Court File No. CV-24-00712687-00CL

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 9869247 CANADA LIMITED (d.b.a. SAFARI FLOWER COMPANY) AND GN VENTURES LTD.
(each an **"Applicant"** and collectively, the **"Applicants")**

FIRST REPORT OF THE MONITOR DATED JANUARY 19, 2024

INTRODUCTION

1. On January 12, 2024, the Applicants brought an application (the "**Initial Application**") before the Ontario Superior Court of Justice (Commercial List) (the "**Court**") under the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the "**CCAA**") to, among other things, obtain a stay of proceedings to allow them an opportunity to restructure their business and affairs.

2. On that same day, the Court granted an Initial Order (the "**Initial Order**") in these CCAA proceedings (the "**CCAA Proceedings**") that, among other things:

   a. appointed Ernst & Young Inc. as monitor of the Applicants (in such capacity, the "**Monitor**");

   b. ordered a stay of proceedings in favour of the Applicants through to January 22, 2024 (the "**Stay Period**");

   c. permitted the Applicants to permanently or temporarily cease, downsize or shut down any of their business or operations and to dispose of redundant or non-material assets not exceeding $50,000 in any one transaction or $200,000 in the aggregate;

d. granted an administration charge in the amount of $150,000 (the "**Administration Charge**") in favour of counsel for the Applicants, the Monitor and its counsel; and

e. granted a directors' charge in favour of the directors and officers of the Applicants in the amount of $61,000 ("**Directors' Charge**").

3. The comeback motion is scheduled to be heard on January 22, 2024.

PURPOSE

4. The purpose of this first report of the Monitor (the "**First Report**") is to provide information to the Court on:

   a. the Applicants' operations and communications with stakeholders since the granting of the Initial Order;

   b. the Monitor's activities since its appointment;

   c. the Applicants' receipts and disbursements for the period from January 8, 2024, to January 14, 2024, compared to the cash flow forecast appended as Appendix "H" (the "**Initial Cash Flow Forecast**") to the affidavit of Leanne Brigitte Simons sworn January 11, 2024;

   d. the Applicants' updated weekly cash flow forecast from January 15, 2024 to March 17, 2024 on a consolidated basis for all of the Applicants (the "**Cash Flow Forecast**");

   e. the Applicants' motion (the "**ARIO Motion**") for an amended and restated Initial Order (the "**ARIO**") substantially in the form included in the Applicants' record for the ARIO Motion, among other things:

      i. increasing the maximum amount of the Administration Charge and the Directors' Charge granted pursuant to the Initial Order;

      ii. approving the DIP Term Sheet (as defined below) between the Applicants and NE SPEC II LP ("**NE SPEC**") on behalf of a company to be incorporated (the "**DIP Lender**"), authorizing borrowings under the DIP Facility (as defined below) in an amount up to $1,000,000 (plus interest, fees and expenses), and granting a charge in favour of the DIP Lender (the "**DIP Lender's Charge**");

iii. increasing the permitted disposition baskets to $200,000 in any one transaction or $1,000,000 in the aggregate, in each case, with the consent of the Monitor; and

iv. extending the Stay Period to February 29, 2024.

TERMS OF REFERENCE

5. In preparing this First Report and making the comments herein, the Monitor has been provided with, and has relied upon, audited and unaudited financial information, books and records prepared by the Applicants, discussions with management of the Applicants ("**Management**"), and information from other third-party sources (collectively, the "**Information**"). Except as described in this First Report in respect of the Cash Flow Forecast:

   a. the Monitor has reviewed the Information for reasonableness, internal consistency and use in the context in which it was provided. However, the Monitor has not audited or otherwise attempted to verify the accuracy or completeness of such Information in a manner that would wholly or partially comply with Canadian Auditing Standards ("**CAS**") pursuant to the Chartered Professional Accountants Canada Handbook and, accordingly, the Monitor expresses no opinion or other form of assurance contemplated under CAS in respect of the Information; and

   b. some of the information referred to in this First Report consists of forecasts and projections. An examination or review of the financial forecast and projections, as outlined in the Chartered Professional Accountants Canada Handbook, has not been performed.

