

Court File No. CV-23-00700581-00CL

FIRE & FLOWER HOLDINGS CORP., FIRE & FLOWER INC., 13318184 CANADA INC., 11180703 CANADA INC., 10926671 CANADA LTD., FRIENDLY STRANGER HOLDINGS CORP., PINEAPPLE EXPRESS DELIVERY INC., and HIFYRE INC.

FIRST REPORT OF FTI CONSULTING CANADA INC., AS MONITOR

June 14, 2023

Contents

Section	Page
A. INTRODUCTION	2
B. TERMS OF REFERENCE	4
C. ACTIVITIES OF THE MONITOR	5
D. AUTHORIZATION TO PAY PRE-FILING AMOUNTS TO CRITICAL SUPPLIERS	7
E. REQUEST FOR APPROVAL OF THE PROPOSED SALE AND INVESTMENT SOLICITATION PROCESS AND STALKING HORSE AGREEMENT	8
F. REQUEST FOR APPROVAL OF THE PROPOSED KEY EMPLOYEE RETENTION PLAN	17
G. AMENDED AND RESTATED INITIAL ORDER	19
H. REQUEST FOR AN EXTENSION OF THE STAY PERIOD	21
I. CONCLUSION.....	22

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

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

AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF
FIRE AND FLOWER HOLDINGS CORP., FIRE & FLOWER INC., 13318184 CANADA
INC., 11180703 CANADA INC., 10926671 CANADA LTD., FRIENDLY STRANGER
HOLDINGS CORP., PINEAPPLE EXPRESS DELIVERY INC., and HIFYRE INC.
(collectively, the “**Applicants**”)

FIRST REPORT TO THE COURT
SUBMITTED BY FTI CONSULTING CANADA INC.,
IN ITS CAPACITY AS MONITOR

A. INTRODUCTION

1. On June 5, 2023, Fire & Flower Holdings Corp. (“**F&F Holdings**”), Fire & Flower Inc., 13318184 Canada Inc., 11180703 Canada Inc., 10926671 Canada Ltd., Friendly Stranger Holdings Corp., Pineapple Express Delivery Inc. and Hifyre Inc. (collectively “**F&F**” or the “**Applicants**”) sought and obtained an initial order (the “**Initial Order**”) under the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the “**CCAA**”). The proceedings commenced under the CCAA by F&F are referred to herein as the “**CCAA Proceedings**”.
2. The Initial Order, among other things:
 - (a) appointed FTI Consulting Canada Inc. as monitor of F&F (in such capacity, the “**Monitor**”) in the CCAA Proceedings;
 - (b) granted a stay of proceedings against F&F until June 15, 2023 (the “**Stay Period**”);
 - (c) approved a \$9.8 million debtor-in-possession (“**DIP**”) credit facility (the “**DIP Facility**”), of which an initial amount of \$2.7 million was approved to be advanced

during the initial 10-day Stay Period, and granted a corresponding charge in respect thereof (the “**DIP Lender’s Charge**”); and

- (d) granted the Administration Charge and the Directors’ Charge (collectively, with the DIP Lender’s Charge, the “**CCAA Charges**”).
3. A comeback hearing was scheduled for June 15, 2023 (the “**Comeback Hearing**”).
4. The purpose of this First Report of the Monitor (the “**First Report**”) is to provide the Court with the Monitor’s comments and recommendations, regarding the following:
- (a) the activities of the Monitor since the issuance of the Initial Order; and
 - (b) F&F’s motion returnable at the Comeback Hearing (the “**Comeback Motion**”) seeking to, *inter alia*:
 - (i) authorize the Applicants, with the consent of the Monitor, to pay certain pre-filing amounts owed to suppliers which they deem critical to their business;
 - (ii) approve the Proposed SISP (as defined below);
 - (iii) approve the Stalking Horse Agreement to be entered into between the Applicants and ACT (in such capacity, the “**Stalking Horse Bidder**”) solely for the purpose of constituting the “Stalking Horse Bid” under the Proposed SISP;
 - (iv) approve the Proposed KERP (as defined below) and grant a charge in respect of the beneficiaries of the Proposed KERP (the “**KERP Charge**”) and sealing the unredacted KERP provided to the Court as **Confidential Appendix “1”**;
 - (v) approve the amended and restated Initial Order (the “**ARIO**”), which, *inter alia*, seeks to increase the quantum of certain of the CCAA Charges and elevate the priority ascribed to the CCAA Charges over all Encumbrances

(as defined in the Initial Order), authorize the Applicants to incur no further expenses in relation to the Security Filings and offering relief from certain Securities Provisions and extend the time to call and hold the annual general meeting (“**AGM**”) of shareholders of F&F Holdings; and

(vi) extend the Stay Period to and including September 1, 2023.

B. TERMS OF REFERENCE

5. In preparing this First Report, the Monitor has relied upon audited and unaudited financial information of F&F’s books and records, certain financial information and forecasts prepared by F&F, and discussions with various parties, including senior management (“**Management**”) of, and advisors to, F&F (collectively, the “**Information**”).
6. Except as otherwise described in this First Report:
 - (a) the Monitor has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would comply with Generally Accepted Assurance Standards pursuant to the Chartered Professional Accountants of Canada Handbook; and
 - (b) the Monitor has not examined or reviewed the financial forecasts or projections referred to in this First Report in a manner that would comply with the procedures described in the Chartered Professional Accountants of Canada Handbook.
7. Future-oriented financial information reported in, or relied on, in preparing this First Report is based on Management’s assumptions regarding future events. Actual results will vary from these forecasts and such variations may be material.
8. The Monitor has prepared this First Report in connection with the Comeback Hearing. The First Report should not be relied on for any other purpose.
9. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian Dollars.

10. Capitalized terms not otherwise defined herein have the meanings ascribed to them in the affidavit of Stephane Trudel (“**Mr. Trudel**”), the Chief Executive Officer of Fire & Flower Holdings Corp. sworn on June 5, 2023, the second affidavit of Mr. Trudel sworn on June 14, 2023 (the “**Second Trudel Affidavit**”), filed in support of the Comeback Motion, the ARIO or the pre-filing report of the Monitor dated June 5, 2023, as applicable.

C. ACTIVITIES OF THE MONITOR

Notices and Communications

11. The Monitor has established a website at <http://cfcanada.fticonsulting.com/fireandflower/> (the “**Monitor’s Website**”) on which updates on the CCAA Proceedings will be posted periodically, together with all the Court materials filed in the CCAA Proceedings. In addition, the Monitor has established a dedicated email address (fireandflower@fticonsulting.com) and hotlines (416-649-8129 or 1-833-981-8009) to allow stakeholders to communicate directly with the Monitor in order to address any questions or concerns in respect of the CCAA Proceedings.
12. Pursuant to paragraph 45 of the Initial Order, the Monitor:
 - (a) has arranged for publication of the initial notice containing the information prescribed under the CCAA in the Globe and Mail (National Edition) on June 9, 2023;
 - (b) made a copy of the Initial Order and the application materials publicly available by posting them on the Monitor’s Website on June 5, 2023;
 - (c) sent, in the prescribed manner, a notice to every known creditor with a claim against F&F of more than \$1,000; and
 - (d) prepared a list of those creditors and the estimated amounts of those claims, and made such list publicly available on the Monitor’s Website.

Other Activities of the Monitor

13. In addition to the activities listed above, the Monitor has also undertaken the following activities since the commencement of the CCAA Proceedings:
- (a) posted an updated and current service list for these CCAA Proceedings on the Monitor's Website;
 - (b) engaged in discussions with F&F, its legal counsel, and its directors and Management regarding issues related to F&F's operations and borrowings under the DIP Facility, as well as lease terminations (consistent with the DIP terms);
 - (c) participated in discussions with Alimentation Couche-Tard ("ACT"), related entities and their advisors, regarding matters related to the DIP Facility;
 - (d) reviewed advances under the DIP Facility and disbursements of F&F;
 - (e) participated in discussions with and assisted F&F in discussions with landlords, suppliers, other creditors and employees related to the CCAA Proceedings and responded to requests for information from certain such parties;
 - (f) engaged in discussions with F&F and its legal counsel regarding certain issues related to recently terminated employees;
 - (g) participated in discussions with certain provincial cannabis boards, which discussions are ongoing;
 - (h) engaged in discussions with F&F, its legal counsel and ACT's legal counsel, Davies Ward Phillips & Vineberg LLP, and financial advisors, National Bank of Canada regarding the Proposed SISP and ACT's participation in same as the Stalking Horse Bidder;
 - (i) engaged with the Monitor's legal counsel, Thornton Grout Finnigan LLP, regarding matters related to the CCAA Proceedings;

- (j) continued, with FTI Capital Advisors – Canada ULC (“**FTI Capital Advisors**”), preparation of materials required to conduct the Proposed SISP and a list of potential bidders; and
- (k) engaged with certain interested parties by sending them the Teaser Letter and facilitating access to confidential information for those parties who signed an NDA (as such terms are defined in the Proposed SISP).

D. AUTHORIZATION TO PAY PRE-FILING AMOUNTS TO CRITICAL SUPPLIERS

- 14. The Monitor understands that F&F relies on certain vendors to provide ongoing services and access to information in order to ensure operations continue as a going concern.
- 15. The Monitor also understands that certain of these suppliers are critical to F&F’s business and are either small and medium enterprises, which are dependent on continuous payment from F&F, or are located outside of Canada such that it may be difficult to require them to comply with the terms of the Initial Order. Any interruption of service from these third parties, either because they are unable to continue to provide their services to F&F or refuse to do so on account of unpaid pre-filing amounts owed to them by F&F, may prevent the Applicants from operating in the ordinary course and continuing to provide uninterrupted services to its customers.
- 16. In order to ensure the continuous supply of products and services and to avoid disruption to the business, F&F is requesting authority (but not the obligation) to pay, partially or entirely, with the consent of the Monitor, any pre-filing unpaid claim of suppliers it deems critical to its business and ongoing operations of F&F if such third party would sustain material prejudice if such payment is not made, up to an aggregate amount of \$250,000.
- 17. The Monitor intends to work closely with the Applicants to ensure only the most critical suppliers receive any payments in respect of their pre-filing amounts.

