

District of Ontario
Division No. 05 - London
Court File No. 35-2802344
Estate No. 35-2802344

AYANDA CANNABIS CORPORATION

**FIRST REPORT OF RICHTER ADVISORY GROUP INC.
IN ITS CAPACITY AS TRUSTEE UNDER THE
NOTICE OF INTENTION TO MAKE A PROPOSAL OF
AYANDA CANNABIS CORPORATION**

FEBRUARY 24, 2022

TABLE OF CONTENTS

I.	INTRODUCTION	1
II.	PURPOSES OF THE FIRST REPORT	1
III.	TERMS OF REFERENCE	3
IV.	GENERAL BACKGROUND INFORMATION ON THE COMPANY	4
V.	EVENTS LEADING TO THE COMPANY'S NOI PROCEEDINGS.....	9
VI.	THE SHARE PURCHASE AGREEMENT	14
VII.	REVERSE VESTING ORDER.....	17
VIII.	RELEASES	18
IX.	CASH FLOW FORECAST	19
X.	DIP FACILITY.....	20
XI.	COURT ORDERED CHARGES	23
XII.	EXTENSION OF THE PROPOSAL PERIOD	24
XIII.	ACTIVITIES OF THE TRUSTEE.....	24
XIV.	CONCLUSION AND RECOMMENDATION	25

APPENDICIES

APPENDIX "A" – Certificate of Filing the Notice of Intention to Make a Proposal

APPENDIX "B" – Creditor List

APPENDIX "C" – Cash Flow Forecast (including Management/Trustee Reports)

District of Ontario
Division No. 05 - London
Court File No. 35-2802344
Estate No. 35-2802344

ONTARIO
SUPERIOR COURT OF JUSTICE
(IN BANKRUPTCY AND INSOLVENCY)
COMMERCIAL LIST

IN THE MATTER OF THE *BANKRUPTCY AND INSOLVENCY ACT*, R.S.C. 1985, C. B-3, AS AMENDED

AND IN THE MATTER OF THE NOTICE OF INTENTION TO MAKE A PROPOSAL OF
AYANDA CANNABIS CORPORATION,
OF THE COUNTY OF NORFOLK, IN THE PROVINCE OF ONTARIO

FIRST REPORT OF RICHTER ADVISORY GROUP INC.
IN ITS CAPACITY AS TRUSTEE UNDER THE
NOTICE OF INTENTION TO MAKE A PROPOSAL OF
AYANDA CANNABIS CORPORATION

FEBRUARY 24, 2022

I. INTRODUCTION

1. On February 4, 2022 (the “**Filing Date**”), Ayanda Cannabis Corporation (“**Ayanda**” or the “**Company**”) filed a Notice of Intention to Make a Proposal (an “**NOI**”) pursuant to Section 50.4(1) of the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3, as amended (the “**BIA**”), and Richter Advisory Group Inc. (“**Richter**”) was appointed as trustee (in such capacity, the “**Trustee**”) under the NOI. A copy of the Certificate of Filing issued by the Superintendent of Bankruptcy in respect of the Company’s NOI is attached hereto as **Appendix “A”**. The NOI proceedings of Ayanda are referred to herein as the “**NOI Proceedings**”.
2. The primary objectives of the Company’s NOI Proceedings are, among other things: (i) to create a stabilized environment to allow the Company to complete a transaction (the “**Transaction**”) for the sale of all of its issued and outstanding shares pursuant to a share purchase agreement dated February 2, 2022 (the “**SPA**”) between the Company, as vendor, and 12830353 Canada Inc., or its assignee (the “**Purchaser**”), as purchaser and, (ii) subject to the closing of the Transaction, present a proposal to the Company’s creditors that intends to pay the Company’s creditors in full and make a distribution to certain of the Company’s Class B shareholders. The closing of the Transaction is conditional on, among other things, Court (as defined below) approval of the Transaction, Health Canada’s approval of the change in control in Ayanda arising from the Transaction, and the Health Canada Licences remaining in good standing immediately following closing.

II. PURPOSE OF THE FIRST REPORT

3. The purpose of this first report (the “**First Report**”) of the Trustee is to provide the Ontario Superior Court of Justice (Commercial List) (the “**Court**”) with information pertaining to the following:
 - (a) a brief overview of certain background information about the Company, including the events that led the Company to initiate the NOI Proceedings;
 - (b) an overview of the sale and investment solicitation process (the “**SISP**”) carried out by Ayanda and its financial advisor, Hyde Advisory & Investments Inc. (“**Hyde Advisory**”);
 - (c) an overview of the SPA, including the Trustee’s recommendation regarding the Transaction;
 - (d) the Company’s motion for an order (the “**Approval and Vesting Order**”), among other things:
 - (i) approving the Transaction, which includes the proposed structure that provides for the incorporation of a new corporation (“**ResidualCo**”) to accept the transfer of the Excluded Assets and assume the Excluded Liabilities (each as defined herein), and authorizing and directing the Company to take such steps as may be necessary or desirable to complete the Transaction;

- (ii) upon the delivery of the Trustee's certificate to the Purchaser (the "**Effective Time**") certifying that, among other things, all conditions to closing the Transaction have been satisfied or waived (the "**Trustee's Certificate**"), the following will be deemed to have occurred concurrently:
 - I. the vesting of all of Ayanda's right, title and interest in and to the Excluded Assets in ResidualCo;
 - II. the channeling, assuming and vesting in ResidualCo of the Excluded Liabilities (including the Excluded Contracts (as defined in the SPA));
 - III. the terminating and cancelling of all issued and outstanding equity interests in the capital of Ayanda, other than the common shares of Ayanda and the New Common Shares (as defined herein); and
 - IV. the vesting of all of the right, title and interest in and to the New Common Shares in the Purchaser;
- (iii) approving the Advisory and Success Fee Agreement dated November 11, 2021 (the "**Cannabis Consultant Agreement**") between Ayanda and Hyde Advisory; and
- (iv) granting, at the Effective Time, a release in favour of (i) Ayanda's current directors, officers, employees, and independent contractors that have provided legal or financial services to the Company, (ii) legal counsel and advisors of the Company, and (iii) the Trustee and its legal counsel;
- (e) a forecast of the Company's receipts and disbursements (the "**Cash Flow Forecast**") for the period from February 5, 2022 to May 7, 2022 (the "**Forecast Period**"), prepared in accordance with Section 50.4(2) of the BIA; and
- (f) the Company's motion for an order (the "**DIP Facility and Stay Extension Order**"), among other things:
 - (i) authorizing the Company to obtain interim financing up to a maximum amount of \$400,000 (the "**DIP Facility**") pursuant to an interim facility term sheet dated February 16, 2022 (the "**DIP Term Sheet**") between Ayanda and Cardinal Advisory Limited (the "**DIP Lender**");
 - (ii) approving the proposed super-priority charges over all the Company's property, assets and undertakings (the "**Property**"), including:
 - I. a charge in the amount of \$300,000 to secure the fees and disbursements of the Trustee, the Trustee's legal counsel, Thornton Grout Finnigan LLP ("**TGF**"), and the Company's legal counsel, Miller Thomson LLP ("**MT**"), in accordance with Section 64.2 of the BIA (the "**Administration Charge**"); and

- II. a charge in the amount of \$400,000 in favour of the DIP Lender to secure advances to the Company made under the DIP Facility (the “**DIP Charge**”, and together with the Administration Charge, the “**Charges**”);
- (iii) permitting, but not requiring the Company to pay pre-filing obligations consistent with the Cash Flow Forecast or with the prior approval of the Trustee;
- (iv) granting an extension of the time required to file a proposal to April 20, 2022 (the “**Stay Extension**”);
- (v) sealing the confidential exhibits to the Sioen Affidavit (as defined below); and
- (vi) approving this First Report and the activities of the Trustee described herein.

III. TERMS OF REFERENCE

- 4. In preparing this First Report, the Trustee has relied upon certain unaudited, draft, and / or internal financial information prepared by representatives of the Company, the Company’s books and records, and discussions with representatives of the Company and the Company’s legal counsel (collectively, the “**Information**”). In accordance with industry practice, except as otherwise described in this First Report, the Trustee has reviewed the Information for reasonableness, internal consistency, and use in the context in which it was provided. However, the Trustee has not audited or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would comply with Canadian Auditing Standards (“**CAS**”) pursuant to the *Chartered Professional Accountants of Canada Handbook* and, as such, the Trustee expresses no opinion or other form of assurance contemplated under CAS in respect of the Information.
- 5. Future orientated financial information contained in the Cash Flow Forecast is based on the Company’s estimates and assumptions regarding future events. Actual results will vary from the information presented even if the hypothetical assumptions occur, and variations may be material. Accordingly, the Trustee expresses no assurance as to whether the Cash Flow Forecast will be achieved.
- 6. Parties using this First Report other than for the purposes outlined herein are cautioned that it may not be appropriate for their purposes, and consequently should not use this First Report for any other purpose.
- 7. Unless otherwise noted, all monetary amounts contained in this First Report are expressed in Canadian dollars.

IV. GENERAL BACKGROUND INFORMATION ON THE COMPANY

8. The Company's business, affairs, financial performance, and position, as well as the causes of its insolvency, are detailed in the affidavit of Mr. Michael Sioen, Ayanda's Chief Executive Officer, sworn February 22, 2022 (the "**Sioen Affidavit**"). This First Report should be read in conjunction with the Sioen Affidavit, as certain information contained in the Sioen Affidavit has not been included herein to avoid duplication.

