

Court File No.: _____

**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 2675970 ONTARIO INC., 2733181
ONTARIO INC., 2385816 ALBERTA LTD., 2161907 ALBERTA
LTD., 2733182 ONTARIO INC., 2737503 ONTARIO INC.,
2826475 ONTARIO INC., 14284585 CANADA INC., 2197130
ALBERTA LTD., 2699078 ONTARIO INC., 2708540 ONTARIO
CORPORATION, 2734082 ONTARIO INC., TS WELLINGTON
INC., 2742591 ONTARIO INC., 2796279 ONTARIO INC.,
10006215 MANITOBA LTD., AND 80694 NEWFOUNDLAND &
LABRADOR INC.

**PRE-FILING REPORT OF THE PROPOSED MONITOR
ALVAREZ & MARSAL CANADA INC.**

AUGUST 27, 2024

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1.0 INTRODUCTION

- 1.1 Alvarez & Marsal Canada Inc. (“**A&M**” or the “**Proposed Monitor**”) understands that 2675970 Ontario Inc. (“**ParentCo**”) and 16 affiliated entities (collectively, the “**Applicants**”)¹ intend to make an application to the Ontario Superior Court of Justice (Commercial List) (the “**Court**”) for an order (the “**Initial Order**”) granting, among other things, a stay of proceedings pursuant to the *Companies’ Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the “**CCAA**”), and appointing A&M as Monitor of the Applicants (in such capacity, the “**Monitor**”). The proceedings to be commenced by the Applicants under the CCAA are referred to herein as the “**CCAA Proceedings**”.
- 1.2 ParentCo acts as the holding company to each of the Applicant entities. ParentCo is incorporated under the *Ontario Business Corporations Act* and its registered office is located in Toronto. ParentCo’s direct sole shareholder is TS Investments Corp. (“**TS Investments**”). A summarized chart of the corporate organizational structure is attached hereto as **Appendix “A”**.
- 1.3 The Applicants own, operate, and franchise retail cannabis dispensaries in Canada, selling cannabis products and accessories under the corporate banner “Tokyo Smoke” as well as maintain an online platform for direct-to-consumer cannabis sales.
- 1.4 The CCAA Proceedings are being commenced by the Applicants to stabilize and maintain their business, and provide a platform to pursue certain restructuring initiatives with the

¹ The Applicants are comprised of: 2675970 Ontario Inc., 2733181 Ontario Inc., 2385816 Alberta Ltd., 2161907 Alberta Ltd., 2733182 Ontario Inc., 2737503 Ontario Inc., 2826475 Ontario Inc., 14284585 Canada Inc., 2197130 Alberta Ltd., 2699078 Ontario Inc., 2708540 Ontario Corporation, 2734082 Ontario Inc., TS Wellington Inc., 2742591 Ontario Inc., 2796279 Ontario Inc., 10006215 Manitoba Ltd., and 80694 Newfoundland & Labrador Inc.

intention of maximizing value for their stakeholders and preserving a restructured and profitable go-forward business.

- 1.5 The Applicants' restructuring plan entails an immediate store closure process for a sub-set of underperforming locations, while simultaneously commencing discussions with landlords to obtain consensual lease amendments for remaining store locations. The Applicants will also be terminating certain other contracts and franchise agreements and streamlining their fixed overhead cost structure.
- 1.6 While these restructuring initiatives are pursued, the Applicants intend to seek Court approval at the comeback hearing to commence a sale and investment solicitation process (the "**SISP**"). As part of the SISP, the Applicants intend to seek approval of a stalking horse transaction (the "**Stalking Horse Transaction**") with TS Investments, who is also providing the proposed DIP financing during the CCAA Proceedings. The Stalking Horse Transaction will establish a floor price for the SISP and provide certainty that the Applicants restructured business can be preserved as a going concern.
- 1.7 The purpose of this pre-filing report (this "**Report**") is to provide the Court with information, and where applicable, the Proposed Monitor's views on:
 - (i) A&M's qualifications to act as Monitor (if appointed);
 - (ii) the Applicants' business and financial circumstances;
 - (iii) the Applicants' cash management system (the "**Cash Management System**");
 - (iv) the Applicants' 15-week cash flow forecast;

- (v) the Applicants request for an initial draw under the proposed debtor-in-possession credit facility (the “**DIP Facility**”);
- (vi) the stay of proceedings sought in the proposed Initial Order, including the Applicants request that the benefits of the stay be extended to TS-IP Holdings Ltd., TS Programs Ltd., 1000451353 Ontario Inc., and 100451354 Ontario Inc. (the “**Non-Applicant Entities**”);
- (vii) the Court-ordered Charges (as defined below) over the property and assets of the Applicants (collectively, the “**Property**”) sought in the proposed Initial Order;
- (viii) the Applicants’ intended next steps in the CCAA Proceedings; and
- (ix) the Proposed Monitor’s conclusions and recommendations in connection with the foregoing.

2.0 TERMS OF REFERENCE AND DISCLAIMER

2.1 In preparing this Report, A&M, in its capacity as the Proposed Monitor, has been provided with, and has relied upon, unaudited financial information, books and records and financial information prepared by the Applicants and has held discussions with management of the Applicants and their legal counsel, as well as certain individuals of TS Investments, the ultimate parent company of the Applicants’ (collectively, the “**Information**”). Except as otherwise described in this Report in respect of the Applicants’ cash flow forecast:

- (i) the Proposed Monitor has reviewed the Information for reasonableness, internal consistency and use in the context in which it was provided. However, the Proposed

Monitor has not audited or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would wholly or partially comply with Canadian Auditing Standards (“CASs”) pursuant to the *Chartered Professional Accountants Canada Handbook* (the “CPA Handbook”) and, accordingly, the Proposed Monitor expresses no opinion or other form of assurance contemplated under CASs in respect of the Information; and

- (ii) some of the Information referred to in this Report consists of forecasts and projections. An examination or review of the financial forecasts and projections, as outlined in the CPA Handbook, has not been performed.

2.2 Future oriented financial information referred to in this Report was prepared based on the estimates and assumptions of the Applicants. Readers are cautioned that since projections are based upon assumptions about future events and conditions that are not ascertainable, actual results will vary from the projections, even if the assumptions materialize, and the variations could be significant.

2.3 This Report should be read in conjunction with the Affidavit of Andrew Williams, the President of the Applicants, sworn August 27, 2024 (the “**First Williams Affidavit**”), and filed in support of the Applicants’ application for relief under the CCAA. Capitalized terms used and not defined in this Report have the meanings given to them in the First Williams Affidavit.

2.4 Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian dollars.

3.0 A&M'S QUALIFICATIONS TO ACT AS MONITOR

- 3.1 Alvarez & Marsal Canada ULC was engaged by the Applicants to act as a consultant on August 9, 2024, and as such, the Proposed Monitor is familiar with the business and operations of the Applicants, their personnel and the key issues and stakeholders in the proposed CCAA Proceedings. A&M is a trustee within the meaning of subsection 2(1) of the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3 and is not subject to any of the restrictions on who may be appointed as monitor set out in subsection 11.7(2) of the CCAA.
- 3.2 The senior A&M professional personnel with carriage of this matter include experienced insolvency and restructuring practitioners who are Chartered Professional Accountants (Chartered Accountants), Chartered Insolvency and Restructuring Professionals, and Licensed Insolvency Trustees, and who have previously acted in CCAA matters of a similar nature and complexity in Canada.
- 3.3 The Proposed Monitor has retained Stikeman Elliot LLP (“**Stikeman**”) to act as its independent legal counsel.
- 3.4 A&M has consented to act as Monitor of the Applicants should the Court grant the proposed Initial Order. A copy of A&M’s consent to act is attached as **Appendix “B”**.

4.0 BACKGROUND INFORMATION

- 4.1 A more extensive background of the Applicants’ business and operations is set out in the First Williams Affidavit. Certain key points are summarized below.

