Court File No. •

SUPREME COURT OF NOVA SCOTIA
IN BANKRUPTCY AND INSOLVENCY

IN THE MATTER OF an application of Mernova Medicinal Inc. and Creso Canada Limited.

AND IN THE MATTER OF the *Companies' Creditors Arrangement Act* R.S.C., 1985 c. C-36 as amended

PRE-FILING REPORT TO THE COURT SUBMITTED BY GRANT THORNTON LIMITED IN ITS CAPACITY AS PROPOSED MONITOR

April 10, 2025

Doane Grant Thornton

Grant Thornton Limited
Proposed Monitor

1000-1675 Grafton Street
Halifax, NS B3J 0E9

TABLE OF CONTENTS

APPENDICES

Introduction

1. Grant Thornton Limited (“**GTL**”, or the “**Proposed Monitor**”) understands that Mernova Medicinal Inc. (“**Mernova**”) and Creso Canada Limited. (“**Creso**” and together with Mernova, the “**Applicants**”) will be making an application to the Supreme Court of Nova Scotia in Bankruptcy and Insolvency (“**Court**”) for an order (“**Initial Order**”) granting, among other things, a stay of proceedings against the Applicants for ten (10) days (“**Stay Period**”) pursuant to the *Companies’ Creditors Arrangement Act*, R.S.C., 1985 c. C-36, as amended (“**CCAA**”). The proceedings anticipated to be commenced by the Applicants under the CCAA are referred to herein as the “**CCAA Proceedings**”.

2. This pre-filing report of the Proposed Monitor (the “**Pre-Filing Report**”) has been prepared prior to and in contemplation of GTL’s appointment as Monitor in these CCAA Proceedings, to provide the Court with information for its consideration in respect of the relief sought by the Applicants in the Initial Order.

3. Should the Initial Order be granted, the Proposed Monitor understands that the Applicants intend to return to the Court within ten (10) days (“**Comeback Hearing**”) to seek the Court’s approval of an Amended and Restated Initial Order (“**ARIO**”), granting certain broader relief as part of the Applicant’s restructuring plan. If appointed, GTL intends to file a further report in advance of the Comeback Hearing to provide GTL’s views on the relief sought in the ARIO.

Purpose of the Pre-Filing Report

4. The purpose of this Pre-Filing Report is to provide the Court and the Applicant’s stakeholders with the Proposed Monitor’s understanding and views with regards to:

   (a) The qualifications of GTL to act as Monitor in these CCAA Proceedings and an overview of GTL’s involvement with the Applicants to date;

   (b) An overview of the business and affairs of the Applicants and the Proposed Monitor’s understanding of the factors leading to the decision to commence these CCAA Proceedings;

   (c) The Proposed Monitor’s understanding of the Applicant’s current financial position and recent financial performance;

(d) The Proposed Monitor's understanding of the Applicants initial plan for these proposed CCAA proceedings, should the Court grant the Applicants' requested relief;

(e) The Proposed Monitor's views on the Applicants' weekly cash flow forecast for the period of April 7, 2025, to July 6, 2025 (the "**Cash Flow Forecast**"), pursuant to s. 23 of the CCAA; and

(f) The Proposed Monitor's views on the Applicants' request for an Initial Order including:

i. a stay of proceedings against the Applicants until the Comeback Hearing;

ii. appointing Grant Thornton Limited as monitor ("**Monitor**") of the Applicants in the CCAA Proceedings pursuant to section 11.7 of the CCAA;

iii. approval of an initial charge in the amount of $100,000 (the "**Administration Charge**") securing the fees and expenses of the Monitor, legal counsel to the Monitor ("**Monitor's Counsel**") and legal counsel to the Applicants ("**Applicants Counsel**") in these CCAA Proceedings; and

iv. approval of an initial charge in the amount of $150,000 (the "**Directors' Charge**") securing the indemnification by the Applicants of its directors and officers against the obligations and liabilities they may incur in such capacity after the commencement of the CCAA Proceedings, except to the extent that, with respect to any individual, the obligation or liability was incurred as a result of the individual's gross negligence or willful misconduct.

Terms of Reference

5. In preparing this Pre-Filing Report, the Proposed Monitor has relied upon unaudited internal financial statements, certain other financial information and financial projections of the Applicants, discussions with management of the Applicants ("**Management**"), discussions with the Applicants Counsel and financial information provided by other stakeholders (collectively, the "**Information**"). While the Proposed Monitor has reviewed the Information for reasonableness and believes that the information provides a fair summary of the transactions and underlying financial position as reflected in the documents of the Applicants, the Proposed Monitor has not audited, reviewed, or

otherwise attempted to verify the accuracy or completeness of the Information in a manner that would comply with Canadian Generally Accepted Auditing Standards.

6. Some of the Information used in preparing this Pre-Filing Report consists of forward-looking information. The Proposed Monitor cautions that such information is based on assumptions about future events and conditions that are not yet ascertainable. The actual results with respect to the forward-looking information and the variations thereof could be significant.

7. In the course of its mandate, the Proposed Monitor has assumed the integrity and truthfulness of the Information and explanations presented to it by Management, directors of the Applicants, and other stakeholders within the context in which the Information was presented. To date, nothing has come to the Proposed Monitor's attention that would cause it to question the reasonableness of these assumptions. The Proposed Monitor requested that Management, directors and other stakeholders bring to its attention any significant matters which were not addressed in the course of the Proposed Monitor's specific inquiries. Accordingly, this Pre-Filing Report is based solely on the Information (financial or otherwise) made available to the Proposed Monitor by the Applicants, Management and other stakeholders.

