

**ONTARIO
SUPERIOR COURT OF JUSTICE – COMMERCIAL LIST**

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

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

**MOTION RECORD OF THE APPLICANTS
(Returnable January 31, 2023)**

January 25, 2023

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Applicants

TAB	DOCUMENT
1.	Notice of Motion, returnable January 31, 2023
2.	Affidavit of Afshin Souzankar sworn January 25, 2023
Exhibits to the Affidavit of Afshin Souzankar sworn January 25, 2023	
Exhibit A	Affidavit of Afshin Souzankar sworn November 2, 2022
Exhibit B	Affidavit of Afshin Souzankar sworn November 8, 2022
Exhibit C	Initial Order and Endorsement of Justice Penny dated November 3, 2022
Exhibit D	Amended and Restated Initial Order of Justice Penny dated November 10, 2022
Exhibit E	Sale Process Approval Order of Justice Penny dated November 10, 2022
Exhibit F	Endorsement of Justice Penny dated November 14, 2022
Exhibit G	Stalking Horse SPA dated November 8, 2022
Exhibit H	DIP Term Sheet dated November 2, 2022
3.	Draft Approval and Vesting Order
4.	Draft Ancillary Order

TAB 1

**ONTARIO
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Applicants

**NOTICE OF MOTION
(Sale Approval)
(Returnable January 31, 2023)**

The applicants, CannaPiece Group Inc. (“**CPG**”), CannaPiece Corp. (“**CPC**”), Canadian Craft Growers Corp. (“**CCG**”), 2580385 Ontario Inc. (“**258**”), 2666222 Ontario Inc. (“**222**”), and 2669673 Ontario Inc. (“**673**”, collectively the “**Applicants**”) will make a motion to the Court on Tuesday January 31st, 2023 at 9:00 a.m. or as soon after that time as the motion can be heard.

PROPOSED METHOD OF HEARING: The motion is to be heard by video conference at the following location:

[Zoom link to be uploaded on Caselines.](#)

THE MOTION IS FOR:

1. An order (“**Approval and Vesting Order**”) substantially in the form of the draft order attached at **Tab 3** of the Applicants’ Motion Record, among other things:
 - (a) extending the stay of proceedings up to and including February 17, 2023;
 - (b) approving the Share Purchase Agreement (“**SPA**”) entered into between CannaPiece Group Inc. (“**Vendor**”), CPC, and 1000420548 Ontario Inc. (“**Purchaser**”), and the transaction contemplated thereby (the “**Transaction**”);

- (c) authorizing and directing the Applicants to perform their obligations under the SPA and to take such additional steps and execute such additional documents as may be necessary or desirable for the completion of the Transaction;
- (d) transferring and vesting all of the Applicants' right, title, and interest in and to the Excluded Assets, Excluded Contracts, and Excluded Liabilities (each as defined in the SPA) to and in a newly incorporated entity, 14707117 Canada Inc. ("**ResidualCo**");
- (e) vesting in the Purchaser or its nominee all of the right, title and interest in and to the Purchased Shares (as defined in the SPA) free and clear of all Encumbrances, other than Permitted Encumbrances (each capitalized term as defined in the SPA), upon the filing of a certificate by the Monitor (as defined below) substantially in the form attached Schedule "A" to the draft Approval and Vesting Order (the "**Monitor's Certificate**");
- (f) releasing and discharging the CPC and the Purchased Shares from the Excluded Liabilities in accordance with the SPA;
- (g) approving the releases ("**Releases**") provided for in article 6.2 of the SPA in favour of the officers and directors of CPC, its advisors, the Monitor and the Monitor's counsel ("**Released Parties**"); and
- (h) expanding the powers and duties of the Monitor set out in the Amended and Restated Initial Order (as defined below).

2. An order ("**Ancillary Order**"), substantially in the form of the draft order at **Tab 4** of the Applicants' Motion Record, among other things:

- (a) abridging the time for and validating service of this notice of motion and the motion record and dispensing with service on any person other than those served;
 - (b) on Closing of the Transaction, authorizing and directing the Monitor to distribute up to \$3,700,000 of proceeds of the Transaction to Cardinal Advisory Services Limited ("**Cardinal**"), (and such distribution, the "**Deposit Repayment**") on account of amounts owing to Cardinal pursuant to the DIP Term Sheet and Deposit Facility (as such terms are defined below), which secured credit facilities were approved by the Initial Order and the Sale Process Approval Order;
 - (c) approving the Second Report of the Monitor, to be filed, and the activities of the Monitor as set out therein; and
3. Such further and other relief as this Court may deem just and equitable.

THE GROUNDS FOR THE MOTION ARE:

Background

4. CPC, the Applicants' operating entity, is a leading Canadian cannabis contract manufacturer, providing extraction, processing, and packaging services for its customers who include large and industry leading participants.

5. The Applicants do not grow any flower, nor do they have any retail operations. CPC is strictly a business-to-business company.

6. The business operates out of a large state of the art cannabis production facility located in Pickering, Ontario ("**Pickering Facility**"). CPC uses advanced technologies to process and create cannabis products, as well as for the packaging of cannabis products.

Financial Difficulties

7. In early November 2022 the Applicants urgently sought protection under the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c, C-36, as amended ("**CCAA**") on account of the financial pressures arising as a result of: (i) substantial capital investments made to meet capacity requirements of customer contracts that never fully materialized; (ii) intense competition and an over-supply of cannabis products leading to significant price compression; and (iii) the low market demand for cannabis products at the retail level, partially as a result of the illicit market for cannabis, causing a decline in orders from licenced processors.

8. On November 3, 2022, the Honourable Mr. Justice Penny granted an order ("**Initial Order**"), among other things:

- (a) granting a stay of proceedings until November 10, 2022;
- (b) approving a debtor-in-possession ("**DIP**") term sheet ("**DIP Term Sheet**") approving a \$500,000 DIP loan and a corresponding charge in favour of the DIP Lender in favour of Cardinal in its capacity as the DIP lender ("**DIP Lender**");
- (c) appointing BDO Canada Limited as the CCAA monitor of the Applicants (in such capacity, the "**Monitor**"); and
- (d) granting the Monitor, counsel to the Monitor, and the Applicants' counsel the benefit of a \$250,000 charge ("**Administration Charge**") as security for their professional fees and disbursements.

9. On November 10, 2022, the Mr. Justice Penny granted two orders:

- (a) An amended and restated initial order ("**Amended and Restated Initial Order**"), among other things:

- (i) extending the stay of proceedings to and including February 3, 2023;
 - (ii) approving a Key Employee Retention Plan (“**KERP**”) and authorizing the Applicants to make payments in accordance with the terms of the KERP; and
 - (iii) approving an increase to the Administration Charge to the maximum amount of \$500,000; and
- (b) An order (“**Sale Process Approval Order**”), among other things:
- (i) authorizing and empowering CPG and CPC to enter into a stalking horse purchase agreement dated November 7, 2022 (the “**Stalking Horse SPA**”) between CPG, CPC and Cardinal Advisory Limited, or its nominee (in such capacity, the “**Stalking Horse Purchaser**”);
 - (ii) approving the Stalking Horse SPA as well as the payment and priority of payment of the associated Break Fee and Professional Fees;
 - (iii) authorizing and empowering the Applicants to utilize a purchaser’s deposit facility (“**Deposit Facility**”) provided by the Stalking Horse Purchaser in order to finance their working capital requirements and other corporate purposes in accordance with the terms of the Stalking Horse SPA;
 - (iv) granting the Stalking Horse Purchaser a second in priority charge (subject only to the Administration Charge) equal to all amounts advanced or to be advanced by the Stalking Horse Purchaser under the Deposit Facility (the “**Purchaser’s Charge**”);

- (v) approving a sale and investment solicitation process (“**SISP**” or “**Stalking Horse Sales Process**”);
- (vi) authorizing and directing the Monitor to take such steps as it deems necessary or advisable to carry out and perform its obligations under the SISP, subject to prior approval of the court being obtained before completion of any transaction under the SISP; and
- (vii) approving the appointment of BDO Canada Transaction Advisory Services Inc. as the sales agent (“**Sales Agent**”) to assist with the implementation of the Sale Process.

Sale Process

10. Due to the nature of the Applicants’ business, and the rapidly emergent liquidity crisis that precipitated the CCAA filing, key stakeholders quickly recognized that value preservation could only be achieved from a going concern sale of the business in the context of an orderly court supervised process.

11. The SISP and its stalking horse component was designed to provide stability to the business and signal to the world that operations would continue, and that customer orders would be fulfilled, both during and after the restructuring.

12. The Monitor and the Sales Agent, in conjunction with the Applicants, conducted the SISP in accordance with the Sale Process Approval Order.

13. The Monitor completed due diligence on the Applicants’ business, prepared a marketing process and opportunity summary, and undertook a marketing process that broadly canvassed a comprehensive network of cannabis industry participants.

14. The Second Report of the Monitor provides a detailed overview of all of the steps the Monitor took to identify, market to, and provide an opportunity for interested parties to invest in, or acquire CPC.

Results of Sale Process

15. A total of 83 parties were invited to participate in the SISP, 14 of which signed a non-disclosure agreement and received the documents prepared by the Monitor including the non-disclosure agreement, teaser letter, and confidential information memorandum.

16. In accordance with the Sale Process Approval Order, the initial bid deadline of January 9, 2023 was extended to January 18, 2023, and then further extended to January 20, 2023 at 12:00 p.m. (the "**Revised Bid Deadline**"). The extensions provided additional time for information relating to certain proposed debt assumptions to be disseminated to the market. The basis for and circumstances surrounding the two extensions is further discussed in the Second Report of the Monitor.

17. The Monitor and the Sales Agent kept all potential bidders apprised in respect of bid deadline changes and other changes to the offer, continually gauged interest among potential bidders, and assisted with ongoing due diligence requests.

18. The Monitor received the Purchaser's offer by the Revised Bid Deadline. No other bids were received apart from the Purchaser's offer. The Purchaser's offer was evaluated in accordance with the SISP and determined to be a Qualified Bid (as defined in the SISP).

19. The Stalking Horse Purchaser declined to participate in an Auction and the Purchaser's offer was designated the Successful Bid.

20. The Monitor will report in detail on the results of the SISP in its Second Report.

21. The Sale Process was conducted in a manner so as to create and maintain a “competitive tension” as between interested parties, with a view to promoting interest in the opportunity and yielding the highest and best sale price for the Applicants.

22. All reasonable steps to obtain the best price have been taken and the SISP was commercially reasonable, professionally run and robust. There are no other offers and there is no additional funding to conduct further sales efforts.

SPA and Proposed Transaction

23. A copy of the SPA will be attached as an appendix to the Monitor’s Second Report, to be filed.

24. The principal of the Purchaser has extensive experience in the Canadian cannabis industry. The Applicants’ cannabis licences and operations have value to the Purchaser and I understand that the Purchaser’s intention is to operate the business as a going concern and Health Canada-compliant operation.

25. The Transaction contemplates the use of a “reverse vesting order” to preserve cannabis licences which are essential for the company to continue operations as a going concern.

26. A summary of the key terms and conditions of the SPA are as follows (all capitalized terms not otherwise defined herein shall have the meaning given to them in the SPA):

(a) **Closing Date:** Subject to the terms and conditions of the SPA, the Closing shall occur once an Approval and Vesting Order satisfactory to the Parties has been issued and entered.

(b) **Share Purchase:** The Purchaser shall purchase the Purchased Shares from the Vendor, free and clear of all Encumbrances (other than Permitted

Encumbrances), with the result that the Purchaser shall become the sole shareholder of CPC at the Closing Time.

- (c) **Excluded Assets, Contracts and Liabilities:** all of the Excluded Assets, and Excluded Liabilities will be transferred to and assumed by ResidualCo. All Claims related to Excluded Liabilities will continue to exist as against ResidualCo and the Claims shall attach to the Purchase Price and the Excluded Assets, if any, which shall be available to satisfy such Claims.
- (d) **Approval and Vesting Order:** the obligations of the Parties to close the Transaction is subject to the granting of the Approval and Vesting Order.

27. In addition to seeking approval of the SPA and the Transaction through the Approval and Vesting Order, the Applicants are also seeking the approval of other relief critical to the completion of the Transaction and the orderly and efficient conclusion of these CCAA Proceedings, including, among other things:

- (a) adding ResidualCo as an Applicant;
- (b) vesting all of the Excluded Assets, Excluded Contracts, and Excluded Liabilities in ResidualCo, and discharging all Encumbrances (other than the Permitted Encumbrances) against the Retained Assets;
- (c) granting the Releases; and
- (d) granting certain enhanced powers to the Monitor in respect of ResidualCo.

Adding ResidualCo as an Applicant

28. In order to consummate the proposed Transaction, the Applicants are seeking to add ResidualCo as an Applicant in these CCAA Proceedings. Doing so will allow the Purchaser to acquire all issued and outstanding shares of the Purchased Shares, free and clear of all

Encumbrances (except for Permitted Encumbrances), while allowing the claims of the Applicants' stakeholders to continue against ResidualCo.

29. ResidualCo is a corporation that has been incorporated under the federal laws of Canada. Immediately after the Excluded Assets and Excluded Liabilities are transferred to ResidualCo, ResidualCo will be balance sheet insolvent and the claims against ResidualCo will be in excess of the statutory threshold of \$5 million.

Reverse Vesting to ResidualCo

30. The Transaction is contingent upon a pre-closing reorganization (the "**Pre-Closing Reorganization**"), which will:

- (a) the Transferred Assets shall be transferred to CPC; and
- (b) the Excluded Assets and Excluded Liabilities shall be transferred to and vested in ResidualCo pursuant to the Approval and Vesting Order.

31. The Pre-Closing Reorganization, and in particular its reverse vesting component, is critical to the Transaction. The reverse vesting structure contemplated by the Transaction has been effectively implemented in other similar transactions for licenced cannabis companies and has the effect of minimizing regulatory hurdles and decreasing closing uncertainty.

32. The Purchaser was not prepared to proceed with a Transaction in respect of CPC by way of an ordinary asset sale structure due to, among other things, the regulatory restrictions on transferring cannabis licences.

Benefits of Transaction

33. The primary benefit of the proposed Transaction is the seamless continuity of business operations. Completion of the Transaction will preserve the CPC's structure of operations,

maintain the current licences, and preserve the economic activity and customer and supply arrangements without interruption.

34. A number of key individuals associated with the business will remain with CPC following the closing of the proposed Transaction. This, together with the “reverse vesting” structure of the Transaction, will ensure that the change in control of the business does not impact the preservation of the valuable cannabis licences.

35. The Transaction will achieve the purpose of the CCAA Proceedings which is to ensure the business emerges from CCAA protection in a stronger form that preserves enterprise value and employment for as many of its employees as reasonably possible. Post-closing, CPC’s business will continue as a going-concern.

36. Given the breadth, duration and level of expressed buyer interest in the SISP, it is unlikely that a further sale process would yield any other meaningful opportunities. Moreover, the Applicants cannot afford additional sale efforts.

37. The Monitor will provide its view on the SISP, the necessity of the reverse vesting structure, and the Transaction in its Second Report.

Requested Extension of Stay of Proceedings

38. The current stay period expires on February 3, 2023.

39. The Applicants are requesting an extension of the stay up to and including February 17, 2023 (“**Extended Stay Period**”) to allow time to complete the necessary steps to close the Transaction.

40. The Applicants have acted, and continue to act, in good faith and with due diligence in furtherance of these CCAA proceeding.

41. It is just and convenient and in the interests of the Applicants and their stakeholders that the stay of proceedings be extended to February 17, 2023.

42. The Monitor supports, and no creditor will be prejudiced by, the extension of the stay for the Extended Stay Period.

General

43. The provisions of the CCAA, including sections 11, 11.02, 11.2, 11.03 and 36, and the statutory, inherent and equitable jurisdiction of this Court.

44. Rules 1.04, 1.05, 2.01, 2.03, 3.02, 16, 37, and 39 of the *Rules of Civil Procedure*, R.R.O. 1990, Reg. 194, as amended,

45. Section 97, 100, 106, and 137(2) of the *Courts of Justice Act*, R.S.O. 1990, c. C.43, as amended; and

46. Such further and other grounds as counsel may advise.

THE FOLLOWING DOCUMENTARY EVIDENCE will be used at the hearing of the motion:

- (a) the Affidavit of Afshin Souzankar, sworn November 2, 2022 and the exhibits attached thereto;
- (b) the Affidavit of Afshin Souzankar, sworn November 8, 2022 and the exhibits attached thereto;
- (c) the Affidavit of Afshin Souzankar, sworn January 25, 2023, and the exhibits attached thereto;
- (d) the second report of the Monitor, to be filed; and

- (e) such further and other evidence as counsel may advise and this Court may permit.

January 25, 2023

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**IN THE MATTER OF THE COMPANIES' CREDITORS ARRANGEMENT ACT, R.S.C. 1985, C. C-36, AS AMENDED
AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF
CANNAPIECE GROUP INC., CANNAPIECE CORP., CANADIAN CRAFT GROWERS
CORP., 2666222 ONTARIO LTD., 2580385 ONTARIO INC. AND 2669673 ONTARIO
INC.**

Court File No.: CV-22-00689631-00CL

Applicants

**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**
Proceeding commenced at TORONTO

**NOTICE OF MOTION
(RE SALE APPROVAL ORDER)
(RETURNABLE JANUARY 31, 2023)**

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TAB 2

**ONTARIO
SUPERIOR COURT OF JUSTICE – COMMERCIAL LIST**

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

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

Applicants

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AFFIDAVIT OF AFSHIN SOUZANKAR

(Sworn January 25, 2023)

I, Afshin Souzankar of the City of Thornhill, in the Regional Municipality of York, in the Province of Ontario, **MAKE OATH AND SAY AS FOLLOWS:**

A. INTRODUCTION

1. I am the President and Chief Executive Officer of the applicant, CannaPiece Group Inc. (“**CPG**” or “**CannaPiece Group**”) as well as a member of the board of directors, having served initially as Managing Partner – Strategic Planning when I co-founded the company in 2018, and as President and Chief Executive Officer since August of 2020.

2. I am also the Chief Executive Officer and a member of the board of directors of CannaPiece Group’s wholly-owned subsidiaries CannaPiece Corp. (“**CPC**”), Canadian Craft Growers Corp. (“**CCG**”), 2580385 Ontario Inc. (“**258**”), 2666222 Ontario Inc. (“**222**”), and 2669673 Ontario Inc. (“**673**”).

3. As discussed below, CPC is CannaPiece Group’s operating entity. It is a leading cannabis contract manufacturer.

4. CPG, CPC, CCG, 258, 222 and 673 are the “**Applicants**” in this CCAA proceeding.

5. I have personal knowledge of the matters to which I depose in this affidavit, except where I have obtained information from others. Where I have obtained information from others, I have stated the source of my information and, in all such cases, believe such information to be true.

6. I have sworn two affidavits in these CCAA proceedings: my first Affidavit was sworn on November 2, 2022 (“**First Souzankar Affidavit**”). My second affidavit was sworn on November 8, 2022 (“**Second Souzankar Affidavit**”). A copy of the First Souzankar Affidavit and Second Souzankar Affidavit, without exhibits, is attached hereto as **Exhibit “A”** and **Exhibit “B”**, respectively.

B. HISTORY OF THE CCAA PROCEEDING

7. The Applicants applied for urgent relief under the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the "**CCAA**") on November 3, 2022, because they had insufficient cash to sustain operations for the week ending November 6, 2022.

8. On November 3, 2022, the Honourable Mr. Justice Penny made an order (the "**Initial Order**"), among other things:

- (a) granting a stay of proceedings in favour of the Applicants up to and including November 10, 2022;
- (b) appointing BDO Canada Limited as monitor of the Applicants (in such capacity, the "**Monitor**");
- (c) granting a \$250,000 first-priority administration charge in favour of counsel to the Applicants, the Monitor and counsel to the Monitor, to secure payment of their professional fees and disbursements to the maximum amount of \$250,000 ("**Administration Charge**");
- (d) approving a debtor-in-possession ("**DIP**") term sheet ("**DIP Term Sheet**"), and approving a \$500,000 DIP loan and a corresponding second-priority charge in favour of Cardinal Advisory Limited ("**Cardinal**") in its capacity as the DIP lender ("**DIP Lender**"); and
- (e) scheduling a return hearing date for November 10, 2022 ("**Comeback Hearing**").

9. At the Comeback Hearing, Mr. Justice Penny granted two orders:

- (a) An amended and restated initial order ("**Amended and Restated Initial Order**"), among other things:
 - (i) extending the stay of proceedings to and including February 3, 2023;

- (ii) approving a Key Employee Retention Plan (“**KERP**”) and authorizing the Applicants to make payments in accordance with the terms of the KERP; and
 - (iii) approving an increase to the Administration Charge to the maximum amount of \$500,000.
- (b) An order (“**Sale Process Approval Order**”), among other things:
- (i) authorizing and empowering CPG and CPC to enter into a stalking horse purchase agreement dated November 7, 2022 (the “**Stalking Horse SPA**”) between CPG, CPC and Cardinal, or its nominee (in such capacity, the “**Stalking Horse Purchaser**”);
 - (ii) approving the Stalking Horse SPA as well as the payment and priority of payment of the associated Break Fee and Professional Fees;
 - (iii) authorizing and empowering the Applicants to utilize a \$3,000,000 purchaser’s deposit facility (“**Deposit Facility**”), provided by the Stalking Horse Purchaser, in order to finance the Applicants’ working capital requirements during a stalking horse sales process, in accordance with the terms of the Stalking Horse SPA;
 - (iv) granting the Stalking Horse Purchaser a second in priority charge (subject only to the first priority Administration Charge) equal to all amounts advanced, or which shall be advanced by the Stalking Horse Purchaser under the Deposit Facility, plus certain Cardinal professional fees (the “**Purchaser’s Charge**”);
 - (v) approving a sale and investment solicitation process (“**SISP**” or “**Stalking Horse Sales Process**”);

- (vi) authorizing and directing the Monitor to take such steps as it deems necessary or advisable to carry out and perform its obligations under the SISP, subject to prior approval of the court being obtained before completion of any transaction under the SISP; and
- (vii) approving the appointment of BDO Canada Transaction Advisory Services Inc. as the sales agent ("**Sales Agent**") to assist with the implementation of the Sale Process.

10. The Initial Order of Justice Penny dated November 3, 2022 and the accompanying Endorsement dated November 3, 2022 is attached hereto as **Exhibit "C"**.

11. The Amended and Restated Initial Order of Justice Penny is attached hereto as **Exhibit "D"**.

12. The Sale Process Approval Order and the accompanying endorsement of Mr. Justice Penny ("**SISP Approval Endorsement**") are attached hereto as **Exhibit "E"** and **Exhibit "F"**, respectively.

C. RELIEF SOUGHT ON THIS MOTION

13. As explained below, the Stalking Horse Sales Process is now complete. The Stalking Horse Purchaser chose not to participate in the Auction and thus was not the successful bidder. Accordingly, I swear this affidavit in support of a motion by the Applicants for two orders:

- (a) an order ("**Approval and Vesting Order**") substantially in the form of the draft order attached at **Tab 3** of the Applicants' Motion Record, among other things:
 - (i) extending the stay of proceedings up to and including February 17, 2023;
 - (ii) approving the Share Purchase Agreement ("**SPA**") entered into between CannaPiece Group ("**Vendor**"), CPC, and 1000420548 Ontario Inc.

(“**Purchaser**”) and the transaction contemplated thereby (the “**Transaction**”);

- (iii) authorizing and directing the Applicants to perform their obligations under the SPA and to take such additional steps and execute such additional documents as may be necessary or desirable for the completion of the Transaction;
- (iv) transferring and vesting all of the Applicants’ right, title, and interest in and to the Excluded Assets, Excluded Contracts, and Excluded Liabilities (each as defined in the SPA) to and in a newly incorporated entity, 14707117 Canada Inc. (“**ResidualCo**”);
- (v) vesting in the Purchaser or its nominee all of the right, title and interest in and to the Purchased Shares (as defined in the SPA) free and clear of all Encumbrances, other than Permitted Encumbrances (each capitalized term as defined in the SPA), upon the filing of a certificate by the Monitor (as defined below) substantially in the form attached Schedule “A” to the draft Approval and Vesting Order (the “**Monitor’s Certificate**”);
- (vi) releasing and discharging CPC and the Purchased Shares from the Excluded Liabilities in accordance with the SPA;
- (vii) approving the releases (“**Releases**”) provided for in article 6.2 of the SPA in favour of the officers and directors of CPC, its advisors, the Monitor and the Monitor’s counsel (“**Released Parties**”); and
- (viii) expanding the powers and duties of the Monitor set out in the Amended and Restated Initial Order (as defined below).

(b) An order (“**Ancillary Order**”), substantially in the form of the draft order at Tab 4 of the Applicants’ Motion Record, among other things:

- (i) abridging the time for and validating service of this notice of motion and the motion record and dispensing with service on any person other than those served;
- (ii) on Closing of the Transaction, authorizing and directing the Monitor to distribute up to \$3,700,000 from the proceeds of the Transaction to Cardinal ("**Deposit Repayment**") on account of amounts owing to Cardinal pursuant to the DIP Term Sheet and the Deposit Facility, which secured credit facilities were approved by the Initial Order and the Sales Process Approval Order;
- (iii) approving the Second Report of the Monitor, to be filed, and the activities of the Monitor as set out therein; and

(c) Such further and other relief as this Court may deem just and equitable.

D. OVERVIEW OF APPLICANTS AND THEIR BUSINESS

14. CPC, the Applicants' operating entity, is a leading Canadian cannabis contract manufacturer, providing extraction, processing, and packaging services for its customers who include large and industry leading participants.

15. The Applicants do not grow any flower, nor do they have any retail operations. CPC is strictly a business-to-business company.

16. The business operates out of a large state of the art cannabis production facility located in Pickering, Ontario ("**Pickering Facility**"). CPC uses advanced technologies to process and create cannabis products, as well as for the packaging of cannabis products.

17. In early November 2022 the Applicants urgently sought protection under the CCAA on account of the financial pressures arising as a result of: (i) substantial capital investments made to meet capacity requirements of customer contracts that never fully materialized; (ii) intense competition and an over-supply of cannabis products leading to significant price compression;

and (iii) the low market demand for cannabis products at the retail level, partially as a result of the illicit market for cannabis, causing a decline in orders from licenced processors.

18. Since the date of the Initial Order, the Applicants have worked with the Monitor to stabilize and maintain operations, while conducting the SISP in accordance with the Sale Process Approval Order.

19. From the start of this proceeding the parties recognized and accepted the importance of the SISP, and its “stalking horse component”, supported by the Deposit Facility. This is because the value of the Applicants’ business is entirely dependant on the ability to continuously fulfil customer orders on a timely basis. As I described in the First Souzankar Affidavit and the Second Souzankar Affidavit, even a temporary cessation of operations would have been completely destructive of enterprise value. Given the dire cash flow situation of the Applicants, and as further detailed below, it was imperative that we pursue a going concern sale of the business to obtain value for stakeholders.

20. At the hearing of the motion before Justice Penny seeking approval of the SISP, the Applicants’ senior secured creditors, Carmela Marzilli (“**Marzilli**”), and the equipment financier, 2125028 Ontario Inc. (“**212**”), attended and expressed their support for Stalking Horse Sales Process and related relief. This is reflected in the SISP Approval Endorsement.

21. Since the date of the Initial Order, the Applicants have worked with the Monitor to stabilize and maintain operations, while conducting the SISP in accordance with the Sale Process Approval Order. As described below, the SISP generated buyer interest and was concluded successfully on January 20, 2023.

E. SALE PROCESS

Marketing Efforts

22. The SISP, including the stalking horse component, was designed to provide stability to the business and signal to the world that operations would continue, and that customer orders

would be fulfilled, both during and after the restructuring.

23. The Monitor and the Sales Agent, in conjunction with the Applicants, conducted the SISP in accordance with the Sale Process Approval Order. Among other things, the Monitor completed due diligence on the Applicants' business, prepared a marketing process and opportunity summary, and undertook a marketing process that broadly canvassed a comprehensive network of cannabis industry participants.

24. The Sales Agent issued an advertisement in the Globe and Mail – National Edition on November 18, 2002, and prepared materials including, among other things (i) a non-disclosure agreement ("**NDA**"), (ii) a teaser letter, and (iii) a confidential information memorandum (together, the "**SISP Documents**"), all of which was made publicly available on the Monitor's case website. As part of the SISP, the Monitor and the Sales Agent established a secure online data room containing relevant business information for potential bidders.

25. The Second Report of the Monitor provides a detailed overview of all of the steps the Monitor took to identify, market to, and provide an opportunity for interested parties to invest in, or acquire CPC.

Results of Sale Process

26. A total of 83 potential buyers were identified in the SISP, 14 of which signed a non-disclosure agreement and received the SISP Documents directly. Three of these potential bidders provided the Monitor with the requested statement of qualifications and were granted access to the data room.

27. In accordance with the Sale Process Approval Order, the initial bid deadline of January 9, 2023 was extended to January 18, 2023, and then further extended to January 20, 2023 at 12:00 p.m. (the "**Revised Bid Deadline**"). The extensions provided additional time for information relating to certain proposed debt assumptions to be disseminated to the market. The basis for and circumstances surrounding the two extensions is further discussed in the Second Report of the Monitor. I understand that the Monitor and the Sales Agent, with the

Applicants and the Stalking Horse Bidder, kept all potential bidders apprised in respect of bid deadline changes and other changes to the offer, continually gauged interest among potential bidders, and assisted with ongoing due diligence requests.

28. The Monitor received the Purchaser's offer by the Revised Bid Deadline. No other bids were received apart from the Purchaser's offer.

29. The Purchaser's offer was evaluated in accordance with the SISP and determined to be a Qualified Bid (as defined in the SISP).

30. I understand that the Stalking Horse Purchaser declined to participate in an Auction and the Purchaser's offer was designated the Successful Bid.

31. The Monitor will report in detail on the results of the SISP in its Second Report.

32. To the greatest extent possible, I believe the Sale Process was conducted in a manner so as to create and maintain a "competitive tension" as between interested parties, all with a view to promoting interest in the opportunity and yielding the highest and best sale price for the Applicants.

33. Given the breadth, duration and management of the SISP, I believe that all reasonable steps to obtain the best price have been taken and the SISP was commercially reasonable, professionally run and robust.

34. As a practical matter, there are no other offers and there is no additional funding to conduct further sales efforts.

F. SPA AND PROPOSED TRANSACTION

35. CPG, CPC and the Purchaser are working to finalize and sign the SPA. A copy of the SPA will be attached as an appendix to the Monitor's Second Report, to be filed.

Purchaser

36. The principal of the Purchaser has extensive experience in the Canadian cannabis industry. The Applicants' cannabis licences and operations have value to the Purchaser and I understand that the Purchaser's intention is to operate the business as a going concern, Health Canada-compliant operation.

“Reverse Vesting” Transaction

37. The Transaction contemplates the use of a “reverse vesting order” to preserve cannabis licences which are essential for CPC to continue operations as a going concern.

38. The Applicants seek the Approval and Vesting Order in furtherance of a Transaction whereby, subject to the satisfaction of other closing conditions, the Purchaser will acquire 100% of CPC's issued and outstanding shares. Following the Pre-Closing Reorganization defined and described below, CPC will hold only the Retained Assets and Assumed Liabilities. The SPA requires an Approval and Vesting Order approving the SPA and the Transaction, and seeking other relief including, among other things, the grant of certain Releases.

39. The Transaction uses a reverse vesting structure to effect the transfer into CPC of the Transferred Assets and the transfer out of CPC and into ResidualCo of the Excluded Assets and Excluded Liabilities. I understand from the Monitor and the Applicants' counsel that this structure is commonly used in cannabis restructurings due to the highly regulated nature of the industry.

40. The SPA is the product of a Court-approved SISP and in my view is commercially reasonable in the circumstances. The parties to the SPA are sophisticated and were advised by professional and legal advisors. The Applicants are of the view that the SPA and the

Transaction contemplated thereunder is in the best interest of stakeholders in the circumstances in which CannaPiece Group finds itself.

41. In my view, the Transaction is capable of being consummated in a timely manner as closing is not conditional on obtaining the approval of Health Canada.

42. A summary of the key terms and conditions of the SPA are as follows (all capitalized terms not otherwise defined herein shall have the meaning given to them in the SPA):

- (a) **Closing Date:** Subject to the terms and conditions of the SPA, the Closing shall occur on February 1, 2023, or such other date as agreed to by the Parties.
- (b) **Share Purchase:** The Purchaser shall purchase the Purchased Shares from the Vendor, free and clear of all Encumbrances (other than Permitted Encumbrances), with the result that the Purchaser shall become the sole shareholder of CPC at the Closing Time.
- (c) **Excluded Assets, Contracts and Liabilities:** All of the Excluded Assets, and Excluded Liabilities will be transferred to and assumed by ResidualCo. All Claims attaching to the Excluded Liabilities will continue to exist as against ResidualCo and the Purchase Price and the Excluded Assets, if any, will be available to satisfy such Claims.
- (d) **Approval and Vesting Order:** the obligations of the Parties to close the Transaction is subject to the granting of the Approval and Vesting Order.

43. In addition to seeking approval of the SPA and the Transaction through the Approval and Vesting Order, the Applicants are seeking the approval of other relief critical to the completion of the Transaction and the orderly and efficient conclusion of these CCAA Proceedings, including, among other things:

- (a) adding ResidualCo as an Applicant;

- (b) vesting all of the Excluded Assets, Excluded Contracts, and Excluded Liabilities in ResidualCo, and discharging all Encumbrances (other than the Permitted Encumbrances) against the Purchased Shares and the Retained Assets;
- (c) granting the Releases; and
- (d) granting certain enhanced powers to the Monitor in respect of ResidualCo.

Adding ResidualCo as an Applicant

44. In order to consummate the proposed Transaction, the Applicant is seeking to add ResidualCo as an Applicant in these CCAA Proceedings. Doing so will allow the Purchaser to acquire the Purchased Shares free and clear of all Encumbrances, while allowing the claims of the Applicants' stakeholders to continue as against ResidualCo.

45. ResidualCo is a corporation that has been incorporated under the federal laws of Canada. Immediately after the Excluded Assets and Excluded Liabilities are transferred to ResidualCo, ResidualCo will be balance sheet insolvent and the claims against ResidualCo will be in excess of the statutory threshold of \$5 million.

46. I understand that the Monitor supports adding ResidualCo as an Applicant.

Reverse Vesting to ResidualCo

47. The Transaction is contingent upon a pre-closing reorganization (the "**Pre-Closing Reorganization**"), whereby:

- (a) the Transferred Assets shall be transferred to CPC; and
- (b) the Excluded Assets and Excluded Liabilities shall be transferred to and vested in ResidualCo pursuant to the Approval and Vesting Order.

48. The Pre-Closing Reorganization, and in particular its reverse vesting component, is critical to the Transaction. I am advised by my counsel that the reverse vesting structure will preserve critical licences necessary for the operation of the purchased business which CPC would not otherwise be able to transfer in the ordinary course. I also understand that the reverse vesting structure contemplated by the Transaction has been effectively implemented in other similar transactions for licenced cannabis companies and has the effect of minimizing regulatory hurdles and decreasing closing uncertainty. I am advised by my counsel that the Purchaser was not prepared to proceed with a Transaction in respect of CPC by way of an ordinary asset sale structure due to, among other things, the regulatory restrictions on transferring cannabis licences.

49. CPC holds the following licences ("**Licences**"):

- (a) standard processing and sale for medical purposes licence issued under the under the *Cannabis Act* and the related Cannabis Regulations, and
- (b) a licence issued by the CRA under the excise duty framework under the *Excise Act, 2001* (Canada).

50. The Licences are essential to the Applicants' business. Without these licences, the Applicants could not possess or produce cannabis, or conduct its current business.

51. I understand from my counsel that the Licences would likely be lost if they were transferred to the Purchaser by way of a traditional vesting order given the regulatory regime within which the Applicants operate. A loss of the Licences would require the Purchaser to re-enter the licensing process with the attendant expense and delay.

52. A traditional vesting order would expose the Licencees on which the Applicants' business is founded and, in turn, on which its going concern value is wholly reliant, to significant risk, regulatory uncertainty, and significant delays.

53. I therefore believe that the risk and uncertainties created by a traditional vesting order would render a going concern transaction impossible, resulting in the liquidation of the CannaPiece Group.

Benefits of the Transaction

54. The primary benefit of the proposed Transaction is the seamless continuity of the Applicants' business operations. Completion of the Transaction will preserve CPC's structure of operations, maintain the current licences, and preserve the economic activity and customer and supply arrangements without interruption. For example, it is anticipated that completion of the Transaction will permit the continuation of supply relationships with providers of inputs and services including IT, HVAC, maintenance, repairs, and operations, and electrical, security and cannabis input materials and consumables.

55. Importantly, a number of key individuals associated with the business will remain with CPC following the closing of the proposed Transaction. This, together with the "reverse vesting" structure of the Transaction, will ensure that the change in control of the business does not impact the preservation of the valuable cannabis licences.

56. At present, CannaPiece Group employs approximately 150 people, ranging from Managers, Technicians, Machine Operators, and Quality Assurance Specialists to Facilities and Maintenance personnel. It is anticipated that almost all of these jobs will be preserved following the closing of the Transaction.

57. The implementation of the Transaction will minimize professional fees. ResidualCo will not undertake any business and will file an assignment in bankruptcy at the appropriate time. The Transaction mechanics maximize cash available for the Applicants' creditors.

58. The Transaction will achieve the purpose of the CCAA Proceedings which is to ensure the business emerges from CCAA protection in a stronger form that preserves enterprise value and employment for as many of its employees as reasonably possible. Post-closing, CPC's

business will continue as a going-concern. The Purchaser has advised me that it intends to keep the vast majority of employees in operational roles at the Pickering Facility.

59. I have been advised by the Monitor that it supports the approval of the Transaction.

60. I believe the SPA and the proposed Transaction represent the best possible outcome for the Applicants, and will permit the Applicants to emerge from CCAA protection as a successful, going-concern business.

61. I understand that the Monitor will provide its view on (i) the SISP, (ii) the necessity of the reverse vesting structure, and (iii) the Transaction, in its Second Report.

H. REQUESTED EXTENSION OF STAY OF PROCEEDINGS

62. The current stay period expires on February 3, 2023.

63. The Applicants are requesting an extension of the stay up to and including February 17 2023 ("**Extended Stay Period**") to allow time to complete the necessary steps to close the Transaction and return a motion seeking approval of activities, fees and disbursements and to discharge the Monitor and conclude the CCAA.