E. REQUEST FOR APPROVAL OF THE PROPOSED SALE AND INVESTMENT SOLICITATION PROCESS AND STALKING HORSE AGREEMENT

18. At the commencement of the CCAA Proceedings, F&F advised that it intended to seek approval of a comprehensive and flexible sale and investment solicitation process (the “**Proposed SISP**”). A draft of the Proposed SISP is attached as **Appendix “A”** hereto. Capitalized terms in this section not otherwise defined herein have the meanings ascribed to them in the Proposed SISP.
19. At the Comeback Hearing, F&F will seek an Order approving the Proposed SISP, and the actions of F&F, the Monitor and FTI Capital Advisors that may be necessary or desirable to carry out the Proposed SISP. The Proposed SISP will be carried out by the Monitor in consultation with F&F.
20. A summary of the Proposed SISP is set out below. If there are any discrepancies between the terms of the Proposed SISP and the description of same herein, the terms of the Proposed SISP shall govern.
21. The timing of key milestones relating to the Proposed SISP are as follows:

Milestone	Deadline
Phase 1 Bid Deadline	July 13, 2023, at 5:00 p.m. (Eastern)
Phase 2 Bid Deadline	August 11, 2023
Auction, if any	August 15, 2023
Selection of Successful Bid and Back-Up Bidder	August 17, 2023, at 5:00 p.m. (Eastern)
Outside Closing Date	September 15, 2023

Pursuant to the Proposed SISP, the Monitor, in consultation with F&F and with the authorization of the DIP Lender, acting reasonably, may extend the timelines and Milestones set out above.

Overview of the Proposed SISP

22. F&F has proposed a flexible SISP, designed to maximize opportunities for the sale of, or investment in, all or part of F&F's assets and business (the "**Opportunity**"). A potential transaction may include one or more of a restructuring, recapitalization or other form of reorganization of the business and affairs of F&F as a going concern, or a sale of all, of substantially all or one or more components of the Property and the Business as a going concern or otherwise.
23. The Monitor, with the assistance of F&F has developed a list of potential bidders. This list includes parties that have approached the Monitor and advised that they have an interest in the Opportunity, local and international strategic and financial parties who the Monitor believes may be interested in the Opportunity, and any other parties suggested by F&F or a stakeholder as a potential bidder.
24. The Monitor, with the assistance of F&F, has prepared a Teaser Letter describing the Opportunity and inviting recipients of the Teaser Letter to express their interest pursuant to the Proposed SISP. The Monitor has provided the Teaser Letter to certain parties expressing an interest in the Opportunity.
25. F&F prepared a NDA that is in form and substance satisfactory to the Monitor and has been sent to parties interested in the process.
26. The Monitor will post the Notice, the Teaser Letter and the form of NDA on the Monitor's Website.
27. The Monitor, in consultation with F&F, will prepare and send to each Prospective Bidder which has executed a NDA, a Confidential Information Memorandum providing additional information considered relevant to the Opportunity. These prospective bidders will also be given access to a confidential virtual data room that will contain further confidential information relating to the Opportunity.

28. Following their own due diligence, a Phase 1 Qualified Bidder who wishes to submit a bid as part of the Proposed SISP must deliver a non-binding letter of intent to the Monitor via email by no later than 5:00 p.m. on July 13, 2023.
29. For an LOI to be considered a Phase 1 Qualified Bid, it must comply with certain conditions, including:
 - (a) it is received by the Phase 1 Bid Deadline;
 - (b) it provides that the offer is for the whole or part of the business as allowed under the Proposed SISP;
 - (c) it provides written evidence of the ability to consummate the transaction within the timeframe contemplated by the Proposed SISP;
 - (d) it identifies all proposed material terms and conditions to closing;
 - (e) it identifies the Qualified Phase 1 Bidder and representatives thereof, and fully discloses the identity of each entity or person that will be sponsoring, participating in or benefiting from the transaction;
 - (f) it identifies any additional due diligence required to be completed;
 - (g) it clearly indicates that the net cash proceeds provided on closing are not less than the aggregate total of: (i) the amount of cash payable under the Stalking Horse Agreement together with the amount of all secured indebtedness, liabilities and obligations owing by F&F to ACT, plus (ii) an amount equivalent to the Break Fee and (iii) a minimum overbid amount of \$250,000; and
 - (h) it does not provide for any break fee or expense reimbursement, it being understood and agreed that no bidder (other than the Stalking Horse Bidder) will be entitled to any such bid protections.
30. F&F, in consultation with the Monitor and ACT, may aggregate bids received to meet or exceed the Minimum Purchase Price.

31. The Monitor, in consultation with F&F and ACT, may waive compliance with any one or more of the requirements to qualify a Phase 1 Qualified Bid.
32. It is important to note that if no Phase 1 Qualified Bids are received, or no Phase 1 Satisfactory Bid is selected other than the Stalking Horse Bid, then F&F will seek court approval of the Stalking Horse Bid and Phase 2 of the Proposed SISP will not be conducted. This allows the Applicants to conserve cash and close the Stalking Horse Transaction in accordance with the timeline in the Proposed SISP to effect a going concern transaction for the benefit of stakeholders.
33. If Phase 1 Satisfactory Bids are received by the Monitor, the Proposed SISP will continue to Phase 2, with Binding Offers being required by August 11, 2023. A Binding Offer will be considered a Phase 2 Qualified Bid if it complies with certain conditions, including:
 - (a) it has been received by the Phase 2 Bid Deadline;
 - (b) it adequately identifies the assets being purchased and all executory contracts of F&F that it will assume and all monetary defaults and non-monetary defaults will be remedied, as applicable;
 - (c) it is unconditional and not subject to any financing condition;
 - (d) includes appropriate representations and warranties in respect of all due diligence, including those regulating in the cannabis sector;
 - (e) it provides for net cash proceeds that are not less than the Minimum Purchase Price; unless it is a part of a bid that qualifies as an Aggregated Bid, in which case the total net cash proceeds of the Aggregated Bids will be not less than the Minimum Purchase Price;
 - (f) it is irrevocable and capable of acceptance until the earlier of (i) two business days after the date of closing of the Successful Bid; and (ii) the Outside Date;
 - (g) it does not provide for any break or termination fee, expense reimbursement or similar type of payment;

- (h) it includes a description of any non-cash consideration and details of any liabilities to be assumed or the method proposed for a financial restructuring;
 - (i) it is accompanied by a deposit in the amount of not less than 10% of the cash purchase price payable on closing or total new investment contemplated, as the case may be; and
 - (j) it reasonably demonstrates a capacity to consummate the transaction.
34. F&F and the Monitor will review and evaluate each Phase 2 Qualified Bid that is received and will determine the Successful Bid and the Back-Up Bid. As part of this evaluation, the Monitor may conduct an auction in accordance with the Bidding Procedures set forth in the Proposed SISP.
35. Upon the selection of the Successful Bidder and the finalization of the definitive documents, F&F will apply to the Court for the approval of the Successful Bid.

Overview of the Stalking Horse Agreement¹

36. In an effort to provide certainty during the process, the Proposed SISP includes a Stalking Horse Agreement the material terms of which are as follows:
- (a) a company incorporated by ACT (the “**Stalking Horse Purchaser**”) will subscribe for an aggregate of 1,000,000,000 common shares of F&F Holdings, the parent company of the remaining Applicants, through a reverse vesting transaction, pursuant to which all equity interest of F&F Holdings will be cancelled without consideration, and the Stalking Horse Purchaser will be the sole parent of F&F Holdings;

¹ All of the terms used in this section and not otherwise defined shall have the meaning ascribed thereto in the form of Stalking Horse Agreement to be entered into.

- (b) prior to the acquisition of the shares, Residual Co. will be incorporated and all of the Excluded Assets and Excluded Liabilities of the Applicants will be transferred to Residual Co.;
- (c) the Purchase Price is the total secured amount outstanding to ACT (including the DIP Facility) which shall be satisfied through the cancellation of the indebtedness;
- (d) the Stalking Horse Purchaser, by nature of its ownership of F&F Holdings, will retain certain liabilities of the Applicants, including:
 - (i) all Post-Filing Claims;
 - (ii) all post-closing liabilities of the Applicants;
 - (iii) certain Tax Liabilities;
 - (iv) Intercompany Claims;
 - (v) indemnification obligations to current and former directors and officers of the Applicants, subject to certain conditions;
 - (vi) all unpaid amounts owing under the Directors' Charge and KERP Charge;
 - (vii) outstanding Priority Payments; and
 - (viii) Administration Expense Costs not to exceed \$100,000.
- (e) the Stalking Horse Purchaser is entitled to a Break Fee in the amount of \$750,000²;
- (f) the Stalking Horse Purchaser will determine which employees of the Applicants it intends to assume. For any assumed employee, the Stalking Horse Purchaser is required to recognize their prior years of service with F&F except as would result in duplication of benefits and subject to any required consents of any applicable third-party insurer or plan administrator. Any employee that is not offered

² Total Break Fee of \$750,000 includes a break fee of \$650,000 plus an expense reimbursement of \$100,000.

employment by the applicable Applicant, on behalf of the Stalking Horse Purchaser, shall be terminated by the applicable Applicant and any obligations of the Applicants to such Terminated Employee shall be an Excluded Liability; and

- (g) the Outside Date to consummate the transaction is September 15, 2023.

Monitor's Involvement in the Proposed SISP and Stalking Horse Agreement

37. As noted above, the Monitor was consulted in designing the Proposed SISP and was party to discussions with ACT as a potential stalking horse. The Monitor will not only be involved in, but will conduct the Proposed SISP in consultation with F&F, and in some cases, ACT.
38. The Monitor, together with its affiliate, FTI Capital Advisors, will carry out the Proposed SISP in the manner approved by the Court. The Monitor is entitled to receive all information in relation to the Proposed SISP and will have certain approval rights in respect of key steps taken therein.
39. The Proposed ARIO provides that the Monitor will have no liability with respect to any claims in connection the conducting of the Proposed SISP, including any steps taken by the Monitor prior to the approval of the Proposed SISP, except to the extent such claims result from the gross negligence or wilful misconduct of the Monitor.

Monitor's Comments and Recommendation

40. As described in the Second Trudel Affidavit, the Applicants engaged in discussions with ACT to act as a potential stalking horse bidder in these CCAA Proceedings.
41. The Proposed SISP procedures contemplate a marketing process to provide any additional parties with the ability to submit a bid with respect to the Opportunity.
42. The Monitor has already begun marketing the Opportunity and speaking with prospective bidders. To the extent that any potential bidder has signed an NDA, the Monitor has begun to provide them with the information necessary to begin their due diligence process. Given that (i) F&F Holdings is a public company wherein financial information is publicly

available, (ii) several parties in the industry have held previous discussions and performed due diligence, (iii) the sale process is already underway and, (iv) the existence of the Stalking Horse Agreement, it is the Monitor's opinion that the timeline set out in the Proposed SISP is reasonable in the circumstances. The Monitor will continue to contact potential bidders as same are identified and provide them with the due diligence materials in accordance with the Proposed SISP.

