

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

**IN THE MATTER OF THE NOTICE OF INTENTION TO MAKE A PROPOSAL OF  
NANOPAY CORPORATION  
OF THE CITY OF TORONTO  
IN THE PROVINCE OF ONTARIO**

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**FIRST REPORT TO COURT OF THE PROPOSAL TRUSTEE**

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June 15, 2023

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**Court File No. 31-2946534**

**Estate File No. 31-2946534**

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**DATED JUNE 15, 2023**

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## INTRODUCTION

1. On May 19, 2022 (the “**Filing Date**”), Nanopay Corporation (“**Debtor**” or the “**Company**”) filed with the Official Receiver a Notice of Intention to Make a Proposal (“**NOI**”) to its creditors pursuant to Section 50.4(1) of the *Bankruptcy and Insolvency Act* (Canada) (the “**BIA**”) and named Dodick Landau Inc. (“**DLI**”) as Proposal Trustee (the “**Proposal Trustee**”). Attached as **Appendix “A”** is the Certificate of Filing of the NOI.
2. An overview of the Debtor’s business operations, corporate structure and financial difficulties which led to the filing of the NOI is set out in the Affidavit of Laurence Cooke sworn June 15, 2023 (the “**Cooke Affidavit**”), served, and filed with the Ontario Superior Court of Justice (Commercial List) (the “**Court**”) in support of the Debtor’s motion for the relief set out herein.
3. All capitalized terms used in this report (the “**First Report**”), but not otherwise defined, shall have the meaning ascribed to such terms in the Cooke Affidavit.
4. The purpose of this First Report of the Proposal Trustee is to provide the Court with information pertaining to the following:
  - i) limited background information about the Company;
  - ii) the Debtor’s request for an extension of the time for filing a proposal to August 2, 2023;
  - iii) the Debtor’s projected cash flow for the period from June 18, 2023, to September 17, 2023 (the “**Cash Flow Forecast**”);
  - iv) the Debtor’s request that it be authorized to obtain and borrow interim financing, including the terms of the debtor in possession (“**DIP**”) facility and DIP charge; and
  - v) the Proposal Trustee’s recommendation that this Court make an order, as requested by the Debtor, to:
    - a) pursuant to Section 50.4(9) of the BIA, extend the time for the Debtor to file a proposal to August 2, 2023;

- b) authorize the Debtor to borrow under a credit facility from Nephesh Partners, LLC (the “**DIP Lender**”) in order to finance the Debtor’s working capital requirements and professional fees;
- c) pursuant to Section 50.6 of the BIA, grant the DIP Charge (as defined below) in favour of the DIP Lender; and
- d) appoint David Kay, in his capacity as CEO of Ao8 Strategic Advisors, as Chief Restructuring Officer (“**CRO**”) of the Company.

## **TERMS OF REFERENCE**

- 5. In preparing this Report, the Proposal Trustee has relied upon certain unaudited, draft and/or internal financial information, the Debtor’s books and records, discussions with the management of the Debtor (“**Management**”) and information from other third-party sources (collectively, the “**Information**”).
- 6. Except as described in this Report, the Proposal Trustee has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would wholly or partially comply with Generally Accepted Assurance Standards (“**GAAS**”) pursuant to the Canadian Institute of Chartered Accountants 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.
- 7. Some of the information referred to in this Report consists of forecasts and projections. An examination or review of the financial forecast and projections, as outlined in the CPA Handbook, has not been performed. Future oriented financial information referred to in this Report was prepared based on Management’s estimates and assumptions. Readers are cautioned that since projections are based upon assumptions about future events and conditions that are not ascertainable, the actual results will vary from the projections, even if the assumptions materialize, and the variations may be material.
- 8. The Proposal Trustee has prepared this Report in its capacity as a Court appointed

officer and has made a copy of this Report available on the Proposal Trustee's website at [www.dodick.ca](http://www.dodick.ca) for purposes of the Debtor's motion returnable June 16, 2023. Parties using this Report, other than for the purpose of the motion, are cautioned that it may not be appropriate for their purposes.

9. All references to dollars are in Canadian currency unless otherwise noted.

## **BACKGROUND**

10. The Company offers embedded payments solutions for businesses and banks that allows its clients to: (i) set up accounts; (ii) link those accounts to verified bank accounts; (iii) send and receive invoices to the customers of its clients; and (iv) receive and make payments against those invoices. This technology allows the Company's clients to collect payments from customers much quicker and easier.
11. The Company's principal assets consist of payments industry know-how, a software platform for digital payments, contractual and commercial relationships to provide payment and liquidity management products, the hardware and software to provide such products and related intellectual property.

## **CREDITORS**

### **Source Deduction Remittances**

12. As at the Date of Filing, the Company estimated that it owed approximately \$192,000 to the Canada Revenue Agency ("**CRA**") in respect of unremitted source deductions. Since the Date of Filing, the Proposal Trustee has been working with the Company to review statements of account issued by CRA in May and June 2023. These statements of account indicate that CRA has been applying the Company's HST refunds to offset against the unpaid source deduction arrears. According to a CRA statement of account issued to the Company on June 5, 2023, there are late remittance penalties owing of \$3,584.17 for the remittance period ended May 30, 2023, otherwise, there are no pre-filing unremitted source deductions payable to CRA.
13. Once the Company files its 2023 HST returns which it expects will result in a further refund, consistent with all previous quarters, it estimates the pre-filing HST refund will offset the late remittance penalties owing to CRA in full.

## Employer Health Tax

14. As at the Date of Filing, according to Management, there was approximately \$600,000 owing to the Ministry of Finance of Ontario in respect of Employer Health Tax ("**EHT**"). On June 14, 2023, Management obtained access to its online EHT account which currently states an amount owing by the Company of \$760,322.
15. Of the balance outstanding, approximately \$375,000 is registered as secured on the PPSA registry. As a result, the remaining balance owing in respect of EHT would be an unsecured claim.

## Unsecured Debt

16. According to Management, at the Filing Date, the Debtor's unsecured third-party debt totals \$4.5 million and is comprised of the following:
  - i) Landlord - \$2.4 million (represents approximately two years of pre-filing unpaid rent);
  - ii) Two Lenders/Investors - \$1.3 million;
  - iii) Four Trade Creditors - \$170,000;
  - iv) EHT - \$385,000; and
  - v) Sixteen Former Employees - \$181,000 (approximately \$80,000 relates to wages and vacation pay, of which approximately \$32,000 are employee preferred claims).
17. According to Management, over a period of eight years, shareholder investments have been made in Nanopay Holdings Inc. ("**NHI**") totaling approximately \$35.8 million ("**Investments**"). The Debtor is a wholly owned subsidiary of NHI. NHI has no operations of its own and no bank account. As such, the Investments were deposited into the bank account of the Debtor to fund the operations of the Debtor, which Management advised was the intended use for the Investments. As a result, the external accountant of the Debtor recorded a year-end related party adjustment on the balance sheets of the Debtor and NHI to reflect a payable from the Debtor to NHI totaling the cumulative Investments of \$35.8 million. The Proposal Trustee has

requested documentation from the Debtor in respect of this related party debt obligation.

