other licensed producers who have obtained a dealer's licence and to distribute its product through the distribution channels permitted in the recreational cannabis market.

## Three Year History

Prior to completion of the Arrangement, Stone Ridge had been engaged in the business of mineral exploration in British Columbia. Its objective was to locate and develop economic precious and base metals properties of merit.

Stone Ridge entered into the property option agreement dated January 26, 2012 (the “**Property Option Agreement**”) with KGE Management Ltd. and John Chapman (collectively, the “**Optionors**”), whereunder Stone Ridge was granted an irrevocable and exclusive option to acquire a 100% interest in the Hanson Property, consisting of two (2) contiguous mineral claims comprising an aggregate 3,554.8 hectares, located in the Omineca Mining Division, British Columbia, Canada. The terms of the Property Option Agreement were amended on February 25, 2012, August 1, 2013, September 19, 2014, February 23, 2015, July 23, 2015, November 13, 2015, January 14, 2016 and April 24, 2017.

To exercise its option to acquire a 100% interest in the Hanson Property, pursuant to the terms of the Property Option Agreement, Stone Ridge agreed to pay an aggregate \$161,220 and to issue an aggregate 630,000 common shares of Stone Ridge (“**Stone Ridge Shares**”) to the Optionors and incur an aggregate minimum \$2,600,000 in exploration expenditures on the Hanson Property in stages over a period of four years. In 2017, Stone Ridge terminated the Property Option Agreement and wrote off all of its investment in the Hanson Property.

On November 23, 2017, Stone Ridge announced a letter of intent to acquire Sproutly Sub in a reverse takeover transaction which would result in Stone Ridge acquiring all of the issued and outstanding shares of Sproutly Sub.

On February 8, 2018, Sproutly Sub and Stone Ridge announced the signing of the definitive arrangement agreement with respect to the previously announced reverse takeover transaction, the terms of which were subsequently updated in an arrangement agreement dated March 20, 2018 between Sproutly Sub and Stone Ridge (the “**Arrangement Agreement**”).

On February 28, 2018, Sproutly Sub completed the acquisition of Toronto Herbal Remedies Inc. (“**THR**”), a corporation incorporated under the laws of Ontario, which has provided the Company with a cannabis production facility located in Toronto.

On June 8, 2018, THR received its licence from Health Canada (the “**Producer’s Licence**”) to produce marijuana for medical purposes under the *Access to Cannabis for Medical Purposes Regulations* (“**ACMPR**”) and is currently progressing through the cultivation phase and working towards its sales licence.

On July 6, 2018, the Company closed the Arrangement pursuant to which Sproutly Sub completed a reverse takeover of Stone Ridge. Immediately prior to the completion of the Arrangement, Stone Ridge completed a consolidation of its common shares (the “**Consolidation**”) on the basis of one post-Consolidation share for every two pre-Consolidation shares. Pursuant to the Arrangement, among other things, shareholders of Sproutly Sub received approximately two (2) post-Consolidation Stone Ridge Shares in exchange for each common share of Sproutly Sub held by such shareholder immediately prior to the effective time of the Arrangement. As a result of the Arrangement, former shareholders of Sproutly Sub held approximately 84% of the issued and outstanding Common Shares of the Company immediately after completion of the Arrangement.

Only July 9, 2018, the Sproutly Shares began trading on the CSE under the symbol “SPR”.

## **Recent Developments**

On August 1, 2018, the Company acquired all of the issued and outstanding shares of each of Infusion Biosciences Canada and SSM Partners Inc. (“**SSM**”) (collectively, the “**Acquisition**”). The Acquisition was

completed pursuant to: (i) a share purchase agreement dated July 31, 2018 (the “**Infusion Share Purchase Agreement**”) among the Company, Infusion Biosciences Canada and Infusion Biosciences Inc. (“**Infusion**”); and (ii) a share purchase agreement dated July 31, 2018 (the “**SSM Share Purchase Agreement**”) among the Company, SSM and BNO Holdings Inc. (“**BNO**”).

Pursuant to the Infusion Share Purchase Agreement, the Company acquired all of the issued and outstanding shares of Infusion Biosciences Canada in exchange for providing Infusion with the following consideration:

- 36,857,676 Common Shares;
- \$4,525,000 cash payment, due within 12 months from closing of the Acquisition and subject to adjustments as set forth in the Infusion Share Purchase Agreement; and
- an earn-out of up to an additional 14,743,070 Common Shares upon the Company achieving certain milestones as set forth in the Infusion Share Purchase Agreement.

Pursuant to the SSM Share Purchase Agreement, the Company acquired all of the issued and outstanding shares of SSM for providing BNO with the following consideration:

- \$4,975,000 cash payment due within 12 months from closing of the Acquisition or convertible into Common Shares, subject to adjustments and SSM achieving certain milestones as set forth in the SSM Share Purchase Agreement; and
- an earn-out of up to 22,114,605 Common Shares upon the Company achieving certain milestones as set forth in the SSM Share Purchase Agreement.

As a result of the Acquisition, the Company gained the exclusive rights for APP Technology in Canada, the European Union, Australia, Israel and Jamaica. The APP Technology is a patent-pending process that uses proprietary combinations of common dietary ingredients to gently recover naturally water-soluble cannabinoids and the free cannabis oils in natural oils.

On August 22, 2018, the Company entered into an exclusive technology license and use agreement (the “**License Agreement**”) with Minnesota-based Micronutrient Technologies Inc. (“**MTI**”) to utilize its proprietary platform known as Minerals in Solution Technology (“**MiST**”) for use in creating cannabis and hemp-based beverages in select jurisdictions around the world. Under the License Agreement, the Company was granted the exclusive right to utilize MiST and its water-soluble nutritional minerals to produce enhanced water, beverages and soluble nutritional mineral supplements that include a cannabis or hemp component for the recreational and medicinal markets. The license is applicable in Canada, Australia, Jamaica, Israel and all countries that are part of the European Union as of the date of the Licensing Agreement. The license provides the Company with the know-how developed over a decade in designing innovative beverages with multiple nutrients, including nutritional minerals, which are essential for health and wellness.

Pursuant to the License Agreement, MTI is entitled to a royalty between 1.5% to 3.0% of net sales received by the Company and/or its affiliates from products that utilize the licensed rights until the termination of the License Agreement.

On October 12, 2018, the Company announced that the Common Shares were upgraded and approved for trading on the OTCQB under the symbol “SRUTF”. The OTCQB in the United States is similar to the CSE in Canada for early stage and developing international companies. To be eligible for the OTCQB,



companies must be current in their financial reporting, pass a minimum bid price test and undergo an annual company verification and management certification process.

On October 12, 2018, the Company announced that it had been added to the Canadian Securities Exchange's CSE 25 Index (the "**CSE 25 Index**"). The CSE 25 Index includes the top twenty-five securities by market capitalization contained in the CSE's composite index.

On November 27, 2018, Aman Bains resigned from the board of directors of the Company (the "**Board**") and the Company announced that the Board had appointed Michael Bellas to fill the casual vacancy left by Mr. Bains. Mr. Bellas is the founder, Chairman and CEO of Beverage Marketing Corporation and has over 45 years of experience in the beverage industry.

### USE OF PROCEEDS

The Company has received \$18,570,250 in net proceeds from the Offering, after deducting the Underwriters' Fee of \$1,291,950 and the estimated expenses of the Offering of approximately \$897,800. The Company will not receive any additional proceeds from the deemed exercise of the Special Warrants.

#### Principal Purposes

The Company proposes to use the net proceeds from the Offering as follows:

Use of Net Proceeds	Estimated Expenditure
Completion of Infusion Biosciences Canada acquisition	\$4,525,000
SSM acquisition earnout	\$4,975,000
Interest on the Convertible Debentures	\$1,600,000
Strategic investment opportunities	\$2,500,000
THR facility enhancements	\$250,000
Staffing initiatives	\$750,000
Brand development and corporate marketing initiatives	\$1,500,000
General working capital	\$2,470,250
<b>Total</b>	<b>\$18,570,250</b>

#### Business Objectives

The objectives that the Company expects to accomplish using the net proceeds of the Offering are as follows:

- completion of the payments for the acquisitions of Infusion Biosciences Canada and SSM (when the earn out provisions are met);
- fund the interest on the Convertible Debentures for the full two year period;
- the Company is currently considering a number of potential strategic partnerships and has earmarked approximately \$2,500,000 of the proceeds for this purpose. However, at this time it is not possible to predict with certainty which of the partnerships, if any, will close on agreeable terms, and the timing of those agreements;

- the THR facility is currently operational, and these proceeds will allow for additional enhancements to maximize production at the facility as well as preparation for the anticipated approval of its extraction licence from Health Canada. These enhancements are expected to be completed by February 2019;
- hiring additional operational staff at THR and adding management with beverage and packaged goods experience. It is anticipated that all additions will be completed by the end of January 2019, with the funds being spent over the next twelve months to cover salaries; and
- sales and marketing efforts to support the sale of flower and expansion into new product lines with the pending legalization of beverages and edibles over the next twelve months.

The Company intends to spend the funds available to the Company as stated in the Prospectus; however, there may be circumstances where, for sound business reasons, a reallocation of funds may be deemed prudent of necessary.

**The Company has not yet consistently achieved positive operating cash flow, and there are no assurances that the Company will not experience negative cash flow from operations in the future.** The net proceeds of the Offering are expected to be used to fund the proposed expenditures set out above; however, it may be necessary to allocate either existing working capital or some of the net proceeds of the Offering to fund future operations. See also "*Risk Factors – Negative Cash Flow from Operating Activities*".

#### CONSOLIDATED CAPITALIZATION

The following table sets forth the consolidated capitalization of the Company as at the dates indicated, adjusted to give effect to the Offering, on the share and loan capital of the Company since August 31, 2018, the date of the Company's most recently filed financial statements. This table should be read in conjunction with the consolidated financial statements of the Company and the related notes and management's discussion and analysis of financial condition and results of operations in respect of those statements that are incorporated by reference in this Prospectus.

	As at August 31, 2018 without giving effect to the Offering	As at August 31, 2018 after giving effect to the Offering	As at August 31, 2018 after giving effect to the Offering and the exercise of the Special Warrants
Common Shares <sup>(1)</sup>	\$44,878,818 (161,079,883)	\$44,878,818 (161,079,883)	\$52,276,823 (176,479,883)
Warrants	13,549,875	13,549,875	28,420,125
Equity Special Warrants	Nil	15,400,000	Nil
CD Special Warrants	Nil	10,750	Nil
Broker CD Special Warrants	Nil	788,333	Nil
Broker CD Warrants	Nil	Nil	788,333
Broker Equity Special Warrants	Nil	1,078,000	Nil
Broker Equity Warrants	Nil	Nil	1,078,000

	As at August 31, 2018 without giving effect to the Offering	As at August 31, 2018 after giving effect to the Offering	As at August 31, 2018 after giving effect to the Offering and the exercise of the Special Warrants
Convertible Debentures	Nil	Nil	\$1,599,087
Options	13,202,807	13,202,807	13,202,807
Total Reserves	\$24,246,071	\$37,540,347	\$28,543,255
Accumulated Deficit	(\$9,416,677)	\$(10,708,627)	\$(10,708,627)
<b>Total Shareholders' Equity</b>	<b>\$59,708,212</b>	<b>\$71,710,538</b>	<b>\$71,710,538</b>

(1) Excludes Common Shares issuable upon exercise of the Warrants and Options outstanding as at August 31, 2018.

