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| ­­To: | Ayr Wellness, Inc (the “**Company**”) audit file | From: | Marcum Valuation Group |
| Date: | May 9, 2024 | Re: | Fair Value Review Memo |

**This is hidden text! It won’t show when you convert to pdf / print the document. Note that hidden text is underlined. Some of the hidden text is also green, which indicates that the text is giving the user additional information. Hidden text that is the standard black font color is text the user can select to use in the memo by unhiding it (select text, go to font, uncheck hidden)**

# Overview

## Purpose of Memo

Marcum LLP’s Valuation Group (“**MVG**”) prepared this memo in response to a request from Marcum LLP’s Audit Team (the “**Engagement Team**” or the “**Audit Team**”) to assist in the audit of the fair value measurements of certain financial instruments in connection with the financial statements of the Company.

It is our understanding that the Engagement Team is testing the analysis prepared by a specialist either employed or engaged by the Company as part of its standard audit procedures. MVG, the Auditor’s Specialist (the “**Auditor’s Specialist**”) were asked to provide support to the Engagement Team, as an auditor’s specialist serving as part of the audit team. Specifically, we were asked to gain an understanding of, and comment on, the valuation methodologies and assumptions used in the valuation analysis. We performed these procedures under the supervision of the Core Audit Team pursuant to applicable auditing standards.[[1]](#footnote-2)

This memo was created to summarize the context of the Specialist’s analysis and to summarize our findings. In completing our work, we considered:

* the completeness of the material presented to us;
* the adequacy and relevance of this material;
* the nature and basis for valuation adjustments and calculations;
* the reasonableness of the valuation methods and assumptions used in the analysis; and
* whether our findings support the Specialist's overall conclusions given the scope of work performed.

## Sections of Memo

This memorandum is divided into the following sections:

**Sections**

[1. Overview](#_Toc162561166)

[2. Scope of Assignment](#_Toc162561167)

[3. MVG Findings](#_Toc162561168)

[4. Conclusions Based on Findings](#_Toc162561169)

[5. Matters Addressed by the Engagement Team](#_Toc162561170)

## Memo Exhibits

This memo has been prepared on the basis of the information and assumptions set forth within the documents included in the following exhibits and must be read in conjunction with them:

|  |  |
| --- | --- |
| **Exhibits** | |
| **Exhibit A: Valuation Analysis** | Contains the Company’s valuation analysis of the In Scope Items |
| **Exhibit B: Source Documents** | Contains, but is not limited to, data and information collected from both company sources and external sources relating to the In Scope Items |
| **Exhibit C: MVG Analysis Documents** | Contains the documents related to procedures performed by MVG during the course of this assignment. This can include, but is not limited:   * Exhibits, schedules, and working papers that numerically set forth the analysis that was performed by MVG * Documents, data, and information pertaining to the methods, data, and significant assumptions used by MVG in our analysis |
| **Exhibit D: MVG Communications** | In the event that MVG engaged in communications with the Company’s management team and/ or the Company’s valuation specialist, such communications shall be documented and included in Exhibit D of the exhibits accompanying this memo. Additionally, if MVG engaged in communications with the Engagement Team that is not documented elsewhere, such communications shall be documented and included in Exhibit D. |

## MVG Analyst Assignments

The following members of MVG were involved with the assignment:

|  |  |
| --- | --- |
| **MVG Analyst Assignments** | |
| **Name** | **Role** |
| Mark Rob | MVG QC |
| Michael Sloan | MVG Analyst |
| Sauvik Mittra | Additional Valuation Analyst |

# Scope of Assignment

## Scope of MVG’s Assignment

The scope of MVG’s work was determined by the Engagement Team based on the Engagement Team’s consideration of the risk of material misstatement in the Company’s financial statements, and the requirement to obtain sufficient competent audit evidence to provide reasonable assurance that the fair value measurements (the “**Fair Value Measurements**”) of the following financial instruments (the “**In Scope Items”**) reported in the Company’s financial statements are in conformity with the applicable financial reporting framework. The In Scope Items were valued as of each of the valuation dates outlined in the following table (individually a “**Valuation Date**” and, when referenced together, the “**Valuation Dates**”):

|  |  |  |
| --- | --- | --- |
| **In Scope Item** | **Valuation Date** | **Fair Value Measurement** |
| Debentures (Loan #9) | February 7, 2024 | $101,070,224 |
| Debentures (Loan #14) | February 7, 2024 | $122,432,794 |
| Debentures (Loan #29) | February 7, 2024 | $45,292,104 |

