



COURT FILE NUMBER B-200196
VANCOUVER REGISTRY
ESTATE NO. 11-2636236

**IN THE SUPREME COURT OF BRITISH COLUMBIA
IN BANKRUPTCY AND INSOLVENCY**

**IN THE MATTER OF THE NOTICE OF INTENTION TO MAKE A PROPOSAL
OF TRUE LEAF BRANDS INC., TRUE LEAF CANNABIS INC., TRUE LEAF
INVESTMENTS CORP. AND TRUE LEAF PET INC.**

FOURTH REPORT OF THE PROPOSAL TRUSTEE

JULY 28, 2020

INTRODUCTION

1. This report (“**Fourth Report**”) has been prepared by FTI Consulting Canada Inc. (“**FTI**”) in its capacity as the Trustee (the “**Proposal Trustee**”) under Notices of Intention to File a Proposal (“**NOI**”) signed by True Leaf Brands Inc. (“**True Leaf**”), True Leaf Cannabis Inc. (“**TLC**”), True Leaf Investments Corp. (“**TLI**”) and True Leaf Pet Inc. (“**TLP**”) (collectively the “**Companies**”) as of April 1, 2020 and filed with the Superintendent of Bankruptcy on April 2, 2020 pursuant to Part III, Division I of the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3, as amended (the “**BIA**”).
2. TLC (formerly known as True Leaf Medicine Inc.) was incorporated under the Business Corporations Act of British Columbia (the “**BCABC**”) on July 4, 2013. TLC’s parent company, True Leaf (formerly known as True Leaf Medicine International Ltd.) was incorporated under the BCABC on June 9, 2014.
3. TLC was established to hold a federal cannabis license that was applied for in 2013.
4. In late 2015 True Leaf pivoted into the pet industry by launching a line of hemp supplements through its wholly owned TLP subsidiary.
5. TLC’s cannabis facility (the “**Facility**”) was completed in late 2019, however the Companies’ sales did not meet expectation and it began to experience liquidity issues.
6. As indicated in the First Report, True Leaf’s first payment on the Notes was due on March 23, 2020.
7. As a result of its lack of liquidity, True Leaf was unable to make the interest payment on its Notes and with the onset of the COVID-19 pandemic and its implications on global trade, True Leaf’s management and board decided to seek a stay of proceedings to allow it the time necessary to refinance and/or restructure its debts.

8. As a result, on April 1, 2020, the Companies signed NOI's which were filed by the Proposal Trustee with the Office of the Superintendent of Bankruptcy (the "OSB") and accepted on April 2, 2020.
9. On May 1, 2020, the Companies sought the following relief and were granted an order by this Honourable Court providing:
 - a) An extension of the Companies' stay of proceedings and time to file a proposal to June 16, 2020;
 - b) Approval of a DIP Loan for an amount not to exceed \$700,000 as provided by its senior secured lender (the "DIP Lender");
 - c) Approval of an administrative charge over all of the assets and undertakings of TLC in favour of the Proposal Trustee, its counsel and the Companies' counsel (the "Administrative Charge") in the amount of \$150,000; and
 - d) Approval of a first ranking charge against all of the Companies' assets and undertakings in favour of the DIP Lender, subject only to the priority of the Administrative Charge.
10. The DIP Loan included a covenant by the Companies to obtain Court approval of a sales process providing for the separate marketing and sale of TLP's pet business and the Facility, in form and substance acceptable to the DIP Lender.
11. The order was to be sought by the Companies prior to May 14, 2020.
12. Accordingly, on May 13, 2020 True Leaf sought and obtained an order of this Honourable Court providing:
 - a) Authorization for the Proposal Trustee to carry out the Sales Process as described in Schedule B attached to the Sales Process Order;
 - b) Authorization for TLC to engage Colliers Macaulay Nicolls Inc. ("Colliers") as the designated agent to market the Facility; and

- c) In the event TLC does engage Colliers, directing Colliers to report, discuss and provide information to the Proposal Trustee regarding the marketing of the Facility and to assist the Proposal Trustee in the negotiation and finalization of any offers received.
13. On June 16, 2020, the Companies sought and obtained an order of this Honourable Court providing an extension of the stay of proceedings and time to file a proposal to July 31, 2020.
14. The reports of the Proposal Trustee and other information in respect of these proceedings are posted on the Proposal Trustee's website at <http://cfcanada.fticonsulting.com/TrueLeaf/>.

