

Court File No.: CV-24-00717664-00CL

**HERITAGE CANNABIS HOLDINGS CORP., 1005477 B.C. LTD.,
HERITAGE CANNABIS WEST CORPORATION, MAINSTRAIN
MARKET LTD., HERITAGE CANNABIS EAST CORPORATION,
PUREFARMA SOLUTIONS INC., 333 JARVIS REALTY INC., 5450
REALTY INC., HERITAGE CANNABIS EXCHANGE CORP., AND
PREMIUM 5 LTD.**

**REPORT OF KPMG INC.,
IN ITS CAPACITY AS PROPOSED MONITOR**

April 2, 2024

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Court File No.: CV-24-00717664-00CL

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
HERITAGE CANNABIS HOLDINGS CORP., 1005477 B.C. LTD., HERITAGE CANNABIS
WEST CORPORATION, MAINSTRAIN MARKET LTD., HERITAGE CANNABIS EAST
CORPORATION, PUREFARMA SOLUTIONS INC., 333 JARVIS REALTY INC., 5450 REALTY
INC., HERITAGE CANNABIS EXCHANGE CORP., AND PREMIUM 5 LTD.

REPORT OF KPMG INC.
IN ITS CAPACITY AS PROPOSED MONITOR

April 2, 2024

I. INTRODUCTION

1. KPMG Inc. (“**KPMG**” or the “**Proposed Monitor**”) understands that Heritage Cannabis Holdings Corp. (“**Heritage**”), 1005477 B.C. Ltd. (“**1005**”), Mainstrain Market Ltd. (“**Mainstrain**”), Purefarma Solutions Inc. (“**Purefarma**”), 333 Jarvis Realty Inc. (“**333**”), 5450 Realty Inc. (“**5450**”), Premium 5 Ltd. (“**Premium**”), Heritage Cannabis Exchange Corp. (“**HCEC**”), Heritage Cannabis East Corporation (formerly CannaCure Corporation) (“**Heritage East**”), and Heritage Cannabis West Corporation (formerly Voyage Cannabis Corp.) (“**Heritage West**” and collectively, the “**Applicants**” or the “**Debtors**”) intend to make an application (the “**Application**”) before the Ontario Superior Court of Justice (Commercial List) (the “**Court**”) returnable on April 2, 2024, seeking an Initial Order (the “**Proposed Initial Order**”) pursuant to the *Companies’ Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the “**CCAA**”) in respect of the Applicants to, among other things:

- (a) obtain a stay of proceedings (the “**Stay of Proceedings**”) in respect of the Applicants until and including April 12, 2024;
- (b) extend the benefit of the Stay of Proceedings and other aspects of the Proposed Initial Order to the Non-Applicant Stay Parties (as defined below) and their respective directors and officers;
- (c) appoint KPMG as the monitor in respect of the Applicants as part of the proposed CCAA proceeding, with the powers set out in the Proposed Initial Order;
- (d) seek relief from certain securities reporting obligations under federal, provincial or other laws until further Order of this Court;
- (e) authorize the Applicants to (i) make payment to certain suppliers who are critical to the business and operations of the Applicants for pre-filing expenses, and (ii) honour cheques issued to providers of goods and services prior to the Initial Order, in each case with consent of the Monitor and the BJK Holdings Ltd. (“**BJK**”) which are necessary to facilitate the Applicants’ ongoing operations and to preserve value during the CCAA proceedings, up to a maximum aggregate amount of \$1,500,000;

- (f) authorizing the Applicants to continue to use the Cash Management System (as defined below);
 - (g) seek to have the Health Canada Licenses and the Excise Licenses (as both defined herein) preserved and maintained during the Stay of Proceedings; and
 - (h) grant the Administration Charge and the Directors' Charge (each as defined below).
2. The Proposed Monitor understands the primary objectives of the CCAA proceedings are to:
- (a) facilitate the ongoing operations of the Applicants;
 - (b) ensure the Applicants have the necessary working capital to maximize the value of their businesses for the benefit of the Applicants' stakeholders, while providing the opportunity to restructure their business and affairs;
 - (c) execute a subscription agreement (the "**Stalking Horse Purchase Agreement**") among Heritage, as vendor, Hab Cann Holdings Ltd., as purchaser, and BJK (the "**Stalking Horse Purchaser**"); and
 - (d) conduct a sale and investment solicitation process (the "**SISP**") in which the Stalking Horse Purchase Agreement will serve as the "Stalking Horse Bid", and authorize the Applicants and the Monitor to implement the SISP pursuant to its terms.
3. Should the Court grant the Proposed Initial Order, the Proposed Monitor understands that the Applicants intend to bring a motion returnable within the ten (10) day stay period (the "**Comeback Hearing**") seeking an amendment and restatement of the Initial Order (such order, the "**ARIO**") that will, among other things:
- (a) approve the terms of an interim financing facility (the "**DIP Facility**") to be provided by BJK to the Debtors in order to finance their working capital requirements and other general corporate purposes and restructuring costs, pursuant to a DIP facility term sheet (the "**DIP Term Sheet**");

- (b) grant a charge to secure the obligations owing by the Debtors under the DIP Term Sheet (the “**DIP Lender’s Charge**”);
 - (c) approve the SISP and the bidding procedures to be used in connection therewith;
 - (d) grant a Court ordered charge over the Property of the Debtors in favour of the Stalking Horse Purchaser as security for payment of the bid protections;
 - (e) increases to the Administration Charge and the Directors’ Charge;
 - (f) extend the Stay of Proceedings established by the Proposed Initial Order; and
 - (g) seek such other relief as may be appropriate to advance these CCAA proceedings.
4. Should the Court grant the Proposed Initial Order, KPMG (in its then capacity as Monitor) will report to the Court in connection with the Comeback Hearing and any other relief sought by the Applicants.

II. PURPOSE OF REPORT

5. This report (the “**Report**”) has been prepared by KPMG as the Proposed Monitor of the Applicants in the CCAA proceedings. The purpose of the Report is to provide the Court with information pertaining to:
- (a) KPMG’s qualifications to act as Monitor of the Applicants (in such capacity, the “**Monitor**”);
 - (b) limited background information in respect of the operations, financial position and creditors of the Debtors, as disclosed to the Proposed Monitor by the Debtors;
 - (c) the cash flow projections for the Debtors (the “**Cash Flow Forecast**”) for the period from March 30, 2024 to June 28, 2024 (the “**Forecast Period**”);
 - (d) the priority charges proposed in the Proposed Initial Order;
 - (e) the rationale for certain provisions sought by the Applicants in the Proposed Initial Order; and

(f) the Proposed Monitor’s conclusions and recommendations.

III. TERMS OF REFERENCE

6. In preparing this Report, KPMG has relied solely on information and documents provided to it by the Debtors and their respective advisors, including unaudited, draft and/or internal financial information, financial projections prepared by the Debtors, discussions with management of the Debtors, and the affidavit of the Debtors’ executive (collectively, the “**Information**”). In accordance with industry practice, except as otherwise described in the Report, KPMG has reviewed the Information for reasonableness, internal consistency, and use in the context in which it was provided. However, KPMG has not audited or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would comply with Generally Accepted Auditing Standards (“GAAS”) pursuant to the *Chartered Professional Accountant of Canada Handbook* and, as such, KPMG expresses no opinion or other form of assurance contemplated under GAAS in respect of the Information.
7. Capitalized terms used but not defined in this Report are defined in the Affidavit of Mr. David Schwede sworn April 2, 2024 (the “**Schwede Affidavit**”), filed by the Applicants as part of its materials in support of the Application and the Proposed Initial Order. This Report should be read in conjunction with the Schwede Affidavit, as certain information contained in the Schwede Affidavit has not been included herein in order to avoid unnecessary duplication.
8. Future orientated financial information contained in the Cash Flow Forecast is based on the Debtors’ estimates and assumptions regarding future events. Actual results will vary from the information presented even if the hypothetical assumptions occur, and variations may be material. Accordingly, the Proposed Monitor expresses no assurance as to whether the Cash Flow Forecast will be achieved.
9. If the Proposed Initial Order is granted, and KPMG is appointed as Monitor, KPMG will make available all Court documents and other material documents pertaining to the CCAA proceedings on its website at <https://kpmg.com/ca/heritage>. In addition, KPMG has

arranged for a toll-free hotline (1-833-668-2870) and an email address heritage@kpmg.ca through which creditors of the Debtors or other interested parties can make inquiries related to the CCAA proceedings.