## Applicable Financial Reporting Framework

The Fair Value Measurements were performed in accordance with the following financial reporting framework (the “**Applicable Financial Reporting Framework**”):

|  |
| --- |
| **Applicable Financial Reporting Framework** |
| FASB Accounting Standards Codification 820, Fair Value Measurement (“ASC 820”) |

## Standard of Value

Per the Applicable Financial Reporting Framework, the standard of value that was used was Fair Value (the “**Standard of Value**”).

|  |
| --- |
| **Definition of Standard of Value per the Applicable Financial Reporting Framework** |
| ASC 820 defines fair value, establishes a framework for measuring fair value, including a three-level valuation hierarchy, and expands disclosures about fair value measurements. ASC 820 defines fair value as: “The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.” |

## Activities Completed By MVG

Based on the considerations outlined in subsection A above, and at the direction of the Engagement Team, MVG completed the following activities:

1. **Evaluated the Valuation Specialist by**:
   1. Assessing the knowledge, skill, and ability of the Valuation Specialist
2. **Obtained an understanding of the In Scope Items by:**
   1. Reviewing the documents included in Exhibit A and Exhibit B in order to obtain an understanding of the terms and characteristics of the In Scope Items, the factors affecting the valuation of the In Scope Items, such as credit or counterparty risk, market risk, and liquidity risk, and the extent to which the fair value of the In Scope Items is based on inputs that are observable directly, indirectly, or are unobservable.
   2. Discussing the terms and characteristics of the In Scope Items with the Engagement Team and, if needed, the Company’s Valuation Specialist.[[2]](#footnote-3)
3. **Obtained an understanding of the scope of work performed by:**
   1. Reading the analysis to gain an understanding of the scope of work performed
   2. Holding conversations with Management about the facts and circumstances underlying the analysis used to develop the Fair Value Estimates
   3. Interviewing Management and / or the Valuation Specialist to discuss:
      1. the objectives and scope of the work, and
      2. the valuation process, methods, and assumptions used in the analysis
   4. Holding conversations with the Engagement Team about the work performed by the Valuation Specialist
4. **Evaluated the work of the Company’s specialist by:**
   1. Commenting on the methodology used to develop the Fair Value Estimates:
      1. Evaluated and commented on whether the methodology used to develop the Fair Value Measurements is appropriate under the circumstances, giving consideration to the:
         1. nature of the financial instrument that is the subject of the measurement;
         2. terms and characteristics of the financial instruments;
         3. requirements of the Applicable Financial Reporting Framework;
         4. business, industry, and environment in which the entity operates; and
         5. extent to which the fair value is based on inputs that are observable directly or indirectly
   2. Identified the significant assumptions used in the development of the Fair Value Measurements
   3. Evaluated whether the assumptions used to develop the Fair Value Measurements were consistent with the following, when applicable:
      1. relevant industry, regulatory, and other external factors, including economic conditions;
      2. the company's objectives, strategies, and related business risks;
      3. existing market information;
      4. historical or recent experience, taking into account changes in conditions and events affecting the company;
      5. the risk associated with cash flows, including the potential variability in the amount and timing of the cash flows and the related effect on the discount rate;
   4. Obtained an understanding of how assumptions which are unobservable inputs were determined and evaluated the reasonableness of the unobservable inputs by taking into account:
      1. whether modifications made to observable information generally reflect the assumptions that market participants would use when pricing the financial instrument, including assumptions about risk; and
      2. how the company determined its fair value measurement, including whether it appropriately considered the information available
   5. Evaluated and commented on whether or not the information used:
      1. was reasonably available at the time of the analysis;
      2. was the best information available under the circumstances;
      3. gave consideration to observable market prices;
      4. appropriate in the circumstances given the nature of the accounting estimate, the requirements of the Applicable Financial Reporting Framework, and the business, industry, and environment in which the Company operates;
      5. align with the chosen fair value technique;
      6. adhere to the guidelines and requirements of the Applicable Financial Reporting Framework;
      7. are based on established principles of financial economic theory;
      8. reflect, or are not inconsistent, with market information;
      9. are accurate, complete, and sufficiently precise for its purpose; and
      10. would be used by a market participant in order to estimate the value of the In Scope Items.
   6. Evaluated the estimate considering the calculations in aggregate by:
      1. Performing comparative calculations of the fair value of the In Scope Items, considering a combination of some or all of the Valuation Specialist’s assumptions and some or all of MVG’s own assumptions.