43. The benefits of having a stalking horse bid are well recognized by the CCAA courts, including:
 - (a) setting a "floor price" for the business and assets, enabling interested parties to understand from the start of a SISP, the value that they may be able to beat in order to become a successful bidder;
 - (b) providing certainty of a going-concern solution for the operations through a transaction that can be closed if there are no superior offers, thereby helping maintain stability and operations during the proceedings; and
 - (c) streamlining the bidding process as the stalking horse agreement provides a template for competing bidders to use for the submission of competing offers.

44. The Monitor and its counsel have reviewed all stalking horse processes valued at over \$5 million and approved in CCAA and *Bankruptcy and Insolvency Act* proceedings between January 2019 to April 2023 (the "**Stalking Horse Comparison Period**") in order to assess the reasonableness of the break fees approved by the Courts. The Monitor and its counsel have also reviewed all credit bids approved by the Courts during the Stalking Horse Comparison Period. Attached as **Appendix "B"** is a chart of the observed fees ranging in size from approximately 0.9% to 3.4% for the seven bids reviewed during the Stalking Horse Comparison Period, and break fees ranging in size from approximately 2.8% to 3.4% for the two credit bids reviewed during the same period. The results are also summarized in the tables below:

All Stalking Horse Bids	Transaction Value ("TV") ¹	Total Fees ²	Total Fees % of TV
Maximum	569,448,880	19,077,058	3.4%
Average	139,354,507	4,724,814	3.4%
Minimum	11,700,000	100,000	0.9%

Credit Bids	Transaction Value ("TV") ¹	Total Fees ²	Total Fees % of TV
Maximum	569,448,880	19,077,058	3.4%
Average	330,103,940	10,788,529	3.3%
Minimum	90,759,000	2,500,000	2.8%

Notes

1. Transaction Value is the stalking horse bid value.

2. Total Fees include Break Fees and Expense Reimbursements.

45. The Monitor notes that the proposed Stalking Horse Agreement has fees totalling approximately 3.4%. Based on the experience of the Monitor and its review of stalking horse processes in excess of \$5 million during the Stalking Horse Comparison Period, the Monitor is of the view that the break fee provided in the Stalking Horse Agreement is consistent with the average rate during the Stalking Horse Comparison Period and is reasonable in the circumstances.
46. The Monitor, therefore, is of the view that, in the circumstances:
- (a) the Proposed SISP provides for a broad, open, fair and transparent process with an appropriate level of independent oversight and flexibility necessary for F&F to consider the broad range of potential transactions that may be available to generate value from the Business;
 - (b) the Proposed SISP should encourage and facilitate bidding by interested parties and that no aspect of the Proposed SISP should discourage parties from submitting bids;
 - (c) the Proposed SISP provides a reasonable opportunity for other bidders to submit a bid;
 - (d) if necessary, the Auction process will provide the opportunity for all Phase 2 Qualified Bidders, including the Stalking Horse Bidder, to further increase their bids, thereby ensuring that realizations are maximized for all stakeholders of the Applicants;

- (e) given the efforts described in the Second Trudel Affidavit regarding its discussions with ACT, the fact that ACT is the DIP Lender and the liquidity issues faced by the Applicants, the timelines of the Proposed SISP are reasonable;
- (f) the provisions of the Proposed SISP, including the potential Auction, are reasonable, appropriate and reasonably consistent with both market practices and with SISP processes approved by the Court in other CCAA cases;
- (g) the fees set out in the Stalking Horse Agreement are within the range of rates identified as part of the Stalking Horse Comparison Period, and therefore are reasonable in the circumstances; and
- (h) the Proposed SISP provides appropriate and reasonable oversight by the Monitor and will best enable the Applicants to maximize recoveries for its stakeholders.

47. Accordingly, the Monitor respectfully recommends that the Applicants' request for approval of the Proposed SISP and authorization to use the Stalking Horse Agreement as the Stalking Horse Bid in the Proposed SISP be granted.

F. REQUEST FOR APPROVAL OF THE PROPOSED KEY EMPLOYEE RETENTION PLAN

Monitor's Involvement in the Proposed KERP

- 48. As described in the Second Trudel Affidavit, F&F have certain Key Employees who perform roles critical to advancing the Applicants' restructuring, including certain institutional knowledge related to the Applicants' business and operations.
- 49. The Monitor has participated with the Applicants in the development of the Proposed KERP that will facilitate and encourage the continued participation of Key Employees during these CCAA Proceedings. The Monitor understands that the retention of employees is of vital importance to the Applicants during these CCAA Proceedings.
- 50. The Key Employees are comprised of up to a total of 30 executives, operational, regulatory and subject matter specialists, who were assessed and selected by the Applicants, as reviewed and approved by the Board and the Proposed Monitor. The maximum amount of

the Proposed KERP is \$1,160,000 which is widely dispersed and not concentrated in a select few individuals.

51. Pursuant to the terms of the Proposed KERP, certain Key Employees will receive a bonus payment on the earlier of (a) the completion of the CCAA Proceedings; or (b) October 31, 2023. Certain other Key Employees will be eligible to receive an additional incentive payment if the Applicants successfully complete a transaction under the Stalking Horse Agreement. Certain Key Employees will receive an incentive payment if the Applicants successfully complete a transaction that generates gross proceeds that exceed a certain amount. Lastly, a Key Employee will only receive an incentive payment if the Applicants successfully complete a transaction that generates gross proceeds that exceed a certain amount.
52. The Proposed KERP was designed to incentivize Key Employees to assist with the Proposed SISP and to ensure that the Applicants continue to operate in the ordinary course. The proposed milestones were designed to incentivize the Key Employees in an effort to maximize the potential value to be obtained in the Proposed SISP.
53. An unredacted version of the Proposed KERP will be separately provided to this Court as **Confidential Exhibit “1”**.

Monitor’s Comments and Recommendation

54. The Monitor is satisfied with the basis on which the Proposed KERP was formulated and how the amounts payable to Key Employees were determined. The Monitor is also of the view that, on balance, the structure of the Proposed KERP and the quantum of the amounts payable to Key Employees, respectively, are reasonable in the circumstances. The Monitor is of the view the Proposed KERP will incentivize management and function as a retention tool, aligned with preserving value in the business and maximizing proceeds in the sales process. Accordingly, the Monitor recommends that the Court approve the Proposed KERP Charge as discussed above.

55. The Applicants have sought to seal the unredacted Appendix containing the Proposed KERP details. This Appendix contains personal and sensitive information which may cause harm to the applicable employees should such information be made available to the public.
56. The Monitor is supportive of the proposed KERP, KERP Charge and of having the unredacted KERP sealed and not form part of the public record.

G. AMENDED AND RESTATED INITIAL ORDER

Amendments to the CCAA Charges

57. F&F proposes no change with respect to the Directors' Charge or the Administration Charge.
58. With respect to the Directors' Charge, the amount requested and approved in the Initial Order was relative to the potential exposure of the directors and officers of F&F during the initial Stay Period to and including June 15, 2023. The amount of the charge reflects the continued potential exposure of the directors and officers of F&F over the proposed extension of the Stay Period.
59. F&F proposes no change to the maximum amount of the Administration Charge of \$600,000. The amount requested and approved in the Initial Order was relative to the potential exposure of fees and disbursements incurred in connection with the services provided and is based on two weeks of estimated fees and costs for the professionals listed above, together with post-filing accruals. A proposed change to the exposure is not expected for the remainder of the 13- week period.
60. Certain Court-ordered charges were granted pursuant to the Initial Order. The proposed ARIO amends certain of those charges and incorporates certain new charges (collectively, the "**Charges**"). The proposed ARIO provides that the Charges granted thereunder shall have the following priorities:
 - (a) First– The Administration Charge (to the maximum of \$600,000);

- (b) Second – The DIP Lender’s Charge in the amount of funds actually advanced under the DIP Facility (to a maximum of \$9,800,000);
- (c) Third – the Directors’ Charge (to the maximum of \$2,800,000); and
- (d) Fourth – The Proposed KERP Charge (to the maximum aggregate amount of \$1,160,000).

Ranking of Encumbrances

- 61. The Charges are proposed to rank ahead of all Encumbrances against the Property of the Applicants. Since the granting of the Initial Order, all of the required notices have been sent to creditors with known claims. The secured creditors who are likely to be affected by the Charges have been served with the materials for the Comeback Hearing.
- 62. Further, ACT is the largest economic stakeholder of the Applicants. It has been duly served and is consenting to the granting of the Charges. Based on the foregoing, it is the Monitor’s view that the Charges and their priority are fair and reasonable in the circumstances.

Securities Filings and other Securities Relief

- 63. F&F seek an Order relieving them from incurring further expenses in relation to the Securities Filings and declaring that the directors, officers, employees and other representatives of the Applicants or the Monitor shall not have any personal liability for failure to make any Securities Filings required pursuant to the Securities Provisions.
- 64. Further, F&F seek to extend the time to call and hold the AGM. The deadline to call an AGM will expire at the end of June, 2023. The Applicants’ resources are better expended focusing on its restructuring and the Proposed SISP.
- 65. In the circumstances, the Monitor is of the view that the relief with respect to the Securities Filings, the Securities Provisions and the AGM is reasonable in the circumstances and ought to be granted by the Court.

H. REQUEST FOR AN EXTENSION OF THE STAY PERIOD

66. The Stay Period currently expires on June 15, 2023. F&F is requesting an extension of the Stay Period to September 1, 2023. F&F requires additional time to implement the Proposed SISP and select a Successful Bid.
67. As outlined in the Pre-Filing Report of the Monitor, the Cash Flow Projection demonstrates that, subject to the approval of the requested additional interim financing under the DIP, the CCAA Parties expect to have sufficient liquidity to fund the CCAA Proceedings during the requested extension of the Stay Period, including amounts up to the Proposed KERP and potential payments to critical suppliers, if any.
68. The Cash Flow Projection is based on certain assumptions, including:
 - (a) the Applicants continue to take steps to restructure operations during the CCAA Proceedings, including the lease repudiation discussed in the Second Trudel Affidavit and other cash conservation measures intended to be implemented by the Applicants; and
 - (b) the Proposed SISP process is approved on June 15, 2023, without delay.
69. The Monitor believes that F&F has acted and continues to act in good faith and with due diligence and that circumstances exist that make an extension of the Stay Period appropriate.
70. Based on the information currently available, the Monitor also believes that creditors of the Applicants would not be materially prejudiced by an extension of the Stay Period to September 1, 2023.
71. The Monitor supports the Applicants' request for an extension of the Stay Period to September 1, 2023.

