

COURT FILE NUMBER 2201-11655

Clerk's Stamp

COURT COURT OF KING'S BENCH OF ALBERTA

JUDICIAL CENTRE CALGARY

MATTER IN THE MATTER OF THE *COMPANIES' CREDITORS  
ARRANGEMENT ACT*, RSC 1985, c C-36, as amended  
  
AND IN THE MATTER OF SUGARBUD CRAFT  
GROWER CORP., TRICHOME HOLDINGS CORP., and  
1800905 ALBERTA LTD.

DOCUMENT **MONITOR'S SECOND REPORT  
ALVAREZ & MARSAL CANADA INC.**

**January 13, 2023**

ADDRESS FOR  
SERVICE AND  
CONTACT  
INFORMATION OF  
PARTY FILING THIS  
DOCUMENT

**MONITOR**  
ALVAREZ & MARSAL CANADA INC.  
Bow Valley Square IV  
Suite 1110, 250 – 6<sup>th</sup> Avenue SW  
Calgary, Alberta T2P 3H7  
Orest Konowalchuk / Bryan Krol  
Telephone: (403) 538-4736 / (403) 538 -7523  
Email: okonowalchuk@alvarezandmarsal.com  
bkrol@alvarezandmarsal.com

**COUNSEL**  
Burnet, Duckworth & Palmer LLP  
Barristers & Solicitors  
David LeGeyt / Ryan Algar  
2400, 525 – 8<sup>th</sup> Ave. SW.  
Calgary, AB T2P 1G1  
Phone: (403) 260-0210 / 0126  
Fax: (403) 260-0332  
Email: dlegeyt@bdplaw.com  
ralgar@bdplaw.com



## **TABLE OF CONTENTS**

<b>INTRODUCTION .....</b>	<b>1</b>
<b>PURPOSE .....</b>	<b>2</b>
<b>TERMS OF REFERENCE AND DISCLAIMER .....</b>	<b>2</b>
<b>BACKGROUND .....</b>	<b>3</b>
<b>ACTIVITIES OF THE MONITOR.....</b>	<b>5</b>
<b>SISP UPDATE.....</b>	<b>6</b>
<b>ACTUAL CASH FLOW RESULTS COMPARED TO FORECAST .....</b>	<b>8</b>
<b>UPDATED CASH FLOW FORECAST .....</b>	<b>10</b>
<b>INCREASE TO INTERIM FINANCING FACILITY .....</b>	<b>13</b>
<b>KEY EMPLOYEE RETENTION PLAN .....</b>	<b>13</b>
<b>EXTENSION OF THE STAY OF PROCEEDINGS .....</b>	<b>15</b>
<b>CONCLUSIONS AND RECOMMENDATIONS.....</b>	<b>16</b>

## **APPENDICES**

<b>APPENDIX A</b>	<b>Cash Flow Forecast and Assumptions</b>
-------------------	---

## INTRODUCTION

1. On September 26, 2022 (the "**NOI Filing Date**"), SugarBud Craft Growers Corp. ("**SCGC**"), Trichome Holdings Corp. ("**THC**") and 1800905 Alberta Ltd. ("**OpCo**") together with SCGC and THC, the "**Applicants**", "**Sugarbud**", "**Debtors**" or the "**Companies**") filed a Notice of Intention to Make a Proposal (an "**NOI**") pursuant to subsection 50.4(1) of the *Bankruptcy and Insolvency Act*, RSC 1985, c B-3, (as amended, the "**BIA**"). A&M consented to act as Trustee of each of the Applicants under the NOI (A&M in such capacity, the "**Proposal Trustee**").
2. Subsequently, and pursuant to an Order (the "**NOI Order**") granted by this Honourable Court on September 29, 2022, the initial stay of proceedings (the "**Stay**") under the NOI proceedings ("**NOI Proceedings**") was extended to December 10, 2022 (the "**NOI Stay Period**").
3. The NOI Order also approved, among other things, the sale, refinancing and investment solicitation process (the "**SISP**") to seek an investment in or sale of the Applicants' property as part of the restructuring process.
4. On October 18, 2022, the Companies sought and obtained an Initial Order (the "**Initial Order**") as well as the Amended and Restated Initial Order ("**ARIO**") by this Honourable Court to continue the NOI Proceedings under the *Companies' Creditors Arrangement Act*, RSC 1985, c C-36 (as amended the "**CCAA**" or the "**CCAA Proceedings**"), which granted, among other things, a stay of proceedings up to and including December 10, 2022 and appointed A&M as Monitor pursuant to the provisions of the CCAA (in such capacity, the "**Monitor**").
5. On December 9, 2022, the Companies sought and obtained the Stay Extension Order, which extended the stay of proceedings up to and including January 20, 2023 (the "**First CCAA Stay of Proceedings Extension**").
6. The Applicants are now applying to this Honourable Court seeking another Proposed Stay Extension Order, which if granted would *inter alia*, extend the stay

of proceedings up to and including March 24, 2023 (the "**Second CCAA Stay of Proceedings Extension**").