# MVG Findings

Based on the scope of our work, the following represents our findings:

## Evaluation of Valuation Specialist

**[COMPANY-ENGAGED SPECIALSIT]**

If the Company engaged / hired an external valuation specialist, use this section. If management performed the analysis, delete this section and unhide the section that follows.

The Company engaged the following firm to assist in developing the Fair Value Measurements in accordance with the Applicable Financial Reporting Framework:

|  |
| --- |
| **Name of Firm** |
| CohnReznick |

The firm named above, as well as each member of the team employed by the firm engaged by the Company and listed below, shall be collectively referred to as the “**Company’s Valuation Specialist**,” the “**Valuation Specialist**”, or the “**VS**” throughout this memo. This term is inclusive of both the entity and the individual professionals contributing to the development of the Fair Value Measurements:

|  |  |
| --- | --- |
| **Name** | **Title** |
| Anna Kamenova | Managing Director |

MVG performed procedures to determine whether the Valuation Specialist's had the required knowledge, experience, and understanding of the valuation concepts central to the determination of the Fair Value Measurements. Additionally, MVG performed procedures to evaluate the Valuation Specialist's knowledge of the relevant laws, regulations, and FASB standards, as well as guidance from the American Institute of CPAs (AICPA), and the Securities Exchange Commission (SEC). Factor’s MVG deemed relevant to the assessment of the Valuation Specialist’s knowledge, skill, and ability (“**KSA**”) included the following:

* The professional certifications, licenses, or professional accreditations the Valuation Specialist holds that are relevant in the valuation field;
* The Valuation Specialist’s experience in the type of work performed, including the valuation of financial instruments; and
* The reputation and standing of the Valuation Specialist in the valuation field.

Sources of information that MVG referenced, where available or applicable, during our assessment of the Valuation Specialist’s KSA included:

* Information possessed by Marcum related to the professional qualifications and reputation of the Valuation Specialist in the valuation field, including Marcum’s experience with previous work from the Valuation Specialist;
* Professional or industry associations and organizations, which may provide information regarding:
* Qualification requirements, technical performance standards, and continuing professional education requirements that govern their members,
* The Valuation Specialist’s education and experience, certification, and license to practice; and
* Recognition of, or disciplinary actions taken against, the Valuation Specialist.
* Discussions with the Valuation Specialist about matters such as the Valuation Specialist’s understanding of the financial reporting framework, the Valuation Specialist’s experience in performing similar work, and the methods and assumptions used in the Valuation Specialist’s work that MVG reviewed;
* Information included in the Valuation Specialist’s provided work papers and/or report about the Valuation Specialist’s professional qualifications (such as, a biography or resume);
* Published books or papers written by the Valuation Specialist; and/or
* Requirements applicable to the Valuation Specialist pursuant to legislation or regulation.

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| --- |
| **MVG Conclusion based on Assessment of the Valuation Specialist** |
| MVG has evaluated the qualifications of the Valuation Specialist. Based on their biographies and MVG’s review of their work product, we deemed that the Valuation Specialist has the requisite knowledge and skill set required to perform the work. |

**[COMPANY-EMPLOYED SPECIALSIT]** *THE FOLLOWING IS HIDDEN. UNHIDE IF NEEDED*

## Understanding the In Scope Items

The following provides a brief overview of the transaction corresponding to the issuance / creation of the In Scope Items. Please see relevant agreements and supporting documents contained in Exhibit B for a complete description of the terms of the In Scope Items. Capitalized terms not otherwise defined herein are defined in the agreements contained in Exhibit B and / or the Engagement Team’s audit binder (the “**Agreements**”). The Engagement Team verified contractually defined terms agree with appropriate supporting documentation. See Matters Addressed by the Engagement Team.

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| --- |
| **Overview of In Scope Items** |
| The Amended and Restate Indenture is made as of 7th day of February, 2024. Ayr Wellness Holdings may issue Notes hereunder in an aggregate principal amount, and as of the date hereof has duly authorized the issuance of up to (i) US$243,250,000 aggregate principal amount of 13.0% Senior Secured Notes due December 10, 2026 (the **“2026 Exchanged Notes”**), which Notes shall be issued in exchange for, on a dollar-for-dollar basis, the 2024 Notes; and (ii) US$50,000,000 in aggregate principal amount of Additional 2026 Notes (the **“2026 Additional Notes”**), which shall be issued for cash proceeds at a 20% original issue discount. |

The following outlines the terms and characteristics of the In Scope Items that MVG identified as being significant to the valuation. Please see relevant agreements and supporting documents contained in Exhibit B for a complete description of the terms of the In Scope Items. Capitalized terms not otherwise defined herein are defined in the Agreements contained in Exhibit B and / or the Engagement Team’s audit binder. The Engagement Team verified contractually defined terms agree with appropriate supporting documentation. See Matters Addressed by the Engagement Team.