10. Unless otherwise stated, all monetary amounts noted herein are expressed in Canadian dollars.

IV. KPMG'S QUALIFICATIONS TO ACT AS MONITOR

11. KPMG is a trustee within the meaning of section 2(1) of the *Bankruptcy and Insolvency Act* (the “**BIA**”). Further, KPMG 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. In particular, KPMG has never acted as auditor of any of the Debtors.
12. KPMG has experience acting as CCAA monitor and other court-officer capacities in insolvency proceedings. The senior professional personnel at KPMG with primary carriage of this matter are certified Chartered Insolvency and Restructuring Professionals and Licensed Insolvency Trustees and have acted in insolvency matters of a similar nature and scale across Canada.
13. Should the Court grant the Proposed Initial Order, KPMG has consented to act as Monitor. Furthermore, the Proposed Monitor has retained Blake, Cassels & Graydon LLP (“**Blakes**”) to act as its independent counsel in these proceedings.
14. KPMG LLP, an affiliate of the Proposed Monitor, was retained by Heritage pursuant to an engagement letter dated on December 4, 2023, to provide financial advisory services to Heritage in respect of the Debtors’ ongoing sale and turnaround efforts. During that time, KPMG developed an understanding of the financial and operational challenges of the Debtors, which knowledge will assist KPMG to fulfil its duties as Monitor.

V. BACKGROUND

15. Detailed information with respect to the Applicants' business, operations and causes of insolvency are set out extensively in the Schwede Affidavit. The Proposed Monitor has reviewed the Schwede Affidavit and believes, based on the Information available to it, that it provides a fair and sufficient summary of the business and affairs of the Applicants and the causes of its insolvency. The information contained in this Report represents a summary of the background to the proposed CCAA proceedings.

Corporate Structure and Business

16. The Debtors operate a vertically integrated cannabis company engaging in the production and sale of medical and recreational hemp-based and cannabis-based products. The Debtors' business is focused on the extraction and creation of extract and extract-derivative products and brands for adult use and cannabis-based medical solutions. In Canada, the Debtors' business is primarily carried out through its subsidiaries, Heritage East and Heritage West, which each hold licenses under the *Cannabis Act*, S.C. 2018, c. 16 (the "Cannabis Act") and are regulated by Health Canada. In the United States of America (the "U.S."), the Debtors' business is primarily carried out through its subsidiary Opticann, Inc., a Colorado based oral and topical cannabinoid company.
17. As noted in the Schwede Affidavit, Heritage, the parent company of the Debtors, is a reporting issuer on the Canadian Securities Exchange under the symbol "CANN" and on the OTC Pink, operated by OTC Markets Group, under the symbol "HERTF". A copy of the Applicants current corporate chart is attached as Exhibit "A" to the Schwede Affidavit.
18. Heritage has corporate offices in Ontario and British Columbia, and its registered office is located in Toronto, Ontario. Heritage is leasing office space in Kelowna, British Columbia comprising of approximately 3,670 square feet. In addition, one of the Debtors, Premium, leases a 6,050 square foot premises in Fort Saskatchewan, Alberta. The Proposed Monitor is satisfied that Ontario is the appropriate jurisdiction for the Applicants to file for CCAA protection, pursuant to section 9(1) of the CCAA, based on the location of the Applicants' registered office.

19. Heritage's directly and indirectly owned subsidiaries in the U.S. are not Applicants in these CCAA Proceedings. However, the Applicants are seeking to extend the Stay of Proceedings to these non-Applicant subsidiaries due to the integration of the business and operations of the Debtors. At this time, the Proposed Monitor understands that it is not expected that a Chapter 15 or other proceedings under the U.S. Bankruptcy Code will be commenced in respect of the Debtors' U.S. subsidiaries, including as a result of the prohibitive administrative costs of such a proceeding.

Licenses

20. The Cannabis Act and applicable provincial legislation regulates the operations of the Debtors in Canada. The Proposed Monitor understands that the Debtors hold the applicable licenses allowing them to produce, cultivate, process and distribute cannabis in the provinces of Ontario, Manitoba, Alberta, British Columbia, Saskatchewan, Nova Scotia, New Brunswick, Prince Edward Island and Newfoundland and Labrador, Yukon, and Northwest Territories.
21. As detailed in the Schwede Affidavit, Heritage East and Heritage West hold certain licenses from Health Canada (the "**Health Canada Licenses**") pursuant to the Cannabis Act which the Proposed Monitor understands permits them to undertake the following activities at the Licensed Facilities (as defined herein): (i) possess cannabis; (ii) to obtain dried cannabis, fresh cannabis, cannabis plants or cannabis plant seeds by cultivating, propagating and harvesting cannabis; (iii) to sell cannabis; and (iv) for the purposes of testing, to obtain cannabis by altering its chemical or physical properties by any means. The Health Canada Licenses also include standard cultivation, standard processing and sale for medical purposes.
22. Heritage West operates out of a 15,500 square foot processing facility in Falkland, British Columbia (the "**Falkland Facility**"), which has been outfitted with extraction, downstream processing, formulation and packaging areas and an approved security-level vault. Heritage West also holds a Health Canada issued industrial hemp and research license.

23. Heritage East operates out of a 122,000 square foot facility in Fort Erie, Ontario (the “**Fort Erie Facility**”, and together with the Falkland Facility, the “**Licensed Facilities**”), which formerly operated as a manufacturing plant for a pharmaceutical white labeler. Presently, approximately 87,525 square feet of the facility has been licensed for cannabis activities. Heritage East also holds a Health Canada issued industrial hemp and research license.
24. Heritage East and Heritage West also each hold cannabis licenses issued by the Canada Revenue Agency (“**CRA**”) pursuant to the *Excise Act, 2001*, S.C. 2022, c.22 (“**Excise Act**”) which requires them to apply cannabis excise stamps to their cannabis products in accordance with the Excise Act (the “**Excise Licenses**”). The Proposed Monitor understands the Excise Licenses for Heritage East and Heritage West were historically renewed on a month-to-month basis in the ordinary course, and are set to expire on April 12, 2024 and April 15, 2024, respectively.

Employees

25. As of March 11, 2024, the Applicants had approximately 162 employees, of which 155 were full-time employees, 2 were part-time employees, and 5 were casual employees or co-op students.
26. The Proposed Monitor understands that approximately thirty (30) of the Applicants’ employees are designated responsible persons or possess the security clearances required under the Cannabis Act.
27. The Proposed Monitor understands the Applicants’ employees do not benefit from a company-backed pension plan, are not represented by a union and are not subject to a collective bargaining agreement.

Financial Position

28. Included in the Schwede Affidavit are copies of the audited consolidated financial statements for the Debtors for the fiscal year ended October 31, 2023 and 2022 (the “**Financial Statements**”).

29. According to the Financial Statements, the Debtors experienced significant consolidated net losses totalling approximately \$48 million over the past two (2) fiscal years due, in part, to high general and administrative expenses (relative to gross margins) and an impairment of intangible assets and goodwill, as set forth below:

Heritage Cannabis Holding Corp. Consolidated Statement of Profit & Loss In C\$000s; audited		
	FY23	FY22
Gross Revenue	42,055	41,996
Excise Taxes	(12,261)	(12,430)
Net Revenue	29,794	29,566
Cost of Sales	17,710	21,600
Gross Margin	12,085	7,967
Salaries, wages and benefits	9,193	7,568
Occupancy, general and administrative	3,456	5,705
Amortization and depreciation	3,733	3,732
Advertising, travel and promotion	1,571	768
Other Expenses (Income)	4,053	(4,103)
Impairment of intangible assets and goodwill	11,400	21,215
Income Before Taxes	(21,322)	(26,919)

30. As at October 31, 2023, the Debtors had total consolidated assets with a net book value of approximately \$55.9 million. The consolidated assets include, but are not limited to, inventory (\$17.3 million), property, plant and equipment (\$10.2 million), accounts receivable (\$6.8 million), intangible assets and goodwill (\$6.6 million) and cash (\$3.9 million). The Financial Statements further provide that as of October 31, 2023, the Debtors had total liabilities in the amount of approximately \$35 million, including accounts payable and accrued liabilities (\$20.3 million) and secured debt in the amount of \$7.3 million.