## INTERIM FINANCING

18. As described in the Cooke Affidavit, the Debtor's liquidity constraints have resulted in it not having sufficient funds to continue operating its business. The Company is a start-up and does not yet have sufficient revenue to fund its working capital needs. It only began earning revenue in the first quarter of 2023, and the adoption of its technology by the market has been slower than initially anticipated. However, there has been a steady increase in the use of its technology which has resulted in it earning revenue at a gradually increasing rate. As such, the Company has had to rely on equity investments received through NHI, and loans from two individual lenders/shareholders, to continue to fund its working capital needs until the Filing Date.
19. Before and after the Filing Date, the Company contacted parties who had previously funded the Company, to request further loans to finance the Company's operations while it continues to build its customer base. The Proposal Trustee is aware of the Debtor speaking to two shareholder groups that expressed interest in making a DIP loan. One group, represented by two creditors and investors in NHI, considered whether to make further loans but ultimately did not submit a DIP loan term sheet to the Debtor.
20. A second shareholder group, represented by Mr. David Kay, expressed interest in making a DIP loan and carried out financing due diligence over a short period of time. Upon completion of its due diligence, the DIP Lender agreed to advance a DIP loan up to a maximum principal amount totaling \$2,000,000 in the timeline required by the Company to fund its working capital needs. The DIP Lender's term sheet was negotiated and accepted by the Company by June 15, 2023, subject to this Court's approval. A copy of the unsigned commitment letter for the DIP loan ("**DIP Commitment Letter**") is attached hereto as **Appendix "B"**.
21. The Proposal Trustee understands that the DIP Lender is to be used as an aggregator of funds that are to be advanced in connection with the DIP loan by a group of individuals and corporations. According to the DIP Lender, it is in the process of



completing the administrative steps of aggregating the individual commitments to fund the Company's DIP loan and expects this process will be completed by Tuesday, June 20, 2023, at which time it will be in a position to sign the DIP Commitment Letter and fund. If for any reason the DIP Loan Commitment Letter is not signed and funded by Thursday, June 22, 2023, the Company's funding deadline, the Proposal Trustee will report back to Court.

22. The terms of the DIP Loan are contained in the DIP Commitment Letter between the Debtor and the DIP Lender dated June 15, 2023 and include, among other things, the following terms:
- i) the total available funds under the DIP facility are \$2,000,000 (the “**Interim Facility**”);
  - ii) the Interim Facility is available on a draw basis, with an initial draw in the aggregate amount of \$600,000 (“**Initial Advance**”) that will be made to the Debtor by way of two advances following issuance of the Order approving the Interim Facility and subsequent draws of not less than \$250,000 each;
  - iii) the Interim Facility may only be used for the purposes contemplated by DIP Commitment Letter and reflected in the Cash Flow Forecast namely: funding operating costs and these restructuring proceedings;
  - iv) the DIP Lender's fees and expenses deducted from the Initial Advance shall not exceed \$25,000;
  - v) a facility fee equal to 5% of the Interim Facility, which is fully earned on execution of the DIP Commitment Letter and paid on the earlier of: (a) the Mandatory Prepayment (defined below) and (b) the Maturity Date (defined below);
  - vi) interest shall be calculated daily at the rate of 15% per annum;
  - vii) the appointment of a CRO who will be compensated on a monthly basis at a rate of \$27,500 per month for a minimum of three months of the CRO's engagement plus reasonable expenses. The Order appointing the CRO shall confirm that the CRO shall have no liability or obligation as a result of this appointment, except for any gross negligence or willful misconduct;

- viii) the requirement for the Company to file the Scientific Research and Experimental Development (“**SR&ED**”) claim for the taxation year ending December 31, 2022;
  - ix) the Interim Facility matures on the earliest of (“**Maturity Date**”): a) demand; b) six months following the Filing Date; c) the date on which the Debtor becomes bankrupt; d) the date on which the stay of proceedings ordered in the BIA Proceedings expires or is terminated or lifted; e) the occurrence of an event of default; or f) the sale of all or substantially all the assets of the Debtor; and  
  
upon receipt of (a) the SR&ED refund due in respect of the 2022 taxation year end, and/or (b) net proceeds of any asset sale by the Company out of the ordinary course, the Company will be required to apply such amounts to repay the Initial Advance, outstanding interest and fees (collectively, the “**Mandatory Prepayment**”) and surplus amounts, if any, remaining after the Mandatory Prepayment would be available to the Debtor;
23. It is a fundamental condition of the DIP Commitment Letter that (i) the Court grant a charge in favour of the DIP Lender against the assets of the Debtor (the “**DIP Charge**”) securing all amounts owing under the DIP Commitment Letter; and (ii) the Interim Facility shall rank in priority to all other security interests, trusts, liens, charges and encumbrances, statutory or otherwise in favour of any person.
24. The Proposal Trustee is of the view that acceptance of the DIP Commitment Letter and the Interim Facility contemplated therein:
- i) is required to fund the operations of the Debtor while it carries out its restructuring;
  - ii) will enhance the prospects of a viable proposal being made by the Debtor; and
  - iii) is in the overall best interests of the Company and its stakeholders.
25. Furthermore, the Proposal Trustee is of the view that the fees, terms and costs associated with the Interim Facility, while significant, are still commercially reasonable for a business in circumstances similar to those of the Debtor.
26. Without access to financing under the Interim Facility, the Company will: (i) not be able to maintain its operations, preserve asset value or implement restructuring steps; (ii) be forced to wind down its operations immediately, resulting in the loss of value, and

twenty-four jobs, to the material detriment of its creditors and stakeholders; and (iii) will become bankrupt.

### **Appointment of CRO**

27. The DIP Commitment Letter includes as a condition to the Initial Advance the engagement of David Kay, in his capacity as CEO of Ao8 Strategic Advisors, as CRO of the Company and Court approval of such engagement.
28. The Proposal Trustee reviewed Mr. Kay's curriculum vitae ("**CV**"), and had several discussions with him, and agrees that he is well qualified to act as a CRO.
29. The Proposal Trustee understands that the DIP Lender, or parties connected to the DIP Lender, could become parties interested in sponsoring the Debtor's restructuring plan. The Proposal Trustee also understands that the DIP Lender is wholly-owned by a party related to the CRO. However, the CRO is not participating directly or indirectly in funding the DIP loan.
30. Even though, Mr. Kay is the nominee CRO of the DIP Lender, and related to the DIP Lender, the Proposal Trustee expects he will be acting in the best interests of the Debtor and its restructuring plan, whether the Debtor's plan includes a sale to, or investment from, interested parties connected to the DIP Lender, or not. Mr. Kay advised the Proposal Trustee that he will be working diligently to assist the Company in formulating a restructuring plan. The Proposal Trustee will, as required under the BIA, be monitoring the activities of the Company and, by extension, its CRO during these proceedings. The CRO advised the Proposal Trustee that should the DIP Lender need to enforce its security he will immediately resign as CRO due to his relationship with the DIP Lender.

