

ONTARIO
SUPERIOR COURT OF JUSTICE
(IN BANKRUPTCY AND INSOLVENCY)

Estate Number: 33-2618511
Court File No.: 33-2618511

**IN THE MATTER OF THE NOTICE OF INTENTION TO MAKE A PROPOSAL OF EUREKA
93 INC. OF THE CITY OF OTTAWA IN THE PROVINCE OF ONTARIO**

**AND IN THE MATTER OF THREE RELATED INTENDED PROPOSALS (LIVEWELL
FOODS CANADA INC., ARTIVA INC., AND VITALITY CBD NATURAL HEALTH
PRODUCTS INC.)**

SEVENTH REPORT OF THE PROPOSAL TRUSTEE

June 1, 2020

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INTRODUCTION

1. This seventh report (the “**Seventh Report**”) is filed by Deloitte Restructuring Inc. (“**Deloitte**”) in its capacity as proposal trustee (the “**Proposal Trustee**”) in connection with the Notices of Intention to Make a Proposal (individually, an “**NOI**”, and collectively, the “**NOIs**”) filed by each of Eureka 93 Inc. (“**Eureka 93**”), LiveWell Foods Canada Inc. (“**LiveWell**”), Artiva Inc. (“**Artiva**”) and Vitality CBD Natural Health Products Inc. (“**Vitality**” and, together with Eureka 93, LiveWell and Artiva, the “**Companies**”).
2. On February 14, 2020 (the “**Filing Date**”), the Companies each filed an NOI under Section 50.4(1) of the *Bankruptcy and Insolvency Act*, R.S.C 1985, c.B-3, as amended (the “**BIA**”). Deloitte was appointed as Proposal Trustee under each NOI. By way of Order of Justice MacLeod dated March 9, 2020 (the “**Initial Order**”), among other things, the proposal proceeding for each of the Companies was administratively consolidated under the Estate and Court File number of Eureka 93, and the date by which the Companies are required to file proposals was extended to April 29, 2020 (the “**Proposal Filing Date**”).
3. On April 23, 2020, the Court issued an order extending the date by which the Companies must file their proposals to June 12, 2020.
4. Paragraph 16 of the Initial Order directs the Proposal Trustee, beginning on March 23, 2020, to file with the Court, and deliver to any party on the Service List who requests a copy, a bi-weekly status report: (a) confirming that the interim funding approved pursuant to paragraph 5 of the Initial Order is in place; (b) verifying progress of construction at the facility owned by Artiva (the “**Artiva Facility**”); (c) confirming the continued validity of the cultivation licence of Artiva; and (d) setting out the progress towards production of a first crop by Artiva.
5. The Receiver has filed five bi-weekly reports in these proceedings, the latest being dated May 19, 2020 (the “**Sixth Report**”).
6. The purpose of this Seventh Report is to provide the sixth bi-weekly status report required under the Initial Order.

TERMS OF REFERENCE AND DISCLAIMER

7. In preparing this Seventh Report and making the comments herein, the Proposal Trustee has been provided with, and has relied upon, unaudited financial information, books and records, construction reports and financial information prepared by the Companies, and discussions with Seann Poli, CEO of Eureka 93 and also a Director of each of the Companies, and Peter Ostapchuk, CFO of Artiva and Senior Financial Advisor to the Eureka Group of Companies (“**Management**”) (collectively, the “**Information**”).
8. The Proposal Trustee has reviewed the Information for reasonableness, internal consistency and use in the context in which it was provided. However, the Proposal Trustee has not audited or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would wholly or partially comply with Canadian Generally Accepted Assurance Standards (“**Canadian GAAS**”) pursuant to the *Chartered Professional Accountants Canada Handbook*. Accordingly, the Proposal Trustee expresses no opinion or other form of assurance contemplated under Canadian GAAS in respect of the Information.
9. Some of the information referred to in this Seventh Report consists of financial projections. An examination or review of the financial forecasts and projections, as outlined in the *Chartered Professional Accountants Canada Handbook*, has not been performed.
10. Future oriented financial information referred to in this Seventh Report was prepared based on Management’s estimates and assumptions. Readers are cautioned that since projections are based upon assumptions about future events and conditions that are not ascertainable, the actual results will vary from the projections, even if the assumptions materialize, and the variations could be significant.
11. While this Seventh Report does reference some of the known impacts of the Coronavirus pandemic (“**COVID-19**”) on the Companies’ operations, there may be further impacts not yet identified that may impact sales, production, supply chain or any other aspect of the business, which may have an adverse impact on the performance of the Companies. Readers should consider the increasingly broad effects on the financial condition of the Companies,

