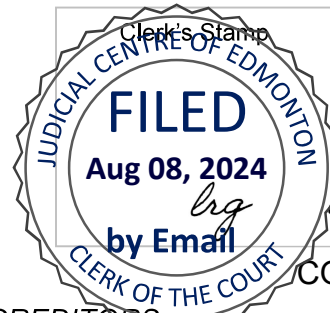


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COURT OF KING'S BENCH OF ALBERTA
EDMONTON



IN THE MATTER OF THE COMPANIES' CREDITORS
ARRANGEMENT ACT, R.S.C. 1985, c. C-36, as amended

INV E80457

AND IN THE MATTER OF A PLAN OF COMPROMISE OR
ARRANGEMENT OF FREEDOM CANNABIS INC.

APPLICANT:

FREEDOM CANNABIS INC.

DOCUMENT

APPLICATION

ADDRESS FOR SERVICE
AND CONTACT
INFORMATION OF
PARTY FILING THIS
DOCUMENT

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File No.: 23279/AMP

NOTICE TO RESPONDENTS: See attached service list at Schedule "A"

This application is made against you. You are a respondent. You have the right to state your side of this matter before the Court.

To do so, you must be in Court when the application is heard as shown below:

Date: **August 8, 2024**
Time: **10:00 AM**
Where: **Edmonton Law Courts, via Webex**
Before Whom: **The Honourable Justice Lema**

Go to the end of this document to see what else you can do and when you must do it.

Basis for this Claim:

I. REMEDY CLAIMED OR SOUGHT:

1. The Applicant, Freedom Cannabis Inc. (the “**Applicant**” or “**Freedom**”) and its non-Applicant related parties, 2563138 Alberta Ltd. (“**256 Ltd.**”) and 2399751 Alberta Ltd. (“**239 Ltd.**”, together with 256 Ltd., the “**Non-Applicant Stay Parties**” and collectively with Freedom Cannabis Inc. the “**Freedom Group**”), seeks an initial order (the “**Initial Order**”) and related relief under the *Companies’ Creditors Arrangement Act*, RSC 1985, c C-36, as amended (the “**CCAA**”), substantially in the form attached hereto as **Schedule “B”**, granting the following:
 - a. abridging the time for the service of this Application and its supporting materials, and dispensing with further service thereof;
 - b. declaring that the Applicant is a company to which the CCAA applies;
 - c. appointing KPMG Inc. (“**KPMG**” or the “**Proposed Monitor**”) CCAA monitor of the Applicant, and directing and authorizing it to, inter alia, monitor the assets, business, and affairs of the Applicant (once appointed in such capacity, the “**Monitor**”);
 - d. staying, for an initial period of not more than ten (10) days, all proceedings and remedies taken or that might be taken in respect of the Applicant, the Monitor, the Applicant’s Directors and Officers (as defined below), or affecting the Applicant’s business or the Property (as defined below), except as otherwise set forth in the Initial Order or as otherwise permitted by law (the “**Stay of Proceedings**”);
 - e. extending the benefit of the Stay of Proceedings and other aspects of the Initial Order to the Non-Applicant Stay Parties (as defined below) and their respective Directors and Officers;