There have been no material changes to the Company's share and loan capitalization on a consolidated basis since August 31, 2018 except the following:

- 50,000 Options were exercised on September 27, 2018 with an exercise price of \$0.20;
- 15,400,000 Equity Special Warrants issued on October 24, 2018;
- 10,750 CD Special Warrants issued on October 24, 2018;
- 1,078,000 Broker Equity Special Warrants issued on October 24, 2018;
- 788,333 Broker CD Special Warrants issued on October 24, 2018;
- 1,298,503 Warrants were exercised between September 1, 2018 and the date of this Prospectus with exercise prices between \$0.10 and \$0.20; and
- 787,500 Options issued on November 6, 2018 with an exercise price of \$0.62.

#### PRIOR SALES

The following table summarizes the Common Shares or securities convertible into Common Shares that the Company issued during the 12-month period immediately prior to the date of this Prospectus:

Date of Issuance	Type of Security	Number of Securities <sup>(1)</sup>	Issue/Exercise Price Per Security <sup>(1)</sup>
15-Mar-18	Options	4,058,749	\$0.2464
6-Jul-18	Options	2,500,000	\$0.2464
6-Jul-18	Options	600,000	\$0.60
01-Aug-18	Options	2,800,000	\$0.67
19-Dec-17	Warrants	439,867	\$0.74
20-Dec-17	Warrants	676,451	\$0.74
21-Dec-17	Warrants	1,116,156	\$0.74
22-Dec-17	Warrants	106,542	\$0.74
12-Jan-18	Warrants	3,712,500	\$0.20
12-Jan-18	Warrants	675,000	\$0.10
30-Jan-18	Warrants	1,620,456	\$0.74
31-Jan-18	Warrants	3,562,567	\$0.74
26-Mar-18	Warrants	394,279	\$0.17
28-Mar-18	Warrants	843,059	\$0.17
10-Apr-18	Warrants	448,782	\$0.17

Date of Issuance	Type of Security	Number of Securities <sup>(1)</sup>	Issue/Exercise Price Per Security <sup>(1)</sup>
18-Jun-18	Warrants	1,116,156	\$0.22
24-Oct-18	CD Special Warrants	10,750	\$1,000
24-Oct-18	Equity Special Warrants	15,400,000	\$0.65
24-Oct-18	Broker CD Special Warrants	788,333	N/A
24-Oct-18	Broker Equity Special Warrants	1,078,000	N/A
6-Nov-18	Options	787,500	\$0.62

- (1) All figures are represented on a post-Arrangement basis after taking into account the Consolidation on the basis of two (2) pre-Consolidation Stone Ridge Shares for one (1) post-Consolidation Stone Ridge Share.

### TRADING PRICE AND VOLUME

The following table sets out information relating to the monthly trading of the Common Shares on the CSE (originally under symbol "SO" until this changed to "SPR" upon completion of the Arrangement) for the 12-month period prior to the date of this Prospectus:

Month	High (Cdn\$)	Low (Cdn\$)	Volume (# of Shares) <sup>(1)</sup>
November 2017	\$0.30	\$0.06	197,570
December 2017	\$0.33	\$0.25	215,570
January 2018	\$0.85	\$0.23	1,589,130
February 2018	\$0.87	\$0.50	213,750
March 2018	\$0.60	\$0.60	0
April 2018	\$0.60	\$0.60	0
May 2018	\$0.60	\$0.60	0
June 2018	\$0.60	\$0.60	0
July 2018 <sup>(2)</sup>	\$1.18	\$0.60	7,373,267
August 2018	\$0.83	\$0.60	4,008,939
September 2018	\$0.81	\$0.63	4,904,681
October 2018	\$0.95	\$0.55	4,580,248
November 2018	\$0.70	\$0.25	16,148,814

- (1) All figures set out in the chart above in the months up to and including July 2018 are given on a pre-Consolidation basis.  
(2) On July 6, 2018 the Company completed the Arrangement and on July 9, 2018, the Common Shares commenced trading on the CSE under the symbol "SPR". Prior to that time, the common shares of Stone Ridge were trading under symbol "SO"

On November 30, 2018, the last trading day prior to the filing of this Prospectus, the closing price per Common Share on the CSE was \$0.425.

### DESCRIPTION OF SHARE CAPITAL

#### Authorized Capital

The authorized capital of the Company consists of an unlimited number of common shares. As of the date of this Prospectus, the Company has 162,171,133 Common Shares issued and outstanding.

## **Common Shares**

There are no special rights or restrictions of any nature attached to any of the Common Shares, which all rank equally as to all benefits which might accrue to the holders of Common Shares. The holders of the Common Shares are entitled to one vote per share at meetings of the Company's shareholders, to receive dividends if, as and when declared by the Board (subject to the rights of securities, if any, having priority over the Common Shares) and to receive pro rata the remaining property and assets of the Company upon its dissolution or winding-up (subject to the rights of securities, if any, having priority over the Common Shares).

## **Options**

The Board has approved a stock option plan (the "**Option Plan**"), designed for the Company's selected employees, officers, directors, consultants and contractors, to incentivize such individuals to contribute toward the Company's long term goals and to encourage such individuals to acquire Common Shares as long-term investments. The Option Plan is administered by the Board and authorizes the issuance of stock options of the Company ("**Options**") not to exceed a total of 10% of the total number of Common Shares issued and outstanding from time to time. The terms of any award are determined by the Board, provided that no Options may be granted at less than the fair market value of Common Shares as of the date of the grant. As of the date of this Prospectus, there are 13,940,310 outstanding Options under the Option Plan.

## **EARNINGS COVERAGE RATIOS**

The Company's interest requirements, after giving effect to the issuance of the Convertible Debentures would have been \$873,053 and \$429,315 for the fiscal year ended February 28, 2018 and the 6-month period ended August 31, 2018, respectively. The Company had a loss before interest and income taxes for the fiscal year ended February 28, 2018 and the 6-month period ended August 31, 2018 of \$2,626,198 and \$6,579,254, respectively. Accordingly, after giving effect to the issuance of the Convertible Debentures, the Company would have had a deficiency of earnings available to cover interest requirements as indicated for the year ended February 28, 2018 and the 6-month period ended August 31, 2018, respectively. As a result of the issuance of the Convertible Debentures, an increase of \$3,499,251 and \$7,008,569 in earnings would have been necessary to produce an earnings coverage ratio of one-to-one for the fiscal year ended February 28, 2018 and the 6-month period ended August 31, 2018, respectively.

## **DESCRIPTION OF SECURITIES BEING DISTRIBUTED**

### **Description of Equity Special Warrants**

The Equity Special Warrants are governed by the terms and conditions set forth in the Equity Special Warrant Indenture, which provides for the creation of the Equity Special Warrants and includes a form of certificate of the Equity Special Warrants. The foregoing is a summary description of certain material provisions of the Equity Special Warrant Indenture, it does not purport to be a comprehensive summary and is qualified in its entirety by reference to the more detailed provisions of the Equity Special Warrant Indenture between the Company and TSX Trust, as Special Warrant agent, a copy of which may be obtained on request without charge from the Company at its registered office or electronically on SEDAR at [www.sedar.com](http://www.sedar.com).

An aggregate of 15,400,000 Equity Special Warrants are outstanding as of the date of this Prospectus. Each Equity Special Warrant will be automatically exercised, without payment of additional consideration and without any further action on the part of the holder, subject to the terms of the Equity Special Warrant Indenture, into one Equity Unit on the earlier of: (i) the date which is four months and a day following the Closing Date; and (ii) the Qualification Date.

In the event that the final receipt for this Prospectus has not been issued within 60 days following the Closing Date, each unexercised Equity Special Warrant will thereafter entitle the holder to receive upon the exercise thereof, at no additional consideration, the Equity Penalty Units.

The Equity Special Warrant Indenture provides for adjustment in the number of Equity Units issuable upon the deemed exercise of the Equity Special Warrants upon the occurrence of certain events prior to the Deemed Exercise Date, including: (i) the subdivision, re-division or change of the outstanding Common Shares into a greater number of Common Shares; (ii) the reduction, combination or consolidation of the outstanding Common Shares into a lesser number of Common Shares; (iii) the issuance of Common Shares or securities exchangeable for or convertible into Common Shares to all or substantially all of the holders of the Common Shares as a stock dividend; (iv) the fixing of a record date for the distribution to all or substantially all of the holders of the outstanding Common Shares of rights, options or warrants under which such holders are entitled, for a period expiring not more than 45 days after such record date, to subscribe for or acquire Common Shares (or securities exchangeable for or convertible into Common Shares) at a price per share to the holder (or at an exchange or conversion price per share) of less than 95% of the Current Market Price (as such term is defined in the Equity Special Warrant Indenture) for the Common Shares on such record date; and (v) the fixing of a record date for the issuance or distribution to all or substantially all of the holders of the Common Shares of (a) securities of the Company including rights, options or warrants to acquire shares of any class or securities exchangeable for or convertible into or exchangeable into any such shares or property or assets and including evidence of its indebtedness; or (b) any property or other assets.

The Equity Special Warrant Indenture also provides for adjustments in the number of Equity Units issuable upon the deemed exercise of the Equity Special Warrants prior to the Deemed Exercise Date, in the event of the following additional events: (i) a reclassification of the Common Shares, a change in the Common Shares into other shares or securities, or a capital reorganization of the Company other than as described in the foregoing, including for certainty a liquidation, dissolution or winding up of the Company, a consolidation, amalgamation, arrangement or merger of the Company with or into any other body corporate, trust, partnership or other entity; or (ii) a transfer, sale or conveyance of the property and assets of the Company as an entirety or substantially as an entirety to any other body corporate, trust, partnership or other entity.

Notwithstanding the foregoing, no adjustment shall be made in the acquisition rights attached to the Equity Special Warrants if the issue of Common Shares is being made pursuant to or in connection with: (i) any stock option plan, share incentive plan or restricted share plan or share purchase plan in force from time to time for directors, officers, employees, consultants or other service providers of the Company, which plan has been approved by the Board; or (ii) the exchange, retraction or redemption or satisfaction of existing securities and instruments issued at the Closing Date.

