

Court File No. \_\_\_\_\_

**ONTARIO**

**SUPERIOR COURT OF JUSTICE  
COMMERCIAL LIST**

**IN THE MATTER OF THE COMPANIES' CREDITORS ARRANGEMENT ACT,  
R.S.C. 1985, c. C-36, AS AMENDED**

**AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT  
OF CANNAPIECE GROUP INC., CANNAPIECE CORP., CANADIAN CRAFT  
GROWERS CORP., 2666222 ONTARIO LTD., 2580385 ONTARIO INC. AND  
2669673 ONTARIO INC.**

**(each an “Applicant” and collectively, the “Applicants”)**

**REPORT OF BDO CANADA LIMITED  
AS THE PROPOSED CCAA MONITOR**

**November 3, 2022**

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## **INTRODUCTION**

1. BDO Canada Limited (“**BDO**” or the “**Proposed Monitor**”) understands that the Applicants have brought an application (the “**CCAA Application**”) before this Court returnable on November 3, 2022, seeking an initial order (the “**Proposed Initial Order**”) pursuant to the *Companies’ Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (“**CCAA**”) to, among other things, obtain a stay of proceedings to allow them an opportunity to restructure their business by conducting a sales process transaction. The Applicants propose that BDO be appointed as Monitor in these CCAA proceedings (in such capacity, the “**Monitor**”).
2. This report (the “**Report**”) has been prepared by the Proposed Monitor prior to and in contemplation of its appointment as Monitor in the Applicants CCAA proceeding, should this Court grant the Proposed Initial Order, to provide information to this Court for its consideration in respect of the Applicants’ CCAA Application.

## **PURPOSE**

3. The purpose of this Report is to provide information to the Court on:
  - a. BDO's qualifications to act as Monitor;
  - b. an overview of the Applicants;
  - c. background on the circumstances leading to the Applicants’ decision to commence CCAA proceedings;
  - d. an overview of the Applicants’ 2-week cash flow forecast on a consolidated basis for the Applicants (the “**Interim Cash Flow Forecast**”) and the Proposed Monitor’s comments regarding the reasonableness thereof;
  - e. certain relevant matters about the relief sought in the Proposed Initial Order; and
  - f. the Proposed Monitor’s conclusions and recommendations.

## **TERMS OF REFERENCE**

4. In preparing this Report and making the comments herein, the Proposed Monitor has been provided with, and has relied upon, unaudited financial information, books and records prepared by the Applicants, discussions with management of the Applicants

(“**Management**”), and information from other third-party sources (collectively, the “**Information**”). Except as described in this Report in respect of the Interim Cash Flow Forecast:

- a. the Proposed Monitor has reviewed the Information for reasonableness, internal consistency and use in the context in which it was provided. However, the Proposed Monitor has not audited or otherwise attempted to verify the accuracy or completeness of such information in a manner that would wholly or partially comply with Generally Accepted Assurance Standards (“**GAAS**”) pursuant to the Chartered Professional Accountants Canada Handbook and, accordingly, the Proposed Monitor expresses no opinion or other form of assurance contemplated under GAAS in respect of the Information; and
  - b. some of the information referred to in this Report consists of forecasts and projections. An examination or review of the financial forecast and projections, as outlined in the Chartered Professional Accountants Canada Handbook, has not been performed.
5. Future oriented financial information referred to in this Report was prepared based on Management’s estimates and assumptions. Readers are cautioned that since projections are based upon assumptions about future events and conditions that are not ascertainable, the actual results will vary from the projections, even if the assumptions materialize, and the variation could be significant.
  6. Unless otherwise indicated, the Proposed Monitor’s understanding of the factual matters expressed in this Report concerning the Applicants and their business is based on the Information, and not independent factual determinations made by the Proposed Monitor.
  7. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian dollars.

#### **BDO’S QUALIFICATIONS TO ACT AS MONITOR**

8. CannaPiece Group Inc. (“**CPG**”) had previously engaged BDO Canada LLP in May 2022 to act as CPG’s new financial statement auditor, however, the engagement was

never ratified by CPG's board of directors. CPG recently issued a letter to BDO confirming that BDO was never in fact CPG's auditor.

