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COURT COURT OF KING'S BENCH
OF ALBERTA

JUDICIAL CENTRE CALGARY

PLAINTIFF ENZIO HOLDINGS LTD.

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DEFENDANTS CANDRE CANNABIS INC.,
FRONDIS HOLDINGS LTD.,
CALYPTRA CULTIVATION INC. and
JASMINE VENTURES LTD.

DOCUMENT **FIRST REPORT OF THE RECEIVER**

March 15, 2023

ADDRESS FOR SERVICE AND
CONTACT INFORMATION OF
PARTY FILING THIS
DOCUMENT

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INTRODUCTION

1. On March 6, 2023 (the “**Receivership Date**”), by order of the Honourable Justice J. Fagnan of the Court of King’s Bench of Alberta (the “**Court**”), Alvarez & Marsal Canada Inc. was appointed receiver and manager (the “**Receiver**”), without security, of certain of Candre Cannabis Inc.’s (“**Candre**” or the “**Company**”) current and future assets, undertakings and properties of every nature and kind whatsoever, and wherever situate, including all proceeds thereof (the “**Property**”), pursuant to section 243(1) of the *Bankruptcy and Insolvency Act*, RSC 1985, c B-3 (the “**BIA**”), section 13(2) of the *Judicature Act*, RSA 2000, c J-2, section 99(a) of the *Business Corporations Act*, RSA 2000, c B-9, and section 65(7) of the *Personal Property Security Act*, RSA 2000, c P-7 (the “**Receivership Order**”).
2. Amongst other things, the Receivership Order empowers and authorizes, but does not obligate, the Receiver to take possession and control of the Property and to sell, convey, transfer, lease or assign the Property or any part or parts thereof out of the ordinary course of business. The Receivership Order also empowers the Receiver to borrow by way of a receiver’s certificate to the amount of \$500,000 and the whole of the Property is charged by way of a fixed and specific charge to secure such borrowings (the “**Receiver’s Borrowings Charge**”).
3. In the Receivership Order, the Court directed that the Property specifically excludes any of the Company’s assets for which any permit or license is issued or may be issued in accordance or connection with the Controlled Substances Legislations (as defined in the Receivership Order) and pursuant to the Receivership Order the Receiver is not to take possession and is deemed to not be in possession of any Property within the meaning of the Controlled Substances Legislation (the “**Excluded Assets**”).
4. The purpose of this first report of the Receiver (the “**First Report**” or “**this Report**”) is to provide this Honourable Court with information in respect of the following:

- a) a brief overview and background of Candre;
 - b) the initial activities of the Receiver since the Receivership Date;
 - c) an operational update of Candre since the Receivership Date;
 - d) the security opinion (the “**Security Opinion**”) issued by the Receiver’s independent counsel, Bennett Jones LLP (“**Bennett Jones**” or the “**Receiver's Counsel**”) with respect to the security granted by Candre to Enzo Holdings Ltd (“**Enzio**”) and Censeo Capital Ltd. (“**Censeo**”), the senior secured lenders to Candre;
 - e) the Receiver’s application for an Order (“**SISP Order**”) approving a proposed sale and investment solicitation process (the “**SISP**”) for the Property and Candre's business;
 - f) the cash flow results for the period from March 6, 2023 to March 10, 2023;
 - g) the ongoing activities and the Receiver’s intended course of action; and
 - h) the Receiver’s conclusions and recommendations in respect of the above/foregoing.
5. Capitalized words or terms not otherwise defined in this Report are as defined in the Receivership Order.
6. All references to dollars are in Canadian currency unless otherwise noted.

TERMS OF REFERENCE

7. In preparing this First Report, the Receiver has relied upon: (i) the representations of certain management and other key stakeholders of Candre; and (ii) financial and other information contained in the Company’s books and records, which were produced and maintained principally by the Company. The Receiver has not performed an audit, review or other verification of such information.

8. The Receiver has not performed an audit, review or otherwise attempted to verify the accuracy or completeness of the Company's financial information that would wholly or partially comply with Canadian Auditing Standards ("CASs") pursuant to the *Chartered Professional Accountants Canada Handbook*, and accordingly, the Receiver expresses no opinion or other form of assurance contemplated under CASs in respect of the financial information. Any future oriented financial information relied upon in this Report is based on the Receiver's assumptions regarding future events and actual results achieved will vary from this information and the variations may be materials.

BACKGROUND AND OVERVIEW

Background

9. Candre is an Alberta-based company that engaged in the business of cultivation and production of cannabis with property and a manufacturing facility and operations near Sundre, Alberta. Candre produced high-quality bulk flower and pre-rolled cannabis products. Candre currently holds licenses from Health Canada under the *Cannabis Act* and *Cannabis Regulations* and holds certain supply agreements with, among regulators and customers, the Alberta Gaming, Liquor and Cannabis Commission and the Ontario Cannabis Retail Corporation.
10. The cannabis industry in Canada is facing numerous financial and operational challenges, including significant regulatory compliance costs, black market competition, and oversupply issues. Since its inception, Candre's operations have not been profitable and Candre was facing a liquidity crisis leading to the receivership.
11. As at the Receivership Date, Candre's main assets were its real property including the land and building located at 819, 5th Avenue SW, Sundre Alberta (the "**Facility**"). Candre did not hold any cannabis product (flower and/or pre-rolls) at the Facility as at the Receivership Date.

12. Enzo and Censeo are the most significant secured creditors of Candre and as of the Receivership Date the Company was indebted to Enzo and Censeo in the approximate aggregate amount of \$29,789,216.
13. Further background regarding Candre's operations and the issues leading to the Receiver's appointment are contained in the materials filed in support of the Receivership Order, including the Affidavit of Sveinung Svarte sworn February 27, 2023. These documents and other publicly filed Court materials in these proceedings have been posted on the Receiver's website at: <https://www.alvarezandmarsal.com/candre> (the "Receiver's Website").