General Background

9. The Company was incorporated under the *Canada Business Corporations Act* in April 2016 as Ayanda Medical Marijuana Corporation. It changed its name to Ayanda Cannabis Corporation in November 2018. The Company is a privately held licenced producer of cannabis primarily to produce and distribute cannabis products to consumers for medical purposes. Mr. Sioen is the Company's largest shareholder.
10. As described in the Sioen Affidavit, Health Canada has issued three licences to Ayanda: (i) a Standard Cultivation, Standard Processing, and Sale for Medical Purposes Licence; (ii) a Research Licence; and (iii) a Cannabis Licence (collectively, the "**Health Canada Licences**").
11. The Company operates from leased premises in a 55,000 square foot single-story cultivation and processing facility (the "**Facility**") located at 324-372 Buford-Delhi Townline Road, Norfolk County, Ontario (the "**Leased Property**"). As noted in the Sioen Affidavit, approximately 15,000 square feet of the Facility is fully constructed and operational for cannabis cultivation, production, and processing. The Facility includes: (i) four cultivation rooms; (ii) five processing rooms; and (iii) secure storage. The remaining 40,000 square feet of the Facility is unused.
12. The Facility is leased from Luke and Blanche Sioen Farms Ltd. (the "**Landlord**"), a corporation controlled by Mr. Sioen, pursuant to a ground lease dated November 1, 2019 (as amended from time to time, the "**Ground Lease**"). The Ground Lease has a 10-year term with options to extend for two additional five-year terms. Ayanda pays the Landlord annual rent of \$400, plus utilities and property taxes. The terms of the Ground Lease provide Ayanda the option to purchase the 2-acre leased property for \$2.0 million plus a 3% increase each year for the first three years and fair market value in the fourth year and thereafter. Pursuant to an Amending Agreement dated April 30, 2021, the Ground Lease was amended to provide that the Landlord may require Ayanda to exercise the purchase option if Mr. Sioen ceases to hold 30% of the Company's voting shares.
13. As noted in the Sioen Affidavit, Ayanda cultivates 3,000 plants per grow cycle, which typically lasts approximately three months and produces approximately 14 kilograms of dried flower. As further noted in the Sioen Affidavit, while Ayanda has harvested small cannabis crops, the Company has yet to realize any revenues.

14. As of the Filing Date, Ayanda employed approximately four salaried and hourly individuals (the “**Employees**”). There is no Company sponsored pension plan for the Employees, nor are any of the Employees unionized.

Ayanda’s Historical Financial Results

15. Summarized below are the unaudited historical financial results for Ayanda for the fiscal years ended December 31, 2019, December 31, 2020 and December 31, 2021.

Ayanda Cannabis Corporation Historical P&L For the Year Ended (in CAD, \$000; unaudited)			
	31-Dec-21	31-Dec-20	31-Dec-19
Sales	-	-	-
Expenses			
Payroll Costs	154	105	1
Rent & Occupancy Costs	17	11	0
Selling, General & Administrative	305	151	25
Depreciation	234	174	-
Professional Fees	306	84	63
Bank Charges & Interest	24	27	3
Other Expense/(Income)	-	3	1
Total Expenses	1,042	554	94
Net Income/(Loss)	(1,042)	(554)	(94)
<i>Source: Unaudited financial statements provided by Ayanda</i>			

16. The Company incurred a net loss of approximately \$1.0 million for the fiscal year ended December 31, 2021, approximately \$0.6 million for the fiscal year ended December 31, 2020, and approximately \$0.1 million for the fiscal year ended December 31, 2019.
17. As noted in the Sioen Affidavit, despite completing construction of the Facility by June 2020, and successfully cultivating its first crop in July 2021, Ayanda has not obtained a Health Canada licence required to sell cannabis flower to retail consumers. As such, Ayanda has been dependent on equity financing from investors and shareholder loans to fund construction of the Facility and the operational expenses of the Company.

18. Set out below is Ayanda's unaudited balance sheet as at December 31, 2021:

Ayanda Cannabis Corporation Historical Balance Sheet As at December 31, 2021 (in CAD, \$000; unaudited)			
<u>Assets</u>		<u>Liabilities</u>	
Current Assets		Current Liabilities	
Cash	257	Accounts Payable & Accrued Liabilities	68
GST/HST Receivable	22	MSFL Loans	1,021
Inventory	56	Total Liabilities	1,089
Prepaid Expenses & Deposits	161	<u>Shareholders' Equity</u>	
Total Current Assets	495	Share Capital	4,753
Property, Plant & Equipment (Net)	3,420	Deficit	(1,928)
Total Assets	3,915	Total Shareholders' Equity	2,826
		Total Liabilities & Shareholders' Equity	3,915
<i>Source: Unaudited financial statements provided by Ayanda</i>			

19. Ayanda had total assets with a book value of approximately \$3.9 million as at December 31, 2021, which, given the nature of its business, is principally comprised of approximately \$3.0 million (book value) of capitalized expenses incurred as part of the build-out of the Facility and approximately \$400,000 (book value) of cultivation, processing and other equipment used in Ayanda's cannabis production process. The book value of Ayanda's total liabilities as at December 31, 2021 was approximately \$1.1 million, primarily comprising the MSFL Loans (as defined below).

Secured Creditors

20. A copy of the creditor list included as part of Ayanda's NOI filing is attached hereto as **Appendix "B"**. The Trustee notes that the creditor list is comprised of creditors based the Information and Ayanda may have other creditors not included on the list.
21. The Trustee understands that, on November 4, 2019, Ayanda, as borrower, and Michael Sioen Farms Ltd. ("**MSFL**"), as lender, entered into a loan agreement, (the "**MSFL Loan Agreement**"), whereby MSFL agreed to advance \$550,000 (the "**First MSFL Loan**") to Ayanda for the purposes of buying out one of Ayanda's founders and to help finance operations. Pursuant to the MSFL Loan Agreement, the interest rate of the First MSFL Loan was 3.75%. At the time of the MSFL Loan Agreement, the First MSFL was not secured. Mr. Sioen is the sole owner of MSFL. As noted in the Sioen Affidavit, the First MSFL Loan had an initial two-year term, but was renewed on maturity for a further two years on November 1, 2021. The balance owing under the First MSFL Loan as at the Filing Date was approximately \$520,020.

22. The Trustee further understands that, on March 9, 2021, Ayanda, as borrower, and MSFL, as lender, entered into a letter agreement whereby MSFL agreed to provide an additional \$1.0 million of unsecured funds on an interest-free basis to Ayanda (the **"Second MSFL Loan"**, and together with the First MSFL Loan, the **"MSFL Loans"**). As noted in the Sioen Affidavit, MSFL subsequently borrowed \$1.0 million from Mr. Sioen's relative, Rene Huyge (**"Huyge"**), to fund the advances made under the Second MSFL Loan to Ayanda.
23. On May 27, 2021, Huyge, MSFL, and Ayanda entered into an Acknowledgment Agreement (the **"Acknowledgment Agreement"**). The Trustee understands that the effect of the Acknowledgment Agreement was to recognize that MSFL was indebted to Huyge in the amount of \$1.0 million, and that Ayanda was indebted to MSFL in the same amount. Further, the Acknowledgment Agreement recognizes that pursuant to a Subscription Agreement dated May 24, 2021 (the **"Subscription Agreement"**), Huyge agreed to reduce the indebtedness owed by MSFL by \$0.5 million in exchange for 266,666 Class B (non-voting) common shares of Ayanda. The Acknowledgment Agreement acknowledged and agreed that the Second MSFL Loan was also reduced to \$500,000.
24. A copy of the Acknowledgement Agreement is included as Exhibit "H" to the Sioen Affidavit. As at the Filing Date, the balance owing under the Second MSFL Loan was approximately \$500,000.
25. The Trustee understands that in order to secure advances made under the MSFL Loans, Ayanda granted security in favour of MSFL in all of its present and after-acquired personal property pursuant to a general security agreement dated March, 2021 (the **"MSFL Security"**).
26. At this time, the Trustee has not yet reviewed the validity or enforceability of the MSFL Security. The Trustee will provide the Court with its views on the MSFL Security in a subsequent report.
27. As noted in the Sioen Affidavit, the results of a search of the Personal Property Security Registration System (Ontario) for Ayanda with a currency date of February 21, 2022 (the **"PPSA Search Results"**) confirm that MSFL is the only secured creditor of Ayanda. A copy of the PPSA Search Results is included as Exhibit "I" to the Sioen Affidavit.

Unsecured Creditors

28. The Company estimates that, as at the Filing Date, it had arms-length unsecured obligations totaling approximately \$14,000. This amount does not include potential claims or amounts that may be asserted by third parties against Ayanda.

