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NUMBERS 24-2946871

COURT COURT OF KING'S BENCH OF ALBERTA

JUDICIAL CENTRE EDMONTON



APPLICANTS

IN THE MATTER OF THE *BANKRUPTCY AND
INSOLVENCY ACT*, RSC 1985, c B-3, AS AMENDED

AND IN THE MATTER OF THE NOTICE OF INTENTION
TO MAKE A PROPOSAL OF DYNALEO INC.

AND IN THE MATTER OF THE NOTICE OF INTENTION
TO MAKE A PROPOSAL OF DYNALEO GROUP
SERVICES INC.

DOCUMENT

**SECOND REPORT OF HARRIS & PARTNERS INC. IN
ITS CAPACITY OF TRUSTEE UNDER THE NOTICE OF
INTENTION TO MAKE A PROPOSAL**

July 24, 2023

ADDRESS FOR
SERVICE AND
CONTACT
INFORMATION OF
PARTY FILING THIS
DOCUMENT

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INTRODUCTION

1. On May 23, 2023 Dynaleo Inc. (“**Dynaleo**”) and Dynaleo Group Services Inc. (“**Dyanleo Services**” and together with Dynaleo, the “**Companies**”) each filed a Notice of Intention to Make a Proposal (“**NOI**”) under Section 50.4 of the *Bankruptcy and Insolvency Act*, R.S.C 1985, c. B-3, as amended (the “**BIA**”). Harris & Partners Inc. (“**HPI**”) consented to act as proposal trustee of each of the companies under the NOI (the “**Proposal Trustee**”).
2. Pursuant to section 50.4(8) of the BIA, the initial stay under these Proposal Proceedings was extended to August 5, 2023.
3. Copies of the Certificates of Filing of the NOIs issued by the Office of the Superintendent of Bankruptcy are attached to the first report of the Proposal Trustee dated May 24, 2023 (“**First Report**”) as appendices.
4. On May 30, 2023, the Companies were granted an order (the “**May 30th Order**”):
 - a) declaring that the proposal proceedings for Dynaleo and Dynaleo Services (together, the “**Proposal Proceedings**”) are administratively consolidated and continue under a joint title of proceedings;
 - b) approving a sale, refinancing and investment solicitation process (the “**SISP**”) to seek an investment in or a sale of the Companies’ property as part of the restructuring process;
 - c) granting a charge, not to exceed \$200,000 (the “**Administration Charge**”), as security for the fees and costs of the Proposal Trustee, its independent legal counsel, and legal counsel to the Companies;
 - d) authorizing the Companies to borrow up to \$150,000 under a debtor-in-possession loan facility (the “**Interim Financing Facility**”) to allow the Companies to satisfy their expenses incurred after the commencement of and in connection with these Proposal Proceedings

and granting a charge (the “**Interim Lender Charge**”) to secure the obligations under the Interim Financing Facility;

- e) granting a charge in favour of the Companies’ directors and officers, not to exceed \$75,000 securing the Companies’ indemnification obligations to them; and
- f) extending the time for filing a proposal pursuant to section 50.4(9) of the BIA up to and including August 5, 2023.

PURPOSE

5. The purpose of this Second Report of the Proposal Trustee (the “**Second Report**” or this “**Report**”) is to provide this Honourable Court and the Companies’ stakeholders with information and the Proposal Trustee’s comments in respect of the following:

- a) the activities of the Companies and the Proposal Trustee since the First Report;
- b) an update on the SISP;
- c) the Proposal Trustee’s reasons for approving the PNP Disclaimer as defined below;
- d) the budget to actual results of the Companies’ cash flows for the period from May 23, 2023 to July 21, 2023 (the “**Reporting Period**”);
- e) the updated cash flow projections through September 22, 2023 (the “**Updated Forecast Period**”);
- f) the request to extend the time for filing a proposal pursuant to section 50.4(9) of the BIA to September 19, 2023; and
- g) the Proposal Trustee’s overall recommendations.

TERMS OF REFERENCE

6. In preparing this Second Report, the Proposal Trustee has been provided with, and has relied upon, certain unaudited financial information books, records, and financial information prepared by the Companies and has had discussions with and received information from persons managing the Companies (collectively, the “**Information**”). Except as described in the First Report in respect of the Cash Flow Forecast:
 - a) the Proposal Trustee reviewed the Information for reasonableness, internal consistency and use in the context in which it was provided. However, the Proposal Trustee has not audited or otherwise attempted to verify the accuracy or completeness of such information in a manner that would wholly or partially comply with Generally Accepted Assurance Standards (“**GAAS**”) pursuant to the *Chartered Professional Accountants of Canada Handbook* (the “**CPA Handbook**”) and, accordingly, the Proposal Trustee expresses no opinion or other form of assurance contemplated under GAAS in respect of the Information; and
 - b) some of the Information referred to in this Report consists of forecasts and projection. An examination or review of the financial forecast and projections, as outlined in the CPA Handbook, has not been performed.
7. Future-oriented financial information relied upon in this Report is based on the Companies’ assumptions regarding future events and actual results achieved will vary from this information and the variations may be material.
8. Any use which any person or entity, other than the Court, makes of this First Report, or any reliance on or a decision made based upon this First Report is at such person’s or entity’s own risk.
9. All references to dollars are in Canadian currency unless otherwise noted.

