

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

**IN THE MATTER OF THE *BANKRUPTCY AND INSOLVENCY*
ACT, RSC 1985, Cb-3, AS AMENDED**

**AND IN THE MATTER OF THE NOTICE OF INTENTION TO
MAKE A PROPOSAL OF CANNMART LABS INC. OF THE CITY
OF TORONTO IN THE PROVINCE OF ONTARIO**

**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 CANNMART LABS INC.**

**FIRST REPORT OF MSI SPERGEL INC.
IN ITS CAPACITY AS TRUSTEE UNDER THE NOTICE OF
INTENTION TO MAKE A PROPOSAL OF CANNMART LABS INC.**

- AND -

**FIRST REPORT OF MSI SPERGEL INC. AS PROPOSED CCAA
MONITOR OF CANNMART LABS INC.**

April 30, 2024

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I. INTRODUCTION

1. On April 3, 2024 (the “**Filing Date**”), CannMart Labs Inc. (“**CannMart Labs**” or the “**Company**”) filed a Notice of Intention to Make a Proposal (“**NOI**”) pursuant to Section 50.4(1) of the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B.-3, as amended (the “**BIA**”), and msi Spergel inc. (“**Spergel**”) was appointed as proposal trustee (in such capacity, the “**Proposal Trustee**”) under the NOI. A copy of the Certificate of Filing issued by the Superintendent of Bankruptcy in respect of the Company’s NOI is attached hereto as **Appendix “A”**.
2. Spergel was previously retained by the Company to act as financial advisor to assist the Company’s management and its board of directors in reviewing restructuring alternatives available to the Company as part of its strategic review and planning.
3. The primary objectives of the Company’s restructuring are to: (i) provide CannMart Labs with stability and access to additional liquidity through the proposed debtor-in-possession financing, and (ii) identify a purchaser of all or substantially all of its assets, or an investor in CannMart Labs’ business through the proposed Sales Process (as defined herein).
4. The Company is now seeking an Order to, among other things, convert the NOI proceedings and continue its restructuring proceedings under the *Companies’ Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the “**CCAA**”), and to appoint Spergel as Monitor of CannMart Labs Inc. under the proposed CCAA proceedings (in such capacity, the “**Proposed Monitor**”).

II. PURPOSE OF THIS REPORT AND DISCLAIMER

5. The purpose of this first report (the “**First Report**”) is to provide the Ontario Superior Court of Justice (Commercial List) (the “**Court**”) with information pertaining to the following:
 - (a) background information about the Company;
 - (b) the restructuring steps undertaken by the Company during these proceedings since the Filing Date;
 - (c) the activities of the Proposal Trustee since the Filing Date;
 - (d) the purpose and objective of the proposed conversion of the NOI proceeding to CCAA proceedings;
 - (e) Spergel’s qualification to act as monitor under the CCAA (the “**Monitor**”);
 - (f) the Company’s proposed interim financing facility (“**DIP Facility**”) extended by Lifeist Wellness Inc. (“**Lifeist**”), as lender, to the Company pursuant to the terms of the DIP Term Sheet (as defined below) to fund the Company’s working capital requirements during these proceedings;
 - (g) the proposed Priority Charges (defined below) over the Company’s property, assets and undertaking on account of the Administration Charge (as defined below), the DIP Lender’s Charge (as defined below) and the Director’s Charge (as defined below);
 - (h) the Company’s request for an extension of the stay of proceedings

(the “**Stay Period**”) up to and including July 17, 2024;

- (i) the Company’s request for approval of a sales process to be conducted by the Monitor, if appointed; and
- (j) the Proposal Trustee’s recommendation that this Court make orders, as requested by the Company, *inter alia*:
 - i. approving the Administration Charge;
 - ii. approving the DIP Facility and the DIP Charge (as defined below);
 - iii. approving the Directors’ Charge; and
 - iv. approving the conversion of the NOI proceedings to proceedings under the CCAA.

Restrictions and Disclaimer

- 6. In preparing this First Report, the Proposal Trustee has relied upon certain information provided to it by the Company’s management. The Proposal Trustee has not performed an audit or verification of such information for accuracy, completeness or compliance with Accounting Standards for Private Enterprises or International Financial Reporting Standards. Accordingly, the Proposal Trustee expresses no opinion or other form of assurance with respect to such information.
- 7. The cash flow forecast and projections in this First Report relate to future events and are based on management’s assumptions, which may not remain valid throughout the period of the projections. Consequently, they

cannot be relied upon to the same extent as information derived from the reviewed accounts for completed accounting periods. For these reasons, the Proposal Trustee expresses no opinion as to how closely the actual cash flows achieved will correspond to the projection.

8. Parties using this First Report, other than for the purposes outlined herein, are cautioned that it may not be appropriate for their purposes, and consequently should not be used for any other purpose.
9. Capitalized terms not defined in this First Report have the meanings ascribed to them in the Affidavit of Daniel Stern sworn April 26, 2024 (the “**Stern Affidavit**”) and filed in support of this Motion, a copy of which is included in the Company’s Motion Record. This First Report should be read in conjunction with the Stern Affidavit as such affidavit contains additional background information concerning the Company, its structure, business activities, and stakeholders.
10. Court materials in these proceedings can be found on Spergel’s Case Website at <https://www.spergelcorporate.ca/engagements/canmart-labs-inc/>.
11. All references to dollars in this First Report are in Canadian currency unless otherwise noted.

