

ONTARIO
SUPERIOR COURT OF JUSTICE
IN BANKRUPTCY AND INSOLVENCY
(Commercial List)

**IN THE MATTER OF THE PROPOSAL OF 1776690 ONTARIO INC. COB THE
COUNTRY WAY HEALTH FOOD STORE OF THE CITY OF SAULT STE MARIE IN
THE PROVINCE OF ONTARIO**

2655396 ONTARIO INC.

Applicant

**IN THE MATTER OF SECTION 182 OF THE *BUSINESS CORPORATIONS ACT*,
R.S.O. 1990, c. B.16, AS AMENDED, AND IN THE MATTER OF A PROPOSED
ARRANGEMENT OF 2655396 ONTARIO INC. AND INVOLVING 1776690 ONTARIO
INC. COB COUNTRY WAY HEALTH FOOD STORE**

MOTION RECORD
(Returnable 7 October 2022)

5 October 2022

GOWLING WLG (CANADA) LLP
Barristers & Solicitors
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TAB 1

Court File No: CV-21-00661436-00CL

ONTARIO
SUPERIOR COURT OF JUSTICE
IN BANKRUPTCY AND INSOLVENCY
(Commercial List)

**IN THE MATTER OF THE PROPOSAL OF 1776690 ONTARIO INC. COB THE
COUNTRY WAY HEALTH FOOD STORE OF THE CITY OF SAULT STE MARIE IN
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2655396 ONTARIO INC.

Applicant

**IN THE MATTER OF SECTION 182 OF THE *BUSINESS CORPORATIONS ACT*,
R.S.O. 1990, c. B.16, AS AMENDED, AND IN THE MATTER OF A PROPOSED
ARRANGEMENT OF 2655396 ONTARIO INC. AND INVOLVING 1776690 ONTARIO
INC. COB COUNTRY WAY HEALTH FOOD STORE**

NOTICE OF MOTION
(returnable 7 October 2022)

MNP LTD., (the “**Proposal Trustee**”) in its capacity as trustee under the proposal of 1776690 Ontario Inc. cob Country Way Health Food Store, will make a Motion to a Judge of the Ontario Superior Court of Justice (Commercial List) on 7 October 2022 at 9:30 a.m., or as soon after that time as the Motion can be heard, via Zoom.

PROPOSED METHOD OF HEARING: The Motion is to be heard by video conference.

THE MOTION IS FOR:

1. An Order substantially in the form of the Draft Order attached as Schedule A.

2. Such further and other relief as to this Honourable Court may seem just.

THE GROUNDS FOR THE MOTION ARE:

1. The grounds set out in the Third Report of the Proposal Trustee dated 5 October 2022 (the “**Third Report**”).

THE FOLLOWING DOCUMENTARY EVIDENCE will be used at the hearing of the motion:

- 2. The Third Report.
- 3. Such further and other evidence as the lawyers may advise and this Honourable Court may permit.

5 October 2022

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Lawyers for the Applicant

SCHEDULE A
ORDER

Court File Number: CV-21-00661436-00CL

**ONTARIO
SUPERIOR COURT OF JUSTICE
IN BANKRUPTCY AND INSOLVENCY
(Commercial List)**

THE HONOURABLE M) FRIDAY, THE 7TH
)
JUSTICE) DAY OF OCTOBER, 2022

**IN THE MATTER OF THE PROPOSAL OF 1776690 ONTARIO INC. COB THE
COUNTRY WAY HEALTH FOOD STORE OF THE CITY OF SAULT STE MARIE IN
THE PROVINCE OF ONTARIO**

2655396 ONTARIO INC.

Applicant

**IN THE MATTER OF SECTION 182 OF THE *BUSINESS CORPORATIONS ACT*,
R.S.O. 1990, c. B.16, AS AMENDED, AND IN THE MATTER OF A PROPOSED
ARRANGEMENT OF 2655396 ONTARIO INC. AND INVOLVING 1776690 ONTARIO
INC. COB COUNTRY WAY HEALTH FOOD STORE**

**APPROVAL ORDER
(OBCA Arrangement)**

THIS MOTION made by MNP Ltd. (the “**Proposal Trustee**”) in its capacity as trustee under the proposal of 1776690 Ontario Inc. (“**1776 ON**”) for the approval of an arrangement made by 2655396 Ontario Inc. and involving 1776 ON pursuant to the *Ontario Business Corporations Act*, RSO 1990, c. B-16 (the “**OBCA**”) was heard this day via Zoom.

ON READING the Notice of Motion and the Motion Record, including the Third Report of the Proposal Trustee dated 5 October 2022 the “**Third Report**”), the Interim Order of the Honourable Justice McEwen dated 27 January 2022 and the Order of the Honourable Justice

Kimmel dated 13 April 2022, on hearing the submissions of counsel for the Proposal Trustee, on and being advised that the Director appointed under the OBCA does not consider it necessary to appear on this Motion,

1. **THIS COURT ORDERS** that the arrangement as described in the Amended Proposal and Plan of Arrangement/Reorganization dated 29 January 2022 (the “**Proposal**”) attached as Appendix C to the Third Report and the Plan of Arrangement attached as **Schedule “A”** (the “**Arrangement**”) to this Order be and are hereby approved and directs that the Proposal Trustee take any and all steps necessary or advisable to implement the Arrangement.

2. The Proposal be and is hereby amended to replace Schedule A to the Proposal with the attached Schedule “A”.

3. **THIS COURT ORDERS** that the Proposal Trustee is entitled to: (a) seek to vary this Order upon such terms and upon giving such notice as this Court may direct; (b) seek the advice and directions of this Court as to the implementation of this Order, and (c) apply for such further order or orders as may be appropriate.

SCHEDULE A
PLAN OF ARRANGEMENT

1.0 Definitions.

Defined Terms in this Schedule have the meaning assigned by the Amended Proposal dated January 29, 2022.

1.1 Arrangement.

On the Implementation Date, the following shall occur and be deemed to occur in the following order without any further act or formality with each transaction or event being deemed to occur immediately after the occurrence of the transaction or event immediately preceding it:

- (A) The Articles for the Debtor shall be amended pursuant to sections [168 and 182(1)] of the OBCA to:
- (i) re-designate the Class A Common Shares of the Debtor as Class A Redeemable Shares, which Class A Redeemable Shares may be redeemed on payment of \$0.01 per share as follows:

1. CLASS A REDEEMABLE SHARES

- (a) The Class A Redeemable Shares shall as a class have attached thereto the following rights, privileges, restrictions, and conditions:
- (i) the holders of Class A Redeemable Shares shall have the right to vote at all meetings of shareholders, except meetings at which only holders of a specified class of shares are entitled to vote;
- (ii) the Class A Redeemable shares are redeemable at the option of the Debtor on payment of \$0.01 per share.
- (ii) create a new class of shares consisting of an unlimited number of new Class A Common Shares as follows:

2. CLASS A COMMON SHARES

- (a) The holders of Class A common shares shall be entitled, among other things:
- (i) to vote at all meetings of shareholders, except meetings at which only holders of a specified class of shares are entitled to vote;
- (ii) to receive dividends as and when declared by the Board of Directors of the Corporation out of the monies of the Corporation properly applicable to the payment of dividends; and

- (iii) subject to the rights, privileges, restrictions and conditions attaching to any other class of shares of the Corporation, to receive the remaining property of the Corporation upon dissolution.
- (iii) make the Class C Special Shares redeemable at the option of the Debtor on payment of \$0.01 per share as more fully set out in Schedule A as follows:

3. CLASS C SPECIAL SHARES

(a) Definitions

In these share conditions the following words and phrases shall have meaning as follows:

- (i) “Redemption Amount” of each Class C Special Share means the sum of \$0.01; and
- (ii) “Redemption Price” of each Class C Special Share means the redemption amount; and

(b) Voting Rights

The holders of Class C Special Shares shall not be entitled to receive notice of or to vote at any meetings of shareholders.

(c) Redemption by Corporation

Subject to the Act, the Corporation may redeem the whole or any part of the issued Class C Special Shares on payment for each share to be redeemed of the Redemption Price.

- (B) The new Class A Common Shares shall be issued by the Debtor as follows:

- (i) Ryan Saari-100.

- (C) The Class A Redeemable Shares and the Class C Special Shares shall be redeemed and cancelled by the Debtor such that: (i) the existing shareholders of the Debtor shall no longer be a shareholders of the Debtor and shall have no rights as a shareholders except the right to receive the amount payable by the Debtors to redeem the Class A Redeemable Shares and Class C Special Shares, and (ii) there shall be no remaining issued and outstanding shares of any class other than the new Class A Common Shares issued pursuant to paragraph (b);

- (D) The Articles for the Debtor shall be amended to delete all reference to: (i) the Class A Redeemable Shares;

- (E) The Debtor and NumCo shall be amalgamated to create New Country Way as follows:

- (a) The name of New Country Way shall be “[assigned corporate number] Ontario Inc.” and shall carry on business as “THE COUNTRY WAY HEALTH FOOD STORE”;
- (b) The By-laws and Articles for New Country Way shall be the same as the amended Articles for NumCo;

- (c) The issued and outstanding Class A Common Shares of the Debtor shall be cancelled without any repayment of capital in respect thereof; and
- (d) The stated capital of the Debtor shall be added to the stated capital of the NumCo; and
- (F) the Certificates shall be issued to the Unsecured Creditors as provided for by Article 6.1.

1.2 Binding Effect.

This Arrangement will become effective at, and be binding at and after, the Implementation Date without further act or formality required on the part of a Person except as expressly provided herein.

DRAFT

Court File No.: CV-21-00661436-00CL

IN THE MATTER OF THE PROPOSAL OF 1776690 ONTARIO INC. COB THE COUNTRY WAY HEALTH FOOD STORE OF THE CITY OF SAULT STE MARIE IN THE PROVINCE OF ONTARIO

IN THE MATTER OF SECTION 182 OF THE BUSINESS CORPORATIONS ACT, R.S.O. 1990, c. B.16, AS AMENDED, AND IN THE MATTER OF A PROPOSED ARRANGEMENT OF 2655396 ONTARIO INC. AND INVOLVING 1776690 ONTARIO INC. COB COUNTRY WAY HEALTH FOOD STORE

**ONTARIO
SUPERIOR COURT OF JUSTICE
(IN BANKRUPTCY & INSOLVENCY)
(Commercial List)**

(PROCEEDING COMMENCED AT TORONTO)

ORDER

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Court File No: CV-21-00661436-00CL

IN THE MATTER OF THE PROPOSAL OF 1776690 ONTARIO INC. COB THE COUNTRY WAY HEALTH FOOD STORE OF THE CITY OF SAULT STE MARIE IN THE PROVINCE OF ONTARIO

IN THE MATTER OF SECTION 182 OF THE *BUSINESS CORPORATIONS ACT*, R.S.O. 1990, c. B.16, AS AMENDED, AND IN THE MATTER OF A PROPOSED ARRANGEMENT OF 2655396 ONTARIO INC. AND INVOLVING 1776690 ONTARIO INC. COB COUNTRY WAY HEALTH FOOD STORE

**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**

(PROCEEDING COMMENCED AT TORONTO)

NOTICE OF MOTION
(Returnable 7 October 2022)

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Lawyers for MNP Ltd., the Proposal Trustee

TAB 2

Court No.: CV-21-00661436-00CL
Estate No. 31-2734289

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

**AND IN THE MATTER OF THE PROPOSAL OF 1776690 ONTARIO INC. COB THE
COUNTRY WAY HEALTH FOOD STORE OF THE CITY OF SAULT STE MARIE IN
THE PROVINCE OF ONTARIO**

**AND IN THE MATTER OF THE SECTION 182 AND 186 OF THE BUSINESS
CORPORATIONS ACT, R.S.O. 1990 C. B. 16, AS AMENDED, AND IN THE MATTER
OF A PROPOSED ARRANGEMENT OF 2655396 ONTARIO INC. AND INVOLVING
1776690 ONTARIO INC. COB THE COUNTRY WAY HEALTH FOOD STORE**

**THIRD REPORT TO THE COURT
SUBMITTED BY MNP LTD.,
IN ITS CAPACITY AS TRUSTEE
UNDER THE PROPOSAL OF
1776690 ONTARIO INC. COB THE COUNTRY WAY HEALTH FOOD STORE**

OCTOBER 5, 2022

I. INTRODUCTION AND BACKGROUND

1. On May 1, 2021, 1776690 Ontario Inc. cob The Country Way Health Food Store (“**1776 ON**” or the “**Company**”) lodged with MNP Ltd. (“**MNP**” or the “**Proposal Trustee**”) a Proposal (the “**Proposal**”) pursuant to section 50.2 of the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3, as amended (the “**BIA**”). MNP, acting in its capacity as Proposal Trustee, filed the Proposal with the Office of the Superintendent of Bankruptcy on May 3, 2021. The Company’s proposal proceedings are referred to herein as the “**Proposal Proceedings**”.
2. 1776 ON is an Ontario corporation that operates a health food store in Sault Ste. Marie, Ontario from rented premises that it leases from a related company.