LIMITATION IN SCOPE OF REVIEW

10. The Second Report has been prepared by the Proposal Trustee pursuant to the BIA.
11. This Second Report is not, and should not be construed or interpreted as, an endorsement, comment or recommendation to any creditor, prospective investor, or any persons to advance credit and/or goods and services or to continue to provide credit and/or goods and services or to lend monies to the Companies during these proceedings and/or at any other time.
12. The Proposal Trustee has not audited or reviewed the assets of the Companies and, with respect to such assets, has relied to a significant degree upon information provided by the Companies.
13. The Proposal Trustee is specifically not directed or empowered to take possession of the assets of the Companies or to manage any of the Companies' business and affairs.

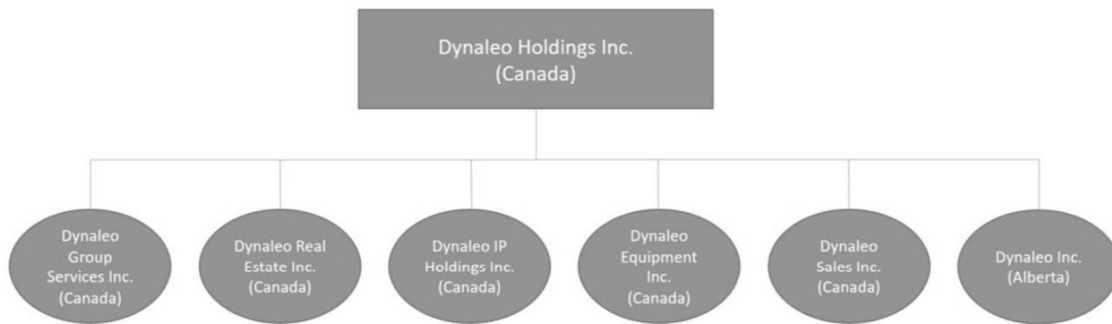
BACKGROUND INFORMATION REGARDING THE COMPANIES

14. This Second Report should be read in conjunction with the Krestell Affidavit for additional background information regarding the Companies, and upon which the Proposal Trustee relies.
15. The materials filed in support of the Application, including the Krestell Affidavit, along with other information regarding the NOI, have been posted on the Proposal Trustee's website at www.hpiadvisory.com/dynaleo (the "**Website**").

The Companies' Business, Management, and Ownership Structure

16. As further detailed in the Krestell Affidavit, Dynaleo is a privately held Canadian company, which has been operating since 2018. It is in the business of producing and distributing cannabis-infused gummies.

17. Dynaleo owns the equipment and supplies necessary for the production of the cannabis-infused edible gummies (the “**Product**”). Dynaleo also holds the lease in which the Companies operate out of and is responsible for distribution of the Product to the Companies’ customers.
18. Dynaleo Services employs all employees of the “Dynaleo Group”. Dynaleo Services has entered into agreements with the other companies in the Dynaleo Group, including Dynaleo, Dynaleo Holdings Inc., Dynaleo Real Estate Inc., Dynaleo IP Holdings Inc., Dynaleo Equipment Inc., and Dynaleo Sales Inc. to second employees to the other companies within the group and to provide general and administrative business support including accounting and finance, marketing, and human resources.
19. Dynaleo and Dynaleo Services are each wholly owned subsidiaries of Dyanleo Holdings Inc.
20. The Companies’ ownership structure is reflected in the diagram below:



Dynaleo

21. Dynaleo is a private company and was incorporated in the Province of Alberta. Dynaleo is the company that holds all assets, liabilities, all Health Canada licenses and all sales of the Product as well as the ownership of the Product.
22. Dynaleo’s principal place of business is located at 3365 11th Street, Nisku, Alberta, which it leases.

23. Dynaleo’s customers include the Alberta Gaming and Liquor Commission (AGLC), the British Columbia Liquor Distribution Branch (BCLDB), Ontario Cannabis Store (OCS), Manitoba Liquor and Lotteries (MBLL) and other provincial agencies, as well as a large brand leader of cannabis-infused edible gummies business, Peace Natural Project Inc. (“**PNP**”).
24. PNP sought out Dynaleo because of its high-quality products and significant output at a low unit cost profile and on July 29, 2022, Dynaleo and PNP entered into a Contract Manufacturing Agreement for the Companies to produce Products for PNP.
25. As part of the contract, Dynaleo needed to make significant capital expenditures to acquire specialized machinery to meet the volume and product specifications for the Customer. Dynaleo had to raise additional funds to pay for the equipment, raw materials, packaging, and increased labour needs to meet the anticipated demands of PNP.
26. After several months of ramping up its operations for the PNP contract, Dynaleo was advised by PNP that, due to unforeseen changes to its strategic priorities, PNP was unable to purchase the anticipated product volumes.
27. Without the substantial net positive revenue generation expected from PNP, which would have resulted in monthly net profits exceeding \$100,000 per month, instead the Companies are operating at a net loss of nearly \$150,000 per month.
28. Dynaleo currently has no employees.

