

NO. S-226028  
VANCOUVER REGISTRY



IN THE SUPREME COURT OF BRITISH COLUMBIA

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  
SPEAKEASY CANNABIS CLUB LTD. AND 10161233 CANADA LTD.

*PROSEUTORS* PETITIONERS

SECOND REPORT OF THE MONITOR

CROWE MACKAY & COMPANY LTD.

AUGUST 18, 2022

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## I. INTRODUCTION

1. On July 27, 2022 (the "**Filing Date**"), the Supreme Court of British Columbia granted Speakeasy Cannabis Club Ltd. ("**Speakeasy**") and 10161233 Canada Ltd. ("**1233**") (collectively, the "**Petitioners**" or the "**Companies**"), relief pursuant to an Order (the "**Initial Order**") made under the *Companies' Creditors Arrangement Act*. R.S.C. 1985, c. C-36, as amended (the "**CCAA**").
2. The Initial Order included, *inter alia*, the following:
  - a) appointed Crowe MacKay & Company Ltd. ("**Crowe**") as monitor of the Petitioners in these CCAA proceedings (the "**Monitor**");
  - b) granted an initial stay of proceedings until and including August 5, 2022 (the "**Initial Stay Period**");
  - c) authorized the payment of retainers to the Monitor, counsel to the Monitor and counsel to the Petitioners in the amounts of \$50,000, \$25,000 and \$50,000 respectively;
  - d) appointed Helmsman Management Ltd. (the "**Interim CFO**") as chief financial officer of the Petitioners and authorized the payment of a retainer to same in the amount of \$50,000;
  - e) approved an administration charge in the aggregate amount of \$150,000 (the "**Administration Charge**") to the Monitor, counsel to the Monitor and counsel to the Petitioners; and,
  - f) approved a charge to the Interim CFO in the amount of \$50,000 (the "**CFO Charge**"), ranking subordinate to the Administration Charge.
3. On August 5, 2022 this Honourable Court granted an amended and restated Initial Order (the "**ARIO**") which included, *inter alia*, the following:
  - a) extension of the stay of proceedings up to and including August 22, 2022 (the "**First Extension**");
  - b) increase in the Administration Charge in aggregate to \$350,000; and,
  - c) increase in the CFO Charge to \$60,000.
4. This Second Report (defined below) should be read in conjunction with the First Report of the Monitor dated August 3, 2022, the supporting affidavit of Mr. John Parkinson sworn on August 18, 2022 (the "**First Parkinson Affidavit**"), and the Petitioners' notice of application dated August 18, 2022.
5. The Monitor has made the materials related to these proceedings available on its website at: <https://www.crowemackayco.ca/engagements/recent-engagements> (the "**Monitor's Website**").

## II. PURPOSE

6. The purpose of this second report of the Monitor (the "**Second Report**") is to provide information to this Honourable Court and the stakeholders of the Petitioners regarding the following:
  - a) activities of the Petitioners since the ARIO with respect to its restructuring efforts;
  - b) activities of the Monitor since the ARIO;
  - c) an update on the actual results of the cash flow forecast prepared by the Companies;
  - d) an update on the Petitioners' efforts as it relates to undertaking a sale and investment solicitation process (the "**SISP**");
  - e) request for an extension to the Initial Stay Period up to and including October 6, 2022;
  - f) a summary of the relief sought as it relates to the debtor-in-possession ("**DIP**") facility (the "**DIP Facility**"); and,
  - g) the Monitor's conclusions and recommendations.

## III. TERMS OF REFERENCE

7. In preparing this Second Report, the Monitor has necessarily relied upon audited and unaudited financial and other information provided by the Companies, the Companies' books and records, and discussions with management of the Companies, namely Mr. Marc Geen and Mr. Sean Kulak ("**Management**"), along with discussions with the Interim CFO (collectively, the "**Information**").
8. Crowe has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would wholly or partially comply with Generally Accepted Auditing Standards pursuant to the Chartered Professional Accountants Handbook. Accordingly, Crowe expresses no opinion and does not provide any other form of assurance on the accuracy and/or completeness of any information used to prepare this First Report.
9. Certain of the information referred to in this Second Report consists of financial forecasts and/or projections prepared by the Companies. An examination or review of the financial forecasts/projections and procedures as outlined by the Chartered Professional Accountants of Canada has not been performed by Crowe. Readers are cautioned that since financial forecasts and/or projections are based upon assumptions of future events and conditions that are not ascertainable, actual results may vary and the variations could be material.
10. All monetary amounts contained in this Second Report are expressed in Canadian dollars unless otherwise noted.