III. BACKGROUND AND APPOINTMENT

12. On April 3, 2024, the Company commenced these proceedings by filing an NOI with the Superintendent of Bankruptcy, and Spergel was appointed as the Proposal Trustee.

13. CannMart Labs is a private corporation incorporated pursuant to the *Business Corporations Act* (Ontario) (the “**OBCA**”) on March 7, 2018, and is a wholly owned subsidiary of Lifeist. Lifeist is a publicly traded and widely held company listed on the TSX Venture Exchange under the ticker symbol LFST. CannMart Labs’ registered head office is located at 18 Canso Road, Etobicoke, Ontario.
14. CannMart Labs is a licensed cannabis producer in accordance with the *Cannabis Act*, S.C. 2018, c. 16 (the “**Act**”) or the *Cannabis Regulations* SOR/2017-144 (the “**Regulations**”) that is in the business of developing butane hash oil (“**BHO**”) extracts. BHO extracts are a concentrated extraction of cannabis that is used to create topical treatments, liquids in vaping, edibles, and other cannabis-related products, or can also be used to increase potency in other cannabis products.
15. The BHO extracts produced by CannMart Labs are packaged under the brand names “Roilty” and “Zest Cannabis”. The cannabis products packaged under these brands are sold by CannMart Inc. (a related company) to the various provincial entities across Canada who are largely responsible for the distribution of cannabis products to retailers.
16. In accordance with the Act and Regulations, CannMart Labs renewed its cannabis license (the “**License**”) from Health Canada on December 19, 2023. The License is valid until February 12, 2026. The License is for the possession, production, and sale of cannabis at CannMart Labs’ facility at 7 Canso Road, Etobicoke, Ontario.
17. CannMart Labs obtained its cannabis license under the *Excise Act, 2001* (Canada) on March 18, 2021 (the “**Excise License**”). The Excise License expires on May 17, 2024.

18. As of today, CannMart Labs has no employees. At the peak of its operations, CannMart Labs had 40 employees. After it temporarily ceased operations because of its liquidity issues, CannMart Labs transferred its employees to CannMart Inc.
19. Additional background information about the Company is provided in the Stern Affidavit.

IV. FINANCIAL DIFFICULTIES OF CANNMART LABS

20. CannMart Labs is one of the few licensed producers of cannabis that produces BHO extraction in Canada.
21. Based on the Cash Flow Forecast (as defined below), during the restructuring CannMart Labs projects its ordinary course monthly disbursements will exceed its monthly receipts by approximately \$25,000 per month before payment of the professional fees associated with restructuring. CannMart Labs does not have sufficient cash to continue to sustain losses. Due to CannMart Labs' liquidity and cash-flow issues, the company has had to cease operations in order to focus on restructuring its business. Without approval of the proposed DIP Financing, CannMart Labs does not have the requisite liquidity to restructure. In such circumstances, CannMart Labs would be required to liquidate, causing it to lose all value associated with its cannabis licenses and the knowledge associated with its BHO extraction process.
22. CannMart Labs is facing significant financial challenges, largely stemming from the cessation of essential funding by its parent company and main investor, Lifeist. Historically, Lifeist supported CannMart Labs financially. However, Lifeist has reached a juncture where continuing this support

- would jeopardize its own financial stability. Lifeist is now in a position where it will only provide financial assistance that facilitates CannMart Labs' restructuring, rather than unrestricted funding. Furthermore, CannMart Labs' efforts to find alternative capital sources are being hampered by the challenging conditions prevailing in the capital markets.
23. CannMart Labs' financial strain is exacerbated by the disproportionately high tax and regulatory fees imposed on licensed producers in the business of manufacturing and selling cannabis extracts. Currently, approximately half of CannMart Labs' revenue is allocated to these obligations. This financial burden limits the Company's operational flexibility and hampers its ability to invest in growth initiatives, further compounding CannMart Labs' financial difficulties.
 24. CannMart Labs is facing a liquidity crisis and mounting debt obligations, which has limited the ongoing operations of the Company. In response, as set out above, on the Filing Date, the Company commenced restructuring proceedings by filing the NOI under the BIA, and Spergel was appointed as the Proposal Trustee.

V. FINANCIAL POSITION OF CANNMART

25. CannMart Labs' unaudited balance sheet as at February 29, 2024 is provided below:

Description	Book Value (CDN\$)
<i>Current Assets</i>	
Cash	23,409
CRA surety bond	187,500
Inventory	540,600
Inventory deposits	101,702
Prepaid expenses	11,790
Deposits	18,950
Sales tax receivable	568,447
Intercompany receivables	23,031,577
Total Current Assets	24,483,974
Property plant and equipment	1,411,558
Long-term portion of deposits	7,350
Total Assets	25,902,883
<i>Current Liabilities</i>	
Accounts payable	1,687,464
Accrued liabilities	3,358,210
Bonus payable	30,210
Sales tax payable	136,296
Short-term portion of lease liabilities	120,887
Intercompany payables	40,433,981
Total Current Liabilities	45,767,048
Long-term portion of the lease liabilities	383,443
Total Liabilities	46,150,491
Equity	(20,247,608)
Total Liabilities & Equity	25,902,883

Surety bond – represents the cash collateral for the letters of credit with Bank of Montreal. The surety bond is for \$250,000 however the Company has paid the cash collateral for \$187,500.

