

**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
EVE & CO INCORPORATED, NATURAL MEDCO LTD. AND EVE & CO
INTERNATIONAL HOLDINGS LTD.**

(each an “Applicant” and collectively, the “Applicants”)

**FIRST REPORT OF THE MONITOR
MARCH 31, 2022**

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INTRODUCTION

1. On March 25, 2022, the Court heard an application by the Applicants (the “**CCAA Application**”) for an initial order pursuant to the *Companies’ Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (“**CCAA**”). Among other things, the Applicants sought a stay of proceedings to allow them an opportunity to restructure their business and affairs or effect a sale transaction.
2. BDO Canada Limited (“**BDO**”), as Proposed Monitor, prepared a report dated March 24, 2022 (the “**Proposed Monitor’s Report**”) to provide information to this Court for its consideration in respect of the Applicants’ CCAA Application.
3. On March 25, 2022 (the “**Filing Date**”), the Court granted an initial order in these proceedings (the “**Initial Order**”) that, among other things, appointed BDO as monitor of the Applicants in these CCAA proceedings (in such capacity, the “**Monitor**”), approved a stay of proceedings until April 4, 2022 (the “**Stay Period**”), approved certain Court-ordered charges, and approved the interim financing facility (the “**DIP Loan**”) to be provided by Deans Knight Private Credit GP Inc., as General Partner of Deans Knight Private Credit Limited Partnership and DK Strategic Yield U.S. GP LLC, as General Partner of DK Strategic Yield Master Trust Limited Partnership (the “**DIP Lender**”).

PURPOSE

4. The purpose of this report is to provide information to the Court on:
 - a. the Applicants’ operations and communications with the 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 March 21, 2022 to March 30, 2022 compared to the cash flow forecast appended to the Affidavit of Melinda Rombouts dated March 23, 2022 (the “**Initial Cash Flow Forecast**”); and
 - d. the Applicants’ motion, returnable on April 1, 2022, for an order substantially in the form attached to the Notice of Motion:
 - i. extending the Stay Period to August 26, 2022;
 - ii. increasing the Administrative Charge;
 - iii. increasing the DIP Charge and authorizing further borrowings under the DIP Loan facility; and
 - iv. approving a proposed Sales and Investment Solicitation Process (the “**SISP**”).

TERMS OF REFERENCE

5. In preparing this Report and making the comments herein, the Monitor has been provided with, and has relied upon, 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 Generally Accepted Assurance Standards (“**GAAS**”) pursuant to the Chartered Professional Accountants Canada Handbook and, accordingly, the Monitor expresses no opinion or other form of assurance contemplated under GAAS in respect of the Information; and
 - b. some of the information referred to in this 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 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 variation could be significant.
7. Unless otherwise indicated, the Monitor’s understanding of factual matters expressed in this 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

9. The Applicant, Eve & Co Incorporated (“**Eve**”), is a publicly-traded corporation listed on the TSX Venture exchange under the symbol ‘EVE’ and maintains its registered head office at 2941 Napperton Drive, Strathroy, Ontario, N7G 3H8 (the “**Real Property**”).
10. Eve does not directly hold any tangible assets, but wholly owns the Applicant, Natural Medco Ltd. (“**NMC**”), which is a licensed producer of cannabis in accordance with the *Cannabis Act* and the *Cannabis Regulations*.
11. NMC is the operating entity of the Applicants and owns the Applicants’ primary asset, consisting of a 1,000,000 square foot greenhouse facility (the “**Greenhouse**”) located on

the Real Property, of which approximately 780,000 square feet was newly constructed in 2019.

12. NMC cultivates and produces dried cannabis flower, which along with certain additionally processed products such as topicals and edibles, are sold to recreational and medical consumers in several Canadian provinces. NMC supplies dried cannabis to international medical cannabis markets including Germany and Australia, with pending orders to Israel. None of the Applicants engage in any cannabis-related activities in the United States.
13. The Proposed Monitor's Report provided background and a chronology of the Applicants' licenses issued by Health Canada.
14. In addition, on March 6, 2020, NMC was issued a European Union Certificate of Good Manufacturing Practice, which is a prerequisite to ship cannabis to the European medical cannabis market.
15. On March 15, 2022, NMC obtained Control Union Medical Cannabis Standard GAP certification, which is required to supply the medical cannabis market in Israel.

