COURT NO. B240063
ESTATE NO. 11-3031837

VANCOUVER REGISTRY

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

**IN THE MATTER OF THE PROPOSAL OF
LOTUS VENTURES INC.**

TRUSTEE'S REPORT TO CREDITORS

BACKGROUND

Lotus Ventures Inc. ("**Lotus**", the "**Company**") is a British Columbia based licensed cannabis producer and was formed in British Columbia in November 2014 as a result of an amalgamation. The Company's Directors are Mr. Carl Correia, Mr. Maurice Creagh, Mr. Simon Davie, and Mr. Dale McClanaghan (also President and CEO) based on a search of the BC Companies Registry as of January 10, 2024. Lotus was incorporated for the purpose of growing premium cannabis which is carried in retail locations across BC and Ontario and sold through export markets. The Company operates from a production facility (the "**Production Facility**") located in Spallumcheen, British Columbia. The Production Facility is not subject to any encumbrances or mortgages and is wholly owned by the Company. Lotus is listed on the Canadian Securities Exchange (CSE:J) and on the OTC Markets (OTC:LTTSF). Further financial and other information reported by the Company can be found at: https://thecse.com/listings/lotus-ventures-inc/sedar-filings/?page=1

The Company reported net losses for the years ended August 31, 2022, and August 31, 2023. The Company reported a net loss of $1,872,566 for the twelve months ended August 31, 2023, compared to a net loss of $4,950,683 same period ending August 31, 2022. The Company's management (the "**Management**") reported that the net loss decreased by $2,920,193 as compared to the prior year as a result of an increase in sales, gross margin, and no impairment of inventory in the most recent year. The Company incurred ongoing cash flow constraints through the end of 2023 which were projected to continue into 2024.

On January 16, 2024, 5008679 Ontario Ltd. (a company owned by a former director of Lotus) obtained a judgment (the "**Judgment**") against Lotus with regards to a loan totaling in excess of $1 million. Management did not contest the amount owing to 5008679 Ontario Ltd.

As a result of the significant operating losses and the Judgment, Lotus lacked sufficient working capital to meet all of its obligations to its creditors resulting in Management deciding to seek creditor protection to permit a restructuring of Lotus' financial affairs. Management filed a Notice of Intention to Make a Proposal ("**NOI**") pursuant to the provisions of the *Bankruptcy and Insolvency Act* ("**BIA**") on January 17, 2024, and MNP Ltd. consented to act as Licensed Insolvency Trustee ("**Trustee**") in the proposal proceedings.

On February 12, 2024, the Company filed an application with the British Columbia Supreme Court (the "**Court**") seeking an extension of time to file its proposal to creditors and was granted an extension of time to April 1, 2024.

Lotus filed a proposal to its creditors on March 28, 2024 (the "**Proposal**"), which was amended on April 5, 2024**.** The amendment to the Proposal clarified that the Trustee's fees are being paid by the Company directly in addition to set payments intended for the benefit of the General Creditors.

In preparing this Trustee's Report to Creditors (the "**Report**") and making the comments herein, the Trustee has been provided with, and has relied upon, certain unaudited, draft and/or internal financial information, the Company's books and records, discussions with employees and management and information from other third-party sources (collectively, the "**Information**"). Except as described in this Report, the 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 or other standards established by the Chartered Professional Accountants of Canada.

Capitalized terms used in the Report are the same as those referenced in the Proposal. Unless otherwise stated herein, all references to currency are to Canadian currency.

SUMMARY OF PROPOSAL

A summary and major terms of the Proposal are as follows:

- There will be one Class of Creditors for the purpose of considering the Proposal consisting of the General Creditors.
- The Company shall continue to pay the Secured Creditors in accordance with present arrangements, as amended from time to time, or as may be arranged in the future between the Company and each Secured Creditor respectively. Secured Creditors will not vote on this Proposal as their claims are not being compromised by the Proposal.
- The Company shall make certain payments (defined as the "**Proposal Fund**") to the Trustee for the benefit of the General Creditors as well as certain priority obligations

pursuant to the provisions of the BIA and as set out in the Proposal. These payments include specific payment amounts outlined in the Proposal, in addition to payment of the Trustee's fees and costs in this matter.

