

Stalking Horse Sales Process

Introduction

1. On November 3, 2022, CannaPiece Group Inc. (“**CPG**”) and its subsidiaries, namely CannaPiece Corp. (“**CPC**”), the licensed contract manufacturer of cannabis products (collectively, the “**Applicants**”) were granted an initial order (as amended and restated on November 10, 2022, and as may be further amended or amended and restated from time to time, the “**Initial Order**”) under the *Companies’ Creditors Arrangement Act* (the “**CCAA**” and the “**CCAA Proceedings**”) by the Ontario Superior Court of Justice (the “**Court**”). The Initial Order, among other things:
 - (a) stayed all proceedings against the Applicants, their assets, and their respective directors and officers;
 - (b) appointed BDO Canada Limited as the monitor of the Applicants (in such capacity, the “**Monitor**”);
 - (c) authorized the Applicants to enter into a debtor-in-possession financing facility (the “**DIP Facility**”) with Cardinal Advisory Limited (the “**DIP Lender**”) pursuant to a Term Sheet dated November 2, 2022 (the “**DIP Term Sheet**”), and approved a charge in favour of the DIP Lender over all of the Applicants’ present and future assets, property and undertakings of every nature and kind whatsoever, and wherever situate including all proceeds thereof to secure the amounts outstanding under or in connection with the DIP Facility; and
 - (d) authorized the Applicants to pursue all avenues of sale or investment of their assets or business, in whole or in part, subject to prior approval of the Court before any material sale or refinancing.
2. As outlined in the DIP Term Sheet, the Applicants and the DIP Lender, or its nominee (the “**Stalking Horse Bidder**”) were in the process of negotiating a purchase agreement (the “**Stalking Horse Agreement**” or when referring to the bid, the “**Stalking Horse Bid**”) pursuant to which the Stalking Horse Bidder would: (a) acquire 100% ownership of CPC within the CCAA Proceedings by way of reverse vesting order issued by the Court; and (b) act as a stalking horse bidder in a Court-supervised sale and investment solicitation process (“**SISP**”) within the CCAA Proceedings (the SISP or the “**Stalking Horse Sales Process**”).
3. Further to the Applicants’ restructuring efforts and the terms of the DIP Term Sheet, on November 10, 2022, the Court granted an order (the “**Sale Process Approval Order**”) which approved, among other things: (a) the SISP; (b) the engagement of the BDO Canada Transaction Advisory Services Inc. as sales agent (the “**Sales Agent**”) to assist with the SISP; and (c) the Stalking Horse Agreement, as the Stalking Horse Bid in the SISP. The SISP is intended to solicit interest in an acquisition or refinancing of the business of the Applicants, or a sale of the assets and/or the business of the Applicants by way of merger, reorganization, recapitalization, primary equity issuance or other similar transaction. The Stalking Horse Bid is intended to provide a degree of certainty in the marketplace for the Applicants, including CPC’s customers and its employees, that a going-concern sale of CPC is a viable outcome of the SISP. The Applicants intend to provide all qualified interested parties with an opportunity to participate in the SISP.

Opportunity

4. The SISP is intended to solicit interest in, and opportunities for, a sale of, or investment in, all or part of the Applicants’ assets and business operations (the “**Opportunity**”). The Opportunity may include one or more of a restructuring, recapitalization or other form of reorganization of the

business and affairs of the Applicants as a going concern or a sale of all, substantially all, or one or more components of the Applicants' Property (as defined in the Initial Order) and business operations (the "**Business**") as a going concern or otherwise.

5. Except to the extent otherwise set forth in a definitive sale or investment agreement with a Successful Bidder (as defined below), any sale of the Property or investment in the Business will be on an "as is, where is" basis and without surviving representations or warranties of any kind, nature, or description by the Monitor, the Applicants, or any of their respective agents, advisors or estates, and, in the event of a sale, all of the right, title and interest of the Applicants in and to the Property to be acquired will be sold free and clear of all pledges, liens, security interests, encumbrances, claims, charges, options, and interests therein and thereon pursuant to Court orders, to the extent that the Court deems it appropriate to grant such relief and except as otherwise provided in such Court orders (i.e. approval and vesting order, reverse vesting order, etc.).