- 4.2 The Applicants own, operate, and franchise retail dispensaries in Ontario, Saskatchewan, Manitoba, Newfoundland & Labrador and Alberta, which sell premium cannabis products and accessories to consumers under the corporate banner “Tokyo Smoke” as well as maintain an online platform for direct-to-consumer cannabis sales and deliveries.
- 4.3 Following the legalization of cannabis in Ontario in 2019, Tokyo Smoke was conceived as a retail concept targeting customers seeking a premium brand. At that time, 2161907 Alberta Ltd. (“**LicenseCo**”) initially entered into a master franchise agreement with Tweed Franchise Inc. to acquire the exclusive right and license to use and sublicense the Tokyo Smoke concept in Ontario. After operating the Ontario business for approximately three years, ParentCo completed the acquisition of the entire Tokyo Smoke business from Canopy Growth Corporation (“**Canopy Growth**”) in 2022.
- 4.4 The Applicants maintain their head office in Toronto, Ontario and operate three distinct business segments:
- (i) *Brick-and-Mortal Retail*: The Applicants directly operate 61 stores under the Tokyo Smoke banner across Ontario, Manitoba, Saskatchewan, Newfoundland & Labrador and Alberta (the “**Corporate Stores**”). The Corporate Stores average approximately 2,300 square feet in size and account for approximately 96.1% of the Applicants’ consolidated revenue during the twelve-month period ended June 30, 2024;
 - (ii) *Franchise Retail Operations*: 29 retail locations are owned and operated by independent franchisees (the “**Franchise Stores**”) pursuant to various franchise agreements (the “**Franchise Agreements**”). The Applicants assist operators of the

Franchise Stores with cannabis inventory purchasing, certain consulting and administrative services, and pursuant to Franchise Agreements, provide franchisees a limited and non-exclusive license to use the Tokyo Smoke brand name, trademarks and intellectual property. The Applicants do not perform cash management services for any franchisee. Fees earned in connection with the Franchise Stores account for approximately 3.6% of the Applicants' consolidated revenue during the twelve-month period ended June 30, 2024; and

- (iii) *Mobile and Online Sales:* The Applicants also operate an integrated e-commerce platform to communicate with customers, maintain a customer incentive program (the “**High Roller Program**”), and fulfill online orders. Online purchases are channeled to the Corporate Stores and certain participating Franchise Stores to be fulfilled. The Applicants' digital platform currently accounts for less than 1% of the Applicants' revenue, however, is expected to be a future growth opportunity for the business.

Stores & Employees

4.5 The Applicants store locations can be summarized as follows:

Stores by Channel and Province						
	ON	MB	SK	NL	AB	Total
Corporate Stores	39	11	8	3	-	61
Franchise Stores	28	1	-	-	-	29
Vacant Stores ²	9	1	-	-	1	11
TOTAL	76	13	8	3	1	101

² Vacant stores (the “**Vacant Stores**”) consist of: (i) 7 that the Applicants have not opened or took possession; and (ii) 4 that were previously operated but have now been closed and vacated. As described below, the Applicants intend on closing each of the Vacant Stores except for one.

4.6 Each of the Applicants' stores are leased and are predominantly located in premium malls and other AAA locations. Leases for the Corporate Stores are primarily held by 2757503 Ontario Inc. ("LeaseCo"), with the remainder held by certain other Applicants. The leases for the Franchise Stores are also held by LeaseCo and subleased on to the respective franchisees who operate these locations.

4.7 As of August 21, 2024, the Applicants' approximate employee count by province is as follows:

Employees by Province ³	Full Time	Part Time	Total
Ontario (store level)	73	184	257
Ontario (corporate)	43	--	43
Manitoba	18	72	90
Saskatchewan	14	39	53
Newfoundland	4	25	29
Alberta (corporate)	2	--	2
Total	154	320	474

4.8 Approximately 209 employees are enrolled in a health benefits program providing medical, dental, life insurance and disability programs and 140 employees participate in a group savings plan. Five Corporate Stores with 37 employees are unionized and there are no registered pension plans or RRSPs.

4.9 All persons working at Franchise Stores are employed directly by the franchisee. In certain circumstances, 2733181 Ontario Inc. assists franchisees with the administration of payroll.

Primary Causes of Financial Difficulty

4.10 The primary causes of the Applicants' financial difficulty include the following:

³ Table includes the Applicants' employees only and excludes any staff located at Franchise Stores.

- (i) *Operating Losses:* Since inception, the Applicants' have expended significant cost and effort to grow their business, achieve revenue targets and improve performance. Certain of these initiatives have included acquiring retail licenses (including the Tokyo Smoke brand from Canopy Growth), leasing premium stores locations, significant capital investments to fixture the store network and investing in the expansion of its franchise business, and recently launched medical business. Notwithstanding these significant investments, a large number of the Applicants retail locations do not generate sufficient revenue to achieve a positive cash flow. These underperforming store locations, together with the significant overhead costs required to manage approximately 100 retail locations, have resulted in material and recurring losses for the Applicants. For the 12-month period ended June 30, 2024, the Applicants (together with the Non-Applicant Entities), generated revenue of approximately \$93.5 million and EBITDA of negative \$10.5 million;
- (ii) *Market Trends:* In recent years, the Applicants' have experienced a number industry headwinds, namely: (i) a material increase in the number of retail cannabis licenses which has saturated the market; (ii) continuing competition from the grey/illicit cannabis market which removes a significant amount of sales opportunity for the Applicants; and (iii) a deteriorating profit margin driven by lack of product differentiation, downward price pressures, and increasing operating costs (including burdensome lease terms at underperforming stores). These negative market trends have made it increasingly difficult for the Applicants to generate sufficient cash flow across its store network to generate a profit; and

- (iii) *Highly Leveraged Balance Sheet:* To fund the significant capital investment and ongoing operating losses described above, the Applicants' have incurred approximately \$102.3 million of debt (as at June 30, 2024), including secured financing from loan facilities advanced by the Bank of Montreal ("BMO") and TS Investments. While this financing has provided the Applicants with much needed liquidity, the Applicants' current business does not generate sufficient cash flow to service the debt, saddling the Applicants with a highly leveraged balance sheet.

Immediate Restructuring Activities

- 4.11 The Applicants' restructuring plan includes: (i) an immediate store closure process for a sub-set of underperforming locations; (ii) commencing negotiations with landlords to seek consensual lease amendments for remaining Corporate Stores and certain Franchise Stores (and potentially disclaiming the leases if acceptable terms cannot be reached); and (iii) the termination of other contracts and franchise agreements with the intention of streamlining the overhead cost structure.
- 4.12 The Proposed Monitor understands that immediately following the commencement of these CCAA Proceedings, the Applicants intend to deliver notices to disclaim the leases of 34 underperforming stores, comprised of 21 Corporate Stores, three Franchise Stores and 10 Vacant Stores.
- 4.13 As described in the First Williams Affidavit, these closing locations have been identified to be uneconomical and unprofitable, and in the case of the Vacant Stores have been vacated, abandon or never occupied and are locations that the Applicants do not intend to

operate as part of their go-forward business. The immediate closure of these stores will preserve liquidity and enhance the Applicants' pro-forma business.

- 4.14 During the 12-month period ended June 30, 2024, these closing stores generated approximately \$16.2 million in revenue and negative EBITDA of \$4.4 million. Monthly rent for the 21 Corporate Store leases is approximately \$430,000 (inclusive of sales taxes). In order to preserve liquidity and advance the Applicants' restructuring plan, the Proposed Monitor is supportive of the Applicants closure of these stores and disclaimer of the associated leases.
- 4.15 Regarding the three Franchise Store leases to be disclaimed, the Proposed Monitor understands that: (i) one of the franchisees (comprising of two Franchise Stores) is currently in default of its monetary obligations, including that the operator has stopped paying sub-lease rent, to the Applicants with a total arrears of approximately \$3.4 million⁴; and (ii) one of the franchisees is approximately \$30,000⁵ in arrears on its monetary obligations to the Applicants, and the Applicants have significant concern with the operators ability to continue as a going-concern.
- 4.16 Regarding the 10 Vacant Stores, the Proposed Monitor understands that six were never occupied by the Applicants, and the remaining four locations were previously operated but have since been vacated by the Applicants (of which three have since been subleased to third parties).

⁴ As at August 21, 2024.

⁵ As at August 21, 2024.

4.17 Of the Vacant Store closures described above, the Proposed Monitor understands that the Applicants informed the landlords for seven of the locations on August 26, 2024 that the leases have been repudiated, the premises are not being occupied and the landlords may re-let the premises. Notwithstanding the Applicants intend to issue a 30-day lease disclaimer notice to the landlords for each of the seven locations, the Proposed Monitors understands that the Applicants do not intend to pay any post-filing rent at such locations. These seven locations are comprised of:

- (i) two that have never been occupied by the Applicants, and no rent was ever paid to the respective landlords;
- (ii) one that was never occupied by the Applicants, and rent was last paid for the month of July 2024;
- (iii) one that was occupied however the Applicants exited the location in May 2024 and stopped paying rent in July 2024; and
- (iv) three that have never been occupied by the Applicants, however rent has been kept current, including most recently the payment of rent for the month of August 2024.

4.18 The Proposed Monitor understands that the Applicants do not intend to serve the affected landlords with the initial application seeking the Initial Order but the affected landlords will be served prior to the comeback hearing.

4.19 As a result of the above store closures, the Applicants intend to terminate approximately 83 store level employees and eight corporate employees.