3. In November 2017, 2595418 Ontario Inc. (“**259 ON**”) acquired the shares of 1776 ON from two (2) individuals (the “**Share Vendors**” or “**Watts/Frey**”). The \$2,200,000 purchase price for the shares, other than \$250,000, was financed by the Share Vendors. Under the terms of its agreements, including a Promissory Note, dated September 8, 2017, and a Share Purchase Agreement, dated August 7, 2017 (the “**SPA**” and collectively with the associated agreements, the “**Agreements**”) with the Share Vendors, 259 ON was required to make monthly payments to the Share Vendors of \$3,000 for October and November 2017, then \$16,250 monthly from December 2017 until October 2027 and to make a final payment of \$10,250 on November 1, 2027. The obligations owing by 259 ON to the Share Vendors are secured by a pledge of the shares of 1776 ON that are owned by 259 ON. The Share Vendors do not have security over the assets of 1776 ON and 1776 ON is not directly¹ liable for the obligations owing by 259 ON to the Share Vendors. 259 ON has no assets other than the shares of 1776 ON and 259 ON had been borrowing the money from 1776 ON to make the monthly payments to the Share Vendors. 259 ON paid a total of \$765,570 to the Share Vendors as of April 23, 2021. As part of the Agreements, the Share Vendors executed a non-competition covenant restricting them from operating a similar business in the area for ten (10) years.
4. 1776 ON’s business has been severely impacted by the COVID-19 pandemic. In 2020, the Company’s gross monthly sales dropped by approximately 23% from pre-COVID levels. Because of the impact the pandemic had on its cash flows, the Company was unable to loan further monies to 259 ON to pay the Share Vendors and to service its debt obligations and to pay its suppliers and employees.
5. In response to the foregoing:
 - a. the Company commenced the Proposal Proceedings; and
 - b. on April 30, 2021, 2655396 Ontario Inc. (“**NumCo**”), a related corporation, filed an application pursuant to sections 182 and 186 of the Ontario *Business*

¹ The Share Vendor indirectly may have a contingent and unliquidated claim against 1776 ON, which is still subject to a determination of the claim.

Corporations Act (“**OBCA**”) for an arrangement (the “**Arrangement**”) involving itself and 1776 ON,

as a means of: (i) stabilizing the Company; (ii) altering the Company’s share structure to sever the Company from 259 ON; and (iii) offering its creditors a dividend that would be higher than its creditors would receive in the event of a bankruptcy.

6. The Proposed Trustee convened a series of general meetings of creditors to consider the Proposal, each of which was adjourned to first have the Court consider NumCo’s application for the Interim Order (as defined below). The Court had scheduled the OBCA matter to be heard on June 8, 2021. The June 8th court date did not proceed as scheduled and required rescheduling by the Court. The Court rescheduled NumCo’s application for an Interim Order to be heard on January 27, 2022.

Interim Order

7. On January 25, 2022, NumCo filed a motion, on notice to the Director appointed under the OBCA (the “**Director**”), among others, in connection with the January 27, 2022, motion, seeking an interim order (the “**Interim Order**”), *inter alia*:
 - i. authorizing that notice of the Arrangement involving the Company be included in the Proposal and be provided to the Company’s creditors by MNP under the Proposal Proceedings and not as a separate notice;
 - ii. amending the style of cause for the Proposal to include: **AND IN THE MATTER OF THE SECTION 182 AND 186 OF THE BUSINESS CORPORATIONS ACT, R.S.O. 1990 C. B. 16, AS AMENDED, AND IN THE MATTER OF A PROPOSED ARRANGEMENT OF 2655396 ONTARIO INC. AND INVOLVING 1776690 ONTARIO INC. COB THE COUNTRY WAY HEALTH FOOD STORE**; and
 - iii. that the Arrangement shall be deemed to be approved if the Proposal is approved by the unsecured creditors of 1776 ON as required by the BIA.

8. The Proposal Trustee filed its first report, dated January 21, 2022 (the “**First Report**”), in connection with the January 25th motion. A copy of the First Report (without appendices) is attached as **Appendix “A”**.
9. On January 27, 2022, the Court issued the Interim Order, a copy of which is attached as **Appendix “B”**. Under the Interim Order, “[T]he Court Ordered that the Arrangement shall be deemed to be approved only if the: (a) Proposal is approved by the unsecured creditors of 1776 ON as required by the BIA; and (b) the Court makes an Order pursuant to paragraph 182(5)(f) of the Business Corporations Act approving the Arrangement (the “**Final Order**”), and the Arrangement shall not be implemented or given effect in any way without the approval of the Court first being obtained pursuant to paragraph 182(5)(f) of the OBCA.”

Amended Proposal

10. The Proposal provided that the first payment under 1776 ON’s proposal was to be made by November 30, 2021. Due to the delay in obtaining the Interim Order, 1776 ON amended paragraph 7.5 of the Proposal on January 29, 2022 (the “**Amended Proposal**”), to provide that “distributions will be made no later than 90 days after each of the five year-ends by November 30th of the following fiscal year, commencing November 30, 2022 (the “**First Payment**”)”. A copy of the Amended Proposal is attached as **Appendix “C”**.

Creditor Acceptance of the Amended Proposal

11. At a February 1, 2022 reconvened meeting of creditors and after the issuance of the Interim Order, a requisite majority of the creditors voted to accept the Amended Proposal.

Court Approval of the Amended Proposal

12. The Proposal Trustee filed its second report, dated April 1, 2022 (the “**Second Report**”), in connection with a motion returnable on April 13, 2022, in support of its motion for the Court’s approval of the Amended Proposal. A copy of the Second Report (without appendices) is attached as **Appendix “D”**.

13. On April 13, 2022, the Court made an Order (the “**Approval Order**”) approving the Amended Proposal pursuant to section 59 of the BIA. The Motion to approve the Amended Proposal was not opposed and no creditors attended before the Court on April 13, 2022. A copy of the Approval Order is attached as **Appendix “E”**.
14. Implementation of the Amended Proposal was conditional on: (i) issuance of the Interim Order; (ii) acceptance of the Amended Proposal by the Company’s unsecured creditors; and (iii) the making of the Approval Order and Final Order and the expiry of all applicable appeal periods. Pursuant to the Approval Order, the Proposal Trustee was authorized to apply at a later date for the Final Order, which motion is scheduled for October 7, 2022.
15. Information regarding the Proposal Proceedings has been posted to the Proposal Trustee’s case website (the “**Case Website**”) at <https://mnpdebt.ca/en/corporate/corporate-engagements/1776690-ontario-inc-aka-the-country-way-health-food-store>.

III. PURPOSE OF THIS REPORT

16. The purpose of this Report (the “**Third Report**”) is to:
 - a. provide the Court with an update on the Proposal Proceedings and the Arrangement; and
 - b. provide the Proposal Trustee’s support for, and observations in respect of the Proposal Trustee’s request that the Court grant the Final Order, *inter alia*:
 - i. approving the Arrangement;
 - ii. that the Amended Proposal be and is hereby amended to change the reference to “2655396 Ontario Inc.” in Article 10.7 to read “[assigned corporate number] Ontario Inc.” as set out in Article 1.1(E)(i) of the Amended Arrangement (as defined below); and
 - iii. directing the Proposal Trustee take any and all steps necessary or advisable to implement the Arrangement.

UPDATE ON THE ARRANGEMENT

17. In making the Approval Order, Justice Kimmel noted that “although the Interim Order contemplated that the order approving the Arrangement under s. 182(5)(f) of the OBCA would be heard by this Court in this proceeding together with any motion brought by the Proposal Trustee seeking an Order approving the Proposal, the approval of the Arrangement requires the input and involvement of the Ministry and the applicant now proposes (since the opposition has been withdrawn) to return on a later date to seek the approval of the Arrangement, once the Ministry has had the full opportunity to provide its input.”
18. After the making the Approval Order, the Proposal Trustee’s counsel consulted with the Director concerning the approval of the Arrangement.
19. On September 27, 2022, the Director notified the Proposal Trustee by letter that it was taking no position with respect to the approval of the Arrangement and would not be appearing on the Motion to have the Arrangement approved. A copy of the letter is attached as **Appendix ‘F’**.
20. The Director requested that the Arrangement be amended to remove the reference to NumCo being the name of the corporation that will result from the amalgamation of 1776 ON and NumCo pursuant to the Arrangement and replace that reference with a reference to the number to be assigned to the (amalgamated) corporation. That number will not be known until the amalgamation takes place.
21. The amendment requested by the Director was made to the form of the Arrangement that is attached as Schedule A to the draft Final Order (the “**Amended Arrangement**”) being sought as part of this Motion and that will be filed for the purposes of section 183 of the OBCA. The Proposal Trustee is requesting, for house-keeping purposes, that the Arrangement attached to the Amended Proposal be replaced with the Amended Arrangement. No amendment to the body of the Amended Proposal is required.

22. Provided the Court approves the Final Order and the Final Order is not appealed, the Amended Proposal will be implemented prior to 1776 ON's obligation to make the First Payment.

CONCLUSION AND RECOMMENDATION

23. A copy of this Report is being filed with the Official Receiver.

24. Based on the foregoing, the Proposal Trustee respectfully recommends that this Court make an order granting the relief detailed above in paragraph 16(b).

All of which is respectfully submitted on this 5th day of October, 2022.

MNP LTD.,
in its capacity as Trustee acting *in re* the Proposal of
1776690 Ontario Inc. cob The Country Way Health
Food Store

Per:



Sheldon Title
Licensed Insolvency Trustee

Court No.: CV-21-00661436-00CL
Estate No. 31-2734289

IN THE MATTER OF THE PROPOSAL OF 1776690 ONTARIO INC. COB THE COUNTRY WAY HEALTH FOOD STORE, OF THE CITY OF SAULT STE. MARIE, IN THE PROVINCE OF ONTARIO

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

FIRST REPORT TO THE COURT SUBMITTED BY MNP LTD., IN ITS CAPACITY AS TRUSTEE UNDER THE PROPOSAL OF 1776690 ONTARIO INC. COB THE COUNTRY WAY HEALTH FOOD STORE

MNP LTD.
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Appendix “A”

Court No.: CV-21-00661436-00CL
Estate No. 31-2734289

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

IN THE MATTER OF THE PROPOSAL OF
1776690 ONTARIO INC. COB THE COUNTRY WAY HEALTH FOOD STORE
OF THE CITY OF SAULT STE. MARIE
IN THE PROVINCE OF ONTARIO

FIRST REPORT TO THE COURT
SUBMITTED BY MNP LTD.,
IN ITS CAPACITY AS TRUSTEE
UNDER THE PROPOSAL OF
1776690 ONTARIO INC. COB THE COUNTRY WAY HEALTH FOOD STORE

January 21, 2022

I. INTRODUCTION AND BACKGROUND

1. On May 1, 2021, 1776690 Ontario Inc. cob The Country Way Health Food Store (“**Country Way**” or the “**Company**”) lodged with MNP Ltd. (“**MNP**” or the “**Proposal Trustee**”) a Proposal (the “**Proposal**”) pursuant to s.50.2 of the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3, as amended (the “**BIA**”). MNP, acting in its capacity as Proposal Trustee, filed the Proposal with the Office of the Superintendent of Bankruptcy on May 3, 2021. The Company’s proposal proceedings are referred to herein as the “**Proposal Proceedings**”. A copy of the Proposal, the Company’s statement of affairs (“**SOA**”) and the Report of Trustee to the Creditors are attached as **Appendix “A”**, **Appendix “B”**, **Appendix “C”**, respectively. A copy of the Director’s resolution that authorized the Proposal Proceedings is attached as **Appendix “D”**.

2. Country Way is an Ontario corporation that operates a health food store in Sault Ste. Marie, Ontario from rented premises that are leased by a related company.
3. In November 2017, 2595418 Ontario Inc. (“**259 ON**”) acquired the shares of Country Way from two individuals (the “**Share Vendors**”). The \$2,200,000 purchase price for the shares, other than \$250,000, was financed by the Share Vendors. Under the terms of its agreements, including a Promissory Note, dated September 8, 2017, and a Share Purchase Agreement, dated August 7, 2017 (the “**SPA**” and collectively with the associated agreements, the “**Agreements**”) with the Share Vendors, 259 ON was required to make monthly payments to the Share Vendors of \$3,000 for October and November 2017, and then \$16,250 monthly from December 2017 until October 2027 and to make a final payment of \$10,250 on November 1, 2027. The obligations owing by 259 ON to the Share Vendors are secured by a pledge of the shares of Country Way that are owned by 259 ON. The Share Vendors do not have security over the Country Way and Country Way is not liable for the obligations owing by 259 ON to the Share Vendors. 259 ON has no assets other than the shares of the Country Way and 259 ON had been borrowing the money from the Country Way to make the monthly payments to the Share Vendors. 259 ON paid a total of \$765,570 to the Share Vendors as of April 23, 2021. As part of the Agreements, the Share Vendors executed a non-competition covenant restricting them from operating a similar business in the area for ten (10) years.
4. Country Way’s business has been severely impacted by the COVID-19 pandemic. In 2020, the Company’s gross monthly sales dropped by approximately 23% from pre-COVID levels. Because of the impact the pandemic had on its cash flows, the Company was unable to loan further monies to 259 ON to pay the Share Vendors and to service its debt obligations and to pay its suppliers and employees.
5. In response to the foregoing:
 - a. The Company commenced the Proposal Proceedings; and
 - b. on April 30, 2021, 2655396 Ontario Inc. (“**NumCo**”), a related corporation, filed an application pursuant to section 182 and 186 of the Ontario *Business*

Corporations Act (“**OBCA**”) for an arrangement (the “**Arrangement**”) involving itself and the Country Way,

as a means of: (i) stabilizing the Company; (ii) altering the Company’s share structure to sever the Company from 259 ON; and (iii) offering its creditors a dividend that would be higher than its creditors would receive in the event of a bankruptcy.

6. Information regarding the Proposal Proceedings has been posted to the Proposal Trustee’s case website (the “**Case Website**”) at <https://mnpdebt.ca/en/corporate/corporate-engagements/1776690-ontario-inc-aka-the-country-way-health-food-store>.

