

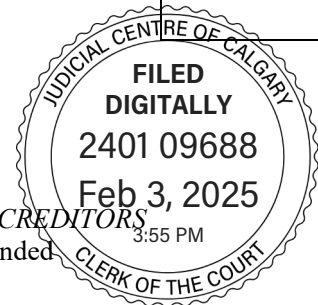
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COURT COURT OF KING'S BENCH OF ALBERTA

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 A PLAN OF COMPROMISE OR  
ARRANGEMENT OF DELTA 9 CANNABIS INC., DELTA 9  
BIO-TECH INC., DELTA 9 LIFESTYLE CANNABIS CLINIC  
INC., DELTA 9 CANNABIS STORE INC., AND DELTA 9  
LOGISTICS INC.

DOCUMENT **SEVENTH REPORT OF THE MONITOR  
ALVAREZ & MARSAL CANADA INC.**

**February 3, 2025**

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## INTRODUCTION

1. On July 15, 2024 (the "**Filing Date**"), Delta 9 Cannabis Inc. ("**Delta Parent**"), Delta 9 Bio-Tech Inc. ("**Bio-Tech**"), Delta 9 Lifestyle Cannabis Clinic Inc. ("**Lifestyle**"), Delta 9 Cannabis Store Inc. ("**Store**") and Delta 9 Logistics Inc. ("**Logistics**") and collectively, the "**Delta 9 Group**", the "**Company**" or the "**Applicants**" were granted an initial Order (the "**Initial Order**") by the Court of King's Bench of Alberta (the "**Court**"), in relation to proceedings (the "**CCAA Proceedings**") under the *Companies' Creditors Arrangement Act*, RSC 1985, c C-36, as amended (the "**CCAA**"), that, among other things:
  - a) appointed Alvarez & Marsal Canada Inc. ("**A&M**") as monitor (the "**Monitor**") in the CCAA Proceedings;
  - b) ordered a stay of proceedings in favour of the Applicants through to July 25, 2024 (the "**Stay Period**"); and
  - c) granted an administration charge to a maximum amount of \$350,000 (the "**Administration Charge**") and a directors and officers charge to a maximum amount of \$300,000 (the "**Directors' Charge**").
2. On July 24, 2024, the Applicants sought and obtained the following relief from this Honourable Court:
  - a) an amended and restated Initial Order (the "**ARIO**");
  - b) an Order (the "**Bio-Tech SISP Order**") approving a sales and investment solicitation process with respect to Bio-Tech (the "**SISP**"); and
  - c) an Order (the "**Claims Procedure Order**") approving a claims procedure to determine the claims of creditors and establish a claims bar date to prove such claims (the "**Claims Procedure**").

3. The ARIO, among other things:
  - a) extended the Initial Stay Period to September 15, 2024;
  - b) approved the interim financing facility (the "**Interim Financing Facility**") and related charge (the "**Interim Financing Charge**") in the amount of \$16 million, plus interest, costs and expenses;
  - c) approved a key employee retention plan (the "**KERP**") and related charge (the "**KERP Charge**") in the amount of \$655,000;
  - d) increased the Administration Charge from \$350,000 to \$750,000;
  - e) increased the Directors' Charge from \$300,000 to \$900,000, and extended the same in favour of legal counsel of the directors and officers of the Applicants, Norton Rose Fulbright LLP;
  - f) granted a break fee charge in favour of the Plan Sponsor (the "**Break Fee Charge**") of \$1.5 million; and
  - g) authorized the appointment of a chief restructuring officer (the "**CRO**").
4. Since the granting of the ARIO, the Applicants have sought and obtained various orders from this Honourable Court approving a number of extensions to Stay Period, an amended Interim Financing Facility, the sale and vesting of certain assets of Bio-Tech to 10213358 Manitoba Ltd. ("**102 MB Ltd.**"), and an Affected Creditors meeting (the "**Creditors Meeting**") order to vote on the Applicant's proposed (amended) plan of arrangement (the "**Plan**").
5. On January 10, 2025, the Applicants sought and obtained the following relief from this Honourable Court:
  - a) an extension of the Stay Period to February 28, 2025 and sanctioning the Plan (the "**Sanction Order**"); and