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| --- |
| **Significant Terms and Characteristics of the In Scope Items** |
| **Issue Date:** means the date of the Amended and Restated Indenture  **Maturity Date:** 12/10/2026  **Interest Payment Date:** means June 30 and December 31 of each year that the 2026 Notes are outstanding, commencing on June 30, 2024.  **2026 Exchanged Notes:** means the 13.0% Senior Secured Notes due December 10, 2026 created.  **2026 Additional Notes:** means the additional 13.0% Senior Secured Notes due December 10, 2026. |

By obtaining an understanding of the In Scope Items, MVG was able to assess whether the Applicable Financial Reporting Framework prescribes certain criteria or methods for estimating fair value. MVG considered the prescribed criteria and methods, where applicable, in the procedures we outline in the following sections.

## Understanding of the Scope of the Work Performed by the Valuation Specialist

|  |  |
| --- | --- |
| **Valuation Specialist** | **MVG Commentary** |
| The purpose of the valuation analysis was to determine the fair value of the In Scope Items for financial reporting purposes in connection with the Applicable Financial Reporting Framework. | In support of the Engagement Team’s review of the analyses for financial reporting purposes, our comments below focus on the fair value of the In Scope Items in accordance with the definition of fair value in the Applicable Financial Reporting Framework. |

## Commenting on Valuation Methodology[[3]](#footnote-4)

In support of the Engagement Team’s review of the analyses for financial reporting purposes, our comments below focus on the fair value of the In Scope Items in accordance with the definition of fair value in the Applicable Financial Reporting Framework:

|  |  |
| --- | --- |
| **Valuation Specialist Selected Valuation Technique** | **MVG Commentary on Reasonableness of Selected Valuation Technique** |
| The Valuation Specialist used the following valuation technique(s) in order to estimate the fair value of the In Scope Items:  A discounted cash flow ("**DCF**") model was used. In a discounted cash flow analysis, expected future returns from an investment in the form of cash flows are discounted to present value at an appropriate discount rate. The structure is similar to a bond that pays coupon interest at scheduled periods and pays principal plus coupon at maturity. | MVG completed procedures with a focus on the valuation techniques used by the Valuation Specialist to estimate the fair value of the In Scope Items.  MVG assessed whether the selected valuation technique:   * is appropriate in the circumstances given the nature of the accounting estimate, the requirements of the Applicable Financial Reporting Framework, other available valuation concepts or techniques, regulatory requirements, and the business, industry and environment in which the entity operates, and lack of observable market prices; * is consistent with market participant assumptions that are reasonably available without undue cost and effort; * is based on established principles of financial economic theory; * is commonly accepted as a fair value measurement practice for similar financial instruments; and * reflects all substantive characteristics of the In Scope Items.   MVG concluded that the selected valuation technique, as described by the Valuation Specialist, is conceptually sound, capable of capturing all substantive characteristics of the In Scope Items, and, therefore, is capable of producing a reasonable fair value estimate for the In Scope Items, provided it is applied appropriately. This conclusion is based solely on the inherent characteristics of the valuation model in accordance with established financial economic theory and its acceptance as a standard practice for fair value measurement of similar financial instruments.  See the Identifying, Verifying, and Testing Significant Assumptions section for details regarding the inputs used in the Valuation Specialist’s analysis. |

**Application of Selected Methodology**

|  |  |
| --- | --- |
| **Valuation Specialist’s Application of Valuation Technique** | **MVG Commentary on Reasonableness of Application of Valuation Technique** |
| The Valuation Specialist’s analysis implemented the selected valuation technique as follows:  The Valuation Specialist estimated the coupon payments for each of the estimated payment dates assumed, based on their discussion with company along with the principal and coupon payment at maturity. These value were further discounted back to present value using a synthetic credit yield estimated by the Valuation Specialist to arrive at the fair value of the three loans. | MVG evaluated the reasonableness of the Valuation Specialist’s application / implementation of the selected valuation techniques by developing a comparative calculation, which considered a combination of some or all of the Valuation Specialist’s assumptions and some or all of MVG’s own assumptions to test the Fair Value Measurements.   * See the Identifying, Verifying, and Testing Significant Assumptions section of the memo for additional details about the assumptions used by the Valuation Specialist to develop the Fair Value Measurements. * See the MVG Comparative Calculations section of the memo for additional details on MVG’s evaluation of the Valuation Specialist’s application of the selected valuation techniques. * See the Conclusions Based on Findings section of the memo for MVG’s conclusion on the reasonableness of the Valuation Specialist’s selected valuation techniques. |

## Identifying, Verifying, and Testing Significant Assumptions

The following table outlines the significant assumptions that were identified by MVG as being used in the Valuation Specialist’s analysis. MVG identified, verified, and performed a comparative analysis of the significant assumptions in order to test them. MVG’s commentary on the reasonableness and relevance of the assumptions is included in the table. See Exhibit C for documents related to procedures performed by MVG during the course of this assignment.