64. The Applicants have acted, and continue to act, in good faith and with due diligence in furtherance of these CCAA proceeding.

65. I understand that the Monitor supports, and no creditor will be prejudiced by, the extension of the stay for the Extended Stay Period.

I. DEPOSIT REPAYMENT TO CARDINAL

66. As indicated, Cardinal is the unsuccessful Stalking Horse Purchaser. Cardinal financed CannaPiece Group's restructuring efforts by providing the necessary funding to continue operations beyond the date of the Initial Order. A copy of the Stalking Horse SPA is attached hereto as **Exhibit "G"**.

67. Pursuant to a DIP Term Sheet approved by the Initial Order, Cardinal provided CannaPiece Group with \$500,000 in urgently required interim financing for working capital

requirements in the days following the Initial Order (the “**DIP Facility**”). A copy of the DIP Term Sheet is attached hereto as **Exhibit “H”**.

68. Amounts advanced under the DIP Facility are secured by a DIP Lender’s Charge approved at paragraph 30 to 41 of the Amended and Restated Initial Order. In addition, and in accordance with Article 3.4 of the Stalking Horse SPA approved by the Sale Process Approval Order, Cardinal provided CannaPiece Group with funding in the maximum principal amount of \$3,000,000 (the “**Deposit Facility**”) in order to finance working capital requirements during the CCAA proceedings and associates Stalking Horse Sales Process. The Applicants were authorized and empowered by paragraph 8 of the Sales Process Approval Order to utilize this financing in accordance with the terms of the Stalking Horse SPA. Amounts advanced under the Deposit Facility are secured by the Purchaser’s Charge which was granted pursuant to paragraph 8 of the Sale Process Approval Order.

69. The Stalking Horse SPA provides at Article 5.1(c) that in the event that the Stalking Horse Bid is not the Successful Bid, Cardinal shall be entitled to the Deposit Repayment. Specifically, in addition to the Break Fee, Cardinal shall be entitled to a repayment of professional fees up to a maximum of \$25,000, as well as repayment in full of all amounts advanced under the DIP Term Sheet and the Deposit Facility (as such terms are defined in the Stalking Horse SPA).

70. The Stalking Horse SPA further provides at Article 5.1(d), that the Deposit Repayment, if payable, shall be paid within one business day of the Successful Bid being approved by the court.

71. Accordingly, the Applicants are seeking approval for the Monitor to distribute \$3,691,703 of the proceeds of sale of the Transaction to Cardinal upon closing of the Transaction. This proposed repayment to Cardinal will be on account of: (i) the Applicants’ current obligations to Cardinal as quantified in the Second Report of the Monitor in the amount of \$3,491,703; (2) the Break Fee that Cardinal is entitled to receive in the amount of \$175,000; and, (iii) repayment to

Cardinal of professional fees of \$25,000, which it is entitled to receive under the Stalking Horse SPA.

J. FORM OF ORDER AND CONCLUSION

72. In all of the above circumstances the Applicants' respectfully submit that it is appropriate that the SPA and the Transaction be approved, and that the additional relief requested on this motion be granted.

73. This affidavit is sworn in support of orders substantially in the form of the draft orders at **Tabs "3" and "4"** to the Applicants' Motion Record, and for no other or improper purpose.

SWORN BEFORE ME via video-conference with the deponent in the City of Thornhill, in the regional municipality of York, in the Province of Ontario, and the Commissioner in the City of Mississauga, in the regional municipality of Peel, in the Province of Ontario 25th day of January, 2023 in accordance with O. Reg. 431/20, Administering Oath or Declaration Remotely.

DocuSigned by:
Afshin Souzankar
AFSHIN SOUZANKAR

DocuSigned by:
Monica Faheim
A Commissioner for taking Affidavits (or as may be)

MONICA FAHEIM

**This is Exhibit "A" referred to in the affidavit
of AFSHIN SOUZANKAR, SWORN BEFORE ME
this 25th day of January, 2023**

DocuSigned by:

Monica Fakeim

A027328446B742A

A COMMISSIONER FOR TAKING AFFIDAVITS

Court File No.: CV-22-00689631-00CL

**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
CANNAPIECE GROUP INC., CANNAPIECE CORP., CANADIAN CRAFT GROWERS
CORP., 2666222 ONTARIO LTD., 2580385 ONTARIO INC. AND 2669673 ONTARIO
INC.

Applicants

AFFIDAVIT OF AFSHIN SOUZANKAR

(Sworn November 2, 2022)

I, Afshin Souzankar of the City of Thornhill, in the Regional Municipality of York,
in the Province of Ontario, **MAKE OATH AND SAY AS FOLLOWS:**

I. OVERVIEW

1. I am the President and Chief Executive Officer of the applicant, CannaPiece Group Inc. ("**CPG**" or "**CannaPiece Group**") as well as a member of the board of directors, having served initially as Managing Partner – Strategic Planning when I co-founded the Company in 2018, and as President and Chief Executive Officer since August of 2020.

2. I am also the Chief Executive Officer and a member of the board of directors of the Company's wholly-owned subsidiaries CannaPiece Corp. ("**CPC**"), Canadian Craft Growers Corp. ("**CCG**"), 2580385 Ontario Inc. ("**258**"), 2666222 Ontario Inc. ("**222**"), and 2669673 Ontario Inc. ("**673**").

3. CPG, CPC, CCG, 258, 222 and 673 are the “**Applicants**” in this CCAA proceeding and are sometimes collectively referred to herein as the “**Company**”.

4. Prior to co-founding the CannaPiece Group, I worked for 28 years in various project management roles, including over 17 years in the mining industry. I hold a Master of Science in Engineering and earned my professional engineering (P. Eng.) designation in 2005. As the Chief Executive Officer of the Applicants, my primary responsibilities include managing the Company’s overall operations and resources and making strategic business decisions.

5. I have personal knowledge of the matters to which I depose in this affidavit, except where I have obtained information from others. Where I have obtained information from others, I have stated the source of my information and, in all such cases, believe such information to be true.

6. I swear this affidavit in support of, among other things, an application by the Company for protection from its creditors pursuant to the *Companies’ Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the “**CCAA**”).

7. More specifically, the Applicants are seeking an order (the “**Initial Order**”) approving:

(a) the DIP Term Sheet (as defined below), the DIP Loan (as defined below), the authority to borrow up to \$500,000, and a charge in favour the DIP Lender (as defined below) of \$500,000.

(b) an administration charge of \$250,000 (the “**Administration Charge**”); and

(c) an initial stay of proceedings to November 10, 2022 (the “**Stay Period**”).

8. If the Initial Order is granted the Applicants intend to return to Court on November 10, 2022 (the “**Comeback Hearing**”) to request an order (the “**Amended and Restated Initial Order**”) that would:

(a) extend the Stay Period;

(b) increase the amount of the Administration Charge;

(c) authorize and approve certain payments to critical suppliers for pre-filing expenses or to honour cheques issued to providers of goods and services prior to the Initial Order, with consent of the Monitor, which are necessary to facilitate the Company’s ongoing operations and preserve value during the CCAA proceedings; and

(d) approve a sale and investment solicitation process, which will include a stalking horse bid component.

9. For the reasons set out herein, I do verily believe that the Applicants are insolvent and are companies to which the CCAA applies.

II. URGENT NEED FOR RELIEF

10. CannaPiece Group, through its wholly-owned subsidiary, CPC, operates a cannabis contract manufacturing business. The Company is insolvent, faces a severe liquidity crisis, and is in urgent need of relief under the CCAA.

11. Currently, the Company’s ordinary course monthly cash expenditures exceed its

cash receipts. Based on the Interim Cash Flow Forecast (as defined below), the Applicants will have insufficient cash to sustain operations through the week ending November 6, 2022 without a draw under the DIP Loan.

12. The cannabis industry is nascent and highly regulated and has experienced rapid change. The uncertainty caused by these changes has created an array of challenges for companies in the industry, including difficulties in obtaining adequate investment and financing for operations and capital expenditures.

13. In the past year, the Applicants have suffered losses due to, among other things:

- (a) substantial capital investments made by CPG and CPC to meet capacity requirements of customer contracts that never fully materialized;
- (b) a steep decline in the value of most publicly-traded cannabis companies in Canada, which form the basis of CPC's client base;
- (c) intense competition and an over-supply of cannabis products leading to significant price compression; and
- (d) the low market demand for cannabis products at the retail level, partially as a result of the illicit market for cannabis, causing a decline in orders from licensed processors.

14. The Company's management team has made determined efforts to address the financial challenges, including, among other things, significantly reducing staff, maximizing automation to more efficiently address manufacturing demands, increasing the efficiency of full-time production staff, making efforts to expand service offerings to

existing customers, and retaining external consultants to assist in identifying opportunities to improve liquidity. These efforts, although effective to a point, have been insufficient to completely address the challenges facing the Applicants.

15. Given its liquidity crisis, the Company requires the breathing room afforded by the CCAA in order to stabilize its operations for the benefit of all of its stakeholders. I therefore believe that the CCAA provides the most appropriate forum for the Company to restructure its affairs – whether it be through debt financing, an equity infusion, a sale, or some other form of creditor compromise.

III. OVERVIEW OF THE APPLICANTS

A. Background and Corporate Structure

16. Attached as **Exhibit “A”** is a copy of the corporate organizational chart for the Company.

a. CannaPiece Group Inc.

17. CPG is the top level holding company. It was incorporated in Ontario on July 18, 2018. CPG’s registered head office is located at 100 Allstate Parkway, Suite 302, Markham, Ontario. CPG is the direct and sole owner of CPC.

18. Attached as **Exhibit “B”** is a copy of the Corporate Profile Report for CPG.

b. CannaPiece Corp.

19. CPC was incorporated in Ontario on May 28, 2018. CPC’s registered head office is located at 100 Allstate Parkway, Suite 302, Markham, Ontario.

20. CPC is the Company's operating entity. It holds the necessary cannabis licences and operates the cannabis manufacturing and production business out of a licensed facility located at 1725 McPherson Court, Unit 2, Pickering, Ontario.

21. Attached as **Exhibit "C"** is a copy of the Corporate Profile Report for CPC.

c. Canadian Craft Growers Corp.

22. Canadian Craft Growers Corp. ("**CCG**") was incorporated in Ontario on July 18, 2018. CCG's initial purpose was to assist CPG in the development of a cannabis micro-cultivation facility in Bowmanville, Ontario.

23. CCG does not hold any assets and is currently inactive. Attached as **Exhibit "D"** is a copy of the Corporate Profile Report for CCG.

d. 2666222 Ontario Ltd. and Green Valley Wellness

24. Incorporated on November 20, 2018, 222 is a wholly-owned subsidiary of CPG. 222, in turn, owns 2580385 Ontario Inc. c.o.b. Green Valley Wellness ("**Green Valley Wellness**"). Green Valley Wellness was incorporated in Ontario on June 1, 2017.

25. In May 2020, CPG acquired Green Valley Wellness for the purpose of operating cannabis wellness clinics in the Greater Toronto Area. Some of the assets of Green Valley Wellness were sold back to its former owners in July of 2021, after it was determined that Green Valley Wellness would cease operating (it had not operated since the onset of the pandemic). 222 and Green Valley Wellness are inactive and do not have any assets. However, 222 and Green Valley Wellness are subject to certain residual creditor claims, including the claim of a former landlord. Attached as **Exhibit**

“E” is a copy of the Corporate Profile Report for 222 and Green Valley Wellness.

e. 2669673 Ontario Inc.

26. 673 was incorporated on December 7, 2018. This entity has minimal assets consisting of a small amount of office furniture and no business operations. It owes rental arrears in the approximate amount of \$71,000 to a former landlord with respect to a now terminated lease dated September 15, 2019. Attached as **Exhibit “F”** is a copy of the Corporate Profile Report for 673.

B. The Business

27. CannaPiece Group, through CPC, is a leading Canadian cannabis contract manufacturer, providing extraction, processing, and packaging services for its customers, who include large and industry-leading participants. The Applicants do not grow any flower, nor do they have any of their own cannabis brands, products, or retail operations. CPC is strictly a business-to-business service provider.

28. The business operates out of a large state-of-the-art cannabis production facility located in Pickering, Ontario. CPC uses the most advanced processing technologies to process and create cannabis products, as well as for the packaging of cannabis products.

29. CPC provides the following principal services to its customers:

- (a) Extraction: creating highly versatile oils, concentrates, and other extracts for licensed processors, including hydrocarbon extraction, CO2 extraction, and co-solvent extraction; and

- (b) Packaging and Logistics: full-service pre-roll and flower packaging and liquid filling, with arrangement of logistics for distribution to seven provinces across Canada.

C. Place of Business and Facilities

a. Office Space – 100 Allstate Parkway, Markham

30. Since November of 2018, CPC has leased office space at 100 Allstate Parkway, Unit 302, Markham ON (the “**Corporate Office**”). The Corporate Office functions primarily as a workspace for the Company’s accounting and legal professionals and executives, including the Company’s Director of Finance, Chief Executive Officer, Chief Investment Officer and Chief Legal Officer.

31. The Corporate Office was initially leased for a term of 3 years. In July 2021, the lease was extended for a term of one year to November 14, 2022. In May 2022, the lease was extended again for a term of one year to November 14, 2023. A copy of the lease agreement in respect of the Corporate Office is attached hereto as **Exhibit “G”**.

b. Manufacturing Facility – 1725 McPherson Court, Pickering

32. CPC operates its cannabis contract manufacturing business out of an 80,000 square-foot facility (the “**Pickering Facility**”) at the property municipally known as 1725 McPherson Court, Unit 2, Pickering, Ontario.

33. Initially, in or about July 2018, CPC entered into a lease in respect of a 47,658 square-foot portion of the Pickering Facility (the “**Phase 1 Lease**”). Seven months later, in February 2019, CPC entered into a lease in respect of an additional 32,550 square-

foot portion of the Pickering Facility (the “**Phase 2 Lease**”).

34. In September 2022, CPC provided the current landlord of the premises with a Notice of Renewal of the Phase 1 Lease (the “**Notice of Renewal**”). In the Notice of Renewal, CPC advised the landlord that it does not intend to renew the Phase 2 Lease and has instead requested permission to lease a smaller portion of the Phase 2 Lease area comprising of a boiler room that is necessary to operate in the Phase 1 space. Currently, CPC is negotiating the terms of the Phase 1 Lease renewal and the boiler room in Phase 2. The landlord is requiring that CPC complete certain improvements to the Phase 2 area prior to expiration of the Phase 2 Lease in June 2023. Attached hereto as **Exhibit “H”** a copy of the Phase 1 Lease and the Notice of Renewal.

35. The Pickering Facility was a shell building at the time that it was leased. Since August 2018, CPG and CPC have invested over \$27 million in order to effect leasehold improvements, obtain and install the required manufacturing equipment and machinery, and to otherwise retrofit the facility to satisfy federal cannabis laws and regulations including the Good Production Practices (GPP) of the *Cannabis Regulations*.

36. Breaking down the capital investment in the Pickering Facility, approximately \$10 million was spent on the physical build-out. During this time frame, CPC completed all required retrofitting including structural and architectural improvements, and installing new drainage, electrical systems, and epoxy concrete flooring.

37. Following on this retrofit, and up until and after the time that CPC commenced its cannabis processing operations in October of 2020, CPG and CPC invested an additional approximately \$17 million to purchase and install the industrial equipment and

machinery required for manufacturing operations, including:

- (a) a CO₂ extraction machine for approximately \$2 million;
- (b) six (6) automatic pre-roll machines, for an aggregate total of approximately \$2.3 million;
- (c) an automated flower packaging machine, for a total of approximately \$500,000; and
- (d) lab equipment and hydrocarbon extraction equipment used for winterization and distillation, for approximately \$1.5 million (including setup).

38. The Pickering Facility is equipped with the highest level of security and production operations. CPC has made every effort to ensure that its manufacturing standards, production practices, and products are of a consistently high quality with a view to future expansion to obtain the European Good Manufacturing Practice (EU-GMP) certification. The Pickering Facility is built to meet EU-GMP standards with some additional improvement, but, due to the cost of doing so, CPC has yet to complete the steps necessary to obtain the certificate including inspections coordinated by the European Medicines Agency.

39. Cannabis production operations at the Pickering Facility commenced in October of 2020 and have continued uninterrupted since that time, other than a temporary COVID-related partial shutdown in January 2021.

D. Cannabis Licences

a. Canadian Cannabis Licence

40. CPC obtained its standard processing and sale for medical purposes licence (the

“**Cannabis Licence**”) from Health Canada on February 28, 2020. The Cannabis Licence permits CPC to undertake the following activities:

- (a) possess cannabis;
- (b) produce cannabis, other than obtaining it by cultivating, propagating or harvesting it;
- (c) sell cannabis in accordance with subsection 17(5) of the Cannabis Regulations; and
- (d) sell cannabis products in accordance with section 27 and Part 14, Division 1 of the Cannabis Regulations.

41. The Cannabis Licence is valid until February 28, 2023 and will be renewed prior to its expiry. The application for renewal has been started and must be completed by November 28, 2022. Attached hereto as **Exhibit “I”** is a copy of the Cannabis Licence.

b. Excise Cannabis Licence

42. CPC obtained its cannabis licence under the *Excise Act, 2001* (Canada) effective on March 4, 2020 (the “**Excise Cannabis Licence**”).

43. The Excise Cannabis Licence has been renewed twice since it was first issued. Currently, it is valid until March 3, 2023 and will be renewed prior to that time. Attached hereto as **Exhibit “J”** is a copy of the renewed Excise Cannabis Licence.

E. Employees

44. The Company currently employs 155 employees, 146 with CPC (including 10 temporary workers) and 9 with CPG.

45. The majority of CPC employees work on cannabis production lines at the Pickering Facility, with others providing the necessary support for production. Their job titles broadly describe their responsibilities and include:

- Technicians (Extraction Lab, Hydrocarbon Extraction, Hydrocarbon Post-processing, Pre-processing, Processing, Processing Systems, Quality Assurance, and Quality)
- Machine Operators
- Specialists (Finished Goods, Vault, Hydrocarbon Extraction, Hydrocarbon Post-processing, Material, Payroll and Benefits, Quality Assurance, and Compliance)
- Leads (Production, Hydrocarbon Extraction, Hydrocarbon Post-processing, Packaging, Pre-processing, Quality, and Sanitation)
- Coordinators (Extraction, Facilities, and Health & Safety)
- Managers (Extraction Operations, Procurement and Planning, Production, Projects, Quality Operations, Security, Client Service, Supply Chain, Facilities and Maintenance, Automation, and Human Resources)

46. The employees are paid bi-weekly in arrears. All payments to employees are current based on the payroll schedule, except for payments to Ali Etemadi, Reza Khadem Shahreza, and myself as we have accrued our payments totalling \$1,502,000 since February 2021 in order to keep operating money in the Company. Ali, Reza and myself are employed by the Company as contract employees.

47. The Company does not have any employees that are unionized or otherwise party to a collective agreement in connection with their employment with the Company.

48. The Company does not sponsor, administer or otherwise have any registered or unregistered pension plans for its employees. The Company provides a standard group benefit plan to its employees that covers extended health care, dental care, life insurance, and accidental death and dismemberment insurance.

F. Key Customers

49. At present, CPC's client relationships include approximately seven of the top 10 licensed processors in the Canadian cannabis market based on retail sales volume.

50. The largest relationships are contractually governed through forms of master services agreements and/or co-manufacturing processing and supply agreements, pursuant to which customers issue purchase orders from time to time. Unless work in respect of a given purchase order has commenced, customers retain the right to terminate the order on written notice and without cause or liability. In most cases, customers are not obligated to purchase minimum quantities of services under the master services agreements.

51. CPC has experienced fluctuations, including dramatic drops, in customer orders over the past year due to well-known market and industry issues with which cannabis companies have struggled throughout Canada. For example, earlier this year, CPC lost one large customer due to the customer's loss of market share and its decision to revert to in-house production of its products to try to find a path to profitability. CPC had a long-term, large-volume forecast from this customer and had invested approximately \$1,250,000 in capital expenditures and human resource costs to accommodate the anticipated rapid volume growth when the customer stopped sending orders. Another

example highlights the moving landscape of the industry, which creates uncertainty: CPC lost another major customer this year when the customer received rescue funding from a larger cannabis entity while experiencing significant financial distress, and the lender in that instance moved manufacturing to its own facility and terminated the manufacturing relationship with CPC.

G. Bowmanville Project

52. In October of 2018, CPG acquired a vacant parcel of land located at 580 Lake Road, Clarington, Ontario (the “**Bowmanville Property**”). The Bowmanville Property was acquired for the purpose of developing the land into a facility that would supply input material to the final processing facility in Pickering for manufacturing into cannabis products, which would then be distributed to the recreational and medical cannabis markets throughout the country (“**Bowmanville Project**”). For a variety of reasons, and as further described below, CPG’s vision for the Bowmanville Property did not materialize and the property was ultimately sold to an arms’-length third party in August of 2022.

a. Initial Vision for Project

53. The initial vision for the Bowmanville Property was that of a multi-unit cannabis facility, housing 170 micro-growers (in separate units), a nursery, and post-harvest operations. A portion of the facility would be divided into the micro-grow units for “lease” to individually-licensed micro-cultivators for small-scale cannabis cultivation. Under this concept, CPG would develop and equip the unit, with the micro-cultivator being responsible for the development costs. The parties contemplated an exclusive supply

contract arrangement, whereby each micro-cultivator would commit to sell a portion of its harvested cannabis to CPC at to-be-agreed-upon wholesale market pricing.

b. Unitholders and Investments

54. In anticipation of the acquisition of the Bowmanville Property and construction of the proposed facility, CPG, through its management team, communicated extensively with a number of potential investors about the potential to participate in the micro-cultivation project. Each investor was asked to pay an initial deposit (each a “**Deposit**”) in exchange for the opportunity to lease a “room” and operate a micro-grow facility upon completion of the overall facility and after the necessary licensing was obtained. The purpose of the Deposits was to fund CPG’s initial costs of project design and regulatory approvals.

55. The vision for the Bowmanville Project culminated in the execution by CPG and/or CCG of a memorandum of understanding (“**MOU**”) with each individual (or corporate) investor (each, a “**Unitholder**”).

56. Approximately 170 Unitholders entered into MOUs. Funds raised from Unitholders under the MOUs between October 2018 and October of 2019 totalled approximately \$9.8 million. Attached hereto as **Exhibit “K”** is a sample copy of an MOU.

c. Land Acquisition and Development Activities

57. The Bowmanville Property was acquired on October 5, 2018 for \$2,384,615 plus 1,500,000 shares of CPG issued to the vendor. The property was acquired partially using funds raised from sales of shares in CPG and using a vendor take-back mortgage

in the amount of \$1,384,615 from the then-property owner.

58. The construction development process for a cannabis facility requires submission of an application to the appropriate municipal authority for site plan approval. The purpose of this process is for the municipality to examine the design and technical aspects of a proposed development.

59. This review and application process is resource-intensive and time-consuming. It requires the preparation and submission of site plans, drawings, and cost estimates to the municipality, all of which takes time to be reviewed and subsequently approved by the municipality. Following the review process, a definitive agreement called a “site plan agreement” must be entered into between the developer and the municipality for the purpose of governing the terms of the proposed development. After entering into a site plan agreement with the municipality, a separate application process must be completed in order to obtain a building permit for the development, as well as other permits as may be required for the particular development.

60. Upon applying for the above-noted permits, the municipality requires the payment of deposits. CPG paid deposits to the Municipality, totalling approximately \$600,000 (the **“Development Deposits”**).

61. Once the development is complete and the facility is built, applications for cannabis licences from Health Canada can be made. Applying for a Health Canada licence is an extensive regulatory process that requires numerous comprehensive submissions and at least one inspection by Health Canada. The application requirements vary depending on the class and subclass of licence or licences sought,

which itself is based on the type of cannabis operations to be undertaken at the property. In this case, the Company also engaged a consultant to assist Unitholders with their required Health Canada security clearance applications so that they could operate the micro-grow units.

62. Immediately following the acquisition of the Bowmanville Property, CPG took all of the necessary steps to proceed with the construction of the proposed facility. Between October of 2018 and the third quarter of 2019, CPG:

- (a) prepared the necessary site plans, drawings and cost estimates for the municipality of Clarington (the “**Municipality**”);
- (b) developed and maintained a consistent dialogue with representatives of the Municipality;
- (c) satisfied extensive information requests from the Municipality;
- (d) negotiated the terms of a site plan agreement and entered into a definitive site plan agreement with the Municipality;
- (e) applied for and received a site alteration permit from the Municipality;
- (f) completed the site alteration work;
- (g) applied for and received a site grading permit from the Municipality;
- (h) completed the site grading;
- (i) initiated a bidding process and selected a general contractor for the build-out;
and

- (j) prepared a cost consulting report which contained a detailed budget and cost analysis, including itemized cost projections for each phase of the construction project.

d. Challenges Encountered and Decision to Sell Property

63. Due to a plethora of well-known and widespread challenges facing the Canadian cannabis industry, and as further described herein, it became apparent in or around June of 2020 that CPG might not be able to obtain the necessary construction financing to complete the Bowmanville Project.

64. CPG's management team met with dozens of potential construction lenders and pursued multiple loan applications with the aim of securing additional funding for the completion of the project. Despite every effort over many months, CPG was unsuccessful in obtaining the necessary construction financing. Not having funding to advance the development, CPG's management team made the difficult decision to cancel the Bowmanville Project in the late winter of 2021. At that time, the team communicated the decision to Unitholders by holding meetings and, in some cases, contacting them individually.

65. Shortly thereafter, in early spring of 2021, the board of directors determined that CPG would sell the Bowmanville Property in order to eliminate the carrying costs, which amounted to approximately \$120,000 per month consisting of payments on the VTB and on collateral mortgages that were secured for the purpose of funding the completion of the Pickering Facility.

66. By Agreement of Purchase and Sale dated April 19, 2021 (the "**First APS**"), CPG

entered into an agreement for the sale of the Bowmanville Property to 12920786 Ontario Inc. (“**129**”). This First APS consisted of a standard form OREA Commercial Agreement of Purchase and Sale and a Schedule A, and included:

- (a) A purchase price of \$10,250,000;
- (b) An initial deposit of \$100,000, paid in trust by 129 to Cactus Law, the lawyers acting for CPG on the sale, and increased by 129 to \$250,000 upon 129’s waiver of conditions;
- (c) A completion or closing date of June 15, 2021;
- (d) A provision stipulating that time was to be “of the essence”, provided that the time for doing or completing any matter required by the First APS could be extended or abridged by agreement in writing between the parties or their respective lawyers; and,
- (e) A provision stipulating that the continued existence and validity of the First APS was subject to three (3) conditions (the “**Conditions**”) being satisfied or waived by 129 in writing within thirty (30) days. At 129’s request, this deadline was extended twice, with 129 ultimately waiving the conditions in writing on June 15, 2021.

67. Importantly, 129’s principal advised me that he wanted to not only purchase the Bowmanville Property but also continue the Bowmanville Project. Accordingly, at 129’s request, the First APS was amended on June 15, 2021 to include a provision stipulating that 129 could take an assignment of some of the MOUs, including the corresponding Deposits, to a maximum of \$3,000,000, which amount would be credited against the

purchase price contemplated by the First APS. I was advised that there was a particular group of Unitholders that was willing to continue the Bowmanville Project with 129.

68. At the request of 129, the closing date was extended several times, with the final closing date set for September 17, 2021. Despite CPG's lawyer tendering on 129's lawyer by submitting a vendor's closing package and CPG being ready, willing, and able to close, 129 failed to close the transaction on September 17, 2021. I believe that the reason for 129's failure to close was due to a lack of financing, despite the fact that 129 had waived its financing condition months prior. Thereafter, I had periodic communications with 129's principal with a view to reactivating the deal, but nothing came to fruition and the \$250,000 deposit remains in the trust account of Cactus Law.

69. After the transaction contemplated by the First APS failed, CPG engaged a commercial broker to assist with the marketing and sale of the Bowmanville Property. Between November 2021 and June 2022, the broker secured four potential purchasers. The first three potential purchasers completed diligence on the Bowmanville Property, but ultimately decided not to proceed with the transaction, either prior to an agreement of purchase and sale being signed or prior to the expiration of the due diligence period under an agreement of purchase and sale. The fourth potential purchaser, an arm's length party, was successful in purchasing the Bowmanville Property for \$8.5 million on August 18, 2022.

70. In view of the sale of the Bowmanville Property and the cancellation of the Bowmanville Project, efforts are currently underway to secure the return of the Development Deposits.

e. Unitholder Communications

71. Throughout the course of the site plan approval process for the Bowmanville Property, the challenges in obtaining construction financing, and through to the final decision by the Company to sell the Bowmanville Property, the Company at all times made a concerted effort to keep Unitholders updated about the status of the project.

72. Several meetings were hosted for Unitholders by CPG's Chief Investment Officer, Ali Etemadi, and myself, to provide Unitholders with disclosure about the ongoing challenges faced by the Company and the impact of those challenges on the Bowmanville Project.

73. Upon the cancellation of the Bowmanville Project, and both before and after the sale of the Bowmanville Property, CPG received numerous and regular demands from Unitholders regarding repayment of the Deposits that they had provided under the MOUs. These demands were particularly aggressive after 129 failed to close the purchase of the Bowmanville Property, which led to Deposit refund demands by the Unitholders that had planned to continue the Bowmanville Project with 129.

74. Despite the fact that the Deposits had been used to fund the initial development of the Bowmanville Property in furtherance of the Bowmanville Project, the board of directors of CPG had decided to offer Unitholders refunds of their Deposits (payable over time) or a conversion of the Deposits to equity in CPG at what was then a favourable rate. The refunds had to be funded from the revenue generated by CPC, it being the only source of revenue generation for the Company.

75. Certain Unitholders entered into Termination & Release Agreements with the

Company, pursuant to which the Company agreed to either refund their deposits or convert the Deposits to shares, depending on the Unitholders' election. As the Company's financial struggles mounted, it was unable to pay some of the refunds on the timelines set out in the Termination & Release Agreements. In most cases, it was able to negotiate amendments to those agreements to change the payment dates and terms.

76. Additionally, the Company retained Miller Thomson LLP with the mandate to prepare a report that could be provided to Unitholders as a means of responding to their questions and concerns, particularly in relation to the Bowmanville Project. Miller Thomson LLP participated in several Unitholder "Town Halls" (by Zoom) as a forum to receive unitholder questions. As events developed, Miller Thomson LLP did not complete the contemplated report.

77. Approximately 63 Unitholders chose to convert to equity in CPG and 107 Unitholders chose to receive a refund. Of those who elected to receive a refund, CPG has paid approximately \$2.5 million to date.

IV. FINANCIAL CIRCUMSTANCES AND CASH FLOW

78. The Company has a fiscal year-end of December 31. Attached as **Exhibit "L"** are the Company's unaudited consolidated financial statements for 2020 and 2021 and interim statements as at August 31, 2022 (the "**Financial Statements**").

A. Assets

79. According to the Financial Statements, as at [insert date], the assets of the Company were as follows:

	31-Aug-22 (Pro-Forma)	31-Aug-22 (unaudited)
Current Assets		
Cash	\$ 6,285	\$ 6,285
Other Receivables and Prepaid Expenses	1,748,273	1,748,273
Accounts Receivable (Note 1)	2,866,136	3,041,594
HST receivable (Note 2)	-	313,297
Inventory (Note 3)	150,000	1,757,756
Total Current Assets	\$ 4,770,694	\$ 6,867,205
Non Current Assets		
Assets under construction	\$ 366,315	\$ 366,315
Equipment and machinery	13,966,739	13,966,739
Accumulated depreciation	(3,506,447)	(3,506,447)
Leasehold improvements	9,273,048	9,273,048
Investments and goodwill (Note 4)	-	3,099,600
Total Non Current Assets	\$ 20,099,655	\$ 23,199,255
Total Assets	\$ 24,870,349	\$ 30,066,460

Notes:

The Applicant's financial statements have been never been audited. Additionally, the Applicants' internal financial statements have not be been updated for potential asset impairment charges, divestiture/sales transactions, etc. As such Management has attempted to produce a pro-forma balance sheet that more accurately reflects the Applicants' current financial position as at August 31, 2022.

Note 1 (Pro-Forma): Accounts Receivable is net of uncollectable customer accounts.

Note 2 (Pro-Forma): HST as at August 31, 2022 is in a payable position with CRA. CPG's ITCs are currently being denied by CRA and CPG/CPC are currently being audited by CRA.

Note 3 (Pro-Forma): Inventory has been adjusted for aged product and specialized product that was procured for a customer that CPC no longer does business with (both have minimal current value).

Note 4 (Proforma): Investments and Goodwill relate primarily to investments in 258 and 673 that have been sold or wound-down as at August 31, 2022.

B. Liabilities

80. According to the Financial Statements, as at August 31, 2022 the liabilities of the Company were as follows:

	31-Aug-22 (Pro-Forma)	31-Aug-22 (unaudited)
Current Liabilities		
Accounts Payable and Accrued Liabilities	\$ 9,131,269	\$ 9,131,269
Deferred Revenue	\$ 1,269,184	\$ 1,269,184
Total Current Liabilities	\$ 10,400,453	\$ 10,400,453
Non Current Liabilities		
Loans and Borrowings	\$ 35,098,748	\$ 35,098,748
Client deposits	\$ 3,242,088	\$ 3,242,088
Total Non Current Liabilities	\$ 38,340,836	\$ 38,340,836
Total Liabilities	\$ 48,741,289	\$ 48,741,289

Note: Management has not assessed the Applicants' liabilities for any potential adjustments as of August 31, 2022.

C. Profit and Loss

81. According to the Financial Statements, as at August 31, 2022, CPG and CPC have lost approximately \$6.2 million year-to-date. These amounts do not include any pro-forma adjustments to the balance sheets as noted above.

D. Cash Flow Forecast

82. The Company, with the assistance of the proposed Monitor has prepared a projected cash flow forecast (the “**Interim Cash Flow Forecast**”) for the week ending November 13, 2022. Attached as **Exhibit “M”** is a copy of the Interim Cash Flow Forecast.

83. Pursuant to the Interim Cash Flow Forecast, the Applicants will have sufficient liquidity to sustain operations for the week ending November 13, 2022, including payroll, but will have insufficient funds thereafter.

V. CREDITORS OF CANNAPIECE GROUP

A. Secured Creditors

a. *Carmela Marzilli*

84. Carmela Marzilli (“**Marzilli**”) is the Company’s senior secured creditor.

85. CPC, as borrower, and Ali Etemadi, Reza Khadem-Shahreza and myself, as personal guarantors, entered into a letter of commitment with Marzilli, as lender, on February 10, 2022 (the “**Marzilli Loan Agreement**”). Attached as **Exhibit “N”** hereto is a copy of the Marzilli Loan Agreement.

86. Pursuant to the Marzilli Loan Agreement, Marzilli made \$6,689,500 available to the Company (the “**Marzilli Loan**”), by way of four loan advances as follows (the “**Advances**”):

- (a) \$2,000,000, on or before March 1, 2022 (with a Maturity Date of April 1, 2023);
- (b) \$2,750,000, on or before March 7, 2022 (with a Maturity Date of May 1, 2023);
- (c) \$1,700,000, on or before July 26, 2022 (with an unspecified Maturity Date);
and
- (d) \$239,500, on or before October 21, 2022.

87. As security for the obligations under Marzilli Loan Agreement, CPC agreed to provide Marzilli with a first-ranking security interest in all of CPC’s present or after-acquired property (excluding accounts receivable and certain enumerated equipment) pursuant to a General Security Agreement dated February 28, 2022 (the “**Marzilli**

GSA”). A copy of the Marzilli GSA is attached hereto as **Exhibit “O”**.

88. As of November 1, 2022, there is approximately \$6,788,635 outstanding under the Marzilli Loan, including recently missed interest payments.

b. 2125028 Ontario Inc.

89. CPC, as borrower, is party to two loan and security agreements dated May 27, 2020 (“**First Equipment Loan Agreement**”) and December 7, 2020 (“**Second Equipment Loan Agreement**”) and together with the First Equipment Loan Agreement, the “**212 Loan Agreements**”), with 2125028 Ontario Inc. (“**Equipment Lender**”) as lender. The loans under the 212 Loan Agreements, each in the principal amount of \$3,000,000, are secured by certain manufacturing and processing equipment that is currently used at the Pickering Facility.

90. The material terms of the First Equipment Loan Agreement are as follows:

Date of Agreement	May 27, 2020
Principal Amount	\$3,000,000
Term	5 years
Interest Rate	7.3% per annum
Default Interest Rate	18% per annum, calculated on the outstanding balance on the date of default
Security	Certain enumerated equipment and all proceeds therefrom, all equipment to be financed pursuant to the Second Equipment Loan Agreement and all proceed therefrom, all present and after-acquired rights in insurance policies on certain equipment collateral.

91. Pursuant to the First Equipment Loan Agreement, the following fees were deducted from the principal amount to be advanced:

- (a) Facility Fee: \$93,750.00; and

- (b) Other Fees: \$37,855.00 (\$30,000 for legal expenses, \$3,500 for consultant expenses + HST on all amounts).

92. The net amount advanced to CPC under the First Equipment Loan Agreement was \$2,868,395. A copy of the First Equipment Loan Agreement, with all amendments, is attached hereto as **Exhibit "P"**.

93. The material terms of the Second Equipment Loan Agreement are as follows:

Date of Agreement	December 7, 2020
Principal Amount	\$3,000,000
Term	5 years
Interest Rate	10% per annum
Default Interest Rate	18% per annum, calculated on the outstanding balance on the date of default
Security	Certain enumerated equipment and all proceeds therefrom, all equipment to be financed pursuant to the First Equipment Loan Agreement and all proceed therefrom, all present and after-acquired rights in insurance policies on certain equipment collateral.

94. Pursuant to the Second Equipment Loan Agreement, the following fees were deducted from the principal amount to be advanced:

- (a) Facility Fee: \$7,500; and
- (b) Other Fees: \$105,000 (placement fee); \$32,844.80 (Legal expenses); \$2,383 (cost of property condition assessment report).

95. The net amount advanced to CPC under the Second Equipment Loan Agreement was \$2,868,395. A copy of the Second Equipment Loan Agreement, with all amendments, is attached hereto as **Exhibit "Q"**.