I. CONCLUSION

72. For the reasons stated in this First Report, the Monitor supports the relief sought by F&F in connection with the Comeback Motion. The Monitor respectfully submits to the Court this, its First Report.

[Remainder of the page intentionally left blank]

Dated this 14th day of June, 2023.

FTI Consulting Canada Inc.
In its capacity as Monitor of
Fire & Flower Holdings Corp., Fire & Flower Inc.,
13318184 Canada Inc., 11180703 Canada Inc.,
10926671 Canada Ltd., Friendly Stranger Holdings Corp.,
Pineapple Express Delivery Inc. and Hifyre Inc.



Jeffrey Rosenberg
Senior Managing Director



Jodi Porepa
Senior Managing Director

CONFIDENTIAL APPENDIX “1”

[TO BE SEALED]

APPENDIX “A”

[ATTACHED]

Schedule "A"

Procedures for the Sale and Investment Solicitation Process

On June 5, 2023, Fire & Flower Holdings Corp., Fire & Flower Inc., 13318184 Canada Inc. ("133 Canada"), 11180703 Canada Inc., 10926671 Canada Ltd., Friendly Stranger Holdings Corp., Pineapple Express Delivery Inc., and Hifyre Inc. (collectively, the "**F&F Entities**") commenced proceedings (the "**CCAA Proceedings**") under the *Companies' Creditors Arrangement Act* (Canada) (the "**CCAA**") before the Superior Court of Ontario (Commercial List) in the City of Toronto (the "**Court**") pursuant to an order granted by the Court on the same day (as may be amended or amended and restated from time to time, the "**Initial Order**").

Pursuant to the Initial Order, FTI Consulting Canada Inc., a licensed insolvency trustee, was appointed as monitor in the CCAA Proceedings (in such capacity, the "**Monitor**").

On June 15, 2023, the Court granted an order (the "**SISP Order**"), authorizing the F&F Entities to undertake a sale and investment solicitation process ("**SISP**") for the sale of their assets (the "**Property**") and business operations (the "**Business**"). The SISP will be conducted by the Monitor in the manner set forth herein.

Among other things, the SISP Order also: (a) approved the procedures set out in this Schedule (the "**Bidding Procedures**") for the solicitation of offers or proposals (each a "**Bid**" for the acquisition of the Business or some portion thereof, and (b) approved the form of subscription agreement to be entered into between the F&F Entities, as vendors, and 2707031 Ontario Inc. (the "**Stalking Horse Bidder**"), as purchaser (as same may be amended from time to time pursuant to its terms, the "**Stalking Horse Agreement**") as the "Stalking Horse Bid" for the purposes of the SISP, provided that the Stalking Horse Agreement and the transactions provided for therein must be submitted to the Court for consideration in a subsequent application upon completion of the SISP or upon termination thereof and the Stalking Horse Agreement being the Successful Bid (as defined below).

Defined Terms

1. Capitalized terms used in these Bidding Procedures and not otherwise defined herein have the meanings given to them in Appendix "A".

Bidding Procedures

Opportunity

2. The SISP is intended to solicit interest in, and opportunities for: (i) one or more sales or partial sales of all, substantially all, or certain portions of the Property or the Business; and/or (ii) an investment in, restructuring, recapitalization, refinancing or other form of reorganization of the F&F Entities or their Business. Bids considered pursuant to the SISP may include one or more of an investment, restructuring, recapitalization, refinancing or other form of reorganization of the business and affairs of the F&F Entities as a going concern or a sale (or partial sales) of all, substantially all, or certain of the Property or the Business, or a combination thereof (the "**Opportunity**").
3. The Stalking Horse Agreement constitutes a qualified Bid by the Stalking Horse Bidder for all purposes and at all times under this SISP and will serve as the Stalking Horse Bid for

purposes of this SISP and these Bidding Procedures. Notwithstanding the Stalking Horse Agreement and proposed transactions therein, all interested parties are encouraged to submit bids based on any form of Opportunity that they may elect to advance pursuant to the SISP, including as a Sale Proposal or an Investment Proposal. A copy of the Stalking Horse Agreement will be made available to all Phase 1 Qualified Bidders.

4. The Bidding Procedures describe the manner in which prospective bidders may gain access to due diligence materials concerning the F&F Entities and the Business, the manner in which bidders may participate in the SISP, the requirement of and the receipt and negotiation of bids received, the ultimate selection of a Successful Bidder and the requisite approvals to be sought from the Court in connection therewith.

The Monitor, in consultation with the F&F Entities and the DIP Lender (acting reasonably) may at any time and from time to time, modify, amend, vary or supplement the Bidding Procedures, without the need for obtaining an order of the Court or providing notice to Phase 1 Qualified Bidders, Phase 2 Qualified Bidders, the Successful Bidder or the Back-Up Bidder, provided that the Monitor determines that such modification, amendment, variation or supplement is expressly limited to changes that do not materially alter, amend or prejudice the rights of such bidders (including the rights of the Stalking Horse Bidder, except with the authorization of the Stalking Horse Bidder) and that are necessary or useful in order to give effect to the substance of the SISP, the Bidding Procedures and the SISP Order. Notwithstanding the foregoing and for greater certainty, any modification to the dates and time limits indicated in the table contained in paragraph 5 herein will require the authorization of the DIP Lender, acting reasonably.

The Monitor will post on the Monitor's website, as soon as practicable, any such modification, amendment, variation or supplement to the Bidding Procedures and inform the bidders impacted by such modifications.

In the event of a dispute as to the interpretation or application of the SISP Order or Bidding Procedures, the Court will have exclusive jurisdiction to hear and resolve such dispute.

5. Certain bid protections are provided for in the Stalking Horse Agreement (including a break fee (the "**Break Fee**"), subject to the conditions set forth therein. No other bidder may request or receive any form of bid protection as part of any bid made pursuant to the SISP.

A summary of the key dates pursuant to the SISP is as follows:

Event	Timing
<u>Phase 1</u>	
1. Preparation F&F Entities to assemble due diligence information and set up VDR Monitor to prepare a Teaser Letter and NDA	In advance of Court approval of the SISP Order
2. Notice F&F Entities to issue a press release regarding the Opportunity and the Monitor to publish a notice of the SISP on the Monitor's website and other industry trade publications, as determined appropriate. Monitor to distribute Teaser Letter and NDA to potentially interested parties	As soon as reasonably practicably following the date on which the SISP Order is granted.
3. Phase 1 Phase 1 Qualified Bidders provided access to a VDR	June 15, 2023 to July 13, 2023
4. Phase 1 Bid Deadline Deadline for Qualified Bidders to submit non-binding LOIs in accordance with the requirement of paragraph 14 of the Bidding Procedures	By no later than July 13, 2023, at 5:00 p.m. (Eastern Time)
5. Phase 1 Satisfactory Bid Monitor to assess non-binding LOIs using criteria outlined in the SISP to determine if a LOI is a Satisfactory Bid. Phase 1 Satisfactory Bidders designated by the Monitor as Phase 2 Qualified Bidders invited to participate in Phase 2 if the Monitor proceeds to Phase 2	By no later than July 14, 2023, at 5:00 p.m. (Eastern Time)
6. Approval Motion if No Other Bids Filing of Approval Motion in respect of the Stalking Horse Agreement in the event that no other Phase 1 Satisfactory Bid is received and	Week of July 24, 2023

issuance of the Vesting Order.

7. Closing – No Other Bids

August 4, 2023

Anticipated deadline for closing of the Stalking Horse Agreement in the event that no other Phase 1 Satisfactory Bid is received

Phase 2

8. Phase 2 Bid Deadline & Qualified Bidders

August 11, 2023

Phase 2 Bid Deadline (for delivery of definitive offers by Phase 2 Qualified Bidders in accordance with the requirement of paragraph 22 of the Bidding Procedures)

9. Auction

August 15, 2023

Anticipated Auction (if needed)

10. Selection of Successful Bid and Back-Up Bidder

By no later than August 17, 2023 at 5:00 p.m. (Eastern Time)

Deadline for selection of Successful Bid

11. Definitive Documentation

By no later than August 22, 2023

Deadline for completion of definitive documentation in respect of Successful Bid

12. Approval Motion – Successful Bid

Week of August 28, 2023

Deadline for filing of Approval Motion in respect of Successful Bid

13. Closing – Successful Bid

September 8, 2023 or such earlier date as is achievable

Anticipated deadline for closing of Successful Bid being the Target Closing Date

14. Outside Date – Closing

September 15, 2023

Outside Date by which the Successful Bid must close

Solicitation of Interest: Notice of the SISP

6. As soon as reasonably practicable, but, in any event, by no later than five (5) days after the granting of the SISP Order:

- a) the Monitor, in consultation with the Applicants, will prepare a list of potential bidders, including (i) parties that have approached the Applicants or the Monitor indicating an interest in the Opportunity, (ii) local and international strategic and financial parties who the Monitor, in consultation with the Applicants, believe may be interested in purchasing all or part of the Business or Property or investing in the Applicants pursuant to the SISP, and (iii) parties that showed an interest in the Applicants and/or their assets prior to the date of the SISP Order including by way of the previous, out-of-court strategic review process, in each case whether or not such party has submitted a letter of intent or similar document (collectively, the "**Known Potential Bidders**");
 - b) a notice of the SISP and any other relevant information that the F&F Entities, in consultation with the Monitor, consider appropriate will be published by the Monitor in one or more trade industry and/or insolvency-related publications as may be considered appropriate by the Monitor;
 - c) a press release setting out the notice and any other relevant information regarding the Opportunity as may be considered appropriate will be issued by the F&F Entities with Canada Newswire designating dissemination in Canada; and
 - d) the Monitor, in consultation with the Applicants, will prepare a process summary (the "**Teaser Letter**") describing the Opportunity, outlining the process under the SISP and inviting recipients of the Teaser Letter to express their interest pursuant to the SISP; and (ii) a non-disclosure agreement in form and substance satisfactory to the Monitor and Applicants and their respective counsel which shall enure to the benefit of any purchaser of the Business or Property or any part thereof (an "**NDA**").
7. The Monitor will cause the Teaser Letter and NDA to be sent to each Known Potential Bidder by no later than five (5) days from the SISP Order and to any other party who requests a copy of the Teaser Letter and NDA or who is identified to the Monitor as a potential bidder as soon as reasonably practicable after such request or identification, as applicable.

