

Court File No.: CV-24-00717664-00CL

**HERITAGE CANNABIS HOLDINGS CORP., 1005477 B.C. LTD.,
HERITAGE CANNABIS WEST CORPORATION, MAINSTRAIN
MARKET LTD., HERITAGE CANNABIS EAST CORPORATION,
PUREFARMA SOLUTIONS INC., 333 JARVIS REALTY INC., 5450
REALTY INC., HERITAGE CANNABIS EXCHANGE CORP., AND
PREMIUM 5 LTD.**

**SECOND REPORT OF KPMG INC.,
IN ITS CAPACITY AS MONITOR**

June 21, 2024

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Court File No.: CV-24-00717664-00CL

**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
HERITAGE CANNABIS HOLDINGS CORP., 1005477 B.C. LTD., HERITAGE CANNABIS
WEST CORPORATION, MAINSTRAIN MARKET LTD., HERITAGE CANNABIS EAST
CORPORATION, PUREFARMA SOLUTIONS INC., 333 JARVIS REALTY INC., 5450 REALTY
INC., HERITAGE CANNABIS EXCHANGE CORP., AND PREMIUM 5 LTD.**

**SECOND REPORT OF KPMG INC.
IN ITS CAPACITY AS MONITOR**

June 21, 2024

I. INTRODUCTION

1. On April 2, 2024 (the “**Filing Date**”), the Ontario Superior Court of Justice (Commercial List) (the “**Court**”) issued an order (the “**Initial Order**”) granting Heritage Cannabis Holdings Corp. (“**Heritage**”), 1005477 B.C. Ltd. (“**1005**”), Mainstrain Market Ltd. (“**Mainstrain**”), Purefarma Solutions Inc. (“**Purefarma**”), 333 Jarvis Realty Inc. (“**333**”), 5450 Realty Inc. (“**5450**”), Premium 5 Ltd. (“**Premium**”), Heritage Cannabis Exchange Corp. (“**HCEC**”), Heritage Cannabis East Corporation (formerly CannaCure Corporation) (“**Heritage East**”), and Heritage Cannabis West Corporation (formerly Voyage Cannabis Corp.) (“**Heritage West**” and collectively, the “**Applicants**”) protection pursuant to the *Companies’ Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the “**CCAA**”) and appointing KPMG Inc. (“**KPMG**”) as Monitor of the Applicants in the CCAA proceedings (in such capacity, the “**Monitor**”). The Initial Order provided a stay of proceedings in respect of the Applicants, and certain direct and indirect subsidiaries of the Applicants in the U.S., to and including April 12, 2024.
2. On April 11, 2024, the Court issued an Amended and Restated Initial Order (the “**ARIO**”) that, among other things:
 - (a) approved the terms of an interim senior secured, super-priority financing facility (the “**DIP Facility**”) provided by BJK Holdings Ltd. (“**BJK**”) to the Applicants in order to finance their working capital requirements and other general corporate purposes and restructuring costs, pursuant to a DIP facility term sheet dated April 10, 2024 (the “**DIP Term Sheet**”);
 - (b) granted a charge to secure the obligations owing by the Applicants under the DIP Term Sheet (the “**DIP Lender’s Charge**”); and
 - (c) extended the stay of proceedings in respect of the Applicants, and certain direct and indirect subsidiaries of the Applicants in the U.S., to and including June 30, 2024 (the “**Stay Period**”).
3. Also on April 11, 2024, the Court granted an order (the “**SISP Order**”) that, among other things:

- (a) approved the stalking horse subscription agreement dated April 10, 2024 (the “**Stalking Horse Bid**”) among Heritage and Heritage West, as vendors, BJK, and HAB Cann Holdings Ltd. (“**HAB Cann**”), as purchaser; and
 - (b) approved the sale and investment solicitation process (the “**SISP**”), in which the Stalking Horse Agreement served as the “Stalking Horse Bid”.
- 4. A copy of the SISP Order is attached hereto as **Appendix “C”**.
- 5. To date, KPMG, in its capacity as Proposed Monitor and Monitor, has previously provided this Court with two reports dated April 2, 2024 (the “**Pre-Filing Report**”) and April 10, 2024 (the “**First Report**”) that contained information on, *inter alia*, background information in respect of the Applicants, the DIP Term Sheet, the Stalking Horse Agreement and the SISP. Copies of the Pre-Filing Report and the First Report are attached hereto as **Appendix “A”** and **Appendix “B”**, respectively.
- 6. Copies of materials and documents filed in connection with these CCAA proceedings are available on the Monitor’s website at <https://kpmg.com/ca/heritage> (the “**Case Website**”) In addition, KPMG has arranged for a toll-free hotline (1-833-668-2870) and an email address heritage@kpmg.ca through which creditors of the Applicants or other interested parties can make inquires related to the CCAA proceedings.

II. PURPOSE OF REPORT

- 7. The purpose of this report (the “**Second Report**”) is to provide the Court with information pertaining to:
 - (a) an overview of the activities of the Applicants and the Monitor since the date of the First Report;
 - (b) the Applicants’ actual receipts and disbursements for the period from April 8, 2024 to June 9, 2024 (the “**Reporting Period**”), including a comparison of actual to forecast results;

- (c) the cash flow projections for the Applicants (the “**Updated Cash Flow Forecast**”) for the period from June 10, 2024 to August 30, 2024 (the “**Forecast Period**”);
- (d) the results of the SISP;
- (e) an overview of the material terms of the amended and restated stalking horse subscription agreement dated June 17, 2024 (the “**Amended and Restated Stalking Horse Agreement**”) among Heritage, Heritage East and Heritage West, as vendors (the “**Vendors**”), HAB Cann, as purchaser, and BJK, and the transactions contemplated thereunder (the “**Transactions**”); and
- (f) the recommendation by the Monitor that this Court:
 - i. make an order (the “**ARVO**”), among other things:
 - A. approving the Amended and Restated Stalking Horse Agreement;
 - B. approving the Transactions, and authorizing and directing the Vendors to execute such documents and take such additional steps as are necessary to complete the Transactions; and
 - C. granting a release in favour of certain parties to these CCAA proceedings and/or the Amended and Restated Stalking Horse Agreement;
 - ii. make an order (the “**Ancillary Order**”), among other things:
 - A. authorizing and empowering the Monitor to exercise the Enhanced Powers (as defined herein) following delivery of the Monitor’s Closing Certificate (as defined herein);
 - B. approving the DIP Amendment (as defined herein);
 - C. approving the Pre-Filing Report and the First Report, and the Monitor’s activities and conduct described therein; and
 - D. extending the Stay Period to and including August 30, 2024.

III. TERMS OF REFERENCE

8. In preparing this Second Report, KPMG has relied solely on information and documents provided to it by the Applicants and their respective advisors, including unaudited, draft and/or internal financial information, financial projections prepared by the Applicants, discussions with management of the Applicants, and the affidavit of the Applicants' executive (collectively, the "**Information**"). In accordance with industry practice, except as otherwise described in the Second Report, KPMG has reviewed the Information for reasonableness, internal consistency, and use in the context in which it was provided. However, KPMG has not audited or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would comply with Generally Accepted Auditing Standards ("**GAAS**") pursuant to the *Chartered Professional Accountant of Canada Handbook* and, as such, KPMG expresses no opinion or other form of assurance contemplated under GAAS in respect of the Information.
9. Capitalized terms used but not defined in the Second Report are defined in the Amended and Restated Stalking Horse Agreement or in the Affidavit of Mr. David Schwede sworn June 18, 2024 (the "**June 18 Schwede Affidavit**"), filed by the Applicants as part of its materials in support of the ARVO and the Ancillary Order. The Second Report should be read in conjunction with the June 18 Schwede Affidavit, as certain information contained in the June 18 Schwede Affidavit has not been included herein in order to avoid unnecessary duplication.
10. Future orientated financial information contained in the Updated Cash Flow Forecast is based on the Applicants' estimates and assumptions regarding future events. Actual results will vary from the information presented even if the hypothetical assumptions occur, and variations may be material. Accordingly, the Monitor expresses no assurance as to whether the Updated Cash Flow Forecast will be achieved.
11. Unless otherwise stated, all monetary amounts noted herein are expressed in Canadian dollars.

IV. ACTIVITIES OF THE APPLICANTS

12. Since the date of the First Report, the Applicants, with the assistance of the Monitor, have been managing their operations in the normal course and working to stabilize the business as a result of the CCAA Proceedings. As outlined in the June 18 Schwede Affidavit, the activities of the Applicants have included:
- (a) communicating with various stakeholders, including trade creditors, landlords, customers, Health Canada, the Canada Revenue Agency (“CRA”), employees, and other interested parties, regarding various matters relating to the Applicants, the Business, the Property and the CCAA proceedings;
 - (b) conserving costs through, among other things, employee terminations and disclaimer of certain leases;
 - (c) working closely with the Monitor and its advisors to implement the SISP in accordance with its terms; and
 - (d) negotiating the terms of the Amended and Restated Stalking Horse Agreement.

V. ACTIVITIES OF THE MONITOR

13. Since the date of the First Report, the Monitor’s activities have included:
- (a) maintaining the Case Website where all Court documents and other material documents pertaining to the CCAA proceedings are available in electronic form;
 - (b) monitoring of the Applicants’ cash flows and allowing for payments in accordance with the terms of the ARIO;
 - (c) corresponding regularly with the DIP Lender with respect to the Applicants’ actual results as compared to the cash flow forecast included in the DIP Term Sheet;
 - (d) assisting the Applicants with the preparation of the Updated Cash Flow Forecast;

- (e) assisting the Applicants with their communications with stakeholders, including vendors and key partners;
- (f) conducting the SISP as detailed herein;
- (g) assisting in the development of the Amended and Restated Stalking Horse Agreement and the Transactions, including reviewing all related documents and corresponding with the Applicants and the Purchaser;
- (h) engaging with the Monitor's legal counsel, Blake, Cassels & Graydon LLP ("**Blakes**") regarding matters related to the CCAA Proceedings, including the SISP, the Amended and Restated Stalking Horse Agreement and the within motion;
- (i) engaging with the Department of Justice on behalf of the CRA regarding matters related to the Amended and Restated Stalking Horse Agreement, including the ARVO and the releases sought therein;
- (j) attending before the Court for the ARIO;
- (k) reviewing materials filed by the Applicants in connection with the within motion; and
- (l) preparing this Second Report.

VI. RECEIPTS AND DISBURSEMENTS FROM APRIL 8, 2024 TO JUNE 9, 2024

- 14. As noted, the Monitor has implemented procedures for monitoring the Applicants' consolidated receipts and disbursements on a weekly basis, including a review of forecast to actual variance analyses.
- 15. Set out below is a summary of the Applicants' actual to forecast results for the Reporting Period:

Heritage Group - Actual to Forecast			
In C\$; unaudited			
	Actual	Forecast	Variance
Receipts			
AR / Sales	6,488,265	7,449,762	(961,497)
	6,488,265	7,449,762	(961,497)
Operating Disbursements			
Production and Operating Costs	(4,374,680)	(5,885,836)	1,511,157
Salary and Wages	(1,859,929)	(1,944,181)	84,252
Excise Taxes	(723,194)	(1,288,000)	564,806
Sales Taxes	(443,620)	(380,000)	(63,620)
Professional Fees	(675,700)	(824,885)	149,185
Total Operating Disbursements	(8,077,122)	(10,322,902)	2,245,780
Net Operating Cash Flow	(1,588,857)	(2,873,140)	1,284,283
Monthly Interest Payments	(119,542)	(90,745)	(28,797)
DIP Fee	-	(45,000)	45,000
Net Cash Flow	(1,708,400)	(3,008,886)	1,300,486
Opening Cash	3,279,073	3,279,073	-
Net Cash Flow	(1,708,400)	(3,008,886)	1,300,486
DIP funding	-	500,000	(500,000)
FX Differences	388	-	388
Ending Cash	1,571,061	770,187	800,874

16. As reflected in the above summary table, the Applicants generated consolidated operating cash receipts of \$6.5 million as compared to forecasted receipts of \$7.5 million while disbursing \$8.1 million as compared to forecasted disbursements of \$10.3 million (excluding financing cash flows and/or DIP drawdowns) over the Reporting Period. This resulted in the Applicants' experiencing a net operating cash outflow of approximately \$1.6 million, as at June 9, 2024, a favourable variance of approximately \$1.3 million as compared to forecast.
17. In accordance with the ARIO, and in consultation with the Monitor and BJK, the Debtors made payments totalling approximately \$1.2 million to certain suppliers on account of pre-filing amounts which are critical to the Applicants' business and operations continuing as a going concern. As detailed in the Pre-Filing Report, the timing of the Applicants' CCAA filing (the beginning of the month) interrupted the ordinary payment cadence for many of

these critical suppliers, who in the ordinary course of business would have been paid on or about April 1.

18. As noted in the table above, the Applicants did not borrow any amounts under the DIP Facility as a result of the favourable variances generated during the Reporting Period.
19. The Monitor, on behalf of the Applicants, provided weekly and cumulative variance reporting to the DIP Lender on a weekly basis pursuant to the DIP Term Sheet.
20. The Monitor is of the view that the Applicants are acting in a manner consistent with the cash flow and as at the date of this Second Report, there have been no material adverse changes to the Applicants' operations since the Filing Date.

VII. UPDATED CASH FLOW FORECAST

21. The Applicants, in consultation with the Monitor, have prepared the Updated Cash Flow Forecast for the purpose of projecting the estimated liquidity needs of the Applicants' during the Forecast Period. A copy of the Updated Cash Flow Forecast, accompanying notes and a report containing prescribed representations regarding the preparation of the Updated Cash Flow Forecast are attached hereto as **Appendix "D"**.
22. The Updated Cash Flow Forecast has been prepared by the Applicants on a conservative basis using probable and hypothetical assumptions set out in the notes to the Updated Cash Flow Forecast.
23. The Applicants had a cash balance of approximately \$1.6 million as at June 9, 2024. Forecast operating cash receipts over the Forecast Period total approximately \$10.4 million related to the collection of accounts receivable, including from future sales.
24. Forecast operating disbursements over the Forecast Period total approximately \$13.2 million and primarily consist of production and operating costs (\$6.3 million), employee costs (\$2.3 million), excise taxes for accrued or collected amounts after the date of the Initial Order (\$2.9 million), sales taxes in accordance with the Initial Order (\$0.7 million), professional fees (\$0.8 million), the KERP (\$0.01 million) in accordance with the ARIO,

and amounts to be held by the Monitor pursuant to the Administrative Expense Amount (\$0.2 million).

25. The Updated Cash Flow Forecast assumes that the interest expense on the outstanding balances under the BJK Loans is paid throughout the Forecast Period.
26. Net negative operating cash flow is forecast to be approximately \$2.8 million over the Forecast Period.
27. Based on the Cash Flow Forecast, the Applicants will be required to draw on the DIP Facility during the weeks commencing July 29th and August 26th in order to have sufficient funds to satisfy their projected uses of cash over the Forecast Period. The Updated Cash Flow Forecast projects borrowings under the DIP Facility in the amount of \$1.5 million over the Forecast Period.
28. The Monitor notes that the Updated Cash Flow Forecast has been prepared solely for the purpose described above, and readers are cautioned that it may not be appropriate for other purposes.

VIII. RESULTS OF THE SISP

29. As described in greater detail in the First Report, the Stalking Horse Bid established a benchmark for a sale of, or investment in, all or part of the Applicants' Property and Business, which could include one or more of a restructuring, refinancing, recapitalization or other form of reorganization of the business and affairs of the Applicants as a going concern. The SISP also provided a forum for prospective purchasers and investors to present a bid superior to that contemplated by the Stalking Horse Bid on a timeline to meet the financial and timing exigencies of the circumstances. Among other things, the SISP included Bidding Procedures that incorporated the Stalking Horse Bid and the ability of the Monitor, in consultation with the Applicants, to conduct an auction if qualified and competitive bids were received.
30. A summary of the key aspects of the SISP and its results are summarized below:

- (a) commencing on April 15, 2024, the Monitor contacted 73 potential interested parties (collectively, the “**Known Interested Bidders**”), comprised of Canadian and international strategic and financial parties, with regards to the transaction opportunity and the SISP. Each of the Known Interested Bidders received an email containing background information on the CCAA proceedings, a copy of a non-confidential overview of the Applicants and the key dates pursuant to the SISP, and information on next steps to explore the opportunity;
- (b) the Applicants disseminated a press release on Newswire on April 15, 2024 announcing the SISP and directing interested parties to contact the Monitor to receive additional information;
- (c) Known Interested Bidders looking to obtain additional information regarding the transaction opportunity were required to (I) execute a non-disclosure agreement (“**NDA**”) and (II) provide the Monitor with documentary evidence of such Known Interested Bidder’s financial wherewithal and ability to consummate a sale or investment pursuant to the SISP, in the form of proof of cash-on-hand and / or unconditionally committed financing, to obtain access to the virtual dataroom maintained by the Monitor (the “**VDR**”) containing confidential financial and other information relating to the Applicants and their operations.
- (d) a total of two (2) parties executed the NDA and gained access to the VDR (collectively, the “**Potential Bidders**”);
- (e) over the course of the SISP, the Monitor followed up with the Known Interested Bidders to confirm their receipt of the email communication with respect to the SISP, and to gauge their potential interest in pursuing the transaction opportunity;
- (f) throughout the course of the SISP, the Monitor kept the Applicants apprised on the status of the SISP and any diligence requests received from Potential Bidders;
- (g) parties were required to submit “Qualified Bids” (as defined in the Bidding Procedures) to the Monitor on or before 5pm EST on May 10, 2024 (the “**Bid Deadline**”);

- (h) one offer (the “**Offer**”) was received by the Monitor at the Bid Deadline from a party that did not execute an NDA and was related to specific assets owned by the Applicants. Upon review, the Monitor concluded that the Offer did not meet the minimum requirements of a “Qualified Bid” pursuant to the Bidding Procedures. Accordingly, no Qualified Bids, other than the Stalking Horse Bid, were received at the Bid Deadline; and
- (i) as a result, the Monitor advised Hab Cann (hereinafter referred to as the “**Purchaser**”) that the Stalking Horse Bid was declared the “Successful Bid” pursuant to the Bidding Procedures, subject to approval by the Court.

IX. THE TRANSACTIONS

- 31. As noted above, the Stalking Horse Bid constituted the only “Qualified Bid” received as part of the SISP, was deemed to be the “Successful Bid” and now represents the only viable alternative to a liquidation of the Applicants’ business and assets.
- 32. Following the Bid Deadline, the Applicants and the Purchaser advised the Monitor that they jointly elected to amend the Stalking Horse Bid to incorporate certain revisions including:
 - (a) in addition to Heritage, Heritage West, Heritage East, and Purefarma, the Purchaser will acquire Applicants 333, 5450 and Premium;
 - (b) in addition to subscribing for the shares of Heritage and Heritage West, the Purchaser will subscribe for shares of Applicant Heritage East (together with 333, 5450 and Premium, the “**Additional Purchased Entities**”); and
 - (c) the outside date for closing the Transactions would be extended from August 2, 2024 to August 30, 2024.
- 33. On June 17, 2024, the Purchaser and the Vendors entered into the Amended and Restated Stalking Horse Agreement, a copy of which is attached as Exhibit “F” to the June 18 Schwede Affidavit. A redline identifying the changes to the Stalking Horse Bid is also attached as Exhibit “G” to the June 18 Schwede Affidavit.

34. The Monitor understands the revisions do not impose any material obligations on the Vendors, nor does it impact any other material terms or economics of the proposed Transactions including the Purchase Price or the Closing Date. In the Monitor's view, the amendments resulting in the Amended and Restated Stalking Horse Agreement do not prejudice any stakeholder of the Applicants, and as described in the next following paragraphs, are not a material change to the transaction as contemplated by the original Stalking Horse Agreement.
35. The original Stalking Horse Agreement provided for the Purchaser to acquire all of the shares of Heritage Cannabis. As set out in the Affidavit of David Schwede, sworn April 2, 2024 (the "**April Schwede Affidavit**"), beginning at paragraph 19, Heritage Cannabis is the parent company of all of the Applicants (including the direct parent of each Additional Purchased Entities). The shares of Additional Purchased Entity Heritage East were not "Excluded Assets", and therefore would have been indirectly acquired by the Purchaser as a result of its acquisition of Heritage Cannabis. The shares of Additional Purchased Entities 333, 5450 and Premium 5 were treated as "Excluded Assets" that would be transferred to Residual Co. on closing.
36. 333 and 5450 were formerly real estate holdings companies, that owned the facilities in Fort Erie, Ontario and Falkland, British Columbia, respectively, out of which the Applicants primarily operated. As described in the April Schwede Affidavit at paragraphs 50-56, the Ontario property was sold to an affiliate of BJK by 333 and the British Columbia property was sold to BJK by 5450 in October 2023, and both properties were leased back to the Applicants. The Monitor accordingly understands that Additional Purchased Entities 333 and 5450 have negligible (if any) assets other than tax losses.
37. The Monitor understands that Additional Purchased Entity Premium 5 has leased premises in Alberta and tax losses.
38. Accordingly, as they relate to Additional Purchased Entity Heritage East, the amendments reflected in the Amended and Restated Stalking Horse Agreement are therefore only a structural change to the Transactions, providing for the Purchaser to acquire direct

ownership of Heritage Cannabis East on closing, as opposed to acquiring indirect ownership under the structure in the original Stalking Horse Agreement.

39. While the inclusion of Additional Purchased Entities 333, 5450 and Premium 5 reflect a substantive change to the Transactions (because these entities were previously Excluded Assets), the Monitor notes that no Qualified Bids other than the Stalking Horse Bid were received in the SISP, including for Additional Purchased Entities 333, 5450 or Premium 5. The SISP provided an opportunity for parties to bid on the assets of all of the Applicants, including the Additional Purchased Entities, and no Qualified Bid for any of the Additional Purchased Entities was received. Accordingly, in the Monitor's view, the SISP demonstrated that the market value of Additional Purchased Entities 333, 5450 and Premium 5 is negligible.
40. The other key provisions and terms of the Stalking Horse Bid were described in the First Report and not repeated herein. Below is a summary of certain material terms as they relate to the closing of the Transactions:
 - (a) Purchaser: Hab Cann Holdings Ltd., a company related to BJK.
 - (b) Vendors: Heritage, Heritage West, and Heritage East.
 - (c) Purchased Entities: Heritage, Heritage West, Heritage East, Purefarma, 333, 5450 and Premium¹ (collectively, the "**Purchased Entities**").
 - (d) Purchased Shares: the Purchaser will subscribe for all of the newly issued shares (the "**Purchased Shares**") in the share capital of Heritage, Heritage West, and Heritage East such that the Purchased Shares shall represent 100% of the outstanding equity interests in each of Heritage, Heritage West and Heritage East.

¹ Pursuant to the terms of the Amended and Restated Stalking Horse Agreement, Heritage, Heritage West and Heritage East will issue new shares to the Purchaser and cancel all other issued and outstanding shares, making the Purchaser the sole owner of Heritage, Heritage West and Heritage East. The Purchaser will indirectly acquire Purefarma, 333, 5450 and Premium by virtue of its acquisition of such companies' parent (being Heritage).