- f. approving the Applicant's ability to borrow under a debtor-in-possession ("**DIP**") facility term sheet (the "**DIP Loan**") to finance the Applicant's working capital requirements and other general corporate purposes, post-filing expenses and costs;
- g. granting a Court ordered charge (the "**DIP Lender's Charge**") in favour of JL Legacy Ltd. ("**JLL**") in its capacity as debtor-in-possession financing lender (the "**DIP Lender**") to secure all obligations outstanding under the DIP facility term sheet;
- h. granting limited priority charges (collectively, the "**Charges**") over the Applicant's current and future assets, undertakings and properties of every nature and kind whatsoever, and wherever situate, including all proceeds thereof (collectively, the "**Property**"), as set out herein;
- i. authorizing the Applicant to (i) make payment to certain suppliers who are critical to the business and operations of the Applicant for pre-filing expenses, or to (ii) honour cheques issued to providers of goods and services prior to the Initial Order, in each case with the consent of the Monitor and JLL, and in accordance with the terms of the Cash Flow Forecast (as defined below) which are necessary to facilitate the Applicant's ongoing operations and to preserve value during the CCAA proceedings, up to a maximum aggregate amount of \$1,500,000;
- j. ordering that the status quo in respect of Freedom's Health Canada and cannabis excise license shall be preserved and maintained during the pendency of the Stay of Proceedings and to the extent any such licenses may expire during the Stay of Proceedings, the terms of such licenses shall be deemed to be extended by a period equal to the Stay of Proceedings; and
- k. authorizing the Freedom Group to continue to use the Cash Management System (as defined below).

2. By August 16, 2024, or such earlier date as ordered by the Court Freedom will be seeking the following relief (the “**Comeback Application**”):
 - a. extend the Stay of Proceedings;
 - b. increase the quantum of the Charges and increase the priming of the Charges (to rank ahead of encumbrances in favour of any person that was not served with the notice of this application); and
 - c. such other relief as may be appropriate.
3. All capitalized terms not otherwise defined herein shall have the meaning ascribed to them in the Affidavit of JohnFrank Potestio sworn on August 6, 2024 (the “**Potestio Affidavit**”).

II. **GROUND FOR MAKING THIS APPLICATION:**

4. Freedom brings this Application on an urgent basis for protection under the CCAA as a result of its default under certain material operating agreements including its secured loans with JLL and is facing a severe liquidity crisis, and in order to preserve the significant value associated with Freedom’s operation on a going-concern basis.
5. In addition, Freedom is facing an immediate risk of the Canada Revenue Agency (“**CRA**”) not renewing its excise license under the *Excise Act* and/or taking enforcement steps which could result in the cessation of the operations of the Freedom Group.
6. Freedom is insolvent on a cash flow and balance sheet basis. It faces an unsustainable liquidity crisis and increased pressure from the CRA and are in urgent need of relief under the CCAA.

Background and Parties

7. Freedom is a privately owned licensed producer of cannabis products that carries on a multi-faceted business in the Canadian cannabis industry. Freedom has been operating in the Canadian legal cannabis sector since 2017.

8. Freedom holds cannabis licenses under the *Cannabis Act*, S.C. 2018, c. 16 (the “**Cannabis Act**”) and is regulated by Health Canada. Freedom also holds a cannabis excise license issued by CRA under the *Excise Act*, 2001, SC 2002, c 22 (“**Excise Act**”).
9. 256 Ltd. and 239 Ltd. are related to Freedom which are not Applicants in these CCAA proceedings. Freedom owns the majority of the issued and outstanding shares of the Non-Applicant Stay Parties.
10. 256 Ltd. is a privately owned corporation in the business of developing, manufacturing, marketing and selling cosmetics and other products, including cannabis-related and cannabinoid-infused products.
11. 239 Ltd. is a privately owned corporation that provides cannabis extraction services, and it produces and sells certain cannabis-related products under a license granted to Freedom by Health Canada.

Operations and Locations

12. Freedom’s head office and licensed manufacturing facility are located in Acheson, Alberta. Under the licenses held by Freedom, Freedom offers products to the legal cannabis market in Canada, and it offers products to the medical cannabis markets internationally under a Health Canada license. Freedom currently has several export agreements with international buyers of its products, particularly in emerging markets.
13. 256 Ltd. operates from Freedom’s licensed facility in Acheson, Alberta, by licensing approximately 2,000 square feet of space from Freedom for the purposes of developing cannabinoid-infused topical products.
14. 239 Ltd. operates from Freedom’s licensed facility in Acheson, Alberta, by licensing approximately 2,000 square feet of space for the purposes of producing hydrocarbon extracts used for various cannabis products.
15. Freedom has approximately 97 employees employed at the Acheson Facility.

