

**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”)

**SECOND REPORT OF THE MONITOR
AUGUST 25, 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 (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**”) and an initial charge in favour of the DIP Lender in the amount of \$1.2 million (the “**DIP Charge**”).
4. BDO prepared a report dated March 31, 2022 (the “**Monitor’s First Report**”) to provide information to this Court for its consideration in respect of the Applicants’ motion for, among other things an extension of the stay period to August 26, 2022, an increase in the Administration Charge and DIP Charge, and approval of a Sales and Investment Solicitation Process (the “**SISP**”).
5. On April 1, 2022, the Court granted an Amended and Restated Initial Order (the “**Amended and Restated Initial Order**”) that among other things:
 - a. Extended the Stay Period to August 26, 2022;
 - b. Confirmed and extended the appointment of BDO as Monitor;
 - c. Authorized the full amount of the DIP Loan from the DIP Lender, with borrowings not to exceed \$2,200,000;
 - d. Increased the Administration Charge to the maximum amount of \$500,000; and
 - e. increased the DIP Charge to the maximum amount of \$2,200,000.

The Administration Charge and the DIP Charge rank in priority to the security of Royal Bank of Canada (“**RBC**”) and the security of Brian Van Engelen and Joanne Van Engelen.
6. On April 1, 2022, the Court also granted the Sale Process Approval Order (the “**Sale Process Approval Order**”) authorizing the commencement of the SISP as fully described in Schedule “A” to the Sale Process Approval Order.

PURPOSE

7. The purpose of this report is to provide information to the Court on:
 - a. the Applicants' operations since the granting of the Amended and Restated Initial Order;
 - b. the Monitor's activities since the granting of the Amended and Restated Initial Order;
 - c. the status of the SISP;
 - d. the Applicants' receipts and disbursements for the period from March 21, 2022 to August 20, 2022 compared to the cash flow forecast that was attached as Appendix A to the Proposed Monitor's Report (the "**Filing Cash Flow Forecast**");
 - e. the Applicant's cash flow projection (the "**Cash Flow Forecast**") for the 6-week period from August 22, 2022, to the week ending October 1, 2022 (the "**Cash Flow Period**"); and
 - f. the Applicants' motion, returnable on August 26, 2022, for an order substantially in the form attached to the Notice of Motion:
 - i. extending the Stay Period to September 30, 2022;
 - ii. increasing the DIP Charge and authorizing further borrowings under the DIP Loan; and
 - iii. increasing the Administration Charge.

TERMS OF REFERENCE

8. 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 Second 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.
9. 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.
10. 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.
11. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian dollars.

BACKGROUND

12. 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**").
13. 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*.
14. 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.
15. 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.
16. The Proposed Monitor's Report provided background and a chronology of the Applicants' licenses issued by Health Canada.

APPLICANTS' OPERATIONS SINCE THE AMENDED AND RESTATED INITIAL ORDER

17. This Report should be read in conjunction with the Affidavit of Melinda Rombouts sworn August 25, 2022 (the "**Rombouts Affidavit**").

18. Upon the granting of the Amended and Restated Initial Order, the Applicants further communicated with 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 the SISP.
19. On April 5, 2022, the Applicants received additional DIP Loan funds in the amount of \$1,000,000, bringing the total borrowings to the maximum of \$2,200,000 as authorized by the Amended and Restated Initial Order.
20. NMC continued to supply recreational cannabis to wholesale customers in several Canadian provinces. However, due to softening market conditions and downward price pressure, domestic sales and cash collections were well below forecast.
21. At the Filing Date, NMC was working to finalize a large sale of dried cannabis flower to an Israel-based customer with whom NMC had executed a Medical Cannabis Supply and Purchase Agreement in August 2021. The order value was approximately \$2.2 million. The customer obtained an import permit from the State of Israel, and NMC in turn applied for an export permit from Health Canada, which was issued on May 13, 2022. Despite protracted negotiations, NMC was unable to finalize shipping and payment terms with the customer that would provide NMC with adequate financial security prior to shipment of the order. The export permit expired on August 21, 2022. To date, and facing soft domestic market conditions, NMC has been unable to secure alternate customers for the inventory that was earmarked for Israel.
22. Since the granting of the Initial Order, NMC has completed one sale of dried cannabis to a German customer. However, since this customer had made a large pre-payment in November 2021, only \$66,000 was collected from this order. NMC completed several one-off sales of trim, which is used for extraction and further processing, but prices were discounted and cash received from such sales was below forecast.
23. In view of the above circumstances, forecasted Bulk (International) Sales have not materialized and as further discussed below, the Applicants were offside of the Filing Cash Flow Forecast.

