



**Second Report of
KSV Restructuring Inc.
as CCAA Monitor of
Chalice Brands Ltd.**

July 25, 2023

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COURT FILE NO.: CV-23-00699872-00CL

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 CHALICE BRANDS LTD.

SECOND REPORT OF
KSV RESTRUCTURING INC., IN ITS CAPACITY AS MONITOR

JULY 25, 2023

1.0 Introduction

1. Pursuant to an order of the Ontario Superior Court of Justice (Commercial List) (the “Court”) made on May 23, 2023 (the “Initial Order”), Chalice Brands Ltd. (“Chalice” or the “Applicant”) was granted protection under the *Companies’ Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the “CCAA”) and KSV Restructuring Inc. was appointed monitor of the Applicant (in such capacity, the “Monitor”).
2. Substantially all of Chalice’s value is derived through its equity interests in its direct and indirect subsidiaries in the United States (“U.S.”) (together with Chalice, the “Chalice Group”).
3. As a cannabis company with operations in the U.S., the Chalice Group’s ability to access the protections of the federal U.S. Bankruptcy Code, including relief under Chapter 15 of the U.S. Bankruptcy Code, is untested. As a result, on May 22, 2023, Chalice filed a complaint in the State of Oregon against the following subsidiaries: Greenpoint Oregon, Inc., CFA Retail LLC, Greenpoint Equipment Leasing, LLC, SMS Ventures LLC, and CF Bliss LLC (together, the “Oregon Receivership Entities”) in order to commence the process of having the Oregon Receivership Entities placed into receivership. On May 23, 2023, the Circuit Court of the State of Oregon (the “Oregon Court”) signed an order appointing Kenneth S. Eiler as state receiver (the “Oregon Receiver”) over the Oregon Receivership Entities (the “Oregon Receivership Proceedings”).

4. Pursuant to the terms of the Initial Order, among other things, the Court:
 - a) granted a stay of proceedings in favour of the Applicant to and including June 2, 2023 (the “Stay Period”) and extended that stay and other benefits and protections of the Initial Order to the Non-Filing Affiliates¹; and
 - b) granted a charge in the amount of \$400,000 on the Applicant’s current and future assets, property and undertaking to secure the fees and disbursements of the Applicant’s legal counsel, as well as the fees and disbursements of the Monitor and its independent counsel (the “Administration Charge”).
5. At a motion heard on June 1, 2023 (the “Comeback Motion”), the Court issued an Amended and Restated Initial Order which, among other things:
 - a) extended the Stay Period to July 28, 2023;
 - b) increased the Administration Charge to \$500,000;
 - c) approved the agreement between the Applicant and Cardinal Advisory Services Inc. (“Cardinal Advisory”), pursuant to which Cardinal Advisory through the services of Scott Secord acts as the Chief Restructuring Officer (“CRO”) of the Chalice Group; and
 - d) Chalice was relieved from certain securities disclosure and shareholder meeting requirements.
6. At the Comeback Motion, the Court also issued an order (the “CCAA SISF Approval Order”) approving an expedited sale and investment solicitation process (the “SISF”) for the purpose of soliciting interest in, and opportunities for the acquisition of, or investment in, the assets and business operations of the Chalice Group.
7. On June 2, 2023, the Oregon Court granted an order authorizing the implementation of the SISF in the Oregon Receivership Proceedings (together with the CCAA SISF Approval Order, the “SISF Approval Orders”).
8. The principal purpose of this CCAA proceeding is to create a stabilized environment to ensure the Chalice Group can continue going-concern operations while Chalice and the CRO, working in coordination with the Monitor and the Oregon Receiver, conduct the SISF to facilitate a sale of, or investment in, the Chalice Group’s assets and/or business operations.

¹ The Non-Filing Affiliates are Greenpoint Holdings Delaware, Inc., Fifth and Root, Inc., Greenpoint Nevada Inc., Greenpoint Oregon, Inc., Greenpoint Workforce Inc., Greenpoint Equipment Leasing, LLC, CFA Retail LLC, SMS Ventures LLC and CF Bliss LLC.