Secured Credit Facilities and Related-Party Debt

- 4.20 The Applicants maintain certain secured credit facilities with BMO pursuant to an amended and restated demand credit agreement dated October 7, 2022, between BMO, as lender, and ParentCo, as borrower (as amended and/or restated from time to time, the “**BMO Credit Agreement**”). BMO has registered a security interest against each of the Applicants to secure the obligations owed under the BMO Credit Agreement.
- 4.21 In addition to advances made pursuant to the BMO Credit Agreement, the working capital needs of the Applicants have historically been funded through secured related-party and intercompany loans provided by TS Investments, the direct shareholder of ParentCo and the indirect shareholder of each of the other Applicants, as lender, under a secured grid promissory note dated October 7, 2022 (as amended from time to time, the “**TS Investments Grid Note**”). Certain amounts advanced under the TS Investments Grid Note were further advanced by ParentCo under certain intercompany lending agreements with its subsidiaries, including a secured grid promissory note dated October 7, 2022 (as amended from time to time, the “**ParentCo Grid Note**”).
- 4.22 The Proposed Monitor has instructed its legal counsel, Stikeman, to review the security in respect of the TS Investments Grid Note and provide an opinion on the validity and enforceability of TS Investments’ security in respect of the TS Investments Grid Note.
- 4.23 As at the date of this Report, the Applicants had approximately \$91.1 million in outstanding secured debt, broken down as follows:

<i>(CAD in millions)</i>	Total Outstanding
BMO Credit Agreement ⁶	\$38.6
TS Investments ⁷	\$52.5
Total Secured Debt Outstanding	\$91.1

4.24 Each of the credit facilities and related-party debt are described in detail in the First Williams Affidavit. Key terms and components of the BMO Credit Agreement and TS Investments Grid Note include the following:

Secured Credit Facilities and Related-Party Debt <i>(capitalized terms have the meaning ascribed thereto in this Report or in the applicable credit document, as applicable)</i>	
BMO Credit Agreement	
Agreement	<ul style="list-style-type: none"> Second Amended and Restated Credit Agreement dated October 7, 2022, as amended by a first amendment dated September 26, 2023, and a second amendment dated July 29, 2024.
Borrower	<ul style="list-style-type: none"> 2675970 Ontario Inc.
Guarantors	<ul style="list-style-type: none"> The Borrower's obligations under the BMO Credit Agreement are jointly and severally guaranteed by all of the Applicants and the Non-Applicant Entities and cross-collateralized and secured against their assets, as per the following documents among others: <ul style="list-style-type: none"> (a) 2733181 Ontario Inc., 2733182 Ontario Inc., 2161907 Alberta Ltd., 2737503 Ontario Inc., 2699078 Ontario Inc., 2197130 Alberta Ltd., 2708540 Ontario Corporation, TS-IP Holdings Ltd., TS Programs Ltd., 2826475 Ontario Inc., TS Wellington Inc., 2734082 Ontario Inc., 2796279 Ontario Inc. and 2742591 Ontario Inc., pursuant to a guarantee agreement dated October 7, 2022; (b) 14284585 Canada Inc., 10006215 Manitoba Ltd., 80694 Newfoundland & Labrador Inc., 1000451353 Ontario Inc. and 1000451354 Ontario Inc., pursuant to a guarantee agreement dated May 8, 2023; and (c) 2385816 Alberta Ltd., pursuant to a guarantee agreement dated May 15, 2024. The Borrower's obligations under the BMO Credit Agreement are also guaranteed by DAK Capital Inc. and TS Investments Corp., pursuant to guarantee agreements dated October 7, 2022.
Lender Parties	<ul style="list-style-type: none"> Bank of Montreal in its capacity as administrative agent (the "Agent") for itself and on behalf of the lenders from time-to-time party to the BMO Credit Agreement.
Credit Facilities and Ancillary Credit Products	<ul style="list-style-type: none"> Facility A: a revolving credit facility in the maximum principal amount of \$40 million, to be used by the Borrower, <i>inter alios</i>, to refinance the Original Credit Agreement, for working capital and other general corporate purposes, including Capital Expenditures and purchasing inventory, and to make Permitted Investments (the "Revolving Credit")

⁶ As at August 21, 2024.

⁷ Excludes the ParentCo Grid Note and certain unsecured related party debt that is described in the First Williams Affidavit.

Secured Credit Facilities and Related-Party Debt <i>(capitalized terms have the meaning ascribed thereto in this Report or in the applicable credit document, as applicable)</i>	
	<p>Facility”). Facility A also includes: (a) Swingline: representing a portion of Facility A in the maximum amount of \$1,000,000 established and maintained by the Swingline Lender; and (b) Letters of Credit that may be issued under Facility A.</p> <ul style="list-style-type: none"> • Certain other Ancillary Credit Products are available to the Borrower, pursuant to Article 4 of the BMO Credit Agreement, including: <ul style="list-style-type: none"> (a) Hedge Transactions; and (b) the establishment of a line of credit in respect of corporate MasterCard issued by BMO for the Borrower to purchase supplies and fund miscellaneous business expenses (the “MasterCard Line”).
Balance Outstanding	<ul style="list-style-type: none"> • As at August 21, 2024, approximately: <ul style="list-style-type: none"> (a) \$38 million has been advanced to the Borrower under the Revolving Credit Facility; (b) \$600,000 has been advanced under the Swingline; and (c) \$2,569 is outstanding under the MasterCard Line. • No amounts have ever been advanced in respect of any Hedge Transactions.
Interest	<ul style="list-style-type: none"> • In respect of Advances under Facility A, the applicable interest rate is as follows: <ul style="list-style-type: none"> (a) interest on Term CORRA Loans at the Adjusted Term CORRA applicable to the relevant Interest Period plus the Applicable Margin (4.50% plus a Standby Fee of 0.90%, as applicable) per annum, payable in arrears on the last day of each and every Interest Period; (b) interest on Daily Compounded CORRA Loans at the Adjusted Daily Compounded CORRA applicable to the relevant Interest Period plus the Applicable Margin (4.50% plus a Standby Fee of 0.90%, as applicable) per annum, payable in arrears on the last day of each and every Interest Period; and (c) interest on Prime Based Loans (including Swingline) at the Prime Rate plus the Applicable Margin (3.25% plus a Standby Fee of 0.90%, as applicable) per annum, payable monthly in arrears on the last day of each and every month.
Maturity Date	<ul style="list-style-type: none"> • The earliest of (a) October 7, 2024, and (b) the date that is six (6) months prior to the maturity date of the Canopy Debt.⁸ • In respect of the MasterCard Line, the Borrower's and other Secured Companies' indebtedness thereunder, including accrued and unpaid interest thereon, shall mature and become due and payable in full by the Borrower on the earlier of (a) the date specified in such agreements, and (b) the Acceleration Date (the earlier of (i) the date of the occurrence of an Insolvency Event in respect of any Obligor; and (ii) the date on which the Borrower fails to repay the Obligations in full pursuant to an Acceleration Notice issued by the Agent).
Covenants	<ul style="list-style-type: none"> • Certain financial covenants including the requirements that the Borrower, on a consolidated basis, (a) maintains at all times Liquidity greater than \$1,000,000, and (b) achieves EBITDAR (i) greater than \$1,517,000 for the Fiscal Quarter ending June 30, 2024, and (ii) greater than \$2,721,000 for the Fiscal Quarter ending September 30, 2024.
TS Investments Grid Note	

⁸ The Proposed Monitor understands that the Applicants are in discussions with BMO regarding an extension of the Maturity Date under the BMO Credit Agreement.