## IV. ACTIVITIES OF THE PETITIONERS SINCE THE ARIO

11. Since the date of the ARIO, the Petitioners activities included, *inter alia*, the following:

- a) worked with the Monitor and the Interim CFO to, among other things, develop procedures for the ongoing operations of the Companies during these proceedings;
- b) provided the Monitor weekly cash flow monitoring reports for the period of July 27, 2022 to August 14, 2022;
- c) communicated with stakeholders regarding the CCAA proceedings;
- d) met with several potential lenders in efforts to obtain DIP financing, and set up a data room to provide preliminary information to these same potential lenders;
- e) renewed the Companies' insurance policy;
- f) executed a term sheet relating to the DIP Facility, as further discussed below; and,
- g) met with various parties to discuss a number of matters including a potential SISF that the Petitioners intend to commence in the short-term.

## V. ACTIVITIES OF THE MONITOR SINCE THE ARIO

12. Since the date of the ARIO, the Monitor has undertaken, *inter alia*, the following activities:
- a) published the second notice of the CCAA proceedings in the August 5, 2022 edition of the Vancouver Sun;
  - b) completed and filed the requisite statutory documentation with the Office of the Superintendent of Bankruptcy;
  - c) attended numerous meetings and discussions with Management, counsel for the Petitioners, counsel for the Monitor and the Interim CFO regarding, among other things, ongoing operations, financial affairs, restructuring efforts, particulars of assets and liabilities, cash flows, variance analysis, potential SISF, DIP financing, insurance and other matters relating to these CCAA proceedings;
  - d) reviewed the terms of the DIP Facility, and provided comments to the Petitioners with respect to same;
  - e) attended to various inquiries from numerous creditors, shareholders, and other stakeholders;
  - f) prepared weekly cash flow monitoring reports including a variance analysis for the period of July 27, 2022 through to August 14, 2022; and,
  - g) prepared this Second Report.

## VI. PROJECTED VS ACTUAL CASH FLOWS

13. On or around August 3, 2022, the Petitioners prepared amended cash flow projections for the period of July 27, 2022 to November 6, 2022 (the "**Amended Cash Flow Projections**"). Attached hereto as **Appendix "A"** is a copy of the Amended Cash Flow Projections.
14. The Monitor and the Petitioners prepared an actual to budget cash flow variance analysis ("**Variance Analysis**") for the period July 27, 2022 to August 14, 2022. The Variance Analysis is summarized in the following table:

Actual to Projected Cash Flow from July 27 to August 14, 2022	Total Projected	Total Actual	Variance (\$)	Variance (%)
<b>Cash Inflows</b>				
Accounts Receivable Collections	97,800	170,243	72,443	74%
Revenue From Sale of Goods	169,126	124,000	(45,126)	-27%
Additional Financing Required	-	-	-	0%
<b>Total Cash Inflows</b>	<b>266,926</b>	<b>294,243</b>	<b>27,317</b>	<b>10%</b>
<b>Cash outflows</b>				
Cost of Sales	64,037	116,371	52,334	82%
Contingency	15,000	5,304	(9,696)	-65%
Operating Expenses	45,084	5,409	(39,675)	-88%
Professional fees - General	23,564	14,514	(9,050)	-38%
Professional fees - Restructuring	-	-	-	0%
GST Payment	-	-	-	0%
Utilities	5,283	-	(5,283)	-100%
Wages & Benefits	196,261	186,110	(10,151)	-5%
<b>Total Cash Outflows</b>	<b>349,229</b>	<b>327,708</b>	<b>(21,521)</b>	<b>-6%</b>
<b>Opening Cash</b>	<b>144,859</b>	<b>239,523</b>	<b>94,664</b>	<b>65%</b>
<b>Change in Cash</b>	<b>(82,303)</b>	<b>(33,465)</b>	<b>(215)</b>	<b>0%</b>
<b>Closing Cash</b>	<b>62,557</b>	<b>206,058</b>	<b>143,502</b>	<b>229%</b>