PURPOSE

15. The purpose of the Fourth Report is to provide this Honourable Court with an update on the following:
- a) The activities of the Companies subsequent to the date of the Third Report;
 - b) An update on the progress of the Sales Process;
 - c) An analysis of the Companies' actual cash receipts and disbursements for the period from June 6, 2020 to July 17, 2020, compared to the forecast filed on June 12, 2020 attached as Appendix C to the Third Report (the "June 12 Forecast");
 - d) The Companies' cash flow projection for the period from July 18, 2020 to September 18, 2020; and
 - e) The Companies' request for an extension of the current stay of proceedings under the NOI from July 31, 2020 to September 15, 2020.

TERMS OF REFERENCE

16. In preparing this report, the Proposal Trustee has relied upon unaudited financial information, other information available to the Proposal Trustee and, where appropriate, the Companies' books and records and discussions with various parties (collectively, the "Information").
17. Except as described in this report:
 - a) The Proposal Trustee has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would comply with Generally Accepted Assurance Standards pursuant to the Chartered Professional Accountants of Canada Handbook; and
 - b) The Proposal Trustee has not examined or reviewed financial forecasts and projections referred to in this report in a manner that would comply with the procedures described in the Chartered Professional Accountants of Canada Handbook.
18. Future oriented financial information reported or relied on in preparing this report is based on assumptions regarding future events; actual results may vary from forecast and such variations may be material.
19. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian Dollars.

ACTIVITIES OF THE COMPANIES

20. Since the date of the Third Report, the Companies have continued to focus their attention on the Sales Process (as discussed in more detail in the following section) and maintain the pet supplement business.
21. TLP has continued to show improvement in its sales over the prior year despite its current situation.
22. The growth in sales have been primarily generated from TLP's European subsidiary.
23. The Companies' board continues to be involved in its restructuring activities and has weekly update meetings with the CEO.
24. The Companies' management continue to hold weekly update calls with the DIP Lender to review its cash needs as well as providing it with an update on the Sales Process.
25. The Companies' suppliers have been supportive and to date there has been no issues with any of its unsecured creditors.

UPDATE ON THE SALES PROCESS

The TLC Assets

26. As detailed in the Third Report, the Proposal Trustee with assistance from Colliers and the Companies, performed the steps as required in the Sales Process.
27. The date for receipt of offers on the 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.
28. On June 15, 2020 Colliers received an Expression of Interest and on June 17, 2020 an additional two offers from interested parties.
29. One additional interested party indicated to Colliers that it was continuing to work on its offer which was received on June 20, 2020.
30. 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 this Honourable Court for approval.
31. Unfortunately, none of the offers received from interested parties either achieved a price at which the DIP Lender would agree to release its security in order to close the transaction or the interested party was unable to satisfy its conditions and withdrew its offer.
32. Subsequently several additional parties have come forward indicating their interest in acquiring the Facility and discussions regarding a proposed sale transaction continue to occur with these parties.

The TLP Assets

33. With respect to the pet supplement business, the deadline for the receipt of offers was set as June 19, 2020.
34. On June 19, 2020 four offers and two expressions of interest were received. One additional offer was received on June 22, 2020.
35. The offers and expressions of interest were summarized and discussed with the DIP Lender.
36. Some of the offers included consideration in a form other than cash and accordingly, the Proposal Trustee and the Companies' management had to follow up with each party to gain a better understanding of the potential value of the alternative consideration.
37. The Proposal Trustee in consultation with the DIP Lender entered into negotiations with the interested parties trying to increase the transaction value of their offers.
38. After prolonged discussions and negotiations with the interested parties, TLP with the agreement of the DIP Lender, is in final negotiations with an interested party with the intention of securing a definitive agreement that would be subject only to approval by this Honourable Court.
39. The Proposal Trustee is optimistic that this can be achieved in the next couple of weeks.

COMPARISON OF FORECAST TO ACTUAL

40. The following table indicates the actual cash receipts and disbursements for the period from June 6, 2020 to July 17, 2020 as compared to the June 12 Forecast:

**True Leaf Brands Inc. et al Summary of Actual versus Forecast Cash Flow
For the 6-Week Period from June 6, 2020 to July 17, 2020**