## **PURPOSE**

7. The purpose of this Report is to provide information to this Honourable Court in respect of the following:
  - a) the activities of the Monitor since its Monitor's First Report dated December 7, 2022;
  - b) an update on the SISP;
  - c) the Cash Flow Forecast (defined and discussed below);
  - d) the extension of the Stay Period request;
  - e) the request to increase the Interim Financing Facility by \$200,000; and
  - f) the Monitor's recommendations and conclusions.
8. Capitalized terms not otherwise defined in this Monitor's Second Report (this "**Report**") are as defined in the Initial Order, the ARIO, the Proposal Trustee's First Report, the Monitor's First Report and or the various affidavits filed in the CCAA Proceedings.

## **TERMS OF REFERENCE AND DISCLAIMER**

9. In preparing this Report, A&M, in its capacity as the Monitor, has been provided with and has relied upon unaudited financial information and the books and records prepared by the Companies, and has held discussions with the Applicants' management and their respective counsel and directors (collectively, the "**Information**"). Except as otherwise described in this Report in respect of the Companies' cash flow forecast:
  - a) the Monitor has reviewed the Information for reasonableness, internal consistency and use in the context in which it was provided. However, the 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 Monitor expresses no opinion or other form of assurance contemplated under CASs in respect of the Information; and

- b) 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.
10. Future oriented financial information referred to in this Report was prepared based on the Companies' estimates and assumptions. Readers are cautioned that since projections are based upon assumptions about future events and conditions that are not ascertainable, the actual results will vary from the projections, even if the assumptions materialize, and the variations could be significant.
  11. Unless otherwise stated, all monetary amounts contained in this Report are expressed in Canadian dollars.

## **BACKGROUND**

12. Sugarbud is a vertically integrated cannabis business with expertise at each stage of the cannabis product life-cycle, from cultivation and extraction to brand development, marketing and sales.
13. Sugarbud operates a federally-licensed cannabis production facility located in Stavely, Alberta where it produces, distributes, and sells cannabis products across Canada. The Companies supply various cannabis products to a number of provincial purchasing entities pursuant to supply agreements including:
  - a) British Columbia (BC Liquor Distribution Branch);

- b) Alberta (Alberta Gaming, Liquor and Cannabis Commission);
  - c) Ontario (Ontario Cannabis Retail Corporation);
  - d) Manitoba (Manitoba Liquor and Lotteries);
  - e) Quebec (SQDC);
  - f) New Brunswick (Cannabis NB);
  - g) Nova Scotia (Nova Scotia Liquor Commission);
  - h) Northwest Territories (Northwest Territories Liquor and Cannabis Commission); and
  - i) Newfoundland (Cannabis Newfoundland).
14. Since receiving its cultivation licence and commencing its cannabis operation in August of 2019, Sugarbud has been cash flow negative for the entire history of its operations. Despite attempts to access additional financing or complete a strategic transaction, Sugarbud has faced, and continues to face, significant working capital deficit which makes it unable to pay its ongoing obligations as they become due. Sugarbud has reviewed several strategic alternative opportunities, including potential merger and acquisition targets, but has been unsuccessful in its attempts to date.
15. On September 22, 2022, Connect First Credit Union Ltd. ("CFCU"), the Companies' primary secured lender, demanded on its loan. Sugarbud had exceed the amount currently available under its existing credit facility with CFCU and no longer had any available cash flow to fund its operations. CFCU (in its capacity as the interim lender, the "**Interim Lender**") was only prepared to fund the Companies on a super-priority basis, through a debtor-driven proceeding ("**Interim Financing Facility**"). In addition, CFCU made it a condition that continued funding through the Interim Financing Facility required the Companies to seek and

- obtain the Proposed Initial Order containing all the respective ‘charges’ and relief previously obtained in the NOI Proceedings (discussed further below).
16. As a result, on September 26, 2022, Sugarbud sought and obtained creditor protection by commencing the NOI Proceedings to, among other things, obtain the benefit of the Interim Financing Facility in order to continue operations and to commence the SISP, with the intention of implementing a restructuring transaction that may see all or a portion of the Applicants' business sold as a going concern.
  17. Further background on the Companies and their operations are contained in the materials filed in support of the Application. These documents, together with other information regarding the NOI Proceedings and the CCAA Proceedings, have been posted on the Monitor’s website at [www.alvarezandmarsal.com/sugarbud](http://www.alvarezandmarsal.com/sugarbud) (the "Case Website").