6. Future oriented financial information referred to in this First Report was prepared based on Management's estimates and assumptions. Readers are cautioned that since projections are based upon assumptions about future events and conditions that are not ascertainable, the actual results will vary from the projections, even if the assumptions materialize, and the variations could be significant.

7. Unless otherwise indicated, the Monitor's understanding of factual matters expressed in this First Report concerning the Applicants and their business is based on the Information, and not independent factual determinations made by the Monitor.

8. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian dollars.

BACKGROUND

Overview

9. The Applicants, through their operating company 9869247 Canada Limited (d.b.a. Safari Flower Company) ("**Safari Flower**"), are a licensed cultivator and processor of cannabis.

10. Safari Flower's principal business activities include cultivating, manufacturing and packaging finished goods for sale under its own label as well as for other licensed operators (white label) for the domestic and international markets.

11. Safari Flower is licensed by Health Canada in Canada, holds international certifications permitting it to supply cannabis to Israeli and Australian medicinal cannabis markets, and is European Good Manufacturing Practice certified to supply cannabis into the European medicinal cannabis market.

12. GN Ventures is a holding company and the 100% parent of Safari Flower.

UPDATE ON APPLICANTS' OPERATIONS

13. Since the date of the Initial Order, the Applicants have maintained their existing operations.

14. On January 12, 2024, Management held a town hall meeting for the employees of Safari Flower to advise of the CCAA Proceedings and address any questions. In addition, Management has held discussions and addressed questions from its suppliers in regards to the Applicants' CCAA proceedings and, to date, has not encountered any supply issues.

MONITOR'S ACTIVITIES TO DATE

15. Since the granting of the Initial Order, the Monitor has:

a. responded to e-mails received from parties with respect to these CCAA proceedings;

b. reviewed the Applicants' disbursements;

c. participated in discussions among the Applicants and their senior secured creditors in respect of the January 22, 2024, comeback hearing and related issues, including reviewing and commenting on the term sheet dated January 19, 2024 between the DIP Lender, as lender and the Applicants, as borrowers, in respect of the DIP Facility (the "**DIP Term Sheet**");

d. established a case website at www.ey.com/ca/safari (the "**Monitor's Website**") to disseminate information to stakeholders; and

e. set up an email address (safari.monitor@ca.ey.com) and hotline phone number (416-943-8044 / 1-833-453-2986) that are specific to these CCAA Proceedings in order to respond to inquiries from the Applicants' creditors and other stakeholders.

16. In addition, pursuant to the Initial Order:

a. the Monitor has posted copies of the Initial Order and Service List on the Monitor's Website;

b. on or around January 12, 2024, the Monitor e-mailed and mailed a notice, which included information about these CCAA Proceedings, the toll-free telephone number and the Monitor's email address (the "**Notice to Creditors**") to creditors with claims greater than $1,000 appearing in the Applicants' books and records as at the date of the Initial Order (collectively, the "**Known Creditors**"). A copy of the Notice to Creditors was also posted on the Monitor's Website;

c. on January 12, 2024 the Monitor posted on the Monitor's Website a list showing the Known Creditors and the estimated amount of their claims; and

d. the Monitor arranged for the Notice to Creditors to be published in The Globe and Mail (National Edition) on January 18, 2024.

APPLICANTS' RECEIPTS AND DISBURSEMENTS

17. A summary of the Applicants' actual receipts and disbursements during the period from January 8, 2024, to January 14, 2024 (the "**Reporting Period**"), as compared to the Initial Cash Flow Forecast (the "**Variance Analysis**") is attached as **Appendix "A"** to this First Report.

18. During the Reporting Period, the Applicants' operations generated a net cash outflow of approximately $124,000. The disbursements relate mainly to payroll, insurance and utilities. As at January 14, 2024, the Applicants' cash on hand was approximately $805,000.