BJK Indebtedness

31. BJK is a secured lender to the Applicants through an original loan agreement dated March 29, 2021, as amended, which was originally as between Heritage, 333, Cannacure Corporation (former name of Heritage East), Voyage Cannabis Corp. (former name of Heritage West) and 5450 (collectively, the “**Borrowers**”) and each of 1005, Purefarma, HCEC, and Premium as guarantors (the “**BJK Loan Agreement**”). The BJK Loan Agreement was most recently amended on October 31, 2023 to provide the Debtors with a revolving line of credit up to a maximum of \$5 million (the “**Revolving Facility**”) and a term facility of \$5.3 million (the “**Term Facility**”, and together with the Revolving

Facility, the “**BJK Loans**”). The interest rate on the Revolving Facility is the greater of the Royal Bank of Canada rate plus 10% and 15% per annum, and the interest rate on the Term Facility is the Royal Bank of Canada rate minus 1.75%.

32. BJK appears to have a first ranking general security interest in the Borrowers’ present and future personal property by way of a general security agreement and an assignment of proceeds from the Borrowers’ sales.¹
33. On October 31, 2023, Heritage repaid BJK \$9.5 million using the proceeds of a sale and leaseback transaction for the Licensed Facilities, as detailed in the Schwede Affidavit.
34. Although the BJK Loans mature on January 31, 2025, the Proposed Monitor understands that the BJK Loan Agreement is currently in default. The Proposed Monitor has been provided with a copy of the demand letter and notices of intention to enforce security under s. 244 of the BIA issued by BJK to the Debtors on April 1, 2024 (the “**Demand Letters**”). Copies of the Demand Letters provided to the Proposed Monitor by the Debtors are attached hereto as **Appendix “A”**.
35. Prior to issuing the Demand Letters, the Proposed Monitor understands BJK made several accommodations to the Borrowers in order to provide them with additional liquidity and/or support, as described in the Schwede Affidavit. However, the Proposed Monitor understands BJK is not prepared to advance additional funds to the Applicants outside of a Court-supervised process.
36. In recent weeks, the Applicants have engaged in discussions with BJK regarding a consensual restructuring. These discussions culminated in the proposed DIP Facility and the Stalking Horse Purchase Agreement, approval of which will be sought at the Comeback Hearing.
37. As of the date of the Report, the total aggregate indebtedness of the Borrowers under the BJK Loan Agreements is approximately \$6.8 million. The Proposed Monitor understands that the Borrowers made a repayment of \$1.5 million to BJK under the Revolving Facility

¹ As discussed in paragraph 38, the Proposed Monitor, if appointed as Monitor, will instruct Blakes to prepare a security review opinion regarding the BJK Security promptly following its appointment.

in two equal installments on April 1st and April 2nd, 2024 respectively. The Proposed Initial Order provides that the order is not effective until 4:30pm on April 2nd and therefore on that basis the Proposed Monitor does not believe the payment to BJK on April 2nd constitutes a post-filing payment on pre-filing debt. As a result of the repayment under the Revolving Facility, the Proposed Monitor understands that the current outstanding indebtedness under the Revolving Facility is \$1.55 million, under the Term Facility is \$5.25 million, and the Applicants had cash on hand of approximately \$3.6 million. As a result of the outstanding defaults thereunder, no further availability under the Revolving Facility exists.

38. At present, the Proposed Monitor has not received a security opinion from its independent counsel, Blakes, on the validity and enforceability of BJK's security interest as against the Borrowers but has requested such review be completed prior to the Comeback Hearing, should the Proposed Initial Order be issued, and expects to provide its observations and conclusions regarding the BJK security in a subsequent report to the Court, should the Monitor be appointed.

GST/HST Liabilities

39. Based on their books and records, the Applicants owed an estimated \$1.6 million to the CRA in respect of GST/HST obligations (the "**GST/HST Arrears**"), of which \$1.5 million is owed by Heritage West and \$0.1 million is owed by Heritage East. The Proposed Monitor understands the other Applicants are current on GST/HST remittances.
40. As noted in the Schwede Affidavit, on or about March 12, 2024 the CRA issued Requirement to Pay notices to one of the Applicants' customers, BC Liquor Distribution Branch, requiring it to send 40% of any money that would either be payable to Heritage East or Heritage West, as applicable, to the CRA on account of the GST/HST Arrears.

Other Creditors

41. As noted in the Schwede Affidavit, the Applicants have a limited number of other creditors with registered security interests in the applicable personal property security registries, which primarily appear to relate to leasing and/or financing of vehicles.

42. Although there is a PPSA registration in favour of Bank of Montreal against Heritage, the Proposed Monitor understands there are currently no amounts owed by Heritage to Bank of Montreal.
43. As per the Debtors' books and records, the Applicants' unsecured liabilities as of March 28, 2024 totalled approximately \$17.2 million, of which approximately \$11.8 million was owed to CRA on account of unremitted excise taxes collected by Heritage East and Heritage West pursuant to the Excise Act. The Proposed Monitor understands the remaining amounts are owed to (i) Merida Capital Partners III LP and Merida Capital Partners IV LP, pursuant to certain unsecured loans advanced to Heritage (\$2.6 million), and (ii) trade creditors (\$2.8 million), including \$0.3 million owing to Health Canada in respect of 2023 annual license fees for the Health Canada Licenses for which Heritage East and Heritage West have entered into payment instalment agreements.
44. As detailed in the Schwede Affidavit, Heritage East and Heritage West entered into repayment plans with CRA pursuant to which Heritage East and Heritage West agreed to make monthly payments to repay the entire excise tax arrears over a specified period of time. The scheduled payments commenced on or about October 1, 2023 at approximately \$270,000 in aggregate per month and escalate over the repayment period. Absent this payment arrangement with the CRA that deferred the payment of excise tax arrears into installments, the Applicants would not have had the liquidity to operate in the ordinary course. The Proposed Monitor understands that Heritage East and Heritage West have made all scheduled payments to CRA under the excise tax payment arrangement through to March 1, 2024.
45. The Debtors' excise tax payments to CRA are expected to increase substantially in the future because, among other things, the amortized monthly payments being made in respect of excise tax arrears under the aforementioned payment arrangement will increase from \$270,000 per month to approximately \$620,000 by October 2024 (and will further increase thereafter).

46. Based on the Debtors' projections, the Proposed Monitor understands the increase in excise tax payments will put a significant strain on cash flows and result in the Debtors exhausting their cash reserves in the near term.
47. Based on the Information received and reviewed to date, the Proposed Monitor is not aware of any arrears of employee related amounts, required remittances of employee withholdings, other than potentially accrued amounts since the date of the last payment/remittance, which the Proposed Monitor understands will be paid to employees in the normal course on the next payroll date. The Proposed Monitor intends to confirm the above following issuance of the Proposed Initial Order.

VI. CASH FLOW FORECAST

48. The Debtors, in consultation with the Proposed Monitor, have prepared the Cash Flow Forecast for the purpose of projecting the estimated liquidity needs of the Debtors' during the Forecast Period. A copy of the Cash Flow Forecast, accompanying notes and a report containing prescribed representations regarding the preparation of the Cash Flow Forecast are attached hereto as **Appendix "B"**.
49. The Cash Flow Forecast has been prepared by the Debtors on a conservative basis using probable and hypothetical assumptions set out in the notes to the Cash Flow Forecast.
50. As noted above, the Debtors had a cash balance of approximately \$3.6 million as at April 1, 2024 after the repayment of \$1.5 million under the Revolving Facility. Forecast operating cash receipts over the Forecast Period total approximately \$11.5 million related to the collection of accounts receivable, including from future sales.
51. Forecast operating disbursements over the Forecast Period total approximately \$13.4 million and primarily consist of production and operating costs (\$8.4 million), including \$1.5 million for critical pre-filing payments as per the Proposed Initial Order, employee costs (\$2.3 million), excise taxes for accrued or collected amounts after the date of the Proposed Initial Order (\$1.3 million), sales taxes in accordance with the Proposed Initial Order (\$0.4 million), and professional fees (\$1 million).