Secured Credit Facilities and Related-Party Debt <i>(capitalized terms have the meaning ascribed thereto in this Report or in the applicable credit document, as applicable)</i>	
Agreement	<ul style="list-style-type: none"> • Grid Promissory Note dated October 7, 2022, as amended on December 30, 2022, February 21, 2023, May 31, 2024, and August 2, 2024.
Borrowers	<ul style="list-style-type: none"> • 2675970 Ontario Inc., 2733181 Ontario Inc., 2161907 Alberta Ltd., 2737503 Ontario Inc., 2733182 Ontario Inc., TS-IP Holdings Ltd., TS Programs Ltd., 2826475 Ontario Inc., 2197130 Alberta Ltd., 2699078 Ontario Inc., 2708540 Ontario Corporation, 2734082 Ontario Inc., TS Wellington Inc., 2742591 Ontario Inc., 2796279 Ontario Inc., 14284585 Canada Inc., 10006215 Manitoba Ltd., 80694 Newfoundland & Labrador Inc., 1000451353 Ontario Inc., 100045354 Ontario Inc., and 2385816 Alberta Ltd.
Guarantors	<ul style="list-style-type: none"> • Each of the Borrowers pursuant to a guarantee agreement dated October 7, 2022 (as amended on December 30, 2022, February 21, 2023, May 31, 2024, and August 2, 2024) in favour of the Lender providing for a join and several guarantee by the Borrowers of the obligations owed pursuant to the TS Investments Grid Note.
Lender	<ul style="list-style-type: none"> • TS Investments Corp.
Maximum Credit Amount	<ul style="list-style-type: none"> • Not applicable.
Balance Outstanding	<ul style="list-style-type: none"> • \$52.5 million.
Interest and Fees	<ul style="list-style-type: none"> • The unpaid principal amount from time to time outstanding shall bear interest at a rate equal to the rate as may be agreed upon in writing from time to time by the Lender and Borrowers and recorded in the Grid. Advances in the past have borne interest rates of 8.00% - 9.25%. • The Borrower shall pay the Lender annually, beginning with the twelve-month period ending June 30, 2023, and continuing through to the date of full payment of all obligations contained in this note, an additional annual interest amount (the “Administration Fee”) which shall be equal to the initial sum of \$150.00 per annum and may be amended annually to a sum deemed reasonable by the Lender at the Lender’s sole discretion.
Maturity / Termination	<ul style="list-style-type: none"> • On demand.

Other Secured Obligations

4.25 DAK Capital Inc. (“**RelatedCo**”) is a related party corporation under common control as the Applicants. As indicated above, in connection with the BMO Credit Agreement, RelatedCo agreed to guarantee the obligations of ParentCo under the BMO Credit Agreement.

4.26 In consideration for RelatedCo's guarantee in respect of the BMO Credit Agreement, ParentCo, LicenseCo and certain other Applicants entered into a guarantee fee agreement dated February 28, 2020 with RelatedCo pursuant to which the RelatedCo guarantors agreed to pay RelatedCo an annual fee equal to 12% of the principal sum outstanding under the BMO Credit Agreement. Additionally, pursuant to certain management services agreements, LicenseCo and ParentCo each agreed to engage the management services of RelatedCo in exchange for the payment of a fee. RelatedCo has registered security interests against LicenseCo and ParentCo to secure their obligations in respect of such agreements. During the CCAA Proceedings, neither the guarantee fee nor the management services fee will be paid in cash to RelatedCo.

4.27 Pursuant to recent searches obtained by the Applicants of registrations under the *Personal Property Security Act* in each of Ontario, Manitoba, Saskatchewan, Alberta and Newfoundland & Labrador, in addition to registrations in favour of the secured creditors noted above, there are registrations in favour of 2733181 Ontario Inc. ("**FranchiseCo**") and LicenseCo in respect of certain of the Applicants. The Proposed Monitor understands that the Applicants are not aware of any amounts that are owing in respect of such registrations in favour of FranchiseCo and LicenseCo.

Unsecured Creditor Profile

4.28 Based on the Applicants' books and records, as at June 30, 2024 amounts payable to unsecured creditors were approximately \$16.8 million, comprised of:

- (i) \$1.5 million owing to suppliers of cannabis products and accessories;
- (ii) \$1.5 million owing to service providers;

- (iii) \$2.5 million owing regarding rental arrears to landlords, unremitted sales taxes and employee related obligations; and
- (iv) \$11.3 million owing to Canopy Growth in connection with various agreements between the Applicants and Canopy Growth, as described in the First Williams Affidavit and below.

4.29 In addition to the accounts payable and accrued liabilities included above, the Applicants' also have approximately \$1.3 million in outstanding gift card liabilities and High Roller Program points, net of a provision for estimated breakage.

4.30 The Proposed Monitor has been advised of certain contingent claims of which the Applicants are aware, which are summarized below:

- (i) on or around August 15, 2024, Canopy Growth Corporation and other related entities ("**Canopy Plaintiffs**") commenced civil proceedings against ParentCo, LicenseCo, FranchiseCo and 14284585 Canada Inc. claiming non-payment of invoices, unpaid rents and damages of approximately \$5.3 million. The litigation alleges breach of a number of agreements governing the Canopy Plaintiffs and certain Applicants' relationships in connection with the sale of Canopy Growth Corporation's retail cannabis business to ParentCo in September 2022. The Applicants' have not filed a Statement of Defence yet in the proceeding; and
- (ii) several franchisees have delivered notices of rescission based on allegations of incomplete statutory disclosure by FranchiseCo. The claims total approximately \$6

million, of which \$3.8 million relate to four franchisees who have delivered arbitration notices pursuant to their respective Franchise Agreement.

5.0 CASH MANAGEMENT SYSTEM

5.1 As described in the First Williams Affidavit, the Applicants' Cash Management System is operated through 51 Canadian Dollar bank accounts with BMO (the "**Bank Accounts**") and is administered by the Applicants' finance department.

5.2 Pursuant to the proposed Initial Order, the Applicants seek approval of its continued use of the Cash Management System in substantially the same manner as before the commencement of the CCAA Proceedings. Given the scale and nature of the Applicants' operations and the volume of transactions that are processed daily within the Cash Management System, the Proposed Monitor is of the view that the continued use of the existing Cash Management System is required and appropriate during the CCAA Proceedings.

5.3 As part of its monitoring procedures, the Proposed Monitor will:

- (i) review receipts and disbursements processed through the Bank Accounts;
- (ii) review weekly receipts and disbursements summaries, compare the summaries to the corresponding cash flow forecasts and review variances with management; and
- (iii) review disbursements, as reasonably appropriate, for compliance with provisions of the proposed Initial Order.

6.0 CASH FLOW FORECAST

- 6.1 As part of these CCAA Proceedings, and as required by the DIP Facility, the Applicants have prepared a weekly cash flow forecast (the “**Cash Flow Forecast**”) for the 15-week period from August 24, 2024 to December 6, 2024 (the “**Cash Flow Period**”). A copy of the Cash Flow Forecast, together with a summary of assumptions (the “**Cash Flow Assumptions**”) and management’s report on the cash-flow statement required by subsection 10(2)(b) of the CCAA, are attached hereto as **Appendices “C”** and **“D”**, respectively.
- 6.2 The following table provides a summary of the Cash Flow Forecast segregated by the two-week period up to the anticipated comeback hearing, being August 24, 2024 to September 6, 2024 (the “**Initial Period**”) and the Cash Flow Period:

Cash Flow Forecast		\$000's
	<u>Initial Period</u>	<u>15-Week Period⁹</u>
Receipts	2,674	19,662
Disbursements		
Merchandise Vendors	(1,671)	(11,817)
Payroll & Benefits	(1,038)	(4,517)
Rent	(1,268)	(3,194)
Non-Merchandise Vendors	(684)	(2,747)
Professional Fees	(626)	(2,314)
Proposed KERP	-	(928)
BMO Financing Costs	(375)	(1,501)
Sales Tax Remittances	(130)	(975)
Total Disbursements	(5,792)	(27,993)
Non-Applicant Net Cash Flow	71	949
Net Cash Flow	(3,047)	(7,382)
Opening Cash	147	147
Net Cash Flow	(3,047)	(7,382)
DIP Facility Advance / (Paydown)	3,220	7,420
Closing Cash	320	185

6.3 The Proposed Monitor notes the following with respect to the Cash Flow Forecast:

- (i) during the Initial Period, total disbursements of approximately \$5.8 million are forecast to be funded by the Applicants' cash-on-hand, sales collections and an initial advance under the DIP Facility of \$3.3 million (exclusive of the commitment fee);
- (ii) during the Cash Flow Period, total net cash flows are forecast to be approximately negative \$7.4 million, which are expected to be funded primarily by advances under

⁹ Balances included in the 15-Week Period are inclusive of those included in the Initial Period.

the DIP Facility totalling approximately \$7.5 million (exclusive of the commitment fee);

- (iii) forecast disbursements include payments to operate the Applicants' business, and include normal course interest payments in accordance with the BMO Credit Agreement; and
- (iv) the receipts and disbursements of Non-Applicant Entities have been included in Cash Flow Forecast and provide positive net cash flow in the aggregate amount of approximately \$0.9 million (effectively reducing the quantum of required advanced under the DIP Facility). The Non-Applicant Entities cash flow relate to third-party receipts and disbursements occurring in the ordinary course of business in connection with Tokyo Smoke's programs, medical and banner lines of business.

6.4 The proposed Initial Order provides the Applicants with the authority (but not the obligation) to pay certain expenses whether incurred prior to or following commencement of the CCAA Proceedings. Specifically, the Applicants would retain the authority to pay, among other things, outstanding and future wages, salaries and certain employee related payments, the fees and disbursements of Assistants retained or employed by the Applicants in respect of the CCAA Proceedings, and amounts owing for goods or services, with consent of the Monitor, if in the opinion of the Applicants such payment is necessary to maintain uninterrupted operations during the CCAA Proceedings.