19. The favourable cash position variance for the Reporting Period of approximately $42,000 is primarily a result of favourable timing differences for receipts and the payment of restructuring costs. The Cash Flow Forecast has been amended during the Forecast Period (defined below) to reflect the timing difference for receipts in the subsequent weeks.

OVERVIEW OF APPLICANTS' CASH FLOW FORECAST

20. The Applicants, with the assistance of the Monitor, have prepared a Cash Flow Forecast which includes forecast receipts and disbursements for the period from January 15, 2024 to the week ending March 17, 2024 (the "**Cash Flow Period**") for the purpose of projecting the Applicants' estimated liquidity needs during the Cash Flow Period. A copy of the Cash Flow Forecast is attached as **Appendix "B"** to this First Report.

21. The Cash Flow Forecast is presented on a weekly basis during the Cash Flow Period and represents the estimates of Management of the Applicants' projected cash flow during the Cash Flow Period. The Cash Flow Forecast has been prepared by the Applicants using probable and hypothetical assumptions (the "**Assumptions**") set out in the notes to the Cash Flow Forecast.

22. The Monitor has reviewed the Cash Flow Forecast through inquiries, analytical procedures and discussions, and review of documents related to the Information supplied to it by certain

key members of Management and employees of the Applicants. Based on the Monitor's review, nothing has come to its attention that causes it to believe, in any material respect, that:

a. the Assumptions are not consistent with the purpose of the Cash Flow Forecast;

b. as at the date of this Report, the Assumptions are not suitably supported and consistent with the plans of the Applicants or do not provide a reasonable basis for the Cash Flow Forecast, given the probable and hypothetical assumptions; or

c. the Cash Flow Forecast does not reflect the Assumptions.

23. The Applicants maintain bank accounts with Bank of Montreal for their operations. Currently, the Applicants have no bank credit or overdraft facilities in respect of these accounts.

24. The Cash Flow Forecast shows that the Applicants project estimated total combined receipts of approximately $780,000 and estimated total combined disbursements of approximately $2.5 million. The disbursements include estimated amounts for key employee retention payments and other financial advisor fees, but such amounts will not be paid until further lender and court approval.

25. The Cash Flow Forecast projects that the Applicants will have sufficient liquidity during the Stay Period, as extended pursuant to the ARIO should it be granted by this Court, subject to the availability of the DIP Facility.

PROPOSED AMENDED AND RESTATED INITIAL ORDER

Increase to the Administration Charge

26. Pursuant to the Initial Order, this Court granted the Administration Charge in the amount of up to $150,000 if favour of the Monitor, counsel to the Monitor and counsel to the Applicants to secure payment of their professional fees and disbursements prior to and during the initial 10-day Stay Period prior to the comeback hearing.

27. The Applicants seek to increase the Administration Charge to $350,000. This increase reflects the amount necessary to ensure the beneficiaries of the Administration Charge have adequate protection throughout the CCAA Proceedings until the end of the Stay Period, as extended.

28. The Monitor is of the view that the increased amount of the Administration Charge is reasonable and appropriate in the circumstances, having considered the complexity of the CCAA Proceedings, the work that has been completed to date, the engagement terms and anticipated work levels, the timing of payment of the forecast professional costs and the size of Court-ordered charges approved in comparable insolvency proceedings.

Increase to the Directors' Charge

29. Pursuant to the Initial Order, this Court granted the Directors' Charge in the maximum amount of $61,000 in favour of the Applicants' current officers and directors. The Applicants seek to increase the quantum of the Directors' Charge to $243,000 to account for additional exposure that may arise as a result of the extension of these CCAA Proceedings.

30. This increase in amount reflects the amount necessary to ensure the beneficiaries of the Directors' Charge have protection throughout the CCAA Proceedings to oversee the Applicants' continuing operations and to allow the Applicants to complete a restructuring.

31. The Monitor is of the view that the increased amount of the Directors' Charge is reasonable and appropriate in the circumstances and that the continued involvement of the directors and officers covered thereunder is beneficial to these CCAA Proceedings.