- In addition to the payment of the Trustee's fees and costs, the Company will pay the Trustee ten (10) payments totaling $2,350,000, each of $235,000 which are due to be paid by the Company to the Trustee on specified dates, as follows:

  - December 31, 2024;
  - June 30, 2025;
  - December 31, 2025;
  - June 30, 2026;
  - December 31, 2026;
  - June 30, 2027;
  - December 31, 2027;
  - June 30, 2028;
  - December 31, 2028; and
  - June 30, 2029.

- Canada Revenue Agency ("**CRA**") will be paid in full by the Proposal Funds within 6 months of Court Approval of the Proposal, for unremitted payroll source deductions.

- The Trustee's fees and expenses, and legal costs of the Trustee arising out of the Proposal shall be paid directly from the Company, in addition to the payments referenced above. These payments for Trustee fees and legal costs will be included in the Proposal Fund, and then paid to the Trustee in priority to the General Creditors.

- General Creditors will be paid a pro rata share of the remaining funds in the Proposal Fund.

- The Proposal contains provisions that allow for General Creditors to either defer their pro rata share of an interim distribution or waive its share of an interim distribution (in full or in part).

- The Proposal contains a provision that claims against the Company's Director are compromised after the approval of the Proposal by the Court.

OPERATIONS

The Company has continued normal course operations subsequent to the filing of the Notice of Intention on January 17, 2024. The Company has also continued to carry on business with its suppliers on terms which are acceptable to Lotus and its suppliers.

Lotus currently employs approximately 24 full and part-time employees, in addition to four other parties on a contract basis. The Company's payroll is processed on a bi-weekly basis and employees are being paid in accordance with the payroll schedule. The Company utilizes the services of ADP Canada to administer its payroll, and as such payroll withholdings are remitted to CRA directly by ADP Canada.

Management is of the view that Lotus will achieve profitability as they have reduced operating costs and continued in efforts to increase sales, particularly in respect of developing a focus on retail markets and exporting its products through bulk sales to international customers.

Management have transitioned from a wholesale focus to domestic retail sales by expanding their presence in the British Columbia and Ontario Cannabis Stores. The further focus on the export sales began in January 2024 after the company received Health Canada and international certification to be allowed to sell to international markets. Management reports that Lotus has obtained export accreditation and commenced international sales to Australia, the United Kingdom, and certain countries in Eastern Europe for its dried flower product.

Management is also of the view that they will be able to continue to grow revenues by focusing on higher yield and higher priced products. Management reports that they are operating at full capacity and have taken a harvest every 12 days sequentially from one of the grow rooms since the initial crop in September 2019.

Efforts with regards to costs reduction have been focused on reduction of Management compensation, and deferral of discretionary costs. Further, the Company's cost structure is such that many of their material costs do not vary significantly with changes in production.

ASSETS

Management provided their Statement of Affairs ("**SOA**") which outlines the assets and liabilities of the Company. The SOA is included in the documents circulated to the creditors with this Report.

Cash in Bank

The SOA includes no material surplus cash on hand. The Company reported cash of approximately $44,000 on their August 31, 2023 financial statements. The Company has provided support that there was minimal available operating funds at the time of filing of the Proposal on March 28, 2024, although that balance increased materially with a deposit soon thereafter and will continue to fluctuate daily.

For the basis of our analysis in this report we have assumed a cash balance of nil.

Accounts Receivable

The SOA shows no accounts receivable. The Company reported approximately $400,000 in accounts receivable on the August 31, 2023, financial statements.

It is our understanding that the Company now sells its export product based solely on a cash on delivery ("**COD**") basis. Further, the retail sales will lead to sales on terms, and accounts receivable amounts. However, as at the date of the Statement of Affairs, the Company had collected all material accounts receivable although is in the process of issuing invoices which will create a new account receivable of approximately $50,000. As a result of the transition of the sales focus from wholesale to retail and export the level of accounts receivable is expected to be lower going forward than historically reported.