The Company has agreed that so long as any Equity Special Warrants remain outstanding it will give not less than 14 calendar days' prior written notice in the manner provided for in the Equity Special Warrant Indenture to TSX Trust, each holder of Equity Special Warrants and to the Underwriters of any event which

requires an adjustment pursuant to the Equity Special Warrant Indenture. Such notice is to contain the particulars of such event in reasonable detail and, if determinable, the required adjustment. The Company has further agreed that it shall promptly, as soon as the adjustment calculations are reasonably determinable, file a certificate of the Company with TSX Trust, on which TSX Trust may act and rely, showing how such adjustment are to be computed and give notice to the holders of Equity Special Warrants and the Underwriters of such adjustment computation.

No fractional Equity Unit will be issuable upon the deemed exercise of any Equity Special Warrants, and no cash or other consideration will be paid in lieu of fractional shares. Holders of Equity Special Warrants do not have any voting or preemptive rights or any other rights that a holder of Common Shares would have. If a holder of Equity Special Warrants is not able to, or elects not to, combine Equity Special Warrants so as to be entitled to acquire a whole number of securities underlying the Equity Units (the “**Underlying Equity Securities**”), the holder of Equity Special Warrants may not acquire a fractional Underlying Equity Security on the deemed exercise of such Equity Special Warrants, and, as a result, has the right to acquire only that number of Underlying Equity Securities equal to the next lowest whole number of Underlying Equity Securities and no cash will be paid in lieu of any fractional Underlying Equity Security.

### **Description of CD Special Warrants**

The CD Special Warrants are governed by the terms and conditions set forth in the CD Special Warrant Indenture, which provides for the creation of the CD Special Warrants and includes a form of certificate of the CD Special Warrants. The foregoing is a summary description of certain material provisions of the CD Special Warrant Indenture, it does not purport to be a comprehensive summary and is qualified in its entirety by reference to the more detailed provisions of the CD Special Warrant Indenture between the Company and TSX Trust, as Special Warrant agent, a copy of which may be obtained on request without charge from the Company at its registered office or electronically on SEDAR at [www.sedar.com](http://www.sedar.com).

An aggregate of 10,750 CD Special Warrants are outstanding as of the date of this Prospectus. Each CD Special Warrant will be automatically exercised, without payment of additional consideration and without any further action on the part of the holder, subject to the terms of the CD Special Warrant Indenture, into one CD Unit on the earlier of: (i) the date which is four months and a day following the Closing Date; and (ii) the Qualification Date.

In the event that the final receipt for this Prospectus has not been issued within 60 days following the Closing Date, each unexercised CD Special Warrant will thereafter entitle the holder to receive upon the exercise thereof, at no additional consideration, the CD Penalty Units.

The CD Special Warrant Indenture provides for and contains provisions designed to keep the holders of the CD Special Warrants unaffected by the possible occurrence of certain corporate events, including the amalgamation, merger or corporate reorganization of the Company.

The holders of CD Special Warrants do not have any right or interest whatsoever as shareholders of the Company, including but not limited to any right to vote at, to receive notice of, or to attend, any meeting of shareholders or any other proceedings of the Company or any right to receive any dividend or other distribution.

The rights of holders of CD Special Warrants may be modified by agreement between the Company and the holders of the CD Special Warrants. The CD Special Warrant Indenture provides for meetings by holders of the CD Special Warrants and the passing of resolutions and extraordinary resolutions by such holders which are binding on all holders of the CD Special Warrants. Certain amendments to the CD Special Warrant Indenture may only be made by "extraordinary resolution", which is defined in the CD Special Warrant Indenture as a resolution passed by the affirmative vote of CD Special Warrant holders holding not less than 66⅔ % of the aggregate number of CD Special Warrants represented at the meeting and voted on the poll on such resolution.

No fractional CD Unit will be issuable upon the deemed exercise of any CD Special Warrants, and no cash or other consideration will be paid in lieu of fractional shares. If a holder of CD Special Warrants is not able to, or elects not to, combine CD Special Warrants so as to be entitled to acquire a whole number of securities underlying the CD Units (the "**Underlying CD Securities**"), the holder of CD Special Warrants may not acquire a fractional Underlying CD Security on the deemed exercise of such CD Special Warrants, and, as a result, has the right to acquire only that number of Underlying CD Securities equal to the next lowest whole number of Underlying CD Securities and no cash will be paid in lieu of any fractional Underlying CD Security.

### **Description of Common Shares**

The Common Shares comprising the Equity Units and convertible upon exercise of the Convertible Debentures will have the same rights as the Common Shares. See "*Description of Share Capital – Common Shares*" for a description of the rights of holders of Common Shares.

### **Description of Warrants**

The Warrants are governed by the terms and conditions set forth in the Warrant Indenture between the Company and TSX Trust, which indenture provides for the creation of the Warrants and includes a form of Warrant certificate. The foregoing is a summary description of certain material provisions of the Warrant Indenture, it does not purport to be a comprehensive summary and is qualified in its entirety by reference to the more detailed provisions of the Warrant Indenture between the Company and TSX Trust, as Warrant agent, a copy of which may be obtained on request without charge from the Company at its registered office or electronically on SEDAR at [www.sedar.com](http://www.sedar.com).

Each Warrant will be exercisable to acquire one Warrant Share at an exercise price of \$0.90 per Warrant Share at any time up to the Warrant Expiry Time, subject to adjustment in certain events, after which time the Warrants will expire and become null and void.

The Warrant Indenture provides for adjustment in the number of Warrant Shares issuable upon the exercise of the Warrants and/or the exercise price per Common Share upon the occurrence of certain events, including: (i) the subdivision, re-division or change of the outstanding Common Shares into a greater number of Common Shares; (ii) the reduction, combination or consolidation of the outstanding Common Shares into a lesser number of Common Shares; (iii) the issuance of Common Shares or securities exchangeable for or convertible into Common Shares to all or substantially all of the holders of the Common Shares as a stock dividend or other distribution (other than upon exercise of Warrants); (iv) the fixing of a record date for the distribution to all or substantially all of the holders of the outstanding Common Shares of rights, options or warrants under which such holders are entitled, for a period expiring not more than 45 days after such record date, to subscribe for or purchase Common Shares, or securities



exchangeable for or convertible into Common Shares, at a price per share to the holder (or at an exchange or conversion price per share) of less than 95% of the Current Market Price (as such term is defined in the Warrant Indenture), for the Common Shares on such record date; and (v) the fixing of a record date for the issuance or distribution to all or substantially all of the holders of the Common Shares of: (a) securities of any class, whether of the Company or any other trust (other than Common Shares), (b) rights, options or warrants to subscribe for or purchase Common Shares (or other securities convertible into or exchangeable for Common Shares), (c) evidences of its indebtedness, or (iv) any property or other assets.

The Warrant Indenture also provides for adjustments in the class and/or number of securities issuable upon exercise of the Warrants and/or exercise price per security in the event of the following additional events: (i) reclassifications of the Common Shares or a capital reorganization other than as described above; (ii) consolidations, amalgamations, arrangements, or mergers of the Company with or into another entity; or (iii) the sale or conveyance of the property or assets of the Company as an entirety or substantially as an entirety to any other entity.

Notwithstanding the foregoing, no adjustment shall be made in the acquisition rights attached to the Warrants if the issue of Common Shares is being made pursuant to the Warrant Indenture or in connection with: (i) any share incentive plan or restricted share plan or share purchase plan in force from time to time for directors, officers, employees, consultants or other service providers of the Company; or (ii) the satisfaction of existing instruments issued at the Closing Date.

The Company has agreed that, so long as any Warrant remains outstanding, it will give notice to TSX Trust and to the holders of Warrants of its intention to fix a record date that is prior to the expiry date of the Warrants for any matter for which an adjustment may be required pursuant to the Warrant Indenture. Such notice is to specify the particulars of such event and the record date for such event, provided that the Company shall only be required to specify in the notice such particulars of the event as shall have been fixed and determined on the date on which the notice is given. The notice is to be given, in each case, not less than 14 days prior to such applicable record date. If notice has been given and the adjustment is not then determinable, the Company shall promptly, after the adjustment is determinable, file with TSX Trust a computation of the adjustment and give notice to the holders of Warrants of such adjustment computation.

No fractional Warrant Shares will be issuable upon the exercise of any Warrants, and no cash or other consideration will be paid in lieu of fractional shares. Holders of Warrants will not have any voting or pre-emptive rights or any other rights that a holder of Common Shares would have.

### **Description of Warrant Shares**

The Warrant Shares issuable pursuant to exercise of the Warrants will have the same rights as the Common Shares. See "*Description of Share Capital – Common Shares*" for a description of the rights of holders of Common Shares.

### **Description of Convertible Debentures**

The Convertible Debentures are governed by the terms and conditions set forth in the Debenture Indenture, which indenture provides for the creation of the Convertible Debentures and includes a form of Convertible Debenture certificate. The foregoing is a summary description of certain material provisions of the Debenture Indenture, it does not purport to be a comprehensive summary and is

qualified in its entirety by reference to the more detailed provisions of the Debenture Indenture between the Company and TSX Trust, as Debenture Trustee, a copy of which may be obtained on request without charge from the Company at its registered office or electronically on SEDAR at [www.sedar.com](http://www.sedar.com).

The maximum aggregate principal amount of Debentures authorized to be issued under the Debenture Indenture is \$11,287,500, being the maximum aggregate principal amount issuable upon the exercise of the 10,750 CD Special Warrants outstanding as at the date of this Prospectus. Each Convertible Debenture shall bear interest at a rate of 8% per annum from the date of issue, payable semi-annually in arrears on June 30 and December 31 of each year. The Convertible Debentures will have a maturity date of 24 months from the Closing Date (the "**Maturity Date**").

Each Convertible Debenture will be convertible at the holder's option into Conversion Shares, at any time prior to the close of business on the earliest of (i) the business day immediately preceding the Maturity Date; or (ii) if subject to repurchase pursuant to a change of control, on the business day immediately preceding the payment date, subject to satisfaction of certain conditions, by notice to the holders of the Convertible Debentures in accordance with the Debenture Indenture, to convert any part, being \$1,000 or an integral multiple of, of the principal amount of a Convertible Debenture into Conversion Shares at the Conversion Price in effect on the date of conversion.

The Conversion Price in effect for each Conversion Share to be issued upon the conversion of Convertible Debentures shall be equal to \$0.75. The Conversion Price applicable to, and the Conversion Shares, securities or other property receivable on the conversion of, the Convertible Debentures is subject to adjustment in accordance with the Debenture Indenture. Holders converting their Convertible Debentures will receive, in addition to the applicable number of Conversion Shares, accrued and unpaid interest (less any taxes required to be deducted) in respect of the Convertible Debentures surrendered for conversion up to but excluding the date of conversion from, and including, the most recent date interest was paid.

