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COURT

COURT OF KING'S BENCH OF ALBERTA

JUDICIAL CENTRE

EDMONTON

APPLICANTS

IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*, RSC 1985, c C-36, AS AMENDED

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

DOCUMENT

SECOND REPORT OF THE MONITOR

SEPTEMBER 11, 2024

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**APPENDIX “A” – CASH FLOW FORECAST FOR THE PERIOD FROM AUGUST 5, 2024
TO NOVEMBER 3, 2024**

I. INTRODUCTION

1. On August 8, 2024 (the “**Filing Date**”), Court of the King’s Bench of Alberta (the “**Court**”) granted an order (the “**Initial Order**”) granting Freedom Cannabis Inc. (“**Freedom**” or the “**Applicant**”) protection pursuant to the *Companies’ Creditors Arrangement Act* (the “**CCAA**”) and appointing KPMG Inc. (“**KPMG**”) as Monitor of the Applicant in the CCAA proceedings (in such capacity, the “**Monitor**”). Among other things, the Initial Order granted: (a) a stay of proceedings in respect of the Applicant, and certain subsidiaries of the Applicant and their respective directors and officers, until and including August 18, 2024 (the “**Stay Period**”), and (b) various charges in the CCAA proceedings, including an Administration Charge, a Directors’ Charge, and a DIP Lender’s Charge (collectively, the “**Charges**”).
2. On August 15, 2024, the Court issued an Amended and Restated Initial Order (the “**ARIO**”) that, among other things:
 - (a) increased the quantum of the Administration Charge to \$0.5 million;
 - (b) increased the quantum of the Directors’ Charge to \$1.5 million;
 - (c) increased the quantum of DIP Lender’s Charge to the maximum principal amount of \$1.5 million plus interest, fees, and expenses; and
 - (d) extended the Stay Period established by the Initial Order until and including September 18, 2024.
3. To date, KPMG, first in its capacity as Proposed Monitor, and then its capacity as Monitor, has provided this Court with two reports, dated August 6, 2024 (the “**Pre-Filing Report**”) and August 13, 2024 (the “**First Report**”) respectively. The Pre-Filing Report and the First Report contain information on, *inter alia*, background information in respect of the Applicant, an overview of the Applicant’s 13-week cash-flow forecast, the terms of the DIP Term Sheet, the Charges, and the Monitor’s associated conclusions.
4. Copies of materials and documents filed in connection with these CCAA proceedings are available on the Monitor’s website at <https://kpmg.com/ca/freedom> (the “**Case Website**”).

In addition, KPMG has arranged for a toll-free hotline (1-833-668-2933) and an email address freedom@kpmg.ca through which creditors of the Applicant or other interested parties can make inquiries related to the CCAA proceedings.

II. PURPOSE OF REPORT

5. The purpose of this report (the “**Second Report**”) is to provide the Court with information pertaining to:
 - (a) an overview of the activities of the Applicant and the Monitor since the date of the First Report;
 - (b) the Applicants’ actual receipts and disbursements for the period from August 8, 2024 to September 8, 2024 (the “**Reporting Period**”); and
 - (c) the recommendation by the Monitor that this Court make an order (the “**Stay Extension Order**”), among other things, extending the Stay Period to and including October 18, 2024.

III. TERMS OF REFERENCE

6. In preparing the Second Report, KPMG has relied solely on information and documents provided to it by the Applicant and its respective advisors, including unaudited, draft and/or internal financial information, financial projections prepared by the Applicant, discussions with management of the Applicant, and the affidavit of the Applicant’s executive (collectively, the “**Information**”). In accordance with industry practice, except as otherwise described in the Second Report, KPMG has reviewed the Information for reasonableness, internal consistency, and use in the context in which it was provided. However, KPMG has not audited or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would comply with Generally Accepted Auditing Standards (“**GAAS**”) pursuant to the *Chartered Professional Accountant of Canada Handbook* and, as such, KPMG expresses no opinion or other form of assurance contemplated under GAAS in respect of the Information.

7. Capitalized terms used but not defined in the Second Report are defined in the Affidavit of Mr. JohnFrank Potestio sworn September 9, 2024 (the “**September 9 Potestio Affidavit**”), filed by the Applicant as part of its materials in support of the Stay Extension Order. The Second Report should be read in conjunction with the September 9 Potestio Affidavit as certain information contained in the September 9 Potestio Affidavit has not been included herein in order to avoid unnecessary duplication.
8. Unless otherwise stated, all monetary amounts noted herein are expressed in Canadian dollars.

