

Creditors Report

Bophelo Bio Science & Wellness (Pty) Ltd ("Bophelo") was placed into liquidation on 15 July 2022 and writer hereof was appointed as Liquidator.

The main duties and responsibilities of a liquidator include the taking charge of the property of the company, recovery of debts owing to the company and the realizing of the assets. The actions to be taken by liquidators, are done in the interest of the body of creditors and to achieve the best benefit for the creditors.

The purpose of this letter is to provide you with the preliminary findings from our investigations, and also put forward proposals with regards to the way forward. In Bophelo's case, the majority of its creditors are directly or indirectly related, and had insight into the management of Bophelo and knowledge about the cannabis industry. We invite creditors to consider our findings and proposals, and provide us with their feedback and instructions, or alternative proposals, if any, which can possibly increase the benefit to Bophelo's creditors.

1. Existing cannabis stock

1.1. Key findings

1.1.1. Bophelo has the following stock quantities from previous seasons:

2020 crop – 280.7kg

2021 crop – 376.7kg

2022 crop – 1688.8kg

1.1.2. The flowers of the above-mentioned crops were pollinated and subsequently the flowers were seeded. Various role players in the industry informed us that seeded flowers are regarded as low quality product and subsequently the price for seeded cannabis is very low.

1.1.3. Bophelo has an extraction plant, and apparently the plan was to mass produce flowers (even if it is seeded) and process it through the extraction plant. Unfortunately, the processing capacity of the Bophelo extraction plant is very low and it will take an extended amount of time to process all the stock. Furthermore, the processing facility does not

comply with Good Manufacturing Practices ("GMP") requirements, which will prevent us from selling the extracted produce to the medical and pharmaceutical market.

- 1.1.4. Legislation also prevents Bophelo from selling cannabis directly to the recreational market.
- 1.1.5. It should also be noted that the cannabis stock loses value as it gets older. It is therefore important that the stock is sold as quickly as possible to prevent further loss of value.
- 1.1.6. We have been in contact with various interested parties, and they were provided with samples and lab results and some also came to inspect the produce. However, the prices they alluded to, range from M20/gram to as low as M0.50/gram. Obviously, we are giving preference to the buyers who offer the higher prices, but unfortunately they have not made a firm commitment to buy.

1.2. Proposal

- 1.2.1. The plan is to market the stock to other businesses operating in the cannabis industry, which can either be businesses who has GMP approved extraction plants, which enable them to process the produce for medicinal and pharmaceutical market, or who have access to the recreational market.
- 1.2.2. To date we have not concluded a sale with the buyers who offered the lower prices, but if we don't receive satisfactory commitment on the higher offers, we will be necessitated to proceed with the sale of the cannabis to buyers who made these lower offers.

1.3. Instruction and/or consent from Creditors

- 1.3.1. If any creditor, director or affected party has any other proposal with regards to the stock, or can introduce the liquidator to other potential buyers or markets, you are requested to communicate same to the liquidator as soon as possible.

2. Production facilities

2.1. Key findings

- 2.1.1. Bophelo had previously been producing cannabis in soil on raised beds. This production system is inappropriate for the production of cannabis, to be earmarked for high grade medical and pharmaceutical markets. Prior to Bophelo being placed in liquidation, the management already made the decision to stop the production under shade nets, and the shade nets, poles and wood around the raised beds were removed.
- 2.1.2. Bophelo currently has 10 constructed hoop houses, each measuring 45m in length, 10m in width, have outer wall heights of 3m and an apex height of 4,5m. Although they are very well constructed, structurally speaking, they are covered by inappropriate coverings and possess virtually no climate control. To cool the inside area, the sides are opened, which make them inappropriate for keeping out pollen and vectors. This will again produce seeded flowers, which is, as mentioned above, low in demand and of little value.
- 2.1.3. The irrigation system is also substandard in that the fertilising is not accurately being applied through the water and is completely inappropriate to conduct a proper hydroponic production system.
- 2.1.4. The production team converted some of the in-door drying facilities to production facilities. This might work well, but the area is too small to generate sufficient revenue for a profitable business. It can be regarded as a research and development project.
- 2.1.5. The salary bill was significantly reduced by retrenching staff, and implementing salary cuts for the remaining staff.
- 2.1.6. Bophelo's financial department, in conjunction with the production team, supplied us with a budget for the next 12 months. According to such budget, the income from the cannabis to be produced will be sufficient to cover the operational and overhead costs. This means that the current operations should not deplete the cash reserves in the estate.
- 2.1.7. We also investigated the possibility to upgrade the production facilities at Bophelo. After various discussions with the production and