INITIAL ACTIVITIES OF THE RECEIVER

14. Since the Receivership Date, the Receiver's activities have included, but are not limited to, the following:
 - a) taking possession and control of the Property (which, as noted, excludes the Excluded Assets);
 - b) conducting a site tour of the Facility to understand and document the Property and confirming that there were no Excluded Assets at the Facility;
 - c) acquiring access to the Company's information technology systems to obtain the Company's financial records, have control over the security systems and to terminate external access by former employees to the Company's database;
 - d) terminating employment of all Company employees except for two individuals, being the CFO and a building maintenance technician, whose employment will continue to assist the Receiver in these proceedings;
 - e) attending meetings with certain management and other key stakeholders of Candre;

- f) delivering notice to Health Canada on March 7, 2023 of Candre's receivership and informing them that no cannabis product remains on site at the Facility;
- g) communication with the Bank of Montreal to freeze the Company's operating account and have the account set to "deposit only" as well as requesting that the cash on hand be sent to the Receiver's trust account;
- h) communication with certain vendors who visited the Company premises and notifying them of the receivership and discussing the need for services going forward;
- i) communication with former employees with respect to the Wage Earner Protection Program ("**WEPP**") and preparing notices and documentation for each of the terminated employees to file their respective claims;
- j) reviewing Company financials and creditor listings to begin preparing the notice of receiver, required by section 245 and 246 of the BIA ("**Receiver's Notice to Creditors**"), which was delivered by the Receiver to all known creditors on March 14, 2023. A copy of the Receiver's Notice to Creditors has been posted to the Receiver's Website;
- k) inquiring into the status of insurance and taking steps to acquire adequate insurance coverage;
- l) redirecting mail to the office of the Receiver;
- m) providing instructions to Bennett Jones, the Receiver's independent legal counsel, on a variety of matters with respect to these receivership proceedings; and
- n) notifying the Company's insurance brokers of the Receivership Order and adding the Receiver as the named insured and loss payee.

Insurance Coverage

15. The Receiver has obtained copies of the insurance policies from the Company's insurance broker, which consisted of insurance coverage for commercial general liability of \$10.0 million, cyber fraud of \$1.0 million and product recall of \$15.0 million. The Receiver is advised that these policies are fully paid and set to expire on May 20, 2023.
16. The Receiver was further advised that prior to the Receivership Date, the Company cancelled its building insurance (fire, theft, damage coverage) for the Facility, as a cost reduction strategy. As such, the Company was self insuring the Facility and the Receiver is advised that the secured lenders are also aware of this matter.
17. The Receiver is currently in discussions with an insurance broker to determine the cost of obtaining temporary building insurance for the Facility. The Receiver is advised that this may be difficult and very expensive to obtain at this stage. The Receiver has discussed this issue with the secured lenders, who have indicated they are prepared to sign an indemnity in favour of the Receiver and the estate should there be any damage to the Facility that may impact the value to the estate. The secured lenders have advised that they understand the risk to the recovery on their security should an uninsured incident occur, and are prepared to assume any costs and expenses related to damage to the Facility and/or Property that could arise due to the lack of insurance identified above.

OPERATIONAL UPDATE

18. Prior to the Receivership Date, the Receiver had been notified by former management that the Company had ceased all operations and that all cannabis products had been removed from the Facility. The Receiver has verified that all of the Excluded Assets (cannabis products) were removed from the Facility as part of its walk-through on the Receivership Date.
19. Since the Receivership Date, the Receiver has directed the Facility maintenance technician to place the Facility into a care and maintenance mode to reduce the

estate's energy costs. The Receiver, with the assistance of the maintenance technician, believes that sufficient steps have been taken to ensure the Facility (including pipes and associated heating and cooling network) remains safe and will not fail or freeze.

Employees and Contractors

20. As at the Receivership Date, Candre had a total of 34 staff and management. The Receiver terminated 32 of those employees and will continue to employ two employees, including the chief financial officer and the maintenance technician, who will assist the Receiver with administrative matters and upkeep of the Facility.
21. The Receiver is currently determining what amounts, if any, are owed to each of the employees for unpaid wages as at the Receivership Date and will work with the former employees and Service Canada to make the appropriate applications for potential payment under WEPP.

PROPERTY, SECURED CREDITORS AND SECURITY REVIEW

Assets

22. Based on Candre's books and records, as at the Receivership Date, Candre assets and their value were as follows:

	<u>Estimated Book Value (1)</u>
Cash	179,872
Accounts Receivable	528,842
Short-term Investments	50,000
Packaging Inventory	169,924
Deposits	167,692
Equipment and Other	341,835
Production Facility	<u>24,005,613</u>
Total Book Value of Assets	<u>\$ 25,443,777</u>

(1) Realizable values may materially differ from the above estimated book value.

Creditors

23. Based on Candre's books and records at the Receivership Date, the amounts owed to creditors were as follows:

	<u>Amount</u>
Secured Creditors	\$ 29,789,216
Unsecured Creditors	2,642,653
Total Amount	<u>\$ 32,631,869</u>

24. The Receiver notes that the sum of the secured creditor amounts above are made up between Enzo and Censeo, and Bennett Jones has opined on the security of each secured creditor in the Security Opinion, which is discussed in more detail below. The Receiver has not undertaken a claims process for unsecured creditors and as such, expresses no opinion on the accuracy or completeness of the amounts stated in Candre's books and records to be owed to creditors.

Security Opinion

25. The Receiver's Counsel completed a review of both Enzo's and Censeo's security, including related security and mortgage documentation, and has determined that, subject to customary qualifications and exceptions, as set forth in the subject Security Opinion, each loan document noted therein constitutes a legal, and binding obligation of Candre enforceable against Candre in accordance with its terms, in favour of Enzo and Censeo, and that the subject security documents create valid security interests in favour of Enzo and Censeo in the real and personal property described therein, as applicable, in which Candre presently has rights and are sufficient to create a valid security interest in favour of Enzo and Censeo in any such real and personal property, as applicable.

26. The Receiver is not aware of any other claimant that may have priority over Enzo's security, other than potential "super priority" claims with respect to Canada Revenue Agency ("CRA") and the Receiver's Charge as set out in the Receivership Order.