For the basis of our analysis in this report we have assumed a collectable accounts receivable balance of $25,000.

Inventory

The SOA shows the Company's inventory (the "**Inventory**") at a value of $200,000. The Inventory was shown on the August 31, 2023, financial statements at $840,000.

The Inventory is located at the Company's Production Facility in Spallumcheen, British Columbia. The reported Inventory balance has varied materially on the Company's financial statements over the last two years and is primarily dependent on the status of the harvest of crops and sale shipments leaving the Production Facility. Management's estimate of $200,000 for the Inventory on the Statement of Affairs is based on a liquidation process by the Management.

The Trustee is of the view that the applicable Federal and Provincial legislation regarding the control and sale of cannabis would not allow a Trustee in Bankruptcy to possess and realize on the Inventory. Further, the Trustee would be required to comply with the regulations under the Cannabis Act and Environmental Management Act (and other applicable legislation) regarding the destruction and disposal of the Inventory. In summary, the Inventory would be a liability under a bankruptcy scenario and not a realizable asset.

Based on our initial review, we understand that significant time and costs would be required to correspond and coordinate with the appropriate governmental oversight authorities on this matter, along with specific costs related to the appropriate destruction and disposal of the Inventory. Such specific costs would include staffing costs for handling and destruction of the Inventory, transportation and disposal costs, in addition to the costs and fees of the bankruptcy trustee.

Biological Assets

The Company's financial statements include biological assets consisting of cannabis plants that have not yet been harvested and transferred to inventory. The fair value of these assets are subject to standard assumptions and estimates in accordance with the IFRS standards for agricultural assets (IAS 41). Similar to the Company's inventory, under a bankruptcy scenario the Trustee would be required to comply with all applicable regulations regarding the destruction and disposal of the biological assets and there would not be any expected realization from the biological assets.

As a result, we estimate that the net cost of appropriately dealing with the destruction and disposal of the Inventory and biological assets to be approximately $40,000.

Equipment

The SOA shows no value for Company owned equipment. The Company's August 31, 2023, financial statements include approximately $260,000 in net book value of the equipment, being included in the Property, Plant and Equipment reporting.

Lotus owns various office and production equipment to facilitate the Company's operations. Management have provided the Trustee with the Company's equipment listing (the "**Equipment**"), which we have reviewed on site and determined it is a reasonable listing of the equipment noted at the Production Facility. Management have determined no value for the Equipment based on material items forming part of the Production Facility (and therefore sold with the real property), and limited value of the remaining Equipment items.

The Trustee is of the view that a majority of the Equipment are attached to the Production Facility and would be sold with the building. However, there are certain items that are removable and therefore would be realizable as a separate equipment sale, such as the trimming machines, incubators, shredder, and rosin press. The Trustee estimates the realizable value for these removable items to be between $20,000 and $30,000. There are also a significant number of office items and smaller assets which would not be expected to yield material realization either individually, or in their aggregate.

There are no lease or financing agreements registered on the British Columbia Personal Property Registry with regards to specific items or serial number registrations that would attach a priority claim to specific equipment. There are potential general security agreements registered against all of the Company assets, which are discussed further under the Secured Creditors section of this report.

The net liquidation value of removable assets is anticipated to be approximately $20,000 after taking into consideration auctioneer's commissions, potential transport costs from this remote location, and other selling costs that would be incurred.

Real Property

The Production Facility is located on a parcel of land that is approximately 23 acres in size and includes the cannabis production facility and an older single-family home. The cannabis facility consists of a single steel frame building of 22,192 square feet, broken into various cultivation rooms, processing, shipping/receiving, infrastructure and staff areas.

The property's overall assessment (BC Assessment) is $6,229,200 as of July 1, 2023.

The Production Facility is shown on the SOA at a value of $2,000,000. Further there is outstanding property taxes owing, which are to be paid by the Company's cash flow under the Proposal. However, they would form a priority lien against the property in the event of a bankruptcy scenario.