1.1 Purposes of this Report

1. The purposes of this report (the “Report”) are to:
 - a) provide a general update on this proceeding and the Oregon Receivership Proceedings since the granting of the Amended and Restated Initial Order and the CCAA SISP Approval Order;
 - b) provide an update on the SISP;
 - c) report on the Applicant’s cash flow projection for the period July 22, 2023 to and including August 31, 2023 (the “Updated Cash Flow Forecast”);
 - d) discuss the reasons to extend the Stay Period from July 28, 2023 to August 31, 2023; and
 - e) recommend that the Court issue an order extending the Stay Period to August 31, 2023.

1.2 Restrictions

1. In preparing this Report, the Monitor has relied upon the unaudited financial information and books and records of the Chalice Group, discussions with its management (“Management”), discussions with its counsel, discussions with the CRO and discussions with the Oregon Receiver and its counsel.
2. The Monitor has not audited, or otherwise attempted to verify, the accuracy or completeness of the financial information relied on to prepare this Report in a manner that complies with Canadian Auditing Standards (“CAS”) pursuant to the Chartered Professional Accountants of Canada Handbook and, accordingly, the Monitor expresses no opinion or other form of assurance contemplated under the CAS in respect of such information. Any party wishing to place reliance on the financial information should perform its own diligence.
3. An examination of the Updated Cash Flow Forecast as outlined in the Chartered Professional Accountants of Canada Handbook has not been performed. Future oriented financial information relied upon in this Report is based upon the Applicant’s assumptions regarding future events; actual results achieved may vary from this information and these variations may be material. The Monitor expresses no opinion or other form of assurance on whether the Updated Cash Flow Forecast will be achieved.

1.3 Currency

1. Unless otherwise noted, all currency references in this Report are in U.S. dollars.

2.0 Background

1. Chalice is the ultimate parent company of the Chalice Group, which is a vertically integrated cannabis company that grows, processes, distributes and sells cannabis and cannabis products, operating within the Oregon adult-use regulated market.

2. The corporate chart for the Chalice Group is provided in Exhibit “A” of the Affidavit of Scott Secord, sworn May 22, 2023 in support of the initial CCAA application (the “First Secord Affidavit”).
3. Scott Secord swore two additional affidavits on May 26, 2023 in support of the Comeback Motion (the “May 26th Affidavits”) and one affidavit on July 21, 2023 in support of the relief sought in this Report (the “Fourth Secord Affidavit”, and together with the First Secord Affidavit and May 26th Affidavits, the “Secord Affidavits”). The Monitor recommends that readers review the Fourth Secord Affidavit for a detailed update on the Oregon Receivership Proceedings.
4. To date, the Monitor has filed with this Court the following reports in this proceeding: (i) the Pre-Filing Report dated May 23, 2023, and (ii) the First Report dated May 30, 2023 (collectively, the “Prior Reports”). The Prior Reports and Secord Affidavits are available on the Monitor’s website at the following link: <https://www.ksvadvisory.com/experience/case/chalice-brands-ltd>.

3.0 Update on Oregon Receivership Proceedings

3.1 Business Operations

1. Since the commencement of this CCAA proceeding and the Oregon Receivership Proceedings, the Applicant and the CRO, with the assistance of the Monitor, have worked closely with the Oregon Receiver to stabilize the business and operations of the Chalice Group. In that respect, the Monitor and its counsel have attended weekly telephone calls with the CRO, the Applicant and the Oregon Receiver and its counsel to discuss, among other things, urgent business issues, the liquidity of the Chalice Group and the status of the SISP.
2. On June 1, 2023, Jeff Yapp, the former CEO of the Applicant, and Kala Bernhardt, the former CFO of the Applicant, resigned. Meghan Miller, the then Chief Operating Officer of the Chalice Group, replaced Mr. Yapp and Byron Henson, the then Director of Accounting, replaced Ms. Bernhardt. As a result, there has been no material interruption or interference with this proceeding, the Oregon Receivership Proceedings, or the daily operations of the Chalice Group.