PROPOSED SISP

Overview

27. The Receivership Order empowers and authorizes, but does not obligate the Receiver to, among other things:
- a) market any or all of the Property, including advertising and soliciting offers in respect of the Property or any parts thereof and negotiating such terms and conditions of sale as the Receiver in its discretion may deem appropriate; and
 - b) apply for any vesting order or other orders necessary to convey the Property or any part or parts thereof to a purchaser or purchasers thereof, free and clear of any liens or encumbrances affecting such Property.
28. Notwithstanding the general power to market and sell the property included in the Receivership Order, the Receiver is requesting that the Court issue an order approving the proposed SISP.
29. The Receiver has been in discussions with Enzo and Censeo to develop a strategy to market the Property for sale or to seek investments in Candre's business, to maximize the value of the Property and business for the benefit of the Company's stakeholders. Ultimately, the Receiver determined that proceeding with a two-phase SISP would be the best opportunity to maximize the value of the Property and/or the business.

Summary of the SISP

30. A copy of the SISP is attached hereto as Appendix ‘A’. The Receiver has summarized below certain key points of the proposed SISP. All potential bidders are advised to review the SISP in detail.
31. Under the SISP, all qualified interested parties will be provided with an opportunity to participate in the SISP. The SISP is designed to find the highest and/or best offer for a sale of or investment in the Property and/or the business.
32. Any transaction involving Candre or the Property of the Company will be on an “*as is, where is*” basis and without surviving representations, warranties, covenants or indemnities of any kind, nature, or description by the Receiver or any of its respective agents, estates, advisors, professionals or otherwise, except to the extent set forth in a written agreement with the person who is a counterparty to such transaction.
33. The following table sets out the key milestones under the SISP:

Milestone	Deadline
Launch SISP	As soon as practical following the granting of the SISP Order but by no later than March 27, 2023
Phase I Non-Binding Bid Deadline	April 28, 2023
Phase II Binding Bid Deadline	May 12, 2023
Closing Date	June 2, 2023

34. An overview of the major components contemplated in the SISP are set out below (capitalized terms used but not defined below are intended to bear their meanings as defined in the SISP):

Pre-Marketing Stage

- a) the Receiver will prepare:
 - i. a non-confidential teaser describing the SISP (the “**Teaser Letter**”), the opportunity, and including a non-disclosure agreement (the “**NDA**”) that must be executed by a Potential Bidder as a pre-requisite to gain access to the virtual data room (“**Data Room**”);
 - ii. a draft Purchase Agreement for use by Potential Bidders making a Sale Proposal and a draft Binding LOI for use by the Potential Bidders making an Investment Sale Proposal; and
 - iii. a list of potential bidders (“**Known Potential Bidders**”)

Marketing Stage

- b) the Receiver will arrange to publish a notice of the SISP in major publications (the “**Notice**”), including *The Edmonton Journal*, *The Calgary Herald*, the *Insolvency Insider* and any other publication, website, newspaper, journals or with any sales agents as the Receiver may consider appropriate. The Receiver will also issue a press release with Canada Newswire (the “**Press Release**”) setting out the information contained in the Notice and such other relevant information as the Receiver considers appropriate designating dissemination in Canada and major financial centres in the United States;
- c) the Receiver shall provide notice of the SISP to the Known Potential Bidders and invite them to execute an NDA. A potential bidder that has executed an NDA and provided the required documentation as outlined in the SISP may be deemed a “**Qualified Bidder**” and will be provided

access to a confidential virtual data room which contains documents furnished by the Company relating to the Property;

Offer Submission and Evaluation

Phase I: LOI Submission Phase

- d) a Phase I Qualified Bidder who wishes to pursue the Opportunity further must deliver an LOI to the Receiver by no later than 5:00 pm (Calgary time) on April 28, 2023 (the “**Phase I Bid Deadline**”);
- e) the Receiver will, in consultation with the Secured Creditors, assess the Qualified LOIs. If it is determined by the Receiver that a Phase 1 Qualified Bidder that has submitted a Qualified LOI:
 - i. has a bona fide interest in completing a Sale Proposal or Investment Proposal (as the case may be); and
 - ii. has the financial capability (based on availability of financing, experience and other considerations) to consummate such a transaction based on the financial information provided;

then such Phase 1 Qualified Bidder will be deemed a "Phase 2 Qualified Bidder", provided that the Receiver may, in its reasonable business judgment, limit the number of Phase 2 Qualified Bidders (and thereby eliminate some certain Phase 1 Qualified Bidders from the SISP). Only Phase 2 Qualified Bidders shall be permitted to proceed to Phase 2 of the SISP. No Phase 1 Qualified Bidder that has submitted a Qualified LOI shall be deemed to be a Phase 2 Qualified Bidder without the approval of the Receiver;

Phase II: Formal Offers and Selection of Successful Bidder

- f) Phase 2 Qualified Bidders that wish to make a formal offer to purchase or make an investment in the Property or Business shall submit to the Receiver a sealed binding offer to the Receiver that complies with all of the following requirements at the email addresses specified in Schedule "A" hereto (including by email or fax transmission), so as to ensure the Receiver receives those documents by not later than 5:00 PM (Calgary time) on May 12, 2023 or such other date and time as may be modified in the Bid Process Letter (the “**Phase 2 Bid Deadline**”);
- g) Following the Phase 2 Bid Deadline, the Receiver will assess the Phase 2 bids received. The Receiver will designate the most competitive bids that comply with the foregoing requirements to be "Qualified Bids". No Phase 2 bids received shall be deemed to be Qualified Bids without the approval of the Receiver. Only Phase 2 Qualified Bidders whose bids have been designated as Qualified Bids are eligible to become the Successful Bidder;
- h) The Receiver may waive strict compliance with any one or more of the requirements specified above and deem such non-compliant bids to be a Phase 2 Qualified Bid;
- i) The Receiver shall notify each Phase 2 Qualified Bidder in writing as to whether its bid constituted a Phase 2 Qualified Bid within five (5) business days of the Phase 2 Bid Deadline, or at such later time as the Receiver deems appropriate;
- j) If the Receiver is not satisfied with the number or terms of the Phase 2 Qualified Bids, the Receiver may extend the Phase 2 Bid Deadline, or seek Court approval of an amendment to the SISP; and
- k) The Receiver may terminate, at any time, further participation in the Phase 2 Bid Process by any interested party, or modify dates or

procedures as deemed appropriate or necessary, or terminate the process.