- (e) Purchase Price: the total purchase price on Closing is estimated to be approximately \$8.5 million² (the “**Purchase Price**”), which is comprised of:
- i. the amount to be paid through a release of outstanding obligations payable by the Applicants to BJK (the “**Credit Bid Consideration**”) which consists of the sum of:
 - A. all amounts under the BJK Loans and all related loan and security documentation, which amount as of the Filing Date was approximately \$6.9 million, plus all accrued and unpaid interest thereon through to and including the Closing Date, plus any fees and expenses associated therewith; and
 - B. all amounts as of the Closing Date pursuant to the DIP Facility and all related loan and security documentation including principal and interest to the Closing Date, plus all accrued and unpaid interest thereon through to and including the Closing Date, plus any fees and expenses associated therewith.
 - ii. the amount to be paid in cash (the “**Cash Consideration**”) which consists of the sum of:
 - A. the CCAA Process Expense Amount, constituting: (1) the Administrative Expense Amount, meaning cash in the amount of \$187,500 to be paid to the Monitor on Closing to be used to pay the fees of the Monitor and its counsel from Closing to the completion of these CCAA proceedings, including any bankruptcy of the remaining Applicants; and (2) the CCAA Charge Amount, being cash in an amount sufficient to satisfy the amounts owing in respect of obligations secured by the Administration Charge and Directors’ Charge; and

² Assumes \$1.5 million is advanced under the DIP Facility as per the Updated Cash Flow Forecast. The actual Purchase Price on closing may be materially different from the estimated purchase price included herein.

- B. the Priority Payment Amount, consisting of cash sufficient to pay those priority payments prescribed under subsections 6(3), 6(5)(a) and 6(6) of the CCAA.
- (f) Transaction Structure: Reverse vesting structure such that prior to the acquisition of the Purchased Shares, all of the Excluded Assets and Excluded Liabilities will be transferred to 1000921087 Ontario Inc. (the “**Residual Co.**”), and entity recently incorporated by the Applicants, pursuant to the ARVO.
- (g) Excluded Liabilities: all claims, debts, obligations and liabilities of the Purchased Entities, except the Retained Liabilities, including but not limited to: (i) all pre-filing claims and liabilities arising from the termination of leases or other contracts; (ii) all pre-filing claims, including without limitation any amounts owing in respect of pre-filing Excise Tax, GST/ HST; (iii) all liabilities owing to any Terminated Employees in respect of the termination of employment of such Terminated Employee; and (iv) any liabilities or obligations of any of the Vendors or the Purchased Entities to any customer, including any Governmental Authority, related to or arising out of, any products returned to a Purchased Entity by any such customer, where such liabilities or obligations have arisen or arise in respect of products delivered prior to the Closing Date.
- (h) Employees: the Purchaser will determine which employees of the Purchased Entities it will assume and employ prior to Closing. In the event that no conditional offer of employment is made to an employee or an employee who receives an offer of employment rejects such offer, such employee shall be deemed to be a Terminated Employee.
- (i) Transfer to Residual Co.: on the Closing Date, and prior to the acquisition of the Purchased Shares, the Purchased Entities shall assign and transfer the Excluded Assets and the Excluded Liabilities to Residual Co.
- (j) Closing Date: no later than five (5) business days after the date on which the closing conditions have been satisfied or waived and not later than the Outside Date (the

“**Closing Date**”). Upon waiver or satisfaction of the conditions precedent to the Transactions, the Monitor will file a certificate (the “**Monitor’s Closing Certificate**”) with the Court attesting that, among other things, the Transactions have been completed and confirming the closing of the sale to the Purchaser.

(k) Outside Date: August 30, 2024.

41. As noted, the Transactions are to be completed pursuant to a reverse vesting order. The Monitor believes it is necessary and appropriate to grant the ARVO in the circumstances based on the following factors:

- (a) the primary purpose of the reverse vesting structure is to preserve the Purchased Entities’ licenses issued by Health Canada pursuant to the *Cannabis Act*, S.C. 2018, c. 16 (the “**Health Canada Licenses**”) and by the Canada Revenue Agency pursuant to the *Excise Act, 2001*, S.C. 2002, c. 22 (the “**Excise Act**”) (the “**Excise Act Licenses**”, and together with the Health Canada Licenses, the “**Licenses**”). The reverse vesting structure ensures the Licences be preserved without the additional cost, delay, complexity and uncertainty involved in the Purchaser obtaining newly issued cannabis licences to allow it to take possession and control of the cannabis assets of the Purchased Entities. In the Monitor’s view, the consideration being paid by the Purchaser for the Applicants’ business reflects the importance and value of the Licences;
- (b) additionally, the ARVO will ensure the preservation and efficient operational transfer of the Purchased Entities’ assets and business, including critical contractual relationships, and significant accrued tax losses;
- (c) the Monitor understands that the Purchaser is not prepared to acquire the business under an alternative structure. In addition, the cost of drafting a plan of compromise or arrangement, convening a meeting of creditors to vote on the plan and conducting a claims process would be wasteful in the circumstances as BJK is the Applicants’ “fulcrum” creditor. The Monitor understands that BJK would not fund such a process,

and the associated delay and uncertainty on the Applicants' business resulting from a plan process would likely further impair value;

- (d) the ARVO allows for the expedient conveyance of the Licences and tax losses to the Purchaser. Without a reverse vesting structure, there would be substantial delay in transferring the Property, and the ability to transfer some or all of it would be at risk. The DIP Lender has advised the Monitor that it is not prepared to continue to provide funding absent the certainty of a transaction, meaning the Applicants' business and Property would likely need to be liquidated, resulting in a loss of employment and numerous other issues and problems. The issuance of the ARVO is a material condition of the Amended and Restated Stalking Horse Agreement and is integral to completing the Transactions;
 - (e) no stakeholders should be prejudiced by the issuance of the ARVO, which in the Monitor's view (A) provides an economic result at least as favourable as any other viable alternative, including a plan of arrangement under the CCAA, and (B) does not leave any stakeholder worse-off than they would be under any other viable alternative. BJK is the senior secured lender, and it is not anticipated that there would be amounts available for distribution to any of the Applicants' creditors subordinate to BJK under other realization scenarios. As noted above, the SISP did not result in any Qualified Bids that would repay the secured claims of BJK in full; and
 - (f) the ability to preserve the Licences and tax losses under the ARVO structure is the critical consideration in structuring the Transactions. These assets were extensively marketed for sale in the SISP and the consideration being paid by the Purchaser is directly attributable to the importance and value of the Licences and tax losses, which provides the best available outcome for many of the Applicants' key stakeholders, including its employees, suppliers and customers, and BJK.
42. The ARVO contains many terms and conditions customary of "reverse vesting orders" granted by this Court in other CCAA proceedings, including provisions insulating and releasing the Purchased Entities, their current directors and officers and the Purchaser from certain pre-closing obligations of the Applicants. In particular, the ARVO also includes a

release in favour of the current directors and officers of the Applicants, legal counsel to the Applicants, the Monitor and its counsel, among others, (the “**Released Parties**”) of any claims that may be asserted against them in connection with the unpaid GST/HST and excise tax duties relating to the Purchased Entities for the period prior to the Filing Date (the “**Releases**”).

43. The Applicants, the Purchaser, the Monitor and its respective counsel have discussed with the CRA its position regarding such Releases since May 14, 2024. Through the course of these discussions, the CRA has indicated that it does not expect to oppose the Releases sought in respect of excise duty arrears and GST/HST arrears owing by any of the Applicants for the period prior to the date of the Filing Date.
44. The Monitor notes that a party claiming to be a shareholder of Heritage contacted, among others, the Monitor to express concerns with the Stalking Horse Agreement and the reverse vesting structure contemplated therein, and advised that he and certain other shareholders of Heritage were contemplating a class action against the Purchaser, claiming \$400,00 in damages. The Monitor understands the purported shareholder was provided notice of the motion to approve the Transactions, and he will be served with a copy of this Report.
45. The Monitor is not aware of any other parties that have asserted a claim against any of the Released Parties in respect of the released liability.
46. In the view of the Monitor, having considered the facts of the situation, each of the beneficiaries of the Releases set forth in the ARVO have contributed to the Transactions as detailed in the June 18 Schwede Affidavit. Moreover, the continued involvement of these parties is key to the successful implementation of the Transactions.
47. Accordingly, the Monitor is of the view that the proposed Releases are reasonable, and not overly broad, in the circumstances, and supports the relief requested in connection therewith.

X. OTHER MATTERS

DIP Amendment

48. The DIP Term Sheet currently expires on its terms on August 2, 2024. While the Applicants have not drawn any amounts under the DIP Facility to date, the Updated Cash Flow Forecast indicates the Applicants will be required to draw on the DIP Facility during the Forecast Period beyond August 2, 2024.
49. Accordingly, BJK and the Applicants have agreed to extend the term of the DIP Term Sheet to August 30, 2024 to coincide with the Outside Date and expiry of the extended Stay Period, if approved.
50. The Monitor is of the view that the extension to the maturity date of the DIP Term Sheet is reasonable and necessary in the circumstances, as the Applicants require the liquidity to operate during these CCAA proceedings.

Amendment to ARIO re Administration Charge

51. The ARIO provides a priority charge on all Property of the Applicants in favour of the Monitor, the Monitor's counsel and the Applicants' corporate and insolvency counsels, as security for the fees and disbursements incurred in respect of these CCAA proceedings in the aggregate amount of \$500,000.
52. As detailed in the June 18 Schwede Affidavit, the corporate lawyer with primary carriage of this matter recently switched firms and the Applicants would like to amend paragraph 31 of the ARIO such that "Weirfoulds LLP" is added as the beneficiary of the Administration Charge, and Owens Wright LLP is deleted. The Applicants are of the view that having the same representative continue as corporate counsel will provide information benefits and cost efficiencies to the Applicants and their estates.
53. The Monitor views this request as reasonable and supports such relief in the circumstances.

Enhanced Powers of the Monitor

54. The Applicants have determined, in consultation with the Monitor, that there will be matters that remain to be dealt with in these CCAA proceedings following the closing of the Transactions, and therefore it is appropriate to expand the powers of the Monitor to allow the Monitor to direct the Applicants in their ongoing administration of the CCAA proceedings and wind-down. Such expanded powers for a monitor are common in cases involving transactions closed through reverse vesting orders.³
55. In this regard, in addition to the Monitor's powers and duties as set out in the ARIO, any other Order of the Court granted in these CCAA proceedings, the CCAA and applicable law, the Applicants are seeking to enhance the Monitor's powers (all such powers, collectively, the "**Enhanced Powers**") to, among other things:
- (a) cause the Applicants to take any and all actions and steps, and execute all agreements and documents, on behalf of the Applicants in order to facilitate the performance of any of the Applicants' powers and obligations, including as contemplated by the Amended and Restated Stalking Horse Agreement (including with respect to any post-closing matters in respect of the Transactions);
 - (b) claim, or cause the Applicants to claim, any and all insurance refunds or tax refunds to which the Applicants are entitled;
 - (c) act as an authorized representative of the Applicants in respect of dealings with the CRA or any other taxing authority;
 - (d) assign any of the Applicants, or cause any of the Applicants to be assigned, into bankruptcy, and KPMG shall be hereby entitled but not obligated to act as trustee in bankruptcy of any Applicant, or engage a third party to act as trustee in bankruptcy of any Applicant; and

³ For example, expanded powers were granted to the monitor in substantially the same form as is sought by the Applicants in this case in the recent CCAA proceedings of [Aleafia Health](#) and [Contract Pharmaceuticals](#).

- (e) pay from the Priority Payment Amount (as defined in the Amended and Restated Stalking Horse Agreement), in the name of and on behalf of the Applicants or in its own name, as applicable, the amounts payable from the Priority Payment Amount and the CCAA Process Expense Amount (as defined in the Amended and Restated Stalking Horse Agreement), pursuant to the Amended and Restated Stalking Horse Agreement.
- 56. The Enhanced Powers contemplated in the proposed Ancillary Order would become effective upon the delivery of the Monitor's Completion Certificate.
- 57. In the absence of any directors and officers of the Applicants, the Monitor is of the view that the Enhanced Powers would allow the Monitor to efficiently administer the CCAA proceedings to their completion, and wind-up, liquidate and/or dissolve the Applicants remaining after closing of the Transactions. As such, the Monitor is of the view that the granting of the Enhanced Powers included in the Ancillary Order is reasonable and appropriate in the circumstances.

XI. STAY EXTENSION

- 58. The current stay of proceedings expires on June 30, 2024. The Applicants are seeking an extension of the Stay Period to August 30, 2024.
- 59. The Monitor supports the Applicants' request for an extension of the stay of proceedings to August 30, 2024 for the following reasons:
 - (a) the Applicants are acting in good faith and with due diligence in taking steps to facilitate a going concern sale of their business;
 - (b) the Updated Cash Flow Forecast indicates that the Applicants are forecast to have sufficient liquidity to continue to fund operations through the period ending August 30, 2024 (provided the extension of the DIP Facility maturity date is approved);
 - (c) it will allow the Transactions, if approved by the Court, sufficient time to close; and

- (d) it is the Monitor's view that an extension will not prejudice or adversely affect any group of creditors.

XII. ANTICIPATED NEXT STEPS IN THESE CCAA PROCEEDINGS

- 60. Subject to Court approval of the relief sought at the within motion, the anticipated next steps in these CCAA proceedings include the following:
 - (a) the Applicants, the Purchaser, BJK, the Monitor and their respective legal counsel intend to work to close the Transactions in accordance with the Amended and Restated Stalking Horse Agreement; and
 - (b) upon closing of the Transactions and completion of any post-closing matters related to the Transactions, the Monitor expects to bring a motion using its Enhanced Powers to terminate these CCAA proceedings, assign the remaining Applicants, including Residual Co., into bankruptcy, and discharge the Monitor.

XIII. CONCLUSIONS AND RECOMMENDATIONS

- 61. The Monitor recommends that the Court issue the ARVO, approving the Amended and Restated Stalking Horse Agreement and granting the related relief set forth therein, for the following reason:
 - (a) the SISP was designed to solicit interest from *bona fide* parties that would be familiar with the business and assets of the Applicants. The market was extensively canvassed as part of the SISP, and all likely bidders have been provided with a chance to bid on the opportunity;
 - (b) the SISP was fair and reasonable in the circumstances, was approved by the Court, and was conducted in accordance with its terms;
 - (c) the consideration payable under the Amended and Restated Stalking Horse Agreement is fair and reasonable, represents the highest, best and only offer for the business and assets of the Applicants, and would be more beneficial for the

stakeholders of the Applicants than a liquidation of the Purchased Entities in a bankruptcy; and

- (d) the Amended and Restated Stalking Horse Agreement provides for a going-concern sale to the Purchaser, which preserves significant value and maintains important customer, supplier and employee relationships of the Applicants and, based on the alternatives available to the Applicants, the Transactions are in the best interest of the creditors and stakeholders of the Applicants.

62. For the reasons set out in the Second Report, the Monitor is of the view that the relief requested by the Applicants is both appropriate and reasonable in the circumstances and the Monitor recommends that this Court approve the relief sought by the Applicants in the proposed ARVO and the Ancillary Order.

All of which is respectfully submitted this 21st day of June 2024.

KPMG Inc.

In its capacity as Monitor of

Heritage Cannabis Holdings Corp., 1005477 B.C. Ltd., Mainstrain Market Ltd., Purefarma Solutions Inc., 333 Jarvis Realty Inc., 5450 Realty Inc., Premium 5 Ltd., Heritage Cannabis Exchange Corp., Heritage Cannabis East Corporation, and Heritage Cannabis West Corporation

And not in its personal or corporate capacity

Per:



Pritesh Patel
CIRP, LIT
Senior Vice President



Tim Montgomery
CIRP, LIT
Vice President

Appendix A

Court File No.: CV-24-00717664-00CL

**HERITAGE CANNABIS HOLDINGS CORP., 1005477 B.C. LTD.,
HERITAGE CANNABIS WEST CORPORATION, MAINSTRAIN
MARKET LTD., HERITAGE CANNABIS EAST CORPORATION,
PUREFARMA SOLUTIONS INC., 333 JARVIS REALTY INC., 5450
REALTY INC., HERITAGE CANNABIS EXCHANGE CORP., AND
PREMIUM 5 LTD.**

**REPORT OF KPMG INC.,
IN ITS CAPACITY AS PROPOSED MONITOR**

April 2, 2024

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Court File No.: CV-24-00717664-00CL

**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
HERITAGE CANNABIS HOLDINGS CORP., 1005477 B.C. LTD., HERITAGE CANNABIS
WEST CORPORATION, MAINSTRAIN MARKET LTD., HERITAGE CANNABIS EAST
CORPORATION, PUREFARMA SOLUTIONS INC., 333 JARVIS REALTY INC., 5450 REALTY
INC., HERITAGE CANNABIS EXCHANGE CORP., AND PREMIUM 5 LTD.**

**REPORT OF KPMG INC.
IN ITS CAPACITY AS PROPOSED MONITOR**

April 2, 2024

I. INTRODUCTION

1. KPMG Inc. (“**KPMG**” or the “**Proposed Monitor**”) understands that Heritage Cannabis Holdings Corp. (“**Heritage**”), 1005477 B.C. Ltd. (“**1005**”), Mainstrain Market Ltd. (“**Mainstrain**”), Purefarma Solutions Inc. (“**Purefarma**”), 333 Jarvis Realty Inc. (“**333**”), 5450 Realty Inc. (“**5450**”), Premium 5 Ltd. (“**Premium**”), Heritage Cannabis Exchange Corp. (“**HCEC**”), Heritage Cannabis East Corporation (formerly CannaCure Corporation) (“**Heritage East**”), and Heritage Cannabis West Corporation (formerly Voyage Cannabis Corp.) (“**Heritage West**” and collectively, the “**Applicants**” or the “**Debtors**”) intend to make an application (the “**Application**”) before the Ontario Superior Court of Justice (Commercial List) (the “**Court**”) returnable on April 2, 2024, seeking an Initial Order (the “**Proposed Initial Order**”) pursuant to the *Companies’ Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the “**CCAA**”) in respect of the Applicants to, among other things:

- (a) obtain a stay of proceedings (the “**Stay of Proceedings**”) in respect of the Applicants until and including April 12, 2024;
- (b) extend the benefit of the Stay of Proceedings and other aspects of the Proposed Initial Order to the Non-Applicant Stay Parties (as defined below) and their respective directors and officers;
- (c) appoint KPMG as the monitor in respect of the Applicants as part of the proposed CCAA proceeding, with the powers set out in the Proposed Initial Order;
- (d) seek relief from certain securities reporting obligations under federal, provincial or other laws until further Order of this Court;
- (e) authorize the Applicants to (i) make payment to certain suppliers who are critical to the business and operations of the Applicants for pre-filing expenses, and (ii) honour cheques issued to providers of goods and services prior to the Initial Order, in each case with consent of the Monitor and the BJK Holdings Ltd. (“**BJK**”) which are necessary to facilitate the Applicants’ ongoing operations and to preserve value during the CCAA proceedings, up to a maximum aggregate amount of \$1,500,000;

- (f) authorizing the Applicants to continue to use the Cash Management System (as defined below);
 - (g) seek to have the Health Canada Licenses and the Excise Licenses (as both defined herein) preserved and maintained during the Stay of Proceedings; and
 - (h) grant the Administration Charge and the Directors' Charge (each as defined below).
2. The Proposed Monitor understands the primary objectives of the CCAA proceedings are to:
- (a) facilitate the ongoing operations of the Applicants;
 - (b) ensure the Applicants have the necessary working capital to maximize the value of their businesses for the benefit of the Applicants' stakeholders, while providing the opportunity to restructure their business and affairs;
 - (c) execute a subscription agreement (the "**Stalking Horse Purchase Agreement**") among Heritage, as vendor, Hab Cann Holdings Ltd., as purchaser, and BJK (the "**Stalking Horse Purchaser**"); and
 - (d) conduct a sale and investment solicitation process (the "**SISP**") in which the Stalking Horse Purchase Agreement will serve as the "Stalking Horse Bid", and authorize the Applicants and the Monitor to implement the SISP pursuant to its terms.
3. Should the Court grant the Proposed Initial Order, the Proposed Monitor understands that the Applicants intend to bring a motion returnable within the ten (10) day stay period (the "**Comeback Hearing**") seeking an amendment and restatement of the Initial Order (such order, the "**ARIO**") that will, among other things:
- (a) approve the terms of an interim financing facility (the "**DIP Facility**") to be provided by BJK to the Debtors in order to finance their working capital requirements and other general corporate purposes and restructuring costs, pursuant to a DIP facility term sheet (the "**DIP Term Sheet**");

- (b) grant a charge to secure the obligations owing by the Debtors under the DIP Term Sheet (the “**DIP Lender’s Charge**”);
 - (c) approve the SISP and the bidding procedures to be used in connection therewith;
 - (d) grant a Court ordered charge over the Property of the Debtors in favour of the Stalking Horse Purchaser as security for payment of the bid protections;
 - (e) increases to the Administration Charge and the Directors’ Charge;
 - (f) extend the Stay of Proceedings established by the Proposed Initial Order; and
 - (g) seek such other relief as may be appropriate to advance these CCAA proceedings.
4. Should the Court grant the Proposed Initial Order, KPMG (in its then capacity as Monitor) will report to the Court in connection with the Comeback Hearing and any other relief sought by the Applicants.

II. PURPOSE OF REPORT

5. This report (the “**Report**”) has been prepared by KPMG as the Proposed Monitor of the Applicants in the CCAA proceedings. The purpose of the Report is to provide the Court with information pertaining to:
- (a) KPMG’s qualifications to act as Monitor of the Applicants (in such capacity, the “**Monitor**”);
 - (b) limited background information in respect of the operations, financial position and creditors of the Debtors, as disclosed to the Proposed Monitor by the Debtors;
 - (c) the cash flow projections for the Debtors (the “**Cash Flow Forecast**”) for the period from March 30, 2024 to June 28, 2024 (the “**Forecast Period**”);
 - (d) the priority charges proposed in the Proposed Initial Order;
 - (e) the rationale for certain provisions sought by the Applicants in the Proposed Initial Order; and

(f) the Proposed Monitor’s conclusions and recommendations.