3.2 Motion commenced by Homegrown Lenders

1. On May 19, 2021, Golden Leaf Holdings Ltd. (predecessor to Chalice) and Greenpoint Holdings Delaware Inc. (“Greenpoint Holdings”) entered into an agreement (the “Homegrown Acquisition”) to acquire 100% ownership in SMS Ventures LLC (“SMS”), a chain of five retail dispensaries located in Portland, Salem and Albany, Oregon.
2. The total consideration of the Homegrown Acquisition was \$9,750,000, consisting of \$6,000,000 in cash, \$2,000,000 in common shares of Chalice, a promissory note in the principal amount of \$1,750,000 (the “Homegrown Note”) pursuant to which Alicia Smith, Jillian Smith, and Marcena Sorrels (the “Homegrown Lenders”), are lenders.
3. As of May 1, 2023, \$1,896,411 is outstanding on the Homegrown Note.

4. On June 30, 2023, the Homegrown Lenders filed a motion in the Oregon Receivership Proceedings in the Oregon Court (the “Lift Stay Motion”) seeking:
 - a) an Order to lift the stay of proceedings and authorizing the Homegrown Lenders to foreclose on what they allege to be their collateral under a security agreement with Chalice and Greenpoint Holdings, which includes five OLCC licensed retail marijuana dispensaries; or
 - b) an Order declaring that SMS holds title to what the Homegrown Lenders allege to be their collateral, and that the Homegrown Lenders have a perfected first prior security interest in the alleged collateral.
5. On July 6, 2023, the Homegrown Lenders filed a further motion in the Oregon Court seeking expedited consideration and requesting that the Oregon Court hear the Lift Stay Motion on or before July 17, 2023.
6. The Monitor understands there is significant uncertainty regarding the validity and enforceability of the Homegrown Lenders’ security.
7. On July 14, 2023, the Oregon Receiver filed an objection to the Homegrown Lenders’ motions.
8. On July 14, 2023, the Lift Stay Motion (and the related motion seeking expedited consideration thereof) was denied by the Oregon Court and the SISF was permitted to proceed.

3.3 Interim Financing to Oregon Receivership Entities²

1. In early July 2023, the Oregon Receiver requested that the Applicant fund it with \$150,000 for professional fees to continue and complete the receivership (the “Interim Financing”). Such financing has been requested because the Oregon Receivership Entities’ cash receipts during the pendency of the Oregon Receivership Proceedings were less than forecasted and as a result of trust claims asserted by the State of Oregon that were previously unknown to the Chalice Group.
2. The Applicant, in consultation with the Monitor, considered the request for Interim Financing and advised the Monitor that without the Interim Financing, there would not be sufficient funds for the Oregon Receivership Entities to pay the fees and expenses of the Oregon Receiver to execute and close a transaction for the assets of the Chalice Group. As such, the Applicant determined that it was in the best interests of the Chalice Group for the Applicant to advance the Interim Financing to the Oregon Receiver (in accordance with the terms of the Oregon Order Appointing Receiver and the Amended and Restated Initial Order, as described below).
3. The Monitor is of the view that any material delay in payment of the fees and expenses of the Oregon Receiver could result in significant uncertainty regarding the Applicant’s ability to execute and close a transaction for the assets of the Chalice Group in the Oregon Receivership Proceedings and this CCAA proceeding, which would not be in the interests of the Applicant and its stakeholders.

² Capitalized terms in this Section are as defined in the Fourth Secord Affidavit.