Evaluation of Competing Bids

- l) A Phase 2 Qualified Bid will be evaluated based upon several factors, including, without limitation, items such as:
 - i. the purchase price and the net value and form of consideration to be provided by such bid;
 - ii. the identity, circumstances and ability of the Phase 2 Qualified Bidder to successfully complete such transactions, including any conditions attached to the bid and the expected feasibility of such conditions;
 - iii. the proposed transaction documents;
 - iv. factors affecting the speed, certainty and value of the transaction;
 - v. the assets included or excluded from the bid;
 - vi. any related restructuring costs; and
 - vii. the likelihood and timing of consummating such transactions, and the ability of the bidder to finance and ultimately consummate the proposed transaction within the timeline established by the Receiver, each as determined by the Receiver.

Selection of Successful Bid

- m) The Receiver will review and evaluate each Phase 2 Qualified Bid. The Receiver may seek clarity with respect to the terms of any Phase 2 Qualified Bid. The Receiver may also negotiate with one or more Phase 2 Qualified Bidders, to seek amended, improved, or clarified terms with respect to such Phase 2 Qualified Bids. After the completion of its

evaluation and any negotiations related to Phase 2 Qualified Bids, the Receiver shall identify the highest or otherwise best bid (the “**Successful Bid**”), and the Phase 2 Qualified Bidder making such Successful Bid (the “**Successful Bidder**”). The determination of any Successful Bid by the Receiver shall be subject to approval by the Court.

- n) The Receiver shall have no obligation to enter into a Successful Bid, and it reserves the right to reject any or all Phase 2 Qualified Bids.

Sale Approval Motion Hearing

- o) At the hearing of the motion application to approve any transaction with a Successful Bidder (the “**Approval Application**”), the Receiver shall seek, among other things, approval from the Court to consummate any Successful Bid. The Approval Application will be held on a date to be agreed upon by the Receiver and the Successful Bidder. The Approval Application may be adjourned or rescheduled by the Receiver.
- p) All Phase 2 Qualified Bids and Subsequent Bids (other than the Successful Bid) shall be deemed rejected on and as of the date of closing of the Successful Bid, but not before, and shall remain open for acceptance until that time.

The Receiver’s View of the SISP

- 35. The Receiver is of the respectful view that the implementation of the proposed SISP is appropriate in the circumstances, and recommends this Honourable Court approve the SISP for the following reasons:
 - a) the SISP provides a fair and transparent process that will provide Potential Bidders equal access to express their interest in making an offer for the Property or the Business of Candre;

- b) the timeline provided in the SISP will permit a sufficient level of market exposure for the Property in an expedient and efficient manner and provide potential bidders with approximately five weeks to submit a qualified non-binding bid and perform any desired diligence;
- c) the SISP provides the opportunity for Enzo and Censeo to make a credit bid based upon their secured Indebtedness, should those parties wish to do so;
- d) the Receiver has extensive experience in initiating and conducting court-approved sales processes and is of the view the proposed Court approved SISP is the best way to market the Property and/or the Company;
- e) the Receiver is not aware of any stakeholder that will be prejudiced by the process; and
- f) Enzo and Censeo, as the Company's secured creditors, are supportive of the SISP.

36. Accordingly, the Receiver is of the view that the approval of the SISP is in the best interests of the stakeholders of the Company.

RECEIPTS & DISBURSEMENTS – MARCH 6, 2022 TO MARCH 10, 2022

37. At the Receivership Date, the Receiver identified approximately \$180,000 of cash in the operating account of the Company. The Receiver has requested that the bank (Bank of Montreal) transfer these funds the Receiver's trust account. No disbursements have been made by the Receiver as of the date of this Report. The Receiver will be reviewing the cash flow requirements of the Company over the coming weeks to determine if there is a requirement to borrow funds. Any future borrowings will be made by use of a Receiver's Certificate pursuant to paragraph 22 of the Receivership Order.

RECEIVER'S ONGOING ACTIVITIES AND FUTURE COURSE OF ACTION

38. The Receiver's next steps include but are not limited to:

- a) implementing WEPP and notifying all former employees;
- b) implement the SISP (if approved by this Honourable Court);
- c) coordinating an audit on source deductions and GST with CRA;
- d) continuing efforts with respect to collecting valid accounts receivable with the Company's customers, including regulators;
- e) continuing communication with and updates to the secured lenders and other stakeholders in the receivership proceedings; and
- f) completing other administrative tasks related to the receivership proceedings.

RECEIVER'S CONCLUSIONS AND RECOMMENDATIONS

39. For the foregoing reasons, the Receiver respectfully recommends that this Honourable Court approve the proposed SISP.

All of which is respectfully submitted this 15th day of March, 2023.

**ALVAREZ & MARSAL CANADA INC.,
in its capacity as the Court-appointed Receiver of
Candre Cannabis Inc. and not its personal or corporate capacity**



Orest Konowalchuk, CPA, CA, CIRP, LIT
Senior Vice President

APPENDIX A

SISP Procedures

SCHEDULE "A"

SALE AND INVESTMENT SOLICITATION PROCESS

INTRODUCTION

Pursuant to an order (the "**Receivership Order**") granted by Justice J.A. Fagnan of the Court of King's Bench of Alberta (the "**Court**") dated March 6, 2023 in Court Action Number 2301-02578 (the "**Receivership Proceedings**") Alvarez & Marsal Canada Inc. was appointed as receiver (the "**Receiver**") of certain of the assets, undertakings and properties of Candre Cannabis Inc. (the "**Debtor**" or "**Candre**") pursuant to the provisions of, *inter alia*, the *Bankruptcy and Insolvency Act*, RSC 1985, c B-3 (the "**BIA**").

At a court application scheduled on March 24, 2023, the Receiver intends to request the Court's approval of, among other things, a sale and investment solicitation process (the "**SISP**") as set forth herein. The SISP is intended to solicit interest in an acquisition, investment in, restructuring or refinancing of the business or a sale of the assets and/or the business of Candre.