### **DIP Loan Administration**

31. The DIP Commitment Letter requires the Proposal Trustee to assist with the administration of the advances under the DIP loan, for the benefit of the Debtor and the DIP Lender by (a) receiving funds advanced under the DIP Loan into a separate account maintained by the Proposal Trustee solely for such purpose; and, (b) disbursing such funds in accordance with the direction of the Debtor, as evidenced by written direction of the CRO.

## **DIP CHARGE**

32. As described above, the Debtor requires immediate funding to maintain their existing operations and to pursue a restructuring plan, as evidenced by the Cash Flow Forecast.
33. As noted above, a condition of the DIP Commitment Letter is that the DIP Lender receives the benefit of a DIP Charge to the maximum amount of the aggregate of all advances by the DIP Lender to the Debtor pursuant to the DIP Commitment Letter. Additionally, as set out above, the Debtor is entitled to access the Interim Facility to fund post-filing operating and restructuring fees and costs. The Proposal Trustee supports the Debtor's request for the DIP Charge in priority to all other encumbrances.
34. For the reasons set out above, in the view of the Proposal Trustee, the proposed priority of the DIP Charge is reasonable and appropriate and is typical in similar proceedings, as set out in the form of draft order filed with the Court and, therefore, should be granted by the Court.

## **EXTENSION OF STAY OF PROCEEDINGS**

35. The Debtor is seeking an extension of the time for the filing of the proposal up to and including August 2, 2023, for a total of 45 days following the expiration of the initial 30-day stay of proceedings.
36. The stay extension is required to provide the Debtor with the necessary time to preserve its business on a going concern basis for the benefit of its stakeholders and to formulate a restructuring plan to present to its creditors. The Proposal Trustee is of the view that the Debtor is acting in good faith and with due diligence in formulating and implementing a restructuring plan that would preserve its business for the benefit of its stakeholders.
37. Without the requested extension of the stay period being granted, the Debtor is not able to make a viable proposal to its creditors and will then become bankrupt to the detriment of its stakeholders.
38. In contrast, no creditor will be materially prejudiced if the extension applied for is granted. If the extension applied for is granted, following the completion of its

restructuring, the Debtor would likely be able to make a viable proposal to its creditors.

### **NANOPAY'S WEEKLY CASH FLOW FORECAST**

39. The Debtor, with the assistance of the Proposal Trustee, has prepared a weekly cash flow forecast for the period from June 18, 2023, to September 17, 2023. A copy of the Cash Flow Forecast is attached hereto as **Appendix "C"** to this Report. The Cash Flow Forecast has been prepared by Management of the Debtor for the purpose of this motion, using probable and hypothetical assumptions set out in notes 1 to 8 attached to the Cash Flow Forecast. The Cash Flow Forecast reflects receipts and disbursements to be received or paid over a thirteen-week forecast period in Canadian dollars.
40. The Cash Flow Forecast projects that the Debtor will have sufficient liquidity, following receipt of the Initial Advance, to fund the Company's expenses and the Proposal proceeding throughout the proposed extension of the stay of proceedings.
41. The Cash Flow Forecast projects that the Debtor will require the use of the Interim Facility immediately upon Court approval to fund its payroll.
42. Should the DIP Lender choose not to advance any further funds after the required repayment of the Initial Advance following the receipt of the 2022 SR&ED refund in early August 2023, the Debtor will immediately enter a liquidity crisis and be unable to fund its payroll the following week. As such, during the stay period, the Debtor and its CRO will need to work diligently to formulate a restructuring plan while there remains sufficient cash to fund operations.
43. The Proposal Trustee's review of the Cash Flow Forecast consisted of inquiries, analytical procedures and discussion related to information supplied to the Proposal Trustee by certain of the Management and employees of the Debtor. Since hypothetical assumptions need not be supported, the Proposal Trustee's procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the Cash Flow Forecast. The Proposal Trustee has also reviewed the support provided by Management of the Debtor for the probable assumptions, and the preparation and presentation of the Cash Flow Forecast.

44. Based on the Proposal Trustee's review, nothing has come to its attention to cause it to believe that, in all material respects:
- i) the hypothetical assumptions are not consistent with the purpose of the Cash Flow Forecast;
  - ii) as at the date of this Report, the probable assumptions developed by management are not suitably supported and consistent with the plans of the Debtor or do not provide a reasonable basis for the Cash Flow Forecast, given the hypothetical assumptions; or
  - iii) the Cash Flow Forecast does not reflect the probable and hypothetical Assumptions.
45. As described in the Disclaimer above, since the Cash Flow Forecast is based on assumptions regarding future events, actual results will vary from the information presented, even if the hypothetical assumptions occur, and the variations may be material.
46. The Cash Flow Forecast has been prepared solely for the purposes described above, and readers are cautioned that it may not be appropriate for other purposes.

#### **CONCLUSION AND RECOMMENDATION**

47. Based on all the foregoing, the Proposal Trustee respectfully recommends that the Court make an order granting the relief requested by the Debtor in the Order requested, as summarized in paragraph 4 of this Report.

All of which is respectfully submitted this 15<sup>th</sup> day of June, 2023.

#### **DODICK LANDAU INC.**

In its capacity as the Proposal Trustee of  
nanopay Corporation and not  
in its personal or corporate capacity.

Per:



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Rahn Dodick, CPA, CA, CIRP, LIT  
President

## **APPENDIX “A” – Certificate of Filing**



Industry Canada  
Office of the Superintendent  
of Bankruptcy Canada

Industrie Canada  
Bureau du surintendant  
des faillites Canada

District of Ontario  
Division No. 09 - Toronto  
Court No. 31-2946534  
Estate No. 31-2946534

In the Matter of the Notice of Intention to make a proposal of:

**Nanopay Corporation**

Insolvent Person

**DODICK LANDAU INC.**

Licensed Insolvency Trustee

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Date of the Notice of Intention:

May 19, 2023

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CERTIFICATE OF FILING OF A NOTICE OF INTENTION TO MAKE A PROPOSAL

Subsection 50.4 (1)

I, the undersigned, Official Receiver in and for this bankruptcy district, do hereby certify that the aforementioned insolvent person filed a Notice of Intention to Make a Proposal under subsection 50.4 (1) of the Bankruptcy and Insolvency Act;

Pursuant to subsection 69. (1) of the Act, all proceedings against the aforementioned insolvent person are stayed as of the date of filing of the Notice of Intention.

Date: May 23, 2023, 08:04

E-File/Dépôt Electronique

Official Receiver

151 Yonge Street, 4th Floor, Toronto, Ontario, Canada, M5C2W7, (877)376-9902

**Canada**



## **APPENDIX “B” – DIP Commitment Letter**

June 15, 2023

Nanopay Corporation  
905 King St W Suite 300,  
Toronto, ON M6K 3G9

Attention: Laurence Cooke

**Re: Nephesh Partners, LLC and/or its affiliate (the “Lender”) interim financing credit facility in favour of Nanopay Corporation (the “Borrower”)**

We understand that on May 19, 2023, the Borrower filed a notice of intention to make a proposal pursuant to the *Bankruptcy and Insolvency Act* (Canada) (the “**BIA**”) naming Dodick Landau Inc. as proposal trustee (the “**Proposal Trustee**”), and that in connection with the BIA proceedings (the “**Proposal Proceedings**”) the Borrower requires interim financing and will be seeking an interim financing Order pursuant to section 50.6(1) of the BIA (the “**Interim Financing Order**”). The Lender is pleased to offer interim financing by way of the credit facility described in this term sheet (the “**Term Sheet**”) subject to the terms and conditions set forth herein. Unless otherwise indicated, all amounts are expressed in Canadian currency. All capitalized terms not otherwise defined in the body of this Term Sheet shall have the meanings ascribed thereto in **Schedule “A”**.