II. RESTRICTIONS

7. In preparing this Report and making the comments herein, the Proposal Trustee has been provided with, and has relied upon, certain unaudited, draft and/or internal financial information, the affidavit of Shonna Lynn Saari, an officer and director of NumCo and Country Way, dated April 26, 2021 (the “**Saari Affidavit**”) in connection with the Arrangement, the Company’s books and records, discussions with the Company’s management (“**Management**”) and information from other third-party sources (collectively, the “**Information**”). Except as specifically noted in this Report, the Proposal Trustee has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would wholly or partially comply with Generally Accepted Assurance Standards of the Chartered Professional Accountants of Canada.
8. The Proposal Trustee also bases its report on the Company’s cash flow projections and underlying assumptions and notes that its review and commentary thereon were performed in accordance with the requirements set out in the Canadian Association of Insolvency and Restructuring Professionals’ Standards of Professional Practice No. 9 (Cash Flow Statement). Certain of the information referred to in this First Report consists of financial forecasts and/or projections. An examination or review of financial forecasts and projections and procedures, in accordance with standards set by the Chartered Professional Accountants of Canada, has not been performed. Future oriented financial information

referred to in this First Report was prepared based on estimates and assumptions provided by Management. Readers are cautioned that since financial forecasts and/or projections are based upon assumptions about future events and conditions that are not ascertainable, actual results will vary from the projections, and such variations could be material.

9. Unless otherwise stated, all monetary amounts contained in this Report are expressed in Canadian dollars.

III. PURPOSE OF THIS REPORT

10. The purpose of this Report (the “**First Report**”) is to:
 - a. Provide the Court with information in respect to the activities of the Company and the Proposal Trustee since the filing of the Proposal; and
 - b. provide the Proposal Trustee’s support for, and observations in respect of the Company’s request that the Court to grant an interim order (the “**Interim Order**”), *inter alia*:
 - i. authorizing that notice of the Arrangement involving the Company be included in the Proposal and be provided to the Company’s creditors by MNP providing only the creditors of Country Way with a copy of the Proposal as required by the BIA;
 - ii. amending the style of cause for the Proposal to include: **AND IN THE MATTER OF THE SECTION 182 AND 186 OF THE BUSINESS CORPORATIONS ACT, R.S.O. 1990 C. B. 16, AS AMENDED, AND IN THE MATTER OF A PROPOSED ARRANGEMENT OF 2655396 ONTARIO INC. AND INVOLVING 1776690 ONTARIO INC. COB THE COUNTRY WAY HEALTH FOOD STORE**; and
 - iii. that the Arrangement shall be deemed to be approved if the Proposal is approved by the unsecured creditors of Country Way as required by the BIA.

IV. ACTIVITIES OF THE MONITOR

11. The Proposal Trustee has undertaken its statutory activities under the BIA, including attending a series of general meetings of creditors to consider the Company's creditors, each of which was adjourned to have the Court consider NumCo's application for the Interim Order. The general meeting of creditors is scheduled to reconvene on February 1, 2022.

V. FINANCIAL POSITION OF THE COMPANY

ASSETS

12. Country Way's assets are comprised of cash, inventory, furniture and store fixtures.

13. On the Date of the Proposal, the Company estimated the realizable value of its assets as follows:

Asset Description	Estimated Realizable Value (\$)
Inventory	54,000
Vehicles	12,000
Trade Fixtures	48,450
Total	114,450

14. Based on discussions with the Company's management, the current value of the inventory is consistent with the valuation on the SOA.

CREDITORS

Summary

15. Based on the SOA, the Company's liabilities are summarized as follow:

Liability Description	Estimated Liability (\$)
Secured	114,450

Preferred	Nil
Unsecured	458,385
Total	572,835

Secured Creditors

16. A search of the Ontario *Personal Property Security Act* (the “**PPSA**”) registry with a file currency of February 11, 2021, indicates that TNT Holdco Inc. (“**TNT**”), Toyota Credit Canada Inc. (“**Toyota**”) and Royal Bank of Canada (“**RBC**”) have each registered a secured interest against the Company.
17. Based on the SOA, the Company’s secured debt obligations to TNT and RBC (collectively, the “**Secured Creditors**”) total approximately \$262,082, of which approximately \$192,487 is due to TNT and \$69,595 is due to RBC.
18. Gowlings has provided the Proposal Trustee with an opinion confirming that, subject to certain standard assumptions and qualifications, that the TNT and RBC loans and security in respect of the Company are valid and enforceable as against the Company.
19. Pursuant to the terms of the Proposal, the Secured Creditors are unaffected creditors.

Unsecured Creditors

20. As noted above, the unsecured creditors are owed a total \$458,385, of which a total of \$219,632¹ is owed to the unaffected creditors. Of the remaining \$238,753 in potential unsecured claims, creditors having claims totaling \$181,965 have delivered voting letters indicating support for the Proposal and the Arrangement. While the Proposal and Arrangement remain subject to a formal vote at a general meeting of the Company’s

¹ Under the terms of the Proposal, Unaffected Creditors means the Secured Creditors and any amounts owing by the Company to RBC, including any amount owing to RBC pursuant to the Canada Emergency Business Account. The \$219,632 is comprised of the unsecured portions of the amounts owing to RBC and TNT being \$129,595 and \$90,037, respectively.

creditors, the Trustee is unaware of any creditor intending to vote to reject the Proposal and the Arrangement.

21. As noted previously, the Share Vendors are not creditors of the Company.

VI. THE SHARE PURCHASE AGREEMENT

22. As noted above, because of the impact the pandemic had on its cash flows, the Company was unable to loan further monies to 259 ON to pay the Share Vendors.

23. The Share Vendors filed an application with the Court seeking relief against 259 ON and others arising for 259 ON's failure to make certain payments under the SPA. On December 22, 2021, the Ontario Court of Justice ordered (the "**December 22nd Decision**"), *inter alia*:

- a. A declaration that 259 ON repudiated the SPA and its associated agreements by virtue of the respondents conduct between April-October 2020, which the Share Vendors accepted on or around October 14, 2020.
- b. A declaration that, in consequence of the acceptance of the repudiation, the Share Vendors' ongoing obligations under the Agreements, including the Share Vendors' obligations under the non-competition covenant, ceased as of the date of acceptance of the repudiation.
- c. Judgment against 259 ON for all amounts due and unpaid under the SPA and the Agreements up to the date of acceptance of the repudiation.
- d. A declaration that the respondents were in default as defined by the SPA by at least April 2021 by virtue of the payments not made up and including the payment due on April 1, 2021.
- e. A declaration that in consequence of the default, the Share Vendors are entitled to exercise all rights in the shares in the purchased business including voting rights.
- f. A declaration that, in consequence of the default, the Share Vendors are entitled to transfer to the inventory and tangible assets of the store at a price of \$0.

- g. Prejudgment interest on all amounts awarded under the preceding paragraphs.

A copy of the December 22nd Decision is attached as **Appendix “E”**.

VII. THE ARRANGEMENT

24. As noted in the Saari Affidavit, one of Country Way’s key objectives in the Proposal Proceedings is to reorganize Country Way’s capital structure as a means of, among other things, stabilizing Country Way’s business and enhancing its ability to repay its creditors.

25. A summary of the salient terms of the Arrangement are as follows:

- a) the Shareholders of NumCo and the Company shall have no right to vote on the Arrangement and no rights of dissent;
- b) the Arrangement shall be approved by the Unsecured Creditors at the Creditor Meeting to consider the Proposal;
- c) the Unsecured Creditors shall be in a single class for the purposes of voting on the Arrangement; and
- d) the Arrangement shall be accepted by the class of Unsecured Creditors by majority in number of the Unsecured Creditors who actually vote on upon the Arrangement at the Creditor Meeting or by a Voting Letter, representing two-thirds in value of the Proven Claims of the Unsecured Creditors in each class who actually vote upon the Arrangement at the Creditors Meeting or by a voting letter.

26. If approved and implemented, the impact of this reorganization will be that the Company’s existing shares will be redeemed and cancelled such that: (i) the existing shareholders of the Company shall no longer be shareholders of the Company and shall have no rights as shareholders except the right to receive the amount payable by the Company to redeem the Class A Redeemable Shares and Class C Special Shares, and (ii) there shall be no remaining issued and outstanding shares of any class other than the new Class A Common Shares issued by the Company;

27. Under the Arrangement, the Company and NumCo shall be amalgamated into one entity (“**New Country Way**”) as follows:

- a) The name of New Country Way shall be its numbered name, but it shall carry on business as THE COUNTRY WAY HEALTH FOOD STORE;

- b) The By-laws and Articles for New Country Way shall be the same as the amended Articles for NumCo;
 - c) The issued and outstanding Class A Common Shares of the Company shall be cancelled without any repayment of capital in respect thereof; and
 - d) The stated capital of the Company shall be added to the stated capital of the NumCo.
28. The principal of NumCo has agreed to fund the costs of the Proposal and Arrangement as consideration for being issued the shares in the New Country Way. The costs of the Proposal Proceedings are approximately \$50,000 plus taxes.
29. If the Proposal and the Arrangement are accepted, NumCo shall apply for the Final Order at the same time as the Proposal Trustee applies for an Order approving the Proposal.

Comparison of the Arrangement/Proposal with a Liquidation in Bankruptcy

30. Given the potential impact of the Proposal and Arrangement on the Company's unsecured creditors and shareholders, the Proposal Trustee has considered whether the Proposal and Arrangement would be more beneficial to Country Way's stakeholders than a sale or otherwise realizing on the Property under a bankruptcy.
31. As noted above, the Company's assets consist primarily of its cash, inventory and store furnishings and equipment. In assessing the liquidation value of the Property, the Proposal Trustee assumes that if Country Way were to become bankrupt, Country Way's operations would be terminated, and its health food inventory and its store furniture and fixtures would be liquidated through a liquidation sale.
32. Realizing on Country Way's operating assets in a bankruptcy or receivership is potentially further complicated by the business operating out of rented premises that are leased by a related company. In a bankruptcy, the Trustee generally has unfettered access to the commercial premises for a three-month period. This would not apply if Country Way were bankrupt as the lease is not between the Country Way and the landlord. Similarly, in a receivership, the Receiver would not have control over the assignability of the lease. The lack of control over the lease would likely necessitate any purchaser considering an acquisition of the Company's business as a going concern to have to relocate the business.

Having to relocate the business would expose the business to a loss of customers, business interruption and the associated moving/relocation costs.

33. The December 22nd Decision provided an order that the Share Vendors are entitled to transfer to the inventory and tangible assets of the store at a price of \$0. However, Country Way's inventory and tangible assets are subject to the claims of the Secured Creditors.
34. Based on the cost value of the inventory and the limited store furniture and fixtures and the extent of the Company's obligation to the Secured Creditors, it appears likely that the Secured Creditors would suffer a significant shortfall in recovering their loan advances in the event of the Company's bankruptcy. Accordingly, the Proposal Trustee is of the view that the Proposal is likely to result in a better, and a more certain outcome for the Unsecured Creditors than a bankruptcy. The Proposal also provides for the continued employment of Company's employees and the preservation of business relationships with the Company's existing suppliers and customers.
35. The December 22nd Decision also entitles the Share Vendors to exercise all rights in the shares in Country Way including voting rights. Based on the information above, Country Way is insolvent inasmuch as the aggregate of its property is not sufficient to enable payment of all of its obligations. Accordingly, the terms of the Proposal and the Arrangement appear fair and reasonable given that the Share Vendors do not appear to have an economic interest in Country Way's business.

VIII. CONCLUSION AND RECOMMENDATION

36. Based on the foregoing, the Proposal Trustee respectfully recommends that the Court make an order granting the relief detailed in paragraph 10.

All of which is respectfully submitted on this 21st day of January 2022.

MNP LTD.,

in its capacity as Trustee acting in re: the Proposal of
1776690 Ontario Inc. cob The Country Way Health
Food Store

Per:



Sheldon Title
Licensed Insolvency Trustee

Court No.: CV-21-00661436-00CL
Estate No. 31-2734289

IN THE MATTER OF THE PROPOSAL OF 1776690 ONTARIO INC. COB THE COUNTRY WAY HEALTH FOOD STORE, OF THE CITY OF SAULT STE. MARIE, IN THE PROVINCE OF ONTARIO

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

FIRST REPORT TO THE COURT SUBMITTED BY MNP LTD., IN ITS CAPACITY AS TRUSTEE UNDER THE PROPOSAL OF 1776690 ONTARIO INC. COB THE COUNTRY WAY HEALTH FOOD STORE

MNP LTD.
300-111 Richmond Street West
Toronto, ON M5H 2G4

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Appendix “B”

Court File No: CV-21-00661436-00CL

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

THE HONOURABLE)	THURSDAY, THE 27TH
)	
JUSTICE McEWEN)	DAY OF JANUARY, 2022

2655396 ONTARIO INC.

Applicant

IN THE MATTER OF SECTION 182 AND 186 OF THE BUSINESS CORPORATIONS ACT, R.S.O. 1990 C. B.16, AS AMENDED, AND IN THE MATTER OF A PROPOSED ARRANGEMENT OF 2655396 ONTARIO INC. AND INVOLVING 1776690 ONTARIO INC. COB THE COUNTRY WAY HEALTH FOOD STORE

INTERIM ORDER

THIS MOTION, made by 2655396 Ontario Inc. (“**NumCo**”), was heard remotely.

ON READING the Motion Record, including the Affidavit of Shonna Lynn Saari sworn 26 April 2021 (the “**Saari Affidavit**”), the First Report of MNP Ltd. (the “**Trustee**”), in its capacity as trustee named in the Proposal, the Affidavit of Jennifer Clay sworn 4 June 2021, and Affidavits of Laurel Saunders sworn 3 June 2021 and 21 January 2022, and on hearing that the parties have consented to this Order:

1. **THIS COURT ORDERS** that the time for service of the Notice of Motion and the Motion Record herein be and is hereby abridged and that this Motion is properly returnable today and further service thereof upon any other parties is hereby dispensed with.