- b) approval of the actions, activities and conduct of the Monitor, along with the fees and disbursements of the Monitor and its counsel, as set forth in the Sixth Report.
- 6. On January 29, 2025, the Court released a written decision in these CCAA Proceedings (the "**Written Decision**"),<sup>1</sup> which approved the following relief sought by the Applicants on January 10, 2025:
  - a) approval of the Asset Purchase Agreement between Bio-Tech and 6599362 Canada Ltd. ("**659**") (the "**659 APA**" or "**659 Transaction**") and the transaction contemplated therein, and a corresponding sale approval and vesting order ("**SAVO**"); and
  - b) approval of the Share Purchase Agreement between Delta Parent, Bio-Tech and Simply Solventless Concentrates Ltd. ("**Simply**") (the "**Simply SPA**" or "**Simply Transaction**") and the transaction contemplated therein, and a corresponding approval and reverse vesting order ("**ARVO**").
- 7. The Monitor has filed an application with this Honourable Court, returnable February 11, 2025 (the "**Distribution Application**"). The relief sought by the Monitor at the Distribution Application will include the following:
  - a) authorizing a distribution of the Bio-Tech Proceeds (defined below) to SNDL; and
  - b) such further and other relief as may be sought by the Monitor and this Honourable Court may deem appropriate in these CCAA Proceedings.

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<sup>1</sup> *Delta 9 Cannabis Inc (Re)*, 2025 ABKB 52

8. Capitalized terms not defined in this Monitor's Seventh Report (this "**Report**" or the "**Seventh Report**") are as defined in the ARIO, the Prior Monitor Reports,<sup>2</sup> the Affidavits of John Arbuthnot and any supplements thereto sworn in these CCAA Proceedings (the "**Arbuthnot Affidavits**") or the materials filed by the Applicants, the Plan Sponsor, or any other party in connection with the CCAA Proceedings.

## PURPOSE

9. The purpose of this Report is to provide information to this Honourable Court in respect of the following:
- a) an update on the activities of the Monitor since the Sixth Report;
  - b) an update on the settlement of the SDNL Debenture dispute;
  - c) an update on the 659 Transaction and the Simply Transaction;
  - d) the proposed distribution of the Bio-Tech Proceeds; and
  - e) the Monitor's overall recommendation in respect of the foregoing.

## TERMS OF REFERENCE AND DISCLAIMER

10. 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 Applicants and has held discussions with the Applicants' management ("**Management**") and their respective counsel and directors (collectively, the "**Information**"). Except as otherwise described in this Report, in respect of the Applicants' cash flow forecast:

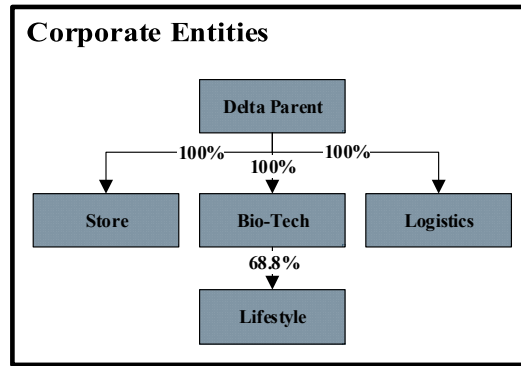
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<sup>2</sup> The Pre-Filing Report dated July 12, 2024, the First Report dated July 22, 2024, the Second Report dated September 10, 2024, the Third Report dated October 29, 2024, the Fourth Report dated November 13, 2024, the Fifth Report of the Monitor dated November 26, 2024, the Sixth Report dated January 6, 2025 (the "**Sixth Report**") and the Supplemental Sixth Report dated January 9, 2025 (the "**Supplemental Sixth Report**"), collectively referred to as the "**Prior Monitor Reports**".

- 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.
11. Future-oriented financial information referred to in this Report was prepared based on the Applicants' 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.
12. Unless otherwise stated, all monetary amounts contained in this Report are expressed in Canadian dollars.