96. Contemporaneous with the First Equipment Loan Agreement, the Equipment

lender and CPC entered into a companion letter agreement (“**Arrangement Letter**”), pursuant to which CPC agreed to pay to the Equipment Lender a series of monthly fees, in addition to the fees described above that were deducted from the principal amount of each loan. The fees payable pursuant to the Arrangement Letter totaled over \$270,000 per month, as follows:

- (a) Initial Fee: \$140,000 (\$20,000 per month starting on June 26, 2020, and continuing until the advance of funds under the Second Equipment Loan Agreement in December 2020); and
- (b) Other Fees: \$6,000,000 (\$250,000 per month for 24 months).

97. In or around May 2021, CPC fell into default of its obligations pursuant to the Arrangement Letter on account of its inability to pay certain of the fees claimed to be then owing to the Equipment Lender, which fees totaled \$1,500,000 in respect of the First Equipment Loan Agreement and \$4,500,000 in respect of the Second Equipment Loan Agreement (together, in total, the “**Arrangement Letter Indebtedness**”).

98. Thereafter, pursuant to the terms of two written settlement agreements dated September 8, 2021 (“**First Settlement Agreement**”) and September 28, 2021 (“**Second Settlement Agreement**”), respectively, the parties agreed that the Equipment Lender would “cancel” the Arrangement Letter Indebtedness in consideration of, among other things, the issuance of common shares in the capital of CPG as follows:

- (a) First Settlement Agreement:
 - (i) Indebtedness claimed and cancelled: \$1,500,000
 - (ii) Shares issued: 925,926 Common Shares

(iii) Subscription price: \$1.62 per share

(b) Second Settlement Agreement:

(i) Indebtedness claimed and cancelled: \$4,500,000

(ii) Shares issued: 2,777,778 Common Shares

(iii) Subscription price: \$1.62 per share

99. Attached as **Exhibits “R”** and **“S”**, respectively, are copies of the First Settlement Agreement and the Second Settlement Agreement.

100. As at the date of this affidavit, there is approximately \$2,135,655 owing to the Equipment Lender pursuant to the terms of the First Equipment Loan Agreement, and approximately \$1,903,678 owing to the Equipment Lender pursuant to the terms of the Second Equipment Loan Agreement.

B. Unsecured Loans

a. 2726398 Ontario Inc.

101. 2726398 Ontario Inc. (**“272”**), as lender, and CPG, as borrower, entered into two debenture agreements pursuant to which 272 agreed to loan CPG the aggregate principal amount of \$7,000,000 (the **“272 Loan”**) as follows:

(a) \$4,000,000 in accordance with the terms of Pursuant to a convertible debenture dated December 13, 2019 (as amended, the **“First Debenture”**), with an interest rate of 20% per annum (which was later reduced to 18% per annum); and

(b) \$3,000,000 in accordance with the terms of a debenture agreement dated

December 13, 2020 (as amended, the “**Second Debenture**”, and together with the First Debenture, the “**272 Loan Agreement**”), with an interest rate of 18% per annum.

102. A copy of the 272 Loan Agreement is attached hereto as **Exhibit “T”**. As security for the amounts advanced under the First Debenture, CPG granted 272 a second-ranking mortgage (“**Second Mortgage**”) against title to the Bowmanville Property for a term of two years, securing the sum of \$4,000,000.

103. As security for the amounts advanced under the Second Debenture, CPG granted 272 a third-ranking mortgage (“**Third Mortgage**”) against title to the Bowmanville Property for a term of two years, securing the sum of \$3,000,000.

104. As further security for the 272 Loan, CPC, CCG, Greenzone Therapy Inc., myself, Ali Etemadi, Ahmad Rasouli and Reza Khadem-Shahreza (the “**272 Guarantors**”) each guaranteed CPG’s obligations to 272 under the 272 Loan Agreements.

105. The Second Mortgage and the Third Mortgage matured on December 13, 2021. CPG defaulted on its obligations to 272 by failing to pay the amounts owing to 272 upon maturity.

106. On or about January 14, 2022, 272 made formal written demand for payment to CPG and issued a Notice of Intention to Enforce Security (“**NITES**”) under the *Bankruptcy and Insolvency Act*, R.S.C. 1985 c. B-3. Attached hereto as **Exhibit “U”** is a copy of 272’s formal demand letter and NITES.

107. Thereafter, CPG and 272 entered into a forbearance and standstill agreement

dated February 2022 (“**272 Forbearance Agreement**”), pursuant to which 272 agreed to forbear from enforcing its security in accordance with the terms of the 272 Forbearance Agreement. Attached hereto as **Exhibit “V”** is a copy of the 272 Forbearance Agreement.

108. In February 2022, 272 agreed to, and did, discharge its PPSA registrations as against CPG and CPC in order to accommodate the Marzilli GSA.

109. At such time as the Bowmanville Property was sold in August of 2022, \$7,000,000 was paid to 272 in reduction of amounts then owing under the Second Mortgage and the Third Mortgage, leaving a shortfall of \$815,576.23 (the “**Shortfall**”). To permit the closing of the sale, the Second Mortgage and Third Mortgage were discharged without prejudice to 272’s right to claim the balance of the outstanding debt under the 272 Loan Agreement.

110. On October 18, 2022, 272 commenced an action in the Ontario Superior Court of Justice and issued a statement of claim (the “**272 Statement of Claim**”) against CPG and the 272 Guarantors for the Shortfall, plus certain amounts allegedly owing on account of interest from the date of the sale of the Bowmanville Property. Attached as **Exhibit “W”** hereto is a copy of the 272 Statement of Claim.

b. 2756295 Ontario Inc.

111. On May 26, 2020, CPG, as borrower, and 2756295 Ontario Inc. (“**275**”), as lender, entered into a loan agreement (the “**275 Loan Agreement**”), pursuant to which 275 agreed to loan to CPG the aggregate principal amount of \$3,100,000. The principal terms of the 275 Loan Agreement are as follows:

- (a) Principal amount: \$3,100,000
- (b) Maturity Date: June 25, 2022
- (c) Interest: 18% per annum (additional 7% interest on amounts past due)
- (d) Lending fee: 5% of the total principal amount, totalling \$155,000

112. Over time, 275 made ongoing advances under the terms of the 275 Loan Agreement to fund the Company's operations.

113. As at the date of this affidavit, there is approximately \$19,518,902 owing to 275 under the 275 Loan Agreement. Attached as **Exhibit "X"** hereto is a copy of the 275 Loan Agreement.

b. Novo

114. On February 8, 2019, CPG, as borrower and Novo Integrated Sciences Inc., ("**Novo**"), as lender, entered into a loan agreement ("**Novo Loan Agreement**") pursuant to which Novo agreed to loan to CPG a loan in the principal amount of \$300,000. The principal terms of the Novo Loan Agreement are as follows:

- (a) Principal amount: \$300,000
- (b) Maturity Date: On or before May 1, 2023
- (c) Interest: interest-free up to April 8, 2019, with interest accruing thereafter at an annual rate of 10%

115. As at the date of this affidavit, there is approximately \$405,945 owing to Novo under the Novo Loan Agreement. Attached as **Exhibit "Y"** hereto is a copy of the Novo Loan Agreement, with all amendments.

C. Other PPSA Creditors

116. In addition to the secured creditors described above, a number of parties have registered security interests against the Company under the *Personal Property Security Act* (“PPSA”).:

- (a) 272 has a registration against CCG securing amounts owed by CPG as secured under the 272 Loan and guaranteed by CCG;
- (b) Marzilli has a registration against CPC with respect to all present and after-acquired personal property of the Company for all collateral classifications except consumer goods, accounts, and motor vehicles;
- (c) Solid Packaging Robotik Inc. (“**Robotik**”), a Canadian equipment manufacturer, has a registration against CPG with respect to 4 pre-roll machines.
- (d) Vitalis Extraction Technology Inc. has a registration against CPC with respect to certain co-solvent injection equipment used for CO2 extraction.

117. Attached hereto and marked as **Exhibit “Z”** are true copies of the Personal Property Registry search results for each of the Applicants in Ontario (the “**PPSA Searches**”).

118. The machines supplied by Robotik are integral to the Company’s pre-roll manufacturing operations. Denial of access to these machines for even a short period of time would threaten the Company’s ability to fulfil important customer commitments and realize associated revenue. Attached hereto as **Exhibit “AA”** is a copy of the

agreement between the Company and Robotik. Importantly, in order to be able to operate this equipment, a new password is to be provided to the Company by Robotik on a monthly basis.

D. Equity Interests and Share Capital Contributions

119. The co-founders of the Company (i.e. myself, Ali Etemadi, Reza Khadem-Shahreza, and Ahmad Rasouli) contributed \$1,040,000 to the Company in start-up capital. In addition, since that time, Ali, Reza, and I have contributed approximately \$1,765,000 in various formats (including interest-free loans and unpaid wages since February of 2021). Further, we raised approximately \$18 million in shareholder capital from 110 individual and corporate investors, most of whom are family and/or friends of the Company's founders.

120. CPG currently has 50,927,238.74 issued and outstanding common shares. There is only one class of shares and there is no shareholder agreement.

E. Other Creditors

a. Source Deductions, Excise Duty, HST

121. As of the date of this affidavit, the Company is up to date with payments to Canada Revenue Agency (“**CRA**”) in respect of Employment Insurance and Canada Pension Plan deductions.

122. Further, as of September 30, 2022, the Company is in arrears to CRA for excise tax remittances in the amount of \$1,180,441 and HST remittances in the amount of \$105,646.

123. Green Valley Wellness owes CRA \$113,199.45 for unpaid HST as of April 5, 2022.

b. Trade Creditors

124. The Company incurs obligations in the ordinary course of business to various trade creditors. As at October 31, 2022, the largest trade creditor is Tweed Inc., who is owed approximately \$887,400.

c. CEBA Government Loan

125. CPG and CPC each received \$60,000 from the Canada Emergency Business Account (“**CEBA**”) program. The CEBA loans become due for repayment in December of 2023.

d. Judgment Creditors and Litigation Claims

126. A number of creditors have initiated actions, or threatened to initiate actions, against the Applicants. Certain of these actions have been settled pursuant to terms upon which settlement payments are to be made to the creditors over time. Where such payments have not been made and the settlement agreements go into default, these creditors have a right to use consents to judgment and obtain judgments, which consents they hold as security for the settlement payments. Attached as **Exhibit “BB”** is a chart identifying these creditors. As at the date of this affidavit, several of these creditors are actively pursuing their rights to obtain judgments pursuant to settlement agreements.

VI. CHALLENGES AND LIQUIDITY ISSUES FACED BY APPLICANTS

A. Cannabis Market in Canada

127. The Canadian cannabis industry is an extremely challenging operating environment. The industry is highly regulated, highly taxed, and subject to ever-changing legislation and delays at all levels of government.

128. CannaPiece Group has faced pressures similar to many large and small cannabis industry participants due to the over-supply in the market for cannabis products, the impact of the illegal market on the demand for legal cannabis products, inflation, and high interest rates.

B. Withdrawal of Large Orders and Steep Decline in Demand

129. As a result of the challenges to the cannabis industry and in particular the over-supply of cannabis products, the Company has seen a number of large customers withdraw or discontinue their orders beginning in September of 2022. In particular, two of the Company's major concentrate product customers (which, prior to cancelling their orders, accounted for approximately \$400,000 of the Company's monthly revenue) cancelled their orders indefinitely.

130. Further, in January of 2022, one of the Company's largest pre-roll customers withdrew its ongoing orders for pre-roll products. In late 2021 and early 2022, in anticipation of these forecasted orders and with knowledge of this customer, the Company invested approximately \$1.25 million in readying processing rooms, obtaining pre-roll production equipment, and hiring staff to maximize capacity to fulfil the expected orders for pre-roll products. The cancellation of large orders for pre-roll products has

caused the Company to operate well below its capacity for production and has crippled its cashflow. This customer accounted for approximately \$1.5 million in monthly revenue for CPC.

C. Litigation and Creditor Enforcement Activities

131. CPG and CPC have faced a number of imminent enforcement threats over the last several weeks. As I described above and further describe below, the Company is in default of a number of settlement agreements and I believe that certain parties have filed, or intend to file, consents to judgment against CPG and CPC pursuant to those settlements.

a. Licensor Liability

132. CPC entered into two licensing agreements (“**Licensing Agreements**”) with a licensor (the “**Licensor**”) in October 2020. The Licensor is a wholly-owned subsidiary of a foreign limited liability corporation that owns certain unique intellectual property related to cannabis products and brands. CPC entered into the Licensing Agreements as an opportunity to produce and sell the Licensor’s branded products in Canada.

133. However, in order to execute under the Licensing Agreements, CPC needed to invest significant capital expenditure in its operations in 2021, which it was unable to do. As a result, CPC sought to terminate the Licensing Agreements and negotiated a resolution with the Licensor.

134. Pursuant to a confidential settlement and release agreement, CPC and the Licensor agreed to settle all claims that either of them may have against the other in relation to the Licensing Agreements.

d. Cortesis

135. Pursuant to a statement of claim dated August 15, 2022 filed in the Ontario Small Claims Court, Stephen and Anne Cortesis (“**Cortesis**”) commenced a claim (the “**Cortesis Claim**”) against Green Valley Wellness and CPG in respect of rental amounts allegedly owing in respect of the property municipally known as 18 King Street West, Cobourg, Ontario. Attached hereto as **Exhibit “CC”** is a copy of the Cortesis Claim.

e. Oseni

136. Pursuant to a Statement of Claim dated August 3, 2022, Martin Oseni (“**Oseni**”) commenced a claim (the “**Oseni Action**”) against CPC for various employment-related damages, including a claim for wrongful dismissal and claims under the Ontario *Human Rights Code*. Attached hereto as **Exhibit “DD”** is a copy of the Oseni Action.

f. Ovandi Inc.

137. Pursuant to a Statement of Claim dated December 8, 2020 as amended on August 20, 2021 (the “**Ovandi Statement of Claim**”), Ovandi Inc. and Jeffrey Stewart commenced an action (the “**Ovandi Action**”) against the Company, alleging breach of contract and misrepresentation related to a potential share purchase transaction. Attached hereto as **Exhibit “EE”** is a copy of the Ovandi Statement of Claim.

138. CPC filed a statement of defence on January 22, 2021 and an amended statement of defence on November 11, 2021 (the “**Ovandi Statement of Defence**”). Attached hereto as **Exhibit “FF”** is a copy of the Ovandi Statement of Defence.

139. The Ovandi Action is currently in the discovery stage.

g. Subcontractor Settlement

140. CPC is party to a settlement agreement in respect of disputed invoices from one of the Company's subcontractors. Pursuant to this confidential settlement agreement, CPC has agreed to make a series of monthly payments until amounts owing to that subcontractor are paid in full.

h. Medisun Inc.

141. On October 18, 2022, CPC received a demand from Medisun Inc. in the amount of \$51,172.65 on account of outstanding invoices that were due in August and September, 2022. Medisun Inc. is a licensed cannabis producer and one of CPC's suppliers of input material. I understand that, in September 2022, Medisun Inc. filed a Notice of Intention to Make a Proposal.

VII. STRATEGIC INITIATIVES**A. Recent Efforts to Improve Operations and Financial Position**

142. In the second quarter of 2022, CPC made several strategic business decisions for the purpose of improving its financial situation. Among other things, CPC effected a significant reduction in the number of employees and temporary staff employed at the Facility and increased the efficiency of full-time production staff. CPC also introduced six new automatic pre-roll manufacturing units in order to increase the output of certain pre-roll products, in an effort to increase automation and improve liquidity.

B. Engagement of Consultants

143. On or about February 22, 2022, the Company retained a reputable cannabis

industry consultant and financial advisor (“**Financial Consultant**”). The purpose of this retention was for the Financial Consultant to assist the Company in identifying potential opportunities to add value to the organization and turn it around, including assisting the Company in securing potential equity investment. The Financial Consultant completed a remodelling of the Company’s financials and produced materials that assisted the Company in achieving some additional operating efficiencies.

144. On or about August 11, 2022, CPC retained a strategic business advisor and consultant (the “**Strategic Consultant**”) with extensive cannabis industry experience for the purpose of assisting CPC in developing a commercial strategy and increasing revenue. The Strategic Consultant delivered an initial report with preliminary recommendations, but CPC paused the engagement due to its financial struggles and inability to pay for the services; however, the recommendations made to date continue to be implemented by CPC.

C. Efforts to Secure Additional Debt Financing

145. Efforts to secure additional debt financing have been ongoing. Among other things, CannaPiece Group engaged the Financial Consultant. CannaPiece Group’s Chief Investment Officer, Ali Etemadi, approached potential new investors. More recently, in anticipation of this proceeding, similar extensive efforts were made to canvas the market for an appropriate DIP lender.

F. Cash Conservation Efforts

146. As described above, the Company has made determined cost-rationalization efforts to try to improve its financial situation. These efforts have included, among other

things, the closing of subsidiaries, a reduction in full-time staff at the Pickering Facility, an increase in automation, renegotiating vendor supply agreements, changing vendors, where possible, to achieve better rates and terms, and approaching the Company's major creditors (secured and unsecured) about converting their debt, or a portion thereof, to equity.

VIII. CCAA PROCEEDINGS AND RELIEF SOUGHT

A. Need for CCAA Proceeding

147. As indicated in the Interim Cash Flow Forecast, without interim financing, the Applicants will be unable to operate in the ordinary course and payroll obligations will not be met, to the detriment of their stakeholders.

148. In consultation with their advisors, the Applicants have determined that the CCAA process is the most beneficial plan of action to maximize value for the CannaPiece Group's stakeholders.

B. Appointment of Monitor

149. The Applicants seek the appointment of BDO Canada Limited ("**BDO**") as Monitor of the Applicants in these CCAA proceedings. BDO has reviewed, and assisted in the preparation of, the Interim Cash Flow Forecast and has provided guidance and assistance in the commencement of these CCAA proceedings.

150. As a result, BDO has developed critical knowledge about the Applicants, their business operations, financial challenges, strategic initiatives and restructuring efforts to date.

151. The Company had engaged BDO Canada LLP to become the Company's new financial statement auditor; however this engagement was never ratified by the Company's board and preliminary field work never occurred. The Company recently issued a letter to BDO confirmed that BDO was never in fact the Company's auditor.

152. BDO has consented to act as the Monitor, subject to Court approval. Attached as **Exhibit "GG"** hereto is a copy of the Monitor's consent.

C. DIP Loan and DIP Lender's Charge

153. The Applicants have entered into a term sheet with Cardinal Advisory Limited, on behalf of a corporation to be incorporated (the "**DIP Lender**") dated November 2, 2022 (the "**DIP Term Sheet**"). Based on my discussions with the Company's legal and financial advisors, I believe that the terms offered by the DIP Lender are reasonable and competitive in the circumstances. A copy of the DIP Term Sheet is attached as **Exhibit "HH"**.

154. The material terms of the DIP Term Sheet are as follows:

- (a) Principal Amount: \$500,000 (the "**DIP Loan**").
- (b) Purpose of DIP Loan: to fund: (i) working capital needs of the Applicants; (ii) professional fees and expenses incurred by the Applicants and the Monitor in respect of the CCAA proceedings, in accordance with the Interim Cash Flow Forecast (as defined in the DIP Term Sheet); and (iii) Recoverable Expenses (as defined in the DIP Term Sheet).

- (c) Interest rate: 12% per annum, calculated daily on the outstanding balance owing under the DIP Loan, not in advance, and accruing and paid on the Maturity Date (as defined in the DIP Term Sheet).
- (d) Commitment Fee: \$10,000, representing 2% of the DIP Loan, payable on the Maturity Date (as defined in the DIP Term Sheet).
- (e) DIP Lender's Charge and Court Approval: The DIP Loan is to be secured by a court-ordered priority charge over all of the Applicants' present and after-acquired property, subject only to the Administration Charge. The DIP Loan will be available to the Applicants upon the issuance of the proposed Initial Order approving the DIP Term Sheet, the DIP Loan and the DIP Lender's Charge.

155. I believe that the DIP Loan is both reasonable and necessary for the Company to continue as a going concern, as evidenced by the Interim Cash Flow Forecast.

156. The DIP Lender's Charge will not secure any pre-filing obligations of the Applicants. As indicated in the Interim Cash Flow Forecast, the DIP Loan will provide the Applicants with sufficient liquidity to continue operations during the initial 10-day stay period. In the absence of the DIP Loan, the Company will not be able to sustain operations.

D. Administration Charge

157. The Applicants seek a super-priority charge over the Applicants' Property (as defined in the Initial Order) in favour of the Monitor, counsel to the Monitor and counsel to the Applicants (the "**Professionals Group**"), to secure payment of their professional

fees and disbursements, whether incurred before or after the date of the Initial Order.

158. The proposed Administration Charge being sought is for a maximum amount of \$250,000.

159. It is contemplated that the Professionals Group will have extensive involvement during the CCAA proceedings. The Professionals Group have contributed and will continue to contribute to the Applicants' restructuring efforts, and will ensure that there is no unnecessary duplication of roles among them.

160. In preparation of the Interim Cash Flow Forecast, the Applicants, in consultation with the proposed Monitor, considered the professional fees forecasted to be incurred on a weekly basis during the cash flow period. Until the week of the Comeback Hearing, the Applicants forecast to incur significant professional fees in connection with the CCAA proceedings, such as preparing for the Comeback Hearing, communicating with employees and stakeholders following the initial filing, and complying with statutory notices, mailings and communications.

161. Accordingly, I believe the quantum of the Administration Charge sought is reasonably necessary at this time to secure the professional fees of the Professionals Group.

F. Stay of Proceedings

162. Given the challenges faced by the Applicants described herein, the CannaPiece Group requires a stay of proceedings to maintain the *status quo* and to give the Applicants the breathing space they require to develop a restructuring plan in consultation with their advisors and the Monitor.

163. The proposed Initial Order contemplates a Stay Period of 10 days, which I understand is the maximum that can be authorized by a court at the initial application under the CCAA.

G. Relief to be Sought at Comeback Hearing

164. If the Initial Order is granted, then the Applicants propose to return to this Court for a Comeback Hearing on November 10, 2022.

165. At the Comeback Hearing, the Applicants intend to seek the Court's approval of an Amended and Restated Initial Order. For the benefit of this Court and the Applicants' stakeholders, this section highlights critical relief that the Applicants intend to seek at the Comeback Hearing. The Applicants may seek additional relief if determined to be necessary or advisable.

i) Extension of Stay of Proceedings

166. Applicants intend to seek an extension of the Stay Period for a sufficient length of time to allow the Applicants to conduct a sales and investment solicitation process.

ii) Critical Suppliers

167. The Applicants rely on certain service providers in their day-to-day operations. To preserve their business and maintain critical relationships, the Applicants intend to seek the Court's approval to pay certain pre-filing expenses or to honour certain cheques issued to providers of goods and services prior to the date of filing that the Applicants, with the consent of the Monitor, believe are necessary to facilitate the Applicants' ongoing operations and preserve value during these proceedings.

iv) Sales and Investment Solicitation Process (with Stalking Horse)

168. The Applicants and the DIP Lender are in the process of negotiating a purchase agreement (the “**Purchase Agreement**”) pursuant to which the DIP Lender (or its nominee) intends to (i) acquire 100% ownership of CPC within the CCAA proceedings by way of a reverse approval and vesting order; and (ii) act as a stalking horse bidder in a court-supervised sale and investment solicitation process within the CCAA proceedings.

169. In the event that the Purchased Agreement is finalized, it is anticipated that the DIP Loan will be treated as a deposit in accordance with the terms and conditions therein.

170. The Purchase Agreement will serve as a baseline for any bids received in the sales process to be measured against. In the meantime, it will also signal to the Applicants’ customers, employees and other stakeholders that business will continue as a going concern after these CCAA proceedings. Due to the nature of this business (being the timely fulfilment of significant orders from industry leading customers) it is critical to the preservation of stakeholder value that going concern operations be preserved.

171. Approval of the Purchase Agreement, as well as a stalking horse sales process and related bidding procedures, will be sought at the Comeback Hearing.

VIII. FORM OF ORDER AND CONCLUSION

172. The Applicants, with the assistance of their legal and financial advisors, have determined that the proposed CCAA proceedings represent the best available strategy

to maximize value for the CannaPiece Group's stakeholders.

173. This affidavit is sworn in support of the Applicants' application for protection pursuant to the CCAA and for no other purpose.

SWORN BEFORE ME via video-conference with the deponent in the City of Thornhill, in the regional municipality of York, in the Province of Ontario, and the Commissioner in the City of Mississauga in the Province of Ontario this 2nd day of November, 2022

DocuSigned by:
Afshin Souzankar
3F83A3E48F73488

AFSHIN SOUZANKAR

DocuSigned by:
Monica Faheim
A927328446B742A...

MONICA FAHEIM
A Commissioner for taking Affidavits (or as may be)

Note: This affidavit was commissioned via simultaneous video-conference in accordance with the *Commissioners for taking Affidavits Act*, R.S.O. 1990, CHAPTER C.17, and the Law Society of Ontario: COVID-19 Response Statement interpretation of that Act, under which (i) the identity of the deponent was confirmed from government issued identification, (ii) the commissioner administered the oath or affirmation, (iii) the deponent affixed their electronic signature to the affidavit and transmitted the full electronic affidavit, as sworn or affirmed, including exhibits to the commissioner, (iv) the deponent confirmed their electronic signature to the commissioner, (v) the commissioner affixed their electronic signature to the affidavit including exhibits.

**IN THE MATTER OF THE COMPANIES' CREDITORS ARRANGEMENT ACT, R.S.C. 1985, C. C-36, AS AMENDED
AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF
CANNAPIECE GROUP INC., CANNAPIECE CORP., CANADIAN CRAFT GROWERS
CORP., 2666222 ONTARIO LTD., 2580385 ONTARIO INC. AND 2669673 ONTARIO
INC.**

Court File No.: CV-22-00689631-00CL

Applicants

**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**
Proceeding commenced at TORONTO

**AFFIDAVIT OF AFSHIN SOUZANKAR
(RETURNABLE NOVEMBER 3, 2022]**

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Lawyers for the Applicants

**This is Exhibit "B" referred to in the affidavit
of AFSHIN SOUZANKAR, SWORN BEFORE ME
this 25th day of January, 2023**

Monica Fakhim

A COMMISSIONER FOR TAKING AFFIDAVITS

Court File No.: CV-22-00689631-00CL

**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
CANNAPIECE GROUP INC., CANNAPIECE CORP., CANADIAN CRAFT GROWERS
CORP., 2666222 ONTARIO LTD., 2580385 ONTARIO INC. AND 2669673 ONTARIO
INC.

Applicants

AFFIDAVIT OF AFSHIN SOUZANKAR

(Sworn November 8, 2022)

I, Afshin Souzankar of the City of Thornhill, in the Regional Municipality of York,
in the Province of Ontario, **MAKE OATH AND SAY AS FOLLOWS:**

I. OVERVIEW

1. I am the President and Chief Executive Officer of the applicant, CannaPiece Group Inc. ("**CPG**" or "**CannaPiece Group**") as well as a member of the board of directors, having served initially as Managing Partner – Strategic Planning when I co-founded the Company in 2018, and as President and Chief Executive Officer since August of 2020.

2. I am also the Chief Executive Officer and a member of the board of directors of the Company's wholly-owned subsidiaries CannaPiece Corp. ("**CPC**"), Canadian Craft Growers Corp. ("**CCG**"), 2580385 Ontario Inc. ("**258**"), 2666222 Ontario Inc. ("**222**"), and 2669673 Ontario Inc. ("**673**").

3. CPG, CPC, CCG, 258, 222 and 673 are the “**Applicants**” in this CCAA proceeding and are sometimes collectively referred to herein as the “**Company**”.

4. I have personal knowledge of the matters to which I depose in this affidavit, except where I have obtained information from others. Where I have obtained information from others, I have stated the source of my information and, in all such cases, believe such information to be true.

5. I swear this affidavit in support of, among other things, a motion by the Applicants pursuant to the *Companies’ Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the “**CCAA**”), requesting:

(a) an amended and restated initial order (“**Amended and Restated Initial Order**”) substantially in the form attached at Tab 3 of the Applicants’ motion record, among other things:

(i) abridging the time for and validating service of this notice of motion and the motion record and dispensing with service on any person other than those served;

(ii) extending the stay of proceedings granted pursuant to the order, dated November 3, 2022 (“**Initial Order**”), to and including February 3, 2023;

(iii) extending the scope of the stay of proceedings to include claims against directors and officers in respect of their potential liability under personal guarantees of corporate obligations;

- (iv) approving a Key Employee Retention Plan (“**KERP**”) and authorizing the Applicants to make payments in accordance with the terms of the KERP;
 - (v) authorizing the Company to make payments to certain third party suppliers for pre-filing expenses or to honour cheques issued to providers of goods and services prior to the Initial Order, with the consent of the Monitor, which are necessary to facilitate the Applicants’ ongoing operations and preserve value during the CCAA proceedings; and
 - (vi) approving an increase to the Administration Charge to the maximum amount of \$500,000.
- (b) an order (“**Sale Process Approval Order**”), substantially in the form attached at Tab 4 of the Applicants’ motion record, among other things:
- (i) authorizing and empowering CannaPiece Group Inc. (the “**Vendor**”) and CPC (“**CPC**”) to enter into a stalking horse purchase agreement dated November 8, 2022 (the “**Stalking Horse SPA**”) between the Vendor, CPC and Cardinal Advisory Limited, or its nominee (in such capacity, the “**Stalking Horse Purchaser**”);
 - (ii) approving the sale and investment solicitation process (“**Stalking Horse Sales Process**”) and the Stalking Horse SPA;
 - (iii) approving the Break Fee, the Professional Fees and the Deposit Repayment provided for and defined in the Stalking Horse SPA;

- (iv) approving the appointment of BDO Canada Transaction Advisory Services as the sales agent to assist with the implementation of the Stalking Horse Sales Process; and
- (v) confirming that the Stalking Horse SPA represents the “Stalking Horse Bid” as defined in and for purposes of the Sale Process Approval Order.

II. Background and Update on CCAA Proceedings

6. My first affidavit in these CCAA proceedings was sworn on November 2, 2022 (“**First Souzankar Affidavit**”). A copy of the First Souzankar Affidavit, without exhibits, is attached hereto as **Exhibit “A”**.

7. CannaPiece Group, through its wholly-owned subsidiary, CPC, operates a cannabis contract manufacturing business. The Company is insolvent, faces a severe liquidity crisis, and is in urgent need of relief under the CCAA.

8. The Applicants applied for urgent relief under the CCAA on November 3, 2022, because they had insufficient cash to sustain operations for the week ending November 6, 2022.

9. On November 3, 2022, the Honourable Mr. Justice Penny made an order (the “**Initial Order**”), among other things:

- (a) granting a stay of proceedings in favour of the Applicants up to and including November 10, 2022 (the “**Initial Stay Period**”);

- (b) appointing BDO Canada Limited as monitor of the Applicants in these CCAA proceedings (in such capacity, the “**Monitor**”);
- (c) approving a debtor-in-possession (“**DIP**”) term sheet (“**DIP Term Sheet**”), and approving a DIP loan and a corresponding charge in favour of the DIP lender; and
- (d) scheduling a return hearing date for November 10, 2022 (“**Comeback Hearing**”).

10. The Applicants have continued to operate in the ordinary course since the Initial Order was granted. Among other things, since the granting of the Initial Order, the Applicants have, with the assistance of the Monitor and their advisors:

- (a) worked to stabilize operations, negotiate the Stalking Horse SPA, and develop the Stalking Horse Sales Process;
- (b) created and implemented a communication plan to advise key stakeholders of the CCAA proceeding;
- (c) reviewed cash flow requirements identified and realized a number of cash flow efficiencies;
- (d) communicated extensively with various stakeholders including, among others: key creditors, customers, suppliers, and employees, which are critical to the Company’s ongoing operations; and
- (e) worked with the Monitor to develop the KERP.

III. Relief Sought at Comeback Hearing

11. I understand that the Monitor and the Applicants' senior secured lender, Carmela Marzilli, are supportive of the relief sought at the Comeback Hearing.

A. Approval of Stalking Horse SPA

i. Stalking Horse SPA

12. All terms capitalized but not defined in this section of my affidavit are as defined in the Stalking Horse SPA.

13. The First Souzankar Affidavit describes the causes for the Company's insolvency and the urgency of the initial filing with reference to a number of contributing factors that conspired to create a situation where the business simply could not afford to sustain operations through the week ending November 6 without a draw on the DIP Loan.

14. Chief among the catalysts for the filing was the largely unexpected withdrawal and cancelation of a number of large volume orders from the Company's major concentrate and pre-roll product customers, as well as other customers. As I explained in the First Souzankar Affidavit, manufacturing operations were built at great cost to service the capacity requirements of customer orders that never fully materialized, or materialized and then were recently and unexpectedly withdrawn.

15. At this point, the value of CannaPiece Group is entirely derived from its ability to seamlessly and continuously fulfill the order requirements of its customers, many of whom are the largest and industry-leading licenced producers in Canada. Timely order fulfilment is the "lifeblood" of the business. A cessation of operations, even temporarily, would be destructive of enterprise value in a manner that would be near irreversible.

Customers could be expected to secure alternative manufacturing capacity and could not reasonably be expected to await the outcome of a hard shut-down and the chance of a future start-up. I believe that the demand and the value destruction to the business would be immediate.

16. The Company's dependency on a large volume, consistent, predictable customer order flow was the subject of submissions by counsel during the initial hearing of this application. The withdrawal of a portion of these orders, as recently as September and October of this year, resulted in a significant cash flow deficit, which presented an existential threat to the Company and prompted the urgent filing for first day relief, including the DIP Loan. It was the DIP Loan, in the absence of any other options, that bridged the gap in the cash flow to get the Company to this point.

17. The First Souzankar Affidavit, at paragraphs 168 to 171, addresses the fact that at the time of the Initial Order the Applicants were in the process of negotiating a purchase agreement with the DIP Lender pursuant to which, and subject to court approval, the purchaser would act as a stalking horse bidder in a court-supervised sale and investment solicitation process. Negotiations in this regard commenced immediately prior to the time of the Initial Order and continued through to today.

18. Deal points relating to the CCAA funding, and costs reimbursement, and other protections for the stalking horse purchaser, were heavily negotiated and reflect difficult but necessary compromises. In approaching these negotiations I was keenly aware of the precariousness of the Company situation, as well as the failure of our pre-filing restructuring and refinancing efforts. We were unable to source any rescue financing at all, either inside or outside of a formal filing. I believe that the Company did not have

the luxury of additional time or options. I believe that remains the case.

19. In this regard, the First Souzankar Affidavit, at paragraphs 142 and 146, describes the Company's pre-filing strategic initiatives and efforts to improve its financial situation, including by achieving operational efficiencies and conserving cash, as well as efforts to obtain additional financing by approaching potential investors and sources of capital. These efforts included the retention of a cannabis industry financial consultant in February 2022 and a strategic business advisor and consultant in August 2022. Ultimately, such efforts were not successful. They could neither avert the CCAA filing nor, in the end when the filing became necessary, secure any other willing DIP Lender.

20. On November 8, 2022, the Vendor, CPC, and the Stalking Horse Purchaser finalized negotiations and entered into an agreement for the purchase and sale of substantially all of the Applicants' assets, except for excluded assets ("**Stalking Horse SPA**"), a copy of which is attached hereto as **Exhibit "B"**.

21. The Stalking Horse Purchaser is Cardinal Advisory Limited (or its nominee), the current DIP Lender in this proceeding. Cardinal Advisory Limited has experience as a DIP lender, having loaned into several recent insolvency proceedings prior to this one. The company's principal is the founder of one of the first licensed producers of cannabis in Canada, Beleave Inc., is security cleared, is well-known to Health Canada, and otherwise benefits from extensive recent experience in the cannabis industry.

22. The Stalking Horse SPA is structured as a purchase of the assets of the Company by way of a share sale and "reverse" vesting approval order.

23. The purchase price under the Stalking Horse SPA is \$3,500,000, plus Assumed Liabilities, subject to adjustments as provided in the agreement. The Stalking Horse Purchaser shall pay the Purchase Price to the Monitor, for the benefit of the Vendor and ResidualCo, at the Closing Time, in accordance with the following:

- (a) Initial Deposit: All amounts owing to the Purchaser under the DIP Term Sheet as of the SISP Approval Date, including any accrued and unpaid interest, expenses, fees, and other amounts (in aggregate, the “**Initial Deposit Amount**”), shall be treated in all respects as a deposit from and after the SISP Approval Date and shall be credited against the Purchase Price at Closing.
- (b) Subsequent Deposits: All amounts owing to the Purchaser under the Deposit Facility as of the Closing Date (the “**Subsequent Deposit Amount**” and together with the Initial Deposit Amount (collectively, the “**Deposit**”) shall be treated in all respects as a deposit and shall be credited against the Purchase Price at Closing.
- (c) Cash Purchase Price: An amount equal to the Purchase Price less the Deposits (the “**Cash Purchase Price**”) shall be paid to the Monitor, for the benefit of the Vendor and ResidualCo, at the Closing Time, in immediately available funds.
- (d) Assumed Liabilities: An amount equal to the amount of the Assumed Liabilities, which the Company shall retain on the Closing Date in accordance with the Pre-Closing Reorganization, shall be satisfied by the Company

performing the Assumed Liabilities. For certainty, the Assumed Liabilities include the Marzilli Debt (approximately \$6,800,000) and the 212 Debt (approximately \$4,000,000), provided that such assumptions are on terms satisfactory to the Purchaser in all respects. For further certainty, if the Purchaser is not able to negotiate terms of assumption satisfactory to the Purchaser in its sole discretion, then it shall have no obligation to assume the Marzilli Debt and the 212 Debt.

24. Pursuant to the terms of the Stalking Horse SPA, the Stalking Horse Bidder will provide the Company with the urgently required interim financing for its working capital requirements during the sales process phase of the CCAA proceedings. This additional funding (\$500,000 has already been advanced) will be funded on a weekly basis in accordance with the cash flow forecast filed up to a maximum aggregate principal amount of \$3,000,000. As noted above, these advances will be made available under the “Deposit Facility” and will represent the Subsequent Deposit Amount.

25. The Stalking Horse SPA contemplates that, in the event that the Stalking Horse Bid is not the Successful Bid, in addition to the Break Fee, the Stalking Horse Purchaser shall be entitled to repayment of professional fees (to a maximum amount of \$25,000), as well as repayment in full of all amounts advanced under the DIP Term Sheet and the Deposit Facility, and such payment shall be in priority to any and all Claims against the Company (the “**Deposit Repayment**”).