Contingent Creditors

29. As discussed further in the Sioen Affidavit, the Trustee is aware that there may be up to three contingent claims against Ayanda from either former employees or shareholders of Ayanda (collectively, the **"Contingent Claims"**). The Trustee provides the following overview for the background of the Court:
- (a) in late January 2022, Ayanda received correspondence from litigation counsel for Douglas James Cook, Ayanda's former Chief Medical Officer (**"Cook"**), claiming significant damages and advising that Cook would be commencing an action against Ayanda and others based on alleged unjust enrichment and oppression in the amount of \$400,000. Prior to the Filing Date, no such action was commenced;
 - (b) on January 17, 2022, Ayanda was contacted by litigation counsel for Shanil Ramdhany (**"Ramdhany"**), one of Ayanda's founders, claiming that Ramdhany is owed approximately \$1.1 million by Ayanda, including \$183,618 on account of a purported share option exercise and a further \$965,000 for alleged services provided to the Company; and
 - (c) on February 11, 2022, counsel to Ayanda received an email from Ms. Natalie Cain (**"Cain"**), a former employee of Ayanda, who alleged unpaid compensation for work completed for Ayanda.
30. The Trustee notes that Ayanda denies the validity of the Contingent Claims. It is expected that the Contingent Claims will be addressed as part of the proposal and the NOI Proceeding.

Shareholders

31. The Trustee understands that the Company has two classes of common shares: Class A shares and Class B shares. The Trustee further understands that the Class A common shares are voting shares and were initially issued to the Company's founders: Mr. Sioen, Ramdhany and Susan Dagge (**"Dagge"**), Dagge's Class A common shares were redeemed in April 2021 and she no longer owns shares in Ayanda. As noted in the Sioen Affidavit, the Class B common shares are non-voting shares. The Class B shares were issued between March 2019 to May 2021 to 30 private investors in connection with three equity financing rounds from "friends and family", summarized as follows:
- (a) March 2019 – Ayanda raised \$1,960,000 in share capital. Of this amount, approximately \$300,000 was contributed by each of Mr. Sioen and Dagge, with the balance being raised on account of share subscriptions solicited from 11 family and friends;

- (b) November 2019 – Ayanda raised \$1,512,500 in share capital from 21 family and friends; and
- (c) April 2021 – Ayanda raised \$1,580,624 in share capital, with new share subscriptions being made by one existing investor and three new family and friends investors.

V. EVENTS LEADING TO THE COMPANY'S NOI PROCEEDINGS

- 32. As noted in the Sioen Affidavit, several factors have contributed to the Company's financial difficulties, such as: (i) competition in the cannabis industry, (ii) licencing delays, (iii) pandemic related set-backs and cost overruns, (iv) an inability to attract required capital to commercialize operations, and (v) protracted disagreement and dissension (coupled with threats of litigation) as between Ayanda's co-founders, investors, and senior management personnel.
- 33. Ayanda has never earned revenue from the growth of cannabis due to the size of its operations and because the Health Canada Licences only permit Ayanda to sell business-to-business. Since inception, Ayanda has been dependent on funding from investors to finance construction of the Facility and ongoing operating costs, including establishing and maintaining the requisite infrastructure and operations to keep the Health Canada Licences in good standing. The Trustee understands that the Company's liquidity issues started to become a concern in the summer of 2021.
- 34. As noted in the Sioen Affidavit, additional funding was required to build out the unfinished portion of the Facility and to further commercialize operations by, for example, investing in marketing, sales, and packaging. However, as Ayanda had already raised funds from friends and family on three separate occasions and the Company had not yet earned any revenue, it was apparent to the Company that additional funding would need to come from alternative sources.
- 35. In August 2021, Ayanda retained Hyde Advisory to assist it in soliciting potential investment in the business.
- 36. An overview of the SISP, the state of the cannabis market in Canada, and Hyde Advisory's involvement and experience in the cannabis sector is provided in the affidavit of Mr. David Hyde, CEO of Hyde Advisory, sworn February 22, 2022 (the "**Hyde Affidavit**"). On February 16, 2022, the Trustee attended a conference call with David Hyde, TGF and MT, to discuss Hyde Advisory's work with Ayanda, the SISP and the Transaction. This section of the First Report should be read in conjunction with the Hyde Affidavit, as certain information contained in the Hyde Affidavit has not been included herein.

The Initial Investment Solicitation Process

- 37. As noted in the Hyde Affidavit, Hyde Advisory actively canvassed more than two dozen members (the "**Prospective Investors**") of its network of more than 2,000 domestic and international contacts, including closely held corporations involved in the cannabis industry, cannabis licence holders looking to expand operations, foreign corporations looking to enter the market or expand their existing operations, private investors, executives of cannabis companies, well-known

entrepreneurs, insurance professionals who have relationships with cannabis companies, partner consultants, family offices and high net worth individuals, regarding the investment opportunity. The initial outreach focused primarily on domestic entities, with the exception of three to four international entities.

38. The Prospective Investors were identified by Hyde Advisory as potential sources of capital based on Hyde Advisory's knowledge of their investment objectives.
39. As further noted in the Hyde Affidavit, Hyde Advisory spent one month canvassing the Prospective Investors about the investment opportunity.
40. Ultimately, none of the Prospective Investors expressed an interest in investing further capital in Ayanda.

The Sale Solicitation Process

41. Given the results of the process to solicit investment in Ayanda's business, and in light of a looming liquidity crisis, in October 2021, Ayanda and Hyde Advisory shifted focus to consider potential sale opportunities for the business.
42. In November 2021, pursuant to the Cannabis Consultant Agreement, Ayanda formally retained Hyde Advisory to run a sale process (the "**Sale Process**") for the Company's business. The key terms of the Cannabis Consultant Agreement, a copy of which is included as Exhibit "C" to the Hyde Affidavit, include:
 - (a) the term of the engagement is for a period of six months, with an option to extend for successive six-month terms; and
 - (b) if there is a transaction completed for the sale of Ayanda's business, shares or assets or if there is a debt or equity investment in the Company, Ayanda is to pay Hyde Advisory a success fee equal to:
 - (i) 2.5% of the Transaction Value (as defined in the Cannabis Consultant Agreement) of \$3 million or less (up to \$75,000); plus
 - (ii) 4.0% of the Transaction Value between \$3 million and \$4 million (up to \$40,000); plus
 - (iii) 5.0% of the Transaction Value between \$4 million and \$6 million (up to \$100,000); plus
 - (iv) 6.5% of the Transaction Value above \$6 million.

43. The Trustee has reviewed a copy of the Cannabis Consultant Agreement and is of the view that the terms are commercially reasonable, having regard to Hyde Advisory's experience in selling other insolvent cannabis companies, the services provided in connection with the SISP, and market rates for M&A advisors for deals of similar size.
44. An overview of the Sale Process undertaken by Hyde Advisory, on behalf of Ayanda, is as follows:
- (a) the Sale Process commenced in November 2021;
 - (b) Hyde Advisory, with the assistance of Ayanda's management, developed a list of approximately 120 potential strategic and financial purchasers (the "**Targeted Purchasers List**"), comprising both domestic and international parties. Similar to the Prospective Investors, the Targeted Purchasers List constituted a targeted subset of Hyde Advisory's broad network in the cannabis industry. As noted in the Hyde Affidavit, Hyde Advisory, in consultation with Ayanda's management, refined the Targeted Purchasers List to align with what Hyde Advisory knew about potential purchasers' financial means and acquisition objectives, resulting in a final target list comprising 40 prospective purchasers (the "**Prospective Purchasers**");
 - (c) Hyde Advisory prepared a marketing profile and opportunity summary (the "**Offer Summary**"), which was distributed to (i) the Prospective Purchasers and (ii) 12 cannabis industry brokers, advisors and influencers (the "**Other Advisors**") who were encouraged to leverage their personal and professional networks to further market and disseminate the opportunity. The Offer Summary was also posted on Hyde Advisory's website and the acquisition opportunity was advertised by Hyde Advisory on various social media platforms (LinkedIn, Twitter and Hyde Advisory's Google business profile). The Trustee understands that since the onset of the COVID-19 pandemic, social media is the predominant platform used by businesspeople in the cannabis industry;
 - (d) interested parties were required to execute a non-disclosure agreement ("**NDA**"), following which they were provided with a package comprising more detailed information about Ayanda, including the Company's floor plan, site plan, the Health Canada Licences, property surveys and equipment lists (collectively, the "**Level 1 Information**");
 - (e) interested parties that expressed continued interest after being provided with the Level 1 Information were provided access to a virtual data room (the "**Data Room**"), containing additional information about the Company, including financial, operational, legal and supplier information, to assist in due diligence efforts. The Data Room was created and managed by Ayanda under Hyde Advisory's direction; and
 - (f) the Sale Process did not impose a bid deadline for interested parties to submit an offer.