4. The Amended and Restated Initial Order provides, among other things, that “except as provided to the contrary herein, with the consent of the Monitor, the Applicant shall be entitled but not required to pay all reasonable expenses incurred by the Applicant [...] in carrying out the provisions of this Order which expenses shall include, without limitation: (a) all expenses and capital expenditures reasonably necessary for the preservation of the Property or the Business”.
5. The Oregon receivership order contemplates that, as necessary to satisfy the costs and expenses of the Oregon Receivership Proceedings, Chalice may advance funds to the Oregon Receiver on a first-priority basis (the “Financing Lien”), subject to a lien in favour of the Oregon Receiver and its professionals (the “Receiver’s Lien”).
6. The Applicant has also entered into security agreements with the Oregon Receivership Entities and has registered its security against each of the Oregon Receivership Entities via UCC filings, which serve to protect the Applicant’s assets in addition to the protection provided by the Financing Lien.
7. A Consent and Acknowledgement was entered into between the Applicant, the Oregon Receiver and the Monitor on July 17, 2023 in respect of the Interim Financing (the “Consent and Acknowledgement”). The terms of the Consent and Acknowledgement include, among other things, the following:
 - a) the Interim Financing shall be advanced as a non-interest-bearing loan by the Applicant to the Oregon Receiver and shall be repaid by the Oregon Receiver to the Applicant as and when the Oregon Receiver receives payment of its approved fees and expenses in accordance with the terms of the Oregon Order Appointing Receiver or as otherwise ordered by the Oregon Court;
 - b) the Applicant has a right of subrogation in respect of the Receiver’s Lien and may claim the benefit of the lien as security for the Interim Financing; and
 - c) the Oregon Receiver shall use its best efforts to obtain approval and payment of its fees and expenses and to repay the Interim Financing.
8. The Monitor understands that in light of the Applicant’s right of subrogation under the terms of the Consent and Acknowledgement, there are no claims in respect of the Oregon Receivership Entities that are in priority to the Financing Lien. The Monitor also understands that provided that the Oregon Receivership Entities’ assets can be monetized, the proceeds are anticipated to be sufficient to repay the Interim Financing. Those assets, which are collateral for the Interim Financing, include, among other things, cannabis licenses and cannabis growing, processing and retail operations and related assets.
9. Based on discussions with the Applicant, the Monitor is of the view that the primary risks to the Oregon Receivership Entities failing to repay the Interim Financing is if the proceeds of their assets are not sufficient to allow for approval of the proposed sale by the Oregon Court and the applicable regulatory agencies.
10. Considering all of the forgoing, the Monitor has consented to and supports the Applicant providing the Interim Financing in order to facilitate the monetization of the Chalice Group’s assets for the benefit of the Applicant’s stakeholders.
11. The funds under the Interim Financing were advanced by the Applicant to the Oregon Receiver on July 24, 2023.

4.0 SISP Update

1. As noted above, both this Court and the Oregon Court approved the SISP pursuant to the SISP Approval Orders.
2. The Applicant has conducted the SISP, with the assistance of the Monitor and the Oregon Receiver, in accordance with the terms of the SISP Approval Orders.
3. Pursuant to the SISP Approval Orders, the bid deadline was June 30, 2023 (the “Bid Deadline”). Four bids were received by the Bid Deadline. In accordance with the terms of the SISP, the Applicant, with the consent of the Monitor and the Oregon Receiver, elected to extend the deadlines in the SISP to continue to negotiate the bids. The Monitor has since advised each of the parties who submitted bids that the Chalice Group requires additional time to negotiate the offers and that the Applicant intends to select a successful bidder by July 27, 2023.
4. As of the date of this Report, the Applicant, in consultation with the Monitor and the Oregon Receiver, remains in advanced discussions with a bidder with a view to entering into a purchase agreement. To ensure the integrity of the SISP process, the nature of these discussions, the terms of the bid, and the identity of the bidder, remain confidential at this time.
5. The Applicant anticipates being back before this Court in the coming weeks to seek approval of a sale transaction. The Oregon Receiver will also seek approval of such sale from the Oregon Court. At the Lift Stay Motion, the Oregon Court advised the Oregon Receiver that the Court was not available to hear a sale approval motion until mid-August. The Monitor anticipates that the sale approval motion in the Oregon Receivership Proceedings will be heard before the sale approval motion in this CCAA proceeding since most of the Chalice Group’s valuable assets are owned by the Oregon Receivership Entities.