This document (the "**SISP Procedures**") outlines the SISP, which will be conducted in three stages: (1) pre-marketing, (2) marketing and (3) offering and evaluation.

All monetary references shall be in Canadian Dollars (\$CAD), unless otherwise stated.

OPPORTUNITY AND SISP SUMMARY

1. The SISP is intended to solicit interest in, and opportunities for, a purchase of, or investment in, all or part of Candre's Property (defined below), all of which was used by Candre in the operation of its Business (defined below) (the "**Opportunity**").
2. In order to maximize the number of participants that may have an interest in the Opportunity, the SISP will provide for the solicitation of interest for:
 - (a) the sale of all of Candre's current and future assets, undertakings and properties of every nature and kind whatsoever, and wherever situate, including all proceeds thereof (the "**Property**"). Interested parties may submit proposals to acquire all, substantially all, or a portion of the Property (the "**Purchased Assets**") (a "**Sale Proposal**"); and
 - (b) the investment in the licensed wholesale cannabis production business that was formerly operated by Candre or such other business which a Potential Bidder might propose to engage in using some or all of the Property of the Debtor ("**Business**"). Such proposals for the Business may take the form of an investment in or a proposal to restructure, reorganize, recapitalize or refinance the Debtor (an "**Investment Proposal**", together with a Sale Proposal each a "**Proposal**").
3. Except to the extent otherwise set forth in a definitive sale or investment agreement with a Successful Bidder (defined below), any Sale Proposal or any Investment Proposal will

be on an "as is, where is" basis and without surviving representations or warranties of any kind, nature, or description by Candre, the Receiver, their agents, advisors or estates.

4. In the event of a sale pursuant to this SISP, all of the right, title and interest of Candre and the Receiver in and to the Purchased Assets will be sold free and clear of all pledges, liens, security interests, encumbrances, claims, charges, options and interests therein and thereon, other than any permitted encumbrances and assumed agreed to by the Receiver and the Successful Bidder (collectively the "**Claims and Encumbrances**"), such Claims and Encumbrances to attach to the net proceeds of the sale of such Purchased Assets (without prejudice to any claims or causes of action regarding the priority, validity or enforceability thereof), pursuant to an approval and vesting order made by the Court upon the application of the Receiver.
5. Solicitation of interest for Sale Proposals and Investment Proposals will be on an unpriced basis, whereby no set asking price will be stipulated. Bidders can offer consideration in any form they deem appropriate, including but not limited to cash and/or shares.
6. Candre's secured creditors are Enzo Holding Ltd. and Censeo Capital Ltd. (collectively, the "**Secured Creditors**"). The Secured Creditors shall be entitled, but are not required, to make a Sale Proposal and/or an Investment Proposal by way of credit bid in this SISP.
7. As described more fully in this SISP, the major stages in the SISP process are comprised of the following:
 - (a) **Pre-Marketing:** preparation of all marketing material, assembly of all relevant due diligence material, establishment of an electronic data room and preparation of potential buyer/investor lists;
 - (b) **Marketing:** advertising, contacting potential buyers/investors, responding to requests for information and disseminating marketing material to potential buyers and investors; and
 - (c) **Offer Submission and Evaluation:** solicitation, receipt of, evaluation and negotiation of offers from potential buyers and investors, as described below.
8. The Offer Submission and Evaluation stage of the SISP will be comprised of a two phase offering process: "**Phase 1**" being the submission of non-binding letters of intent ("**LOIs**") from qualified bidders, and "**Phase 2**" being the submission of formal binding offers from those parties that submitted LOI's and have been invited by the Receiver participate in Phase 2 (defined below as "**Phase 1 Qualified Bidders**").

TIMELINE

9. The following table sets out the key milestones under the SISP:

Milestone	Deadlines
Phase 1 Non-Binding Bid Deadline	Friday, April 28, 2023
Phase 2 Binding Bid Deadline	Friday, May 12, 2023
Closing Date	Friday, June 2, 2023

PRE-MARKETING STAGE

10. As soon as reasonably practicable, but in any event by no later than March 27, 2023, the Receiver will:
- (a) prepare: (i) a process summary (the "**Teaser Letter**") describing the Opportunity, outlining the process under the SISP and inviting recipients of the Teaser Letter to express their interest pursuant to the SISP; and (ii) a non-disclosure agreement in form and substance satisfactory to the Receiver (an "**NDA**"). The Teaser Letter and the NDA will specifically stipulate that the Receiver and its advisors make no representation or warranty as to the accuracy or completeness of the information contained in the Teaser Letter, the Data Room (as defined below), or otherwise made available pursuant to the SISP or otherwise, except to the extent expressly contemplated in any definitive sale or investment agreement with a Successful Bidder (as defined below) ultimately executed and delivered by the Receiver;
 - (b) gather and review all required due diligence material to be provided to interested parties and shall establish a secure, electronic data room (the "**Data Room**"), which will be maintained and administered by the Receiver during the SISP;
 - (c) develop a purchase and sale agreement for use by Potential Bidders making a Sale Proposal (the "**Draft Purchase Agreement**") and a form of binding letter of intent for use by Potential Bidders making an Investment Sale Proposal (the "**Draft Binding LOI**"); and
 - (d) prepare a list of potential bidders, including: (i) parties that have approached Candre, the Secured Creditors, the Receiver or other stakeholders indicating an interest in the Opportunity; and (ii) local, national and international strategic and financial parties who the Receiver believes may be interested in making a Proposal pursuant to the SISP (collectively, "**Known Potential Bidders**").

MARKETING STAGE

11. The Receiver will arrange for a notice of the SISP (and such other relevant information as the Receiver considers appropriate) (the "**Notice**") to be published in the Calgary Herald, the Edmonton Journal, the Insolvency Insider, and any other industry publication, website, newspaper, journals or with any sales agents as the Receiver may consider appropriate.