6.5 The Proposed Monitor is of the view that the above relief is reasonable and appropriate in the circumstances, considering the Applicants' goal of implementing a successful restructuring and maximizing value for their stakeholders.

6.6 Based on the Proposed Monitor's review,¹⁰ nothing has come to its attention that causes it to believe, in all material respects that: (i) the Cash Flow Assumptions are not consistent with the purpose of the Cash Flow Forecast; (ii) as at the date of this Report, the Cash Flow Assumptions are not suitably supported and consistent with the plans of the Applicants or do not provide a reasonable basis for the Cash Flow Forecast, given the Cash Flow Assumptions; or (iii) the Cash Flow Forecast does not reflect the Cash Flow Assumptions.

6.7 The Cash Flow Forecast has been prepared solely for the purpose and subject to the assumptions described above, and readers are cautioned that it may not be appropriate for other purposes.

7.0 DIP FINANCING

7.1 Pursuant to the proposed Initial Order, the Applicants are seeking authorization from this Court to enter into the DIP Facility on the terms set forth in the term sheet attached to the First Williams Affidavit as Exhibit "BB" (the "**DIP Term Sheet**"). The Proposed Monitor and Stikeman have reviewed the terms of the DIP Term Sheet and participated in several discussions with the DIP Lender and its counsel.

7.2 As described in the First Williams Affidavit, the Applicants require financing during the CCAA Proceedings to provide the liquidity necessary to maintain the business as a going concern, preserve value of their assets for their stakeholders and, ultimately, to pursue and

¹⁰ The Proposed Monitor has reviewed the Cash Flow Forecast to the standard required of a Court-appointed Monitor under subsection 23(1)(b) of the CCAA. Subsection 23(1)(b) of the CCAA requires a Monitor to review the debtor's cash flow statement as to its reasonableness and to file a report with the Court on the Monitor's findings. Pursuant to this standard, the Proposed Monitor's review of the Cash Flow Forecast consisted of inquiries, analytical procedures and discussions related to information supplied to it by certain key members of management. The Proposed Monitor reviewed information provided by management for the Cash Flow Assumptions. Since the Cash Flow Assumptions need not be supported, the Proposed Monitor's procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the Cash Flow Forecast.

implement any transactions resulting from the process contemplated by the proposed SISP.

Key terms and components of the DIP Facility include the following:¹¹

DIP Facility <i>(capitalized terms have the meaning ascribed thereto in this Report or in the DIP Credit Agreement, as applicable)</i>	
Agreement	<ul style="list-style-type: none"> DIP Facility Term Sheet
Borrowers	<ul style="list-style-type: none"> 2675970 Ontario Inc., 10006215 Manitoba Ltd., 14284585 Canada Inc., 2161907 Alberta Ltd., 2733182 Ontario Inc., 2197130 Alberta Ltd., 2699078 Ontario Inc., 2708540 Ontario Corporation, 2733181 Ontario Inc., 2734082 Ontario Inc., 2737503 Ontario Inc., 2742591 Ontario Inc. 2796279 Ontario Inc., 2826475 Ontario Inc., 80694 Newfoundland & Labrador Inc., TS Wellington Inc., and 2385816 Alberta Ltd. (collectively, the “Borrowers”).
Guarantors	<ul style="list-style-type: none"> Each of the Borrowers unconditionally and absolutely, guarantee payment when due, whether by stated maturity, demand, acceleration or otherwise, of the Obligations and all existing and future indebtedness owing under the DIP Term Sheet or in connection with the DIP Facility owed by the Borrowers.
DIP Lender	<ul style="list-style-type: none"> TS Investments Corp.
DIP Facility	<ul style="list-style-type: none"> A non-revolving loan (the “DIP Facility”) up to the maximum principal amount of \$8.0 million (the “Maximum Amount”) including an initial advance in an amount of \$3.3 million (the “Initial Advance”).
Interest Rate and Fees	<ul style="list-style-type: none"> Interest on the principal outstanding amount of the DIP Advances at a rate of 13% per annum, compounded and calculated monthly, shall accrue and be added to the principal amount of the DIP Advances on the first day of each month. The Borrowers shall pay a commitment fee in the amount of \$80,000 (the “Fee”), representing 1% of the Maximum Amount, which shall be fully earned upon the execution of the DIP Term Sheet and shall be paid from the Initial Advance and the balance of which shall be fully earned upon the issuance of the Restated Initial Order and paid from the first Additional Advance following the date of the Restated Initial Order.
Maturity Date	<ul style="list-style-type: none"> Unless accelerated by the occurrence of an Event of Default, the earliest of: <ol style="list-style-type: none"> December 6, 2024, or such later date as the DIP Lender in its sole discretion may agree to in writing with the Borrowers, acting reasonably; the date on which (i) the stay of proceedings under the CCAA Proceedings is lifted without the consent of the DIP Lender, or (ii) the CCAA Proceedings are terminated for any reason; the closing of a sale or similar transaction (including pursuant to a subscription agreement and/or a reverse vesting purchase agreement) of all or substantially all of the assets and business, or in respect, of the Borrowers, pursuant to the SISP, which has been approved by an order entered by the Court; the implementation of a plan of compromise or arrangement within the CCAA Proceedings which has been approved by the requisite majorities of the Borrowers’ creditors and by an order entered by the Court; or

¹¹ The discussion included herein is based on the most recent draft of the DIP Term Sheet (as defined herein) provided to the Proposed Monitor for review and is subject to change based upon the final, agreed upon terms of the DIP Term Sheet.

DIP Facility <i>(capitalized terms have the meaning ascribed thereto in this Report or in the DIP Credit Agreement, as applicable)</i>	
	(e) the conversion of the CCAA Proceedings into a proceeding under the <i>Bankruptcy and Insolvency Act</i> (Canada).
DIP Security	<ul style="list-style-type: none"> • All Obligations of the Borrowers under or in connection with the DIP Facility and any of the DIP Credit Documentation shall be secured by a Court Ordered Charge on all present and after-acquired personal and real, tangible or intangible property of the Borrowers, in each case of any kind or nature whatsoever and wheresoever situated (the “DIP Lender’s Charge”). • The DIP Lender’s Charge shall be subordinated to (a) the Administrative Charge, (b) any existing security interests in favour of BMO pursuant to the BMO Credit Agreement (the “BMO Security”), and in priority to (i) the Directors’ Charge, and (ii) any KERP Charge approved by the Court.
DIP Availability	<ul style="list-style-type: none"> • The obligation of the DIP Lender to fund the Initial Advance under the DIP Facility is subject to and conditional upon, among other things: <ul style="list-style-type: none"> (a) the issuance of the Initial Order by the Court, in form and substance satisfactory to the DIP Lender, acting reasonably (i) appointing Alvarez & Marsal Canada Inc., as the Monitor, and (ii) authorizing and approving the Initial Advance and granting the DIP Lender’s Charge in respect of the Initial Advance; and (b) the Initial Cash Flow Projections shall be acceptable to the DIP Lender, in its reasonable discretion. • The obligation of the DIP Lender to fund any Additional Advances under the DIP Facility is subject to and conditional upon, among other things: <ul style="list-style-type: none"> (a) the issuance of the Restated Initial Order by the Court, in form and substance satisfactory to the DIP Lender, authorizing and approving the increase to the DIP Facility and the DIP Lender’s Charge; (b) all amounts requested for a particular Additional Advance shall be consistent with the Initial Cash Flow Projections or Updated Cash Flow Projections for the applicable period, or otherwise expressly agreed by the DIP Lender in advance; (c) the representations and warranties contained in the DIP Term Sheet shall be true and correct; and (d) no Default or Event of Default shall have occurred and be continuing.

7.3 The Proposed Monitor understands that the Applicants did not solicit alternative interim financing options given that it would be highly unlikely that any unrelated party would be willing to fund subordinate to the BMO Security.

7.4 Attached as **Appendix “E”** is a summary of select DIP financing facilities that have recently been approved by this Court in similar CCAA proceedings, including a number of comparable cannabis proceedings, during the period between April 2023 and July 2024.

- 7.5 The Proposed Monitor notes that these DIP loans have ranged in size from approximately \$1.5 million to \$16.0 million, with an average interest rate of 12.8% and incremental fees (commitment fees, exit fees, etc.) of 2.6%.
- 7.6 In comparison, the proposed DIP Facility has an interest rate of 13% and contains a commitment fee of 1% (or \$80,000).
- 7.7 Based on the experience of the Proposed Monitor and on the information available to it, the Proposed Monitor is of the view that the interest rate and commitment fee provided for in the DIP Term Sheet are reasonable in the circumstances.

