

Westleaf and We Grow BC Announce Completion of Business Combination

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CALGARY, Dec. 23, 2019 /CNW/ - Westleaf Inc. ("**Westleaf**" or the "**Company**") (TSX-V:WL) (OTCQB:WSLFF) and We Grow B.C. Ltd. ("**We Grow**") are pleased to announce the completion, following the receipt of the final order of the Court on December 20, 2019, of the previously announced plan of arrangement under Division 5 of Part 9 of the *Business Corporations Act* (British Columbia) involving Westleaf, We Grow and certain securityholders of We Grow (the "**Arrangement**" or the "**Transaction**").

"Westleaf has built world class cultivation, extraction and retail assets that will allow our combined company to scale up quickly to address the existing and unmet demand for our Qwest branded products. We aim to create the preeminent ultra-premium cannabis brand in Canada that will have a renewed focus on execution, cost control, effective corporate governance and profitability," said Benjamin Sze, Chief Executive Officer of Westleaf.

Transaction Highlights

The Arrangement is expected to accelerate We Grow's strategy to expand cultivation capabilities for its popular Qwest and Qwest Reserve ultra-premium cannabis flower brands. The Arrangement is expected to elevate the combined entity's forecasted 2020 cannabis production capacity to 9,100 kgs⁽¹⁾ of dried cannabis flower while enabling the Company to fully leverage the Qwest ultra-premium brand through Westleaf's extraction facility and Westleaf's chain of award-winning Prairie Records retail stores. Specific additional highlights include the following:

- **Established Industry Leading Cannabis Brands:** Qwest has established itself as a leading cannabis brand, recognized for ultra-premium quality products and rare flower varieties, evidenced by one of the highest realized selling prices in the Canadian recreational market and strong demand across various distribution channels⁽²⁾. The Transaction positions the combined company to accelerate Qwest's brand growth through Westleaf's assets by expanding into cannabis derivative products, adding craft-style cultivation capacity, and owning the relationship with the consumer through the award winning wholly owned retail stores, Prairie Records.
- **Creates One of Canada's Largest Craft Producers:** The Transaction combines We Grow's current production and Westleaf's nearly completed Thunderchild cultivation facility, creating one of the largest craft producers in Canada with a core focus on producing the highest quality cannabis and cannabis derivative products for the recreational market. We Grow's access to an extensive genetic library is anticipated to be commercialized on an accelerated basis to bring novel, differentiated cannabis products to market.
- **Positioned for Cannabis 2.0 Products:** Westleaf brings scalable extraction and product manufacturing assets which is expected to enable Qwest to expand its ultra-premium product lines into high margin derivative cannabis products in time to meet the expected demand for cannabis 2.0 products.

- **Proven Execution Capabilities:** We Grow intends to take its best-in-class production practices and cannabis cultivation expertise and apply it to Westleaf's high quality assets to maintain its high standard of quality for products under the Qwest banner, including Westleaf's Thunderchild Cultivation facility and The Plant extraction facility.
- **Highly Experienced Management Teams:** We Grow's management and cultivation teams have a proven ability to scale ultra-premium indoor cannabis production and obtain best in class wholesale pricing. Westleaf brings a complementary and experienced processing and extraction team, industry leading retail operators and capital markets expertise.
- **Additional Non-Dilutive Financing from ATB Financial:** As part of the transaction ATB Financial has committed, subject to customary conditions precedent to be satisfied prior to or concurrent with closing of the Transaction, to provide \$8.9 million of additional credit and liquidity through the issuance of a new term loan (\$4.7 million) and removal of the restricted cash requirement (~\$4.2 million) under the Company's current subsidiary level credit facilities which have been consolidated at the Company level as part of the Transaction. The combined company's remaining infrastructure projects are anticipated to be fully funded.
- **Strong Economics and Demonstrated Cash Flow:** We Grow has demonstrated a disciplined approach to sustainable profitability, achieving positive Adjusted EBITDA and net income in Q3 2019 enabling the Transaction to be immediately accretive to Westleaf. The combined entity is anticipated to be reflective of We Grow's commitment to lean and efficient operations and the pro forma management team is expected to be focused on delivering strong financial performance going forward.