2. **THIS COURT ORDERS** that notice of the arrangement (the “**Arrangement**”) proposed by NumCo and involving 1776690 Ontario Inc. cob Country Way Health Food Store (“**Country Way**”) and included in the proposal to be filed by Country Way pursuant to Part III of the *Bankruptcy and Insolvency Act*, RSC 1985, c. B-3 (the “**BIA**”) substantially in the form attached as **Exhibit “A”** to the Saari Affidavit (the “**Proposal**”) shall be provided to the creditors of Country Way only and by the Trustee providing the creditors of Country Way with a copy of the Proposal

as required by the BIA.

3. **THIS COURT ORDERS** that the style of cause for the Proposal shall be amended to include:

AND IN THE MATTER OF SECTION 182 AND 186 OF THE BUSINESS CORPORATIONS ACT, R.S.O. 1990 C. B.16, AS AMENDED, AND IN THE MATTER OF A PROPOSED ARRANGEMENT OF 2655396 ONTARIO INC. AND INVOLVING 1776690 ONTARIO INC. COB THE COUNTRY WAY HEALTH FOOD STORE

4. **THIS COURT ORDERS** that the Arrangement shall be deemed to be approved only if the: (a) Proposal is approved by the unsecured creditors of Country Way as required by the BIA; and (b) the Court makes an Order pursuant to paragraph 182(5) (f) of the *Business Corporations Act*, RSO, 1990, c. B.16 (the "OBCA") approving the Arrangement, and the Arrangement shall not be implemented or given effect in any way without the approval of the Court first being obtained pursuant to paragraph 182(5)(f) of the OBCA.

4A. **THIS COURT ORDERS** that nothing in this Order impacts or otherwise affects the right of Tammy Watts and Brenda Frey ("**Watts/Frey**") to: (a) oppose the approval of the Arrangement by the Court pursuant to paragraph 182(5)(f) of the OBCA; (b) argue that Country Way ought to be bankrupted; or (c) enforce the Judgment of the Superior Court made in File No C-28567-21 (Sault Ste. Marie) and dated 22 December 2021 in accordance with its terms.

5. **THIS COURT ORDERS** that any Motion by NumCo pursuant to s. 182(5) of the *Business Corporations Act*, RSO 1990, c. B.16 to obtain an Order approving the Arrangement shall be heard by this Court in this proceeding together with any Motion brought by the Trustee seeking an Order approving the Proposal.

6. **THIS COURT ORDERS** that the Motion of Watts/Frey is adjourned and shall be heard at the same time as the Motion seeking an Order approving the Arrangement pursuant to paragraph 182(5)(f) of the OBCA.



Court No.: CV-21-00661436-00CL

IN THE MATTER OF SECTION 182 OF *THE BUSINESS CORPORATIONS ACT*, R.S.O. 1990, c. B.16, AS AMENDED AND
IN THE MATTER OF A PROPOSED ARRANGEMENT OF 2655396 ONTARIO INC. AND INVOLVING 1776690 ONTARIO
INC. COB COUNTRY WAY HEALTH FOOD STORE

**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**

INTERIM ORDER

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Lawyers for the Applicant

Appendix "C"

ONTARIO
SUPERIOR COURT OF JUSTICE
(In Bankruptcy and Insolvency)

Court No.: CV-21-00661436-00CL
Estate No. 31-2734289

AND IN THE MATTER OF THE PROPOSAL OF 1776690 ONTARIO INC. COB THE
COUNTRY WAY HEALTH FOOD STORE OF THE CITY OF SAULT STE MARIE IN
THE PROVINCE OF ONTARIO

AND IN THE MATTER OF SECTION 182 AND 186 OF THE BUSINESS
CORPORATIONS ACT, R.S.O. 1990 C. B.16, AS AMENDED, AND IN THE MATTER
OF A PROPOSED ARRANGEMENT OF 2655396 ONTARIO INC. AND INVOLVING
1776690 ONTARIO INC. COB THE COUNTRY WAY HEALTH FOOD STORE

**AMENDED PROPOSAL AND PLAN OF
ARRANGEMENT/REORGANIZATION OF 1776690 ONTARIO INC. COB
THE COUNTRY WAY HEALTH FOOD STORE**

1776690 ONTARIO INC. COB THE COUNTRY WAY HEALTH FOOD STORE hereby submits the following Proposal and Plan of Arrangement/Reorganization to its Creditors pursuant to Part III of the BIA and pursuant to sections 182 of the OBCA.

ARTICLE 1

DEFINITIONS

1.1 Definitions

In this Proposal:

- (a) “**2595 ON**” means 2595418 Ontario Inc.;
- (b) “**Administrative Fees and Expenses**” means the proper fees, expenses, including legal fees and disbursements, of the Trustee and the Debtor, including the fees and disbursements of Gowlings, on and incidental to the negotiation, preparation, presentation, consideration and implementation of the Proposal, and all proceedings and matters relating to or arising out of the Proposal;
- (c) “**Amended Proposal**” means this proposal;
- (d) “**Approval Order**” means an Order of the Court approving the Proposal pursuant to the BIA and the OBCA;
- (e) “**BIA**” means the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3, as amended and in force as at the Proposal Date;
- (f) “**Business Day**” means a day, other than a Saturday or Sunday, on which banks are generally open for business in Toronto, Ontario;
- (g) “**Canada Pension Plan**” means the *Canada Pension Plan*, R.S.C. 1985, c. C-8, as amended;

- (h) “**Certificates**” has the meaning ascribed by Article 6.1;
- (i) “**Claim**” means any right of any Person against the Debtor or a Director in connection with any indebtedness, liability or obligation of any kind of the Debtor which indebtedness, liability or obligation is in existence at the Proposal Date, whether or not reduced to judgement, liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, undisputed, legal, equitable, secured, unsecured, present, future, known, unknown, by guarantee, by surety or otherwise and whether or not such a right is executory in nature, including, without limitation, the right or ability of any Person to advance a claim for contribution or indemnity or otherwise with respect to any matter, action, cause or chose in action, whether existing at present or commenced in the future based in whole or in part on facts which exist prior to or as of the Proposal Date;
- (j) “**Court**” means the Ontario Superior Court of Justice (in Bankruptcy and Insolvency);
- (k) “**Creditor**” means any Person, having a Claim and may, if the context requires, mean a trustee, receiver, receiver-manager or other Person acting on behalf or in the name of such Person;
- (l) “**Creditors’ Meeting**” means the meeting of the Unsecured Creditors called for the purpose of considering and voting upon the Proposal;
- (m) “**Creditors’ Meeting Date**” means the date and time as may be called by the Trustee for the meeting of creditors to consider this Proposal, but in any event shall be no later than twenty-one (21) days following the Proposal Date, or as otherwise may be extended;
- (n) “**Debtor**” means 1776690 Ontario Inc. c.o.b. The Country Way Health Food Store and, where the context dictates, includes New Country Way;
- (o) “**Directors**” means the Debtor’s current directors;
- (p) “**Employee Creditors**” means employees and former employees of the Debtor, not to include independent commissioned sales agents or contractors, for amounts equal to the amounts that they would be qualified to receive under paragraph 136(1)(d) of the BIA if the Debtor became bankrupt on the Proposal Date, as well as wages, salaries, commissions or compensation for services rendered after that date and before the Court approval of the Proposal, together with, in the case of travelling salesmen, disbursements properly incurred by those salesmen in and about the Debtor’s business during the same period;
- (q) “**Employment Insurance Act**” means the *Employment Insurance Act*, S.C. 1996 c. 23, as amended;
- (r) “**Gowlings**” means Gowling WLG (Canada) LLP;
- (s) “**Implementation Date**” means the date upon which the conditions set forth in Article 8.4 have been satisfied;
- (t) “**Income Tax Act**” means the *Income Tax Act*, R.S.C. 1985, c. 1 (5th Supp.), as amended;
- (u) “**Inspectors**” means one or more inspectors appointed pursuant to the BIA as provided for in the Proposal;
- (v) “**Net Income**” means the profit or loss as reported in the unaudited financial statements for the year ending August 31st and is calculated as revenues minus all expenses, including:

- (i) cost of goods sold;

- (ii) all expenses related to the business including operations, selling, general and administrative expenses;
 - (iii) extraordinary items, including write-downs of inventories; and
 - (iv) income taxes
- (w) “**New Country Way**” means the company that will result from the amalgamation of the Debtor with NumCo;
- (x) “**NumCo**” means 2655396 Ontario Inc.;
- (y) “**OBCA**” means the *Business Corporations Act*, R.S.O. 1990, c. B.16 as amended;
- (z) “**Official Receiver**” shall have the meaning ascribed thereto in the BIA;
- (aa) “**Person**” means any individual, partnership, joint venture, trust, corporation, unincorporated organization, government or any agency or instrumentality thereof, or any other entity howsoever designated or constituted;
- (ab) “**Preferred Creditors**” means Creditors with Proven Claims that are required by the BIA to be paid in priority to all other claims under a proposal made by a debtor save and except for Employee Creditors and Source Deduction Creditors.
- (ac) “**Proof of Claim**” shall mean the proof of claim required by the BIA to be mailed to each known Creditor prior to the Creditors’ Meeting;
- (ad) “**Proposal**” means the original proposal and plan of arrangement, dated May 1, 2021, together with any amendments or additions thereto;
- (ae) “**Proposal Date**” means the date of the filing of the Proposal with the Official Receiver;
- (af) “**Proven Claim**” of a Creditor means the amount of the Claim of such Creditor finally determined in accordance with the provisions of the BIA;
- (ag) “**Related Creditors**” means any company that is controlled by the Debtor or that controls the Debtor, including 2595 ON;
- (ah) “**Secured Creditor**” means a person, holding a valid and perfected mortgage, hypothec, pledge, charge or lien on or against the property or assets of the Debtor as security for a debt due or accruing due to the person from the Debtor;
- (ai) “**Source Deduction Creditors**” means Her Majesty in Right of Canada or a Province for all amounts that were outstanding on the Proposal Date and are of a kind that could be subject to a demand under,
- (i) subsection 224(1.2) of the *Income Tax Act*;
 - (ii) any provision of the *Canada Pension Plan* or of the *Employment Insurance Act* that refers to subsection 224(1.2) of the *Income Tax Act* and provides for the collection of a contribution, as defined in the *Canada Pension Plan*, or an employee’s premium, or employer’s premium, as defined in the *Employment Insurance Act*, and of any related interest, penalties or other amounts; or
 - (iii) any provision of provincial legislation that has a similar purpose to subsection 224(1.2) of the *Income Tax Act*, or that refers to that subsection, to the extent that it provides for the collection of a sum, and of any related interest, penalties or other amounts, where the sum;
- (A) has been withheld or deducted by a person from a payment to another person and is in respect of a tax similar in nature to the income tax imposed on individuals under the *Income Tax Act*; or

(B) is of the same nature as a contribution under the *Canada Pension Plan* if the province is a “province providing a comprehensive pension plan” as defined in subsection 3(1) of the *Canada Pension Plan* and the provincial legislation establishes a “provincial pension plan” as defined in that subsection;

- (aj) “**Trustee**” means MNP Ltd. or its duly appointed successor or successors;
- (ak) “**Unaffected Claims**” means any and all claims of Unaffected Creditors;
- (al) “**Unaffected Creditors**” means the Secured Creditors and any amount owing by the Debtor to Royal Bank of Canada, including any amount owing to Royal Bank of Canada pursuant to the Canada Emergency Business Account;
- (am) “**Unsecured Creditors**” means the Preferred Creditors and any Creditor who is not a Secured Creditor; and
- (an) “**Voting Letter**” shall mean the voting letter required by subsection 51(1) of the BIA to be mailed to each known Creditor prior to the Unsecured Creditors’ Meeting.

1.2 Articles of Reference

The terms “hereof”, “hereunder”, “herein” and similar expressions refer to the Proposal and not to any particular article, section, subsection, clause or paragraph of the Proposal and include any agreements supplemental hereto. In the Proposal, a reference to an article, section, subsection, clause or paragraph will, unless otherwise stated, refer to an article, section, subsection, clause or paragraph of the Proposal.

1.3 Interpretation Not Affected by Headings

The division of the Proposal into articles, sections, subsections, clauses or paragraphs and the insertion of a table of contents and headings are for convenience of reference only and will not affect the construction or interpretation of this Proposal.

1.4 Date for Any Action

In the event that any date on which any action is required to be taken hereunder is not a Business Day, such action will be required to be taken on the next succeeding day that is a Business Day. Actions described herein shall occur and be deemed to occur in the order specified.

1.5 Time

All times expressed herein are local time in Toronto, Ontario, Canada unless otherwise stipulated. Where the time for anything pursuant to the Proposal on a particular date is unspecified herein, the time shall be deemed to be 5:00 p.m. local time in Toronto, Ontario, Canada.

1.6 Numbers

In the Proposal, where the context requires, a word importing the singular number will include the plural and *vice versa* and a word or words importing gender will include all genders.

1.7 Currency

Unless otherwise stated herein, all references to currency in the Proposal are to lawful money of Canada.

1.8 Statutory References

Except as otherwise provided herein, any reference in the Proposal to a statute includes all regulations made thereunder, all amendments to such statute or regulation(s) in force from time to time, and any statute or regulation that supplements or supersedes such statute or regulation(s).

1.9 Successors and Assigns

The Proposal will be binding upon and will enure to the benefit of the heirs, administrators,

executors, legal personal representatives, successors and assigns of any Person named or referred to in the Proposal.

ARTICLE 2

CLASSIFICATION AND TREATMENT OF CREDITORS

2.1 Unaffected Creditors

This Proposal is not being made to Unaffected Creditors and does not impact Unaffected Claims. Unaffected Claims shall be dealt with in accordance with the agreements between the relevant Unaffected Creditor and the Debtor or as otherwise agreed between the relevant Unaffected Creditor and the Debtor.

