

REPORT OF TRUSTEE'S PRELIMINARY ADMINISTRATION

**IN THE MATTER OF THE BANKRUPTCY OF
TRUE LEAF PET INC.**

**of the City of Vernon
in the Province of British Columbia**

October 22, 2020

BACKGROUND AND CAUSES OF INSOLVENCY

1. True Leaf Pet Inc. (“**TLP**” or the “**Company**”) was incorporated in British Columbia on November 18, 2015
2. TLP is a wholly owned subsidiary of True Leaf Brands Inc. (“**TLB**”), a publicly traded company. TLB was also the parent company of True Leaf Investments Corp., a wholly-owned subsidiary which was the sole shareholder of True Leaf Cannabis Inc. (“**TLC**”).
3. Since its inception, TLB has raised approximately \$25 million which provided the funding to acquire 40 acres of land in Lumby, BC on which TLC constructed an 18,000 square foot facility for its operations (the “**Lumby Facility**”).
4. TLC was established to hold a federal cannabis license that was applied for in 2013.
5. In late 2015, TLB pivoted into the pet industry by launching a line of hemp supplements through TLP.
6. TLP developed ‘soft chew’ and ‘oil’ product formulations with hemp seed and other active ingredients to support calming, joint-pain relief and omega 3 supplementation, and marketed these products to the specialty pet industry in Canada, the USA and over 17 countries in Europe.

7. TLP's 2019 revenues reached \$2.3 million with its products being sold in 3,500 stores globally.
8. In February 2019, TLB raised \$4.5 million through the issuance of a convertible, secured note (the "**Notes**") with the intention of re-branding its pet supplement business and completing the construction of the Lumby Facility. The Notes were guaranteed by TLI, TLC and TLP.
9. In anticipation of a growth trajectory, TLB bolstered its executive suite and sales staff.
10. The Lumby Facility was completed in late 2019, however TLP's sales did not meet expectation and as a result, the True Leaf group began to experience liquidity issues.
11. TLB's first payment on the Notes was due on March 23, 2020.
12. As a result of its lack of liquidity, TLB was unable to make the payment and accordingly the holder of the Notes (the "**DIP Lender**") threatened to call its loan if TLB did not remedy its default.
13. With the onset of the COVID-19 pandemic and its implications on global trade in conjunction with its Note default, TLB's management and board decided to seek a stay of proceedings pursuant to the BIA to allow it the time necessary to refinance and/or restructure its debts.
14. As a result, on April 1, 2020, TLB, along with TLI, TLC and TLP, signed NOI's pursuant to the BIA which were filed by the Proposal Trustee and accepted by the Office of the Superintendent of Bankruptcy (the "**OSB**") on April 2, 2020.
15. The DIP Lender agreed to provide interim financing to the companies in the NOI proceedings.
16. The reports of the Proposal Trustee issued to date and other information in respect of these proceedings are posted on the Proposal Trustee's website at <http://cfcanada.fticonsulting.com/TrueLeaf/>.

THE PROPOSAL PROCESS

17. TLP's intention in initiating the NOI proceedings was to allow the Company time to refinance its debt or seek a buyer for the Company that would provide the funds to enable it to present a proposal to its creditors.
18. On May 13, 2020 the Court granted an order (the "**Sales Process Order**") approving a sale process for the sale of the assets or shares of TLC and TLP (the "**Sales Process**").

The TLP Sales Process

19. In accordance with the Sales Process:
 - (a) On May 15, 2020, TLP issued a news release announcing its Sales Process; and
 - (b) On May 22, 2020, the Proposal Trustee placed an advertisement in a national edition of the Globe and Mail newspaper.
20. Commencing on May 14, 2020 and continuing throughout the week of May 18, 2020, TLP forwarded a Teaser document to all known parties that had either previously expressed an interest in the company or were identified as a party that may have a strategic interest in TLP.
21. Subsequent to forwarding the Teaser, TLP's management followed up directly with 28 of the parties offering to make themselves available for calls to answer any detailed questions.
22. 15 parties signed NDA's and were provided access to an electronic data room in which detailed information and financial reports had been uploaded.
23. All 15 parties accessed the data room and held meetings with TLP's management via electronic means.
24. The deadline for the receipt of offers was set as June 19, 2020.
25. On June 19, 2020 four offers and two expressions of interest were received. One additional offer was received on June 22, 2020.