52. The Cash Flow Forecast assumes that the interest expense on the outstanding balances under the BJK Loans will be paid upon receipt of an opinion from Blakes that BJK's security interest is valid and enforceable, which opinion is anticipated to be completed prior to the Comeback Hearing.
53. Net negative operating cash flow is forecast to be approximately \$2.7 million over the first 2 weeks (i.e. up to the date of the Comeback Hearing) after the Proposed Initial Order and approximately \$1.9 million over the Forecast Period.
54. Based on the Cash Flow Forecast, the Applicants will be required to draw on the proposed DIP Facility during the week commencing April 20, 2024 in order to have sufficient funds to satisfy its projected uses of cash over the Forecast Period. The Cash Flow Forecast projects borrowings under the DIP Facility in the amount of \$0.5 million over the Forecast Period. As discussed above, Court approval of the DIP Facility is expected to be sought at the Comeback Hearing.
55. The Proposed Monitor notes that the Cash Flow Forecast has been prepared solely for the purpose described above, and readers are cautioned that it may not be appropriate for other purposes.

VII. PROPOSED COURT ORDERED CHARGES

56. The Proposed Initial Order provides for two priority charges (collectively the “**Proposed Charges**”) on the current and future assets, undertakings and properties of the Debtors wherever located, including all proceeds thereof, that rank in the following order:
 - (a) First, the Administration Charge (to the maximum amount of \$250,000); and
 - (b) Second, the Directors' Charge (to a maximum of \$0.9 million).
57. Each of the Proposed Charges are described in more detail below.

Administration Charge

58. The Proposed Initial Order provides a charge for the ten-day period prior to the Comeback Hearing on all Property of the Debtors in favour of the Proposed Monitor, counsel to the Proposed Monitor, and the Applicants' corporate and insolvency counsels (collectively, the "**Insolvency Professionals**"), as security for their respective fees and disbursements incurred in respect of the Application in the aggregate amount of \$250,000 (the "**Administration Charge**").
59. The Proposed Monitor is of the view that the Administration Charge is reasonable and appropriate in the circumstances, having considered, among other things:
- (a) the work completed to date in preparation for these CCAA proceedings by the Insolvency Professionals has been material and minimal or no retainers or payments have been made to date;
 - (b) the size of the court-ordered charge is comparable to other insolvency proceedings, and has been calculated in consultation with the Proposed Monitor, taking into account the expected future professional costs and cadence of payment of invoices; and
 - (c) the amount of the Administration Charge is limited to an amount necessary to ensure the beneficiaries of the Administration Charge have adequate protection to the date of the Comeback Hearing.
60. The Proposed Monitor understands BJK has consented to the Administration Charge.

Directors' Charge

61. The Proposed Initial Order provides for a charge to secure the Applicants' indemnity obligations to the current directors and officers of the Applicants (the "**Directors and Officers**") against obligations and liabilities that they may incur as directors or officers of the Applicants after the commencement of these CCAA proceedings (the "**Directors' Charge**").

62. The Directors and Officers shall only be entitled to the benefit of the Directors' Charge to the extent that they do not have coverage under any directors' and officers' insurance policy, or to the extent such coverage is insufficient to pay an indemnified amount. As per the Schwede Affidavit, the Proposed Monitor understands that the Applicants maintain directors' and officers' liability insurance but that these policies may have various exceptions, exclusions and carve-outs, and may not provide sufficient coverage against potential liability that may be incurred during potential CCAA proceedings.
63. The amount of the Directors' Charge has been calculated by the Applicants, in consultation with the Proposed Monitor, taking into consideration excise taxes, sales taxes, employee payroll and related expenses (including source deductions), as well as other employment related liabilities, that attract potential liability for the Directors and Officers during the period prior to the date of the Comeback Hearing.
64. The Proposed Monitor has been informed that due to the potential for personal liability, the Directors' Charge is crucial to the continued involvement of the Directors and Officers during the CCAA proceedings. As the Applicants will require the participation and experience of the Directors and Officers to facilitate the successful completion of the CCAA proceedings, including participating in the SISP, the Proposed Monitor believes that the Directors' Charge (both the amount and the priority ranking) is required and reasonable in the circumstances.
65. The Proposed Monitor understands BJK has also consented to the Directors' Charge.

VIII. OTHER RELIEF

Payment of Pre-Filing Amounts

66. The Applicants are seeking a provision in the Proposed Initial Order providing them with the authority, but not the obligation, to make payments to certain suppliers who are critical to the Debtors' ongoing business operations in respect of obligations arising prior to the commencement of these CCAA proceedings, up to a maximum of \$1,500,000 in the aggregate.

67. As noted in the Schwede Affidavit, the Applicants rely on certain third-party vendors and service providers to provide ongoing goods and/or services in order to ensure the Debtors' business and operations continue as a going concern.
68. The Proposed Monitor understands that certain of these suppliers are critical to the Applicants' business and are either small or very specialized companies, which are dependent on continuous payment from the Debtors, such that it may cause financial harm to require them to comply with the terms of the Proposed Initial Order, including the requirement to continue to provide goods and/or services without being paid pre-filing amounts. Moreover, the timing of the Applicants' filing (the beginning of the month) has interrupted the ordinary payment cadence for many of these critical suppliers, who in the ordinary course of business would have been paid on April 1 or April 2 with the cash that the Applicants currently have on hand. The Proposed Monitor understands that this timing issue has materially increased the amounts that the Applicants' need to pay to critical suppliers immediately after filing, in order to maintain ordinary course operations.
69. If key contractual counterparties are not able to continue supply arrangements with the Applicants or otherwise interrupt the supply of goods and/or services because they are unable to continue to provide their services to the Debtors without payment of pre-filing amounts, such supply interruption will prevent the Applicants from operating in the ordinary course and could negatively impact the going concern value and goodwill of the business.
70. It is critical that the Applicants maintain and continue operations in the normal course to preserve customer relationships, support and goodwill in order to fully maximize the SISF for the benefit of all stakeholders.
71. Pursuant to the Proposed Initial Order, the Applicants shall only be entitled to pay pre-filing amounts if these payments are determined, by the Applicants, with the consent of the Monitor and the DIP Lender, to be necessary to the continued operation of the business or essential for the preservation of value for the SISF.

72. The Proposed Monitor recognizes the importance of maintaining stability with respect to Debtors' ongoing business and operations. Accordingly, the Proposed Monitor is of the view that the relief being requested by the Applicants with respect to the payment of certain pre-filing amounts is reasonable in the circumstances.
73. The Proposed Monitor intends to work closely with the Applicants to ensure that any payments to suppliers in respect of pre-filing obligations are limited to the extent reasonably necessary.

Securities Filings

74. Heritage seeks to relieve itself from incurring further expenses in relation to the Securities Filings (as defined in the Schwede Affidavit) by any federal, provincial or other law respecting securities or capital markets in Canada, and declaring that the directors, officers, employees and other representatives of the Applicants shall not have any personal liability for failure to make any Securities Filings.
75. The Proposed Monitor is of the view that it would be reasonable for Heritage not to incur the time and costs associated with the Securities Filings. Further, the Proposed Monitor understands that the Applicants intend to serve and provide notice of the Comeback Hearing to the relevant government authorities whose rights may be impacted by such relief. Moreover, the form of relief requested with respect to regulatory obligations does not appear to the Proposed Monitor to be contrary to s. 11.1(2) of the CCAA.
76. In the circumstances, the Proposed Monitor views the Applicants request as reasonable and consistent with relief granted in similar cases involving publicly traded companies.

Preservation of Licenses

77. The Applicants seek to have the Health Canada Licenses and the Excise Licenses preserved and maintained during the Stay of Proceedings, which will preserve their ability to sell cannabis inventory in the ordinary course under those licenses.

Health Canada Licenses

78. As detailed in the Schwede Affidavit, Heritage East and Heritage West hold licenses with Health Canada which permit them to undertake, among other things: (a) standard cultivation activities; (b) standard processing activities; (c) industrial hemp sale activities; (d) activities relating to the sale of cannabis for medical purposes; and (d) research activities, including possession and production of cannabis.
79. While there is no immediate concern that the Health Canada Licenses will expire during the Stay of Proceedings, the term of these licenses must continue for the duration of the CCAA proceedings to ensure these entities continue to operate as a going concern.

