



SUPERIOR COURT OF JUSTICE

**COUNSEL SLIP**

COURT FILE NO.: CV-22-00689631-00CL DATE: November 3<sup>rd</sup> 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**

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**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

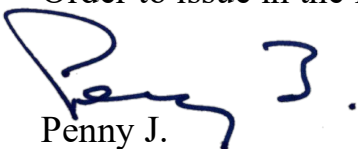
secured creditors that would be affected and in an amount that the Court considers appropriate, having regard to the Applicants' interim cash flow statement. The Company is seeking \$500,000 to be made available upon the issuance of the proposed Initial Order. This amount is limited to the amount reasonably 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. The signature is stylized and somewhat cursive.

Penny J.