Second Post Plan Implementation Report of KSV Restructuring Inc. Pursuant to Section 8.1 of the Plan of Compromise and Arrangement Dated December 16, 2021 of Rosebud Creek Financial Corp., 957855 Alberta Ltd. and Metro 360 General Partnership

February 9, 2023

Contents

Page

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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 957855 ALBERTA LTD. (FORMERLY NEWSWEST INC.) AND ROSEBUD CREEK FINANCIAL CORP. IN RESPECT OF METRO 360 GENERAL PARTNERSHIP

SECOND POST PLAN IMPLEMENTATION REPORT OF
KSV RESTRUCTURING INC.
AS CCAA MONITOR

FEBRUARY 9, 2023

1.0 Introduction

1. Rosebud Creek Financial Corp. ("Rosebud") and 957855 Alberta Ltd. ("957") (jointly, the "Partners") are holding companies and the partners of Metro 360 General Partnership ("Metro", and together with the Partners, the "CCAA Entities").

2. On April 6, 2020, each of the Partners filed a Notice of Intention to Make a Proposal pursuant to Section 50.4(1) of the *Bankruptcy and Insolvency Act* (Canada), as amended (the "NOI Proceedings"). KSV Restructuring Inc. ("KSV") was appointed the proposal trustee (the "Proposal Trustee") in the NOI Proceedings.

3. On June 17, 2020, the Partners obtained an Initial Order [1] from the Ontario Superior Court of Justice (Commercial List) (the "Court"), among other things, taking up and continuing the NOI Proceedings under the *Companies' Creditors Arrangement Act* (the "CCAA") and appointing KSV as monitor of the CCAA Entities (the "Monitor").

4. Pursuant to the CCAA, the CCAA Entities filed a Plan of Compromise and Arrangement dated December 16, 2021, as amended, and as it may be further amended, modified, varied and/or supplemented in accordance with its terms (the "Plan").

5. The Plan was unanimously accepted by Affected Creditors at a meeting conducted on December 16, 2021. Pursuant to a Court order made on January 14, 2022 (the "Sanction Order"), the Court, *inter alia,* sanctioned and approved the Plan. The Plan was implemented on February 9, 2022 (the "Plan Implementation Date"). A copy of the Plan can be found here: Plan.

6. Section 8.1 of the Plan requires the Monitor to file a report with the Court at least every six months after the Plan Implementation Date. This is the Monitor's second report since the Plan Implementation Date under that provision of the Plan.

[1] Capitalized terms not defined in this Report have the meanings ascribed to them in the Plan.

7. Additional information regarding the CCAA Entities, the Plan, the NOI Proceedings and these proceedings can be found in the affidavits sworn by Daniel Shapiro, the CCAA Entities' President and Chief Executive Officer, and in the prior reports filed by KSV as Proposal Trustee and Monitor, including the First Post-Plan Implementation Report dated August 9, 2022 (the "First Post Plan Implementation Report"). Court materials are available on the Monitor's website at https://www.ksvadvisory.com/insolvency-cases/case/metro360 (the "Website").

1.1 Purposes of this Report

1. The purposes of this Report are to provide:

   a) background information about the CCAA Entities and these proceedings;

   b) a summary of an amendment to the Plan in connection with the transfer of Metro's ownership interest in Handfuel (as defined below) (the "Plan Amendment"), which is reflected in the Amended Plan of Compromise and Arrangement dated February 7, 2023 (the "Amended Plan"); and

   c) an update regarding Metro and the Subsidiaries (as defined below below), in accordance with Section 8.1 of the Plan.

1.2 Currency

1. Unless otherwise noted, all references to currency in this Report are to Canadian dollars.

1.3 Restrictions

1. In preparing this Report, KSV has relied upon unaudited financial information prepared by, and discussions with, Metro's management (the "Financial Information"). KSV has not audited, reviewed or otherwise verified the accuracy or completeness of the Financial Information in a manner that would comply with Generally Accepted Assurance Standards pursuant to the Chartered Professional Accountants of Canada Handbook.