IV. ACTIVITIES OF THE APPLICANT

9. Since the date of the First Report, the Applicant, with the assistance of the Monitor, has been managing its operations in the normal course and working to stabilize the business as a result of the CCAA proceedings.
10. As outlined in the September 9 Potestio Affidavit, the activities of the Applicant have included:
 - (a) communicating with, providing information to, and answering questions of, creditors, employees, and other stakeholders regarding the CCAA proceedings;
 - (b) managing key relationships with customers and suppliers, and operating the business in accordance with the terms of the ARIO;
 - (c) working with and corresponding regularly with representatives of the Monitor regarding numerous matters in the CCAA proceedings, including the management of the Applicant’s cash flow;
 - (d) continuing discussions with the DIP Lender, in consultation with the Monitor, towards finalizing the terms of a Stalking Horse Agreement for the sale of the Applicant as a going concern;
 - (e) engaging in discussions with the Monitor and DIP Lender regarding the development of a sale and investment solicitation process (“**SISP**”); and

- (f) engaging in discussions with the DIP Lender in respect of Freedom's business and next steps in the CCAA proceedings.

V. ACTIVITIES OF THE MONITOR

11. Since the date of the First Report, the Monitor's activities have included:

- (a) maintaining the Case Website where all Court documents and other material documents pertaining to the CCAA proceedings are available in electronic form;
- (b) monitoring the Applicant's cash flows and allowing for payments in accordance with the terms of the ARIO;
- (c) corresponding regularly with the DIP Lender with respect to the Applicant's actual results as compared to the cash flow forecast included in the DIP Term Sheet;
- (d) assisting the Applicant with its communications with stakeholders, including vendors and key partners;
- (e) participating in discussions and negotiations on the terms of the Stalking Horse Agreement and the SISP with the DIP Lender and its legal counsel, and the Applicant and its legal counsels;
- (f) engaging with the Monitor's legal counsel, Blake, Cassels & Graydon LLP ("**Blakes**") regarding matters related to the CCAA proceedings, including the review of the pre-filing security of JL Legacy Inc.;
- (g) attending before the Court for the ARIO;
- (h) reviewing materials filed by the Applicant in connection with the Stay Extension hearing; and
- (i) preparing this Second Report.

VI. RECEIPTS AND DISBURSMENTS FOR WEEK ENDING SEPTEMBER 8, 2024

12. A copy of the Applicant's cash flow forecast (the "**Cash Flow Forecast**") for the period from August 5, 2024 to November 3, 2024 (the "**Forecast Period**"), including accompanying notes and a report containing prescribed representations regarding the preparation of the Cash Flow Forecast, was included with the Pre-Filing Report. A copy of the Cash Flow Forecast is attached hereto for ease of reference as **Appendix "A"**.
13. As noted in the First Report, the Monitor has implemented procedures for monitoring the Applicant's receipts and disbursements on a weekly basis, including a review of forecast to actual variance analyses.
14. Set out below is a summary of the Applicant's actual to forecast results for the Reporting Period:

Freedom Cannabis Inc. 5-Week Cash Flow through to September 8, 2024 In C\$; unaudited			
	5-Week Forecast	5-Week Actuals	Variance
Receipts			
Accounts Receivable	2,824,299	3,282,280	457,981
Total Receipts	2,824,299	3,282,280	457,981
Disbursements			
COGS	1,691,294	1,632,657	58,637
Salary & Wages	544,025	356,731	187,294
Professional Fees	509,078	17,962	491,116
Rent	174,194	-	174,194
Operating Expenses	338,901	149,035	189,866
Excise Tax	-	-	-
Sales Tax	211,104	-	211,104
DIP Commitment Fee	-	-	-
Total Disbursements	3,468,597	2,156,385	1,312,211
Net Operating Cash Flow	(644,297)	1,125,895	1,770,192
Opening Cash	-	-	-
Net Cash Flow	(644,297)	1,125,895	1,770,192
DIP funding	1,500,000	-	(1,500,000)
Ending Cash	855,703	1,125,895	270,192