**Borrower:** Nanopay Corporation

**Lender:** Nephesh Partners, LLC (as initially identified on the signature page hereto) and/or its affiliate (the “**Lender**”). The Proposal Trustee shall, upon receipt of the funds from the Lender, administer the Facility by making the Initial Advance and all other Advances to the Lender, upon receipt of written instructions from the CRO, and in accordance with all of the terms and conditions of this DIP Term Sheet.

**Facility:** A super priority, debtor-in-possession non-revolving demand credit facility up to the maximum principal amount of two million dollars \$2,000,000 (the “**Facility**”), subject to the terms and conditions contained herein.

The Facility shall be available by multiple advances (each an “**Advance**”, and collectively, the “**Advances**”), at the Lender’s sole and absolute discretion with regard to timing, and each Advance shall be in the minimum amount of \$250,000 or such other amount approved by the Court.

The initial advances under the Facility shall be in the aggregate maximum amount of \$600,000, and will be made to the Borrower by two (2)

advances (together, the “**Initial Advance**”). The date of the second advance constituting the Initial Advance shall be no later than seven (7) calendar days following the date of the first advance.

There may be subsequent advances (each a “**Subsequent Advance**” and collectively, the “**Subsequent Advances**”) under the Facility. The Initial Advance together with all Subsequence Advances, the CRO Fee, the Lender’s Fees and Expenses, all other financing costs, fees, and expenses, and any other costs, fees and expenses contemplated by this Facility shall not exceed an aggregate maximum amount of \$2,000,000 (such amount being the “**Maximum Amount**”). Notwithstanding any provision to the contrary herein, the Lender shall not be obligated to fund any Advances which, in the aggregate, exceed the Maximum Amount and, accordingly, the total amount advanced under the Facility shall not exceed the Maximum Amount unless the Lender otherwise agrees.

The availability of the Initial Advance is subject to and conditional upon satisfaction of the Conditions Precedent to the Initial Advance (as defined herein).

All Subsequent Advances under the Facility following the Initial Advance shall be at the sole and absolute discretion of the Lender, and provided that the following conditions are met: (a) the Facility Availability (as herein defined) supports the increased amount at the sole and absolute discretion of the Lender; and (b) there has been no Event of Default.

**Purpose:**

The purpose of the Facility is to fund: (i) working capital needs in accordance with the cash flow projections approved by the Proposal Trustee, the Lender, and the CRO from time to time (the “**Cash Flow Projections**”); (ii) the Lender’s Fees and Expenses (as defined below); (iii) professional fees and expenses incurred by the Borrower and the Proposal Trustee in respect of the Proposal Proceedings, to the maximum amount of \$120,000 for the initial 45 days extension; (iv) the CRO Fee; and (v) such other costs and expenses of the Borrower as may be agreed to by the Lender, in writing.

**Facility  
Availability:**

The maximum amount of each Subsequent Advance available under the Facility at any time and from time to time will, subject to the Maximum Amount, be determined and limited by the Lender in accordance with the following (the “**Facility Availability**”): (a) whether an Event of Default (as defined below) has occurred; (b) whether there has been any negative variance from the cash flow set forth in the Cash Flow Projections; and (c) the Lender’s view as to whether there is a reasonable prospect of a viable restructuring or a viable proposal in respect of the Borrower.

For greater certainty, any Subsequent Advance following the Initial Advance shall be at the sole and absolute discretion of the Lender.

**Maturity:**

The Borrower shall repay all principal, interest, fees and other amounts owing under the Facility on the earlier of (the “**Maturity Date**”): (i) demand; (ii) the occurrence of an Event of Default (as defined below); (iii) the date on which the period for the Borrower to file a proposal in the Proposal Proceedings is not extended or is terminated; (iv) the date on which the Borrower becomes bankrupt; (v) the date upon which a sale of all or substantially all of the business and assets of the Borrower is completed; and (vii) the date that is six (6) months from the date on which the Borrower filed a Notice of Intention to File a Proposal.

**Mandatory  
Prepayment:**

Upon receipt of (each, a “**Prepayment Event**”):

- (i) the refund due from the Government of Canada and the Government of Ontario with respect to Scientific Research and Experimental Development for the taxation year ending December 31, 2022 (the “**SR&ED Refund**”); and/or
- (ii) the net cash proceeds of any asset sale by the Borrower out of the ordinary course of business;

the Borrower will be required to apply such amounts, and proceeds thereof, to prepay (i) the Initial Advance; (ii) outstanding interest on the principal amount of the Initial Advance as at the date of prepayment; (iii) outstanding Lender’s Fees and Expenses as at the date of prepayment; (iv) the CRO Fee owing as at the date of prepayment; and (v) the Facility Fee (collectively, the “**Mandatory Prepayment**”), and any surplus amounts remaining after the Mandatory Prepayment is fully satisfied shall be released into the Borrower’s Account (as defined below).

All moneys received by the Borrower in connection with a Prepayment Event shall be, and shall deemed to be, held in trust for the Lender and applied towards the Mandatory Prepayment no later than (each a “**Mandatory Prepayment Date**”):

- (i) two Business (2) Days following the date on which the SR&ED Refund is deposited into the Borrower’s Account; and
- (ii) ten (10) Business Days following the closing date of any asset sale by the Borrower out of the ordinary of business.

If, at any time following the date of the Interim Financing Order, the cash, certificates of deposit, bank deposits, commercial paper, treasury bills and other cash equivalents in the Borrower’s operating accounts (including the Borrower’s Account (defined below)) exceeds \$1,000,000

in the aggregate, then the amount in excess of \$1,000,000 shall be applied towards a Mandatory Prepayment.

**Facility  
Advances:**

Each Advance shall be wire transferred to the current operating account of the Borrower (the “**Borrower’s Account**”). The Borrower’s Account shall be subject to the Interim Financing Charge.

Nothing in this Term Sheet creates a legally binding obligation on the Lender to advance any amount, other than the Initial Advance, under the Facility at any time unless the Lender is completely satisfied in its sole and absolute discretion, acting reasonably, that the Borrower is in compliance with every provision of this Term Sheet.

**Interest Rate  
and Expenses:**

Interest: Interest on the principal amount of each Advance outstanding from time to time shall be calculated at a rate of fifteen percent (15%) per annum, which interest shall be calculated on the daily outstanding balance owing under the Facility, not in advance, and shall accrue and be paid on the earlier of: (i) the Mandatory Prepayment Date; and (ii) the Maturity Date.