Prepared on a Consolidated Basis

<i>(CAD \$)</i>	Forecast	Actual	Variance
Operating Receipts			
Collections on AR	108,028	152,143	44,115
Other receipts	5,860	30,329	24,469
Total - Operating Receipts	113,888	182,472	68,584
Operating Disbursements			
Payroll	(49,937)	(49,762)	175
Payroll taxes	(34,415)	(29,993)	4,422
Benefits	(1,368)	(1,996)	(628)
Software costs	(12,866)	(15,411)	(2,544)
Selling and Marketing	(8,000)	(5,938)	2,062
Utilities	(1,800)	(6,310)	(4,510)
Consultants & Sales Rep groups	(37,397)	(29,726)	7,671
Maintenance	(1,368)	(1,326)	42
Rent	(3,950)	(3,950)	-
Shipping	(19,000)	(15,081)	3,919
Insurance	(9,346)	(9,346)	-
IR & Pubco costs	(15,769)	(10,836)	4,933
Legal & Professional Fees	(8,400)	(9,394)	(994)
Other	(30,939)	(43,098)	(12,159)
Total - Operating Disbursements	(234,555)	(232,168)	2,387
Net Operating Cash Flow	(120,667)	(49,696)	70,971
Non-Operating Disbursements			
Professional fees	(164,623)	(152,241)	12,381
DIP financing	150,000	100,000	(50,000)
Total Net Cash Flow	(135,289)	(101,937)	33,352
Opening Cash Balance	186,673	186,673	-
Foreign exchange	-	(2,000)	(2,000)
Ending cash (Canadian Dollar)	51,384	82,736	33,352

41. Explanations for the significant variances in actual receipts and disbursements as compared to the June 12 Forecast are as follows:
- a) Sales of product have continued to outperform expectations resulting in a permanent favourable variance in AR collections;
 - b) True Leaf received further funding from the Canada Emergency Wage Subsidy which provides up to 75% of gross salaries for eligible employees up to a maximum of \$874 per week. These funds were not contemplated in the June 12 Forecast;
 - c) The utilities variance is a timing difference due to the timing of receipt of bill payments. This is expected to reverse in subsequent periods;
 - d) The variance in other costs is primarily due to an advance to TLP's subsidiary in Europe of approximately \$8,000 in order to fund payroll to ensure its viability to the conclusion of the Sales Process;
 - e) Professional fee variances are a result of timing and are expected to reverse in subsequent periods; and
 - f) Given the better than expected sales of TLP to date, the DIP advances have been less than anticipated. The Companies have issued their draw requests based on its liquidity needs.

CASH FLOW PROJECTION

42. The Companies prepared an updated Cash Flow Statement for the period from July 18, 2020 to September 18, 2020 (attached as Appendix A).
43. Pursuant to the terms of the DIP Loan, the maturity date for repayment was defined as the earliest date of certain events or August 15, 2020.

44. Given that the Companies are seeking an extension of the stay of proceedings to conclude sale transactions for TLP and TLC, the DIP Lender has agreed to extend the maturity date to September 15, 2020, consistent with the extension of the stay of proceedings being sought.
45. With the extension of the maturity date for the DIP Loan, it appears that the Companies will have sufficient liquidity to fund its post-filing obligations through the period of the extension of the stay of proceedings being sought,

COMPANIES' REQUEST FOR AN EXTENSION

46. The Companies are seeking an extension of the stay of proceedings from July 31, 2020 to September 15, 2020.
47. The Companies are seeking an extension to provide them with the time required to complete a sale transaction for the assets of TLP and TLC.
48. The Proposal Trustee supports the Companies' request for an extension of its stay of proceedings based on the following:
 - a) The Companies are acting in good faith and with due diligence;
 - b) The DIP Lender is supportive of the Companies' efforts and has been kept apprised of the activities related to the Sales Process; and
 - c) With the approval of the extension of the maturity date for repayment of the DIP Loan, the Companies have sufficient resources to fund the post-filing costs through the period of the extension being sought.

All of which is respectfully submitted this 28th day of July, 2020.

FTI Consulting Canada Inc.,
in its capacity as Proposal Trustee under a NOI
filed by True Leaf Brands Inc., True Leaf
Cannabis Inc., True Investments Corp. and True
Leaf Pet Inc.



Name: Craig Munro
Title: Managing Director,
FTI Consulting Canada Inc.