Completion of Business Combination

Pursuant to the previously announced arrangement agreement between Westleaf and We Grow dated November 7, 2019, Westleaf has acquired all of the issued and outstanding shares of We Grow (the "**We Grow Shares**"), other than its Class "H" non-voting common participating shares (which shares are held by a wholly-owned subsidiary of We Grow) in exchange for common shares in the capital of Westleaf ("**Westleaf Shares**") by way of the Arrangement. Each We Grow Share, other than the We Grow Class "C" Voting Common Participating Shares ("**We Grow Class C Shares**"), was exchanged for 4.264 Westleaf Shares. Each outstanding option to purchase one We Grow Share ("**We Grow Options**") were exchanged for one Westleaf option ("**Westleaf Options**") and each outstanding warrant to purchase one We Grow Class C Share ("**We Grow Warrants**") were exchanged for one Westleaf warrant ("**Westleaf Warrants**"). Each We Grow Class C Share was exchanged for one Westleaf Share. The Transaction is an arms' length transaction.

Prior to the completion of the Arrangement, \$1,000,000 principal amount of promissory notes outstanding in the capital of We Grow, plus accrued and unpaid interest, was exchanged for We Grow units ("**We Grow Units**"), with each We Grow Unit consisting of one We Grow Class C Share and one-half We Grow Warrant, at a price of \$0.16 per We Grow Unit. Each We Grow Class C Share and We Grow Warrant was exchanged under the Arrangement for one Westleaf Share and one Westleaf Warrant. Each Westleaf Warrant is exercisable at a price of \$0.28 per Westleaf Share for a period of two years following the closing of the Arrangement.

Following the Arrangement and Concurrent Financing, there were 342,504,258 Westleaf Shares outstanding and former holders of We Grow Shares held 58% of the issued and outstanding Westleaf Shares at closing of the Arrangement.

All Westleaf Shares received by shareholders of We Grow pursuant to the Arrangement, except Westleaf Shares issued in exchange for We Grow Class C Shares, are subject to a contractual hold period (the "**Hold Period**"), during which time the holder of such Westleaf Shares subject to the Hold

Period may not trade, offer, sell, pledge or otherwise transfer such shares until the Hold Period expires, and the Westleaf Shares subject to the Hold Period and the certificates representing such shares will bear a legend indicating that the resale of such securities is so restricted. The Hold Period will expire as follows: (a) 10% of the Westleaf Shares subject to the Hold Period will be released from the Hold Period at the Effective Time; (b) 30% of the Westleaf Shares subject to the Hold Period will be released from the Hold Period on the date that is six months from the Effective Time; (c) 30% of the Westleaf Shares subject to the Hold Period will be released from the Hold Period on the date that is nine months from the Effective Time; and (d) 30% of the Westleaf Shares subject to the Hold Period will be released from the Hold Period on the date that is 12 months from the Effective Time, provided that the Westleaf Shares subject to the Hold Period may be released from the Hold Period at such earlier times as may be consented to by Westleaf in writing.

In connection with the Transaction, Eight Capital Inc. ("**Eight Capital**") provided a fairness opinion ("**Eight Capital Fairness Opinion**") to the special independent committee of the Westleaf board of directors that provided, subject to the assumptions, qualifications and limitations contained in the Eight Capital Fairness Opinion, that the consideration to be paid by Westleaf for the acquisition of We Grow pursuant to the Arrangement is fair, from a financial point of view, to Westleaf.

In connection with the Transaction, AltaCorp Capital Inc. ("**AltaCorp**") provided a fairness opinion ("**AltaCorp Fairness Opinion**") that provided that subject to the assumptions, qualifications and limitations contained in the AltaCorp Fairness Opinion, that the consideration to be paid by Westleaf to the holders of We Grow Shares with respect to the Arrangement is fair, from a financial point of view.