Excise Licenses

80. Cannabis producers in Canada who are packaging cannabis products for sale are required to affix a cannabis excise stamp issued by the CRA prior to delivery to a purchaser. The cannabis excise stamp indicates that the cannabis product was intended for the excise duty-paid market and that the excise duty has been paid.
81. As noted above, Heritage East and Heritage West each hold an Excise License with the CRA with respect to excise stamps, which licenses are set to expire imminently on April 12, 2024 and April 15, 2024, respectively. If these licenses are permitted to expire, or to be cancelled or revoked, the Applicants would not be able to use its existing stock of cannabis excise stamps or continue obtaining an ongoing supply of cannabis excise stamps, which would severely impair its ability to operate as a going concern.
82. The Proposed Monitor understands that the Applicants intend to serve and provide notice of the Comeback Hearing to Health Canada and the CRA of the relief sought in the Proposed Initial Order in respect of the Excise Licenses.
83. The Proposed Monitor is of the view that the relief sought by the Applicants is reasonable in the circumstances, and not contrary to s.11.1(2) of the CCAA.

Non-Applicant Stay Parties

84. The Applicants are seeking to extend the stay of proceedings and other benefits provided for in the Proposed Initial Order, to certain direct or indirect subsidiaries of the Debtors in the U.S. that are not Applicants in these CCAA proceedings (the “**Non-Applicant Stay Parties**”). The extension of the stay of proceedings to the Non-Applicant Stay Parties is intended to prevent uncoordinated realization and enforcement attempts from being made in different jurisdictions, and thereby preventing immediate losses of value for the Debtors and its stakeholders.
85. Heritage operates as an integrated business and substantially all of the strategic business affairs of the Applicants and the Non-Applicant Stay Parties, including key decision-making, are conducted through personnel and supported by professional advisors who are located in Canada. Given that the Non-Applicant Stay Parties are integrated with the Applicants, they will benefit from the Stay of Proceedings and the CCAA Proceedings, which will maintain going concern operations and will maximize value for the entirety of the Debtors.
86. The Proposed Monitor understands that courts have, on certain occasions, found it just and reasonable to extend the benefit of a stay of proceedings to non-applicants where such parties are integrally and closely interrelated to the Debtors business, in order to ensure that the purposes of the CCAA can be achieved.
87. The Proposed Monitor is of the view that the relief sought by the Applicants is reasonable in the circumstances, as the business and operations of the Non-Applicant Stay Parties are integrated with the Applicants and a stay in respect of them will likely maximize value of the Debtors for the benefit of all its stakeholders.

IX. CASH MANAGEMENT SYSTEM

88. As outlined in the Schwede Affidavit, the Applicants have an integrated, intercompany cash management system (the “**Cash Management System**”), which is critical to the ongoing efficient operations of the Debtors. In the Proposed Monitor’s view, the ongoing

operation of the Cash Management System will not be prejudicial to any creditor or other stakeholder, and ought to be maintained during the CCAA Proceedings

X. CONCLUSIONS AND RECOMMENDATIONS

89. For the reasons set out in this Report, the Proposed Monitor is of the view that the relief requested by the Applicants is both appropriate and reasonable. The Proposed Monitor is also of the view that granting the relief requested will provide the Applicants the best opportunity to undertake a going concern sale or other restructuring under the CCAA, thereby preserving value for the benefit of the Applicants' stakeholders.
90. As such, the Proposed Monitor supports the Applicants application for CCAA protection and respectfully recommends that the Court make an order granting the relief sought by the Applicants in the Proposed Initial Order.

All of which is respectfully submitted this 2nd day of April 2024.

KPMG Inc.

In its capacity as Proposed Monitor of

Heritage Cannabis Holdings Corp., 1005477 B.C. Ltd., Mainstrain Market Ltd., Purefarma Solutions Inc., 333 Jarvis Realty Inc., 5450 Realty Inc., Premium 5 Ltd., Heritage Cannabis Exchange Corp., Heritage Cannabis East Corporation, and Heritage Cannabis West Corporation

And not in its personal or corporate capacity

Per:



Pritesh Patel
CIRP, LIT
Senior Vice President



Tim Montgomery
CIRP, LIT
Vice President

Appendix “A”

April 1, 2024

BY EMAIL

HERITAGE CANNABIS HOLDINGS CORP.;
HERITAGE CANNABIS EAST CORPORATION;
HERITAGE CANNABIS WEST CORPORATION;
333 JARVIS REALTY INC.; and
5040 REALTY INC.

c/o Owens Wright LLP
300-20 Holly Street
Toronto, Ontario
M4S 3B1

Attention: David Schwede

Email: dschwede@heritagecann.com

1005477 B.C. LTD.;
PUREFARMA SOLUTIONS INC.;
HERITAGE CANNABIS EXCHANGE CORP.;
PREMIUM 5 LTD.; and
HERITAGE US HOLDINGS CORP.

c/o Owens Wright LLP
300-20 Holly Street
Toronto, Ontario
M4S 3B1

Attention: David Schwede

Email: dschwede@heritagecann.com

Dear Sirs:

Re: BJK Holdings Ltd. (“BJK”) loan to Heritage Cannabis Holdings Corp. (“Heritage Holdings”), Heritage Cannabis East Corporation (“Heritage East”), 333 Jarvis Realty Inc. (“333 Realty”), Heritage Cannabis West Corporation (“Heritage West”) and 5450 Realty Inc. (“5450 Realty”) (collectively, the “Borrowers”), guaranteed by each of 1005477 B.C. Ltd. (“1005 B.C.”), Purefarma Solutions Inc. (“PureFarma”), Heritage Cannabis Exchange Corp. (“Heritage Exchange”), Premium 5 Ltd. (“Premium 5”) and Heritage US Holdings Corp. (“Heritage US”) (collectively, the “Guarantors”)

We are counsel to BJK.

We are writing to you in connection with the loan agreement with an effective date of March 29, 2021, among BJK, as lender, Heritage Holdings, CannaCure Corporation (prior name of Heritage East, “CannaCure”), 333 Realty, Voyage Cannabis Corp. (prior name of Heritage West, “Voyage”) and 5450

Realty, as borrowers and 1005 BC, Calyx Life Sciences Corp. (predecessor entity to PureFarma, “**Calyx**”), Purefarma Solutions Inc. (predecessor entity to PureFarma, “**Purefarma Predecessor**”), Heritage Exchange, Heritage US and Premium 5, as guarantors (the “**Original Loan Agreement**”), as such Original Loan Agreement was amended by an amending agreement with an effective date of October 6, 2021 among BJK, as lender, Heritage Holdings, CannaCure, 333 Realty, Voyage and 5450 Realty, as borrowers and 1005 BC, Calyx, Purefarma Predecessor, Heritage Exchange and Premium 5, as guarantors (“**Amendment No. 1**”), a second loan amending agreement with an effective date of September 29, 2022 among BJK, as lender, Heritage Holdings, CannaCure, 333 Realty, Voyage and 5450 Realty, as borrower and 1005 BC, Calyx, Purefarma Predecessor, Heritage Exchange and Premium 5, as guarantors (“**Amendment No. 2**”) and a third loan amending agreement with an effective date of October 31, 2023 among BJK, as lender, the Borrowers, as borrower and the Guarantors, as guarantors (“**Amendment No. 3**”, and collectively with the Original Loan Agreement, Amendment No. 1 and Amendment No. 2, as may be further modified, amended, supplemented, revised, restated, or replaced from time to time, the “**Loan Agreement**”).

Capitalized terms used herein and not otherwise defined have the meanings given to them in the Loan Agreement.

The Borrowers are in default under the Loan Agreement and the other Credit Documents (as defined herein), including as a result of:

1. the Borrowers’ breach of the covenants contained in the General Security Agreement dated as of March 31, 2021 in favour of BJK including as a result of the Borrowers’ failure to forthwith pay all taxes, assessments, rates, duties, levies, governmental fees, claims, dues and other charges of every nature which have been lawfully levied, assessed or imposed upon the Borrowers or any one of them;
2. the issuance of Requirement to Pay notices to certain of the Borrowers customers, including, without limitation the BC Liquor Distribution Branch requiring that such customers direct any payments of amounts otherwise owing from any of the Borrowers to the Canada Revenue Agency in respect to HST/GST arrears, amounting to a process analogous to a levy of distress; and
3. a material adverse change having occurred in the financial affairs of the Borrowers and Guarantors.