Results of the Sale Process

45. The results of the sale process are as follows:
- (a) six parties executed a NDA and were provided with the Level 1 Information. Of these six parties, three were granted access to the Data Room;
 - (b) Hyde Advisory facilitated three site visits to the Facility in late November and early December 2021. Ayanda's management was in attendance for all three site visits. Mr. Hyde was in attendance for two of the three site visits. In addition, Hyde Advisory facilitated management interviews, specific information requests from potential purchasers, due diligence meetings, follow-up site visits and Zoom and conference calls between the Company and potential purchasers, as required; and
 - (c) on December 28, 2021, the Purchaser submitted a term sheet (the "**Initial Term Sheet**") to Hyde Advisory for the purchase of the Company's business. As noted in the Hyde Affidavit, while an alternative party expressed continuing interest in the opportunity after the Initial Term Sheet was submitted, that party ultimately declined to submit an offer.
46. Following the extensive Sales Process, the Initial Term Sheet was the only offer presented. As a result of Ayanda's liquidity crisis, Ayanda could not support a continuation of the Sale Process or further marketing of the opportunity. Accordingly, the Company, with the recommendation of Hyde Advisory, determined it prudent and appropriate in the circumstances to pursue a transaction with the Purchaser.
47. Following one week of negotiations between Ayanda and the Purchaser, on January 5, 2022, the Purchaser advised that the purchase price currently offered was its best and final offer. The offer was accepted by Ayanda and a definitive term sheet was entered into on January 7, 2022 (the "**Final Term Sheet**"), a redacted copy of which is included as Exhibit "L" to the Sioen Affidavit. A shareholders' meeting was held on January 11, 2022, during which the Class A shareholders present at the meeting unanimously approved the Final Term Sheet.
48. Pursuant to a letter dated January 21, 2022 from Ayanda's counsel (the "**January Shareholders Letter**"), the Ayanda shareholders were informed that Mr. Sioen agreed to accept certain concessions to increase the value of Class B shareholder recoveries, including conveying his own Class B common shares to the Purchaser for the nominal sum of \$1.00. A redacted copy of the January Shareholders Letter is included as Exhibit "N" to the Sioen Affidavit. The January Shareholder Letter further informed shareholders that a share purchase agreement was in the process of being finalized,

but that the closing of the Transaction would require the approval of Health Canada such that it might not be completed until March or April of 2022.

Decision to Commence the NOI Proceedings

49. As noted in the Sioen Affidavit, while Ayanda is confident that the Contingent Claims are without merit, the Company was of the view that the potential for protracted litigation to defend the Contingent Claims created risks in respect of Ayanda's ability to close the Transaction with the Purchaser on a timely basis under the transaction structure then contemplated (the "**Original Transaction Structure**"). As described in the Sioen Affidavit, the Original Transaction Structure, which was to be completed out of court, proposed that the Class A shareholders would sell their Class A common shares to the Purchaser and use drag-along provisions in the Shareholders Agreement to cause a conveyance of all of the Class B common shares to the Purchaser, resulting in the Purchaser owning 100% of all issued and outstanding shares of Ayanda in exchange for the Purchase Price (as defined below).
50. The Trustee understands that, upon the Purchaser becoming aware of the Contingent Claims, the Purchaser requested certain protections be put in place for the Transaction, including (i) a full indemnity from certain Class A shareholders, (ii) a holdback of the Purchase Price (as defined below) of at least \$1.5 million, to be held in escrow pending the final determination of the Contingent Claims, and (iii) an additional holdback of the Purchase Price to fund the legal fees required to defend the Contingent Claims (collectively, the "**Holdback**"). If granted, the Holdback would have tied up a significant portion of the Purchase Price for an indeterminate amount of time, thereby potentially causing significant delay in returning capital to Class B common shareholders. In addition, and as noted in the Sioen Affidavit, given the threats made by Ramdhany and Cook, which included threats of litigation against Ayanda's directors and officers (the "**Directors and Officers**"), the Directors and Officers were not inclined to pursue the Transaction under the Original Transaction Structure.
51. Given the circumstances and in light of the liquidity crisis, Ayanda considered it appropriate to commence the NOI Proceedings in order to seek approval of the Transaction and provide a forum to address the Contingent Claims in the context of a court-supervised BIA process.
52. Following that decision, Ayanda worked with the Purchaser to finalize the terms of the SPA. The SPA and the decision to commence the NOI Proceedings, was unanimously approved by the Class A shareholders in attendance at a shareholders' meeting held on February 2, 2022. Ramdhany was not in attendance at the February 2, 2022 shareholders' meeting.

VI. THE SHARE PURCHASE AGREEMENT

53. The key terms and conditions of the SPA, a redacted copy of which is attached as Exhibit “R” to the Sioen Affidavit, are provided below (capitalized terms in the summary below not otherwise defined have the meanings given to them in the SPA).

(a) **Purchaser:** 12830353 Canada Inc.

(b) **Purchase and Sale of Shares:** the following steps are to deemed to happen concurrently:

(i) **Share Issuance:** Ayanda will issue, assign and transfer the New Common Shares to the Purchaser in exchange for payment of the Purchase Price;

(ii) **Share Consolidation:** Following the issuance of the New Common Shares, the Company will consolidate the New Common Shares and the Existing Shares based on the Consolidation Ratio. Any fractional shares following the consolidation will be cancelled (the “**Consolidation and Cancellation**”). Following the Consolidation and Cancellation, the Purchaser shall be the sole owner of the Post-Consolidation Shares, which shall represent 100% of the Company’s issued and outstanding equity;

(iii) **Equity Interests Extinguished:** Except for the Post-Consolidation Shares, any Equity Interests that remain following the Consolidation and Cancellation will be cancelled and any claims in respect of same released as it relates to Ayanda; and

(iv) **Preservation of Claims:** Each Class A Shareholder and Class B Shareholder will have a claim against ResidualCo equal to the cost base of their respective common shares (the “**Persevered Equity Claims**”). For certainty, the Preserved Equity Claims shall exist solely against ResidualCo and not against the Company.

(c) **Purchase Price:** The Purchase Price consists of the Deposit and the Cash Purchase Price (collectively, the “**Purchase Price**”). The Deposit has been received by the Company and will be applied to reduce the outstanding balance of the Purchase Price. The Purchase Price is subject to a number of adjustments related to certain current assets of the Company as of the closing date. The Company is required to deliver to the Purchaser a Statement of Adjustments no later than ten business days prior to the closing date.

(d) **Retained Assets:** Ayanda will retain the Assumed Contracts, the Permits and Licences, the Books and Records, and any other property or asset owned by Ayanda that is not an Excluded Asset or an Excluded Contract;

- (e) **Assumed Liabilities:** Any obligations under the Assumed Contracts or the Permits and Licences that occur, or are to be performed, after the closing date are assumed by Ayanda;
- (f) **Excluded Assets:** The Excluded Assets are as set out in Schedule “B” to the SPA (the “**Excluded Assets**”).
- (g) **Excluded Liabilities:** The Excluded Liabilities are set out in Schedule “C” to the SPA and include, among other things, liabilities in respect of the Excluded Contracts and the Excluded Assets, and any and all liabilities that are not Assumed Liabilities (the “**Excluded Liabilities**”).
- (h) **Representations and Warranties:** Consistent with the standard terms of an insolvency transaction, i.e. on an “as is, where is” basis, with limited representations and warranties.
- (i) **Closing Date:** The closing date is targeted to be the date that is the later of (i) ten business days after the date that the Approval and Vesting Order is granted, or (ii) the date that Health Canada approves the change of control of the Company.
- (j) **Material Conditions:** The conditions to closing include:
 - (i) granting of the Approval and Vesting Order in form and substance satisfactory to the Purchaser and the Company;
 - (ii) Health Canada’s approval of the change in control of Ayanda to the Purchaser;
 - (iii) renegotiation of the Ground Lease on terms satisfactory to the Purchaser;
 - (iv) the Health Canada Licences remaining in good standing;
 - (v) an appraisal and building inspection of the Facility confirming value equal to or greater than the Purchase Price; and
 - (vi) a limited term transition agreement between the Purchaser and Mr. Sioen.
- (k) **Termination:** The SPA may be terminated: (i) by agreement in writing by the Purchaser and Ayanda, (ii) as a result of a material breach that is not cured, (iii) by the failure to satisfy the closing conditions, (iv) by law that makes the Transaction illegal or otherwise prohibited, or (v) by a final and non-appealable governmental authority restraining the Transaction.

Trustee's Liquidation Analysis

54. In order to consider the benefit of the SPA to the Company and its stakeholders, the Trustee prepared an analysis (the "**Liquidation Analysis**") setting out the estimated realizations that would be obtained upon a disposition of the Company's assets under a forced liquidation, whereby all production and business operations would be terminated immediately.
55. Based on the Liquidation Analysis, the Trustee estimates that the recoveries from the Company's assets in a forced liquidation would result in materially less value being available to the stakeholders of the Company. Accordingly, the Trustee is of the view that the Transaction is in the best interests and maximizes value for the stakeholders of Ayanda. There is material risk of the erosion of value if the Transaction does not proceed.

Sealing Order

56. The Trustee notes that Ayanda seeks a sealing order with respect to the following unredacted documents: Initial Term Sheet, Final Term Sheet, January Shareholders Letter, minutes from the February 2 shareholders' meeting, and the SPA. The Trustee understands that the only term that has been redacted from the public record is the Purchase Price. The Purchase Price contains sensitive commercial information that, if disclosed, may result in the erosion of value to stakeholders of Ayanda. In the event that the Transaction does not close, prospective bidders in a potential future sale process will have access to information that could prejudice the sale process.
57. The Trustee is of the view that it is appropriate that these documents be filed with the Court on a confidential basis and sealed, by order of the Court, until such time as the Transaction closes.