Concurrent Financing

Concurrently with the Arrangement, We Grow completed a non-brokered management and key stakeholder led private placement financing of subscription receipts of We Grow ("**Subscription Receipts**") for gross proceeds of \$1,788,206.91 at a price of \$0.21 per Subscription Receipt (the "**Concurrent Financing**"). Each Subscription Receipt entitled the holder thereof to acquire one We Grow Class C Share and one-half We Grow Warrant, and each We Grow Class C Share was exchanged for one Westleaf Share and each whole We Grow Warrant was exchanged for one Westleaf Warrant under the Arrangement. Each Westleaf Warrant is exercisable at a price of \$0.28 per Westleaf Share for a period of two years following the closing of the Arrangement.

It is anticipated that the proceeds of the Concurrent Financing (after deduction of costs of fees incurred) will be used to integrate the businesses of Westleaf and We Grow and for general corporate purposes and future working capital. Although the Company intends to use the proceeds of the Concurrent Financing as described above, the actual allocation of proceeds may vary from the uses set forth above, depending on future operations or unforeseen events or opportunities.

In connection with the closing of the Concurrent Financing, 4,253,334 Subscription Receipts were issued to certain directors and officers of the Company. The participation of directors and officers in the Concurrent Financing constitutes a "related party transaction" within the meaning of Multilateral Instrument 61-101 – *Protection of Minority Security Holders in Special Transactions* ("**MI 61-101**"). The Company is relying upon exemptions from the formal valuation and minority approval requirements of MI 61-101 based on a determination that the fair market value of the Concurrent Financing, insofar as it involves the related parties, does not exceed 25% of the market capitalization of the Corporation. The Corporation was not in a position to file a material change report more than 21 days in advance of the closing of the Concurrent Financing, as the participation of the related parties was not confirmed at that time. The Concurrent Financing was approved by the Company's board of directors by means of a unanimous resolution.

Westleaf Credit Facility

Concurrently with the closing of the Arrangement, the Company entered into a credit facility for a new term loan for \$4,700,000 with ATB Financial and the restricted cash requirement of approximately \$4,200,000 under its existing credit facility, was removed.

New Board of Directors

Westleaf's board of directors has been reconstituted to include three appointees of We Grow, being Benjamin Sze, Michael Kelly and Paul Wilson, and two appointees of Westleaf, being Cody Church and Delbert Wapass. Westleaf's officers have been reconstituted to include Benjamin Sze as Chief Executive Officer, Scott Hurd as President, Taylor Ethans as Chief Financial Officer, Gary Leong as Chief Compliance Officer, and Adam Coates as Executive Vice-President, Commercial.

The above noted changes constitute a "Change in Management" as defined in the policies of the TSX Venture Exchange ("**TSXV**"). Pursuant to the policies of the TSXV, the Change in Management was approved by the shareholders of Westleaf at its annual general and special meeting of shareholders on December 18, 2019.

Amendment to Debenture Indenture

In connection with Westleaf's previous announcement regarding its intended amendment to the debenture indenture between Computershare Trust Company of Canada ("**Computershare**") and Westleaf dated May 10, 2019, Westleaf is pleased to announce that it has entered into a supplemental debenture indenture with Computershare dated December 20, 2019 in respect of the amendment to the conversion price of the outstanding convertible debentures of Westleaf from \$1.30 to \$0.45.

Advisors and Counsel

Eight Capital Inc. acted as the exclusive financial advisor to Westleaf. Borden Ladner Gervais LLP acted as legal counsel to Westleaf.

AltaCorp Capital Inc. acted as the financial advisor to We Grow. McCarthy Tetrault LLP acted as legal counsel to We Grow.

About Westleaf Inc.

