

No. _____
Vancouver Registry

In the Supreme Court of British Columbia

IN BANKRUPTCY AND INSOLVENCY

IN THE MATTER OF THE *BANKRUPTCY AND INSOLVENCY ACT*,
R.S.C. 1985, C. B-3, AS AMENDED

AND

**IN THE MATTER OF THE NOTICE OF INTENTION TO MAKE A
PROPOSAL OF BC CRAFT SUPPLY CO. LTD.**

Petitioner

PETITION TO THE COURT

ON NOTICE TO: Secured creditor of the Petitioner, Avro Capital Corp.
 Proposed DIP lender, Avro Capital Corp.
 Proposal trustee, Crowe MacKay & Company Ltd.
 Director of Employment Standards of BC.

This proceeding is brought for the relief set out in Part 1 below, by

- the person named as petitioner in the style of proceedings above
- name(s) (the petitioner)

If you intend to respond to this petition, you or your lawyer must

- (a) file a response to petition in Form 67 in the above-named registry of this court
within the time for response to petition described below, and
- (b) serve on the petitioner
- (i) 2 copies of the filed response to petition, and

- (ii) 2 copies of each filed affidavit on which you intend to rely at the hearing.

Orders, including orders granting the relief claimed, may be made against you, without any further notice to you, if you fail to file the response to petition within the time for response.

TIME FOR RESPONSE TO PETITION

A response to petition must be filed and served on the petitioner,

- (a) if you were served with the petition anywhere in Canada, within 21 days after that service,
- (b) if you were served with the petition anywhere in the United States of America, within 35 days after that service,
- (c) if you were served with the petition anywhere else, within 49 days after that service, or
- (d) if the time for response has been set by order of the court, within that time.

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| 1. | The address of the registry is: | 800 Smithe Street Vancouver, BC V6Z 2E1 |
| 2. | The ADDRESS FOR SERVICE of the petitioner is: | Whitelaw Twining Law Corporation 2400 – 200 Granville Street Vancouver, BC V6C 1S4 Attention: Helen Sevenoaks & John Fiddick |
| | Fax number for service (if any) of the petitioner: | 604-682-5217 |
| | E-mail address for service (if any) of the petitioner: | jfiddick@wt.ca hsevenoaks@wt.ca |

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| 3. The name and office address of the petitioner's lawyer is: | Whitelaw Twining Law Corporation 2400 – 200 Granville Street Vancouver, BC V6C 1S4 Attention: John Fiddick & Helen Sevenoaks |
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CLAIM OF THE PETITIONER

Part 1: ORDERS SOUGHT

1. An order substantially in the form attached hereto as **Schedule "A"**, inter alia:
 - (a) abridging the time for service such that this Petition is returnable on January 26, 2022, and that service upon any interested party is dispensed with;
 - (b) authorizing and empowering BC Craft Supply Co. Ltd. (the "**Petitioner**" or "**BC Craft**") to obtain and borrow under an interim financing facility (the "**Interim Facility**") from Avro Capital Corp. (the "**Interim Lender**") to finance the continuation of its business, to meet its normal course obligations as they become due, provided that:
 - (i) borrowings under the interim facility shall not exceed \$415,000 unless permitted by further Order of this Court;
 - (ii) the interim facility shall be on the terms and subject to the conditions set forth in the debtor-in-possession term sheet between the Petitioner and the Interim Lender dated for reference January 20 2022 as of (the "**Commitment Letter**"), attached as Exhibit "M" to the Affidavit #1 of Matthew Watters, sworn January 25, 2022;
 - (c) granting in favor of the Interim Lender a priority charge over the assets of the Petitioner (the "**Interim Lender's Charge**") in the maximum amount \$415,000 (plus all interest, costs, disbursement and fees as provided in the Commitment

Letter), which will rank in priority to all other encumbrances on the assets, properties and undertakings of the Petitioner, other than the Administration Charge;