Upon a change of control of the Company, holders of the Convertible Debentures will have the right to require the Company to repurchase their Convertible Debentures, in whole or in part, on the date that is 30 days following the giving of notice of the change of control, at a price equal to 105% of the principal amount of the Convertible Debentures then outstanding plus accrued and unpaid interest thereon or convert the Convertible Debentures at the Conversion Price. If 90% or more of the principal amount of the Convertible Debentures outstanding on the date of the notice of the change of control have been tendered for redemption, the Company will have the right, upon written notice provided to the trustee within 10 days following the expiration of the change of control offer, to redeem all of the remaining Convertible Debentures at the offer price.

The Convertible Debentures will be direct unsecured obligations of the Company. Each Convertible Debenture of the same series will rank *pari passu* with one another and, subject to statutory preferred exceptions, with all other present and future unsecured indebtedness of the Company. The Debenture Indenture provides that in the event of any insolvency or bankruptcy proceedings, or any receivership, liquidation, reorganization or other similar proceedings relative to the Company, or to its property or assets, or in the event of any proceedings for voluntary liquidation, dissolution or voluntary winding-up of the Company, then holders of secured indebtedness will receive payment in full before the holders of Convertible Debentures will be entitled to receive any payment or distribution of any kind or character, whether in cash, property or securities, which may be payable or deliverable in any such event in respect of any of the Convertible Debentures or any unpaid interest accrued thereon.

The rights of the holders of the Convertible Debentures may be modified in accordance with the terms of the Debenture Indenture. For that purpose, among others, the Debenture Indenture contains certain provisions which will make extraordinary resolutions binding on all holders of Convertible Debentures. The Debenture Indenture also includes customary provisions dealing with events of default of the Company and other terms and conditions typical of an agreement of such nature.

### Description of Conversion Shares

The Conversion Shares issuable pursuant to exercise of the Convertible Debentures will have the same rights as the Common Shares. See "*Description of Share Capital – Common Shares*" for a description of the rights of holders of Common Shares.

### PLAN OF DISTRIBUTION

This Prospectus is being filed in the provinces of Alberta, British Columbia, Manitoba and Ontario (the "Qualifying Jurisdictions") to qualify: (i) the distribution of 15,400,000 Equity Units issuable upon the deemed exercise of 15,400,000 Equity Special Warrants; (ii) 10,750 CD Units issuable upon the deemed exercise of 10,750 CD Special Warrants; (iii) 1,078,000 Broker Equity Warrants issuable upon exercise of 1,078,000 Broker Equity Special Warrants and 788,333 Broker CD Warrants issuable upon exercise of 788,333 Broker CD Special Warrants.

On October 24, 2018, the Company completed the Offering of 15,400,000 Equity Special Warrants at a price of \$0.65 per Equity Special Warrant and 10,750 CD Special Warrants at a price of \$1,000 per CD Special Warrant to purchasers resident in the Qualifying Jurisdictions (and in jurisdictions outside of Canada in compliance with laws applicable therein) for aggregate gross proceeds to the Company of \$20,760,000 pursuant to prospectus exemptions under applicable securities legislation, on a bought deal private placement basis.

Under the terms of the Underwriting Agreement between the Company and the Underwriters, the Company has agreed to sell and the Underwriters have, severally and not jointly, in the percentages set forth in the table below, agreed to purchase from the Company, on the Closing Date, subject to the terms and conditions contained in the Underwriting Agreement, 15,400,000 Equity Special Warrants at the Equity Special Warrant Price and 10,750 CD Special Warrants at the CD Special Warrant Price:

<b>Underwriter</b>	<b>Percentage</b>
Canaccord Genuity Corp.	70%
Eight Capital Corp.	25%
Haywood Securities Inc.	5%
<b>Total:</b>	<b>100%</b>

The obligations of the Underwriters under the Underwriting Agreement are several, and not joint, nor joint and several, and may be terminated upon the occurrence of certain stated events. In the event that any Underwriter does not purchase its applicable percentage of Equity Special Warrants and CD Special Warrants, respectively, the other Underwriter(s) shall not be obligated to purchase the remaining Equity

Special Warrants and CD Special Warrants; however, the remaining Underwriter(s) shall have the right, exercisable at their option, to purchase all, but not less than all, of the Equity Special Warrants and CD Special Warrants which would otherwise have been purchased by the defaulting Underwriter(s) on a pro rata basis according to the number of Special Warrants to have been acquired by the remaining Underwriter(s) under the Underwriting Agreement or on such other basis as the remaining Underwriter(s) may agree. If, with respect to such Special Warrants, the remaining Underwriter(s) elect not to exercise such rights to assume the entire obligations of the defaulting Underwriter(s), then the Company will have the right to terminate its obligations under the Underwriting Agreement without liability.

Pursuant to the Underwriting Agreement, the Company has agreed to prepare and file this Prospectus under applicable securities laws in each of the Qualifying Jurisdictions, to use all commercially reasonable efforts to satisfy all comments from the regulators in each applicable Qualifying Jurisdiction with respect to this Prospectus and to obtain a final receipt from the BCSC, as principal regulator, qualifying the distribution of the Equity Special Warrants, CD Special Warrants, Broker Equity Warrants and Broker CD Warrants in the Qualifying Jurisdictions by no later than the Qualification Deadline.

In the event that the Qualification Date has not occurred on or before the Qualification Deadline, each unexercised Equity Special Warrant will thereafter entitle the holder to receive upon the exercise thereof, at no additional consideration, 1.05 Equity Penalty Units and each unexercised CD Special Warrant will thereafter entitle the holder to receive upon the exercise thereof, at no additional consideration, 1.05 CD Penalty Units. This Prospectus also qualifies the distribution of: (i) the Penalty Shares; (ii) the Penalty Warrants; and (iii) the Penalty Debentures; issuable pursuant to the Penalty Provision, if applicable.

Pursuant to the Underwriting Agreement, the Company paid the Underwriters' Fee on the Closing Date to the Underwriters equal to: (a) 7.0% of the gross proceeds from the sale of the Equity Special Warrants sold pursuant to the Offering; and (b) 5.5% of the gross proceeds from the sale of the CD Special Warrants sold pursuant to the Offering.

In addition to the Underwriters' Fee, the Company has issued and delivered to the Underwriters:

- (a) an aggregate of 1,078,000 Broker Equity Special Warrants, being an amount equal to 7.0% of the number of Equity Special Warrants sold pursuant to the Offering; and
- (b) an aggregate of 788,333 Broker CD Special Warrants, being an amount equal to 5.5% of the aggregate dollar value of the CD Special Warrants sold pursuant to the Offering, divided by \$0.75.

Each Broker Equity Special Warrant entitles the holder to receive, without the payment of additional consideration and without any further action on the part of the holder, subject to the terms of the certificate representing the Broker Equity Special Warrants, one Broker Equity Warrant. Each Broker Equity Warrant is exercisable at the Equity Special Warrant Price to acquire one Broker Warrant Unit until October 24, 2020. Each Broker Warrant Unit shall be comprised of one Broker Share and one-half of one Warrant.

Each Broker CD Special Warrant entitles the holder to receive, without the payment of additional consideration and without any further action on the part of the holder, subject to the terms of the certificate representing the Broker CD Warrants, one Broker CD Warrant. Each Broker CD Warrant is exercisable at a price of \$0.75 per Broker CD Warrant to acquire one Convertible Compensation Unit until October 24, 2020. Each Convertible Compensation Unit shall be comprised of one Broker Share and one-half of one Warrant.

The Broker Equity Warrants and the Broker CD Warrants issuable upon exercise of the Broker Equity Special Warrants and Broker CD Special Warrants, respectively, are also being qualified by this Prospectus

The Offering was determined by arm's length negotiation between the Company and the Underwriters. Other than the Underwriters' Fees and the Broker Equity Special Warrants and Broker CD Special Warrants, the Underwriters have not and will not receive any other fee or commission from the Company in connection with the completion of the Offering or the deemed exercise of the Special Warrants.

The Offering was conducted through a book-based system through CDS and the securities issued pursuant to the Offering were deposited with CDS on the Closing Date in electronic form. The Common Shares, Warrants, Warrant Shares, Convertible Debentures and Conversion Shares to be issued upon deemed exercise of the Equity Special Warrants, CD Special Warrants, Warrants and Convertible Debentures, as applicable, will also be held by CDS (other than in respect of certain purchasers of the Special Warrants) and purchasers of the Special Warrants will not receive definitive certificates representing the Common Shares, Warrants, Warrant Shares or Convertible Debentures, except in certain limited circumstances.

The Company has made the required filings to the CSE to list the Common Shares, Warrant Shares, Conversion Shares and Broker Shares. Listing will be subject to the fulfilment of all the listing requirements of the CSE.

This prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of the securities offered hereby within any state of the United States of America, its territories, possessions or the District of Columbia (the "U.S.") or to, or for the account or benefit of, U.S. Persons (as defined in Regulation S under the United States Securities Act of 1933, as amended (the "U.S. Securities Act")). None of the securities offered hereby have been or will be registered under the U.S. Securities Act or the securities laws of any state of the U.S. and may not be offered or sold within the U.S. or to, or for the account or benefit of, U.S. Persons, except in transactions exempt from the registration requirements of the U.S. Securities Act and applicable state securities laws.

Neither the Equity Special Warrants nor the CD Special Warrants may be exercised by or on behalf of a U.S. Person or a person in the U.S. unless an exemption from the registration requirements of the U.S. Securities Act and applicable state securities laws is available. Accordingly, the Common Shares, Warrants, Warrant Shares, Convertible Debentures and Conversion Shares will bear, or will be deemed to bear, appropriate legends evidencing the restrictions on the offering, sale and transfer of such securities.

The Company has agreed, pursuant to the Underwriting Agreement, to indemnify the Underwriters and their affiliates and directors, officers, employees, shareholders, partners, advisors and agents and each other person, if any, controlling the Underwriters or their affiliates and against certain liabilities, including liabilities under Canadian securities legislation in certain circumstances or to contribute to payments the Underwriters may have to make because of such liabilities.

Canaccord Genuity Corp., on behalf of the Underwriters, has taken up 6,136,661 Equity Special Warrants as of the Closing Date, being 39.85% of the Equity Special Warrants sold pursuant to the Offering.

### **CANADIAN FEDERAL INCOME TAX CONSIDERATIONS**

In the opinion of Thorsteinssons LLP, special Canadian tax counsel to the Company, the following summary describes the principal Canadian federal income tax considerations pursuant to the *Income Tax Act* (Canada) (the "Tax Act") generally applicable to a beneficial owner of:

- (a) Equity Special Warrants who acquires Equity Units, consisting of Common Shares and Warrants, pursuant to the deemed exercise of the Equity Special Warrants; and/or
- (b) CD Special Warrants who acquires CD Units, consisting of Convertible Debentures and Warrants upon the deemed exercise of the CD Special Warrants.