Inventory – comprised mainly of cannabis and packaging materials.

Intercompany receivables – comprised mainly of the amounts receivable from Lifeist and CannMart Inc.

Intercompany payables – comprised mainly of the amounts payable to Lifeist and CannMart Inc.

Secured Creditors

26. Lifeist and Bank of Montreal (“**BMO**”) are the only parties with a PPSA registration against CannMart Labs’ personal property. The Proposal Trustee understands they are the only secured creditors (subject to review of the security by counsel) of the Company. Lifeist has security over all of the Company’s assets pursuant to a general security agreement. Lifeist is owed approximately \$10.4 million from CannMart Labs (net of amounts owed by Lifeist to CannMart Labs). BMO provided CannMart Labs with a letter of credit facility in the principal amount of \$187,500 which is fully secured by cash collateral provided to BMO.

Unsecured Creditors

27. Based on CannMart Labs’ books and records, as of February 29, 2024, CannMart Labs’ unsecured creditors were owed approximately \$14.4 million. Unsecured obligations are primarily comprised of amounts owing to trade payables, Canada Revenue Agency and CannMart Inc.

VI. CASH FLOW FORECAST

28. The Company has prepared a Statement of Projected Cash Flow for the 13 weeks ending on July 20, 2024 (the “**Cash Flow Forecast**”). The Cash Flow Forecast (defined below) projects that CannMart Labs’ ordinary course monthly disbursements will exceed its monthly receipts by approximately \$25,000 before payment of the professional fees associated with the restructuring. CannMart Labs does not have sufficient cash to continue to sustain losses.
29. The Cash Flow Forecast and the Company’s statutory report on the cash

flow pursuant to paragraph 50.4(2)(c) of the BIA, which is the same as the statutory report required pursuant to Section 10(2)(b) of the CCAA, is attached as **Appendix “B”**.

30. The Proposal Trustee has reviewed the Cash Flow Forecast, which indicates no further sales and confirms the quantum of the proposed DIP financing, as outlined later in this First Report, needed to maintain the *status quo* until the Sales Process is completed.
31. Based on Spergel’s review of the Cash Flow Forecast, the cash flow assumptions appear reasonable. Spergel’s statutory report on the Cash Flow Forecast pursuant to paragraph 50.4(2)(b) of the BIA, which is the same as the statutory report required pursuant to paragraph 23(1)(b) of the CCAA, is attached as **Appendix “C”**.

VII. PURPOSE AND OBJECTIVE OF THE PROPOSED CONVERSION TO CCAA PROCEEDINGS

32. The Company seeks to continue the NOI proceedings under the CCAA, pursuant to section 11.6 of the CCAA, to maximize the value of its business while it runs the Sales Process (as defined below), on a going concern basis, for the benefit of all stakeholders.
33. The CCAA provides the most appropriate forum for CannMart Labs to restructure its affairs. CannMart Labs requires the protections afforded under the CCAA to maintain the *status quo* and obtain the breathing room required to implement its restructuring strategy. With the benefit of the protections afforded by the CCAA, CannMart Labs will be able to maintain its going concern value and preserve its cannabis licenses to maximize value for the benefit of CannMart Labs’ stakeholders as described in more

detail in the Stern Affidavit.

34. The Company would also benefit from the flexibility afforded under the CCAA, including the option to implement reverse vesting structures to preserve the value of the existing regulatory licenses.
35. The Company proposes to commence the proposed Sales Process (as described below), which will, among other things, permit the Company to maximize the value for the Company's property, assets and undertakings (the "**Assets**") or the Company's shares (the "**Shares**") for the benefit of its stakeholders.
36. The time period for the Company to file a proposal under the NOI will expire on May 3, 2024. The Company will not be in a position to make a proposal by that date. The Proposed Monitor believes that the Company's request to avoid the 10-day comeback hearing is reasonable due to the fact that the NOI proceeding has been ongoing for approximately 30 days, Lifeist is the only secured creditor with an economic interest and supports the restructuring, and notice has been provided to nearly all known unsecured creditors.
37. Accordingly, and in order to provide the time for the Sales Process described herein to be conducted and completed, the Company is seeking to convert the NOI proceedings to CCAA proceedings, and to transition Spergel's role from Proposal Trustee to Court-appointed Monitor.
38. The Company requires the continued stay of proceedings and enforcement processes taken or that might be taken in respect of CannMart Labs, the Proposed Monitor, and their respective employees and representatives, and accordingly, the Company is seeking an initial

Stay Period up to and including July 17, 2024. This will provide the time necessary to fully and formally canvass the market for purchasers of the business as a going-concern through a court-supervised Sales Process and to return to Court for the approval of a potential transaction.

39. In these circumstances, a bankruptcy and liquidation would result in a worse outcome for the stakeholders of CannMart Labs, as by law the Proposal Trustee is not permitted to take possession of cannabis products because Spergel is not licensed to do so under the Act or the Regulations. Accordingly, Spergel would not act as the bankruptcy trustee should the Company be deemed bankrupt. A conversion to the CCAA avoids this issue.