5.0 Cash Flow Forecast

1. The Applicant prepared the Updated Cash Flow Forecast to and including August 31, 2023. The Updated Cash Flow Forecast and the Applicant’s statutory report on the cash flow prepared pursuant to Section 10(2)(b) of the CCAA are attached as Appendix “A”.
2. As of the date of this Report, the Applicant had approximately \$835,000 in cash on hand. The Updated Cash Flow Forecast reflects that Chalice will have sufficient liquidity to pay all expenses until August 31, 2023. As of this time, the Applicant does not expect to make any further advances to the Oregon Receiver.
3. Based on the Monitor’s review of the Updated Cash Flow Forecast, the assumptions appear reasonable. The Monitor’s statutory report on the Updated Cash Flow Forecast is attached as Appendix “B”.

6.0 Stay Extension

1. The Stay Period currently expires on July 28, 2023. The Applicant is requesting an extension to the Stay Period until August 31, 2023.
2. The Monitor is supportive of this request for the following reasons:
 - a) in the Monitor's view, the Applicant is acting in good faith and with due diligence;
 - b) it will allow the Chalice Group to continue the SISP, including further negotiations with potential bidders and hopefully close a prospective sale transaction;
 - c) the Updated Cash Flow Forecast reflects that the Applicant has sufficient liquidity to fund this CCAA proceeding through the extended Stay Period; and
 - d) no creditor will be materially prejudiced if the extension is granted.

7.0 Monitor's Activities

1. The Monitor's activities since its last report to Court have included:
 - a) working with the CRO and the Oregon Receiver to stabilize the business and operations as part of the CCAA proceeding;
 - b) monitoring the receipts and disbursements of the Chalice Group;
 - c) corresponding with Cassels Brock & Blackwell LLP, the Monitor's counsel, Osler, Hoskin & Harcourt LLP, restructuring counsel to the Applicant, the Oregon Receiver and Lane Powell PC, counsel to the Oregon Receiver, regarding various matters in this CCAA proceeding and the Oregon Receivership Proceedings;
 - d) working with the Oregon Receiver and its counsel in connection with the Oregon Receivership Proceedings and the SISP;
 - e) reviewing and consenting to the Oregon Receiver's request for Interim Financing;
 - f) overseeing the SISP;
 - g) reviewing Oregon Court materials in respect of the motion commenced by the Homegrown Lenders; and
 - h) preparing this Report, and, with the assistance of its counsel, related Court materials.

8.0 Conclusion and Recommendation

1. Based on the foregoing, the Monitor respectfully recommends that this Honourable Court make an order granting the relief detailed in Section 1.1 (1)(e) of this Report.

* * *

All of which is respectfully submitted,

KSV Restructuring Inc.

**KSV RESTRUCTURING INC.
IN ITS CAPACITY AS MONITOR OF
CHALICE BRANDS LTD.
AND NOT IN ITS PERSONAL CAPACITY**

Appendix “A”

Chalice Brands Ltd. (the "Company")
Projected Statement of Cash Flow
For the Period Ending August 31, 2023
(Unaudited; \$USD)

<i>Week Ending Date</i>	Notes	28-Jul-23	4-Aug-23	11-Aug-23	18-Aug-23	25-Aug-23	31-Aug-23	Total
<i>Disbursements</i>								
Professional fees	2	(100,000)	(100,000)	(100,000)	(100,000)	(100,000)	(100,000)	(600,000)
Sundry expenses		(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)	(60,000)
<i>Total Disbursements</i>		(110,000)	(110,000)	(110,000)	(110,000)	(110,000)	(110,000)	(660,000)
Net Cash Flow		(110,000)	(110,000)	(110,000)	(110,000)	(110,000)	(110,000)	(660,000)
Opening Cash Balance		834,670	724,670	614,670	504,670	394,670	284,670	834,670
Net Cash Flow		(110,000)	(110,000)	(110,000)	(110,000)	(110,000)	(110,000)	(660,000)
Closing Cash Balance		724,670	614,670	504,670	394,670	284,670	174,670	174,670