DIP Facility and related DIP Lender's Charge

32. In order to provide the required liquidity needed to fund the operations of the Applicants during the CCAA Proceedings, the Applicants are seeking the approval of the DIP Term Sheet, pursuant to which the DIP Lender has agreed to provide the Applicants financing up to a maximum principal amount of $1,000,000 (the "**DIP Facility**"), as required in the Cash Flow Forecast. In addition to the approval of the DIP Term Sheet, the ARIO also provides for the creation of a related charge, the DIP Lender's Charge, in favour of the DIP Lender to secure all obligations that may be owing to the DIP Lender under the DIP Term Sheet.

33. The DIP Lender's Charge will be secured by present and future real and personal, tangible and intangible property and assets and undertakings of the Applicants in priority to all security interests, trusts, liens, charges and encumbrances, claims of secured creditors, statutory or otherwise except for the Administration Charge. A copy of the DIP Term Sheet is attached as Exhibit "A" to the affidavit of Leanne Brigitte Simons sworn January 19, 2024.

34. The following is a summary of the material terms of the DIP Term Sheet:

a. <u>DIP Facility</u>: non-revolving loan up to the maximum amount of $1,000,000. The first advance in the amount of $500,000, inclusive of the Fee (defined below), shall be made forthwith after the issuance of the ARIO, if issued, and satisfaction of the conditions precedent contained in the DIP Term Sheet.

b. <u>Second Advance</u>: the second advance of $500,000 shall be advanced by the DIP Lender to the Applicants as and when needed.

c. <u>Interest Rate</u>: to accrue at fourteen percent (14%) per annum on the outstanding indebtedness. Interest shall be calculated on the daily outstanding balance owing under the DIP Facility, not in advance, and shall accrue and be paid on the Maturity Date (as described below).

d. <u>Fees</u>: The Applicants shall pay a commitment fee of $30,000 (the "**Fee**"), which Fee shall be earned and paid as part of the first advance under the DIP Term Sheet.

e. <u>Maturity Date</u>: The Maturity Date is the earliest of: (a) March 15, 2024; (b) the closing of a Transaction (as defined in the DIP Term Sheet); (c) the date on which the CCAA Proceedings are terminated for any reason, including if one or more of the Applicants become bankrupt, whether voluntarily or in-voluntarily; and (d) a demand being made upon the occurrence of an Event of Default (as defined in the DIP Term Sheet).

35. NE SPEC, the entity who signed the DIP Term Sheet on behalf of the DIP Lender, is a secured lender (subject to the Monitor completing a security review) to the Applicants and prospective purchaser. It is the Monitor's understanding that both of the Applicants' secured lenders were approached to provide a debtor-in-possession financing, however the DIP Lender is the only lender who has offered a DIP Facility.

36. In light of the current market environment, the state of the cannabis industry in Canada, the nature of the Applicants' assets, and the financial challenges facing the Applicants, the Applicants believe that the terms being offered in the DIP Term Sheet, including the interest rate and Fee, are reasonable in the circumstances and interest rates and costs are similar in recent CCAA filings, including those within the Cannabis industry. The Monitor concurs with this assessment.

37. As described in the Cash Flow Forecast, without access to the DIP Facility, the Applicants are projected to exhaust their liquidity immediately and will thus be unable to maintain their operations and effect a transaction or restructuring. Accordingly, the Monitor is of the view that the approval of the DIP Term Sheet and the DIP Lender's Charge is necessary and reasonable in the circumstances.

Extension to the Stay Period

38. The Stay Period is currently set to expire on January 22, 2024. The Applicants are requesting an extension of the Stay Period until February 29, 2024.

39. The Monitor is of the view that the requested stay extension is appropriate for the following reasons: (a) the Applicants require the extension in order to advance a restructuring transaction for the sale of the business; (b) the Monitor will work closely with the Applicants during the extended Stay Period to advance a timely restructuring transaction; and (c) the Applicants have continued to operate in good faith and with due diligence since the date of the Initial Order.

40. Based on the Cash Flow Forecast and the availability of advances under the DIP Facility, the Monitor believes that the Applicants will have sufficient liquidity for the duration of the extended Stay Period.