26. The proposed Stalking Horse SPA provides for minimal conditions to close. The only substantive conditions are that the Company must have its cannabis licences in good standing, and that the lease for the Pickering Facility must be in good standing. If

those conditions are satisfied, then the Stalking Horse Purchaser will close immediately upon the issuance of an approval and vesting order. The immediacy of the closing is necessary for the Stalking Horse or any other purchaser because the Company is forecasted to run out of cash as of February 1, 2023.

27. I have spoken with each member of my senior management team to understand their willingness and ability to stay on with any proposed purchaser to ensure a smooth and orderly transition. I confirm that each member of my senior management team is willing to continue to work with any purchaser for the period of time necessary to protect this business and its employees. Our only requirement to stay on is that we continue to receive compensation on the same or similar terms to our current employment arrangement.

28. It is expected that the Stalking Horse SPA will maintain the employment of substantially all of the employees of the Company.

29. Critically, the Stalking Horse SPA and process addresses the Company's interim funding and working capital needs such that operations can be sustained, customer orders fulfilled, and the going concern value of the business preserved.

30. Further to paragraph 10 above, Erfan (Eric) Akbar ("**Akbar**"), who is President of the Company, has been chiefly responsible for implementing the Company's key stakeholder communications strategy. In the course of this effort Akbar has advised me that he has personally spoken with all of the Company's major customers and critical suppliers. He explained to them the purpose and necessity of the CCAA filing and discussed the appointment of the Monitor and our intention to embark on a court-

approved sales process supported by a “stalking horse purchaser” committed to ensuring that there is business continuity and a going concern outcome for CannaPiece Group.

31. Akbar and I have discussed the key stakeholder reaction to the CCAA filing with each other, as well as our subsequent outreach efforts, and we are both confident that the Company’s key customers and suppliers will continue to supply and place orders and otherwise support our restructuring efforts. The reason for this is because of the stability that the Stalking Horse Sales Process provides. The fact that there is presently a funding solution, and that a Stalking Horse Purchaser has been identified, is of tremendous comfort to the suppliers, customers, and employee with whom we have spoken. In short, there is broad recognition and acceptance that the only path to realizing the value that exists is to ensure the continuity and stability of operations through an orderly and court supervised sales process.

ii. Break Fee

32. In consideration for the Stalking Horse Purchaser (i) expending time and money and agreeing to act as the initial bidder and (ii) performing the due diligence pursuant to the Stalking Horse SPA, and subject to the approval of the court, the Stalking Horse SPA contemplates that the Stalking Horse Purchaser shall be entitled to a break fee in the amount of \$175,000 (the “**Break Fee**”). The Break Fee is provided for at article 5.1(b) of the Stalking Horse SPA.

33. The Break Fee does not form part of the purchase price under the Stalking Horse SPA.

34. In accordance with the terms of the Stalking Horse SPA, the Break Fee shall be payable to the Stalking Horse Purchaser in the event that the Stalking Horse Bid is not the Successful Bid in the Stalking Horse Sales Process, following closing of the transaction contemplated by such other Successful Bid.

35. The Applicants and the Monitor are of the view that the amount of the Break Fee is reasonable and accords with the size and complexity of the transaction. I have reviewed the quantum of the Break Fee with the Applicants' counsel and the Monitor and I understand that it is within the range of what is considered a reasonable break fee for transactions of this nature.

36. I understand that the Monitor supports approval of the Stalking Horse SPA and the Break Fee.

B. Approval of Stalking Horse Sales Process

37. The Applicants seek approval of the Stalking Horse Sales Process in which the Stalking Horse SPA will establish a baseline price and govern the solicitation of higher and more favourable offers.

38. The Stalking Horse Sales Process, which is attached as a schedule to the Stalking Horse SPA, was developed in consultation with the Monitor and takes into account the current financial circumstances of the Applicants.

39. The approval of the Stalking Horse Sales Process will allow the Applicants to test the market for higher and better offers in order to maximize the value obtained for the Applicants' assets for the benefit of the various stakeholders.

40. Subject to the approval of the Court, the Stalking Horse Sales Process will be administered by the Monitor and its Sales Agent in consultation with the Applicants. In addition, the Monitor will have certain rights in connection with material decisions related to the process, including with respect to the extension of certain deadlines.

41. I believe that the Stalking Horse Sales Process will provide stability to the Applicants' business by signalling to customers, employees, and other stakeholders that the Company's business will continue as a going concern after these CCAA proceedings. For the reasons described above, this is essential for the preservation of stakeholder value.

42. Further, and as indicated above, I have had ongoing discussions with customers and investors, as well as other cannabis industry participants, since the commencement of these proceedings. The reaction to the prospective sales process has been positive. My colleagues in senior management and I have received several preliminary expressions of interest in participating in a sales process. We believe these expressions of interest to be from well-resourced parties with the ability to effectively compete in a sales process. When approached, we have directed and will continue to direct, interested parties to the Monitor, whom I understand will supervise a sales process.

C. Critical Suppliers

43. The Applicants are critically reliant on certain suppliers in their day-to-day operations. To preserve their business and maintain these essential relationships, the Applicants are seeking the Court's approval to pay certain pre-filing expenses or to

honour certain payments issued to providers of goods and services prior to the date of filing that the Applicants, with the consent of the Monitor, believe are essential to continued operations and preservation of value. The payments for which approval is sought are estimated to total no more than \$150,000, and are budgeted in the Company cash flow.

D. Key Employee Retention Plan

44. The Applicants have developed a KERP, with input from the Monitor, to facilitate and encourage the continued participation of certain key management employees in the business and restructuring for the pendency of these CCAA proceedings.

45. The details of the proposed KERP, including the specific roles and responsibilities of the beneficiaries of the KERP, are set out in the First Report of the Monitor, to be filed in connection with this Comeback Hearing.

46. At a high level, the KERP contemplates payments aggregating \$160,000 to eleven key employees holding senior level positions that support the Company's finances, operation, human resources and legal and compliance functions. These employees all have experience and knowledge of CannaPiece Group and its day-to-day operations that was gained over many years, is unique, and not easily replaceable.

47. I believe that the KERP is very important for the stability of the business. It has been designed to provide the necessary incentives for the Applicants' key employees to remain in their current positions and to ensure that they are properly compensated for their contributions to a successful restructuring process.

48. Neither myself nor CannaPiece Group co-founders Ali Etemadi ("**Etemadi**") and

Reza Khadem Shahreza (“**Khadem**”) will participate in the KERP.

G. Extension of Stay of Proceedings

49. The Applicants have acted, and continue to act, in good faith and with due diligence to communicate with stakeholders and to develop the Stalking Horse Sales Process. The Applicants seek a stay extension up to and including February 3, 2023 (“**Extended Stay Period**”) to provide stability and to allow sufficient time to complete the Stalking Horse Sales Process without having to incur additional costs during that process to return to Court to seek further extension.

50. It is anticipated that the Stalking Horse Sales Process will conclude by January 30, 2023, with a sale approval hearing, subject to court availability.

51. As indicated in the Cash Flow Forecast appended to the Monitor’s first report, to be filed, the Applicants will have sufficient liquidity, due to the Stalking Horse SPA, during the Extended Stay Period to fund obligations and the costs of the CCAA proceedings.

52. The Monitor has advised that it supports the extension of the stay for the Extended Stay Period.

53. The Applicants also seek to expand the scope of the stay of proceedings in favour of the Applicants to prevent the directors and officers of the Company from being pursued on certain personal guarantees of the Company’s obligations.

54. I believe that the extension of the stay in this matter will better preserve the pre-filing status quo ante and permit the directors and officers to focus their energy on

creating value for stakeholders during the balance of these CCAA proceedings.

55. As described at paragraph 110 of the First Souzankar Affidavit, Etemadi, Khadem, and I are named as co-defendants to an \$840,000 deficiency claim commenced by 2726398 Ontario Inc. in the Ontario Superior Court of Justice on October 18, 2022. Etemadi, Khadem, and I were served with the statement of claim on October 19, 2022 and we have recently filed notices of intent to defend.

56. Additionally, myself and certain of my co-directors and executives may soon be subject to other creditor claims on personal guarantees of the Applicants' obligations. This is the case, for example, with close to \$7,000,000 in borrowings under the Marzilli Loan Agreement, described at paragraphs 84 to 88 of the First Souzankar Affidavit.

57. Etemadi, Khadem, and I co-founded the CannaPiece Group and have been intimately involved in all aspects of the Applicants' business and operations on full-time basis since 2018. CannaPiece is a significant private company funded by a large and diverse group of family and friends, and other private investors, most of whom are personally known to us. The same can be said in respect of our personal knowledge and connections to the Applicants' other stakeholders, including key employees, landlords, suppliers, and customers.

58. As the First Souzankar Affidavit describes, the factors that precipitated CannaPiece Group's insolvency and CCAA filing (including primarily the suspension and cancelation of large volume customer orders) came on recently and quickly and would have presented as an extreme shock to many of our stakeholders. Etemadi, Khadem, and I are doing our best to manage all such relationships in the context of the

numerous and pressing demands of a restructuring process that is entirely new to us and at times difficult to understand. In the days prior to the CCAA filing, and every day since, we have been consumed with the formal requirements of the process, as well as trying to manage the emotional stresses and anxieties of the circumstances that we and our friends and families now face.

59. Etemadi, Khadem, and I know that we must focus 100% of our time and energy on these reorganization proceedings, including, most immediately, working with the Monitor and our advisors to run a successful Stalking Horse Sales Process. We want to invest our full time and attention, without distraction, in doing so. Defending creditor claims against us personally would necessarily compete with, and distract from, our full-time commitment to the successful advancement of the Applicants' current restructuring priorities.

F. Increase to Administration Charge

60. The Applicants seek an increase in the Administration Charge to \$500,000 to remain consistent with the projected fee and disbursements of the Monitor, counsel for the Monitor, and counsel for the Applicants (collectively, the "**Professional Group**") during the Extended Stay Period.

61. The Applicants are of the view that the proposed increase to the Administration Charge is reasonably necessary at this time.

VIII. FORM OF ORDER AND CONCLUSION

62. This affidavit is sworn in support of orders substantially in the form of the draft orders at Tabs “3” and “4” to the Applicants’ Motion Record, and for no other or improper purpose.

SWORN BEFORE ME via video-conference with the deponent in the City of Thornhill, in the regional municipality of York, in the Province of Ontario, and the Commissioner at the Town of Halton Hills, in the regional municipality of Halton, in the Province of Ontario this 8th day of November, 2022 in accordance with O. Reg. 431/20, Administering Oath or Declaration Remotely.

DocuSigned by:
Afshin Souzankar
3E83A3E48E73488

AFSHIN SOUZANKAR

DocuSigned by:
Patryk Sawicki
99FE2CEF19D7432

A Commissioner for taking Affidavits (*or as may be*)

PATRYK SAWICKI

**IN THE MATTER OF THE COMPANIES' CREDITORS ARRANGEMENT ACT, R.S.C. 1985, C. C-36, AS AMENDED
AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF
CANNAPIECE GROUP INC., CANNAPIECE CORP., CANADIAN CRAFT GROWERS
CORP., 2666222 ONTARIO LTD., 2580385 ONTARIO INC. AND 2669673 ONTARIO
INC.**

Court File No.: CV-22-00689631-00CL

Applicants

**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**
Proceeding commenced at TORONTO

**AFFIDAVIT OF AFSHIN SOUZANKAR
(RETURNABLE NOVEMBER 10, 2022]**

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TORONTO, ON CANADA M5H 3S1
David S. Ward LSO #: 33541W
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Monica Faheim LSO #: 82213R
mfaheim@millerthomson.com
Tel: 416.595.6087
Lawyers for the Applicants

**This is Exhibit "C" referred to in the affidavit
of AFSHIN SOUZANKAR, SWORN BEFORE ME
this 25th day of January, 2023**

DocuSigned by:

Monica Fakhim

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A COMMISSIONER FOR TAKING AFFIDAVITS



SUPERIOR COURT OF JUSTICE

COUNSEL SLIP

COURT FILE NO.: CV-22-00689631-00CL **DATE:** November 3rd 2022

NO. ON LIST: 2

TITLE OF PROCEEDING: A PLAN OF COMPROMISE OR ARRANGEMENT OF
CANNAPIECE GROUP INC ET AL.

BEFORE JUSTICE: PENNY:

PARTICIPANT INFORMATION**For Plaintiff, Applicant, Moving Party, Crown:**

Name of Person Appearing	Name of Party	Contact Info
DAVID S. WARD	CANNAPIECE GROUP INC et al	DWARD@MILLERTHOMSON.COM
LARRY ELLIS	CANNAPIECE GROUP INC et al	LELLIUS@MILLERTHOMSON.COM
MONICA FAHEIM	CANNAPIECE GROUP INC et al	MFAHEIM@MILLERTHOMSON.COM
SAM MASSIE	CANNAPIECE GROUP INC et al	SMASSIE@MILLERTHOMSON.COM

For Defendant, Respondent, Responding Party, Defence:

Name of Person Appearing	Name of Party	Contact Info
MATTHIJS VAN GAALEN	2125028 ONTARIO INC	MATTHIJS@VANGAALEN@GOWLINGWLG.COM
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ROBERT B. MACDONALD	2726398 ONTARIO INC	RMACDONALD@FOGLERS.COM
JOHN PEDDLE	CARMELLA MARZILLI	JPEDDLE@PEDDLEPOLLARD.CA
JENNIFER QUICK	CANNAPIECE GROUP	JQUICK@CANNAPIECE.CA
CLARK LONERGAN	PROPOSED MONITOR, BDO CANADA LIMITED	CLONERGAN@BDO.CA
DANIEL LOBERTO	PROPOSED MONITOR, BDO CANADA LIMITED	DANIEL.LOBERTO@DENTONS.COM
ROBERT KENNEDY	PROPOSED MONITOR, BDO CANADA LIMITED	ROBERT.KENNEDY@DENTONS.COM
VINCENT PION	SOLID PACKAGING ROBOTIK GROUP INC.	VPION@PROCEPACK.COM

ENDORSEMENT OF JUSTICE PENNY:

At the close of oral submissions, I indicated that I was prepared to grant the initial order in these CCAA proceedings and that I would issue a brief endorsement summarizing my reasons for doing so. Acronyms and other short forms have the meanings assigned in the Applicant's material filed.

The Applicants are in the cannabis industry. They provide extraction, processing, and packaging services for their customers, who include large and industry-leading licensed processors. The Applicants do not grow any flower, nor do they have any of their own cannabis brands, products, or retail operations. The operations of the Company are strictly business-to-business. The evidence shows that the Canadian cannabis industry is experiencing an extremely challenging operating environment including significant over-supply in the market for cannabis products. This industry is also highly regulated.

Year-to-date as of August 31, 2022, the Applicants have suffered approximately \$6.2 million in losses due to, among other things:

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

g. significant debt servicing costs associated with the Applicants' capital stock. Much of the Applicants growth, working capital requirements and operating losses have been funded by debt, both secured and unsecured. As of August 31, 2022, the Applicants' financial records indicated total liabilities of approximately \$48 million (supported by approximately \$25 million of assets (pro-forma) as at the same date).

The Applicants are also subject to several significant litigation and enforcement actions which have placed further stress on the Applicants' current financial position.

As a result of these factors, the Applicants face a critical cash shortage and cannot meet their financial obligations. This has brought the Applicants to this Court for an initial order under the CCAA.

Although Mr. Prophet, on behalf of 2125028 Ontario Inc. (a secured financier of manufacturing and processing equipment at the Pickering Facility) raised several forward-looking concerns about the DIP Lender's and Administrative Charges (among other things), there was no opposition to the initial order being sought.

Each of the Applicants is incorporated under the laws of Ontario and has their registered head office in Ontario. The Applicants are unable to meet their obligations as they generally become due. They face an imminent liquidity crisis in that they cannot make payroll past this week without an infusion of funds from the proposed DIP Lender. The Applicants have total debts approaching \$50,000,000, well in excess of the \$5,000,000 threshold. The Company has filed the required financial information, including an interim cash flow projection. The Applicants meet the technical requirements of the CCAA -- they are debtor companies to which the CCAA applies.

Under s. 11.02 of the CCAA, a court may grant a stay of proceedings upon an initial application under the CCAA for a period of no more than ten days, provided the court is satisfied that circumstances exist that make the order appropriate. Given the Applicants current financial condition, a stay of proceedings is in the best interest of the Company and its stakeholders and is both necessary and appropriate. The Applicants have limited the relief sought on this application to relief that is reasonably necessary in the circumstances to maintain the status quo and to give the Applicants the breathing room necessary to stabilize their operations and develop a sale process for the benefit of their stakeholders. It is appropriate to extend the stay to the Company's directors and officers so that they may focus on the CCAA proceedings, including developing and implementing the proposed sale process.

Section 11.2 of the CCAA allows the court to grant the DIP Loan, and to order the DIP Lender's Charge that ranks in priority to the Applicants' secured creditors, on notice to those

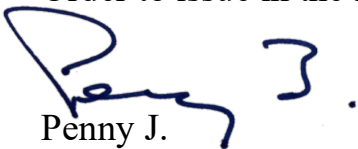
secured creditors that would be affected and in an amount that the Court considers appropriate, having regard to the Applicants' interim cash flow statement. The Company is seeking \$500,000 to be made available upon the issuance of the proposed Initial Order. This amount is limited to the amount reasonably necessary to allow the Applicants to meet critical payments and to continue operations during the initial 10-day stay of proceedings. As indicated in the interim cash flow forecast, with the DIP Loan the Company will have sufficient liquidity to meet payroll and finance its operations during the 10-day stay period.

The DIP Loan is essential to the Company because it provides the Applicants with the interim financing needed to "keep the lights on" and to preserve enterprise value pending determination of a sale process. The proposed Monitor is satisfied that the interim cash flow statement supports the need for the DIP financing. On the evidence filed, I am satisfied that the benefits of new interim financing to all stakeholders outweigh the potential prejudice to any particular creditor.

Section 11.52 of the CCAA provides that court has jurisdiction to grant a priority administration charge. The evidence supports the conclusion that the nature of the Applicants' business requires the expertise, knowledge and continuing participation of the professionals who will be the beneficiaries of the Administration Charge. These parties will play a critical role in assisting the Applicants with the sale process and the progression of the CCAA proceedings. Each proposed beneficiary of the Administration Charge is performing distinct functions and there appears to be no duplication of roles. The quantum of the proposed Administration Charge seems to be in line with the nature and size of the Applicants' business and the involvement required by the professional advisors. The proposed Monitor is also supportive of the granting and quantum of the Administration Charge.

The court is required to appoint a person to monitor the business and financial affairs of a debtor company at the time that an initial CCAA order is made under s. 11.7 of the CCAA. Section 11.7(2) of the CCAA also sets out certain requirements for and restrictions on who may act as a monitor, including that the monitor be a trustee within the meaning of the BIA. The proposed Monitor, BDO, is a trustee within the meaning of the BIA and is not disqualified under any of the restrictions under to s. 11.7(2) of the CCAA. BDO has consented to its appointment as Monitor. It is appropriate to appoint BDO as Monitor.

Order to issue in the form signed by me this day.

A handwritten signature in blue ink, appearing to read "Penny J.", followed by a period.

Penny J.

**This is Exhibit "D" referred to in the affidavit
of AFSHIN SOUZANKAR, SWORN BEFORE ME
this 25th day of January, 2023**

DocuSigned by:

Monica Fakhim

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A COMMISSIONER FOR TAKING AFFIDAVITS

Court File No. CV-22-00689631-00CL

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

THE HONOURABLE) THURSDAY, THE 10th
)
JUSTICE PENNY) DAY OF NOVEMBER, 2022
)

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

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

Applicants

AMENDED AND RESTATED INITIAL 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 amending and restating the initial order ("Initial Order") dated November 3, 2022 ("Initial Filing Date") was heard this day by video conference.

ON READING the affidavit of Afshin Souzankar sworn November 2, 2022 and the Exhibits thereto, the affidavit of Afshin Souzankar sworn November 8, 2022, the pre-filing report of BDO Canada Limited ("**BDO**"), in its capacity as monitor of the Applicants (in such capacity, the "**Monitor**") dated November 3, 2022, the First Report of the Monitor dated November 9, 2022, and on being advised that the secured creditors who are likely to be affected by the charges created herein were given notice, and on hearing the submissions of counsel for the Applicants, counsel for the proposed Monitor and such other counsel as appears from the Participant Information Sheet, no one appearing for any other party although duly served as

appears from the affidavit of service of Darlene Moffett sworn November 8, 2022, and on reading the consent of BDO to act as the Monitor,

INITIAL ORDER AND INITIAL FILING DATE

1. **THIS COURT ORDERS** that the Initial Order, reflecting the Initial Filing Date, shall be amended and restated as provided for herein.

SERVICE

2. **THIS COURT ORDERS** that the time for service of the Notice of Motion and the Motion Record is hereby abridged and validated so that this Application is properly returnable today and hereby dispenses with further service thereof.

APPLICATION

3. **THIS COURT ORDERS AND DECLARES** that the Applicants are companies to which the CCAA applies.

PLAN OF ARRANGEMENT

4. **THIS COURT ORDERS** that the Applicants shall have the authority to file and may, subject to further order of this Court, file with this Court a plan of compromise or arrangement (hereinafter referred to as the "**Plan**").

POSSESSION OF PROPERTY AND OPERATIONS

5. **THIS COURT ORDERS** that the Applicants shall remain in possession and control of their current and future assets, undertakings and properties of every nature and kind whatsoever, and wherever situate including all proceeds thereof (the "**Property**"). Subject to further Order of this Court, the Applicants shall continue to carry on business in a manner consistent with the preservation of its business (the "**Business**") and Property. The Applicants are authorized and empowered to continue to retain and employ the employees, consultants, agents, experts, accountants, counsel and such other persons (collectively "**Assistants**") currently retained or

employed by it, with liberty to retain such further Assistants as it deems reasonably necessary or desirable in the ordinary course of business or for the carrying out of the terms of this Order.

6. **THIS COURT ORDERS** that the Applicants shall be entitled but not required to pay the following expenses whether incurred prior to or after the Initial Filing Date:

- (a) all outstanding and future wages, salaries, employee and pension benefits, vacation pay and expenses payable on or after the Initial Filing Date, in each case incurred in the ordinary course of business and consistent with existing compensation policies and arrangements;
- (b) the fees and disbursements of any Assistants retained or employed by the Applicants in respect of these proceedings, at their standard rates and charges;
- (c) any taxes, duties, or other payments required under the Cannabis Legislation (as defined below); and
- (d) amounts owing for goods, materials or services actually supplied to the Applicants prior to the Initial Filing Date by third party suppliers if, in the opinion of the Applicants, with the consent of the Monitor, the supplier is critical to the Business, ongoing operations of the Applicants, or preservation of the Property and the payment is required to ensure ongoing supply and/or services.

7. **THIS COURT ORDERS** that except as otherwise provided to the contrary herein, the Applicants shall be entitled but not required to pay all reasonable expenses incurred by the Applicants in carrying on the Business in the ordinary course after the Initial Filing Date, and in carrying out the provisions of this Order, which expenses shall include, without limitation:

- (a) all expenses and capital expenditures reasonably necessary for the preservation of the Property or the Business including, without limitation, payments on account of insurance (including directors and officers insurance), maintenance and security services; and
- (b) payment for goods or services actually supplied to the Applicants following the Initial Filing Date.

8. **THIS COURT ORDERS** that the Applicants shall remit, in accordance with legal requirements, or pay:

- (a) any statutory deemed trust amounts in favour of the Crown in right of Canada or of any Province thereof or any other taxation authority which are required to be deducted from employees' wages, including, without limitation, amounts in respect of (i) employment insurance, (ii) Canada Pension Plan, (iii) Quebec Pension Plan, and (iv) income taxes;
- (b) all goods and services or other applicable sales taxes and all federal excise taxes and duties (collectively, "**Sales Taxes**") required to be remitted by the Applicants in connection with the sale of goods and services by the Applicants, but only where such Sales Taxes are accrued or collected after the Initial Filing Date, or where such Sales Taxes were accrued or collected prior to the Initial Filing Date but not required to be remitted until on or after the Initial Filing Date, and
- (c) any amount payable to the Crown in right of Canada or of any Province thereof or any political subdivision thereof or any other taxation authority in respect of municipal realty, municipal business or other taxes, assessments or levies of any nature or kind which are entitled at law to be paid in priority to claims of secured creditors and which are attributable to or in respect of the carrying on of the Business by the Applicants.

9. **THIS COURT ORDERS** that until a real property lease is disclaimed in accordance with the CCAA, the Applicants shall pay all amounts constituting rent or payable as rent under real property leases (including, for greater certainty, common area maintenance charges, utilities and realty taxes and any other amounts payable to the landlord under the lease) or as otherwise may be negotiated between the Applicants and the landlord from time to time ("**Rent**"), for the period commencing from and including the Initial Filing Date, twice-monthly in equal payments on the first and fifteenth day of each month, in advance (but not in arrears). On the date of the first of such payments, any Rent relating to the period commencing from and including the Initial Filing Date shall also be paid.

10. **THIS COURT ORDERS** that, except as specifically permitted herein, the Applicants are hereby directed, until further Order of this Court: (a) to make no payments of principal, interest thereon or otherwise on account of amounts owing by the Applicants to any of their creditors as of the Initial Filing Date; (b) to grant no security interests, trust, liens, charges or encumbrances upon or in respect of any of their Property; and (c) to not grant credit or incur liabilities except in the ordinary course of the Business.

RESTRUCTURING

11. **THIS COURT ORDERS** that the Applicants shall, subject to such requirements as are imposed by the CCAA and such covenants as may be contained in the Definitive Documents (as hereinafter defined), have the right to:

- (a) permanently or temporarily cease, downsize or shut down any of its business or operations, and to dispose of redundant or non-material assets not exceeding \$50,000 in any one transaction or \$100,000 in the aggregate;
- (b) terminate the employment of such of its employees or temporarily lay off such of its employees as it deems appropriate; and
- (c) pursue all avenues of refinancing of its Business or Property, in whole or part, subject to prior approval of this Court being obtained before any material refinancing,

all of the foregoing to permit the Applicants to proceed with an orderly restructuring of the Business (the "**Restructuring**").

12. **THIS COURT ORDERS** that the Applicants shall provide each of the relevant landlords with notice of the Applicants' intention to remove any fixtures from any leased premises at least seven (7) days prior to the date of the intended removal. The relevant landlord shall be entitled to have a representative present in the leased premises to observe such removal and, if the landlord disputes the Applicants' entitlement to remove any such fixture under the provisions of the lease, such fixture shall remain on the premises and shall be dealt with as agreed between any applicable secured creditors, such landlord and the Applicants, or by further Order of this Court upon application by the Applicants on at least two (2) days notice to such landlord and any such

secured creditors. If the Applicants disclaim the lease governing such leased premises in accordance with Section 32 of the CCAA, they shall not be required to pay Rent under such lease pending resolution of any such dispute (other than Rent payable for the notice period provided for in Section 32(5) of the CCAA), and the disclaimer of the lease shall be without prejudice to the Applicants' claim to the fixtures in dispute.

13. **THIS COURT ORDERS** that if a notice of disclaimer is delivered pursuant to Section 32 of the CCAA, then (a) during the notice period prior to the effective time of the disclaimer, the landlord may show the affected leased premises to prospective tenants during normal business hours, on giving the Applicants and the Monitor 24 hours' prior written notice, and (b) at the effective time of the disclaimer, the relevant landlord shall be entitled to take possession of any such leased premises without waiver of or prejudice to any claims or rights such landlord may have against the Applicants in respect of such lease or leased premises, provided that nothing herein shall relieve such landlord of its obligation to mitigate any damages claimed in connection therewith.

NO PROCEEDINGS AGAINST THE APPLICANTS OR THE PROPERTY

14. **THIS COURT ORDERS** that until and including February 3, 2023, or such later date as this Court may order ("**Stay Period**"), no proceeding or enforcement process in any court or tribunal (each, a "**Proceeding**") shall be commenced or continued against or in respect of the Applicants or the Monitor, or affecting the Business or the Property, except with the written consent of the Applicants and the Monitor, or with leave of this Court, and any and all Proceedings currently under way against or in respect of the Applicants or affecting the Business or the Property are hereby stayed and suspended pending further Order of this Court.

NO EXERCISE OF RIGHTS OR REMEDIES

15. **THIS COURT ORDERS** that during the Stay Period, all rights and remedies of any individual, firm, corporation, governmental body or agency, or any other entities (all of the foregoing, collectively being "**Persons**" and each being a "**Person**") against or in respect of the Applicants or the Monitor, or affecting the Business or the Property, are hereby stayed and suspended except with the written consent of the Applicants and the Monitor, or leave of this

Court, provided that nothing in this Order shall (i) empower the Applicants to carry on any business which the Applicants are not lawfully entitled to carry on, (ii) affect such investigations, actions, suits or proceedings by a regulatory body as are permitted by Section 11.1 of the CCAA, (iii) prevent the filing of any registration to preserve or perfect a security interest, or (iv) prevent the registration of a claim for lien.

NO INTERFERENCE WITH RIGHTS

16. **THIS COURT ORDERS** that during the Stay Period, no Person shall discontinue, fail to honour, alter, interfere with, repudiate, terminate or cease to perform any right, renewal right, contract, agreement, licence or permit in favour of or held by the Applicants, except with the written consent of the Applicants and the Monitor, or leave of this Court.

CONTINUATION OF SERVICES

17. **THIS COURT ORDERS** that during the Stay Period, all Persons having oral or written agreements with any of the Applicants or statutory or regulatory mandates for the supply of goods and/or services, including without limitation all computer software, communication and other data services, centralized banking services, security services, payroll services, insurance, transportation services, utility or other services to the Business or any of the Applicants, are hereby restrained until further Order of this Court from discontinuing, altering, interfering with or terminating the supply of such goods or services as may be required by any of the Applicants, and that each of the Applicants shall be entitled to the continued use of their current premises, telephone numbers, facsimile numbers, internet addresses and domain names, provided in each case that the normal prices or charges for all such goods or services received after the Initial Filing Date are paid by the applicable Applicant in accordance with normal payment practices of the applicable Applicants or such other practices as may be agreed upon by the supplier or service provider and each of the applicable Applicant and the Monitor, or as may be ordered by this Court.

NON-DEROGATION OF RIGHTS

18. **THIS COURT ORDERS** that, notwithstanding anything else in this Order or the Initial Order, no Person shall be prohibited from requiring immediate payment for goods, services, use

of lease or licensed property or other valuable consideration provided on or after the Initial Filing Date, nor shall any Person be under any obligation on or after the Initial Filing Date to advance or re-advance any monies or otherwise extend any credit to the Applicants. Nothing in this Order or the Initial Order shall derogate from the rights conferred and obligations imposed by the CCAA.

PROCEEDINGS AGAINST DIRECTORS AND OFFICERS

19. **THIS COURT ORDERS** that during the Stay Period, and except as permitted by subsection 11.03(2) of the CCAA, no Proceeding may be commenced or continued against any of the former, current or future directors or officers of the Applicants with respect to any claim against the directors or officers that arose before the date hereof and that relates to any obligations of the Applicants whereby the directors or officers are alleged under any law to be liable in their capacity as directors or officers for the payment or performance of such obligations, until a compromise or arrangement in respect of the Applicants, if one is filed, is sanctioned by this Court or is refused by the creditors of the Applicants or this Court.

DIRECTORS' AND OFFICERS' INDEMNIFICATION

20. **THIS COURT ORDERS** that the Applicants shall indemnify their directors and officers against obligations and liabilities that they may incur as directors or officers of the Applicants after the commencement of the within proceedings, except to the extent that, with respect to any officer or director, the obligation or liability was incurred as a result of the director's or officer's gross negligence or wilful misconduct.

APPOINTMENT OF MONITOR

21. **THIS COURT ORDERS** that BDO was, as of the Initial Filing Date, appointed pursuant to the CCAA as the Monitor, an officer of this Court, to monitor the business and financial affairs of the Applicants with the powers and obligations set out in the CCAA or set forth herein and that the Applicants and their shareholders, officers, directors, and Assistants shall advise the Monitor of all material steps taken by the Applicants pursuant to this Order, and shall co-operate fully with the Monitor in the exercise of its powers and discharge of its

obligations and provide the Monitor with the assistance that is necessary to enable the Monitor to adequately carry out the Monitor's functions.

22. **THIS COURT ORDERS** that the Monitor, in addition to its prescribed rights and obligations under the CCAA, is hereby directed and empowered to:

- (a) monitor the Applicants' receipts and disbursements;
- (b) report to this Court at such times and intervals as the Monitor may deem appropriate with respect to matters relating to the Property, the Business, and such other matters as may be relevant to the proceedings herein;
- (c) assist the Applicants, to the extent required by the Applicants, in their dissemination, to the DIP Lender and its counsel of financial and other information as agreed to between the Applicants and the DIP Lender which may be used in these proceedings including reporting on a basis to be agreed with the DIP Lender;
- (d) advise the Applicants in its preparation of the Applicants' cash flow statements and reporting required by the DIP Lender, which information shall be reviewed with the Monitor and delivered to the DIP Lender and its counsel as agreed to by the DIP Lender;
- (e) advise the Applicants in their development of the Plan and any amendments to the Plan;
- (f) assist the Applicants, to the extent required by the Applicants, with the holding and administering of creditors' or shareholders' meetings for voting on the Plan;
- (g) have full and complete access to the Property, including the premises, books, records, data, including data in electronic form, and other financial documents of the Applicants, to the extent that is necessary to adequately assess the Applicants' business and financial affairs or to perform its duties arising under this Order or the Initial Order;

- (h) be at liberty to engage independent legal counsel or such other persons as the Monitor deems necessary or advisable respecting the exercise of its powers and performance of its obligations under this Order or the Initial Order; and
- (i) perform such other duties as are required by this Order, the Initial Order, or by this Court from time to time.

23. **THIS COURT ORDERS** that that the Monitor shall not occupy, take control, care, charge, possession or management (separately, and/or collectively "**Possession**") of the Property or be deemed to take Possession of the Property, pursuant to any provision of any federal, provincial, or other law respecting, among other things, the manufacturing, Possession, processing, and distribution of cannabis or cannabis products including, without limitation, under the *Cannabis Act*, S.C. 2018, c. 16, the *Controlled Drugs and Substances Act*, S.C. 1996, c. 19, the *Excise Tax Act*, R.S.C. 1985, c. E. 15, the *Ontario Cannabis Control Act, 2017*, S.O. 2017, c. 26, Sched. 1, or other such applicable federal or provincial legislation (collectively, the "**Cannabis Legislation**") and shall take no part whatsoever in the management or supervision of the management of the Business and shall not, by fulfilling its obligations hereunder, be deemed to have taken or maintained Possession or control of the Business or Property, or any part thereof within the meaning of any Cannabis Legislation, or otherwise, and nothing in this Order or the Initial Order shall be construed as resulting in the Monitor being an employer or successor employer within the meaning of any statute, regulation or rule of law or equity, for any purpose whatsoever.

24. **THIS COURT ORDERS** that nothing herein contained shall require the Monitor to take Possession of any of the Property that might be environmentally contaminated, might be a pollutant or a contaminant, or might cause or contribute to a spill, discharge, release or deposit of a substance contrary to any federal, provincial or other law respecting the protection, conservation, enhancement, remediation or rehabilitation of the environment or relating to the disposal of waste or other contamination including, without limitation, the *Canadian Environmental Protection Act*, the *Ontario Environmental Protection Act*, the *Ontario Water Resources Act*, or the *Ontario Occupational Health and Safety Act* and regulations thereunder and any comparable legislation in other Provinces (the "**Environmental Legislation**"), provided

however that nothing herein shall exempt the Monitor from any duty to report or make disclosure imposed by applicable Environmental Legislation. The Monitor shall not, as a result of this Order, the Initial Order, or anything done in pursuance of the Monitor's duties and powers under this Order, the Initial Order, be deemed to be in Possession of any of the Property within the meaning of any Environmental Legislation, unless it is actually in Possession.

25. **THIS COURT ORDERS** that that the Monitor shall provide any creditor of the Applicants and the DIP Lender with information provided by the Applicants in response to reasonable requests for information made in writing by such creditor addressed to the Monitor. The Monitor shall not have any responsibility or liability with respect to the information disseminated by it pursuant to this paragraph. In the case of information that the Monitor has been advised by the Applicants is confidential, the Monitor shall not provide such information to creditors unless otherwise directed by this Court or on such terms as the Monitor and the Applicants may agree.

26. **THIS COURT ORDERS** that, in addition to the rights and protections afforded the Monitor under the CCAA or as an officer of this Court, the Monitor shall incur no liability or obligation as a result of its appointment or the carrying out of the provisions of this Order, save and except for any gross negligence or wilful misconduct on its part. Nothing in this Order or the Initial Order shall derogate from the protections afforded the Monitor by the CCAA or any applicable legislation.

27. **THIS COURT ORDERS** that the Monitor, counsel to the Monitor and counsel to the Applicants shall be paid their reasonable fees and disbursements, in each case at their standard rates and charges, by the Applicants as part of the costs of these proceedings incurred both before the Initial Filing Date and during the period for which this Order is effective. The Applicants are hereby authorized and directed to pay the accounts of the Monitor, counsel for the Monitor and counsel for the Applicant on a weekly basis.

28. **THIS COURT ORDERS** that the Monitor and its legal counsel shall pass their accounts from time to time, and for this purpose the accounts of the Monitor and its legal counsel are hereby referred to a judge of the Commercial List of the Ontario Superior Court of Justice.

29. **THIS COURT ORDERS** that the Monitor, counsel to the Monitor, if any, and the Applicants' counsel shall be entitled to the benefit of and are hereby granted a charge (the "**Administration Charge**") on the Property, which charge shall not exceed an aggregate amount of \$500,000 as security for their professional fees and disbursements incurred at the standard rates and charges of the Monitor and such counsel, both before and after the making of the Initial Order in respect of these proceedings. The Administration Charge shall have the priority set out in paragraphs 35 and 37 hereof.

DIP FINANCING

30. **THIS COURT ORDERS** that the Applicants are hereby authorized and empowered to obtain and borrow under a credit facility from Cardinal Advisory Limited, on behalf of a corporation to be incorporated (the "**DIP Lender**") in order to finance the Applicants' working capital requirements and other general corporate purposes and capital expenditures, provided that borrowings under such credit facility shall not exceed \$500,000 unless permitted by further Order of this Court.

31. **THIS COURT ORDERS** that such credit facility shall be on the terms and subject to the conditions set forth in the commitment letter between the Applicants and the DIP Lender dated as of November 2, 2022 (the "**DIP Term Sheet**"), filed.