APPLICANTS' OPERATIONS SINCE THE INITIAL ORDER

16. This Report should be read in conjunction with the Affidavit of Melinda Rombouts sworn March 29, 2022 (the "**Rombouts Affidavit**").
17. Upon the granting of the Initial Order, the Applicants immediately communicated with employees, certain key suppliers, domestic and international customers and certain parties that previously expressed interest in investing in the companies or purchasing the Greenhouse. Such communication was intended to maintain stability for the Applicants' continued operations and inform third parties that the Applicants would be continuing on a "business as usual" basis while conducting a SISP.
18. In compliance with requirements for a TSX-V listing company, on March 25, 2022 Eve issued a press release announcing the granting of the Initial Order.
19. On March 28, 2022, the Applicants received the DIP Loan funds approved by the Initial Order. As further outlined below, in the Receipts and Disbursements section of this First Report, upon receipt of the DIP Loan funds the Applicants made immediate payments to suppliers and restructuring related professional fees as contemplated by the Initial Cash Flow Forecast.

MONITOR'S ACTIVITIES TO DATE

20. Since the granting of the Initial Order, the Monitor, among other things, has:
 - a. assisted the Applicants with stakeholder communications;

- b. responded to calls, e-mails and letters received from creditors, employees and other parties with respect to these CCAA proceedings; and
 - c. reviewed the disbursements of the Applicants.
21. The Monitor has also established a website for these proceedings at <https://www.bdo.ca/en-ca/extranets/eve-co-incorporated-and-natural-medco-ltd/> (the “**Monitor’s Website**”). All court documents and certain other relevant documents will be posted on the Monitor’s Website.
22. Pursuant to the Initial Order, on March 25, 2022 the following notices were posted on the Monitor’s website:
- a. the Applicants’ Application Record;
 - b. the Factum of the Applicants dated March 24, 2022;
 - c. the Proposed Monitor’s Report;
 - d. the Endorsement of Justice Conway; and
 - e. the Initial Order.
23. On March 30, 2022, the Monitor published the Notice of the Initial Order in the Globe and Mail (National Edition).
24. The Monitor is in the process of compiling and sending a notice, which includes information about the CCAA proceedings (the “**Notice to Creditors**”), to all known creditors, based on the contact information of such known creditors who have a claim against the Applicants of more than \$1,000, provided by the Applicants (the “**Known Creditors**”), by prepaid ordinary mail and email where known. A copy of the Notice to Creditors will also be posted to the Monitor’s Website.
25. The Monitor also will post on its website a list showing the names of the Known Creditors and amounts owing according to the books and records of the Applicants in accordance with the CCAA.

APPLICANTS’ RECEIPTS AND DISBURSEMENTS TO DATE

26. The Applicants, with the assistance of the Proposed Monitor, prepared a Cash Flow Forecast for the 23-week period from March 21, 2022, to the week ending August 27, 2022 (the “**Cash Flow Forecast**”) for the purpose of projecting the Applicants’ estimated liquidity needs. A copy of the Cash Flow Forecast was attached as Appendix “A” to the Proposed Monitor’s Report.
27. The Cash Flow Forecast commenced the week ending Saturday, March 26, 2022, (“**CF Week 1**”) and contemplated the payment of several supplier and restructuring related amounts from the DIP Loan. During CF Week 1, prior to the granting of the Initial Order,

the Applicants made only critical payments for payroll from its limited funds on hand which were collected that week. The DIP Loan advance was not received by Eve until Monday, March 28, 2022 (in the week ending April 2, 2022 of the Cash Flow Forecast (“**CF Week 2**”)). The Applicants subsequently paid several suppliers and the professional fees of the Applicants’ legal counsel, but the other legal and restructuring costs have not yet been paid.