Dynaleo Services

29. Dynaleo Services had over 65 employees (the “**Employees**”), all of whom were based in Alberta, with the exception of four employees based in Ontario and one in British Columbia.
30. On May 9, 2023, after being informed by PNP of its reduced Product volume purchases, Dynaleo Services laid off 25 of its Employees.

31. The remainder of the Employees were terminated upon filing the NOI. Five individuals have been retained on a contract basis by Dynaleo to assist the Companies with carrying out the SISP and this proceeding.

ACTIVITIES OF THE COMPANIES AND THE PROPOSAL TRUSTEE

32. Since the First Report, the Proposal Trustee and the Companies' management ("**Management**") have engaged in the following activities:
- a) reviewing the Companies' weekly receipts and disbursements over the Reporting Period and comparing these results to the Companies' initial cash flow forecast period;
 - b) preparing an updated cash flow forecast over the Updated Forecast Period to reflect certain timing and permanent variances experienced in the Reporting Period;
 - c) hosting discussions between the Proposal Trustee, its legal counsel and the Companies' legal counsel relating to matters relevant to the Proposal Proceedings including the SISP;
 - d) initiating the SISP, including drafting and distributing a teaser (in conjunction with Dynaleo), marketing the opportunity in respect of the Companies to a broad group of potentially interested strategic parties, and preparing a non-disclosure agreement;
 - e) having multiple conversations with interested parties in the SISP about the Companies business, the sales process and coordinating site tours as part of the interested parties' due diligence process;
 - f) evaluating the non-binding letters of intent submitted by third parties interested in participating in the SISP by the Phase I Bid Deadline, as discussed further below;

- g) hosting discussions with the interested parties that submitted non-binding letters of intent and the Companies with respect to their potential offer;
- h) evaluating the binding letters of intent submitted by third parties that were selected to participate in Phase II of the SISP;
- i) working with the Successful Bidders in providing additional due diligence and supporting documents on the operations and finance, while setting up transition protocols should a vesting order be approved by this Honorable Court;
- j) various discussions with the Companies' significant creditors and their claims against the Companies;
- k) approving a notice pursuant to section 65.11 of the BIA disclaiming an agreement with Peace Natural Project Inc. ("**PNP**"); and
- l) providing ongoing monitoring of the Companies' financial affairs and other activities.

SISP UPDATE

- 33. Pursuant to the May 30th Order, the SISP was granted by this Honorable Court and the Proposal Trustee in consultation with the Companies, initiated a number of marketing activities. The Proposal Trustee prepared and disseminated notices of the SISP ("**SISP Notices**") in the Insolvency Insider and the StratCann online magazine. In addition to the SISP Notices, the Proposal Trustee, in conjunction with the Companies, prepared a teaser package (the "**Teaser**") and non-disclosure agreement (the "**NDA**").
- 34. The Proposal Trustee, in consultation with the Companies, prepared an initial list of potential bidders, including strategic parties, capital providers and alternative lenders (collectively, the "**Prospective Bidders**"). The Proposal Trustee then,

commencing on June 2, 2023 and pursuant to the May 30th Order, communicated the Teaser and NDA to the Prospective Bidders.

35. A summary of the extensive broad-based SISP is discussed in the First Report of the Proposal Trustee.

The SISP Marketing Efforts

36. The Proposal Trustee undertook a significant marketing process to ensure it effectively and thoroughly canvassed the market. The Companies and their assets were marketed to a number of companies identified by the Proposal Trustee and the Companies, with input from the Companies' counsel as to potentially interested parties who are capable of, or were a good strategic fit for, purchasing and/or investing in the Companies, or portions of them.
37. A comprehensive package of marketing materials including the relevant contractual agreements, asset listings, inventory schedules and other materials ("**SISP VDR Materials**") was assembled and made available in the virtual data room ("**VDR**").
38. A summary of events within the SISP include the following:
 - a) the SISP commenced on June 2, 2023 with the placement of advertisements announcing the commencement of the SISP in the publications discussed above. In addition, the Proposal Trustee disseminated the Teaser, advertising sale and/or investment opportunities in the Companies, to a broad but focused list of 32 strategic investors and invited them to execute an NDA with the Debtors if interested in the opportunity;
 - b) a VDR containing the SISP VDR Materials with respect to the Companies was made available to all parties who executed an NDA;

- c) key staff of the Companies and the Proposal Trustee were made available to answer any questions for prospective bidders as part of their review and due diligence process;
- d) the SISP advised prospective bidders and interested parties that all non-binding letters of intent were due by June 23, 2023, which was the Phase I Bid Deadline; and
- e) the SISP advised prospective bidders and interested parties that, if applicable, any irrevocable offers were due before 5:00 PM (Calgary Time) on July 7, 2023, which was the Phase II Bid Deadline.