8.0 STAY OF PROCEEDINGS

- 8.1 The proposed Initial Order contemplates the granting of an initial 10-day stay of proceedings in respect of the Applicant, its business and the Property. Further, the proposed Initial Order contemplates the extension of the stay, together with the benefits, protections, authorizations and restrictions under the proposed Initial Order and the CCAA to the Non-Applicant Entities.
- 8.2 In the circumstances, the Proposed Monitor is of the view that the stay of proceedings, including its extension to the Non-Applicant Entities, is appropriate and is in the best interests of the Applicants and their stakeholders given that:
- (i) the proposed stay of proceedings will provide the breathing room required by the Applicants to stabilize their business and advance their restructuring initiatives;

- (ii) the commencement of enforcement steps against either the Applicants or Non-Applicant Entities would be detrimental to the stability and success of the CCAA Proceedings;
- (iii) the operations of the Non-Applicant Entities are closely intertwined with the Applicants as TS-IP Holdings Ltd. holds the intellectual property associated with the Tokyo Smoke brand and TS-Programs Ltd facilitates promotional activity for the corporate and franchise store network, including customer promotions. Further, the Non-Applicant Entities are: (a) forecast to contribute positive cash flow to the Applicants business during the CCAA Proceedings; (b) intended to be included as assets of ParentCo in the proposed SISF; and (iii) are guarantors of the BMO Credit Agreement;
- (iv) no creditor is likely to be materially prejudiced by the stay of proceedings in respect of the Non-Applicant Entities as the Proposed Monitor understands the only creditors of those entities are BMO and TS Investments, who, as the Proposed Monitor understands, either support or do not oppose the relief; and
- (v) the Applicants' have acted, and continue to act, in good faith and with due diligence in commencing the CCAA Proceedings and seeking to preserve and maximize value for their stakeholders.

9.0 COURT-ORDERED CHARGES SOUGHT IN THE INITIAL ORDER

9.1 The proposed Initial Order seeks the granting of the Administration Charge, the DIP Lender's Charge and the Directors' Charge (each as defined below) over the Property of the Applicants (collectively, the "**Charges**"), as described below.

9.2 The priorities of the Charges and the BMO Security, as between them, are proposed to be as follows:

Proposed Charges & Priorities	
1. Administration Charge	\$400,000
2. BMO Security	<i>Outstanding Balance</i>
3. DIP Lender's Charge	<i>Outstanding Balance</i>
4. Directors' Charge	\$2.25 million

Administration Charge

9.3 The proposed Initial Order provides for an initial Administration Charge in an amount not to exceed \$400,000 in favour of the Monitor, counsel to the Monitor and counsel to the Applicants (the "**Administration Charge**"). The Proposed Monitor understands that the Applicants intend to seek an increase in the amount of the Administration Charge to \$850,000 at the comeback hearing.

9.4 The Proposed Monitor assisted the Applicants with the calculation of the Administration Charge and is of the view that the amount of the charge for the initial 10-day stay period is reasonable and appropriate in the circumstances, having regard to the nature of the CCAA Proceedings, the anticipated professional costs to be incurred during the initial 10-day stay period, the size of charges approved in similar CCAA proceedings.

DIP Lender's Charge

- 9.5 The proposed Initial Order provides for a charge on the Property as security for the outstanding obligations of the Applicant under the DIP Facility (the “**DIP Lender's Charge**”). The DIP Lenders' Charge will rank behind the BMO Security.
- 9.6 It is a condition of the DIP Facility that the DIP Lender's Charge be granted by the Court. The Proposed Monitor's observations with respect to the DIP Facility are set out in Section 7.0 above. The Proposed Monitor is of the view that the DIP Lender's Charge is reasonable and appropriate in the circumstances.

Directors' Charge

- 9.7 The proposed Initial Order grants a charge over the Applicants' Property in the amount of \$2.25 million in favour of the Applicants' directors and officers as security for any such obligations or liabilities arising after the commencement of the CCAA Proceedings, except to the extent that any such obligation or liability arises as a result of a director's or officer's gross negligence or wilful misconduct. The Applicants intend to seek an increase in the amount of the Directors' Charge to \$3.0 million at the comeback hearing.
- 9.8 The proposed Initial Order provides that the Applicants shall indemnify their directors and officers against obligations and liabilities that they may incur as directors and officers of the Applicants after the commencement of the CCAA Proceedings, except to the extent

that, with respect to any office or director, the obligation or liability was incurred as a result of the director's or officer's gross negligence or wilful misconduct.

9.9 The Proposed Monitor understands that the Applicants hold directors' and officers' insurance policies that provide coverage for certain director and officer obligations. The Applicants' directors and officers will only be entitled to the benefit of the Directors' Charge to the extent they do not have coverage under directors' and officers' insurance policies or to the extent such coverage is insufficient to pay an indemnified amount.

9.10 The Proposed Monitor assisted the Applicants in the calculation of the initial quantum of the Directors' Charge, taking into consideration the amount of the Applicants' payroll, vacation pay and federal and provincial sales tax liabilities during the initial 10-day stay period. The components that comprise the proposed Directors' Charge are as follows:

Proposed Directors' Charge	
Provision for sales taxes (HST, GST, PST)	\$350,000
Provision for employee wages and source deductions	\$1,182,000
Provision for accrued vacation outstanding as of the filing date	\$380,000
Provision for employee benefits, EHT and other similar amounts	\$288,000
Provision for employee termination and severance (Saskatchewan)	\$50,000
Total	\$2,250,000

9.11 The Proposed Monitor understands that the directors and officers of the Applicants' have advised that they are not willing to continue in their current roles absent the protection afforded to them under the Directors' Charge. In the circumstances, the Proposed Monitor is of the view that the Directors' Charge is necessary in the circumstances and the quantum and scope of the charge is fair and reasonable.

9.12 As set out above, the Proposed Monitor believes that the Charges are reasonable in the circumstances.

10.0 INTENDED NEXT STEPS IN THE CCAA PROCEEDINGS

10.1 The Proposed Monitor understands that, subject to obtaining the proposed Initial Order, during the period prior to the comeback hearing, the Applicants intend to:

- (i) implement a fulsome communication plan with stakeholders of the Applicants, including employees, landlords, franchise partners, vendors and service providers;
- (ii) immediately disclaim certain unprofitable contracts and leases relating to underperforming stores;
- (iii) commence a program to contact landlords to begin discussions to seek amendments to existing leases with the goal of negotiating satisfactory amendments; and
- (iv) subject to Court approval, enter into the contemplated Stalking Horse Transaction.

10.2 At the comeback hearing, the Proposed Monitor understands that the Applicants expect to seek Court approval of:

- (i) authority for the Applicants to increase the amounts which may be borrowed under the DIP Facility to the maximum available amount;
- (ii) a key employee retention plan and a Court-ordered charge to secure amounts that may become payable thereunder;
- (iii) an increase to the quantum of the Court-ordered Charges;

- (iv) the proposed SISP and proposed Stalking Horse Transaction; and
- (v) an extension to the stay of proceedings.

10.3 The Proposed Monitor understands that the Applicants intend to seek this Court's approval of the SISP to be conducted by the Proposed Monitor (if appointed) and the proposed Stalking Horse Transaction at the comeback hearing.

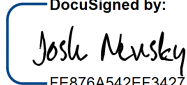
10.4 In order to allow potential interested parties sufficient time to evaluate the business, the Proposed Monitor (if appointed), prior to the comeback hearing, intends to assist the Applicants in commencing the preliminary stages of a sale process through preparation of a non-disclosure agreement, teaser letter, confidential information memorandum, data room and list of potential bidders. Further, the Applicants, with the assistance of the Proposed Monitor, intend to contact parties that the Applicants and the Proposed Monitor believe may have an interest in acquiring the business and assets of the Applicants.

11.0 CONCLUSIONS AND RECOMMENDATIONS

11.1 For the reasons set out in this Report, the Proposed Monitor is of the view that the relief requested by the Applicants in the proposed Initial Order is reasonable, appropriate and necessary having regard to the Applicants' current circumstances. As such, the Proposed Monitor supports the Applicants' application for CCAA protection and respectfully recommends that the Court grant the Initial Order containing the relief requested by the Applicants.