Expenses: The Borrower shall pay all fees and expenses (collectively, the “**Lender’s Fees and Expenses**”) incurred by the Lender in connection with the preparation, registration and ongoing administration of this Term Sheet, the Facility, the Interim Financing Order, the Interim Financing Charge (as defined below) and with the enforcement of the Lender’s rights and remedies thereunder, at law or in equity, including, without limitation all reasonable legal fees and disbursements incurred by the Lender, on a full indemnity basis. For purposes of greater certainty, “Lender’s Fees and Expenses” shall include all reasonable fees and expenses incurred by the Lender in connection with the Proposal Proceedings and all court attendances in respect thereof. If the Lender has paid any expense for which the Lender is entitled to reimbursement from the Borrower, such expense shall be added to the Facility and shall accrue interest at the rate set out above. All such fees and expenses and interest thereon shall be secured by the Interim Financing Charge whether or not any funds under the Facility are advanced.

The Lender’s Fees and Expenses owing as at the date on which the Initial Advance is made shall not exceed \$25,000, and such amount of Lender’s Fees and Expenses shall be deducted by the Lender from the Initial Advance prior to the Lender making the Initial Advance to the Borrower.

**Facility Fee:**

A Facility fee equal to five percent (5%) of the Maximum Amount will be due and payable to the Lender, which shall be fully earned on execution of this Term Sheet, secured by the Interim Financing Charge, and paid on the earlier of: (i) the Mandatory Prepayment Date; and (ii) the Maturity Date.

**Security:** All debts, liabilities, and obligations of the Borrower under the Facility shall be secured by the Interim Financing Charge and such security agreements charging all present and future, real and personal, tangible and intangible, properties, assets and undertakings of the Borrower, including the Borrower's intellectual property, the SR&ED Refund, and other tax refunds, as may be reasonably requested by the Lender.

The Interim Financing Charge shall rank in priority to any and all security interests, mortgages, trusts, deemed trusts (statutory or otherwise), liens, charges and encumbrances, and claims of all other secured creditors, statutory or otherwise, in favour of any Person.

**Chief Restructuring Officer:** As part of the relief sought by the Borrower in connection with the Interim Financing Order, the Borrower shall seek the appointment of David Kay, in his capacity as CEO of Ao8 Strategic Advisors, LLC and not in his personal capacity, as Chief Restructuring Officer (the "**CRO**") of the Borrower on terms acceptable to the Lender.

The CRO will be compensated for his services on a monthly basis at a rate of \$27,500 per month (the "**CRO Fee**") for the first three (3) months of the CRO's engagement. The CRO Fee may be revised in consultation with the Lender and the Proposal Trustee. The CRO Fee shall accrue and be paid to the CRO on the earlier of: (i) the Mandatory Prepayment Date; and (ii) the Maturity Date.

The Order appointing David Kay as CRO shall provide, among other protections in favour of the CRO, that the CRO shall incur no liability or obligation as a result of his appointment, save and except for any gross negligence or wilful misconduct on his part.

**Execution Deadline:** This Term Sheet must be fully executed by the Lender and the Borrower by 5:00 p.m. (Toronto time) on Tuesday, June, 20, 2023, or such later date or time as may be agreed to by the Lender and the Borrower (the "**Execution Deadline**") in order to be binding and enforceable.

**Conditions Precedent to the Initial Advance:** The availability of the Initial Advance is subject to and conditional upon the following:

1. receipt of the entered Interim Financing Order in a form satisfactory to the Lender including:
  - (a) approving this Term Sheet and the Facility contemplated herein;
  - (b) granting the Lender a charge in and to all present and future, real and personal, tangible and intangible,

properties, assets and undertakings of the Borrower, including the Borrower's intellectual property, the SR&ED Refund, and other tax refunds (the "**Interim Financing Charge**"), which Interim Financing Charge shall rank in priority to any and all security interests, mortgages, trusts, deemed trusts (statutory or otherwise), liens, charges and encumbrances, and claims of secured creditors, statutory or otherwise, in favour of any Person;

- (c) appointing the CRO;
- (d) providing, among other protections in favour of the CRO, that the CRO shall incur no liability or obligation as a result of his appointment, save and except for any gross negligence or wilful misconduct on his part;
- (e) granting the Lender the right, upon the occurrence of an Event of Default, to terminate the Facility and to enforce the rights and remedies available to it, with Court approval obtained on not more than three (3) Business Days' notice to the Borrower and the Proposal Trustee, pursuant to the Interim Financing Order, this Term Sheet, the Interim Financing Charge, and any additional rights and remedies available to it, at law or in equity;
- (f) declaring that the granting of the Interim Financing Charge, the execution and delivery of all other documents and instruments contemplated herein, and the payment of all amounts by the Borrower to the Lender, including any and all fees and interest, do not and will not constitute preferences, fraudulent conveyances, transfers at undervalue, oppressive conduct, or other challengeable or voidable transactions under any Applicable Law;
- (g) declaring the Interim Financing Order, including the Interim Financing Charge granted thereunder, binding upon a trustee in bankruptcy of the Borrower, the Proposal Trustee, a receiver, interim-receiver, receiver-manager or any other officer of the Court appointed in respect of the Borrower; and
- (h) declaring the Lender to be an "unaffected creditor" under any proposal made by the Borrower and that the indebtedness to the Lender under the Facility shall not be compromised under any such proposal;

2. the Interim Financing Order shall not have been amended or varied in a manner adverse to the Lender, or stayed, without the consent of the Lender, and shall continue to be in full force and effect;
3. execution of this Term Sheet by the Execution Deadline;
4. receipt of a duly executed copy of this Term Sheet;
5. completion by the Borrower of all steps necessary to file a Scientific Research and Experimental Development (“SR&ED”) claim for the taxation year ending December 31, 2022, in the minimum amount of \$888,226, and to qualify for and receive the SR&ED Refund, including, without limitation, filing all relevant returns, forms, applications, and any other related or relevant documents, and the Lender shall have received from the Borrower evidence thereof satisfactory to the Lender; and
6. delivery by the Borrower to the Lender of any such further security or documentation that the Lender and its lawyers may reasonably require to give effect to the foregoing.

**Timing of Initial Advance:**

Subject to the satisfaction of the Conditions Precedent to the Initial Advance (including, without limitation, the execution of this Term Sheet by the Execution Deadline), the first advance comprising the Initial Advance shall be made to the Borrower within two (2) Business Days following the Execution Deadline, or such later date as may be agreed to by the Lender and the Borrower.

**Conditions Precedent to a Subsequent Advance:**

Each of the following is a condition precedent to any Subsequent Advance to be made hereunder, in each case unless waived in writing by the Lender in its sole discretion:

1. all of the conditions contained in this Term Sheet shall have been satisfied and shall as at the time of the making of the Subsequent Advance in question continue to be satisfied;
2. no fact exists or event has occurred which materially changes the manner in which the Lender previously evaluated the risks inherent in advancing amounts to the Borrower under the Facility, whether or not the Lender was or should have been aware of such facts or events differently at any time; and
3. no Event of Default shall have occurred and be continuing.

**No Waiver:**

The making of an Advance hereunder without the fulfillment of one or more conditions set forth in this Term Sheet shall not constitute a waiver



of any such condition, unless expressly so waived in writing by the Lender, and the Lender reserves the right to require fulfillment of such condition in connection with any Advance.