8. This Pre-Filing Report has been prepared for the use of this Court and the Applicants' stakeholders as general information relating to the Applicants and these proposed CCAA Proceedings, and to assist the Court in determining whether to grant the relief sought by the Applicants. Accordingly, the reader is cautioned that this Pre-Filing Report may not be appropriate for any other purpose. The Proposed Monitor does not assume responsibility or liability for losses incurred by the reader as a result of the circulation, publication, reproduction or use of this Pre-Filing Report contrary to the provisions of this paragraph.

9. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian Dollars. Capitalized terms not otherwise defined herein have the meaning given to them in the affidavit of Micheline MacKay ("**Ms. MacKay**") sworn on April 9, 2025 ("**MacKay Affidavit**").

Qualifications to Act as Monitor

10. GTL is a Licensed Insolvency Trustee within the meaning of s. 2(1) of the *Bankruptcy and Insolvency Act,* R.S.C., 1985, c. B-3 (the "**BIA**") and is not subject to any of the restrictions on who may be appointed as Monitor as set out within s. 11.7(2) of the CCAA. Specifically, neither GTL nor any of its representatives or affiliates has at any time in the past two years been:

    (a) a director, officer or employee of the Applicants;

    (b) related to the Applicants, or to any director or officer of the Applicants; or

    (c) the auditor, accountant or legal counsel or a partner or an employee of the auditor, accountant or legal counsel, of the Applicants.

11. GTL is an independent, neutral third party and has consented to act as Monitor should the Court grant the Applicants' request for relief in the Initial Order. A copy of the Proposed Monitor's consent to act is attached hereto as **Appendix "A"**. GTL has retained Stewart McKelvey ("**Monitor's Counsel**") to act as its independent counsel in the event GTL is appointed as Monitor.

12. GTL draws breadth of experience from its team of Partners and colleagues in Atlantic Canada and across the Country. The GTL representatives with carriage of this matter are experienced Chartered Insolvency and Restructuring Professionals and Licensed Insolvency Trustees, who have acted in restructurings and CCAA matters across various provinces in Canada and particularly in Atlantic Canada.

GTL's Activities to Date

13. Pursuant to an engagement letter dated March 21, 2025 (the "**GTL Engagement Letter**"), GTL was engaged to assist the Applicants in preparing for these CCAA Proceedings including the provision of financial, strategic and restructuring advice prior to the application for an Initial Order.

14. The GTL Engagement Letter specifically states that if appointed as Monitor under the CCAA, GTL will be acting as an officer of the Court and its primary responsibility will be to the Court. While GTL will endeavor to work cooperatively with the Applicants throughout

the CCAA Proceedings, the GTL Engagement Letter confirms that GTL's duties to the Court will take priority over the Applicants' wishes.

15. For certainty, pursuant to the GTL Engagement Letter, GTL did not take any steps that would entail GTL controlling and or managing the Applicants' operations, nor has GTL provided accounting or auditing advice to the Applicants. Fees payable to GTL pursuant to the GTL Engagement Letter are based on hours worked multiplied by standard hourly rates, consistent with mandates of this nature in Atlantic Canada. GTL is not entitled to any success-based or other contingency-based fees.

16. Since the date of the GTL Engagement Letter, GTL as Proposed Monitor has, among other things:

(a) held various meetings and email communications with Management, the Applicants' Counsel and certain secured creditors to discuss restructuring options available, the proposed CCAA Proceedings, outline the role of the Monitor therein, and understand the basis for the Applicants' request for the Initial Order as highlighted in the MacKay Affidavit;

(b) conducted research related to the voluntary insolvency proceedings in December 2024 of the Applicants' parent company, Melodiol Global Health Limited ("**Melodiol**"), which the Proposed Monitor understands is the catalyst for the Applicants' requested relief under the CCAA;

(c) the Proposed Monitor worked with Management to further discuss and explain, among other things:

i. the roles of various parties in the CCAA Proceedings;

ii. the impact of the Stay of Proceedings on Mernova's cash flow forecast;

iii. Court ordered charges and why they are often requested in CCAA Proceedings;

iv. should the Initial Order be granted, Mernova's process for the review and payment of post-filing expenditures and communication with vendors, suppliers, and stakeholders; and

v. the expected impact on the Applicants' and its stakeholders if the Initial Order is granted.

(d) worked with the Applicants and its counsel to gain an understanding of the various affected stakeholders in the proposed CCAA Proceedings as outlined in the MacKay Affidavit, including CRA, employees, key suppliers and the relationship with the Applicants' secured creditors;

(e) assisted the Applicants in preparing and reviewing the Cash Flow Forecast, reviewing the hypothetical assumptions within the Cash Flow Forecast and challenging Management as to those assumptions based on the Proposed Monitor's experience in similar proceedings of this nature;

(f) discussed the need for interim financing in these CCAA Proceedings given the current financial position and the Cash Flow Forecast, assisted the Applicants in seeking such interim financing, and gained an understanding of the various options available for the Applicants in respect of same;

(g) engaged with La Plata Capital LLC as a secured creditor and in anticipation of the Applicants filing for creditor protection to discuss, amongst other things, potential restructuring options, current financial performance and providing interim financing in the proposed CCAA Proceedings;

(h) discussed the informal strategic alternative process ("**SAP**") pursued by Mernova over the past six months which was ultimately unsuccessful, including the engagement of an experienced cannabis broker and advisor to source a viable restructuring alternative to the proposed CCAA Proceedings;

(i) assisted the Applicants in developing and reviewing a communication plan in respect of the proposed CCAA Proceedings to stakeholders, including employees, customers, secured creditors, unsecured creditors, and created a case management website to be a central repository of information for stakeholders should this Honorable Court grant the Applicants' requested relief and appoint GTL as Monitor, at www.DoaneGrantThornton.ca/Mernova;

(j) engaged in discussions with Management in respect of the operation of the Stay of Proceedings, the impact of the CCAA Proceedings on creditors, and gained an understanding of the Applicants' view on creditors who may be considered critical to continued operations and preservation of value in the ordinary course; and

(k) gained a sufficient understanding of the Applicants' operations, financial challenges and potential restructuring options to effectively carry out the Proposed Monitor's duties pursuant to the Initial Order as this Court's officer, should the Initial Order be granted.