VIII. QUALIFICATIONS TO ACT AS MONITOR

40. Spergel is a licensed insolvency trustee within the meaning of section 2(1) of the BIA. In addition, Spergel is not subject to any of the restrictions on who may be appointed as Monitor set out in section 11.7(2) of the CCAA.
41. Spergel has consented to act as Monitor in the proposed CCAA proceedings should the Court grant the Initial Order. A copy of Spergel's consent to act as Monitor is attached as Exhibit N to the Stern Affidavit.
42. Spergel has retained Reconstruct LLP to act as its independent legal counsel.
43. Prior to the Filing Date, Spergel was engaged to assist the Company to consider restructuring options and conduct certain financial analysis of its business. As a result of its engagement, Spergel acquired significant knowledge of the Company's business and operations, including the key

issues and challenges presently facing the Company.

44. Neither Spergel nor any of its representatives or affiliates has been at any time in the past two years: (a) a director, officer or employee of any member of the Company; (b) related to any member of the Company, or to any director or officer of any member of the Company; or (c) the auditor, accountant or legal counsel, or a partner or an employee of the auditor, accountant or legal counsel, of any member of the Company.

IX. PROPOSED DIP FINANCING

45. The Proposed Monitor understands that the Company has secured a commitment of up to a maximum of \$400,000 in interim financing, which is to be used towards on-going operations, funding professional costs of these proceedings and the maintenance of the Company's licenses, until the end of the proposed Stay Period.
46. The DIP financing is proposed to be provided by Lifeist (in such capacity, the "**DIP Lender**").
47. The material terms and features of the DIP Facility, as outlined in the DIP Term Sheet, include:
- (a) a non-revolving credit facility in the principal amount of \$400,000;
 - (b) advances under the DIP facility shall consist of minimum advances of \$100,000. Each advance shall be requested by CannMart Labs in writing;
 - (c) interest rate of 10% per annum;

- (d) a non-refundable commitment fee of 2% of the amount of the DIP Facility;
 - (e) security ranking ahead of all creditors of the Company, but subordinate to the Administrative Charge.
48. The DIP Term Sheet requires that Lifeist is granted a Court-ordered charge over substantially all of the Assets to secure amounts owing by the Company pursuant to the DIP Facility (the “**DIP Lender’s Charge**”). The DIP Lender’s Charge will rank in priority to all other charges and encumbrances other than the Administration Charge (as defined below). It is a condition of the DIP Term Sheet that the DIP Lender’s Charge is granted.
49. When reviewing the reasonableness of the DIP Facility, the Proposed Monitor considered the factors set out in Section 11.2 of the CCAA and notes, in particular, the following:
- (a) CannMart Labs is facing an imminent liquidity crisis and the proposed advance under the DIP Facility is the only financing source available to the Company to fund its immediate cash requirements;
 - (b) Without the cash to be provided under the DIP Facility, CannMart Labs will be unable to continue with its restructuring efforts;
 - (c) the Proposed Monitor has compared the terms of the DIP Facility to other interim financing facilities approved by Canadian courts in recent CCAA proceedings. Based on the Proposed Monitor’s review, the cost of the proposed DIP Facility is slightly better than

the range of similar facilities recently approved by the Court and other Canadian courts in CCAA and other restructuring proceedings; and

- (d) the Proposed Monitor believes that it is unlikely any other lender would provide DIP funding given the temporary cessation of the business of CannMart Labs and no guarantee that the Sales Process will result in a sale of the Assets or Shares of CannMart.

- 50. Based on the foregoing factors, the Proposed Monitor is of the view that the terms of the DIP Facility are appropriate and reasonable, and that the facility and the DIP Lender's Charge are necessary and in the best interests of the Company and its stakeholders.

X. ADMINISTRATION CHARGE

- 51. The Company is seeking a charge in an amount not to exceed \$300,000 (the "**Administration Charge**") to secure the fees and expenses of the Monitor, its counsel and the Company' counsel for services rendered both leading up to and after the Filing Date.
- 52. The Administration Charge is a customary provision in an Initial Order in a CCAA proceeding. It is required by the professionals engaged to assist a debtor company in the CCAA proceedings and to protect them if the debtor is unable to pay professional fees and costs during the CCAA process. The Administration Charge is to rank first on the Assets.
- 53. The quantum of the Administration Charge sought by the Company was determined in consultation with the Proposed Monitor and having regard to the Cash Flow Forecast.

54. The Proposed Monitor believes that the Administration Charge is reasonable and appropriate in the circumstances given the complexity of the Company's proceedings and the Company's liquidity issues. Accordingly, the professionals require the benefit of the Administration Charge to protect them for their fees related to preparing for these proceedings, as well as for their fees and costs that will be incurred during these proceedings. The DIP Lender has agreed to the Administrative Charge.

XI. DIRECTORS' CHARGE

55. The Company is seeking a Directors' Charge of \$75,000. The amount of the Directors' Charge was estimated by the Company in consultation with the Proposed Monitor, taking into consideration scenarios where the existing director and officer liability insurance policy of CannMart Labs will potentially not provide coverage. The directors and officers of the Company have advised that they require the benefit of the Directors' Charge to continue to act in those capacities.
56. It is proposed that the Company's directors and officers ("D&O") would only be entitled to the benefit of the Directors' Charge to the extent that: a) they do not have coverage under their existing insurance policy; b) such coverage is insufficient to pay the Company's indemnity obligations; or c) such coverage is denied by the insurance provider or expires. Currently, the D&O's are negotiating a renewal of an insurance policy that provides for \$5 million in coverage. The Proposed Monitor understands that the Company has two proposals with respect to renewal of D&O insurance and such renewal is expected to be finalized and in place by May 3, 2024. The Directors' Charge will only be available to the extent that the insurance policy does not respond to a post-filing claim.