9. BDO is a licensed insolvency trustee within the meaning of section 2 of the *Bankruptcy and Insolvency Act* (Canada) (the "**BIA**"). BDO is not subject to any of the restrictions set out in section 11.7(2) of the CCAA on who may be appointed as Monitor.
10. BDO acted as consultant to the Applicants and has a detailed understanding of the Applicants' operations and cash flow and will be in a position to quickly and seamlessly perform its responsibilities as Monitor, if appointed.
11. The Proposed Monitor will retain Dentons Canada LLP to act as its independent legal counsel.

#### **OVERVIEW OF THE APPLICANTS**

12. This Report should be read in conjunction with the Affidavit of Afshin Souzankar, the Applicants' President and Chief Executive Officer, sworn November 2, 2022 (the "**Souzankar Affidavit**") for additional background and financial information with respect to the Applicants. Any terms not expressly defined herein are otherwise defined in the Souzankar Affidavit.

##### *CannaPiece Group Inc.*

13. CannaPiece Group Inc., a privately held corporation, was incorporated under the *Ontario Business Corporations Act* on July 18, 2018 and maintains its registered head office at 100 Allstate Parkway, Suite 302, Markham, Ontario L3R 6H3. CPG through its wholly owned subsidiary, CannaPiece Corp. ("**CPC**"), operates a cannabis contract manufacturing business. Additionally, CPG is the top-level holding company for its other wholly owned subsidiaries outlined below. CPG presently has 9 employees.

##### *CannaPiece Corp.*

14. CPC was incorporated in Ontario on May 28, 2018, and its registered head office is also 100 Allstate Parkway, Suite 302, Markham, Ontario.

15. CPC is CPG's only remaining operating entity and holds the Applicant's primary assets which include the Health Canada license (the "**License**") permitting CPC to possess, process, and sell cannabis in accordance with the *Cannabis Act* and the *Cannabis Regulations*. CPC obtained its License from Health Canada on February 28, 2020. The Licence is valid until February 28, 2023, and the Proposed Monitor understands that it will be renewed prior to its expiry.
16. Additionally, CPC obtained its cannabis licence under the *Excise Act, 2001* (Canada) effective on March 4, 2020 (the "**Excise Licence**"). Currently, it is valid until March 3, 2023, and the Proposed Monitor understand that it will also be renewed prior to its expiry.
17. CPC operates its cannabis contract manufacturing business out of a leased 80,000 square-foot facility at the property municipally known as 1725 McPherson Court, Unit 2, Pickering, Ontario (the "**Pickering Facility**").
18. CPC's other assets consist of cannabis flower, trim, extract, packaging material, furniture, leasehold improvements, and manufacturing equipment.
19. CPC provides the following principal services to its customers:
  - a. Extraction: creating highly versatile oils, concentrates, and other extracts for licensed processors, including hydrocarbon extraction, CO2 extraction, and co-solvent extraction; and
  - b. Packaging and Logistics: full-service pre-roll and flower packaging and liquid filling, with arrangement of logistics for distribution to seven provinces across Canada.
20. CPC presently has 146 employees and 10 temporary workers (155 total employees inclusive of the CPG employees). All employees are not unionized and do not maintain a pension plan. The Applicants provide a standard group benefit plan to its employees that covers extended health care, dental care, life insurance, and accidental death and dismemberment insurance.

Canadian Craft Growers Corp.

21. Canadian Craft Growers Corp. ("**CCG**") was incorporated in Ontario on July 18,

2018. CCG's initial purpose was to assist CPG in the development of a cannabis micro-cultivation facility in Bowmanville, Ontario. CCG does not hold any assets and is currently inactive.