26. The offers and expressions of interest were summarized and discussed with the DIP Lender.
27. Some of the offers included consideration in a form other than cash and accordingly, the Proposal Trustee and TLP's management had to follow up with each party to gain a better understanding of the potential value of the alternative consideration.
28. The Proposal Trustee, in consultation with the DIP Lender, entered into negotiations with the interested parties to try to increase the transaction value of their offers.
29. After prolonged discussions and negotiations with the interested parties, TLP with the agreement of the DIP Lender, signed an Offer to Purchase and Agreement of Purchase and Sale for all of the assets of TLP.
30. The sale transaction was approved by the Court and subsequently closed on September 14, 2020.
31. The gross proceeds from the sale of TLP's assets was \$300,000.
32. Given that the DIP Lender held security over the assets of each of TLP, TLB, TLI and TLC, the ability of the Company to formulate a proposal to its creditors rested on the success of the TLC Sale Process to pay out the DIP Lender.

The TLC Sale Process

33. The Sales Process Order authorized TLC to engage Colliers Macaulay Nicolls Inc. ("**Colliers**") as the designated agent to market the Lumby Facility. With the assistance of Colliers, the following steps were taken in accordance with the Sales Process:
 - (a) On May 22, 2020, the Proposal Trustee placed an advertisement in the national edition of the Globe and Mail newspaper;
 - (b) On May 15, 2020, TLB issued a news release announcing its Sales Process;

- (c) On May 15, 2020, Colliers forwarded a brochure providing an overview of the Lumby Facility to over 60 parties who had either been identified through its previous sale process or who had been identified subsequently as a party that may have an interest in the Lumby Facility; and
 - (d) On May 18, 2020, Colliers posted the listing for the Lumby Facility on its website as well as on the LinkedIn accounts of the two Colliers' sales agents.
34. Colliers established an electronic data room and provided access to 60 parties upon receipt of an NDA.
 35. Site tours and meetings with TLC's management were arranged for several parties.
 36. The Proposal Trustee prepared a checklist for interested parties summarizing the details required to be provided in support of any offer submitted. This document was posted in Colliers' data room.
 37. Finally, draft forms of an Asset Purchase Agreement and a Share Purchase Agreement for the Lumby Facility and for TLC's shares were prepared by the Company's legal counsel and provided to all interested parties. The document was provided in Word format to enable interested parties to edit with tracked changes for ease of review by the Proposal Trustee, Colliers and the Company.
 38. The date for receipt of offers on the Lumby Facility was set for June 15, 2020 pursuant to the Sales Process. However, as some of the interested parties had not finalized their offers, the Proposal Trustee, in consultation with the DIP Lender, Colliers and TLC, agreed to extend the deadline for receipt of offers to June 17, 2020.
 39. On June 15, 2020 Colliers received one Expression of Interest and on June 17, 2020 an additional two offers were received from interested parties.
 40. An additional interested party indicated to Colliers that it was continuing to work on its offer which was received on June 20, 2020.

41. The offers were summarized and reviewed with the DIP Lender. All of the offers had some form of conditionality to them and accordingly the Proposal Trustee and Colliers systematically worked with the perceived superior offer to get it to a definitive agreement capable of being brought before the court for approval.
42. Unfortunately, the offers received from interested parties were not able to achieve a price in excess of the amount owed to the DIP Lender and the DIP Lender would not agree to release its security at the prices indicated. The other interested parties were unable to satisfy their conditions and ultimately withdrew their offers.
43. Subsequently, several additional parties came forward indicating their interest in acquiring the Lumby Facility and discussions regarding a proposed sales transaction continued to occur with these parties.
44. To date, no Expressions of Interest or binding offers capable of being approved by the Court have been received on the Lumby Facility.
45. Concurrently with the proposed sale discussions with interested parties, two parties contacted the DIP Lender and commenced discussions regarding the purchase of the DIP Lender's debt and security.
46. Those negotiations concluded with the DIP Lender, TLB, TLI and TLC entering into a term sheet with Canguard Mortgage Investment Corporation for the refinancing of the DIP Lender's secured debt and did not provide for any funds in excess of the amount owed to the DIP Lender.
47. Accordingly, the Sales Process did not result in any additional funds on which to formulate a proposal for the Company.
48. As a result, on October 3, 2020, TLP was deemed to have made an assignment in bankruptcy.
49. The Proposal Trustee received its certificate of appointment from the OSB on October 7, 2020 appointing it as Trustee in Bankruptcy of TLP.