#### **ACTIVITIES OF THE MONITOR**

18. The Monitor’s activities since the Monitor’s First Report have included the following:
  - a) conducting ongoing discussions with Management, employees, advisors and the Debtors’ legal counsel regarding the Debtors’ business and financial affairs;
  - b) engaging in discussions with the Debtors, the Debtors’ legal counsel as well as the Interim Lender and its legal counsel with respect to the SISP and the Debtor’s liquidity position;
  - c) continuing communication and utilization of the Monitor’s independent legal counsel, Burnet, Duckworth & Palmer LLP (“**BD&P**”);
  - d) hosting discussions with the interested parties that submitted non-binding letters of intent with respect to their potential transactions and entering into Phase II of the SISP;

- e) providing updates on the outcome of the SISP to CFCU, the Companies and respective counsel;
- f) working with the Companies to conduct various analysis with respect to potential workout scenarios, as requested by the Lender;
- g) receipt of resignation notice from one of the Companies directors, effective January 11, 2023. Mr. Daniel Wilson remains the sole director of the Debtors;
- h) communication with, and attending to various inquiries from, trade creditors and other stakeholders;
- i) reviewing the Debtors' cash flow results on a weekly basis and communicating with the Interim Lender, accordingly;
- j) reviewing the Debtors' updated cash flow forecast each week as required under the Interim Financing Facility;
- k) reviewing the Companies weekly payables for reasonability and preparing the weekly disbursements request to the Interim Lender as stipulated in the Interim Financing Facility; and
- l) various communications held with the Companies, its legal counsel, the Interim Lender and its counsel, and BD&P.

## SISP UPDATE

### Overview

19. As described in greater detail in the Monitor's First Report, pursuant to the NOI Order, the Monitor, in consultation with the Debtors, initiated a number of marketing activities. The Monitor prepared and disseminated notices of the SISP Process ("**SISP Notices**") in various news medias and outlets and prepared a teaser package (the "**Teaser**") and Non-disclosure agreement (the "**NDA**") and delivered these materials to a list of potential bidders, including strategic parties, capital providers and alternative lenders (collectively, the "**Prospective Bidders**"). The



Monitor then, commencing on September 30, 2022, and pursuant to the NOI Order, communicated the Teaser and NDA to the Prospective Bidders.

20. A summary of the extensive and broad-based SISP is discussed in the First Report of the Proposal Trustee.

### **The SISP Marketing Efforts & Timeline**

21. The Monitor undertook a significant marketing process to ensure it effectively and thoroughly canvassed the market. The Companies and their assets were marketed to a number of companies identified by the Monitor and the Debtors, with input from the Companies' counsel as to potentially interested parties who capable of, or a good strategic fit for, purchasing and/or investing in the Companies, or portions of them.
22. A comprehensive package of marketing materials (including the development of all relevant financial, accounting, asset and facility listings, inventory schedules, liabilities, contractual agreements, valuation materials, and other materials (the “**SISP VDR Materials**”) was assembled and made available in a virtual data room (“**VDR**”).
23. The SISP took place between September 30, 2022 to December 9, 2022 with both a Phase 1 (November 4, 2022) and Phase II (December 9, 2022) deadline. Each respective deadline required interested parties to provide certain materials in order for their interest to be recognized within the SISP.
24. A summary of notable events within the SISP are discussed in greater detail within the Monitor’s First Report.

### **Results from the SISP Marketing Process**

25. There were six (6) prospective purchasers who signed NDAs and received the confidential information memorandum and access to the virtual data room. Of those

six, two of them requested, and were granted, a site tour at the facility in Stavely, AB.

26. As at the Phase I Bid Deadline, there were two (2) non-binding letters of intent (“**LOI**”) received by A&M with respect to the SISP.
27. As previously reported in the Monitor’s First Report, the Monitor was working with these two parties who submitted a valid nonbinding LOI and progressed into Phase II of the SISP. Since the date of the Monitor’s First Report the Monitor has had various communications with these parties respecting the specific details of their LOIs. The Monitor has also communicated with CFCU and Sugarbud about these LOIs, and whether either of them would be acceptable to CFCU. Notwithstanding the efforts made by the parties in negotiating the form and type of potential transaction, by the Phase II Bid Deadline there was no prospective transaction that was deemed acceptable by CFCU.
28. In the absence of an acceptable transaction, CFCU has requested that the Company, with the assistance of the Monitor, continue to review strategies that would allow for the Company to maximize realizations from its Property. As such, the Company is requesting an additional extension to the stay of proceedings to conduct an assessment of potential strategies and next steps (as discussed below), which will likely include engaging a third party appraiser to evaluate the Facility, the continued sale of inventory, downsizing the Company’s current operations, and continuing to search for opportunities that may achieve higher recoveries.