32. **THIS COURT ORDERS** that the Applicants are hereby authorized and empowered to execute and deliver such credit agreements, mortgages, charges, hypothecs and security documents, guarantees and other definitive documents (collectively, the "**Definitive Documents**"), as are contemplated by the DIP Term Sheet or as may be reasonably required by the DIP Lender pursuant to the terms thereof, and the Applicants are hereby authorized and directed to pay and perform all of its indebtedness, interest, fees, liabilities and obligations to the DIP Lender under and pursuant to the DIP Term Sheet and the Definitive Documents as and when the same become due and are to be performed, notwithstanding any other provision of this Order.

33. **THIS COURT ORDERS** that the DIP Lender shall be entitled to the benefit of and is hereby granted a charge (the "**DIP Lender's Charge**") on the Property, which DIP Lender's

Charge shall not secure an obligation that exists before the Initial Filing Date. The DIP Lender's Charge shall have the priority set out in paragraphs 36 and 38 hereof.

34. **THIS COURT ORDERS** that, notwithstanding any other provision of this Order:

- (a) the DIP Lender may take such steps from time to time as it may deem necessary or appropriate to file, register, record or perfect the DIP Lender's Charge or any of the Definitive Documents;
- (b) upon the occurrence of an event of default under the Definitive Documents or the DIP Lender's Charge, the DIP Lender, upon seven days' notice to the Applicants and the Monitor, may exercise any and all of its rights and remedies against the Applicants or the Property under or pursuant to the DIP Term Sheet, Definitive Documents and the DIP Lender's Charge, including without limitation, to cease making advances to the Applicants and set off and/or consolidate any amounts owing by the DIP Lender to the Applicants against the obligations of the Applicants to the DIP Lender under the DIP Term Sheet, the Definitive Documents or the DIP Lender's Charge, to make demand, accelerate payment and give other notices, or to apply to this Court for the appointment of a receiver, receiver and manager or interim receiver, or for a bankruptcy order against the Applicants and for the appointment of a trustee in bankruptcy of the Applicants; and
- (c) the foregoing rights and remedies of the DIP Lender shall be enforceable against any trustee in bankruptcy, interim receiver, receiver or receiver and manager of the Applicants or the Property.

35. **THIS COURT ORDERS AND DECLARES** that the DIP Lender shall be treated as unaffected in any plan of arrangement or compromise filed by the Applicants under the CCAA, or any proposal filed by the Applicants under the *Bankruptcy and Insolvency Act* of Canada ("**BIA**"), with respect to any advances made under the Definitive Documents.

VALIDITY AND PRIORITY OF CHARGES CREATED BY THIS ORDER

36. **THIS COURT ORDERS** that the priorities of the Administration Charge and the DIP Lender's Charge, as among them, shall be as follows:

First – Administration Charge (to the maximum amount of \$500,000); and

Second – DIP Lender's Charge (to the maximum amount of \$500,000).

37. **THIS COURT ORDERS** that the filing, registration or perfection of the Administration Charge or the DIP Lender's Charge (collectively, the "**Charges**") shall not be required, and that the Charges shall be valid and enforceable for all purposes, including as against any right, title or interest filed, registered, recorded or perfected subsequent to the Charges coming into existence, notwithstanding any such failure to file, register, record or perfect.

38. **THIS COURT ORDERS** that subject to the priorities set out in paragraph 36 each of the Charges (all as constituted and defined herein) shall constitute a charge on the Property and such Charges shall rank in priority to all other security interests, trusts, liens, charges and encumbrances, claims of secured creditors, statutory or otherwise (collectively, "**Encumbrances**") in favour of any Person.

39. **THIS COURT ORDERS** that except as otherwise expressly provided for herein, or as may be approved by this Court, the Applicants shall not grant any Encumbrances over any Property that rank in priority to, or *pari passu* with, any of the Administration Charge or the DIP Lender's Charge, unless the Applicants also obtain the prior written consent of the Monitor, the DIP Lender and the beneficiaries of the Administration Charge, or further Order of this Court.

40. **THIS COURT ORDERS** that the Administration Charge, the DIP Term Sheet, the Definitive Documents and the DIP Lender's Charge shall not be rendered invalid or unenforceable and the rights and remedies of the chargees entitled to the benefit of the Charges (collectively, the "**Chargees**") and/or the DIP Lender thereunder shall not otherwise be limited or impaired in any way by (a) the pendency of these proceedings and the declarations of insolvency made herein; (b) any application(s) for bankruptcy order(s) issued pursuant to BIA, or any bankruptcy order made pursuant to such applications; (c) the filing of any assignments for

the general benefit of creditors made pursuant to the BIA; (d) the provisions of any federal or provincial statutes; or (e) any negative covenants, prohibitions or other similar provisions with respect to borrowings, incurring debt or the creation of Encumbrances, contained in any existing loan documents, lease, sublease, offer to lease or other agreement (collectively, an "**Agreement**") which bind the Applicants, and notwithstanding any provision to the contrary in any Agreement:

- (a) neither the creation of the Charges nor the execution, delivery, perfection, registration or performance of the DIP Term Sheet or the Definitive Documents shall create or be deemed to constitute a breach by the Applicants of any Agreement to which they are a party;
- (b) none of the Chargees shall have any liability to any Person whatsoever as a result of any breach of any Agreement caused by or resulting from the Applicants entering into the DIP Term Sheet, the creation of the Charges, or the execution, delivery or performance of the Definitive Documents; and
- (c) the payments made by the Applicants pursuant to this Order, the Initial Order, the DIP Term Sheet or the Definitive Documents, and the granting of the Charges, do not and will not constitute preferences, fraudulent conveyances, transfers at undervalue, oppressive conduct, or other challengeable or voidable transactions under any applicable law.

41. **THIS COURT ORDERS** that any Charge created by this Order or the Initial Order over leases of real property in Canada shall only be a Charge in the Applicants' interest in such real property leases.

SERVICE AND NOTICE

42. **THIS COURT ORDERS** that the Monitor shall (i) without delay, publish in the Globe and Mail (National Edition) a notice containing the information prescribed under the CCAA, (ii) within five days after the Initial Filing Date, (A) make this Order publicly available in the manner prescribed under the CCAA, (B) send, in the prescribed manner, a notice to every known creditor who has a claim against the Applicants of more than \$1000, and (C) prepare a list

showing the names and addresses of those creditors and the estimated amounts of those claims, and make it publicly available in the prescribed manner, all in accordance with Section 23(1)(a) of the CCAA and the regulations made thereunder.

43. **THIS COURT ORDERS** that the E-Service Protocol of the Commercial List (the “**Protocol**”) is approved and adopted by reference herein and, in this proceeding, the service of documents made in accordance with the Protocol (which can be found on the Commercial List website at <http://www.ontariocourts.ca/scj/practice/practice-directions/toronto/e-service-protocol/>) shall be valid and effective service. Subject to Rule 17.05 this Order shall constitute an order for substituted service pursuant to Rule 16.04 of the Rules of Civil Procedure. Subject to Rule 3.01(d) of the Rules of Civil Procedure and paragraph 21 of the Protocol, service of documents in accordance with the Protocol will be effective on transmission. This Court further orders that a Case Website shall be established in accordance with the Protocol with the following URL <https://www.bdo.ca/en-ca/extranets/Cannapiece/>.

44. **THIS COURT ORDERS** that the Applicants and the Monitor and their respective counsel are at liberty to serve or distribute this Order, the Initial Order, and other materials and orders as may be reasonably required in these proceedings, including any notices or other correspondence, by forwarding true copies thereof by electronic message to the Applicants’ creditors or other interested parties and their advisors. For greater certainty, any such distribution or service shall be deemed to be in satisfaction of a legal or judicial obligation, and notice requirements within the meaning of clause 3(c) of the *Electronic Commerce Protection Regulations*, Reg. 81000-2-175 (SOR/DORS).

45. **THIS COURT ORDERS** that if the service or distribution of documents in accordance with the Protocol is not practicable, the Applicants and the Monitor are at liberty to serve or distribute this Order, the Initial Order, any other materials and orders in these proceedings, any notices or other correspondence, by forwarding true copies thereof by prepaid ordinary mail, courier, personal delivery or facsimile transmission to the Applicants’ creditors or other interested parties at their respective addresses as last shown on the records of the Applicants and that any such service or distribution by courier, personal delivery or facsimile transmission shall

be deemed to be received on the next business day following the date of forwarding thereof, or if sent by ordinary mail, on the third business day after mailing.

GENERAL

46. **THIS COURT ORDERS** that the Applicants or the Monitor may from time to time apply to this Court for advice and directions in the discharge of its powers and duties hereunder.

47. **THIS COURT ORDERS** that nothing in this Order or the Initial Order shall prevent the Monitor from acting as an interim receiver, a receiver, a receiver and manager, or a trustee in bankruptcy of the Applicants, the Business or the Property.

48. **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.

49. **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.

50. **THIS COURT ORDERS** that any interested party (including the Applicants and the Monitor) may apply to this Court to vary or amend this Order on not less than seven (7) days notice to any other party or parties likely to be affected by the order sought or upon such other notice, if any, as this Court may order.

51. **THIS COURT ORDERS** that this Order and all of its provisions are effective as of 12:01 a.m. Eastern Standard/Daylight Time on the date of this Order.

A handwritten signature in blue ink, appearing to read "Ray J.", is written over a solid horizontal black line. The signature is cursive and includes a period at the end.

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

Court File No.: CV-22-00689631-00CL

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

**ONTARIO
SUPERIOR COURT OF JUSTICE -
COMMERCIAL LIST**

Proceeding commenced at TORONTO

**AMENDED AND RESTATED INITIAL ORDER
(RETURNABLE NOVEMBER 10, 2022)**

MILLER THOMSON LLP
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Lawyers for the Applicants

**This is Exhibit "E" referred to in the affidavit
of AFSHIN SOUZANKAR, SWORN BEFORE ME
this 25th day of January, 2023**

DocuSigned by:

Monica Rajan

A COMMISSIONER FOR TAKING AFFIDAVITS

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Court File No. CV-22-00689631-00CL

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

THE HONOURABLE MR.) THURSDAY, THE 10th
)
JUSTICE PENNY) DAY OF NOVEMBER, 2022
)

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

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

Applicants

**ORDER
(SISP, Stalking Horse SPA, and KERP Approval)
(Returnable November 10, 2022)**

THIS MOTION, made by the Applicants pursuant to the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended ("CCAA"), for an order, *inter alia*: (i) approving the sale and investment solicitation process (the "SISP") attached as Schedule "A" hereto; (ii) approving the Stalking Horse SPA (as defined below); (iii) approving the KERP (as defined below) and certain related relief, was heard this day by way of judicial conference.

ON READING the affidavit of Afshin Souzankar sworn November 2, 2022 ("**First Souzankar Affidavit**"), the affidavit of Afshin Souzankar sworn November 8, 2022 ("**Second Souzankar Affidavit**"), the pre-filing report of BDO Canada Limited, in its capacity as monitor of the Applicants (in such capacity, the "**Monitor**"), dated November 3, 2022 (the "**Pre-Filing Report**"), the First Report of the Monitor dated November 9, 2022 (the "**First Report**"), and on

hearing the submissions of counsel for the Applicants, counsel for the Monitor and other counsel appearing on the Participant Information Form, no one appearing for any other party although duly served as appears from the affidavit of service of Darlene Moffett dated November 8, 2022, filed.

DEFINED TERMS

1. **THIS COURT ORDERS** that capitalized terms used in this Order and not otherwise defined herein shall have the meaning ascribed to them in the Initial Order dated November 3, 2022 and the Stalking Horse SPA.

SERVICE

2. **THIS COURT ORDERS** that the time for service of the Notice of Motion and Motion Record is abridged and validated such that this Motion is properly returnable today, and further service of the Notice of Motion and the Motion Record is hereby dispensed with.

APPROVAL OF STALKING HORSE SALE PROCESS

3. **THIS COURT ORDERS** that the SISP (subject to such amendments as may be agreed to by the Monitor, the Applicants, in consultation with the Stalking Horse Purchaser (as defined below) in accordance with the terms of the SISP) be and is hereby approved.

4. **THIS COURT ORDERS** that the Monitor is authorized and directed to take such steps as it deems necessary or advisable to carry out and perform its obligations under the SISP and to take such steps and execute such documentation as may be necessary or incidental to the SISP, subject to the terms of the SISP and subject to prior approval of this Court being obtained before completion of any transaction(s) under the SISP.

5. **THIS COURT ORDERS** that the Monitor and its respective assistants, affiliates, partners, employees, representatives and agents 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 the SISP, except to the extent such losses, claims, damages or liabilities result from the gross negligence or willful misconduct of the Monitor in performing its obligations under the SISP as determined by this Court.

STALKING HORSE SPA

6. **THIS COURT ORDERS** that the execution, delivery, entry into, compliance with, and performance by the Applicants of the Stalking Horse Purchase Agreement dated as of November 8, 2022 (the “**Stalking Horse SPA**”) between CannaPiece Group Inc., as Vendor, and Cardinal Advisory Limited (or its nominee) as Purchaser (the “**Stalking Horse Purchaser**”), substantially in the form attached as **Exhibit “B”** to the Second Souzankar Affidavit is hereby ratified, authorized and approved.

7. **THIS COURT ORDERS** that payment of the Break Fee pursuant to section 5.1(b) of the Stalking Horse SPA is hereby approved.

8. **THIS COURT ORDERS** that the Applicants are hereby authorized and empowered to utilize the Deposit Facility provided by the Stalking Horse Purchaser in order to finance the Applicants’ working capital requirements and other general corporate purposes in accordance with the terms of the Stalking Horse SPA.

9. **THIS COURT ORDERS** that the Stalking Horse Purchaser is hereby granted a charge against the Property (the “**Purchaser’s Charge**”), equal to all amounts advanced or which shall be advanced by the Stalking Horse Purchaser under the Deposit Facility, plus the Professional

Fees, but not including the Break Fee, which Purchaser's Charge shall have priority over all Encumbrances and shall be subject only to the Administration Charge.

10. **THIS COURT ORDERS** that the Applicants are hereby authorized and empowered to execute and deliver such credit agreements, mortgages, charges, hypothecs and security documents, guarantees and other such documents as may be contemplated by the Stalking Horse SPA or that may be reasonably required by the Stalking Horse Purchaser pursuant to the terms thereof or to otherwise protect the Stalking Horse Purchaser's interests in the Property (the "**Purchaser's Charge Documents**"), and the Applicants are hereby authorized and directed to pay and perform all of their indebtedness, interest, fees, liabilities and obligations, if any, to the Stalking Horse Purchaser under and pursuant to the Purchaser's Charge Documents as and when the same become due and are to be performed, notwithstanding any other provision of this Order.

11. **THIS COURT ORDERS** that the filing, registration or perfection of the Purchaser's Charge shall not be required, and that the Purchaser's Charge shall be valid and enforceable for all purposes, including as against any right, title or interest filed, registered, recorded or perfected subsequent to the Purchaser's Charge coming into existence, notwithstanding any such failure to file, register, record or perfect.

12. **THIS COURT ORDERS** that the Purchaser's Charge shall not be rendered invalid or unenforceable and the rights of the Stalking Horse Purchaser thereunder shall not otherwise be limited or impaired in any way by: (a) the pendency of these proceedings and the declarations of insolvency made herein; (b) any application(s) for bankruptcy order(s) issued pursuant to *Bankruptcy and Insolvency Act* of Canada (the "**BIA**"), or any bankruptcy order made pursuant to such applications; (c) the filing of any assignments for the general benefit of creditors made pursuant to the BIA; (d) the provisions of any federal or provincial statutes; or (e) any negative

covenants, prohibitions or other similar provisions with respect to borrowings, incurring debt or the creation of Encumbrances, contained in any existing loan documents, lease, sublease, offer to lease or other agreement (collectively, an “**Agreement**”) which bind the Applicants, and notwithstanding any provision to the contrary in any Agreement:

- (a) neither the creation of the Purchaser’s Charge nor the execution, delivery, perfection, registration or performance of the Purchaser’s Charge Documents shall create or be deemed to constitute a breach by the Applicants of any Agreement to which any of them are a party;
- (b) that the Stalking Horse Purchaser shall not have any liability to any Person whatsoever as a result of any breach of any Agreement caused by or resulting from the Applicants entering into the Stalking Horse SPA, the creation of the Purchaser’s Charge, or the execution, delivery or performance of the Purchaser’s Charge Documents; and
- (c) the payments, if any, made by the Applicants or any of them pursuant to this Order or the Purchaser’s Charge Documents, and the granting of the Purchaser’s Charge, do not and will not constitute preferences, fraudulent conveyances, transfers at undervalue, oppressive conduct, or other challengeable or voidable transactions under any applicable law.

13. **THIS COURT ORDERS** that, notwithstanding any other provision of any Order or Agreement:

- (a) the Stalking Horse Purchaser may take such steps from time to time as it may deem necessary or appropriate to file, register, record or perfect the Purchaser’s Charge;

(b) the Stalking Horse Purchaser, upon seven days' notice to the Applicants and the Monitor, may exercise any and all of its rights and remedies against the Applicants and the Property under or pursuant to the Stalking Horse SPA or the Purchaser's Charge Documents, including but not limited to, applying to this Court for the appointment of a receiver, receiver and manager or interim receiver, or for a bankruptcy order against the Applicants and for the appointment of a trustee in bankruptcy of the Applicants; and

(c) the foregoing rights and remedies of the Stalking Horse Purchaser as set out in this Order shall be enforceable against any trustee in bankruptcy, interim receiver, receiver or receiver and manager of the Applicants or the Property.

14. **THIS COURT ORDERS** that the Stalking Horse Purchaser, shall be treated as unaffected in any plan of arrangement or compromise filed by the Applicants under the CCAA, or any proposal filed by the Applicants under the BIA, with respect to any advances made under DIP Term Sheet or the Deposit Facility or pursuant to the Purchaser's Charge Documents.

15. **THIS COURT ORDERS** that the Monitor and the Applicants and their respective counsel be and are hereby authorized but not obligated, to serve or distribute this Sale Process Approval Order, any other materials, orders, communication, correspondence or other information as may be necessary or desirable in connection with the SISP to any Person or interested party that the Monitor or the Applicants considers appropriate. For greater certainty, any such distribution, communication or correspondence shall be deemed to be in satisfaction of a legal or juridical obligation, and notice requirements within the meaning of clause 3(c) of the *Electronic Commerce Protection Regulations*, Reg. 81000-2-175 (SOR/DORS).

PIPEDA

16. **THIS COURT ORDERS** that, pursuant to clause 7(3)(c) of the *Canada Personal Information Protection and Electronic Documents Act*, the Monitor and the Applicants are hereby authorized and permitted to disclose and transfer to each potential bidder (the “**Bidders**”) and to their advisors, if requested by such Bidders, personal information of identifiable individuals, including, without limitation, all human resources and payroll information in the Applicants’ records pertaining to its past and current employees, but only to the extent desirable or required to negotiate or attempt to complete a sale of the Property (“**Sale**”) or investment in the Business (“**Investment**”). Each Bidder to whom such personal information is disclosed shall maintain and protect the privacy of such information and limit the use of such information to its evaluation of the Sale or Investment, and if it does not complete a Sale or Investment, shall return all such information to the Monitor and the Applicants, or in the alternative destroy all such information. The Successful Bidder(s) (as defined in the SISP) shall maintain and protect the privacy of such information and, upon closing of the transaction contemplated in the Successful Bid(s) (as defined in the SISP), shall be entitled to use the personal information provided to it that is related to the Property or Business acquired pursuant to the Sale or invested in pursuant to the Investment in a manner which 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 Monitor and the Applicants, or ensure that all other personal information is destroyed.

APPROVAL OF KEY EMPLOYEE RETENTION PLAN

17. **THIS COURT ORDERS** that the key employee retention plan (“**KERP**”) described in the Second Souzankar Affidavit and in the First Report of the Monitor, is hereby approved and the Applicants are authorized and directed to make payments in accordance with the terms thereof.

GENERAL

18. **THIS COURT ORDERS** that the Applicants or the Monitor may from time to time apply to this Court for advice and directions in the discharge of their powers and duties hereunder.

19. **THIS COURT HEREBY REQUESTS** the aid and recognition of any court, tribunal, regulatory or administrative body having jurisdiction in Canada, the United States or elsewhere, 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.

20. **THIS COURT ORDERS** that each of the Applicants, the Stalking Horse Purchaser 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.

21. **THIS COURT ORDERS** that this Order is effective from the date that it is made and is enforceable without any need for entry and filing.



SCHEDULE "A"
SALE AND INVESTMENT SOLICITATION PROCESS

Stalking Horse Sales Process

Introduction

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

Opportunity

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

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

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

Timeline

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

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

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

Solicitation of Interest: Notice of the SISP

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

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

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

Potential Bidders and Due Diligence Materials

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

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

Continued Management of CPC

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

Stalking Horse Bid Non-Cash Purchase Price Finalized

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

Formal Binding Offers

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

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

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

Evaluation of Competing Bids

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

Auction

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

Auction Procedure

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

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

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

Selection of Successful Bid

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

Sale Approval Motion Hearing

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

Confidentiality and Access to Information

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

Supervision of the SISP

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

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

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

Schedule "1"
Address of Monitor

To the Monitor:

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

Attention: Clark Lonergan and Peter Naumis

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

IN Electronically issued / Délivré par voie électronique : 16-Nov-2022
Toronto Superior Court of Justice / Cour supérieure de justice
R.S.C. 1985, c. C-56, AS AMIENDEJ

ORS ARRANGEMENT

ACT, Court File No./N° du dossier du greffe : CV-22-00689631-00CL
COURT FILE NO.: CV-22-00089631-00CL

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

ONTARIO
SUPERIOR COURT OF JUSTICE -
COMMERCIAL LIST

Proceeding commenced at Toronto

ORDER

(SISP, Stalking Horse SPA & KERF Approval)
(Returnable November 10, 2022)

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Lawyers for the Applicants

**This is Exhibit "F" referred to in the affidavit
of AFSHIN SOUZANKAR, SWORN BEFORE ME
this 25th day of January, 2023**

DocuSigned by:

Monica Fakhim

A COMMISSIONER FOR TAKING AFFIDAVITS

CITATION: Cannapiece Group Inc v. Carmela Marzili, 2022 ONSC 6379
COURT FILE NO.: CV-22-00689631-00CL
DATE: 20221114

SUPERIOR COURT OF JUSTICE – ONTARIO

COMMERCIAL LIST

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

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

RE: **CANNAPIECE GROUP INC**, Plaintiff

AND:

CARMELA MARZILI, Defendant

BEFORE: Penny, J.

COUNSEL: *David S. Ward* and *Jennifer Quick* Counsel, for the Plaintiff

Robert Kennedy Counsel, for BDO Canada LLP

Clifton Prophet Counsel, for 2125028 Ontario Inc

John Peddle Counsel, for Carmela Marzilli

Vincent Pion Counsel, for Solid Packaging Robotik Group Inc

Robert McDonald Counsel, for 2726398 Ontario Inc.

Philippe Tremblay Counsel, for Solid Packaging Robotik

Russell Bennett Counsel, for certain unnamed investors

Clark Lonergan Counsel, for BDO Canada Limited

Rory McGovern Counsel, to Cardinal Advisory Limited

HEARD: November 10, 2022

[1] On November 3, 2022, I made an Initial Order in this matter under the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36. The relief granted in the Initial Order was limited to that which was reasonably necessary for continued operations during the initial ten-day stay of proceedings.

[2] At the comeback hearing on November 10, 2022, the applicants sought:

- (a) an amended and restated initial order:
 - (i) extending the stay of proceedings granted pursuant to Initial Order to February 3, 2023;
 - (ii) extending the scope of the stay of proceedings to include claims against directors and officers in respect of their potential liability under personal guarantees of corporate obligations;
 - (iii) approving a key employee retention plan and authorizing the applicants to make payments in accordance with its terms;
 - (iv) authorizing the Company to make payments to certain third party suppliers for pre-filing expenses which are necessary to facilitate the applicants' ongoing operations; and
 - (v) approving an increase to the Administration Charge to the maximum amount of \$500,000; and
- (b) a sale process approval order:
 - (i) approving a sale and investment solicitation process;
 - (ii) authorizing a stalking horse purchase agreement; and
 - (iii) approving the payment of a break fee, professional fee, and the deposit repayment.

[3] On November 10, 2022 I issued an amended and restated initial order and took under reserve certain aspects of the proposed sales process order, with reasons to follow. These are my reasons on all issues.

Sales Process

The Stalking Horse Agreement

[4] Stalking horse agreements are recognized by the court as a reasonable and useful component of a sales process. Here, the stalking horse agreement provides some certainty that the applicants' business will continue as a going concern. If the stalking horse agreement is not approved, the applicants will not have sufficient funds to continue operating, to the detriment of their stakeholders. The baseline price in the stalking horse agreement will assist in maximizing the

value of the applicants' business by canvassing the market to obtain the best bids available. Importantly, no better or other alternative has been identified. Despite the applicants' efforts, they were unable to source other rescue financing or purchase proposals, either inside or outside of the filing.

[5] The reasonableness of the break fee (\$175,000) is subject to the exercise of the applicants' business judgment so long as it lies within a range of reasonable alternatives. In my view it does. The Monitor is satisfied that the break fee is reasonable in the circumstances. It has noted, among other things, that: (a) the applicants were insolvent and did not have sufficient cash to continue beyond the week of the Initial Order without the DIP Loan that was provided by the stalking horse bidder; (b) the applicants made significant efforts to improve their financial situation prior to commencing the CCAA proceedings; (c) the stalking horse bidder required the break fee as compensation for its efforts; and (d) the stalking horse bidder was the only party showing any interest in acquiring the applicants' business, funding the stalking horse sales process and these CCAA proceedings. I accept the Monitor's recommendations on this issue.

The Sales Process

[6] Both by way judicial precedent and under the CCAA, a number of factors have been developed to assist in deciding whether to approve a proposed sales process. Having regard to those factors, I am satisfied that the sales process contemplated here is appropriate.

[7] A sale transaction is warranted at this time. The applicants are insolvent and unable to continue operations without restructuring the Company's debt. A sale of the business is the only option available at this time.

[8] The sale transaction will benefit a wide range of stakeholders. The stalking horse agreement sets a minimum price and the bidding procedures in the stalking horse sales process is designed to test the market by soliciting the best bids available, thereby maximizing value for stakeholders. Importantly, it is anticipated under the stalking horse agreement that, if the stalking horse bidder is the ultimate purchaser in the process, the purchaser will maintain the employment of the vast majority of employees.

[9] The senior secured creditor of the applicants, Carmela Marzilli, and the equipment financier, 2125028 Ontario Inc., are supportive of the stalking horse sales process and no other creditor has indicated that they object.

[10] There is no other, better, or viable alternative. The applicants, in consultation with their advisors, pursued a number of strategic initiatives to improve their operations and financial position. Despite their attempts, no other alternative to the stalking horse sales process has materialized. The stalking horse bidder is the only party who showed any interest in acquiring the applicants' business to date.

[11] The Monitor was consulted about and will administer the stalking horse sales process in consultation with its sales agent and the applicants. The Monitor is supportive of the process, including the stalking horse agreement acting as the minimum bid. The Monitor will also have certain consent rights in connection with material decisions, including extending timelines,

dispensing with bid requirements, and terminating the stalking horse sales process. The Monitor is not aware of any stakeholders who will be prejudiced by the stalking horse sales process.

[12] During the initial stay period, the applicants have communicated with various stakeholders, including secured and unsecured creditors, to provide information and answer questions. There is support from key customers and critical suppliers for a stalking horse sales process as well.

[13] On the evidence, the stalking horse sales process is the best and only value-maximizing option available to the debtor. The sales process is intended to avoid the value destruction that would follow from a cessation of manufacturing operations and customer order fulfilment. The process provides interested parties with sufficient time to evaluate the opportunity presented by the process and to submit a bid before the deadline.

Critical Suppliers

[14] The court may grant a request for approval of payment of pre-filing liabilities to critical suppliers. This is because one of the purposes of the CCAA is to permit an insolvent corporation to remain in business. The court has broad jurisdiction to make orders that will facilitate a restructuring of a business as a going concern. The Monitor supports the need for this order in the circumstances of this case.

[15] The applicants' request for an order granting approval to make payments to critical suppliers advances the goal of allowing the applicants to continue operating in the ordinary course of business throughout the stalking horse sales process. This will benefit the applicants' stakeholders.

The KERP

[16] The Court has jurisdiction to approve a key employee retention plan under s. 11 of the CCAA to make any order it considers appropriate.

[17] The purpose of a KERP is to retain employees who are important to the management or operations of the debtor company in order to keep their skills within the company at a time when, because of the company's financial distress, they might otherwise look for alternate employment. KERPs have been approved in numerous insolvency proceedings where the retention of certain employees was deemed critical to a successful restructuring.

[18] I accept that a KERP is warranted in the circumstances of this case. The eleven identified employees have senior level roles and responsibilities that are essential to ensure the stability of the business, enhance effectiveness of the sale process, and facilitate an effective restructuring. These key employees have specialized experience and unique knowledge about the operations of the Company. Their involvement in the sale process appears to be important to the success of the restructuring. The potential KERP beneficiaries may well seek other employment if the KERP is not authorized. The applicants developed the KERP with input from the Monitor and the Monitor supports the proposed KERP in this case.

Administration Charge

[19] The amount of the Administration Charge in the Initial Order was limited to the estimated professional fees and disbursements of the Monitor, counsel to the Monitor and counsel to the Applicants during the initial stay period. The applicants seek to increase the Administration Charge from \$250,000 to \$500,000 in order to remain current with the projected fees and disbursements of the professionals during the proposed extended stay period.

[20] Section 11.52 of the CCAA provides for the grant of an administration charge. On the evidence, I find the increase in the Administration Charge is appropriate. The cannabis industry is complex, highly regulated and subject to many statutory and regulatory restrictions and requirements. Successful restructuring will require the extensive input of the professionals who have been retained. The beneficiaries of the Administration Charge have and will continue to contribute to these CCAA proceedings and assist the applicants with achieving the restructuring objectives. Each of the proposed beneficiaries of the Administration Charge is performing unique functions without duplication of roles. The quantum of the proposed increase to the Administration Charge appears to be fair and reasonable and is in line with the nature and size of the applicants' business and the involvement required by the professionals. The Monitor, the DIP Lender, and the applicants' senior secured lender, Ms. Marzilli, are supportive of the increase in the Administration Charge.

Stay of Claims Against Directors

[21] The applicants seek to extend the Initial Order stay to include a stay of an action on guarantees of unpaid Company debt given by three directors. The stay is opposed by the plaintiff/creditor in that action. This was the only issue of controversy before the Court on this motion. The controversy arises in the following context.

[22] 2726398 Ontario Inc. is an unsecured creditor of the Company, having originally loaned the principal sum of \$7,000,000. As security for its loan, 272 received mortgage security over property as well as personal guarantees from certain officers and directors of the Company. This included guarantees from Ali Etemadi, Afshin Souzankar and Reza Khadem Shahreza. These three individuals are all founders, directors and senior officers of the Company.

[23] In August 2022 the Company sold the mortgaged property in Clarington, Ontario. However, the sale did not generate sufficient funds to pay the entire debt owing to 272. 272 agreed to accept the total sum of \$7,000,000 in exchange for a discharge of its mortgage security, without prejudice to its right to claim the balance of the debt owing from the Company and the guarantors. Following the sale of the property, \$7,000,000 was delivered to 272. 272 granted discharges of its mortgage security, leaving a balance owing to it of about \$815,000.

[24] On October 18, 2022, 272 issued a statement of claim in the Superior Court of Justice for payment of the remaining balance on its loan plus additional accrued interest. The Company and each of the guarantors are named as defendants in that proceeding. I was advised that service on all defendants has not yet been completed, and that no defences have yet been filed.

[25] The applicants started this proceeding on November 2, 2022. The supporting affidavit on the motion for the Initial Order acknowledged the existence of the guarantees given to 272, the

shortfall 272 suffered when its mortgage security was discharged, and that 272's discharge of its mortgage security was without prejudice to its right to claim the balance outstanding to it.

[26] My Initial Order in this proceeding included a limited stay of proceedings against the Company's directors. The order stipulated that "*except as permitted by subsection 11.03(2) of the CCAA*, no Proceeding may be commenced or continued against any of the former, current or future directors or officers of the Applicants with respect to any claim against the directors or officers that arose before the date hereof and that relates to any obligations of the Applicants [emphasis added]" whereby the directors or officers were alleged to be liable for the payment or performance of the Company's obligations.

[27] The present motion seeks to extend the stay of proceedings by excluding the limitation contained in the "except as permitted by subsection 11.03(2) of the CCAA" proviso in the Initial Order. The issue turns on the interpretation of ss. 11, 11.02 and 11.03 of the CCAA.

The CCAA Provisions

[28] Section 11 of the CCAA provides that, "subject to the restrictions set out in this Act" the court may "make any order that it considers appropriate in the circumstances".

[29] Section 11.02 provides that the court may make an order staying all proceedings taken "in respect of the company".

[30] Section 11.03(1) states that an order under s. 11.02 may prohibit "any action against a director of the company" that arose before the commencement of the CCAA proceedings and that relates to an obligation of the company "if directors are under any law liable *in their capacity as directors* for the payment of those obligations [emphasis added]". Section 11.03(2) contains an exception to 11.03(1), however. It provides that s. 11.03(1) "does not apply in respect of an action against a director on a guarantee given by the director relating to the company's obligations".

[31] Thus, s. 11.03 distinguishes between proceedings based on the director's personal liability under "any law" in his or her "capacity as a director" (s. 11.03(1)) and proceedings based on the director's personal liability arising out of a personal contract that he or she gave to guarantee the obligations of the company (11.03(2)): *Re Magasin Laura (PV) inc.*, 2015 Carswell Que 9722, 31 C.B.R. (6th) 168 (Que. Bkcty).

Analysis

[32] The applicants submit that my jurisdiction to stay the action on the guarantees arises out of the broad general powers under s. 11. They further submit that this jurisdiction was exercised in *McEwan Enterprises Inc.*, 2021 ONSC 6453, at para. 44(a), in parallel circumstances to those existing here.

[33] I am unable to accept these arguments.

[34] In my view, the CCAA, by its own terms, limits the general powers in s. 11 by expressly making the scope of those powers "subject to the restrictions set out in this Act". Section 11.03(1) permits the court to extend the stay power in s. 11.02 (regarding claims against the debtor

company) to the directors of the company, if the director's personal liability arises under any law in his or her capacity as a director. However, s. 11.03(2) limits the power to order a stay by stipulating that s. 11.03(1) "does not apply" to an action against a director on a guarantee relating to the company's obligations. The use of the phrase "does not apply to" in s. 11.03(2) means that, although the court *may* make an order in the circumstances covered by s. 11.03(1), the court *may not* make such an order in the circumstances covered by s. 11.03(2). Since the 272 action is a claim against the directors under a personal contract given to guarantee the obligations of the company, the provisions of s. 11.03(2) apply. Accordingly, I conclude that I do not have jurisdiction to order a stay in these circumstances. Such an order is prohibited by the express language of s. 11.03(2).

[35] *McEwan Enterprises Inc.* does not support the applicants' argument. The passage they rely on in that decision makes it clear that the parties and the court were concerned with a guarantee given by Mr. McEwan in connection with obligations owed by another company, not the applicant debtor (a "non-filing party" which did not fall within the language of s. 11.03(2)). Although it may be the case as a matter of fact that Mr. McEwan also guaranteed obligations of the applicant debtor and that actions on those guarantees were also stayed, there is no indication that s. 11.03(2) was even raised with the court, much less considered by the court in its decision. It is, for example, (given Mr. McEwan's overarching importance to the business -- he *was* the business and all stakeholders understood that), entirely possible that potential plaintiffs in any actions on Mr. McEwan's guarantees were content to have those potential actions stayed, wagering that this was their only hope of recovery in the long run in any event. And, as para. 44(c) makes plain, the obligations which Mr. McEwan guaranteed were not anticipated to be impacted by the CCAA proceedings as they were assumed as part of the proposed restructuring transaction. I simply cannot find my jurisdiction to make the order sought in the face of s. 11.03(2) on a decision in which the point in issue was neither raised nor ruled upon.

[36] Accordingly, for these reasons, I decline to order a stay of the 272 action against Messrs. Etemadi, Souzankar and Shahreza.

[37] This does not end the matter, however. The stay was only being sought until the end of the sales process; that is, February 3, 2023. I agree with the applicants that Messrs. Etemadi, Souzankar and Shahreza will be heavily engaged in the restructuring effort until the contemplated closing of the sales process. 272 has not even completed the necessary service on all defendants. The proceeding is in its infancy. It is an action on a debt/guarantee. There is no suggestion of urgency. 272's action has been brought for the benefit of one creditor. The sales process in these proceedings is calculated to benefit many stakeholders, including other creditors, employees and customers. While I have declined, for jurisdictional reasons, to order a stay of 272's action, it is appropriate in these circumstances to make a procedural order in the 272 action that these three defendants shall have until February 10, 2023 (one week after the forecast close of the sales process) to deliver their statements of defence.

The Temporal Extension of the Stay

[38] The Initial Order granted an initial 10-day stay of proceedings ending on November 10, 2022. The applicants seek an order extending the stay of proceedings to and including February 3, 2023. I am satisfied that the requested extension is justified. The evidence supports the conclusion that since the Initial Order, the applicants have acted and continue to act in good faith and with

due diligence to communicate with stakeholders and to develop the sales process, while continuing to operate in the ordinary course of business to preserve the value of their business. The cash flow forecast appended to the Monitor's First Report shows sufficient liquidity during the extended stay period to fund obligations and the costs of the CCAA proceedings. The extension of the stay is required to complete the sales process without having return to Court to seek a further extension. There is no evidence that any creditor will suffer material prejudice as a result of the extension of the stay. And, the Monitor supports the requested extension of the stay of proceedings.

Conclusion

[39] For the forgoing reasons, the orders sought are approved and granted, other than the request for an order to extend the stay of proceedings to include the action on Messrs. Etemadi, Souzankar and Shahreza's personal guarantees, which is denied (subject to the procedural direction outlined in my reasons).

Other Matters

[40] Mr. Russell Bennett appeared on behalf of certain unnamed investors who claim to have invested in some aspect of this business. No material was filed on their behalf. Mr. Bennett described concerns these investors have about the propriety of Miller Thompson and BDO representing the applicants in these proceedings. He sought a two-week adjournment of the applicants' motion to enable the investors to decide whether to file material and pursue the matter. In the absence of any material and, given the highly time-sensitive nature of the proposed sales process/restructuring, I declined this request.