Results from the SISP Marketing Process

- 39. There were eighteen (18) prospective purchasers who signed NDAs and received access to the VDR. Of those, four (4) of them requested and were granted a site tour at the facility in Nisku, AB.
- 40. At the Phase I Bid Deadline, there were five (5) non-binding letters of intent (“LOI”) received by the Proposal Trustee with respect to the SISP.
- 41. Of the five non-binding letters of intent, the Proposal Trustee, in conjunction with the Companies, selected three (3) parties to progress to Phase II of the SISP. The Proposal Trustee has had various communications with these parties respecting the specific details of their LOIs.
- 42. By the Phase II Bid Deadline there were two (2) prospective transactions that were deemed acceptable by the Proposal Trustee and the Companies.
- 43. The Proposal Trustee, in conjunction with the Companies, continues to have numerous correspondence with these parties respecting their LOIs. As such, the Companies are requesting an extension of the stay of proceedings to finalize a sale and achieve the highest recovery to make a viable proposal to creditors.

PNP DISCLAIMER DISPUTE

Overview

44. As discussed above, PNP and Dynaleo entered into a contract manufacturing agreement on July 29, 2022 (the “**Manufacturing Contract**”), where Dynaleo agreed to provide services and to manufacture certain goods on behalf of PNP.
45. Below is a brief summary of the main terms of the Manufacturing Contract:
- a) in order for Dynaleo to provide services and the goods requested by PNP, Dynaleo was required to purchase additional equipment and materials. PNP agreed to be responsible for fifty (50) percent of the total equipment cost set out in the Manufacturing Contract (the “**Equipment Fee**”). The payment of the Equipment Fee is required to be made promptly following the expiration or termination of the Manufacturing Contract in accordance with the calculations provided for in the Manufacturing Contract.
 - b) Upon a termination of the Manufacturing Contract, PNP is required to reimburse Dynaleo for the following costs: (i) packing materials acquired by Dynaleo on behalf of PNP; (ii) any raw materials required to manufacture goods that cannot be repurposed by Dynaleo; and (iii) materials that PNP requested Dynaleo to procure in purchase orders (the “**Materials Fee**”).

PNP Disclaimer

46. On June 28th, Dynaleo delivered a Notice by Debtor to Disclaim or Resiliate an Agreement to PNP pursuant to section 65.11 of the BIA in the Proposal Proceedings (the “**PNP Disclaimer**”). A copy of the disclaimer was signed by Dynaleo and approved by the Proposal Trustee. A copy of the disclaimer is attached as Appendix “A” to this Report.

47. Pursuant to section 65.11 (5) of the BIA, the Proposal Trustee reviewed the PNP Disclaimer and considered whether it:
- a) would enhance the prospects of a viable proposal being made in respect of the Companies; and
 - b) would likely cause financial hardship to PNP.
48. The Proposal Trustee requested an analysis from Dynaleo to support the economic benefit to the Companies should the PNP Agreement be disclaimed. The following analysis was provided by Dynaleo:
- a) amounts due to Dynaleo from PNP, in accordance with and as a result of the disclaimer or termination of the Manufacturing Contract, for the Materials Fee were estimated by Dynaleo to be \$447,960;
 - b) amounts due to Dynaleo from PNP, in accordance with and upon the expiry or termination of the Manufacturing Contract, for the Equipment Fee are \$104,000;
 - c) the total amount due from PNP to Dynaleo upon the expiry or termination of the Manufacturing Contract was estimated to be equal to \$551,960; and
 - d) as part of the Proposal Proceedings, the SISP was commenced and prior to determining whether to disclaim the Manufacturing Contract, the Companies waited for the results of Phase I of the SISP. The Companies considered the letter of intent submitted by PNP and determined that the PNP Disclaimer of the Manufacturing Contract would not negatively impact the outcome of the SISP.
49. Based on the foregoing, the Proposal Trustee approved the disclaimer of the Manufacturing Contract, pursuant to section 65.11 (5)(b) of the BIA.