III. TERMS OF REFERENCE

6. In preparing this Report, KPMG has relied solely on information and documents provided to it by the Debtors and their respective advisors, including unaudited, draft and/or internal financial information, financial projections prepared by the Debtors, discussions with management of the Debtors, and the affidavit of the Debtors’ executive (collectively, the “**Information**”). In accordance with industry practice, except as otherwise described in the Report, KPMG has reviewed the Information for reasonableness, internal consistency, and use in the context in which it was provided. However, KPMG has not audited or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would comply with Generally Accepted Auditing Standards (“GAAS”) pursuant to the *Chartered Professional Accountant of Canada Handbook* and, as such, KPMG expresses no opinion or other form of assurance contemplated under GAAS in respect of the Information.
7. Capitalized terms used but not defined in this Report are defined in the Affidavit of Mr. David Schwede sworn April 2, 2024 (the “**Schwede Affidavit**”), filed by the Applicants as part of its materials in support of the Application and the Proposed Initial Order. This Report should be read in conjunction with the Schwede Affidavit, as certain information contained in the Schwede Affidavit has not been included herein in order to avoid unnecessary duplication.
8. Future orientated financial information contained in the Cash Flow Forecast is based on the Debtors’ estimates and assumptions regarding future events. Actual results will vary from the information presented even if the hypothetical assumptions occur, and variations may be material. Accordingly, the Proposed Monitor expresses no assurance as to whether the Cash Flow Forecast will be achieved.
9. If the Proposed Initial Order is granted, and KPMG is appointed as Monitor, KPMG will make available all Court documents and other material documents pertaining to the CCAA proceedings on its website at <https://kpmg.com/ca/heritage>. In addition, KPMG has

arranged for a toll-free hotline (1-833-668-2870) and an email address heritage@kpmg.ca through which creditors of the Debtors or other interested parties can make inquiries related to the CCAA proceedings.

10. Unless otherwise stated, all monetary amounts noted herein are expressed in Canadian dollars.

IV. KPMG'S QUALIFICATIONS TO ACT AS MONITOR

11. KPMG is a trustee within the meaning of section 2(1) of the *Bankruptcy and Insolvency Act* (the “**BIA**”). Further, KPMG is not subject to any of the restrictions on who may be appointed as Monitor set out in section 11.7(2) of the CCAA. In particular, KPMG has never acted as auditor of any of the Debtors.
12. KPMG has experience acting as CCAA monitor and other court-officer capacities in insolvency proceedings. The senior professional personnel at KPMG with primary carriage of this matter are certified Chartered Insolvency and Restructuring Professionals and Licensed Insolvency Trustees and have acted in insolvency matters of a similar nature and scale across Canada.
13. Should the Court grant the Proposed Initial Order, KPMG has consented to act as Monitor. Furthermore, the Proposed Monitor has retained Blake, Cassels & Graydon LLP (“**Blakes**”) to act as its independent counsel in these proceedings.
14. KPMG LLP, an affiliate of the Proposed Monitor, was retained by Heritage pursuant to an engagement letter dated on December 4, 2023, to provide financial advisory services to Heritage in respect of the Debtors’ ongoing sale and turnaround efforts. During that time, KPMG developed an understanding of the financial and operational challenges of the Debtors, which knowledge will assist KPMG to fulfil its duties as Monitor.

V. BACKGROUND

15. Detailed information with respect to the Applicants' business, operations and causes of insolvency are set out extensively in the Schwede Affidavit. The Proposed Monitor has reviewed the Schwede Affidavit and believes, based on the Information available to it, that it provides a fair and sufficient summary of the business and affairs of the Applicants and the causes of its insolvency. The information contained in this Report represents a summary of the background to the proposed CCAA proceedings.

Corporate Structure and Business

16. The Debtors operate a vertically integrated cannabis company engaging in the production and sale of medical and recreational hemp-based and cannabis-based products. The Debtors' business is focused on the extraction and creation of extract and extract-derivative products and brands for adult use and cannabis-based medical solutions. In Canada, the Debtors' business is primarily carried out through its subsidiaries, Heritage East and Heritage West, which each hold licenses under the *Cannabis Act*, S.C. 2018, c. 16 (the "**Cannabis Act**") and are regulated by Health Canada. In the United States of America (the "**U.S.**"), the Debtors' business is primarily carried out through its subsidiary Opticann, Inc., a Colorado based oral and topical cannabinoid company.
17. As noted in the Schwede Affidavit, Heritage, the parent company of the Debtors, is a reporting issuer on the Canadian Securities Exchange under the symbol "CANN" and on the OTC Pink, operated by OTC Markets Group, under the symbol "HERTF". A copy of the Applicants current corporate chart is attached as Exhibit "A" to the Schwede Affidavit.
18. Heritage has corporate offices in Ontario and British Columbia, and its registered office is located in Toronto, Ontario. Heritage is leasing office space in Kelowna, British Columbia comprising of approximately 3,670 square feet. In addition, one of the Debtors, Premium, leases a 6,050 square foot premises in Fort Saskatchewan, Alberta. The Proposed Monitor is satisfied that Ontario is the appropriate jurisdiction for the Applicants to file for CCAA protection, pursuant to section 9(1) of the CCAA, based on the location of the Applicants' registered office.

19. Heritage’s directly and indirectly owned subsidiaries in the U.S. are not Applicants in these CCAA Proceedings. However, the Applicants are seeking to extend the Stay of Proceedings to these non-Applicant subsidiaries due to the integration of the business and operations of the Debtors. At this time, the Proposed Monitor understands that it is not expected that a Chapter 15 or other proceedings under the U.S. Bankruptcy Code will be commenced in respect of the Debtors’ U.S. subsidiaries, including as a result of the prohibitive administrative costs of such a proceeding.

Licenses

20. The Cannabis Act and applicable provincial legislation regulates the operations of the Debtors in Canada. The Proposed Monitor understands that the Debtors hold the applicable licenses allowing them to produce, cultivate, process and distribute cannabis in the provinces of Ontario, Manitoba, Alberta, British Columbia, Saskatchewan, Nova Scotia, New Brunswick, Prince Edward Island and Newfoundland and Labrador, Yukon, and Northwest Territories.
21. As detailed in the Schwede Affidavit, Heritage East and Heritage West hold certain licenses from Health Canada (the “**Health Canada Licenses**”) pursuant to the Cannabis Act which the Proposed Monitor understands permits them to undertake the following activities at the Licensed Facilities (as defined herein): (i) possess cannabis; (ii) to obtain dried cannabis, fresh cannabis, cannabis plants or cannabis plant seeds by cultivating, propagating and harvesting cannabis; (iii) to sell cannabis; and (iv) for the purposes of testing, to obtain cannabis by altering its chemical or physical properties by any means. The Health Canada Licenses also include standard cultivation, standard processing and sale for medical purposes.
22. Heritage West operates out of a 15,500 square foot processing facility in Falkland, British Columbia (the “**Falkland Facility**”), which has been outfitted with extraction, downstream processing, formulation and packaging areas and an approved security-level vault. Heritage West also holds a Health Canada issued industrial hemp and research license.

23. Heritage East operates out of a 122,000 square foot facility in Fort Erie, Ontario (the “**Fort Erie Facility**”, and together with the Falkland Facility, the “**Licensed Facilities**”), which formerly operated as a manufacturing plant for a pharmaceutical white labeler. Presently, approximately 87,525 square feet of the facility has been licensed for cannabis activities. Heritage East also holds a Health Canada issued industrial hemp and research license.
24. Heritage East and Heritage West also each hold cannabis licenses issued by the Canada Revenue Agency (“**CRA**”) pursuant to the *Excise Act, 2001*, S.C. 2022, c.22 (“**Excise Act**”) which requires them to apply cannabis excise stamps to their cannabis products in accordance with the Excise Act (the “**Excise Licenses**”). The Proposed Monitor understands the Excise Licenses for Heritage East and Heritage West were historically renewed on a month-to-month basis in the ordinary course, and are set to expire on April 12, 2024 and April 15, 2024, respectively.

Employees

25. As of March 11, 2024, the Applicants had approximately 162 employees, of which 155 were full-time employees, 2 were part-time employees, and 5 were casual employees or co-op students.
26. The Proposed Monitor understands that approximately thirty (30) of the Applicants’ employees are designated responsible persons or possess the security clearances required under the Cannabis Act.
27. The Proposed Monitor understands the Applicants’ employees do not benefit from a company-backed pension plan, are not represented by a union and are not subject to a collective bargaining agreement.

Financial Position

28. Included in the Schwede Affidavit are copies of the audited consolidated financial statements for the Debtors for the fiscal year ended October 31, 2023 and 2022 (the “**Financial Statements**”).

29. According to the Financial Statements, the Debtors experienced significant consolidated net losses totalling approximately \$48 million over the past two (2) fiscal years due, in part, to high general and administrative expenses (relative to gross margins) and an impairment of intangible assets and goodwill, as set forth below:

Heritage Cannabis Holding Corp. Consolidated Statement of Profit & Loss In C\$000s; audited		
	FY23	FY22
Gross Revenue	42,055	41,996
Excise Taxes	(12,261)	(12,430)
Net Revenue	29,794	29,566
Cost of Sales	17,710	21,600
Gross Margin	12,085	7,967
Salaries, wages and benefits	9,193	7,568
Occupancy, general and administrative	3,456	5,705
Amortization and depreciation	3,733	3,732
Advertising, travel and promotion	1,571	768
Other Expenses (Income)	4,053	(4,103)
Impairment of intangible assets and goodwill	11,400	21,215
Income Before Taxes	(21,322)	(26,919)

30. As at October 31, 2023, the Debtors had total consolidated assets with a net book value of approximately \$55.9 million. The consolidated assets include, but are not limited to, inventory (\$17.3 million), property, plant and equipment (\$10.2 million), accounts receivable (\$6.8 million), intangible assets and goodwill (\$6.6 million) and cash (\$3.9 million). The Financial Statements further provide that as of October 31, 2023, the Debtors had total liabilities in the amount of approximately \$35 million, including accounts payable and accrued liabilities (\$20.3 million) and secured debt in the amount of \$7.3 million.

BJK Indebtedness

31. BJK is a secured lender to the Applicants through an original loan agreement dated March 29, 2021, as amended, which was originally as between Heritage, 333, Cannacure Corporation (former name of Heritage East), Voyage Cannabis Corp. (former name of Heritage West) and 5450 (collectively, the “**Borrowers**”) and each of 1005, Purefarma, HCEC, and Premium as guarantors (the “**BJK Loan Agreement**”). The BJK Loan Agreement was most recently amended on October 31, 2023 to provide the Debtors with a revolving line of credit up to a maximum of \$5 million (the “**Revolving Facility**”) and a term facility of \$5.3 million (the “**Term Facility**”, and together with the Revolving

Facility, the “**BJK Loans**”). The interest rate on the Revolving Facility is the greater of the Royal Bank of Canada rate plus 10% and 15% per annum, and the interest rate on the Term Facility is the Royal Bank of Canada rate minus 1.75%.

32. BJK appears to have a first ranking general security interest in the Borrowers’ present and future personal property by way of a general security agreement and an assignment of proceeds from the Borrowers’ sales.¹
33. On October 31, 2023, Heritage repaid BJK \$9.5 million using the proceeds of a sale and leaseback transaction for the Licensed Facilities, as detailed in the Schwede Affidavit.
34. Although the BJK Loans mature on January 31, 2025, the Proposed Monitor understands that the BJK Loan Agreement is currently in default. The Proposed Monitor has been provided with a copy of the demand letter and notices of intention to enforce security under s. 244 of the BIA issued by BJK to the Debtors on April 1, 2024 (the “**Demand Letters**”). Copies of the Demand Letters provided to the Proposed Monitor by the Debtors are attached hereto as **Appendix “A”**.
35. Prior to issuing the Demand Letters, the Proposed Monitor understands BJK made several accommodations to the Borrowers in order to provide them with additional liquidity and/or support, as described in the Schwede Affidavit. However, the Proposed Monitor understands BJK is not prepared to advance additional funds to the Applicants outside of a Court-supervised process.
36. In recent weeks, the Applicants have engaged in discussions with BJK regarding a consensual restructuring. These discussions culminated in the proposed DIP Facility and the Stalking Horse Purchase Agreement, approval of which will be sought at the Comeback Hearing.
37. As of the date of the Report, the total aggregate indebtedness of the Borrowers under the BJK Loan Agreements is approximately \$6.8 million. The Proposed Monitor understands that the Borrowers made a repayment of \$1.5 million to BJK under the Revolving Facility

¹ As discussed in paragraph 38, the Proposed Monitor, if appointed as Monitor, will instruct Blakes to prepare a security review opinion regarding the BJK Security promptly following its appointment.

in two equal installments on April 1st and April 2nd, 2024 respectively. The Proposed Initial Order provides that the order is not effective until 4:30pm on April 2nd and therefore on that basis the Proposed Monitor does not believe the payment to BJK on April 2nd constitutes a post-filing payment on pre-filing debt. As a result of the repayment under the Revolving Facility, the Proposed Monitor understands that the current outstanding indebtedness under the Revolving Facility is \$1.55 million, under the Term Facility is \$5.25 million, and the Applicants had cash on hand of approximately \$3.6 million. As a result of the outstanding defaults thereunder, no further availability under the Revolving Facility exists.

38. At present, the Proposed Monitor has not received a security opinion from its independent counsel, Blakes, on the validity and enforceability of BJK's security interest as against the Borrowers but has requested such review be completed prior to the Comeback Hearing, should the Proposed Initial Order be issued, and expects to provide its observations and conclusions regarding the BJK security in a subsequent report to the Court, should the Monitor be appointed.

GST/HST Liabilities

39. Based on their books and records, the Applicants owed an estimated \$1.6 million to the CRA in respect of GST/HST obligations (the "**GST/HST Arrears**"), of which \$1.5 million is owed by Heritage West and \$0.1 million is owed by Heritage East. The Proposed Monitor understands the other Applicants are current on GST/HST remittances.
40. As noted in the Schwede Affidavit, on or about March 12, 2024 the CRA issued Requirement to Pay notices to one of the Applicants' customers, BC Liquor Distribution Branch, requiring it to send 40% of any money that would either be payable to Heritage East or Heritage West, as applicable, to the CRA on account of the GST/HST Arrears.

Other Creditors

41. As noted in the Schwede Affidavit, the Applicants have a limited number of other creditors with registered security interests in the applicable personal property security registries, which primarily appear to relate to leasing and/or financing of vehicles.

42. Although there is a PPSA registration in favour of Bank of Montreal against Heritage, the Proposed Monitor understands there are currently no amounts owed by Heritage to Bank of Montreal.
43. As per the Debtors' books and records, the Applicants' unsecured liabilities as of March 28, 2024 totalled approximately \$17.2 million, of which approximately \$11.8 million was owed to CRA on account of unremitted excise taxes collected by Heritage East and Heritage West pursuant to the Excise Act. The Proposed Monitor understands the remaining amounts are owed to (i) Merida Capital Partners III LP and Merida Capital Partners IV LP, pursuant to certain unsecured loans advanced to Heritage (\$2.6 million), and (ii) trade creditors (\$2.8 million), including \$0.3 million owing to Health Canada in respect of 2023 annual license fees for the Health Canada Licenses for which Heritage East and Heritage West have entered into payment instalment agreements.
44. As detailed in the Schwede Affidavit, Heritage East and Heritage West entered into repayment plans with CRA pursuant to which Heritage East and Heritage West agreed to make monthly payments to repay the entire excise tax arrears over a specified period of time. The scheduled payments commenced on or about October 1, 2023 at approximately \$270,000 in aggregate per month and escalate over the repayment period. Absent this payment arrangement with the CRA that deferred the payment of excise tax arrears into installments, the Applicants would not have had the liquidity to operate in the ordinary course. The Proposed Monitor understands that Heritage East and Heritage West have made all scheduled payments to CRA under the excise tax payment arrangement through to March 1, 2024.
45. The Debtors' excise tax payments to CRA are expected to increase substantially in the future because, among other things, the amortized monthly payments being made in respect of excise tax arrears under the aforementioned payment arrangement will increase from \$270,000 per month to approximately \$620,000 by October 2024 (and will further increase thereafter).

46. Based on the Debtors' projections, the Proposed Monitor understands the increase in excise tax payments will put a significant strain on cash flows and result in the Debtors exhausting their cash reserves in the near term.
47. Based on the Information received and reviewed to date, the Proposed Monitor is not aware of any arrears of employee related amounts, required remittances of employee withholdings, other than potentially accrued amounts since the date of the last payment/remittance, which the Proposed Monitor understands will be paid to employees in the normal course on the next payroll date. The Proposed Monitor intends to confirm the above following issuance of the Proposed Initial Order.

VI. CASH FLOW FORECAST

48. The Debtors, in consultation with the Proposed Monitor, have prepared the Cash Flow Forecast for the purpose of projecting the estimated liquidity needs of the Debtors' during the Forecast Period. A copy of the Cash Flow Forecast, accompanying notes and a report containing prescribed representations regarding the preparation of the Cash Flow Forecast are attached hereto as **Appendix "B"**.
49. The Cash Flow Forecast has been prepared by the Debtors on a conservative basis using probable and hypothetical assumptions set out in the notes to the Cash Flow Forecast.
50. As noted above, the Debtors had a cash balance of approximately \$3.6 million as at April 1, 2024 after the repayment of \$1.5 million under the Revolving Facility. Forecast operating cash receipts over the Forecast Period total approximately \$11.5 million related to the collection of accounts receivable, including from future sales.
51. Forecast operating disbursements over the Forecast Period total approximately \$13.4 million and primarily consist of production and operating costs (\$8.4 million), including \$1.5 million for critical pre-filing payments as per the Proposed Initial Order, employee costs (\$2.3 million), excise taxes for accrued or collected amounts after the date of the Proposed Initial Order (\$1.3 million), sales taxes in accordance with the Proposed Initial Order (\$0.4 million), and professional fees (\$1 million).

52. The Cash Flow Forecast assumes that the interest expense on the outstanding balances under the BJK Loans will be paid upon receipt of an opinion from Blakes that BJK's security interest is valid and enforceable, which opinion is anticipated to be completed prior to the Comeback Hearing.
53. Net negative operating cash flow is forecast to be approximately \$2.7 million over the first 2 weeks (i.e. up to the date of the Comeback Hearing) after the Proposed Initial Order and approximately \$1.9 million over the Forecast Period.
54. Based on the Cash Flow Forecast, the Applicants will be required to draw on the proposed DIP Facility during the week commencing April 20, 2024 in order to have sufficient funds to satisfy its projected uses of cash over the Forecast Period. The Cash Flow Forecast projects borrowings under the DIP Facility in the amount of \$0.5 million over the Forecast Period. As discussed above, Court approval of the DIP Facility is expected to be sought at the Comeback Hearing.
55. The Proposed Monitor notes that the Cash Flow Forecast has been prepared solely for the purpose described above, and readers are cautioned that it may not be appropriate for other purposes.

VII. PROPOSED COURT ORDERED CHARGES

56. The Proposed Initial Order provides for two priority charges (collectively the “**Proposed Charges**”) on the current and future assets, undertakings and properties of the Debtors wherever located, including all proceeds thereof, that rank in the following order:
 - (a) First, the Administration Charge (to the maximum amount of \$250,000); and
 - (b) Second, the Directors' Charge (to a maximum of \$0.9 million).
57. Each of the Proposed Charges are described in more detail below.

Administration Charge

58. The Proposed Initial Order provides a charge for the ten-day period prior to the Comeback Hearing on all Property of the Debtors in favour of the Proposed Monitor, counsel to the Proposed Monitor, and the Applicants' corporate and insolvency counsels (collectively, the "**Insolvency Professionals**"), as security for their respective fees and disbursements incurred in respect of the Application in the aggregate amount of \$250,000 (the "**Administration Charge**").
59. The Proposed Monitor is of the view that the Administration Charge is reasonable and appropriate in the circumstances, having considered, among other things:
- (a) the work completed to date in preparation for these CCAA proceedings by the Insolvency Professionals has been material and minimal or no retainers or payments have been made to date;
 - (b) the size of the court-ordered charge is comparable to other insolvency proceedings, and has been calculated in consultation with the Proposed Monitor, taking into account the expected future professional costs and cadence of payment of invoices; and
 - (c) the amount of the Administration Charge is limited to an amount necessary to ensure the beneficiaries of the Administration Charge have adequate protection to the date of the Comeback Hearing.
60. The Proposed Monitor understands BJK has consented to the Administration Charge.

Directors' Charge

61. The Proposed Initial Order provides for a charge to secure the Applicants' indemnity obligations to the current directors and officers of the Applicants (the "**Directors and Officers**") against obligations and liabilities that they may incur as directors or officers of the Applicants after the commencement of these CCAA proceedings (the "**Directors' Charge**").

62. The Directors and Officers shall only be entitled to the benefit of the Directors' Charge to the extent that they do not have coverage under any directors' and officers' insurance policy, or to the extent such coverage is insufficient to pay an indemnified amount. As per the Schwede Affidavit, the Proposed Monitor understands that the Applicants maintain directors' and officers' liability insurance but that these policies may have various exceptions, exclusions and carve-outs, and may not provide sufficient coverage against potential liability that may be incurred during potential CCAA proceedings.
63. The amount of the Directors' Charge has been calculated by the Applicants, in consultation with the Proposed Monitor, taking into consideration excise taxes, sales taxes, employee payroll and related expenses (including source deductions), as well as other employment related liabilities, that attract potential liability for the Directors and Officers during the period prior to the date of the Comeback Hearing.
64. The Proposed Monitor has been informed that due to the potential for personal liability, the Directors' Charge is crucial to the continued involvement of the Directors and Officers during the CCAA proceedings. As the Applicants will require the participation and experience of the Directors and Officers to facilitate the successful completion of the CCAA proceedings, including participating in the SISP, the Proposed Monitor believes that the Directors' Charge (both the amount and the priority ranking) is required and reasonable in the circumstances.
65. The Proposed Monitor understands BJK has also consented to the Directors' Charge.

VIII. OTHER RELIEF

Payment of Pre-Filing Amounts

66. The Applicants are seeking a provision in the Proposed Initial Order providing them with the authority, but not the obligation, to make payments to certain suppliers who are critical to the Debtors' ongoing business operations in respect of obligations arising prior to the commencement of these CCAA proceedings, up to a maximum of \$1,500,000 in the aggregate.

67. As noted in the Schwede Affidavit, the Applicants rely on certain third-party vendors and service providers to provide ongoing goods and/or services in order to ensure the Debtors' business and operations continue as a going concern.
68. The Proposed Monitor understands that certain of these suppliers are critical to the Applicants' business and are either small or very specialized companies, which are dependent on continuous payment from the Debtors, such that it may cause financial harm to require them to comply with the terms of the Proposed Initial Order, including the requirement to continue to provide goods and/or services without being paid pre-filing amounts. Moreover, the timing of the Applicants' filing (the beginning of the month) has interrupted the ordinary payment cadence for many of these critical suppliers, who in the ordinary course of business would have been paid on April 1 or April 2 with the cash that the Applicants currently have on hand. The Proposed Monitor understands that this timing issue has materially increased the amounts that the Applicants' need to pay to critical suppliers immediately after filing, in order to maintain ordinary course operations.
69. If key contractual counterparties are not able to continue supply arrangements with the Applicants or otherwise interrupt the supply of goods and/or services because they are unable to continue to provide their services to the Debtors without payment of pre-filing amounts, such supply interruption will prevent the Applicants from operating in the ordinary course and could negatively impact the going concern value and goodwill of the business.
70. It is critical that the Applicants maintain and continue operations in the normal course to preserve customer relationships, support and goodwill in order to fully maximize the SISP for the benefit of all stakeholders.
71. Pursuant to the Proposed Initial Order, the Applicants shall only be entitled to pay pre-filing amounts if these payments are determined, by the Applicants, with the consent of the Monitor and the DIP Lender, to be necessary to the continued operation of the business or essential for the preservation of value for the SISP.