Virtual Data Room

8. A confidential virtual data room (the "**VDR**") in relation to the Opportunity will be made available by the F&F Entities or by the Monitor to Potential Bidders that have executed the NDA (as defined below) in accordance with paragraph 9 herein. The VDR will be made available as soon as practicable. Following the completion of "Phase 1", but prior to the completion of "Phase 2", additional information may be added to the VDR to enable Phase 2 Qualified Bidders to complete any confirmatory due diligence in respect of the F&F Entities and the Opportunity. The Monitor, in consultation with the F&F Entities, may establish or cause the F&F Entities to establish separate VDRs (including "clean rooms"), if the F&F Entities reasonably determine that doing so would further the F&F Entities' and any Potential Bidders' compliance with applicable antitrust and competition laws, or would prevent the distribution of commercially sensitive competitive information. The Monitor may also, in consultation with the F&F Entities, limit the access of any Potential Bidder to any confidential information in the VDR where the Monitor may also, in consultation with the F&F Entities, reasonably determine that such access could negatively impact the SISP, the ability to maintain the confidentiality of the information, the Business or its value.

PHASE 1: NON-BINDING LOIs

Phase 1 Qualified Bidders and Delivery of Confidential Information Memorandum

9. In order to participate in the SISP, and prior to the distribution of any confidential information to an interested party (including access to the VDR), such interested party must deliver to the Monitor an executed NDA, which will enure to the benefit of any Successful Bidder that closes a transaction contemplated by the Successful Bid. Pursuant to the terms of the NDA to be signed by a potential bidder (each potential bidder who has executed an NDA with the F&F Entities, a "**Potential Bidder**"), each Potential Bidder will be prohibited from communicating with any other Potential Bidder regarding the Opportunity during the term of the SISP, without the consent of the Monitor, in consultation with the F&F Entities. Prior to the F&F Entities executing an NDA with any potential bidder, any potential bidder may be required to provide evidence, reasonably satisfactory to the Monitor, in consultation with the F&F Entities, of its financial wherewithal to complete on a timely basis a transaction in respect of the Opportunity (either with existing capital or with capital reasonably anticipated to be raised prior to closing) and/or to disclose details of their ownership and/or investors. For the avoidance of doubt, a party who has executed an NDA or a joinder with a Potential Bidder for the purpose of providing financing to a Potential Bidder in connection with the Opportunity (such party a "**Financing Party**") will not be deemed a Potential Bidder for purposes of the SISP, provided that such Financing Party undertakes to inform the F&F Entities in the event that it elects to act as a Potential Bidder. Potential Bidders must rely solely on their own independent review, investigation and/or inspection of all information and of the Property and Business in connection with their participation in the SISP and any transaction they enter into with the Applicants (or any of them).
10. A Potential Bidder that has executed an NDA and that has been provided any additional information required pursuant to paragraph 11 will be deemed a "**Phase 1 Qualified Bidder**" and will be promptly notified of such classification by the Monitor. For the avoidance of doubt, the Stalking Horse Bidder is, and will be deemed to be, a Phase 1 Qualified Bidder, notwithstanding paragraphs 13 and 14 hereof.
11. The Monitor will prepare and send to each Phase 1 Qualified Bidder (including the Stalking Horse Bidder) a Teaser Letter and provide a copy of the Stalking Horse Agreement, and any material amendment thereto, as soon as practicable. The F&F Entities, the Monitor and their respective advisors make no representation or warranty as to the information contained in the Teaser Letter or otherwise made available pursuant to the SISP.
12. The Monitor will provide any person deemed to be a Phase 1 Qualified Bidder (including the Stalking Horse Bidder) with access to the VDR. The F&F Entities and the Monitor and their respective advisors make no representation or warranty as to the information contained in the VDR.
13. If a Phase 1 Qualified Bidder (other than the Stalking Horse Bidder) wishes to submit a bid, it must deliver a non-binding letter of intent (an "**LOI**") (each such LOI, provided in accordance with paragraph 14 below, a "**Phase 1 Qualified Bid**") to the Monitor (including by email) so as to be received by the Monitor not later than 5:00 p.m. (Eastern Time) on July 13, 2023 or such other date or time as may be agreed by the Monitor, with the authorization of the Stalking Horse Bidder, acting reasonably, and in consultation with the F&F Entities (as may be extended, the "**Phase 1 Bid Deadline**").

14. An LOI submitted by a Phase 1 Qualified Bidder will only be considered a "Phase 1 Qualified Bid" if the LOI complies at a minimum with the following:
- a) it has been duly executed by all required parties;
 - b) it is received by the Phase 1 Bid Deadline;
 - c) it provides written evidence, satisfactory to the Monitor, in consultation with the F&F Entities, of the ability to consummate the transaction within the timeframe contemplated by the SISP and to satisfy any obligations or liabilities to be assumed on closing of the transaction, including, without limitation, a specific indication of the sources of capital and, to the extent that the Phase 1 Qualified Bidder expects to finance any portion of the purchase price, the identity of the financing source;
 - d) it identifies all proposed material conditions to closing including, without limitation, any internal, regulatory or other approvals and any form of consent, agreement or other document required from a government body, stakeholder or other third party, and an estimate of the anticipated timeframe and any anticipated impediments for obtaining such conditions, along with information sufficient for the Monitor, in consultation with the F&F Entities, to determine that these conditions are reasonable in relation to the Phase 1 Qualified Bidder,
 - e) it (i) identifies the Qualified Phase 1 Bidder and representatives thereof who are authorized to appear and act on behalf of the Qualified Phase 1 Bidder for all purposes regarding the contemplated transaction, (ii) fully discloses the identity of each entity or person that will be sponsoring, participating in or benefiting from the transaction contemplated by the LOI, identifies all legal, financial, accounting and other advisors that have been or expect to be retained by the Phase 1 Qualified Bidder in connection with contemplated transaction;
 - f) it identifies any additional due diligence required to be completed in order to submit a Binding Offer;
 - g) it clearly indicates that:
 - i. the Phase 1 Qualified Bidder is (A) seeking to acquire all or substantially all of the Property or Business, whether through an asset purchase, a share purchase or a combination thereof (either one, a "**Sale Proposal**") or some other portion of the Business (a "**Partial Sale Proposal**"); or (B) offering to make an investment in, restructure, recapitalize or refinance the F&F Entities or the Business (an "**Investment Proposal**"); and
 - ii. if the Phase 1 Qualified Bidder is submitting a Sale Proposal or Investment Proposal, such proposal will at a minimum and on closing, provide net cash proceeds that are not less than the aggregate total of: (A) the amount of cash payable under the Stalking Horse Agreement together with the amount of all secured indebtedness, liabilities and obligations owing by the F&F Entities to 2707031 Ontario Inc., plus (B) an amount equivalent to the Break Fee and (C) a minimum overbid amount of \$250,000 (the amounts set forth in this paragraph 14.g)ii, the "**Minimum Purchase Price**"); provided, however, the F&F Entities, in consultation with the Monitor and

the DIP Lender, may deem this criterion satisfied if the Sale Proposals, Partial Sale Proposals or the Investment Proposals, together with one or more other non-overlapping Sale Proposal, Partial Sale Proposal or Investment Proposal, in the aggregate, meet or exceed the Minimum Purchase Price (such bids, "**Aggregated Bids**") (the amount of the Minimum Purchase Price will be confirmed by the Monitor with Potential Bidders);

- h) it contains such other information as may be reasonably requested by the Monitor, in consultation with the F&F Entities;
- i) it does not provide for any break fee or expense reimbursement, it being understood and agreed that no bidder will be entitled to any such bid protections;
- j) in the case of a Sale Proposal, it identifies or contains the following:
 - i. the purchase price or price range and key assumptions supporting the valuation and the anticipated amount of cash payable on closing of the proposed transaction;
 - ii. any contemplated purchase price adjustment;
 - iii. a description of the specific assets that are expected to be subject to the transaction and any assets expected to be excluded;
 - iv. a description of those liabilities and obligations (including operating liabilities and obligations to employees) which the Phase 1 Qualified Bidder intends to assume and which such liabilities and obligations it does not intend to assume and are to be excluded as part of the transaction;
 - v. information sufficient for the Monitor, in consultation with the F&F Entities, to determine that the Phase 1 Qualified Bidder has sufficient ability to satisfy and perform any liabilities or obligations assumed pursuant to subparagraph (iv) above;
 - vi. whether the proposed transaction is to be implemented by way of a "reverse vesting order"; and
 - vii. any other terms or conditions of the Sale Proposal that the Phase 1 Qualified Bidder believes are material to the transaction; and
- k) in the case of an Investment Proposal, it identifies the following:
 - i. a description of how the Phase 1 Qualified Bidder proposes to structure the proposed investment, restructuring, recapitalization or refinancing;
 - ii. the aggregate amount of the equity and/or debt investment to be made in the F&F Entities or their Business;
 - iii. the underlying assumptions regarding the pro forma capital structure;

- iv. a description of those liabilities and obligations (including operating liabilities, obligations to employees, and reclamation obligations) which the Phase 1 Qualified Bidder intends to assume and which such liabilities and obligations it does not intend to assume and are to be excluded as part of the transaction;
 - v. information sufficient for the Monitor, in consultation with the F&F Entities, to determine that the Phase 1 Qualified Bidder has sufficient ability to satisfy and perform any liabilities or obligations assumed pursuant to subparagraph (iv) above;
 - vi. whether the proposed transaction is to be implemented by way of a "reverse vesting order"; and
 - vii. any other terms or conditions of the Investment Proposal that the Phase 1 Qualified Bidder believes are material to the transaction.
15. The Monitor, in consultation with the F&F Entities and the DIP Lender, may waive compliance with any one or more of the requirements specified in subparagraphs 14.j) and/or 14.k) and deem any such non-compliant LOI to be a Phase 1 Qualified Bid.
16. Notwithstanding subparagraph 14.g)ii in the circumstance that a Phase 1 Qualified Bid does not provide for net cash proceeds that are at least equal to the Minimum Purchase Price, the F&F Entities and the Monitor will consult with the DIP Lender and, subject to the prior written consent of the DIP Lender, may elect that such Phase 1 Qualified Bid be nevertheless considered to be a Phase 1 Satisfactory Bid (as defined below) and that the applicable Phase 1 Qualified Bidder proceed as Phase 2 Qualified Bidder (as defined below).

