

**IN THE COURT OF QUEEN'S BENCH OF ALBERTA
IN BANKRUPTCY AND INSOLVENCY**

**IN THE MATTER OF THE BANKRUPTCY OF
DESTINY ORGANICS INC.**

TRUSTEE'S REPORT TO CREDITORS

January 18, 2021

BACKGROUND AND INSOLVENCY EVENTS

Destiny Organics Inc. (the "**Company**" or "**Organics**") produced custom blend organic soils, fertilizers, grow media and nutrients. The Company was incorporated in Alberta on March 6, 2019 and the Company's sole director is Mr. Ed Moroz. Organics operated out of a building located at 904, 9th Avenue, Nisku, Alberta (the "**Organics Premises**") leased by their parent company Destiny Bioscience Global Corp. ("**Bioscience**"). Organics is a wholly owned subsidiary of Destiny Biotech Inc. ("**Biotech**"), and Biotech is a wholly owned subsidiary of Bioscience.

Pursuant to an Order of the Court of Queen's Bench of Alberta, granted May 22, 2020, The Bowra Group Inc. was appointed as receiver manager (the "**Receiver**") of Bioscience and Biotech. Although Organics was not subject to these proceedings, due to the interdependent nature of the companies, Organics's operations were significantly impacted. We understand Organics generally ceased operations on or about the end of May 2020.

On June 1, 2020, Organics executed a transfer and assignment agreement whereby all raw materials and inventory of soil, worms and fertilizer owned by the Company (the "**Inventory**") were transferred to 2247747 Alberta Ltd. ("**224**") for consideration of \$10.00. 224 entered into a temporary lease agreement (the "**Temporary Lease**") with the Receiver for the Organics Premises on a month-to-month basis. On September 8, 2020, the Receiver terminated the Temporary Lease as a result of 224's various defaults under the terms of the Temporary Lease.

224 vacated the Organics Premises and the Inventory was seized by the Receiver pursuant to the terms of the Temporary Lease.

On January 4, 2021, the Company made an assignment into Bankruptcy. The Bowra Group Inc. consented to act as Licensed Insolvency Trustee (the “Trustee”).

FINANCIAL SITUATION

As the Company was only incorporated in March of 2019, we understand annual financial statements have not been prepared. The Trustee has obtained a backup copy of the Company’s accounting software, including a general ledger and accounts receivable records.

CONSERVATORY AND PROTECTIVE MEASURES

We understand the Company generally ceased operations in May 2020 and all employees were terminated prior to the date of the Bankruptcy. There are no outstanding salaries, wages, vacation pay, or severance amounts owed to employees. 2020 T4s and final ROEs have been prepared by the Company and provided to all previous employees.

We understand from management of the Company that Organics did not maintain a separate bank account and operated through Bioscience’s accounts. Due to the Receivership, the accounts were closed prior to the date of Bankruptcy. Out of an abundance of caution, the Trustee has sent correspondence to ATB Financial and BMO Bank of Montreal to confirm there were no other accounts held by Organics.

As noted previously, the Company vacated the Organics Premises prior to the date of Bankruptcy and the Inventory was transferred to 224 and subsequently seized by the Receiver. Accordingly, the Trustee is not aware of any further assets of the Company that would be available to the bankrupt estate.

BOOKS AND RECORDS

The Trustee has taken possession of certain books and records of the Company including payroll records, bank statements of related companies, accounts receivable and general ledgers.

SECURED CREDITORS

Table 1 provides a listing of the secured claims, according to the Personal Property Registry, that may have a priority over the claims of unsecured creditors.

Creditor	Assets Secured	Estimated Claim
Bank of Montreal	General Security Agreement - all present and after-acquired property	Unknown
Synergy Projects (Destiny) Ltd.	General Security Agreement - all present and after-acquired property	Unknown

BMO and Synergy Projects (Destiny) Ltd. ("**Synergy**") hold registered general security agreements granting them a priority charge over all the assets and after acquired property of the Company. As of the date of this report, the Trustee has not received a secured claim from BMO or Synergy and, as such, the amount of their claims, if any, is unknown.

It is not known if there are any amounts owing to Canada Revenue Agency ("**CRA**") for payroll source deductions. Any amounts owing to CRA would be considered a deemed trust claim which ranks ahead of all creditors. The Trustee will coordinate a trust audit with CRA if deemed necessary.

UNSECURED CREDITORS

Base on the Company's books and records we are aware of 50 unsecured creditors owed approximately \$648,000. Table 2 provides a listing of the major unsecured creditors.

Creditor	Table 2 Estimated Claim (\$000's)
Protocol Mechanical Inc.	135
Dongguan Rongzhong Plastic Tech.	111
Brownie's Up 5 Welding Ltd.	99
Kingsmen Electric Corp.	61
C.H. Robinson Companay Ltd.	45

We understand from the books and records of the Company CRA is owed approximately \$2,000 in GST arrears. CRA has not filed a proof of claim as of the date of this report and as such the amount of their current claim is unknown. CRA's claim for unpaid GST will rank as an unsecured claim in the bankruptcy.

IDENTIFICATION AND VALUATION OF ASSETS

According to the books and records of the Company, the total outstanding receivable balance at the date of bankruptcy was approximately \$112,000. The Trustee has sent demand letters to all customers with outstanding amounts. However, it is not known if any of the amounts are collectible.

As noted previously, the Company's Inventory was transferred and subsequently seized by the Receiver. We understand from discussions with the Company, there are no other assets.

Based on the foregoing, and the claims of the secured creditors, we estimate there will be no recovery to the unsecured creditors. Any recovery to the priority or secured creditors is dependant on the collection of accounts receivable.

LEGAL ACTIONS

The Trustee is aware of the following legal actions;

Kingsmen Electric Corporation has filed a Statement of Claim in the Court of Queen's Bench of Alberta against the Company in the amount of \$67,961.39 for non-payment of amounts owing. As a result of the bankruptcy, the action against the Company is stayed and Kingsmen Electric Corporation would have an unsecured claim in the bankruptcy.

BMO has filed a Statement of Claim in the Court of Queen's Bench of Alberta against the Company and its director, Mr. Ed Moroz in the amount of \$86,920.13 for non-payment of amounts owing. As a result of the bankruptcy, the action against the Company is stayed.

REVIEW OF RECORDS & CONDUCT OF THE DEBTOR

The Trustee has reviewed the books and records of the Company that were made available, including bank statements for the period of February 2020 to May 2020. Due to the sharing of bank accounts and comingling of funds, it is difficult to identify which transactions belong to Organics. The Trustee will seek instructions from the Inspectors and / or creditors regarding further analysis of bank statements, if deemed necessary.

As previously noted, the Company transferred its Inventory to 224 on June 1, 2020 prior to the date of Bankruptcy for total consideration of \$10. This could be regarded as a transfer undervalue in accordance with the *Bankruptcy and Insolvency Act*. The Trustee will seek instructions from the Inspectors and / or the creditors of the bankrupt Estate regarding further review of the transaction, if deemed necessary.

CONCLUSION

We do not expect there to be any recovery for the unsecured creditors. Any recovery to the priority or secured creditors is dependant on the collection of accounts receivable.

The Bowra Group Inc.

Licensed Insolvency Trustee of Destiny Organics Inc.

Per:



Kristin Gray, CPA, CA, CIRP, LIT