15. The Monitor has reviewed the Variance Analysis and discussed the Petitioners' ongoing operations with Management and the Interim CFO. The Monitor is not aware of any material variances nor is the Monitor aware of any matters that may otherwise be considered a material adverse change. The Monitor has noted the following non-material and/or non-adverse variances from the Amended Cash Flow Projections:

- a) The total cash inflows were \$27,317 more than projected, largely due to faster than anticipated collection of certain accounts receivable;
- b) Cost of sales were \$52,334 more than projected, with numerous payments being made prior to the commencement of these restructuring proceedings clearing the bank during the Stay Period. These payments were initially contemplated in the Amended Cash Flow Projections as a decreased opening cash balance, however did not clear the bank until the commencement of these proceedings;
- c) operating expenses were \$39,675 less than projected as a result of a payment for insurance being withdrawn from the Companies' bank account later than anticipated; and,
- d) As a result of the above variances, the Petitioners have \$85,683 more in cash than projected in the Amended Cash Flow Projections.

16. During its review of the weekly cash flow reports, the Monitor identified one payment of a pre-filing obligation which is prohibited by the ARIO in the approximate amount of \$5,700 relating to a contractor. Management advised that this was an oversight and the payment was inadvertently made as the contractor is often thought of as an employee. Management acknowledged the oversight and will make good faith efforts going forward to ensure similar payments are vetted in greater detail.

17. In or around the date of this Second Report, the work in progress accrued for professional fees from restructuring totaled \$250,216.72; and is summarized as follows:

<b>Professional Firm</b>	<b>Role</b>	<b>Work in Progress</b>
Crowe MacKay & Company Ltd.	Monitor	\$ 52,310.51
Dentons LLP	Counsel to Monitor	18,845.21
Clark Wilson LLP	Counsel to Petitioners	123,161.50
Helmsman Management Ltd.	Interim CFO	55,899.50
<b>TOTAL</b>		<b>\$ 250,216.72</b>

18. The Amended Cash Flow Projections contemplate a payment of professional fees for restructuring upon receipt of the DIP Financing of \$125,000 and \$235,000 in week 5 and 6 respectively. The \$125,000 disbursement relates to the payment of retainers to each professional service firm, while the \$235,000 disbursement relates to the payment of work in progress accrued by the professional service firms. Accordingly, the work in progress billed by the above parties is currently about \$15,000 more than projected. The variance relates primarily to the Interim CFO and the increased reliance on their services by the Petitioners. Payment of these professional fees is expected upon receipt of the DIP Financing.

## **VII. SALE AND INVESTMENT SOLICITATION PROCESS**

19. The Petitioners advised that they are currently working towards a SISP. Management advised that the secured lender is interested in putting forward a stalking horse bid, but will require until the end of August 2022 to complete its due diligence. Management advised that it was agreeable to this timeframe.
20. In the event that a stalking horse bid is not received by the end of August 2022, Management advised that the Companies will consider commencing a SISP without a stalking horse bid.
21. Management advised that it is currently working on improving the state of the accounting records to assist in providing more reliable information for the purposes of providing to interested parties during the SISP.

## **VIII. INTERIM FINANCING FACILITY**

22. As detailed in the Amended Cash Flow Projections, the Petitioners require interim financing for the following reasons:
- to continue operations during these CCAA proceedings, inclusive of the period covered by the Second Extension (defined below); and,
  - allow for the Petitioners to pursue the SISP at a later point in these CCAA proceedings.