MONITOR'S ACTIVITIES SINCE THE AMENDED AND RESTATED INITIAL ORDER

24. 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 receipts and disbursements of the Applicants and prepared weekly cash flow statements for RBC, the Applicants' first secured lender, in accordance with the Amended and Restated Initial Order.
25. Since the granting of the Amended and Restated Initial Order, the Monitor has posted the Court materials to its website at <https://www.bdo.ca/en-ca/extranets/eve-co-incorporated-and-natural-medco-ltd/> (the "**Monitor's Website**").
26. On April 8, 2022, the Monitor published the Notice of the Amended and Restated Initial Order and Court approval of the SISP in the Globe and Mail (National Edition).
27. The SISP was 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 Amended and Restated 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 Property as a going concern or otherwise
28. The Monitor, in conjunction with the Applicants, has conducted the SISP in accordance with the Sale Process Approval Order as set out below.

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)

29. The Monitor and the Applicants are currently in negotiations with one of the offerors (the "**Bidder**") who submitted a bid in the SISP in respect of the terms, conditions, due diligence requirements and timing of its offer.
30. The Monitor anticipates attending before this Court in the near term to request an approval and vesting order in respect of a finalized sale agreement with the Bidder.

APPLICANTS' RECEIPTS AND DISBURSEMENTS TO DATE

31. The Applicants, with the assistance of the Proposed Monitor, prepared the Filing Cash Flow Forecast for the 23-week period from March 21, 2022, to the week ending August 27, 2022 for the purpose of projecting the Applicants' estimated liquidity needs. As noted, a copy of the Filing Cash Flow Forecast was attached as Appendix "A" to the Proposed Monitor's Report.
32. A summary of the Applicants' actual receipts and disbursements for the period March 21 - 30, 2022 to August 20, 2022 (the "**Reporting Period**"), as compared to the Filing Cash Flow Forecast (the "**Variance Analysis**") is set out below:

Eve & Co Incorporated /
Natural Medco Ltd.
Cash Flow Forecast for the period
March 21, 2022 to August 27, 2022
(CAD \$)

Actual to WE 8/20			
WEEK ENDING	Weeks 1 - 22		
	Forecast	Actual	Variance
Beginning cash (deficit)	68,739	48,568	(20,171)
Receipts			
Provincial sales collected	1,262,135	803,468	(458,667)
Bulk (International) sales	2,959,650	350,017	(2,609,633)
Other receipts	200,000	176,845	(23,155)
Total Receipts	4,421,785	1,330,330	(3,091,455)
Disbursements			
Salaries & Wages	1,158,836	926,801	(232,035)
Employee benefits	111,712	58,623	(53,089)
Production costs & supplies	663,734	297,310	(366,424)
Utilities	490,000	284,562	(205,438)
Property taxes	8,000	-	(8,000)
Insurance	315,402	158,050	(157,352)
Laboratory charges	299,864	117,482	(182,382)
Communications & Admin.	41,484	21,230	(20,254)
Purchased product	88,987	89,038	51
Capital expenditures	163,900	9,010	(154,890)
Audit, AGM and filing fees	143,113	35,255	(107,858)
Government remittances			
HST/Health Canada	169,813	66,716	(103,098)
Excise tax	198,600	95,567	(103,033)
Mortgagee loan payments			
RBC	785,736	654,778	(130,958)
Vanengelen	75,000	75,000	-
BDO and legal fees	655,000	350,261	(304,739)
Restructuring costs	300,000	210,100	(89,900)
Total Disbursements	5,669,181	3,449,782	(2,219,399)
Net Cash Flow	(1,247,396)	(2,119,452)	(872,056)
DIP Loan advances		2,200,000	
Closing cash (deficit)	(1,178,657)	129,116	

