

The Story of Liberty Health Sciences (\$LHS, \$LHSIF)

A couple of days ago I posted a [price paid per share summary for LHS on Twitter](#). Together with the screenshot of my spreadsheet I promised to write this up in more detail, providing context so everybody can understand it.

First, let me make some things clear by answering some questions:

Q&A

Q: What's your motivation behind this?

A: I've been a shareholder of LHS for a long time now. The recent decline in stock price made no sense to me and therefore I started looking for possible explanations. While being aware the whole sector is down quite huge, LHS always felt to be hit harder. I questioned myself - did I oversee something when doing my DD? Is there something I'm not aware of, either because I don't know it or because my view is biased as I have a quite huge position? The question I simply couldn't get my head around was: Who the fuck would be so stupid or desperate to sell his LHS shares at such ridiculous price levels? Nobody could, because nobody would be able to sell at these levels without taking a huge loss, right? Well, unfortunately, no... Somebody can. But we will get to that later.

Q: Is there some new or previously unreleased information in this article?

A: I don't think so. The main points have been highlighted in the Hindenburg short report: [Aphria Part 2: We Believe This Rot Runs Deep](#). All I can say reading and going through hundreds of PDFs, filings and the story of LHS is: The short report seems to be spot on. Points highlighted in it seem valid.

Q: If there isn't anything new in this article, why did you write it anyway? What's the purpose?

A: The purpose of it and the reason I'm doing it is, because I want to highlight the importance of share structure to everybody. I believe it's overlooked and not accounted for most of the time. You can hold shares of the most fundamentally solid company – if there's somebody who got his shares for CAD \$0.003/piece while you paid CAD \$0.62/piece – that's a problem and depending on the amount of such shares available, can suppress stock price for quite a long time.

Story

Enough with the questions, let's get started with the story. To understand the LHS of today, we must go back in history to the point it was founded and try to understand how it developed since then.

Introduction

Before LHS was called LHS and before it went public on any stock exchange, there was a private company called DFMMJ Investments Ltd. and an already publicly traded company called SecureCom Mobile Inc. These two formed LHS through [a RTO](#) in 2017. The document describing the business combination can be found [here](#) (it's of great value and I can only suggest the reader to read through it and try to understand it). There also was a private company called Chestnut Hill Tree Farm LLC which later became the first core asset of LHS. Chestnut consisted of a Florida license and the growing operations/facility and was sold just recently again by LHS.

To summarize, we have the following three pieces at this point:

- SecureCom Mobile Inc. (Michael Galloro: CEO of SecureCom and COO of Delavaco Capital - private equity firm of DeFrancesco)
- DFMMJ Investments Ltd. (DeFrancesco Company that's been setup a month before all these transactions took place)
- Chestnut Hill Tree Farm LLC (Florida license and growing operation/facility)

Sequence of Events

The following list describes what happened in a simplified way (chronological logical order):

1. DFMMJ gets founded by DeFrancesco (March 20, 2017)
2. DFMMJ signs agreement to buy Chestnut Hill Tree Farm LLC (March 30, 2017)
3. DFMMJ carries out 1st private placement (April 11, 2017)
4. DFMMJ signs agreements with Aphria (April 18, 2017)
5. DFMMJ carries out 2nd private placement (April 27, 2017)
6. DFMMJ buys Chestnut Hill Tree Farm LLC (May 23, 2017)
7. DFMMJ goes public through SecureCom RTO – LHS was born (July 26, 2017)
8. LHS carries out 3rd private placement (May 10, 2018)
9. LHS buys 242 Cannabis LLC (February 15, 2018)
10. LHS pays Thermo Energy Systems Inc. (July, 2018)
11. LHS sells Chestnut Hill Tree Farm and Ohio Assets (August 22, 2019)

As one can see, the formation of DMMJ up to the RTO happened within roughly 4 months. Let's investigate each in a little bit more detail:

DFMMJ gets founded (March 20, 2017)

Well, not a lot to add here – basically DeFrancesco set-up the company for the events that should follow the next couple of days/weeks.

DFMMJ signs agreement to buy Chestnut Hill Tree Farm (March 30, 2017)

DFMMJ signed a purchase agreement for Chestnut Hill Tree Farms whereby a price tag of US \$40 million was agreed upon. As DFMMJ was founded just 10 days earlier, this raises the question – where are the US \$40 million coming from? DMMJ currently has zero cash. Let's see...