For the purpose of this summary and the section under the heading "*Eligibility for Investment*", references to Common Shares include Conversion Shares and Warrant Shares unless otherwise indicated. This summary applies only to persons who, for the purposes of the application of the Tax Act and at all relevant times: (i) deals at arm's length and are not affiliated with the Company or the Underwriters; (ii) is not exempt from tax under the Tax Act; and holds the Equity Special Warrants and CD Special Warrants, and will hold any Common Shares, Convertible Debentures and Warrants (together the "**Securities**") as capital property. Persons meeting such requirements are referred to as a "**Holder**" or "**Holders**" herein, and this summary only addresses such Holders. The Securities will generally be capital property to a Holder unless they are held in the course of carrying on a business of trading or dealing in securities or were acquired in one or more transactions considered to be an adventure or concern in the nature of trade.

This summary is not applicable to: (i) a Holder that is a "financial institution", as defined in the Tax Act for purposes of certain rules applicable to "mark-to-market-property" and "specified debt obligations" as defined in the Tax Act; (ii) a Holder an interest in which would be a "tax shelter investment" as defined in the Tax Act; (iii) a Holder that is a "specified financial institution" as defined in the Tax Act; (iv) a Holder whose functional currency for the purposes of the Tax Act is the currency of a country other than Canada; (v) a Holder that has or will enter into a "derivative forward agreement" or "synthetic disposition arrangement" (as defined in the Tax Act) in respect of any of the Securities; or (vi) a Holder that is a corporation resident in Canada and is, or becomes, as a part of a transaction or event or series of transactions or events that includes the acquisition of the Securities, controlled by a non-resident Company for purposes of the foreign affiliate dumping rules in Section 212.3 of the Tax Act. **All such Holders should consult their own tax advisors.**

This summary is based upon the current provisions of the Tax Act and the regulations thereunder (the "**Regulations**"), all specific proposals to amend the Tax Act or the Regulations that have been publicly announced by, or on behalf of, the Minister of Finance (Canada) prior to the date hereof (the "**Proposed Amendments**"), and counsel's understanding of the current published administrative policies and assessing practices of the Canada Revenue Agency (the "**CRA**"). No assurance can be given that the Proposed Amendments will be enacted in the form proposed, or at all. This summary is not exhaustive of all possible Canadian federal income tax considerations and, except as mentioned above, does not take into account or anticipate any changes in law, administrative policy or assessing practice, whether by legislative, regulatory, administrative, governmental or judicial decision or action, nor does it take into account the tax laws of any province or territory of Canada or of any jurisdiction outside of Canada, which may differ significantly from the Canadian federal income tax considerations discussed herein.

**THIS SUMMARY IS OF A GENERAL NATURE ONLY AND IS NOT INTENDED TO BE, NOR SHOULD IT BE CONSTRUED TO BE, LEGAL OR TAX ADVICE TO ANY PARTICULAR HOLDER. ACCORDINGLY, HOLDERS SHOULD CONSULT THEIR OWN TAX ADVISORS HAVING REGARD TO THEIR OWN PARTICULAR CIRCUMSTANCES.**

### **Acquisition of Common Shares and Warrants Pursuant to Equity Special Warrants**

The deemed exercise of an Equity Special Warrant should not constitute a disposition for the purposes of the Tax Act. Accordingly, a Holder of Equity Special Warrants will not realize any gain or loss upon the acquisition of the Common Shares and the Warrants pursuant to the provisions of the Equity Special Warrant Indenture. Holders will be required to allocate on a reasonable basis their cost of the Equity Special Warrants between the Common Shares and the Warrants in order to determine their respective costs for purposes of the Tax Act. For its purposes, the Company has advised counsel that, of the \$0.65 subscription price for each Equity Special Warrant, it intends to allocate \$0.6265 to each Common Share and \$0.0235 to each Warrant and believes that such allocation is reasonable. The Company's allocation however, is not binding on the CRA or on a Holder.

The Holder's adjusted cost base of the Common Share comprising a part of each Equity Unit will be determined by averaging the cost allocated to the Common Share with the adjusted cost base to the Holder of all Common Shares owned by the Holder as capital property immediately prior to such acquisition.

### **Acquisition of Convertible Debentures and Warrants Pursuant to the CD Special Warrants**

The deemed exercise of a CD Special Warrant should not constitute a disposition for purposes of the Tax Act. Accordingly, a Holder of CD Special Warrants will not realize any gain or loss upon the acquisition of the Convertible Debentures and Warrants pursuant to the provisions of the CD Special Warrant Indenture. Holders will be required to allocate on a reasonable basis their cost of the CD Special Warrants between the Convertible Debentures and the Warrants in order to determine their respective costs for purposes of the Tax Act. For its purposes, the Company has advised counsel that, of the \$1,000 subscription price for each CD Special Warrant, it intends to allocate \$942.83 as to the Convertible Debenture and \$57.17 to the 667 Warrants and believes that such allocation is reasonable. The Company's allocation however, is not binding on the CRA or on a Holder.

### **Holders Resident in Canada**

This section of the summary applies to a Holder who, at all relevant times, is, or is deemed to be, resident in Canada for the purposes of the Tax Act (a "**Resident Holder**"). Persons who are residents of Canada for purposes of the Tax Act and whose Common Shares do not otherwise qualify as capital property may in certain circumstances make an irrevocable election in accordance with subsection 39(4) of the Tax Act to have their Common Shares, and every other "Canadian security" (as defined in the Tax Act) owned by them in the taxation year of the election and in all subsequent taxation years, be deemed to be capital property. Persons whose Common Shares might not otherwise be considered to be capital property should consult their own tax advisors concerning this election. Such election is not available in respect of the Equity Special Warrants, the CD Warrants and or Warrants.

#### *Taxation of Interest on Convertible Debentures*

A Resident Holder of Convertible Debentures that is a corporation, partnership, unit trust or any trust of which a corporation or a partnership is a beneficiary will be required to include in computing its income for a taxation year any interest on the Convertible Debentures (i) that accrues or that is deemed to accrue to it to the end of the particular taxation year, or (ii) that has become receivable by or is received by the Resident Holder before the end of that taxation year, including on conversion, redemption or maturity of the Convertible Debentures, except to the extent that such interest was

included in computing the Resident Holder's income for a preceding taxation year.

Any other Resident Holder (including an individual, other than certain trusts) will be required to include in computing income for a taxation year all interest on the Convertible Debentures that is received or receivable by the Resident Holder in that taxation year (depending upon the method regularly followed by the Resident Holder in computing income), except to the extent that the interest was included in the Resident Holder's income for a preceding taxation year. In addition, if a Convertible Debenture constitutes an "investment contract" (as defined in the Tax Act) in relation to a Resident Holder, such Resident Holder would be required to include in computing income for a taxation year any interest that accrues to the Resident Holder on the Convertible Debenture up to the end of any "anniversary day" (as defined in the Tax Act) in that year to the extent such interest was not otherwise included in the Resident Holder's income for that year or a preceding taxation year.

A Resident Holder that is throughout the year a "Canadian-controlled private corporation" (as defined in the Tax Act) may be liable to pay an additional tax (refundable in certain circumstances) on certain investment income, including interest income.

#### *Exercise of the Conversion Privilege*

A Resident Holder of Convertible Debentures that converts a Debenture into Conversion Shares (or Conversion Shares and cash in lieu of a fraction of a Conversion Share) pursuant to the conversion privilege and only receives Conversion Shares upon such conversion will be deemed not to have disposed of the Convertible Debenture, and accordingly, will not be considered to realize a capital gain (or capital loss) on such conversion.

Under the current administrative practice of the CRA, a Resident Holder who, upon conversion of a Convertible Debenture, receives cash not in excess of \$200 in lieu of a fraction of a Conversion Share may either treat this amount as proceeds of disposition of a portion of the Convertible Debenture, thereby realizing a capital gain (or a capital loss), or reduce the adjusted cost base of the Conversion Shares that the Resident Holder receives upon conversion by the amount of the cash received. The aggregate cost to a Resident Holder of the Conversion Shares acquired upon exercise of such holder's right to convert a Convertible Debenture generally should be equal to the aggregate of the adjusted cost base to the Resident Holder of the Convertible Debenture immediately before the conversion, minus any reduction of adjusted cost base for cash received in lieu of fractional shares as discussed above. Generally, the adjusted cost base to a Resident Holder of Conversion Shares at any time should be determined by averaging the cost of such shares with the adjusted cost base of any other Common Shares owned by the Resident Holder as capital property at such time.

Upon conversion of a Convertible Debenture, interest thereon should be included in computing the income of the Resident Holder as described above under "*Holders Resident in Canada - Taxation of Interest on Debentures*".

#### *Exercise or Expiry of Warrants*

No gain or loss will be realized by a Resident Holder upon the exercise of a Warrant to acquire a Warrant Share. When a Warrant is exercised, the Resident Holder's cost of the Warrant Share acquired thereby will be the aggregate of the Resident Holder's adjusted cost base of such Warrant and the exercise price paid for the Warrant Share. The Holder's adjusted cost base of the Warrant Shares at any time should



be determined by averaging the cost of such shares with the adjusted cost base of any other Common Shares owned by the Resident Holder as capital property at such time. The expiry of an unexercised Warrant will generally result in a capital loss to the Resident Holder equal to the adjusted cost base of the Warrant to the Resident Holder immediately before its expiry. See the discussion below under the heading "*Holders Resident in Canada - Taxation of Capital Gains and Capital Losses*".

#### *Other Disposition of Debentures*

A disposition or deemed disposition of a Convertible Debenture by a Resident Holder, including a redemption, payment on maturity or purchase for cancellation (but not including by the conversion of a Convertible Debenture into Conversion Shares pursuant to the Resident Holder's conversion privilege as described above), generally should result in the Resident Holder realizing a capital gain (or, subject to certain rules in the Tax Act, a capital loss) equal to the amount by which the proceeds of disposition, net of any amount otherwise required to be included in the Resident Holder's income as interest, exceed (or are less than) the aggregate of the adjusted cost base to the Resident Holder thereof and any reasonable costs of disposition. Such capital gain (or capital loss) should be subject to the tax treatment described below under "*Holders Resident in Canada - Taxation of Capital Gains and Capital Losses*".

Upon a disposition or deemed disposition of a Convertible Debenture, interest thereon should be included in computing the income of the Resident Holder to the extent that such interest has not otherwise been included in computing the Resident Holder's income as described above under "*Holders Resident in Canada - Taxation of Interest on Debentures*", and should be excluded in computing the Resident Holder's proceeds of disposition of the Debenture.

#### *Disposition of Common Shares and Warrants*

Upon a disposition or deemed disposition of a Common Share or a Warrant (other than a disposition arising on the exercise or expiry of a Warrant), a capital gain (or loss) will generally be realized by a Resident Holder in the year of disposition to the extent that the proceeds of disposition, net of any reasonable costs of disposition, exceed (or are less than) the adjusted cost base of the Common Share or the Warrant, as the case may be, to the Resident Holder immediately before the disposition. Such capital gain (or capital loss) will be subject to the tax treatment described below under "*Holders Resident in Canada - Taxation of Capital Gains and Capital Losses*".