57. The Proposed Monitor is of the view that the Directors' Charge is reasonable in the circumstances and that the continued involvement of the directors and officers is beneficial to the Company and the advancement of these proceedings.

XII. PRIORITY CHARGES

58. The Administration Charge, the DIP Lender's Charge and the Directors' Charge shall together be defined as the "**Priority Charges**".

59. The Company proposes the Court-ordered charges have the following priority:

(a) first, the Administration Charge;

(b) second, the DIP Lender's Charge; and

(c) third, the Directors' Charge.

XIII. PROPOSED SALES PROCESS

60. In order to provide third parties with an opportunity to consider an acquisition of the Company's Assets or Shares and given the extensive marketing process undertaken by the Company prior to the NOI proceedings, the Company is proposing that the Proposed Monitor market the Company's Assets or Shares for sale for a period of approximately 45 days (the "**Sales Process**"). The Company has developed the Sales Process in consultation with the Proposed Monitor, a copy of which is included in the Company's Motion Record.

61. The Sales Process is designed to ensure that the marketing process is fair

and reasonable, and that prospective interested parties have the ability to make an offer to purchase the Assets or Shares of the Company.

62. The principal elements of the Sales Process are as follows (defined terms used in this section and not otherwise defined herein have the meaning ascribed to them in the Sales Process):

- a) as soon as reasonably practicable, the Proposed Monitor, with the assistance of the Company, will prepare a list of potential bidders, including: (i) parties that have approached the Company or the Monitor indicating an interest in the opportunity; and (ii) strategic parties whom the Company and/or the Proposed Monitor believe may be interested in purchasing all or part of the Business and Assets, or investing in the Company pursuant to the Sales Process;
- b) as soon as reasonably practicable the Proposed Monitor, with the assistance of the Company, will cause a notice of the Sales Process and such other relevant information that the Proposed Monitor, with the assistance of the Company, considers appropriate to be published in *The Globe and Mail* (National Edition) and *Insolvency Insider*, and any other newspaper, journal or industry publication as the Company and the Proposed Monitor consider appropriate, if any.
- c) as soon as is reasonably possible, the Proposed Monitor will prepare a Teaser Letter notifying prospective purchasers of the existence of the Sales Process and inviting prospective purchasers to express their interest in making an offer in respect of the Assets or Shares pursuant to the terms of the Sales Process;

- d) Potential Bidders that wish to commence due diligence will be required to execute a non-disclosure agreement (“**NDA**”);
- e) upon execution of the NDA, the Proposed Monitor, with the assistance of the Company, will determine if the Potential Bidder has a *bona fide* interest in pursuing a Transaction and thus deem them a “Qualified Bidder”;
- f) the Company will prepare, with the assistance of the Proposed Monitor, a confidential information memorandum (“**CIM**”), which will provide, among other things, information considered relevant to the Sales Process. The CIM will be sent to each Qualified Bidder;
- g) the Proposed Monitor, with the assistance of the Company, and subject to competitive and other business considerations, may give each Qualified Bidder access to due diligence materials and information relating to the Company that the Company deems appropriate, at its sole discretion;
- h) due diligence access may include access to an electronic data room (“**Data Room**”), on-site inspections, and other matters which a Qualified Bidder may reasonably request and as to which the Company may agree. Neither the Company nor the Proposed Monitor will be obligated to furnish any information relating to the Company or any person, at their discretion;
- i) a binding transaction agreement must be submitted in writing to the Proposed Monitor by no later than **5:00 p.m. (EST) on June 17, 2024 (“Bid Deadline”)**;

- j) the Company, in consultation with the Proposed Monitor, may extend the Bid Deadline, once or successively and up to a maximum of seven days without court approval, but is not obligated to do so. If the Bid Deadline is extended, the Company will promptly notify all Qualified Bidders;

- k) a binding transaction agreement must comply with all of the following requirements:
 - i. the bid is an offer to purchase some or all of the Assets or Shares on terms and conditions acceptable to the Company and the Proposed Monitor, and delivered to the Company and Proposed Monitor prior to the Bid Deadline;

 - ii. the Sales Process also contemplates an investment;

 - iii. it is duly authorized and executed and includes a purchase price for the Assets/Shares expressed in Canadian dollars (the “**Purchase Price**”), together with all exhibits, schedules, and all applicable ancillary agreements thereto;

 - iv. includes a letter of acknowledgement stating that the Qualified Bidder’s offer is irrevocable and open for acceptance until a successful transaction agreement is selected by the Company;

 - v. is accompanied by written evidence of a firm, irrevocable commitment for financing or other evidence satisfactory to the Proposed Monitor, at its sole discretion, of the ability of the Qualified Bidder to consummate the proposed

Transaction and pay the Purchase Price;