2. KSV expresses no opinion or other form of assurance with respect to the Financial Information presented in this Report or relied upon by KSV in preparing this Report. Any party wishing to place reliance on the Financial Information is required to perform its own due diligence and perform such additional investigations as it requires. KSV makes no representation or warranty as to the accuracy, completeness or fitness for purpose of the Financial Information presented herein.

3. Future oriented Financial Information relied upon in this Report is based upon management's assumptions regarding future events; actual results achieved may vary from this information and these variations may be material. KSV expresses no opinion or assurance regarding the future oriented Financial Information presented in this Report.

2.0 Background

1. The Partners are holding companies. Rosebud is an Ontario corporation which holds a 69.4% partnership interest in Metro, and 957 is an Alberta corporation which holds the remaining 30.6% partnership interest in Metro. Rosebud is also the sole shareholder of 957.

2. Prior to the commencement of the NOI Proceedings, Metro's business was primarily focused on wholesaling and distributing books and magazines to thousands of retailers across Canada (the "Literature Business"). The principal cause of Metro's financial difficulties leading up to the commencement of the NOI Proceedings was the decline of the Literature Business, which accelerated with the onset of the Covid-19 pandemic.

3. Due to unsustainable cash losses, immediately following the commencement of the NOI Proceedings, Metro sought approval of a sale of its Literature Business to Great Pacific Enterprises Inc. d/b/a TNG (the "TNG Transaction"). The TNG Transaction was approved by the Court on April 7, 2020 and closed on April 8, 2020.

4. Since completing the TNG Transaction, Metro's business has focused on: (a) distributing consumer-packaged goods ("CPG"), such as food products, music and consumer electronic accessories; and (b) growing businesses in which Metro and/or Rosebud hold an equity interest, being Well Ventures Corp. ("Well"), Handfuel Inc. ("Handfuel"), All Day Nutritionals Canada Ltd. And All-Day Nutritionals Inc. (jointly, "Swift Work Wellness"), Spectral Agriventures Inc. ("Spectral"), United Library Services Inc. ("ULS"), Recruiter.com Group, Inc. ("Recruiter") and Lucidsoft Inc. (dba Leankor) ("Leankor") (collectively, the "Subsidiaries"). Metro provides management, administrative and strategic support to the Subsidiaries.

5. The businesses of Metro and the Subsidiaries are described in the Monitor's Seventh Report to court dated November 22, 2021 (the "Plan Assessment Report"). A copy of the Plan Assessment Report can be found here: Plan Assessment Report.

3.0 Plan Amendment

1. On February 7, 2023, Metro transferred its 50% interest in Handfuel to a partnership named 36M Capital Partnership LP (the "HF Partnership"). Metro is the sole limited partner of the HF Partnership, and holds 99.999% of the partnership interests in the HF Partnership. The general partner of the HF Partnership is 1000437848 Ontario Limited, a newly incorporated, wholly-owned subsidiary of Metro, with the result being that Metro continues to be the ultimate beneficiary of the 50% interest in Handfuel.

2. The purpose of the transfer was to better position Handfuel for its first equity capital raise, which is expected to commence in the near term. Metro and its legal counsel consulted with the Monitor and its legal counsel on all documentation and the underlying premise of the transfer.

3. In order to maintain the status quo in respect of the treatment of any potential sale of Metro's interest in Handfuel under the Plan, an amendment to the definition of "Excess Cash" in the Plan was required so that the determination of Excess Cash will be net of any taxes payable by the Partners in respect of any transactions at the partnership level that give rise to a tax obligation of the Partners. The revised definition in the Amended Plan is reflected below:

> "Excess Cash" means, without duplication, with respect to any fiscal year of the CCAA Entities, the amount by which cash flow from operations (including, for greater certainty, Cash from any payment, declaration of dividend or distribution to any of the CCAA Entities by or from any Subsidiary), in the aggregate, taking into account any Capital Expenditures and any taxes not otherwise deducted from cash flow from operations and tax reserves set aside or payable**, including, for greater certainty, any taxes or tax reserves of any of the CCAA Entities in respect of the transactions that directly or indirectly gave rise to the cash flow** ~~(without duplication)~~, exceeds the amount required by the CCAA Entities to permit them to fund their ongoing operations, implement this Plan and the transactions contemplated hereby, and continue to support the Subsidiaries, as determined by the CCAA Entities, with the consent of the Monitor, or by further Order of the Court. For greater certainty, the Monitor shall report on any determination of Excess Cash as part of its reporting obligations under Section 8.1 of the Plan.

4. The Monitor consented to the Plan Amendment proposed by the CCAA Entities, as required pursuant to section 12.7(a) of the Plan, as the Plan Amendment is of an administrative nature required to better give effect to the implementation of the Plan, and cures an omission or ambiguity under the Plan, and is not materially adverse to the financial or economic interests of the Affected Creditors. In accordance with section 12.7(b) of the Plan, Court approval for the Plan Amendment is not required.

5. A copy of the Amended Plan is available on the Website at the following link: Amended Plan.

4.0 Monitor's Update

1. As noted above, Section 8.1 of the Plan provides, *inter alia*, that for as long as obligations under the Promissory Note remain outstanding, the Monitor shall report at least every six months after the Plan Implementation Date, or periodically in response to or as a result of the occurrence of a material event, as determined by the Monitor in its sole discretion, by preparing a report that will be served on the service list in the CCAA Proceedings and posted on the Website. Those reports are required to report on, among other things:

   a) the affairs, activities and business of the CCAA Entities and the Subsidiaries;

   b) amounts outstanding under the Promissory Note;

   c) the status of any Disputed Claims;

d) the Investment Reserve, including any amounts transferred or requests to transfer amounts therefrom;

e) any determination regarding Excess Cash;

f) the Creditor Distribution Pool, including requests to transfer Excess Cash therefrom; and

g) the actual and projected expenses of the Monitor.

2. An update on each the above since the First Post Plan Implementation Report is provided in the following sections of this Report.

4.1 Plan Subsection 8.1(a) – Update on CCAA Entities and the Subsidiaries

4.1.1 Metro

1. Since the First Post Plan Implementation Report, Metro's management has continued to focus on growing its CPG business and the Subsidiaries.

2. Based on recent discussions with Metro's management, the Monitor understands that Metro is continuing to expand its product offerings with existing CPG customers and to pursue new CPG supply relationships. It has secured several new CPG clients in the past few months. Two significant Canadian distributors have recently merged, which Metro believes will create opportunities for it to grow its CPG business.

3. Metro missed its budget for the 11-month period ended November 30, 2022 - it generated negative EBITDA of approximately $2.5 million (net of professional fees) for the 11-month period ended November 30, 2022, largely due to lower than projected revenue. It was previously reported that Metro was projected to incur negative EBITDA of approximately $938,000 for the fiscal year ended December 31, 2022. Metro's sales were approximately 50% less than projected during the period. Metro attributes the decline in sales largely to the termination of its relationship with Circle K, which was an unprofitable customer. Additionally, in the First Post Plan Implementation Report, the Monitor noted that Metro was working with the Subsidiaries to have them assume approximately $310,000 of additional costs Metro was incurring at the time as a result of its prior additions to its sales team, a large portion of which was to support the Subsidiaries. This planned increase in cost allocation to the Subsidiaries did not occur as Metro instead implemented headcount reductions to reduce its overall payroll costs.

4. Management expects Metro's financial performance to improve in fiscal 2023 for the following reasons:

a) it has secured a new line of "Halvana" products, which Metro projects to generate significant sales volume once established in the market. Metro projects that it will commence selling this new product line before the end February 2023;

b) it continues to rationalize costs. As noted above, Metro recently implemented cost cutting initiatives, including headcount reductions, which are expected to reduce annual operating expenses by approximately $600,000. This is in addition to senior management's salary reductions implemented on or around the Plan Implementation Date (totalling approximately $265,000); and

c) it recently discontinued its relationship with Circle K, as discussed above.