## **BACKGROUND**

13. The Delta 9 Group is engaged in cannabis cultivation, processing, extraction, wholesale distribution, retail, and business-to-business sales. The Delta 9 Group's organizational chart is summarized below:



14. Further information regarding the Delta 9 Group's ownership structure and operations, the cause of the Applicants' insolvency and these CCAA Proceedings, including the Initial Order, the ARIO, other Orders of this Honourable Court, the Arbuthnot Affidavits, other affidavits and the Prior Monitor's Reports are available on the Monitor's website at: [www.alvarezandmarsal.com/delta9](http://www.alvarezandmarsal.com/delta9) (the "**Monitor's Website**").

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

15. The Monitor's activities since the filing of the Sixth Report have included, among other things, the following:
- a) engaging with its independent legal counsel, Burnet, Duckworth & Palmer LLP and Taylor McCaffrey LLP (the "**Monitor's Counsel**") regarding various matters pertaining to these CCAA Proceedings;
  - b) engaging in various communications with the Applicants regarding the 659 Transaction and the Simply Transaction, along with the CRO, Management, the Monitor's Counsel and various stakeholder counsel;
  - c) reviewing and discussing weekly payables with Management;
  - d) reviewing the Delta 9 Group's bank details and assisting the Delta 9 Group with the compilation of their budget to actual reporting for purposes of providing the same to this Honourable Court;



- e) providing a weekly update on cash flows to SNDL; and
- f) ongoing monitoring of the Delta 9 Group's financial affairs.

## **SNDL DEBT SETTLEMENT**

16. SNDL is the senior secured lender to the Companies pursuant to two different loan facilities (collectively, the "**SNDL Facilities**");

- a) a commitment letter dated February 1, 2022 in the initial principal amount of \$32,000,000, originally between Connect First Credit Union as lender and Delta 9 Parent as borrower, which was assigned to SNDL on July 5, 2024 (the "**1L Debt**"); and
- b) a 10% Senior Secured Second Lien Convertible Debenture dated March 30, 2022, in the original principal amount of \$10,000,000 between SNDL and Delta 9 Parent (the "**2L Debt**").

17. Each of the Applicants have granted security in favour of SNDL in support of 1L Debt and the 2L Debt, and, with the exception of Delta 9 Parent, have also guaranteed Delta 9 Parent's obligations under the SNDL Facilities.

18. During the course of the CCAA Proceedings, SNDL, the Company and the Plan Sponsor disagreed on the appropriate interpretation of the 2L Debt documents and the quantum of the 2L Debt. Ultimately, the parties scheduled a hearing before this Honourable Court on February 11, 2025 for a determination of the disputes surrounding the 2L Debt.

19. The Plan requires full repayment, but does not determine the quantum, of the 1L Debt and the 2L Debt on or before the Implementation Date.

20. On or around September 12, 2024, the Plan Sponsor paid the undisputed amount of the 2L Debt to SNDL, totaling approximately \$11.6 million

21. The Company, the Plan Sponsor, and SNDL have been engaged in discussions regarding the settlement of the amounts owing to SNDL, and in particular with respect to approximately \$3.5 million of the 2L Debt that is in dispute between the parties (the "**Disputed Amount**"). The Disputed Amount consists of approximately \$2.9 million in interest and approximately \$615,000 comprised of protective disbursements and other costs.
22. The Company, the Plan Sponsor and SNDL plan to enter into a settlement agreement (the "**Settlement Agreement**") in the coming days, under which the Plan Sponsor has agreed to make the following payments:
- a) \$26,973,705, inclusive of all interest and costs, in full and final satisfaction of the 1L Debt (the "**1L Payout Amount**"), to be paid the earlier of the Implementation Date of the Plan or April 30, 2025; and
  - b) \$1,000,000, inclusive of all interest and costs, in full satisfaction of the 2L Debt (the "**2L Payout Amount**"), to be paid within three business days of the effective date of the Settlement Agreement.
23. As a result of the Settlement Agreement, the hearing originally scheduled to occur on February 11, 2025 is no longer necessary, and instead is being utilized to hear the Distribution Application.