50. The Proposal Trustee approved the PNP Disclaimer on the basis of the evidence provided by Dynaleo on the merits of a disclaimer for the enhancement of the viability of a successful restructuring, including facilitating the return of certain PNP goods and materials, completing an orderly wind-down and sale of the Companies operations, and maximizing realizations for the benefit of all creditors in an efficient fashion.
51. On or about July 20, 2023, Dynaleo received a letter (“**PNP July 20 Letter**”) from PNP’s counsel requesting the withdrawal of the PNP Disclaimer. On or about July 21, 2023, Dynaleo responded to the PNP July 20 Letter disputing the statements and setting out its own position on the PNP Disclaimer as well as responding to other statements made in the PNP July 20 Letter. PNP provided a further response on July 24, 2023 proposing to set down a time for a litigation schedule to resolve the issues around the PNP Disclaimer. It is the Proposal Trustee’s understanding that Dynaleo is not agreeable to withdrawing the PNP Disclaimer and that PNP will be filing an application to the Court to seek an extension of time to formally dispute the PNP Disclaimer, among other things.

ACTUAL TO FORECAST CASH FLOW RESULTS

52. The Companies, with the assistance of the Proposal Trustee, previously prepared a cash flow forecast, which was outlined in the First Report, and have compared the actual cash flow results over the Reporting Period. The Proposal Trustee noted no material changes to the cash flow forecast. A copy of the detailed budget to actual schedule, which includes variance explanations for the Reporting Period is attached as Appendix “**B**” to this Report.
53. In summary, the results of the Companies’ cash flow reporting over the Reporting Period are as follows:
 - a) total cash receipts of \$594,542 collected compared to forecast receipts of approximately \$628,200, resulting in a negative variance of approximately \$33,658. This variance is largely due to the timing of

collections of various provincial sales and is expected to reverse in the coming weeks;

- b) total operating cash disbursements totaling \$389,237 compared to forecast disbursements of \$377,700, resulting in a negative variance of Approximately \$11,537. This difference is made up primarily of i) wages and salaries to provide assistance with packaging and distributions of purchase orders with the OSC, AGLC and other Provinces, ii) insurance expenses that were higher than forecast by approximately \$14,000, and iii) freight expenses due to higher than forecast sales to the OSC, AGLC and other Provinces of approximately \$16,000;
- c) total non-operating cash disbursements totaling \$174,253 of professional fees and costs to the Proposal Trustee, the Proposal Trustee's Counsel and the Companies' counsel were paid compared to the forecast \$185,000 resulting in a positive variance of \$10,747 and is largely due to timing of professional fees and costs and is anticipated to reverse throughout the balance of the BIA Proceedings. A net increase in cash of approximately \$31,052 during the Forecast Period; and
- d) the Companies ending cash balance is \$32,145 as at July 21, 2023.

UPDATE CASH FLOW FORECAST THROUGH TO SEPTEMBER 22, 2023

- 54. The Companies, with the assistance of the Proposal Trustee, have prepared an updated 9-week cash flow forecast for the period July 22, 2023 to September 22, 2023 (the "**Updated Forecast**"), which is attached as Appendix "**C**". Management has prepared the Updated Forecast based on the most current information available.
- 55. A summary of the Updated Forecast is as follows:

Dynaleo Inc. and Dynaleo Group Services Inc.			
Cash Flow Forecast through September 22, 2023			
\$CAD	Actual	Forecast	18-week Total
	24-May-23 to 21-Jul-23 9-week total	21-Jul-23 to 22-Sept-23 9-week total	
Cash Receipts			
Ontario (OCS)	48,068	375,000	423,068
Other sales	102,818	-	102,818
Other receipts	443,656	-	443,656
	\$ 594,542	\$ 375,000	\$ 969,542
Operating Cash Disbursements			
Contractor salaries and expenses	231,140	46,000	\$ 277,140
Insurance	49,869	18,000	67,869
Excise taxes	-	40,000	40,000
Utilities	141	20,000	20,141
Rent	77,540	37,000	114,540
IT expenses	6,913	-	6,913
Freight	23,074	-	23,074
Inventory maintenance	-	7,500	7,500
Interest and fees	577	-	577
Contingency	(17)	10,000	9,983
	389,237	178,500	567,737
Net Cash Flow from Operations	\$ 205,305	\$ 196,500	\$ 401,805
Non-Operating Cash Disbursements			
Harris & Partners Inc.	86,512	35,000	\$ 121,512
Miller Thomson LLP	66,864	100,000	166,864
MLT Aikins LLP	20,878	20,000	40,878
	174,253	155,000	329,253
Net Cash Flow	\$ 31,052	\$ 41,500	\$ 72,552
Opening Cash	\$ 1,093	\$ 32,145	\$ 1,093
Net Cash Flow	31,052	41,500	72,552
DIP Advance (Repayment)	-	-	-
Ending Cash	\$ 32,145	\$ 73,645	\$ 73,645
Opening DIP Facility Availability	-	-	\$ -
DIP Borrowings	-	-	-
DIP Repayment	-	-	-
Closing DIP Facility Availability	-	-	\$ -

56. As noted in Appendix “C”, the Companies are projecting total cash receipts of \$375,000, cash disbursements for operations of \$178,500, non-operating cash disbursements of \$155,000 resulting in a net increase in cash flow of \$41,500.
57. The Proposal Trustee has reviewed the assumptions supporting the Updated Forecast with the Companies and believes the assumptions to be reasonable and consistent with the Companies’ prior forecast.