2666222 Ontario Ltd. and 2580385 Ontario Inc.

22. 2666222 Ontario Ltd. ("**222**") was incorporated in Ontario on November 20, 2018. 222, in turn, owns 2580385 Ontario Inc. ("**258**") o/a Green Valley Wellness ("**Green Valley Wellness**"). Green Valley Wellness was incorporated in Ontario on June 1, 2017.
23. In May 2020, CPG acquired Green Valley Wellness for the purpose of operating cannabis wellness clinics in the Greater Toronto Area. Some of the assets of Green Valley Wellness were sold back to its former owners in July of 2021, after it was determined that Green Valley Wellness would cease operating (it had not operated since the onset of the Covid-19 pandemic).
24. 222 and Green Valley Wellness are inactive and do not have any assets. However, 222 and Green Valley Wellness are subject to certain residual creditor claims, including the claim of a former landlord.

2669673 Ontario Inc.

25. 2669673 Ontario Inc. ("**673**") was incorporated in Ontario on December 7, 2018. This entity has minimal assets consisting of a small amount of office furniture and has no business operations. 673 is also subject to a claim of former landlord that it owes rental arrears with respect to a now terminated lease.

**CIRCUMSTANCES LEADING TO THE APPLICANTS' CCAA FILING**

26. The Canadian cannabis industry is experiencing an extremely challenging operating environment including significant over-supply in the market for cannabis products. This industry is also highly regulated, highly taxed, and subject to ever-changing legislation and delays at all levels of government.
27. Year-to-date ("**YTD**") August 31, 2022, the Applicants have suffered approximately \$6.2 million in losses (not including potential asset impairment charges and discontinued operations write-offs that have yet to be booked) due to, among other

things:

- a. substantial capital investments made by CPG and CPC to meet capacity requirements of customer contracts that never fully materialized. These investments included approximately \$27 million in leasehold improvements and purchase and install of the required manufacturing equipment and machinery associated with the Pickering Facility and in excess of \$10 million for the purchase, development and debt servicing associated with the vacant parcel of land located at 580 Lake Road, Clarington, Ontario (the “**Bowmanville Property**”);
- b. a steep decline in the value of most publicly traded cannabis companies in Canada, which form the basis of CPC’s client base;
- c. intense competition and an over-supply of cannabis products leading to significant price compression. In September 2022, CPC has seen a number of large customers withdraw or discontinue their orders due to market challenges and oversupply. Management estimates the reduction in monthly revenue as a result to be at a minimum \$400,000, with no indication when these customers will come back online;
- d. loss of major customers. One large customer made a strategic decision to revert to in-house production of its products in an attempt to find a path to profitability. CPC had a long-term, large-volume forecast from this customer and had invested approximately \$1.25 million in capital expenditures and human resource costs to accommodate the anticipated rapid volume growth when the customer stopped sending orders;
- e. the low market demand for cannabis products at the retail level, partially as a result of the illicit market for cannabis, causing a decline in orders from licensed processors;
- f. the investment (capital outlay, working capital investment and operating losses) in the CPG’s subsidiaries that have subsequently been sold back to the original vendors and/or businesses now cease to operate; and



- g. significant debt servicing costs associated with the Applicants' capital stack. Much of the Applicants growth, working capital requirements and operating losses have been funded by debt both secured and unsecured. As of August 31, 2022, the Applicants financial records indicated total liabilities of approximately \$48 million (supported by approximately \$25 million of assets (pro-forma) as at the same date).
- 28. The Applicants are subject to several significant litigation and enforcement actions which have placed further stress on the Applicants' current financial position.
- 29. Although Management has made significant efforts to address the financial challenges (including senior management not drawing a salary), they have been unsuccessful thus far in addressing the challenges facing the Applicants.
- 30. As a result of all the above factors, the Applicants face a critical cash shortage and cannot meet its financial obligations. The proposed CCAA proceedings will allow CPC to maintain its business operations, preserve supplier relationships, preserve jobs for its 155 employees, provide stability and maintain value for the benefit of all the Applicants' stakeholders and allow the necessary time to conduct a Court-supervised sales and investment solicitation process ("**SISP**") within the CCAA proceedings.