72. The Proposed Monitor recognizes the importance of maintaining stability with respect to Debtors' ongoing business and operations. Accordingly, the Proposed Monitor is of the view that the relief being requested by the Applicants with respect to the payment of certain pre-filing amounts is reasonable in the circumstances.
73. The Proposed Monitor intends to work closely with the Applicants to ensure that any payments to suppliers in respect of pre-filing obligations are limited to the extent reasonably necessary.

Securities Filings

74. Heritage seeks to relieve itself from incurring further expenses in relation to the Securities Filings (as defined in the Schwede Affidavit) by any federal, provincial or other law respecting securities or capital markets in Canada, and declaring that the directors, officers, employees and other representatives of the Applicants shall not have any personal liability for failure to make any Securities Filings.
75. The Proposed Monitor is of the view that it would be reasonable for Heritage not to incur the time and costs associated with the Securities Filings. Further, the Proposed Monitor understands that the Applicants intend to serve and provide notice of the Comeback Hearing to the relevant government authorities whose rights may be impacted by such relief. Moreover, the form of relief requested with respect to regulatory obligations does not appear to the Proposed Monitor to be contrary to s. 11.1(2) of the CCAA.
76. In the circumstances, the Proposed Monitor views the Applicants request as reasonable and consistent with relief granted in similar cases involving publicly traded companies.

Preservation of Licenses

77. The Applicants seek to have the Health Canada Licenses and the Excise Licenses preserved and maintained during the Stay of Proceedings, which will preserve their ability to sell cannabis inventory in the ordinary course under those licenses.

Health Canada Licenses

78. As detailed in the Schwede Affidavit, Heritage East and Heritage West hold licenses with Health Canada which permit them to undertake, among other things: (a) standard cultivation activities; (b) standard processing activities; (c) industrial hemp sale activities; (d) activities relating to the sale of cannabis for medical purposes; and (d) research activities, including possession and production of cannabis.
79. While there is no immediate concern that the Health Canada Licenses will expire during the Stay of Proceedings, the term of these licenses must continue for the duration of the CCAA proceedings to ensure these entities continue to operate as a going concern.

Excise Licenses

80. Cannabis producers in Canada who are packaging cannabis products for sale are required to affix a cannabis excise stamp issued by the CRA prior to delivery to a purchaser. The cannabis excise stamp indicates that the cannabis product was intended for the excise duty-paid market and that the excise duty has been paid.
81. As noted above, Heritage East and Heritage West each hold an Excise License with the CRA with respect to excise stamps, which licenses are set to expire imminently on April 12, 2024 and April 15, 2024, respectively. If these licenses are permitted to expire, or to be cancelled or revoked, the Applicants would not be able to use its existing stock of cannabis excise stamps or continue obtaining an ongoing supply of cannabis excise stamps, which would severely impair its ability to operate as a going concern.
82. The Proposed Monitor understands that the Applicants intend to serve and provide notice of the Comeback Hearing to Health Canada and the CRA of the relief sought in the Proposed Initial Order in respect of the Excise Licenses.
83. The Proposed Monitor is of the view that the relief sought by the Applicants is reasonable in the circumstances, and not contrary to s.11.1(2) of the CCAA.

Non-Applicant Stay Parties

84. The Applicants are seeking to extend the stay of proceedings and other benefits provided for in the Proposed Initial Order, to certain direct or indirect subsidiaries of the Debtors in the U.S. that are not Applicants in these CCAA proceedings (the “**Non-Applicant Stay Parties**”). The extension of the stay of proceedings to the Non-Applicant Stay Parties is intended to prevent uncoordinated realization and enforcement attempts from being made in different jurisdictions, and thereby preventing immediate losses of value for the Debtors and its stakeholders.
85. Heritage operates as an integrated business and substantially all of the strategic business affairs of the Applicants and the Non-Applicant Stay Parties, including key decision-making, are conducted through personnel and supported by professional advisors who are located in Canada. Given that the Non-Applicant Stay Parties are integrated with the Applicants, they will benefit from the Stay of Proceedings and the CCAA Proceedings, which will maintain going concern operations and will maximize value for the entirety of the Debtors.
86. The Proposed Monitor understands that courts have, on certain occasions, found it just and reasonable to extend the benefit of a stay of proceedings to non-applicants where such parties are integrally and closely interrelated to the Debtors business, in order to ensure that the purposes of the CCAA can be achieved.
87. The Proposed Monitor is of the view that the relief sought by the Applicants is reasonable in the circumstances, as the business and operations of the Non-Applicant Stay Parties are integrated with the Applicants and a stay in respect of them will likely maximize value of the Debtors for the benefit of all its stakeholders.

IX. CASH MANAGEMENT SYSTEM

88. As outlined in the Schwede Affidavit, the Applicants have an integrated, intercompany cash management system (the “**Cash Management System**”), which is critical to the ongoing efficient operations of the Debtors. In the Proposed Monitor’s view, the ongoing

operation of the Cash Management System will not be prejudicial to any creditor or other stakeholder, and ought to be maintained during the CCAA Proceedings

X. CONCLUSIONS AND RECOMMENDATIONS

89. For the reasons set out in this Report, the Proposed Monitor is of the view that the relief requested by the Applicants is both appropriate and reasonable. The Proposed Monitor is also of the view that granting the relief requested will provide the Applicants the best opportunity to undertake a going concern sale or other restructuring under the CCAA, thereby preserving value for the benefit of the Applicants' stakeholders.
90. As such, the Proposed Monitor supports the Applicants application for CCAA protection and respectfully recommends that the Court make an order granting the relief sought by the Applicants in the Proposed Initial Order.

All of which is respectfully submitted this 2nd day of April 2024.

KPMG Inc.

In its capacity as Proposed Monitor of

Heritage Cannabis Holdings Corp., 1005477 B.C. Ltd., Mainstrain Market Ltd., Purefarma Solutions Inc., 333 Jarvis Realty Inc., 5450 Realty Inc., Premium 5 Ltd., Heritage Cannabis Exchange Corp., Heritage Cannabis East Corporation, and Heritage Cannabis West Corporation

And not in its personal or corporate capacity

Per:



Pritesh Patel
CIRP, LIT
Senior Vice President



Tim Montgomery
CIRP, LIT
Vice President

Appendix B

Court File No.: CV-24-00717664-00CL

**HERITAGE CANNABIS HOLDINGS CORP., 1005477 B.C. LTD.,
HERITAGE CANNABIS WEST CORPORATION, MAINSTRAIN
MARKET LTD., HERITAGE CANNABIS EAST CORPORATION,
PUREFARMA SOLUTIONS INC., 333 JARVIS REALTY INC., 5450
REALTY INC., HERITAGE CANNABIS EXCHANGE CORP., AND
PREMIUM 5 LTD.**

**FIRST REPORT OF KPMG INC.,
IN ITS CAPACITY AS MONITOR**

April 10, 2024

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APPENDICES

APPENDIX “A” – PRE-FILING REPORT OF THE MONITOR DATED APRIL 2, 2024
(WITHOUT APPENDICES)

APPENDIX “B” – UPDATED CASH FLOW FORECAST

APPENDIX “C” – DIP TERM SHEET DATED APRIL 10, 2024

APPENDIX “D” – DIP LOAN ANALYSIS AS AT DECEMBER 27, 2023

APPENDIX “E” – STALKING HORSE PURCHASE AGREEMENT DATED APRIL 10,
2024

APPENDIX “F” – BID PROTECTION ANALYSIS AS AT DECEMBER 27, 2023

APPENDIX “G” – BIDDING PROCEDURES

Court File No.: CV-24-00717664-00CL

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
HERITAGE CANNABIS HOLDINGS CORP., 1005477 B.C. LTD., HERITAGE CANNABIS
WEST CORPORATION, MAINSTRAIN MARKET LTD., HERITAGE CANNABIS EAST
CORPORATION, PUREFARMA SOLUTIONS INC., 333 JARVIS REALTY INC., 5450 REALTY
INC., HERITAGE CANNABIS EXCHANGE CORP., AND PREMIUM 5 LTD.

FIRST REPORT OF KPMG INC.
IN ITS CAPACITY AS MONITOR

April 10, 2024

I. INTRODUCTION

1. On April 2, 2024 (the “**Filing Date**”), the Ontario Superior Court of Justice (Commercial List) (the “**Court**”) issued an order (the “**Initial Order**”) granting Heritage Cannabis Holdings Corp. (“**Heritage**”), 1005477 B.C. Ltd. (“**1005**”), Mainstrain Market Ltd. (“**Mainstrain**”), Purefarma Solutions Inc. (“**Purefarma**”), 333 Jarvis Realty Inc. (“**333**”), 5450 Realty Inc. (“**5450**”), Premium 5 Ltd. (“**Premium**”), Heritage Cannabis Exchange Corp. (“**HCEC**”), Heritage Cannabis East Corporation (formerly CannaCure Corporation) (“**Heritage East**”), and Heritage Cannabis West Corporation (formerly Voyage Cannabis Corp.) (“**Heritage West**” and collectively, the “**Applicants**”) protection pursuant to the *Companies’ Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the “**CCAA**”) and appointing KPMG Inc. (“**KPMG**”) as Monitor of the Applicants in the CCAA proceedings (in such capacity, the “**Monitor**”). The Initial Order provides a stay of proceedings in respect of the Applicants, and certain direct and indirect subsidiaries of the Applicants in the U.S., to and including April 12, 2024.
2. KPMG, in its capacity as Proposed Monitor, provided this Court with a report dated April 2, 2024 (the “**Pre-Filing Report**”) that contained information on, *inter alia*, limited background information in respect of the operations, financial position and creditors of the Applicants, an overview of the Applicants’ 13-week cash-flow forecast, and the Proposed Monitor’s associated conclusions and recommendations. A copy of the Pre-Filing Report (without exhibits) is attached as **Appendix “A”** to this report.
3. The Court scheduled a comeback hearing to be heard on April 11, 2024 (the “**Comeback Hearing**”). At the Comeback Hearing, the Applicants are seeking an Amended and Restated Initial Order (the “**ARIO**”) that, among other things:
 - (a) approves the terms of an interim senior secured, super-priority financing facility (the “**DIP Facility**”) to be provided by BJK Holdings Ltd. (“**BJK**”) to the Applicants in order to finance their working capital requirements and other general corporate purposes and restructuring costs, pursuant to a DIP facility term sheet dated April 10, 2024 (the “**DIP Term Sheet**”);

- (b) grants a charge to secure the obligations owing by the Applicants under the DIP Term Sheet (the “**DIP Lender’s Charge**”);
 - (c) approves the terms of the proposed key employee retention plan (the “**KERP**”) to be extended by the Applicants to certain employees and management personnel;
 - (d) increases the quantum of the Administration Charge to \$0.5 million;
 - (e) increases the quantum of the Directors’ Charge to \$1.9 million;
 - (f) relieves Heritage from any obligations to call and hold its annual general meeting of shareholders (“**AGM**”); and
 - (g) extends the Stay Period to and including June 30, 2024.
4. At the Comeback Hearing, the Applicants are also seeking an Order (the “**SISP Order**”) that, among other things:
- (a) approves the stalking horse subscription agreement dated April 10, 2024 (the “**Stalking Horse Agreement**”) among Heritage and Heritage West, as vendors (the “**Vendors**”), BJK, and Hab Cann Holdings Ltd., as purchaser (the “**Stalking Horse Bidder**”); and
 - (b) approves the sale and investment solicitation process (the “**SISP**”), in which the Stalking Horse Agreement will serve as the “Stalking Horse Bid”.
5. Copies of materials and documents filed in connection with these CCAA proceedings are available on the Monitor’s website at <https://kpmg.com/ca/heritage> (the “**Case Website**”) In addition, KPMG has arranged for a toll-free hotline (1-833-668-2870) and an email address heritage@kpmg.ca through which creditors of the Applicants or other interested parties can make inquires related to the CCAA proceedings.

II. PURPOSE OF REPORT

6. The purpose of this report (the “**First Report**”) is to provide the Court with information pertaining to:

- (a) an overview of the activities of the Applicants and the Monitor since the issuance of the Initial Order;
- (b) an update on the Applicants' operations since the issuance of the Initial Order, including an overview of actual cash receipts and disbursements;
- (c) the cash flow projections for the Applicants (the "**Updated Cash Flow Forecast**") for the period from April 8, 2024 to July 5, 2024 (the "**Forecast Period**");
- (d) an overview of the material terms of the Stalking Horse Agreement, which subject to the approval of this Court, is proposed to act as the stalking horse offer in the proposed SISP;
- (e) an outline of the proposed SISP to be carried out by the Monitor and a description of the bidding procedures (the "**Bidding Procedures**") to be used in connection therewith;
- (f) an overview of the proposed KERP;
- (g) a summary of the amendments sought by the Applicants pursuant to the proposed ARIO; and
- (h) the Monitor's recommendations regarding the relief sought by the Applicants at the Comeback Hearing.

III. TERMS OF REFERENCE

7. In preparing this First Report, KPMG has relied solely on information and documents provided to it by the Applicants and their respective advisors, including unaudited, draft and/or internal financial information, financial projections prepared by the Applicants, discussions with management of the Applicants, and the affidavit of the Applicants' executive (collectively, the "**Information**"). In accordance with industry practice, except as otherwise described in the First Report, KPMG has reviewed the Information for reasonableness, internal consistency, and use in the context in which it was provided. However, KPMG has not audited or otherwise attempted to verify the accuracy or

completeness of the Information in a manner that would comply with Generally Accepted Auditing Standards (“GAAS”) pursuant to the *Chartered Professional Accountant of Canada Handbook* and, as such, KPMG expresses no opinion or other form of assurance contemplated under GAAS in respect of the Information.

8. Capitalized terms used but not defined in the First Report are defined in the Pre-Filing Report or in the Affidavit of Mr. David Schwede sworn April 9, 2024 (the “**April 9 Schwede Affidavit**”), filed by the Applicants as part of its materials in support of the ARIO and the SISP Order. The First Report should be read in conjunction with the April 9 Schwede Affidavit, as certain information contained in the April 9 Schwede Affidavit has not been included herein in order to avoid unnecessary duplication.
9. Future orientated financial information contained in the Updated Cash Flow Forecast is based on the Applicants’ estimates and assumptions regarding future events. Actual results will vary from the information presented even if the hypothetical assumptions occur, and variations may be material. Accordingly, the Monitor expresses no assurance as to whether the Updated Cash Flow Forecast will be achieved.
10. Unless otherwise stated, all monetary amounts noted herein are expressed in Canadian dollars.

IV. ACTIVITIES OF THE APPLICANTS

11. Since the date of the Initial Order, the Applicants, with the assistance of the Monitor, have been managing their operations in the normal course and working to stabilize the business as a result of the CCAA Proceedings. The Applicants’ primary focus, in addition to managing relationships with key stakeholders and addressing operational issues arising in connection with the announcement of the commencement of the CCAA proceedings, has been to assist the Monitor with the preparation of the SISP.
12. As outlined in the April 9 Schwede Affidavit, the activities of the Applicants have included:
 - (a) managing key relationships with customers and suppliers, and operating the business in accordance with the terms of the Initial Order;

- (b) disseminating a press release to inform investors and other interested parties that the Applicants have obtained protection pursuant to the CCAA;
- (c) working with the Monitor to manage their cash flows and making payments to suppliers in accordance with the Initial Order;
- (d) arranging payment, in consultation with the Monitor and BJK, to certain suppliers on account of pre-filing amounts which are critical to the Applicants' business and operations continuing as a going concern;
- (e) working with and corresponding regularly with representatives of the Monitor regarding numerous issues in the CCAA proceedings, including planned disbursements and the preparation of the Updated Cash Flow Forecast;
- (f) communicating with and providing information to various employees regarding the CCAA proceedings;
- (g) assisting the Monitor with the development of the SISP;
- (h) developing the KERP for senior management and employees that are critical to maintaining the going concern operations of the Applicants and key to supporting the SISP; and
- (i) negotiating the terms of the DIP Term Sheet and the Stalking Horse Agreement.

V. ACTIVITIES OF THE MONITOR

13. Since the date of the Initial Order, the Monitor's activities have included:

- (a) making arrangements to have notice of the CCAA proceedings published in the Globe and Mail, as required pursuant to the Initial Order;
- (b) sending a notice on April 8, 2024 of the CCAA proceedings to all known creditors with claims greater than \$1,000 against the Applicants. Notice was also sent to other creditors, including various cannabis regulatory entities, government bodies and any other party that requested a copy;

- (c) filing prescribed documents with the Office of the Superintendent of Bankruptcy pursuant to the CCAA;
- (d) maintaining the Case Website where all Court documents and other material documents pertaining to the CCAA proceedings are available in electronic form;
- (e) implementing procedures for the monitoring of the Applicants' cash flows and to allow for payments in accordance with the terms of the Initial Order;
- (f) assisting the Applicants with the preparation of the Updated Cash Flow Forecast;
- (g) assisting the Applicants with their communications with stakeholders, including vendors and key partners;
- (h) participating in discussions and negotiations on the terms of the Stalking Horse Agreement and the SISP with the Stalking Horse Bidder and its legal counsel, and the Applicants and their legal counsels;
- (i) engaging with the Monitor's legal counsel, Blake, Cassels & Graydon LLP ("**Blakes**") regarding matters related to the CCAA Proceedings, including the DIP Term Sheet, the SISP, the Stalking Horse Agreement and the review of BJK's pre-filing security;
- (j) engaging with the Department of Justice on behalf of the Canada Revenue Agency ("**CRA**") regarding matters related to the CCAA proceedings, including the Licences and the BCLDB RTP (as defined herein);
- (k) preparing materials required to conduct the SISP and preparing a list of potential bidders;
- (l) reviewing materials filed by the Applicants in connection with the Comeback Hearing; and
- (m) preparing this First Report.

VI. UPDATED CASH FLOW FORECAST

Payment of Pre-Filing Amounts

14. Total receipts between April 3 and April 5, 2024 were approximately \$0.6 million from accounts receivable and the Debtors made payments totalling approximately \$0.9 million including in respect of production and operating costs (\$0.84 million), salary and wages (\$0.04 million) and professional fees (\$0.02 million).
15. In consultation with the Monitor and BJK, the Debtors made payments totalling approximately \$0.7 million to certain suppliers on account of pre-filing amounts which are critical to the Applicants' business and operations continuing as a going concern. As detailed in the Pre-Filing Report, the timing of the Applicants' filing (the beginning of the month) interrupted the ordinary payment cadence for many of these critical suppliers, who in the ordinary course of business would have been paid on April 1 or April 2.

Reduction in Receipts – Heritage East and Heritage West

16. The Applicants' aggregate expected receipts prior to the CCAA proceedings were lower than forecast as a result of ongoing enforcement proceedings by the CRA against Heritage West and Heritage East, pursuant to two "requirements to pay" issued by the CRA to the British Columbia Liquor Distribution Branch (the "BCLDB" and the "BCLDB RTP") on or about March 5, 2024 (i.e.: prior to the commencement of the CCAA proceedings).
17. As discussed in the Affidavit of David Schwede, sworn April 2, 2024 at paragraphs 125 – 127, the BCLDB owed Heritage West approximately \$298,141 and owed Heritage East approximately \$16,091, as of March 28, 2024. The Monitor understands that pursuant to the operation of the *Excise Tax Act* (Canada) and the BCLDB RTP, 40% of the pre-filing amounts owing by BCLDB to Heritage West and Heritage East are required to be paid by BCLDB to the CRA, notwithstanding the CCAA Proceedings or the stay therein.
18. The Monitor has had preliminary but constructive discussions with the Department of Justice (representing the CRA) regarding the BCLDB RTPs (among other things), and has recently learned that the BCLDB RTPs were both cancelled by the CRA on March 27,

2024. The Monitor is expecting documentary evidence supporting the cancellation shortly. The Monitor will continue to stay in open communication with the CRA, and will update the Court on any issues that arise.

Security Review

19. As noted in the Pre-Filing Report, the Monitor instructed Blakes to conduct a review of the security granted by certain of the Applicants to BJK pursuant to general security agreements with respect to the Provinces of British Columbia, Alberta and Ontario. Blakes has provided the Monitor with a written opinion that, subject to the typical assumptions and qualifications for opinions of this nature, such security interest constitutes a valid and enforceable security, and that the necessary registrations have been made in the applicable provinces in order to perfect or evidence such security (the “**Security Review Opinion**”).
20. The Monitor will make a copy of the Security Review Opinion available to any party with an interest in it, subject to receiving a signed confirmation of non-reliance by the recipient party, and will make available a copy of the Security Review Opinion to the Court upon request.

Updated Cash Flow Forecast

21. The Applicants, in consultation with the Monitor, have prepared the Updated Cash Flow Forecast for the purpose of projecting the estimated liquidity needs of the Applicants’ during the Forecast Period. A copy of the Updated Cash Flow Forecast, accompanying notes and a report containing prescribed representations regarding the preparation of the Updated Cash Flow Forecast are attached hereto as **Appendix “B”**.
22. The Updated Cash Flow Forecast has been prepared by the Applicants on a conservative basis using probable and hypothetical assumptions set out in the notes to the Updated Cash Flow Forecast.
23. The Applicants had a cash balance of approximately \$3.3 million as at April 8, 2024. Forecast operating cash receipts over the Forecast Period total approximately \$11.7 million related to the collection of accounts receivable, including from future sales.

24. Forecast operating disbursements over the Forecast Period total approximately \$14.8 million and primarily consist of production and operating costs (\$7.9 million), including an additional \$0.8 million for critical pre-filing payments in accordance with the terms of the Initial Order, employee costs (\$2.7 million), excise taxes for accrued or collected amounts after the date of the Initial Order (\$2.6 million), sales taxes in accordance with the Initial Order (\$0.6 million), and professional fees (\$1 million).
25. The Updated Cash Flow Forecast assumes that the interest expense on the outstanding balances under the BJK Loans is paid throughout the Forecast Period.
26. Net negative operating cash flow is forecast to be approximately \$3.1 million over the Forecast Period.
27. Based on the Cash Flow Forecast, the Applicants will be required to draw on the proposed DIP Facility during the week commencing April 26, 2024 in order to have sufficient funds to satisfy its projected uses of cash over the Forecast Period. The Updated Cash Flow Forecast projects borrowings under the DIP Facility in the amount of \$0.5 million over the Forecast Period. As discussed above, Court approval of the DIP Facility is being sought at the Comeback Hearing.
28. The Monitor notes that the Cash Flow Forecast has been prepared solely for the purpose described above, and readers are cautioned that it may not be appropriate for other purposes.
29. As noted above, based on the Cash Flow Forecast, the Applicants will require interim financing in order to maintain sufficient liquidity to continue operations, during these CCAA proceedings.

