Court File No.: CV-20-00638503-00CL

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

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

AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF PURE GLOBAL CANNABIS INC., PURESINSE INC., 237A ADVANCE INC., 237B ADVANCE INC., SPRQ HEALTH GROUP CORP., AND THE GREAT CANADIAN HEMP COMPANY LTD.

(collectively, the "**Applicants**" and each an "**Applicant**)

SUMMARY OF ARGUMENT OF THE SECURED CREDITORS OPPOSING AN INCREASE TO THE DIP CHARGE (returnable April 23, 2020)

MCMILLAN LLP
Brookfield Place, 4400-181 Bay Street, Toronto, ON, M5J 2T3
Adam Maerov LSUC #48560H/ **Jeffrey Levine** LSO# 55582H
Tel: 403.215.2752/Fax: 403.531.4720/
adam.maerov@mcmillan.ca; jeffrey.levine@mcmillan.ca
Lawyer for certain Debenture holders

KEYSER MASON BALL, LLP
900-3 Robert Speck Parkway, Mississauga, Ontario L4Z 2G5
Wojtek Jaskiewicz LSO #49809L
Tel: 905.276.0424/ Fax: 905.276.2298/
wjaskiewicz@kmblaw.com
Lawyer for Kozo Holdings Inc. in respect to 237B Advance Inc

CHAITONS LLP
10-5000 Yonge Street, Toronto, Canada. M2N 7E9
Harvey Chaiton LSO# 21592
Tel: 416-218-1129/ Fax: 416-218-1849/ harvey@chaitons.com
Lawyers for Cancor Debt Agency Inc.

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PART I - OVERVIEW

1. The Debenture Holders, Cancor Debt Agency Inc. and Kozo Holdings Inc., the mortgagee of 237B Advance Blvd., object to any further extension of the DIP facility and DIP charge.

2. The Applicants had sufficient liquidity to carry out a lawful destruction of their cannabis inventory and crop with the benefit of a further $300,000 in DIP financing approved at the Applicants' request at the comeback hearing on April 3, 2020 (the "**DIP Increase**"). The Applicants continue to have sufficient liquidity to complete a lawful destruction of their cannabis inventory and crop. The additional DIP financing the Applicants ask for is only required to pay unnecessary professional fees, which, if incurred, are already protected through the Administration Charge.

3. To avoid further prejudice to the Debenture Holders and Kozo Holdings, these secured creditors ask that the request for further DIP financing be denied, and that the stay of proceedings in favour of the Applicants be lifted to permit the appointment of A. Farber & Partners Inc. ("**Farber**") as receiver over the non-cannabis assets, undertakings and business of the Applicants. Farber would liquidate these non-cannabis assets for the benefit of secured creditors.

PART II - FACTS AND ARGUMENT

A. The Applicants Have not Acted With Due Diligence

4. The cash flow forecast upon which the April 6, 2020 DIP Increase was based contemplated destruction of the cannabis the week ending May 1, 2020. It was developed by the Applicants and represented by the Applicants to this Court to be

sufficient. The Applicants are relying on Stericycle, their pre-approved destruction vendor, to destroy the cannabis. The only evidence the Applicants' have filed substantiating their efforts to arrange for the destruction indicates the Applicants waited until April 15, 2020 to ask for Stericycle's availability for cannabis destruction. The Applicants ought to have sought Stericycle's availability at least a week earlier, on April 7, 2020 after the DIP Increase was granted. Had they done so, an earlier destruction date may have been offered.

5. Moreover, there is no evidence that the Applicants sought Stericycle's earliest available booking for Stericycle's destruction services, or that Stericycle was notified of the importance of expedited destruction.

6. Since the Applicants knew how much financial runway was available to them, "good faith and due diligence" required the Applicants to make reasonable efforts to destroy the cannabis at the earliest opportunity or at the very least in a manner sufficiently timely to remain within their approved budget. They have not demonstrated such efforts were made.

B. An Increase to the DIP Further Prejudices Certain Secured Creditors

7. In granting the DIP Increase on April 3, 2020 and rejecting the Applicants' request for a $1 million increase to the DIP facility, this Court observed:

> I have concluded that if I grant the [Applicants'] proposed Initial Order the Applicants will be "playing with the secured creditors' Money".[1]

[1] Endorsement of Justice Hainey dated April 3, 2020, para 11

8. The present situation remains as it was three weeks ago. These CCAA proceedings offer no upside to the secured creditors, and any further advances on the DIP facility further prejudices the secured creditors' recovery in a costly CCAA regime the secured creditors do not support.

9. The appropriate next step is to permit the appointment of a receiver to limit restructuring costs inherent in a CCAA proceeding and allow secured creditors to have some measure of oversight into the costs incurred.

10. The secured creditors have fashioned a receivership order that contemplates retaining those employees of the Applicants necessary to comply with cannabis legislation until the cannabis is destroyed, and for the Applicants to maintain possession of the cannabis pending its destruction so that all terms of the Applicants' licenses will be met.

11. The secured creditors have shared their proposed order with counsel for Canada Revenue Agency and Health Canada.

C. Denying a Further DIP Increase Does Not Prejudice the Applicants

12. The Applicants' cash flow forecasts suggests a need for a further $345,178 to see the destruction and cessation of operations through. Of that figure accounts for $245,000 in restructuring costs which have yet to be paid. Those restructuring costs include $120,000 this week, $45,000 next week, $30,000 the following week and $50,000 the week ending May 15, 2020.

13. However, since the comeback hearing the Monitor's costs have been approximately $9,000 per week, and its counsel's costs have been approximately $4,000 per week. Assuming similar costs for counsel to the Applicants of $5,000 per week, that's a total burn rate of $22,000 per week for a total of $132,000 in restructuring costs through to the week ending May 25, 2020, well below the $200,000 Administrative Charge for the benefit of those professionals. Accordingly, even if no receivership is granted, there ought to be no prejudice to the Monitor and its counsel or counsel to the Applicants if a further DIP increase is denied.

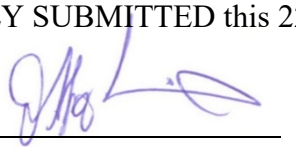
14. Reducing cash outlays to professionals reduces the shortfall contemplated in the Applicants' cash flow forecast to $100,173. Diligence in pursuing an earlier destruction date should obviate the need to retain most of the Applicants' employees beyond the week ending May 8, 2020, eliminating substantially all of the $76,000 contemplated for payroll the weeks ending May 8, 15 and 22 and reducing the alleged shortfall to only $24,173. That liability, on account of wages, may fall on the shoulders of the Applicants' directors, but they have the protection of a $50,000 D&O Charge and so will not be prejudiced if indeed such liability is incurred.

PART III - ORDER REQUESTED

15. For the foregoing reasons, the objecting secured creditors ask that the stay of proceedings be lifted to permit the appointment of a receiver further to the

objecting secured creditors' Notice of Application included in the Responding Motion Record of the Debenture Holders.

ALL OF WHICH IS RESPECTFULLY SUBMITTED this 22nd day of April, 2020.



MCMILLAN LLP
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Adam Maerov LSUC #48560H/ **Jeffrey Levine** LSO# 55582H
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