## **UPDATE ON THE 659 AND SIMPLY TRANSACTIONS**

### ***659 Transaction<sup>3</sup>***

24. Pursuant to the SAVO granted by this Honourable Court in the Written Decision, the Company has been authorized to proceed with the sale of the Bio-Tech Facility to 659 under the terms of the 659 APA. The 659 APA outlined the key terms of the transaction, including the purchase price, conditions precedent and timelines for

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<sup>3</sup> Capitalized terms used in this section and not otherwise defined shall have the meanings ascribed to them in the 659 APA and the SAVO.

closing, as described in detail in the Sixth Report and the Supplemental Sixth Report.

25. The 659 Transaction maximized value for the Company's stakeholders and was also necessary to facilitate the restructuring process. The Monitor's views on the 659 Transaction, including the reasons underlying its support, are detailed in the Sixth Report. As noted in the Sixth Report, the sale represented the highest and best offer received for the Bio-Tech Facility during the SISP.
26. The Monitor understands that the 659 Transaction is expected to close in February 2025, with all conditions precedent under the 659 APA to be either satisfied or waived prior to closing.
27. The Monitor also understands that that Bio-Tech and 659 do not anticipate any material adjustments to the 659 Transaction, and that the purchase price, subject to any minor adjustments, will be paid in full to the Monitor on the closing date.

#### ***Simply Transaction<sup>4</sup>***

28. Pursuant to the ARVO approved by this Honourable Court on January 29, 2025, the Company has been authorized to proceed with the sale of the Bio-Tech Shares to Simply under the terms of the Simply SPA. The Simply APA outlines the key terms of the transaction, including the purchase price, conditions precedent and timelines for closing, as described in detail in the Sixth Report and the Supplemental Sixth Report.
29. The Simply Transaction also served to maximize value for the Company's stakeholders and was necessary to facilitate the restructuring process. The Monitor's views on the Simply Transaction, including the reasons underlying its support, are detailed in the Sixth Report. As noted in the Sixth Report, the sale

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<sup>4</sup> Capitalized terms used in this section and not otherwise defined shall have the meanings ascribed to them in the Simply SPA or the ARVO

represented the highest and best offer received for the Bio-Tech Shares during the SISP.

30. The Simply Transaction is expected to close on or around February 7, 2025, with all conditions precedent under the Simply SPA to be either satisfied or waived prior to closing.
31. The Monitor understands that there are no anticipated adjustments to the Simply Transaction, and that the purchase price will be paid in full to the Monitor on the closing date.

### **PROPOSED DISTRIBUTION OF BIO-TECH PROCEEDS**

32. Following the closing of the 659 Transaction and the Simply Transaction, the Monitor will hold in excess of \$13.8 million in its bank account (collectively, the **"Bio-Tech Proceeds"**).
33. The Monitor's Counsel has conducted a review of the security held by SNDL, including the security granted by Bio-Tech in connection with the 1L Debt, (the **"SNDL Security"**). The Monitor's Counsel has expressed its opinion to the Monitor that, subject to qualifications and assumptions customary in matters of this nature, the SNDL Security is enforceable in accordance with its terms.
34. Pursuant to the SAVO and ARVO, the Monitor is not permitted to distribute the Bio-Tech Proceeds without further order from this Honourable Court. Accordingly, the Monitor is seeking approval to distribute approximately \$13.8 million to SNDL as a partial paydown of the 1L Debt.
35. The Monitor is not aware of any other claimant that ranks in priority to the SNDL Security, apart from the Administration Charge, which, together with the claims of the beneficiaries thereunder, will continue against ResidualCo.

## CONCLUSIONS AND RECOMMENDATIONS

36. Based on the current information that has been made available to the Monitor, the Monitor has concluded that the relief sought is appropriate and is consistent with the Plan and previous Orders granted by this Honourable Court in these proceedings. As a result, the Monitor respectfully recommends that this Honourable Court approve the distribution of the Bio-Tech Proceeds to SNDL.

All of which is respectfully submitted this 3<sup>rd</sup> day of February, 2025.

**ALVAREZ & MARSAL CANADA INC.,  
in its capacity as Monitor of Delta 9 Cannabis Inc.,  
Delta 9 Bio-Tech Inc., Delta 9 Lifestyle Cannabis Clinic Inc.,  
Delta 9 Cannabis Store Inc., and Delta 9 Logistics Inc., and  
not in its personal or corporate capacity**



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