A handwritten signature in blue ink, appearing to read "Penny J.", is written over a horizontal line.

Penny J.

Date: November 14, 2022

**This is Exhibit "G" referred to in the affidavit
of AFSHIN SOUZANKAR, SWORN BEFORE ME
this 25th day of January, 2023**

DocuSigned by:

Monica Fakhim

A COMMISSIONER FOR TAKING AFFIDAVITS

STALKING HORSE PURCHASE AGREEMENT

This Agreement is made as of the 8th day of November, 2022 (the “**Effective Date**”), among:

CANNAPIECE GROUP INC.
(the “**Vendor**”)

– and –

CANNAPIECE CORP.
(the “**Company**”)

– and –

CARDINAL ADVISORY LIMITED, or its nominee
(the “**Purchaser**”)

WHEREAS pursuant to the Order of the Honourable Justice Penny of the Ontario Superior Court of Justice (Commercial List) (the “**Court**”) issued November 3, 2022 (as may be further amended or amended and restated from time to time, the “**Initial Order**”), the Vendor, the Company, Canadian Craft Growers Corp., 2666222 Ontario Ltd., 2580385 Ontario Inc. and 2669673 Ontario Inc. (collectively, the “**CannaPiece Group**”) were granted, among other things, creditor protection under the *Companies’ Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the “**CCAA**”) and BDO Canada Limited was appointed as the CCAA monitor of the CannaPiece Group (in such capacity, the “**Monitor**”);

AND WHEREAS in connection with the proceedings initiated by the Initial Order (the “**CCAA Proceedings**”), the CannaPiece Group intends to seek the approval of the Court to run a SISP (as defined below) pursuant to which this Agreement will serve as the Stalking Horse Bid (as defined below) for the Purchased Shares (as defined below);

AND WHEREAS in the event that this Agreement is selected as the Successful Bid (as defined below) in the SISP, the Vendor has agreed to sell and transfer to the Purchaser, and the Purchaser has agreed to purchase from the Vendor, all of the Vendor’s right, title and interest in and to the Purchased Shares, subject to and in accordance with the terms and conditions set forth in this Agreement;

NOW THEREFORE, in consideration of the mutual covenants and agreements set forth in this Agreement and other good and valuable consideration, the receipt and sufficiency of which are hereby irrevocably acknowledged, the parties hereto (collectively, the “**Parties**”, and each, a “**Party**”) hereby acknowledge and agree as follows:

ARTICLE 1 INTERPRETATION

1.1 Definitions

Unless something in the subject matter or context is inconsistent therewith, the terms defined herein shall have the following meanings:

“**212 Debt**” means all amounts owing under or in connection with the loan and security agreements dated May 27, 2020 and December 7, 2020 between the Company and 2125028 Ontario Inc., which amount is equal to approximately \$4,000,000 as at the Effective Date.

“**Advance**” has the meaning set out in Section 3.4.

“**Affiliate**” has the meaning given to the term “affiliate” in the *Business Corporations Act* (Ontario).

“**Agreement**” means this purchase agreement, as may be amended and restated from time to time in accordance with the terms hereof, with the consent of the Monitor, and “**Article**” and “**Section**” mean and refer to the specified article, section and subsection of this Agreement.

“**Applicable Law**” means, in respect of any Person, property, transaction or event, any (i) domestic or foreign statute, law (including the common law), ordinance, rule, regulation, treaty, restriction, regulatory policy, standard, code or guideline, by-law or order, (ii) judicial, arbitral, administrative, ministerial, departmental or regulatory judgments, orders, decisions, rulings, instruments or awards of any Governmental Authority, and (iii) policies, practices, standards, guidelines and protocols having the force of law, that applies in whole or in part to such Person, property, transaction or event.

“**Approval and Vesting Order**” means an order by the Court, in form and substance satisfactory to the Purchaser, in its sole and absolute discretion, among other things, approving and authorizing the Transaction and vesting in the Purchaser (or as it may direct) all of the right, title and interest of the Vendor in and to the Purchased Shares, free and clear from any Encumbrances.

“**Assumed Contracts**” means the Contracts listed in Schedule “**I**”, as the same may be modified by the Purchaser prior to the Closing Time in accordance with the terms hereof.

“**Assumed Liabilities**” means: (a) Liabilities specifically and expressly designated by the Purchaser as assumed Liabilities in Schedule “**H**”, as the same may be modified by the Purchaser prior to November 30, 2022 in accordance with the terms hereof; and (b) all Liabilities which relate to: (i) the Business under any Assumed Contracts; (ii) any Permits and Licences forming part of the Retained Assets; in each case solely in respect of the period from and after the Closing Time and not relating to any default existing prior to or as a consequence of Closing.

“**Auction**” has the meaning set out in Section 5.1(f).

“**Authorization**” means any authorization, approval, consent, concession, exemption, license, lease, grant, permit, franchise, right, privilege or no-action letter from any Governmental Authority having jurisdiction with respect to any specified Person, property, transaction or event, or with respect to any of such Person’s property or business and affairs (including any zoning approval or building permit) or from any Person in connection with any easements, contractual rights or other matters.

“**Bid Deadline**” has the meaning set out in Schedule “**G**”.

“**Books and Records**” means: (a) all of the Company’s files, documents, instruments, papers, books and records (whether stored or maintained in hard copy, digital or electronic format or otherwise), including Tax and accounting books and records; and (b) all files, documents, instruments, papers, books and records (whether stored or maintained in hard copy, digital or electronic format or otherwise), including Tax and accounting books and records used or intended for use by, or in the possession of the Vendor, the Company, or any other member of the CannaPiece Group or any of their respective Affiliates including information, documents and records relating to the Assumed Liabilities, Assumed Contracts, Retained Assets, customer lists, customer information and account records, sales records, computer files, data processing records, employment and personnel records, sales literature, advertising and marketing data and records, cost and pricing information, production reports and records, equipment logs, operating guides and manuals, credit records, records relating to present and former suppliers and contractors, plans and projections and all other records, data and information stored electronically, digitally or on computer-related media.

“**Break Fee**” has the meaning set out in Section 5.1(b).

“**Business**” means the business conducted by the Company, being a licensed cannabis contract manufacturer, with manufacturing operations located in Pickering, Ontario and its head office located in Markham, Ontario, providing extraction, processing, packaging and distribution services for its customers.

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

“**Cannabis Licence**” means all Authorizations related to cannabis and issued by a Governmental Authority to the Company, including Authorizations to possess, produce and sell cannabis under Applicable Law, including without limitation those listed in Schedule “F” hereto.

“**CannaPiece Group**” has the meaning set out in the recitals hereto.

“**Cash Flow Forecast**” means the weekly cash flow projections of the CannaPiece Group, as amended from time to time and approved by the Monitor in the CCAA Proceedings.

“**Cash Purchase Price**” has the meaning set out in Section 3.2(c).

“**CCAA**” has the meaning set out in the recitals hereto.

“**CCAA Proceedings**” has the meaning set out in the recitals hereto.

“**Claims**” means any civil, criminal, administrative, regulatory, arbitral or investigative inquiry, action, suit, investigation or proceeding and any claim of any nature or kind (including any cross-claim or counterclaim), demand, investigation, audit, chose in or cause of action, suit, default, assessment, litigation, prosecution, third party action, arbitral proceeding or proceeding, complaint or allegation, by or before any Person.

“**Closing**” means the closing and consummation of the Transaction.

“**Closing Date**” means the date that is ten (10) Business Days, or such shorter period as the Purchaser may determine by notice in writing to the Vendor, after the date upon which the conditions set forth in Article 9 have been satisfied or waived, other than any conditions set forth in Article 9 that by their terms are to be satisfied or waived at Closing (or such other earlier or later date as may be agreed by the Vendor and the Purchaser in writing).

“**Closing Time**” means 12:01 a.m. (Toronto time) on the Closing Date or such other time on the Closing Date as the Parties agree in writing that the Closing Time shall take place.

“**Contracts**” means all pending and executory contracts, agreements, leases, understandings and arrangements (whether oral or written) to which the Company is a party or by which the Company is bound or in which the Company has, or will at Closing have, any rights or by which any of its property or assets are or may be affected, including any Contracts in respect of Employees.

“**Company**” means CannaPiece Corp.

“**Corporate Office**” means the premises located at 100 Allstate Parkway, Suite 302 in Markham, Ontario.

“**Court**” has the meaning set out in the recitals hereto.

“**Deposit**” has the meaning set out in Section 3.2(b).

“**Deposit Facility**” has the meaning set out in Section 3.4.

“**Deposit Repayment**” has the meaning set out in Section 5.1(c).

“**DIP Loan**” means the borrowings under the DIP Facility (as defined in the DIP Term Sheet).

“**DIP Term Sheet**” means the debtor-in-possession term sheet dated as of November 2, 2022 among the Purchaser, as lender, and the members of the CannaPiece Group, as borrowers, as the same may be amended, restated, supplemented and/or modified from time to time.

“**Discharge**” means, in relation to any Encumbrance against any Person or upon any asset, undertaking or property, the full, final, irrevocable, complete and permanent waiver, release, discharge, cancellation, termination and extinguishment of such Encumbrance against such Person or upon such asset, undertaking or property and all proceeds thereof.

“**Effective Date**” has the meaning set out in the preamble hereto.

“**Employee**” means any individual who is employed by the Company as of the Closing Date, whether on a full-time or a part-time basis and includes an employee on short term or long term disability leave, but, for certainty, excludes any employee whose employment will be terminated pursuant to Section 9.2(f).

“**Encumbrance**” means any security interest, lien, Claim, charge, right of retention, deemed trust, judgement, writ of seizure, writ of execution, notice of seizure, notice of execution, notice of sale, hypothec, reservation of ownership, pledge, encumbrance, mortgage or right of a third party (including any contractual rights such as purchase options, rights of first refusal, rights of first offer or any other pre-emptive contractual right) or encumbrance of any nature or kind whatsoever and any agreement, option or privilege (whether by law, contract or otherwise) capable of becoming any of the foregoing, (including any conditional sale or title retention agreement, or any capital or financing lease).

“**Excise Act**” means the *Excise Act, 2001*, S.C. 2002, c.22.

“**Excise Tax Act**” means the *Excise Tax Act*, R.S.C, 1985, c. E-15.

“**Excise Licence**” means cannabis licence 75260 3886 RD0002 obtained by the Company under the *Excise Act*.

“**Excluded Assets**” means the properties, rights, assets and undertakings of the Company (or where, applicable, the other members of the CannaPiece Group) listed on Schedule “A”, as the same may be modified by the Purchaser prior to the Closing Time in accordance with the terms hereof.

“**Excluded Contracts**” means those contracts and other agreements of the Company that are not Assumed Contracts and for greater certainty, includes those contracts and agreements which are listed on Schedule “B”, as the same may be modified by the Purchaser prior to the Closing Time in accordance with the terms hereof.

“**Excluded Liabilities**” has the meaning set out in Section 2.2(a).

“**Filing Date**” means November 3, 2022.

“**Governmental Authority**” means any domestic or foreign government, whether federal, provincial, state, territorial or municipal; and any governmental agency, ministry, department, court (including the Court), tribunal, commission, stock exchange, bureau, board or other instrumentality exercising or purporting to exercise legislative, judicial, regulatory or administrative functions of, or pertaining to, government or securities market regulation.

“**GST/HST**” means all goods and services tax and harmonized sales tax imposed under Part IX of the *Excise Tax Act*.

“**Income Tax Act**” means the *Income Tax Act*, R.S.C., 1985, c. 1 (5th Supp.).

“**Initial Deposit Amount**” has the meaning set out in Section 3.2(a).

“**Initial Order**” has the meaning set out in the recitals hereto.

“**Interim Period**” means the period from the Effective Date to the Closing Time.

“**Landlord Approval**” means an approval issued by the landlord of the Manufacturing Premises in connection with the change of control contemplated by the Transaction.

“**Liability**” means, with respect to any Person, any liability or obligation of such Person of any kind, character or description, whether known or unknown, absolute or contingent, accrued or unaccrued, disputed or undisputed, liquidated or unliquidated, secured or unsecured, joint or several, due or to become due, vested or unvested, executory, determined, determinable or otherwise, and whether or not the same is required to be accrued on the financial statements of such Person.

“**Manufacturing Premises**” means the lands and building municipally known as 1724 McPherson Court in Pickering, Ontario, L1W 3E9 – Phase 1 and Phase 2.

“**Marzilli Debt**” means all amounts owing under or in connection with the letter of commitment dated February 10, 2022 between the Company and Carmela Marzilli, which amount was equal to approximately \$6,788,635 as at November 1, 2022.

“**Monitor**” has the meaning set out in the recitals hereto.

“**Monitor’s Certificate**” has the meaning set out in Section 9.2(k).

“**Organizational Documents**” means any trust document, charter, certificate or articles of incorporation or amalgamation, articles of amendment, articles of association, articles of

organization, articles of continuance, bylaws, as amended, partnership agreement or similar formation or governing documents of a Person (excluding individuals).

“**Outside Date**” means 11:59 pm (Toronto time) on February 6, 2023 or such later date and time as the Company and the Purchaser may agree to in writing.

“**Other CannaPiece Contracts**” means all pending and executory contracts, agreements, leases, understandings and arrangements (whether oral or written) to which any Other CannaPiece Entity is a party or by which any Other CannaPiece Entity is bound or in which any such Other CannaPiece Entity has, or will at Closing have, any rights or by which any of its property or assets are or may be affected.

“**Other CannaPiece Entity**” means any of the Vendor, Canadian Craft Growers Corp., 2666222 Ontario Ltd., 2580385 Ontario Inc. and 2669673 Ontario Inc.

“**Parties**” has the meaning set out in the recitals hereto.

“**Party**” has the meaning set out in the recitals hereto.

“**Permits and Licences**” means the orders, permits, licences, Authorizations, approvals, registrations, consent, waiver or other evidence of authority issued to, granted to, conferred upon, or otherwise created for, the Company by any Governmental Authority, including: (i) those related to the Business, the Retained Assets, the Transferred Assets and the Assumed Contracts; (ii) the Excise Licence; and (iii) the Cannabis Licence.

“**Permitted Encumbrances**” means those Encumbrances that have been explicitly assumed by the Purchaser related to the Retained Assets and/or Transferred Assets, as set forth in Schedule “**E**”, as the same may be modified by the Purchaser prior to the granting of the Approval and Vesting Order in accordance with the terms hereof.

“**Person**” means any individual, partnership, limited partnership, limited liability company, joint venture, syndicate, sole proprietorship, company or corporation with or without share capital, unincorporated association, trust, trustee, executor, administrator or other legal personal representative, Governmental Authority or other entity however designated or constituted.

“**Pre-Closing Reorganization**” means the transactions, acts or events described in Exhibit “**A**”, as the same may be modified by the Purchaser prior to the Closing Time in accordance with the terms hereof and the Approval and Vesting Order, which unless otherwise expressly provided therein are to occur immediately prior to the Closing Time.

“**Professional Fees**” has the meaning set out in Section 5.1(b).

“**Purchase Price**” has the meaning set out in Section 3.1.

“**Purchaser**” means Cardinal Advisory Limited, or its nominee.

“**Purchased Shares**” means all of the issued and outstanding shares of the Company.

“**ResidualCo**” means a corporation to be incorporated as a wholly-owned subsidiary of the Vendor to which the Excluded Assets and Excluded Liabilities will be transferred as part of the Pre-Closing Reorganization.

“**Retained Assets**” has the meaning set out in Section 4.1.

“**SISP**” means the sale and investment solicitation process, to be conducted pursuant to the sale and bidding procedures substantially in the form set out in Schedule “**G**” hereto.

“**SISP Approval Date**” means the date upon which the Court issues the SISP Order.

“**SISP Order**” means an order of the Court, in form and substance acceptable to the Purchaser in its sole and absolute discretion, approving, among other things: (a) the SISP; (b) this Agreement as the Stalking Horse Bid in the SISP; (c) the Break Fee, Deposit Repayment and Professional Fees; and language protecting the Purchaser’s entitlement to the Break Fee, Deposit Repayment and Professional Fees.

“**Stalking Horse Bid**” has the meaning set out in Section 5.1(a).

“**Subsequent Deposit Amount**” has the meaning set out in Section 3.2(b).

“**Successful Bid**” has the meaning set out in Section 5.1(f).

“**Successful Bidder**” has the meaning set out in Section 5.1(f).

“**Taxes**” means, with respect to any Person, all national, federal, provincial, local or other taxes, including income taxes, capital gains taxes, value added taxes, severance taxes, ad valorem taxes, property taxes, capital taxes, net worth taxes, production taxes, sales taxes, use taxes, licence taxes, excise taxes, environmental taxes, transfer taxes, withholding or similar taxes, payroll taxes, employment taxes, employer health taxes, pension plan premiums and contributions, workers’ compensation premiums, employment insurance or compensation premiums, stamp taxes, occupation taxes, premium taxes, alternative or add-on minimum taxes, GST/HST, customs duties or other taxes of any kind whatsoever imposed or charged by any Governmental Authority, together with any interest, penalties, or additions with respect thereto and any interest in respect of such additions or penalties and any Liability for the payment of any amounts of the type described in this paragraph as a result any express or implied obligation to indemnify any other Person or as a result of being a transferee or successor in interest to any Person.

“**Terminated Employee**” means those Employees whose employment will be terminated prior to Closing pursuant to Section 9.2(f), as determined by the Purchaser by written notice to the Company at least ten (10) Business Days prior to the Closing Date.

“**Transaction**” means all of the transactions contemplated by this Agreement, including the purchase and sale transaction whereby the Purchaser will acquire the Purchased Shares.

“**Transferred Assets**” means those assets listed on Schedule “**D**”, as the same may be modified by the Purchaser prior to the Closing Time in accordance with the terms hereof, which are owned by Other CannaPiece Entities, but will be transferred to the Company prior to Closing as part of the Pre-Closing Reorganization and will constitute Retained Assets.

“**Vendor**” means CannaPiece Group Inc.

1.2 Interpretation Not Affected by Headings, etc.

The division of this Agreement into Articles and Sections and the insertion of headings are for convenience of reference only and shall not affect the construction or interpretation of this Agreement.

1.3 General Construction

The terms “this Agreement”, “hereof”, “herein” and “hereunder” and similar expressions refer to this Agreement and not to any particular section hereof. The expression “Section” or reference to another subdivision followed by a number mean and refer to the specified Section or other subdivision of this Agreement. The language used in this Agreement is the language chosen by the Parties to express their mutual intent, and no rule of strict construction shall be applied against any Party.

1.4 Extended Meanings

Words importing the singular include the plural and vice versa and words importing gender include all genders. The term “including” means “including, without limitation,” and such terms as “includes” have similar meanings and the term “third party” means any other Person other than the Vendor, the Company or the Purchaser, or any Affiliates thereof.

1.5 Currency

All references in this Agreement to dollars, monetary amounts, or to \$, are expressed in Canadian currency unless otherwise specifically indicated.

1.6 Statutes

Except as otherwise provided in this Agreement, any reference in this Agreement to a statute refers to such statute and all rules, regulations and interpretations made under it, as it or they may have been or may from time to time be modified, amended or re-enacted.

1.7 Schedules & Amendments to Schedules

The following exhibits and schedules are attached hereto and incorporated in and form part of this Agreement:

EXHIBITS

Exhibit A - Pre-Closing Reorganization

SCHEDULES

Schedule A - Excluded Assets
Schedule B - Excluded Contracts
Schedule C - Excluded Liabilities
Schedule D - Transferred Assets
Schedule E - Permitted Encumbrances
Schedule F - Cannabis Licence
Schedule G - SISP and Bidding Procedures
Schedule H - Assumed Liabilities

Schedule I - Assumed Contracts

The Parties acknowledge that as of the Effective Date, the Schedules (other than Schedules F and G) are not complete. Such Schedules are for the benefit of the Purchaser and may be amended or completed by the Purchaser, in its sole and absolute discretion, on or before the dates set out in such Schedules and on notice to the Vendor.

Unless the context otherwise requires, words and expressions defined in this Agreement will have the same meanings in the Exhibits and Schedules and the interpretation provisions set out in this Agreement will apply to the Exhibits and Schedules. Unless the context otherwise requires, or a contrary intention appears, references in the Exhibits and Schedules to a designated Article, Section, or other subdivision refer to the Article, Section, or other subdivision, respectively, of this Agreement.

ARTICLE 2 PURCHASE OF SHARES AND ASSUMPTION OF LIABILITIES

2.1 Purchase and Sale of the Purchased Shares

Subject to the terms and conditions of this Agreement, effective as of the Closing Time, the Vendor shall sell and transfer the Purchased Shares to the Purchaser, and the Purchaser shall purchase the Purchased Shares from the Vendor, free and clear of all Encumbrances.

2.2 Excluded Liabilities of the Company

- (a) Pursuant to the Approval and Vesting Order, save and except for the Assumed Liabilities, all debts, obligations, Liabilities, Encumbrances, indebtedness, Excluded Contracts, leases, agreements, undertakings, Claims, rights and entitlements of any kind or nature whatsoever (whether direct or indirect, known or unknown, absolute or contingent, accrued or unaccrued, liquidated or unliquidated, perfected or unperfected, matured or unmatured or due or not yet due, in law or in equity and whether based in statute or otherwise) of or against the Company or the Purchased Shares or against, relating to or affecting the Business including any of the Retained Assets, or any Excluded Assets or Excluded Contracts, including, *inter alia*, the non-exhaustive list of Liabilities set forth in Schedule "C" (collectively, the "**Excluded Liabilities**") shall be excluded, Discharged and shall no longer be binding on or enforceable against the Company, the Purchased Shares, the Retained Assets, Employees, Permits and Licences or Books and Records following the Closing Time.
- (b) Subject to the Pre-Closing Reorganization and pursuant to the Approval and Vesting Order, the Excluded Liabilities shall be transferred to, vested in and assumed in full by ResidualCo in accordance with and as further described in Article 4 and the Approval and Vesting Order, and the Company, the Purchased Shares, the Retained Assets, the Transferred Assets, and the Company's undertakings, Business and properties shall be Discharged of such Excluded Liabilities. All Claims attaching to the Excluded Liabilities, if any, shall continue to exist against ResidualCo and the Purchase Price and the Excluded Assets, if any, shall be available to satisfy such Claims.

ARTICLE 3 PURCHASE PRICE

3.1 Purchase Price

The purchase price payable by the Purchaser for the Purchased Shares shall be **THREE MILLION FIVE HUNDRED THOUSAND CANADIAN DOLLARS** (\$3,500,000) plus the Assumed Liabilities, subject to adjustment as provided in this Agreement (the “**Purchase Price**”). The Purchase Price shall be paid to the Monitor as consideration for the Purchased Shares.

3.2 Satisfaction of Purchase Price

The Purchaser shall satisfy the Purchase Price, at the Closing Time, in accordance with the following:

- (a) Initial Deposit. All amounts owing to the Purchaser under the DIP Term Sheet as of the SISP Approval Date, including any accrued and unpaid interest, expenses, fees and other amounts (in aggregate, the “**Initial Deposit Amount**”), shall be treated in all respects as a deposit from and after the SISP Approval Date, and shall be credited against the Purchase Price at Closing.
- (b) Subsequent Deposits. All amounts owing to the Purchaser under the Deposit Facility as of the Closing Date (the “**Subsequent Deposit Amount**” and together with the Initial Deposit Amount, collectively, the “**Deposit**”) shall be treated in all respects as a deposit, and shall be credited against the Purchase Price at Closing.
- (c) Cash Purchase Price. An amount equal to the Purchase Price less the Deposits (the “**Cash Purchase Price**”), shall be paid to the Monitor, for the benefit of the Vendor and ResidualCo, at the Closing Time, in immediately available funds.
- (d) Assumed Liabilities. An amount equal to the amount of the Assumed Liabilities which the Company shall retain on the Closing Date in accordance with the Pre-Closing Reorganization, shall be satisfied by the Company performing the Assumed Liabilities. For certainty, the Assumed Liabilities include the Marzilli Debt and the 212 Debt, provided that such assumptions are on terms and conditions satisfactory to the Purchaser in all respects. For further certainty, if the Purchaser is not able to negotiate terms of assumption satisfactory to the Purchaser in its sole and absolute discretion, it shall have no obligation to assume the Marzilli Debt and the 212 Debt.

3.3 Monitor to hold Purchase Price

The Cash Purchase Price shall be paid to, and held by, the Monitor for the benefit of the Vendor and ResidualCo, and any Claim against the Company, the Purchased Shares or the Retained Assets shall continue to exist solely as against ResidualCo from and after Closing.

3.4 Funding During CCAA Proceeding

The Purchaser shall fund the ongoing working capital requirements of the Company during the CCAA Proceedings by making funds available to the Company in weekly draws (each, an “**Advance**”) in accordance with the Cash Flow Forecast, in the maximum aggregate principal amount of \$3,000,000 (the “**Deposit Facility**”). The Deposit Facility shall be advanced to the Company in accordance with the following:

- (a) the Company shall submit written requests for Advances on the Thursday preceding the week for which the Advance relates;

- (b) the Purchaser shall fund an Advance on the Tuesday following the receipt of request for the same;
- (c) notwithstanding the quantum of any Advance requested, the Purchaser shall only be required to fund such portion of an Advance as is reasonably required, as evidenced by the Cash Flow Forecast, plus a maximum variation of twenty percent (20%);
- (d) all Advances shall be advanced by wire transfer to a bank account designated by the Company in writing;
- (e) the Purchaser shall be entitled to make Advances outside of, or ancillary to, the procedures set out above in the discretion of the Purchaser, provided that such Advances are approved by the Monitor.

The availability of the Deposit Facility is conditional in all respects on the issuance of the SISP Order, in form and substance satisfactory to the Purchaser.

ARTICLE 4 TRANSFER OF EXCLUDED ASSETS AND EXCLUDED LIABILITIES

4.1 Transfer of Excluded Assets to ResidualCo

At Closing, the Company shall retain all of the assets owned by it on the Effective Date of this Agreement and any assets acquired by it up to and including Closing, including the Transferred Assets, the Company's equipment, its Assumed Contracts, Permits and Licences, Books and Records, Business and undertakings (the "**Retained Assets**"), excluding inventory sold or consumed in the ordinary course of Business in the Interim Period and amounts paid in the Interim Period in accordance with the Initial Order, the DIP Term Sheet and the approval of the Monitor. The Retained Assets shall not include: (i) the Excluded Assets; or (ii) the Excluded Contracts, which the Company shall transfer to ResidualCo, in accordance with the Pre-Closing Reorganization, and same shall be vested in ResidualCo pursuant to the Approval and Vesting Order.

4.2 Transfer of Excluded Liabilities to ResidualCo

On the Closing Date, the Excluded Liabilities shall be transferred to, vested in and assumed by ResidualCo in accordance with the Pre-Closing Reorganization and the Approval and Vesting Order. Notwithstanding any other provision of this Agreement, neither the Purchaser nor the Company shall assume or have any Liability for any of the Excluded Liabilities and all Excluded Liabilities shall be Discharged from the Purchased Shares, the Company and the Retained Assets as of and from and after the Closing Time.

4.3 Tax Matters

Pursuant to the Approval and Vesting Order, at the Closing Time, all Taxes owed or owing or accrued due by the Company shall be transferred to, vested in and assumed by ResidualCo. Any audits or reassessments with respect to any Taxes that relate to a time period occurring, or facts arising, prior to the Closing Date, regardless upon when such audit was commenced or completed, and any and all such obligations with respect to such audits or reassessments shall be transferred to and vest in ResidualCo.

ARTICLE 5
SISP, BIDDING PROCEDURES

5.1 SISP

- (a) The Vendor shall bring a motion for the SISP Order to be heard on or before November 10, 2022. The SISP Order shall recognize the within offer by the Purchaser and the Purchase Price: (i) as a baseline or “stalking horse bid” in respect of the Purchased Shares (the “**Stalking Horse Bid**”); and (ii) as a deemed “Qualified Bid” (as defined in the SISP), with an attendant right on the part of the Purchaser to participate as a bidder in any Auction. The Purchaser acknowledges and agrees that the aforementioned process is in contemplation of determining whether a superior bid can be obtained for the Purchased Shares and the Retained Assets, and that the within Stalking Horse Bid may be the Successful Bid for the Purchased Shares and the Retained Assets.
- (b) In consideration for the Purchaser’s expenditure of time and money and agreement to act as the initial bidder through the Stalking Horse Bid, and the preparation of this Agreement, and in performing due diligence pursuant to this Agreement, and subject to Court approval, the Purchaser shall be entitled to repayment of: (i) all professional fees, disbursements and expenses of any kind or nature whatsoever incurred in connection with the SISP and the Transaction, to a maximum amount of \$25,000 (the “**Professional Fees**”); and (ii) a break fee in the amount of \$175,000 (inclusive of HST, if any) (the “**Break Fee**”), which shall be payable to the Purchaser in the event that the Stalking Horse Bid is not the Successful Bid.
- (c) In the event that the Stalking Horse Bid is not the Successful Bid, in addition to the Professional Fees and the Break Fee, the Purchaser shall be entitled to repayment in full of all amounts advanced under the DIP Term Sheet and the Deposit Facility, and all of the foregoing entitlements shall be paid to the Purchaser in priority to any and all Claims and interests that any other Person now has or may hereafter have against the Property (as defined in the Initial Order) of the CannaPiece Group (the “**Deposit Repayment**”).
- (d) The priority of payment of the Professional Fees, the Break Fee and the Deposit Repayment shall be approved in the SISP Order and shall, if payable pursuant to Section 5.1(b) and 5.1(c), be payable to the Purchaser within one (1) Business Day of the Successful Bid being approved by the Court. For certainty and in accordance with the terms of the SISP, any Person intending to participate in the Auction shall be required to provide the Monitor with: (a) evidence of immediately available funds in an amount sufficient to repay the Professional Fees, the Break Fee and the Deposit Repayment; and (b) a pledge, irrevocable direction or other commitment issued in favour of the Purchaser and payable upon the Court’s approval of the Successful Bid.
- (e) The Parties acknowledge and agree that the aggregate foregoing Break Fee amount represents a fair and reasonable estimate of the costs and damages that will be incurred by the Purchaser as a result of preparing and entering into, and not completing the Transactions contemplated by this Agreement, and is not intended to be punitive in nature nor to discourage competitive bidding for the Purchased Shares and/or Retained Assets. For certainty, the Break Fee does not form part of the Purchase Price.
- (f) In the event that one or more Persons submits a Qualified Bid on or before the Bid Deadline, the Vendor, in consultation with the Monitor, shall conduct an auction (the “**Auction**”) for the determination and selection of a winning bid (the “**Successful Bid**” and the Person submitting such bid being the “**Successful Bidder**”).

- (g) Upon the selection of a Successful Bidder, there shall be a binding agreement of purchase and sale between the Successful Bidder and the Vendor. The Vendor shall forthwith bring a motion following the selection of the Successful Bidder for an order approving the agreement reached with the Successful Bidder and to vest the Purchased Shares in the Successful Bidder and, if granted, shall proceed with closing the transaction forthwith.
- (h) Notwithstanding anything contained herein to the contrary, in the event that the Purchaser is not the Successful Bidder under the SISP, then upon selection of the other Successful Bid: (i) this Agreement shall be terminated (subject to Section 10.2 and the Purchaser's entitlement to the Break Fee); (ii) the Purchaser shall be entitled to the Break Fee, the Professional Fees and the Deposit Repayment; and (iii) neither Party hereto shall have any further Liability or obligation hereunder, except as expressly provided for in this Agreement.
- (i) If no Qualified Bids are received by the Bid Deadline (other than the Stalking Horse Bid), the Vendor shall forthwith bring a motion to the Court to obtain the Approval and Vesting Order and, if granted, shall proceed with completing the Transaction contemplated herein forthwith.

ARTICLE 6 REPRESENTATIONS AND WARRANTIES

6.1 Representations and Warranties of the Vendor

The Vendor hereby represents and warrants as of the date hereof and as of the Closing Time as follows, and acknowledges that the Purchaser is relying on such representations and warranties in connection with entering into this Agreement and performing its obligations hereunder:

- (a) Incorporation and Status. The Vendor is a corporation incorporated and existing under the *Business Corporations Act* (Ontario), is in good standing under such act and has the power and authority to enter into, deliver and perform its obligations under this Agreement.
- (b) Corporate Authorization. The execution, delivery and, subject to obtaining of the Approval and Vesting Order in respect of the matters to be approved therein, performance by the Vendor of this Agreement has been authorized by all necessary corporate action on the part of the Vendor. The Vendor has the requisite corporate authority to cause the Other CannaPiece Entities to transfer the Transferred Assets to the Company.
- (c) No Conflict. The execution, delivery and performance by the Vendor of this Agreement does not (or would not with the giving of notice, the lapse of time, or both, or the happening of any other event or condition) result in a breach or a violation of, or conflict with, or allow any other Person to exercise any rights under, any terms or provisions of the Organizational Documents of the Vendor, any agreement binding on the Vendor or any Applicable Law applicable to the Vendor, the CannaPiece Group or any of their affiliates, the Retained Assets or the Purchased Shares, or result in the creation or require the creation of any Encumbrance upon or against the Purchased Shares or the Retained Assets.
- (d) Execution and Binding Obligation. This Agreement has been duly executed and delivered by the Vendor and constitutes a legal, valid and binding obligation of the Vendor, enforceable against it in accordance with its terms, subject only to obtaining the Approval and Vesting Order.

- (e) Proceedings. There are no proceedings pending against the Vendor or, to the knowledge of the Vendor, threatened, with respect to, or in any manner affecting, title to the Purchased Shares or the Retained Assets, which would reasonably be expected to enjoin, delay, restrict or prohibit the transfer of all or any part of the Purchased Shares or the Retained Assets as contemplated by this Agreement or which would reasonably be expected to delay, restrict or prevent the Vendor from fulfilling any of its obligations set forth in this Agreement, and no event has occurred or circumstance exists which would reasonably be expected to give rise to or serve as a valid basis for the commencement of any such proceeding.
- (f) No Consents or Authorizations. Subject only to obtaining the Approval and Vesting Order, the Vendor does not require any consent, approval, waiver or other Authorization from any Governmental Authority or any other Person, as a condition to the lawful completion of the Transaction.
- (g) Residency. The Vendor is not a non-resident of Canada for purposes of the *Income Tax Act* or the *Excise Tax Act*, as applicable.
- (h) Title to Purchased Shares. The Vendor is the sole registered and beneficial owner of the Purchased Shares, with good and valid title thereto, and the Vendor will transfer good and valid title to the Purchased Shares to the Purchaser, free and clear of all Encumbrances, pursuant to and in accordance with the Approval and Vesting Order. There are no issued and outstanding shares or other securities of the Company other than the Purchased Shares, nor are there any securities convertible into or options, equity-based awards or other rights, agreements or commitments that are held by any Person and which are convertible into or exchangeable for shares or any other securities of the Company.
- (i) No Other Agreements to Purchase. Except for the Purchaser's rights under this Agreement, no Person has any contractual right, option or privilege for the purchase or acquisition from the Vendor or the Company of any of the Purchased Shares or the Retained Assets.
- (j) Necessary Assets and Equipment: All assets and equipment that are necessary for the operation of the Business in the ordinary course, are owned by the Company or an Other CannaPiece Entity, and all such assets and equipment shall be maintained during the Interim Period and shall be in good working order (normal wear and tear excepted) as at the Closing Time.

6.2 Representations and Warranties in respect of the Company

The Vendor and the Company hereby represent and warrant to and in favour of the Purchaser as of the date hereof and as of the Closing Time, and acknowledge that the Purchaser is relying on such representations and warranties in connection with entering into this Agreement and performing its obligations hereunder:

- (a) Incorporation and Status. The Company is a corporation incorporated and existing under the *Business Corporations Act* (Ontario), is in good standing under such act and has the power and authority to enter into, deliver and perform its obligations under this Agreement.
- (b) Corporate Authorization. The execution, delivery and, subject to obtaining the Approval and Vesting Order in respect of the matters to be approved therein, performance by the Company of this Agreement has been authorized by all necessary corporate action on the part of the Company.

- (c) No Conflict. The execution, delivery and performance by the Company of this Agreement do not (or would not with the giving of notice, the lapse of time, or both, or the happening of any other event or condition) result in a breach or a violation of, or conflict with, or allow any other Person to exercise any rights under, any terms or provisions of the Organizational Documents of the Company, any agreement binding on the Vendor or any Applicable Law applicable to the Vendor, the CannaPiece Group or any of its affiliates, the Retained Assets or the Purchased Shares, or result in the creation or require the creation of any Encumbrance upon or against the Purchased Shares or the Retained Assets.
- (d) Execution and Binding Obligation. This Agreement has been duly executed and delivered by the Company and constitutes a legal, valid and binding obligation of the Company, enforceable against it in accordance with its terms, subject only to obtaining the Approval and Vesting Order.
- (e) Authorized and Issued Capital. The authorized capital of the Company consists of an unlimited number of Common Shares, of which 100 Common Shares are issued and outstanding. The Purchased Shares: (i) constitute all of the issued and outstanding securities in the capital of the Company; (ii) have all been duly authorized and validly issued as fully paid and non-assessable; (iii) have been issued by the Company in compliance with all Applicable Laws; and (iv) are registered in the name of, and are legally and beneficially owned by, the Vendor. None of the Purchased Shares have been issued in violation of any pre-emptive, right of first offer or refusal or similar rights. The Company is a private issuer (as such term is defined in Section 2.4 of National Instrument 45-106).
- (f) No Other Agreements to Purchase. Except for the Purchaser's rights under this Agreement, no Person has any contractual right, option or privilege for the purchase or acquisition from the Company of any of the Purchased Shares, any Retained Assets or for the purchase, subscription, allotment or issuance of any of the unissued shares or other securities of the Company. The Company has good and valid title to the Retained Assets (excluding Transferred Assets) free and clear of all Encumbrances (other than Permitted Encumbrances). At Closing, the Company will have good and valid title to the Transferred Assets, free and clear of all Encumbrances (other than Permitted Encumbrances).
- (g) Proceedings. There are no proceedings pending against the Company or, to the knowledge of the Company, threatened with respect to, or in any manner affecting, title to the Purchased Shares or the Retained Assets, which would reasonably be expected to enjoin, delay, restrict or prohibit the transfer of all or any part of the Purchased Shares or the Retained Assets as contemplated by this Agreement or which would reasonably be expected to delay, restrict or prevent the Company from fulfilling any of its obligations set forth in this Agreement and no event has occurred or circumstance exists which would reasonably be expected to give rise to or serve as a valid basis for the commencement of any such proceeding.
- (h) No Consents or Authorizations. Subject only to obtaining the Approval and Vesting Order, the Company does not require any consent, approval, waiver or other Authorization from any Governmental Authority or any other Person, as a condition to the lawful completion of the Transaction.