infrastructure managers on site, and with the input of engineers and consultants, we tabled a proposal which, in summary, entails the following:

- A complete overhaul and retrofit of the covering materials on all ten hoop-house structures to optimise the available sunlight and save on energy costs.
- A completely new computer controlled, automated irrigation/fertigation system that matches up with the pot growing system. This system will give greater control over the quantities of water and fertilisers given to the plants in different growth stages and in different houses. This system will be able to generate reports and trigger alarms that can be used by management.
- Additional automated climate control in each hoop house, consisting of wet-walls, extraction fans, circulation fans, space heaters and dehumidifiers. The parameters of the climate will be set by the grower and the variables manually by cultivation staff.
- The result will be 10 fully functional greenhouses with a combined area of 4500m².
- The estimated cost for the upgrade of the infrastructure is M3 298 784.
- A detailed breakdown and project plan of this upgrade is available on request.

2.1.8. The above-mentioned upgrade and retrofit will indeed increase the production capacity in a cost-effective manner, but we identified that it has the following flaws and/or risks:

- It is still not certain whether the upgraded greenhouses will produce the high quality cannabis, with the required consistency level of THC and CBD, as required for medical and pharmaceutical markets.
- The remaining facilities surrounding the greenhouses, where drying, processing and packaging of produce will be done, are still not on standard for Good Agricultural and Collection Practices ("GACP") and GMP approval.

- Therefore, although the upgrade will be a huge improvement, it may still be insufficient to meet the requirements for medicinal cannabis, and even further upgrades will be required.

2.2. Proposal and action going forward

- 2.2.1. We do not intend to proceed with the upgrade as described in paragraph 2.1.7 above. (This can be reconsidered if we receive specific instructions and financial support from a creditor to do this upgrade).
- 2.2.2. Currently the production team is doing their best with the available infrastructure. The mother plants are healthy and are vegetatively reproduced for production, which will be cultivated in 4 hoop-houses.
- 2.2.3. Because the hoop-houses are not enclosed we need to protect the plants from pollination. This is done by scouting the surrounding areas and removing all male plants.
- 2.2.4. We are alive to the fact that the current method of production will not meet the required high-quality standards and generate the high level of profits once envisioned for Bophelo. However, keeping the facility in production has some benefits, which include:
 - Generating some income to partially cover operational costs;
 - Caring for mother plants and preserving the genetic material;
 - Providing employment to key employees;
 - Ensuring the business will remain a running concern, which should be worth more than a dormant operation when sold;
- 2.2.5. In order to further save costs, we intend to reduce the staff component even further. Detail is available on request.

2.3. Instruction and/or consent from Creditors

- 2.3.1. If you do not agree with any of the findings in paragraph 2.1, and/or any of the proposals set out in paragraph 2.2, we request that you inform us, in writing, as soon as possible, but not later than 29 November 2022.