VII. PROPOSED DIP FACILITY

30. As noted above, based on the Updated Cash Flow Forecast, the Applicants will require interim financing in order to maintain sufficient liquidity to continue operations, during these CCAA proceedings.

31. Under the DIP Term Sheet, and subject to this Court’s approval, BJK (in such capacity, the "DIP Lender") has agreed to extend the DIP Facility to the Applicants in the maximum principal amount of \$1.5 million. BJK’s willingness to provide such financing is predicated on the Court granting the ARIO approving the DIP Facility and granting the DIP Lender’s Charge.
32. Principal terms of the DIP Term Sheet, a copy of which is attached hereto as **Appendix “C”**, include, without limitation, the following¹:

Basic Provisions	Description
Maximum Availability	\$1,500,000
Borrowers	The Applicants
Interest rate	12.5% per annum, calculated daily and compounded monthly
Additional consideration	Commitment fee of \$45,000 which represents 3% of the Maximum Availability (the “ Commitment Fee ”), which shall be fully earned upon issuance of the proposed ARIO.
Expenses	Borrowers shall pay all fees and expenses of the DIP Lender, including of outside counsel, incurred by the DIP Lender in connection with the CCAA proceedings.
Maturity date	Earliest of: (a) August 2, 2024 (or such later date as the DIP Lender in its sole discretion may agree to in writing with the Applicants); (b) the date on which stay of proceedings under CCAA is lifted without consent of DIP Lender or CCAA proceedings terminated; (c) the closing of a sale or similar transaction for all or substantially all of the assets and business pursuant to the SISP; (d) implementation of a plan of compromise or arrangement within the CCAA proceedings; (e) the conversion of the CCAA Proceedings into one or more proceedings under the BIA;; and (f) the occurrence of an Event of Default.
Security	DIP Facility will be secured by the DIP Lender’s Charge on all present and after-acquired personal and real, tangible or intangible property of

¹ Terms used but not otherwise defined in this section have the meaning ascribed to them in the DIP Term Sheet. The following summary of the DIP Term Sheet is provided for illustrative purposes and convenience only – parties should review the DIP Term Sheet attached as Appendix “C” for the terms of same.

	the Borrowers (the “ Property ”), granted in favour of the DIP Lender for all advances made to the Borrowers subsequent to the date of the ARIO.
Conditions Precedent to DIP Advances	Conditions precedent to DIP Advances include but are not limited to: (a) the ARIO be made and in full force and effect, in form and substance acceptable to the DIP Lender; (b) granting of the DIP Lender’s Charge, which shall be subordinate only to the Administration Charge and the Directors’ Charge; (c) the exercise of any garnishment rights commenced prior to the date of the Initial Order by any governmental authority shall be stayed by the Initial Order and the ARIO in respect of post-filing receivables of the Applicants; (d) the Updated Cash Flow Forecast be acceptable to the DIP Lender, and from the date of DIP Term Sheet to the proposed ARIO the Applicants shall not have made any payment that is not contemplated by the Updated Cash Flow Forecast without prior consent of the DIP Lender; (e) the terms and conditions of the SISP shall have been approved by the Court; and (f) the Stalking Horse Agreement shall have been approved by the Court.
Events of Default	A number of Events of Default, including but not limited to: (a) the SISP Order has not been issued by the Court by April 12, 2024; (b) negative variances with respect to cumulative receipts and cumulative disbursements in the Updated Cash Flow Forecast (or any subsequent updated forecast) that (i) at any time during the first 2 weeks following the granting of the proposed ARIO exceed 20%; and (ii) thereafter exceed 10%, in each case measured on a weekly basis; (c) if CRA issues any RTP other than the BCLDB RTP, or if the BCLDB RTP extends, or if CRA attempts or threatens to extend the BCLDB RTP to any post-filing amounts owing to the Applicants; (d) any plan is filed or sanctioned by the Court, or any transaction is sought to be approved, that is not acceptable to the DIP Lender if it does not provide for the repayment of the obligations under the DIP Facility and / or the Loan Agreements; and (e) if any of the Applicants’ cannabis licenses are revoked or not extended.

33. The Monitor believes that the terms of the DIP Term Sheet are reasonable in the circumstances, and supports the Applicants’ request for the approval of same at the Comeback Hearing. When reviewing the reasonableness of the DIP Term Sheet, the Monitor considered the factors set out in Section 11.2 of the CCAA and notes the following:

- (a) Based on the Information available to the Monitor, the Applicants have a critical and immediate need for interim financing following the Comeback Hearing. Without access to the DIP Facility, based on the Updated Cash Flow Forecast, the Applicants

will be unable to maintain their operations and advance the restructuring process during the Forecast Period. The DIP Facility will allow the Applicants to continue to operate, including funding payroll along with production and operating costs;

- (b) the Monitor believes that approval of the DIP Facility is in the best interests of the Applicants' stakeholders and will advance the Applicants' restructuring process. The Monitor does not believe that creditors of the Applicants will be materially prejudiced as a result of the approval of the DIP Facility – to the contrary, they should benefit from it as it will allow the business to continue to operate, which will enhance value versus the alternative, which is the discontinuation of operations and the potential liquidation of the Applicants' assets;
- (c) the availability and maximum amount under the DIP Facility is consistent with the Applicants' forecast liquidity needs through to the anticipated closing of a transaction pursuant to the SISP;
- (d) the Monitor compared the terms of the DIP Facility to other DIP facilities approved by Canadian courts in CCAA proceedings for Cannabis companies commenced since March, 2022. Based on the Monitor's review, the cost of the proposed DIP Facility is within the ranges of similar facilities approved by the Court and other Canadian courts in CCAA proceedings (particularly given the recent increases in interest rates), a comparison of which is attached hereto as **Appendix "D"**; and
- (e) the Monitor also notes that the effective rate of the DIP Facility, accounting for the Commitment Fee and interest chargeable, is lower than the interest under the Revolving Facility (~15.2% vs 17.2%). Further, given the small number of secured creditors with asset-specific collateral, BJK's priority as DIP Lender is not expected to be materially different than its pre-filing priority under the BJK Loans.

VIII. THE STALKING HORSE AGREEMENT

- 34. The Applicants and the Stalking Horse Bidder, and their respective counsel, in consultation with the Monitor, have negotiated the terms and provisions of the Stalking Horse Agreement pursuant to which the Stalking Horse Bidder has agreed to subscribe for, and

the Vendors have agreed to issue, new shares representing 100% of the issued and outstanding capital of Heritage, Heritage East and Heritage West and Purefarma, through a reverse vesting transaction, pursuant to which all of the existing equity interest of the Vendors will be cancelled without consideration, and the Stalking Horse Bidder will be the sole parent of Heritage and Heritage West. The reason for using the reverse vesting structure is to maintain and preserve the Licences.

35. The material terms of the Stalking Horse Agreement², a copy of which is attached hereto as **Appendix “E”**, are as follows:

- (a) Purchaser: Hab Cann Holdings Ltd., a company related to BJK.
- (b) Purchased Entities: Heritage, Heritage West, Heritage East and Purefarma³ (collectively, the “**Purchased Entities**”).
- (c) Purchased Shares: the Stalking Horse Bidder will subscribe for all of the newly issued shares (the “**Purchased Shares**”) in the share capital of Heritage and Heritage West, such that the Purchased Shares shall represent 100% of the outstanding equity interests in each of Heritage and Heritage West.
- (d) Purchase Price: the total purchase price is estimated to be in the range of approximately \$7.7 million to \$11.1 million⁴ (the “**Purchase Price**”), which is comprised of:

² Terms used but not otherwise defined in this section have the meaning ascribed to them in the Stalking Horse Agreement. The following summary of the Stalking Horse Agreement is provided for illustrative purposes and convenience only – parties should review the Stalking Horse Agreement attached as Appendix “E” for the terms of same.

³ Pursuant to the terms of the Stalking Horse Agreement, Heritage and Heritage West will issue new shares to the Stalking Horse Bidder and cancel all other issued and outstanding shares, making the Stalking Horse Bidder the sole owner of Heritage and Heritage West. The Stalking Horse Bidder will indirectly acquire Heritage West and Purefarma by virtue of its acquisition of such companies’ parent (being Heritage).

⁴ The exact Purchase Price in the Stalking Horse Agreement is not capable of being determined at this time as, among other things, the amounts that will ultimately be drawn under the DIP Facility by the time that the transaction closes is unknown. As such, the Purchase Price is shown as a range based on, among other things, the Updated Cash Flow Forecast and the DIP Facility limit. The actual Purchase Price on closing may be materially different from the illustrative purchase price range included herein.

- i. the amount to be paid through a release of outstanding obligations payable by the Applicants to BJK (the “**Credit Bid Consideration**”) which consists of the sum of:
 - A. all amounts under the BJK Loans and all related loan and security documentation, which amount as of the Filing Date was approximately \$6.9 million, plus all accrued and unpaid interest thereon through to and including the Closing Date, plus any fees and expenses associated therewith; and
 - B. all amounts as of the Closing Date pursuant to the DIP Facility and all related loan and security documentation including principal and interest to Closing Date, plus all accrued and unpaid interest thereon through to and including the Closing Date, plus any fees and expenses associated therewith.
 - ii. the amount to be paid in cash (the “**Cash Consideration**”) which consists of the sum of:
 - A. the CCAA Process Expense Amount, constituting: (1) the Administrative Expense Amount, meaning cash in the amount of \$300,000 to be paid to the Monitor on Closing to be used to pay the fees of the Monitor and its counsel from Closing to the completion of these CCAA proceedings, including any bankruptcy of the remaining Applicants; and (2) the CCAA Charge Amount, being cash in an amount sufficient to satisfy the amounts owing in respect of obligations secured by the Administration Charge and Directors’ Charge; and
 - B. the Priority Payment Amount, consisting of cash sufficient to pay those priority payments prescribed under subsections 6(3), 6(5)(a) and 6(6) of the CCAA.
- (e) Transaction Structure: Reverse vesting structure such that prior to the acquisition of the Purchased Shares, a new entity (the “**Residual Co.**”) will be incorporated by the

Applicants and all of the Excluded Assets and Excluded Liabilities will be transferred to Residual Co. pursuant to the Approval and Reverse Vesting Order (“ARVO”).

- (f) Excluded Assets: includes (i) all shares of any of the Applicants that are not Purchased Entities in the name of Heritage; (ii) all shares of 1186366 B.C. Ltd. and Heritage US Holdings Corp. in name of Heritage; (iii) the Cash Consideration; (iv) books and records, including tax records and returns, relating to any of the Excluded Liabilities or Excluded Assets; (v) the Excluded Contracts; (vi) any rights that accrue to Residual Co. under the transaction documents; and (vii) any other asset identified by the Stalking Horse Bidder to the Vendors at least two (2) days prior to Closing.
- (g) Excluded Liabilities: all claims, debts, obligations and liabilities of the Purchased Entities, except the Retained Liabilities, including but not limited to: (i) all pre-filing claims and liabilities arising from the termination of leases or other contracts; (ii) all pre-filing claims, including without limitation any amounts owing in respect of pre-filing Excise Tax, GST/ HST; (iii) all liabilities owing to any Terminated Employees in respect of the termination of employment of such Terminated Employee; and (iv) any liabilities or obligations of any of the Vendors or the Purchased Entities to any customer, including any Governmental Authority, related to or arising out of, any products returned to a Purchased Entity by any such customer, where such liabilities or obligations have arisen or arise in respect of products delivered prior to the Closing Date.
- (h) Retained Liabilities: includes: (i) all liabilities of the Purchased Entities arising from and after the Closing; (ii) tax liabilities of the Purchased Entities for any period, or the portion thereof, beginning on or after the Closing Date but for greater certainty, not including any liabilities to which the BCLDB RTP relate; and (iii) specific liabilities set forth in Schedule 2.3 of the Stalking Horse Agreement, including the stub period post-filing Claims contemplated by the DIP Facility but not paid before Closing.
- (i) Employees: the Stalking Horse Bidder will determine which employees of the Purchased Entities it will assume and employ prior to Closing. In the event that no

conditional offer of employment is made to an employee or an employee who receives an offer of employment rejects such offer, such employee shall be deemed to be a Terminated Employee.

- (j) Transfer to Residual Co.: on the Closing Date, and prior to the acquisition of the Purchased Shares, the Purchased Entities shall assign and transfer the Excluded Assets and the Excluded Liabilities to Residual Co.
- (k) Break and Expense Reimbursement Fee: \$400,000, fixed fee.
- (l) Closing Date: no later than five (5) business days after the date on which the closing conditions have been satisfied or waived and not later than the Outside Date (the “**Closing Date**”).
- (m) Outside Date: August 2, 2024.
- (n) Closing Conditions: material conditions which must be satisfied or waived by the Vendors and/or the Stalking Horse Bidder, as applicable, include, among other things:
 - i. no provision of any Applicable Law and no Order preventing or otherwise frustrating the consummation of the purchase of the Purchased Shares or any of the other transactions pursuant to the Stalking Horse Agreement shall be in effect;
 - ii. the SISP Order and the ARVO shall have been issued by the Court and shall not have been stayed, varied, or vacated (or any such appeal shall have been dismissed with no further appeal therefrom);
 - iii. the Stalking Horse Agreement shall be the Successful Bid (as defined herein);
 - iv. the required Transaction Regulatory Approvals, including any consent, approval and/or grant upon change of control of any of the Purchased Entities as required under Cannabis Laws, shall have been received;

- v. the applicable Purchased Entity shall have terminated the employment of the Terminated Employees;
 - vi. the Licences shall be in good standing, and not be suspended or terminated, following the Closing Date;
 - vii. the Stalking Horse Bidder shall be satisfied that the employees of the Purchased Entities who hold the Licences will accept the Stalking Horse Bidder's offers of employment; and
 - viii. the Stalking Horse Bidder shall be satisfied, acting reasonably, that no new requirement to pay notices will be issued after the Closing Date in respect of pre-Closing Tax Liabilities of the Purchased Entities, and that the BCLDB RTP in respect of pre-Closing Tax liabilities does not apply to, and is not effective against, any post-Closing receivables.
- (o) Termination: the Stalking Horse Agreement may be terminated at any time prior to Closing for, among other things:
- i. by mutual consent of the Vendors and the Stalking Horse Bidder;
 - ii. by the Vendors or the Stalking Horse Bidder if (A) the Stalking Horse Agreement is not the Successful Bid (as defined herein); (B) Closing has not occurred by the Outside Date, or such later date as agreed by the parties; (C) the Closing Conditions are not capable of being satisfied by the applicable dates or if not otherwise required, by the Outside Date; (D) upon the termination or dismissal or conversion of the CCAA proceedings; or (E) there has been a material violation or breach by the other Party of any agreement, covenant, representation or warranty would prevent the satisfaction of, or compliance with, the applicable Closing conditions by the Outside Date, and such violation or breach has not been waived or cured within ten (10) Business Days of a Party providing notice to the other Party of such breach; and

- iii. by the Stalking Horse Bidder upon appointment of a receiver, trustee in bankruptcy or similar official in respect of any of the Applicants or their property.
36. As noted above, the Stalking Horse Agreement provides for payment of the Break and Expense Reimbursement Fee payable to the Stalking Horse Bidder in the event it is not the Successful Bidder (as defined herein) pursuant to the SISP. The Monitor notes that the Break and Expense Reimbursement Fee represents approximately [3.6% to 5.2%] (with an average of 4.4%) of the Purchase Price.
37. The Monitor has reviewed recent comparable stalking horse agreements wherein bid protections have been approved in transactions of this nature, and notes that the proposed Break and Expense Reimbursement Fee is on the higher end of the range of market parameters for expense reimbursements and break fees in comparable transactions, which typically range between 0.5% to 5.7% of the purchase price with an average of 3.2%. Attached hereto as **Appendix “F”** is a comparison of bid protections approved by the Canadian courts in insolvency proceedings in the Cannabis industry commenced since March, 2020. Based on the foregoing, the Monitor is of the view that the proposed Break and Expense Reimbursement Fee is fair and reasonable in the circumstances and will not unduly “chill” bidding on the Applicants’ business and assets as part of the proposed SISP (as described in further detail below).
38. The Stalking Horse Agreement sets a “floor price” for the Applicants’ business and assets and should provide comfort to the Applicants’ customers, vendors, employees and other stakeholders that a going concern transaction will be completed. The SISP, as discussed below, will provide for a fair and transparent marketing process that should allow the Applicants to maximize realizations by seeking higher or otherwise better offers.

IX. SALE AND INVESTOR SOLICITATION PROCESS

39. At the commencement of the CCAA Proceedings, the Applicants advised the Court that they intended to seek approval of a sale and investment solicitation process, which contemplated an offer from BJK to act as a “stalking horse” therein.

40. Given the Applicants’ limited liquidity, the Monitor, in consultation with the Applicants, developed the SISP to promote a competitive, fair, and expedient sale process that seeks to maximize the going concern value of the Applicants’ business and assets. Subject to Court approval, the SISP will be conducted by the Monitor with the assistance of the Applicants.
41. The SISP is intended to solicit interest in and opportunities for a sale of, or investment in, all or part of the Applicants’ Property and Business (the “**Opportunity**”). The Opportunity may include one or more of a restructuring, refinancing, recapitalization or other form of reorganization of the business and affairs of the Applicants as a going concern.
42. The following table summarizes the key dates and timelines pursuant to the SISP⁵:

Date	Event
On or about April 15, 2024	Monitor to distribute a Teaser Letter to Known Potential Bidders, and upon execution of the NDA, access to the VDR
May 10, 2024 at 5:00 p.m. (EST)	Binding Offer Deadline
May 17, 2024	Auction (if needed)
May 27, 2024	Hearing of Approval Motion (if no Qualified Bids are received other than the Stalking Horse Agreement)
June 7, 2024	Hearing of Approval Motion (if Qualified Bids other than Stalking Horse Agreement are received)
As soon possible but no later than August 2, 2024	Closing of Successful Bid

⁵ Terms used but not otherwise defined in this section have the meaning ascribed to them in the SISP.

43. The key features of the Bidding Procedures, a copy of which is attached hereto as **Appendix “G”**, are outlined below:

- (a) Notice: as soon as reasonably practicable, but, in any event, by no later than two (2) business days of the SISP Order: (i) an offering summary (the “**Teaser Letter**”) describing the transaction opportunity and outlining the proposed Opportunity under the SISP to a list of interested parties (the “**Known Potential Bidders**”), which list has been developed by the Monitor and the Applicants. Any Known Potential Bidder interested in exploring the opportunity further will be provided with a form of non-disclosure agreement (the “**NDA**”) by the Monitor. The Monitor will cause the Teaser Letter and NDA to be sent to any other party who requests a copy of the Teaser Letter and NDA or who is identified to the Monitor as a potential bidder as soon as reasonably practicable after such request or identification, as applicable.
- (b) Diligence: Any party that wishes to participate in the SISP (a “**Potential Bidder**”) will be required to provide the Monitor, among other things, with (i) an executed NDA; (ii) documentary evidence of such Potential Bidder’s financial wherewithal and ability to consummate a sale or investment pursuant to the SISP, in the form of proof of cash-on-hand and / or unconditionally committed financing; and (iii) a letter detailing the identity of the Potential Bidder, its direct and indirect principals, and contact information for such Potential Bidder. Potential Bidders that wish to commence due diligence will be provided, by the Monitor, with access to a virtual data room (the “**VDR**”) that contains confidential financial and other information relating to the Applicants and their operations. The Monitor may establish separate VDRs, if the Monitor, in consultation with the Applicants, reasonably determines that doing so would prevent the distribution of commercially sensitive competitive information.
- (c) Qualified Bidder: A Potential Bidder (who has delivered the executed NDA, provided evidence of its financial wherewithal and the letter as set out above) will be deemed a “Participating Bidder” if the Monitor, in its reasonable judgment, and in consultation with the Applicants, determines such person is likely, based on the availability of financing, experience and other considerations, to be able to consummate a Binding

Offer (as defined herein) transaction pursuant to the SISP. The Stalking Horse Bidder is considered a “Qualified Bidder” pursuant to the Bidding Procedures.