## **ACTUAL CASH FLOW RESULTS COMPARED TO FORECAST**

29. The Debtors’ actual cash receipts and disbursements as compared to the Cash Flow Forecast presented in the First Report of the Monitor during the period of November 26, 2022 to January 10, 2023 (the “**Reporting Period**”) is summarized below:

<b>SugarBud Craft Growers Corp., Trichome Holdings Corp. and 1800905 Alberta Ltd.</b> <b>Consolidated Cash Flow Variance Analysis - Prepared by Management</b> <b>For the period from November 26, 2022 to January 10, 2023</b> <i>unaudited, in CAD \$000's</i>			
	<b>Forecast</b>	<b>Actual</b>	<b>Variance</b>
<b>Cash Receipts</b>			
Alberta (AGLC)	16	10	(6)
BC (BCLBD)	-	-	-
Ontario (OCS)	175	166	(8)
Yukon (YLC)	-	-	-
Other (Medical Sales)	6	-	(6)
<b>Total Cash Receipts</b>	<b>197</b>	<b>176</b>	<b>(21)</b>
<b>Operating Cash Disbursements</b>			
Payroll and Employee Benefits	335	292	43
Insurance	74	55	19
Excise Taxes	80	60	20
Utilities and Taxes	96	44	51
Production Components, Supplies and Services	48	34	14
Facility Maintenance and Services	31	17	14
Health Canada License and Excise Fee	-	-	-
Cultivation Components and Supplies	18	9	9
IT and Compliance Software fees	26	11	15
Facility PPE	10	5	5
Freight	8	3	5
Compliance Fees	2	-	2
Critical Supplier Pre-Filing Payments	-	-	-
Contingency	10	-	10
<b>Total Operating Cash Disbursements</b>	<b>736</b>	<b>530</b>	<b>206</b>
<b>Non-Operating Cash Disbursements</b>			
Monitor's Fees	100	-	100
Monitor's Disbursements	-	-	-
Monitor's Counsel Fees	10	9	1
MLT Aikins Fees	20	11	9
Stikeman Elliot	-	-	-
Proposed Key Employee Retention Plan	-	-	-
Working Capital Corporation	32	11	21
<b>Total Non-Operating Cash Disbursements</b>	<b>162</b>	<b>30</b>	<b>132</b>
<b>Net Cash Flow</b>	<b>(701)</b>	<b>(384)</b>	<b>317</b>

30. Over the Reporting Period, the Debtors experienced a positive cash flow variance of approximately \$317,000, primarily as a result of temporary timing differences, as well as some permanent variances which are described below:
- negative variances with respect to the collection of certain receipts from the Alberta Gaming and Liquor Corporation and the Ontario Cannabis Store, due to invoice adjustments which were netted off of payment received;
  - a negative timing variance in the 'other receipts' category, due to a delay in the collection of an outstanding receivable from Mendo Cannabis Inc.;

- c) a positive timing variance relating to payroll and employee benefits and CEO pay;
- d) a positive permanent variance relating to lower than forecast Alberta Workers' Compensation Board payments during the Reporting Period;
- e) a positive permanent variance relating to lower than forecast director and officer liability insurance costs, along with a positive timing difference due to the delayed payment of the cargo and recall insurance policy;
- f) the positive timing variance relating to the timing of excise taxes (November 2022), which is expected to be paid in the upcoming Forecast Period;
- g) the positive timing variance relating to utilities and tax payments outstanding and certain freight, production components, supplies and services, cultivation components and supplies, and IT and compliance software fees, which are expected to be paid in the coming weeks; and
- h) a positive timing variance relating to non-operating costs that will either be paid in the Forecast Period or remain secured under the Administrative Charge in these CCAA Proceedings.

## UPDATED CASH FLOW FORECAST

31. For purposes of paragraph 10(2)(a) of the CCAA, the Companies have prepared an updated weekly cash flow forecast (the "**Third Cash Flow Forecast**") for the 13-week period from January 11, 2023 to March 24, 2022 (the "**Forecast Period**"), using the probable and hypothetical assumptions set out in the notes to the Third Cash Flow Forecast. A copy of the Third Cash Flow Forecast, together with a summary of assumptions and Management's representation letter are attached hereto as Appendix "A".
32. The Third Cash Flow Forecast is summarized below:

<b>SugarBud Craft Growers Corp., Trichome Holdings Corp. and 1800905 Alberta Ltd.</b> <b>Management Prepared 11 Week Cash Flow Forecast</b> <b>For the period from January 11, 2023 to March 24, 2023</b> <i>unaudited, in CAD \$000's</i>	
<b>Cash Receipts</b>	
Alberta (AGLC)	45
BC (BCLBD)	-
Ontario (OCS)	258
Yukon (YLC)	-
Other (Medical Sales)	6
Inventory Sales	352
Tritecha Inc. Distribution	-
<b>Total Cash Receipts</b>	<b>661</b>
<b>Operating Cash Disbursements</b>	
Payroll and Employee Benefits	356
Insurance	50
Excise Taxes	85
Utilities and Taxes	160
Production Components, Supplies and Services	42
Facility Maintenance and Services	43
Health Canada License and Excise Fee	-
Cultivation Components and Supplies	11
IT and Compliance Software fees	37
Facility PPE	6
Freight	38
Compliance Fees	2
PST	30
Appraisal Fees	10
Critical Supplier Pre-Filing Payments	-
Contingency	30
<b>Total Operating Cash Disbursements</b>	<b>900</b>
<b>Non-Operating Cash Disbursements</b>	
Proposal Trustee/Monitor Fees	-
Proposal Trustee/Monitor Disbursements	-
Proposal Trustee/Monitor Counsel Fees	-
MLT Aikins Fees	-
Stikeman Elliot	-
Proposed Key Employee Retention Plan	97
Working Capital Corporation	11
<b>Total Non-Operating Cash Disbursements</b>	<b>107</b>
<b>Net Cash Flow</b>	<b>(346)</b>
<b>Opening Cash</b>	<b>(1,481)</b>
Net Cash Flow	(346)
<b>Closing Cash</b>	<b>(1,827)</b>