2.2 Classes of Creditors

For the purposes of voting on the Proposal, only the Unsecured Creditors will be entitled to vote on the Proposal. There shall be one (1) class of Unsecured Creditors.

2.3 Related Creditors

The Related Creditors shall not be entitled to vote on the Proposal or receive a distribution under the Proposal. The Debtor shall, however, release and discharge the obligation owing by 2595 ON.

2.4 Secured Creditors

The Proven Claim of each Secured Creditor shall, at the option of the Secured Creditor, be paid and/or satisfied in accordance with the applicable agreement between the Secured Creditor and the Debtor or in accordance with such other arrangement as may be agreed between the Secured Creditor and the Debtor.

2.5 Administrative Fees and Expenses

The Administrative Fees and Expenses will be paid in full by the Shareholder of the New Country Way.

2.6 Preferred Creditors

The Proven Claims of the Preferred Creditors are to be paid in full in priority to the Proven Claims of the Unsecured Creditors in accordance with the BIA and the Proposal.

2.7 Unsecured Creditors

The Proven Claims of the Unsecured Creditors, other than Preferred Creditors will be paid and satisfied as provided by Article 7.

ARTICLE 3

PROCEDURE FOR VALIDATION OF CLAIMS

3.1 Filing of Proofs of Claim

Each Creditor must file a Proof of Claim as required by the BIA.

3.2 Allowance or Disallowance of Claims by the Trustee

Upon receipt of a completed Proof of Claim, the Trustee shall examine the Proof of Claim and shall deal with each Proof of Claim in accordance with the provisions of the BIA. The procedure for valuing Claims of the Creditors and resolving disputes with respect to such Claims will be as set forth in the BIA.

ARTICLE 4

MEETING OF CREDITORS

4.1 Creditors' Meeting

On the Creditors' Meeting Date, the Debtor shall hold the Creditors' Meeting in order for the Creditors to consider and vote upon the Proposal.

4.2 Time and Place of Meeting

Unless otherwise ordered by the Court, the Creditors' Meeting shall be held at a time and place to be established by the Official Receiver, or the nominee thereof, and confirmed in the notice of Creditors' Meeting to be mailed to Creditors pursuant to the BIA.

4.3 Conduct of Meetings

The Official Receiver, or the nominee thereof, shall preside as the chair of the Creditors' Meeting and will decide all matters relating to the conduct of the Creditors' Meeting. The only persons entitled to attend the Creditors' Meeting are those persons, including the holders of proxies, entitled to vote at the Creditors' Meeting, the Secured Creditors and their respective legal counsel, if any, and the officers, directors, auditors and legal counsel of the Debtor, together with such representatives of the Trustee as the Trustee may appoint in its discretion, and such scrutineers as may be duly appointed by the chair of such meeting. Any other person may be admitted on invitation of the chair of the Creditors' Meeting or with the consent of the Unsecured Creditors.

4.4 Adjournment of Meetings

The Creditors' Meeting may be adjourned in accordance with section 52 of the BIA.

4.5 Voting by Creditors

To the extent provided for herein, each Creditor will be entitled to vote to the extent of the amount that is equal to that Creditor's Claim. Any Proof of Claim in respect of a Claim that is not a Proven Claim as at the Creditors' Meeting Date will be marked as objected to in accordance with subsection 108(3) of the BIA. Related Creditors will not be entitled to vote at the Creditors' Meeting.

4.6 Approval by Creditors

The Proposal will be binding on the Unsecured Creditors and the Related Creditors in accordance with the BIA, if: (a) it is accepted by the class of Unsecured Creditors by a majority in the number of the Unsecured Creditors who actually vote upon the Proposal (in person or by proxy) at the Creditors' Meeting or by a Voting Letter, representing two-thirds in value of the Proven Claims of the Unsecured Creditors in each class who actually vote upon the Proposal (whether in person or by proxy) at the Creditors' Meeting or by a Voting Letter; and (b) the Approval Order is made.

4.7 Appointment of Inspectors

At the Meeting of Creditors the Unsecured Creditors may appoint up to five (5) Inspectors whose powers will be limited to: (a) advising the Trustee concerning any dispute which may arise as to the validity of Claims; and (b) advising the Trustee from time to time with respect to any other matter that the Trustee may refer to them.

ARTICLE 5

OBCA ARRANGEMENT/REORGANIZATION

5.1 Definitions.

For the purposes of this Article 5, unless otherwise stated or unless the context otherwise requires:

- (A) "ARRANGEMENT" MEANS THE REORGANIZATION AND ARRANGEMENT OF THE DEBTOR AND NUMCO UNDER SECTIONS 182 AND 186 OF THE OBCA AS SET OUT IN THIS ARTICLE 5 AND IN SCHEDULE A TOGETHER WITH ANY AMENDMENTS OR ADDITIONS THERETO;

- (B) “CORPORATIONS” MEANS THE DEBTOR AND NUMCO;
- (a) “Final Order” means an Order of the Court approving the Arrangement pursuant to section 182(5) of the OBCA;
- (C) “INTERIM ORDER” MEANS THE INTERIM ORDER OF THE COURT PURSUANT TO SUBSECTION 182(5) OF THE OBCA PROVIDING, *INTER ALIA*, THAT: (I) THE SHAREHOLDERS SHALL HAVE NO RIGHT TO VOTE ON THE ARRANGEMENT AND NO RIGHT(S) OF DISSENT; (II) THE ARRANGEMENT SHALL BE APPROVED BY THE UNSECURED CREDITORS AT THE CREDITOR MEETING ON THE CREDITOR MEETING DATE; (III) THE UNSECURED CREDITORS SHALL BE IN A SINGLE CLASS FOR THE PURPOSES OF VOTING ON THE ARRANGEMENT; AND (IV) THE ARRANGEMENT SHALL BE ACCEPTED BY THE CLASS OF UNSECURED CREDITORS BY A MAJORITY IN NUMBER OF THE UNSECURED CREDITORS WHO ACTUALLY VOTE UPON THE ARRANGEMENT (IN PERSON OR BY PROXY) AT THE CREDITORS’ MEETING OR BY A VOTING LETTER, REPRESENTING TWO-THIRDS IN VALUE OF THE PROVEN CLAIMS OF THE UNSECURED CREDITORS IN EACH CLASS WHO ACTUALLY VOTE UPON THE ARRANGEMENT (WHETHER IN PERSON OR BY PROXY) AT THE CREDITORS’ MEETING OR BY A VOTING LETTER; AND
- (D) “SHAREHOLDERS” MEANS THE SHAREHOLDERS OF THE CORPORATIONS.

5.2 Interim and Final Order

Not less than fifteen (15) days prior to the Creditor Meeting Date, NumCo shall apply to the Court for the Interim Order. If the Proposal is accepted, NumCo shall apply for the Final Order at the same time as the Trustee applies for an Order approving the Proposal.

5.3 Arrangement and Reorganization

On the Implementation Date, the following shall occur and be deemed to occur in the following order without any further act or formality and, except as otherwise noted in this Article 5.3 and in Schedule A, with each transaction or event being deemed to occur immediately after the occurrence of the transaction or event immediately preceding it:

- (E) THE ARTICLES FOR THE DEBTOR SHALL BE AMENDED PURSUANT TO SECTIONS 168 AND 182(1) OF THE OBCA TO:
- (I) RE-DESIGNATE THE CLASS A COMMON SHARES AS CLASS A REDEEMABLE SHARES, WHICH CLASS A REDEEMABLE SHARES MAY BE REDEEMED ON PAYMENT OF \$0.01 PER SHARE AS MORE FULLY SET OUT IN SCHEDULE A;
- (II) CREATE A NEW CLASS OF SHARES CONSISTING OF AN UNLIMITED NUMBER OF NEW CLASS A COMMON SHARES, WHICH NEW CLASS A COMMON SHARES SHALL HAVE THE RIGHT TO VOTE AT ALL MEETINGS OF SHAREHOLDERS, EXCEPT MEETINGS AT WHICH ONLY HOLDERS OF A SPECIFIED CLASS OF SHARES ARE ENTITLED TO VOTE, THE RIGHT TO RECEIVE DIVIDENDS AND THE RIGHT TO RECEIVE A DISTRIBUTION ON THE WINDING-UP OF THE DEBTOR AS MORE FULLY SET OUT IN SCHEDULE A; AND
- (III) MAKE THE CLASS C SPECIAL SHARES REDEEMABLE AT THE OPTION OF THE DEBTOR ON PAYMENT OF \$0.01 PER SHARE AS MORE FULLY SET OUT IN SCHEDULE A;
- (F) THE NEW CLASS A COMMON SHARES SHALL BE ISSUED BY THE DEBTOR AS FOLLOWS:

- (I) RYAN SAARI—100.
- (G) THE CLASS A REDEEMABLE SHARES AND THE CLASS C SPECIAL SHARES SHALL BE REDEEMED AND CANCELLED BY THE DEBTOR SUCH THAT: (I) THE EXISTING SHAREHOLDERS OF THE DEBTOR SHALL NO LONGER BE SHAREHOLDERS OF THE DEBTOR AND SHALL HAVE NO RIGHTS AS SHAREHOLDERS EXCEPT THE RIGHT TO RECEIVE THE AMOUNT PAYABLE BY THE DEBTORS TO REDEEM THE CLASS A REDEEMABLE SHARES AND CLASS C SPECIAL SHARES, AND (II) THERE SHALL BE NO REMAINING ISSUED AND OUTSTANDING SHARES OF ANY CLASS OTHER THAN THE NEW CLASS A COMMON SHARES ISSUED PURSUANT TO PARAGRAPH (B);
- (H) THE ARTICLES FOR THE DEBTOR SHALL BE AMENDED TO DELETE ALL REFERENCE TO THE CLASS A REDEEMABLE SHARES;
- (I) THE DEBTOR AND NUMCO SHALL BE AMALGAMATED TO CREATE NEW COUNTRY WAY AS FOLLOWS:
- (I) THE NAME OF NEW COUNTRY WAY SHALL BE ITS NUMBERED NAME, BUT IT SHALL CARRY ON BUSINESS AS THE COUNTRY WAY HEALTH FOOD STORE;
- (II) THE BY-LAWS AND ARTICLES FOR NEW COUNTRY WAY SHALL BE THE SAME AS THE AMENDED ARTICLES FOR NUMCO; AND
- (III) THE ISSUED AND OUTSTANDING CLASS A COMMON SHARES OF THE DEBTOR SHALL BE CANCELLED WITHOUT ANY REPAYMENT OF CAPITAL IN RESPECT THEREOF;
- (IV) THE STATED CAPITAL OF THE DEBTOR SHALL BE ADDED TO THE STATED CAPITAL OF THE NUMCO; AND
- (J) THE CERTIFICATES SHALL BE ISSUED TO THE UNSECURED CREDITORS AS PROVIDED FOR BY ARTICLE 6.1.

5.4 Binding Effect

This Arrangement will become effective at, and be binding at and after, the Implementation Date without further act or formality required on the part of any Person except as expressly provided herein.

ARTICLE 6

CREDITOR CERTIFICATES

6.1 Certificates

On the Implementation Date, immediately following the steps described in Article 5.3(a) to (e), each Unsecured Creditor will receive from the Debtor, in full and final satisfaction of their Claims, certificates (the "Certificates") with a face value equal to that Creditor's Claim as set forth in the Creditor's Proof of Claim or the Statement of Affairs, whichever is greater, subject to that Creditor's Claim being determined in accordance with Article 3. Once a Creditor's Claim becomes a Proven Claim a new Certificate shall be issued with a face value equal to that Creditor's Proven Claim if that Proven Claim is different from the amount set out on the Certificate originally issued to the Creditor.

ARTICLE 7

DISTRIBUTION

7.1 Secured Creditors

The Proven Claims of the Secured Creditor shall be dealt with as provided for in Article 2.4.

7.2 Payment of Employee Creditors

The Claims, if any, of the Employee Creditors shall be paid immediately after the making of the Approval Order using proceeds from the operation of the Debtor's business.

7.3 Payment of Source Deduction Creditors

Unless Her Majesty agrees otherwise, the Proven Claims, if any, of the Source Deduction Creditors shall be paid within six (6) months after the making of the Approval Order.

7.4 Payment of Certain Claims

Within sixty (60) days of the Implementation Date, the Debtor shall pay to each Preferred Creditor its Proven Claim in the priority established by the BIA.

7.5 Payment of Certificates

For each fiscal year ending August 31 for the five (5) years beginning for the year ended August 31, 2021, the Debtor will pay the greater of: (i) 20% of the aggregate value of the Certificates; or (ii) 40% per cent of the Net Income of the Debtor pro rata to Creditors based on and to reduce the amount owing under the Certificates, provided that no creditor is entitled to receive more than 100% of that Creditor's Proven Claim. Distributions will be made no later than 90 days after each of the five year-ends by November 30th of the following fiscal year, commencing November 30, 2022.

The Certificates will be fully paid and satisfied by the distribution of the amounts contemplated by this Article 7.5.

7.6 Levy

Payments to each Creditor made pursuant to Article 7.5 shall be net of any applicable levy payable to the Office of the Superintendent of Bankruptcy as required by the BIA, which amount shall be paid by the Debtor to the Office of the Superintendent of Bankruptcy. The Office of the Superintendent of Bankruptcy will receive a Certificate in respect of the amount payable in respect of levy.

ARTICLE 8

MISCELLANEOUS

8.1 Compromise Effective for all Purposes

The provisions of this Proposal will be binding upon each Unsecured Creditor and Related Creditor, their heirs, executors, administrators, successors and assigns, for all purposes. Subject to the limitations in section 50(14) of the BIA, the Claims against the Directors that arose before the Proposal Date and that relate to the obligations of the Debtor where the directors are by law liable in their capacity as directors for the payment of such obligations will be satisfied and released.