MVG relied on the Engagement Team to assess the reasonableness of the data and significant assumptions that were produced or provided by the Company or that were based on the Company’s intent and ability to carry out a particular course of action. MVG also relied on the Engagement Team to assess the reliability of the data and assumptions sourced from external vendors. See the Matters Addressed by the Engagement Team section of the memo.

| Assumption | Description of VS Assumption | Val. Date | VS Value | MVG Value | MVG Commentary |
| --- | --- | --- | --- | --- | --- |
| Outstanding Principal (Loan #9) | The outstanding principal value used in the Valuation Specialist’s analysis was provided by the company. | 2/7/24 | $110,000,000 | $110,000,000 | **Testing Action**  The Engagement Team assessed the reasonableness of data and assumptions that were produced or provided by the Company. See Matters Addressed by the Engagement Team. |
| Outstanding Principal (Loan #14) | The outstanding principal value used in the Valuation Specialist’s analysis was provided by the company. | 2/7/24 | $133,250,000 | $133,250,000 | **Testing Action**  The Engagement Team assessed the reasonableness of data and assumptions that were produced or provided by the Company. See Matters Addressed by the Engagement Team. |
| Outstanding Principal (Loan #29) | The outstanding principal value used in the Valuation Specialist’s analysis was provided by the company. | 2/7/24 | $50,000,000 | $50,000,000 | **Testing Action**  The Engagement Team assessed the reasonableness of data and assumptions that were produced or provided by the Company. See Matters Addressed by the Engagement Team. |
| Interest Rate | The Valuation Specialist estimated that the Company’s dividend yield over the Expected Term Period would be equal to the value shown. | 2/7/24 | 13.00% | 13.00% | **Testing Action**  The Engagement Team verified contractually defined terms agree with appropriate supporting documentation. See Matters Addressed by the Engagement Team. |
| Coupon Payment Date (Loan #9) | The coupon payment dates estimated by the Valuation Specialist were based on their understanding of the agreement and their discussions with company. | 2/7/24 | 2/29/2024 | 2/29/2024 | **Testing Action**  The Engagement Team verified contractually defined terms and assessed the reasonableness of data and assumptions that were produced or provided by the Company. See Matters Addressed by the Engagement Team. |
| 6/30/2024 | 6/30/2024 |
| 12/31/2024 | 12/31/2024 |
| 6/30/2025 | 6/30/2025 |
| 12/31/2025 | 12/31/2025 |
| 6/30/2026 | 6/30/2026 |
| 12/10/2026 | 12/10/2026 |
| Coupon Payment Date (Loan #14) | The coupon payment dates estimated by the Valuation Specialist were based on their understanding of the agreement and their discussions with company. | 2/7/24 | 2/29/2024 | 2/29/2024 | **Testing Action**  The Engagement Team verified contractually defined terms and assessed the reasonableness of data and assumptions that were produced or provided by the Company. See Matters Addressed by the Engagement Team. |
| 6/30/2024 | 6/30/2024 |
| 12/31/2024 | 12/31/2024 |
| 6/30/2025 | 6/30/2025 |
| 12/31/2025 | 12/31/2025 |
| 6/30/2026 | 6/30/2026 |
| 12/10/2026 | 12/10/2026 |
| Coupon Payment Date (Loan #29) | The coupon payment dates estimated by the Valuation Specialist were based on their understanding of the agreement and their discussions with company. | 2/7/24 | 6/30/2024 | 6/30/2024 | **Testing Action**  The Engagement Team verified contractually defined terms and assessed the reasonableness of data and assumptions that were produced or provided by the Company. See Matters Addressed by the Engagement Team. |
| 12/31/2024 | 12/31/2024 |
| 6/30/2025 | 6/30/2025 |
| 12/31/2025 | 12/31/2025 |
| 6/30/2026 | 6/30/2026 |
| 12/10/2026 | 12/10/2026 |
| Expected Term Period | The Expected Term Period used in the Valuation Specialist’s analysis was calculated as the period between the Valuation Date and the Expiration Date / End Date. | 2/7/24 | 2.84 | 2.84 | **Testing Action**  MVG developed an expectation for the assumption.  **MVG Process**  MVG calculated the term period as the time between the Valuation Date and the Expiration Date.  **MVG Observation**  MVG observed that our value for the assumption matched the Valuation Specialist's value.  **Assessment of MVG Approach**  MVG observed that our approach is:   * Consistent with the procedures a market participant would perform in order to estimate the fair value of the In Scope Items; * Reflects, or is not inconsistent, with market information; * Consistent with the characteristics of the In Scope Items; * Based on established principles of financial economic theory; and * Adheres to the guidelines and requirements of the Applicable Financial Reporting Framework   **Reasonableness Conclusion**  As such, MVG found the Valuation Specialist’s assumption reasonable.  **MVG External Source**  N/A |
| Yield |  | 2/7/24 | **[VALUE]** | **[VALUE]** | **Testing Action**  MVG developed an expectation for the assumption.  **MVG Process**  **MVG Observation**  [MVG Observation or Delete] [Select or Delete]  **Assessment of MVG Approach**  MVG observed that our approach is:   * Consistent with the procedures a market participant would perform in order to estimate the fair value of the In Scope Items; * Reflects, or is not inconsistent, with market information; * Consistent with the characteristics of the In Scope Items; * Based on established principles of financial economic theory; and * Adheres to the guidelines and requirements of the Applicable Financial Reporting Framework   **Reasonableness Conclusion**  [Reasonableness Conclusion]  **MVG External Source**  [External Source] |
| Synthetic Credit Rating Peer Group | The Valuation Specialist developed certain assumption used in the valuation of the In Scope Items by considering a set of peer group for the synthetic credit rating. |  |  |  | **Testing Action**    **MVG Process**  **MVG Observation**  **Assessment of MVG Approach**  MVG observed that our approach is:   * Consistent with the procedures a market participant would perform in order to estimate the fair value of the In Scope Items; * Reflects, or is not inconsistent, with market information; * Consistent with the characteristics of the In Scope Items; * Based on established principles of financial economic theory; and * Adheres to the guidelines and requirements of the Applicable Financial Reporting Framework   **MVG External Source**  MVG directly accessed S&P Capital IQ. The Engagement Team has evaluated the reliability of the source as a pricing service. |