APPOINTMENT OF TRUSTEE IN BANKRUPTCY

50. Since the date of its appointment, the Trustee has performed the following duties as required under the BIA:

- Attended to the various statutory notice requirements; and
- Reviewed the Company's payroll records to determine if there were any former employees eligible to make a claim under the Wage Earner Protection Program Act ("WEPPA").

SECTION A – Summary of Assets

51. As detailed previously, all of the Company's assets were sold during the NOI proceedings and accordingly there are no remaining assets.

SECTION B – Conservatory and Protective Measures

52. Given that the business assets were sold, no conservatory measures were required and there was no business to carry on.

SECTION C: Legal Proceedings

53. The Trustee is not aware of any legal proceedings.

SECTION D: Provable Claims

54. As at the date of this report, the Trustee has received 3 claims from unsecured creditors totaling \$345,725.98.

55. As noted in the Statement of Affairs filed with the assignment in bankruptcy, the total unsecured claims according to the Company's books and records was \$8,047,736.93.

SECTION E: Secured Creditors

56. As at the date of this report, the Trustee has not received any claims from secured creditors. Given that all of the assets secured by the DIP Lender's security were sold, the balance of the secured creditor's claim has been indicated on the Statement of Affairs as an unsecured balance.

SECTION F: Security for unpaid wages – Wage Earner Protection Program Act (“WEPPA”) Claims

57. The Trustee notes that there were unpaid amounts owing to its employees as at the Date of Bankruptcy. The Trustee is currently reviewing those claims to assess if any are eligible for filing under WEPPA.

SECTION G: Anticipated realization and projected distribution

58. As detailed previously in this Report, the assets of the Company in addition to the assets of TLC have been the subject of an extensive Sales Process.
59. The results of the Sales Process have demonstrated that the value of the Lumby Facility and the TLP assets are significantly less than the amount owed to the DIP Lender.
60. Accordingly, there are no assets available to the Company's unsecured creditors and the expected distribution to the Unsecured Creditors is NIL.

SECTION H: Preferences and transfers at undervalues

61. The Trustee enquired of the Company's management regarding any transactions for the twelve month period immediately preceding the commencement of the NOI proceedings.
62. To the best of management's knowledge, there were no payments or transactions which could be considered to be preferences, settlements or transactions at undervalue with related or third parties.
63. In addition, nothing was brought to the Trustee's attention during the NOI proceedings to indicate a preference, settlement or transaction at undervalue.

64. It is possible that there may be certain transactions the Trustee does not have knowledge of, which could be voided. However, recovery from such transactions have not been taken into account in the analysis of the impact of a bankruptcy on the Unsecured Creditors due to the uncertainty as to the likelihood of a successful challenge and if successful, uncertainty as to the quantum and timing of any potential recovery to the estate.
65. Furthermore, given the deficiency to the secured creditor (the DIP Lender) as discussed previously, voiding these transactions, if possible, would not result in additional funds being available to the Unsecured Creditors as such additional funds would be subject to the DIP Lender's security.

SECTION I: Third Party Deposits & Guarantees

66. The Trustee has been provided with a third party guarantee.

SECTION J: Other Matters

67. There are no other matters.

All of which is respectfully submitted this 22nd day of October, 2020.

Yours truly,

FTI Consulting Canada Inc.

In its capacity as Trustee in Bankruptcy of
True Leaf Pet Inc.
and not in its personal capacity

Per: _____
Craig Munro – Licensed Insolvency Trustee