- (d) Binding Offers: Any Participating Bidder (in such capacity, a “**Binding Offer Bidder**”), other than the Stalking Horse Bidder, that wishes to make a formal bid must submit a binding offer (a “**Binding Offer**”), in the case of a Sale Proposal or a Partial Sale Proposal, in the form of a template purchase agreement provided in the VDR, along with a marked version showing edits to the original form of the template provided in the VDR, and a marked version compared to the Stalking Horse Agreement, or in the case of an Investment Proposal, provide a plan or restructuring support agreement. In addition to the foregoing, a Binding Offer will be considered a “**Qualified Bid**”, and the Binding Offer Bidder making such Binding Offer a “**Qualified Bidder**”, if it:
- i. provides net cash proceeds on closing via provisions that meet the following requirements, that are not less than the sum of: (a) the Cash Consideration; (b) the Credit Bid Consideration; (c) the Break and Expense Reimbursement Fee; and (d) the minimum overbid amount of \$100,000 (the “**Minimum Overbid**”, and (a) through (d), in the aggregate, the “**Minimum Purchase Price**”), provided, however, that the Monitor may, in its reasonable judgement, and in consultation with the Applicants, deem this criterion satisfied if the Binding Offer, together with one or more non-overlapping Binding Offers, in the aggregate, meet or exceed the Minimum Purchase Price and such Minimum Purchase Price is payable in full in cash on closing (such bids, “**Aggregated Bids**”, and each an “**Aggregate Bid**”);
 - ii. is submitted on or before the Binding Offer Deadline;
 - iii. is accompanied by a deposit in the amount of not less than 10% of the cash purchase price, or total new investment contemplated (the “**Deposit**”);
 - iv. is not subject to any financing condition, diligence condition or internal or board approval;

- v. contains or identifies the key terms and provisions to be included in any Approval Order, including whether such order will be a reverse vesting order;
- vi. contains the Binding Offer Bidder's proposed treatment of employees of the applicable Applicant entities;
- vii. provides for any anticipated corporate, licensing, securityholder, Health Canada, legal or other regulatory approvals required to close the transaction;
- viii. does not provide for any break or termination fee, expense reimbursement or similar type of payment;
- ix. in the case of a Sale Proposal or Partial Sale Proposal, includes:
 - A. the specific purchase price and a description of any non-cash consideration;
 - B. a description of the Property that is expected to be subject to the transaction and any of the Property expected to be excluded;
 - C. a description of all executory contracts of the Applicants that the Binding Offer Bidder will assume and how all monetary defaults will be remedied; and
 - D. a description of those liabilities and obligations (including operating liabilities) which the Binding Offer Bidder intends to assume and which such liabilities and obligations it does not intend to assume and are to be excluded as part of the transaction.
- x. in the case of an Investment Proposal, includes:
 - A. a description of how the Binding Offer Bidder proposes to structure the proposed investment, restructuring, recapitalization, refinancing or reorganization, and a description of any non-cash consideration;
 - B. the aggregate amount of the equity and / or debt investment to be made in the Business or Applicants;

- C. a description of all executory contracts of the Applicants that the Binding Offer Bidder will assume and how all monetary defaults will be remedied;
 - D. the underlying assumptions regarding the pro forma capital structure; and
 - E. a description of those liabilities and obligations (including operating liabilities) which the Binding Offer Bidder intends to assume and which such liabilities and obligations it does not intend to assume and are to be excluded as part of the transaction.
- xi. includes an acknowledgement that if the Binding Offer Bidder is selected as a Successful Bidder or as the Back-Up Bidder (as defined in the Bidding Procedures), that the Deposit will be held and dealt with in accordance with paragraph 32 of the Bidding Procedures; and
 - xii. contemplates and reasonably demonstrates a capacity to consummate a closing of the transaction on the date that is twenty-one (21) days from the date of the issuance of the Approval Order, or such earlier date as is practical for the parties to close, and in any event no later than the Outside Date.
- (e) Auction: If the Monitor determines that more than one Binding Offer (other than the Stalking Horse Agreement) should be considered, the Monitor may, without being obligated to do so, conduct an auction (the “**Auction**”) to select the highest and/or best Binding Offer. Significant aspects of the Auction include the following:
- i. the Monitor shall be entitled, in consultation with the Applicants, to designate some or all Qualified Bidders (in addition to the Stalking Horse Bidder) as eligible to participate in the Auction (the “**Auction Bidders**”);
 - ii. the Auction will commence at a date and time to be designed by the Monitor on May 17, 2024;
 - iii. only the Monitor, the Applicants, the Stalking Horse Bidder, and any other Auction Bidders, along with their respective representatives and advisors, will be entitled to attend the Auction;

- iv. prior to the Auction, the Monitor will identify the highest and best of the Qualifying Bid(s) received, and such Qualifying Bid(s) will constitute the opening bid for the purposes of the Auction (the “**Opening Bid**”). Subsequent bidding will continue in minimum increments valued at not less than \$100,000 cash in excess of the Opening Bid. Each Auction Bidder will provide evidence of its financial wherewithal and ability to consummate the transaction at the increased purchase price, if required by the Monitor.
 - v. Each Auction Bidder will be given reasonable opportunity to submit an overbid at the Auction to any then-existing overbids. The Auction will continue until the bidding has concluded and there is one remaining Auction Bidder. The Monitor and the Heritage Group shall determine which Auction Bidders have submitted (i) the highest and best Binding Offer of the Auction (the “**Successful Bid**”, and the bidder making such Successful Bid, the “**Successful Bidder**”), and (ii) the next highest and otherwise second-best Binding Offer of the Auction (the “**Back-Up Bid**”, and the bidder making such Back-Up Bid, the “**Back-Up Bidder**”).
 - vi. Upon selection of a Successful Bidder and a Back-Up Bidder, if any, the Successful Bidder and the Back-Up Bidder, if any, shall each deliver to the Monitor and the Applicants, an amended and executed transaction document by no later than May 21, 2024 that reflects their final bid and any other modifications submitted and agreed to during the Auction, prior to the filing of the motion material for the hearing to consider the Approval Motion.
44. In the event the Monitor does not receive a Binding Offer (other than the Stalking Horse Agreement), the Stalking Horse Agreement will be deemed the Successful Bid, the Applicants will seek, by no later than May 27, 2024, Court approval of the Stalking Horse Bid and the transactions contemplated therein.
45. The Bidding Procedures provide that the Monitor, in consultation with the Applicants, may at any time and from time to time, modify, amend, vary or supplement the Bidding Procedures, without the need for obtaining an order of the Court or providing notice to

affected participants, provided that the Monitor determines that such modification, amendment, variation or supplement is expressly limited to changes that do not materially alter, amend or prejudice the rights of such participants, and that are necessary or useful in order to give effect to the substance of the SISP and the Bidding Procedures. The Monitor will post on the Case Website, as soon as reasonably practicable, any such modification, amendment, variation or supplement to the Bidding Procedures and inform the bidders impacted by such modifications.

46. Among other things, the Bidding Procedures, which were developed in consultation with the Stalking Horse Bidder, provide for an orderly and appropriately competitive process through which potential acquirers may submit bids for the Applicants' Property and Business. Additionally, the Bidding Procedures will allow the Monitor, in consultation with the Applicants, to conduct the Auction, if required, in a fair and transparent manner that will encourage participation by financially capable bidders with demonstrated ability to consummate a timely transaction.
47. In the Monitor's view, the SISP and the Bidding Procedures are consistent with market practice, provide a reasonable opportunity for potential purchasers to submit higher or otherwise better offers to the Stalking Horse Agreement, and are reasonable and appropriate in the circumstances.

X. KEY EMPLOYEE RETENTION PLAN

48. In order to ensure the continued participation of certain senior management and key employees of the Applicants that are critical to maintain and preserve the going concern value of the Applicants during the CCAA proceedings, the Applicants are seeking approval of the KERP whereby the Key Employees will receive retention payments upon the Closing of a transaction pursuant to the SISP. The Applicants developed the KERP in consultation with the Monitor.
49. The KERP is made with respect to eleven (11) employees (the "**Key Employees**"), all of whom the Applicants advised the Monitor are essential to the successful value-maximizing outcome of the SISP by ensuring the business continues to operate without disruption in

the ordinary course. The Monitor notes that the Stalking Horse Bid contemplates the retention of certain of the employees of the Purchased Entities, which the Monitor understands includes the Key Employees.

50. The aggregate amount payable under the KERP is \$76,000, to be allocated to the participating Key Employees in accordance with the KERP terms. The Monitor understands the Key Employees would each receive a retention bonus equal to their respective 2023 bonus entitlement and prorated for 4 months to coincide with the Outside Date for closing of a transaction pursuant to the SISP.
51. The Monitor is of the view that the KERP amounts are reasonable to ensure the continued going concern operations of the Applicants' business during the CCAA proceedings and the successful completion of the SISP. The Monitor understands the DIP Lender is supportive of the proposed KERP.

XI. PROPOSED AMENDMENT TO INITIAL ORDER

52. As outlined in the April 9 Schwede Affidavit, the Applicants are seeking certain amendments to the Initial Order including, but not limited to:
 - (a) increasing the Administration Charge from \$250,000 to \$500,000;
 - (b) increasing the Directors' Charge from \$0.9 million to \$1.9 million;
 - (c) the relative priority of Court-ordered Charges; and
 - (d) extending the time for Heritage to call and hold its annual general meeting of shareholders ("AGM") until after the conclusion of the CCAA proceedings.

Increase in Administration Charge

53. The Initial Order provided a charge for the ten-day period prior to the Comeback Hearing on all Property of the Applicants in favour of the Monitor, counsel to the Monitor, and the Applicants' counsels, as security for their respective fees and disbursements incurred in

respect of the application for the Initial Order in the aggregate amount of \$250,000 (the “**Administration Charge**”).

54. Pursuant to the proposed ARIO, the Applicants are seeking to increase the Administration Charge to \$500,000 to account for the work to be provided by the parties covered under the Administration Charge during the CCAA proceedings, given the limited to no retainers provided to these professionals to date. The Monitor is of the view that the increased Administration Charge is reasonable and appropriate in the circumstances, and comparable to the size of the court-ordered charge granted in similar proceedings.
55. The Monitor understands BJK has consented to the increase in the Administration Charge.

Increase in Directors’ Charge

56. The Initial Order provided for a charge of \$0.9 million to secure the Applicants’ indemnity obligations to the current directors and officers of the Applicants (the “**Directors and Officers**”) against obligations and liabilities that they may incur as directors or officers of the Applicants after the commencement of these CCAA proceedings (the “**Directors’ Charge**”).
57. Pursuant to the proposed ARIO, the Applicants’ are seeking to increase the Directors’ Charge to \$1.9 million. The quantum of the increase amount in the Directors’ Charge has been calculated by the Applicants, in consultation with the Monitor, taking into consideration excise taxes, sales taxes, employee payroll and related expenses (including source deductions), as well as other employment related liabilities, that attract potential liability for the Directors and Officers during the period after the Filing Date.
58. The Monitor notes that the Directors and Officers shall only be entitled to the benefit of the Directors’ Charge to the extent that they do not have coverage under any directors’ and officers’ insurance policy, or to the extent such coverage is insufficient to pay an indemnified amount.
59. The Monitor understands BJK has consented to the increase in the Directors’ Charge.

Priority of Charges

60. The proposed ARIO provides that the priority charges rank ahead of all Encumbrances on the current and future assets, undertakings and properties of the Applicants wherever located, including all proceeds thereof, and rank in the following order:
- (a) First, the Administration Charge (to the maximum amount of \$0.5 million);
 - (b) Second, the Directors' Charge (to a maximum of \$1.9 million); and
 - (c) Third, the DIP Lender's Charge.

Extend time to call AGM

61. Given the CCAA proceedings, it is anticipated that the Applicants' executive management will be focused primarily on the Applicants' restructuring efforts and the SISF. The AGM would require significant time, cost and resources, and attention from management, which would detract from these efforts. The Monitor is also of the view that it would be reasonable for the Applicants to not incur the time and costs associated with the holding the AGM given that Heritage may not continue as a reporting issuer upon its emergence.
62. As a result, the Monitor views this request as reasonable and supports such relief in the circumstances.

XII. STAY EXTENSION

63. The current stay of proceedings expires on April 12, 2024. The Applicants are seeking an extension of the Stay Period to June 30, 2024.
64. The Monitor supports the Applicants' request for an extension of the stay of proceedings to June 30, 2024 for the following reasons:
- (a) the Applicants are acting in good faith and with due diligence in taking steps to facilitate a going concern sale of their business;

- (b) the Updated Cash Flow Forecast indicates that, subject to Court approval of the DIP Facility, the Applicants are forecast to have sufficient liquidity to continue to fund operations through the period ending June 30, 2024;
- (c) at least 28 days will be required to establish whether there is any serious interest from Known Potential Bidders in the SISP; and
- (d) it is the Monitor's view that an extension will not prejudice or adversely affect any group of creditors.

XIII. CONCLUSIONS AND RECOMMENDATIONS

- 65. For the reasons set out in this First Report, the Monitor is of the view that the relief requested by the Applicants in the proposed ARIO and the SISP Order are both appropriate and reasonable. The Monitor is also of the view that the Applicants are acting in good faith and with due diligence. Granting the relief sought by the Applicants will provide the Applicants with the best opportunity to explore whether there are higher or otherwise better offers to the Stalking Horse Agreement, that would seek to maximize creditor and stakeholder recoveries.
- 66. Based on the foregoing, the Monitor respectfully recommends that this Court approve the relief sought by the Applicants in the proposed ARIO and the SISP Order.

All of which is respectfully submitted this 10th day of April 2024.

KPMG Inc.

In its capacity as Monitor of

Heritage Cannabis Holdings Corp., 1005477 B.C. Ltd., Mainstrain Market Ltd., Purefarma Solutions Inc., 333 Jarvis Realty Inc., 5450 Realty Inc., Premium 5 Ltd., Heritage Cannabis Exchange Corp., Heritage Cannabis East Corporation, and Heritage Cannabis West Corporation

And not in its personal or corporate capacity

Per:



Pritesh Patel
CIRP, LIT
Senior Vice President



Tim Montgomery
CIRP, LIT
Vice President

Appendix C



Court File No. CV-24-00717664-00CL

**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**

THE HONOURABLE MR.) THURSDAY, THE 11TH
)
JUSTICE CAVANAGH) DAY OF APRIL, 2024
)

**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 HERITAGE CANNABIS HOLDINGS
CORP., 1005477 B.C. LTD., HERITAGE CANNABIS WEST
CORPORATION, MAINSTRAIN MARKET LTD.,
HERITAGE CANNABIS EAST CORPORATION,
PUREFARMA SOLUTIONS INC., 333 JARVIS REALTY
INC., 5450 REALTY INC., HERITAGE CANNABIS
EXCHANGE CORP. and PREMIUM 5 LTD.**

(collectively, the "**Applicants**")

SISP ORDER

THIS MOTION, made by the Applicants, pursuant to the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the "**CCAA**") for an order, *inter alia*, approving (i) the Bidding Procedures for Sale and Investment Solicitation Process in the form attached hereto as Schedule "B" (the "**SISP**"); and (ii) the Stalking Horse Agreement (as defined herein) was heard this day by Zoom videoconference.

ON READING the affidavit of David Schwede sworn April 2, 2024 and the Exhibits thereto (the "**Initial Affidavit**"), the affidavit of David Schwede sworn April 9, 2024 and the Exhibits thereto (the "**Second Affidavit**"), and the First Report of KPMG Inc. ("**KPMG**") in its capacity as Court-appointed monitor of the Applicants (in such capacity, the "**Monitor**") dated April 10, 2024 (the "**First Report**"), and on hearing the submissions of counsel for the Applicants and the additional parties listed in Schedule "A" hereto (collectively, the "**Non-Applicant Stay**"),

Parties" and together with the Applicants, the "**Heritage Entities**"), counsel for the Monitor, counsel for BJK Holdings Ltd. ("**BJK**"), the Applicants' senior secured creditor and the debtor-in-possession lender (in such capacity, the "**DIP Lender**"), and HAB Cann Holdings Ltd. (the "**Stalking Horse Purchaser**") and such other parties that attended the hearing of the motion, no one else appearing although duly served as appears from the affidavit of service of Lynda Christodoulou sworn April 10, 2024,

SERVICE AND DEFINITIONS

1. **THIS COURT ORDERS** that the time for service and filing of the Notice of Motion and the Motion Record is hereby abridged and validated so that this Motion is properly returnable today and hereby dispenses with further service thereof.
2. **THIS COURT ORDERS** that capitalized terms used in this Order and not otherwise defined herein shall have the meanings ascribed to them in the Amended and Restated Initial Order of this Court dated April 11, 2024 (the "**ARIO**"), the SISP or the Stalking Horse Purchase Agreement (as defined below).

APPROVAL OF THE SALE AND INVESTMENT SOLICITATION PROCESS

3. **THIS COURT ORDERS AND DECLARES** that the SISP (subject to any amendments thereto that may be made in accordance with the terms therewith and with this Order) is hereby approved and the Applicants and the Monitor are hereby authorized and directed to implement the SISP pursuant to the terms thereof. The Applicants and the Monitor are hereby authorized and directed to take any and all actions as may be necessary or desirable to implement and carry out the SISP in accordance with its terms and this Order.
4. **THIS COURT ORDERS** that the Applicants, the Monitor, and their respective affiliates, partners, directors, officers, employees, counsel, representatives, agents and controlling persons shall have no liability with respect to any and all losses, claims, damages or liabilities, of any nature or kind, to any Person in connection with or as a result of implementing or otherwise in connection with the SISP, except to the extent such losses, claims, damages or liabilities that arise or result from their respective gross negligence or wilful misconduct, as applicable, as determined by this Court in a final order that is not subject to appeal or other review.

5. **THIS COURT ORDERS** that pursuant to section 3(c) of the *Electronic Commerce Protection Regulations*, Reg. 81000-2-175 (SOR/DORS), the Monitor and the Applicants are authorized and permitted to send, or cause or permit to be sent, commercial electronic messages to an electronic address of prospective bidders or offerors and to their advisors, but only to the extent required to provide information with respect to the SISP.

6. **THIS COURT ORDERS** that notwithstanding anything contained herein or in the SISP, and in no way limiting the protections provided to the Monitor in the ARIIO, the Monitor shall not take possession of any Property or be deemed to take possession of any Property, including pursuant to any provision of the Cannabis Legislation (as defined in the ARIIO).

APPROVAL OF THE STALKING HORSE AGREEMENT

7. **THIS COURT ORDERS** that Heritage Cannabis Holdings Corp. ("**Heritage**") and Heritage Cannabis West Corporation ("**Heritage West**") are hereby authorized and empowered to enter into the Stalking Horse Subscription Agreement (the "**Stalking Horse Agreement**") among Heritage and Heritage West, as companies (the "**Companies**"), BJK, and the Stalking Horse Purchaser, in the form attached to the First Report, *nunc pro tunc*, with such minor amendments as may be acceptable to the Companies, BJK and the Stalking Horse Purchaser, with the approval of the Monitor.

8. **THIS COURT ORDERS** that the Stalking Horse Agreement is hereby approved and accepted solely for the purposes of being the Stalking Horse Bid under the SISP; provided that, nothing herein approves the transactions contemplated in the Stalking Horse Bid, and the approval of any transactions contemplated by the Stalking Horse Agreement shall be considered by this Court on a subsequent motion made to this Court if the Stalking Horse Agreement is the Successful Bid pursuant to the SISP.

9. **THIS COURT ORDERS** that the Break and Expense Reimbursement Fee (as defined in the Stalking Horse Agreement) is hereby approved and the Applicants party to the Stalking Horse Agreement are hereby authorized and directed to pay the Break and Expense Reimbursement Fee to Stalking Horse Purchaser (or as it may otherwise direct) subject to and in accordance with the terms of the Stalking Horse Agreement.

PROTECTION OF PERSONAL INFORMATION

10. **THIS COURT ORDERS** pursuant to clause 7(3)(c) of the *Personal Information Protection and Electronic Documents Act*, S.C. 2000, c. 5 and any similar legislation in any other applicable jurisdictions, the Monitor, the Applicants and their respective advisors are hereby authorized and permitted to disclose and transfer to prospective SISP participants (each a "**SISP Participant**") and their respective advisors personal information of identifiable individuals ("**Personal Information**"), records pertaining to the Applicants' past and current employees, and information on specific customers, but only to the extent desirable or required to negotiate or attempt to complete a transaction under the SISP (a "**Transaction**"). Each SISP Participant to whom such Personal Information is disclosed shall maintain and protect the privacy of such Personal Information and limit the use of such Personal Information to its evaluation of a Transaction, and, if it does not complete a Transaction, shall return all such information to the Monitor or the Applicants, or, in the alternative, destroy all such information and provide confirmation of its destruction if requested by the Applicants or the Monitor. The Successful Bidder(s) (as defined in the SISP) shall maintain and protect the privacy of such information and, upon closing of the Transaction(s) contemplated in the Successful Bid(s), shall be entitled to use the personal information provided to it that is related to the Business and/or the Property (as defined in the SISP) acquired pursuant to the SISP in a manner that is in all material respects identical to the prior use of such information by the Applicants, and shall return all other personal information to the Applicants or the Monitor, or ensure that all other personal information is destroyed and provide confirmation of its destruction if requested by the Monitor or the Applicants.

GENERAL

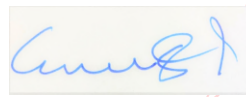
11. **THIS COURT ORDERS** that each of the Applicants or the Monitor may, from time to time, apply to this Court to amend, vary or supplement this Order or for advice and directions in the discharge of their respective powers and duties under this Order or in the interpretation of this Order.

12. **THIS COURT ORDERS** that this Order shall have full force and effect in all provinces and territories in Canada.

13. **THIS COURT HEREBY REQUESTS** the aid and recognition of any court, tribunal, regulatory or administrative body having jurisdiction in Canada or in the United States, to give effect to this Order and to assist the Applicants, the Monitor and their respective agents in carrying out the terms of this Order. All courts, tribunals, regulatory and administrative bodies are hereby respectfully requested to make such orders and to provide such assistance to the Applicants and to the Monitor, as an officer of this Court, as may be necessary or desirable to give effect to this Order, to grant representative status to the Monitor in any foreign proceeding, or to assist the Applicants and the Monitor and their respective agents in carrying out the terms of this Order.

14. **THIS COURT ORDERS** that each of the Applicants and the Monitor be at liberty and is hereby authorized and empowered to apply to any court, tribunal, regulatory or administrative body, wherever located, for the recognition of this Order and for assistance in carrying out the terms of this Order, and that the Monitor is authorized and empowered to act as a representative in respect of the within proceedings for the purpose of having these proceedings recognized in a jurisdiction outside Canada.

15. **THIS COURT ORDERS** that this Order all of its provisions are effective as of 12:01 a.m. (Toronto Time) on the date of this Order without the need for entry or filing.

A digital signature in blue ink, appearing to be the name 'Cavanagh', is displayed within a light-colored rectangular box.

Digitally signed by
Mr. Justice Cavanagh

SCHEDULE "A"
Non-Applicant Stay Parties

Heritage (US) Colorado Corp.

Opticann, Inc.

Heritage US Holdings Corp.

Heritage (US) Cali Corp.

Heritage (US) Oregon Corp.

SCHEDULE "B"

**Bidding Procedures for
the Sale and Investment Solicitation Process
[Attached]**

Schedule “B”

Bidding Procedures for

the Sale and Investment Solicitation Process

Pursuant to an order of the Ontario Superior Court of Justice (Commercial List) (the “**Court**”) made on April 2, 2024 (as amended and restated, the “**Initial Order**”), Heritage Cannabis Holdings Corp. (“**Heritage Cannabis**”), 1005477 B.C. Ltd., Heritage Cannabis West Corporation, Mainstrain Market Ltd., Heritage Cannabis East Corporation, Purefarma Solutions Inc., 333 Jarvis Realty Inc., 5450 Realty Inc., Heritage Cannabis Exchange Corp. and Premium 5 Ltd. (collectively, the “**Applicants**” or the “**Heritage Group**”) were granted protection under the *Companies’ Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the “**CCAA**”) and the proceedings thereunder, the “**CCAA Proceedings**”), and KPMG Inc. (“**KPMG**”) was appointed monitor of the Applicants (in such capacity, the “**Monitor**”).

On April 11, 2024, the Court granted an order (the “**SISP Order**”), authorizing the Monitor, with the assistance of the Heritage Group’s management team, to undertake a sale and investment solicitation process (“**SISP**”) for the sale of the Heritage Group’s (i) property, assets and undertaking or shares in the capital of one or more of the Applicants (collectively, the “**Property**”), and (ii) business operations (the “**Business**”). The SISP will be conducted by the Monitor in the manner set forth herein and in accordance with the SISP Order.

Among other things, the SISP Order also: (a) approved the procedures set out in this Schedule (the “**Bidding Procedures**”) for the solicitation of offers or proposals (each, a “**Bid**”) for the acquisition of the Property and the Business or some portion thereof; and (b) approved the form of stalking horse agreement (as same may be amended from time to time pursuant to its terms and the SISP Order, the “**Stalking Horse Agreement**”) to be entered into between each of Heritage Cannabis, BJK Holdings Ltd. (in such capacity, the “**Stalking Horse Bidder**”) and Hab Cann Holdings Inc. for the purposes of serving as the stalking horse bid in the SISP (the “**Stalking Horse Bid**”). For the avoidance of doubt, the implementation of the transactions contemplated by the Stalking Horse Agreement is conditional upon the Stalking Horse Bid being selected as a Successful Bid (as defined below) in accordance with the Bidding Procedures, and Court approval of the Stalking Horse Agreement and the transactions contemplated therein on a subsequent motion to be brought by the Applicants following the completion of the SISP.

Defined Terms

1. Capitalized terms used in these Bidding Procedures and not otherwise defined herein have the meanings given to them in **Appendix “A”** hereto.