## MVG Comparative Calculations

In order assist the Engagement Team in accumulating sufficient appropriate audit evidence related to the Fair Value Measurements, MVG tested the Fair Value Measurements by performing comparative calculations of the fair value of the In Scope Items, considering a combination of some or all of the Valuation Specialist’s assumptions and some or all of MVG’s own assumptions(the “**Fair Value Estimates**”).

MVG Selected Valuation Technique

|  |  |
| --- | --- |
| **MVG’s Selected Valuation Techniques** | **MVG Application of Selected Valuation Technique** |
| **[Insert the high-level description of the Valuation Technique / Methodology that MVG used. This will likely be a copy/paste of the description of the Technique / Methodology that the VS used. Alternatively, this can be sourced from** [**Templates**](https://pkproductions.sharepoint.com/sites/TradeMarkRobery/Shared%20Documents/Forms/AllItems.aspx?id=%2Fsites%2FTradeMarkRobery%2FShared%20Documents%2FCFI%2FMemos%20and%20Reports%2FReview%20Memo%20Template%2FValuation%20Methodologies&p=true&ga=1)**, possibly from the CFI Memo Tool, or the user can write their own.**  **NOTE:** MVG should not use the statement “MVG used the same Valuation Technique as the Valuation Specialist” as the PCAOB could interpret that as meaning that MVG did not independently select the Valuation Technique / Methodology used.  **EXAMPLE:**  **MVG relied upon a geometric Brownian motion (“GBM”) based Monte Carlo simulation (“MCS”) to simulate the underlying metric value and ultimately determine the fair value of the In Scope Items. An MCS is a method for iteratively evaluating a model based on one or more random numbers as inputs, which yields random possible paths for the underlying metric. GBM is the stochastic (random) process usually assumed for a financial asset or instrument. Under this process, the return on the asset in a small period of time is normally distributed and the returns in two nonoverlapping periods are independent. The value of the asset at a future time has a lognormal distribution.]** | **[Outline how MVG implemented the selected Valuation Technique / Valuation Methodology in order to determine the fair value of the In Scope Items. This should include details about “non-input”-esque assumptions (stock price, strike price, term, etc.). For example:**  **“It was assumed that the payments would be paid in cash / shares”, or**  **“The 20-consecutive-trading-days soft call condition was included in the lattice model by first running a MCS in order to determine the median stock price when the vesting criteria was met…”**  **EXAMPLE:**  **The underlying metric value was simulated assuming GBM under a risk neutral framework for each period. In iterations in which it was determined to be economically advantageous for the holder of the In Scope Items to exercise, per the features of the In Scope Items outlined above, it was assumed that the holder exercised. The value resulting from exercise was then discounted to present value using a risk-free rate. In iterations where it was determined that it would not be economically advantageous for the holder to exercise, the In Scope Items were assumed to expire with no value. The average present value over all iterations…]**  …was deemed representative of the fair value of the In Scope items as of the Valuation Date. |
| **MVG Commentary on Basis for MVG Selected Valuation Techniques** | |
| MVG assessed whether the selected valuation techniques:   * are appropriate in the circumstances given the nature of the accounting estimate, the requirements of the Applicable Financial Reporting Framework, other available valuation concepts or techniques, regulatory requirements, and the business, industry and environment in which the entity operates; * are consistent with market participant assumptions that are reasonably available without undue cost and effort; * are based on established principles of financial economic theory; * are commonly accepted as a fair value measurement practice for similar financial instruments; and * reflects all substantive characteristics of the In Scope Items.   Based on our assessment of the valuation techniques selected by MVG, we concluded that they are conceptually sound, capable of capturing all substantive characteristics of the In Scope Items, and, therefore, capable of producing a reasonable fair value estimate for the In Scope Items. As such, MVG concluded that we had a reasonable basis for selecting the valuation techniques. | |