#### *Taxation of Capital Gains and Capital Losses*

Generally, a Resident Holder is required to include in computing its income for a taxation year one-half of the amount of any capital gain (a "**taxable capital gain**") realized in the year. Subject to and in accordance with the provisions of the Tax Act, a Resident Holder is required to deduct one-half of the amount of any capital loss (an "**allowable capital loss**") realized in a taxation year from taxable capital gains realized in the year by such Resident Holder. Allowable capital losses in excess of taxable capital gains may be carried back and deducted in any of the three preceding years or carried forward and deducted in any following taxation year against taxable capital gains realized in such year to the extent and under the circumstances described in the Tax Act.

The amount of any capital loss realized by a Resident Holder that is a corporation on a disposition of Common Shares may, in certain circumstances, be reduced by the amount of dividends received or

deemed to have been received by it on such Common Shares to the extent and under the circumstances specified in the Tax Act. Similar rules apply to a partnership or trust of which a corporation, partnership or trust is a member or beneficiary. Resident Holders to whom these rules may be relevant should consult their own tax advisors.

A Resident Holder that is throughout the year a "Canadian-controlled private corporation" (as defined in the Tax Act) may be liable for a refundable tax on "aggregate investment income" (as defined in the Tax Act), which includes amounts in respect of taxable capital gains.

### Dividends

Dividends received or deemed to be received by a Resident Holder on the Common Shares will be included in computing the Resident Holder's income for purposes of the Tax Act. In the case of a Resident Holder that is an individual (other than certain trusts), such dividends will be subject to the gross-up and dividend tax credit rules normally applicable to taxable dividends received from taxable Canadian corporations, including the enhanced gross-up and dividend tax credit provisions where the Company provides notice to the recipient designating the dividend as an "eligible dividend" for purposes of the Tax Act. There may be limitations on the ability of the Company to designate dividends as "eligible dividends".

Dividends received or deemed to be received on the Common Shares by a Resident Holder that is a corporation will generally be deductible in computing its taxable income. In certain circumstances, subsection 55(2) of the Tax Act will treat a taxable dividend received or deemed to be received by a Resident Holder that is a corporation as proceeds of disposition or a capital gain. Resident Holders that are corporations should consult their own tax advisors having regard to their own circumstances.

A Resident Holder that is a "private corporation" (as defined in the Tax Act) or any other corporation controlled by or for the benefit of an individual (other than a trust) or related group of individuals (other than trusts) generally will be liable to pay a refundable tax under Part IV of the Tax Act on dividends received or deemed to be received on the Common Shares to the extent that such dividends are deductible in computing the Resident Holder's taxable income. Resident Holders to whom these rules may be relevant should consult their own tax advisors.

### Alternative Minimum Tax

Capital gains realized and dividends received by a Resident Holder that is an individual or a trust, other than certain specified trusts, may give rise to an alternative minimum tax under the Tax Act. Resident Holders should consult their own tax advisors with respect to the application of minimum tax.

### **Holders Not Resident in Canada**

This portion of the summary applies to a Holder who, for the purposes of the Tax Act and any applicable income tax treaty or convention, and at all relevant times (i) is neither resident nor deemed to be resident in Canada, (ii) does not, and is not deemed to, use or hold the Securities in carrying on a business in Canada, (iii) is entitled to receive all payments (including interest and principal) in respect of a Convertible Debenture or a Common Share (including dividends, if any), and (iv) deals at arm's length with any transferee that is resident in Canada and to whom the Holder disposes of a Convertible Debenture (a "**Non- Resident Holder**").

However, this discussion does not apply (i) to a Non-Resident Holder that is an insurer that carries on an insurance business in Canada and elsewhere, or is an "authorized foreign bank" (as defined in the Tax Act), or (ii) to a Non-Resident Holder that is, or does not deal at arm's length with, a "specified shareholder" (as defined in s.18(5) of the Tax Act) of the Company. Generally, for this purpose, a "specified shareholder" is a person that owns, has a right to acquire or is otherwise deemed to own, either alone or together with persons with whom such person does not deal at arm's length for purposes of the Tax Act, shares of the Company's capital stock that either: (i) give the holders of such shares 25% or more of the votes that could be cast at an annual meeting of the shareholders of the Company; or (ii) have a fair market value of 25% or more of the fair market value of all of the issued and outstanding shares of the Company's capital stock. All such foregoing Non-Resident Holders should consult their own tax advisors.

#### *Taxation of Interest on Convertible Debentures*

A Non-Resident Holder will generally not be subject to Canadian withholding tax in respect of amounts paid or credited or deemed to have been paid or credited by the Company as, on account or in lieu of, or in satisfaction of, interest on the Convertible Debentures unless such interest is "participating debt interest". See below under the heading "*Convertible Debentures may be Subject to Withholding Tax and Participating Debt Interest.*"

#### *Exercise of Conversion Privilege*

Generally, the conversion of a Convertible Debenture into only Conversion Shares on the exercise of a conversion privilege by a Non-Resident Holder will be deemed not to constitute a disposition of the Convertible Debenture, and, accordingly, a Non-Resident Holder will not recognize a gain or loss on such conversion (even if the Convertible Debenture constitutes "taxable Canadian Property" of the Non-Resident Holder at the time of the conversion).

On the conversion of a Convertible Debenture by a Non-Resident Holder into Conversion Shares and cash in lieu of a fraction of such Conversion Shares, if such Conversion Shares constitute "taxable Canadian property" to the Non-Resident Holder, as discussed below, and if the value of such cash does not exceed \$200, under the current administrative practice of the CRA the Non-Resident Holder may choose to (i) treat this amount as proceeds of disposition (and calculate and report a gain or loss and pay tax in Canada subject to relief under any applicable income tax treaty or convention), or (ii) reduce, by the amount of cash received, the adjusted cost of such Conversion Shares received.

In certain circumstances, the conversion may be considered to give rise to a deemed payment of interest under the Tax Act. See also "*Holders not Resident in Canada - Taxation of Interest on Debentures*" and "*Convertible Debentures may be Subject to Withholding Tax and Participating Debt Interest.*"

#### *Other Disposition of Debentures, and Disposition of Common Shares and Warrants*

A Non-Resident Holder will not be subject to tax under the Tax Act in respect of any capital gain realized by such Non-Resident Holder on a disposition or deemed disposition of a Convertible Debenture, Common Share or Warrant unless the Non-Resident Holder's Convertible Debentures, Common Shares or Warrants, as the case may be, are, or are deemed to be, "taxable Canadian property" (as defined in

the Tax Act) to the Non-Resident Holder at the time of disposition and the Non-Resident Holder is not entitled to relief under an applicable tax treaty or convention between Canada and the country of residence of the Non-Resident Holder. See the section below entitled "*Taxable Canadian Property*".

In certain circumstances that are beyond the scope of this summary, the assignment or transfer of a debenture to a person resident in Canada may be considered to give rise to a deemed payment of interest under the Tax Act. See also "*Holders not Resident in Canada - Taxation of Interest on Debentures*" and "*Convertible Debentures may be Subject to Withholding Tax and Participating Debt Interest.*" A Non-Resident Holder who transfers or is deemed to transfer a Convertible Debenture to a holder resident or deemed to be resident in Canada for purposes of the Tax Act should consult its own tax advisor in this regard.

#### *Receipt of Dividends on Common Shares*

Where a Non-Resident Holder receives or is deemed to receive a dividend (if any) on Common Shares, the amount of such dividend will be subject to Canadian withholding tax at the rate of 25% of the gross amount of the dividend unless the rate is reduced under the provisions of an applicable income tax treaty or convention between Canada and the Non-Resident Holder's country of residence.

#### *Taxable Canadian Property*

Provided the Common Shares are listed on a designated stock exchange (which currently includes the CSE) at the time of disposition or deemed disposition, the Convertible Debentures, Common Shares and Warrants generally will not constitute taxable Canadian property of a Non-Resident Holder, unless, at any time during the 60-month period preceding the disposition, (i) the Non-Resident Holder, persons not dealing at arm's length with such Non-Resident Holder, partnerships in which the Non-Resident Holder or any such non-arm's length person holds an interest directly by or through one or more partnerships, or the Non-Resident Holder together with all such persons and partnerships, owned 25% or more of the issued shares of any class or series of the capital stock of the Company and more than 50% of the fair market value of the such shares was derived directly or indirectly from one or any combination of: (a) real or immovable property situated in Canada; (b) "Canadian resource properties"; (c) "timber resource properties"; and (d) options in respect of, or interests in or rights in property described in (a) to (c) (as such terms are defined in the Tax Act). Notwithstanding the foregoing, in certain other circumstances set out in the Tax Act, securities which are not otherwise taxable Canadian property may also be deemed to be taxable Canadian property.

A Non-Resident Holder whose Convertible Debentures, Common Shares or Warrants may be held as taxable Canadian property should consult their own tax advisors with respect to the consequences of disposing of such securities.

### **ELIGIBILITY FOR INVESTMENT**

In the opinion of Thorsteinssons LLP, special Canadian tax counsel to the Company, based on the provisions of the Tax Act and the regulations to the Tax Act in force on the date hereof, provided the Common Shares are listed on a "designated stock exchange" (as such term is defined in the Tax Act and which currently includes the CSE) at the particular time, the Convertible Debentures, Common Shares and Warrants will at that time be "qualified investments" under the Tax Act for trusts governed by registered retirement savings plans ("**RRSPs**"), registered retirement income funds (a "**RRIFs**"), deferred profit

sharing plans, registered education savings plans ("**RESPs**"), registered disability savings plans ("**RDSPs**") or tax-free savings accounts ("**TFSAs**" and collectively the "**Tax Deferred Plans**") provided that in the case of the Warrants, the Company is not an annuitant, a beneficiary, an employer or a subscriber under or a holder of a Tax Deferred Plan and deals at arm's length with each person who is an annuitant, a beneficiary, an employer or a subscriber under or a holder of such plan.  **Holders who intend to hold Convertible Debentures, Common Shares or Warrants in a Tax Deferred Plan should consult their own tax advisors regarding whether such securities are a "qualified investment" at the relevant time for such Tax Deferred Plan.**

Notwithstanding that the Convertible Debentures, Common Shares and Warrants may be qualified investments for a TFSA, RRSP, RRIF, RESP or RDSP (a "**Registered Plan**"), if the Convertible Debentures, Common Shares or Warrants, as the case may be, are a "prohibited investment" within the meaning of the Tax Act for a Registered Plan, the holder or annuitant of the Registered Plan, as the case may be, will be subject to penalty taxes as set out in the Tax Act. The Convertible Debentures, Common Shares and Warrants will generally not be a prohibited investment for a Registered Plan if the holder or annuitant, as the case may be, (a) deals at arm's length with the Company for the purposes of the Tax Act, and (b) does not have a "significant interest" (as defined in the Tax Act) in the Company.  **Holders who intend to hold Convertible Debentures, Common Shares or Warrants in a Registered Plan should consult their own tax advisors regarding whether such securities would be prohibited investments in their particular circumstances.**

## **RISK FACTORS**

An investment in the securities of the Company is speculative and subject to risks and uncertainties. The occurrence of any one or more of these risks or uncertainties could have a material adverse effect on the value of any investment in the Company and the business, prospects, financial position, financial condition or operating results of the Company. Additional risks and uncertainties not presently known to the Company or that the Company currently deems immaterial may also impair the Company's business operations.

