

District of: Ontario
Division No. 08 - Waterloo
Court No. 35-2604000
Estate No. 35-2604000

TRUSTEE'S PRELIMINARY REPORT

IN THE MATTER OF THE BANKRUPTCY OF 2366607 ONTARIO INC. o/a Alterna Medicinals Canada

Trustee: MNP Ltd.

SECTION A

2366607 Ontario Inc., operating as Alterna Medicinals Canada ("Alterna" or the "Company") applied for a cannabis production license from Health Canada in 2014. The Company was working through the application process and preparing its leased facility with the necessary security measures required therein.

Alterna had raised approximately \$550,000 from private investors plus a secured loan of \$2.5 million from Daydream Capital Inc. ("Daydream"). After Daydream injected \$750,000 of this loan the relationship began to sour. According to Alterna management Daydream became too controlling and wanted changes to the facility plans that would be too costly compared to their Health Canada approved design and Daydream continuing to miss scheduled payments. After Daydream missed their newly rescheduled payment in the Fall of 2017, Alterna advised Daydream the joint venture couldn't continue and Alterna would repay their debt after obtaining licensing. Daydream refused to accept this offer and demanded a return of their initial loan and blamed Alterna management for the rise in construction costs. This resulted in the license application and facility renovation stalling because Alterna could not find new investors/financings to repay Daydream before licensing. Various options to settle the dispute and/or restructure Daydream's debt, or sell the Company have been discussed; however, after two years, there are no signs of resolving the dispute in a manner acceptable to everyone involved and no return in focus to the cannabis application licensing has been made.

As a result, Alterna made the decision to make an assignment in bankruptcy on January 13, 2020. MNP Ltd. was appointed as trustee (the "Trustee").

CLASS I - Stocks of Merchandise

There was no inventory owned by the Company.

CLASS II - Plant, Machinery and Equipment and Office Equipment

Some security equipment had been installed at a leased facility. This security equipment is covered by Daydream's secured charge.

CLASS III - Buildings and Real Estate

The Company did not own real estate.

CLASS IV - Books and Records

The Trustee has taken possession of the books and records required to administer the bankruptcy.

CLASS V - Other Assets

Alterna and Daydream have contacted Health Canada to determine if the cannabis license application can be transferred. This application is covered by Daydream's security. Daydream has made a proposal to purchase the Trustee's right title an interest to the assets of Alterna, including the license application, books and records. This proposal will be discussed with the inspectors appointed at today's meeting.

Alterna paid a deposit of approximately \$100,000 for security equipment. The Trustee contacted the equipment supplier who advised the deposit was fully used for the equipment supplied to date, and there is now a further balance owing.

Property of Bankruptcy not divisible amongst creditors by virtue of Section 67(b), of the Bankruptcy and Insolvency Act

None known

Property Placed Under the Guardianship of the Debtor

None to date

SECTION B

1. Conservatory and Protective Measures

The Trustee has taken no conservatory or protective measures.

2. Carrying on Business

There were no operations to be carried on.

SECTION C - LEGAL PROCEEDINGS

None.

SECTION D - PROVABLE CLAIMS

	As per Statement of Affairs	Claims Received to Date
Unsecured	\$2,563,467	\$131,586
Preferred	nil	Nil
Secured	\$918,493	\$1,029,493
Deemed trust	nil	Nil
Total	\$3,481,960	\$1,161,079

SECTION E - SECURED CREDITORS

There are no creditors with registered security aside from Daydream.

SECTION F - ANTICIPATED REALIZATION AND PROJECTED DISTRIBUTION

There is no distribution expected in this estate.

SECTION G - REVIEWABLE TRANSACTIONS AND PREFERENCE PAYMENTS

The Trustee has initiated a review of the bank statements for the twelve months preceding bankruptcy to search for evidence of reviewable transactions or preference payments. Thus far no such evidence has been found.

SECTION H - OTHER MATTERS

The Trustee has received a third-party deposit of \$10,000 from Matt Sobol to cover the fees and disbursements of the bankruptcy in the event asset realizations are insufficient.

Dated at London, Ontario this 29th day of January 2020.

MNP Ltd.
Licensed Insolvency Trustee of
2366607 Ontario Inc.

A handwritten signature in black ink, appearing to read 'Rob Smith', written in a cursive style.

Per: Rob Smith CPA, CA, CIRP, LIT
Senior Vice-President

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IN THE MATTER OF THE BANKRUPTCY OF
2366607 Ontario Inc.

Carrying on business in the City of Guelph,
in the Province of Ontario

TRUSTEE'S PRELIMINARY REPORT

MNP Ltd.
1002 - 148 Fullarton Street
London, ON N6A 5P3