12. The Receiver will issue a press release with Canada Newswire (the "**Press Release**") setting out the information contained in the Notice and such other relevant information as the Receiver considers appropriate designating dissemination in Canada and major financial centres in the United States.
13. The Receiver will send the Teaser Letter and NDA to all Known Potential Bidders and to any other party who responds to the Notice or press release as soon as reasonably practicable after such request or identification, as applicable.
14. The Receiver will grant access to the Data Room to those parties who have executed and delivered an NDA to the Receiver as soon as reasonably practicable after such request or identification, as applicable.
15. Requests for information and access will be directed to the representatives of the Receiver, at the contact information listed in Schedule "A" hereto.
16. Any party who expresses a wish to participate in the SISP (a "**Potential Bidder**") must, prior to being given any additional information and access to the Data Room, provide to the Receiver an NDA executed by it, and which shall inure to the benefit of any ultimate Successful Bidder who closes a transaction contemplated by the Successful Bid, and a letter setting forth the identity of the Potential Bidder, the contact information for such Potential Bidder and full disclosure of the direct and indirect principals of the Potential Bidder.
17. If it is determined by the Receiver in its reasonable business judgment that a Potential Bidder has delivered an executed NDA and the information contemplated in paragraph 16 above, and that the Potential Bidder has a reasonable prospect of completing a Sale Proposal or an Investment Proposal, then such Potential Bidder will be deemed to be a "**Phase 1 Qualified Bidder**" provided that no Potential Bidder shall be deemed to be a Phase 1 Qualified Bidder without the approval of the Receiver.

OFFER SUBMISSION AND EVALUATION STAGE

Phase 1: LOI Submission Phase

18. At any time prior to the Phase 1 Bid Deadline, the Receiver may, in its reasonable business judgment, eliminate a Phase 1 Qualified Bidder from the SISP, in which case such bidder will no longer be a Phase 1 Qualified Bidder for the purposes of the SISP, without any further recourse against the Receiver, Candre or the Property.
19. Potential Bidders must rely solely on their own independent review, investigation and/or inspection of all information and of the Property and Business in connection with their participation in the SISP and any transaction they enter into with the Receiver. The Potential Bidders acknowledge that the Receiver and its advisors make no representation or warranty as to the accuracy or completeness of the information contained in any of the materials of Candre, including information contained in the Teaser Letter, Data Room or otherwise.

20. A Phase 1 Qualified Bidder who wishes to pursue the Opportunity further must deliver an LOI to the Receiver at the email addresses specified in Schedule "B" hereto, so as to be received by them not later than 5:00 PM (Calgary time) on April 28, 2023 (the "**Phase 1 Bid Deadline**").
21. An LOI so submitted will be considered a qualified LOI (a "**Qualified LOI**") only if:
- (a) it is submitted on or before the Phase 1 Bid Deadline by a Phase 1 Qualified Bidder;
 - (b) it contains an indication of whether the Phase 1 Qualified Bidder is making:
 - (i) a Sale Proposal; or
 - (ii) an Investment Proposal;
 - (c) in the case of a Sale Proposal, it identifies or contains the following:
 - (i) the purchase price, in Canadian dollars, including details of any liabilities to be assumed by the Phase 1 Qualified Bidder and key assumptions supporting the valuation;
 - (ii) the form(s) of consideration being offered and the method by which any non-cash consideration is being valued;
 - (iii) a description of the Purchased Assets that are expected to be subject to the transaction and any of the Property expected to be excluded;
 - (iv) a specific indication of the financial capability, together with evidence of such capability, of the Phase 1 Qualified Bidder and the expected structure and financing of the transaction;
 - (v) a description of the conditions and approvals required for a final and binding offer;
 - (v) an outline of any additional due diligence required to be conducted in order to submit a final and binding offer; and
 - (vi) any other terms or conditions of the Sale Proposal that the Phase 1 Qualified Bidder believes are material to the transaction;
 - (d) in the case of an Investment Proposal, it identifies the following:
 - (i) a description of how the Phase 1 Qualified Bidder proposes to structure the proposed investment in the Business;
 - (ii) the aggregate amount of the equity and/or debt investment to be made in the Business in Canadian dollars;

- (iii) the form(s) of consideration being offered and the method by which any non-cash consideration is being valued;
 - (iv) the underlying assumptions regarding the *pro forma* capital structure;
 - (v) a specific indication of the sources of capital for the Phase 1 Qualified Bidder and the structure and financing of the transaction;
 - (vi) a description of the conditions and approvals required for a final and binding offer;
 - (vii) an outline of any additional due diligence required to be conducted in order to submit a final and binding offer;
 - (viii) all conditions to closing that the Phase 1 Qualified Bidder may wish to impose; and
 - (ix) any other terms or conditions of the Investment Proposal that the Phase 1 Qualified Bidder believes are material to the transaction;
- (e) in the case of either a Sale Proposal or an Investment Proposal, it contains such other information as reasonably requested by the Receiver from time to time.
22. The Receiver may waive compliance with any one or more of the requirements specified above and deem such non-compliant bids to be a Qualified LOI. For the avoidance of doubt, the completion of any Sale Proposal or Investment Proposal shall be subject to the approval of the Court and the requirement of approval of the Court may not be waived.

Preliminary Assessment of Phase 1 Bids and Subsequent Process

23. Following the Phase 1 Bid Deadline, the Receiver will, in consultation with the Secured Creditors, assess the Qualified LOIs. If it is determined by the Receiver that a Phase 1 Qualified Bidder that has submitted a Qualified LOI: (i) has a *bona fide* interest in completing a Sale Proposal or Investment Proposal (as the case may be); and (ii) has the financial capability (based on availability of financing, experience and other considerations) to consummate such a transaction based on the financial information provided; then such Phase 1 Qualified Bidder will be deemed a "**Phase 2 Qualified Bidder**", provided that the Receiver may, in its reasonable business judgment, limit the number of Phase 2 Qualified Bidders (and thereby eliminate certain Phase 1 Qualified Bidders from the SISP). Only Phase 2 Qualified Bidders shall be permitted to proceed to Phase 2 of the SISP. No Phase 1 Qualified Bidder that has submitted a Qualified LOI shall be deemed to be a Phase 2 Qualified Bidder without the approval of the Receiver.
24. As part of the assessment of Qualified LOIs and the determination of the process subsequent thereto, the Receiver shall determine the process and timing to be followed in pursuing Qualified LOIs based on such factors and circumstances as it considers appropriate in the circumstances including, but not limited to: (i) the number of Qualified LOIs received; (ii) the scope of the Property or Business to which any Qualified LOIs may relate; and (iii) whether to proceed by way of sealed bid or auction (with or without a stalking horse bidder) with respect to some or all of the Property or Business.