Prospective investors should carefully consider all information contained in this Prospectus, including all documents incorporated by reference, and in particular should give special consideration to the risk factors under the section titled "*Risk Factors*" in the Annual Information Form, which is incorporated by reference in this Prospectus and which may be accessed on the Company's SEDAR profile at [www.sedar.com](http://www.sedar.com), and the information contained in the section entitled "*Cautionary Statement Regarding Forward-Looking Information*", before deciding to purchase securities of the Company. Additionally, purchasers should consider the risk factors set forth below.

The risks and uncertainties described or incorporated by reference in this Prospectus are not the only ones the Company may face. Additional risks and uncertainties that the Company is unaware of, or that the Company currently deems not to be material, may also become important factors that affect the Company. If any such risks actually occur, the Company's business, financial condition or results of operations could be materially adversely affected, with the result that the trading price of the Common Shares could decline and investors could lose all or part of their investment.

### **Loss of Investment**

An investment in the offered securities is suitable only for those investors who are willing to risk a loss of some or all of their investment and who can afford to lose some or all of their investment.

**Additional Financing**

Depending on its ability to achieve its goals, the Company may need to raise further equity and/or debt financing to fund the completion of its expansion plans, deployment of its products on a global stage and the expansion of its client base. The success and the pricing of any such equity and/or debt financing will be dependent upon the prevailing market conditions at that time. If additional capital is raised by an issue of securities, this may have the effect of diluting shareholders' interests in the Company. Any debt financing, if available, may involve financial covenants which limit the Company's operations. If the Company requires additional capital and is unable to obtain it, there may be a possibility that it will not be able to complete the full deployment of its solutions and the full implementation of its business plan, which would have a materially adverse effect on its business, operating results and financial condition.

**Negative Cash Flow from Operating Activities**

The Company's overall business has incurred losses since its inception. Although the Company expects to become profitable, there is no guarantee that will happen, and the Company may never become profitable. The Company currently has a negative operating cash flow and may continue to have that for the foreseeable future. To date, a large portion of the Company's expenses are fixed, including expenses related to facilities, equipment, contractual commitments and personnel. As a result, the Company expects net losses from operations to improve. The Company's ability to generate additional revenues and potential to become profitable will depend largely on its ability, to manufacture and market its products. There can be no assurance that any such events will occur or that the Company will ever become profitable. Even if the Company achieves profitability, it cannot predict the level of such profitability. If the Company sustains losses over an extended period of time, it may be unable to continue its business.

**Discretion Regarding Use of Proceeds**

The Company currently intends to allocate the net proceeds received from the Offering as described under "Use of Proceeds" in this Prospectus. However, management will have discretion in the actual application of the net proceeds, and may elect to allocate proceeds differently from that described in "Use of Proceeds" if it is believed it would be in the best interests of the Company to do so as circumstances change. The failure by management to apply these funds effectively could have a material adverse effect on the business of the Company.

**Volatility of Market Price of Common Shares**

The market price of Common Shares may fluctuate due to a variety of factors relative to the Company's business, including announcements of new developments, fluctuations in the Company's operating results, sales of the Common Shares in the marketplace, failure to meet analysts' expectations, any public announcements made in regards to the Offering, the impact of various tax laws or rates and general market conditions or the worldwide economy. In recent years, stock markets have experienced significant price fluctuations, which have been unrelated to the operating performance of the affected companies. There can be no assurance that the market price of the Common Shares will not experience significant fluctuations in the future, including fluctuations that are unrelated to the Company's performance.

**Forward-Looking Statements May Prove Inaccurate**

Investors are cautioned not to place undue reliance on forward-looking statements. By their nature, forward-looking statements involve numerous assumptions, known and unknown risks and uncertainties,

of both a general and specific nature, that could cause actual results to differ materially from those suggested by the forward-looking statements or contribute to the possibility that predictions, assumptions and uncertainties are found in the Prospectus under the heading "*Cautionary Statement Regarding Forward-Looking Information*".

### **No Market for the Equity Special Warrants, the CD Special Warrants, the Warrants or the Convertible Debentures**

There is no market through which the Equity Special Warrants, the CD Special Warrants, the Warrants or the Convertible Debentures may be sold and purchasers may not be able to resell the Equity Special Warrants, the CD Special Warrants, the Warrants or the Convertible Debentures acquired pursuant to the Offering. This may affect the pricing of the Equity Special Warrants, the CD Special Warrants, the Warrants or the Convertible Debentures in the secondary market, the transparency and availability of trading prices, the liquidity and the extent of issuer regulation. An investment in the Equity Special Warrants, the CD Special Warrants, the Warrants or the Convertible Debentures should only be made by those persons who can afford the loss of their entire investment.

### **Inability to Enforce Legal Rights**

One director of the Company, Dr. Arup Sen, resides outside of Canada. Although he has appointed DuMoulin Black LLP as his agent for service of process in Canada, it may not be possible for investors to enforce judgments in Canada against him. The Company has subsidiaries that are organized under the laws of foreign jurisdictions. Given that the Company has and plans to own certain assets that are or will be located outside of Canada, investors may have difficulty in enforcing against foreign assets of the Company, any judgments obtained by the Canadian courts or Canadian securities regulatory authorities and predicated on the civil liability provisions of Canadian securities legislation or otherwise. Similarly, in the event a dispute arises from the Company's foreign operations, the Company may be subject to the exclusive jurisdiction of foreign courts or may not be successful in subjecting foreign persons to the jurisdictions of courts in Canada.

### **Redeeming on a Change of Control**

The Company will be required to purchase all outstanding Convertible Debentures within thirty (30) days following the occurrence of a change of control of the Company upon a request made by the holders of the Convertible Debentures. However, it is possible that following a change of control of the Company, the Company will not have sufficient funds at that time to make the required purchase of outstanding Convertible Debentures or that restrictions contained in other indebtedness will restrict those purchases. The Company's failure to purchase the Convertible Debentures would constitute an event of default under the Debenture Indenture, which might constitute a default under the terms of the Company's other indebtedness, if any, at that time.

### **Shareholders Rights**

Holders of Special Warrants, Warrants and Convertible Debentures will not be entitled to any rights with respect to the Common Shares (including, without limitation, voting rights and rights to receive any dividends or other distributions on the Common Shares), but if a holder of the Special Warrants, Warrants or Convertible Debentures subsequently exercises its Special Warrants, Warrants or Convertible Debentures into Common Shares, Warrant Shares or Conversion Shares, as applicable, such holder will be subject to all changes affecting the Common Shares. Rights with respect to the Common Shares will arise

only if and when the Company delivers Common Shares, Warrant Shares or Conversion Shares upon the exercise of the Special Warrants, Warrants and Convertible Debentures, as applicable.

### **Dividend Policy**

The Company has not paid any dividends on its Common Shares. Any decision to pay dividends on the Common Shares in the future will be made by the Board on the basis of the earnings, financial requirements and other conditions existing at such time. Until the Company pays dividends, which it may never do, holders of Common Shares will not be able to receive a return on their Common Shares unless they sell them.

### **Convertible Debentures may be Subject to Withholding Tax and Participating Debt Interest**

The Tax Act generally provides that withholding tax is not payable on interest paid or credited to nonresidents of Canada who deal at arm's length with the payor. However, Canadian withholding tax does apply to payments of "participating debt interest". For purposes of the Tax Act, participating debt interest is generally interest that is paid on an obligation where all or any portion of such interest is contingent or dependent on the use of or production from property in Canada or is computed by reference to revenue, profit, cash flow, commodity price or any similar criterion.

Under the Tax Act, when a debenture or other debt obligation issued by a person resident in Canada is assigned or otherwise transferred by a non-resident person to a person resident in Canada (which would also include a conversion of the obligation or payment on maturity), the amount, if any, by which the price for which the obligation was assigned or transferred exceeds the price for which the obligation was issued is in general deemed to be a payment of interest on that obligation made by the person resident in Canada to the non-resident (herein, an "excess"). The deeming rule does not apply in respect of certain "excluded obligations", but it is not clear whether a particular convertible debenture would qualify as an "excluded obligation". If a convertible debenture is not an "excluded obligation", issues that arise include whether any excess would be considered to exist, whether any such excess which is deemed to be interest is "participating debt interest", and, if the excess is participating debt interest, whether that results in all interest on the obligation being considered to be participating debt interest.

The CRA appears to have accepted in prior statements that no excess, and therefore no participating debt interest, would in general arise on the conversion of a "standard convertible debenture" (as that term was defined in a letter from the Joint Committee on Taxation of the Canadian Bar Association and the Canadian Institute of Chartered Accountants sent to the CRA on May 10, 2010) and therefore, there would in general be no withholding tax in such circumstances (provided that the payor and payee deal at arm's length for purposes of the Tax Act). It is not clear whether the Convertible Debentures meet the criteria of a "standard convertible debenture", and the application of the CRA's published guidance to the Convertible Debentures is uncertain. Accordingly, there is a risk that the CRA could take the position that amounts paid or payable to a non-resident holder of Convertible Debentures on account of interest or any excess considered to arise (for instance, on conversion) may be subject to Canadian withholding tax at a rate of 25% (subject to any reduction in accordance with any applicable income tax treaty or convention). No income tax ruling or legal opinion from Counsel has been sought or obtained in this regard. As noted under "Tax laws relating to withholding may change" below, the Debenture Indenture will not contain a requirement that the Company increase the amount of interest or other payments to holders of Convertible Debentures in the event that it is required to withhold Canadian withholding tax on payments made with respect to the Convertible Debentures.



**Tax Laws Relating to Withholding May Change**

The Debenture Indenture will not contain a requirement that the Company increase the amount of interest or other payments to holders of Convertible Debentures in the event that it is required to withhold Canadian withholding tax on payments made with respect to the Convertible Debentures. Even if payments of interest or deemed interest with respect to the Convertible Debentures are not currently subject to Canadian withholding tax (as generally discussed under the heading "*Certain Canadian Federal Income Tax Considerations*", and subject to the discussion above under the risk factor "*Convertible Debentures may be Subject to Withholding Tax and Participating Debt Interest*"), no assurance can be given that, in the future, applicable income tax laws or treaties will not be changed in a manner that may require the Company to withhold tax.