15. Total receipts for the period were approximately \$3.3 million from accounts receivable (as compared to a forecast of \$2.8 million) and the Applicant made payments totalling approximately \$2.2 million (as compared to a forecast of \$3.5 million), for net cash flow of \$1.1 million (as compared to a forecast cash outflow of negative \$0.65 million). In accordance with the ARIO, and in consultation with the Monitor and DIP Lender, the Applicants made payments totalling approximately \$0.15 million to certain suppliers on account of pre-filing amounts which are critical to the Applicant's business and operations continuing as a going concern.
16. As a result of this positive variance, the Applicant did not require any advances under the DIP Facility during the Reporting Period. However, the Applicant attributes the majority of this positive variance to be related to timing (excluding the payroll amounts that were funded prior to filing in the normal course), which will reverse in subsequent weeks, and as a result there will be a need for an advance under the DIP Facility in the coming weeks.
17. The Cash Flow Forecast projects borrowings under the DIP Facility in the amount of \$1.5 million over the Forecast Period. These amounts may differ due to the timing of receipts and disbursements over the Forecast Period.
18. With access to the DIP Facility, the Applicant will have sufficient funding during the Forecast Period to ensure continued operations during the CCAA proceedings.

VII. STAY EXTENSION

19. The current Stay Period expires on September 18, 2024. The Applicant is seeking an extension of the Stay Period to October 18, 2024.
20. The Monitor supports the Applicant's request for an extension of the Stay Period to October 18, 2024 for the following reasons:
 - (a) the Applicant is acting in good faith and with due diligence;
 - (b) the extension of the Stay Period will provide the Applicant and the Monitor with additional time to formulate and thereafter seek approval for a SISP with a view to maximizing creditor and stakeholder recoveries;

- (c) the extension of the Stay Period will provide the Applicant and the DIP Lender with additional time to finalize the particulars of the Stalking Horse Agreement; and
- (d) granting an extension of the Stay Period should not materially prejudice any creditor of the Applicant as the Cash Flow Forecast reflects that the Applicant is projected to have sufficient funding to continue to operate in the normal course through the proposed stay extension period.

VIII. CONCLUSIONS AND RECOMMENDATIONS

- 21. For the reasons set out in the Second Report, the Monitor is of the view that the relief requested by the Applicant is both appropriate and reasonable in the circumstances. The Monitor is also of the view that the Applicant is acting in good faith and with due diligence. Granting the relief sought by the Applicant will provide Freedom with additional time to formulate the contemplated SISP and Stalking Horse Agreement with a view to maximizing creditor and stakeholder recoveries.
- 22. Based on the foregoing, the Monitor respectfully recommends that this Court approve the relief sought by the Applicant in the proposed Stay Extension Order.

All of which is respectfully submitted this 11th day of September 2024.

KPMG Inc.
In its capacity as Monitor of
Freedom Cannabis Inc.
And not in its personal or corporate capacity

Per:



Pritesh Patel
CIRP, LIT
Senior Vice President



Tim Montgomery
CIRP, LIT
Vice President

Appendix “A”

COURT OF KING'S BENCH OF ALBERTA

**IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*,
R.S.C.1985, c. C-36, AS AMENDED**

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

(collectively the "Applicant" or the "Debtor")

MONITOR'S REPORT ON CASH FLOW STATEMENT
(paragraph 23(1)(b) of the CCAA)

The attached statement of projected cash flow of the Debtors prepared as of the 5th day of August 2024, consisting of the period from August 6, 2024 to November 3, 2024 (the "**Cash Flow Forecast**"), has been prepared by management of the Debtor, in consultation with the Monitor for the purpose described in Note 1, using the probable and hypothetical assumptions set out in the notes to the Cash Flow Forecast.

Our review and consultation consisted of inquiries, analytical procedures and discussions related to information supplied by management and employees of the Debtor. Since hypothetical assumptions need not be supported, our procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the Cash Flow Forecast. We have also reviewed the support provided by management for the probable assumptions and the preparation and presentation of the Cash Flow Forecast.

Based on our review, nothing has come to our attention that causes us to believe that, in all material respects:

- a) the hypothetical assumptions are not consistent with the purpose of the Cash Flow Forecast;
- b) as at the date of this report, the probable assumptions developed by management are not suitably supported and consistent with the plans of the Debtor or do not provide a reasonable basis for the Cash Flow Forecast, given the hypothetical assumptions; or
- c) the Cash Flow Forecast does not reflect the probable and hypothetical assumptions.

Since the Cash Flow Forecast is based on assumptions regarding future events, actual results will vary from the information presented even if the hypothetical assumptions occur, and the variations may be material. Accordingly, we express no assurance as to whether the Cash Flow Forecast will be achieved.

The Cash Flow Forecast has been prepared solely for the purpose described in the notes thereto and readers are cautioned that it may not be appropriate for other purposes.