MVG Selected Data and Assumptions

In developing the expectations used as inputs into MVG’s selected valuation techniques, as presented in the Matters Addressed by the Engagement Team section of the memo, MVG relied on the Engagement Team to confirm:

* the reliability of the data and assumptions which MVG obtained from external vendors from;
* the reasonableness of data and assumptions MVG used which were produced or provided by the Company; and
* that the contractually defined terms which MVG used agree with appropriate supporting documentation.

In the Identifying, Verifying, and Testing Significant Assumptions section of the memo, we outlined that MVG evaluated the reasonableness of certain assumptions used by the Valuation Specialist by developing an expectation of those assumptions. MVG used the expectations we developed for those assumptions as the inputs into MVG’s selected valuation techniques that we used to develop our Fair Value Estimates. See the “MVG Values” column of the table in the mentioned section. The following table outlines additional assumptions that were used by MVG in the development of our Fair Value Estimates that were not included in the previous table[[4]](#footnote-5).

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Assumption** | **Description** | **Val. Date** | **Value** | **MVG Commentary** | **External Source** |
|  |  |  |  |  |  |
|  |  |  |  |  |  |
|  |  |  |  |  |  |

Comparison of Results of MVG’s Fair Value Estimates to the Fair Value Measurements

The table below outlines the:

* Valuation Specialists Fair Value Measurements which were developed using the methods, data and assumptions discussed in this memo and shown in the documents included in Exhibit A;
* MVG’s Fair Value Estimates which were developed using the methods, data and assumptions discussed in this memo and shown in the documents included in Exhibit C; and
* difference and percent difference between them (variances).

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| **In Scope Item** | **Valuation Date** | **VS Fair Value Measurements** | **MVG Fair Value Estimates** | **Difference** | **Difference (%)** |
| Debentures (Loan #9) | February 7, 2024 | $101,070,224 | $101,044,087 | -$26,137 | -0.03% |
| Debentures (Loan #14) | February 7, 2024 | $122,432,794 | $122,411,476 | -$21,318 | -0.02% |
| Debentures (Loan #29) | February 7, 2024 | $45,292,104 | $45,290,569 | -$1,535 | 0.00% |

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| **MVG’s Commentary on Primary Drivers of the Differences** |
| A portion of the variance between MVG’s value and the Valuation Specialist's concluded value is likely the result of differences due to rounding, differences in significant assumptions (see sections above), and/or possible differences in calculations. [Choose an item or delete]  [Choose an item or delete]  MVG communicated the variances shown above to the Engagement Team.  The Engagement team communicated back to MVG that MVG did not need to perform any additional tests aimed at determining what the primary drivers were behind the variances outlined above. MVG defers to the Engagement Team whether the variance between the Fair Value Measurements and MVG’s Fair Value Estimates are within a reasonable range. See Matters Addressed by the Engagement Team. |