Notes to Projected Statement of Cash Flows

For the Period Ending August 31, 2023

(Unaudited; \$USD)

Purpose and General Assumptions

1. The purpose of the projection is to present a cash flow forecast of the Company for the period July 22, 2023 to August 31, 2023 (the "Period") in respect of the proceedings under the Companies' Creditors Arrangement Act ("CCAA").

The cash flow projection has been prepared based on most probable assumptions.

Most Probable

2. Represents fees and disbursements of the Company's legal counsel, the Monitor and the Monitor's legal counsel and the CRO.

**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 CHALICE BRANDS LTD.**

MANAGEMENT'S REPORT ON CASH FLOW STATEMENT
(paragraph 10(2)(b) of the CCAA)

The management of Chalice Brands Ltd. (the "Applicant") has developed the assumptions and prepared the attached statement of projected cash flow as of the 25th day of July, 2023 for the period July 22, 2023 to August 31, 2023 ("Cash Flow"). All such assumptions are disclosed in the notes to the Cash Flow.

The probable assumptions are suitably supported and consistent with the plans of the Applicant and provide a reasonable basis for the Cash Flow.

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

The Cash Flow has been prepared solely for the purpose outlined in Note 1 using a set of probable assumptions set out therein. Consequently, readers are cautioned that the Cash Flow may not be appropriate for other purposes.

Dated at Toronto, Ontario this 25th day of July, 2023.

CHALICE BRANDS LTD.



Per: Scott Secord, Chief Restructuring Officer

Appendix “B”

**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 CHALICE BRANDS LTD.**

**MONITOR'S REPORT ON CASH FLOW STATEMENT
(paragraph 23(1)(b) of the CCAA)**

The attached statement of projected cash-flow of Chalice Brands Ltd. (the "Applicant"), as of the 24th day July, 2023, consisting of a weekly projected cash flow statement for the period July 22, 2023 to August 31, 2023 ("Cash Flow") has been prepared by the management of the Applicant for the purpose described in Note 1, using the probable assumptions set out in the notes to the Cash Flow.

Our review consisted of inquiries, analytical procedures and discussions related to information supplied by the management and employees of the Applicant. We have reviewed the support provided by management for the probable assumptions and the preparation and presentation of the Cash Flow.

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

- a) as at the date of this report, the probable assumptions developed by management are not suitably supported and consistent with the plans of the Applicant or do not provide a reasonable basis for the Cash Flow; or
- b) the Cash Flow does not reflect the probable assumptions.

Since the Cash Flow is based on assumptions regarding future events, actual results will vary from the information presented, and the variations may be material. Accordingly, we express no assurance as to whether the Cash Flow will be achieved. We express no opinion or other form of assurance with respect to the accuracy of any financial information presented in this report, or relied upon in preparing this report.

The Cash Flow has been prepared solely for the purpose described in Note 1 and readers are cautioned that it may not be appropriate for other purposes.

Dated at Toronto, Ontario this 25th day of July, 2023.

KSV Restructuring Inc.

**KSV RESTRUCTURING INC.
IN ITS CAPACITY AS PROPOSED CCAA MONITOR OF
CHALICE BRANDS LTD.
AND NOT IN ITS PERSONAL CAPACITY**

IN THE MATTER OF THE COMPANIES' CREDITORS ARRANGEMENT ACT, R.S.C. 1985, c. C-36
AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF CHALICE BRANDS LTD.

Court File No.: CV-23-00699872-00CL

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

PROCEEDING COMMENCED AT
TORONTO

SECOND REPORT OF THE MONITOR

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