APPENDIX A

Tree Leaf Brands Inc. et al

Cash Flow Statement for the period of July 18, 2020 to September 18, 2020

	Week Ending										TOTAL	Notes
	24-Jul-20	31-Jul-20	7-Aug-20	14-Aug-20	21-Aug-20	28-Aug-20	4-Sep-20	11-Sep-20	18-Sep-20			
Opening Cash	82,736	87,699	75,591	85,075	55,662	44,729	84,417	52,955	49,155	82,736	1	
Cash Receipts												
Collection of AR - Pet Supplements	6,973	11,425	7,146	8,238	2,500	4,000	17,460	4,000	2,000	63,742	2	
Other receipts	-	21,549	5,860	15,106	-	3,388	-	-	10,000	55,903	3	
Total - Operating Receipts	6,973	32,974	13,006	23,344	2,500	7,388	17,460	4,000	12,000	119,645		
Operating Disbursements												
Payroll	-	(14,237)	-	(14,237)	-	(14,237)	-	-	(14,237)	(56,946)	4	
Payroll taxes	-	-	-	(12,111)	-	-	-	-	(12,111)	(24,222)	5	
Benefits	-	-	(1,500)	-	-	-	(1,500)	-	-	(3,000)	6	
Software costs	-	(1,450)	-	(3,862)	(3,500)	-	(250)	-	(7,362)	(16,485)	7	
Selling and Marketing	-	-	-	-	(2,500)	-	-	-	(2,500)	(5,000)	8	
Utilities	-	(2,500)	(150)	(1,374)	(250)	-	(2,100)	(650)	(1,374)	(8,398)	9	
Consultants & Sales Rep groups	-	(13,498)	-	(8,105)	-	-	(13,498)	-	(8,105)	(43,287)	10	
Maintenance	-	(751)	-	(500)	-	-	(751)	-	(500)	(2,502)	11	
Rent	-	(3,950)	-	-	-	-	(3,950)	-	-	(7,900)	12	
Shipping	-	(5,000)	-	(4,000)	-	(2,000)	(5,000)	-	(4,000)	(20,000)	13	
Insurance	-	-	-	-	(4,673)	-	-	-	-	(4,673)	14	
IR & Pubco costs	-	-	(1,873)	(3,675)	(500)	-	(1,873)	(500)	(3,675)	(12,095)	15	
Legal & Professional Fees	-	-	-	(4,200)	-	-	-	(4,200)	-	(8,400)	16	
Other	(2,010)	(25,416)	-	(5,692)	(2,010)	(1,464)	-	(2,451)	(5,252)	(44,294)	17	
Total - Operating Disbursements	(2,010)	(64,801)	(3,523)	(57,756)	(13,433)	(17,700)	(28,921)	(7,801)	(59,116)	(257,662)		
Non-operating Receipts and Disbursements												
Professional fees	-	(78,280)	-	(45,000)	-	-	(20,000)	-	(90,000)	(233,280)	18	
DIP financing	-	100,000	-	50,000	-	50,000	-	-	100,000	300,000	19	
Total Non-Operating Receipts and Disbursements	-	21,720	-	5,000	-	50,000	(20,000)	-	10,000	66,720		
Total Net Cash Flow	4,963	(12,108)	9,484	(29,413)	(10,933)	39,688	(31,461)	(3,801)	(37,116)	(70,697)		
Ending cash	87,699	75,591	85,075	55,662	44,729	84,417	52,955	49,155	12,039	12,039		

Notes

- 1- Opening cash balances are bank statements with US funds converted at an exchange rate of 1.4.
- 2- Collections are based on historical patterns for each customer.
- 3- Other receipts includes a GST refund, collection of the Canadian Emergency Wage Subsidy and rents.
- 4- The Company has recently restructured its staffing levels and makes payroll on a semi-monthly basis.
- 5- Payroll source deductions are due on the 15th of the month following payment of payroll.
- 6- Extended benefits for full time employees is provided by a third party with payments made on the first day of each month.
- 7- Specialized software is required by Health Canada to maintain cannabis growing and processing licenses. The software costs are related to the monthly subscriptions to that software as well as other programs needed to manage the business.
- 8- Marketing materials are purchased on an ad hoc basis through the Company's credit cards which are due on the 16th of each month.
- 9- Utilities for the Lumby property and the Vernon office relate to electricity, gas, cable and internet and are paid on a monthly basis with estimates based on historical costs.
- 10- The Company utilizes contractors as sales representatives in the US to generate sales as well to support finance and HR functions.
- 11- The Company pays for janitorial services at the head office on an as needed basis and pest control is required by the Health Canada licenses at the Lumby property.
- 12- Rent includes the head office space and warehouse in Vernon that services Canadian sales.
- 13- The Company has a US warehouse provider that arranges all shipping of orders to customers in the US and stores the Company's inventory. The Company also incurs shipping costs for orders out of the Vernon, BC warehouse which are paid semi-monthly.
- 14- Property and liability insurance was financed over a nine month period with payments ending August 2020.
- 15- The Company incurs certain costs to maintain its filings as a publicly traded entity.
- 16- The Company retains a paralegal that completes all public filings and maintains shareholder lists, warrants and options as well as acts as the Corporate Secretary.
- 17- Other costs relates primarily to a monthly payment to Health Canada to maintain its cannabis license as well as rental equipment utilized at the Company's Lumby and Vernon sites and bank fees. A payment of approximately \$20,000 is also forecast to be made to TLP Europe in the week ending July 31, 2020 in order to retain staff in that entity.
- 18- Professional fees includes the Trustee, the Company's legal counsel and the DIP Lender's legal counsel.
- 19- A total of \$300,000 is expected to be received through DIP financing throughout the forecasted period.