5. As at February 6, 2023, Metro's cash balance available for operating purposes was approximately $300,000. Management projects that it will receive tax refunds of approximately $550,000 in the near term. Should additional working capital be required in order for Metro to continue to operate in the normal course, the Monitor understands that a related party has indicated that it may be prepared to provide funding to Metro. The terms of any such financing will be disclosed in a subsequent report to be filed by the Monitor.

4.1.2 Subsidiaries

1. Rosebud and Metro do not have a controlling interest in the Subsidiaries; however, Metro provides the Subsidiaries with back-office support and Metro's management (principally Mr. Shapiro) oversees and guides the growth and strategic decision-making of certain of these businesses. Services provided by Mr. Shapiro, through Metro, include capital raising, product development, developing and managing distribution relationships and overall strategic guidance. Mr. Shapiro is not compensated by any of the Subsidiaries for providing these services.

2. The continued growth of the Subsidiaries and their eventual sale or other transaction is the primary mechanism through which Affected Creditors are expected to receive further distributions to be applied against the Promissory Note.

3. The following sections provide a brief update on the business and activities of each of the Subsidiaries since the First Post Plan Implementation Report.

<u>**Well**</u>

a) On a fully diluted basis, Metro and Rosebud continue to own 17.6% and 3.6% of Well's equity, respectively.

b) Well is a manufacturer and distributor of cold pressed juices. Well previously produced ready-to-drink ("RTD") alcoholic beverages, although it has made a decision to exit this market due to its under-performance. It is expected that this will free up working capital and improve gross margins and profitability.

c) Well's activities since the First Post Plan Implementation Report are summarized below.

i. <u>Expanded Operations:</u> Well's sales volume has outgrown the production capacity at its current facility. Accordingly, Well is working to increase its capacity by leasing a 15,000 square foot secondary warehouse. Management estimates that the new facility will require approximately $2.2 million in capital expenditures.

ii. <u>Transaction Considerations:</u> In the First Post Plan Implementation Report, the Monitor reported that Well had engaged Ernst & Young as its advisor to assist in raising additional equity capital. A capital raise is expected to be completed in the coming months, primarily to support the required capital expenditures for the new facility, certain upgrades at the existing facility and to provide additional working capital.

Pursuant to the Plan, a pool of funds totalling $1 million (referred to as the "Investment Reserve Account") was segregated and is being held by the Monitor to allow the CCAA Entities to participate in future financings of Well and the other Subsidiaries so that any dilution of the CCAA Entities' interest in the Subsidiaries is minimized. In this regard, the CCAA Entities, with the consultation of the Monitor, will be considering the extent to which they participate in Well's expected forthcoming capital raise.

iii. <u>Strategic Partnerships:</u> Well continues to secure listings with major retailers, including recent new listings with Loblaws East, 7-11 and Metro Ontario. In the First Post Plan Implementation Report, the Monitor advised that Well had recently hired a new senior team member with experience in the hospitality sector to increase its presence in that vertical. In that regard, Well, through newly onboarded wholesaler relationships, is shipping hospitality products to over 600 locations, up from 200 in January 2022. Furthermore, management is finalizing a contract with a prominent Toronto sports and entertainment company to sell products at a prominent concert venue.

d) Well continues to have access to an operating line facility under which it can borrow up to $500,000, the majority of which is not drawn at this time.

e) For the nine-month period ended December 31, 2022, Well's net revenue increased by approximately 23% year-over-year and gross margin increased by approximately 17% over the same period. As noted, Management projects that discontinuing the RTD business will further increase profitability in 2023.