Background – Overview of the Applicants

17. The business and affairs of the Applicants, including the factors leading to its insolvency, are described in detail in the MacKay Affidavit. The Proposed Monitor has reviewed the MacKay Affidavit and discussed the business and affairs of the Applicants with Management and the Applicants' Counsel. The Proposed Monitor is of the view that, based on the information reviewed as of the date of this Pre-Filing Report, the MacKay Affidavit provides a fair summary thereof.

<u>The Business and Operations</u>

18. Mernova, a corporation registered pursuant to the laws of Nova Scotia, is a licensed cannabis producer and holds (1) licenses from Health Canada to cultivate, produce, process, and sell cannabis, (2) a license to conduct cannabis research testing and (3) a cannabis excise licence from Canada Revenue Agency (collectively, the "**Licenses**"). The Proposed Monitor understands that Mernova owns and operates a fully licensed 24,000 square foot cannabis cultivation facility on 10 acres of land in Windsor, Nova Scotia ("**Facility**"), employs approximately 40 employees and sells cannabis products to the medicinal and retail cannabis markets across Canada.

19. The Proposed Monitor understands that Creso, a corporation incorporated pursuant to the *Canada Business Corporations Act,* was created solely for the acquisition of Mernova and that Creso has no operations, employees, or assets outside its 100% ownership of Mernova. All operations of the Applicants in the proposed CCAA Proceedings and reflected in the Cash Flow Forecast are that of Mernova.

20. Based on the Proposed Monitor's discussion with Management and review of the Applicants' records in preparation for these CCAA Proceedings, the Proposed Monitor understands that:

(a) while operating in the relatively early-stage cannabis industry, Mernova has grown production and revenues materially in the past several years, with over 30% annual revenue growth in each of the last two years;

(b) Mernova has invested significantly in the Facility, which is currently capable of producing 1,250 kgs of cannabis annually with additional capacity available, subject to capital investment; and

(c) Mernova sells finished cannabis products to provincial and private distributors in 11 of the 13 provinces across Canada, as well as into the medical market indirectly through sales agreements with other licensed cannabis producers.

<u>Factors Leading to Proposed CCAA Proceedings</u>

21. The Proposed Monitor understands from discussions with Management and a review of the MacKay Affidavit that the catalyst for seeking creditor protection under the CCAA was the insolvency of the Applicant's parent company, Melodiol, and the resulting demands issued as against the Applicants in respect of Melodiol's secured debt, discussed further below.

22. Based on discussions with Management, the Proposed Monitor understands that although Mernova had recently achieved stable profitability and was successfully executing on its business plan, the Applicants had suffered losses in prior years as the business grew, leading to a financial position that could not satisfy the guarantees of Melodiol's secured debt. The Proposed Monitor is advised that factors contributing to prior year losses, and which have negatively impacted the cannabis industry generally, include:

(a) challenging and expensive regulatory regime in the emerging cannabis industry, including the high cost of excise duties for cannabis products;

(b) intense competition from both legal and illicit supplies of cannabis, leading to an over-supply of cannabis products and price compression;

(c) the significant amount of capital required to successfully develop and generate revenue from new products; and

(d) changing capital market sentiment reducing public investment in the cannabis sector, requiring the Applicants to seek more expensive forms of financing in challenging interest rate environments.

Assets

23. As at the date of this Pre-Filing Report, the Proposed Monitor understands the Applicants' core assets comprise the Licenses and the Facility, both of which the Proposed Monitor is advised have greater value when used as part of a going concern cannabis operation than in a liquidation, particularly given prevailing market conditions. The Proposed Monitor's understand of the Applicants' assets, as outlined in the MacKay Affidavit, are shown below:

Mernova Medicinal Inc. and Creso Canada Ltd. Statement of Assets: February 28, 2025	
Current Assets	**$CAD**
Cash and Cash Equivalent	97,837
Accounts Receivable	708,794
Deposits and Prepaid Expenses	277,032
Inventory	1,660,039
GIC	28,000
Other assets	2,014
Current Assets	**2,773,716**
Long Term Assets	
Property, Plant and Equipment	7,678,035
Health Canada Licenses (net)	146,782
Trademark – Ritual Green	26,714
CRA Excise Bond	150,000
Long Term Assets	**8,001,531**
Total Assets	**10,775,247**

Creditors

24. The Proposed Monitor understands the Applicant's creditors are comprised as follows, with amounts estimated from the books and records as of April 1, 2025 and converted to CAD, where applicable, as of April 10, 2025:

Mernova Medicinal Inc. and Creso Canada Ltd. Creditors Estimate: April, 2025	
Canada Revenue Agency	**$CAD**
Unremitted HST	307,307
Unremitted Excise Tax	1,287,613
Canada Revenue Agency	**1,594,920**
Unsecured Creditors	
Trade Accounts Payable	2,975,449
Canada Emergency Benefit Loan	37,830
Unsecured Creditors	**3,013,279**
Secured Creditors (Melodiol Guarantees)	
Briant Nominees Pty Ltd.	2,915,442
La Plata Capital LLC	6,639,087
Secured Creditors	**9,554,529**
Estimated Creditors	**14,162,728**