**Covenants:**

The Borrower covenants and agrees with the Lender, so long as any amounts are outstanding by the Borrower to the Lender hereunder, to:

1. pay all sums of money when due hereunder;
2. not request, obtain or consent to a variation of the Interim Financing Order if, in the opinion of the Lender, such variation may be prejudicial to the Lender, without the prior written consent of the Lender, such consent not to be unreasonably withheld or delayed;
3. make all reasonable efforts to provide the Lender with at least three (3) Business Days' advance notice of all Court filings made by it, together with copies of, and an opportunity to comment on, all related Court materials;
4. provide the Lender with prompt written notice of any event which constitutes, or which, with notice, lapse of time, or both, would constitute an Event of Default, a breach of any covenant or other term or condition of this Term Sheet, or of any document given in connection therewith;
5. use the proceeds of the Facility solely for the purposes provided for herein;
6. keep and maintain books of account and other accounting records in accordance with generally accepted accounting principles;
7. upon reasonable notice, permit the Lender or its representatives, at any time and from time to time with such frequency as the Lender, in its sole discretion, may require, to visit and inspect the Borrower's premises, properties and assets and to examine and obtain copies of the Borrower's records or other information and discuss the Borrower's affairs with the auditors, counsel and other professional advisors of the Borrowers all at the reasonable expense of the Borrowers;
8. carry on the business of the Borrowers in the normal course, consistent with past practice and orders of the Court made in the Proposal Proceedings;

9. not incur any expense other than as included in the Cash Flow Projections, without the prior written consent of the Lender, not to be unreasonably withheld;
10. obtain the Lender's approval for any amendment or extension of the Cash Flow Projections;
11. to pay all Priority Claims when due and payable from and after the commencement of the Proposal Proceedings, as and when such Priority Claims are due, and promptly provide proof of payment to the Lender; and
12. keep the Borrower's assets fully insured against such perils and in such manner as would be customarily insured by companies owning similar assets naming the Lender as first loss payee and to ensure all assets secured by the Interim Financing Charge are in existence and in the possession and control of the Borrower.

**Events  
of Default:**

Without limiting the right of the Lender to demand payment at anytime, if any one or more of the following events (an "**Event of Default**") has occurred and is continuing:

1. the SR&ED Refund is not received within 90 days following receipt of the entered Interim Financing Order;
2. notice is given to the Borrower that the SR&ED Refund has been rejected as filed, or reduced by an amount greater than \$25,000 of the amount claimed;
3. the Borrower fails to pay when due and payable any principal, interest, fees or other amounts due under this Term Sheet;
4. the Borrower breaches any covenant, term, condition or other provision of this Term Sheet or any other document delivered to the Lender in respect thereof;
5. if the Interim Financing Order is stayed, set aside or varied in a manner adverse to the Lender, without the consent of the Lender, in its sole discretion, or any other order of the Court in the Proposal Proceedings is made, which is or may be prejudicial to the Lender's interests;
6. the stay of proceedings resulting from the Proposal Proceedings is terminated or lifted in whole or in part without the consent of the Lender;

7. substantially all of the business or assets of the Borrower are sold, except as may be otherwise approved by the Lender in writing in advance;
8. any default or failure by the Borrower to make any payment when due of any Priority Claims due and payable arising from and after the commencement of the Proposal Proceedings;
9. the Borrower becomes bankrupt or the appointment of a receiver, receiver and manager, or other officer of the Court is made for, all or any significant part of the assets of any Borrower;
10. the Borrower incurs a negative variance of greater than ten percent (10%) from the "Net Cash Flow" line in the Cash Flow Projection, in each case, tested every two (2) weeks on a cumulative basis from the beginning of the period covered by the Cash Flow Projection;
11. the Borrower files a cash flow projection without the approval of the Lender;
12. the Borrower fails to obtain Lender approval prior to the filing a proposal to creditors in respect of the Borrower;
13. the Borrower fails to obtain Lender approval regarding any sale process in respect of the Borrower's assets or business; and
14. any failure of the Borrower's Board or the Borrower's management to fully cooperate with the CRO;

then, in such event, the Lender may, by written notice to the Borrower declare all monies outstanding under the Facility to be immediately due and payable and upon seeking an Order of the Court on not more than three (3) Business Days notice, enforce, without further notice, demand or delay, all of its rights and remedies against the Borrower and their respective property, assets and undertaking including, without limitation, the enforcement of the Interim Financing Charge.

Nothing contained in this section shall limit any right of the Lender under this Term Sheet to demand payment of the Facility. On demand or the occurrence of an Event of Default, at the discretion of the Lender, the Borrower shall not be entitled to any further advance under this Facility. Any advance made by the Lender after the occurrence of an Event of Default shall not oblige the Lender to make further advances thereafter.

**Evidence of**

The Lender shall maintain records evidencing the Facility. The Lender's

**Indebtedness:** accounts and records constitute, in the absence of manifest error, conclusive evidence of the indebtedness of the Borrower to the Lender pursuant to this Term Sheet.

**Representations and Warranties:** The Borrower represents and warrants to the Lender that:

1. it is a corporation duly incorporated, validly existing and duly registered or qualified to carry on business in the Province of Ontario or any other jurisdiction where they may carry on business;
2. subject to the issuance of the Interim Financing Order, the execution, delivery and performance by the Borrower of this Term Sheet has been duly authorized by all necessary actions and do not violate the constating documents or any Applicable Laws or agreements to which any Borrower is subject or by which it is bound;
3. there are no liens or encumbrances on the assets of the Borrower except as set forth in **Schedule "B"** hereto;
4. no event has occurred which constitutes, or which, with notice, lapse of time, or both, would constitute, an Event of Default, a breach of any covenant or other term or condition of this Term Sheet or any document given in connection therewith; and
5. the Borrower has good and marketable title to all of its properties, assets and undertakings.

**General:** Non-Merger: The provisions of this Term Sheet shall not merge on the first advance hereunder but shall continue in full force and effect for the benefit of the parties hereto.

Further Assurances and Documentation: The Borrower shall do all things and execute all documents deemed necessary or appropriate by the Lender for the purposes of giving full force and effect to the terms, conditions, undertakings hereof and the Interim Financing Charge to be granted pursuant to the Interim Financing Order.

Severability: If any provision of this Term Sheet is or becomes prohibited or unenforceable in any jurisdiction, such prohibition or unenforceability shall not invalidate or render unenforceable the provision concerned in any other jurisdiction nor shall it invalidate, affect or impair any of the remaining provisions of this Term Sheet.

Governing Law: This Term Sheet shall be construed in accordance with and be governed by the laws of the Province of Ontario and the federal laws of Canada applicable therein.

Counterparts: This Term Sheet may be executed in any number of separate counterparts by any one or more of the parties thereto, and all of said counterparts taken together shall constitute one and the same instrument. Delivery of an executed counterpart of this Term Sheet by email, PDF or by other electronic means shall be as effective as delivery of a manually executed counterpart.