8.2 Modification of Proposal

The Debtor may propose an alteration or modification to the Proposal prior to the vote taking place on the Proposal.

8.3 Consents, Waivers and Agreements

As at 12:01 a.m. on the Implementation Date, each Unsecured Creditor and Related Creditor will be deemed:

- (a) to have executed and delivered to the Debtor all consents, releases, assignments and waivers, statutory or otherwise, required to implement and carry out this Proposal in its entirety;
- (b) to have waived any default by the Debtor in any provision, express or implied, in any agreement or other arrangement, written or oral, existing between such Creditor and the Debtor that has occurred on or prior to the Implementation Date;

- (c) to have agreed, in the event that there is any conflict between the provisions, express or implied, of any agreement or other arrangement, written or oral, existing between such Creditor and the Debtor as at the Implementation Date (other than those entered into by the Debtor on, or with effect from, the Implementation Date) and the provisions of this Proposal, that the provisions of this Proposal shall take precedence and priority and the provisions of such agreement or other arrangement shall be amended accordingly; and
- (d) to have released the Debtor, and all of its, employees, agents, Directors, officers, shareholders, and current advisors, consultants and solicitors from any and all demands, claims, actions, causes of action, counter-claims, suits, debts, sums of money, accounts, covenants, damages, judgements, expenses, executions, liens, set off rights and other recoveries on account of any liability, obligation, demand or cause of action of whatever nature which any Person may be entitled to assert, whether known or unknown, matured or unmatured, foreseen or unforeseen, existing or hereafter arising based in whole or in part on any act or omission, transaction, dealing or other occurrence existing or taking place on or prior to the Implementation Date, relating to or arising out of or in connection with the matters herein; provided that nothing herein shall release the Debtor of its obligation to make the distributions to Unsecured Creditors contemplated in this Proposal; and
- (e) to have released the Trustee and all of its affiliates, employees, agents, directors, officers, shareholders, advisors, consultants and solicitors from any and all demands, claims, actions, causes of action, counter-claims, suits, debts, sums of money, accounts, covenants, damages, judgements, expenses, executions, liens, set off rights and other recoveries on account of any liability, obligation, demand or cause of action of whatever nature which any Person may be entitled to assert, whether known or unknown, matured or unmatured, foreseen or unforeseen, existing or hereafter arising based in whole or in part on any act or omission, transaction, dealing or other occurrence existing or taking place on or prior to the Implementation Date, relating to or arising out of or in connection with the matters herein.

8.4 Conditions to Proposal Implementation

The implementation of the Proposal by the Debtor will be conditional upon the fulfilment or satisfaction of the following conditions:

- (a) The making of the Interim Order;
- (b) The acceptance of the Proposal by the Unsecured Creditors; and
- (c) The making of the Approval Order and the Final Order, and the expiry of all applicable appeal periods.

8.5 Full Implementation

This Proposal will be fully implemented by the Debtor on delivery of the Certificates as provided by Article 6.

8.6 Effect of Proposal Generally

As at 12:01 a.m. on the date of the Approval Order becomes final and binding:

- (a) The treatment of all Claims under the Proposal shall be final and binding on the Debtor and all Unsecured Creditors (along with their respective heirs, executors, administrators, legal personal representatives, successors and assigns); and
- (b) The Proposal shall constitute: (i) a full, final and absolute settlement of all rights of the holders of the Claims affected hereby; and (ii) an absolute release and discharge of all indebtedness, liabilities and obligations of the Debtor and the Directors of or in respect of the Claims.

8.7 Further Actions.

Notwithstanding that the transactions and events set out in this Proposal shall occur and be deemed to occur in the order set out herein without any other additional act or formality, each of the Persons affected hereby shall make, do and execute, or cause to be made, done and executed all such further acts, deeds, agreements, transfers, assurances, instruments or documents as may reasonably be required by them in order to document or evidence any of the transactions or events set out herein.

8.8 Conduct of Debtor's Business

Subject to any Order made by the Court, the Debtor shall remain in possession and control of their property and assets at all times, both before and after implementation of this Proposal.

ARTICLE 9

ADVOIDANCE OF TRANSACTION

9.1 Avoidance Proceedings

Section 95 to 101 of the BIA will not apply in respect of the Debtor and this Proposal.

ARTICLE 10

GENERAL

10.1 Notices

Any notices or communication to be made or given hereunder shall be in writing and shall refer to this Proposal and may, subject as hereinafter provided, be made or given by personal delivery, by prepaid mail or by telecopier (except for Proofs of Claim which may only be sent by personal delivery, telecopier or registered mail) addressed to the respective parties as follows:

(a) if to the Debtor:

1776690 Ontario Inc.
79 Brock Street
Sault Ste. Marie, Ontario P6A 3B4
Attention: Ryan Saari
E-mail : ryansaari@me.com

(b) if to an Unsecured Creditor, to the address or telecopier number for such Unsecured Creditor specified in the Proof of Claim filed by such Unsecured Creditor or, if no proof of Claim has been filed, to such other address or telecopier number at which the notifying party may reasonably believe that the Unsecured Creditor may be contacted; and

(c) if to the Trustee:

MNP Ltd.
300-111 Richmond Street West
Toronto ON M5G 2H4
Attention: Sheldon Title
Telecopier: 416-596-7894
E-mail : sheldon.title@mnp.ca

or to such other address, e-mail address or telecopier number as any party may from time to time notify the others in accordance with this section. In the event of any strike, lock-out and other event which interrupts postal service in any part of Canada, all notices and communications during such interruption may only be given or made by personal delivery or by e-mail or telecopier and any notice or other communication given or made by prepaid mail within the five (5) Business Day period immediately preceding the commencement of such interruption will be deemed not to have been given or made. All such notices and communications will be deemed to

have been received, in the case of notice by e-mail or telecopier or by delivery prior to 5:00 p.m. (local time) on a Business Day, when received or if received after 5:00 p.m. (local time) on a Business Day or at any time on a non-Business Day, on the next following Business Day and in to case of notice mailed as aforesaid, on the fifth (5th) Business Day following the date on which such notice or other communication is mailed. The unintentional failure to give a notice contemplated hereunder to any particular Creditor will not invalidate this Proposal or any action taken by any Person pursuant to this Proposal.

10.2 Foreign Currency Obligations

For purposes of this Proposal, Claims denominated in a currency other than Canadian funds will be converted to Canadian Dollars at the closing spot rate of exchange of the Bank of Canada on the Proposal Date.

10.3 Applicable Law

This Proposal shall be construed in accordance with the laws of the Province of Ontario and the laws of Canada applicable therein and shall be treated in all respects as an Ontario contract.

10.4 Non Severability

It is intended that all provisions of this Proposal shall be fully binding on and effective between all Persons named or referred to in this Proposal and in the event that any particular provision or provisions of this Proposal is or are found to be void, voidable or unenforceable for any reason whatever, then the remainder of this Proposal and all other provisions shall be void and of no force or effect

10.5 Amendment.

Any amendment, modification, supplement or restatement to this Proposal may be proposed prior to or at the Creditor Meeting and if accepted at the Creditor Meeting a shall become part of this Proposal.

10.6 Deeming Provisions

In this Proposal the deeming provisions are not rebuttable and are conclusive and irrevocable.

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EXECUTION PAGE

DATED at Sault Ste Marie, this 29th day of January, 2022.

1776690 ONTARIO INC.

Per: *Shonna Saari*
 Name: *Shonna Saari*
 Title: *President*

I have authority to bind the corporation.

SCHEDULE A

1. **Definitions.**

Defined Terms in this Schedule have the meaning assigned by the Proposal dated [Date] April 2021.

10.7 Arrangement

On the Implementation Date, the following shall occur and be deemed to occur in the following order without any further act or formality with each transaction or event being deemed to occur immediately after the occurrence of the transaction or event immediately preceding it:

(K) THE ARTICLES FOR THE DEBTOR SHALL BE AMENDED PURSUANT TO SECTIONS [168 AND 182(I)] OF THE OBCA TO:

(I) RE-DESIGNATE THE CLASS A COMMON SHARES OF THE DEBTOR AS CLASS A REDEEMABLE SHARES, WHICH CLASS A REDEEMABLE SHARES MAY BE REDEEMED ON PAYMENT OF \$0.01 PER SHARE AS FOLLOWS:

1. CLASS A REDEEMABLE SHARES

(a) The Class A Redeemable Shares shall as a class have attached thereto the following rights, privileges, restrictions, and conditions;

(i) the holders of Class A Redeemable Shares shall have the right to vote at all meetings of shareholders, except meetings at which only holders of a specified class of shares are entitled to vote;

(ii) the Class A Redeemable shares are redeemable at the option of the Debtor on payment of \$0.01 per share.

(II) CREATE A NEW CLASS OF SHARES CONSISTING OF AN UNLIMITED NUMBER OF NEW CLASS A COMMON SHARES AS FOLLOWS:

1.A. CLASS A COMMON SHARES

(a) The holders of Class A common shares shall be entitled, among other things;

(i) to vote at all meetings of shareholders, except meetings at which only holders of a specified class of shares are entitled to vote;

(ii) to receive dividends as and when declared by the Board of Directors of the Corporation out of the monies of the Corporation properly applicable to the payment of dividends;

(iii) subject to the rights, privileges, restrictions and conditions attaching to any other class of shares of the Corporation, to receive the remaining property of the Corporation upon dissolution;

(III) MAKE THE CLASS C SPECIAL SHARES REDEEMABLE AT THE OPTION OF THE DEBTOR ON PAYMENT OF \$0.01 PER SHARE AS MORE FULLY SET OUT IN SCHEDULE A AS FOLLOWS:

4. CLASS C SPECIAL SHARES

(a) Definitions

In these share conditions the following words and phrases shall have meaning as follows:

- (i) "Redemption Amount" of each Class C Special Share means the sum of \$0.01;**
- (ii) "Redemption Price" of each Class C Special Share means the redemption amount; and**

(b) Voting Rights

The holders of Class C Special Shares shall not be entitled to receive notice of or to vote at any meetings of shareholders.

(c) Redemption by Corporation

Subject to the Act, the Corporation may redeem the whole or any part of the issued Class C Special Shares on payment for each share to be redeemed of the Redemption Price.

(L) THE NEW CLASS A COMMON SHARES SHALL BE ISSUED BY THE DEBTOR AS FOLLOWS:

(I) RYAN SAARI—100.

(M) THE CLASS A REDEEMABLE SHARES AND THE CLASS C SPECIAL SHARES SHALL BE REDEEMED AND CANCELLED BY THE DEBTOR SUCH THAT: (I) THE EXISTING SHAREHOLDERS OF THE DEBTOR SHALL NO LONGER BE A SHAREHOLDERS OF THE DEBTOR AND SHALL HAVE NO RIGHTS AS A SHAREHOLDERS EXCEPT THE RIGHT TO RECEIVE THE AMOUNT PAYABLE BY THE DEBTORS TO REDEEM THE CLASS A REDEEMABLE SHARES AND CLASS C SPECIAL SHARES, AND (II) THERE SHALL BE NO REMAINING ISSUED AND OUTSTANDING SHARES OF ANY CLASS OTHER THAN THE NEW CLASS A COMMON SHARES ISSUED PURSUANT TO PARAGRAPH (B);

(N) THE ARTICLES FOR THE DEBTOR SHALL BE AMENDED TO DELETE ALL REFERENCE TO: (I) THE CLASS A REDEEMABLE SHARES;

(O) THE DEBTOR AND NUMCO SHALL BE AMALGAMATED TO CREATE NEW COUNTRY WAY AS FOLLOWS:

(I) THE NAME OF NEW COUNTRY WAY SHALL BE "2655396 ONTARIO INC." AND SHALL CARRY ON BUSINESS AS THE COUNTRY WAY HEALTH FOOD STORE;

(II) THE BY-LAWS AND ARTICLES FOR NEW COUNTRY WAY SHALL BE THE SAME AS THE AMENDED ARTICLES FOR NUMCO; AND

(III) THE ISSUED AND OUTSTANDING CLASS A COMMON SHARES OF THE DEBTOR SHALL BE CANCELLED WITHOUT ANY REPAYMENT OF CAPITAL IN RESPECT THEREOF;

(IV) THE STATED CAPITAL OF THE DEBTOR SHALL BE ADDED TO THE STATED CAPITAL OF THE NUMCO; AND

(P) THE CERTIFICATES SHALL BE ISSUED TO THE UNSECURED CREDITORS AS PROVIDED FOR BY ARTICLE 6.1.

10.8 Binding Effect

This Arrangement will become effective at, and be binding at and after, the Implementation Date without further act or formality required on the part of a Person except as expressly provided herein.

Appendix “D”

Court No.: CV-21-00661436-00CL
Estate No. 31-2734289

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

**AND IN THE MATTER OF THE PROPOSAL OF 1776690 ONTARIO INC. COB THE
COUNTRY WAY HEALTH FOOD STORE OF THE CITY OF SAULT STE MARIE IN
THE PROVINCE OF ONTARIO**

**AND IN THE MATTER OF THE SECTION 182 AND 186 OF THE BUSINESS
CORPORATIONS ACT, R.S.O. 1990 C. B. 16, AS AMENDED, AND IN THE MATTER
OF A PROPOSED ARRANGEMENT OF 2655396 ONTARIO INC. AND INVOLVING
1776690 ONTARIO INC. COB THE COUNTRY WAY HEALTH FOOD STORE**

**SECOND REPORT TO THE COURT
SUBMITTED BY MNP LTD.,
IN ITS CAPACITY AS TRUSTEE
UNDER THE PROPOSAL OF
1776690 ONTARIO INC. COB THE COUNTRY WAY HEALTH FOOD STORE**

APRIL 1, 2022

I. INTRODUCTION AND BACKGROUND

1. On May 1, 2021, 1776690 Ontario Inc. cob The Country Way Health Food Store (“**Country Way**” or the “**Company**”) lodged with MNP Ltd. (“**MNP**” or the “**Proposal Trustee**”) a Proposal (the “**Proposal**”) pursuant to s. 50.2 of the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3, as amended (the “**BIA**”). MNP, acting in its capacity as Proposal Trustee, filed the Proposal with the Office of the Superintendent of Bankruptcy on May 3, 2021. The Company’s proposal proceedings are referred to herein as the “**Proposal Proceedings**”. A copy of the Proposal, the Company’s statement of affairs (“**SOA**”) and the Report of Trustee to the Creditors are attached as **Appendix “A”**, **Appendix “B”**, **Appendix “C”**, respectively. A copy of the Director’s resolution that authorized the filing of the Proposal Proceedings is attached as **Appendix “D”**.