#### **OVERVIEW OF APPLICANTS' 2-WEEK INTERIM CASH FLOW FORECAST**

- 31. The Applicants have prepared an Interim Cash Flow Forecast for the 2-week period from October 31, 2022, to the week ending November 13, 2022 (the "**Interim Cash Flow Period**") for the purposes of projecting the Applicants' estimated liquidity needs during the Interim Cash Flow Period. A copy of the Interim Cash Flow Forecast is attached as **Appendix "A"** to this Report.
- 32. The Interim Cash Flow Forecast is presented on a weekly basis and represents Management's estimates of the projected cash flow during the Interim Cash Flow Period. The Cash Flow Forecast has been prepared by the Applicants using probable and hypothetical assumptions (the "**Assumptions**") as set out in the notes to the Interim Cash Flow Forecast.

33. The Proposed Monitor has reviewed the Interim Cash Flow Forecast to the standard required of a Court-appointed monitor by section 23(1)(b) of the CCAA. In accordance with this standard, the Proposed Monitor conducted inquiries, performed analytical procedures, held discussions, and read documents related to the Information supplied to it by certain key members of Management and employees of the Applicants. Based on the Proposed Monitor's review, nothing has come to its attention that causes it to believe, in all material respects, that:
  - a. the Assumptions are not consistent with the purpose of the Interim Cash Flow Forecast;
  - b. as at the date of this Report, the Assumptions are not suitably supported and consistent with the plans of the Applicants or do not provide a reasonable basis for the Interim Cash Flow Forecast, given the probable and hypothetical assumptions; or
  - c. the Interim Cash Flow Forecast does not reflect the Assumptions.
34. CPC and CPG maintain a total of three (3) bank accounts with the Bank of Montreal (“**BMO**”). BMO requires that a minimum cumulative balance of \$30,000 remain in the account(s) to cover potential corporate credit card exposure. The Proposed Monitor understands that this restricted cash amount has been netted out of the opening cash position outlined in the Interim Cash Flow Forecast.
35. The Interim Cash Flow Forecast shows that during the Interim Cash Flow Period, the Applicants will experience a net cash outflow of approximately \$480,000. The Interim Cash Flow Forecast projects that during the Interim Cash Flow Period the Applicants should have sufficient liquidity, with the support of the DIP Loan (defined below) which remains subject to Court approval of the debtor-in-possession (“**DIP**”) financing agreement and the related DIP Lender’s Charge (defined and discussed below).
36. The Proposed Initial Order allows for the DIP Lender’s Charge of \$500,000.
37. The Proposed Monitor notes that the Interim Cash Flow Forecast has been prepared solely for the purpose described above and since the Interim Cash Flow Forecast is based on Assumptions regarding future events, actual results will vary from the

information presented even if the Assumptions occur, and the variations could be material. Readers are cautioned that it may not be appropriate for other purposes.

### **RELEVANT MATTERS ADDRESSED IN THE PROPOSED INITIAL ORDER**

38. The Proposed Initial Order provides for two (2) priority charges (collectively, the “**Charges**”) on all of the current and future assets, undertakings, and properties of the Applicants, wherever located, including all proceeds thereof that rank in the following order:
- i. first, the Administration Charge; and
  - ii. second, the DIP Lender’s Charge.
39. The Proposed Monitor understands that the Applicants have provided their secured creditors with notice prior to commencing these CCAA proceedings. Such secured creditors will be included on the Service List in connection with these CCAA proceedings moving forward and, as such, will be provided with motion materials in connection with the comeback motion, upon which the Applicants will seek, among other things, a stay extension.

### **THE ADMINISTRATION CHARGE**

40. The Proposed Initial Order provides for a charge up to a maximum amount of \$250,000 (the “**Administration Charge**”) in favour of counsel to the Applicants, the Proposed Monitor and the Proposed Monitor’s independent counsel, as security for the professional fees and disbursements incurred prior to and after the commencement of the CCAA proceedings. Professional fee obligations secured by the Administration Charge will be paid in the ordinary course from funding provided by the DIP Loan.
41. The Proposed Monitor is of the view that given the current liquidity constraints of the Applicants, the proposed Administration Charge is required and reasonable in the circumstances. The Proposed Monitor is of the view that the Administration Charge is necessary for the effective participation of the professionals in the CCAA proceedings and believes the quantum of the Administration Charge is reasonable in the circumstances based upon a review and assessment of the anticipated professional costs to be incurred during this matter.