DFMMJ carries out 1st private placement (April 11, 2017)

This is the most important event of all and the point where Andy DeFrancesco and friends enriched themselves on the back of retail shareholders. On April 11, 2017 they carried out a private placement for 242,600,000 shares whereby each share cost them CAD \$0.001.

DFMMJ now has 242,600,000 shares and CAD \$242,600 cash available. Still a couple of \$\$\$ missing for paying the US \$40 million price tag on Chestnut, right?

DFMMJ signs agreements with Aphria (April 18, 2017)

DFMMJ signed a couple of agreements with Aphria, including a Know-How agreement whereby Aphria agreed to share growing know-how etc. with DFMMJ (later LHS). DFMMJ issued Aphria 192,400,000 shares in exchange for these agreements.

DFMMJ now has 435,000,000 shares and still only CAD \$242,600 cash available.

DFMMJ carries out 2nd private placement (April 27, 2017)

The structure of this was a bit trickier because they didn't directly issue shares, they issued subscription receipts: 164,182,679 subscription receipts and 2,644,231 shares to be exact. A subscription receipt entitles the holder to convert it to a generic common share without the payment of any further amount of cash – but also has some lock-up period on it.

DFMMJ now has 437,644,231 shares, 164,182,679 subscription receipts and roughly CAD \$34 million cash available.

The price paid for each subscription receipt was \$0.208. The private placement was led by Clarus Securities Inc. and buyers were likely mostly retail shareholders. I doubt Clarus told all these people that they are paying 208-times more than DeFrancesco and friends paid merely a month earlier.

DFMMJ buys Chestnut Hill Tree Farm (May 23, 2017)

The price tag of Chestnut with US \$40 million still is higher than the currently available funds of roughly CAD \$34 million cash available at DMMJ. So, where does the difference come from? The business combination document referred to at the beginning tells us: “[...] The balance of the purchase price (less the non-refundable deposit) was funded by Aphria [...]”

Therefore, DMMJ issued Aphria another 120,192,308 shares for US \$18.4 million so DFMMJ can finally purchase Chestnut:

- US \$3.26 million up-front deposit borrowed by DFMMJ from SecureCom
- US \$18.4 million from issuing ~120 million shares to Aphria
- US \$25.02 million from issuing ~365 million shares in private placements
- US \$46.68 million cash available now

Note: 120,192,310 of the 164,182,679 subscription receipts were converted to common shares for funding the Chestnut purchase (as previously written, conversion rate equals 1:1).

Note: Interesting side hint - Brady Cobb was the trust agent for the US \$3.26 million up-front payment.

DFMMJ now has 678,028,849 shares, 43,990,369 (164,182,679 - 120,192,310) subscription receipts and CAD 14.3 million cash available. They also own Chestnut Hill Tree Farms.

DFMMJ goes public through SecureCom RTO – LHS was born (July 26, 2017)

At this point SecureCom and DFMMJ got combined and the newly created entity got renamed to Liberty Health Sciences (not directly, if you look at the company structures DFMMJ was integrated as a sub-company under SecureCom - but to make things more easy and understandable and because it doesn't matter for the math I express this in a simplified way).

Therefore, we must combine the existing share structures and cash amounts available:

- SecureCom: 130,044,447 shares, CAD \$3.6 million cash
- DFMMJ: 678,028,849 shares, 43,990,369 subscription receipts and CAD 14.3 million cash
- Combined: 852,063,665 shares (subscription receipts converted 1:1) and CAD 17.9 million cash

Note: Together with the RTO there has been a reverse stock split of 3:1. The 852,063,665 pre-split shares of newborn Liberty Health Sciences became 284,021,221 post-split shares.

Note: The share structure of SecureCom looks suspicious, but I didn't dive deeper into it at this point.

Time to check [the table from the Tweet](#) to see how much was paid for all these issued shares (the table should make way more sense now, with the story behind them):

DMMJ	Owner	Post-Consolidation	Pre-Consolidation	Percentage	Cost	Cost/Share Post-Consolidation
	Aphria	104 197 436	312 592 308	46,10%	\$30 000 000	\$0,288
Insiders	80 866 667	242 600 000	35,78%	\$242 600	\$0,003	
Retail	40 945 514	122 836 541	18,12%	\$25 550 001	\$0,624	
		226 009 616	678 028 849	100,00%	\$55 792 601	\$0,247
LHS	Owner	Post-Consolidation	Pre-Consolidation	Percentage	Cost	Cost/Share Post-Consolidation
	DMMJ	240 673 073	722 019 218	84,74%	\$64 942 597	\$0,270
SecureCom	43 348 149	130 044 447	15,26%	\$11 384 218	\$0,263	
		284 021 222	852 063 665	100,00%	\$76 326 816	\$0,269

This doesn't look good – CAD \$0.269/share was paid on average. Considering the price LHS started trading at – CAD \$1.3/share – I feel for everybody who bought it at that price.