Assignment: The Lender may assign all or part of its rights and obligations under this Term Sheet without notice to and without the Borrower's consent. The Borrower may not assign or transfer all or any part of its rights or obligations under this Term Sheet, any such transfer or assignment being null and void and of no force or effect. This Term Sheet shall enure to the benefit of and be binding upon the parties hereto and their respective successors and permitted assigns.

Time: Time shall be of the essence in all provisions of this Term Sheet.

Termination by Borrower: At any time following the indefeasible payment in full in immediately available funds of all of the amounts owing under the Facility, including, without limitation, principal, interest, costs and expenses contemplated hereunder, the Borrower shall be entitled to terminate this Term Sheet upon written notice to the Lender.

Whole Agreement, Amendments and Waiver: This Term Sheet and any other written agreement delivered pursuant to or referred to in this Term Sheet constitute the whole and entire agreement between the parties in respect of the Facility. There are no verbal agreements, undertakings or representations in connection with the Facility. No amendment or waiver of any provision of this Term Sheet will be effective unless it is in writing signed by the Borrower and the Lender. No failure or delay on the part of the Lender in exercising any right or power hereunder or under the Interim Financing Charge shall operate as a waiver thereon. No course of conduct by the Lender will give rise to any reasonable expectation which is in any way inconsistent with the terms and conditions of this Term Sheet and the Interim Financing Charge or the Lender's rights thereunder.

**Best Efforts:**

Upon the Borrower's acceptance of this Term Sheet, the Borrower will use its best efforts to obtain the Interim Financing Order. In the event that the Interim Financing Order is not obtained on or before 5:00 pm on June 16, 2023, this Term Sheet will expire and be of no force or effect.

**[THE REMAINDER OF THIS PAGE WAS INTENTIONALLY LEFT BLANK]**

If the terms and conditions of this Term Sheet are acceptable to you, please sign in the space indicated below and return the signed copy of this Term Sheet to us. Acceptance may also be effected by scanned transmission and in counterpart.

We thank you for allowing us the opportunity to provide you with this Term Sheet.

Yours truly,

**NEPHESH PARTNERS, LLC**

Per: \_\_\_\_\_

Name:

Title:

Per: \_\_\_\_\_

Name:

Title:

*We have authority to bind the corporation.*

**ACCEPTANCE**

The undersigned hereby accepts this Term Sheet this       day of June.

**NANOPAY CORPORATION**

Per: \_\_\_\_\_

Name:

Title:

I have authority to bind the corporation.

## SCHEDULE “A”

In addition to terms defined elsewhere in this Term Sheet, the following terms shall have the following meanings:

- (a) **“Applicable Laws”** means, with respect to any person, property, transaction or event, all present or future statutes, regulations, rules, orders, codes, treaties, conventions, judgments, awards, determinations and decrees of any governmental, regulatory, fiscal or monetary body or court of competent jurisdiction, in each case, having the force of law in any applicable jurisdiction.
- (b) **“Business Day”** means a day on which chartered banks are open for over-the-counter business in Toronto and excludes Saturday, Sunday and any other day which is a statutory holiday in Toronto.
- (c) **“Priority Claims”** means the aggregate of any amounts accrued or payable by any Borrower which under any law may rank prior to or *pari passu* with the Interim Financing Charge or otherwise in priority to any claim by the Lender for payment or repayment of any amounts owing under this Term Sheet, including: (i) wages, salaries, commissions or other remuneration; (ii) vacation pay; (iii) pension plan contributions; (iv) amounts required to be withheld from payments to employees or other persons for federal and provincial income taxes, employee Canadian Pension Plan contributions and employee Employment Insurance premiums, additional amounts payable on account of employer Canada Pension Plan contributions and employer Employment Insurance premiums; (v) harmonized sales tax; (vi) provincial sales or other consumption taxes; (vii) Workers’ Compensation Board and Workplace Safety and Insurance Board premiums or similar premiums; (viii) real property taxes; (ix) rent and other amounts payable in respect of the use of real property; (x) amounts payable for repair, storage, transportation or construction or other services which may give rise to a possessory or registerable lien; and (xi) claims which suppliers could assert pursuant to Section 81.1 or Section 81.2 of the BIA; and (xii) WEPPA Claims.
- (d) **“WEPPA Claims”** means any claims made against the Borrower pursuant to the *Wage Earner Protection Program Act*, S.C. 2005, c. 47, s.1, as the same may be amended, restated or replaced from time to time.

Words importing the singular include the plural thereof and vice versa and words importing gender include the masculine, feminine and neuter genders.



## **SCHEDULE “B”**

1. Security interest in favour of HER MAJESTY IN RIGHT ONTARIO REPRESENTED BY THE MINISTER OF FINANCE.

## **APPENDIX “C” – Cash Flow Forecast**

**Nanopay Corporation**  
**Cash Flow Forecast**  
**For the period from June 18, 2023**  
**to September 17, 2023**

	<b>Notes</b>					
<b>Weeks Ending</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>
	<b><u>25-Jun-23</u></b>	<b><u>02-Jul-23</u></b>	<b><u>09-Jul-23</u></b>	<b><u>16-Jul-23</u></b>	<b><u>23-Jul-23</u></b>	<b><u>30-Jul-23</u></b>
<b>Receipts</b>						
Customer Receipts	2,143	2,357	2,593	2,800	3,024	4,729
Other	-	-	-	-	-	80,000
<b>Total Receipts</b>	<b>2,143</b>	<b>2,357</b>	<b>2,593</b>	<b>2,800</b>	<b>3,024</b>	<b>84,729</b>
<b>Disbursements</b>						
Payroll	(37,500)	(96,349)	(48,751)	(84,349)	(48,751)	(96,349)
Direct Costs	(45,913)	(3,000)	(24,000)	-	(35,913)	(13,000)
<b>Total Disbursements</b>	<b>(83,413)</b>	<b>(99,349)</b>	<b>(72,751)</b>	<b>(84,349)</b>	<b>(84,665)</b>	<b>(109,349)</b>
<b>Cash Flow from Operations</b>	<b>(81,271)</b>	<b>(96,992)</b>	<b>(70,159)</b>	<b>(81,549)</b>	<b>(81,641)</b>	<b>(24,620)</b>
Deduct: Professional Fees and Expenses	(60,000)	-	-	-	(60,000)	-
Deduct: CRO Fees and Expenses						
Add/(Deduct): DIP Loan Advances/(Repayments)	275,000	300,000	-	-	-	-
<b>Net Cash Flow</b>	<b>133,729</b>	<b>203,008</b>	<b>(70,159)</b>	<b>(81,549)</b>	<b>(141,641)</b>	<b>(24,620)</b>
Opening Bank Balance	5,295	139,024	342,033	271,874	190,325	48,684
Add: Net Cash Flow	133,729	203,008	(70,159)	(81,549)	(141,641)	(24,620)
<b>Closing Bank Balance</b>	<b>139,024</b>	<b>342,033</b>	<b>271,874</b>	<b>190,325</b>	<b>48,684</b>	<b>24,064</b>