Timeline

6. The following table sets out the key milestones under the SISP:

Milestone	Deadline
Deadline to publish notice of SISP and deliver Teaser Letter and NDA to Known Potential Bidders	Friday, November 18, 2022
Deadline to finalize schedule of Assumed Liabilities in the Stalking Horse SPA	No later than Wednesday, November 30, 2022
Bid Deadline (as defined below)	Monday, January 9, 2023
Deadline to top-up Deposit to Stalking Horse Payout Amount (as defined below)	Friday, January 13, 2023
Auction (as defined below)	Monday, January 16, 2023
Hearing of the Sale Approval Motion (as defined below)	No later than Monday, January 30, 2023, subject to the availability of the Court

7. Subject to any order of the Court, the dates set out in the SISP may be extended by the Monitor with the consent and approval of the Applicants and the Stalking Horse Bidder.

Solicitation of Interest: Notice of the SISP

8. As soon as reasonably practicable, but in any event by no later than November 18, 2022:
 - (a) The Sales Agent, in consultation with the Monitor and Applicants, will prepare a list of potential bidders, including: (i) parties that have approached the Applicants or the Monitor indicating an interest in the Opportunity; and (ii) local and international strategic and

financial parties who the Applicants, in consultation with the Monitor, believe may be interested in purchasing all or part of the Business and Property or investing in the Applicants pursuant to the SISP, in each case whether or not such party has submitted a letter of intent or similar document (collectively, “**Known Potential Bidders**”);

- (b) the Monitor will arrange for a notice of the SISP (and such other relevant information which the Monitor, in consultation with the Applicants, considers appropriate) (the “**Notice**”) to be published in The Globe and Mail (National Edition), and any other newspaper or journal as the Applicants, in consultation with the Monitor, consider appropriate, if any; and
 - (c) the Sales Agent, in consultation with the Monitor and Applicants, will prepare: (i) a process summary (the “**Teaser Letter**”) describing the Opportunity, outlining the process under the SISP and inviting recipients of the Teaser Letter to express their interest pursuant to the SISP; and (ii) a non-disclosure agreement in form and substance satisfactory to the Applicants and the Monitor, and their respective counsel.
9. The Sales Agent will send the Teaser Letter and NDA to each Known Potential Bidders by no later than Friday November 18, 2022, and to any other party who requests a copy of the Teaser Letter and NDA or who is identified to the Applicants or the Monitor as a potential bidder as soon as reasonably practicable after such request or identification, as applicable.

Potential Bidders and Due Diligence Materials

10. Any party who wishes to participate in the SISP (a “**Potential Bidder**”), other than the Stalking Horse Bidder, must provide to the Sales Agent an NDA executed by it, and which shall inure to the benefit of any purchaser of the Business or Property, or any portion thereof, and a letter setting forth the identity of the Potential Bidder, the contact information for such Potential Bidder and full disclosure of the direct and indirect principals of the Potential Bidder.
11. The Sales Agent, in consultation with the Monitor and the Applicants, shall in their reasonable business judgment and subject to competitive and other business considerations, afford each Potential Bidder who has signed and delivered an NDA to the Monitor and provided information as to their financial wherewithal to close a transaction such access to due diligence material and information relating to the Property and Business as the Applicants or the Monitor deem appropriate. Due diligence shall include access to an electronic data room containing information about the Applicants and the Business (the “**Data Room**”), and may also include management presentations, on-site inspections, and other matters which a Potential Bidder may reasonably request and as to which the Applicants, in their reasonable business judgment and after consulting with the Monitor, may agree. The Sales Agent will designate a representative to coordinate all reasonable requests for additional information and due diligence access from Potential Bidders and the manner in which such requests must be communicated. Neither the Sales Agent, Applicants nor the Monitor will be obligated to furnish any information relating to the Property or Business to any person other than to Potential Bidders. Furthermore, and for the avoidance of doubt, selected due diligence materials may be withheld from certain Potential Bidders if the Sales Agent, in consultation with Applicants and with the approval of the Monitor, determine such information to represent proprietary or sensitive competitive information. Neither the Sales Agent, Applicants nor the Monitor is responsible for, and will bear no liability with respect to, any information obtained by any party in connection with the Sale of the Property and the Business.