33. A summary of the Cash Flow Forecast and select assumptions include the following:

- a) total projected cash receipts of approximately \$661,000; and
- b) total operating cash disbursements forecast of approximately \$900,000 and non-operating cash disbursements of approximately \$107,000,

resulting in a net decrease in cash of approximately \$346,000 during the Forecast Period.

34. Over the Forecast Period, the Companies did not provide for the payment of professional fees and costs. Over the Forecast Period, the Monitor, its counsel, and Company's counsel are prepared to rely on the Administration Charge and not be paid their current outstanding invoices and ongoing professional fees over the Forecast Period, should this Honourable Court grant the proposed stay extension, to assist the Companies with their liquidity constraints. Total unpaid professional fees up to December 31, 2022, is approximately \$196,000. The Companies preliminary estimate of total professional fees forecast to be incurred between January 1 to March 24 is approximately \$240,000. As a result, the total incurred and forecast professional fees and costs are anticipated to reach approximately \$436,000 by the end of the proposed stay extension period March 24, 2023), which would leave approximately \$64,000 available under the Administration Charge of \$500,000.
35. The Administration Charge is a first ranking charge on the Property and, subject always to section 136 of the BIA, is in priority to all other Charges, security interests, trusts, liens, charges and encumbrances, and claims of secured creditors, statutory or otherwise in favour of any Person.
36. The Third Cash Flow Forecast is based on assumptions by Management regarding future events. Management advises that actual results will vary from the information presented even if the hypothetical assumptions occur, and the variations may be material. Accordingly, the Monitor expresses no assurance as to whether the Third Cash Flow Forecast will be accurate. The Monitor expresses no opinion or other form of assurance with respect to the accuracy of any financial information presented in this Report or relied upon by the Monitor in the course of the preparation of this Report.

## INCREASE TO INTERIM FINANCING FACILITY

37. This Honourable Court previously granted an order approving the Companies to enter into an Interim Financing Facility with CFCU that would allow the Companies to borrow up to \$2,000,000, unless agreed to by the parties or as permitted by further order of the Court. The Companies are requesting this Honourable Court to increase the total quantum of the Interim Lender's Charge from \$2,000,000 to \$2,200,000.
38. The Monitor believes that, in order for the Company to continue under the CCAA Proceedings, it may require additional funding of approximately \$200,000 in order to provide sufficient liquidity, only if needed, to pay for operational and restructuring costs over the period of time contemplated in the Stay Extension. Specifically, the purpose of this additional funding is to act as a source of funds in case forecasted receipts are not realized during this period.
39. The Monitor is of the view that no creditor will be materially prejudiced by the proposed \$200,000 increase in the Interim Financing Facility.
40. Such increase to the credit facility shall be on the terms and subject to the conditions set forth in the term sheet between the Companies and the Interim Lender, which was attached as Appendix "D" to the Proposal Trustee First Report, and which has already been approved by this Honorable Court.

## KEY EMPLOYEE RETENTION PLAN

41. Sugarbud's management previously identified six key personnel (the "**Key Employees**") who were deemed critical to the Companies' operations. On September 29, 2022 an order was granted by this Honorable Court approving the quantum of the key employee retention plan ("**KERP**") payments to the six Key Employees under certain criteria and milestones.
42. In summary, the maximum aggregate amount of payments that can be made under the KERP is \$140,000, which was to be paid at two specific milestones pursuant to

the SISP. The first milestone was the conclusion of the Phase 1 Bid Deadline, which lapsed on November 4, 2022, and KERP payments were then made to the Key Employees in the amount of \$35,125. The second milestone was the closing of a sale transaction under the proposed SISP, which to date has not occurred, and therefore the second KERP payments have not been paid to the Key Employees. The total of these second payments under the KERP was then anticipated to be \$105,375.