as a result of the negative impact on Canada, the global economy and major financial markets from COVID-19.

12. Capitalized terms not otherwise defined in this Seventh Report are as defined in the First Report through the Sixth Report.
13. Unless otherwise stated, all monetary amounts noted herein are expressed in Canadian dollars.

STATUS OF INTERIM FINANCING FACILITY

14. The Proposal Trustee has confirmed that since Court approval of the Interim Financing Facility, Artiva has made eleven draw requests totaling \$2,283,085, out of the total availability of \$2.3 million. The eleventh draw request of \$93,520 was made on May 29, 2020, and the funds are anticipated to be received by Artiva on June 1, 2020.
15. The following is a comparison of the first eleven draw requests to the first six weeks of Statement of Projected Cash Flow for Artiva as filed with the Superintendent of Bankruptcy on February 19, 2020, and which was attached in Appendix “E” to the First Report (the “**Projections**”), and the first five weeks of the Cash Flow Forecast for the period April 20 to June 12, 2020, which was attached as Appendix “E” to the Fourth Report (the “**Cash Flow Forecast**”, and collectively with the Projections “**Forecast**”).

Actual Interim Financing Facility Draws and Disbursements Compared to the Forecast For the 12-week period ended May 29, 2020			
(in \$CDN)	NOI Forecast to 29-May-20	Actual Results to 29-May-20	Variance
Receipts			
DIP Funding February 2020	2,300,000	2,263,085	(36,915)
Collection of A/R (Net Gross Margin)	343,905	-	(343,905)
Other	-	46,000	46,000
Total Receipts	2,643,905	2,309,085	(334,820)
Disbursements			
Inventory/Seed/Plantlet Purchases	200,580	133,805	66,775
Contract Labour / Architectural Fees	7,910	43,470	(35,560)
Integrated Pest Prevention	14,154	1,619	12,535
Equipment Rental (Backup generator)	9,726	9,731	(5)
Management Personnel Costs (3 persons)	185,276	201,780	(16,504)
Operations Personnel Costs (2 persons)	19,500	21,000	(1,500)
Master Grower Team Costs (4 Month Lead Time)	50,595	92,444	(41,849)
Internet Costs for Security Systems	500	2,448	(1,948)
Office Expenses	1,800	39,028	(37,228)
Travel Expenses	3,000	6,312	(3,312)
Professional Fees (Proposal Trustee & Legal Counsel)	345,000	348,284	(3,284)
Utilities and Power	15,531	24,178	(8,647)
Insurance (Business and Property Liability)	19,506	17,885	1,621
Property Taxes for Artiva Location	9,000	14,000	(5,000)
Repairs & Maintenance	1,200	-	1,200
Capital Expenditures	619,600	554,242	65,357
Licence Costs (Health Canada & Regulatory)	28,000	53,474	(25,474)
DIP Fees and Charges	300,000	300,000	-
DIP & Accrued Interest Expense on 1st Positions	392,567	336,012	56,555
Other (Liability Insurance on Property and Assets)	-	65,372	(65,372)
Total Disbursements	2,223,445	2,265,085	(41,640)
Net Cash Flow	420,460	44,000	(376,460)

16. The Proposal Trustee notes the following concerning the actual draws made to date and the significant variances:

- while the Projections anticipated all of the principal under the Interim Financing Facility would be received in one initial draw, the parties have elected to operate on a draw request basis in order to satisfy invoices received or fund disbursements scheduled to be incurred during the following week;