23. Since the date of the Initial Order, Management has approached several potential lenders to secure DIP financing. Management advised it had approached about six separate lenders, and that all but two lenders indicated they were not interested based on, among other reasons, the limited scale of the facility, timing constraints, and/or concerns as it relates to the assets of the Petitioners including the land.
24. On or around August 12, 2022, the Petitioners executed an interim financing term sheet (the "**DIP Term Sheet**") provided by Travelers Capital Corp. (the "**DIP Lender**"). A copy of the DIP Term Sheet is attached hereto as **Appendix "B"**. The key financial terms of the DIP Term Sheet include the following:
- a) the DIP Facility would be made available up to a maximum amount of \$1 million (the "**Maximum Amount**"), inclusive of fees. Draws may be made in minimum installments of \$100,000, with a maximum of two draws per month.
  - b) the DIP Facility will bear interest at an annual rate equal to the Royal Bank of Canada prime rate, plus 725 basis points. Interest is calculated in arrears, and is payable monthly;
  - c) the DIP Facility will be secured by a charge on all of the Petitioners' assets, to the Maximum Amount plus all accrued and unpaid interest and any unpaid fees, costs and expenses (the "**DIP Charge**"). The DIP Charge will be subordinate to only the Administration Charge of not more than \$420,000;
  - d) the DIP Facility includes the following fees:
    - i. commitment fee – equal to 4.25% of the Maximum Amount, and is payable no later than the closing date. Of the commitment fee, \$25,000 is payable upon completion of all due diligence;
    - ii. standby fee – equal to 2.50% per annum of the difference between the Maximum Amount and the amounts outstanding under the facility. This is calculated daily and is payable monthly; and,
    - iii. break fee – equal to 5.00% of the Maximum Amount, and is payable in the event that the Petitioners obtain court approval for an alternative financier to the DIP Lender.
  - e) the DIP Facility will be serviced by payments of interest-only during the term of the loan;
  - f) the Petitioners will pay all reasonable costs incurred by the DIP Lender relating to the DIP Facility; and,
  - g) the termination date of the DIP Facility is the earliest of the following:
    - i. 6 months from the date of the approval of the DIP Facility;
    - ii. the date the stay of proceedings expires in these proceedings without an extension; and,
    - iii. 10 days following written notice being provided by the DIP Lender to the Petitioners of an event of default.
25. The Monitor has reviewed the DIP Term Sheet and believes the terms are fair, reasonable, and consistent with similar interim financing loans. Accordingly, the Monitor supports the Petitioners' request for the approval by this Honourable Court of the DIP Facility and the DIP Charge.



26. The DIP Term Sheet was subject to the satisfaction of certain conditions precedents. On August 18, 2022, the DIP Lender confirmed with the Petitioners that the due diligence conditions precedents have been satisfied. As of the date of this Second Report, the closing of the DIP Facility and the advance of funds thereunder is subject only to approval by the Honourable Court, without appeal.
27. As at the date of this Second Report, the Monitor is not aware of any stakeholders objecting to the terms of either this DIP Facility or the DIP Charge.

## IX. PETITIONERS' REQUEST TO EXTEND THE STAY OF PROCEEDINGS

28. The First Extension is set to expire on August 22, 2022. The Petitioners are requesting a second extension (the "**Second Extension**") of the stay of proceedings up to and including October 6, 2022. The Monitor believes that the Second Extension is reasonable and will provide the Petitioners with sufficient time to focus on the following:
  - a) close the DIP Facility transaction, so that funds can be advanced for the restructuring proceedings;
  - b) efforts to stabilize the business and normalize operations;
  - c) negotiate the terms of a stalking horse bid, should one be submitted;
  - d) prepare materials so that the Petitioners can seek approval by this Honourable Court to undertake a SISP;
  - e) allow the Petitioners and Interim CFO to bring the accounting to a more reliable and accurate state; and,
  - f) allow the Monitor to conduct its assessment of the Petitioners financial affairs.
29. The Monitor has considered the following in determining the reasonableness of the request for the Extension:
  - a) The Amended Cash Flow Projection supports the Second Extension, with the Petitioners having sufficient funds, assuming the approval of the DIP Facility, to finance operations for the period up to and including October 6, 2022; and,
  - b) The Petitioners have acted in good faith and with due diligence in these initial CCAA proceedings.
30. Based on the above, the Monitor recommends that this Honourable Court extend the stay of proceedings up to and including October 6, 2022.

## X. RECOMMENDATIONS

31. Based on the above, the Monitor recommends that this Honourable Court grant the following relief:
  - a) an extension of the stay of proceedings up to and including October 6, 2022; and,
  - b) the approval of the DIP Facility and DIP Charge.

DATED AT the City of Vancouver, in the Province of British Columbia, the 18<sup>th</sup> day of August, 2022.

**CROWE MACKAY & COMPANY LTD.**

in its capacity as Court Appointed Monitor of  
Speakeasy Cannabis Club Ltd., and 10161223 Canada Ltd.  
and not its personal capacity

Per:

A handwritten signature in black ink, appearing to be 'Derek Lai', written over a horizontal line.