43. The Companies are proposing that the KERP be adjusted to allow payment of the second milestone amounts to five of the six Key Employees, in the aggregate amount of \$96,625 upon the completion of any realization process or transaction resulting from the SISP, or from any other process, offer, sale or transaction involving all or substantially all of the Companies business or assets. A detailed breakdown of the proposed amount is attached as Confidential Appendix “1” to the Proposal Trustee’s First Report (dated September 27, 2022).
44. The KERP was developed by Sugarbud in consultation with the Monitor, and is supported by CFCU. The Monitor is of the view that the proposed adjusted KERP is reasonable and appropriate in the circumstances for the following reasons:
  - a) it will provide stability to the business and provides continuity of leadership and knowledge during the pendency of the CCAA proceedings by encouraging the Key Employees to remain with Sugarbud for a reasonable period of time;
  - b) Key Employees are critical to efficient and cost-effective execution of the alternative strategies being contemplated by all parties and their participation should enhance or maximize realizations for the benefit of stakeholders;
  - c) identifying replacement management with the requisite sector experience and knowledge of the underlying business is not practical in the short term;



- d) certain Key Employees have indicated that they would consider alternative employment opportunities should there not be any material retention payment amounts made available;
  - e) the number of Key Employees is proportionately reasonable to the size and nature of the business and the milestones are consistent with the timeline set out in the SISP;
  - f) the Proposal Trustee and Monitor considered the proposed KERP terms with those in other recent CCAA proceedings and is satisfied that the quantum of the KERP payments and the terms of the KERP are commercially reasonable and are not ‘off-market’ in the circumstances; and
  - g) the KERP has been approved by the Companies’ Board of Directors and is supported by CFCU, the senior-secured creditor and the Interim Lender.
45. The Companies’ Application seeks to amend the KERP Charge to an amount not to exceed \$96,625 in favor of the Key Employees as security for all amounts becoming payable under the KERP. The KERP Charge is to rank in subordinate to all other encumbrances and Charges (as laid out in the Proposal Trustee’s First Report, dated September 27, 2022).

#### **EXTENSION OF THE STAY OF PROCEEDINGS**

46. Pursuant to the Stay Extension Order granted on December 9, 2022, the Stay Period (as defined therein) will expire on January 20, 2023. The Debtors are seeking an extension of the Stay Period to March 24, 2023 (the “**Stay Extension**”).
47. The Monitor supports the Stay Extension for the following reasons:
- a) during the proposed extension of the Stay Period, the Debtors in coordination with the Lenders, will have an opportunity to consider paths forward;

- b) it will afford the Debtors and the Monitor sufficient time to advance and possibly complete the administration of the CCAA Proceedings;
- c) with an increase in the Interim Financing Facility, as discussed below, the Debtors are forecasted to have sufficient liquidity to continue operating the business during the requested extension of the Stay Period;
- d) no creditor of the Debtors will be materially prejudiced by the extension of the Stay Period; and
- e) in the Monitor's opinion, the Debtors have acted in good faith and with due diligence in these CCAA Proceedings since the date of the Initial Order.

## CONCLUSIONS AND RECOMMENDATIONS

48. Based on the current information that has been made available to the Monitor by the Companies, the Monitor respectfully recommends that this Honourable Court to approve;

- a) an extension to the Stay Period to March 24, 2023; and
- b) increase the limit on the Interim Financing Facility by \$200,000 to \$2,200,000.

All of which is respectfully submitted this 13<sup>th</sup> day of January, 2023

**ALVAREZ & MARSAL CANADA INC.,**  
**in its capacity as Proposed Monitor of**  
**SugarBud Craft Growers Corp, Trichome Holdings Corp,**  
**and 1800905 Alberta Ltd., and**  
**not in its personal or corporate capacity**




---

Orest Konowalchuk, LIT  
 Senior Vice-President




---

Bryan Krol  
 Director

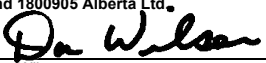
## **APPENDIX "A"**

**SugarBud Craft Growers Corp., Trichome Holdings Corp. and 1800905 Alberta Ltd.**  
**Management Prepared 11 Week Cash Flow Forecast**  
**For the period from January 11, 2023 to March 24, 2023**  
*unaudited, in CAD \$000's*