- vi. it fully discloses the identity of each entity that will be bidding for the Assets or otherwise sponsoring, financing, participating, or benefiting from such bid;
 - vii. it includes an acknowledgement and representation from the Qualified Bidder that: (i) it has had an opportunity to conduct any and all due diligence regarding the Assets/Shares and the Company prior to making its bid, (ii) it has relied solely upon its own independent review, investigation, and/or inspection of any documents in making its bid, and (iii) it did not rely upon any written or oral statements, representations, warranties, or guarantees whatsoever regarding the Assets, the Company, or the completeness of any information provided in connection therewith;
 - viii. it includes evidence, in form and substance reasonably satisfactory to the Company, of authorization and approval from the Qualified Bidder's board of directors (or comparable governing body) with respect to the submission, execution, and delivery of the Binding APA submitted by the Qualified Bidder; and
 - ix. the bid contemplates closing the transaction set out therein within four weeks of Court approval.
- l) a Binding bid will be considered if, among other criteria set out in the Sales Process, it is a Superior Offer, defined as a credible, reasonably certain and financially viable offer made by a Qualified

Bidder to be a counterparty to a transaction;

- m) the Company and the Proposed Monitor will review and evaluate each Binding bid, and the Company with the consent of the Monitor will, by June 21, 2024, identify the highest or otherwise best offer for the Assets or Shares of the Company (the “**Successful Bid**”). The Company may conditionally accept one or more (if for distinct and compatible transactions that are Portion Bids) Qualified Bids, which acceptance will be conditional upon the failure of the transaction(s) contemplated by the Successful Bid to close (the “**Back-up Bid**”, and Qualified Bidder making such Back-up Bid being the “**Back-up Bidder**”);
 - n) after determination of the Successful Bid and/or the Back-up Bid, the Company will, as soon as possible, make a motion to the Court for an AVO or RVO in respect of the Successful Bid and underlying purchase agreement.
63. The Proposed Monitor notes that the proposed timeframe set out above is condensed, but with the full cooperation of the Company, the Proposed Monitor believes that the deadlines proposed in the Sales Process are reasonable.
64. The Proposed Monitor is of the view that, in the circumstances, the proposed Sales Process represents the best opportunity to identify a potential going concern sale for the Company’s Assets or Shares and the best potential to maximize value for the benefit of its stakeholders.

XIV. CREDITOR NOTIFICATION

65. The proposed Initial Order requires the Monitor to:
- a) publish without delay a notice in the national edition of *The Globe and Mail* newspaper containing the information prescribed under the CCAA; and
 - b) as soon as reasonably practicable following the granting of the Initial Order:
 - i. make the Initial Order publicly available in the manner prescribed under the CCAA;
 - ii. send, in the prescribed manner, a notice to every known creditor who has a claim against the Company of more than \$1,000 advising that the order is publicly available; and
 - iii. prepare a list, showing the names and addresses of those creditors, and the estimated amounts of those claims, and make it publicly available in the prescribed manner.
66. If appointed Monitor, Spergel will also post the Initial Order and all motion materials on its Case Website in accordance with the E-Service Protocol.

XV. ACTIVITIES OF THE PROPOSAL TRUSTEE SINCE FILING DATE

67. The Proposal Trustee's activities since the Filing Date have included, *inter alia*, the following:
- a) sending a notice, within five days of the Filing Date, of the NOI

proceedings to all known creditors of CannMart Labs with claims of \$250 or more in accordance with the BIA. Notice was also sent to certain other persons, including creditors with claims less than \$250, applicable tax authorities and any other party that requested a copy;

- b) establishing and maintaining the Case Website where material documents pertaining to these proceedings are available in electronic form;
- c) implementing procedures for monitoring the Company's cash flows and for ongoing reporting of variances to the Cash Flow Forecast;
- d) assisting the Company with preparing the Cash Flow Forecast and filing same with the Office of the Superintendent of Bankruptcy pursuant to the BIA;
- e) meeting and corresponding with the Company and its legal counsel regarding the Cash Flow Forecast, cash management, supplier issues, landlord matters and various other matters in connection with the Company's operations and its NOI proceedings;
- f) responding to calls and enquiries from creditors and other stakeholders in connection with the NOI proceedings;
- g) reviewing materials filed with the Court in respect of the NOI proceedings, and this Motion with respect to the requested conversion to CCAA proceedings; and
- h) drafting this First Report.

XVI. CONCLUSION AND RECOMMENDATIONS

68. Based on the foregoing, Spergel, in its capacity as Proposal Trustee, and in its capacity as Proposed Monitor, respectfully recommends that this Court issue an order, *inter alia*:

- a) converting the Company's NOI proceedings to CCAA proceedings;
- b) appointing Spergel as the Monitor under the CCAA proceedings;
- c) extending the Stay Period to July 17, 2024;
- d) authorizing the Proposed Monitor to conduct the Sales Process;
- e) authorizing the Company to convene the Sales Process and approving same;
- f) approving the DIP Term Sheet, pursuant to which the Company will obtain DIP financing up to a maximum of \$400,000;
- g) granting the Priority Charges; and
- h) Such further and other relief as may be requested and this Court deems just.

All of which is respectfully submitted.