SPA Recommendation

58. Based on all of the foregoing, the Trustee recommends that the Court grant the Approval and Vesting Order approving the Transaction for the following reasons:
 - (a) the Trustee is of the view that the SISP was conducted in a commercially reasonable manner, including the timelines, breadth of Hyde Advisory's canvassing of the market, the information made available to interested parties (including the information made available in the Data Room), and the availability of Hyde Advisory and Ayanda management for due diligence requests, meetings and site tours;
 - (b) no alternative offers superior to the Transaction were received despite Hyde Advisory reaching out to (i) 40 prospective purchasers (not including any parties contacted by the Other Advisors and/or parties who were made aware of the Sale Process via Hyde Advisory's website and LinkedIn, Twitter and Google advertisements);

- (c) no funding is available to further market the opportunity. Even if there was, the Trustee is of the view that the ongoing professional and other costs would erode recoveries with no certainty that a superior transaction would be completed;
- (d) given the Company's liquidity, there is urgency to complete the Transaction;
- (e) Hyde Advisory is highly qualified and has extensive experience in the cannabis sector;
- (f) the terms of the SPA are commercially reasonable;
- (g) the Transaction, which contemplates the purchase and sale of shares using the concept of a "reverse vesting order", provides an efficient mechanism to transfer licences needed to operate the Ayanda business, thereby avoiding a lengthy and potentially disruptive "re-licencing" process and preserving going-concern value of the business; and
- (h) in consideration of the Liquidation Analysis, the Trustee is of the view that the SPA provides the best opportunity in the circumstances for the Company to maximize value for its stakeholders and to achieve a greater recovery than what is available in a liquidation or bankruptcy scenario.

59. Based on the foregoing, the Trustee is of the view that the SISP was conducted appropriately and the Transaction is fair, reasonable and appropriate in the circumstance.

VII. REVERSE VESTING ORDER

- 60. As set out above, the SPA contemplates that the Purchaser will purchase shares of the Company's business through a "reverse vesting order". The Company's business depends upon the maintenance of the Health Canada Licences and the successful preservation of the Health Canada Licences is a condition to closing pursuant to the SPA. In a traditional asset sale, the Health Canada Licences are not transferable and the steps required to obtain new licences would likely result in additional delays and costs, altering the economics of the transaction and putting the Transaction at risk. The reverse vesting order structure provides a mechanism for the Transaction to proceed efficiently and expeditiously without the exposure to the risks, costs, and delays associated with an asset transaction.
- 61. As further set out above, Ayanda is subject to the Contingent Claims, and the NOI Proceeding was commenced to permit the Purchaser to obtain the shares of Ayanda free and clear of liabilities not related to the Purchaser. The alternative to the proposed reverse vesting order structure would subject the Purchase Price to a holdback period for an indeterminate amount of time, to the detriment of the stakeholders of Ayanda.

62. In summary, the Trustee is of the view that the reverse vesting order is necessary in these circumstances for the following reasons:
- (a) the Health Canada Licences are not otherwise transferable;
 - (b) this structure allows creditors and shareholders of Ayanda to access proceeds from the Transaction sooner than what would otherwise be available outside of the NOI Proceeding;
 - (c) Ayanda is in a liquidity crisis and needs to complete the transaction as soon as possible and address the Contingent Claims after the Transaction is closed, which is facilitated by the reverse vesting order; and
 - (d) no stakeholder (including creditors and shareholders) of Ayanda will be prejudiced.
63. For these reasons, the Trustee is of the view that a share sale effected by way of a reverse vesting order represents a transaction structure that will best preserve the Company's value, permit a seamless continuation of the Company's business as a going concern, and maximize recoveries for the Company's stakeholders.

VIII. RELEASES

64. The Approval and Vesting Order provides for certain third-party releases to the current directors, officers, employees, and independent contractors who provided legal or financial services to the company. In addition, the Approval and Vesting Order provides releases to legal counsel and advisors of Ayanda, the Proposal Trustee, and the Proposal Trustee's counsel. The Approval and Vesting Order contemplates that the releases shall take effect upon filing of the Proposal Trustee's Certificate that signifies closing of the Transaction.
65. The proposed release does not release any claim that is not permitted to be released pursuant to section 50(14) of the BIA.
66. The Trustee is of the view that the proposed release is reasonable in the circumstances as the release has appropriately carved out certain claims that are not permitted to be released. Further, the Trustee is of the view that the releasees have been integral in the negotiation of the Transaction that will see all creditors repaid in full and will maximize value for the stakeholders of Ayanda. Without the actions of the current directors, officers and employees of Ayanda, significant value may have been lost. In these circumstances, the Trustee supports the granting of the proposed release.

IX. CASH FLOW FORECAST

67. The Company, with the assistance of the Trustee, prepared the Cash Flow Forecast, which, in accordance with Section 50.4(2) of the BIA, was filed with the Official Receiver on February 14, 2022. A copy of the Cash Flow Forecast as well as the associated reports of both the Company and the Trustee are attached hereto as **Appendix “C”**. The Cash Flow Forecast is summarized as follows:

Ayanda Cannabis Corporation Projected Statement of Cash Flow For the Period February 5, 2022 to May 7, 2022 (In Canadian Dollars)	
	Total
Receipts	
Sales tax refund	21,999
Total receipts	21,999
Disbursements	
Professional fees	305,000
Utilities	119,034
Selling, general and administrative	38,859
Salaries and wages	36,000
Testing and quality control	34,979
Insurance	25,000
Repairs and maintenance	22,955
Loan payments	10,838
Total disbursements	592,665
Net cash inflow / (outflow)	(570,666)
Beginning cash balance	179,835
Net cash inflow / (outflow)	(570,666)
Proposed DIP financing	400,000
Ending cash balance	9,168

68. The Cash Flow Forecast projects that the Company will experience a net cash outflow of approximately \$571,000 (before any DIP drawdown) over the Forecast Period, comprised of:
- (a) cash receipts of approximately \$22,000, primarily related to the collection of sales tax refunds; and
 - (b) cash disbursements of approximately \$593,000, primarily consisting of: (a) costs of professionals in connection with the NOI Proceedings, (b) operating costs to maintain current operations while the Company seeks to close the Transaction, including utilities, selling, general and administrative expenses, salaries and wages, testing and quality control, insurance and repairs and maintenance, and (c) principal and interest payments to service the MSFL Loans.

69. The Cash Flow Forecast projects a cash shortfall of approximately \$391,000 during the Forecast Period. If approved by the Court, funds are to be advanced under the DIP Facility, subject to the terms and conditions of the DIP Term Sheet, to cover the cash shortfall.
70. As evidenced by the Cash Flow Forecast, without access to the DIP Facility, the Company lacks sufficient liquidity to maintain operations and fund the NOI Proceedings. The DIP Facility is expected to provide the Company with sufficient funding during the Forecast Period and to ensure Ayanda's continued operations during the NOI Proceedings.

Payment of Pre-Filing Obligations

71. Pursuant to the DIP Facility and Stay Extension Order, the Company seeks the authority to pay certain pre-filing amounts incurred by Ayanda in the ordinary course, provided that such payments are consistent with the Cash Flow Forecast or have been approved by both the Trustee and, in accordance with the DIP Term Sheet (as discussed below), the DIP Lender.
72. On the basis that the Company has limited arms-length pre-filing obligations, in the Trustee's view, no creditor would be materially prejudiced by the making of pre-filing payments (the Cash Flow Forecast projects that all known pre-filing obligations are to be paid during the Forecast Period). The Trustee understands that the DIP Lender and MSFL, the company's only secured creditor, do not oppose this relief.
73. Accordingly, and subject to the condition noted, the Trustee supports the Company's request to make pre-filing payments in accordance with the DIP Facility and Stay Extension Order.

X. DIP FACILITY

74. As discussed above, absent access to the DIP Facility, the Company will be without the liquidity needed to fund ongoing operations, including the professional costs of these proceedings, while the Company works to close the Transaction.
75. The principal terms of the DIP Term Sheet, a copy of which is attached as Exhibit "S" to the Sioen Affidavit, include (capitalized terms in the table below not otherwise defined have the meanings given to them in the DIP Term Sheet):

Basic Provisions	Description
Availability	\$400,000
Lender	Cardinal Advisory Limited
Borrower	Ayanda Cannabis Corporation
Release and Purpose	The DIP Lender will advance the DIP facility by way of one single advance, for purposes of funding (i) short-term liquidity of Ayanda and (ii) general corporate costs, including