25. The Proposed Monitor notes the following in respect of the estimated creditors as of April 2024:

(a) Mernova previously agreed to a payment plan with the Canada Revenue Agency ("**CRA**") in respect of outstanding historical HST and unremitted excise taxes, to which Mernova paid $63,000 per month for excise tax and $14,000 per month for GST/HST. The Proposed Monitor understands that Mernova has not been able to service payments for the historical balances owing to CRA since January 2025. The Proposed Monitor understands the Applicants are of the view that, should the Court grant the Applicants request for an Initial Order, payments for historical balances would cease and be subject to the Stay Period;

(b) trade accounts payable include amounts owing for input supplies of the cannabis operation, distribution contracts, and other third party suppliers to operate the business in the ordinary course;

(c) secured creditors comprise claims as against the Applicants resulting from Melodiol's insolvency, to which the Proposed Monitor has not yet reviewed the validity or enforceability of the associated security documents or claims; and

(d) the Applicant's books and records include an amount owing to Creso Canada Corp. Ltd. of $16,654,241, which the Proposed Monitor did not include in the table above as it appears to be an inter-company balance owing within the Melodiol corporate structure, of which the Applicants are a subsidiary. Should the Initial Order be granted, the Proposed Monitor intends to further investigate this balance.

26. Section 3(1) of the CCAA states that the CCAA applies to insolvent debtor companies with total liabilities greater than $5,000,000; as such, the Applicants are debtor corporations to which the CCAA applies.

Secured Creditors

27. The Proposed Monitor understands the Applicants primary secured creditors consist of Briant Nominees Pty Ltd. ("**Briant**") and La Plata Capital LLC ("**La Plata**"), both of whom had outstanding debts from Melodiol upon Melodiol entering Australia's voluntary insolvency proceedings in December 2024. Based on the Proposed Monitor's preliminary understanding of the various security documents as between Briant, La Plata and Melodiol, discussed in further detail in the MacKay Affidavit, the Applicants have guaranteed the debts of Melodiol.

28. As at the date of this Pre-Filing Report, the Proposed Monitor understands that:

(a) On March 28, 2025, Briant demanded upon the Applicants the estimated outstanding indebtedness owing by Melodiol to Briant pursuant to its security documents of approximately AUD$3,433,702, plus costs, expenses and interest (the "**Briant Indebtedness**"); and

(b) Mernova is in breach to La Plata pursuant to its security documents with outstanding indebtedness of approximately USD $4,660,041.22, inclusive of interest (the "**La Plata Indebtedness**"). Mernova is unable to repay the La Plata Indebtedness.

29. The Proposed Monitor understands that Briant and La Plata are supportive of the Applicants' requested relief under the CCAA, inclusive of a potential sales and investment solicitation process ("**SISP**") for the purposes of maximizing recovery for stakeholders. Should the Initial Order be granted, the Proposed Monitor intends to have an independent security review completed as it relates to all security held against the Applicants and their assets and/or undertakings.

Canada Revenue Agency

30. The MacKay Affidavit states that the following amounts are outstanding to the CRA:

(a) $307,307 of unremitted HST; and

(b) $1,287,613 of unremitted excise tax.

31. The Proposed Monitor notes that, should the Court grant the Applicants' request for an Initial Order, the historical amounts owing to CRA outlined above would be subject to the Stay Period. As of the date of this Pre-Filing Report, the Proposed Monitor has not yet reviewed the balances owing to CRA to consider their priority with respect to the Applicants' secured creditors.

32. The Applicants have advised the Proposed Monitor that the payment of the current excise taxes is required prior to Mernova ordering additional excise stamps from Health Canada. These stamps are a regulatory requirement and must be placed on Mernova's various cannabis products for sale to its customers. The calculation of excise taxes owing to CRA is based on Mernova's gross sales for the prior month.

33. The Proposed Monitor understands that the Applicants intend to continue payment of post-filing excise taxes incurred after the date of the Initial Order to CRA. Further, the Cash Flow Forecast has considered the payment of estimated excise taxes owing to CRA for gross sales throughout the proposed CCAA Proceedings.

34. The Proposed Monitor also understands that CRA currently holds a cash bond from Mernova of $150,000 for the purposes of security related to excise taxes.

35. The Proposed Monitor understands that the continued issuance of these regulatory stamps is critical to Mernova's continued operations throughout these proposed CCAA Proceedings.

Health Canada

36. The Proposed Monitor understands from discussions with the Applicants and Applicants Counsel that Mernova is subject to annual regulatory fees with Health Canada in order to maintain the Licenses, the current balance which is related to the period of April 1, 2023 to March 31, 2024 (the "**2024 Health Canada Fees**"). These regulatory fees are calculated in April of each year based on Mernova's previous gross sales. The Proposed Monitor

understands the Applicants have worked with Health Canada to establish a monthly payment plan in respect of the 2024 Health Canada Fees.

37. The Proposed Monitor understands the Applicants are of the view that, should the Court grant the Initial Order, the monthly payment plan for the 2024 Health Canada Fees would cease as it the 2024 Health Canada Fees would be subject to the Stay Period. The Proposed Monitor understands it is critical that the Licenses remain in good standing pending the completion of these proposed CCAA Proceedings for the benefit of Applicants' stakeholders, and should the Initial Order be granted, the Proposed Monitor intends to work with the Applicants and Health Canada in this regard.