Bidding Procedures

Opportunity

2. The SISP is intended to solicit interest in and opportunities for a sale of, or investment in, all or part of the Heritage Group’s Property and Business (the “**Opportunity**”). The Opportunity may include one or more of a restructuring, refinancing, recapitalization or other form of reorganization of the business and affairs of one or more entity comprising the Heritage Group as a going concern, or a sale of all, substantially all or one or more

components of the Heritage Group's Property and Business as a going concern or otherwise.

3. The Stalking Horse Agreement constitutes a Binding Offer and a Qualified Bid (each as defined below) by the Stalking Horse Bidder (which constitutes a Binding Offer Bidder and a Qualified Bidder (each as defined below)) for all purposes and at all times under this SISP, and will serve as the Stalking Horse Bid for purposes of this SISP and the Bidding Procedures. The Stalking Horse Bidder shall have the right to participate in the Auction (as defined below), if any. Notwithstanding the Stalking Horse Agreement and proposed transactions therein, all interested parties are encouraged to submit bids based on any form of Opportunity that they may elect to advance pursuant to the SISP, including as a Sale Proposal (as defined below), a Partial Sale Proposal (as defined below), or an Investment Proposal (as defined below). A copy of the Stalking Horse Agreement will be made available to all Qualified Bidders (as defined below) and a form of such agreement, to be uploaded to the VDR (as defined below), shall be used as the basis for any Binding Offer made in the SISP.
4. The Bidding Procedures describe (a) the manner in which prospective bidders may gain access to due diligence materials concerning the Heritage Group, the Property and the Business, (b) the manner in which bidders may participate in the SISP, (c) the terms of the requirements, delivery and negotiation of bids received, (d) the ultimate selection of a Successful Bidder (as defined below), and (e) the requisite approvals to be sought from the Court in connection therewith.
5. Subject to Paragraph 22 below, the Monitor, in consultation with the Heritage Group, may at any time and from time to time, modify, amend, vary or supplement the Bidding Procedures, without the need for obtaining an order of the Court or providing notice to Participating Bidders, Binding Offer Bidders, Qualified Bidders, the Successful Bidder(s) or the Back-Up Bidder(s) (each as defined below), provided that such modification, amendment, variation or supplement is (a) expressly limited to changes that do not alter, amend or prejudice the rights of such bidders (including the rights of the Stalking Horse Bidder, except with the authorization of the Stalking Horse Bidder) and (b) necessary or useful in order to give effect to the substance of the SISP, the Bidding Procedures or the SISP Order. Notwithstanding the foregoing, the dates or time limits indicated in the table contained below may be extended by the Monitor, with the consent of the DIP Lender, as the Monitor deems necessary or appropriate, acting reasonably, or by order of the Court.
6. The Monitor will post on the Monitor's website and serve on the service list maintained in the CCAA Proceedings, as soon as practicable, any such modification, amendment, variation or supplement to these Bidding Procedures and inform the bidders impacted by such modifications.
7. In the event of a dispute as to the interpretation or application of the SISP Order or these Bidding Procedures, the Court will have exclusive jurisdiction to hear and resolve such dispute. For the avoidance of doubt, all bidders shall be deemed to have consented to the jurisdiction of the Court in connection with any disputes relating to the SISP, including the qualification of bids, the construction and enforcement of the SISP, and closing of a Successful Bid, as applicable.

8. A summary of the key dates pursuant to the SISP is as follows:¹

Milestone	Date
Commence solicitation of interest from parties, including delivering NDA and Teaser Letter, and upon execution of NDA (each as defined below), Confidential Information Memorandum and access to VDR	No later than two (2) Business Days after Court Approval of the SISP (i.e. April 15, 2024)
Binding Offer Deadline (as defined below)	May 10, 2024 at 5:00 p.m. EST
<i>If no Qualified Bids are received other than Stalking Horse Bid</i>	
Selection of Stalking Horse Bid as Successful Bid	May 10, 2024 at 5:15 p.m. EST
Hearing of Approval Motion (as defined below)	May 27, 2024 or the earliest date available thereafter
Closing of Stalking Horse Bid	As soon as possible but no later than August 2, 2024.
<i>If Qualified Bids are received other than Stalking Horse Bid</i>	
Deadline to notify Qualified Bidders of Auction	No later than May, 14, 2024
Auction, if needed	May 17, 2024
Selection of Successful Bid and Back-Up Bidder, if needed	May 18, 2024 or such later date immediately thereafter if the Auction is not completed in one day
Execution of Definitive Transaction Documentation reflecting changes to Qualified Bid arising from Auction.	No later than May 21, 2024
Hearing of Approval Motion	No later than June 7, 2024

¹ This summary is provided for illustrative purposes only, and the terms of these Bidding Procedures other than Paragraph 8 shall govern in the case of any inconsistency between Paragraph 8 and any other section of the Bidding Procedures.

Milestone	Date
Closing of the Successful Bid	As soon as possible but no later than August 2, 2024, or such later date as may be agreed

Solicitation of Interest: Notice of the SISP

9. As soon as reasonably practicable, but, in any event, by no later than two (2) Business Days after the granting of the SISP Order:
 - (a) the Monitor, in consultation with the Heritage Group, will prepare a list of potential bidders, including (i) parties that have approached the Applicants, the Monitor or the DIP Lender indicating an interest in the Opportunity, and (ii) strategic and financial parties who the Monitor, in consultation with the Heritage Group, believe may be interested in purchasing all or part of the Business or the Property or investing in the Heritage Group pursuant to the SISP, in each case whether or not such party has submitted a letter of intent or similar document (collectively, the **“Known Potential Bidders”**);
 - (b) the Heritage Group will issue a press release setting out the information contained in the Notice and such other relevant information which the Monitor, the Applicants determine is appropriate; and
 - (c) the Monitor, with the assistance of the Heritage Group, 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 Monitor and Heritage Group and their respective counsel, which shall enure to the benefit of any purchaser of the Business or Property or any part thereof (an **“NDA”**).
10. The Monitor will cause the Teaser Letter and NDA to be sent to each Known Potential Bidder by no later than two (2) Business Days after the granting of the SISP Order, and to any other party who requests a copy of the Teaser Letter and NDA or who is identified to the Monitor as a potential bidder as soon as reasonably practicable after such request or identification, as applicable.
11. In addition to the foregoing, within five (5) Business Days after the granting of the SISP Order, the Monitor shall cause a notice of the SISP (and such other relevant information which the Monitor, in consultation with the Heritage Group, considers appropriate) (the **“Notice”**) to be published in one or more trade industry and/or insolvency-related publications as may be considered appropriate by the Monitor.

Virtual Data Room

12. A confidential virtual data room (the **“VDR”**) in relation to the Opportunity will be made available by the Heritage Group and the Monitor to Participating Bidders (as defined below). The VDR will include all documentary materials reasonably likely to be relevant to Participating Bidders in their assessment of the Opportunity, and shall include the Teaser

Letter, the Stalking Horse Agreement and a form of asset/share purchase agreement to be used by Participating Bidders in making bids. The VDR shall be made available as soon as practicable following the granting of the SISP Order. The Monitor, in consultation with the Heritage Group, may establish or cause the Heritage Group to establish separate VDRs (including “**clean rooms**”), if the Monitor, in consultation with the Heritage Group, reasonably determines that doing so would further the Heritage Group’s and any Potential Bidder’s compliance with applicable antitrust and competition laws, or would prevent the distribution of commercially sensitive competitive information.

13. The Monitor may, in consultation with the Heritage Group, limit the access of any Potential Bidder to any confidential information in the VDR where the Monitor, in consultation with the Heritage Group, reasonably determines that such access could negatively impact the SISP, the ability to maintain the confidentiality of the information, the Business, the Property or their value.

Participating Bidders and Delivery of Confidential Information Memorandum

14. Any party who wishes to participate in the SISP (a “**Potential Bidder**”) must provide to the Monitor and counsel to the Heritage Group, at the addresses specified in **Appendix “B”** hereto (including by email transmission), in form and substance acceptable to the Monitor, in consultation with the Heritage Group (a) an NDA executed by it, (b) written confirmation of the identity of the Potential Bidder, (c) the contact information for such Potential Bidder (d) full disclosure of the direct and indirect principals of the Potential Bidder, and (e) documentary evidence of such Potential Bidder’s financial wherewithal and ability to consummate a sale or investment pursuant to the SISP, in the form of proof of cash-on-hand and/or unconditionally committed financing.
15. A Potential Bidder who has satisfied the requirements in Paragraph 14(a) through (e) will be deemed a “**Participating Bidder**”. All Participating Bidders will receive a confidential information memorandum prepared by the Monitor, in consultation with the Heritage Group (a “**Confidential Information Memorandum**”) and will be granted access to the VDR. For the avoidance of doubt, the Stalking Horse Bidder is, and will be deemed to be, a Participating Bidder.
16. The Heritage Group, the Monitor and their respective advisors make no representation or warranty as to the information contained in the VDR, Teaser Letter, Confidential Information Memorandum or otherwise made available pursuant to the SISP. Participating Bidders must rely solely on their own independent review, diligence, 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 one or more of the entities comprising the Heritage Group.
17. At any time during the SISP, the Monitor may, in its reasonable judgment, and in consultation with the Heritage Group, eliminate a Participating Bidder from the SISP, in which case such bidder will be eliminated from the SISP and will no longer be a “Participating Bidder” for the purposes of the SISP.

Due Diligence

18. The Monitor and the Heritage Group, shall, subject to competitive and other business considerations, afford each Participating Bidder such access to due diligence materials

and information relating to the Property and Business as the Monitor, in consultation with the Heritage Group, may deem appropriate. Any materials provided to a Participating Bidder at such Participating Bidder's request shall also be posted in the VDR, subject to Paragraphs 12, 13 and 19. Due diligence access may include management presentations, access to the VDR, on-site inspections, and other matters which a Participating Bidder may reasonably request and as to which the Monitor, in its reasonable judgment, and in consultation with the Heritage Group, may agree. Any access or interactions with the Heritage Group's management and personnel shall be coordinated through the Monitor.

19. The Monitor shall be solely responsible for coordinating and responding to all requests for information and due diligence access from Participating Bidders; Participating Bidders with such requests shall make them to the Monitor, in writing, at the addresses specified in **Appendix "B"** hereto (including by email transmission). Neither the Monitor, nor the Heritage Group through the Monitor, will be obligated to furnish any information relating to the Property or Business to any person other than to Participating Bidders. Further, and for the avoidance of doubt, selected due diligence materials may be withheld from certain Participating Bidders if the Monitor, in consultation with the Heritage Group, determines such information to represent proprietary or sensitive competitive information.

Formal Binding Offers

20. Any Participating Bidder (other than the Stalking Horse Bidder) that wishes to make a formal offer to (a) acquire all or substantially all of the Property or Business, whether through an asset purchase, a share purchase or a combination thereof (either one, a "**Sale Proposal**") or a portion of the Property or the Business (a "**Partial Sale Proposal**"); or (b) make an investment in, restructure, recapitalize or refinance the Heritage Group or the Business or a portion thereof (an "**Investment Proposal**", together with a Sale Proposal and a Partial Sale Proposal, a "**Binding Offer**"): shall (i) in the case of a Sale Proposal, provide its offer in the form of a template purchase agreement provided in the VDR, along with a marked version showing edits to the original form of the template provided in the VDR, and a marked version compared to the Stalking Horse Agreement; or (ii) in the case of an Investment Proposal, provide a plan or restructuring support agreement (the "**Binding Offer Bidder**"), in each case, to the Monitor at the addresses specified in **Appendix "B"** hereto (including by email transmission), no later **5 p.m. EST on May 10, 2024** (the "**Binding Offer Deadline**").
21. A Binding Offer will be considered a "**Qualified Bid**", and the Binding Offer Bidder making such Binding Offer a "**Qualified Bidder**", if it:
 - (a) provides net cash proceeds on closing via provisions that meet the following requirements, that are not less than the aggregate total of: (a) the amount of cash payable under the Stalking Horse Agreement; plus (b) the "Credit Bid Consideration" (as defined in the Stalking Horse Agreement); plus (c) the "Break and Expense Reimbursement Fee" (as defined in the Stalking Horse Agreement), plus (d) a minimum overbid amount of \$100,000 ((a) through (d), in the aggregate, the "**Minimum Purchase Price**"); provided, however, that the Monitor may, in its reasonable judgment, and in consultation with the Heritage Group, deem this criterion satisfied if the Binding Offer, together with one or more other non-overlapping Binding Offers, in the aggregate, meet or exceed the Minimum Purchase Price and such Minimum Purchase Price is payable in full in cash on closing (such bids, "**Aggregated Bids**", and each an "**Aggregated Bid**");

- (b) is submitted on or before the Binding Offer Deadline;
- (c) is made by way of binding, definitive transaction document(s) that is/are executed by the Binding Offer Bidder;
- (d) is not subject to any financing condition, diligence condition or internal or board approval;
- (e) contains or identifies the key terms and provisions to be included in any Approval Order, including whether such order will be a “reverse vesting order”;
- (f) contains the Binding Offer Bidder’s proposed treatment of employees of the applicable Heritage Group entities (for example, anticipated employment offers and treatment of post-employment benefits);
- (g) includes acknowledgments and representations of the Binding Offer Bidder that it:
 - (i) has had an opportunity to conduct any and all due diligence regarding the Opportunity prior to making its Binding Offer; (ii) has relied solely upon its own independent review, investigation and/or inspection of any documents and/or the Property and/or the Business in making its Binding Offer; (iii) has not relied upon any written or oral statements, representations, warranties, or guarantees whatsoever, whether express, implied, statutory or otherwise, regarding the Opportunity, or the completeness of any information provided in connection therewith; and (iv) will promptly commence any governmental or regulatory review of the proposed transaction by the applicable competition, antitrust or other applicable governmental authorities, including those regulating the cannabis sector;
- (h) is accompanied by a letter that confirms that the Binding Offer: (i) may be accepted by the Heritage Group by countersigning the Binding Offer, and (ii) is irrevocable and capable of acceptance until the earlier of (A) two (2) Business Days after the date of closing of the applicable Successful Bid; and (B) the Outside Date (as defined below);
- (i) provides for any anticipated corporate, licensing, securityholder, Health Canada, legal or other regulatory approvals required to close the transaction;
- (j) does not provide for any break or termination fee, expense reimbursement or similar type of payment;
- (k) in the case of a Sale Proposal or Partial Sale Proposal, includes:
 - (i) the specific purchase price in Canadian dollars and a description of any non-cash consideration;
 - (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 description of all executory contracts of the Heritage Group that the Binding Offer Bidder will assume, and clearly describes, for each contract

- or on an aggregate basis, how all monetary defaults will be remedied, as applicable; and
- (iv) a description of those liabilities and obligations (including operating liabilities) which the Binding Offer Bidder intends to assume and which such liabilities and obligations it does not intend to assume and are to be excluded as part of the transaction;
- (l) in the case of an Investment Proposal, includes:
- (i) a description of how the Binding Offer 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) a description of all executory contracts of the Heritage Group that the Binding Offer Bidder will assume, and clearly describes, for each contract or on an aggregate basis, how all monetary defaults will be remedied, as applicable;
 - (iv) the underlying assumptions regarding the pro forma capital structure; and
 - (v) a description of those liabilities and obligations (including operating liabilities) which the Binding Offer Bidder intends to assume and which liabilities and obligations it does not intend to assume and are to be excluded as part of the transaction;
- (m) is accompanied by a deposit in the amount of not less than 10% of the cash purchase price, or total new investment contemplated, as the case may be (the “**Deposit**”);
- (n) is accompanied by an acknowledgement that (i) if the Binding Offer Bidder is selected as a Successful Bidder, that the Deposit will be held and dealt with as described in Paragraph 32 below; and (ii) if the Binding Offer Bidder is selected as a Back-Up Bidder, that the Deposit will be held and dealt with as described in Paragraph 32 below;
- (o) contemplates and reasonably demonstrates a capacity to consummate a closing of the transaction set out therein on the date that is twenty-one (21) days from the date of the issuance of the Approval Order approving such bid, or such earlier date as is practical for the parties to close the contemplated transaction (the “**Target Closing Date**”) and in any event no later than August 2, 2024 (the “**Outside Date**”); and
- (p) includes such other information as reasonably requested or identified in writing by the Monitor in consultation with the Heritage Group, prior to the Binding Bid Deadline as being necessary or required by the Monitor.

22. Without limiting Paragraph 5, the Monitor, in its reasonable judgment, and in consultation with the Heritage Group, may waive strict compliance with any one or more of the requirements specified above (with the exception of the requirements contained in Paragraphs 21(a) and 21(m), which cannot be waived without the prior written consent of the DIP Lender) and designate a noncompliant Binding Offer as a Qualified Bid.

Selection of Successful Bid

23. The Monitor, in consultation with the Heritage Group, may, following the receipt of any Binding Offer that is not a Qualified Bid, including one or more Binding Offers comprising an Aggregated Bid, seek clarification with respect to any of the terms or conditions of such Binding Offer and/or request and negotiate one or more amendments to such Binding Offer prior to determining if the Binding Offer should be considered a Qualified Bid.
24. The Monitor and the Heritage Group, will (i) review and evaluate each Qualified Bid, taking into account the factors set out in Paragraph 21, including factors affecting the speed and certainty of closing, the value and nature of the consideration provided for in the Binding Offer (including any assumed liabilities), and any licensing, Health Canada, regulatory or legal approvals, assignments or third party contractual arrangements required to close the transactions. The cash consideration provided for in any Qualified Bid shall not be the only criteria on which Qualified Bids are evaluated, and the “highest and best” Qualifying Bid may not be the Qualifying Bid with the highest cash purchase price.
25. The Monitor, in consultation with the Heritage Group, may, following the receipt of any Qualified Bid, including one or more Binding Offers comprising an Aggregated Bid, seek clarification with respect to any of the terms or conditions of such Qualified Bid and/or request and negotiate one or more amendments to such Qualified Bid in order to improve the Qualified Bid, provided that no Qualified Bidder shall be required to amend its Qualified Bid.
26. In the event that no Qualified Bid is received (other than the Stalking Horse Bid), or any Qualified Bids received are determined by the Monitor, in consultation with the Heritage Group, to be inferior to the Stalking Horse Bid based on the considerations set out in Paragraph 24, then the Stalking Horse Bid shall be deemed the Successful Bid (as defined below), and the Heritage Group will promptly seek Court approval of the Stalking Horse Agreement and the transactions contemplated therein.
27. In the event there is at least one Qualified Bid in addition to the Stalking Horse Bid is received and such Qualified Bid is not determined by the Monitor, in consultation with the Heritage Group, to be inferior to the Stalking Horse Bid based on the considerations set out in Paragraph 24, then a Successful Bid will be identified through an Auction in accordance with the procedure set out below.
28. In the event that an auction (the “**Auction**”) is required in accordance with the terms of these Bidding Procedures, it will be conducted in accordance with the procedures set forth in this paragraph:
 - (a) The Monitor shall be entitled, in consultation with the Heritage Group, to designate some or all Qualified Bidders (in addition to the Stalking Horse Bidder) as eligible to participate in the Auction, taking into account the relative terms of the Qualified

Bidders (including but not limited to purchase price) and the factors set out in Paragraph 24. Qualified Bidders who are invited to participate in the Auction are referred to as “**Auction Bidders**”. For the avoidance of doubt, the Stalking Horse Bidder shall be an Auction Bidder.

- (b) The Auction will commence at a time to be designated by the Monitor, on May 17, 2024, and may, in the discretion of the Monitor, be held virtually via videoconference, teleconference or such other reasonable means as the Monitor deems appropriate. The Monitor will consult with the parties permitted to attend the Auction to arrange for the Auction to be so held. Subject to the terms hereof, the Monitor, in consultation with the Heritage Group, may postpone the Auction.
- (c) Except as otherwise permitted in the Monitor’s discretion, only the Heritage Group, the Monitor and the Auction Bidders, and, in each case, their respective professionals and representatives, will be permitted to attend the Auction.
- (d) Each Auction Bidder shall designate a single individual to be its representative and spokesperson for the purposes of the Auction, and shall participate in the Auction through such duly authorized representative.
- (e) Except as otherwise set forth herein, the Monitor may waive and/or employ and announce at the Auction additional rules, including rules to facilitate the participation of parties participating in an Aggregated Bid, that are reasonable under the circumstances for conducting the Auction, provided that such rules are:
 - (i) not inconsistent with the Initial Order, the SISP, the Bidding Procedures, the CCAA, or any order of the Court issued in connection with the CCAA Proceedings;
 - (ii) disclosed to each Auction Bidder; and
 - (iii) designed, by the Monitor, in its reasonable judgment, and in consultation with the Heritage Group, to result in the highest and otherwise best offer.
- (f) Each Auction Bidder participating in the Auction must confirm on the record, at the commencement of the Auction and again at the conclusion of the Auction, that it has not engaged in any collusion with the Heritage Group or any other person regarding the SISP. For greater certainty, communications between the Stalking Horse Bidder or the DIP Lender and either the Heritage Group or the Monitor with respect to and in preparation of the Stalking Horse Agreement, the SISP and the Bidding Procedures will not represent collusion nor communications prohibited by this paragraph.
- (g) Prior to the Auction, the Monitor will identify the highest and best of the Qualifying Bid received (which may be an Aggregate Bid), and such Qualifying Bid(s) will constitute the opening bid for the purposes of the Auction (the “**Opening Bid**”). Subsequent bidding will continue in minimum increments valued at not less than \$100,000 cash in excess of the Opening Bid. Each Auction Bidder will provide evidence of its financial wherewithal and ability to consummate the transaction at the increased purchase price, if required by the Monitor. Further, in the event that an Aggregated Bid qualifies to participate in the Auction, modifications to the

bidding requirements may be made by the Monitor, in consultation with the Heritage Group, to facilitate bidding by the participants in the Aggregated Bid.