3. Additional Greenhouses

3.1. Key findings

- 3.1.1. Bophelo's historical plans had been to erect further greenhouses for production.
- 3.1.2. An "A-Frame Retractable Roof Greenhouse" ("Cravo Greenhouse") was purchased from Cravo Equipment Ltd, which is based in Canada. The Cravo Greenhouse was imported from Canada and the parts are currently stored on site at Bophelo.
- 3.1.3. Vegtech Netafim (Pty) Ltd ("Vegtech") is a South African based company, which was appointed to erect the Cravo Greenhouse, and also to design, supply and construction a new force-ventilated greenhouse, which was to be used as a nursery.
- 3.1.4. Vegtech quoted USD 1 591 648 for the total project. An advance payment amounting to USD 548 007.95 was paid to Vegtech on 1 June 2022.
- 3.1.5. The problem is that the Cravo Greenhouse uses a retractable roofing system, which is inappropriate for keeping out pollen and vectors. Another problem is the high cost of construction and commissioning of the Cravo system.
- 3.1.6. We received an offer from Budbrothers (Pty) Ltd to purchase the Cravo Greenhouse, from Bophelo, for USD 300 000 (ex-works Bophelo), converted at predetermined exchange rate of LSL17,14 = LSL 5 140 000. A referral commission of 5% is payable by the seller. The offer expires on 30 November 2022.
- 3.1.7. The cost per square meter of the proposed Vegtech greenhouses are very expensive. In addition to that, we also face the problem as highlighted in paragraph 2.1.8.

3.2. Proposals

- 3.2.1. We propose that Bophelo does not proceed to erect the Cravo Greenhouse and Vegtech greenhouses.
- 3.2.2. The agreement with Vegtech will be cancelled and monies paid to Vegtech will be claimed back.
- 3.2.3. The components of the Cravo Greenhouse will be sold. If no other, higher offer is received by 30 November 2022, the offer from Budbrothers (Pty) Ltd will be accepted.

3.3. Instruction and/or consent from Creditors

- 3.3.1. If you do not agree with any of the findings in paragraph 3.1, and/or any of the proposals set out in paragraph 3.2, we request that you inform us, in writing, as soon as possible, but not later than 25 November 2022.
- 3.3.2. If you want to make an offer, or know of any other person who would be interested in offering more than \$300 000 for the Cravo Greenhouse, we request that you inform us as soon as possible.

4. Sale of assets and/or business

4.1. Key findings

- 4.1.1. The movable assets were valued by an independent valuer. The market value of the movable assets, excluding the Cravo Greenhouse, amounts to LSL 2 137 730.
- 4.1.2. In Bophelo's financial statements of 30 September 2021, the intangibles assets were valued at USD 264 188. The intangible assets refer to a cannabis operator's license, issued by the Ministry of Health, and which is valid for 10 years. At current exchange rates it amounts to LSL 4 541 043.(This value is being investigated)

Asset Values

- Movables as per valuation – LSL 8 138 830 (Cravo Included)
- Debtors (VegTech deposit) – LSL 9 329 856.26
- Cannabis license and other licenses (Value subject to determination)
- Inventory – LSL 7 038 600
- Stock (Autoflower seeds) – LSL 1 833 980
- Leasehold improvements – (Value subject determination)

4.2. Proposal

- 4.2.1. We will look for buyers to buy the business as a running concern. The purchase price aimed for must at least be equal or higher than the sum of the individual assets.

4.3. Instruction and/or consent from Creditors

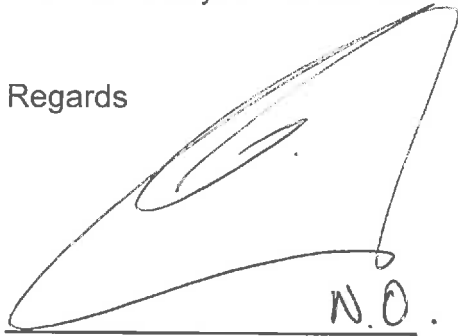
- 4.3.1. If any creditor wishes to make an offer, or can introduce us to someone who will be interested in making an offer for the business, we request that you inform us as soon as possible.

4.4. Rental

- 4.4.1 Bophelo currently operates from a site in Tsa Kholo , Lesotho which was subject to a rental agreement with Mophuti Matsoso Development trust . The monthly rental pre-liquidation was an amount of M350 000.00 . The liquidators are in the process of negotiating a monthly rental with the current landlord.

We trust that you find the above in order and await your feedback.

Regards

A handwritten signature in black ink, appearing to be 'N.O.', written over a horizontal line.

Chavonnes Badenhorst St Clair Cooper