<u>Handfuel</u>

a) Metro, through its interest in the HF Partnership, owns a 50% equity interest in Handfuel, a manufacturer of flavourful and nutritious food products which it distributes across Canada, such as fruit and nut snack mix products. Handfuel's products are sold in major grocery store chains and high-end grocers across Canada.

b) Handfuel's activities since the First Post Plan Implementation Report are summarized below.

i. <u>Strategic Partnerships:</u> Handfuel has recently secured a large floor display program with Save-On Foods, including an expanded snacks listing. Handfuel has continued to acquire new listings throughout independent stores in Canada and is scheduled to launch in Costco Canada in March 2023. Next steps for Handfuel include developing plans to launch into the US.

ii. Financing Considerations: Management is currently preparing to undertake Handfuel's first equity financing, the proceeds of which are expected to be used to support the US launch.

c) For its nine-month period ended September 30, 2022, Handfuel's financial results reflect:

i. a 45% year-over-year increase in net sales and an 8% positive sales variance to budget for the same period; and

ii. operating income and EBITDA were essentially break-even and consistent with budget.

Spectral

a) Metro and Well own a 9% and 39% equity interest in Spectral, respectively. Spectral has developed a turnkey greenhouse model that Metro's management believes has the potential to reposition how Canadian grocery retailers source produce and sell leafy greens. The greenhouse model allows produce to be grown and distributed within Canada on a cost-efficient basis, ensuring freshness, reducing the carbon footprint and maintaining price competitiveness.

b) Spectral has taken steps and is currently working towards opening its first greenhouse.

Swift Work Wellness

a) Metro's interests in Swift Work Wellness consist of a 27% holding in its US parent, and a 45% interest in its Canadian subsidiary, which together form Swift Work Wellness. Swift Work Wellness produces a liquid supplement designed to support immune system health, enhance focus and improve energy. Swift Work Wellness' liquid supplement is dispensed through a cooler system and is marketed towards use in workplace break rooms as a means of improving workplace wellness and overall employee performance.

b) Swift Work Wellness has not conducted any business operations since the start of the Covid-19 pandemic. Management is continuing to assess its options with regards to this business, including discontinuing this business.

ULS

a) Rosebud owns a 50% interest in ULS. ULS is a Calgary-based wholesale distributor of books to schools and libraries, primarily in Western Canada. The ULS business remains profitable based on year-to-date results and currently has no debt financing. The business has excess cash and is expected to pay dividends in 2023. Rosebud continues to consider strategic options for its interest in ULS.

Recruiter and Leankor

a) Rosebud owns 4,144 shares of Recruiter, which operates a recruiting platform. Recruiter is publicly traded on the NASDAQ stock exchange. Based on Recruiter's share price as at the date of this Report, Rosebud's nominal interest in Recruiter is valued at approximately US$3,000.

b) Rosebud also has a small interest in Leankor, which is a privately held company that provides project management services.

c) There are no material updates on Recruiter or Leankor at this time.

4.2 Plan Subsection 8.1(b) – Promissory Note

1. Pursuant to the Plan, the CCAA Entities were required, within 30 days of the Plan Implementation Date, to make an initial distribution (the "Initial Distribution") to Affected Creditors with Proven Claims. Proven Claims totalled approximately $18.6 million. On or around February 18, 2022, the CCAA Entities made the Initial Distribution of approximately $4.7 million in respect of the Proven Claims.

2. On the Plan Implementation Date, a non-interest-bearing promissory note was issued by the CCAA Entities and held by the Monitor on behalf of Affected Creditors who are not Convenience Class Creditors, in respect of the remaining balance owing to such Affected Creditors after payment of the Initial Distribution.

3. The amount owing under the Promissory Note (approximately $13.9 million) has not changed since the First Post Plan Implementation Report as no further distributions have been made.

4.3 Plan Subsection 8.1(c) – Disputed Claims

1. There are no Disputed Claims or any outstanding issues in the Claims Procedure.

4.4 Plan Subsection 8.1(d) – Investment Reserve

1. Pursuant to Section 5.1 of the Plan, the CCAA Entities transferred $1 million to the Investment Reserve Account (being an account maintained by the Monitor) on February 3, 2022.