- (h) All Auction Bidders will have the right, at any time, to request that the Monitor announce, subject to any potential new bids, the then-current highest and best bid and, to the extent requested by any Auction Bidder, use reasonable efforts to clarify any and all questions such Auction Bidder may have regarding the Monitor's announcement of the then-current highest and best bid.
 - (i) Each Auction Bidder will be given reasonable opportunity to submit an overbid at the Auction to any then-existing overbids. The Auction will continue until the bidding has concluded and there is one remaining Auction Bidder. The Monitor and the Heritage Group shall determine which Auction Bidders have submitted (i) the highest and best Binding Offer of the Auction (the "**Successful Bid**", and the bidder making such Successful Bid, the "**Successful Bidder**"), and (ii) the next highest and otherwise second-best Binding Offer of the Auction (the "**Back-Up Bid**", and the bidder making such Back-Up Bid, the "**Back-Up Bidder**").
 - (j) Upon selection of a Successful Bidder and a Back-Up Bidder, if any, the Successful Bidder and the Back-Up Bidder, if any, shall each deliver to the Monitor and the Heritage Group, an amended and executed transaction document that reflects their final bid and any other modifications submitted and agreed to during the Auction, prior to the filing of the motion material for the hearing to consider the Approval Motion.
 - (k) Any bids submitted after the conclusion of the Auction will not be considered.
 - (l) The Monitor, in consultation with the Heritage Group, shall be at liberty to modify or to set additional procedural rules for the Auction as it sees fit, including to conduct the Auction by way of written submissions.
29. A Successful Bid and Back-Up Bid, if any, will be selected by no later than 5:00 p.m. (Eastern Time) on May 18, 2024 (or such later date immediately thereafter if the Auction is conducted and not completed in one day), and the completion and execution of definitive documentation in respect of such Successful Bid and Back-Up Bid, as applicable, must be finalized and executed as soon as possible after the close of the Auction, and in any event no later than May 21, 2024, which definitive documentation will provide that the Successful Bidder will use all reasonable efforts to close the proposed transaction by no later than the Target Closing Date, or such longer period as may be agreed to by the Monitor, in consultation with the Heritage Group and the Successful Bidder, subject to the terms hereof. In any event, such Successful Bid must be closed by no later than the Outside Date. If a Back-Up Bid is identified in accordance with the SISF, then such Back-Up Bid shall remain open until the date (the "**Back-Up Bid Outside Date**") on which the transaction contemplated by the applicable Successful Bid is consummated or such earlier date as the Monitor, in consultation with the Heritage Group, determines. If the transactions contemplated by the applicable Successful Bid have not closed by the Outside Date, or the applicable Successful Bid is terminated for any reason prior to the Outside Date, the Heritage Group and the Monitor, in consultation with the DIP Lender, may elect to seek to complete the transactions contemplated by the applicable Back-Up

Bid, and will promptly seek to close the transaction contemplated by such Back-Up Bid, which will be deemed to be a Successful Bid. The Heritage Group will be deemed to have accepted such Back-Up Bid only when the Heritage Group has made such election, with the Monitor's consent.

Approval of Successful Bid

30. The Heritage Group will apply to the Court (the "**Approval Motion**") for one or more orders: (i) approving the Successful Bid(s) and authorizing the taking of such steps and actions and completing such transactions as are set out therein or required thereby (such order shall also approve the Back-Up Bid(s), if any, should the Successful Bid(s) not close for any reason); and (ii) granting a vesting order and/or reverse vesting order to the extent that such relief is contemplated by the Successful Bid(s) so as to vest title to any purchased assets and/or shares in the name of the applicable Successful Bidder(s) and/or vesting unwanted assets and liabilities out of one or more of the Heritage Group (collectively, the "**Approval Order(s)**"). The Approval Motion will be held on a date to be scheduled by the Heritage Group and confirmed by the Court. With the consent of the Monitor and the applicable Successful Bidder(s), the Approval Motion may be adjourned or rescheduled by the Heritage Group without further notice, by an announcement of the adjourned date at the Approval Motion or in a notice to the service list maintained in the CCAA Proceedings prior to the Approval Motion. The Heritage Group will consult with the Monitor and the applicable Successful Bidder regarding the motion material to be filed by the Heritage Group for the Approval Motion.
31. All Binding Offers (other than the Successful Bid(s) but including the applicable Back-Up Bid(s)) will be deemed rejected on and as of the date of the closing of the applicable Successful Bid(s), with no further or continuing obligation of the Heritage Group to any unsuccessful Binding Offer Bidders.

Deposits

32. The Deposit(s):
- (a) will, upon receipt from the Binding Offer Bidder(s), be retained by the Monitor and deposited in a non-interest-bearing trust account, and subsequently dealt with in accordance with subsections (b) and (c), below;
 - (b) received from the Successful Bidder(s) and the Back-Up Bidder(s), if any, will:
 - (i) be applied to the purchase price to be paid by the applicable Successful Bidder or Back-Up Bidder whose Successful Bid or Back-Up Bid, as applicable, is the subject of the Approval Order(s), upon closing of the approved transaction; and
 - (ii) otherwise be held and refunded in accordance with the terms of the definitive documentation in respect of the applicable Successful Bid or or Back-Up Bid, provided that (i) all such documentation will provide that the Deposit will be fully refunded to the Back-Up Bidder on the Back-Up Bid Outside Date; and (ii) all such documentation will provide that the Deposit will be retained by the Heritage Group and forfeited by the Successful Bidder, if its Successful Bid fails to close by the Outside Date and such

failure is attributable to any failure or omission of the Successful Bidder to fulfil its obligations under the terms of its Successful Bid; and

- (c) received from the Binding Offer Bidder(s) that are not a Successful Bidder or a Back-Up Bidder will be fully refunded to the Binding Offer Bidder(s) that paid the Deposit(s) as soon as practical following the selection of the Successful Bidder and Back-Up Bidder.

- 33. Notwithstanding anything to the contrary herein, the Stalking Horse Bidder will not be required to provide a Deposit.

“As is, Where is”

- 34. Any sale (or sales) of the Property or the Business or portions thereof will be on an **“as is, where is”** basis except for representations and warranties that are customarily provided in purchase agreements for a company subject to CCAA proceedings. Any such representations and warranties provided for in the definitive documents will not survive closing.

Free of Any and All Claims and Interests

- 35. In the event of a sale, to the extent permitted by law, all of the rights, title and interests of the Heritage Group in and to the Property or the Business to be acquired will be sold free and clear of all pledges, liens, security interests, encumbrances, claims, charges, options, and interests thereon and there against (collectively, the **“Claims and Interests”**) pursuant to section 36(6) of the CCAA, such Claims and Interests to attach to the net proceeds of the sale of such Property or Business and/or excluded assets, as applicable (without prejudice to any claims or causes of action regarding the priority, validity or enforceability thereof), except to the extent otherwise set forth in the relevant transaction documents with a Successful Bidder or the Approval Order.

Credit Bidding

- 36. The Stalking Horse Bidder will be entitled pursuant to the Stalking Horse Agreement, including for greater certainty as part of the Auction, as the case may be, to credit bid or retain as Retained Liabilities all or part of the existing secured obligations owing to it, including all interest, costs and fees to which the Stalking Horse Bidder is entitled pursuant to its relevant loan, interim financing, debenture, promissory note and/or security agreements with the Heritage Group.

Confidentiality

- 37. For greater certainty, other than as required in connection with any Auction or Approval Motion, neither the Heritage Group nor the Monitor will disclose: (a) the identity of any Potential Bidder or Qualified Bidder (other than the Stalking Horse Bidder); or (b) the terms of any bid, Sale Proposal, Investment Proposal or Binding Offer (other than the Stalking Horse Agreement), to any other bidder or any of its affiliates (provided that disclosure may be made to the DIP Lender when expressly contemplated by the SISP, such as in the event that no single Binding Offer provides for net cash proceeds that are at least equal to the Minimum Purchase Price), except to the extent the Monitor, with the consent of such applicable parties is seeking to combine separate bids into Aggregated Bids. Potential

Bidders, Participating Bidders, Qualified Bidders and Auction Bidders (including, in each case, the Stalking Horse Bidder) and each of their respective affiliates shall not communicate with, or contact, directly or indirectly, any other Potential Bidder, Participating Bidder, Qualified Bidder, Auction Bidder, or their respective affiliates, or any secured creditors of the Heritage Group, without the express written consent of the Monitor (which consent may be refused in the Monitor's sole discretion), and such communications or discussions shall take place under the supervision of the Monitor. Nothing in this Paragraph 37 shall prohibit the Monitor from filing details of Potential Bidders, Participating Bidders, Qualified Bidders and Auction Bidders, or their respective Binding Offers and Qualified Bids, as part of a Monitor's Report in connection with the motion for an Approval Order, provided that the Monitor shall file any commercially sensitive or confidential information confidentially, with a request for a sealing order. Should the Court decline to grant a sealing order, the Monitor shall not be in breach of this Paragraph 37.

Further Orders

38. At any time during the SISP, the Heritage Group or the Monitor may apply to the Court for advice and directions with respect to any aspect of this SISP including, but not limited to, the continuation of the SISP or with respect to the discharge of its powers and duties hereunder.

Additional Terms

39. In addition to any other requirement of the SISP, any consent, approval or confirmation to be provided by the Stalking Horse Bidder, the DIP Lender, the Heritage Group and/or the Monitor is ineffective unless provided in writing and any approval required pursuant to the terms hereof is in addition to, and not in substitution for, any other approvals required by the CCAA or as otherwise required at law in order to implement a Successful Bid. For the avoidance of doubt, a consent, approval or confirmation provided by email will be deemed to have been provided in writing for the purposes of this paragraph.
40. This SISP does not, and will not be interpreted to create any contractual or legal relationship between the Heritage Group and any other party, other than as specifically set forth in the NDA or any other definitive agreement executed.
41. Notwithstanding anything to the contrary herein, the Monitor shall have no liability whatsoever to any person or entity, including without limitation any Potential Bidder, Participating Bidder, Binding Offer Bidder, Qualified Bidder, Auction Bidder, Successful Bidder, Back-Up Bidder or any other creditor or stakeholder, or the Heritage Group, as a result of implementation or otherwise in connection with this SISP, except to the extent that any such liabilities result from the gross negligence or wilful misconduct of the Monitor, as determined by the Court, and all such persons or entities shall have no claim against the Monitor in respect of the SISP for any reason whatsoever.
42. Participants in the SISP are responsible for all costs, expenses and liabilities incurred by them in connection with the submission of any Binding Offer, due diligence activities, and any other negotiations or other actions whether or not they lead to the consummation of a transaction.

APPENDIX A

DEFINED TERMS

“**Business Day**” means a day on which banks are open for business in Toronto but does not include a Saturday, Sunday or statutory holiday in the Province of Ontario.

“**DIP Lender**” means BJK Holdings Ltd. and its successors and permitted assigns.

“**Retained Liabilities**” has the meaning given to it in the Stalking Horse Agreement.

APPENDIX "B"

The Monitor:

KPMG Restructuring Inc.
333 Bay Street, Suite 4600
Toronto ON M5H 2S5

Attention: Pritesh Patel and Tim Montgomery
Email: pritpatel@kpmg.ca / timmontgomery@kpmg.ca

with a copy to:

Blake, Cassels & Graydon LLP
199 Bay Street, Suite 4000
Toronto, ON M5L 1A9

Attention: Chris Burr
Email: chris.burr@blakes.com

The Applicants

Heritage Group
c/o Chaitons LLP
5000 Yonge Street
North York, ON M2N 7E9

Attention: Harvey Chaiton / George Benchetrit
Email: harvey@chaitons.com / george@chaitons.com

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

Court File No.: CV-24-00717664-00CL

AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF HERITAGE CANNABIS HOLDINGS CORP., 1005477 B.C. LTD., HERITAGE CANNABIS WEST CORPORATION, MAINSTRAIN MARKET LTD., HERITAGE CANNABIS EAST CORPORATION, PUREFARMA SOLUTIONS INC., 333 JARVIS REALTY INC., 5450 REALTY INC., HERITAGE CANNABIS EXCHANGE CORP., AND PREMIUM 5 LTD.

**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**

Proceeding commenced at Toronto

SISP ORDER

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Lawyers for the Applicants

Appendix D

**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
HERITAGE CANNABIS HOLDINGS CORP., 1005477 B.C. LTD., HERITAGE CANNABIS
WEST CORPORATION, MAINSTRAIN MARKET LTD., HERITAGE CANNABIS EAST
CORPORATION, PUREFARMA SOLUTIONS INC., 333 JARVIS REALTY INC, 5450 REALTY
INC., HERITAGE CANNABIS EXCHANGE CORP., AND PREMIUM 5 LTD.**

(collectively the “Applicants” or the “Debtors”)

**MANAGEMENT’S REPORT ON CASH FLOW STATEMENT
(paragraph 10(2)(b) of the CCAA)**

The management of the Debtors have developed the assumptions and prepared the attached statement of projected cash flow as of the 14th day of June 2024, consisting of the period from June 10, 2024, to August 30, 2024 (the “**Updated Cash Flow Forecast**”).

The hypothetical assumptions are reasonable and consistent with the purpose of the Updated Cash Flow Forecast described in the notes therein, and the probable assumptions are suitably supported and consistent with the plans of the Debtors and provide a reasonable basis for the Updated Cash Flow Forecast. All such assumptions are disclosed in the notes therein.

Since the Updated Cash Flow Forecast is based on assumptions regarding future events, actual results will vary from the information presented, and the variations may be material.

The Updated Cash Flow Forecast has been prepared solely for the purpose described in the notes therein, using the probable and hypothetical assumptions set out therein. Consequently, readers are cautioned that the Updated Cash Flow Forecast may not be appropriate for other purposes.

Dated at Kelowna, in the Province of British Columbia, this 21st day of June 2024.

Heritage Cannabis Holdings Corp., 1005477 B.C. LTD., Heritage Cannabis West Corporation, Mainstrain Market Ltd., Heritage Cannabis East Corporation, Purefarma Solutions Inc., 333 Jarvis Realty Inc, 5450 Realty Inc., Heritage Cannabis Exchange Corp., and Premium 5 Ltd.



David Schwede
Chief Executive Officer

13-Week Updated Cash Flow Forecast Notes and Summary of Assumptions

In the matter of a Plan of Compromise or Arrangement of Heritage Cannabis Holdings Corp., 1005477 B.C. LTD., Heritage Cannabis West Corporation, Mainstrain Market Ltd., Heritage Cannabis East Corporation, Purefarma Solutions Inc., 333 Jarvis Realty Inc, 5450 Realty Inc., Heritage Cannabis Exchange Corp., and Premium 5 Ltd. (collectively the “Applicants” or the “Debtors”)

Disclaimer

Since the Updated Cash Flow Forecast is based on assumptions about future events and conditions that are not ascertainable, the actual results achieved during the Updated Cash Flow Forecast period will vary from the Updated Cash Flow Forecast, even if the assumptions materialize, and such variations may be material. There is no representation, warranty, or other assurance that any of the estimates, forecasts or projections will be realized.

The Updated Cash Flow Forecast is presented in Canadian dollars. All defined terms that are not otherwise defined herein are to have the same meaning ascribed to them in the report of the Monitor dated June 21, 2024.

Note 1 Purpose of the Updated Cash Flow Forecast

The purpose of the Updated Cash Flow Forecast is to present the estimated cash receipts and disbursements of the Applicants for the period from June 10, 2024 to August 30, 2024 (the “**Forecast Period**”). The Updated Cash Flow Forecast has been prepared by the Applicants, in consultation with the Monitor. Readers are cautioned that this information may not be appropriate or relied upon for any other purpose.

Note 2 Accounts Receivable

Current accounts receivable is forecast to be collected based on the payment terms for individual customers. Overdue accounts receivable is forecast to be collected based on management’s best estimate of when these customers may pay.

Note 3 Sales

Sales are based on the Applicants latest sales forecast by customer and forecast to be collected based on the payment terms for individual customers.

Note 4 Production and Operating Costs

Production and operating costs include, but are not limited to, inventory (vapes, concentrates, pre-rolls) and production costs, including advertising, general and administration and consultancy costs. The forecast is based on post-filing CCAA production and operating cost expenses.

Note 5 Salary and Wages

Payroll expenses include salaries and wages, payroll taxes and remittances. Payroll expenses are forecasted based on current headcount levels and are paid bi-weekly.

Note 6 Excise Taxes and Sales Taxes

Excise Taxes and Sales Taxes are accrued or collected amounts after the date of the Initial Order.

Note 7 Professional Fees

Includes professional fees of (i) the Monitor, counsel to the Monitor, counsels to the Applicants, and counsel of the DIP Lender primarily in connection with the CCAA proceedings.

Note 8 KERP

Payment of the KERP as per the terms detailed in the Monitor's First Report.

Note 9 Administration Expense Amount

Payment of the Administration Expense Amount as detailed in the Monitor's Second Report.

Note 10 BJK Loan Agreements

The Updated Cash Flow Forecast assumes interest expense on the remaining outstanding balances under the BJK Loans until the anticipated closing of the Transactions.

Note 11 DIP Financing

The Updated Cash Flow Forecast reflects advances under the DIP Facility in the Forecast period of \$1.5 million. The interest rate on the principal outstanding amount of the DIP advances is 12.5% and is accrued. DIP fees assumed to be paid in the Forecast Period are \$45,000 as per the terms of the DIP Term Sheet.

Heritage Cannabis
12-Week Cash Flow Projection
In C\$; unaudited

	Forecast 1 14-Jun-24	Forecast 2 21-Jun-24	Forecast 3 28-Jun-24	Forecast 4 5-Jul-24	Forecast 5 12-Jul-24	Forecast 6 19-Jul-24	Forecast 7 26-Jul-24	Forecast 8 2-Aug-24	Forecast 9 9-Aug-24	Forecast 10 16-Aug-24	Forecast 11 23-Aug-24	Forecast 12 30-Aug-24	Total
Receipts													
Accounts Receivable	913,456	682,454	765,005	764,047	561,877	893,968	699,284	419,271	554,460	98,374	98,374	98,374	6,548,944
Sales	-	-	66,489	66,489	241,048	241,048	358,478	358,478	624,093	624,093	624,093	624,093	3,828,403
Total Customer Receipts	913,456	682,454	831,494	830,536	802,925	1,135,016	1,057,761	777,749	1,178,553	722,467	722,467	722,467	10,377,347
Operating Disbursements													
Production and Operating Costs	(526,593)	(526,593)	(526,593)	(526,593)	(526,593)	(526,593)	(526,593)	(526,593)	(526,593)	(526,593)	(526,593)	(526,593)	(6,319,112)
Salary and Wages	-	(379,843)	-	(379,843)	-	(379,843)	-	(379,843)	-	(379,843)	-	(379,843)	(2,279,056)
Excise Taxes	-	-	-	(900,000)	-	-	-	(950,000)	-	-	-	(1,000,000)	(2,850,000)
Sales Taxes	-	-	-	(221,810)	-	-	-	(221,810)	-	-	-	(221,810)	(665,430)
Professional Fees	(130,016)	(130,016)	(42,730)	(42,646)	(42,646)	(42,646)	(42,646)	(42,646)	(42,646)	(51,046)	(51,046)	(154,431)	(815,161)
KERP	-	-	-	-	-	-	-	-	-	-	-	(76,000)	(76,000)
Administration Expense Amount	-	-	-	-	-	-	-	-	-	-	-	(187,500)	(187,500)
Total Operating Disbursements	(656,608)	(1,036,451)	(569,322)	(2,070,891)	(569,239)	(949,081)	(569,239)	(2,120,891)	(569,239)	(957,481)	(577,639)	(2,546,176)	(13,192,259)
Net Operating Cash Flow	256,848	(353,997)	262,171	(1,240,355)	233,686	185,934	488,523	(1,343,142)	609,315	(235,014)	144,828	(1,823,709)	(2,814,912)
Monthly Interest Payments	-	-	-	(59,771)	-	-	-	(59,771)	-	-	-	(59,771)	(179,314)
DIP Fee	-	-	-	-	-	-	-	(45,000)	-	-	-	-	(45,000)
Line of Credit Repayment	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Cash Flow	256,848	(353,997)	262,171	(1,300,126)	233,686	185,934	488,523	(1,447,913)	609,315	(235,014)	144,828	(1,883,480)	(3,039,225)
Opening Cash	1,571,061	1,827,909	1,473,912	1,736,083	435,957	669,643	855,578	1,344,100	396,187	1,005,501	770,487	915,315	1,571,061
Net Cash Flow	256,848	(353,997)	262,171	(1,300,126)	233,686	185,934	488,523	(1,447,913)	609,315	(235,014)	144,828	(1,883,480)	(3,039,225)
DIP funding	-	-	-	-	-	-	-	500,000	-	-	-	1,000,000	1,500,000
Ending Cash	1,827,909	1,473,912	1,736,083	435,957	669,643	855,578	1,344,100	396,187	1,005,501	770,487	915,315	31,835	31,835



David Schwede
Chief Executive Officer

**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
HERITAGE CANNABIS HOLDINGS CORP., 1005477 B.C. LTD., HERITAGE CANNABIS
WEST CORPORATION, MAINSTRAIN MARKET LTD., HERITAGE CANNABIS EAST
CORPORATION, PUREFARMA SOLUTIONS INC., 333 JARVIS REALTY INC, 5450 REALTY
INC., HERITAGE CANNABIS EXCHANGE CORP., AND PREMIUM 5 LTD.**

(collectively the "Applicants" or the "Debtors")

**MONITOR'S REPORT ON CASH FLOW STATEMENT
(paragraph 23(1)(b) of the CCAA)**

The attached statement of projected cash flow of the Debtors prepared as of the 14th day of June 2024, consisting of the period from June 10, 2024 to August 30, 2024 (the "**Updated Cash Flow Forecast**"), has been prepared by management of the Debtors, in consultation with the Monitor for the purpose described in Note 1, using the probable and hypothetical assumptions set out in the notes to the Updated Cash Flow Forecast.

Our review and consultation consisted of inquiries, analytical procedures and discussions related to information supplied by management and employees of the Debtors. Since hypothetical assumptions need not be supported, our procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the Updated Cash Flow Forecast. We have also reviewed the support provided by management for the probable assumptions and the preparation and presentation of the Updated Cash Flow Forecast.

Based on our review, nothing has come to our attention that causes us to believe that, in all material respects:

- a) the hypothetical assumptions are not consistent with the purpose of the Updated Cash Flow Forecast;
- b) as at the date of this report, the probable assumptions developed by management are not suitably supported and consistent with the plans of the Debtors or do not provide a reasonable basis for the Updated Cash Flow Forecast, given the hypothetical assumptions; or
- c) the Updated Cash Flow Forecast does not reflect the probable and hypothetical assumptions.

Since the Updated Cash Flow Forecast is based on assumptions regarding future events, actual results will vary from the information presented even if the hypothetical assumptions occur, and the variations may be material. Accordingly, we express no assurance as to whether the Updated Cash Flow Forecast will be achieved.

The Updated Cash Flow Forecast has been prepared solely for the purpose described in the notes thereto and readers are cautioned that it may not be appropriate for other purposes.

Dated at Toronto, in the Province of Ontario, this 21st day of June 2024.

KPMG Inc.

In its capacity as Proposed Monitor of

Heritage Cannabis Holdings Corp., 1005477 B.C. Ltd., Mainstrain Market Ltd., Purefarma Solutions Inc., 333 Jarvis Realty Inc., 5450 Realty Inc., Premium 5 Ltd., Heritage Cannabis Exchange Corp., Heritage Cannabis East Corporation, and Heritage Cannabis West Corporation

And not in its personal or corporate capacity

A handwritten signature in black ink, appearing to read 'P. Patel', with a long horizontal flourish extending to the right.

Pritesh Patel, CIRP, LIT
Senior Vice President

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 HERITAGE CANNABIS
HOLDINGS CORP., 1005477 B.C. LTD., HERITAGE CANNABIS WEST CORPORATION, MAINSTRAIN
MARKET LTD., HERITAGE CANNABIS EAST CORPORATION, PUREFARMA SOLUTIONS INC., 333 JARVIS
REALTY INC., 5450 REALTY INC., HERITAGE CANNABIS EXCHANGE CORP., AND PREMIUM 5 LTD.

**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**

Proceeding Commenced at Toronto

**SECOND REPORT OF THE MONITOR
dated June 21, 2024**

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