CONCLUSIONS AND RECOMMENDATIONS

41. For the reasons stated herein, the Monitor supports the relief sought by the Applicants and recommends that the Court grant the ARIO if the Court sees fit.

All of which is respectfully submitted this 19th day of January 2024.

ERNST & YOUNG INC., in its capacity as Monitor of the Applicants, and not in its corporate or personal capacity.

per: K. Fung ______________________________

Karen Fung, CPA, CA
Senior Vice-President

Appendix A
Variance Analysis

9869247 CANADA LIMITED (d.b.a. SAFARI FLOWER COMPANY) AND GN VENTURES LTD.
Variance Analysis
For the week January 8, 2024 to January 14, 2024
(CDN $)

	Forecast	Actual	Variance	Notes
Receipts				
Collections of Sales	60,364	79,819	19,455	1
Other Collections	0	0	0	
Total Receipts	**60,364**	**79,819**	**19,455**	
Disbursements				
Payroll	(71,600)	(71,552)	49	
Operational G&A Taxes	(23,896)	(23,896)	0	
Utilities	(39,317)	(39,217)	100	
Operating Costs	(41,000)	(43,891)	(2,891)	
Restructuring Costs	(50,000)	(25,000)	25,000	2
Total Disbursements	**(225,813)**	**(203,555)**	**22,258**	
Net Cash Receipts/ (Disbursements)	(165,449)	(123,736)	41,713	
Cash on hand				
Opening Balance	928,607	928,607	0	
Net Cash Receipts/ (Disbursements)	(165,449)	(123,736)	41,713	
Ending cash balance	763,158	804,871	41,713	

Notes

1) Collection of accounts receivable were higher than forecast and represent a timing difference.

2) Payment of restructuring costs were less than forecast and represent a timing difference.

Appendix B

Cash Flow Forecast

9869247 CANADA LIMITED (d.b.a. SAFARI FLOWER COMPANY) AND GN VENTURES LTD.
Consolidated Cash Flow Forecast
$CDN

		1	2	3	4	5	6	7	9	10	
Week Beginning		**15-Jan-24**	**22-Jan-24**	**29-Jan-24**	**5-Feb-24**	**12-Feb-24**	**19-Feb-24**	**26-Feb-24**	**4-Mar-24**	**11-Mar-24**	**Total**
	Notes										
Receipts											
Collections of Sales	1	$ -	$ 100,241	$ 44,859	$ 137,633	$ 16,403	$ 78,960	$ 51,996	$ 96,047	$ 177,148	$ 703,287
Other Collections	2	-	-	3,200	-	-	-	-	74,000	-	$ 77,200
Total Receipts		**-**	**100,241**	**48,059**	**137,633**	**16,403**	**78,960**	**51,996**	**170,047**	**177,148**	**780,487**
Disbursements											
Operating Costs	3	15,000	80,000	105,000	70,000	80,000	55,000	55,000	55,000	65,000	580,000
Payroll Costs	4	-	-	107,750	-	85,000	-	92,750	-	85,000	370,500
Utilities	5	-	101,490	-	-	7,000	162,000	-	-	7,000	277,490
Operational G&A and Taxes	6	-	13,558	26,717	23,896	-	13,558	57,717	23,896	-	159,344
Restructuring Costs	7	194,500	194,500	149,000	144,000	124,000	106,000	106,000	69,000	69,000	1,156,000
Total Disbursements		209,500	389,549	388,467	237,896	296,000	336,558	311,467	147,896	226,000	2,543,334
Net cash receipts/(disbursements)		**$ (209,500)**	**$ (289,308)**	**$ (340,408)**	**$ (100,263)**	**$ (279,597)**	**$ (257,598)**	**$ (259,471)**	**$ 22,151**	**$ (48,852)**	**$ (1,762,847)**
Cash on hand											
Opening Balance	8	$ 804,871	$ 595,371	$ 776,063	$ 435,655	$ 335,392	$ 55,795	$ 298,197	$ 38,725	$ 60,876	$ 804,871
DIP Facility Draw/Repayment			470,000	-	-	-	500,000	-	-	-	970,000
Net Cash Receipts/(disbursements)		(209,500)	(289,308)	(340,408)	(100,263)	(279,597)	(257,598)	(259,471)	22,151	(48,852)	(1,762,847)
Ending cash balance		**$ 595,371**	**$ 776,063**	**$ 435,655**	**$ 335,392**	**$ 55,795**	**$ 298,197**	**$ 38,725**	**$ 60,876**	**$ 12,024**	**$ 12,024**
Proposed Debt-in-Procession Financing											
Opening balance		$ -	$ -	$ 501,356	$ 502,802	$ 504,252	$ 505,707	$ 1,008,608	$ 1,011,517	$ 1,014,435	$ -
Draw/(Repayment)	9	-	470,000	-	-	-	500,000	-	-	-	970,000
Commitment fee		-	30,000	-	-	-	-	-	-	-	30,000
Accrued Interest		-	1,356	1,446	1,450	1,455	2,901	2,909	2,918	2,926	17,362
Ending balance		**$ -**	**$ 501,356**	**$ 502,802**	**$ 504,252**	**$ 505,707**	**$ 1,008,608**	**$ 1,011,517**	**$ 1,014,435**	**$ 1,017,362**	**$ 1,017,362**