2. The Investment Reserve Account was created under the Plan to set aside funds from the cash then on hand, so that the CCAA Entities can, in consultation with the Monitor, participate in the Subsidiaries' future capital raising transactions to avoid or minimize dilution of their equity interests in the Subsidiaries.

3. As noted in the First Post Plan Implementation Report, the Monitor transferred $30,900 to Metro from the Investment Reserve Account on June 13, 2022 to enable Metro to exercise warrants in Well before they were set to expire. As of the date of this Report, there has been no further activity in respect of the Investment Reserve Account.

4. As described above, Well is planning to complete a capital raise in the coming months to support its growth initiatives. The CCAA Entities, in consultation with the Monitor, may participate in this capital raise using funds from the Investment Reserve Account.

5. As of the date of this Report, the balance in the Investment Reserve Account is approximately $990,000 (inclusive of interest).

4.5 Plan Subsection 8.1(e) – Excess Cash

1. Commencing at the end of Metro's first full fiscal year following the Plan Implementation Date (being the year ended December 31, 2023), the Plan provides that the CCAA Entities must transfer any Excess Cash to the Creditor Distribution Pool Account, which can then be used to make distributions to Intercompany Creditors and Affected Creditors if the balance of the Creditor Distribution Pool Account exceeds $1 million.

2. Metro is not expected to generate free cash flow in the near term, and accordingly, the Monitor does not expect that the CCAA Entities will generate Excess Cash in the near term.

4.6 Plan Subsection 8.1(f) – Creditor Distribution Pool

1. To date, there have been no transfers to the Creditor Distribution Pool Account other than to fund the Initial Distribution.

2. As at the date of this Report, the balance in the Creditor Distribution Pool Account is approximately $42,000, which represents Uncashed Distribution cheques from the Initial Distribution.

3. Pursuant to Section 6.7 of the Plan, if an Affected Creditor's distribution in respect of its Affected Claim is not cashed and becomes stale-dated or is returned undeliverable (in each case, being an "Uncashed Distribution"), no further distributions shall be made to such creditor unless and until the CCAA Entities are notified in writing of such creditor's current address or wire particulars prior to the Uncashed Distribution Notification Deadline, being the date that is six months from the date of the related distribution.

4. The CCAA Entities did not receive any notifications regarding the Uncashed Distribution cheques prior to the Uncashed Distribution Notification Deadline (being August 18, 2022 for the Initial Distribution). Accordingly, pursuant to Section 6.7 of the Plan, the claims of such Affected Creditors are considered satisfied, forever discharged and forever barred, and the Uncashed Distributions are to remain in the Creditor Distribution Pool Account for distribution to creditors.

4.7 Plan Subsection 8.1(g) – Monitor's Fees

1. The fees and disbursements of the Monitor and its legal counsel, Bennett Jones LLP ("Bennett Jones"), from the Plan Implementation Date to July 31, 2022 were reported in the First Post Plan Implementation Report.

2. The fees (excluding disbursements and HST) of the Monitor and Bennett Jones from August 1, 2022 to January 31, 2023 total approximately $31,000 and $16,000, respectively.

3. Pursuant to the Sanction Order, the fees of the Monitor and Bennett Jones incurred following the Plan Implementation Date do not require Court approval.

5.0 Next Steps

1. There are no distributions to Affected Creditors projected at this time. The Monitor is required to file its next report no later than August 9, 2023.

2. Should there be a material development prior to August 9, 2023, the Monitor will file, serve and make available on the Website a further report in accordance with Section 8.1 of the Plan.

* * *

All of which is respectfully submitted,

KSV Restructuring Inc.

KSV RESTRUCTURING INC.,
SOLELY IN ITS CAPACITY AS MONITOR OF
THE PARTNERS AND METRO
AND NOT IN ITS PERSONAL CAPACITY