- (i) Cannabis Licence. The Cannabis Licence and the Excise Licence are in full force and effect. Except for the Purchaser's rights under this Agreement, no Person has any contractual right, option or privilege for the purchase or acquisition of any interest in, or the creation of any Encumbrance in respect of, the Cannabis Licence or the Excise Licence. In addition, there are no terms, conditions, or other restrictions imposed on the Cannabis Licence or the Excise Licence that would delay, restrict, or prevent the Company or the Vendor from fulfilling any of their obligations set forth in this Agreement.
- (j) Necessary Assets and Equipment: All assets and equipment that are necessary for the operation of the Business in the ordinary course, are owned by the Company or an Other CannaPiece Entity, and all such assets and equipment shall be maintained during the Interim Period and shall be in good working order (normal wear and tear excepted) as at the Closing Time.
- (k) Compliance with Laws. The Company is conducting and has conducted the Business in compliance with all Applicable Laws in all material respects.
- (l) Assumed Contracts. The list and copies of Contracts and Other CannaPiece Contracts provided by the Company and Vendor pursuant to Section 7.4(b), are correct and complete in all material respects, inclusive of all amendments, modifications and supplements thereto.

6.3 Representations and Warranties of the Purchaser

The Purchaser hereby represents and warrants to and in favour of the Vendor as of the date hereof and as of the Closing Time, and acknowledges that, the Vendor is relying on such representations and warranties in connection with entering into this Agreement and performing its obligations hereunder:

- (a) Incorporation and Status. The Purchaser is a corporation incorporated and existing under the *Business Corporations Act* (Ontario) as of the date hereof, is in good standing under such act and has the power and authority to enter into, deliver and perform its obligations under this Agreement.
- (b) Corporate Authorization. The execution, delivery and performance by the Purchaser of this Agreement has been authorized by all necessary corporate action on the part of the Purchaser.
- (c) No Conflict. The execution, delivery and performance by the Purchaser of this Agreement do not (or would not with the giving of notice, the lapse of time, or both, or the happening of any other event or condition) result in a breach or a violation of, or conflict with, or allow any other Person to exercise any rights under, any terms or provisions of the Organizational Documents of the Purchaser.
- (d) Execution and Binding Obligation. This Agreement has been duly executed and delivered by the Purchaser and constitutes a legal, valid and binding obligation of the Purchaser, enforceable against it in accordance with its terms subject only to the Approval and Vesting Order.
- (e) Proceedings. There are no proceedings pending, or to the knowledge of the Purchaser, threatened, against the Purchaser before any Governmental Authority, which prohibit or seek to enjoin delay, restrict or prohibit the Closing of the Transaction, as contemplated by this Agreement, or which would reasonably be expected to delay, restrict or prevent the Purchaser from fulfilling any of its obligations set forth in this Agreement.

6.4 As is, Where is

The representations and warranties of the Company and the Vendor shall survive the Closing Time on the Closing Date provided, however, that the Purchaser's recourse for any breach or inaccuracy of such representations and warranties shall be against ResidualCo. The Purchaser acknowledges, agrees and confirms that, at the Closing Time, the Purchased Shares (for clarity, together with the Retained Assets) shall be sold and delivered to the Purchaser on an "*as is, where is*" basis, subject only to the representations and warranties contained herein. Other than those representations and warranties contained herein, no representation, warranty or condition is expressed or can be implied as to title, encumbrances, description, fitness for purpose, merchantability, condition or quality or in respect of any other matter or thing whatsoever.

ARTICLE 7 COVENANTS

7.1 Closing Date

- (a) The Parties shall cooperate with each other and shall use their commercially reasonable efforts to effect the Closing on or before the Outside Date.
- (b) Without limiting the foregoing, the Parties shall assist with submissions, share information and make any other efforts required to obtain any approvals or Permits and Licences from any Governmental Authority as reasonably requested by the other Party.
- (c) Each of the Parties shall, as promptly as possible, make, or cause to be made, all filings and submissions (including with respect to the Cannabis Licence and the Excise Tax License), as applicable, required under any Applicable Law.
- (d) The Vendor and the Company shall cause such individuals as the Purchaser may determine in its sole discretion to be appointed or assigned to be as of the Closing Time: (i) a director or officer of the Company; (ii) another individual who exercises direct control over the Company; (iii) directors or officers of any corporation that exercises direct control over the Company; or (iv) the responsible person, the head of security, or the master grower, and their alternates, as those terms are defined in the *Cannabis Regulations* (Canada).

7.2 Motion for Approval and Vesting Order

As soon as practicable after the selection of this Agreement as the Successful Bid in the SISP, the Vendor shall serve and file with the Court a motion for the issuance of the Approval and Vesting Order, seeking relief that will, *inter alia*, approve this Agreement and the Transaction, and release the officers and directors of the Company, its counsel and advisors, the Monitor and the Monitor's counsel. The Vendor shall use its best efforts to seek the issuance and entry of the Approval and Vesting Order and the Purchaser shall cooperate with the Vendor in its efforts to obtain the issuance and entry of the Approval and Vesting Order.

7.3 Interim Period

During the Interim Period, except as otherwise expressly contemplated or permitted by this Agreement (including the Approval and Vesting Order and the Pre-Closing Reorganization), the Vendor and Company shall continue to maintain the Business, operations of the Company and the Retained Assets and cause the Other CannaPiece Entities to maintain the Transferred Assets in substantially the same manner as conducted on the Effective Date and in material compliance with all Applicable Laws, Permits and Licences.

7.4 Access During Interim Period

- (a) During the Interim Period, the Vendor and the Company shall give, or cause to be given, to the Purchaser, and its representatives, reasonable access during normal business hours to the Corporate Office, the Manufacturing Premises, the Retained Assets, including the Books and Records, to conduct such investigations, inspections, surveys or tests thereof and of the physical, financial and legal condition of the Business and the Retained Assets as the Purchaser reasonably deems necessary or desirable to further familiarize themselves with the Business and the Retained Assets. Without limiting the generality of the foregoing: (a) the Purchaser and its representatives shall be permitted reasonable access during normal business hours to the Corporate Office, the Manufacturing Premises and all documents relating to information scheduled or required to be disclosed under this Agreement and to the Employees; and (b) the Purchaser and its representatives shall be permitted to contact and discuss the Transactions contemplated herein with Governmental Authorities and the Vendor's and Company's customers and contractual counterparties. Subject to any Professional Fees incurred in connection with any such investigations, inspections, surveys and tests, which shall be reimbursed in accordance with Article 5 hereof, all investigations, inspections, surveys and tests shall be carried out at the Purchaser's sole and exclusive risk and cost, during normal business hours, and without undue interference with the Company's operations and the Vendor and the Company shall co-operate reasonably in facilitating such investigations, inspections, surveys and tests and shall furnish copies of all such documents and materials relating to such matters as may be reasonably requested by or on behalf of the Purchaser.
- (b) in order to consider, analyze and complete or modify the Schedules in accordance with the terms of this Agreement, the Company and the Vendor undertake to provide, or cause the Other CannaPiece Entities to provide, to the Purchaser, promptly, and in any event within fifteen (15) days of the date hereof, true and complete copies of: (a) all Contracts and Other CannaPiece Contracts; (b) a list of inventory, property, plant & equipment and any other material assets owned by all Other CannaPiece Entities; (c) a list of all Employees employed by the Company and Other CannaPiece Entities; (d) a list of any outstanding legal proceedings against the Company and Other CannaPiece Entities; and (e) any other documents or information reasonably required by the Purchaser in order to complete or modify the Schedules.

7.5 Insurance Matters

Until Closing, the Vendor and the Company shall keep in full force and effect all existing insurance policies and give any notice or present any Claim under any such insurance policies consistent with past practice of the Vendor and the Company in the ordinary course of business.

ARTICLE 8 CLOSING ARRANGEMENTS

8.1 Closing

Closing shall take place on the Closing Date effective as of the Closing Time electronically (or as otherwise determined by mutual agreement of the Parties in writing), by the exchange of deliverables (in counterparts or otherwise) by electronic transmission in PDF format.

8.2 Pre-Closing Reorganization

- (a) Subject to the other terms of this Agreement, the Company and the Vendor shall effect the Pre-Closing Reorganization on the terms and using the steps set out at Exhibit "A"; *provided that* the Purchaser, the Vendor and the Company shall cooperate to ensure that the Pre-Closing Reorganization is completed in a tax efficient manner, including by revising the steps thereof as required by the Purchaser; and *provided further* that the Purchaser shall be entitled to require, as a part of the Pre-Closing Reorganization, that the Transferred Assets be transferred to and vested in the Company free and clear of all Encumbrances (other than Permitted Encumbrances) pursuant to the Approval and Vesting Order provided that such Transferred Assets have been identified by the Purchaser at least eight (8) days prior to the hearing for such Approval and Vesting Order.
- (b) The Purchaser and the Vendor shall work cooperatively and use commercially reasonable efforts to prepare, before the Closing Date, all documentation necessary and do such other acts and things as are necessary to give effect to the Pre-Closing Reorganization.

8.3 Vendor Closing Deliveries

At or before the Closing Time, the Vendor shall deliver or cause to be delivered to the Purchaser the following:

- (a) a true copy of the Approval and Vesting Order, as issued and entered by the Court;
- (b) share certificates representing the Purchased Shares duly endorsed in blank for transfer, or accompanied by irrevocable stock transfer powers duly executed in blank, in either case, by the Vendor;
- (c) confirmation, in form and substance satisfactory to the Purchaser, that the Permits and Licences, including the Cannabis Licence, will be valid and in good standing immediately following the Closing;
- (d) certificates of an officer of the Vendor and the Company dated as of the Closing Date confirming that all of the representations and warranties of the Vendor and the Company contained in this Agreement are true in all material respects as of the Closing Time, with the same effect as though made at and as of the Closing Time, and that the Vendor and the Company have performed in all material respects the covenants to be performed by them prior to the Closing Time;
- (e) the Organizational Documents of the Company and the corporate Books and Records;
- (f) a side letter addressed to the Purchaser and further to which any applicable Other CannaPiece Entities making the representations and warranties contemplated by Section 9.2(l); and
- (g) such other agreements, documents and instruments as may be reasonably required by the Purchaser to complete the Transaction, all of which shall be in form and substance satisfactory to the Parties, acting reasonably.

8.4 Purchaser's Closing Deliveries

At or before the Closing, the Purchaser shall deliver or cause to be delivered to the Vendor and the Company (or to the Monitor, as applicable), the following:

- (a) the Cash Purchase Price;
- (b) a certificate of an officer of the Purchaser dated as of the Closing Date confirming that all of the representations and warranties of the Purchaser contained in this Agreement are true in all material respects as of the Closing Time, with the same effect as though made at and as of the Closing Time, and that the Purchaser has performed in all material respects the covenants to be performed by it prior to the Closing Time; and
- (c) such other agreements, documents and instruments as may be reasonably required by the Vendor and the Company to complete the Transaction, all of which shall be in form and substance satisfactory to the Parties, acting reasonably.

ARTICLE 9 CONDITIONS OF CLOSING

9.1 Conditions Precedent in favour of the Parties

The obligation of the Parties to complete the Transaction is subject to the following joint conditions being satisfied, fulfilled or performed on or prior to the Closing Date:

- (a) Approval and Vesting Order. The Court shall have issued and entered the Approval and Vesting Order in a form satisfactory to the Purchaser in its sole and absolute discretion, which Approval and Vesting Order shall not have been stayed, set aside, varied, or vacated and no application, motion or other proceeding shall have been commenced seeking the same, in each case which has not been fully dismissed, withdrawn or otherwise resolved in a manner satisfactory to the Parties, acting reasonably;
- (b) No Order. No Applicable Law and no judgment, injunction, order or decree shall have been issued by a Governmental Authority or otherwise in effect that restrains or prohibits the completion of the Transaction; and
- (c) No Restraint. No motion, action or proceedings shall be pending by or before a Governmental Authority to restrain or prohibit the completion of the Transaction contemplated by this Agreement.

The foregoing conditions are for the mutual benefit of the Parties. If any condition set out in Section 9.1 is not satisfied, performed or mutually waived on or prior to the Outside Date, any Party may elect on written notice to the other Parties to terminate this Agreement.

9.2 Conditions Precedent in favour of the Purchaser

The obligation of the Purchaser to complete the Transaction is subject to the following conditions being satisfied, fulfilled, or performed on or prior to the Closing Date:

- (a) Landlord Approval: The Purchaser shall have obtained the Landlord Approval, in a form satisfactory to the Purchaser, acting reasonably, and the Landlord Approval shall include confirmation that the lease of the Manufacturing Facility has been extended on term and conditions satisfactory to the Purchaser, acting reasonably.

- (b) Pre-Closing Reorganization. The Pre-Closing Reorganization shall have been completed in the order and in the timeframes contemplated hereunder.
- (c) Company's Deliverables. The Vendor and the Company shall have executed and delivered or caused to have been executed and delivered to the Purchaser at the Closing all the documents contemplated in Section 8.3.
- (d) No Breach of Representations and Warranties. Except as such representations and warranties may be affected by the occurrence of events or transactions specifically contemplated by this Agreement, each of the representations and warranties contained in Section 6.1 and Section 6.2 shall be true and correct in all material respects: (i) as of the Closing Date as if made on and as of such date; or (ii) if made as of a date specified therein, as of such date.
- (e) No Breach of Covenants. The Company and the Vendor shall have performed, in all material respects, all covenants, obligations and agreements contained in this Agreement required to be performed by the Company and the Vendor on or before the Closing Date.
- (f) Termination of Company Employees. The Company shall have terminated the employment of any employees identified by the Purchaser in its sole discretion to be Terminated Employees and all Liabilities owing to any such Terminated Employees in respect of such terminations, including all amounts owing on account of statutory notice, termination payments, individual or group notice of termination (as applicable), severance, wages, overtime pay, vacation pay, benefits, bonuses or other compensation or entitlements, including any amounts deemed owing pursuant to statute or common law, shall be Excluded Liabilities or shall be Discharged pursuant to the Approval and Vesting Order.
- (g) ResidualCo. Pursuant to the Approval and Vesting Order: (i) all Excluded Assets and Excluded Liabilities shall have been transferred to ResidualCo or Discharged; (ii) the Excluded Liabilities shall have attached to the Excluded Assets and the proceeds from the Purchase Price; and (iii) the Company, its Business and property shall have been released and forever Discharged of all Claims and Encumbrances (other than Assumed Liabilities, if any) such that, from and after Closing the Business and property of the Company shall exclude the Excluded Assets and shall not be subject to any Excluded Liabilities.
- (h) Partial Termination of CCAA Proceeding. Upon Closing, the CCAA Proceeding shall have been terminated in respect of the Company, its Business and property, as set out in the Approval and Vesting Order, but, for greater certainty, shall continue in respect of ResidualCo, the Vendor and the rest of the CannaPiece Group.
- (i) Disclaimer of Excluded Contracts. The Company shall have sent notices of disclaimer for all known Excluded Contracts and other agreements, and such known Excluded Contracts shall form part of the Excluded Assets.
- (j) Permits and Licences. The Permits and Licences, including the Cannabis Licence and Excise Licence, shall be in good standing at the Closing Time and no material default shall have occurred under any such Permits and Licences that remains unremedied and such Permits and Licences shall remain in good standing immediately following and notwithstanding Closing and no Governmental Authority whose consent is not required to the Transaction shall have objected to the completion of the Transaction or indicated that such Permits and Licences will not remain in full force and effect following completion of the Transaction.

- (k) Monitor's Certificate. The Monitor shall have provided an executed certificate of the Monitor substantially in the form attached to the Approval and Vesting Order (the "**Monitor's Certificate**") confirming that all other conditions to Closing have either been satisfied or waived by both the Purchaser and the Vendor.
- (l) Representations as to Transferred Assets/by Other CannaPiece Entities. To the extent any assets, properties or undertakings of an Other CannaPiece Entity have been designated as a Transferred Asset hereunder, such Other CannaPiece Entity shall have provided to the Purchaser those representations and warranties set out in Sections 6.1(a) through (i) as modified for such Other CannaPiece Entit(ies) and Transferred Asset(s) *mutatis mutandis*, which representations and warranties (except as such representations and warranties may be affected by the occurrence of events or transactions specifically contemplated by this Agreement) shall be true and correct in all material respects: (i) as of the Closing Date as if made on and as of such date; or (ii) if made as of a date specified therein, as of such date.

The foregoing conditions are for the exclusive benefit of the Purchaser. Any condition in this Section 9.2 may be waived by the Purchaser in whole or in part, without prejudice to any of its rights of termination in the event of non-fulfillment of any other condition in whole or in part. Any such waiver shall be binding on the Purchaser only if made in writing. If any condition set out in Section 9.2 is not satisfied or performed on or prior to the Outside Date, as the case may be, the Purchaser may elect on written notice to the Vendor to terminate this Agreement. Upon the Purchaser issuing written notice to the Vendor terminating this Agreement in accordance with Section 9.2, the Purchaser shall be authorized and empowered to attend in Court and obtain an order establishing a charge against the Property (as defined in the Initial Order), equal to all amounts owing to the Purchaser pursuant to this Agreement, including Professional Fees and all amounts advanced under the DIP Term Sheet and the Deposit Facility, subject only to the Administration Charge (as defined in the Initial Order).

9.3 Conditions Precedent in favour of the Vendor and the Company

The obligation of the Vendor to complete the Transaction is subject to the following conditions being satisfied, fulfilled, or performed on or prior to the Closing Date:

- (a) Purchaser's Deliverables. The Purchaser shall have executed and delivered or caused to have been executed and delivered to the Company at the Closing all the documents and payments contemplated in Section 8.4.
- (b) No Breach of Representations and Warranties. Each of the representations and warranties contained in Section 6.3 shall be true and correct in all material respects (i) as of the Closing Date as if made on and as of such date, or (ii) if made as of a date specified therein, as of such date.
- (c) No Breach of Covenants. The Purchaser shall have performed in all material respects all covenants, obligations and agreements contained in this Agreement required to be performed by the Purchaser on or before the Closing.
- (d) Monitor's Certificate. The Monitor shall have provided an executed copy of the Monitor's Certificate confirming that all other conditions to Closing have either been satisfied or waived by both the Purchaser and the Vendor.

The foregoing conditions are for the exclusive benefit of the Vendor. Any condition in this Section 9.3 may be waived by the Vendor in whole or in part, without prejudice to any of its rights of termination in the event of non-fulfilment of any other condition in whole or in part. Any such waiver shall be binding on the Vendor only if made in writing. If any condition set forth in this Section 9.3 is not satisfied or performed on or prior to the Outside Date, the Vendor may elect on written notice to the Purchaser to terminate the Agreement.

ARTICLE 10 TERMINATION

10.1 Grounds for Termination

This Agreement may be terminated on or prior to the Closing Date:

- (a) by the mutual written agreement of the Vendor (with the consent of the Monitor) and the Purchaser; and
- (b) by the Vendor or the Purchaser upon written notice to the other Parties if: (i) the Closing has not occurred on or prior to the Outside Date; or (ii) the Approval and Vesting Order is not obtained on or before January 30, 2023 (subject to availability of the Court); provided in each case that the failure to close or obtain such order, as applicable, by such deadline is not caused by a breach of this Agreement by the Party proposing to terminate the Agreement.

In the event that this Agreement is terminated in accordance with this Section 10.1, the Purchaser shall be authorized and empowered to attend in Court and obtain an order establishing a charge against the Property (as defined in the Initial Order), equal to all amounts owing to the Purchaser pursuant to this Agreement, including Professional Fees and all amounts advanced under the DIP Term Sheet and the Deposit Facility, subject only to the Administration Charge (as defined in the Initial Order).

10.2 Effect of Termination.

If this Agreement is terminated pursuant to Section 10.1 or 5.1(h), all further obligations of the Parties under this Agreement will terminate and no Party will have any Liability or further obligations hereunder; except for the provisions of: (a) Section 10.2; and (b) Section 5.1, with respect to the Purchaser's entitlement to the Break Free, the Professional Fees and the Deposit Repayment.

ARTICLE 11 GENERAL

11.1 Access to Books and Records

For a period of two years from the Closing Date or for such longer period as may be reasonably required for the Vendor (or any trustee in bankruptcy of the estate of the Vendor) to comply with Applicable Law, the Purchaser will retain all original Books and Records that are transferred to the Purchaser under this Agreement, but the Purchaser is not responsible or liable for any accidental loss or destruction of, or damage to, any such Books and Records. So long as any such Books and Records are retained by the Purchaser pursuant to this Agreement, the Vendor (and any representative, agent, former director or officer or trustee in bankruptcy of the estate of the Vendor, including the Monitor) has the right to inspect and to make copies (at its own expense) of them at any time upon reasonable request during normal business hours and upon reasonable notice for any proper purpose and without undue interference to the business operations of the Purchaser.

11.2 Notice

Any notice or other communication under this Agreement shall be in writing and may be delivered by read-receipted email, addressed:

- (a) in the case of the Purchaser, as follows:

Cardinal Advisory Limited
260 Adelaide Street East, Suite 211
Toronto, Ontario M5A 1N1

Attention: Bill Panagiotakopoulos
Email: billp@cardinalgrouppinc.com

with a copy to:

Rory McGovern Professional Corporation
25 Adelaide Street East, Suite 1910
Toronto, Ontario M5C 3A1

Attention: Rory McGovern
Email: rorymcgovernpc.com

- (b) in the case of the Vendor or the Company, as follows:

CannaPiece Group Inc.
100 Allstate Parkway, Suite 302
Markham, Ontario L3R 6H3

Attention: Afshin Souzankar
Email: afshin@cannapiece.ca

with a copy to:

Miller Thomson LLP
40 King Street West, Suite 5800
Toronto, Ontario M5H 4A9

Attention: Sam Massie
Email: smassie@millerthomson.com

- (c) in each case, with a further copy to the Monitor as follows:

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

Attention: Clark Lonergan
Email: clonergan@bdo.ca

with a copy to:

Dentons Canada LLP
77 King Street West, Suite 400

Toronto, Ontario M5K 0A1

Attention: Robert J. Kennedy
Email: robert.kennedy@dentons.com

Any such notice or other communication, if transmitted by email before 5:00 p.m. (Toronto time) on a Business Day, will be deemed to have been given on such Business Day, and if transmitted by email after 5:00 p.m. (Toronto time) on a Business Day, will be deemed to have been given on the Business Day after the date of the transmission. In the case of a communication by email or other electronic means, if an autoreply is received indicating that the email is no longer monitored or in use, delivery must be followed by the dispatch of a copy of such communication pursuant to one of the other methods described above; provided however that any communication originally delivered by electronic means shall be deemed to have been given on the date stipulated above for electronic delivery.

Sending a copy of a notice or other communication to a Party's legal counsel as contemplated above is for information purposes only and does not constitute delivery of the notice or other communication to that Party. The failure to send a copy of a notice or other communication to legal counsel does not invalidate delivery of that notice or other communication to a Party. A Person may change its address for service by notice given in accordance with the foregoing and any subsequent communication must be sent to such Person at its changed address.

11.3 Public Announcements

The Vendor shall be entitled to disclose this Agreement to the Court and parties in interest in the CCAA Proceedings, other than any information which the Purchaser advises the Vendor in writing as being confidential, and this Agreement may be posted on the Monitor's website maintained in connection with the CCAA Proceedings. Other than as provided in the preceding sentence or statements made in Court (or in pleadings filed therein) or where required to meet timely disclosure obligations of the Vendor or any of its Affiliates under Applicable Laws, the Vendor shall not issue (prior to or after the Closing) any press release or make any public statement or public communication with respect to this Agreement or the Transactions contemplated hereby without the prior consent of the other Parties, which shall not be unreasonably withheld or delayed.

11.4 Time

Time shall, in all respects, be of the essence hereof, provided that the time for doing or completing any matter provided for herein may be extended or abridged by an agreement in writing signed by the Parties.

11.5 Survival

The representations and warranties of the Parties contained in this Agreement shall not merge on Closing and the representations, warranties and covenants of the Parties contained herein to be performed after the Closing shall survive Closing and remain in full force and effect.

11.6 Benefit of Agreement

This Agreement shall enure to the benefit of and be binding upon the Parties and their respective successors and permitted assigns, including for greater certainty, ResidualCo, provided that no consent, waiver or agreement of ResidualCo shall be required for any amendment of this Agreement.

11.7 Entire Agreement

This Agreement and the attached Schedules hereto constitute the entire agreement between the Parties with respect to the subject matter hereof and supersede all prior negotiations, understandings and agreements; provided that nothing in this Agreement affects the rights and obligations of the Parties under the DIP Term

Sheet. This Agreement may not be amended or modified in any respect except by written instrument executed by the Vendor and the Purchaser.

11.8 Paramountcy

In the event of any conflict or inconsistency between the provisions of this Agreement, and any other agreement, document or instrument executed or delivered in connection with this Transaction or this Agreement, the provisions of this Agreement shall prevail to the extent of such conflict or inconsistency.

11.9 Governing Law

This Agreement shall be governed by and construed in accordance with the laws of the Province of Ontario and the laws of Canada applicable therein and each of the Parties irrevocably attorns to the exclusive jurisdiction of the Court, and any appellate courts of the Province of Ontario therefrom.

11.10 Assignment

- (a) This Agreement may be assigned by the Purchaser prior to the issuance of the Approval and Vesting Order, in whole or in part, without the prior written consent of the Vendor, the Company, ResidualCo or the Monitor, provided that: (i) such assignee is a related party or subsidiary of the Purchaser; (ii) the Purchaser provides prior notice of such assignment to the Vendor, the Company and the Monitor; and (iii) such assignee agrees to be bound by the terms of this Agreement to the extent of the assignment.
- (b) Except as specifically contemplated herein as it relates to ResidualCo, this Agreement may not be assigned by the Vendor or the Company without the consent of the Purchaser.

11.11 Further Assurances

Each of the Parties shall, at the request and expense of the requesting Party, take or cause to be taken such action and execute and deliver or cause to be executed and delivered to the other such conveyances, transfers, documents and further assurances as may be reasonably necessary or desirable to give effect to this Agreement.

11.12 Counterparts

This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original and all of which shall constitute one and the same agreement. Transmission by e-mail of an executed counterpart of this Agreement shall be deemed to constitute due and sufficient delivery of such counterpart.

11.13 Severability

Notwithstanding any provision herein, if a condition to complete the Transaction, or a covenant or an agreement herein is prohibited or unenforceable pursuant to Applicable Law, then such condition, covenant or agreement shall be ineffective to the extent of such prohibition or unenforceability without invalidating the other provisions hereof.

11.14 Monitor's Certificate

The Parties acknowledge and agree that the Monitor shall be entitled to deliver to the Purchaser, and file with the Court, the executed Monitor's Certificate without independent investigation, upon receiving written confirmation from both Parties (or the applicable Party's counsel) that all conditions of Closing in favour of such Party have been satisfied or waived, and the Monitor shall have no Liability to the Parties in connection therewith. The Parties further acknowledge and agree that upon written confirmation from both Parties that all conditions of Closing in favour of such Party have been satisfied or waived, the Monitor

may deliver the executed Monitor's Certificate to the Purchaser's counsel in escrow, with the sole condition of its release from escrow being the Monitor's written confirmation that all such funds have been received, the Monitor's Certificate will be released from escrow to the Purchaser, and the Closing shall be deemed to have occurred.

11.15 Monitor's Capacity

In addition to all of the protections granted to the Monitor under the CCAA or any order of the Court in this CCAA Proceeding, the Vendor, the Company and the Purchaser acknowledge and agree that the Monitor, acting in its capacity as Monitor of the Company and not in its personal capacity, will have no Liability, in its personal capacity or otherwise, in connection with this Agreement or the Transaction contemplated herein whatsoever as Monitor.

[Signature Page Follows]

IN WITNESS WHEREOF the Parties have executed this Agreement as of the day and year first above written.

CARDINAL ADVISORY LIMITED

By: _____

Name: Bill Panagiotakopoulos

Title: President

I have authority to bind the Corporation.

CANNAPIECE GROUP INC.

By: _____

Name: Afshin Souzankar

Title: President and CEO

I have authority to bind the Corporation.

CANNAPIECE CORP.

By: _____

Name: Afshin Souzankar

Title: CEO

I have authority to bind the Corporation.

IN WITNESS WHEREOF the Parties have executed this Agreement as of the day and year first above written.

CARDINAL ADVISORY LIMITED

By: _____
Name: Bill Panagiotakopoulos
Title: President

I have authority to bind the Corporation.

CANNAPIECE GROUP INC.

By: Afshin Souzankar
Name: Afshin Souzankar
Title: President and CEO

I have authority to bind the Corporation.

CANNAPIECE CORP.

By: Afshin Souzankar
Name: Afshin Souzankar
Title: CEO

I have authority to bind the Corporation.

EXHIBIT "A"
PRE-CLOSING REORGANIZATION

1. The Transferred Assets shall be transferred to the Company.
2. ResidualCo shall be incorporated by the Vendor with nominal consideration for common shares and shall be added to the CCAA Proceeding as an Applicant, but shall take no other steps or actions in respect thereof.
3. The Excluded Assets and Excluded Liabilities shall be transferred to, and vested in, ResidualCo pursuant to the Approval and Vesting Order.

SCHEDULE "A"
EXCLUDED ASSETS

1. Inventory sold in the ordinary course of Business in the Interim Period.
2. Excluded Contracts, as determined by the Purchaser prior to Closing.

[Note: Balance of schedule to be completed prior to Closing.]

SCHEDULE "B"
EXCLUDED CONTRACTS

The following is a non-exhaustive list of the Excluded Contracts:

1.

[Note: Balance of schedule to be completed prior to Closing.]

**SCHEDULE “C”
EXCLUDED LIABILITIES**

The following is a non-exhaustive list of Excluded Liabilities:

1. Any and all Liabilities relating to any change of control provision that may arise in connection with the change of control contemplated by the Transaction and to which the Company may be bound as at the Closing Time.
2. Any and all Liabilities pertaining to the administration of the CCAA Proceedings including, without limitation, under any court-ordered charge granted therein.
3. All Liabilities relating to or under the Excluded Contracts and Excluded Assets.
4. All Liabilities to Terminated Employees whose employment with the Company is terminated on or before Closing, including all amounts owing on account of statutory notice, termination payments, individual or group notice of termination (as applicable), severance, wages, overtime pay, vacation pay, benefits, bonuses or other compensation or entitlements, including any amounts deemed owing pursuant to statute or common law.
5. All Liabilities related to any amounts of any nature or kind owing to any Employees or Persons who have performed work for the Company as at the Closing Time.
6. Any Liabilities for commissions, fees or other compensation payable to any finder, broker or similar intermediary in connection with the negotiation, execution or delivery of this Agreement or the consummation of the Transaction.
7. Any and all Liabilities that are not Assumed Liabilities.

[Note: Balance of schedule to be completed prior to Closing.]

SCHEDULE "D"
TRANSFERRED ASSETS

[Note: Balance of schedule to be completed prior to Closing.]

SCHEDULE "E"
PERMITTED ENCUMBRANCES

1. Any and all security registered in connection with the 212 Debt.

SCHEDULE "F"
CANNABIS LICENCE

Regulatory Authority	Authorization Type	Details	Licensee	Effective Date	Expiry Date	Licence No.
Health Canada	Federal Cannabis Licence	Federally authorized licence holder with licences for Standard Processing and Sale for Medical Purposes	CannaPiece Corp.	June 7, 2022	February 28, 2023	LIC-IQI3F5JF5MF-2020-8

SCHEDULE "G"
SISP AND BIDDING PROCEDURES

Attached.

Sale and Investment Solicitation Process

Introduction

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

Opportunity

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

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

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

Timeline

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

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

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

Solicitation of Interest: Notice of the SISP

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

- interested in purchasing all or part of the Business and Property or investing in the Applicants pursuant to the SISP, in each case whether or not such party has submitted a letter of intent or similar document (collectively, “**Known Potential Bidders**”);
- (b) the Monitor will arrange for a notice of the SISP (and such other relevant information which the Monitor, in consultation with the Applicants, considers appropriate) (the “**Notice**”) to be published in The Globe and Mail (National Edition), and any other newspaper or journal as the Applicants, in consultation with the Monitor, consider appropriate, if any; and
 - (c) the Sales Agent, in consultation with the Monitor and Applicants, will prepare: (i) a process summary (the “**Teaser Letter**”) describing the Opportunity, outlining the process under the SISP and inviting recipients of the Teaser Letter to express their interest pursuant to the SISP; and (ii) a non-disclosure agreement in form and substance satisfactory to the Applicants and the Monitor, and their respective counsel.
9. The Sales Agent will send the Teaser Letter and NDA to each Known Potential Bidders by no later than Friday November 18, 2022, and to any other party who requests a copy of the Teaser Letter and NDA or who is identified to the Applicants or the Monitor as a potential bidder as soon as reasonably practicable after such request or identification, as applicable.

Potential Bidders and Due Diligence Materials

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

Continued Management of CPC

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

Stalking Horse Bid Non-Cash Purchase Price Finalized

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

Formal Binding Offers

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

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

- (ii) has relied solely upon its own independent review, investigation and/or inspection of any documents and/or the Property in making its bid; and
 - (iii) did not rely upon any written or oral statements, representations, warranties, or guarantees whatsoever, whether express, implied, statutory, or otherwise, regarding the Business, the Property, or the Applicants or the completeness of any information provided in connection therewith, except as expressly stated in the definitive transaction agreement(s) signed by the Applicants;
 - (k) the Bid must be received by the Bid Deadline;
 - (l) the Bid must contemplate closing the transaction set out therein on or before February 6, 2023.
16. Following the Bid Deadline, the Sales Agent, Applicants and the Monitor will assess the Bids received. The Monitor, in consultation with the Applicants, and with the approval of the Applicants, will designate the most competitive bids that comply with the foregoing requirements to be “**Qualified Bids**”. No Bid received shall be deemed not to be a Qualified Bid without the approval of the Monitor. Only Bidders whose bids have been designed as Qualified Bids are eligible to become the Successful Bidder(s). The Stalking Horse Bid shall automatically be considered as a Qualified Bid for the purposes of the Auction.
17. The Monitor may only designate a Bid as a Qualified Bid where the proposed Purchaser Price is equal to or greater than that contained in the Stalking Horse Bid, *plus* the amount of the break fee, *plus* professional fees, *plus* \$100,000.
18. The Monitor, in consultation with the Applicants and with the approval of the Applicants, may waive strict compliance with any one or more of the requirements specified above and deem a non-compliant Bid to be a Qualified Bid.
19. The Monitor shall notify each Bidder in writing as to whether its Bid constituted a Qualified Bid within two (2) business days of the Bid Deadline, or at such later time as the Monitor deems appropriate.
20. The Monitor may, in consultation with the Applicants and with the approval of the Applicants, aggregate separate Bids from unaffiliated Bidders to create one Qualified Bid.

Evaluation of Competing Bids

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

Auction

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

Auction Procedure

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

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

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

Selection of Successful Bid

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

Sale Approval Motion Hearing

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

Confidentiality and Access to Information

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

Supervision of the SISP

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

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

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

Schedule "1"
Address of Monitor

To the Monitor:

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

Attention: Clark Lonergan and Peter Naumis

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

SCHEDULE "H"
ASSUMED LIABILITIES

1. The 212 Debt.

SCHEDULE "I"
ASSUMED CONTRACTS

The following is a comprehensive list of Assumed Contracts:

[Note: Balance of schedule to be completed prior to Closing.]

**This is Exhibit "H" referred to in the affidavit
of AFSHIN SOUZANKAR, SWORN BEFORE ME
this 25th day of January, 2023**

DocuSigned by:

Monica Fakim

A COMMISSIONER FOR TAKING AFFIDAVITS

November 2, 2022

CannaPiece Group Inc.

100 Allstate Parkway, Suite 302
Markham, Ontario L3R 6H3

Attention: Afshin Souzankar, President and Chief Executive Officer

Re: Debtor-in-Possession Financing of CannaPiece Group Inc.

A. CannaPiece Group Inc., CannaPiece Corp. (“**CPC**”), Canadian Craft Growers Corp., 2666222 Ontario Ltd., 2580385 Ontario Inc. and 2669673 Ontario Inc. (collectively, the “**Borrowers**”) intend to make an application to the Ontario Superior Court of Justice (Commercial List) (the “**Court**”) for an initial order (the “**Initial Order**”), among other things, commencing proceedings under the *Companies’ Creditors Arrangement Act* (the “**CCAA Proceedings**”), imposing a stay of proceedings in favour of the Borrowers (the “**Initial Stay**”), appointing BDO Canada Limited as Monitor of the Borrowers (in such capacity, the “**Monitor**”), approving this term sheet (this “**Term Sheet**”) and granting the DIP Lender’s Charge (as defined herein).

B. The Borrowers and Cardinal Advisory Limited, or its nominee (the “**Lender**”) are in the process of negotiating a purchase agreement (the “**Purchase Agreement**”) pursuant to which the Lender intends to: (i) acquire 100% ownership of CPC within the CCAA Proceedings by way of reverse approval and vesting order; and (ii) act as a stalking horse bidder in a Court-supervised sale and investment solicitation process (“**SISP**”) within the CCAA Proceedings.

C. In the event that the Initial Order is granted, and prior to the expiry of the Initial Stay, the Borrowers will seek:

- (i) an order amending and restating the Initial Order to, *inter alia*, extend the Initial Stay (as may be further amended and restated from time to time, the “**ARIO**”); and
- (ii) an order approving, and authorizing the Monitor to conduct, the SISP, and approving the Purchase Agreement as a stalking horse bid within the SISP (as may be amended and restated from time to time, the “**SISP Order**”).

C. The Borrowers require funding to satisfy the cashflow requirements of the CCAA Proceedings and other short-term liquidity requirements during the Initial Stay.

D. The Lender has agreed to advance a debtor-in-possession loan in the aggregate principal amount of \$500,000, subject to and in accordance with the terms and conditions of this Term Sheet.