25. Upon the determination by the Receiver of the manner in which to proceed to Phase 2 of the SISP, the Receiver will prepare a bid process letter for Phase 2 (the "**Bid Process Letter**"), which will include the Draft Purchase Agreement and the Draft Binding LOI, including a blackline showing any changes thereto, and the Bid Process Letter will be sent to all Phase 2 Qualified Bidders, inviting them to participate in Phase 2.
26. Notwithstanding the process and deadlines outlined above with respect to Phase 1 of the SISP and the process to supplement Phase 2 by way of the Bid Process Letter, the Receiver may at any time bring an application to seek approval of a stalking horse asset purchase agreement or investment proposal in respect of some or all of the Property or Business and related bid procedures in respect of such Property or to establish further or other procedures for the SISP, including extending any of the deadlines set out herein.

Due Diligence

27. The Receiver shall in its reasonable business judgment and subject to competitive and other business considerations, afford each Phase 2 Qualified Bidder such access to due diligence materials through the Data Room and information relating to the Property and Business as it deems appropriate. Due diligence access may further include presentations by the Receiver and/or its advisors, on-site inspections, and other matters which a Phase 2 Qualified Bidder may reasonably request and to which the Receiver, in its reasonable business judgment, may agree. The Receiver will designate a representative to coordinate all reasonable requests for additional information and due diligence access from Phase 2 Qualified Bidders and the manner in which such requests must be communicated. The Receiver will not be obligated to furnish any information relating to the Property or Business to any person other than to Phase 2 Qualified Bidders.

Phase 2: Formal Offers and Selection of Successful Bidder

Formal Binding Offers

28. Phase 2 Qualified Bidders that wish to make a formal offer to purchase or make an investment in the Property or Business shall submit a sealed binding offer to the Receiver that complies with all of the following requirements at the email addresses specified in Schedule "A" hereto, so as to be received by them not later than 5:00 PM (Calgary time) on May 12, 2023 or such other date and time as may be modified in the Bid Process Letter (the "**Phase 2 Bid Deadline**"):
 - (a) the bid shall comply with all of the requirements set forth in respect of Phase 1 Qualified LOIs;
 - (b) if the bid utilizes consideration other than cash, a description of the material terms of the consideration shall be provided;
 - (c) the bid is an offer to purchase or make an investment in some or all of the Property or Business on terms and conditions reasonably acceptable to the Receiver;

- (d) unless otherwise agreed, the bid shall take the form of the Draft Purchase Agreement or Draft Binding LOI and shall include a letter stating that the Phase 2 Qualified Bidder's offer is irrevocable until the selection of the Successful Bidder (as defined below), provided that if such Phase 2 Qualified Bidder is selected as the Successful Bidder, its offer shall remain irrevocable until the closing of the transaction with the Successful Bidder;
- (e) the bid includes duly authorized and executed transaction agreements as listed in the Draft Purchase Agreement or Draft Binding LOI, as applicable; including, but not limited to, the purchase price, investment amount and any other key economic terms expressed in Canadian dollars (the "**Purchase Price**"), together with all exhibits and schedules thereto, the name or names of the ultimately beneficial owner(s) of the Phase 2 Qualified Bidder including their respective percentage interests;
- (f) the bid includes written evidence of a firm, irrevocable commitment for financing or other evidence of ability to consummate the proposed transaction that will allow the Receiver to make a determination as to the Phase 2 Qualified Bidder's financial and other capabilities to consummate the proposed transaction;
- (g) the bid shall not be conditioned on the outcome of unperformed due diligence by the Phase 2 Qualified Bidder, apart from, to the extent applicable, to the disclosure of due diligence materials that represent proprietary or competitively sensitive information which was withheld in Phase 2 from the Phase 2 Qualified Bidder;
- (h) each Phase 2 Qualified Bidder must provide details with its bid regarding its ability to obtain and method of financing the transaction, the timetable for obtaining financing and, if appropriate, the amount of senior debt, subordinated debt, equity and any other source of financing contemplated in the pro forma capital structure;
- (i) the bid fully discloses the identity of each entity that will be entering into the transaction or the financing, or that is participating or benefiting from such bid;
- (j) for either a Sales Proposal or an Investment Proposal, the bid shall be accompanied by a refundable deposit in the amount of not less than 10% of the purchase price offered, which shall be paid to the Receiver in trust (the "**Deposit**"). The Successful Bidder's Deposit shall be applied as against the Purchase Price and all other Deposits submitted by Phase 2 Qualified Bidders who are not selected as the Successful Bidder shall be returned within one week of obtaining Court Approval for the Successful Bid;
- (k) the bid includes acknowledgments and representations of the Phase 2 Qualified Bidder that: (i) it has had an opportunity to conduct any and all due diligence regarding the Property, Business and Candre prior to making its offer (apart from, to the extent applicable, the disclosure of due diligence materials that represent proprietary or competitively sensitive information which were withheld in Phase 2 from the Phase 2 Qualified Bidder); (ii) it has relied solely upon its own independent review, investigation and/or inspection of any documents and/or the Property in making its bid; and (iii) it did not rely upon any written or oral

statements, representations, warranties, or guarantees whatsoever made by the Receiver and/or its advisors, whether express, implied, statutory or otherwise, regarding the Business, Property, or Candre or the accuracy or completeness of any information provided in connection therewith, except as expressly stated in the definitive transaction agreement(s) signed by the Receiver;

