

IN THE MATTER OF THE BANKRUPTCY OF

CUSTOM CANNABIS INC.
OF THE CITY OF CALGARY,
IN THE PROVINCE OF ALBERTA

REPORT ON THE TRUSTEE'S
PRELIMINARY ADMINISTRATION

ESTATE NO. 25-2983338

Custom Cannabis Inc. ("**Custom Cannabis**" or the "**Company**") was adjudged bankrupt on August 31, 2023 pursuant to an Order of the Court of King's Bench of Alberta and the undersigned, Ernst & Young Inc. (the "**Trustee**") was appointed as Trustee in Bankruptcy by the official receiver, subject to affirmation by the creditors of the trustee's appointment or substitution of another trustee by the creditors at the First Meeting of Creditors.

Background

Custom Cannabis was incorporated on March 18, 2014 and its registered office is located at 900, 332 6 Avenue SW, Calgary, Alberta T2P 0B2.

The Company constructed a cannabis production facility in Claresholm, Alberta with an office, warehouse and a polyethylene greenhouse.

On July 19, 2019, Custom Cannabis received its standard cannabis cultivation license from Health Canada under Canada's Cannabis Act and Regulations and commenced cultivation soon thereafter. During operations, Custom Cannabis had approximately 35 employees, primarily involved in the production of cannabis.

The Company's only source of revenue was the wholesale sale of cannabis to other licensed cannabis producers at spot rate prices. Historically, spot prices in the Canadian cannabis market have been volatile and at a significant discount to sales directly to provincial boards. Custom Cannabis was in the process of converting its business model towards sales to retailers through provincial boards (Alberta Gaming and Liquor Commission and the Ontario Cannabis Stores). However, the Company did not have access to sufficient capital in order to fund the up-front costs associated with this transition.

As a result of market pressures on Custom Cannabis' business-to-business wholesale margins and the inability to convert to retail sales, the Company was operating at a loss. Resultingly, Custom Cannabis did not have sufficient liquidity or operating cash flow to meet debts as they generally became due.

Management elected to terminate its workforce and shut down its production facility in late 2023. The remaining cannabis inventory on-site was sold to a third-party licensed cannabis producer.

Preliminary Evaluation of Property, Assets and Undertakings

Custom Cannabis' property as at the date of bankruptcy only comprised a purpose-built cannabis facility including an office, a warehouse, and a polyethylene greenhouse located at 3905 5th Street East, Claresholm, Alberta (the "**Property**"). There is no inventory at the Property. The Trustee is currently reviewing the books and records to determine if accounts receivable are outstanding and the associated value.

The Trustee understands that based upon the review of Personal Property Registry searches and

discussions with Management, the Property is subject to the security interests of Custom Cannabis' secured lenders, Connect First Credit Union Ltd. ("**Connect First**") and Pinene Capital Management ("**Pinene**") (collectively, the "**Secured Lenders**").

The Company's books and records identified that there was \$12.1 million outstanding to Connect First and \$0.6 million outstanding to Pinene. The Trustee understands that these outstanding loan balances may be understated as it does not include default interest and other expenses that the Secured Lenders are permitted to charge to Custom Cannabis as a result of the bankruptcy.

The Trustee will retain independent legal counsel, subject to approval from the Inspectors, to review the validity and enforceability of the security and provide independent security opinions to the Trustee (the "**Security Opinions**").

In the event that the Security Opinions conclude that the Secured Lenders have valid and enforceable first-ranking security over the property of Custom Cannabis, the Trustee expects that the indebtedness outstanding to the Secured Lenders will be settled in full before there will be funds available for distribution to the ordinary unsecured creditors of Custom Cannabis.

Additionally, the books and records of the Company identified a deemed trust claim for un-remitted source deductions to the Canada Revenue Agency of \$361,000 and property taxes in arrears owed to the Town of Claresholm of \$200,000. These claims may rank in priority to the security interests of Connect First and Pinene, subject to the Security Opinions.

Conservatory & Protective Measures

The Trustee has undertaken the following conservatory and protective measures with respect to the property of Custom Cannabis:

1. The Trustee has sent a request for proposal to 5 real estate agencies requesting proposals to act as the selling agent of the Property. The Trustee will review these proposals with the Inspectors of the Estate of Custom Cannabis subsequent to the First Meeting of Creditors;
2. The Trustee has insurance coverage in place for general liability and property insurance under the Company's existing insurance policy;
3. The Trustee has attended to the Property for the purposes of safeguarding the Property, inspecting the Property, and confirming that no inventory remained on-site. No inventory was on-site;
4. The Trustee has retained a former employee of Custom Cannabis to perform periodic walkthroughs of the production facility in accordance with the property insurance in place;
5. The Trustee is in the process of evaluating the preferred method to realize upon the Property and will consult with the Inspectors of the Estate, on the realization process.

Books and records

The books and records of Custom Cannabis that are required for the Trustee's review are located at the Property. The Trustee is in the process of making an inventory of the books and records.

Provable Claims and Secured Claims

The only liabilities the Trustee is aware of are the claims of the Secured Lenders, the priority claim of the Canada Revenue Agency, the priority claim of the Town of Claresholm, and unsecured liabilities as listed on the Statement of Affairs.

Legal Proceedings

No legal proceedings have been instituted by the Trustee to date.

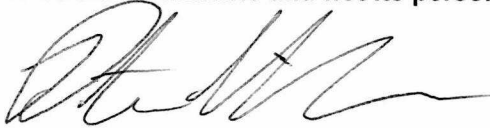
Possible Conflict of Interest

Ernst & Young Inc. previously acted as Financial Advisor to Connect First in connection with an Independent Business Review of Custom Cannabis completed for Connect First in Fall 2022. Ernst & Young Inc. is no longer retained by Connect First.

The Trustee is not aware of any possible conflicts of interest with respect to it acting as Trustee in the bankruptcy of Custom Cannabis.

ERNST & YOUNG INC.

**In its capacity as Trustee in the bankruptcy
of Custom Cannabis and not its personal capacity**

A handwritten signature in black ink, appearing to read 'Peter Chisholm', with a stylized flourish at the end.

Peter Chisholm, CPA, CA, CIRP, LIT
Senior Vice-President