IN THE MATTER OF THE CCAA OF 9869247 CANADA LIMITED (d.b.a. SAFARI FLOWER COMPANY) AND GN VENTURES LTD. (collectively, the "Applicants")

Notes to the Unaudited Cash Flow Forecast of the Applicants

January 15, 2024 to March 17, 2024 (the "Forecast Period")

Disclaimer:

In preparing this cash flow forecast (the "**Cash Flow Forecast**"), the Applicants, with the assistance of Ernst & Young Inc. (the "**Monitor**"), have relied upon unaudited financial information and the Applicants have not attempted to further verify the accuracy or completeness of such information. The Cash Flow Forecast includes estimates concerning the Applicants' operations and additional assumptions discussed below with respect to the impact of a *Companies' Creditors Arrangement Act* ("**CCAA**") filing (the "**Probable and Hypothetical Assumptions**" or the "**Assumptions**"). Since the Cash Flow Forecast is based on Assumptions about future events and conditions that are not ascertainable, the actual results achieved during the Forecast Period will vary from the Cash Flow Forecast, even if the Assumptions materialize, and such variation may be material. There is no representation, warranty or other assurance that any of the estimates, forecasts or projections will be realized.

Overview:

The Cash Flow Forecast includes the receipts and disbursements of the Applicants during the Forecast Period. The Applicants, with the assistance of the Monitor, have prepared the Cash Flow Forecast based primarily on estimated receipts and disbursements related to the Applicants' ongoing operations during the anticipated stay extension period.

Receipts and disbursements are denominated in Canadian dollars.

Assumptions:

1. **Sales**
   This category includes revenues generated by the Applicants through the sale of cannabis products to provincial distributors domestically, bulk to other licensed producers and internationally to licensed customers in their respective countries.

2. **Other Receipts**
   This category includes HST refunds.

3. **Operating Costs**
   Represents disbursements related to purchase of raw materials, consumables, general repairs and maintenance, and security.

4. **Payroll Costs**
   Employees are paid on a bi-monthly basis. Payroll costs include WSIB, EHT and benefits.

5. **Utilities**
   Represents the cost of gas, water and hydro.

6. **Operational G&A and Taxes**
   Operational expenses such as health Canada licences, insurance, sales taxes, property taxes and excise duty taxes.

7. **Restructuring Costs**
   Restructuring costs include professional fee payments and expenses of the Applicants' legal counsel, the proposed Monitor and its counsel in connection with the Applicants' restructuring proceedings. It also includes estimates for a key employee retention payments and other financial advisor fees but such amounts will not be paid until further lender and court approval.

8. **Beginning Balance**
   Represents the opening cash balance as of January 15, 2024.

9. **DIP Draws**
   Represent DIP draws pursuant the DIP terms sheet dated January 19, 2024