Assessment of Phase 1 Qualified Bids and Subsequent Process

17. The Monitor, in consultation with the F&F Entities may, following the receipt of any LOI, seek clarification with respect to any of the terms or conditions of such LOI and/or request and negotiate one or more amendments to such LOI prior to determining if the LOI should be considered a Phase 1 Qualified Bid or a Phase 1 Satisfactory Bid (as defined below).
18. Only Phase 2 Qualified Bidders will be permitted to proceed to Phase 2 of the SISF. The Stalking Horse Agreement shall constitute a Phase 1 Qualified Bid and the Stalking Horse Bidder shall be deemed to be a Phase 2 Qualified Bidder for all purposes under the SISF, including the Auction, notwithstanding anything to the contrary contained herein.
19. Following the Phase 1 Bid Deadline, the Monitor, in consultation with the F&F Entities, will determine which Phase 1 Qualified Bid(s) shall proceed to Phase 2 of the SISF and be deemed a **"Phase 1 Satisfactory Bid(s)"** and which Phase 1 Qualified Bidder(s) accordingly will be deemed **"Phase 2 Qualified Bidder(s)"**, if any. For greater certainty, there can be more than one Phase 1 Qualified Bid that may be determined as being a Phase 1 Satisfactory Bid, and more than one Phase 1 Qualified Bidder that may be determined as being a Phase 2 Qualified Bidder. The Monitor will notify each Phase 1 Qualified Bidder in writing as to whether its Phase 1 Qualified Bid constitutes a Phase 1 Satisfactory Bid - such that it is a Phase 2 Qualified Bidder - no later than one (1) Business Day following the Phase 1 Bid Deadline, or at such later time as the Monitor deems

appropriate, in consultation with the F&F Entities and with the authorization of the Stalking Horse Bidder, acting reasonably.

20. In the event that no Phase 1 Satisfactory Bid is selected (other than the one from the Stalking Horse Bidder), the F&F Entities will promptly proceed to seek Court approval of the Stalking Horse Agreement and Phase 2 of the SISP will not be conducted.

PHASE 2: FORMAL OFFERS AND REMOVAL OF CONDITIONS (IF REQUIRED)

Formal Binding Offers

21. Any Phase 2 Qualified Bidder (other than the Stalking Horse Bidder) that wishes to make a formal offer with respect to its Sale Proposal or Investment Proposal must submit a binding offer (a "**Binding Offer**"): (a) in the case of a Sale Proposal, in the form of a template agreement of purchase and sale if one is provided in the VDR (if any), along with a marked version showing edits to the original form of the template provided in the VDR and otherwise with a marked version compared to the Stalking Horse Agreement; or (b) in the case of an Investment Proposal, a plan or restructuring support agreement in form and substance satisfactory to the Monitor, in consultation with the F&F Entities (each, such Binding Offer submitted in accordance with paragraph 22 below, a "**Phase 2 Qualified Bid**") in each case to the Monitor, by August 11, 2023, or such other date or time as may be agreed by the Monitor in consultation with the F&F Entities and with the authorization of the DIP Lender, acting reasonably (as may be extended, the "**Phase 2 Bid Deadline**").
22. A Binding Offer will only be considered as a Phase 2 Qualified Bid if the Binding Offer:
 - a) has been received by the Phase 2 Bid Deadline;
 - b) is a Binding Offer: (i) to purchase all, substantially all, or a portion of the Property or the Business; and/or (ii) to make an investment in, restructure, recapitalize or refinance the F&F Entities or the Business, on terms and conditions reasonably acceptable to the F&F Entities;
 - c) identifies all executory contracts of the F&F Entities that the Phase 2 Qualified Bidder will assume and clearly describes, for each contract or on an aggregate basis, how all monetary defaults and non-monetary defaults will be remedied, as applicable;
 - d) is not subject to any financing condition;
 - e) is unconditional, other than upon the receipt of the Approval Order(s) (as defined below) and satisfaction of any other conditions expressly set forth in the Binding Offer;
 - f) it contains or identifies the key terms and provisions to be included in any Approval Order, including whether such order will be a "reverse vesting order";
 - g) includes acknowledgments and representations of the Phase 2 Qualified Bidder that it: (i) has had an opportunity to conduct any and all due diligence regarding the Opportunity prior to making its Binding Offer; (ii) has relied solely upon its own independent review, investigation and/or inspection of any documents and/or the

Business in making its Binding Offer; (iii) did not rely upon any written or oral statements, representations, warranties, or guarantees whatsoever, whether express, implied, statutory or otherwise, regarding the Opportunity or the completeness of any information provided in connection therewith, other than as expressly set forth in the Binding Offer or other transaction document submitted with the Binding Offer; and (iv) promptly will commence any governmental or regulatory review of the proposed transaction by the applicable competition, antitrust or other applicable governmental authorities, including those regulating in the cannabis sector;

- h) provides for net cash proceeds that are not less than the Minimum Purchase Price; unless it is a part of a bid that qualifies as an Aggregated Bid, as the case may be, in which case the total net cash proceeds of the Aggregated Bids will be not less than the Minimum Purchase Price;
- i) is accompanied by a letter that confirms that the Binding Offer: (i) may be accepted by the F&F Entities by countersigning the Binding Offer, and (ii) is irrevocable and capable of acceptance until the earlier of (A) two business days after the date of closing of the Successful Bid; and (B) the Outside Date;
- j) does not provide for any break or termination fee, expense reimbursement or similar type of payment, it being understood and agreed that no bidder will be entitled to any bid protections;
- k) in the case of a Sale Proposal, includes:
 - i. the specific purchase price in Canadian dollars and a description of any non-cash consideration, including any future royalty payments or other deferred payment, details of any liabilities to be assumed by the Phase 2 Qualified Bidder and key assumptions supporting the valuation; provided that if the purchase price involves a royalty, earn-out or other deferred payment, the Sale Proposal shall include a specific indication of the Phase 2 Qualified Bidder's proposal and/or commitments for and relating to obtaining necessary regulatory approvals and the Bidder's commercialization strategy, manufacturing capabilities, proposed sale milestones and minimum sale amounts, budget and/or commitment for capital expenditures, direct marketing and sales initiatives and support and proposed product positioning within the Potential Bidder's current product portfolio;
 - ii. a description of the Property that is expected to be subject to the transaction and any of the Property expected to be excluded;
 - iii. a specific indication of the sources of capital for the Phase 2 Qualified Bidder and the structure and financing of the transaction; and
 - iv. a description of those liabilities and obligations (including operating liabilities) which the Phase 2 Qualified Bidder intends to assume and which such liabilities and obligations it does not intend to assume and are to be excluded as part of the transaction;

- l) in the case of an Investment Proposal, includes:
 - i. a description of how the Phase 2 Qualified Bidder proposes to structure the proposed investment, restructuring, recapitalization, refinancing or reorganization, and a description of any non-cash consideration;
 - ii. the aggregate amount of the equity and/or debt investment to be made in the Business or the Applicants in Canadian dollars;
 - iii. the underlying assumptions regarding the pro forma capital structure;
 - iv. a specific indication of the sources of capital for the Phase 2 Qualified Bidder and the structure and financing of the transaction; and
 - v. a description of those liabilities and obligations (including operating liabilities) which the Phase 2 Qualified Bidder intends to assume and which liabilities and obligations it does not intend to assume and are to be excluded as part of the transaction;
 - m) is accompanied by a deposit in the amount of not less than 10% of the cash purchase price payable on closing or total new investment contemplated, as the case may be (the "**Deposit**"), along with acknowledgement that (i) if the Phase 2 Qualified Bidder is selected as the Successful Bidder, that the Deposit will be non-refundable subject to approval of the Successful Bid by the Court and the terms described in paragraph 32 below; and (ii) if the Phase 2 Qualified Bidder is selected as the Back-Up Bidder, that the Deposit will be held and dealt with as described in paragraph 32 below; and
 - n) contemplates and reasonably demonstrates a capacity to consummate a closing of the transaction set out therein on or before September 8, 2023, or such earlier date as is practical for the parties to close the contemplated transaction, following the satisfaction or waiver of the conditions to closing (the "**Target Closing Date**") and in any event no later than September 15, 2023 (the "**Outside Date**").
23. The F&F Entities may not waive compliance with any one or more of the requirements specified above (except as provided by paragraph 24 below) and may not deem any non-compliant Binding Offer to be a Phase 2 Qualified Bid.
24. Notwithstanding subparagraph 22.h) in the circumstance that a Phase 2 Qualified Bid does not provide for net cash proceeds that are at least equal to the Minimum Purchase Price, the F&F Entities and the Monitor will consult with the DIP Lender and, subject to the prior written consent of the DIP Lender, may elect that such Phase 2 Qualified Bid be nevertheless considered as a potential Successful Bid and be entitled to participate in the Auction.

Selection of Successful Bid

25. The Monitor, in consultation with the F&F Entities, may, following the receipt of any Binding Offer, seek clarification with respect to any of the terms or conditions of such Binding Offer and/or request and negotiate one or more amendments to such Binding Offer prior to determining if the Binding Offer should be considered a Phase 2 Qualified Bid.