**Nanopay Corporation**  
**Cash Flow Forecast**  
**For the period from June 18, 2023**  
**to September 17, 2023**

	<b>Notes</b>					
<b>Weeks Ending</b>	<b>7</b>	<b>8</b>	<b>9</b>	<b>10</b>	<b>11</b>	<b>12</b>
	<b><u>06-Aug-23</u></b>	<b><u>13-Aug-23</u></b>	<b><u>20-Aug-23</u></b>	<b><u>27-Aug-23</u></b>	<b><u>03-Sep-23</u></b>	<b><u>10-Sep-23</u></b>
<b>Receipts</b>						
Customer Receipts	2	5,054	5,399	5,895	7,369	8,362
Other	3	820,426	-	-	-	-
<b>Total Receipts</b>		<b>825,480</b>	<b>5,399</b>	<b>5,895</b>	<b>7,369</b>	<b>8,362</b>
<b>Disbursements</b>						
Payroll	4	(48,751)	(84,349)	(48,751)	(84,349)	(84,349)
Direct Costs	5	-	(24,000)	(35,913)	(13,000)	(24,000)
<b>Total Disbursements</b>		<b>(48,751)</b>	<b>(108,349)</b>	<b>(84,665)</b>	<b>(97,349)</b>	<b>(108,349)</b>
<b>Cash Flow from Operations</b>		<b>776,728</b>	<b>(102,949)</b>	<b>(78,770)</b>	<b>(89,980)</b>	<b>(99,986)</b>
Deduct: Professional Fees and Expenses	6	-	-	(60,000)	-	-
Deduct: CRO Fees and Expenses	7	(81,000)				
Add/(Deduct): DIP Loan Advances/(Repayments)	8	(709,254)	250,000	-	250,000	-
<b>Net Cash Flow</b>		<b>(13,526)</b>	<b>147,051</b>	<b>(138,770)</b>	<b>160,020</b>	<b>(99,986)</b>
Opening Bank Balance		24,064	10,539	157,590	18,820	125,940
Add: Net Cash Flow		(13,526)	147,051	(138,770)	160,020	(99,986)
<b>Closing Bank Balance</b>		<b>10,539</b>	<b>157,590</b>	<b>18,820</b>	<b>178,840</b>	<b>25,954</b>

**Nanopay Corporation**  
**Cash Flow Forecast**  
**For the period from June 18, 2023**  
**to September 17, 2023**

		<u>Notes</u>	<u>13</u>	<u>17-Sep-23</u>	<u>Total</u>
<b>Weeks Ending</b>					
<b>Receipts</b>					
Customer Receipts	<b>2</b>		9,159	66,734	
Other	<b>3</b>		-	900,426	
<b>Total Receipts</b>			<b>9,159</b>	<b>967,160</b>	
<b>Disbursements</b>					
Payroll	<b>4</b>		(48,751)	(872,100)	
Direct Costs	<b>5</b>		(35,913)	(254,653)	
<b>Total Disbursements</b>			<b>(84,665)</b>	<b>(1,126,753)</b>	
<b>Cash Flow from Operations</b>					
Deduct: Professional Fees and Expenses	<b>6</b>		(60,000)	(240,000)	
Deduct: CRO Fees and Expenses	<b>7</b>			(81,000)	
Add/(Deduct): DIP Loan Advances/(Repayments)	<b>8</b>		250,000	615,746	
<b>Net Cash Flow</b>			<b>114,494</b>	<b>135,152</b>	
<b>Operating Bank Balance</b>					
Opening Bank Balance			25,954	5,295	
Add: Net Cash Flow			114,494	135,152	
<b>Closing Bank Balance</b>			<b>140,447</b>	<b>140,447</b>	

**Nanopay Corporation (“nanopay” or the “Company”)**  
Major Assumptions  
Cash Flow Forecast  
For the Period June 18, 2023, to September 17, 2023 (the “Period”)

1. Nanopay’s financial projections have been prepared for the purpose of meeting the requirements of the Bankruptcy and Insolvency Act. The Projection is based on the hypotheses that nanopay will continue operations in the normal course, will generate cash flow to meet its ongoing operational needs and where there is a cash flow deficiency such deficiency will be funded by way of external financing.

**Receipts:**

2. Customer receipts are projected based on existing customers as well as certain new customers that are anticipated to begin doing business with nanopay in the period. It’s primary customers are Intuit and National Bank of Pakistan.
3. Other receipts include SR&ED credits relating to the 2022 fiscal year which application is in the process of being prepared by the Company’s advisors. The 2022 SR&ED credits are estimated to total approximately \$820,000. As well, included are estimated HST refunds relating to the first and second quarters of 2023 yet to be filed and collected by the Company and estimated to total \$80,000.

**Disbursements:**

4. Payroll includes amounts for approximately twenty-four salaried employees and one independent contractor. Other payroll costs include source deduction remittances and employee benefits payable in the Period.
5. Direct costs include infrastructure costs such as network, data center, VPN and security, as well as subscription expenses for Amazon Web Services, Google, certain developer tools, marketing costs and bank fees. A portion of these expenses are paid through a corporate American Express credit card.
6. Professional fees include fees for the Proposal Trustee, the Company’s legal counsel and counsel to the Proposal Trustee for the Period.
7. Chief Restructuring Officer (“**CRO**”) fees and expenses include \$27,000 per month. The CRO is a requirement of the Debtor in Possession (“**DIP**”) lender. According to the DIP loan agreement, the CRO fees and expenses for the first three months (June to August 2023) are accrued and are required to be paid when the SR&ED credits are received.
8. The DIP loan agreement provides for an initial advance of \$600,000 (“**Initial Advance**”) which shall be reduced by the DIP lender’s legal fees estimated to be \$25,000 resulting in a net advance of \$575,000 following approval of a DIP loan charge by the Court. According to the Company’s cash flow forecast, a DIP loan advance of

\$575,000 will be required during the week-ending June 25, 2023, in order that the Company's payroll obligations are paid when due.

According to the DIP loan agreement, the Initial Advance, including accrued interest, DIP lender facility fee and CRO accrued fees for three months, must be repaid when the 2022 SR&ED credits are forecast to be received in the week-ending August 6, 2023. The repayment is estimated to be approximately \$790,000 and will deplete almost all of the SR&ED credits received. As a result, the Company will require a further DIP loan advance to be made immediately in the following week-ending August 13, 2023.

During the 13-week cash flow forecast period, it is estimated that the Company will receive DIP loan advances, and make repayments, totaling approximately \$1.3 million and \$710,000, respectively. However, according to the DIP loan agreement, any advances made beyond the Initial Advance is at the discretion of the DIP lender. It is estimated that during the Period, the DIP loan, if fully advanced when required, will not exceed \$863,000, including accrued interest, facility fee, lender legal fees, and CRO fees.

**IN THE MATTER OF THE NOTICE OF INTENTION TO MAKE A PROPOSAL OF  
NANOPAY CORPORATION OF THE CITY OF TORONTO IN THE PROVINCE OF  
ONTARIO**

Court File No.: 31-2946534  
Estate File No.: 31-2946534

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

Proceeding commenced at **TORONTO**

**FIRST REPORT TO COURT OF THE PROPOSAL  
TRUSTEE**

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