## **DIP LENDER'S CHARGE**

42. The Applicants are seeking approval of a term sheet from Cardinal Advisory Limited, on behalf of a corporation to be incorporated (the “**DIP Lender**”) dated November 2, 2022 (the “**DIP Term Sheet**”) pursuant to which the DIP Lender has agreed to provide the DIP financing to the Applicants (collectively, the “**Borrowers**”) in order to provide sufficient liquidity to continue operations during the initial 10-day stay period, subject to the terms of the DIP Term Sheet.
43. In addition to the approval of this proposed DIP Term Sheet, the Proposed Initial Order also provides for the creation of a related charge of \$500,000 (the “**DIP Lender’s Charge**”) to match the maximum allowable borrowing pursuant to the DIP Term Sheet.
44. The material items, terms and conditions of the DIP Term Sheet include the following:
  - a. the Borrower and the DIP Lender, or its nominee, are in the process of negotiating a purchase agreement (the “**Purchase Agreement**”) pursuant to which the DIP Lender (or its nominee) intends to:
    - i. acquire 100% ownership of CPC within the CCAA proceedings by way of a Court granted reverse vesting order; and
    - ii. act as a stalking horse bidder in a Court-supervised SISP within the CCAA proceedings.
  - b. principal amount: \$500,000 (the “**DIP Loan**”);
  - c. purpose of DIP Loan: to fund: (i) working capital needs of the Applicants; (ii) professional fees and expenses incurred by the Applicants and the Monitor in respect of the CCAA proceedings, in accordance with the Interim Cash Flow Forecast; and (iii) Recoverable Expenses (as defined in the DIP Term Sheet);
  - d. interest rate: 12% per annum, calculated daily on the outstanding balance owing under the DIP Loan, not in advance, and accruing and paid on the Maturity Date (defined herein);
  - e. commitment fee: \$10,000, representing 2% of the DIP Loan, payable on the Maturity

Date (herein defined);

- f. DIP Lender's Charge and court approval: The DIP Loan is to be secured by a court-ordered priority charge over all of the Applicants' present and after-acquired property, subject only to the Administration Charge. The DIP Loan will be available to the Applicants upon the issuance of the proposed Initial Order approving the DIP Term Sheet, the DIP Loan and the DIP Lender's Charge; and
- g. repayment: The DIP loan is to be repaid on the maturity date, which is defined as the earlier of:
  - i. February 3, 2022;
  - ii. the issue of SISP Order (as defined in the DIP Term Sheet), approving the Purchase Agreement as a stalking horse bid in a SISP, in which case all amounts owing under the DIP Loan sale be treated as a deposit and governed by the SISP Order and Purchase Agreement;
  - iii. the closing of sale or investment transaction resulting from the SISP (other than the transaction contemplated under the Purchase Agreement), which transaction has been approved by the Court;
  - iv. the implementation of a plan of compromise or arrangement within the CCAA Proceedings, which has been approved by the requisite majority of the Borrowers' creditors, and by order of the Court;
  - v. the date on which the CCAA proceedings are terminated for any reason, including if the CCAA proceedings are converted into a proceeding under the BIA; and
  - vi. the occurrence of an Event of Default (as defined in the DIP Term Sheet), subject to a cure period of seven (7) business days, beginning on the date of the occurrence of such Event of Default.

(the "**Maturity Date**")

- 45. A copy of the DIP Term Sheet is attached as Exhibit HH to the Souzankar Affidavit.
- 46. The Proposed Monitor believes the terms offered by the DIP Lender are reasonable

and competitive in the circumstances.

47. As described in the Interim Cash Flow Forecast, the Applicants have a critical and immediate need for interim financing. Without access to the DIP Loan, the Applicants will be unable to continue operation during the Interim Cash Flow Period as:
  - a. the next payroll for the Applicants' employees is due on Tuesday November 8, 2022;
  - b. a number of CPC trade vendors are requiring cash in advance prior to shipment of product/provided services or have significantly reduced their credit terms;
  - c. the Applicants have defaulted on certain obligations/settlements and are subject to multiple enforcement actions;
  - d. November rent for the Pickering Facility is past due; and
  - e. the Applicants are unable to service its secured debt obligations;
48. The Proposed Monitor is satisfied that the amounts set out in the Interim Cash Flow Forecast to be paid prior to the comeback hearing are necessary in the circumstances.
49. The Proposed Monitor is of the view that the Applicants' request for approval of the DIP Term Sheet and the DIP Lender Charge is required and reasonable in order to allow the Applicants the necessary financing to pay the critical payables outlined above and maintain ongoing operations.