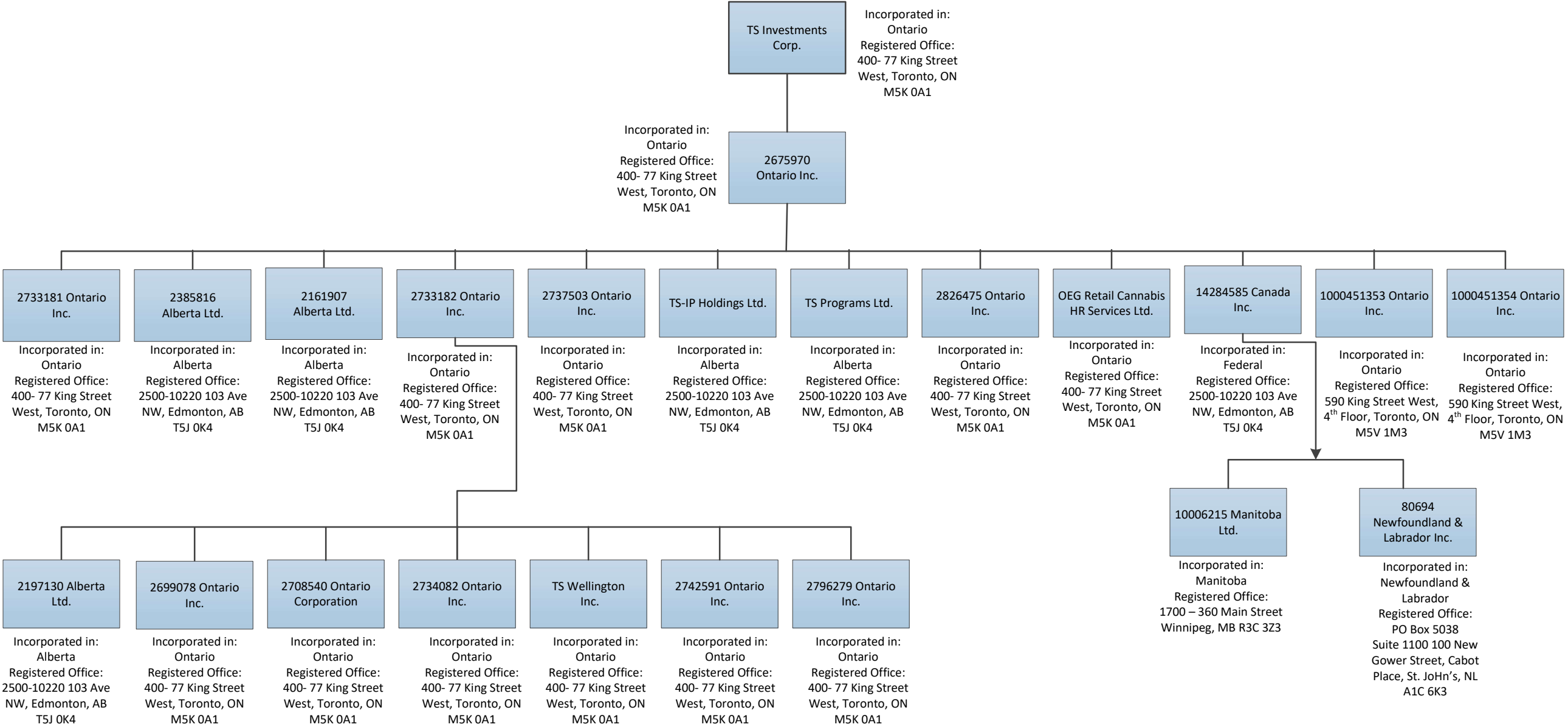
All of which is respectfully submitted to the Court this 27th day of August, 2024.

**Alvarez & Marsal Canada Inc.,
in its capacity as Proposed Monitor of 2675970 Ontario Inc., 2733181 Ontario Inc., 2385816
Alberta Ltd., 2161907 Alberta Ltd., 2733182 Ontario Inc., 2737503 Ontario Inc., 2826475
Ontario Inc., 14284585 Canada Inc., 2197130 Alberta Ltd., 2699078 Ontario Inc., 2708540
Ontario Corporation, 2734082 Ontario Inc., TS Wellington Inc., 2742591 Ontario Inc.,
2796279 Ontario Inc., 10006215 Manitoba Ltd., AND 80694 Newfoundland & Labrador Inc.,
and not in its personal or corporate capacity**

Per:  FE876A542EF3427...
Josh Nevsky
Senior Vice-President

APPENDIX A
CORPORATE STRUCTURE

See attached.



APPENDIX B
PROPOSED MONITOR'S CONSENT TO ACT

See attached.

Court File No. _____

**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
2675970 ONTARIO INC., 2733181 ONTARIO INC., 2385816 ALBERTA LTD., 2161907
ALBERTA LTD., 2733182 ONTARIO INC., 2737503 ONTARIO INC., 2826475
ONTARIO INC., 14284585 CANADA INC., 2197130 ALBERTA LTD., 2699078
ONTARIO INC., 2708540 ONTARIO CORPORATION, 2734082 ONTARIO INC., TS
WELLINGTON INC., 2742591 ONTARIO INC., 2796279 ONTARIO INC., 10006215
MANITOBA LTD., AND 80694 NEWFOUNDLAND & LABRADOR INC.
(collectively, the "Applicants")**


CONSENT OF THE PROPOSED MONITOR

Alvarez & Marsal Canada Inc. hereby consents to act as Court-appointed monitor of the Applicants in respect of these proceedings, subject to the granting of an initial order pursuant to the *Companies' Creditors Arrangement Act*, R.S.C., 1985, c. C-36, as amended, in the form included in the Applicants' application record.

Dated as of August 27, 2024

Alvarez & Marsal Canada Inc.

Per: _____


Name: Josh Nevsky

Title: Senior Vice-President

APPENDIX C
CASH FLOW FORECAST

See attached.

Appendix C – Cash Flow Forecast for the 15-Week Period Ending December 6, 2024

Tokyo Smoke Group of Companies
15-Week Cash Flow Forecast ending December 6, 2024
Unaudited \$CAD 000's

Cash Flow Week:		Week 1	Week 2	Week 3	Week 4	Week 5	Week 6	Week 7	Week 8	Week 9	Week 10	Week 11	Week 12	Week 13	Week 14	Week 15	15-Week
Week Ending:		30-Aug-24	06-Sep-24	13-Sep-24	20-Sep-24	27-Sep-24	04-Oct-24	11-Oct-24	18-Oct-24	25-Oct-24	01-Nov-24	08-Nov-24	15-Nov-24	22-Nov-24	29-Nov-24	06-Dec-24	Total
Note																	
	Receipts	1	1,369	1,304	1,304	1,304	1,304	1,276	1,276	1,276	1,276	1,279	1,279	1,279	1,325	1,532	19,662
	Disbursements																
	Merchandise Payments	2	(856)	(815)	(765)	(765)	(765)	(748)	(760)	(760)	(760)	(800)	(800)	(800)	(800)	(864)	(11,817)
	Payroll & Benefits	3	-	(1,038)	-	(597)	-	(597)	-	(571)	-	(571)	-	(571)	-	(571)	(4,517)
	Rent	4	-	(1,268)	-	(60)	-	(606)	(50)	-	(606)	-	-	-	-	(606)	(3,194)
	Non-Merchandise Payments	5	(103)	(581)	(498)	(463)	(199)	(93)	(83)	(83)	(83)	(148)	(83)	(83)	(83)	(83)	(2,747)
	Professional Fees	6	(601)	(25)	(403)	(25)	(337)	(15)	(263)	(15)	(201)	(15)	(141)	(6)	(130)	(6)	(2,314)
	Proposed KERP	7	-	-	-	-	(570)	-	-	-	-	-	-	(358)	-	-	(928)
	BMO Financing Costs	8	-	(375)	-	-	-	(375)	-	-	-	(375)	-	-	-	(375)	(1,501)
	Sales Tax Remittances		(65)	(65)	(65)	(65)	(65)	(65)	(65)	(65)	(65)	(65)	(65)	(65)	(65)	(65)	(975)
	Total Disbursements		(1,624)	(4,167)	(1,732)	(1,975)	(1,935)	(2,499)	(1,221)	(1,494)	(1,109)	(2,475)	(1,154)	(1,525)	(1,435)	(1,525)	(27,993)
	Non-Applicant Net Cash Flow	9	68	3	46	75	126	34	47	76	127	24	46	75	126	46	949
	Net Cash Flow		(188)	(2,859)	(381)	(596)	(505)	(1,188)	102	(142)	294	(1,175)	171	(171)	(31)	(154)	(7,382)
	Opening Cash Balance		147	3,179	320	339	343	338	250	352	310	604	330	501	330	599	147
	Net Cash Flow		(188)	(2,859)	(381)	(596)	(505)	(1,188)	102	(142)	294	(1,175)	171	(171)	(31)	(154)	(7,382)
	DIP Facility Advance / (Paydown)	10	3,220	-	400	600	500	1,100	-	100	-	900	-	-	300	-	7,420
	Ending Cash Balance		3,179	320	339	343	338	250	352	310	604	330	501	330	599	445	185

Tokyo Smoke Group of Companies
15-Week Cash Flow Forecast ending December 6, 2024
Assumptions

Disclaimer

*In preparing this illustrative cash flow forecast (the “**Forecast**”), the Applicants have relied upon unaudited financial information and have not attempted to further verify the accuracy or completeness of such information. The Forecast reflects assumptions including those discussed below with respect to the requirements and impact of a potential filing in Canada under the Companies’ Creditors Arrangement Act (“**CCAA**”). Since the Forecast is based on assumptions about future events and conditions that are not ascertainable, the actual results achieved will vary from the 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 Forecast is presented in thousands of Canadian dollars.