26. The F&F Entities and the Monitor will: (a) review and evaluate each Phase 2 Qualified Bid; (b) identify the highest or otherwise best bid (the "**Successful Bid**", and the Phase 2 Qualified Bidder making such Successful Bid, the "**Successful Bidder**"); and (c) identify the next highest or otherwise second best bid (the "**Back-Up Bid**", and the Phase 2 Qualified Bidder making such Back-Up Bid, the "**Back-Up Bidder**"), in each case pursuant to the paragraphs below. Any Successful Bid and Back-Up Bid will be subject to approval by the Court.
27. In the event that no Phase 2 Qualified Bid is selected (other than the Stalking Horse Bid), the F&F Entities will promptly seek Court approval of the Stalking Horse Agreement. In the event there is at least one Phase 2 Qualified Bid in addition to the Stalking Horse Bid, the Monitor, in consultation with the F&F Entities may determine the Successful Bid or may determine that the Successful Bid will be identified through an Auction in accordance with the procedure set out below.
28. In the event that an auction (the "**Auction**") is required in accordance with the terms of these Bidding Procedures, it will be conducted in accordance with the procedures set forth in this paragraph:
 - a) The Auction will commence at a time to be designated by the Monitor, on August 15, 2023, and may, in the discretion of the Monitor, be held virtually via videoconference, teleconference or such other reasonable means as the Monitor deems appropriate. The Monitor and the F&F Entities will work in good faith with the parties entitled to attend the Auction to arrange for the Auction to be so held. The Monitor, with the consent of the F&F Entities and of the DIP Lender, may postpone the Auction.
 - b) The identity of each Phase 2 Qualified Bidder participating in the Auction will be disclosed, on a confidential basis, to other Phase 2 Qualified Bidders participating in the Auction.
 - c) Except as otherwise permitted in the Monitor's discretion, only the F&F Entities, the Monitor and the Phase 2 Qualified Bidders, and, in each case, their respective professionals and representatives, will be entitled to attend the Auction. Only Phase 2 Qualified Bidders (including, for greater certainty, the Stalking Horse Bidder) are eligible to participate in the Auction.
 - d) Phase 2 Qualified Bidders will participate in the Auction through a duly authorized representative.
 - e) Except as otherwise set forth herein, the Monitor, in consultation with the F&F Entities, may waive and/or employ and announce at the Auction additional rules, including rules to facilitate the participation of parties participating in an Aggregated Bid, that are reasonable under the circumstances for conducting the Auction, provided that such rules are: (i) not inconsistent with the Initial Order, the SISF, the Bidding Procedures, the CCAA, or any order of the Court issued in connection with the CCAA Proceedings; (ii) disclosed to each Phase 2 Qualified Bidder; and (iii) designed, in the Monitor's business judgment, to result in the highest and otherwise best offer.

- f) The Monitor may arrange for the actual bidding at the Auction to be transcribed or recorded. Each Phase 2 Qualified Bidder participating in the Auction will designate a single individual to be its spokesperson during the Auction.
- g) Each Phase 2 Qualified Bidder participating in the Auction must confirm on the record, at the commencement of the Auction and again at the conclusion of the Auction, that it has not engaged in any collusion with the F&F Entities or any other person, without the consent of the F&F Entities and the Monitor, regarding the SISP, that has not been disclosed to all other Phase 2 Qualified Bidders. For greater certainty, communications between the Stalking Horse Bidder and either the F&F Entities or the Monitor with respect to and in preparation of the Stalking Horse Agreement, the SISP, the Bidding Procedures and other ancillary matters prior to the issuance of the SISP Order and the commencement of the SISP will not represent collusion nor communications prohibited by this paragraph.
- h) Prior to the Auction, the Monitor will identify, in consultation with the F&F Entities, the highest and best of the Phase 2 Qualified Bids received and such Phase 2 Qualified Bid will constitute the opening bid for the purposes of the Auction (the "**Opening Bid**"). Subsequent bidding will continue in minimum increments valued at not less than \$250,000 cash in excess of the Opening Bid. For the purposes of facilitating bidding, the Monitor, with the consent of the F&F Entities and subject to the reimbursement in payment in full, in cash at closing, of the Purchaser, or with the prior written consent of the Purchaser, may ascribe a monetary value to non-cash considerations of each of the Phase 2 Qualified Bids, including by way of example, to different levels of conditionality to closing. Each Phase 2 Qualified Bidder (other than the Stalking Horse Bidder) will provide evidence of its financial wherewithal and ability to consummate the transaction at the increased purchase price, if so requested by the Monitor, in consultation with the F&F Entities. Further, in the event that an Aggregated Bid qualifies to participate in the Auction, modifications to the bidding requirements may be made by the Monitor, in consultation with the F&F Entities, to facilitate bidding by the participants in the Aggregated Bid.
- i) All Phase 2 Qualified Bidders will have the right, at any time, to request that the Monitor announce, subject to any potential new bids, the then-current highest and best bid and, to the extent requested by any Phase 2 Qualified Bidder, use reasonable efforts to clarify any and all questions such Phase 2 Qualified Bidder may have regarding the Monitor's announcement of the then-current highest and best bid.
- j) Each participating Phase 2 Qualified Bidder will be given reasonable opportunity to submit an overbid at the Auction to any then-existing overbids. The Auction will continue until the bidding has concluded and there is one remaining Phase 2 Qualified Bidder. The Monitor, in consultation with the F&F Entities, shall determine which Phase 2 Qualified Bidders have submitted the (i) highest and otherwise best Phase 2 Qualified Bid of the Auction, and (ii) the next highest and otherwise second best Phase 2 Qualified Bid of the Auction, in each case, taking into account, as the case may be, the monetary value of the non-cash considerations as determined in accordance with subparagraph 28.h). At such time and upon the conclusion of the bidding, the Auction will be closed, and the final remaining Phase 2 Qualified

Bidder will be the Successful Bidder and the next highest and otherwise second best Phase 2 Qualified Bidder will be the Back-Up Bidder.

- k) Upon selection of a Successful Bidder and a Back-Up Bidder, if any, the Monitor will require the Successful Bidder and the Back-Up Bidder, if any, to each deliver, as soon as practicable, an amended and executed transaction document that reflects their final bid and any other modifications submitted and agreed to during the Auction, prior to the filing of the application material for the hearing to consider the Approval Motion.
 - l) The Monitor and the F&F Entities will not consider any bids submitted after the conclusion of the Auction.
 - m) The Monitor, in consultation with the Applicants, shall be at liberty to modify or to set additional procedural rules for the Auction as it sees fit, including to conduct the Auction by way of written submissions.
29. The Successful Bid and the Back-Up Bid will be selected by no later than 5:00 p.m. (Eastern Time) on August 17, 2023 and the completion and execution of definitive documentation in respect of the Successful Bid and the Back-Up Bid, as applicable, must be finalized and executed no later than September 4, 2023, which definitive documentation will be conditional only upon the receipt of the Approval Order(s) and the express conditions set out therein and will provide that the Successful Bidder will use all reasonable efforts to close the proposed transaction by no later than the Target Closing Date, or such longer period as may be agreed to by the Monitor, in consultation with the F&F Entities and the Successful Bidder. In any event, the Successful Bid must be closed by no later than the Outside Date. If a Back-Up Bid is identified in accordance with this SISF, then such Back-Up Bid shall remain open until the date (the "**Back-Up Bid Outside Date**") on which the transaction contemplated by the Successful Bid is consummated or such earlier date as the Monitor, in consultation with the F&F Entities, determines. If the transactions contemplated by the Successful Bid have not closed by the Outside Date or the Successful Bids is terminated for any reason prior to the Outside Date, the F&F Entities may elect, in consultation with the Monitor, to seek to complete the transactions contemplated by the Back-Up Bid, and will promptly seek to close the transaction contemplated by the Back-Up Bid. The Back-Up Bid will be deemed to be the Successful Bid and the F&F Entities will be deemed to have accepted the Back-Up Bid only when the F&F Entities have made such election.

Approval of Successful Bid

30. The F&F Entities will apply to the Court (the "**Approval Motion**") for one or more orders: (i) approving the Successful Bid and authorizing the taking of such steps and actions and completing such transactions as are set out therein or required thereby (such order shall also approve the Back-Up Bid(s), if any, should the Successful Bid not close for any reason); and (ii) granting a vesting order and/or reverse vesting order to the extent that such relief is contemplated by the Successful Bid so as to vest title to any purchased assets in the name of the Successful Bidder and/or vesting unwanted liabilities out of one or more of the F&F Entities (collectively, the "**Approval Order(s)**"). The Approval Motion will be held on a date to be scheduled by the F&F Entities and confirmed by the Court upon application by the F&F Entities. With the consent of the Monitor and the Successful Bidder, and in consultation with the DIP Lender, the Approval Motion may be adjourned

or rescheduled by the F&F Entities without further notice, by an announcement of the adjourned date at the Approval Motion or in a notice to the service list of the CCAA proceedings prior to the Approval Motion. The F&F Entities will consult with the Monitor, the DIP Lender and the Successful Bidder regarding the application material to be filed by the F&F Entities for the Approval Motion.

31. All Phase 2 Qualified Bids (other than the Successful Bid but including the Back-Up Bid) will be deemed rejected on and as of the date of the closing of the Successful Bid, with no further or continuing obligation of the F&F Entities to any unsuccessful Phase 2 Qualified Bidders.

Deposits

32. The Deposit(s):
- a) will, upon receipt from the Phase 2 Qualified Bidder(s), be retained by the Monitor and deposited in a non-interest-bearing trust account;
 - b) received from the Successful Bidder and the Back-Up Bidder, if any, will:
 - i. be applied to the purchase price to be paid by the applicable Successful Bidder or Back-Up Bidder whose Successful Bid or Back-Up Bid, as applicable, is the subject of the Approval Order(s), upon closing of the approved transaction; and
 - ii. otherwise be held and refundable in accordance with the terms of the definitive documentation in respect of any Successful Bid or Back-Up Bid, provided that (i) all such documentation will provide that the Deposit will be fully refunded to the Back-Up Bidder on the Back-Up Bid Outside Date; and (ii) all such documentation will provide that the Deposit will be retained by the F&F Entities and forfeited by the Successful Bidder, if the Successful Bid fails to close by the Outside Date, and such failure is attributable to any failure or omission of the Successful Bidder to fulfil its obligations under the terms of the Successful Bid;
 - c) received from the Phase 2 Qualified Bidder(s) that are not the Successful Bid or the Back-Up Bidder will be fully refunded, to the Phase 2 Qualified Bidder(s) that paid the Deposit(s) as soon as practical following the closing of the Successful Bid.
33. Notwithstanding anything to the contrary herein, the Stalking Horse Bidder will not be required to provide a Deposit.

"As is, Where is"

34. Any sale (or sales) of the Property or the Business will be on an "as is, where is" basis except for representations and warranties that are customarily provided in purchase agreements for a company subject to CCAA proceedings. Any such representations and warranties provided for in the definitive documents will not survive closing.