NOW THEREFORE in consideration of the foregoing and the mutual covenants and agreements set forth below, and other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereby agree as follows:

SUMMARY OF TERMS FOR DIP FACILITY

- 1. Borrowers:** CannaPiece Group Inc., CannaPiece Corp., Canadian Craft Growers Corp., 2666222 Ontario Ltd., 2580385 Ontario Inc. and 2669673 Ontario Inc., on a joint and several basis.
- 2. Lender:** Cardinal Advisory Limited
- 3. DIP Facility / Deposit:** Non-revolving facility in the maximum aggregate principal amount of \$500,000 (the “**DIP Facility**”). The DIP Facility shall be treated in all respects as a debtor-in-possession loan in accordance with the terms and conditions set out in this Term Sheet unless and until the Purchase Agreement is approved as a stalking horse bid in the SISP pursuant to the SISP Order, at which point all amounts advanced under the DIP Facility shall be treated as a deposit and governed by the Purchase Agreement and the SISP Order.
- 4. Purpose:** The DIP Facility shall be available during the Initial Stay to fund: (i) working capital needs of the Borrowers; (ii) professional fees and expenses incurred by the Borrowers and the Monitor in respect of the CCAA Proceedings, in each case in accordance with the cash flow projections approved by the Monitor and the Lender (the “**Interim Cash Flow Projections**”); (iii) the Recoverable Expenses (as defined below); and (iv) such other costs and expenses of the Borrowers as may be agreed to by the Lender, in writing.

The amount and purpose of the DIP Facility may be amended by the Borrowers and the Lender in writing. The Borrowers may not use the proceeds of the DIP Facility to pay any pre-filing obligations of the Borrowers, except in accordance with the Interim Cash Flow Projections or with the prior written consent of the Lender and the Monitor.
- 5. Funding Conditions:** The DIP Facility shall be available to the Borrowers, subject to all other terms and conditions of this Term Sheet, immediately upon the issuance of the Initial Order. For certainty, the Initial Order shall be in form and substance satisfactory to the Borrowers, acting reasonably, and shall include standard provisions approving this Term Sheet and the DIP Facility and granting the DIP Lender’s Charge.

Nothing in this Term Sheet creates a legally binding obligation on the Lender to advance any amount under the DIP Facility at any time unless the Borrowers are in compliance with the provisions of this Term Sheet.
- 6. Interest:** Interest shall accrue on amounts Advanced under the DIP Facility at a rate equal to 12% per annum (the “**Interest**”). Interest shall be calculated on the daily outstanding balance owing under the DIP Facility, not in advance, and shall accrue and be paid or otherwise satisfied on the Maturity Date (as defined herein).
- 7. Recoverable Expenses:** The Borrowers shall pay all fees and expenses (collectively, the “**Recoverable Expenses**”) incurred by the Lender in connection with the preparation, registration and ongoing administration of this Term Sheet, the DIP Facility, the Initial Order, the ARIO, the SISP Order, the DIP Lender’s Charge and with the enforcement of the Lender’s rights and remedies hereunder and thereunder, at law or in equity, including, without limitation

all reasonable legal fees and disbursements incurred by the Lender. For greater certainty, "Recoverable Expenses" shall include all reasonable fees and expenses incurred by the Lender in connection with the CCAA Proceedings and all Court attendances in respect thereof. If the Lender has paid any expenses for which the Lender is entitled to reimbursement from the Borrowers, such expenses shall be added to the DIP Facility and shall accrue Interest at the rate set out above. All such fees and expenses and Interest thereon shall be secured by the DIP Lender's Charge whether or not any funds under the DIP Facility are advanced.

8. Commitment Fee: The Borrowers shall pay a commitment fee in the amount of \$10,000 (the "**Fee**"), representing 2% of the total amount available under the DIP Facility, which shall be fully earned upon the execution of this Term Sheet and shall be paid or otherwise satisfied on the Maturity Date. For certainty, the Fee shall be secured by the DIP Lender's Charge.

9. Security: All debts, liabilities and obligations of the Borrowers to the Lender under or in connection with the DIP Facility (including, without limitation, Interest, Fees and Recoverable Expenses), this Term Sheet and any other documents executed in connection therewith shall be secured by a Court-ordered priority charge (the "**DIP Lender's Charge**") granted to the Lender in and to all present and future properties, assets, and undertakings of the Borrowers, real and personal, tangible and intangible, whether now owned or hereafter acquired, and the proceeds thereof (the "**Property**"), subject only to an administration charge in the maximum aggregate amount of \$250,000 under the Initial Order (as may be increased in the ARIO) for the payment of the fees and expenses of the Monitor, counsel to the Borrowers and counsel to the Monitor (the "**Administration Charge**").

10. Maturity Date: Unless otherwise agreed to by the Lender and the Borrowers in writing, the term of the DIP Facility shall expire, and the Borrowers shall repay all obligations owing to the Lender under this Term Sheet, on the earliest of (the "**Maturity Date**"):

- (a) February 3, 2023;
- (b) the issuance of the SISP Order, approving the Purchase Agreement as a stalking horse bid in the SISP, in which case all amounts owing under the DIP Facility shall be treated as a deposit and governed by the terms of the Purchase Agreement and the SISP Order;
- (c) the closing of a sale or investment transaction resulting from the SISP (other than the transaction contemplated by the Purchase Agreement), which transaction has been approved by an order of the Court;
- (d) the implementation of a plan of compromise or arrangement within the CCAA Proceedings, which has been approved by the requisite majority of the Borrowers' creditors, and by an order of the Court;
- (e) the date on which the CCAA Proceedings are terminated for any reason, including if the CCAA Proceedings are converted into a

proceeding under the *Bankruptcy and Insolvency Act* (the “**BIA**”);
and

- (f) the occurrence of an Event of Default (as defined herein), subject to a cure period of seven (7) business days, beginning on the date of the occurrence of such Event of Default.

11. Repayment:

Unless the Maturity Date occurs in accordance with Section 11(b), above, the aggregate principal amount owing under the DIP Facility plus all accrued and unpaid Interest, Recoverable Expenses and the Fee, shall become immediately due and payable on the Maturity Date. The DIP Facility may be prepaid at any time, without penalty (provided all accrued and unpaid Interest, Recoverable Expenses and the Fee are paid in full) prior to entry into the Purchase Agreement. If the Borrowers choose to prepay any amount owing under the DIP Facility, any such payment shall be applied: (i) first, to all accrued and unpaid Interest; (ii) second, to the Fee and Recoverable Expenses; and (iii) third, to any principal amount outstanding under the DIP Facility.

12. Covenants:

The Borrowers covenant and agree with the Lender, so long as any amounts are outstanding by the Borrowers to the Lender hereunder, to:

- (a) promptly on the receipt by the Borrowers of the same, give the Lender a copy of any Notice of Motion or Application to vary, supplement, revoke, terminate or discharge the Initial Order, or any other Court Order issued in the CCAA Proceedings, including, without limitation, any application to the Court for the granting of new or additional security that will or may have priority over the DIP Lender’s Charge, or otherwise for the variation of the priority of the DIP Lender’s Charge;
- (b) provide the Lender with any additional financial information reasonably requested by the Lender, to the extent that it is readily available;
- (c) provide the Lender with prompt written notice of any event which constitutes, or which, with notice, lapse of time, or both, would constitute an Event of Default, a breach of any covenant, or other term or condition of this Term Sheet, or of any document executed in connection with this Term Sheet;
- (d) pay all property taxes and other claims which, under law, may rank prior to or *pari passu* with the DIP Lender’s Charge due and payable from and after the commencement of the CCAA Proceedings, as and when such amounts are due;
- (e) keep the Borrowers’ assets fully insured against such perils and in such manner as would be customarily insured by companies owning similar assets;
- (f) not, without the prior written consent of the Lender, incur any borrowings or other secured indebtedness, obligations or liabilities, other than the DIP Facility, or create or grant any security (other than

the Administration Charge and the DIP Lender's Charge) over any of the Borrowers' Property, whether ranking in priority to or subordinate to the DIP Lender's Charge; and

- (g) conduct all activities in the ordinary course and in material compliance with the Interim Cash Flow Projections.

13. Events of Default:

The DIP Facility shall be subject to the following events of default (each, an "Event of Default"):

- (a) the failure of the Borrowers to pay any amount due hereunder when due and payable;
- (b) any covenant, condition precedent, payment obligation, or other term or condition of this Term Sheet is not complied with or fulfilled to the satisfaction of the Lender;
- (c) the seeking or support by the Borrowers, or the issuance by the Court, of any Court order (in the CCAA Proceedings or otherwise) which is adverse or potentially adverse to the interests of the Lender, in its sole discretion;
- (d) the occurrence of an event that will, in the opinion of the Lender, materially impair the Borrowers' financial condition, operations or ability to perform under this Term Sheet or any order of the Court;
- (e) the occurrence of any material adverse change in: (i) the business, operations, or financial condition of the Borrowers; (ii) the Property of the Borrowers; (iii) the DIP Lender's Charge, including its relative priority; (iv) the ability of the Borrowers to perform their obligations to the Lender or to any person under any material contract; (v) the Lender's ability to enforce any of its rights or remedies against the Borrowers' Property or for the obligations of the Borrowers to be satisfied from the realization thereof;
- (f) the Borrowers become bankrupt or subject to a proceeding under the BIA, or a receiver, interim receiver, receiver and manager or trustee in bankruptcy is appointed in respect of any Borrower, or any Borrower's Property;
- (g) the commencement of any claim, action, proceeding, application, motion, defense or other contested matter the purpose of which is to seek, or the result of which would be, to obtain any order, judgment, determination, declaration or similar relief: (i) invalidating, setting aside, avoiding, or subordinating the obligations of the Borrowers under the DIP Facility, the DIP Lender's Charge or its priority; (ii) for monetary, injunctive or other relief against the Lender or the Borrowers' Property; or (iii) preventing, hindering or otherwise delaying the exercise by the Lender of any of its rights and remedies hereunder, pursuant to the Initial Order or under applicable law, or the enforcement or realization by the Lender against any of its collateral.

14. Remedies and Enforcement:

Following the occurrence of an Event of Default, and the expiration of the cure period prescribed in Section 11(f), upon written notice to the Borrowers and the Monitor, the Lender shall have the right, subject to the Lender obtaining an Order from the Court lifting the stay under the CCAA Proceedings, to:

- (a) enforce the DIP Lender's Charge and realize on the Property and any other collateral securing the DIP Facility;
- (b) exercise the rights and powers of a secured lender and mortgagee pursuant to the *Personal Property Security Act*, the *Mortgages Act* or any legislation of similar effect; and
- (c) exercise all such other rights and remedies available to the Lender under this Term Sheet, the Initial Order, any other order of the Court or applicable law.

No failure or delay on the part of the Lender in exercising any of its rights and remedies shall be deemed to be a waiver of any kind.

15. Further Assurances: The Borrowers will, at their own expense and promptly on demand by the Lender at any time, do such acts and things and execute and deliver such documents as the Lender may reasonably request to give effect to any other provisions set out hereunder.

16. Assignment: The Borrowers shall not assign this Term Sheet or any of the provisions set out herein without the prior written consent of the Lender. The Lender may assign or sell its rights or obligations with respect to this Term Sheet to any person without the prior written consent of the Borrowers.

17. Governing Law: The DIP Facility and the provisions set out herein shall be governed and construed in all respects in accordance with the laws of the Province of Ontario and the laws of Canada applicable therein.

18. Currency: All dollar amounts herein are in Canadian Dollars.

19. Acceptance: This Term Sheet is open for acceptance until 5:00 p.m. (Toronto time) on November 2, 2022. The Borrowers may accept this Term Sheet by returning a countersigned copy of this Term Sheet to the Lender (by electronic transmission or personal delivery).

[Signature Page Follows]

Dated this 2nd day of November, 2022.

CARDINAL ADVISORY LIMITED

By: 

Name: Bill Panagiotakopoulos

Title: President

I have authority to bind the Corporation.

ACCEPTANCE

TO THE DIP LENDER:

For good and valuable consideration received, CannaPiece Group Inc., CannaPiece Corp., Canadian Craft Growers Corp., 2666222 Ontario Ltd. and 2580385 Ontario Inc., accept and agree to comply with the provisions of the Term Sheet set out above, on a joint and several basis.

Dated this 02 day of November, 2022.

CANNAPIECE GROUP INC.

By: Afshin Souzankar
Name: Afshin Souzankar
Title: President and CEO

I have authority to bind the Corporation.

CANNAPIECE CORP.

By: Afshin Souzankar
Name: Afshin Souzankar
Title: President and CEO

I have authority to bind the Corporation.

CANADIAN CRAFT GROWERS CORP.

By: Afshin Souzankar
Name: Afshin Souzankar
Title: President

I have authority to bind the Corporation.

2666222 ONTARIO LTD.

By: Afshin Souzankar
Name: Afshin Souzankar
Title: President

I have authority to bind the Corporation.

2580385 ONTARIO INC.

By: _____

Name: Afshin Souzankar
Title: President




I have authority to bind the Corporation.

2669673 ONTARIO INC.

By: _____

Name: Afshin Souzankar
Title: Authorized Signatory



I have authority to bind the Corporation.

**IN THE MATTER OF THE COMPANIES' CREDITORS ARRANGEMENT ACT, R.S.C. 1985, C.
C-36, AS AMENDED
AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF CANNAPIECE
GROUP INC., CANNAPIECE CORP., CANADIAN CRAFT GROWERS CORP., 2666222
ONTARIO LTD., 2580385 ONTARIO INC. AND 2669673 ONTARIO INC.**

Court File No.: CV-22-00689631-00CL

Applicants

**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**
Proceeding commenced at TORONTO

**AFFIDAVIT OF AFSHIN SOUZANKAR
(RETURNABLE JANUARY 31, 2023]**

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Lawyers for the Applicants

TAB 3

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

THE HONOURABLE) TUESDAY, THE 31ST
)
JUSTICE OSBORNE) DAY OF JANUARY, 2023
)

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

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

(collectively, the "**Applicants**" and each an "**Applicant**")

APPROVAL AND VESTING ORDER

THIS MOTION, made by the Applicants, pursuant to the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended ("**CCAA**"), for an order, among other things: (i) approving the share purchase agreement (the "**SPA**"), entered into among CannaPiece Group Inc. (the "**Vendor**"), CannaPiece Corp. (the "**Company**") and 100042058 Ontario Inc. (the "**Purchaser**") for the purchase and sale of all of the issued and outstanding shares of the Company ("**Purchased Shares**") and the Company Property (defined below); (ii) adding 14707117 Canada Inc. ("**ResidualCo**") as an Applicant to these CCAA Proceedings in order to carry out the transactions contemplated by the SPA (collectively, the "**Transaction**"); (iii) vesting in the Company all of the Vendor's right, title and interest in and to the Transferred Assets, free and clear from any Encumbrances; (iv) vesting absolutely and exclusively in ResidualCo all Excluded Liabilities, Excluded Assets, and Excluded Contracts; (v) vesting all of the Vendor's right, title and interest in and to the Purchased Shares in the Purchaser, free and clear of any Encumbrances; (vi) discharging all Encumbrances against the Company and the Company Property other than Permitted Encumbrances; (vii) approving releases in favour of the

current and former directors, officers, employees, legal counsel and advisors of CPC (viii) approving the second report of BDO Canada Limited, in its capacity as Monitor of the Applicants (the “**Monitor**”) (the “**Second Report**”); and (ix) extending the stay of proceedings in respect of the Applicants to February 17, 2023 (the “**Stay Period**”); was heard this day by videoconference.

ON READING the Applicants’ notice of motion dated January 25, 2023, the Affidavit of Afshin Souzankar dated January 25, 2023, and the Second Report, to be filed, and on hearing the submissions of counsel for the Applicants and counsel for the Monitor and counsel for those other parties appearing as indicated by the counsel slip, no one appearing for any other party although duly served as appears from the affidavit of service, filed:

SERVICE

1. **THIS COURT ORDERS** that the time for service of the Notice of Motion and the Motion Record be and is hereby abridged and validated so that this Motion is properly returnable today and hereby dispenses with further service thereof.

DEFINED TERMS

2. **THIS COURT ORDERS** that capitalized terms not otherwise defined herein shall have the meanings ascribed to such terms in the SPA.

APPROVAL AND VESTING

3. **THIS COURT ORDERS AND DECLARES** that the SPA and the Transaction be and are hereby approved and that the execution of the SPA by the Vendor and the Company is hereby authorized, ratified and approved, with such minor amendments as the parties thereto may deem necessary, with the approval of the Monitor. The Applicants are hereby authorized and directed to perform their obligations under the SPA and to take such additional steps and

execute such additional documents as may be necessary or desirable to effect the Transaction and for the conveyance of the Purchased Shares to the Purchaser.

4. **THIS COURT ORDERS AND DECLARES** that this Order shall constitute the only authorization required by the Applicants to proceed with the Transaction and that no shareholder or other approval shall be required in connection therewith.

5. **THIS COURT ORDERS AND DECLARES** that upon the delivery of a copy of the Monitor's certificate (the "**Monitor's Certificate**") to the Purchaser (the time of such delivery being referred to herein as the "**Effective Time**"), substantially in the form attached as Schedule "A" hereto, the following shall occur and shall be deemed to have occurred at the Effective Time in the following sequence:

- (a) all of the Vendor's right, title and interest in and to the Transferred Assets shall vest absolutely and exclusively in the Company, free and clear of and from any and all Claims and Encumbrances (each as defined below) and, for greater certainty, this Court orders that all of the Encumbrances in respect of the Transferred Assets are hereby expunged and discharged as against the Transferred Assets;
- (b) all of the right, title and interest in and to the Excluded Assets shall vest absolutely and exclusively in ResidualCo, and all Claims and Encumbrances (each as defined below) shall continue to attach to the Excluded Assets and to the Proceeds (defined below) in accordance with paragraph 8 of this Order, in either case with the same nature and priority as they had immediately prior to the transfer;
- (c) all Excluded Liabilities (which for certainty includes all debts, liabilities, obligations, indebtedness, contracts, leases, agreements, and undertakings of

any kind or nature whatsoever, whether direct or indirect, known or unknown, absolute or contingent, accrued or unaccrued, liquidated or unliquidated, matured or unmatured or due or not yet due, in law or equity and whether based in statute or otherwise) of the Company (other than the Assumed Liabilities) shall be transferred to, assumed by and vest absolutely and exclusively in ResidualCo such that the Excluded Liabilities shall become obligations of ResidualCo and shall no longer be obligations of the Company, and the Company and all of its assets, licenses, undertakings and properties of every nature and kind whatsoever and wherever situated (including, for certainty, the Transferred Assets and the Retained Assets) (collectively, the “**Company Property**”) shall be and are hereby forever released and discharged from such Excluded Contracts and Excluded Liabilities and all related Claims and all Encumbrances affecting or relating to the Company Property are hereby expunged and discharged as against the Company Property;

- (d) all of the right, title and interest in and to the Purchased Shares shall vest absolutely in the Purchaser, free and clear of and from any and all security interests (whether contractual, statutory, or otherwise), hypothecs, mortgages, trusts or deemed trusts (whether contractual, statutory, or otherwise), liens, executions, levies, charges, or other financial or monetary claims, whether or not they have attached or been perfected, registered or filed and whether secured, unsecured or otherwise (collectively, the “**Claims**”) including, without limiting the generality of the foregoing: (i) any encumbrances or charges created by the Initial Order or any other orders in these CCAA Proceedings; (ii) all charges, security interests or claims evidenced by registrations pursuant to the *Personal Property Security Act* (Ontario) or any other personal property registry systems; and (iii) those Claims listed on Schedule “B” hereto (all of which are collectively referred

to as the “**Encumbrances**”) and, for greater certainty, this Court orders that all of the Encumbrances affecting or relating to the Purchased Shares are hereby expunged and discharged as against the Purchased Shares; and

- (e) all options, conversion privileges, equity-based awards, warrants, securities, debentures, loans, notes or other rights, agreements or commitments of any character whatsoever that are held by any Person (as defined below) and are convertible or exchangeable for any securities of the Company, or which require the issuance, sale or transfer by the Company of any shares or other securities of the Company and/or the share capital of the Company, or otherwise relating thereto, shall be deemed terminated and cancelled; and
- (f) the Company shall, and shall be deemed to, cease being an Applicant in these CCAA Proceedings, and shall be deemed to be released from the purview of the Initial Order and all other orders of this Court granted in respect of these CCAA Proceedings, save and except for this Order, the provisions of which (as they relate to the Company and ResidualCo) shall continue to apply in all respects.

6. **THIS COURT ORDERS AND DIRECTS** the Monitor to file with the Court a copy of the Monitor’s Certificate, forthwith after delivery thereof in connection with the Transaction.

7. **THIS COURT ORDERS** that the Monitor may rely on written notice from the Vendor and the Purchaser regarding the fulfilment of conditions to closing under the SPA and shall have no liability with respect to delivery of the Monitor’s Certificate.

8. **THIS COURT ORDERS** that for the purposes of determining the nature and priority of Claims, the net proceeds from the sale of the Purchased Shares (the “**Proceeds**”) and the Excluded Assets, if any, shall be allocated to ResidualCo, and that from and after the delivery of the Monitor’s Certificate, all Claims and Encumbrances shall attach to the Proceeds, with the

same priority as they had with respect to the Purchased Shares and the Company Property immediately prior to the sale, as if: (i) the Company Property and Purchased Shares had not been sold and remained owned by and in the possession or control of the Person who owned and had possession or control immediately prior to the sale; and (ii) the Excluded Contracts and Excluded Liabilities had not been transferred to and vested in ResidualCo and had remained liabilities of the Company immediately prior to the transfer;

9. **THIS COURT ORDERS** that, upon the delivery of the Monitor's Certificate, the Purchaser and its counsel and/or their respective agents shall be authorized to take all steps to file or register, as applicable, all such financing change statements and other instruments as may be necessary to cancel and discharge all registrations against the Company pursuant to the *Personal Property Security Act* (Ontario) or any similar legislation.

10. **THIS COURT ORDERS** that pursuant to section 7(3)(c) of the *Personal Information Protection and Electronic Documents Act*, S.C. 2000, c. 5, the Applicants or the Monitor, as the case may be, is authorized, permitted and directed to, at the Effective Time, disclose to the Purchaser all human resources and payroll information in the Company's records pertaining to past and current employees of the Company. The Purchaser shall maintain and protect the privacy of such information in accordance with applicable law and shall be entitled to use the personal information provided to it in a manner that is in all material respects identical to the prior use of such information by the Company.

11. **THIS COURT ORDERS AND DECLARES** that, at the Effective Time and without limiting the provisions of paragraph 5 hereof, the Purchaser and the Company shall be deemed released from any and all claims, liabilities (direct, indirect, absolute or contingent) or obligations with respect to any taxes (including penalties and interest thereon) of, or that relate to, the Applicants or the Company Property (provided as it relates to the Company, such release shall not apply to taxes in respect of the business and operations conducted by the Company after

the Effective Time), including, without limiting the generality of the foregoing, all taxes that could be assessed against the Purchaser or the Company (including any predecessor corporations) pursuant to section 160 of the *Income Tax Act*, R.S.C. 1985, c. 1 (5th Supp.), or any provincial equivalent, in connection with the Applicants.

12. **THIS COURT ORDERS** that except to the extent expressly contemplated by the SPA, all contracts to which the Applicants are parties upon delivery of the Monitor's Certificate will be and remain in full force and effect upon and following delivery of the Monitor's Certificate and no individual, firm, corporation, governmental body or agency, or any other entity (all of the foregoing, collectively being "**Persons**" and each being a "**Person**") who is a party to any such arrangement may accelerate, terminate, rescind, refuse to perform or otherwise repudiate its obligations thereunder or enforce or exercise any right (including any right of set-off, dilution or other remedy) or make any demand under or in respect of any such arrangement and no automatic termination will have any validity or effect, by reason of:

- (a) any event that occurred on or prior to the delivery of the Monitor's Certificate and is not continuing that would have entitled such Person to enforce those rights or remedies (including defaults or events of default arising as a result of the insolvency of any Applicant);
- (b) the insolvency of any Applicant or the fact that the Applicants sought or obtained relief under the CCAA;
- (c) any compromises, releases, discharges, cancellations, transactions, arrangements, reorganizations or other steps taken or effected pursuant to the SPA, the Amendment, the Transaction or the provisions of this Order, or any other Order of the Court in these CCAA Proceedings; or

- (d) any transfer or assignment, or any change of control of the Company arising from the implementation of the SPA, the Transaction or the provisions of this Order.

13. **THIS COURT ORDERS** that from and after the Effective Time, all Persons shall be deemed to have waived any and all defaults of the Company then existing or previously committed by the Company, or caused by the Company, directly or indirectly, or non-compliance with any covenant, warranty, representation, undertaking, positive or negative pledge, term, provision, condition or obligation, expressed or implied, in any Contract existing between such Person and the Company arising directly or indirectly from the filing of the Company under the CCAA and the implementation of the Transaction, including without limitation any of the matters or events listed in paragraph 12 hereof and any and all notices of default and demands for payment or any step or proceeding taken or commenced in connection therewith under a contract shall be deemed to have been rescinded and of no further force or effect, provided that nothing herein shall be deemed to excuse the Company from performing its obligations under the SPA or be a waiver of defaults by the Company under the SPA and the related documents.

14. **THIS COURT ORDERS** that from and after the Effective Time, any and all Persons shall be and are hereby forever barred, estopped, stayed and enjoined from commencing, taking, applying for or issuing or continuing any and all steps or proceedings, whether directly, derivatively or otherwise, and including without limitation, administrative hearings and orders, declarations and assessments, commenced, taken or proceeded with or that may be commenced, taken or proceeded with against the Company or the Company Property relating in any way to or in respect of any Excluded Assets, Excluded Liabilities or Excluded Contracts and any other claims, obligations and other matters that are waived, released, expunged or discharged pursuant to this Order.

15. **THIS COURT ORDERS** that from and after the Effective Time:

- (a) the nature of the Assumed Liabilities retained by the Company, including, without limitation, their amount and their secured or unsecured status, shall not be affected or altered as a result of the Transaction or this Order;
- (b) the nature of the Excluded Liabilities, including, without limitation, their amount and their secured or unsecured status, shall not be affected or altered as a result of their transfer to ResidualCo;
- (c) any Person that prior to the Effective Time had a valid right or claim against the Company under or in respect of any Excluded Contract or Excluded Liability (each an “**Excluded Liability Claim**”) shall no longer have such right or claim against the Company but will have an equivalent Excluded Liability Claim against ResidualCo in respect of the Excluded Contract or Excluded Liability from and after the Effective Time in its place and stead, and nothing in this Order limits, lessens or extinguishes the Excluded Liability Claim of any Person as against ResidualCo; and
- (d) the Excluded Liability Claim of any Person against ResidualCo following the Effective Time shall have the same rights, priority and entitlement as such Excluded Liability Claim had against the Company prior to the Effective Time.

16. **THIS COURT ORDERS AND DECLARES** that, as of the Effective Time:

- (a) ResidualCo shall be a company to which the CCAA applies; and
- (b) ResidualCo shall be added as an Applicant in these CCAA Proceedings and all references in any Order of this Court in respect of these CCAA Proceedings to: (i) an “Applicant” or the “Applicants” shall refer to and include ResidualCo; and (ii) “Property” shall include the current and future assets, licenses, undertakings and properties of every nature and kind whatsoever, and wherever situate including all

proceeds thereof, of ResidualCo (the “**ResidualCo Property**”), and, for greater certainty, each of the Charges (as defined in the Initial Order), shall constitute a charge on the ResidualCo Property.

RELEASES

17. **THIS COURT ORDERS** that effective upon the filing of the Monitor’s Certificate: (i) the current directors, officers, employees, legal counsel and advisors of CPC; and (ii) the Monitor and its legal counsel (collectively, the “**Released Parties**”) shall be deemed to be forever irrevocably released and discharged from any and all present and future claims (including without limitation, claims for contribution or indemnity), liabilities, indebtedness, demands, actions, causes of action, counterclaims, suits, damages, judgments, executions, recoupments, debts, sums of money, expenses, accounts, liens, taxes, recoveries, and obligations of any nature or kind whatsoever (whether direct or indirect, known or unknown, absolute or contingent, accrued or unaccrued, liquidated or unliquidated, matured or unmatured or due or not yet due, in law or equity and whether based in statute or otherwise) based in whole or in part on any act or omission, transaction, dealing or other occurrence existing or taking place prior to the filing of the Monitor’s Certificate: (a) undertaken or completed pursuant to the terms of this Order; (b) arising in connection with or relating to the SPA or the completion of the Transaction; (c) arising in connection with or relating to the within CCAA Proceedings; or (d) related to the management, operations or administration of the Applicants (collectively, the “**Released Claims**”), which Released Claims are hereby fully, finally, irrevocably and forever waived, discharged, released, cancelled and barred as against the Released Parties, provided that nothing in this paragraph shall waive, discharge, release, cancel or bar any claim that is not permitted to be released pursuant to section 5.1(2) of the CCAA.

18. **THIS COURT ORDERS** that, notwithstanding:

- (a) the pendency of these proceedings;
- (b) any applications for a bankruptcy order now or hereafter issued pursuant to the *Bankruptcy and Insolvency Act*, R.S.C 195, c. B-3, as amended (the “**BIA**”), in respect of the Applicants and any bankruptcy order issued pursuant to any such applications; and
- (c) any assignment in bankruptcy made in respect of the Applicants;

the SPA, the implementation of the Transaction (including without limitation the transfer and vesting of the Excluded Assets, Excluded Contracts and Excluded Liabilities in and to ResidualCo, the transfer and vesting of the Transferred Assets in and to the Company, and the transfer and vesting of the Purchased Shares in and to the Purchaser) and any payments by or to the Purchaser, the Applicants or the Monitor authorized herein shall be binding on any trustee in bankruptcy that may be appointed in respect of the Applicants and/or ResidualCo and shall not be void or voidable by creditors of the Applicants or ResidualCo, as applicable, nor shall they constitute nor be deemed to be a fraudulent preference, assignment, fraudulent conveyance, transfer at undervalue, or other reviewable transaction under the CCAA, the BIA or any other applicable federal or provincial legislation, nor shall they constitute oppressive or unfairly prejudicial conduct pursuant to any applicable federal or provincial legislation.

MONITOR’S ENHANCED POWERS

19. **THIS COURT ORDERS** that in addition to the powers and duties of the Monitor set out in the Initial Order or any other Order of this Court in these CCAA Proceedings, and without altering in any way the limitations and obligations of ResidualCo as a result of these proceedings, the Monitor be and is hereby authorized and empowered, but not required to:

- (a) take any and all actions and steps, and execute all documents and writings, on behalf of, and in the name of ResidualCo in order to facilitate the performance of any

- ongoing obligations of ResidualCo, including with respect to any Excluded Liability Claim, and to carry out the Monitor's duties under this Order or any other Order of this Court in these CCAA Proceedings;
- (b) exercise any powers which may be properly exercised by a board of directors of ResidualCo;
 - (c) cause ResidualCo to retain the services of any person as an employee, consultant, or other similar capacity all under the supervision and direction of the Monitor and on the terms as agreed with the Monitor;
 - (d) open one or more new accounts (the "**ResidualCo Accounts**") into which all funds, monies, cheques, instruments and other forms of payment payable to ResidualCo shall be deposited from and after the making of this Order from any source whatsoever and to operate and control, as applicable, on behalf of ResidualCo, the ResidualCo Accounts in such manner as the Monitor, in its sole discretion, deems necessary or appropriate to assist with the exercise of the Monitor's powers and duties;
 - (e) cause ResidualCo to perform such other functions or duties as the Monitor considers necessary or desirable in order to facilitate or assist the winding-down of ResidualCo or the distribution of the proceeds of the ResidualCo Property or any other related activities, including in connection with bringing these CCAA Proceedings to an end;
 - (f) engage, deal, communicate, negotiate, agree and settle with any creditor or other stakeholder of ResidualCo (including any governmental authority) in the name of or on behalf of ResidualCo;

- (g) claim or cause ResidualCo to claim any and all insurance refunds or tax refunds, including refunds of harmonized sales taxes, to which ResidualCo is entitled;
- (h) have access to all books and records that are the property of ResidualCo in ResidualCo's possession or control in addition to the Applicant's books and records in accordance with the terms of the SPA;
- (i) assign ResidualCo, or cause ResidualCo to be assigned, into bankruptcy, and the Monitor shall be entitled but not obligated to act as trustee in bankruptcy thereof;
- (j) consult with Canada Revenue Agency or Health Canada with respect to any issues arising in respect of these CCAA Proceedings; and
- (k) apply to this Court for advice and directions or any orders necessary or advisable to carry out its powers and obligations under this Order or any other Order granted by this Court including for advice and directions with respect to any matter.

GENERAL

20. **THIS COURT ORDERS** that, following the Effective Time, the Purchaser shall be authorized to take all steps as may be necessary to effect the discharge of the Claims and Encumbrances as against the Purchased Shares and the Company Property.

21. **THIS COURT ORDERS** that, following the Effective Time, the title of these proceedings is hereby changed to:

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

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

ONTARIO INC. AND 2669673 ONTARIO INC., AND 14707117
Canada Inc.

STAY PERIOD

22. **THIS COURT ORDERS** that the Stay Period referred to in the Initial Order be and is hereby extended to February 17, 2023.

OTHER

23. **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.

24. **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.

SCHEDULE “A” – FORM OF MONITOR’S CERTIFICATE

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

AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF CANNAPIECE GROUP INC., CANNAPIECE CORP., CANADIAN CRAFT GROWERS CORP., 2666222 ONTARIO LTD., 2580385 ONTARIO INC. AND 2669673 ONTARIO INC. (collectively, the “Applicants” and each an “Applicant”)

RECITALS

A. Pursuant to the Amended and Restated Initial Order of the Honourable Mr. Justice Penny of the Ontario Superior Court of Justice (Commercial List) dated November 10, 2022, the Applicants were granted protection from their creditors pursuant to the *Companies’ Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended, and BDO Canada Limited was appointed as the monitor (“**Monitor**”) of the Applicants.

B. Pursuant to the Approval and Vesting Order of the Court, dated January [●], 2023 (the “**Order**”), the court approved the transaction (the “**Transaction**”) contemplated by the Share Purchase Agreement dated [●] (the “**SPA**”), among CannaPiece Group Inc. (the “**Vendor**”), CannaPiece Corp. (the “**Company**”) and 100042058 Ontario Inc. (the “**Purchaser**”) and ordered, *inter alia*, that: (i) 14707117 Canada Inc. (“**ResidualCo**”) be added as an Applicant to these CCAA Proceedings; (ii) all of the Vendor’s right, title and interest in and to the Transferred Assets be vested in the Company, free and clear from any Encumbrances; (iii) the Excluded Assets, Excluded Liabilities and Excluded Contracts be vested absolutely and exclusively in ResidualCo; (iv) all of the Vendor’s right, title and interest in and to the Purchased Shares be vested absolutely and exclusively in the Purchaser, free and clear from any Encumbrances, except for the Permitted Encumbrances, which vesting is, in each case, to be effective upon the delivery by the Monitor to the Purchaser of a certificate confirming that the Monitor has received written confirmation in form and substance satisfactory to the Monitor from the Purchaser and the Vendor that all conditions to closing have been satisfied or waived by the parties to the SPA.

C. Capitalized terms not defined herein shall have the meaning given to them in the Order.

THE MONITOR CERTIFIES the following:

1. The Monitor has received written confirmation from the Purchaser and from the Vendor, in form and substance satisfactory to the Monitor, that all conditions to closing have been satisfied or waived by the parties to the SPA.

2. This Monitor's certificate was delivered by the Monitor at _____ on _____, 2023.

**BDO Canada Limited, in its capacity as
Monitor of the Applicants, and not in its
personal capacity.**

Per: _____
Name:
Title:

SCHEDULE "B"
ENCUMBRANCES

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

Applicants

**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**
Proceeding commenced at TORONTO

**APPROVAL AND VESTING ORDER
(RETURNABLE JANUARY 31, 2023)**

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Lawyers for the Applicants

TAB 4

**ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST**

THE HONOURABLE) TUESDAY THE 31ST
)
JUSTICE OSBORNE) DAY OF JANUARY, 2023

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

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

(collectively, the "**Applicants**" and each an "**Applicant**")

ANCILLARY 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**"), was heard this day by videoconference.

ON READING the Applicants' notice of motion dated January 25, 2023, the Affidavit of Afshin Souzankar dated January 25, 2023 ("**Third Souzankar Affidavit**"), and the Second Report ("**Second Report**") of BDO Canada Limited in its capacity as the monitor (the "**Monitor**"), to be filed, and on hearing the submissions of counsel for the Applicants and counsel for the Monitor and counsel for those other parties appearing as indicated by the counsel slip, no one appearing for any other party although duly served as appears from the affidavit of service, filed:

SERVICE

1. **THIS COURT ORDERS** that the time for service 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.

DEFINED TERMS

2. **THIS COURT ORDERS** that capitalized terms not otherwise defined herein shall have the meanings ascribed to such terms in the Third Souzankar Affidavit.

MONITOR'S REPORT AND ACTIVITIES APPROVAL

3. **THIS COURT ORDERS** that the Second Report of the Monitor and the activities and conduct of the Monitor described therein are hereby approved; provided, however, that only the Monitor, in its personal capacity and only with respect to its own personal liability, shall be entitled to rely upon or utilize in any way such approval.

DISTRIBUTION

4. **THIS COURT ORDERS** that on Closing of the Transaction, the Monitor is hereby authorized and directed to distribute up to \$3,700,000 from the Proceeds to Cardinal Advisory Services Limited ("**Cardinal**"), in satisfaction of the Stalking Horse Payout Amount advanced by Cardinal to the Applicants pursuant to the Deposit Facility secured by the Purchaser's Charge.

GENERAL

5. **THIS COURT ORDERS** that this Order and all of its provisions are effective as of 12:01 a.m. Toronto time on the date of this Order, and this Order is enforceable without the need for entry and filing.

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

Court File No.: CV-22-00689631-00CL

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

Applicants

**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**
Proceeding commenced at TORONTO

**ANCILLARY ORDER
(RETURNABLE JANUARY 31, 2023)**

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IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*, R.S.C. 1985, C.
C-36, AS AMENDED
AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF CANNAPIECE
GROUP INC., CANNAPIECE CORP., CANADIAN CRAFT GROWERS CORP., 2666222
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Court File No.: CV-22-00689631-00CL

Applicants

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)
Proceeding commenced at TORONTO

MOTION RECORD OF THE APPLICANTS
(RETURNABLE JANUARY 31, 2023)

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