33. During the Reporting Period, the Applicants experienced an unfavourable cash flow variance of \$872,056 and its net cash flow for the reporting period was \$(2,119,452), excluding advances on the DIP Loan. Cash receipts were \$3,091,455 less than forecast, with the majority of the shortfall attributable to Bulk (International) Sales, as previously discussed. With reduced sales, the Applicants reduced or eliminated certain expenses and did not have sufficient cash to pay the professional fees of counsel to the Applicants, the

Monitor and the Monitor's independent counsel as forecast. Disbursements in the Reporting Period were \$2,219,399 less than forecast.

34. The Applicants are effectively out of cash and NMC is currently operating with only limited personnel. NMC's cash balance as at August 20, 2022 is approximately \$130,000, but it has been unable to fund the first installment of its insurance policy premium, which was renewed on July 4, 2022, and did not make the monthly mortgage payment to RBC that was due on August 1, 2022.

MATERIAL CASH FLOW VARIANCES

35. The Applicants renewed their existing insurance policies on July 4, 2022 through their insurance broker, Purves Redmond Limited (the "**Insurance Broker**"), for an annual premium of \$420,467.76. The Applicants entered into a funding arrangement with First Insurance Funding of Canada ("**First Insurance**") whereby the Applicants' were required to make an initial funding payment of \$116,949 on August 4, 2022 and monthly payments of \$35,162.
36. The Monitor was advised by the Applicants that they were unable to make their initial funding payment due on August 4, 2022. The Monitor was repeatedly assured by the Applicants that they were in communication with First Insurance and that revised payment terms were being worked out. On August 23, 2022, the Monitor was advised by the Insurance Broker that the Applicants' insurer had issued a notice to terminate the insurance policy on August 11, 2022 due to non-payment, and that the Applicants' insurance coverage would expire on August 26, 2022 if satisfactory payment was not made to First Insurance. Notwithstanding extensive communications with the Applicants in respect of this matter, the Monitor had not previously been advised of the notice to terminate.
37. The Monitor has been in direct contact with First Insurance and the Insurance Broker. In order to prevent the cancellation of the Applicants' insurance policy, the Applicants are required to pay the entire amount of the policy upfront. The Monitor has confirmed that the Applicants have paid \$116,000 to the Insurance Broker by wire transfer on August 25, 2022 with the balance of \$304,467.76 to be paid directly by the DIP Lender on August 26, 2022 upon the issuance of the relief requested by the Applicants.
38. On August 19, 2022, the Monitor was advised directly by Hydro One that NMC had unpaid accounts totalling \$94,693 for the period from the Filing Date to June 30, 2022. The Applicants advised the Monitor that the second-year portion of NMC's expansion deposit is eligible for release and would be sufficient to offset the unpaid accounts. On August 23, 2022, Hydro One provided the Monitor with a copy of a letter to NMC dated June 23, 2022, advising that, based on its annual average peak demand calculation, no expansion deposit refund is payable to NMC by Hydro One.
39. As set out in more detail below, the Applicants have secured additional financing under the DIP Loan to pay the insurance and amounts owing to Hydro One.