# Conclusions Based on Findings

Based on the procedures performed and evidence obtained supporting the Fair Value Measurements, and based on the scope of work:

SELECT ONE OF THE FOLLOWING

|  |  |
| --- | --- |
| **Item** | **MVG Conclusion** |
| Valuation Methodology | The methodology used to develop the Fair Value Measurements is appropriate under the circumstances, considering the nature, terms, and characteristics of the In Scope Items; the requirements of the Applicable Financial Reporting Framework; the business, industry, and environment in which the entity operates; and the extent to which the Fair Value Measurements are based on inputs that are observable directly or indirectly. |
| Significant Assumptions | Given the additional procedures MVG performed to test the effect of the differences MVG observed between the Valuation Specialist's assumptions and the assumptions we independently verified or developed during our comparative analysis, the significant assumptions, when considered in aggregate, are considered to be within a reasonable range. |
| Comparative Calculations | MVG's comparative calculations of the fair value of the In Scope Items resulted in the variances discussed in the MVG Comparative Calculations section of this memo. MVG defers to the Engagement Team whether the variance between the Fair Value Measurements and MVG’s Fair Value Estimates are within a reasonable range. |

# Matters Addressed by the Engagement Team

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| Matters Addressed by Engagement Team |
| If the Valuation Specialist’s analysis was in draft form, obtain a final version of the Valuation Specialist’s analysis and confirm it does not differ in any material way from the version reviewed by MVG. |
| Evaluate the reasonableness of the variances between MVG’s Fair Value Expectations and the Valuation Specialist’s Fair Value Measurements, as noted in the MVG Comparative Calculations section of this memo. |
| Evaluate the reliability of the data and significant assumptions used by the Valuation Specialist and/or by MVG which were sourced from external vendors / pricing services. |
| Verify that the contractually defined terms which were used by the Valuation Specialist and/or MVG agree with appropriate supporting documentation. |
| Evaluate the reasonableness of the data and assumptions that were produced or provided by the Company that were used by the Valuation Specialist and/or by MVG, including:   * Outstanding principal for the following:   + Loan #9: $110,000,000   + Loan #14: $133,250,000   + Loan #29: $50,000,000 * Coupon Payment Dates for Loan #9 and Loan #14:   + 2/29/2024   + 6/30/2024   + 12/31/2024   + 6/30/2025   + 12/31/2025   + 6/30/2026   + 12/10/2026 * Coupon Payment Dates for Loan #29:   + 6/30/2024   + 12/31/2024   + 6/30/2025   + 12/31/2025   + 6/30/2026   + 12/10/2026 |
| **[USE CFI MEMO TOOL TO DETERMINE IF MORE SHOULD BE ADDED HERE]** |
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1. For US Securities and Exchange Commission (SEC) registrants: Public Company Accounting Oversight Board (PCAOB) Auditing Standard (AS):

   AS 1105: *Audit Evidence*, AS 1201: *Supervision of the Audit Engagement,* AS 1210: *Using the Work of a Specialist,* AS 2101: *Audit Planning,* and AS 2501: *Auditing Accounting Estimates*

   For non‑issuer audits conducted in accordance with US generally accepted auditing standards:

   AU C 500: *Audit Evidence,* AU-C 220: *Quality Control for an Engagement Conducted in Accordance With Generally Accepted Auditing Standards*, AU-C 620: *Using the Work of an Auditor's Specialist,* AU-C 300: *Planning an Audit*, AU-C 501: *Audit Evidence—Specific Considerations for Selected Items*, and AU-C 540: *Auditing Accounting Estimates, including Fair Value Accounting Estimates, and Related Disclosures*

   For non-issuer audits conducted in accordance with International Standards on Auditing: ISA 500: ISA 540, *Audit Evidence,* ISA 220: *Quality Control for an Audit of Financial Statements*, ISA 620: *Using the Work of an Auditor’s Expert,* ISA 300: *Planning an Audit of Financial Statements*, and ISA 540: *Auditing Accounting Estimates and Related Disclosures* [↑](#footnote-ref-2)
2. In the event that MVG engaged in communications with the Valuation Specialist, such communications shall be documented and included in Exhibit D of the exhibits accompanying this memo. [↑](#footnote-ref-3)
3. MVG uses the terms “Valuation Methodology” and “Valuation Technique” interchangeably throughout this memo [↑](#footnote-ref-4)
4. If the table is empty, it indicates that all of the assumptions that were used by MVG in the development of our Fair Value Estimates were covered in the table in the Identifying, Verifying, and Testing Significant Assumptions section. [↑](#footnote-ref-5)