	professional fees in connection with the Transactions and the NOI Proceedings. Pre-filing obligations may only be paid with prior written consent of the DIP Lender and the Trustee.
Interest Rate	10% per annum. Interest will accrue monthly in arrears and be paid, in full, on the DIP Termination Date.
Fees and Costs	<ul style="list-style-type: none"> a) Commitment fee of \$15,000, due on the DIP Termination Date, and which is fully earned upon the execution of the DIP Term Sheet; b) All fees, costs and expenses, including legal fees reasonably incurred by the DIP Lender in connection with the negotiation, preparation and performance of the DIP Term Sheet; and c) All of the DIP Lender's costs of realization or enforcement on a full indemnity basis.
Repayment Date	The earlier of: (i) June 30, 2022, or such other date as may be agreed to by the DIP Lender and Ayanda in writing, (ii) three business days following the date upon which the Transactions close, (iii) the early termination or refinancing of the DIP Facility or the receipt by Ayanda of any other debtor-in-possession financing, (iv) the termination, expiration or conversion of the NOI Proceedings, (v) any material breach of the terms of the DIP Term Sheet, subject to a three day cure period beginning on the day the DIP Lender provides written notice of the breach, or (vi) the repayment in full of all amounts owing under the DIP Facility.
Security	The DIP Charge, ranking subordinate only to the Administration Charge. However, the DIP Charge will rank in priority to the Administration Charge over the Deposit.
Court Order Conditions	<p>The order granted by the Court approving the DIP Facility shall be in form and substance satisfactory to the DIP Lender and must include:</p> <ul style="list-style-type: none"> (a) approval of the DIP Term Sheet and the DIP Facility; (b) granting the DIP Charge; (c) authorizing the DIP Lender to effect registrations, filings and recordings wherever in its discretion it deems appropriate regarding the DIP Charge; (d) that the DIP Charge is valid and effective to secure all of the obligations of Ayanda to the DIP Lender, without the necessity of the making of any registrations or filings and whether or not any other documents have been executed by Ayanda; (e) a declaration that the granting of the DIP Charge and all other documents executed and delivered to the DIP Lender as contemplated therein, including, without limitation, all actions taken to perfect, record and register the DIP Lender's Charge, do not constitute conduct meriting an oppression remedy, settlement, fraudulent preference, fraudulent conveyance or other challengeable or reviewable transaction under any applicable federal or provincial legislation; and (f) restrictions concerning the granting of any additional liens or encumbrances on the assets of Ayanda, other than as permitted under the DIP Term Sheet and in the DIP Facility and Stay Extension Order.
Covenants	<p>From the date of the DIP Term Sheet until the DIP Termination Date, Ayanda will:</p> <ul style="list-style-type: none"> (a) promptly on the receipt by Ayanda of the same, give the DIP Lender a copy of any Notice of Motion or Application to vary, supplement, revoke, terminate or discharge the DIP Facility and Stay Extension Order;

	<p>(b) provide the DIP Lender, with the assistance of the Trustee, with any additional financial information reasonably requested by the DIP Lender, to the extent that it is readily available; and</p> <p>(c) not, without the prior written consent of the DIP Lender, incur any borrowings or other secured indebtedness, obligations or liabilities, other than the DIP Facility, or create or grant any security (other than the Administration Charge and the DIP Charge) over any of its property, whether ranking in priority to or subordinate to the DIP Charge.</p>
--	---

DIP Facility Recommendation

76. In consideration of the factors set out in subsection 50.6(5) of the BIA with respect to the granting of a Court order for interim financing and a charge related thereto, the Trustee is of the view that the terms of the DIP Facility are reasonable and appropriate for the following reasons:

- (a) the DIP Facility enhances the prospect that the Company will be able to navigate its way through the NOI Proceeding, as it will provide the necessary funding to enable Ayanda to close the Transaction;
- (b) the Company is facing an imminent liquidity crisis and is without the cash needed to fund operations, the NOI Proceedings and close the Transaction—short term funding is needed urgently;
- (c) the Trustee believes that approval of the DIP Facility is in the best interests of the Company's stakeholders. The Trustee does not believe that creditors will be prejudiced as a result of the approval of the DIP Facility—to the contrary, they will benefit from it as it will allow the business to continue to operate while it works to close the Transaction, which will enhance value as compared to the alternative, which is the discontinuation of Ayanda's operations and the potential liquidation of its assets;
- (d) the Trustee has compared the principal financial terms of the DIP Facility to a number of other recent DIP financing packages approved by the Canadian courts, with respect to pricing, loan availability and certain security considerations. Based on this comparison, the Trustee is of the view that, in the circumstances, the terms of the DIP Facility appear to be reasonable;
- (e) the Trustee is not aware of any other party willing to offer interim financing to the Company; and
- (f) in the Trustee's view, there is virtually no prospect of restructuring the Company's business under these proceedings absent the funding provided by the DIP Facility.

XI. COURT ORDERED CHARGES

Administration Charge

77. The Company seeks the Administration Charge over all the Property to secure the fees and disbursements incurred in connection with services rendered to the Company before and after the Filing Date by the Trustee, TGF and MT.
78. The quantum of the Administration Charge sought by the Company was determined in consultation with the Trustee.
79. The Administration Charge will rank in priority to all other security interests, including the DIP Charge, other than with respect to the Deposit. The DIP Term Sheet provides that the DIP Charge will have a first-ranking priority over the Deposit in the event that the Transaction does not close and the Company is permitted to retain the Deposit. The Trustee understands that the DIP Lender has consented to the Administration Charge and its priority ranking.
80. The Administration Charge is required in insolvency proceedings to ensure that the professionals involved with the debtor company continue to provide their services to the debtor. The Trustee is of the view that the amount and the priority of the Administration Charge is required and reasonable in the circumstances. The Trustee supports the granting and the proposed ranking of the Administration Charge.

DIP Charge

81. Ayanda requires immediate financing to continue operations during the NOI Proceedings while it seeks to complete the Transaction, as evidenced by the Cash Flow Forecast.
82. It is a fundamental condition of the DIP Term Sheet that the DIP Lender receives the benefit of the DIP Charge to the maximum amount of the aggregate of any and all advances made by the DIP Lender to the Company under the DIP Facility. The maximum amount under the DIP Facility is \$400,000.
83. The DIP Term Sheet provides the Company with access to the financing required to fund operations and complete the Transaction. The Trustee recommends that the Court approve the DIP Term Sheet, and accordingly, the Trustee also supports the granting of the DIP Charge, as well as the proposed priority ranking thereof.

Summary and Proposed Ranking of the Court Ordered Charges

84. The priorities of the Charges sought by the Company are as follows:
 - (a) First – the Administration Charge (save and except with respect to the Deposit); and
 - (b) Second – the DIP Charge.

85. The DIP Facility and Stay Extension Order provides that the Charges will rank in priority to the security interest of MSFL.
86. As noted above, the Trustee believes that the Charges and rankings are required and reasonable in the circumstances and, as such, supports the granting and the proposed ranking of the Charges.

XII. EXTENSION OF THE PROPOSAL PERIOD

87. The Company is seeking the Stay Extension, which, if granted, would extend the time for the Company to file its proposal to April 20, 2022.
88. The Trustee supports the Company's request for the Stay Extension for the following reasons:
- (a) the Stay Extension will provide the Company, with the assistance of its legal counsel and the Trustee, with the time needed to (i) take steps to advance the closing of the Transaction and (ii) formulate a proposal to its creditors. As noted in the Sioen Affidavit, the proposal is anticipated to provide for the repayment, in full, of the Company's creditors and provide for a distribution to the Class B shareholders, which shareholders are entitled to receive distributions in priority to other shareholders in accordance with the Company's articles of incorporation;
 - (b) the Company is acting in good faith and with due diligence; and
 - (c) it is the Trustee's view that the Stay Extension will not materially prejudice or adversely affect any group of creditors.
89. In consideration of the foregoing, the Trustee is of the view that the Company's request for the Stay Extension is appropriate in the circumstances.

XIII. ACTIVITIES OF THE TRUSTEE

90. The Trustee's activities since the Filing Date have included, *inter alia*, the following:
- (a) sending a notice, within five days of the Filing Date, of the NOI Proceedings to all known creditors of the Company with claims of \$250 or more, in accordance with the BIA. Notice was also sent to certain other persons, including creditors with claims less than \$250, applicable tax authorities and any other party that requested a copy of the notice;
 - (b) establishing and maintaining a website at: <https://www.richter.ca/insolvencycase/ayanda-cannabis-corporation/> where material documents pertaining to the NOI Proceedings are available in electronic form;
 - (c) implementing procedures for the monitoring of the Company's cash flows and for ongoing reporting of variances to the Cash Flow Forecast;

- (d) assisting the Company with preparing the Cash Flow Forecast and filing same with the Official Receiver pursuant to the BIA;
- (e) meeting and corresponding with the Company and its legal counsel regarding the Cash Flow Forecast, the SPA, the DIP Facility and DIP Term Sheet, cash management, creditor matters and various other matters in connection with the Company's operations and its NOI Proceedings;
- (f) attending a conference call with David Hyde, CEO of Hyde Advisory, regarding the SISP;
- (g) preparing the Liquidation Analysis;
- (h) responding to calls and enquiries from creditors and other stakeholders in connection with the NOI Proceedings;
- (i) reviewing materials filed with the Court in respect of the NOI Proceedings; and
- (j) drafting this First Report.

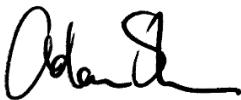
XIV. CONCLUSION AND RECOMMENDATION

91. Based on all of the foregoing, the Trustee respectfully recommends that this Honourable Court grant the Approval and Vesting Order and the DIP Facility and Stay Extension Order.

All of which is respectfully submitted this 24th day of February 2022.

**Richter Advisory Group Inc.
in its capacity as Trustee *in re* the Proposal of
Ayanda Cannabis Corporation
and not in its personal capacity**

Per:



**Adam Sherman, MBA, CIRP, LIT
Senior Vice President**



**Adam Zeldin, CPA, CA, CIRP, LIT
Vice President**

Appendix “A”



Industry Canada
Office of the Superintendent
of Bankruptcy Canada

Industrie Canada
Bureau du surintendant
des faillites Canada

District of Ontario
Division No. 05 - London
Court No. 35-2802344
Estate No. 35-2802344

In the Matter of the Notice of Intention to make a proposal of:

Ayanda Cannabis Corporation

Insolvent Person

RICHTER ADVISORY GROUP INC / RICHTER GROUPE CONSEI

Licensed Insolvency Trustee

Date of the Notice of Intention:

February 04, 2022

CERTIFICATE OF FILING OF A NOTICE OF INTENTION TO MAKE A PROPOSAL
Subsection 50.4 (1)

I, the undersigned, Official Receiver in and for this bankruptcy district, do hereby certify that the aforementioned insolvent person filed a Notice of Intention to Make a Proposal under subsection 50.4 (1) of the Bankruptcy and Insolvency Act;

Pursuant to subsection 69. (1) of the Act, all proceedings against the aforementioned insolvent person are stayed as of the date of filing of the Notice of Intention.