Dated at Toronto this 30th day of April, 2024

msi Spergel inc.,

solely in its capacity as Trustee *in re* the Proposal of CannMart Labs Inc.
and not in its personal or corporate capacity

- and –

msi Spergel inc.

as the Proposed Monitor in CannMart Labs Inc.
and not in its personal or corporate capacity

Per:



Mukul Manchanda, CPA, CIRP, LIT

APPENDIX A



Industry Canada
Office of the Superintendent
of Bankruptcy Canada

Industrie Canada
Bureau du surintendant
des faillites Canada

District of Ontario
Division No. 09 - Toronto
Court No. 31-3063478
Estate No. 31-3063478

In the Matter of the Notice of Intention to make a proposal of:

CANNMART LABS INC

Insolvent Person

MSI SPERGEL INC

Licensed Insolvency Trustee

Date of the Notice of Intention:

April 03, 2024

CERTIFICATE OF FILING OF A NOTICE OF INTENTION TO MAKE A PROPOSAL
Subsection 50.4 (1)

I, the undersigned, Official Receiver in and for this bankruptcy district, do hereby certify that the aforementioned insolvent person filed a Notice of Intention to Make a Proposal under subsection 50.4 (1) of the Bankruptcy and Insolvency Act;

Pursuant to subsection 69. (1) of the Act, all proceedings against the aforementioned insolvent person are stayed as of the date of filing of the Notice of Intention.

E-File/Dépôt Electronique

Date: April 08, 2024, 08:16

Official Receiver

151 Yonge Street, 4th Floor, Toronto, Ontario, Canada, M5C2W7, (877)376-9902

Canada

APPENDIX B

CannMart Labs Inc.

Cash Flow Statement (in CAD\$)

For the 13-week period ending July 20, 2024

Week Ending	Week 1 27-Apr	Week 2 4-May	Week 3 11-May	Week 4 18-May	Week 5 25-May	Week 6 1-Jun	Week 7 8-Jun	Week 8 15-Jun	Week 9 22-Jun	Week 10 29-Jun	Week 11 6-Jul	Week 12 13-Jul	Week 13 20-Jul
Receipts	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Funding from DIP lender	-	150,000	-	-	-	150,000	-	-	-	-	100,000	-	-
Total Operating Receipts	-	150,000	-	-	-	150,000	-	-	-	-	100,000	-	-
Disbursements													
Rent	-	12,148	-	-	-	12,148	-	-	-	12,148	-	-	-
Utilities (electricity, phone, internet)	-	9,700	-	-	-	9,700	-	-	-	9,700	-	-	-
Software Costs	-	-	-	3,390	-	-	-	3,390	-	-	-	3,390	-
Other Office Expenses	-	20	-	-	-	20	-	-	-	20	-	-	-
Professional Fees - Monitor	14,000	-	-	-	25,000	-	-	-	-	30,000	-	-	25,000
Monitor's legal counsel		10,000			15,000					20,000			20,000
Legal Counsel - CannMart Labs Inc		60,000			25,000					40,000			40,000
Total Disbursements	14,000	91,868	-	3,390	65,000	21,868	-	3,390	-	111,868	-	3,390	85,000
Net Change in Cash	(14,000)	58,132	-	(3,390)	(65,000)	128,132	-	(3,390)	-	(111,868)	100,000	(3,390)	(85,000)
Net Change in Cash	(14,000)	58,132	-	(3,390)	(65,000)	128,132	-	(3,390)	-	(111,868)	100,000	(3,390)	(85,000)
Opening Cash	35,327	21,327	79,459	79,459	76,069	11,069	139,201	139,201	135,811	135,811	23,943	123,943	120,553
Ending Cash	21,327	79,459	79,459	76,069	11,069	139,201	139,201	135,811	135,811	23,943	123,943	120,553	35,553

Notes

1. The company has temporarily ceased its operations in order to be restructured through this CCAA process.
2. Professional fees have been estimated with the assumption that all steps in the planned CCAA process occur as scheduled and that all information as needed is provided by the company.

Dated the 26th of April, 2024

*Meni Morim*Meni Morim
Director

Report on Cash-Flow Statement by the Insolvent Company
(Paragraph 10(2) of the CCAA)

IN THE MATTER OF THE COMPANIES' CREDITORS ARRANGEMENT ACT,
R.S.C. 1985, C. C-36, AS AMENDED
(the "CCAA")

AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF
CANNMART LABS INC

The management of CannMart Labs Inc. (the "**Company**") has developed the assumptions and prepared the attached statement of projected cash flow as of the 26th day of April, 2024 consisting of statement of Projected Cash Flow for the 13 week period ending July 20, 2024 (the "**Cash Flow**").

The hypothetical assumptions are reasonable and consistent with the purpose of the projection described in the notes attached, and the probable assumptions are suitably supported and consistent with the plans of the Company and provide a reasonable basis for the projection. All such assumptions are disclosed in the notes attached.

Since the projection is based on assumptions regarding future events, actual results will vary from the information presented, and the variations may be material.

The projection has been prepared solely for the purpose described in the notes attached, using a set of hypothetical and probable assumptions set out in the notes attached. Consequently, readers are cautioned that it may not be appropriate for other purposes.

Dated at the City of Toronto in the Province of Ontario, this 26th day of April, 2024.

CannMart Labs Inc.

Per:

Meni Morim

Meni Morim, President

Report on Cash-Flow Statement by the Insolvent Company
(Paragraph 10(2) of the CCAA)

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
CANNMART LABS INC.

Purpose

1. The Purpose of the projection is to present the Cash Flow of the Company in accordance with the requirements of Section 10(2)(b) of the CCAA.