APPLICATION TO EXTEND THE TIME TO FILE A PROPOSAL

58. Unless extended, the stay of proceedings will expire on August 5, 2023. The Companies are seeking an extension of the period in which it is required to file a proposal to September 19, 2023 pursuant to section 50.4 (9) of the BIA (the "**Proposed Stay Extension**").
59. The Proposal Trustee considered the following factors regarding the Stay Extension:
- a) the Companies are acting in good faith and with due diligence;
 - b) the Companies will likely be able to make a viable proposal if the Initial Stay Period were to be extended; and
 - c) no creditor in these proceedings will be materially prejudiced if the extension were to be granted.
60. The Proposal Trustee has considered the request of the Companies for the Proposed Stay Extension and the circumstances currently facing the Companies. The Proposal Trustee is supportive of a stay extension to September 19, 2023. The Proposed Stay Extension will serve to provide the Companies with the time required to schedule and/or resolve the potential claim against PNP, including any issues surrounding the PNP Disclaimer, and to finalize and close a transaction generated from the SISP.

PROPOSAL TRUSTEE'S RECOMMENDATIONS

61. As set out above, the Proposal Trustee recommends that this Honourable Court approve:
- a) the Proposed Stay Extension.

All of which is respectfully submitted this 24th day of July, 2023.

HARRIS & PARTNERS INC., solely in its
capacity as Proposal Trustee of Dynaleo Inc.
and Dynaleo Group Services Inc., and not in
its personal or corporate capacity



Per: _____

Name: Jill Strueby

Title: Senior Vice – President

APPENDIX "A"

FORM 44.1

Notice by Debtor to Disclaim or Resiliate an Agreement
(Section 65.11 of the *Bankruptcy & Insolvency Act*
(Canada); Rule 94.1)

To: Peace Naturals Project Inc. and Harris & Partners Inc.

Take notice that:

1. A notice of intention to make a proposal in respect of Dynaleo Inc. was filed under subsection 50.4 of the *Bankruptcy & Insolvency Act* (Canada) on the 23rd day of May, 2023

2. Pursuant to subsection 65.11(1) of the *Bankruptcy & Insolvency Act* (Canada), Dynaleo Inc. gives you notice of its intention to disclaim or resiliate the following agreement:

Contract Manufacturing Agreement dated July 29, 2022 between Peace Natural Project Inc. and Dynaleo Inc., including any schedules and amendments thereto.

3. Pursuant to subsection 65.11(3) of the *Bankruptcy & Insolvency Act* (Canada), within 15 days after the date on which this notice is given, any party to the agreement may, with notice to the other parties to the agreement and the trustee, apply to the Court for an order that the agreement is not to be disclaimed or resiliated.

4. Pursuant to subsection 65.11(6) of the *Bankruptcy & Insolvency Act* (Canada), if no application for an order is made in accordance with subsection 65.11(3) of the *Bankruptcy & Insolvency Act* (Canada), the disclaimer or resiliation of the agreement will become effective on the 28th day of July, 2023 (being 30 days after the date on which this notice has been given).

Dated at Calgary, Alberta, this 28th day of June, 2023.

Dynaleo Inc.
Per:



The trustee approves the proposed disclaimer or resiliation.

Dated at Calgary, Alberta, this 28th day of June, 2023

Harris & Partners Inc., in its capacity
as Proposal Trustee of Dynaleo Inc.
and not in its personal capacity
Per:



Licensed Insolvency Trustee

APPENDIX "B"

Dynaleo Inc. and Dynaleo Group Services Inc.**Weekly Cash Flow Cumulative Variance (May 24, 2023 to July 21, 2023)**