28. Given that the initial Stay Period bridges CF Week 1 and CF Week 2, and that the DIP Loan advance was only received in CF Week 2, the Monitor has combined these two weeks for the purpose of actual cash flow and variance reporting. A summary of the Applicants’ actual receipts and disbursements for the period March 21 - 30, 2022 at 11:00 a.m. (the “**Reporting Period**”), as compared to the Cash Flow Forecast (the “**Variance Analysis**”) is attached as Appendix “A” to this First Report.
29. During the Reporting Period, the Applicants achieved a favourable cash flow variance of \$646,973. This variance largely reflects that the DIP Loan advance was not received until Monday, March 28, 2022 and certain forecast payments have not yet been made.
30. The Monitor has been advised by the Applicants’ legal counsel that additional payments totaling approximately \$563,000 will be made later in CF Week 2 (after the Reporting Period). A summary of these payments is provided below:

Disbursement Category	Payee	Amount
Employee Benefits	Great West Life	\$ 44,719
Laboratory Charges	Eurofin Laboratories	83,944
	A & L Laboratories	20,920
Audit, AGM & Filing fees	Davidson & Company LLP	30,000
Government remittances	Health Canada	73,075
Mortgage loan payments	RBC	130,956
	Vanengelen	25,000
BDO and Legal fees	BDO Canada Limited	116,363
	Harrison Pensa LLP	37,856
		\$ 562,833

31. Additionally, some forecasted capital expenditures have been deferred until the week ending April 9, 2022. Comments on specific forecasted receipts and disbursements are provided within the Variance Analysis. After the receipt of the DIP Loan advance of \$1,200,000, the Applicants’ current cash on hand is approximately \$692,000. After the additional payments are made, the Applicants’ current cash on hand will be approximately \$129,000.

PROPOSED AMENDED AND RESTATED INITIAL ORDER

32. The Applicants seek an Amended and Restated Initial Order that, among other things, extends the Stay Period, approves the SISP and approves an increase in the DIP Loan.

33. The Applicants seek an extension of the Stay Period from April 4, 2022 until August 26, 2022. This extension would permit the Applicants to continue their restructuring efforts, finalize orders and commence shipments to a major new customer in Israel and permit the Monitor, in consultation with the Applicants, to implement the SISP.
34. In the Monitor's view, the Applicants continue to operate in good faith and with due diligence since the date of the Initial Order.
35. Based on the Cash Flow Forecast, with the amendments to the DIP Lender's Charge as described below, the Monitor believes that the Applicants will have sufficient liquidity to fund their operations until August 26, 2022.

Sales and Investment Solicitation Process

36. The SISP is intended to solicit interest in and opportunities for an investment in, or sale of, all or substantially all of the Property (as defined in the Initial Order) of the Applicants. This may include one or more of a restructuring, recapitalization, or other form of reorganization of the business and affairs of one or more of the Applicants as a going concern, or a sale of all, substantially all or one or more components of the Applicants' Property as a going concern or otherwise.
37. The SISP is fully described in the document attached as Exhibit "A" to the Rombouts Affidavit.
38. The proposed timeline of the SISP is set out in the following table. Any terms not expressly defined in the table are defined in the Rombouts Affidavit.

Milestone	Date (each by 5:00 p.m. Toronto time)
Publish Notice and Press Release	April 8, 2022
Deliver Teaser Letter and NDA to Known Potential Bidders	April 29, 2022
Deliver Confidential Information Memorandum	May 6, 2022
Phase 1 Bid Deadline	July 29, 2022
Phase 2 Bid Deadline	August 10, 2022
Approval and Vesting Order Motion hearing	August 24, 2022 (subject to court availability)

39. The Monitor will be responsible for conducting the SISP in consultation with the Applicants and others as identified in the SISP. In the event that clarification is required with respect to the SISP, the Monitor will seek the advice and direction of the Court.

Amendments to Priority Charges

40. The Initial Order provided for a charge up to a maximum amount of \$150,000 (the “**Administration Charge**”) in favour of counsel to the Applicants, the Proposed Monitor and the Proposed Monitor’s independent counsel, as security for the professional fees and disbursements incurred prior to and after the commencement of the CCAA proceedings. The Applicants are seeking an increase in the Administration Charge to \$500,000.
41. The Monitor believes that the increase in the quantum of the Administration Charge is reasonable in the circumstances based upon a review and assessment of the anticipated professional costs to be incurred during this matter.
42. The Applicants seek an increase in the DIP Loan Charge from \$1,200,000 to \$2,200,000. The Monitor believes that the increase in the quantum of the DIP Loan Charge is reasonable in the circumstances based upon a review of the Cash Flow Forecast to the week ending August 27, 2022, and the Applicants’ need to carry on operations during that period.