- (l) the bid shall be on an "as is, where is" basis and without surviving representations or warranties of any kind, nature, or description by Candre, the Receiver, their agents, advisors or estates;
 - (m) all required corporate approvals of the Phase 2 Qualified Bidder will have been obtained prior to the submission of the bid;
 - (n) the bid shall identify any material conditions in favour of the purchaser or investor to be resolved prior to closing the transaction;
 - (o) the bid is received by the relevant Phase 2 Bid Deadline; and
 - (p) the bid contemplates a schedule for closing the transaction set out therein which is on or before June 2, 2023 (the "**Closing Date**").
29. Following the Phase 2 Bid Deadline, the Receiver will assess the Phase 2 bids received. The Receiver will designate the most competitive bids that comply with the foregoing requirements to be "Qualified Bids". No Phase 2 bids received shall be deemed to be Qualified Bids without the approval of the Receiver. Only Phase 2 Qualified Bidders whose bids have been designated as Qualified Bids are eligible to become the Successful Bidder.
 30. The Receiver may waive strict compliance with any one or more of the requirements specified above and deem such non-compliant bids to be a Phase 2 Qualified Bid.
 31. The Receiver shall notify each Phase 2 Qualified Bidder in writing as to whether its bid constituted a Phase 2 Qualified Bid within five (5) business days of the Phase 2 Bid Deadline, or at such later time as the Receiver deems appropriate.
 32. If the Receiver is not satisfied with the number or terms of the Phase 2 Qualified Bids, the Receiver may extend the Phase 2 Bid Deadline, or seek Court approval of an amendment to the SISP.
 33. The Receiver may terminate, at any time, further participation in the Phase 2 Bid Process by any interested party, or modify dates or procedures as deemed appropriate or necessary, or terminate the process.

Evaluation of Competing Bids

34. A Phase 2 Qualified Bid will be evaluated based upon several factors, including, without limitation, items such as the purchase price and the net value and form of consideration to be paid provided by such bid, the identity, circumstances and ability of the Phase 2

Qualified Bidder to successfully complete such transactions, including any conditions attached to the bid and the expected feasibility of such conditions, the proposed transaction documents, factors affecting the speed, certainty and value of the transaction, the assets included or excluded from the bid, any related restructuring costs, and the likelihood and timing of consummating such transactions, and the ability of the bidder to finance and ultimately consummate the proposed transaction within the timeline established by the Receiver, each as determined by the Receiver.

Selection of Successful Bid

35. The Receiver will review and evaluate each Phase 2 Qualified Bid. The Receiver may seek clarity with respect to the terms of any Phase 2 Qualified Bid. The Receiver may also negotiate with one or more Phase 2 Qualified Bidder, to seek amended, improved or clarified terms with respect to such Phase 2 Qualified Bids. After the completion of its evaluation and any negotiations of Phase 2 Qualified Bids, the Receiver shall identify the highest or otherwise best bid (the "**Successful Bid**"), and the Phase 2 Qualified Bidder making such Successful Bid (the "**Successful Bidder**"). The determination of any Successful Bid by the Receiver shall be subject to approval by the Court.
36. The Receiver shall have no obligation to enter into a Successful Bid, and it reserves the right to reject any or all Phase 2 Qualified Bids.

Sale Approval Motion Hearing

37. At the hearing of the application to approve any transaction with a Successful Bidder (the "**Approval Application**") the Receiver shall seek, among other things, approval from the Court to consummate any Successful Bid. The Approval Application will be held on a date to be agreed upon by the Receiver and the Successful Bidder. The Approval Application may be adjourned or rescheduled by the Receiver.
38. All Phase 2 Qualified Bids and Subsequent Bids (other than the Successful Bid) shall be deemed rejected on and as of the date of closing of the Successful Bid, but not before, and shall remain open for acceptance until that time.

Miscellaneous Provisions

39. All Deposits shall be retained by the Receiver in a non-interest-bearing bank account. If there is a Successful Bid, the Deposit paid by the Successful Bidder whose bid is approved at the Approval Application shall be applied to the purchase or investment price to be paid by the Successful Bidder upon closing of the approved transaction and will be non-refundable. The Deposits of Phase 2 Qualified Bidders not selected as the Successful Bidder shall be returned to such bidders within five (5) Business Days of the date on which the Court grants an order approving the Successful Bid, or an earlier date if agreed by the Receiver. If there is no Successful Bid, all Deposits shall be returned to the bidders within five (5) Business Days of the date upon which the SISP is terminated in accordance with these procedures.
40. This SISP does not, and will not be interpreted to create any contractual or other legal relationship between the Receiver and any Phase 1 Qualified Bidder, any Phase 2

Qualified Bidder or any other party, other than as specifically set forth in a definitive agreement that may be signed by the Receiver and approved by the Court.

41. Without limiting the preceding paragraph, the Receiver shall not have any liability whatsoever to any person or party, including without limitation any Potential Bidder, Phase 1 Qualified Bidder, Phase 2 Qualified Bidder, the Successful Bidder, or any other creditor or other stakeholder of Candre, for any act or omission related to the process contemplated by this SISP Procedure, except to the extent such act or omission is the result from gross negligence or willful misconduct of the Receiver. By submitting a bid, each Phase 1 Qualified Bidder, Phase 2 Qualified Bidder, or Successful Bidder shall be deemed to have agreed that it has no claim against the Receiver for any reason whatsoever, except to the extent such claim is the result from gross negligence or willful misconduct of the Receiver.
42. Participants in the SISP are responsible for all costs, expenses and liabilities incurred by them in connection with the submission of any LOI, Phase 2 bid, due diligence activities, and any further negotiations or other actions whether or not they lead to the consummation of a transaction.
43. At any time during the SISP, the Receiver may apply to the Court for advice and directions with respect to any aspect of these SISP Procedures or the discharge of its powers and duties hereunder.
44. The Receiver shall have the right to modify the SISP and the deadlines set out herein (including, without limitation, pursuant to the Bid Process Letter) if, in its reasonable business judgment, such modification will enhance the process or better achieve the objectives of the SISP.

Schedule "A"

TO THE RECEIVER:

Alvarez & Marsal Canada Inc.
Bow Valley Square IV
Suite 1110, 250 6th Avenue SW
Calgary, AB T2P 3H7

Attention: Orest Konowalchuk / Cassie Riglin / Bryan Krol

Phone: (403) 538 4736 / (403) 538-7519 / (403) 538-7523

Email: okonowalchuk@alvarezandmarsal.com / criglin@alvarezandmarsal.com / bkrol@alvarezandmarsal.com