SCAD

	Notes	Forecast 9-week total	Actual 9-week total	Variance 9-week total
Cash Receipts				
Ontario (OCS)		95,600	48,068	(47,532)
Other sales		166,600	102,818	(63,782)
Other receipts		366,000	443,656	77,656
	1	\$ 628,200	\$ 594,542	(33,658)
Operating Cash Disbursements				
Contractor salaries and expenses	2	114,200	231,140	\$ (116,940)
Insurance		36,000	49,869	\$ (13,869)
Excise taxes	3	27,500	-	\$ 27,500
Utilities	4	40,000	141	\$ 39,859
Rent		82,400	77,540	\$ 4,860
IT expenses		2,500	6,896	\$ (4,396)
Freight	5	7,500	23,074	\$ (15,574)
Inventory maintenance	6	25,000	-	\$ 25,000
Interest and fees	7	22,600	577	\$ 22,023
Contingency		20,000	-	\$ 20,000
		377,700	389,237	\$ (11,537)
Net Cash Flow from Operations		\$ 250,500	\$ 205,305	\$ (45,195)
Non-Operating Cash Disbursements				
	8			
Harris & Partners Inc.		75,000	86,512	\$ (11,512)
Miller Thomson LLP		70,000	66,864	\$ 3,136
MLT Aikins LLP		40,000	20,878	\$ 19,122
		185,000	174,253	\$ 10,747
Net Cash Flow		\$ 65,500	\$ 31,052	\$ (34,448)
Opening Cash				
Net Cash Flow		\$ -	1,093	1,093
DIP Advance (Repayment)		65,500	31,052	(34,448)
Ending Cash		\$ 25,000	-	(25,000)
Ending Cash		\$ 90,500	\$ 32,145	(58,355)
Opening DIP Facility Availability				
DIP Borrowings	9	\$ 150,000	-	(150,000)
DIP Repayment		125,000	-	(125,000)
DIP Repayment		(100,000)	-	100,000
Closing DIP Facility Availability		\$ 125,000	\$ -	(125,000)

Notes

1 Total cash receipts of approximately \$594,542 collected compared to forecast receipts of \$628,200, resulting in a variance of approximately \$33,658. Due to the timing of the collection of certain provincial sales receipts and this variance is expected to be collected in the coming weeks.

2 Wages and salaries paid were higher due to the Company fulfilling certain OSC, AGLC and other Provinces purchase orders.

3 Excise taxes have not been paid and this is expected to reverse in the coming weeks.

4 Utilities are less than forecast, however this is expected to reverse in the coming weeks once the invoices are received and paid.

5 Freight costs were higher than forecast due to the additional purchase orders received from the OSC, AGLC and other provinces.

6 Inventory maintenance was lower than forecast, however this is expected to reverse in the coming weeks.

7 Interest and fees were lower than forecast due to the Companies not requiring the DIP Facility.

8 Professional fees and costs had a positive variance of approximately \$10,747 due to the timing of payments of professional fee invoices. These are forecast to be paid in the coming weeks.

9 Advances under the interim financing were Nil.

APPENDIX "C"

Cash Flow Forecast through September 22, 2023		Updated Forecast									9-week total
		Week 10	Week 11	Week 12	Week 13	Week 14	Week 15	Week 16	Week 17	Week 18	
SCAD	Notes week ended	28-Jul-23	4-Aug-23	11-Aug-23	18-Aug-23	25-Aug-23	1-Sep-23	8-Sep-23	15-Sep-23	22-Sep-23	
Cash Receipts											
Ontario (OCS)	1	240,000	135,000	-	-	-	-	-	-	-	375,000
Other sales		-	-	-	-	-	-	-	-	-	-
Other receipts		-	-	-	-	-	-	-	-	-	-
		<u>\$ 240,000</u>	<u>\$ 135,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 375,000</u>
Operating Cash Disbursements											
Contractor salaries and expense	2	42,000	4,000	-	-	-	-	-	-	-	46,000
Insurance	3	-	18,000	-	-	-	-	-	-	-	18,000
Excise taxes	4	40,000	-	-	-	-	-	-	-	-	40,000
Utilities	5	-	-	20,000	-	-	-	-	-	-	20,000
Rent	6	-	37,000	-	-	-	-	-	-	-	37,000
IT expenses		-	-	-	-	-	-	-	-	-	-
Freight		-	-	-	-	-	-	-	-	-	-
Inventory maintenance	7	7,500	-	-	-	-	-	-	-	-	7,500
Interest and fees		-	-	-	-	-	-	-	-	-	-
Contingency	8	-	10,000	-	-	-	-	-	-	-	10,000
		<u>89,500</u>	<u>69,000</u>	<u>20,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>178,500</u>
Net Cash Flow from Operations		<u>\$ 150,500</u>	<u>\$ 66,000</u>	<u>\$ (20,000)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 196,500</u>
Non-Operating Cash Disbursement											
Harris & Partners Inc.	9	-	-	-	20,000	-	-	-	15,000	-	35,000
Miller Thomson LLP		20,000	-	-	40,000	-	-	-	40,000	-	100,000
MLT Aikins LLP		-	-	-	10,000	-	-	-	10,000	-	20,000
		<u>20,000</u>	<u>-</u>	<u>-</u>	<u>70,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>65,000</u>	<u>-</u>	<u>155,000</u>
Net Cash Flow		<u>\$ 130,500</u>	<u>\$ 66,000</u>	<u>\$ (20,000)</u>	<u>\$ (70,000)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (65,000)</u>	<u>\$ -</u>	<u>\$ 41,500</u>
Opening Cash		\$ 32,145	\$ 162,645	\$ 228,645	\$ 208,645	\$ 138,645	\$ 138,645	\$ 138,645	\$ 138,645	\$ 73,645	\$ 32,145
Net Cash Flow		130,500	66,000	(20,000)	(70,000)	-	-	-	(65,000)	-	41,500
DIP Advance (Repayment)		-	-	-	-	-	-	-	-	-	-
Ending Cash		<u>\$ 162,645</u>	<u>\$ 228,645</u>	<u>\$ 208,645</u>	<u>\$ 138,645</u>	<u>\$ 138,645</u>	<u>\$ 138,645</u>	<u>\$ 138,645</u>	<u>\$ 73,645</u>	<u>\$ 73,645</u>	<u>\$ 73,645</u>
Opening DIP Facility Availability		-	-	-	-	-	-	-	-	-	-
DIP Borrowings		-	-	-	-	-	-	-	-	-	-
DIP Repayment		-	-	-	-	-	-	-	-	-	-
Closing DIP Facility Availability		-	-	-	-	-	-	-	-	-	-