Liquidity Crisis and Challenges

16. Recently Freedom has suffered significant financial loss as a result of a variety of factors, which generally include:

- a. the cannabis industry is highly regulated, and is experiencing rapid change amid a heavily saturated market;
- b. a complex and administrative-heavy regulatory and licensing regime, alongside competition from the illicit market, has caused significant uncertainty in the industry space;
- c. an increased taxation burden from excise duties, as well as the need for remitting same in advance of collection of related receivables, has detrimentally impacted growth potential within the sector; and
- d. the challenging conditions in the cannabis industry have negatively affected the ability of cannabis companies to obtain investment or financing for operations and capital expenditures.

Loan and Security Documents

Secured Debts

17. JLL is the senior secured creditors of Freedom and is owed approximately \$17,281,279 secured by, among other things, a general security agreement granted by Freedom.

18. In addition, Freedom has indebtedness owing to convertible debenture-holders in the approximate amount of \$1.5 million, loans made by JohnFrank Potestio and Julie Potestio in the approximate amount of \$3.88 million, and to trade creditors and the Acheson Landlord in the aggregate amount of \$4.33 million.

Crown Obligations

19. As of July 31, 2024, Freedom owed approximately \$10,000 to CRA in respect of outstanding GST obligations.
20. As of August 3, 2024, Freedom's excise duty liabilities total approximately \$9,488,016 (the "**Excise Tax Arrears**"). Those Excise Tax Arrears have accrued since May 2019 through to present and has resulted in enforcement actions taken by CRA including seizure of funds, garnishment of Freedom's bank account and the issuance of requirements to pay.
21. Freedom's license pursuant to the Excise Act current expires on August 10, 2024. Unless this license is renewed, Freedom will be unable to operate its business to the material detriment of its stakeholders.

III. NECESSITY OF CCAA RELIEF:

22. Freedom is currently in the midst of a liquidity crisis, primarily due to the high excise duty rates imposed by the federal and provincial governments in Canada. Payments under the Excise Tax Arrears are contributing to the substantial pressure on Freedom's cash flows. At this time, Freedom does not generate sufficient revenue to pay the Excise Tax Arrears in full.
23. Freedom requires the stability of the stay of proceedings and access to interim financing in order to maximize value for its stakeholders through a sale and investment solicitation process.
24. Freedom relies on:
 - a. The grounds set out in the Affidavit of JohnFrank Potestio, sworn August 6, 2024;
 - b. The provisions of the CCAA and the equitable jurisdiction of this Court; and
 - c. Such further and other grounds as counsel for Freedom may advise and this Honourable Court may permit.

IV. MATERIAL OR EVIDENCE TO BE RELIED UPON;

- 25. The Affidavit of JohnFrank Potestio sworn August 6, 2024, filed herewith;
- 26. The Brief of Law and Book of Authorities of Freedom, filed herewith;
- 27. The Pre-Filing Report of the Proposed Monitor, KPMG Inc., to be filed;
- 28. The consent of KPMG Inc. to act as Monitor to Freedom; and
- 29. Such further and other materials as counsel for the Proposed Monitor or Freedom as may advise and this Honourable Court may permit.

V. APPLICABLE RULES:

- 30. Part 6, Division 1 of the Alberta Rules of Court, Alta Reg 124/2010.

VI. APPLICABLE ACTS AND REGULATIONS:

- 31. The *Companies' Creditors Arrangement Act*, RSC 1985, c. C-36; and
- 32. Such further and other Acts or regulations as counsel may advise and this Honourable Court may permit.

VII. ANY IRREGULARITY COMPLAINED OF OR OBJECTION TO BE RELIED ON:

- 33. None.

VIII. HOW THE APPLICATION IS PROPOSED TO BE HEARD OR CONSIDERED:

- 34. By videoconference before the Honourable Justice ●, pursuant to the details enclosed hereto at **Schedule "A"**.