12. Potential Bidders must rely solely on their own independent review, investigation and/or inspection of all information and of the Property and Business in connection with their participation in the SISP and any transaction they enter into with the Applicants.

Continued Management of CPC

13. The management team of the Applicants has agreed to provide transition services to the Successful Bidder following the closing of the transaction contemplated by the Successful Bid (as defined below). Such services will be provided for the period of time required to ensure the successful transition of CPC's operations, in exchange for compensation on the same or similar terms to the current employment arrangements of such individuals.

Stalking Horse Bid Non-Cash Purchase Price Finalized

14. The Stalking Horse Agreement contemplates a purchase price of \$3.5 million plus certain "Assumed Liabilities" that will be stipulated by the Purchaser on or before November 30, 2022. The schedule of Assumed Liabilities, once final, will be made available to Potential Bidders in the Data Room.

Formal Binding Offers

15. Potential Bidders that wish to make a formal offer to purchase or make an investment in the Applicants or their Property or Business (a "**Bidder**") shall submit a binding offer (a "**Bid**") that complies with all of the following requirements to the Monitor at the address specified in Schedule "1" hereto (including by e-mail), so as to be received by them not later than **5:00 PM (Eastern Time) on January 9, 2023** or such earlier or later date as may be set out in the Bid process letter that may be circulated by the Sales Agent to Potential Bidders, with the approval of the Applicants and Monitor and in consultation with the Stalking Horse Bidder (the "**Bid Deadline**"):
 - (a) the Bid must be a binding offer to:
 - (i) acquire all, substantially all, or a portion of the Property (a "**Sale Proposal**"); and/or
 - (ii) make an investment in, restructure, reorganize or refinance the Business or the Applicants (an "**Investment Proposal**").
 - (b) the Bid (either individually or in combination with other bids that make up one bid) must be an offer to purchase or make an investment in some or all of the Applicants or their Property or Business and must be consistent with any necessary terms and conditions established by the Sales Agent, Applicants and the Monitor and communicated to Bidders;
 - (c) the Bid must include a letter stating that the Bidder's offer is irrevocable until the selection of the Successful Bidder, provided that if such Bidder is selected as the Successful Bidder, its offer shall remain irrevocable until the closing of the transaction with the Successful Bidder;
 - (d) the Bid must include duly authorized and executed transaction agreements that clearly state the purchase price, investment amount and any other key economic terms expressed in Canadian dollars (the "**Purchase Price**"), together with all exhibits and schedules thereto;
 - (e) the Bid must include written evidence of a firm, irrevocable commitment for financing or other evidence of ability to consummate the proposed transaction, that will allow the Applicants and the Monitor to make a determination as to the Bidder's financial and other capabilities to consummate the proposed transaction;

- (f) the Bid must not be conditional on: (i) the outcome of unperformed due diligence by the Bidder including, but not limited to, the negotiation and completion of a transition agreement with key personnel or management required to maintain the cannabis licenses in good standing; or (ii) obtaining financing;
- (g) the Bid must fully disclose the identity of each entity that will be entering into the transaction or the financing, or that is otherwise participating or benefiting from such Bid;
- (h) for a Sale Proposal, the Bid must include:
 - (i) the Purchase Price in Canadian dollars and a description of any non-cash consideration, including details of any liabilities to be assumed by the Bidder and key assumptions supporting the valuation;
 - (ii) a description of the Property that is expected to be subject to the transaction and any of the Property expected to be excluded;
 - (iii) a specific indication of the financial capability of the Bidder and the expected structure and financing of the transaction;
 - (iv) a description of the conditions and approvals required to complete the closing of the transaction, consistent with those contained in the Stalking Horse Bid;
 - (v) a description of those liabilities and obligations (including operating liabilities) which the Bidder intends to assume and which such liabilities and obligations it does not intend to assume;
 - (vi) any other terms or conditions of the Sale Proposal that the Bidder believes are material to the transaction; and
 - (vii) a commitment by the Bidder to provide a non-refundable deposit equal to 10% of the Purchase Price in the Sale Proposal.
- (i) for an Investment Proposal, the Bid includes:
 - (i) a description of how the Bidder proposes to structure the proposed investment, restructuring, recapitalization, refinancing or reorganization, and a description of any non-cash consideration;
 - (ii) the aggregate amount of the equity and/or debt investment to be made in the Business or the Applicants in Canadian dollars;
 - (iii) the underlying assumptions regarding the pro forma capital structure;
 - (iv) a specific indication of the sources of capital for the Bidder and the structure and financing of the transaction;
 - (v) a description of the conditions and approvals required for to complete the closing of the transaction, measured against those contained in the Stalking Horse Bid;
 - (vi) a description of those liabilities and obligations (including operating liabilities) which the Bidder intends to assume and which such liabilities and obligations it does not intend to assume;
 - (vii) any other terms or conditions of the Investment Proposal; and
 - (viii) a commitment by the Bidder to provide a deposit equal to 10% of the total new investment contemplated in the Investment Proposal.
- (j) the Bid must include acknowledgements and representations of the Bidder that the Bidder:

- (i) has had an opportunity to conduct any and all due diligence regarding the Property, the Business, and the Applicants prior to making its offer;
 - (ii) has relied solely upon its own independent review, investigation and/or inspection of any documents and/or the Property in making its bid; and
 - (iii) did not rely upon any written or oral statements, representations, warranties, or guarantees whatsoever, whether express, implied, statutory, or otherwise, regarding the Business, the Property, or the Applicants or the completeness of any information provided in connection therewith, except as expressly stated in the definitive transaction agreement(s) signed by the Applicants;
- (k) the Bid must be received by the Bid Deadline;
 - (l) the Bid must contemplate closing the transaction set out therein on or before February 3, 2023.
16. Following the Bid Deadline, the Sales Agent, Applicants and the Monitor will assess the Bids received. The Monitor, in consultation with the Applicants, and with the approval of the Applicants, will designate the most competitive bids that comply with the foregoing requirements to be “**Qualified Bids**”. No Bid received shall be deemed not to be a Qualified Bid without the approval of the Monitor. Only Bidders whose bids have been designed as Qualified Bids are eligible to become the Successful Bidder(s). The Stalking Horse Bid shall automatically be considered as a Qualified Bid for the purposes of the Auction.
17. The Monitor may only designate a Bid as a Qualified Bid where the proposed Purchaser Price is equal to or greater than that contained in the Stalking Horse Bid, *plus* the amount of the break fee, *plus* professional fees, *plus* \$100,000.
18. The Monitor, in consultation with the Applicants and with the approval of the Applicants, may waive strict compliance with any one or more of the requirements specified above and deem a non-compliant Bid to be a Qualified Bid.
19. The Monitor shall notify each Bidder in writing as to whether its Bid constituted a Qualified Bid within two (2) business days of the Bid Deadline, or at such later time as the Monitor deems appropriate.
20. The Monitor may, in consultation with the Applicants and with the approval of the Applicants, aggregate separate Bids from unaffiliated Bidders to create one Qualified Bid.

Evaluation of Competing Bids

21. A Qualified Bid will be evaluated based upon several factors including, without limitation: (i) the Purchase Price and the net value provided by such bid; (ii) the identity, circumstances and ability of the Bidder to successfully complete such transactions; (iii) the proposed transaction documents, (iv) factors affecting the speed, certainty and value of the transaction, (v) the assets included or excluded from the bid, (vi) any related restructuring costs, and (vii) the likelihood and timing of consummating such transaction, each as determined by the Applicants and the Monitor.