Free of Any and All Claims And Interests

35. In the event of a sale, to the extent permitted by law, all of the rights, title and interests of the F&F Entities in and to the Property or the Business to be acquired will be sold free and clear of all pledges, liens, security interests, encumbrances, claims, charges, options, and interests thereon and there against (collectively, the "**Claims and Interests**") pursuant to section 36(6) of the CCAA, such Claims and Interests to attach to the net proceeds of the sale of such Property or Business (without prejudice to any claims or causes of action regarding the priority, validity or enforceability thereof), except to the extent otherwise set forth in the relevant transaction documents with a Successful Bidder.

Credit Bidding

36. The Stalking Horse Bidder will be entitled pursuant to the Stalking Horse Agreement, including for greater certainty as part of the Auction, as the case may be, to credit bid or retain as Assumed Liabilities or Retained Liabilities all or part of the existing secured obligations owing to it, including all interest, costs and fees to which the Stalking Horse Bidder is entitled pursuant to its loan, interim financing, debenture, promissory note and security agreements with the F&F Entities.

Confidentiality

37. For greater certainty, other than as required in connection with any Auction or Approval Motion, neither the F&F Entities nor the Monitor will disclose: (i) the identity of any Potential Bidder, or Phase 1 Qualified Bidder (other than the Stalking Horse Bidder); or (ii) the terms of any bid, LOI, Phase 1 Qualified Bid, Sale Proposal, Investment Proposal or Phase 2 Qualified Bid (other than the Stalking Horse Agreement), with any other bidder (provided that disclosure may be made to the DIP Lender when contemplated, by the SISP, such as in the event that no single Phase 1 Qualified Bid or Phase 2 Qualified Bid provides for net cash proceeds that are at least equal to the Minimum Purchase Price) without the consent of such party (including by way of email), subject to applicable law.

Further Orders

38. At any time during the SISP, the F&F Entities, the DIP Lender or the Monitor may apply to the Court for advice and directions with respect to any aspect of this SISP including, but not limited to, the continuation of the SISP or with respect to the discharge of its powers and duties hereunder.

Additional Terms

39. In addition to any other requirement of the SISP:
- a) The F&F Entities and the Monitor, as applicable, will at all times prior to the selection of a Successful Bid use commercially reasonable efforts to facilitate a competitive bidding process in the SISP including, without limitation, by actively soliciting participation by all persons who would be customarily identified as high potential bidders in a process of this kind or who may be reasonably proposed by any of the F&F Entities' stakeholders as a high potential bidder.
 - b) Any consent, approval or confirmation to be provided by the Stalking Horse Bidder, the F&F Entities and/or the Monitor is ineffective unless provided in writing and any approval required pursuant to the terms hereof is in addition to, and not in

substitution for, any other approvals required by the CCAA or as otherwise required at law in order to implement a Successful Bid. For the avoidance of doubt, a consent, approval or confirmation provided by email will be deemed to have been provided in writing for the purposes of this paragraph.

- c) Prior to seeking Court approval for any transaction or bid contemplated by this SISP, the Monitor will provide a report to the Court on the SISP process, parts of which may be filed under seal, including in respect of any and all bids received.

APPENDIX A
DEFINED TERMS

"**Aggregated Bids**" has the meaning given to it in paragraph 14.g)ii.

"**Approval Motion**" has the meaning given to it in paragraph 30.

"**Approval Order(s)**" has the meaning given to it in paragraph 30

"**Auction**" has the meaning given to it in paragraph 28.

"**Back-Up Bid**" has the meaning given to it in paragraph 26.

"**Back-Up Bidder**" has the meaning given to it in paragraph 26.

"**Back-Up Bid Outside Date**" has the meaning given to it in paragraph 29.

"**Bid**" has the meaning given to it in the preamble.

"**Bidding Procedures**" has the meaning given to it in the preamble.

"**Binding Offer**" has the meaning given to it in paragraph 21.

"**Business**" has the meaning given to it in the preamble.

"**Business Day**" means a day on which banks are open for business in Toronto but does not include a Saturday, Sunday or statutory holiday in the Province of Ontario.

"**CCAA**" has the meaning given to it in the preamble.

"**CCAA Proceedings**" has the meaning given to it in the preamble.

"**Claims and Interests**" has the meaning given to it in paragraph 35.

"**Court**" has the meaning given to it in the preamble.

"**Deposit**" has the meaning given to it in paragraph 22.1).

"**DIP Lender**" means 2797031 Ontario Inc., and its successors and permitted assigns.

"**F&F Entities**" has the meaning given to it in the preamble.

"**Financing Party**" has the meaning given to it in paragraph 9.

"**Initial Order**" has the meaning given to it in the preamble.

"**Investment Proposal**" has the meaning given to it in paragraph 14.g)i.

"**LOI**" has the meaning given to it in paragraph 13.

"**Monitor**" has the meaning given to it in the preamble.

"**Minimum Purchase Price**" has the meaning given to it in paragraph 14.g)ii.

"**NDA**" has the meaning given to it in paragraph 6.d).

"**Opening Bid**" has the meaning given to it in paragraph 28.h).

"**Opportunity**" has the meaning given to it in paragraph 2.

"**Outside Date**" has the meaning given to it in paragraph 22.n).

"**Partial Sale Proposal**" has the meaning given to it in paragraph 14.g)i.

"**Phase 1 Bid Deadline**" has the meaning given to it in paragraph 13.

"**Phase 1 Qualified Bid**" has the meaning given to it in paragraph 13.

"**Phase 1 Qualified Bidder**" has the meaning given to it in paragraph 10.

"**Phase 1 Satisfactory Bid**" has the meaning given to it in paragraph 19.

"**Phase 2 Bid Deadline**" has the meaning given to it in paragraph 21.

"**Phase 2 Qualified Bid**" has the meaning given to it in paragraph 21.

"**Phase 2 Qualified Bidder**" has the meaning given to it in paragraph 19.

"**Potential Bidder**" has the meaning given to it in paragraph 9.

"**Retained Liabilities**" has the meaning given to it in the Stalking Horse Agreement.

"**Sale Proposal**" has the meaning given to it in paragraph 14.g)i.

"**SISP**" has the meaning given to it in the preamble.

"**SISP Order**" has the meaning given to it in the preamble.

"**Stalking Horse Agreement**" has the meaning given to it in the preamble.

"**Stalking Horse Bidder**" has the meaning given to it in the preamble.

"**Successful Bid**" has the meaning given to it in paragraph 26.

"**Successful Bidder**" has the meaning given to it in paragraph 26.

"**Target Closing Date**" has the meaning given to it in paragraph 22.i).

"**Teaser Letter**" has the meaning given to it in paragraph 11.

"**VDR**" has the meaning given to it in paragraph 8.

APPENDIX “B”

[ATTACHED]

Comparison of CCAA Stalking Horse Total Fees for the period January 2019 to April 2023^{1, 2}

Debtor	Purchaser	Filing Date	Est. Transaction Value ("TV") ²	Total Fees ³	Total Fees as % of TV	Jurisdiction	Industry	Credit Bid
1 Just Energy Group	The DIP lenders and one of their affiliates	09-Mar-21	\$ 569,448,880	19,077,058	3.4%	ON	Oil & Gas	Y
2 Dominion Diamond Mines	Washington Diamond Investments Holdings II, LLC	22-Apr-20	\$ 169,163,150	6,401,638	3.8%	AB	Mining	N
3 BlackRock Metals Inc. et al.	OMF Fund II H Ltd. and Investissement Québec	23-Dec-21	\$ 90,759,000	2,500,000	2.8%	QC	Mining	Y
4 Urthecast Corp. (TSX:UR)	Antarctica Infrastructure Partners, LLC, an affiliate of Antarctica Capital LLC	04-Sep-20	\$ 69,000,000	3,070,000	4.4%	BC	Technology	N
5 Vari-Form Inc.	11032569 Canada Inc.	08-Jan-19	\$ 50,000,000	1,500,000	3.0%	ON	Automotive	N
6 Divestco Inc.	2179602 Alberta Ltd.	04-Mar-19	\$ 15,410,517	425,000	2.8%	AB	Oil & Gas	N
7 James E. Wagner Cultivation Corporation	Trichome Financial Corp.	01-Apr-20	\$ 11,700,000	100,000	0.9%	BC	Cannabis	N
8 Trichome Financial Corp.	L5 Capital Inc.	07-Nov-22	\$ 5,000,000	200,000	4.0%	BC	Cannabis	N
9 Bow River Energy Ltd.	2270943 Alberta Ltd.	01-Jun-20	\$ 4,290,221	175,000	4.1%	AB	Oil & Gas	N
10 The Flowr Corporation et al.	1000343100 Ontario Inc.	20-Oct-22	\$ 3,888,889	185,000	4.8%	BC	Cannabis	N
11 Cannapiece Group Inc. et al.	Cardinal Advisory Limited	03-Nov-22	\$ 3,500,000	200,000	5.7%	BC	Cannabis	N
12 Strategic Oil & Gas Ltd.	GMT Exploration Zama Inc.	10-Apr-19	\$ 1,500,000	75,000	5.0%	AB	Oil & Gas	N
13 Zenabis Group	2657408 Ontario Inc.	17-Jun-22	NA	750,000	NA	QC	Cannabis	N
14 Freshlocal Solutions Inc.	Third Eye Capital Corporation	16-May-22	NA	Sealed	2.5%	BC	Retail	N

1. Chart above includes all stalking horse transactions between January 2019 and April 2023. Summary in the Monitor's Report focuses on transactions in excess of \$5 million.

2. Transaction Value is the stalking horse bid value.

3. Total Fees include Break Fees and Expense Reimbursements.

Source: Insolvency Insider and Government of Canada Public CCAA Records

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
FIRE & FLOWER HOLDINGS CORP., FIRE & FLOWER INC., 13318184 CANADA INC., 11180703 CANADA INC.,
10926671 CANADA LTD., FRIENDLY STRANGER HOLDINGS CORP., PINEAPPLE EXPRESS DELIVERY INC., and
HIFYRE INC.**

Applicants

Court File No.:

ONTARIO
SUPERIOR COURT OF JUSTICE

Proceedings commenced at Toronto

FIRST REPORT OF THE MONITOR

Thornton Grout Finnigan LLP

Toronto-Dominion Centre
100 Wellington Street West
Suite 3200, P.O. Box 329
Toronto, ON M5K 1K7
Fax: 416-304-1313

Leanne Williams (LSO# 41877E)

Tel: 416-304-0060
Email: lwilliams@tgf.ca

Rebecca Kennedy (LSO# 61146S)

Tel: 416-304-0603
Email: rkennedy@tgf.ca

Lawyers for the Monitor of the Applicants