According to BJK’s records, as of March 26, 2024, the Borrowers are indebted or otherwise liable to BJK in the amount of 8,421,088.87, excluding legal fees and disbursements of BJK’s counsel (the amount owing from time to time by the Borrowers to BJK, the “**Indebtedness**”).

The Guarantors have jointly and severally guaranteed the repayment of the Indebtedness, including pursuant to a guarantee and postponement of claim granted by, among others, each of the Guarantors (or with respect to PureFarma, its predecessors) dated as of March 31, 2021.

BJK hereby demands payment in full of the Indebtedness from the Borrowers and the Guarantors. Interest on the Indebtedness has accrued and will continue to accrue to the date of payment at the rate set out in the Loan Agreement and the other Credit Documents (as defined herein), as applicable. The exact amount of the Indebtedness and interest which will have accrued to any date of payment shall be obtained by contacting BJK. You will also be required to pay BJK’s legal and other expenses in connection with the Indebtedness.

This letter constitutes a demand for payment and acceleration of payment under the terms and conditions of the Loan Agreement and the terms and conditions of all security held by BJK directly or indirectly for any of the Indebtedness, including all loan agreements, promissory notes, Guarantees and other agreements in respect of, or related to or governing the Indebtedness (collectively, the “**Credit Documents**”) and is made without prejudice to (a) BJK’s rights to make such further and other demands as it shall see fit for any other indebtedness or under any other security, and (b) BJK’s rights to provide further and other notices of default.

Unless payment or arrangements satisfactory to BJK for payment of the Indebtedness are made prior to 4:00 p.m. on April 12, 2024 (Toronto time), BJK may take any further steps that it deems necessary to recover payment of the Indebtedness. These steps may include the enforcement of any of its security including by way of the appointment of an interim receiver, court appointed receiver and manager, a private receiver and manager, an agent under the security or the commencement of proceedings pursuant to the *Companies’ Creditors Arrangement Act* in respect of any or all the Borrowers and Guarantors. BJK expressly reserves the right to take any steps it deems advisable to protect BJK’s position prior to that date.

We also enclose notice(s) of intention issued by BJK under Section 244 of the *Bankruptcy and Insolvency Act* (Canada) for each of the Borrowers.

BJK expressly reserves its rights and remedies with respect to any defaults that shall now exist or hereafter arise under the Loan Agreement and the other Credit Documents.

Yours very truly,

GOWLING WLG (CANADA) LLP

Per  Virginie Gauthier

BANKRUPTCY AND INSOLVENCY ACT

FORM 86

Notice of Intention to Enforce Security
(Rule 124)

TO: HERITAGE CANNABIS HOLDINGS CORP., an insolvent person

Take notice that:

1. **BJK HOLDINGS LTD.**, a secured creditor, intends to enforce its security on the property of the insolvent person described below:

All of the property, assets, and undertaking charged by the security described in paragraph 2 of this Notice.

2. The security that is to be enforced is in the form of:

See Schedule "A".

3. The total amount of indebtedness secured by the security is, as at March 26, 2024, \$8,421,088.87, excluding legal fees and disbursements of the secured creditor's counsel.
4. The secured creditor will not have the right to enforce the security until after the expiration of the ten (10) day period after this notice is sent unless the insolvent person consents to an earlier enforcement.

DATED at Toronto this 1st day of April, 2024

BJK HOLDINGS LTD., by its counsel
GOWLING WLG (CANADA) LLP

Per:



Virginie Gauthier

SCHEDULE “A”

SECURITY DOCUMENTS

1. General Security Agreement dated as of March 31, 2021;
2. General Security Agreement dated as of March, 2021;
3. Assignment of Contracts & Proceeds of Sales dated as of March 31, 2021;
4. Acknowledged Assignment of Insurance Coverage and Power of Attorney;
5. Pledge of Securities agreement with respect to shares held in the capital of 1186366 B.C. Ltd. dated as of March 31, 2021;
6. Stock Transfer Power of Attorney with respect to shares issued to Heritage Cannabis Holdings Corp. in the capital of 1186366 B.C. Ltd.;
7. Pledge of Securities agreement with respect to shares held in the capital of Heritage US Holdings Corp. dated as of March 31, 2021;
8. Assignment and Postponement of Creditor’s Claims with respect to indebtedness owed by 333 Jarvis Realty Inc. to Heritage Cannabis Holdings Corp. and dated as of March 31, 2021;
9. Assignment and Postponement of Creditor’s Claims with respect to indebtedness owed by CannaCure Corporation (prior name of Heritage Cannabis East Corporation) to Heritage Cannabis Holdings Corp. and dated as of March 31, 2021;
10. Assignment and Postponement of Creditor’s Claims with respect to indebtedness owed by Premium 5 Ltd. to Heritage Cannabis Holdings Corp. and dated as of March 31, 2021;
11. Assignment and Postponement of Creditor’s Claims with respect to indebtedness owed by 1005477 B.C. Ltd. to Heritage Cannabis Holdings Corp. and dated as of March 31, 2021;
12. Assignment and Postponement of Creditor’s Claims with respect to indebtedness owed by 5450 Realty Inc. to Heritage Cannabis Holdings Corp. and dated as of March 31, 2021;
13. Assignment and Postponement of Creditor’s Claims with respect to indebtedness owed by Calyx Life Sciences Corp. (predecessor of Purefarma Solutions Inc.) to Heritage Cannabis Holdings Corp. and dated as of March 31, 2021;
14. Assignment and Postponement of Creditor’s Claims with respect to indebtedness owed by Purefarma Solutions Inc. (predecessor of Purefarma Solutions Inc.) to Heritage Cannabis Holdings Corp. and dated as of March 31, 2021;

15. Assignment and Postponement of Creditor's Claims with respect to indebtedness owed by Heritage (US) Colorado Corp. to Heritage Cannabis Holdings Corp. and dated as of March 31, 2021;
16. Assignment and Postponement of Creditor's Claims with respect to indebtedness owed by Heritage Cannabis Exchange Corp. and Umar Syed, in trust to Heritage Cannabis Holdings Corp. and dated as of March 31, 2021;
17. All other security granted by Heritage Cannabis Holdings Corp. to BJK Holdings Ltd. not otherwise listed above.

BANKRUPTCY AND INSOLVENCY ACT

FORM 86

Notice of Intention to Enforce Security
(Rule 124)

TO: HERITAGE CANNABIS EAST CORPORATION, an insolvent person

Take notice that:

1. **BJK HOLDINGS LTD.**, a secured creditor, intends to enforce its security on the property of the insolvent person described below:

All of the property, assets, and undertaking charged by the security described in paragraph 2 of this Notice.

2. The security that is to be enforced is in the form of:

See Schedule "A".

3. The total amount of indebtedness secured by the security is, as at March 26, 2024, \$8,421,088.87, excluding legal fees and disbursements of the secured creditor's counsel.
4. The secured creditor will not have the right to enforce the security until after the expiration of the ten (10) day period after this notice is sent unless the insolvent person consents to an earlier enforcement.

DATED at Toronto this 1st day of April, 2024

BJK HOLDINGS LTD., by its counsel
GOWLING WLG (CANADA) LLP

Per:



Virginie Gauthier

SCHEDULE “A”

SECURITY DOCUMENTS

1. General Security Agreement dated as of March 31, 2021;
2. General Security Agreement dated as of March 31, 2021, executed by Cannacure Corporation (prior name of Heritage Cannabis East Corporation);
3. Assignment of Contracts & Proceeds of Sales dated as of March 31, 2021, executed by, amongst others, Cannacure Corporation (prior name of Heritage Cannabis East Corporation);
4. Assignment of Material Documents dated as of March 31, 2021, executed by Cannacure Corporation (prior name of Heritage Cannabis East Corporation);
5. Acknowledged Assignment of Insurance Coverage and Power of Attorney, executed by, amongst others, Cannacure Corporation (prior name of Heritage Cannabis East Corporation);
6. Assignment and Postponement of Creditor’s Claims with respect to indebtedness owed by Heritage Cannabis Holdings Corp. to, amongst others, CannaCure Corporation (prior name of Heritage Cannabis East Corporation) and dated as of March 31, 2021;
7. All other security granted by Heritage Cannabis East Corporation to BJK Holdings Ltd. not otherwise listed above.