Derek Lai, CPA, CMA, CIRP, LIT, CFE  
Senior Vice President

# APPENDIX A

In the Matter of Speakeasy Cannabis Club Ltd. et al.  
For the 15 Week Period July 27 to November 6, 2022  
Cash Flow Statement

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
	27-Jul-22	01-Aug-22	08-Aug-22	15-Aug-22	22-Aug-22	29-Aug-22	05-Sep-22	12-Sep-22	19-Sep-22	26-Sep-22	03-Oct-22	10-Oct-22	17-Oct-22	24-Oct-22	31-Oct-22
	31-Jul-22	07-Aug-22	14-Aug-22	21-Aug-22	28-Aug-22	04-Sep-22	11-Sep-22	18-Sep-22	25-Sep-22	02-Oct-22	09-Oct-22	16-Oct-22	23-Oct-22	30-Oct-22	06-Nov-22
<b>Opening Cash</b>	144,859	175,093	89,023	62,557	35,822	97,994	129,722	185,542	89,286	231,478	59,086	119,502	67,345	108,816	225,340
<b>Cash Inflows</b>															
Accounts Receivable Collections	[3]	21,669	49,376	93,181	-	206,473	30,319	181,860	177,913	6,367	133,853	185,016	79,458	-	10,175
Revenue From Sale of Goods	[4]	13,992	109,645	45,488	45,488	82,895	143,926	87,863	45,488	45,488	45,488	45,488	45,488	309,655	407,843
Additional Financing Required	[5]	35,661	136,401	94,865	170,170	270,488	489,368	419,723	223,401	51,855	179,341	350,504	124,947	309,655	418,018
<b>Disbursements</b>															
Cost of Sales	[6]	750	37,270	26,018	16,628	33,270	14,520	33,670	14,520	34,878	15,020	33,670	14,520	34,878	15,020
Contingency	[7]	-	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500
Operating Expenses	[8]	4,677	6,472	33,935	15,022	6,430	11,735	121,067	3,019	6,430	11,735	7,748	5,287	6,430	11,735
Professional fees - General	[9]	-	23,564	-	-	23,564	-	23,564	-	23,564	-	23,564	-	23,564	-
Professional fees - Restructuring	[10]	-	-	-	125,000	235,000	-	210,000	-	-	-	210,000	-	-	-
GST Payment	[11]	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Utilities	[12]	-	4,583	700	4,200	580	32,700	-	-	-	-	-	-	-	-
Wages & Benefits	[13]	-	143,082	53,179	121,149	51,970	120,179	120,179	51,970	151,296	51,970	120,179	51,970	120,179	83,087
<b>Change in Cash</b>		5,426	222,470	121,331	196,905	208,317	457,640	515,979	81,209	224,248	118,925	402,661	83,477	193,131	150,042
	30,234	(86,070)	(26,466)	(26,735)	62,172	31,728	55,920	(96,256)	142,192	(172,393)	60,417	(52,157)	41,470	116,524	267,976
<b>Closing Cash</b>	175,093	89,023	62,557	35,822	97,994	129,722	185,542	89,286	231,478	59,086	119,502	67,345	108,816	225,340	493,316

Notes

# APPENDIX B



**SUMMARY OF APPROVAL TERMS FOR A SENIOR SECURED SUPER-PRIORITY  
DEBTOR-IN-POSSESSION CREDIT FACILITY**

*August 18, 2022*

**TO: JOHN PARKINSON**  
Helmsman Management Ltd.  
#400 – 602 Broughton Street, Victoria  
BC, V8W 1C7

**FROM: TRAVELERS CAPITAL CORP.**  
400 – 4180 Lougheed Hwy,  
Burnaby, BC, V5C 6A7

**Re: Debtor-in-Possession Financing Term Sheet**

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Travelers Capital Corp. (the “Lender” or “TCC”) is pleased to confirm our intention to proceed immediately with an assessment and complete underwriting of an senior secured super-priority debtor-in-possession credit facility available to the Borrower, pursuant to its court-approved power to borrow in the Proceeding. This summary of approval terms (“Proposal”) is not a formal credit agreement for the DIP financing.