Date: February 04, 2022, 15:10

E-File/Dépôt Electronique

Official Receiver

Federal Building - London, 451 Talbot Street, Suite 303, London, Ontario, Canada, N6A5C9, (877)376-9902

Canada 

Appendix “B”

District of:
Division No. -
Court No.
Estate No.

- FORM 33 -
Notice of Intention To Make a Proposal
(Subsection 50.4(1) of the Act)

In the Matter of the Notice of Intention to Make a Proposal of
Ayanda Cannabis Corporation
in the City of Norwich
of the Province of Ontario

Take notice that:

1. Ayanda Cannabis Corporation, an insolvent person, states, pursuant to subsection 50.4(1) of the Act, that Ayanda Cannabis Corporation intends to make a proposal to its creditors.
2. Richter Advisory Group Inc. of 181 Bay Street, Suite 3510, Toronto, ON, M5J 2T3, a licensed trustee, has consented to act as trustee under the proposal. A copy of the consent is attached.
3. A list of the names of the known creditors with claims of \$250 or more and the amounts of their claims is also attached.
4. Pursuant to section 69 of the Act, all proceedings against Ayanda Cannabis Corporation are stayed as of the date of filing of this notice with the official receiver in its locality.

Dated at the City of Toronto in the Province of Ontario, this 4th day of February 2022.



Ayanda Cannabis Corporation
Insolvent Person

To be completed by Official Receiver:

Filing Date

Official Receiver

District of:
Division No.:
Court No.:
Estate No.:

- FORM 33 -

Notice of Intention To Make a Proposal
(Subsection 50.4(1) of the Act)

In the Matter of the Notice of Intention to Make a Proposal of
Ayanda Cannabis Corporation
in the City of Norwich
of the Province of Ontario

List of Creditors with claims of \$250 or more.			
Creditor	Address	Account#	Claim Amount
ABELL PEST CONTROL	851 CONSORTIUM COURT LONDON ON N6E 2S9	0204-200721-03	430.00
AGM EQUIPMENT REPAIR INC	29 SAINT WILLIAMS STREET, BOX 555 BURFORD ON N0E 1A0		706.25
AMPLE ORGANICS	290 CALDARI ROAD, UNIT 2015A VAUGHAN ON L4K 4J4	A00005177	5,339.25
EMPLOYEES			250.00
ENBRIDGE	PO BOX 644 SCARBOROUGH ON M1K 5H1	91 00 1 96012	250.00
EUROFINS EXPERICHEM LABORATORIES INC.	36-1111 FLINT ROAD TORONTO ON M3J 3C7	197719	3,378.70
EXEOLINK TELECOM	1127 RIDGEWAY RD WOODSTOCK ON N4V 1E3	527013	250.00
MICHAEL SJOEN FARMS LTD	324 BURFORD DELHI TOWNLINE ROAD Norwich ON N0J 1P0		1,020,020.11
SCOTLAND AGROMART LTD	218 OAKLAND ROAD SCOTLAND ON N0E 1R0		401.00
SONITROL	17-1800 APPELBY LINE BURLINGTON ON L7L 6A1		3,333.00
Total			1,034,358.31


Ayanda Cannabis Corporation
Insolvent Person

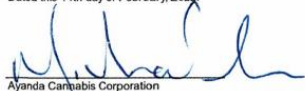
Appendix “C”

Ayanda Cannabis Corp ("Ayanda" or the "Company")
 Projected Statement of Cash Flow Under a Notice of Intention to Make a Proposal ("NOI")
 For the Period February 5, 2022 to May 7, 2022
 (In Canadian Dollars)

Notes	WEEK ENDING													Total
	12-Feb-22	19-Feb-22	26-Feb-22	5-Mar-22	12-Mar-22	19-Mar-22	26-Mar-22	2-Apr-22	9-Apr-22	16-Apr-22	23-Apr-22	30-Apr-22	7-May-22	
Receipts														
Sales tax refund	1	21,999	-	-	-	-	-	-	-	-	-	-	-	21,999
Total receipts		21,999	-	-	-	-	-	-	-	-	-	-	-	21,999
Disbursements														
Professional fees	2	-	40,000	-	95,000	-	-	-	95,000	-	-	-	75,000	305,000
Utilities	3	16,734	50,600	-	-	16,500	1,100	-	16,500	1,100	-	-	16,500	119,034
Selling, general and administrative	4	5,439	16,552	260	3,490	100	534	260	5,789	100	695	5,439	100	38,859
Salaries and wages	5	-	6,000	-	6,000	-	6,000	-	6,000	-	6,000	-	6,000	36,000
Testing and quality control	6	3,379	5,000	-	-	3,300	10,000	-	-	-	10,000	3,300	-	34,979
Insurance	7	-	-	-	-	25,000	-	-	-	-	-	-	-	25,000
Repairs and maintenance	8	5,369	1,200	1,200	1,200	1,629	1,200	3,100	1,629	1,200	1,200	1,200	1,629	22,955
Loan payments	9	2,710	-	-	2,710	-	-	-	2,710	-	-	-	2,710	10,838
Total disbursements		33,631	119,352	1,460	105,690	24,238	43,834	1,460	14,889	115,938	18,400	5,195	12,639	592,665
Net cash inflow / (outflow)		(11,632)	(119,352)	(1,460)	(105,690)	(24,238)	(43,834)	(1,460)	(14,889)	(115,938)	(18,400)	(5,195)	(12,639)	(570,666)
Beginning cash balance		179,835	168,202	48,851	47,390	(58,300)	(82,538)	(126,372)	(127,833)	(142,722)	(258,660)	(277,060)	(282,255)	179,835
Net cash inflow / (outflow)		(11,632)	(119,352)	(1,460)	(105,690)	(24,238)	(43,834)	(1,460)	(14,889)	(115,938)	(18,400)	(5,195)	(12,639)	(570,666)
Ending cash balance	10	168,202	48,851	47,390	(58,300)	(82,538)	(126,372)	(127,833)	(142,722)	(258,660)	(277,060)	(282,255)	(294,894)	(390,832)

The projected statement of cash flow has been prepared pursuant to the requirements of section 50.4(2) of the *Bankruptcy and Insolvency Act* and solely for that purpose.

Dated this 14th day of February, 2022.



Ayanda Cannabis Corporation

Mike Sioen
 Name of Signing Officer

The projected statement of cash flow has been prepared pursuant to the requirements of section 50.4(2) of the *Bankruptcy and Insolvency Act* and should be read in conjunction with the attached Trustee's Report on Cash-Flow Statement dated February 14, 2022 and the Report on Cash-Flow Statement by the Person Making the Proposal dated February 14, 2022.

Richter Advisory Group Inc., in its capacity as Trustee
 Under the Notice of Intention To Make a Proposal of
 Ayanda Cannabis Corporation
 And not in its personal capacity

Per:



Adam Sherman

Notes

1. The Company files sales taxes quarterly. The amount in the cash flow forecast represents the sales tax refund for the quarter ended December 31, 2021.
2. Includes the professional costs of the Proposal Trustee, its counsel and the Company's counsel.
3. Includes gas and hydro costs. The forecast assumes that Ayanda's utility providers may require a deposit. The forecast contemplates the potential payment of pre-filing amounts.
4. Includes costs associated with information technology ("IT") services, telecommunications services, accounting/tax services, WSIB premiums and general office expenses. The forecast assumes that Ayanda's IT service provider may require a deposit. The forecast contemplates the potential payment of pre-filing amounts.
5. Includes the one salaried and two hourly employees of the Company.
6. Includes the costs associated with product testing and the cost of one independent contractor engaged as the Company's quality assurance person. The forecast contemplates the potential payment of pre-filing amounts.
7. Insurance is proposed to be prepaid in March for fiscal 2022 coverage.
8. Includes repairs and maintenance costs to maintain the facility and its production and other equipment. The balance also includes general greenhouse supplies. The forecast contemplates the potential payment of pre-filing amounts.
9. Represents principal and interest payments to the Company's secured creditor, Mike Sioen Farms Ltd.
10. The Company is in discussions with prospective lenders, including certain related and third parties, regarding obtaining interim financing during the NOI proceedings.

District of: ON
Division No.: 05-London
Court No.: 35-2802344
Estate No.: 35-2802344

FORM 29
Trustee's Report on Cash-Flow Statement
(Paragraphs 50(6)(b) and 50.4(2)(b) of the Act)

In the matter of the Notice of Intention to make a Proposal of
Ayanda Cannabis Corporation
of the City of Norwich
in the Province of Ontario

The attached statement of projected cash flow of Ayanda Cannabis Corporation, as of the 14th day of February, 2022, consisting of the period from February 5, 2022 to May 7, 2022, has been prepared by the management of the insolvent person for the purpose described in the notes attached, using the probable and hypothetical assumptions set out in the notes attached.