Westleaf is a Canadian cannabis company focused on cannabis brands, extraction and production of derivatives, wholly owned retail, as well as cannabis cultivation. Westleaf's extraction and processing facility, *The Plant*, will produce high quality and consistent cannabis derivatives and consumables, both for Westleaf's in-house brands as well as white label products. Westleaf's retail concept, Prairie Records, leverages the instinctual tie between recreational cannabis and music with stores operating or in development across Western Canada. Westleaf's Thunderchild cultivation facility is scheduled for completion at the end of this year.

We Grow's cultivation facility is located in Creston, British Columbia in the heart of the Kootenays, where BC grown marijuana originated, and holds cannabis cultivation, processing and sales licenses pursuant to the applicable regulations of the Cannabis Act. We Grow has scalable production facilities currently consisting of 26,000 square feet retrofitted for phase 1 cultivation including over 14,000 square feet of growing rooms and up to 100-acre cultivation abilities for future production. We Grow's cannabis production includes its brand Qwest, which is considered a preeminent luxury cannabis brand achieving one of the highest realized flower prices in Canada.

Neither TSXV nor its Regulation Services Provider (as that term is defined in the policies of the TSXV) accepts responsibility for the adequacy or accuracy of this release.

Cautionary Statements

This news release contains "forward-looking information" and "forward-looking statements" (collectively, "forward-looking statements") within the meaning of the applicable Canadian securities legislation. All statements, other than statements of historical fact, are forward-looking statements and are based on expectations, estimates and projections as at the date of this news release. Any statement that involves discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions, future events or performance (often but not always using phrases such as "expects", or "does not expect", "is expected", "anticipates" or "does not anticipate", "plans", "budget", "scheduled", "forecasts", "estimates", "believes" or "intends" or variations of such words and phrases or stating that certain actions, events or results "may" or "could", "would", "might" or "will" be taken to occur or be achieved) are not statements of historical fact and may be forward-looking statements. In this news release, forward-looking statements relate to, among other things, the use of proceeds from the Concurrent Financing; details with respect to the Hold Period; anticipated pricing, future capital requirements; the integration of the businesses of Westleaf and We Grow; the construction and expansion of the Company's production facilities; the timing for completion of same and commencement of production at the Company's production facilities; and future production capacity. Forward-looking statements are necessarily based upon a number of estimates and assumptions that, while considered reasonable, are subject to known and unknown risks, uncertainties, and other factors which may cause the actual results and future events to differ materially from those expressed or implied by such forward-looking statements. Such factors include, but are not limited to: risks relating to the ability to obtain or maintain licences to retail cannabis products; review of the Company's production facilities by Health Canada and receipt or maintenance of licences from Health Canada in respect thereof; future legislative and regulatory developments involving cannabis; inability to access sufficient capital from internal and external sources, and/or inability to access sufficient capital on favourable terms; the labour market generally and the ability to access, hire and retain employees; general business, economic, competitive, political and social uncertainties; the satisfaction of conditions precedent under the Company's credit facilities; timing and completion of construction and expansion of the Company's production facilities and retail locations; and the delay or failure to receive board, regulatory or other approvals, including any approvals of the TSXV, as applicable. There can be no assurance that such statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on the forward-looking statements and information contained in this news release. Except as required by law, the Company assumes no obligation to update the forward-looking statements of beliefs, opinions, projections, or other factors, should they change, except as required by law.

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| <ol style="list-style-type: none">1. Based on management estimates. Thunderchild production capacity estimates are based on Phase I and Phase II total flower bench of 42,000 square feet total (21,000 square feet per phase), 60 grams of flower per yield per square foot per harvest, and 5.8 harvests per annum. Phase I consists of facility floor plate of approximately 80,000 total square feet (total square footage of Phase I & II of ~130,000 sq. ft.). Creston production capacity estimates are based on Phase 1 and Phase 1B total flower bench of 22,900 square feet total (7,700 square feet phase 1), 43 grams of flower per yield per square foot per harvest, and 5.5 harvests per annum.2. Based on average retail price of SKUs available online from Alberta Gaming, Liquor and Cannabis in December 2019. |
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