- Borrower(s):** Speakeasy Cannabis Club Ltd., 10161233 Canada Ltd., and any other entity as deemed necessary by the Lender and / or its counsel (collectively referred to herein as the “Borrower”).
- Trustee:** Crowe MacKay & Company Ltd.
- CCAA Case:** Proceedings to be commenced / have commenced in the Supreme Court of British Columbia (the “Court”) pursuant to the *Companies’ Creditor Arrangement Act* in the matter of the Borrower (the “Proceeding”). The initial order to be sought / granted in the Proceeding is referred to as the “Initial Order”.
- Credit Facility:** Subject to Court approval in the Proceeding, a senior secured non-revolving super-priority, debtor-in possession interim credit facility up to the Maximum Amount (as defined below) would be made available to the Borrower for interim financing on the general terms set out herein (the “DIP Financing”).
- Maximum Amount:** DIP Financing to be made available up to a maximum amount of \$1,000,000.00 (the “Maximum Amount”), inclusive of any Commitment Fees (defined below) to be financed by the Lender.
- Availability** On and after the date on which the Conditions Precedent shall have been satisfied, the Borrower may request advances under the DIP Financing by delivering to the Lender not less than five (5) business days prior to the requested advance, a drawdown certificate in form acceptable to the Lender detailing the amount of the requested advance and confirming without limitation the accuracy of all representations and warranties, that no event of default has occurred and is continuing, and that the requested advance conforms with the approved cash flow budget.
- Termination Date** The maturity of the DIP Financing (the “Termination Date”) shall be the earliest of:
- a) 6 months from the date of the approval of the DIP Financing;
  - b) the date the stay of proceedings expires in the Proceeding without extension; and
  - c) 10 days following written notice being provided by the Lender to the Borrower of an event of default.



Note: should the Proceeding or anticipated DIP repayment date extend past the Termination Date, the Lender may renew the DIP Financing on similar terms as laid out herein.

**Disbursement:** Disbursements/advances of the DIP Financing may be made in minimum installments of \$100,000.00, with a maximum of two (2) drawdowns per month.

**Closing Date:** The date on which the Conditions Precedent shall have been satisfied provide it is not later than August 31<sup>st</sup>, 2022, or such a later date as the Lender may approve in writing, in its sole discretion (the "Closing Date").

**Interest Rate:** The DIP Financing shall bear interest at an annual rate equal to Royal Bank of Canada Prime + 725 bp, calculated in arrears and payable monthly.

**Fees:** **Commitment Fee** - the Borrower shall pay a commitment fee in an amount equal to 4.25% on the Maximum Amount (the "Commitment Fee"). The Commitment Fees shall be non-refundable, fully earned and payable no later than the Closing Date. Of this Commitment Fee, \$25,000 is to be paid in advance to the Lender upon the completion of all due diligence and satisfaction of Conditions Precedent (a) and (b) below.

**Standby Fee** - the Borrower shall pay a standby charge on the unused portion of the DIP Financing equal to 2.5% per annum multiplied by the difference between (a) the Maximum Amount and (b) the amounts outstanding under the DIP Financing, calculated daily and payable monthly in arrears on the last business day of each month.

**Break Fee** – the Borrower agrees to pay the Lender a break fee in an amount equal to 5.0% of the Maximum Amount (the "Break Fee") in the event that the Borrower executes the DIP Credit Agreement and the Borrower obtains Court approval for an alternative financier of the DIP Financing (the "Alternative DIP Financing"). The Break Fee shall be payable to the Lender immediately following the closing of the Alternative DIP Financing transaction.

**Repayment:** The DIP Financing will be serviced by payments of interest-only during the term. The Lender may opt to establish an interest-reserve to facilitate the monthly payments owed to the Lender by the Borrower pursuant to the terms of the DIP Financing.

Any proceeds arising from (i) any disposition or other transaction involving the Collateral subject to the Security including, without limitation, any refinancing thereof; and (ii) any insurance proceeds in respect of any of the Collateral subject to the Security shall, unless otherwise agreed to by the Lender in its sole and absolute discretion, be applied to the repayment of all amounts outstanding under the DIP Financing, including, without limitation, principal, interest and fees and any such repayment shall permanently reduce the Maximum Amount available under the DIP Financing.

**Expenses:** The Borrower(s) will pay all reasonable costs incurred by the Lender, directly or indirectly, including, without limitation, expenses of legal counsel, due diligence, appraisals, and any other reasonable expenses incurred in conjunction with preparing the DIP Credit Documents.

**Security:** Security for repayment of the DIP Financing will be by way of contractual security and a fully perfected court-ordered super-priority charge (collectively, the "Security") against all of the present and after-acquired property, assets and undertakings of the Borrower (real, personal, tangible or intangible) (collectively, the "Collateral") securing all indebtedness, obligations, covenants or liabilities owing by the Borrower to the Lender, including but not limited to the Maximum Amount, all accrued and unpaid interest and any unpaid fees, costs and expenses, which Security shall have priority over all liens against the Collateral of the Borrower other than the Trustee's court-ordered administration charge and CFO charge, of not more, on a combined basis, than \$410,000.