The Company engaged Colliers Canada ("**Colliers**") to provide a Broker's Opinion of Value with respect to the Production Facility. Colliers' material considerations included the market conditions with regards to a use specific facility in the cannabis industry, costs associated with alternative uses, location, and all within a forced liquidation scenario (less than six months) which would be applicable to a bankruptcy scenario.

Colliers concluded that their estimate of value to be "less than $2,000,000" based on their assumptions, and as of March 22, 2024. Further, the recommended listing price for the Production Facility was $1,995,000.

A January 15, 2024 search of the land titles registry related to the Production Facility shows expected easements and permits related to governmental rights. Further, there is a notice of interest under the builder's lien act dated November 2015. Management confirmed that this lien related to the build out of the Production Facility and has been paid in full.

To determine a net realizable value on the Production Facility, we have assumed the following adjustments to the Colliers recommended listing price:

Lotus Ventures Inc. - Production Facility		
Net Realizable Value - Bankruptcy		
Recommended Listing Price		1,995,000
Less:		
Estimated Reduction to Sales Price	-	99,750
Estimated Sales Price		1,895,250
Less:		
Commission - 8%	-	151,620
Unpaid Property Tax	-	170,000
Possession Costs - security / insurance	-	9,000
Estimated Net Realizable Value		1,564,630

LIABILITIES

Secured Creditors

The Trustee has not obtained an independent legal opinion on the validity or enforceability of the various security agreements and/or potential claims of the various secured creditors discussed in the Report.

The SOA shows no secured creditors. However, there are security registrations filed against the Company as shown on a January 10, 2024 search of the Personal Property Registry of British Columbia. These registrations include general security registrations for Kolab Project Inc. and Connect First Credit Union Ltd., along with a registration over cannabis inventory by 5008679 Ontario Limited, and a registration over a guaranteed investment certificate by the Bank of Montreal. Management is of the view that all of the claims with regards to the above registrations are either paid in full, or not valid secured claims.

The Trustee will be required to review and adjudicate any secured claims that are submitted in this Proposal. To the extent there are proven secured claims, section 3.2 confirms that such secured claims will be paid in accordance with the present arrangements. Any payments to proven secured creditors will be paid directly from the Company and will not form any claim against the Proposal Funds.

Preferred Creditors

Employees

Employees are preferred creditors pursuant to Section 136 of the *Bankruptcy and Insolvency Act*, and as such, their preferred claims must be paid in full before any payments are made to the general unsecured creditors. Each employee's preferred claim may not exceed $2,000, relating to wages and vacation pay during the six-month period immediately preceding the initial date of filing. Amounts owing in excess of the threshold or relate to a period more than six months prior to the Notice of Intention, are general unsecured claims. Any claims relating to severance or termination pay are general unsecured claims.

In a bankruptcy scenario, preferred claims of employees (wages/vacation pay) become a secured charge over current assets, and takes priority over other secured creditors, with the exception of the claim of CRA pertaining to unremitted payroll withholdings. Claims for outstanding termination pay rank as general unsecured claims in a bankruptcy or proposal scenario.

The Trustee is not aware of any preferred amounts owing to present or former employees with regards to the Proposal. However, it is expected that there would be accrued wages and vacation pay, along with severance obligations owing under a bankruptcy scenario. For the purposes of this report we have assumed each employee would be owed a preferred claim of $1,000, and a further $2,000 unsecured claim.

Unsecured Creditors

The Company's Statement of Affairs indicates unsecured creditors of approximately $4,846,500. Ultimately the amount owing to creditors will be based upon the proven claims filed in the Proposal proceedings.

Under a bankruptcy scenario we have assumed additional unsecured claim amounts related to the employees:

Employees Termination / Severance costs	$48,000

The voting rights or rights to participate in the Proposal Funds may be impaired if any claim is determined to be a Related Party Claim or a Non-Arm's Length Claim as defined within the BIA, or related legislation and regulations.