Auction

22. If the Monitor receives at least one additional Qualified Bid, in addition to the Court-approved Stalking Horse Bid, the Monitor will conduct and administer an Auction in accordance with the terms of this SISP (the “**Auction**”). Instructions to participate in the Auction, which will take place via video conferencing, will be provided to Qualified Parties (as defined below) not less than 24 hours prior to the Auction.
23. Only parties that provided a Qualified Bid by the Bid Deadline, as confirmed by the Monitor, including the Stalking Horse Bid (collectively, the “**Qualified Parties**” and each, a “**Qualified Party**”), shall be eligible to participate in the Auction. No later than 5:00 p.m. Eastern Daylight Time on January 13, 2023:
- (a) each Qualified Party must inform the Monitor whether it intends to participate in the Auction;
 - (b) those Qualified Parties intending to participate in the Auction must satisfy the Monitor of their ability to deliver a deposit top-up equivalent to the Stalking Horse Bidder’s deposit, professional fees, and break fee, which aggregate amount is expected to total approximately \$3.7 million (the “**Stalking Horse Payout Amount**”), in the event that such Qualified Party’s Bid is the Successful Bid. For certainty, Qualified Parties shall provide the Monitor with:
 - (i) evidence of immediately available funds being held in trust in an amount sufficient to repay the Stalking Horse Payout Amount; and
 - (ii) a pledge, commitment or otherwise issued in favour of the Stalking Horse Bidder in an amount equal to the Stalking Horse Payout Amount, payable upon the Court’s approval of such Qualified Party’s Successful Bid and an Order approving such payment to the Stalking Horse Bidder.
24. The Monitor will promptly thereafter inform in writing each Qualified Party who has expressed its intent to participate in the Auction of the identity of all other Qualified Parties that have indicated their intent to participate in the Auction. If no Qualified Party provides such expression of intent, the Stalking Horse Bid, shall be the Successful Bid.

Auction Procedure

25. The Auction shall be governed by the following procedures:
- (a) **Participation at the Auction.** Only the Applicants, the Qualified Parties, the Monitor and each of their respective advisors will be entitled to attend the Auction, and only the Qualified Parties will be entitled to make any subsequent Overbids (as defined below) at the Auction. The Monitor shall provide all Qualified Parties with the details of the lead Bid by 5:00 PM (Eastern Time) two (2) business days after the Bid Deadline;
 - (b) **No Collusion.** Each Qualified Party participating at the Auction shall be required to confirm on the record at the Auction that: (i) it has not engaged in any collusion with respect to the Auction and the bid process; and (ii) its bid is a good-faith *bona fide* offer, and it intends to consummate the proposed transaction if selected as the Successful Bid;
 - (c) **Minimum Overbid.** The Auction shall begin with the Qualified Bid that represents the highest or otherwise best Qualified Bid as determined by the Monitor, in consultation with the Applicants (the “**Initial Bid**”), and any bid made at the Auction by a Qualified Party

subsequent to the Monitors announcement of the Initial Bid (each, an “**Overbid**”), must proceed in minimum additional cash increments of \$100,000;

- (d) **Bidding Disclosure.** The Auction shall be conducted such that all bids will be made and received in one group video-conference, on an open basis, and all Qualified Parties will be entitled to be present for all bidding with the understanding that the true identity of each Qualified Party will be fully disclosed to all other Qualified Parties and that all material terms of each subsequent bid will be fully disclosed to all other Qualified Parties throughout the entire Auction; provided, however, that the Monitor, in its discretion, may establish separate video conference rooms to permit interim discussions between the Monitor and individual Qualified Parties with the understanding that all formal bids will be delivered in one group video conference, on an open basis;
- (e) **Bidding Conclusion.** The Auction shall continue in one or more rounds and will conclude after each participating Qualified Party has had the opportunity to submit one or more additional bids with full knowledge and written confirmation of the then-existing highest bid(s);
- (f) **No Post-Auction Bids.** No bids will be considered for any purpose after the Auction has concluded; and
- (g) **Auction Procedures.** The Monitor shall be at liberty to set additional procedural rules at the Auction as it sees fit.

Selection of Successful Bid

- 26. Before the conclusion of the Auction, the Monitor, in consultation with the Applicants, will:
 - (a) review each Qualified Bid, considering the factors set out in paragraph 15 and, among other things:
 - (i) the amount of consideration being offered, and, if applicable, the proposed form, composition, and allocation of same;
 - (ii) the value of any assumption of liabilities or waiver of liabilities not otherwise accounted for in paragraph 24(a)(i);
 - (iii) the likelihood of the Qualified Party’s ability to close a transaction by February 3, 2023, after completion of the Auction and timing thereof (including factors such as the transaction structure and execution risk, including conditions to, timing of, and certainty of closing; termination provisions; availability of financing and financial wherewithal to meet all commitments and required governmental or other approvals); the likelihood of the Court’s approval of the Successful Bid; the net benefit to the Applicants; and
 - (iv) any other factors the Applicants may, consistent with their fiduciary duties, reasonably deem relevant; and
 - (b) identify the highest or otherwise best bid received at the Auction (the “**Successful Bid**” and the Qualified Party making such bid, the “**Successful Party**”).
- 27. The Successful Party shall complete and execute all agreements, contracts, instruments or other documents evidencing and containing the terms and conditions upon which the Successful Bid was made within one business day of the Successful Bid being selected as such, unless extended by the Monitor, in consultation with and Approval from the Applicants, subject to the milestones set forth in paragraph 6.