Projections Notes

2. The Cash Flow should be read in conjunction with the Monitor's Report on the Cash Flow Statement and the assumptions below.

Assumptions

3. The main purpose of the Cash Flow is to determine the liquidity requirement of the Company.
4. The company has temporarily ceased operations in order to fix the amount of inventory on hand and to reduce ongoing expenses until the SISP can be completed.
5. The Company is projecting to obtain, subject to court approval, debtor-in-possession in financing to fund its operations during the forecasted period.

Dated at the City of Toronto in the Province of Ontario, this 26th day of April, 2024.

CannMart Labs Inc.

Per:

Meni Morim

Meni Morim, President

Title	Cash flow documents CCAA
File name	Debtor_s_Report_o...week_cashflow.pdf
Document ID	d0ecf3f8423294fe4adc0e59ed0c9b75fbbeec44
Audit trail date format	MM / DD / YYYY
Status	● Signed

Document history



SENT

04 / 26 / 2024
16:45:07 UTC-4

Sent for signature to Meni Morim (meni.m@lifeist.com) from
msispergelinc@gmail.com
IP: 104.171.204.20



VIEWED

04 / 26 / 2024
18:52:51 UTC-4

Viewed by Meni Morim (meni.m@lifeist.com)
IP: 216.208.243.21



SIGNED

04 / 26 / 2024
18:53:02 UTC-4

Signed by Meni Morim (meni.m@lifeist.com)
IP: 216.208.243.21



COMPLETED

04 / 26 / 2024
18:53:02 UTC-4

The document has been completed.

APPENDIX C

Report on Cash-Flow Statement by the Monitor
(Paragraph 23(1)(b) of the CCAA)

IN THE MATTER OF THE COMPANIES' CREDITORS ARRANGEMENT ACT,
R.S.C. 1985, C. C-36, AS AMENDED
(the "**CCAA**")

AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF
CANNMART LABS INC.

The attached statement of projected cash flows of CannMart Labs Inc. (the "**Company**") as of the 26th day of April 2024, consisting of statement of Projected Cash Flow for the period from April 21, 2024 to July 20, 2024 (the "**Cash Flow**") has been prepared by the management of the Company for the purpose described in the notes attached, using the probable and hypothetical assumptions set out in the notes attached.

Our review consisted of inquiries, analytical procedures and discussion related to information supplied to us by the management and employees of the Company. Since hypothetical assumptions need not be supported, our procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the Cash Flow. We have also reviewed the support provided by management for the probable assumptions and preparation and presentation of the Cash Flow.

Based on our review, nothing has come to our attention that causes us to believe that, in all material respect,

- a) the hypothetical assumptions are not consistent with the purpose of the Cash Flow;
- b) as at the date of this report, the probable assumptions developed are not suitably supported and consistent with the plans of the Company or do not provide a reasonable basis for the Cash Flow, given the hypothetical assumptions; or
- c) the Cash Flow does not reflect the probable and hypothetical assumptions.

Since the Cash Flow is based on assumptions regarding future events, actual results will vary from the information presented even if the hypothetical assumptions occur, and the variations may be material. Accordingly, we express no assurances as to whether the Cash Flow will be achieved. We express no opinion or other form of assurance with respect to the accuracy of any financial information presented in this report, or relied upon in preparing this report.

The Cash Flow has been prepared solely for the purpose described in the notes attached, using a set of hypothetical and probable assumptions set out in the notes attached. Consequently, readers are cautioned that it may not be appropriate for other purposes.

Dated at the City of Toronto in the Province of Ontario, this 30th day of April, 2024.

msi Spergel inc

solely in its capacity as the Proposed CCAA
Monitor of CannMart Labs Inc. and not in its
personal or corporate capacity.

Per:



Mukul Manchanda, CPA, CIRP, LIT

Report on Cash-Flow Statement by the Monitor
(Paragraph 23(1)(b) of the CCAA)

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
CANNMART LABS INC.

Purpose

1. The Purpose of the projection is to present the Cash Flow of the Company in accordance with the requirements of Section 10(2)(b) of the CCAA.

Projections Notes

2. The Cash Flow should be read in conjunction with the Monitor's Report on the Cash Flow Statement and the assumptions below.

Assumptions

3. The main purpose of the Cash Flow is to determine the liquidity requirement of the Company.
4. The Company has temporarily ceased operations in order to fix the amount of inventory on hand and to reduce ongoing expenses until the Sale Process can be completed.
5. The Company is projecting to obtain, subject to court approval, debtor-in-possession financing to fund its operations during the forecasted period.

Dated at the City of Toronto in the Province of Ontario, this 4th day of January, 2022.

msi Spergel inc

solely in its capacity as the Proposed CCAA
Monitor of CannMart Labs Inc. and not in its
personal or corporate capacity.

Per: 

Mukul Manchanda, CPA, CIRP, LIT

IN THE MATTER OF THE BANKRUPTCY AND INSOLVENCY ACT, R.S.C. 1985, c. B-3, AS AMENDED AND IN THE MATTER OF THE NOTICE OF INTENTION TO MAKE A PROPOSAL OF CANNMART LABS INC., OF THE CITY OF TORONTO IN THE PROVINCE OF ONTARIO

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)
Proceedings commenced at Toronto

FIRST REPORT OF MSI SPERGEL INC.

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