Note: Cost for Aphria contains the assigned value of CAD \$5 million Liberty booked this at. Aphria didn't pay a single dollar, they just signed a couple pieces of paper. Therefore, one might even remove the CAD \$5 million from the calculation. Doing so reduces the average price paid to CAD \$0.251/share.

Note: Initial directors at LHS were Vic Neufeld, John Cervini, Aaron Serruya, Brady Cobb and Michael Galloro.

LHS carries out 3rd private placement (May 10, 2018)

Classic bought deal. Issued 25,555,875 shares (CAD \$0.90/piece) and 25,555,875 warrants (CAD \$1.10/piece until May 10, 2020).

LHS now has 309,577,097 shares, 25,555,875 warrants.

	Owner	Post-Consolidation	Pre-Consolidation	Percentage	Cost	Cost/Share Post-Consolidation
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		284 021 222	852 063 665	100,00%	\$76 326 816	\$0,269
Bought Deal - May 10, 2018						
		25 555 875			\$23 000 288	\$0,90
		309 577 097			\$99 327 103	\$0,32

Average price paid per share rose to CAD \$0.32 through this bought deal.

LHS buys 242 Cannabis (February 15, 2018)

This is the property where their Liberty 360 campus was built upon. There are a couple of things to notice:

- 242 Cannabis LLC is another DeFrancesco company setup a couple of weeks earlier for the sole purpose of being man-in-the-middle again
- LHS [cancelled a bought deal](#) they announced previously to the 242 Cannabis acquisition that would have been much more favorable for them.

Issued 18,815,322 shares (CAD \$1.6476/piece) and 9,407,661 warrants (CAD \$2.07/piece until Jan 31, 2021).

Here is a summary of the transaction, showing that DeFrancesco and friends made millions again by playing man-in-the-middle:

As consideration for the Purchased Shares, the Company will issue **18,815,322 units** of the Company, with each unit being comprised of one common share of the Company issued at a **common share price of \$1.6476** and **one-half common share purchase warrant**, with each whole warrant exercisable into common shares of the Company at an exercise price of **\$2.07 per common share** for a period of three years from the closing date of the acquisition. The Company has received conditional approval from the CSE for the issuance of such securities in respect of the transactions contemplated under the Definitive Agreement.

https://webfiles.thecse.com/sedar_filings/00036225/1802081411562594.pdf

On February 15, 2018, the Company closed the acquisition of 242 Cannabis as part of this acquisition the company issued 9,407,661 warrants (note 14). Each warrant is exercisable at \$2.07 per share and expire in 3 years, **the fair value of these warrants on the grant date was \$4,232,653.**

https://webfiles.thecse.com/sedar_filings/00036225/1806281721288462.pdf

On February 9, 2018, the Company sold its **nursery located in Gainesville for approximately \$6,500,000** and realized a gain of approximately \$150,000.

<https://ir.alicoinc.com/all-sec-filings/content/0000003545-18-000047/0000003545-18-000047.pdf>

During the period 18,815,322 units were issued to acquire all of the issued and outstanding shares of 242 Cannabis, LLC. ("242 Cannabis") which owned a 387-acre parcel of land in Gainesville, Florida (the "Property"). The Property includes over 200,000 square feet of state-of-the-art greenhouses, head houses, tissue culture lab and processing facilities. Each unit contains one common share and one-half common share purchase warrant with an exercise price of \$2.07 for a period of 3 years from closing. As 242 Cannabis did not have any operations, this acquisition was accounted for as an asset acquisition, with \$13,492,572 allocated to land and greenhouse infrastructure (note 10), and the remaining **\$15,200,000 in the form of cash.**

https://webfiles.thecse.com/sedar_filings/00036225/1806281721288462.pdf

Out			
Shares	18 815 322	\$1,648	\$31 000 125
Warrants			\$4 232 653
In			
Property			\$8 775 000
Cash			\$15 200 000
Difference			\$11 257 778

LHS now has 328,392,419 shares and 34,963,536 warrants.