2. Country Way is an Ontario corporation that operates a health food store in Sault Ste. Marie, Ontario from rented premises that it leases from a related company.
3. In November 2017, 2595418 Ontario Inc. (“**259 ON**”) acquired the shares of Country Way from two (2) individuals (the “**Share Vendors**” or “**Watts/Frey**”). The \$2,200,000 purchase price for the shares, other than \$250,000, was financed by the Share Vendors. Under the terms of its agreements, including a Promissory Note, dated September 8, 2017, and a Share Purchase Agreement, dated August 7, 2017 (the “**SPA**” and collectively with the associated agreements, the “**Agreements**”) with the Share Vendors, 259 ON was required to make monthly payments to the Share Vendors of \$3,000 for October and November 2017, then \$16,250 monthly from December 2017 until October 2027 and to make a final payment of \$10,250 on November 1, 2027. The obligations owing by 259 ON to the Share Vendors are secured by a pledge of the shares of Country Way that are owned by 259 ON. The Share Vendors do not have security over the Country Way and Country Way is not directly¹ liable for the obligations owing by 259 ON to the Share Vendors. 259 ON has no assets other than the shares of the Country Way and 259 ON had been borrowing the money from the Country Way to make the monthly payments to the Share Vendors. 259 ON paid a total of \$765,570 to the Share Vendors as of April 23, 2021. As part of the Agreements, the Share Vendors executed a non-competition covenant restricting them from operating a similar business in the area for ten (10) years.
4. Country Way’s business has been severely impacted by the COVID-19 pandemic. In 2020, the Company’s gross monthly sales dropped by approximately 23% from pre-COVID levels. Because of the impact the pandemic had on its cash flows, the Company was unable to loan further monies to 259 ON to pay the Share Vendors and to service its debt obligations and to pay its suppliers and employees.
5. In response to the foregoing:
 - a. the Company commenced the Proposal Proceedings; and

¹ The Share Vendor indirectly may have a contingent and unliquidated claim against Country Way as a result of the December 22nd Decision (as such term is later defined), which is still subject to a determination of the claim.

- b. on April 30, 2021, 2655396 Ontario Inc. (“**NumCo**”), a related corporation, filed an application pursuant to sections 182 and 186 of the Ontario *Business Corporations Act* (“**OBCA**”) for an arrangement (the “**Arrangement**”) involving itself and the Country Way,
- as a means of: (i) stabilizing the Company; (ii) altering the Company’s share structure (see paragraph 37c) below) to sever the Company from 259 ON; and (iii) offering its creditors a dividend that would be higher than its creditors would receive in the event of a bankruptcy.
6. On January 25, 2022, NumCo filed a motion (the “**January 25th Motion**”), on notice to the Director appointed under the OBCA, among others, returnable on January 27, 2022, seeking an interim order (the “**Interim Order**”), *inter alia*:
- i. authorizing that notice of the Arrangement involving the Company be included in the Proposal and be provided to the Company’s creditors by MNP providing only the creditors of Country Way with a copy of the Proposal as required by the BIA;
 - ii. amending the style of cause for the Proposal to include: **AND IN THE MATTER OF THE SECTION 182 AND 186 OF THE BUSINESS CORPORATIONS ACT, R.S.O. 1990 C. B. 16, AS AMENDED, AND IN THE MATTER OF A PROPOSED ARRANGEMENT OF 2655396 ONTARIO INC. AND INVOLVING 1776690 ONTARIO INC. COB THE COUNTRY WAY HEALTH FOOD STORE**; and
 - iii. that the Arrangement shall be deemed to be approved if the Proposal is approved by the unsecured creditors of Country Way as required by the BIA.
7. The Proposal Trustee filed its first report, dated January 21, 2022 (the “**First Report**”), in connection with the January 25th Motion. A copy of the First Report (without appendices) is attached as **Appendix “E”**.

8. On January 27, 2022, the Court issued the Interim Order, a copy of which is attached as **Appendix “F”**. The Interim Order provides that “[T]he Court Ordered that the Arrangement shall be deemed to be approved only if the: (a) Proposal is approved by the unsecured creditors of Country Way as required by the BIA; and (b) the Court makes an Order pursuant to paragraph 182(5)(f) of the Business Corporations Act approving the Arrangement, and the Arrangement shall not be implemented or given effect in any way without the approval of the Court first being obtained pursuant to paragraph 182(5)(f) of the OBCA.”
9. Information regarding the Proposal Proceedings has been posted to the Proposal Trustee’s case website (the “**Case Website**”) at <https://mnpdebt.ca/en/corporate/corporate-engagements/1776690-ontario-inc-aka-the-country-way-health-food-store>.

II. RESTRICTIONS

10. In preparing this Report and making the comments herein, the Proposal Trustee has been provided with, and has relied upon, certain unaudited, draft and/or internal financial information, the affidavit of Shonna Lynn Saari, an officer and director of NumCo and Country Way, dated April 26, 2021 (the “**Saari Affidavit**”) in connection with the Arrangement, the Company’s books and records, discussions with the Company’s management (“**Management**”) and information from other third-party sources (collectively, the “**Information**”). Except as specifically noted in this Report, the Proposal Trustee has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would wholly or partially comply with Generally Accepted Assurance Standards of the Chartered Professional Accountants of Canada.
11. The Proposal Trustee also bases its report on the Company’s cash flow projections and underlying assumptions and notes that its review and commentary thereon were performed in accordance with the requirements set out in the Canadian Association of Insolvency and Restructuring Professionals’ Standards of Professional Practice No. 9 (Cash Flow Statement). Certain of the information referred to in this Second Report consists of financial forecasts and/or projections. An examination or review of financial forecasts and

projections and procedures, in accordance with standards set by the Chartered Professional Accountants of Canada, has not been performed. Future oriented financial information referred to in this Second Report was prepared based on estimates and assumptions provided by Management. Readers are cautioned that since financial forecasts and/or projections are based upon assumptions about future events and conditions that are not ascertainable, actual results will vary from the projections, and such variations could be material.

12. Unless otherwise stated, all monetary amounts contained in this Report are expressed in Canadian dollars.

III. PURPOSE OF THIS REPORT

13. The purpose of this Report (the “**Second Report**”) is to:

- a. provide the Court with information in respect to the activities of the Company and the Proposal Trustee since the filing of the First Report, specifically as it relates to reporting on the results of the general meeting of creditors held on February 1, 2022 (the “**Reconvened Creditors Meeting**”); and
- b. provide the Proposal Trustee’s support for, and observations in respect of the Company’s request that the Court grant orders, *inter alia*:
 - i. approving the Arrangement; and
 - ii. approving the Amended Proposal (as defined herein)

IV. ACTIVITIES OF THE PROPOSAL TRUSTEE/GENERAL MEETING OF CREDITORS

Calling of the Reconvened Meeting of Creditors

14. As noted in the First Report, the Proposal Trustee has undertaken its statutory activities under the BIA, including attending a series of general meetings of creditors to consider the

Company's creditors, each of which was adjourned to have the Court consider NumCo's application for the Interim Order.

15. The Reconvened Creditors Meeting was scheduled for February 1, 2022, after the motion for the Interim Order was heard, to provide the creditors with the authority at the Reconvened Creditors Meeting to vote on both the Amended Proposal and the Arrangement.
16. The Proposal Trustee prepared a notice (the "**Notice**") of the calling of the Reconvened Creditors Meeting to consider the Proposal. The Notice was sent on November 26, 2021, to the Company, and to every known creditor that was affected by the Proposal and whose names and addresses, or email addresses are shown on the Affidavit of Mailing, which is attached as **Appendix "G"**.

The Amended Proposal

17. The Proposal provided that the first payment under Country Way's proposal was to be made by November 30, 2021. Due to the delay in obtaining the Interim Order, the Country Way amended paragraph 7.5 of the Proposal on January 29, 2022 (the "**Amended Proposal**"), to provide that "distributions will be made no later than 90 days after each of the five year-ends by November 30th of the following fiscal year, commencing November 30, 2022." A copy of the Amended Proposal is attached as **Appendix "H"**. On January 28 and 31, 2022, the Proposal Trustee spoke with the representatives of three of the four creditors that had submitted voting letters in the Proposal/Arrangement to make each aware of this development and to confirm that they continued to support the Country Way's proposal notwithstanding this amendment. The Proposal Trustee did not consider the voting letter submitted by the creditor that it was unable to reach before the start of the Reconvened Creditors Meeting, which voted in favour of the Proposal.

The Share Vendors Proof of Claim

18. On January 31, 2022, the Proposal Trustee received a proof of claim from the Share Vendors in the amount of \$125,000, together with a voting letter registering a vote against the Amended Proposal. The Share Vendors did not attend the Reconvened Creditors

Meeting. The Proposal Trustee advised the Reconvened Creditors Meeting that the Share Vendors' proof of claim is contingent or unliquidated in nature, and absent a determination of the claim, has no standing to vote at the meeting. The Proposal Trustee requires additional information in order to make a determination of the claim in accordance with the BIA. The Proposal Trustee advised the creditors that for the purposes of voting, the Share Vendors' claim was admitted for \$1 and being marked as disputed.

The Vote

19. That there was a quorum (by proxy) at the Reconvened Creditors Meeting. The Proposal/Arrangement was then voted on and accepted by the requisite number of creditors as detailed below:

	For	%	Against	%
Number of creditors	3	75%	1	25%
Dollar value	\$181,806.69	99.99%	\$1	0.01%

The minutes of the February 1st Meeting are attached as **Appendix "I"**.

V. FINANCIAL POSITION OF THE COMPANY

ASSETS

20. Country Way's assets are comprised of cash, inventory, furniture and store fixtures.

21. On the Date of the Proposal, the Company estimated of the realizable value of its assets were as follows:

Asset Description	Estimated Realizable Value (\$)
Inventory	54,000
Vehicles	12,000
Trade Fixtures	48,450

Total	114,450
--------------	----------------

22. Based on discussions with the Company's management, the current value of the inventory is consistent with the valuation on the SOA.

CREDITORS

Summary

23. Based on the SOA, the Company's estimated liabilities are summarized as follow:

Liability Description	Estimated Liability (\$)
Secured	114,450
Preferred	Nil
Unsecured	458,385
Total	572,835

Secured Creditors

24. A search of the Ontario *Personal Property Security Act* (the "**PPSA**") registry with a file currency date of February 11, 2021, indicates that TNT Holdco Inc. ("**TNT**"), Toyota Credit Canada Inc. ("**Toyota**") and Royal Bank of Canada ("**RBC**") have each registered a secured interest against the Company.
25. Based on the SOA, the Company's secured debt obligations to TNT and RBC (collectively, the "**Secured Creditors**") total approximately \$262,082, of which approximately \$192,487 is due to TNT and \$69,595 is due to RBC.
26. Gowlings has provided the Proposal Trustee with an opinion confirming that, subject to certain standard assumptions and qualifications, that the TNT and RBC loans and security in respect of the Company are valid and enforceable as against the Company.
27. Pursuant to the terms of the Proposal, the Secured Creditors are unaffected creditors.

Unsecured Creditors

28. As noted above, the unsecured creditors are owed a total \$458,385, of which a total of \$219,632² is owed to the unaffected creditors.

VI. THE SHARE PURCHASE AGREEMENT

29. As noted above, because of the impact the pandemic had on its cash flows, the Company was unable to loan further monies to 259 ON to pay the Share Vendors.

30. The Share Vendors filed an application with the Court seeking relief against 259 ON and others arising from 259 ON's failure to make certain payments under the SPA. On December 22, 2021, the Ontario Court of Justice ordered (the "**December 22nd Decision**"), *inter alia*:

- a. a declaration that 259 ON repudiated the SPA and its associated agreements by virtue of the respondents conduct between April-October 2020, which the Share Vendors accepted on or around October 14, 2020;
- b. a declaration that, in consequence of the acceptance of the repudiation, the Share Vendors' ongoing obligations under the Agreements, including the Share Vendors' obligations under the non-competition covenant, ceased as of the date of acceptance of the repudiation;
- c. judgment against 259 ON for all amounts due and unpaid under the SPA and the Agreements up to the date of acceptance of the repudiation;
- d. a declaration that the respondents were in default as defined by the SPA by at least April 2021 by virtue of the payments not made up and including the payment due on April 1, 2021;

² Under the terms of the Proposal, Unaffected Creditors means the Secured Creditors and any amounts owing by the Company to RBC, including any amount owing to RBC pursuant to the Canada Emergency Business Account. The \$219,632 is comprised of the unsecured portions of the amounts owing to RBC and TNT being \$129,595 and \$90,037, respectively.

- e. a declaration that in consequence of the default, the Share Vendors are entitled to exercise all rights in the shares in the purchased business including voting rights;
- f. A declaration that, in consequence of the default, the Share Vendors are entitled to transfer to the inventory and tangible assets of the store at a price of \$0; and
- g. Prejudgment interest on all amounts awarded under the preceding paragraphs.