	Notes	Forecast											Total
		Week 16	Week 17	Week 18	Week 19	Week 20	Week 21	Week 22	Week 23	Week 24	Week 25	Week 26	Total
		13-Jan-23	20-Jan-23	27-Jan-23	3-Feb-23	10-Feb-23	17-Feb-23	24-Feb-23	3-Mar-23	10-Mar-23	17-Mar-23	24-Mar-23	Week 16 to Week 26
<b>Cash Receipts</b>													
Alberta (AGLC)	1	21	-	-	-	24	-	-	-	-	-	-	45
BC (BCLBD)	2	-	-	-	-	-	-	-	-	-	-	-	-
Ontario (OCS)	3	-	72	-	-	16	-	-	151	-	19	-	258
Yukon (YLC)	4	-	-	-	-	-	-	-	-	-	-	-	-
Other (Medical Sales)	5	-	-	-	-	-	-	-	6	-	-	-	6
Inventory Sales	6	-	-	-	-	176	-	176	-	-	-	-	352
Tritecha Inc. Distribution	7	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total Cash Receipts</b>		<b>21</b>	<b>72</b>	<b>-</b>	<b>-</b>	<b>216</b>	<b>-</b>	<b>176</b>	<b>158</b>	<b>-</b>	<b>19</b>	<b>-</b>	<b>661</b>
<b>Operating Cash Disbursements</b>													
Payroll and Employee Benefits	8	128	-	-	96	-	37	-	40	-	35	20	356
Insurance	9	7	10	-	7	-	10	-	7	-	10	-	50
Excise Taxes	10	23	-	-	-	45	-	-	-	17	-	-	85
Utilities and Taxes	11	4	51	3	-	-	42	3	-	42	-	16	160
Production Components, Supplies and Services	12	11	8	-	-	5	3	5	5	3	-	3	42
Facility Maintenance and Services	13	11	8	2	10	9	-	-	-	4	-	-	43
Health Canada License and Excise Fee	-	-	-	-	-	-	-	-	-	-	-	-	-
Cultivation Components and Supplies	14	6	5	-	-	-	-	-	-	-	-	-	11
IT and Compliance Software fees	15	12	5	3	1	6	-	-	4	6	-	-	37
Facility PPE	16	4	1	1	1	-	-	-	-	-	-	-	6
Freight	17	6	2	6	-	8	-	8	-	8	-	-	38
Compliance Fees	18	2	-	-	-	-	-	-	-	-	-	-	2
PST	19	-	-	-	-	-	-	-	-	-	-	30	30
Appraisal Fees	20	-	-	-	-	10	-	-	-	-	-	-	10
Critical Supplier Pre-Filing Payments	-	-	-	-	-	-	-	-	-	-	-	-	-
Contingency	21	-	-	10	-	-	-	10	-	-	-	10	30
<b>Total Operating Cash Disbursements</b>		<b>211</b>	<b>90</b>	<b>24</b>	<b>115</b>	<b>83</b>	<b>91</b>	<b>26</b>	<b>56</b>	<b>79</b>	<b>45</b>	<b>78</b>	<b>900</b>
<b>Non-Operating Cash Disbursements</b>													
Proposal Trustee/Monitor Fees	22	-	-	-	-	-	-	-	-	-	-	-	-
Proposal Trustee/Monitor Disbursements	22	-	-	-	-	-	-	-	-	-	-	-	-
Proposal Trustee/Monitor Counsel Fees	22	-	-	-	-	-	-	-	-	-	-	-	-
MLT Aikins Fees	22	-	-	-	-	-	-	-	-	-	-	-	-
Stikeman Elliot	22	-	-	-	-	-	-	-	-	-	-	-	-
Proposed Key Employee Retention Plan	23	-	-	-	-	-	-	-	-	-	-	97	97
Working Capital Corporation	24	-	-	11	-	-	-	-	-	-	-	-	11
<b>Total Non-Operating Cash Disbursements</b>		<b>-</b>	<b>-</b>	<b>11</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>97</b>	<b>107</b>
<b>Net Cash Flow</b>		<b>(191)</b>	<b>(18)</b>	<b>(35)</b>	<b>(115)</b>	<b>133</b>	<b>(91)</b>	<b>150</b>	<b>101</b>	<b>(79)</b>	<b>(26)</b>	<b>(175)</b>	<b>(346)</b>
<b>Opening Cash</b>		<b>(1,481)</b>	<b>(1,672)</b>	<b>(1,690)</b>	<b>(1,725)</b>	<b>(1,840)</b>	<b>(1,706)</b>	<b>(1,798)</b>	<b>(1,648)</b>	<b>(1,547)</b>	<b>(1,626)</b>	<b>(1,651)</b>	<b>(1,481)</b>
Net Cash Flow		<b>(191)</b>	<b>(18)</b>	<b>(35)</b>	<b>(115)</b>	<b>133</b>	<b>(91)</b>	<b>150</b>	<b>101</b>	<b>(79)</b>	<b>(26)</b>	<b>(175)</b>	<b>(346)</b>
<b>Closing Cash</b>		<b>(1,672)</b>	<b>(1,690)</b>	<b>(1,725)</b>	<b>(1,840)</b>	<b>(1,706)</b>	<b>(1,798)</b>	<b>(1,648)</b>	<b>(1,547)</b>	<b>(1,626)</b>	<b>(1,651)</b>	<b>(1,827)</b>	<b>(1,827)</b>

UNAUDITED CASH FLOW FORECAST TO BE READ IN CONJUNCTION WITH THE NOTES AND ASSUMPTIONS

SugarBud Craft Growers Corp., Trichome Holdings Corp.  
and 1800905 Alberta Ltd.