Cash Flow Forecast

38. The Applicants, with assistance from the Proposed Monitor, prepared the Cash Flow Forecast attached in the MacKay Affidavit with an executed copy attached hereto as **Appendix "B**" covering the period of April 7, 2025, to July 6, 2025 (the "**Cash Flow Period**"). The Cash Flow Forecast was prepared on the assumption that, among other things, the Applicants' operations will continue in the ordinary course.

39. The Cash Flow Forecast has been prepared by Management using the probable and hypothetical assumptions set out therein (the "**Probable and Hypothetical Assumptions**").

40. The Proposed Monitor has reviewed the Cash Flow Forecast to the standard required of a Court-appointed Monitor by s. 23(1)(b) of the CCAA. The Proposed Monitor's review of the Cash Flow Forecast consisted of inquiries, analytical procedures, and discussions related to information supplied to the Proposed Monitor by Management. Since the Probable and Hypothetical Assumptions need not be supported, the Proposed Monitor's procedures with respect to same were limited to evaluating whether they were consistent with the purpose of the Cash Flow Forecast and the Proposed Monitor's understanding of the business. The Proposed Monitor has also reviewed the support provided by the Applicants for the Probable and Hypothetical Assumptions and the preparation and presentation of the Cash Flow Forecast.

41. Based on the Proposed Monitor's review, nothing has come to its attention that causes it to believe that, in all material respects:

(a) the Probable and Hypothetical Assumptions are not consistent with the purpose of the Cash Flow Forecast;

(b) as at the date of this Pre-Filing Report, the Probable and Hypothetical Assumptions developed by Management are not suitably supported and consistent with the Applicants' plans or do not provide a reasonable basis for the Cash Flow Forecast, given the Probable and Hypothetical Assumptions; or

(c) the Cash Flow Forecast does not reflect the Probable and Hypothetical Assumptions.

42. The Applicants expect the cash position at the commencement of the CCAA Proceedings to be approximately $89,000. While the Applicants expect to generate positive cash flow from operations, the Cash Flow Forecast demonstrates that the Applicants will require interim financing in these CCAA Proceedings to fund any potential shortfall in operations as well as the projected restructuring costs over the Cash Flow Period. The Proposed Monitor understands that it is the Applicants intention to request an order for interim financing at the Comeback Hearing, should the Court grant the requested Initial Order.

Cash Flow Forecast Summary For the period of April 7, 2025, to July 6, 2025	
$CAD	**Weeks 1-13**
Operating cash receipts	2,315,714
Operating cash disbursements	(2,301,978)
Cash Flow from Operations	**13,736**
Restructuring Fees	(449,965)
Net Cash after Restructuring Fees	**(436,229)**
Opening cash balance	89,104
DIP financing	500,000
Net cash flow	(436,229)
Ending Cash Balance	**152,875**

43. The Proposed Monitor makes the following general comments on the Cash Flow Forecast:

(a) cash receipts from cannabis revenues relate to the collection of receivables in the ordinary course from the sale of Mernova's cannabis and vape products, primarily to provincial crown corporations across Canada. Management has estimated the projected receipts from cannabis revenues based on current purchase orders from its customers, historical results and projected volumes from recent customer discussions;

(b) material operational disbursements include payroll, excise taxes, packaging and production supplies and utilities, all incurred in the ordinary course post-filing and paid pursuant to current terms.

i. with regards to payroll, Mernova uses a third-party service provider, Payworks, to facilitate payments to employees and to CRA for taxes and source deductions; and

ii. excise taxes are payable monthly to the CRA based on the prior month's gross cannabis sales and are required to maintain Mernova's Licenses. The projected payment for excise taxes in Week 7 of the Cash Flow Forecast are post-filing CCAA amounts of April 2025 gross cannabis sales.

(c) a contingency line has been included within the Cash Flow Forecast at $5,000 weekly, or approximately 3% of operating disbursements, which may be applied to pre-filing critical payments with the consent of the Monitor, discussed further below; and

(d) professional fees for the Monitor, its counsel, and the Applicants' legal counsel in respect of the proposed CCAA Proceedings are estimates of hours incurred by the respective professionals at their standard rate and charge through the Cash Flow Period, and include projected time for the Monitor to facilitate a SISP.

44. Since the Cash Flow Forecast is based on assumptions regarding future events, actual results will vary from the information presented even if the Probable and Hypothetical Assumptions occur, and the variations may be material. Accordingly, the Proposed Monitor expresses no assurance as to whether the Cash Flow Forecast will be achieved. The Proposed Monitor expresses no opinion or other form of assurance with respect to the accuracy or completeness of any financial information presented in this Pre-Filing report or relied upon by the Proposed Monitor in preparing this Pre-Filing Report.

45. The Cash Flow Forecast has been prepared solely for the purposes described on the face of the Cash Flow Forecast and readers are cautioned that it may not be appropriate for other purposes.

46. The Cash Flow Forecast indicates that without interim financing, discussed further below, the Applicants will not have sufficient liquidity to continue operations in these CCAA Proceedings.

Preliminary Restructuring Plan

47. As at the date of this Pre-Filing Report, the Proposed Monitor understands the Applicants have determined, in consultation with their advisors and stakeholders, that the optimal path forward is a restructuring plan that involves implementation of a Court-approved SISP in respect of the assets and/or shares of Mernova, facilitated by the Monitor.