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		284 021 222	852 063 665	100,00%	\$76 326 816	\$0,269
	Bought Deal - May 10, 2018					
		25 555 875			\$23 000 288	\$0,90
		309 577 097			\$99 327 103	\$0,32
	242 Cannabis Acquisition - February 15, 2018					
		18 815 322			\$31 000 125	\$1,65
		328 392 419			\$130 327 228	\$0,40

Average price paid per share rose to CAD \$0.40 through this purchase.

LHS pays Thermo Energy Systems Inc. (July, 2018)

Nothing special here, I just wanted to mention it because of the number of shares issued – 10,092,583 (CAD \$0,92/piece). They wanted to save cash (as they were aware, they would run low on it soon otherwise) and paid a contractor in shares.

LHS now has 338,485,002 shares and 34,963,536 warrants.

DMMJ	Owner	Post-Consolidation	Pre-Consolidation	Percentage	Cost	Cost/Share Post-Consolidation
	Aphria	104 197 436	312 592 308	46,10%	\$30 000 000	\$0,288
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Bought Deal - May 10, 2018						
	25 555 875			\$23 000 288	\$0,90	
	309 577 097			\$99 327 103	\$0,32	
242 Cannabis Acquisition - February 15, 2018						
	18 815 322			\$31 000 125	\$1,65	
	328 392 419			\$130 327 228	\$0,40	
Thermo Energy Systems Inc. - July, 2018						
	10 092 583			\$9 285 176	\$0,92	
	338 485 002			\$139 612 404	\$0,41	

Average price paid per share rose to CAD \$0.41 through this share issuance.

LHS sells Chestnut Hill Tree Farm and Ohio Assets (August 22, 2019)

This happened just recently – because stock price has been in the cellar and they ran out of cash, they decided to sell their initial Chestnut property/facility together with their Ohio assets.

They received US 14.75 million cash for it.

Costs when they bought them:

- Chestnut: US \$40 million (incl. license that was not sold)
- Chestnut additional land: US \$866,975
- Chestnut investments/optimizations: ?
- Ohio assets: CAD \$1 million+ contributed

This leaves us with a loss of roughly US \$26 million – which I think is a reasonable value for the FL license that must be subtracted as it wasn't sold.

Note: I believe the Ohio operation (license) is worth much more as the \$\$\$ amount contributed. Ohio is heating up and it would have been a good thing for LHS to keep it. I'm convinced it was a requirement from the buyers for the deal taking place at all.

A review of land transfer records in Florida show that the buyer were the Schottensteins (who own the other half of the JV in Ohio). As backers of \$GGB one can count the days till they announce they sell/lend the land to \$GGB. The price tag will be interesting, I guess. Let's see if they pull a DeFrancesco on \$GGB shareholders.

Summary

As one can see - LHS as it exists today was built-up by DeFrancesco and friends. They've been raping it financially multiple times since it's inception, on the back of retail shareholders. The millions of nearly free shares (roughly 80 million LHS shares) they issued themselves directly at the beginning have a good chance of being the explanation for the constant share price downward pressure we are seeing with LHS. For a company like LHS with very low volume, it takes a long time to cash out such huge amounts of shares.

The average price paid per LHS share at issuance was CAD \$0.41.

I can only suggest that everybody looks up the story and share-structure of the companies he's invested in – to not get caught with bad surprises. A lot of companies in the sector face similar issues.

In my opinion LHS itself is a good company and has a bright future ahead. I'm curious if and when they find a new CEO, if he's somehow related to DeFrancesco – In that case I'm out. I'm also curious if future deals are still structured against retail shareholders and if the practice of setting up man-in-the-middle shell companies to rob shareholders continues in connection with LHS. If it does, I'm out too.

As DeFrancesco together with Bray Cobb now runs his own company, SOL Global Investments (\$SOL) soon to be renamed Bluma Wellness, I'm going through all their deals in the following weeks too. But seeing black on white how they robbed shareholders again and again in the past, solely to enrich themselves, makes me believe holders of their stock suffer serious Stockholm syndrome – I'm sorry.

There are so many connections between a lot of these people, they all can't be summarized in one document. I would urge everybody interested to read through the relevant documents (see sources) and cross check information and names.

Sources

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