## **CONCLUSIONS AND RECOMMENDATIONS**

50. The Proposed Monitor has reviewed the Applicants' CCAA application materials and has consented to act as the Monitor of the Applicants, should this Court grant the Proposed Initial Order.
51. For the reasons stated herein, the Proposed Monitor is of the view that the relief requested by the Applicants as set forth in the proposed Initial Order is necessary, reasonable, and justified and will provide the Applicants the best opportunity to preserve value and maximize recoveries for its stakeholders.
52. The Proposed Monitor is therefore supportive of the Applicants request for relief pursuant to the CCAA and the terms of the proposed Initial Order.

All of which is respectfully submitted this 3<sup>rd</sup> day of November 2022.

**BDO CANADA LIMITED, in its capacity  
as Proposed Monitor of the Applicants, and  
not in its corporate or personal capacity.**

Per:

A handwritten signature in black ink, appearing to read "Clark Lonergan". The signature is written in a cursive style with a large, prominent initial "C".

**Clark Lonergan, CA, CPA, CIRP, LIT  
Senior Vice President**

## Appendix “A”



Cannapiece Group Inc., Cannapiece Corp., Canadian Craft Growers Corp.,  
2666222 Ontario Ltd., 2580385 Ontario Inc., and 2669673 Ontario Inc. (together the "Applicants")  
Combined Interim Cash Flow Forecast for the period  
October 31, 2022 to November 13, 2023  
(CAD \$)

<b>WEEK ENDING</b>	<b>1</b>	<b>2</b>	<b>TOTAL</b>
	<b>2022-11-06</b>	<b>2022-11-13</b>	
Beginning cash (deficit)	6,190	(152,982)	6,190
<b>Receipts</b>			
Receipts (existing AR)	331,763	203,543	535,306
Receipts (new sales)	-	-	-
Other receipts	-	-	-
<b>Total receipts</b>	<b>331,763</b>	<b>203,543</b>	<b>535,306</b>
<b>Disbursements from operations</b>			
Salaries and wages (incl. all taxes)	-	469,364	469,364
Employee benefits	30,036	-	30,036
Production costs. Supplies and temp. labour	208,500	13,500	222,000
Rent	78,107	-	78,107
Insurance	-	-	-
Utilities, communications, automotive and admin.	64,000	-	64,000
Laboratory charges	40,000	-	40,000
CAPEX and equipment rentals	30,292	23,268	53,560
Repairs and maintenance	15,000	-	15,000
Health Canada license renewal fee	-	-	-
Government remittances (Excise)	-	-	-
Government remittances (HST)	-	-	-
First lien debt interest	-	-	-
DIP fees and interest	-	-	-
Monitor & its counsel's fees	-	-	-
Restructuring costs	-	-	-
KERP	-	-	-
Contingency	25,000	25,000	50,000
<b>Total disbursements</b>	<b>490,935</b>	<b>531,132</b>	<b>1,022,067</b>
<b>Net Cash Flow</b>	<b>(159,172)</b>	<b>(327,589)</b>	<b>(486,761)</b>
<b>Closing cash (deficit)</b>	<b>\$ (152,982)</b>	<b>\$ (480,571)</b>	<b>\$ (480,571)</b>

Cannapiece Group Inc., Cannapiece Corp., Canadian Craft Growers Corp.,  
2666222 Ontario Ltd., 2580385 Ontario Inc., and 2669673 Ontario Inc. (together the "Applicants")  
Combined Cash Flow Forecast for the period  
October 31, 2022 to November 13, 2023  
(CAD \$)