BANKRUPTCY AND INSOLVENCY ACT

FORM 86

Notice of Intention to Enforce Security
(Rule 124)

TO: HERITAGE CANNABIS WEST CORPORATION, an insolvent person

Take notice that:

1. **BJK HOLDINGS LTD.**, a secured creditor, intends to enforce its security on the property of the insolvent person described below:

All of the property, assets, and undertaking charged by the security described in paragraph 2 of this Notice.

2. The security that is to be enforced is in the form of:

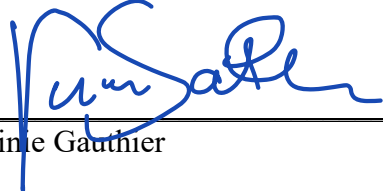
See Schedule "A".

3. The total amount of indebtedness secured by the security is, as at March 26, 2024, \$8,421,088.87, excluding legal fees and disbursements of the secured creditor's counsel.
4. The secured creditor will not have the right to enforce the security until after the expiration of the ten (10) day period after this notice is sent unless the insolvent person consents to an earlier enforcement.

DATED at Toronto this 1st day of April, 2024

BJK HOLDINGS LTD., by its counsel
GOWLING WLG (CANADA) LLP

Per:



Virginie Gauthier

SCHEDULE "A"

SECURITY DOCUMENTS

1. General Security Agreement dated as of March 31, 2021;
2. Assignment of Contracts & Proceeds of Sales dated as of March 31, 2021 executed by, amongst others, Voyage Cannabis Corp. (prior name of Heritage Cannabis West Corporation);
3. Acknowledged Assignment of Insurance Coverage and Power of Attorney, executed by, amongst others, Voyage Cannabis Corp. (prior name of Heritage Cannabis West Corporation);
4. Assignment and Postponement of Creditor's Claims with respect to indebtedness owed by Heritage Cannabis Holdings Corp. to, amongst others, Voyage Cannabis Corp. (prior name of Heritage Cannabis West Corporation) and dated as of March 31, 2021;
5. All other security granted by Heritage Cannabis West Corporation to BJK Holdings Ltd. not otherwise listed above.

BANKRUPTCY AND INSOLVENCY ACT

FORM 86

Notice of Intention to Enforce Security
(Rule 124)

TO: 333 JARVIS REALTY INC., an insolvent person

Take notice that:

1. **BJK HOLDINGS LTD.**, a secured creditor, intends to enforce its security on the property of the insolvent person described below:

All of the property, assets, and undertaking charged by the security described in paragraph 2 of this Notice.

2. The security that is to be enforced is in the form of:

See Schedule "A".

3. The total amount of indebtedness secured by the security is, as at March 26, 2024, \$8,421,088.87, excluding legal fees and disbursements of the secured creditor's counsel.
4. The secured creditor will not have the right to enforce the security until after the expiration of the ten (10) day period after this notice is sent unless the insolvent person consents to an earlier enforcement.

DATED at Toronto this 1st day of April, 2024

BJK HOLDINGS LTD., by its counsel
GOWLING WLG (CANADA) LLP

Per:



Virginie Gauthier

SCHEDULE “A”

SECURITY DOCUMENTS

1. General Security Agreement dated as of March 31, 2021;
2. General Security Agreement dated as of March 31, 2021;
3. Assignment of Contracts & Proceeds of Sales dated as of March 31, 2021;
4. Assignment of Material Documents dated as of March 31, 2021;
5. Assignment of Insurance Proceeds;
6. Assignment and Postponement of Creditor’s Claims with respect to indebtedness owed by Heritage Cannabis Holdings Corp. to, amongst others, 333 Jarvis Realty Inc. and dated as of March 31, 2021;
7. All other security granted by 333 Jarvis Realty Inc. to BJK Holdings Ltd. not otherwise listed above.

BANKRUPTCY AND INSOLVENCY ACT

FORM 86

Notice of Intention to Enforce Security
(Rule 124)

TO: 5450 REALTY INC., an insolvent person

Take notice that:

1. **BJK HOLDINGS LTD.**, a secured creditor, intends to enforce its security on the property of the insolvent person described below:

All of the property, assets, and undertaking charged by the security described in paragraph 2 of this Notice.

2. The security that is to be enforced is in the form of:

See Schedule "A".

3. The total amount of indebtedness secured by the security is, as at March 26, 2024, \$8,421,088.87, excluding legal fees and disbursements of the secured creditor's counsel.
4. The secured creditor will not have the right to enforce the security until after the expiration of the ten (10) day period after this notice is sent unless the insolvent person consents to an earlier enforcement.

DATED at Toronto this 1st day of April, 2024

BJK HOLDINGS LTD., by its counsel
GOWLING WLG (CANADA) LLP

Per:



Virginie Gauthier

SCHEDULE "A"

SECURITY DOCUMENTS

1. General Security Agreement dated as of March 31, 2021;
2. Assignment of Contracts & Proceeds of Sales dated as of March 31, 2021;
3. Acknowledged Assignment of Insurance Coverage and Power of Attorney;
4. Assignment and Postponement of Creditor's Claims with respect to indebtedness owed by Heritage Cannabis Holdings Corp. to, amongst others, 5450 Realty Inc. and dated as of March 31, 2021;
5. All other security granted by 5450 Realty Inc. to BJK Holdings Ltd. not otherwise listed above.

Appendix “B”

**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
HERITAGE CANNABIS HOLDINGS CORP., 1005477 B.C. LTD., HERITAGE CANNABIS
WEST CORPORATION, MAINSTRAIN MARKET LTD., HERITAGE CANNABIS EAST
CORPORATION, PUREFARMA SOLUTIONS INC., 333 JARVIS REALTY INC, 5450 REALTY
INC., HERITAGE CANNABIS EXCHANGE CORP., AND PREMIUM 5 LTD.**

(collectively the “Applicants” or the “Debtors”)

**MANAGEMENT’S REPORT ON CASH FLOW STATEMENT
(paragraph 10(2)(b) of the CCAA)**

The management of the Debtors have developed the assumptions and prepared the attached statement of projected cash flow as of the 30th day of March 2024, consisting of the period from March 30, 2024, to June 28, 2024 (the ‘**Cash Flow Forecast**’).

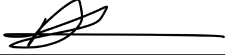
The hypothetical assumptions are reasonable and consistent with the purpose of the Cash Flow Forecast described in the notes therein, and the probable assumptions are suitably supported and consistent with the plans of the Debtors and provide a reasonable basis for the Cash Flow Forecast. All such assumptions are disclosed in the notes therein.

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

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

Dated at Kelowna, in the Province of British Columbia, this 2nd day of April 2024.

Heritage Cannabis Holdings Corp., 1005477 B.C. LTD., Heritage Cannabis West Corporation, Mainstrain Market Ltd., Heritage Cannabis East Corporation, Purefarma Solutions Inc., 333 Jarvis Realty Inc, 5450 Realty Inc., Heritage Cannabis Exchange Corp., and Premium 5 Ltd.



David Schwede
Chief Executive Officer

13-Week Cash Flow Forecast Notes and Summary of Assumptions

In the matter of a Plan of Compromise or Arrangement of Heritage Cannabis Holdings Corp., 1005477 B.C. LTD., Heritage Cannabis West Corporation, Mainstrain Market Ltd., Heritage Cannabis East Corporation, Purefarma Solutions Inc., 333 Jarvis Realty Inc, 5450 Realty Inc., Heritage Cannabis Exchange Corp., and Premium 5 Ltd. (collectively the “Applicants” or the “Debtors”)

Disclaimer

Since the Cash Flow Forecast is based on assumptions about future events and conditions that are not ascertainable, the actual results achieved during the Cash Flow Forecast period will vary from the Cash Flow Forecast, even if the assumptions materialize, and such variations may be material. There is no representation, warranty, or other assurance that any of the estimates, forecasts or projections will be realized.

The Cash Flow Forecast is presented in Canadian dollars. All defined terms that are not otherwise defined herein are to have the same meaning ascribed to them in the report of the Proposed Monitor dated April 2, 2024.