**Assignability and Syndication:**

The Lender may assign, transfer, or grant participations in its rights or obligations in whole or in part without notice or consent of the Borrower. TCC is authorized to confidentially disclose, such information concerning Borrower(s), as TCC considers appropriate.

**Conditions Precedent to Closing:**

The Lender's obligation to make the initial and any subsequent advance of the DIP Financing to the Borrower is subject to the satisfaction of the following conditions precedent (the "Conditions Precedent") as determined by the Lender, in its sole discretion:

- a) execution of a definitive credit agreement (the "DIP Credit Agreement") and other required loan and Security documents, in form and substance satisfactory to the Lender (collectively, the "DIP Credit Documents");
- b) issuance of the Initial Order, or a revised Initial Order (and any other required order in the Proceeding), satisfactory in form and substance to the Lender, approving and authorizing the DIP Credit Documents and the Security, establishment of the DIP Financing by the Lender and including the grant by the Court to the Lender of a super-priority charge in favour of the Lender over all Collateral of the Borrower securing all indebtedness, obligations, covenants or liabilities owing by the Borrower to the Lender under this DIP Credit Documents, including, without limitation, all principal, interest, fees, indemnities and expenses owing to the Lender as set out in the DIP Credit Documents and providing, among other things, that the Security of the Lender shall have priority over all other liens, other than solely and exclusively any administration charge in an aggregate amount not to exceed \$420,000, and such Initial Order shall not have been stayed, vacated or otherwise amended, restated or modified in any manner, without the written consent of the Lender;
- c) there will be no appeals, injunctions or other legal impediments relating to the completion of the DIP Financing or pending litigation seeking to restrain or prohibit the completion of the DIP Financing;
- d) the Borrower shall have paid all fees then owing to the Lender including, without limitation, the Commitment Fee and the Good Faith Deposit;
- e) the Lender shall have received title insurance satisfactory to it or a title opinion in scope, form and terms satisfactory to it confirming the Borrower's good and marketable title to the real property owned by it and subject to the Security and other permitted encumbrances;
- f) The Lender shall have been named as additional insured and first loss payee on the Borrower's property and casualty insurance policies, including, but not limited to, insurance with respect to any real property subject to the Security;
- g) Receipt of all constating documents, inclusive of officer's certificates attesting to the completeness of all constating documents and other corporate matters, for the Borrower(s) and Guarantor (as applicable) and satisfaction of the Lender's AML/KYC requirements;
- h) there shall be no material damage or destruction to any of the Collateral, nor any material depreciation in the value thereof and the Borrower's operations shall comply, in all material respects, with all applicable health and safety, environmental, labour and other applicable laws and regulations;
- i) all of the representations and warranties of the Borrower as set out in the DIP Credit Documents shall be true and correct; and
- j) satisfaction of all other standard conditions precedent for a loan transaction of this nature set out in the DIP Credit Agreement.

**Reporting:**

Standard reporting requirements for a facility of this nature, to be formally defined in the DIP Credit Agreement.

**Covenants:**

The DIP Credit Agreement will contain affirmative and negative covenants, to be formally defined in the DIP Credit Agreement. The DIP Financing will not contain any fixed covenants relating to the financial performance of the Borrower.





**Events of Default:** Standard events of default for a loan transaction of this nature.

**Expiration Date:** This Proposal will expire on **August 18<sup>th</sup>, 2022.**

Please feel free to contact the undersigned if you have any questions or concerns.

Yours truly,

**TRAVELERS CAPITAL CORP.**

By: \_\_\_\_\_  
Name: Stephen Jones  
Title: Director, Structured Finance

**BORROWER(S):**

ACCEPTED this 18th day of August, 2022.

**SPEAKEASY CANNABIS CLUB LTD.**

DocuSigned by:  
By: \_\_\_\_\_  
Name: John Parkinson  
Title: Chief Financial Officer  
*I have authority to bind the corporations*

**10161233 CANADA LTD.**

DocuSigned by:  
By: \_\_\_\_\_  
Name: John Parkinson  
Title: Chief Financial Officer  
*I have authority to bind the corporations*