**Notes to the Unaudited cash flow forecast of the Applicants**

In preparing this cash flow forecast (the "Interim Cash Flow Forecast") the Applicants have relied upon unaudited financial information and the Applicants have not attempted to further verify the accuracy or completeness of such information. The Interim Cash Flow Forecast includes estimates concerning the operations of the Applicants and additional information discussed below with respect to the requirements of a Companies' Creditors Arrangements Act ("CCAA") filing. Since the Interim Cash Flow Forecast is based upon assumptions of future events and conditions that are not ascertainable, the actual results achieved during the period will vary from the Interim Cash Flow Forecast, even if the assumptions materialize, and such variation may be material. There is no representation, warranty or other assurances that any of the estimates, forecasts or projections will be realized.

**Overview**

The Interim Cash Flow Forecast includes the receipts and disbursements of all of the Applicants during the Interim Cash Flow Forecast period. The Applicants, with the assistance of BDO Canada Limited in its capacity as the proposed monitor of the Applicants (the "Proposed Monitor") have prepared the Interim Cash Flow Forecast based primarily on estimated disbursements related to the ongoing operations and to the CCAA proceedings.

**Notes/Assumptions:**

- 1 Based on Management's best estimate with regards to the Applicants' forecasted sales and the collection of outstanding accounts receivables balance considering existing sales forecasts, payment terms, recent collection history and current market conditions. Amounts due from certain customers are pass through transactions and are accordingly excluded from receipts and disbursements.
- 2 Estimate of funds to be recovered from monies currently held in trust by counsel for a real-estate sale transaction that was never completed. Additionally, the Applicants have ~\$400-\$500K in deposits held by the City of Clarington with regards to a production facility that was never started and the land has previously been sold. The Interim Cash Flow Forecast assumes that none of these funds are collected during this period.
- 3 Wages are made up of employee and contract employee amounts. Employee bi-weekly payroll is administered through an external service provider (inclusive of taxes - paid one week in arrears) and contract employees are paid monthly by the Applicants (for the previous month). Week 2 includes ~\$120k of pre-filing amounts owed to contract employees for the month of October 2022.
- 4 Continuation of employee group benefit plan with the Applicants' current insurance provider.
- 5 Payments for anticipated purchased product (flower and trim), production supplies (solvents, personal protective equipment, etc.), temporary production labour costs and other costs required to continue operations.
- 6 Monthly rental amounts associated with the Applicants' Markham head office and the licensed Pickering production facility.
- 7 Current insurance policy premiums are paid as scheduled. Policy was just renewed and lumpsum financing payment of ~\$118K was recently paid.
- 8 Payment of go-forward utility, communication and security facility costs, automotive expense reimbursement, bank fees and other administration costs.
- 9 Payment of laboratory certification costs required for certain finished product sales.
- 10 On-going capital expenditure payments related to previously purchased and installed pre-roll production equipment, production equipment rental expenses and other miscellaneous rental costs. No new capital expenditures are anticipated during this period.
- 11 Repairs and maintenance amounts for minor repairs that are necessary to maintain the licensed facility.
- 12 Health Canada license renewal costs that were due at the end of September 2022 and are fees for the period up to March 31, 2023.
- 13 Current excise tax is assumed to be paid and remain current during this period.
- 14 HST on post-filing activity is assumed to be paid when due.
- 15 First lien debt is assumed not to be serviced during the first 2 weeks.
- 16 These are amounts required for payment pursuant to the DIP Agreement, monthly interest payments and the facility fee charge.
- 17 Costs of the Proposed Monitor and its counsel to the date of filing and thereafter.
- 18 Costs of the Applicants' legal counsel to the date of filing and monthly amounts thereafter.
- 19 Amounts allocated for a Key Employee Retention Program to assist in retaining key personnel to help manage the CCAA sale, investment and solicitation process, maintain the Applicants' Health Canada license and operations during this period.
- 20 Contingency of \$25K per week is assumed throughout the period to cover unanticipated costs and/or delay in the collection of accounts receivable amounts.
- 21 Cash deficit is funded by the DIP Facility in a single tranche of \$500K on issuance of the Proposed Initial Order.