



SUPERIOR COURT OF JUSTICE

**COUNSEL/ENDORSEMENT SLIP**

COURT FILE NO.: CV-24-719639-00CL

DATE: July 16, 2024

NO. ON LIST: 8

TITLE OF PROCEEDING: IN THE MATTER OF CANNMART LABS INC.

BEFORE: JUSTICE W.D. BLACK

**PARTICIPANT INFORMATION**

**For Plaintiff, Applicant, Moving Party:**

Name of Person Appearing	Name of Party	Contact Info
Mitchell Grossell Ines Ferreira	Counsel for the Applicant	mgrossell@tgf.ca iferrera@tgf.ca

**For Defendant, Respondent, Responding Party:**

Name of Person Appearing	Name of Party	Contact Info

**For Other, Self-Represented:**

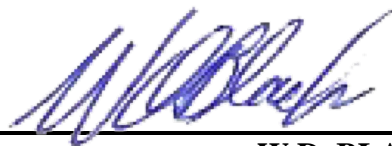
Name of Person Appearing	Name of Party	Contact Info
Caitlin Fell Jared Rosenbaum	Counsel for the Proposed Monitor	Cfell@reconllp.com jrosenbaum@reconllp.com
Frank Kisluk Mukul Manchanda	Proposed Monitor – msi Spergel Inc.	fkisluk@spergel.ca mmanchanda@spergel.ca

**ENDORSEMENT OF JUSTICE BLACK:**

- [1] This was a motion by the applicant, Cannmart Labs Inc., for an approval and reverse vesting order (“ARVO”), to approve the share purchase agreement between the applicant and 1615527 Canada Inc. (the “Purchaser”), and to vest all right, title and interest in and to the common shares to be issued to the purchaser (the “New Common Shares”), free and clear of all other claims or encumbrances.

- [2] The motion also seeks to cancel and terminate, without consideration, any and all equity interests in the applicant (except for the New Common Shares).
- [3] The motion also seeks certain protections in favour of the Monitor (msi Spergel Inc.), and releases in favour of the applicant, the monitor, and certain of their representatives.
- [4] The relief contemplates that upon the Monitor's delivery of a certificate in the form appended to the ARVO, the applicant will cease being an applicant in this *Companies' Creditors Arrangement Act* ("CCAA") proceeding.
- [5] It also seeks a direction for Adastralabs Inc. to immediately return the applicant's inventory, and seeks that a copy of the unredacted Share Purchase Agreement be sealed until the closing of the Transaction (as defined) or further order of this court.
- [6] The applicant also seeks a "Stay and Extension Order" to extend the stay of proceedings in favour of the applicant and its directors and officers up to and including July 31, 2025, and, upon filing of a certificate of the Monitor (the "Termination Certificate") terminates these CCAA proceedings and discharges the Monitor (the "CCAA Termination time"), terminates the Court-ordered charges approved in this CCAA proceeding as at the CCAA Termination time.
- [7] The Stay and Extension Order also approves the second report of the Monitor, its activities and that of its legal counsel, and the fees and disbursements of the Monitor and its counsel.
- [8] The applicant is a licenced producer under the *Cannabis Act*, SC 2018, c.16 and the Regulations thereunder, in the business of developing butane hash oil extracts use in various products (the "Cannabis Products").
- [9] The applicant says that the intense regulatory nature of the Canadian cannabis industry, including high taxes and regulatory fees, contributed to its financial difficulties. The applicant historically received funding from its parent company, Lifeist Wellness Inc. ("Lifeist"), but Lifeist itself experienced threats to its financial stability as a result of its funding of the applicant.
- [10] Following a failed transaction in early 2024, the applicant suspended its operations to reduce expenditures.
- [11] On April 3, 2024, the applicant filed a Notice of Intention to Make a Proposal (the "NOI"), pursuant to the BIA, and msi Spergel was appointed as the proposal trustee in the NOI proceeding.
- [12] Lifeist provided DIP financing in the principal amount of \$400,000.00 to cover the restructuring costs.
- [13] On May 2, 2024, the applicant brought a motion to convert the NOI proceeding to a proceeding under the CCAA, and was granted protection under the CCAA.
- [14] On that same date, this court granted an order approving a proposed sale and investment solicitation process (the "SISP").
- [15] The SISP attracted several interested parties and, after a brief extension of the bid deadline to accommodate interested parties, on June 24, 2024, the Monitor received three bids.
- [16] Following a review of the bids, and further negotiation, the Monitor with agreement from the applicant declared the Purchaser the successful bidder in the SISP.

- [17] Following the Transaction, the Purchaser will own 100% of the shares of the applicant. The Purchaser has agreed to pay a (modest) cash deposit, plus to provide a promissory note and proceeds from the sale of current inventory of the applicant, and the Purchaser will hire certain employees of the applicant who are required to maintain the Cannabis licence.
- [18] The Monitor supports the Transaction as the best one available in the circumstances. As noted, the numbers are relatively modest, but I am satisfied, as a result of the robust and appropriate SISP process, that it is the best that can be done.
- [19] I am also satisfied that the reverse vesting structure, while something which ought to be sparingly and carefully deployed, is appropriate here in light of the restrictions on transfer or assignment of the cannabis licence. The reverse vesting structure is required to permit the Purchaser to acquire the applicant's shares free and clear of any claims and encumbrances. A traditional asset sale would require the Purchaser to apply for a new cannabis licence, which would cause delay and risk the closing.
- [20] I am also satisfied that the structure does not result in any material prejudice or impairment to any of the applicant's creditors beyond what they would otherwise face under an asset sale transaction or other alternative available to the applicant.
- [21] I also accept that the proposed releases are required in order to ensure the continued involvement of key players, including individuals tied to the Cannabis licence.
- [22] I am persuaded that the order sealing the unredacted share purchase agreement pending the closing of the transaction is prudent and necessary in the circumstances. The purchase price is commercially sensitive information and, if the transaction does not close, the disclosure of those details could harm the stakeholders of the applicant.
- [23] The extension of the stay until July 31, 2025, while on the long side, simply reflects the terms of the promissory note and the sale of inventory under the share purchase agreement. Both the Monitor and the DIP lender support the proposed extension, and there is no evidence of prejudice to any stakeholder in the result.
- [24] In sum, I grant the orders sought by the applicant, signed copies of which are attached hereto.



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**W.D. BLACK J.**

**DATE: July 16, 2024**