  
Dan Wilson  
Interim CFO, President, CEO & Chairman

Alvarez & Marsal Canada Inc. - Court appointed Monitor

  
Orest Konowalchuk, LIT  
Senior Vice President

**SugarBud Craft Growers Corp., Trichome Holdings Corp. and 1800905 Alberta Ltd.**  
**Management Prepared 11 Week Cash Flow Forecast**  
**For the period from January 11, 2023 to March 24, 2023**

**Notice to Reader**

In preparing this cash flow forecast (the "**Forecast**"), the Company has relied upon unaudited financial information and has not attempted to further verify the accuracy or completeness of such information. The Forecast includes assumptions discussed below with respect to the requirements and impact of a filing 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 during the Forecast period 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 protections will be realized. The Forecast is presented in thousands of Canadian dollars.

**Notes:**

- 1) Alberta (AGLC) Receipts: Represents forecast collections from the Alberta Gaming and Liquor Corporation (AGLC), a crown corporation who is the sole authorized distributor for the province. A 2% discount has been included as per the payment terms stipulated in the supply agreement.
- 2) British Columbia (BCLBD) Receipts: Represents forecast collections from the BC Liquor Distribution Branch (BCLDB), a crown corporation who is the sole authorized distributor for the province.
- 3) Ontario (OCS) Receipts: Represents forecast collections from the Ontario Cannabis Store (OCS), a crown corporation who is the sole authorized distributor for the province. A 0.3% data subscription fee has been included as per the supply agreement.
- 4) Yukon (YLC) Receipts: Represents forecast collections from the Yukon Liquor Corporation (YLC), a crown corporation who is the sole authorized distributor for the territory.
- 5) Forecast receipt of amount outstanding of \$6,320 as per medical sale agreement with Mendo Cannabis. Payments have not been received for shipments since February 2022, and as a result no further sales will be made until collections are received.
- 6) Estimated realizable values for flower and other product inventory are based on input from management, and which may vary materially. Considerable uncertainty exists as to whether the inventory will transact at market prices, and as a result the inventory sales may be materially lower than forecast.
- 7) The Monitor received approximately \$27,000 from Tritecha Inc., pursuant to a Court ordered distribution. The Monitor is currently holding these funds in trust pursuant to the Court Order, and such funds may not be utilized by the Company or Monitor until further Order of the Court.
- 8) Payroll and Employee Benefits: Payroll includes estimated employee and CEO payroll, Alberta Workers' Compensation Board (WCB) payments, and employee group benefits. Amounts do not include payment of outstanding source deductions (approximately \$330,000) or outstanding employee expenses (approximately \$154,000). Amounts also include forecast costs of one contractor who completes bookkeeping and accounting services for SugarBud.
- 9) Insurance includes product recall insurance, property, equipment breakdown, general liability insurance.
- 10) Excise Tax Payment: Management estimates that Sugarbud has approximately \$1.1 million in outstanding excise taxes owing as at July 31, 2022. Excise taxes owing are assumed to be paid by the company 45 days after month end.
- 11) Utilities and Taxes include forecast monthly electricity, natural gas, water, property taxes, and backup power charges. Post-filing utility payments are to be made in normal course and are based on historical costs and input from the Companies management.
- 12) Production Components, Supplies and Services: Production components and supplies include critical production components required for revenue generating PO fulfillment. Includes product jars, lids, labels, tubes, seals, QA/QC test kits and supplies, lab release certificates and marketing services. Forecast based on historical averages and input from Sugarbud management.
- 13) Facility Maintenance and Services: Includes waste and recycling services, mechanical maintenance and lease payments, lease payments on facility operating equipment, sanitation and maintenance supplies.
- 14) Cultivation Components and Supplies: Payments for cultivation supplies such as nutrients, pest management supplies and Grodan blocks. Forecast based on historical averages and input from company management.
- 15) IT and Compliance Software Fees: Includes seed to sale IT software, NAV 365 ERP software costs, and facility security monitoring fees.
- 16) Facility PPE: Includes payments for production and cultivation personal protective equipment.
- 17) Payments to freight companies for shipments to provincial distributors and for shipment of inventory sales.
- 18) Compliance fees include forecast TSX administrative fees.
- 19) Estimated Ontario provincial sales tax owing for shipments made to the OCS from the period of October 1, 2022 to December 31, 2022.
- 20) Estimated fees to completed appraisal of production facility in Stavelly, Alberta.
- 21) A contingency of \$10,000 per month has been assumed to account for unexpected costs that the company may incur during the CCAA proceedings.
- 22) Forecast professional fees of the Monitor, its legal counsel (Burnet, Duckworth & Palmer LLP) and those fees and costs of the Companies' legal advisors. The outstanding fees for the period from November 1, 2022 to December 31, 2022 for all parties are approximately \$196,000, and fees over the forecast period are estimated to be \$240,000. The professionals will, in consultation with the interim financing lender, be relying on the administrative charge for the interim period.
- 23) Proposed key employee retention program ("KERP") for five employees to maintain the Companies' Health Canada License. The KERP is subject to approval by the interim financing lender.
- 24) Forecast payments to Working Capital Corporation for the completion of Q3 2022 financial statements.