CONDUCT OF THE DEBTOR

Since the filing the NOI, and in preparation for its filing, the Company has been acting in good faith by organizing its affairs and investigating various options with a view to formulating and presenting a proposal to its creditors. In particular, and as examples, the Company has:

- Reduced operating costs;
- Continued in its efforts to increase sales, particularly in respect of exporting its products through bulk sales to international customers;
- Assessed options for a sale of the business as a going concern; and
- Obtained an assessment of the forced liquidation value of its property as it relates to putting forth a proposal that would provide a greater return to its creditors than would be received under a bankruptcy scenario; and
- The Company is up to date with all of its filing and payment obligations to Canada Revenue Agency since the filing of the NOI and has continued to meet its obligations under the BIA, including the monitoring program set out by the Proposal Trustee at the outset of the engagement.

The Trustee undertook a material transaction (in excess of $50,000) review covering the prior year to identify any potential material preferential payments or transactions at undervalue that may be pursued by a Trustee in bankruptcy. We identified 29 payments from the Company's bank account in excess of $50,000 during this period. These payments were primarily related to payroll, payments to the local township, or repayment of short-term bridge funding. The Trustee continues to review these payments with Management and legal counsel, however as of the date of this report the Trustee has not identified material preferential transactions or transactions at under value that would likely be challenged by a Trustee in Bankruptcy pursuant to the provisions of the BIA.

REMUNERATION OF THE TRUSTEE

The costs of administration pertaining to the Trustee's fees and disbursements and legal costs incurred in relation to the Proposal are a preferred claim and will be paid from the Proposal Fund and will be subject to taxation by Court and approval of the Inspectors, if appointed, or the creditors should no Inspectors be appointed.

The Proposal includes that in the event no Inspectors are appointed, the Trustee may take advances of Trustee's Fees, subject to final taxation by the Court. Such advances shall not be taken less than on a quarterly basis, commencing after approval of the Proposal by Court. If any Inspectors are appointed, they must approve any advances to the Trustee for fees, in accordance with the BIA.

The estimated Trustee fees are included in the Statement of Estimated Realization. However, we note that due to the term of the Proposal, minor monthly changes in the expected costs will result in a material change over the full period of the Proposal.

The Trustee holds a third party retainer of $75,000 related to this matter.

CONSEQUENCES OF NON-APPROVAL OF THE PROPOSAL

If the Proposal is not accepted by the creditors, the Company will be deemed to have made an assignment in bankruptcy on that date.

ESTIMATED REALIZATION – BANKRUPTCY vs. PROPOSAL

The Trustee has prepared a Statement of Estimated Realization (the "**Statement**") which is attached as Schedule "**A**" to this Report and compares the estimated net realization in a bankruptcy versus proposal scenario. If the Proposal is not accepted by the creditors, the Company will be deemed to have made an assignment in bankruptcy on that date.

The Proposal will provide $2,350,000 to the Proposal Fund over the term of the Proposal, if the Company complies with the specific payments required under section 3.4.1. The Statement outlines the expected funding under the Proposal, costs, and then distribution to the General Creditors. The Proposal includes that dividends will be paid to the General Creditors every six months (or as otherwise directed by the Inspectors). The General Creditors are expected to receive approximately 48% of their claims under the Proposal.

In a bankruptcy scenario, funds available will be primarily dependent on the asset realizations. While the Trustee has presented our reasonable expectations regarding these realizations in this Report, actual realizations may vary materially from these estimates. The timing on the payout to creditors under the bankruptcy is expected to be between six months and one year, as the primary Company asset is real estate. The creditors are expected to receive approximately 27% of their claims under a bankruptcy scenario.

This percentage of creditor recovery will vary from the above analysis as the actual payout will be dependent on proven claims accepted by the Trustee (or by the Court) in this process which may be higher or lower than the $4,846,500 included in this analysis.

If the Company complies with the specific payments required under section 3.4.1, the Proposal will provide a significantly higher recovery (by approximately $1,000,000) to the General Creditors than they would receive in a bankruptcy scenario. Accordingly, we recommend acceptance of this Proposal.

DATED AT the City of Vancouver, British Columbia this 8th day of April, 2024.

MNP Ltd.
In its capacity as Licensed Insolvency Trustee
In the Proposal Proceedings of Lotus Ventures Inc.
and not in its corporate capacity

Per: Greg Ibbott, CIRP, LIT, CPA, CA
Senior Vice President