UNAUDITED CASH FLOW FORECAST PREPARED BY MANAGEMENT, MUST BE READ IN CONJUNCTION WITH THE NOTES AND ASSUMPTIONS & TRUSTEE'S REPORT ON THE CASH FLOW STATEMENT

Dynaleo Inc. and Dynaleo Group Services Inc.



July 24, 2023

Michael Krestell
Executive Director

Date



Trustee

July 24, 2023

Date

In the Matter of the Notice of Intention to Make a Proposal of

Dynaleo Inc. and Dynaleo Group Services Inc.

**Notes to the Consolidated Statement of Cash Flow for the 9-week period
ending September 22, 2023**

Purpose and General Assumptions of the Cash Flow Statement

Dynaleo Inc. (“**Dynaleo**”) and Dynaleo Group Services Inc. (“**Dynaleo Services**” or together, the “**Companies**”) have prepared this Cash Flow Statement and the accompanying Notes to the Consolidated Cash Flow Statement (collectively, the “**Cash Flow Statement**”) in support of the Proposal Proceedings that have been filed under the Bankruptcy and Insolvency Act (“**BIA**”) on May 23, 2023 (the “**Filing Date**”).

The Companies have prepared the Cash Flow Statement based on probable and hypothetical assumptions that reflect the Companies’ planned course of action for the period from July 22, 2023, to September 22, 2023 (the “**Cash Flow Period**”). Management is of the opinion that, as at the date of filing the Cash Flow Statement, the assumptions used to develop the projection represent the most probable set of economic conditions facing the Companies and that the assumptions used proved a reasonable basis for and are consistent with the purpose of the Cash Flow Statement.

The information contained in the Cash Flow Statement is subject to changing assumptions and or receipts of new or additional information, actual results may vary. This Cash Flow Statement should not be used for any other purpose, and creditors are cautioned that the information provided in the Cash Flow Statement could vary based on changing future circumstances.

The projected Cash Flow Statement is prepared in Canadian dollars.

Hypothetical and Probable Assumptions of the Cash Flow Statement

1. Ontario (OCS) receipts represents forecast collections from the Ontario Cannabis Store (OCS), a crown corporation who is the sole authorized distributor for the province. 30-day payment terms from the date of shipping have been assumed, based on historical collections.
2. Contractor salaries and expenses relate to the Companies’ contractors payable on a bi-weekly basis and monthly expenses the Companies incur as per the contracts in place with those contractors.
3. The Companies’ monthly insurance policy is \$18,000, payable on the 1st of every month.
4. Excise taxes owing during the forecast period are assumed to be paid by the Companies in normal course.
5. Utilities include estimated monthly water, natural gas, heat, and electricity. These costs are not included in the monthly base rent charge to the Companies. These amounts are forecasted based on historical usage.

6. The Companies' office monthly rent is \$37,000, payable on the 1st of every month.
7. Inventory maintenance relates to an amount payable to remove or destroy product that cannot be sold and is based on Management's best estimate.
8. A contingency of \$10,000 for the 9-week period has been incorporated into the cashflow to cover unexpected amounts the Companies may occur during the NOI.
9. Non-Operating costs include amounts forecast for professional fees of the Companies' counsel, the Proposal Trustee, and the Proposal Trustee's Counsel, in carrying out its duties during the NOI proceedings. These are forecast costs that may vary depending on the complexity and uncertainty of the NOI proceedings.

UNAUDITED CASH FLOW FORECAST PREPARED BY MANAGEMENT, MUST BE READ IN CONJUNCTION WITH THE NOTES AND ASSUMPTIONS & TRUSTEE'S REPORT ON THE CASH FLOW STATEMENT

Dynaleo Inc. and Dynaleo Group Services Inc.



Michael Krestell
Executive Director

Date: July 24, 2023

Trustee – Harris & Partners Inc.



Jill Strueby, LIT
Senior Vice-President

Date: July 24, 2023