48. Should the Initial Order be granted, the Proposed Monitor understands the Applicants intend to seek approval of, amongst other things, a SISP at the Comeback Hearing. If appointed, the Proposed Monitor intends to file a further report in advance of the Comeback Hearing to provide the Monitor's views on the relief sought in the ARIO, including the SISP.

Debtor in Possession Financing

49. As outlined in the Cash Flow Forecast, the Applicants will require interim financing ("**DIP Financing**") to pursue a restructuring of the business in the proposed CCAA Proceedings. The Cash Flow Forecast prepared by the Applicants contemplate DIP Financing of $500,000 through the Cash Flow Period.

50. As at the date of this Pre-Filing Report, the Proposed Monitor understands the Applicants and its advisors are working towards finalizing a DIP Financing term sheet and expect to be able to advance DIP Financing for approval at the Comeback Hearing. The Proposed Monitor notes that Mernova is projected to have sufficient liquidity to operate until that time.

Proposed Court Ordered Charges

51. The proposed Initial Order provides for charges ("**Charges**") on the Applicants' Property to rank ahead of Existing Security, as defined in the Initial Order:

(a) First – the Administration Charge for an amount of $100,000; and

(b) Second – the Directors Charge of $150,000.

52. Should the Court grant the Initial Order, the Proposed Monitor understands the Applicants intend to seek amendments to the Charges and additional charges at the Comeback Hearing for the ARIO, initially contemplated as follows:

(a) First – the Administration Charge at $250,000;

(b) Second – the Debtor in Possession financing charge of $500,000;

(c) Third – the Directors Charge of $300,000; and

(d) Fourth – a key employee retention plan (“**KERP**”).

Administration Charge

53. The Proposed Initial Order contemplates the Monitor, the Monitor’s Counsel and the Applicants Counsel be granted a Court-ordered charge on the assets of the Applicants as security for professional fees and disbursements relating to services rendered in respect of the proposed CCAA Proceedings (whether incurred prior to or after the commencement of the CCAA proceedings) at their standard rates and charges in an amount not to initially exceed CAD $100,000.

54. The initial Administration Charge threshold has been established based on extensive work completed by the professionals prior to these proposed CCAA Proceedings, the various professionals’ previous history, experience with restructurings of similar magnitude and complexity, and expected professional fees incurred through the Comeback Hearing. Should the Initial Order be granted, the Proposed Monitor is of the view that the proposed Administration Charge is required and reasonable in the circumstances given the expected complexity of the proceedings, the expected involvement of the associated professionals in advancing a restructuring of the business, and the liquidity available in the Cash Flow Forecast.

55. Based on the above, the Proposed Monitor respectfully recommends that the Applicants’ request for the Administration Charge be granted by this Court.

Directors Charge

56. The Initial Order contemplates a Directors’ Charge in the amount of $150,000 be granted in favour of the Applicant’s directors and officers. It is the Proposed Monitor’s view that the

continued support and service of the directors and officers during the CCAA Proceedings are critical to the Applicants' ability to continue operations, preserve value and maximize recovery for stakeholders. This is especially significant for Mernova, given that Micheline MacKay as director and officer holds the necessary and required security clearances from Health Canada, as well as certain key positions under the *Cannabis Act (Canada),* necessary for Mernova to continue operating as a going concern. If Ms. MacKay does not maintain her position as a director and officer, the Applicants' will be unable to continue ongoing operations to generate the cash flow necessary to fund these proposed CCAA Proceedings.

57. The Proposed Monitor understands the initial quantum of the proposed Directors' Charge is based on estimated amounts for which directors could potentially have statutory personal liability, including certain taxes (including excise taxes), wages, salaries and applicable withholdings, benefits and accrued vacation pay, through the Comeback Hearing. The Proposed Monitor is advised that the Applicants do not have directors and officers insurance which would otherwise cover these potential risks, that the applicable directors and officers are not shareholders of the Applicants, and that the Cash Flow Forecast includes all post-filing payments to which directors and officer liability could apply.

58. Should the Initial Order be granted, the Proposed Monitor understands that the quantum of the Director's Charge will be revisited at the Comeback Hearing.

59. Based on the above, the Proposed Monitor respectfully recommends that the Applicants' request for the Directors' Charge be granted by this Court.

Applicants' Request for Pre-Filing Payments

60. The Applicants are seeking within the Initial Order the Court's approval to make certain pre-filing critical payments (with the consent of the Monitor), in such capacity, and only to suppliers that are deemed critical to the Applicants' ongoing business operation and which are required to preserve the value of the Applicants' business or property (the "**Critical Suppliers**").

61. The Proposed Monitor recognizes that Courts across the country have accepted that payments of certain pre-filing arrears are not uncommon in CCAA proceedings pursuant

to section 11.4 of the CCAA, but must be used sparingly and minimized to avoid preferential payments and prejudice to the interests of all creditors. The Proposed Monitor has discussed the potential suppliers noted by Mernova as being critical, and has advised Mernova that any pre-filing payment to a Critical Supplier must be justified to the Monitor as (1) critical to the business or preservation of property (2) the delivery of goods or services supplied cannot be easily or economically replaced and (3) without continued supply it would negatively impact Mernova's ability to operate and pursue a restructuring in these CCAA Proceedings. Any pre-filing payments to Critical Suppliers would be disclosed to the Court and to creditors in a subsequent Monitor's report.

62. The Proposed Monitor is supportive of the Applicants' request considering the nature of the Applicants' suppliers and where such flexibility may be required to maintain operations and the opportunity to complete a successful restructuring.