PROPOSED EXTENSION ORDER AND INCREASE IN DIP

40. The Applicants seek an Extension Order that, among other things, extends the Stay Period, and authorizes an increase in the DIP Loan in the amount of \$600,000. Should the increase in the DIP Loan be approved, further advances will be made in tranches, only as required, and upon the direction of the Monitor. Further, the Monitor shall approve all payments to suppliers.
41. The Applicants seek an extension of the Stay Period from August 26, 2022 until September 30, 2022. This extension would permit the Bidder to complete its due diligence and the Applicants to finalize the transaction agreement. The Bidder currently operates in the cannabis industry and the continued operations of NMC, and preservation of the Health Canada licenses, is a condition of their proposed transaction.
42. The Applicants, with the assistance of the Monitor, prepared the Cash Flow Forecast for the Cash Flow Period. In view of current market conditions and the Applicants' history in achieving forecast Bulk Sales, conservative assumptions were applied to cash receipts. A copy of the Cash Flow Forecast is attached as **Appendix "A"** to this Second Report.
43. During the proposed extension of the Stay Period, no professional fees will be paid and RBC has agreed to defer its monthly mortgage payment.
44. Based on the Cash Flow Forecast, and if further borrowings of \$600,000 under the DIP Loan are approved by this Court, the Monitor believes that the Applicants will have sufficient liquidity to fund their operations until the end of the proposed Stay Period.
45. The bulk of the further proposed borrowings under the DIP Loan will fund payments related to ongoing insurance and Hydro One as outlined above which are required regardless of whether a transaction can be completed with the Bidder to protect the primary asset being the Real Property.

Amendments to Priority Charges

46. The Amended and Restated Initial Order provided for an Administration Charge up to a maximum amount of \$500,000 in favour of counsel to the Applicants, the Monitor and the Monitor's independent counsel, as security for the professional fees and disbursements incurred prior to and after the commencement of the CCAA proceedings.
47. The Filing Cash Flow Forecast provided for monthly payments of the professional fees and related disbursements. However, due to the Applicant's cash position, no professional fees have been paid since May 2022. In the course of the ongoing CCAA proceedings, including conducting the SISF, the unpaid professional fees of counsel to the Applicants, the Monitor and the Monitor's independent counsel currently exceed the Administration Charge. The Applicants are seeking an increase in the Administration Charge to \$700,000.
48. 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 through to the completion of a transaction with the Bidder.

49. The Applicants seek an increase in the DIP Charge from \$2,200,000 to \$2,800,000 to coincide with the proposed increase in the DIP Loan. The additional fees charged by the DIP Lender total \$11,500. The Monitor believes that the increase in the quantum of the DIP Charge and the fees charged for such increase are reasonable in the circumstances based upon a review of the Cash Flow Forecast to October 1, 2022, and the Applicants' need to carry on operations during that period.
50. RBC has advised that it consents to the increase in the DIP Loan, extension of the Stay Period and the increase in the Administration Charge.

CONCLUSIONS AND RECOMMENDATIONS

51. The Monitor has reviewed the Applicants' materials for the hearing and supports the Applicants' request that the Court grant the Extension Order.

All of which is respectfully submitted this 25th day of August, 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"

Eve & Co Incorporated /
Natural Medco Ltd.
Cash Flow Forecast for the period
August 22, 2022 to October 1, 2022
(CAD \$)

	1	2	3	4	5	6
WEEK ENDING	8/27	9/3	9/10	9/17	9/24	10/1
Beginning cash (deficit)	130,639	21,498	(361,483)	(419,225)	(436,058)	(447,302)
Receipts						
Provincial sales collected	29,760	19,145	4,133	9,367	35,880	42,653
Bulk (International) sales						
Other receipts						
Total Receipts	29,760	19,145	4,133	9,367	35,880	42,653
Disbursements						
Salaries & Wages	18,892		21,375		21,375	
Employee benefits						
Production costs & supplies	1,650	2,000	2,500	2,000	2,000	2,000
Utilities		94,693	37,500	22,500	22,500	
Property taxes						
Insurance	116,000	304,467	-			
Laboratory charges	200	500	500	500	500	500
Communications & Admin.	2,159	466	-	1,200	750	5,266
Purchased product						
Capital expenditures						
Audit, AGM and filing fees						
Government remittances						
HST/Health Canada						
Excise tax						9,383
Mortgagee loan payments						
RBC						
Vanengelen						
BDO and legal fees						
Restructuring costs						
Total Disbursements	138,901	402,126	61,875	26,200	47,125	17,149
Net Cash Flow	(109,141)	(382,981)	(57,742)	(16,833)	(11,245)	25,505
Closing cash (deficit)	21,498	(361,483)	(419,225)	(436,058)	(447,302)	(421,797)

IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*, RSC 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.

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

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

Proceedings commenced at Toronto, Ontario

**SECOND REPORT OF THE MONITOR
AUGUST 25, 2022**

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