Note 1 Purpose of the Cash Flow Forecast

The purpose of the Cash Flow Forecast is to present the estimated cash receipts and disbursements of the Applicants for the period from March 30, 2024 to June 28, 2024 (the “**Forecast Period**”). The Cash Flow Forecast has been prepared by the Applicants, in consultation with the Monitor. Readers are cautioned that this information may not be appropriate or relied upon for any other purpose.

Note 2 Accounts Receivable

Current accounts receivable is forecast to be collected based on the payment terms for individual customers. Overdue accounts receivable is forecast to be collected based on management’s best estimate of when these customers may pay.

Note 3 Sales

Sales are based on the Applicants latest sales forecast by customer and forecast to be collected based on the payment terms for individual customers.

Note 4 Production and Operating Costs

Production and operating costs include, but are not limited to, inventory (vapes, concentrates, pre-rolls) and production costs, including critical vendor payments, advertising, general and administration and consultancy costs. Supplier terms are assumed to be cash on delivery.

Note 5 Salary and Wages

Payroll expenses include salaries and wages, payroll taxes and remittances, and employee benefits paid to the Applicants' employees. Payroll expenses are forecasted based on current headcount levels and are paid bi-weekly.

Note 6 Excise Taxes

Excise Taxes are accrued or collected amounts after the date of the Proposed Initial Order.

Note 7 Sales Taxes

Sales Taxes are accrued or collected amounts after the date of the Proposed Initial Order, or where such Sales Taxes were accrued or collected prior to date of the Proposed Initial Order but not required to be remitted until on or after the date of the Proposed Initial Order.

Note 8 Professional Fees

Includes professional fees of (i) the Monitor, counsel to the Monitor, counsel to the Applicants, and counsel of the DIP Lender primarily in connection with the CCAA proceedings.

Note 9 BJK Loan Agreements

The Proposed Monitor understands that the Applicants have repaid \$1.5 million under the Revolving Facility prior to the date of the Proposed Initial Order. Furthermore, the Cash Flow Forecast assumes service interest expense on the remaining outstanding balances under the BJK Loans will be paid upon receipt of an opinion from its independent counsel, Blakes, that BJK's security interest is valid and enforceable, which opinion is anticipated to be completed prior to the Comeback Hearing.

Note 10 DIP Financing

The Cash Flow Forecast reflects advances under the DIP Facility in the Forecast period of \$0.5 million. The interest rate on the principal outstanding amount of the DIP advances is 12.5% and is accrued. DIP fees assumed to paid in the Forecast Period are \$45,000 as per the terms of the DIP Term Sheet.

Heritage Group
13-Week Cash Flow Projections (in \$CAD)

The Applicants															
Weekly Cash Flow Forecast															
In C\$; unaudited															
	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	
1	1	2	3	4	5	6	7	8	9	10	11	12	13	Total	
	5-Apr-24	12-Apr-24	19-Apr-24	26-Apr-24	3-May-24	10-May-24	17-May-24	24-May-24	31-May-24	7-Jun-24	14-Jun-24	21-Jun-24	28-Jun-24		
Receipts															
Accounts Receivable	2	315,097	57,296	682,339	188,906	1,019,818	538,371	636,390	235,289	229,922	229,922	91,391	91,391	-	4,316,132
Sales	3	-	61,226	61,226	221,965	221,965	558,673	558,673	934,961	934,961	934,961	934,961	884,132	884,132	7,191,834
Total Customer Receipts		315,097	118,522	743,564	410,871	1,241,783	1,097,044	1,195,063	1,170,251	1,164,884	1,164,884	1,026,352	975,523	884,132	11,507,967
Operating Disbursements															
Production and Operating Costs	4	(1,153,477)	(1,153,477)	(753,477)	(753,477)	(512,227)	(512,227)	(512,227)	(512,227)	(512,227)	(512,227)	(512,227)	(512,227)	(512,227)	(8,423,957)
Salary and Wages	5	-	(390,090)	-	(390,090)	-	(388,000)	-	(388,000)	-	(388,000)	-	(388,000)	-	(2,332,181)
Excise Taxes	6	-	-	-	-	-	-	-	-	(1,288,000)	-	-	-	-	(1,288,000)
Sales Taxes	7	-	-	-	-	(180,000)	-	-	-	(200,000)	-	-	-	-	(380,000)
Professional Fees	8	(250,693)	(172,293)	(87,530)	(87,530)	(40,863)	(40,863)	(40,863)	(40,863)	(40,863)	(40,863)	(55,423)	(55,423)	(42,730)	(996,800)
Total Operating Disbursements		(1,404,171)	(1,715,861)	(841,007)	(1,231,097)	(733,091)	(941,091)	(553,091)	(941,091)	(753,091)	(2,229,091)	(567,651)	(955,651)	(554,957)	(13,420,938)
Net Operating Cash Flow		(1,089,074)	(1,597,339)	(97,443)	(820,227)	508,692	155,953	641,972	229,160	411,793	(1,064,207)	458,701	19,872	329,175	(1,912,971)
Interest Expense on Pre-filing Debt	9	-	-	-	-	(45,373)	-	-	-	(45,373)	-	-	-	-	(90,745)
DIP Commitment Fee	10	-	-	-	(45,000)	-	-	-	-	-	-	-	-	-	(45,000)
Line of Credit Repayment	9	(1,500,000)	-	-	-	-	-	-	-	-	-	-	-	-	(1,500,000)
Net Cash Flow		(2,589,074)	(1,597,339)	(97,443)	(865,227)	463,319	155,953	641,972	229,160	366,420	(1,064,207)	458,701	19,872	329,175	(3,548,716)
Opening Cash		5,100,000	2,510,926	913,586	816,144	450,917	914,236	1,070,189	1,712,161	1,941,321	2,307,742	1,243,535	1,702,236	1,722,109	5,100,000
Net Cash Flow		(2,589,074)	(1,597,339)	(97,443)	(865,227)	463,319	155,953	641,972	229,160	366,420	(1,064,207)	458,701	19,872	329,175	(3,548,716)
DIP funding	10	-	-	-	500,000	-	-	-	-	-	-	-	-	-	500,000
Ending Cash		2,510,926	913,586	816,144	450,917	914,236	1,070,189	1,712,161	1,941,321	2,307,742	1,243,535	1,702,236	1,722,109	2,051,284	2,051,284



David Schwede
Chief Executive Officer

**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
HERITAGE CANNABIS HOLDINGS CORP., 1005477 B.C. LTD., HERITAGE CANNABIS
WEST CORPORATION, MAINSTRAIN MARKET LTD., HERITAGE CANNABIS EAST
CORPORATION, PUREFARMA SOLUTIONS INC., 333 JARVIS REALTY INC, 5450 REALTY
INC., HERITAGE CANNABIS EXCHANGE CORP., AND PREMIUM 5 LTD.**

(collectively the “Applicants” or the “Debtors”)

**MONITOR’S REPORT ON CASH FLOW STATEMENT
(paragraph 23(1)(b) of the CCAA)**

The attached statement of projected cash flow of the Debtors prepared as of the 30th day of March 2024, consisting of the period from March 30, 2024 to June 28, 2024 (the “**Cash Flow Forecast**”), has been prepared by management of the Debtors, in consultation with the Monitor for the purpose described in Note 1, using the probable and hypothetical assumptions set out in the notes to the Cash Flow Forecast.

Our review and consultation consisted of inquiries, analytical procedures and discussions related to information supplied by management and employees of the Debtors. 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 Forecast. We have also reviewed the support provided by management for the probable assumptions and the preparation and presentation of the Cash Flow Forecast.

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

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

Since the Cash Flow Forecast 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 assurance as to whether the Cash Flow Forecast will be achieved.

The Cash Flow Forecast has been prepared solely for the purpose described in the notes thereto and readers are cautioned that it may not be appropriate for other purposes.

Dated at Toronto, in the Province of Ontario, this 2nd day of April 2024.

KPMG Inc.

In its capacity as Proposed Monitor of

Heritage Cannabis Holdings Corp., 1005477 B.C. Ltd., Mainstrain Market Ltd., Purefarma Solutions Inc., 333 Jarvis Realty Inc., 5450 Realty Inc., Premium 5 Ltd., Heritage Cannabis Exchange Corp., Heritage Cannabis East Corporation, and Heritage Cannabis West Corporation

And not in its personal or corporate capacity



Pritesh Patel, CIRP, LIT

Senior Vice President