

**IN THE MATTER OF THE BANKRUPTCY OF
HEMPFUSION WELLNESS INC.**

**OF THE CITY OF VANCOUVER
IN THE PROVINCE OF BRITISH COLUMBIA**

TRUSTEE'S REPORT TO CREDITORS ON PRELIMINARY ADMINISTRATION

July 5, 2023

BACKGROUND

1. HempFusion Wellness Inc. (“**HFW**” or the “**Company**”), a publicly traded company under the Toronto Stock Exchange, was incorporated in the Province of British Columbia on or around July 18, 2019 and has a registered office in Vancouver, British Columbia. The Company’s CEO and Co-Founder is Jason Mitchell, N.D.
2. The Company itself did not have any operations in Canada but is the 100% shareholder of its US subsidiary HempFusion Inc. (“**HFI**”) which operates a premium health and wellness business that sells hemp-based CBD products through its distribution channels across the United States.

CAUSES OF INSOLVENCY

3. As a result of significant regulatory and financial difficulties, the Company experienced liquidity issues and was unable to pay its debts as they became due. The Company explored various strategic alternatives to alleviate these financial stresses, including a merger/sale transaction that was ultimately unsuccessful.

4. On June 2, 2023, the US operating subsidiaries ceased operations and terminated their employees. Accordingly, on June 21, 2023, HFW filed an assignment in bankruptcy pursuant to section 49 of the *Bankruptcy and Insolvency Act* (the “**BIA**”) with the Office of the Superintendent of Bankruptcy and FTI Consulting Canada Inc. was appointed as Trustee (the “**Trustee**”), subject to the affirmation or substitution thereof at the First Meeting of Creditors.

APPOINTMENT OF A TRUSTEE IN BANKRUPTCY

5. Subsequent to its appointment, the Trustee notes the following in respect of its duties as required under the BIA:
 - a) the Company’s books and records were maintained by HFI. Representatives of HFI have been cooperative in providing the Trustee with access to any information requested to assist the Trustee with the administration of the estate;
 - b) the Trustee is not aware of any bank accounts, assets or premises beyond the shares of HFI; and
 - c) the Trustee has attended to the various statutory notice requirements.

SECTION A – Summary of Assets

HempFusion Inc. Shares

6. The Company is the 100% shareholder of HempFusion Inc. which directly owns two subsidiaries: Sagely Enterprises Inc. and APCNA Holdings LLC.
7. The Trustee understands that the value of these shares is largely attributed to outstanding accounts receivable, brands and other intellectual property within the US subsidiaries.

8. HFI, in consultation with the board of directors of HWI, is in the process of evaluating options to liquidate its assets and provide realizations to its stakeholders, including HWI.

SECTION B

Conservatory and protective measures

9. Other than the custody of the shares of HFI, there is no property requiring conservatory or protective measures.

Carrying on business

10. There are no operations for the Trustee to carry on.

SECTION C – Legal proceedings

11. The Trustee has not commenced any legal proceedings and is not aware of any proceedings commenced against the estate.

SECTION D – Provable claims

12. As at the date of this report, the Trustee has received two proofs of claim from unsecured creditors totalling approximately \$1.0 million.

SECTION E – Secured creditors and trust claims

13. As at the date of this report, the Trustee has not received any secured claim but anticipates that it will receive a proof of claim from Odyssey Trust Company, as Trustee for the convertible debenture holders.

14. The Trustee has not retained independent legal counsel at this stage pending the evaluation of any secured claims received and the determination of recoveries at the US subsidiary level that may be subject to security.
15. The Trustee is not aware of any trust claims.

SECTION F – Anticipated realization and projected distribution

16. The Trustee is currently unable to provide an estimated realization and projected distribution to creditors as the only potential asset known to the Trustee is contingent on the ongoing realization efforts at the US subsidiary level. Once the Trustee is in possession of better information as to the possible recovery, the Trustee will be able to provide this analysis.

SECTION G – Preferences and transfers at undervalue

17. The Company did not have a bank account or independent operations. The Trustee has found no evidence of potential preference or transactions at undervalue arising from its preliminary review.

SECTION H – Third party deposit and guarantees

18. In order to fund the Company's bankruptcy proceeding and the administrative matters of the estate, the Trustee received a third party deposit in the amount of \$50,000 from HFI.
19. The Trustee has deposited the funds into a separate trust account.
20. The deposit is subject to a written agreement in accordance with Directive No. 16 of the BIA.

SECTION I – Other Matters

21. There are no other matters.

FTI Consulting Canada Inc.

Solely in its capacity as Trustee in Bankruptcy of
HempFusion Wellness Inc.
and not in its personal capacity

Per:

A handwritten signature in blue ink, appearing to read "Mike Clark".

Mike Clark, LIT
Senior Director