CONCLUSIONS AND RECOMMENDATIONS

43. The Monitor has reviewed the Applicants’ materials for the comeback hearing and supports the Applicants’ request that the Court grants the Amended and Restated Initial Order.

All of which is respectfully submitted this 31st day of March, 2022.

**BDO CANADA LIMITED,
in its capacity as Monitor of the Applicants,
and not in its corporate or personal capacity.**

**Stephen N. Cherniak, CPA, CA, CIRP
Senior Vice President
Licensed Insolvency Trustee**

Appendix "A"

**Actual Cash Flow for the period
March 21, 2022 to March 30, 2022**

Eve & Co Incorporated / Natural Medco Ltd.
Actual Cash Flow for the period
March 21, 2022 to March 30, 2022 (11:00 a.m.)
(CAD \$)

WEEK ENDING	Forecast	Actual	Variance	Comments and Variance Analysis
	3/26 & 4/2	3/26 & 4/2		
Beginning cash (deficit)	68,739	48,568	(20,171)	
Receipts				
Provincial sales collected	60,882	108,842	47,960	Favourable variance due to accelerated payments from Ontario Cannabis Store and ALGC.
Bulk (International) sales	62,150	-	(62,150)	Forecast deposit on sale of trim is expected WE 4/9.
Other receipts	-	-	-	
Total Receipts	123,032	108,842	(14,190)	
Disbursements				
Salaries & Wages	114,336	73,130	(41,206)	Payroll was less than forecast. Forecast consultant fees and employee expenses to be paid later in WE 4/2.
Employee benefits	47,712	-	(47,712)	Premium arrears of \$32K and current month premium of \$14K to be paid later in WE 4/2.
Production costs & supplies	102,904	54,029	(48,875)	Additional supplier payments to be paid later in WE 4/2.
Utilities	90,000	90,000	-	Upon receipt of DIP Loan advance, payment was made directly by Applicants' legal counsel to preserve gas service.
Property taxes	-	-	-	
Insurance	45,497	47,822	2,325	Forecast payment was made. Variance is due to late charges.
Laboratory charges	104,864	-	(104,864)	Payments of \$84K to Eurofin Laboratories and \$20K to A & L Laboratories to be made later in WE 4/2.
Communications & Admin.	13,316	2,566	(10,750)	Payments to be made later in WE 4/2
Purchased product	-	-	-	
Capital expenditures	99,800	-	(99,800)	Necessary capital expenditures for HVAC, fans and electrical were deferred to WE 4/9.
Audit, AGM and filing fees	42,613	-	(42,613)	Installment to auditors of \$30K to be paid later in WE 4/2.
Government remittances	-	-	-	
HST/Health Canada	73,075	-	(73,075)	Health Canada licensing and regulatory fees are still to be paid.
Excise tax	-	-	-	
Mortgagee loan payments	-	-	-	
RBC	261,912	130,956	(130,956)	March 1, 2022 arrears payment was made. April 1, 2022 payment is pending.
Vanengelen	25,000	-	(25,000)	March 1, 2022 interest payment to 2nd mortgagee is pending. April 1, 2022 payment to be paid as due.
BDO and legal fees	155,000	116,363	(38,637)	Payment of outstanding pre-filing BDO fees of \$116K is pending. Pre-filing fees of RBC legal counsel are not yet paid.
Restructuring costs	150,000	150,000	-	Payment to Applicants' legal counsel from DIP Loan advance.
Total Disbursements	1,326,029	664,866	(661,163)	
Net Cash Flow	(1,202,997)	(556,024)	646,973	
DIP Loan advances		1,200,000		
Closing cash (deficit)	(1,134,258)	692,544		

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Court File No. CV-22-00678884-00CL

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

Proceedings commenced at Toronto, Ontario

**FIRST REPORT OF THE MONITOR
MARCH 31, 2022**

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