**Credit Risk and Earnings Coverage**

The likelihood that purchasers of the Convertible Debentures will receive payments owing to them under the terms of the Convertible Debentures will depend on the financial health and creditworthiness of the Company and the ability of the Company to generate revenues or raise additional funds. See "*Earnings Coverage Ratios*", which is relevant to the assessment of the risk that the Company may be unable to pay interest or principal on the Convertible Debentures when due. There is no guarantee that the Company will be able to pay interest when due or repay the outstanding principal amount of the Convertible Debentures upon maturity.

**Absence of Covenant Protection**

The Debenture Indenture will not limit the ability of the Company to incur additional debt or liabilities (including senior indebtedness) or otherwise from mortgaging, pledging or charging its real or personal property to secure any indebtedness or other financing. Nor will the Debenture Indenture prohibit or limit the ability of the Company to pay dividends, except where an event of default has occurred and such default has not been cured or waived. The Debenture Indenture will not contain any provision specifically intended to protect holders of the Convertible Debentures in the event of a future leveraged transaction involving the Company or any of its subsidiaries.

**Conversion following Certain Transactions**

In the case of certain transactions, each Convertible Debenture will become convertible into securities, cash or property receivable by a holder of Common Shares in the kind and amount of securities, cash or property into which the Convertible Debenture was convertible immediately prior to the transaction. This change could substantially reduce or eliminate any potential future value of the conversion privilege associated with the Convertible Debentures in the future.

**Structural Subordination of the Convertible Debentures**

The Convertible Debentures will be direct, unsecured obligations of the Company, effectively subordinated to all current and future secured debt and other liabilities of the Company to the extent of the assets securing such debt and other liabilities. In the event of the insolvency, bankruptcy, liquidation, reorganization, dissolution or winding up of the Company, the assets that serve as collateral for any secured indebtedness would be made available to satisfy the obligations of the creditors of such secured indebtedness before being available to pay the Company's obligations to holders of Convertible Debentures. Accordingly, all or a substantial portion of the Company's assets could be unavailable to

satisfy the claims of the holders of Convertible Debentures. In addition, the Convertible Debentures will not be guaranteed by any subsidiary of the Company and will be structurally subordinated to all current and future liabilities of the Company's subsidiaries, including trade payables. This subordination may significantly reduce the possibilities for purchasers of obtaining payment of the amounts owed under the Convertible Debentures.

### **MATERIAL CONTACTS**

The following is a summary of each material contract, other than contracts entered into in the ordinary course of the Company's business, that was entered into subsequent to the financial year ending February 28, 2018 and up to the date of this Prospectus, that is still in effect:

- 1) The Producer's Licence, issued to THR by Health Canada pursuant to section 35 of the ACMPR under licence no. 10-MM0026/2018 dated effective June 8, 2018. See "*Summary Description of Business – Three Year History*" for further details related to the Producer's Licence.

For further summaries of material contracts of the Company, other than contracts entered into in the ordinary course of the Company's business, please refer to the Annual Information Form.

### **AUDITOR, TRANSFER AGENT AND REGISTRAR**

The Company's auditors are MNP LLP of Suite 2200, MNP Tower 1021 West Hastings Street Vancouver, BC V6E 0C3. MNP LLP, as auditors of the Company, report that they are independent with respect to the Company within the meaning of the Chartered Professional Accountants of British Columbia Code of Professional Conduct.

The Company's registrar and transfer agent is TSX Trust Company, located at 2700 – 650 West Georgia Street, Vancouver, BC V6B 4N9.

### **INTEREST OF EXPERTS**

#### **Names of Experts**

No person or company whose profession or business gives authority to a report, valuation, statement or opinion made by the person or company are named in this Prospectus as having prepared or certified any of the aforementioned document or any part thereof described in this Prospectus.

Certain legal matters in connection with the issuance of the securities of the Company offered hereby will be passed upon on behalf of the Company by DuMoulin Black LLP and Thorsteinssons LLP, with respect to the "*Canadian Federal Income Tax Considerations*" and "*Eligibility for Investment*" sections herein. McMillan LLP is the Underwriters' counsel with respect to certain legal matters in connection with the issuance of the securities of the Company.

The auditors of the Company, MNP LLP, Chartered Professional Accountants, have audited the annual financial statements of Sproutly Sub for the year ended February 28, 2018, which are incorporated by reference into this Prospectus. Prior to the Completion of the Arrangement, Manning Elliott LLP, Chartered Professional Accountants, were the auditors of Stone Ridge and audited Stone Ridge's annual financial statements for the years ended February 28, 2018 and 2017, which are incorporated by reference into this Prospectus.

Hobbs, Niles & Co, Chartered Accountants are the auditors of SSM, as more particularly outlined in the Business Acquisition Report.

Mao & Ying LLP, Chartered Professional Accountants are the auditors of Infusion Biosciences Canada, as more particularly outlined in the Business Acquisition Report.

### **Interests of Experts**

As of the date hereof, the partners and associates of DuMoulin Black LLP, Thorsteinssons LLP and McMillan LLP, respectively, beneficially own, directly and indirectly, less than one percent of the outstanding Common Shares.

MNP LLP, Chartered Professional Accountants, the auditors of Sproutly, report that they are independent of Sproutly in accordance with the rules of professional conduct of the Chartered Professional Accountants of British Columbia.

Manning Elliott LLP, Chartered Professional Accountants, the auditors of Stone Ridge, report that they are independent of Stone Ridge in accordance with the rules of professional conduct of the Chartered Professional Accountants of British Columbia.

Mao & Ying LLP, Chartered Professional Accountants, the auditors of Infusion Biosciences Canada, report that they are independent of Infusion Biosciences Canada in accordance with the rules of professional conduct of the Chartered Professional Accountants of British Columbia.

Hobbs, Niles & Co., Chartered Accountants, the auditors of SSM, report that they are independent of SSM in accordance with the rules of the Chartered Accountants of Barbados.

### **PROMOTERS**

Keith Dolo and Aman Bains are considered to be the Company's "promoters", as that term is defined in the *Securities Act* (British Columbia), having taken initiative in the Company's reorganization. Other than as described below, neither of Mr. Dolo or Mr. Bains has received anything of value from the Company.

Keith Dolo owns, directly and indirectly, 2,014,687 Common Shares, which represents 1.24% of the Company's issued and outstanding Common Shares at the date of this Prospectus.

Aman Bains owns, directly and indirectly, 18,023,106 Common Shares, which represents 11.11% of the Company's issued and outstanding Common Shares at the date of this Prospectus.

### **LEGAL PROCEEDINGS**

There are no legal proceedings that the Company is or was a party to, or that any of its property is or was subject of, during the last completed fiscal year, nor are any such legal proceedings known to the Company to be contemplated that involves a claim for damages, exclusive of interest and costs, exceeding 10% of the current assets of the Company.

### **PURCHASERS' STATUTORY RIGHTS OF WITHDRAWAL AND RESCISSION**

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may only be exercised within two (2) business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, revisions of the price or damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that such remedies for rescission or revision of the price or damages are exercised by the purchaser within the time limit prescribed by securities legislation of the purchaser's province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of these rights or consult with a legal adviser.

In an offering of convertible securities, such as special warrants, convertible debentures, units and warrants, investors are cautioned that the statutory right of action for damages for a misrepresentation contained in the prospectus is limited, in certain provincial securities legislation, to the price at which the applicable convertible securities, such as special warrants, convertible debentures, units and warrants, are offered to the public under the prospectus offering. This means that, under the securities legislation of certain provinces, if the purchaser pays additional amounts upon exercise of the security, those amounts may not be recoverable under the statutory right of action for damages that applies in those provinces. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of this right of action for damages or consult with a legal adviser.

### **CONTRACTUAL RIGHT OF RESCISSION**

Pursuant to the terms of the Underwriting Agreement and the subscription agreements between the Company and the purchasers of Special Warrants, the Company has granted to each holder of a Special Warrant a contractual right of rescission of the prospectus-exempt transaction under which the Special Warrant was initially acquired. The contractual right of rescission provides that if a holder of a Special Warrant who acquires Equity Units or CD Units on the exercise or deemed exercise of the Equity Special Warrants or CD Special Warrants, as applicable, as provided for in this Prospectus is, or becomes, entitled under the securities legislation of a jurisdiction to the remedy of rescission because of this Prospectus or an amendment to this Prospectus containing a misrepresentation:

- a) the holder is entitled to rescission of both the holder's exercise deemed exercise of its Special Warrants and the private placement transaction under which the Special Warrants were initially acquired;
- b) the holder is entitled in connection with the rescission to a full refund of all consideration paid to the Company and the Underwriters, as the case may be, on the acquisition of the Special Warrants; and
- c) if the holder is a permitted assignee of the interest of the original Special Warrant subscriber, the holder is entitled to exercise the rights of rescission and refund as if the holder was the original subscriber.

The contractual rights of action described above are in addition to and without derogation from any other right or remedy that a purchaser of Special Warrants may have at law.

**CERTIFICATE OF THE COMPANY**

Dated: December 3, 2018

This short form prospectus, together with the documents incorporated herein by reference, constitutes full, true and plain disclosure of all material facts relating to the securities previously issued by the Company as required by the securities legislation in each of the provinces of Alberta, British Columbia, Manitoba and Ontario.

*(Signed) "Keith Dolo"*

\_\_\_\_\_  
Keith Dolo  
**Chief Executive Officer and  
President**

*(Signed) "Craig Loverock"*

\_\_\_\_\_  
Craig Loverock  
**Chief Financial Officer**

**On behalf of the Board of Directors**

*(Signed) "Michael Bellas"*

\_\_\_\_\_  
Michael Bellas  
**Director**

*(Signed) "Gregg Orr"*

\_\_\_\_\_  
Gregg Orr  
**Director**

**CERTIFICATE OF PROMOTERS**

Dated: December 3, 2018

This short form prospectus, together with the documents incorporated herein by reference, constitutes full, true and plain disclosure of all material facts relating to the securities previously issued by the Company as required by the securities legislation in each of the provinces of Alberta, British Columbia, Manitoba and Ontario.

*(Signed) "Keith Dolo"*

\_\_\_\_\_  
Keith Dolo

*(Signed) "Aman Bains"*

\_\_\_\_\_  
Aman Bains

**CERTIFICATE OF THE UNDERWRITERS**

Dated: December 3, 2018

To the best of our knowledge, information and belief, this short form prospectus, together with the documents incorporated herein by reference, constitutes full, true and plain disclosure of all material facts relating to the securities previously issued by the Company as required by the securities legislation in each of the provinces of Alberta, British Columbia, Manitoba and Ontario.

**CANACCORD GENUITY CORP.**

*(Signed) "Jamie Brown "*

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**Jamie Brown**  
**Vice Chairman, Managing Director,**  
**Investment Banking**

**EIGHT CAPITAL CORP.**

*(Signed) "Patrick McBride "*

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**Patrick McBride**  
**Head of Origination, Investment**  
**Banking**

**HAYWOOD SECURITIES INC.**

*(Signed) "Lawrence Rhee "*

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**Lawrence Rhee**  
**Managing Director, Investment**  
**Banking**