Dated at Toronto, in the Province of Ontario, this 6th day of August 2024.

KPMG Inc.

In its capacity as Proposed Monitor of

Freedom Cannabis Inc.

And not in its personal or corporate capacity



Pritesh Patel, CIRP, LIT

Senior Vice President

COURT OF KING'S BENCH OF ALBERTA

**IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*,
R.S.C.1985, c. C-36, AS AMENDED**

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

(collectively the "Applicant" or the "Debtor")

MANAGEMENT'S REPORT ON CASH FLOW STATEMENT

(paragraph 10(2)(b) of the CCAA)

The management of the Debtor has developed the assumptions and prepared the attached statement of projected cash flow as of the 5th day of August 2024, consisting of the period from August 6, 2024, to November 3, 2024 (the '**Cash Flow Forecast**').

The hypothetical assumptions are reasonable and consistent with the purpose of the Cash Flow Forecast described in the notes therein, and the probable assumptions are suitably supported and consistent with the plans of the Debtor and provide a reasonable basis for the Cash Flow Forecast. All such assumptions are disclosed in the notes therein.

Since the Cash Flow Forecast is based on assumptions regarding future events, actual results will vary from the information presented, and the variations may be material.

The Cash Flow Forecast has been prepared solely for the purpose described in the notes therein, using the probable and hypothetical assumptions set out therein. Consequently, readers are cautioned that the Cash Flow Forecast may not be appropriate for other purposes.

Dated at Edmonton, in the Province of Alberta, this 6th day of August 2024.

Freedom Cannabis Inc.



John Frank Potestio
Chief Executive Officer

13-Week Cash Flow Forecast

Notes and Summary of Assumptions

In the matter of a Plan of Compromise or Arrangement of Freedom Cannabis Inc. (collectively the “Applicant” or the “Debtor”)

Disclaimer

Since the Cash Flow Forecast is based on assumptions about future events and conditions that are not ascertainable, the actual results achieved during the Cash Flow Forecast period will vary from the Cash Flow Forecast, even if the assumptions materialize, and such variations may be material. There is no representation, warranty, or other assurance that any of the estimates, forecasts or projections will be realized.

The Cash Flow Forecast is presented in Canadian dollars. All defined terms that are not otherwise defined herein are to have the same meaning ascribed to them in the report of the Proposed Monitor dated August 6, 2024.

Note 1 Purpose of the Cash Flow Forecast

The purpose of the Cash Flow Forecast is to present the estimated cash receipts and disbursements of the Applicants for the period from August 6, 2024 to November 3, 2024 (the “**Forecast Period**”). The Cash Flow Forecast has been prepared by the Applicant, in consultation with the Monitor. Readers are cautioned that this information may not be appropriate or relied upon for any other purpose.

Note 2 Accounts Receivable

Current accounts receivable is forecast to be collected based on the payment terms for individual customers.

Note 3 Sales

Sales are based on the Applicant’s latest sales forecast by customer and forecast to be collected based on the payment terms for individual customers.

Note 4 COGS

COGS include, but are not limited to, inventory purchases and production costs, including critical vendor payments. Supplier terms are assumed to be cash on delivery.

Note 5 Salary and Wages

Payroll expenses include salaries and wages and payroll taxes and remittances paid to the Applicants’ employees. Payroll expenses are forecasted based on current headcount levels and are paid bi-weekly.

Note 6 Professional Fees

Includes professional fees of the Monitor, counsel to the Monitor, and counsel to the Applicant in connection with the CCAA proceedings.

Note 7 Rent

Post filing rent at the Company's leased facility, including a pro-rated amount for August.

Note 8 Operating expenses

Operating expenses include post-filing amounts owing to Health Canada, insurance and utilities.

Note 9 Excise Taxes

Excise Taxes are accrued or collected amounts after the date of the Proposed Initial Order.

Note 10 Sales Taxes

Sales Taxes are accrued or collected amounts after the date of the Proposed Initial Order, or where such Sales Taxes were accrued or collected prior to date of the Proposed Initial Order but not required to be remitted until on or after the date of the Proposed Initial Order.

Note 11 DIP Financing

The Cash Flow Forecast reflects advances under the DIP Facility in the Forecast period of \$1.5 million. The interest rate on the principal outstanding amount of the DIP advances is 15% and is accrued. DIP fees assumed to paid in the Forecast Period are \$60,000 as per the terms of the DIP Term Sheet.

Freedom Cannabis Inc.

~~John Frank Potestio~~
~~Chief Executive Officer~~