Sale Approval Motion Hearing

28. At the hearing of the motion to approve any transaction with a Successful Party (the “**Sale Approval Motion**”), the Monitor or the Applicants shall seek, among other things, approval from the Court to consummate the transaction contemplated by the Successful Bid. All Qualified Bids other than the Successful Bid, if any, shall be deemed to be rejected by the Monitor and the Applicants on and as of the date of approval of the Successful Bid by the Court.

Confidentiality and Access to Information

29. All discussions regarding a Sale Proposal, Investment Proposal, or Bid should be directed through the Monitor. Under no circumstances should the management of the Applicants be contacted directly without the prior consent of the Monitor. Any such unauthorized contact or communication could result in exclusion of the interested party from the SISP.
30. Participants and prospective participants in the SISP shall not be permitted to receive any information that is not made generally available to all participants relating to the number or identity of Potential Bidders, Bidders, Qualified Bids, the details of any bids submitted or the details of any confidential discussions or correspondence between the Applicants, the Monitor and such other Bidders or Potential Bidders in connection with the SISP, except to the extent the Applicants, with the approval of the Monitor and consent of the applicable participants, are seeking to combine separate bids from Potential Bidders or Bidders.

Supervision of the SISP

31. The Monitor shall oversee and conduct the SISP with the assistance of the Sale Agent, in all respects, and, without limitation to that supervisory role, the Monitor will participate in the SISP in the manner set out in this SISP Procedure, the Sale Process Approval Order, the Initial Order and any other orders of the Court, and is entitled to receive all information in relation to the SISP.
32. This SISP does not and will not be interpreted to create any contractual or other legal relationship between the Applicants or the Monitor and any Potential Bidder, any Bidder, or any other party, other than as specifically set forth in a definitive agreement that may be entered into with the Applicants.
33. Without limiting the preceding paragraph, the Monitor, the Sales Agent and its advisors shall not have any liability whatsoever to any person or party, including without limitation any Potential Bidder, Bidder, the Successful Bidder, the Applicants, the Stalking Horse Bidder or any other creditor or other stakeholder of the Applicants, for any act or omission related to the process contemplated by this SISP Procedure, except to the extent such act or omission is the result of gross negligence or wilful misconduct of the Monitor. By submitting a Bid, each Bidder shall be deemed to have agreed that it has no claim against the Monitor for any reason whatsoever, except to the extent that such claim is the result of gross negligence or wilful misconduct of the Monitor.
34. Participants in the SISP are responsible for all costs, expenses and liabilities incurred by them in connection with the submission of any Bid, due diligence activities, the Auction and any further negotiations or other actions whether or not they lead to the consummation of a transaction.
35. Without limiting in any way the intent and effect of the applicable provisions of the Stalking Horse Bid in respect of the SISP, the Applicants and the Monitor shall have the right to modify the SISP (including, without limitation, pursuant to the Bid process letter) with the prior written approval of

the Applicants and consultation with the Stalking Horse Bidder if, in their reasonable business judgment, such modification will enhance the process or better achieve the objectives of the SISP; provided that the Service List in these CCAA proceedings shall be advised of any substantive modification to the procedures set forth herein.

36. The Monitor may seek advice and directions from the Court in relation to all matters associated with the implementation of the SISP.

Schedule "1"
Address of Monitor

To the Monitor:

BDO Canada Limited
20 Wellington East
Suite 500
Toronto, Ontario
M5E 1C5

Attention: Clark Lonergan and Peter Naumis

Email: clonergan@bdo.ca
pnaumis@bdo.ca