Good Faith and Due Diligence

63. As at the date of this Pre-Filing Report, the Proposed Monitor:

(a) is of the view that the Applicants and its stakeholders are acting in good faith and with due diligence, pursuant to section 18.6(1) of the CCAA; and

(b) is <u>not</u> of the view that it would be more beneficial to the Applicants' creditors if proceedings were taken under the *Bankruptcy and Insolvency Act*, pursuant to section 23(1)(h) of the CCAA.

Need for a Stay of Proceedings and Relief Pursuant to the CCAA

64. The Applicants' are facing a liquidity crisis and are unable to satisfy the demands for repayment of the Briant Indebtedness and the La Plata Indebtedness. The proposed CCAA Proceedings, including the stay of proceedings and Court ordered Charges, will allow the Applicants to continue operations through the Comeback Hearing, where the Proposed Monitor understands the Applicants will seek further orders of this Court to advance a Court supervised restructuring of its affairs.

65. For the reasons set out in this Pre-Filing Report, the Proposed Monitor is of the view that the relief requested by the Applicants is reasonable and respectfully recommends that this Court make an Order granting the requested relief.

ALL OF WHICH IS RESPECTFULLY SUBMITTED this 10th day of April, 2025.

GRANT THORNTON LIMITED, SOLELY IN ITS CAPACITY AS PROPOSED MONITOR OF MERNOVA MEDICINAL INC. AND CRESO CANADA LIMITED
AND NOT IN ITS CORPORATE OR PERSONAL CAPACITY

Liam Murphy, CPA, CA, CIRP, LIT
Senior Vice President

Appendix A

Monitor’s Consent to Act

Court File No. •

IN THE SUPREME COURT OF NOVA SCOTIA

IN BANKRUPTCY AND INSOLVENCY

IN THE MATTER OF an application of Mernova Medicinal Inc. and Creso Canada Limited;

AND IN THE MATTER OF the *Companies' Creditors Arrangement Act*, R.S.C. 1985, C. c-36, as amended ("**CCAA**")

CONSENT TO ACT

Grant Thornton Limited consents to act as an officer of this Court and to act as Monitor of Mernova Medicinal Inc. and Creso Canada Limited, pursuant to any order made by this Court under the *Companies Creditors Arrangement Act*.

Dated at Halifax, Nova Scotia, this 7th day of April, 2025.

GRANT THORNTON LIMITED

Per: ______________________
Name: Liam Murphy, CPA, CA, CIRP, LIT
Title: Senior Vice President

Appendix B

Cash Flow Forecast

Mernova Medicinal Inc. and Creso Canada Limited
13-Week Cash Flow Forecast - Prepared by Management
April 7, 2025 to July 6, 2025

	Notes	Week 1 Projected 7-Apr-25 13-Apr-25	Week 2 Projected 14-Apr-25 20-Apr-25	Week 3 Projected 21-Apr-25 27-Apr-25	Week 4 Projected 28-Apr-25 4-May-25	Week 5 Projected 5-May-25 11-May-25	Week 6 Projected 12-May-25 18-May-25	Week 7 Projected 19-May-25 25-May-25	Week 8 Projected 26-May-25 1-Jun-25	Week 9 Projected 2-Jun-25 8-Jun-25	Week 10 Projected 9-Jun-25 15-Jun-25	Week 11 Projected 16-Jun-25 22-Jun-25	Week 12 Projected 23-Jun-25 29-Jun-25	Week 13 Projected 30-Jun-25 6-Jul-25	Total Weeks 1-13 7-Apr-25 6-Jul-25
Projected Receipts:															
Cannabis revenues	[1]	177,690	298,972	136,680	198,829	189,964	157,695	276,025	104,220	175,250	130,250	220,250	106,025	143,864	2,315,714
Total Projected Receipts		**177,690**	**298,972**	**136,680**	**198,829**	**189,964**	**157,695**	**276,025**	**104,220**	**175,250**	**130,250**	**220,250**	**106,025**	**143,864**	**2,315,714**
Projected Disbursements:															
Payroll and employee benefits	[2]	-	102,500	-	111,626	-	104,120	-	110,006	-	102,500	-	102,500	-	633,252
Insurance	[3]	14,250	-	12,918	-	-	-	12,918	-	-	-	12,918	-	-	53,005
Software		-	-	-	2,964	-	-	-	2,964	-	-	-	-	2,964	8,892
Utilities		45,738	35,000	35,000	-	-	35,000	35,000	-	-	-	35,000	35,000	-	255,738
Excise stamps		-	-	-	4,882	-	-	-	4,882	-	-	-	-	4,882	14,645
Supplies- packaging, production		22,524	26,720	10,060	49,317	7,437	22,101	32,109	16,504	15,549	11,873	9,642	15,549	20,182	259,567
Freight and shipping		474	5,142	4,336	4,029	4,739	4,368	4,502	402	4,536	5,042	4,528	3,829	5,096	51,022
Bulk cannabis		26,969	-	36,510	57,745	-	-	50,408	-	-	32,357	-	37,964	-	241,953
Vape/Live Roson		-	29,766	41,394	-	-	25,580	-	-	28,487	-	-	35,531	-	160,758
Testing and Quality Control		-	4,384	-	-	3,798	-	-	4,091	-	3,871	-	-	5,976	22,120
HST (recovery)		-	-	-	-	-	-	-	33,594	-	-	-	37,141	-	70,735
Excise taxes	[4]	-	-	-	-	-	-	171,623	-	-	-	-	171,623	-	343,246
Other operating		10,577	15,732	1,717	6,825	8,724	170	13,154	7,349	6,825	10,086	170	-	8,647	89,976
Growth Capex		-	-	-	-	-	-	-	30,000	-	-	-	-	-	30,000
Car Lease		-	690	-	-	-	690	-	-	-	-	690	-	-	2,069
Contingency	[5]	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	65,000
Operating disbursements		**125,532**	**224,932**	**146,936**	**242,388**	**29,698**	**197,028**	**324,714**	**214,792**	**60,397**	**170,729**	**67,948**	**444,137**	**52,747**	**2,301,978**
Net operating cash flows		**52,158**	**74,040**	**(10,257)**	**(43,559)**	**160,266**	**(39,333)**	**(48,689)**	**(110,571)**	**114,853**	**(40,479)**	**152,302**	**(338,112)**	**91,117**	**13,735**
Restructuring fees															
Monitor		-	-	-	89,880	-	-	-	-	86,670	-	-	-	29,960	206,510
Monitor legal counsel		-	-	-	21,000	-	-	-	-	20,250	-	-	-	7,000	48,250
Financial advisor	[6]	-	-	5,650	-	-	-	5,650	-	-	-	-	5,650	-	16,950
Company legal counsel		-	-	-	119,940	-	-	-	-	43,335	-	-	-	14,980	178,255
Total restructuring fees		-	-	5,650	230,820	-	-	5,650	-	150,255	-	-	5,650	51,940	449,965
Net cash flows		52,158	74,040	(15,907)	(274,379)	160,266	(39,333)	(54,339)	(110,571)	(35,402)	(40,479)	152,302	(343,762)	39,177	(436,230)
Opening cash		89,104	141,262	215,301	199,395	425,016	585,281	545,948	491,609	381,037	345,635	305,156	457,458	113,697	89,104
DIP Advances	[7]				500,000										500,000
Closing Cash Position		**141,262**	**215,301**	**199,395**	**425,016**	**585,281**	**545,948**	**491,609**	**381,037**	**345,635**	**305,156**	**457,458**	**113,697**	**152,874**	**152,874**