- | | |
|----------------|---|
| Note 1 | Receipts
Includes receipts from the sale of cannabis and accessories through the Applicants' retail and online store network, and the collection of franchise fees. |
| Note 2 | Merchandise Vendors
Merchandise purchases are forecast to replenish inventory levels at the Applicants' 40 store locations that are continuing operations. Inventory at closing stores is forecast to be transferred to go-forward stores after the issuance of a lease disclaimer. |
| Note 3 | Payroll & Benefits
Payroll & benefits include normal course salaries, wages, remittances and employee benefits for salaried and part-time employees across the Applicants' operating Corporate Stores and head office. Payroll & benefits for terminated salaried and part-time employees are included for the wind-down period for the respective store only. |
| Note 4 | Rent
Rent includes disbursements for 40 store locations that are continuing operations and rents to be paid during the wind-down period for the head office and stores that are intended to be disclaimed. Disbursements are inclusive of monthly rent, CAM and utilities. As described in the Proposed Monitor's Pre-Filing Report, rent payments at certain Vacant Stores have not been included in the Forecast. |
| Note 5 | Non-Merchandise Vendors
Non-merchandise vendors are forecast based on historical run-rates and include logistics, software, store level expenses, overhead expenses and other similar expenses. |
| Note 6 | Professional Fees
Includes fees paid to the Applicant's legal counsel; the Monitor and the Monitor's legal counsel; and the Lender's/DIP Lender's counsel. |
| Note 7 | Proposed KERP
Payments to key personnel retained by the Company, in accordance with a proposed Key Employee Retention Program. |
| Note 8 | BMO Facility Interest
Represents normal course monthly interest payments in accordance with the BMO Credit Agreement. |
| Note 9 | Non-Applicant Net Cash Flow
Includes receipts and disbursements from the following non-applicant entities: (i) TS Programs Ltd.; (ii) 1000451353 Ontario Inc.; and (iii) 1000451354 Ontario Inc. The non-applicant entities each have their own discrete bank accounts that are segregated from the Applicants' bank accounts. |
| Note 10 | DIP Facility Advance / (Paydown)
Represents draw on the DIP Facility based on the anticipated cash requirements of the Applicants. |

APPENDIX D
MANAGEMENT'S REPRESENTATION LETTER
REGARDING CASH FLOW FORECAST

See attached.



Alvarez & Marsal Canada Inc.
Royal Bank Plaza South Tower
200 Bay Street, Suite 3501
Toronto ON M5J 2J1

Attention: Mr. Josh Nevsky

August 28, 2024

Dear Sirs:

Re: 2675970 Ontario Inc. and the Other Applicants Identified in the Proposed Initial Order (collectively the “Tokyo Smoke Entities”) - CCAA section 10(2) Prescribed Representations with Respect to Cash Flow Forecast

In connection with the application by the Applicants for the commencement of proceedings under the *Companies’ Creditors Arrangement Act*, management of the Tokyo Smoke Entities has, with the assistance of Alvarez & Marsal, prepared the attached 15-week projected cash flow statement for the period August 24, 2024 to December 6, 2024 (the “**Cash Flow Forecast**”) and the list of assumptions on which the Cash Flow Forecast is based. The purpose of the Cash Flow Forecast is to determine the liquidity requirements of the Tokyo Smoke Entities during the CCAA proceedings.

The Tokyo Smoke Entities confirm that the hypothetical assumptions on which the Cash Flow Forecast is based are reasonable and consistent with the purpose described herein, and the probable assumptions are suitably supported and consistent with the plans of the Tokyo Smoke Entities and provide a reasonable basis for the projections. All such assumptions are disclosed in notes to the Cash Flow Forecast (the “**Notes**”).

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

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

Yours truly,

A Williams
A Williams (Aug 27, 2024 15:16 EDT)
Per: Andrew Williams
President

APPENDIX E
SUMMARY OF RECENT COMPARABLE DIP FACILITIES

See attached.

Overview of DIP Facilities Granted

Debtor	DIP Lender	Lender	Industry	Filing Date	Jurisdiction	DIP Loan (C\$MM) ¹	Interest Rate ²	Fees as a % of Loan ³
VBI Vaccines Inc. et al.	K2 HealthVentures LLC	Secured Creditor	Healthcare	Jul-24	BC	2.5	17.5%	2.0%
Delta 9 Cannabis Inc. et al.	FIKA Herbal Goods	Stalking Horse	Cannabis	Jul-24	SK	16.0	9.7%	n/a
Atlas Global Brands Inc. et al.	Shalcor Management Inc.		Cannabis	Jun-24	ON	7.0	13.0%	3.0%
IntelGenx Technologies Corp. and IntelGenx Corp.	atai Life Sciences AG		Healthcare	May-24	QC	8.0	7.2%	n/a
Ted Baker Canada Inc. et al.	CIBC	Secured Creditor	Retail	Apr-24	ON	7.0	10.0%	5.8%
Heritage Cannabis Holding Corp.	BJK Holdings Ltd.	Stalking Horse	Cannabis	Apr-24	ON	1.5	12.5%	3.0%
BZAM Ltd.	Cortland Credit Lending Corporation as agent	Secured Creditor	Cannabis	Feb-24	BC	9.4	15.3%	1.0%
Fresh City Farms Inc. and Mama Earth Organics Inc.	1000691958 Ontario Inc. and Bennett Church Hill Capital Inc.	Stalking Horse	Retail	Jan-24	ON	2.5	12.0%	3.5%
Humble & Fume Inc.	1000760498 Ontario Inc.	Stalking Horse	Cannabis	Jan-24	ON	3.4	12.0%	n/a
Aleafia Health Inc. et al.	Red White & Bloom Brands Inc.	Stalking Horse	Cannabis	Jul-23	ON	6.6	12.5%	3.0%
Fire & Flower Holding Corp.	2707031 Ontario Inc.	Stalking Horse	Cannabis	Jun-23	ON	9.8	12.0%	4.1%
Phoena Holdings Inc. et al	Cortland Credit Lending Corporation	Secured Creditor	Cannabis	Apr-23	ON	3.1	20.0%	2.0%
J.W. Carr Holdings Ltd. et al.	MGB Investments Ltd.		Real Estate	Apr-23	AB	2.7	12.0%	0.9%
GreenSpace Brands Inc.	Pivot Financial I Limited Partnership Inc.		Food & Accommodation	Apr-23	ON	2.6	14.0%	0.4%
Max						16.0	20.0%	5.8%
Average						5.9	12.8%	2.6%
Min						1.5	7.2%	0.4%

Source: Insolvency Insider and Government of Canada Public CCAA Records

1. US dollar denominated loans are translated at 1.35 USD/CAD. Certain DIP Loans are presented as the maximum draw reported in the latest court materials.

2. Interest rates that are determined by a benchmark rate (i.e. prime rate, SOFR) were calculated as of the respective filing date.

3. Excludes amounts for "reasonable fees and expenses of the DIP Lender" if these are not specifically defined.

IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*, R.S.C. 1985, c. C-36, AS AMENDED

Court File No: _____

AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF 2675970 ONTARIO INC., 2733181 ONTARIO INC., 2385816 ALBERTA LTD., 2161907 ALBERTA LTD., 2733182 ONTARIO INC., 2737503 ONTARIO INC., 2826475 ONTARIO INC., 14284585 CANADA INC., 2197130 ALBERTA LTD., 2699078 ONTARIO INC., 2708540 ONTARIO CORPORATION, 2734082 ONTARIO INC., TS WELLINGTON INC., 2742591 ONTARIO INC., 2796279 ONTARIO INC., 10006215 MANITOBA LTD., AND 80694 NEWFOUNDLAND & LABRADOR INC.

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

Proceeding commenced at Toronto

**PRE-FILING REPORT OF THE
PROPOSED MONITOR
(August 27, 2024)**

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