- the \$343,905 negative variance in A/R receipts is part permanent difference and part temporary difference. The permanent difference relates to a \$203,280 deposit for a proposed sale of clones that was canceled by the purchaser and was discussed in the Sixth Report. The temporary difference of \$140,625 relates to a delay in sales of clones as the result of earlier delays in obtaining financing, which delayed construction of the Artiva Facility, which then delayed obtaining the CRA Cannabis Licence that was required to allow Artiva to take delivery of plantlets. The Company expects the negative variance to reverse in the coming weeks once clones are harvested and sales are executed;
- the positive \$46,000 variance in “Other” receipts was discussed in the Sixth Report and remains unchanged;
- the positive variance in plantlet purchases of \$66,775 is a potentially a permanent difference as Artiva is establishing a clipping and strain retention strategy in grow operations such that it may not need to make additional plantlet purchases in the coming weeks;
- the negative variance of \$33,560 for contract labour/architectural fees is a permanent difference as such fees were not initially anticipated, but were incurred as a result of a change in the growing room layouts to optimize work and process flow, and the need for contract labour as cultivation operations have begun;
- the master grower team costs negative variance of \$41,849 is a permanent difference as there were greater up-front costs, and the size of the overall team was greater than anticipated;
- the offices expenses negative variance of \$37,228 is a permanent variance and represents a 50% deposit on certain software Artiva requires for tracking seeds for sales regulatory compliance purposes. This expense was not previously included in the Forecast;
- the negative variance in licencing costs of \$25,474 is a permanent variance as it includes the cost for a Health Canada outdoor licence and consulting advisory services which were

not included in the Forecast, but will allow Artiva to expand its production area and cultivate more product;

- the positive variance of \$56,555 in DIP & Accrued Interest Expense is a temporary variance as the Interim Lender has agreed to defer weekly interest payments in order to assist Artiva with its cash flow;
- the positive disbursement variance for capital expenditures of \$65,357 is both a permanent and timing difference. As previously reported, Artiva initially anticipated an expenditure of approximately \$110,000 for the installation of a concrete floor in one of the growing rooms. The Company has decided to defer that expense as it can operate with the current flooring while redirecting those funds to more crucial operational requirements. A portion of those funds have been repurposed into other areas of the Artiva Facility, including for renovation of the outdoor grow area and other areas to improve the efficiency of operations;
- the negative other disbursements variance of \$65,372 is a permanent variance and relates to property insurance (\$50,000, which was initially funded by the Interim Lender) and website development costs that were not included in the forecast; and
- there remains \$36,915 available for drawdown under the Interim Financing Facility. Management advises that, in addition to the deferral of weekly interest payments owing to the Interim Lender, they have agreed to reduce their compensation by half starting during the week ending May 22 in order to assist with cash flow until they can generate cash from clone sales.

PROGRESS OF CONSTRUCTION

17. Management advises that substantially all of the construction as initially contemplated is now complete, with only some minor electrical work remaining.

CULTIVATION LICENCE

18. The Proposal Trustee confirmed on May 29, 2020, through the Government of Canada's website, that Artiva continues to hold a licence issued by Health Canada under the Cannabis Regulations.

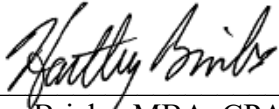
PROGRESS TOWARDS PRODUCTION OF A FIRST CROP

19. In its Sixth Report, the Proposal Trustee reported that Management's revised timing by which the first crop will be ready for cultivation was during the week ending June 5, 2020. Management has indicate there is no change to that timing.

All of which is respectfully submitted this 1st day of June, 2020.

DELOITTE RESTRUCTURING INC,
solely in its capacity as the Proposal Trustee
of the Companies and not in its personal or
corporate capacity

Per:



Hartley Bricks, MBA, CPA, CA, CIRP, LIT
Senior Vice-President

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