Mernova Medicinal Inc. and Creso Canada Limited
13-Week Cash Flow Forecast - Prepared by Management
April 7, 2025 to July 6, 2025

Purpose and Disclaimer

Purpose:
This statement of projected cash flow ("**Cash Flow Forecast**") has been prepared by Mernova Medicinal Inc. ("**Mernova**") and Creso Canada Limited ("**Creso**", together with Mernova, the "**Mernova Group**") in accordance with s. 23(1)(b) of the *Companies Creditors' Arrangement Act* ("**CCAA**") for the period of April 7, 2025 to July 6, 2025 ("**Cash Flow Period**"). The Mernova Group has prepared the Cash Flow Forecast based on probable and hypothetical assumptions that reflect the Mernova Group's continued operations, and its understanding of the expected restructuring activities. Management is of the opinion that, as at the date of filing the Cash Flow Forecast, the assumptions used to develop the Cash Flow Forecast represent the most probable set of economic conditions facing the Mernova Group and that the assumptions used provide a reasonable basis for and are consistent with the purpose of this Cash Flow Forecast.

Disclaimer:
Management is of the view that the hypothetical assumptions set out in the Notes below are reasonable and consistent with the purpose of the Cash Flow Forecast, and the probable assumptions are suitably supported and consistent with the plans of the Mernova Group and provide a reasonable basis for the Cash Flow Forecast. All material assumptions are disclosed in the Notes below. Since the projection is based on assumptions regarding future events, actual results will vary from the information presented, and the variations may be material. The Cash Flow Forecast has been prepared solely for the purpose described above, using a set of hypothetical and probable assumptions set out in Notes below. Consequently, readers are cautioned that it may not be appropriate for other purposes.

Notes to Cash Flow Forecast

[1] Projected receipts from cannabis revenues include both cannabis and vape products of Mernova, sold to customers under the trademark Ritual Green. Mernova's customers are primarily provincial crown corporations across Canada. Management has estimated the projected receipts from cannabis revenues based on current purchase orders from its customers, historical results and projected volumes from discussions with customers.

[2] Payroll and employee benefits includes payroll, employee and employer portions of source deductions, employee benefits and costs associated with the Company's payroll service provider, Payworks, paid in the ordinary course.

[3] The Mernova Group has maintained its insurance policies for property, general commercial liability, vehicle and product recall. All insurance policies are payable in monthly installments and are not due to expire within the Cash Flow F

[4] Excise taxes are payable monthly to the Canada Revenue Agency based on Mernova's prior month gross cannabis sales. Payments are required to maintain Mernova's licenses as issued by Health Canada to continue operations. Projected excise taxes in Week 7 are post-filing CCAA amounts of April 2025 gross cannabis sales.

[5] Contingency has been included within the Cash Flow Forecast at $5k weekly, or approximately 3% of operating disbursements.

[7] Mernova has retained Noble House Consulting Ltd. as a financial advisor throughout the CCAA proceedings and anticipated sales and investment solicitation process. Noble House Consulting Ltd. is owned by William Lay, previous Chief Executive Officer of the Mernova Group's parent company in Australia, Melodiol Global Health Limited.

[8] The Mernova Group intends to make an application to the Supreme Court of Nova Scotia at the Comeback Hearing to request approval to borrow interim debtor-in-possession financing ("**DIP Financing**") to be used by the Mernova Group through the duration of the CCAA proceedings. The Cash Flow Forecast assumes such relief is granted

As of April 7, 2025

DocuSigned by:
Micheline Mackay
B194F07AF1554AE...

Micheline MacKay
CEO and Managing Director
Mernova Medicinal Inc. and Creso Canada Limited