A copy of the December 22nd Decision is attached as **Appendix “J”**.

- 31. The Interim Order provides that “nothing in this Order impacts or otherwise affects the right of Watts/Frey to: (a) oppose the approval of the Arrangement by the Court pursuant to paragraph 182(5) of the OBCA; (b) argue that Country Way ought to be bankrupted; or (c) enforce the Judgment of the Superior Court made in File No. C-28567-21 (Sault Ste. Marie) and dated 22 December 2021 (i.e., the December 22nd Decision) in accordance with its terms. The Interim Order also provides “that the Motion of Watts/Frey is adjourned and shall be heard at the same and shall be heard at the same time as the Motion seeking an Order approval the Arrangement pursuant to paragraph 182(5) of the OBCA.”
- 32. Counsel for the Share Vendors have advised counsel for the Proposal Trustee that the Share Vendors are prepared to withdraw their motion to intervene, and their opposition to the sanctions motion (approving the proposal and reorganization) without costs.
- 33. The Share Vendors acknowledge that for the purposes of distribution their proof of claim will be determined in accordance with section 135 of the BIA.

VII. THE ARRANGEMENT

- 34. As noted in the Saari Affidavit, one of Country Way’s key objectives in the Proposal Proceedings is to reorganize Country Way’s capital structure as a means of, among other things, stabilizing Country Way’s business and enhancing its ability to repay its creditors.
- 35. A summary of the salient terms of the Arrangement are as follows:

- a) the shareholders of NumCo and the Company shall have no right to vote on the Arrangement and no rights of dissent;
 - b) the Arrangement shall be approved by the unsecured creditors at the creditor meeting to consider the Proposal or Amend Proposal;
 - c) the unsecured creditors shall be in a single class for the purposes of voting on the Arrangement; and
 - d) the Arrangement shall be accepted by the class of unsecured creditors by majority in number of the unsecured creditors who actually vote on upon the Arrangement at the creditor meeting or by a voting letter, representing two-thirds in value of the Proven Claims of the unsecured creditors in each class who actually vote upon the Arrangement at the creditors meeting or by a voting letter.
36. If approved and implemented, the impact of this reorganization will be that the Company's existing shares will be redeemed and cancelled such that: (i) the existing shareholders of the Company shall no longer be shareholders of the Company and shall have no rights as shareholders except the right to receive the amount payable by the Company to redeem the Class A Redeemable Shares and Class C Special Shares, and (ii) there shall be no remaining issued and outstanding shares of any class other than the new Class A Common Shares issued by the Company;
37. Under the Arrangement, the Company and NumCo shall be amalgamated into one entity ("**New Country Way**") as follows:
- a) The name of New Country Way shall be its numbered name, but it shall carry on business as THE COUNTRY WAY HEALTH FOOD STORE;
 - b) The By-laws and Articles for New Country Way shall be the same as the amended Articles for NumCo;
 - c) The issued and outstanding Class A Common Shares of the Company shall be cancelled without any repayment of capital in respect thereof; and
 - d) The stated capital of the Company shall be added to the stated capital of the NumCo.

38. The principal of NumCo has agreed to fund the costs of the Proposal Proceedings and the Arrangement as consideration for being issued the shares in the New Country Way. The costs of the Proposal Proceedings are greater than \$50,000 plus taxes.

VIII. CONDUCT OF THE COMPANY

39. The Amended Proposal provides that sections 95-101 of the BIA are not applicable. Accordingly, and to assess the appropriateness of the inclusion of this clause, the Proposal Trustee has carried out a review of the Company's bank statements and cancelled cheques for the period beginning May 1, 2020, and ending on April 30, 2021, in order to enable it to be able to report to the creditors on any potential preferences or transfers at undervalue identified. Based on its preliminary review of these records, nothing has come to the Proposal Trustee's attention that gives rise to any concerns respecting potential preference payments or transfers at undervalue.
40. The Proposal Trustee is also unaware of any facts, mentioned in section 173 of the BIA that may be proved against the Company.

IX. COMPARISON OF THE ARRANGEMENT/AMENDED PROPOSAL WITH A LIQUIDATION IN BANKRUPTCY

41. Given the potential impact of the Amended Proposal and Arrangement on the Company's unsecured creditors and shareholders, the Proposal Trustee has considered whether the Amended Proposal and Arrangement would be more beneficial to Country Way's stakeholders than a sale or otherwise realizing on all of the Company's property, assets and undertakings (the "**Property**") under a bankruptcy proceeding.
42. As noted above, the Property consists primarily of its cash, inventory and store furnishings and equipment. In assessing the liquidation value of the Property, the Proposal Trustee assumes that if Country Way were to become bankrupt, Country Way's operations would be terminated, and its health food inventory and its store furniture and fixtures would be liquidated through a liquidation sale.

43. Realizing on Country Way's operating assets in a bankruptcy or receivership is potentially further complicated by the business operating out of rented premises that are leased by a related company. In a bankruptcy, the Bankruptcy Trustee generally has unfettered access to the commercial premises for a three-month period. This would not apply if Country Way were bankrupt as the lease is not between the Country Way and the landlord. Similarly, in a receivership, the Receiver would not have control over the assignability of the lease. The lack of control over the lease would likely necessitate any purchaser considering an acquisition of the Company's business as a going concern to have to relocate the business. Having to relocate the business would expose the business to a loss of customers, business interruption and the associated moving/relocation costs.
44. Notwithstanding that the December 22nd Decision provided an order that the Share Vendors are entitled to transfer the inventory and tangible assets of the store at a price of \$0, Country Way's inventory and tangible assets are firstly subject to the security interests of the Secured Creditors.
45. Based on the cost value of the inventory and the limited store furniture and fixtures and the extent of the Company's obligation to the Secured Creditors, it appears likely that the Secured Creditors would suffer a significant shortfall in recovering their loan advances in the event of the Company's bankruptcy.
46. The December 22nd Decision also entitles the Share Vendors to exercise all rights in the shares in Country Way including voting rights. Based on the information above, Country Way is insolvent inasmuch as the aggregate of its property is not sufficient to enable payment of all of its obligations. Accordingly, the terms of the Amended Proposal and the Arrangement appear fair and reasonable given that the Share Vendors do not appear to have an economic interest in Country Way's business.

IX. CONCLUSION AND RECOMMENDATION

47. The Proposal Trustee is of the opinion that the proposal is advantageous for the creditors, for the following reasons:

- a. the terms of the Amended Proposal are reasonable and the proposal is being made in good faith;
- b. the Amended Proposal is likely to result in a better, and a more certain outcome for the unsecured creditors than a bankruptcy; and
- c. the Amended Proposal provides for the continued employment of Company's employees and the preservation of business relationships with the Company's existing suppliers and customers.

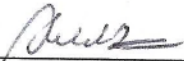
48. A copy of this Report is being filed with the Official Receiver.

49. Based on the foregoing, the Proposal Trustee respectfully recommends that this Court make an order granting the relief detailed in paragraph 13.

All of which is respectfully submitted on this 1st day of April, 2022.

MNP LTD.,
in its capacity as Trustee acting *in re* the Proposal of
1776690 Ontario Inc. cob The Country Way Health
Food Store

Per:



Sheldon Title
Licensed Insolvency Trustee

Court No.: CV-21-00661436-00CL
Estate No. 31-2734289

IN THE MATTER OF THE PROPOSAL OF 1776690 ONTARIO INC. COB THE COUNTRY WAY HEALTH FOOD STORE, OF THE CITY OF SAULT STE. MARIE, IN THE PROVINCE OF ONTARIO

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

SECOND REPORT TO THE COURT SUBMITTED BY MNP LTD., IN ITS CAPACITY AS TRUSTEE UNDER THE PROPOSAL OF 1776690 ONTARIO INC. COB THE COUNTRY WAY HEALTH FOOD STORE

MNP LTD.
300-111 Richmond Street West
Toronto, ON M5H 2G4

Sheldon Title
Tel: (416) 263-6945
Fax: (416) 323-5242
Email: sheldon.title@mnp.ca

Appendix "E"

Court File No: CV-21-00661436-00CL
Estate No: 31-2734289

ONTARIO
SUPERIOR COURT OF JUSTICE
IN BANKRUPTCY AND INSOLVENCY
(Commercial List)

THE HONOURABLE)	WEDNESDAY, THE 13TH
)	
JUSTICE KIMMEL)	DAY OF APRIL, 2022

**IN THE MATTER OF THE PROPOSAL OF 1776690 ONTARIO INC. COB THE
COUNTRY WAY HEALTH FOOD STORE OF THE CITY OF SAULT STE MARIE IN
THE PROVINCE OF ONTARIO**

2655396 ONTARIO INC.

Applicant

**IN THE MATTER OF SECTION 182 OF THE *BUSINESS CORPORATIONS ACT*,
R.S.O. 1990, c. B.16, AS AMENDED, AND IN THE MATTER OF A PROPOSED
ARRANGEMENT OF 2655396 ONTARIO INC. AND INVOLVING 1776690 ONTARIO
INC. COB COUNTRY WAY HEALTH FOOD STORE**

ORDER
(Approving Proposal)

THIS MOTION, made by MNP Ltd. (the “**Proposal Trustee**”) in its capacity as trustee under the Proposal of 1776690 Ontario Inc. cob Country Way Health Food Store, for an Order approving the Proposal dated 1 May 2022 (the “**Proposal**”), was heard this day via video conference.

ON READING the Notice of Motion and the Motion Record, including the Second Report of the Proposal Trustee dated 1 April 2022, on hearing the submissions of counsel to the Proposal Trustee, and on finding that the Proposal: (a) satisfies the requirements of the *Bankruptcy and Insolvency Act*, RSC 1980, c. B-13 (the “**BIA**”); (b) is reasonable; and (c) is calculated to benefit the general body of creditors:

1. **THIS COURT ORDERS** that the Proposal be and is hereby approved pursuant to section 59 of the BIA.
2. **THIS COURT ORDERS** that the Proposal Trustee be at liberty to and shall apply separately for an Order or Orders: (a) pursuant to s. 182(5) of the *Business Corporations Act*, RSO 1990, s. B.16 (the “**OBCA**”) approving the Arrangement included in the Proposal; and/or (b) pursuant to section s. 186 of the OBCA in connection with any reorganization, as that term in defined by s. 186(1) of the OBCA, included in the Proposal.

A handwritten signature in black ink, appearing to read "Kunal J.", is positioned in the lower right quadrant of the page. The signature is written in a cursive, flowing style.

Court File No: CV-21-00661436-00CL

IN THE MATTER OF THE PROPOSAL OF 1776690 ONTARIO INC. COB THE COUNTRY WAY HEALTH FOOD STORE OF THE CITY OF SAULT STE MARIE IN THE PROVINCE OF ONTARIO

IN THE MATTER OF SECTION 182 OF THE *BUSINESS CORPORATIONS ACT*, R.S.O. 1990, c. B.16, AS AMENDED, AND IN THE MATTER OF A PROPOSED ARRANGEMENT OF 2655396 ONTARIO INC. AND INVOLVING 1776690 ONTARIO INC. COB COUNTRY WAY HEALTH FOOD STORE

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

(PROCEEDING COMMENCED AT TORONTO)

ORDER
(Approving Proposal)

GOWLING WLG (CANADA) LLP
Barristers & Solicitors
1 First Canadian Place, Suite 1600
100 King Street West
Toronto, ON M5X 1G5

E. PATRICK SHEA (LSO#39655K)
Tel: (416) 369-7399
Fax: (416) 862-7661
Email: patrick.shea@gowlingwlg.com

Lawyers for the Proposal Trustee

Appendix “F”

Ministry of Public and Business
Service Delivery

Ministère des Services au public et
aux entreprises



ServiceOntario

ServiceOntario

Business and Personal Property
Branch (BPPB)

Direction des biens commerciaux et
des sûretés mobilières (DBCSM)

393 University Avenue, 2nd Floor
Toronto ON M5G 2M2

393, av University, 2e étage
Toronto ON M5G 2M2

September 27, 2022

By email to: patrick.shea@gowlingwlq.com

Dear Mr. Shea:

Re: 2655396 Ontario Inc., Ontario Corporation Number (OCN) 2655396
Notice to the Director with draft Plan of Arrangement

Thank you for filing Notice to the Director under subsection 182(5.1) of the Business Corporations Act in respect of the above-noted matter.

Based on the materials provided, including the revised Schedule A provided in respect of the draft Plan of Arrangement, draft Order and draft Articles of Arrangement, the Director under the Business Corporations Act does not intend to take a position in respect of the application or to appear before the court.

Yours truly,

S. Fletcher

Sancha Fletcher, Business Analyst
Company and Personal Property Policy and Regulatory Services

IN THE MATTER OF THE PROPOSAL OF 1776690 ONTARIO INC. COB THE COUNTRY WAY HEALTH FOOD STORE OF THE CITY OF SAULT STE MARIE IN THE PROVINCE OF ONTARIO

IN THE MATTER OF SECTION 182 OF THE *BUSINESS CORPORATIONS ACT*, R.S.O. 1990, c. B.16, AS AMENDED, AND IN THE MATTER OF A PROPOSED ARRANGEMENT OF 2655396 ONTARIO INC. AND INVOLVING 1776690 ONTARIO INC. COB COUNTRY WAY HEALTH FOOD STORE

**ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)**

(PROCEEDING COMMENCED AT TORONTO)

MOTION RECORD
(Returnable 6 October 2022)

GOWLING WLG (CANADA) LLP

Barristers & Solicitors
1 First Canadian Place, Suite 1600
100 King Street West
Toronto, ON M5X 1G5

E. PATRICK SHEA (LSO#39655K)

Tel: (416) 369-7399

Fax: (416) 862-7661

Email: patrick.shea@gowlingwlg.com

Lawyers for MNP Ltd., the Proposal Trustee