Our review consisted of inquiries, analytical procedures and discussion related to information supplied to us by the management and employees of the insolvent person. Since hypothetical assumptions need not be supported, our procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the projection. We have also reviewed the support provided by management for the probable assumptions and preparation and presentation of the projection.

Based on our review, nothing has come to our attention that causes us to believe that, in all material respects

- (a) the hypothetical assumptions are not consistent with the purpose of the projection;
- (b) as at the date of this report, the probable assumptions developed are not suitably supported and consistent with the plans of the insolvent person or do not provide a reasonable basis for the projection, given the hypothetical assumptions; or
- (c) the projection does not reflect the probable and hypothetical assumptions.

Since the projection is based on assumptions regarding future events, actual results will vary from the information presented even if the hypothetical assumptions occur, and the variations may be material. Accordingly, we express no assurance as to whether the projection will be achieved.

The projection has been prepared solely for the purpose described in the notes attached, and readers are cautioned that it may not be appropriate for other purposes.

Dated at the City of Toronto, in the Province of Ontario, this 14th day of February 2022.

Richter Advisory Group Inc. – Licensed Insolvency Trustee
Per:



Adam Sherman, MBA, CIRP, LIT
181 Bay Street, Suite 3510
Toronto, ON M5J 2T3
Phone: (416) 642-4836 Fax: (416) 488-3765

District of: ON
Division No.: 05-London
Court No.: 35-2802344
Estate No.: 35-2802344

FORM 29 – ATTACHMENT
Trustee's Report on Cash-Flow Statement
(Paragraphs 50(6)(b) and 50.4(2)(b) of the Act)

In the matter of the Notice of Intention to make a Proposal of
Ayanda Cannabis Corporation
of the City of Norwich
in the Province of Ontario

Purpose:

Ayanda Cannabis Corporation (the “**Company**”) filed a Notice of Intention to Make a Proposal on February 4, 2022. The purpose of this Statement of Projected Cash Flow is to present the estimated cash receipts and disbursements of the Company for the period February 5, 2022 to May 7, 2022, relating to the filing of a Notice of Intention to Make a Proposal on February 4, 2022.

This Statement of Projected Cash Flow has been prepared by management on February 14, 2022, based on available financial information at that date in accordance with Section 50.4(2) of the *Bankruptcy and Insolvency Act* and should be read in conjunction with the Trustee's Report on the Cash Flow Statement. Readers are cautioned that this information may not be appropriate for other purposes.

Projection Notes:

The Statement of Projected Cash Flow has been prepared using probable assumptions supported and consistent with the plans of the Company for the period February 5, 2022 to May 7, 2022, considering the economic conditions that are considered the most probable by management.

As the cash flow is based upon various assumptions regarding future events and circumstances, variances will exist and said variances may be material. Accordingly, we express no assurance as to whether the projections will be achieved.

Assumptions:

(a) Projected Cash Receipts

The Company is an early stage licensed producer of cannabis products. It does not generate revenue and, therefore, no new sales or collections are projected, other than refunds in respect of input tax credits.

(b) Projected Cash Disbursements

The projected cash disbursements reflect costs required to maintain the Company's facility, machinery, and equipment, as well as costs associated with limited production, including product testing and quality control.

The projected disbursements are based on historical data adjusted to reflect the current level of activity and best estimates of the Company.

Remittances for source deductions and sales taxes are included in the disbursement assumptions based on projected expenditures.

Cash disbursements contemplate the potential payment of pre-filing amounts.

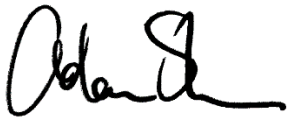
(c) Funding Need

The Company is projected to require funding of approximately \$400,000 during the forecast period. The Company is in discussions with various parties, including certain related parties, to secure the funding required during the forecast period.

Dated at the City of Toronto, in the Province of Ontario, this 14th day of February 2022.

Richter Advisory Group Inc. – Licensed Insolvency Trustee

Per:

A handwritten signature in black ink, appearing to read 'Adam Sherman', written over a horizontal line.

Adam Sherman, MBA, CIRP, LIT

181 Bay Street, Suite 3510

Toronto, ON M5J 2T3

Phone: (416) 642-4836 Fax: (416) 488-3765

District of: ON
Division No.: 05-London
Court No.: 35-2802344
Estate No.: 35-2802344

- FORM 30 -

Report on Cash-Flow Statement by the Person Making the Proposal
(Paragraphs 50(6)(c) and 50.4(2) (c) of the Act)

In the matter of the Notice of Intention to make a Proposal of
Ayanda Cannabis Corporation
of the City of Norwich
in the Province of Ontario

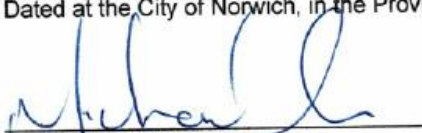
The management of Ayanda Cannabis Corporation has developed the assumptions and prepared the attached statement of projected cash flow of the insolvent person, as of the 14th day of February 2022, consisting of the period from February 5, 2022 to May 7, 2022.

The hypothetical assumptions are reasonable and consistent with the purpose of the projection described in the notes attached, and the probable assumptions are suitably supported and consistent with the plans of the insolvent person and provide a reasonable basis for the projection. All such assumptions are disclosed in the notes attached.

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

The projection has been prepared solely for the purpose described in the notes attached, using a set of hypothetical and probable assumptions set out in the notes attached. Consequently, readers are cautioned that it may not be appropriate for other purposes.

Dated at the City of Norwich, in the Province of Ontario, this 14th day of February 2022.


Ayanda Cannabis Corporation

Mike Sioen
Name of signing officer

District of: ON
Division No.: 05-London
Court No.: 35-2802344
Estate No.: 35-2802344

- FORM 30 - Attachment
Report on Cash-Flow Statement by the Persons Making the Proposal
(Paragraphs 50(6)(c) and 50.4(2) (c) of the Act)

In the matter of the Notice of Intention to make a Proposal of
Ayanda Cannabis Corporation
of the City of Norwich
in the Province of Ontario

Purpose:

Ayanda Cannabis Corporation (the "**Company**") filed a Notice of Intention to Make a Proposal on February 4, 2022. The purpose of this Statement of Projected Cash Flow is to present the estimated cash receipts and disbursements of the Company for the period February 5, 2022 to May 7, 2022, relating to the filing of a Notice of Intention to Make a Proposal on February 4, 2022.

This Statement of Projected Cash Flow has been prepared by management on February 14, 2022, based on available financial information at that date in accordance with Section 50.4(2) of the *Bankruptcy and Insolvency Act* and should be read in conjunction with the Trustee's Report on the Cash Flow Statement. Readers are cautioned that this information may not be appropriate for other purposes.

Projection Notes:

The Statement of Projected Cash Flow has been prepared using probable assumptions supported and consistent with the plans of the Company for the period February 5, 2022 to May 7, 2022, considering the economic conditions that are considered the most probable by management.

As the cash flow is based upon various assumptions regarding future events and circumstances, variances will exist and said variances may be material. Accordingly, we express no assurance as to whether the projections will be achieved.

Assumptions:

(a) Projected Cash Receipts

The Company is an early stage licensed producer of cannabis products. It does not generate revenue and, therefore, no new sales or collections are projected, other than refunds in respect of input tax credits.

(b) Projected Cash Disbursements

The projected cash disbursements reflect costs required to maintain the Company's facility, machinery, and equipment, as well as costs associated with limited production, including product testing and quality control.

The projected disbursements are based on historical data adjusted to reflect the current level of activity and best estimates of the Company.

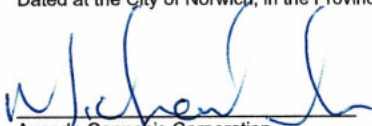
Remittances for source deductions and sales taxes are included in the disbursement assumptions based on projected expenditures.

Cash disbursements contemplate the potential payment of pre-filing amounts.

(c) Funding Need

The Company is projected to require funding of approximately \$400,000 during the forecast period. The Company is in discussions with various parties, including certain related parties, to secure the funding required during the forecast period.

Dated at the City of Norwich, in the Province of Ontario, this 14th day of February 2022.


Ayanda Cannabis Corporation

Mike Sioen
Name of signing officer

IN THE MATTER OF THE NOTICE OF INTENTION TO MAKE A PROPOSAL OF **AYANDA CANNABIS CORPORATION**

Estate / Court File No. 35-2802344

ONTARIO
SUPERIOR COURT OF JUSTICE
(IN BANKRUPTCY AND INSOLVENCY)

Proceedings commenced at Toronto

FIRST REPORT OF THE PROPOSAL
TRUSTEE

Thornton Grout Finnigan LLP

Barristers and Solicitors
Toronto-Dominion Centre
100 Wellington Street West
Suite 3200, P.O. Box 329
Toronto, ON M5K 1K7

Fax: (416) 304-1313

Robert I. Thornton (LSO # 24266B)

Tel: (416) 304-0560 / Email: rthornton@tgf.ca

Mitchell W. Grossell (LSO # 69993I)

Tel: (416) 304-7978 / Email: mgrossell@tgf.ca

Lawyers for the Proposal Trustee, Richter Advisory
Group Inc.