- (d) authorizing and empowering the Petitioner to pay Crowe Mackay & Company Ltd. (the “**Proposal Trustee**”), counsel to the Proposal Trustee, and counsel to the Petitioner, their reasonable fees and disbursements at their standard rates and charges as part of the costs of these proceedings; and
 - (e) granting in favor of the Proposal Trustee, counsel to the Proposal Trustee, and counsel to the Petitioner, a priority charge (the “**Administration Charge**”) over the assets, property and undertakings of the Petitioner, which charge shall not exceed an aggregate amount of \$200,000, as security for their respective fees and disbursements incurred, ranking in priority to all other encumbrances, including all other court-ordered charges such as the Interim Lender’s Charge.
2. Such further and other Orders as counsel may advise and this Honourable Court may deem just and proper under the circumstances.

Part 2: FACTUAL BASIS

The Petitioner

- 1. The Petitioner, BC Craft, is a company incorporated pursuant to the laws of British Columbia, with a registered and records office at Suite 810 – 789 West Pender Street, Vancouver, British Columbia.
- 2. BC Craft is a reporting issuer in British Columbia with its common shares listed on the Canadian Securities Exchange trading under symbol “CRFT”, the Frankfurt Stock Exchange trading under symbol “ZZD” and on OTC Markets under the symbol “CRFTF”.

3. The Petitioner has interests in its subsidiary companies, which it owns directly or indirectly: (a) Medcann Health Products Ltd. (“**Medcann**”), (b) Pasha Brands Holdings Ltd., (c) 1198937 BC Ltd., (d) Olympic View Botanicals Ltd., (e) Feelwell Brands Inc., (previously, Somo Industries Ltd.), (f) Ava Pathways Inc., (g) 1178558 B.C. Ltd., (h) 1200360 BC Ltd., and (i) Royal Green Acres Manufacturing Ltd.

The Petitioner’s Business and Operations

4. The Petitioner is a prohibition-era brand house rooted in British Columbia’s craft cannabis industry. It is engaged in diversified wellness advancing cannabinoid and psychedelic innovation and psychotherapy.
5. At this time, the Petitioner’s business and operations are only at the BC Craft level of the corporate structure. It is the only operating and revenue generating entity. All of the above noted subsidiaries are not operational (save and except that Medcann is the holder of the license described below) or akin to shell companies.
6. The Petitioner’s cash flow and ability to continue its business operations is dependent on its distribution agreement with 9869247 Canada Limited D.B.A Safari Flower Co. (“**Safari**”) (described in more detail below), access to funding through the capital markets and ability to enter into interim financing, all of which are described in more detail below.
7. Historically, the Petitioner’s primary source of funding has been private placements of equity, convertible unsecured debentures and promissory notes.
8. On around June 4, 2019, BC Craft acquired Medcann Health Products Ltd, its wholly-owned subsidiary. Medcann is a federally authorized licensed cultivator and processor of cannabis plants and seeds under the Canada Act (Canada) (issued by Health Canada on around March 15, 2019) enabling it to cultivate and process cannabis to provincially/territorially authorized distributors and/or retailers.
9. More recently, on around May 12, 2021, the Petitioner, through its wholly owned subsidiary Medcann, entered into an agreement with Safari, dated May 10, 2021 (the

“Safari Agreement”) to produce and distribute craft quality half gram pre-rolls under BC Craft’s Grizzlers brand, a legacy brand of pre-rolled craft cannabis, in both single and seven unit packs.

10. The Safari Agreement is for a two (2) year term. Safari is a privately held company in Ontario, federally authorized as a licensed cultivator, processor and seller of cannabis plants and seeds under the Canada Act (Canada). The licence, issued by Health Canada, enables Safari to process, cultivate and sell cannabis to provincially/territorially authorized distributors and/or retailers. Safari added sales activities to its license, through the “sales amendment” application process, enabling it to carry out sales. BC Craft’s license does not include the sales and has not completed the “sales amendment” application process.
11. The Safari Agreement and services provided by Safari are critical and integral to the Petitioner’s continued business operations. In order to generate revenue, the Petitioner is dependent on the uninterrupted supply of the services from Safari.
12. On around July 27, 2021, BC Craft announced its Alberta and Ontario launch of Grizzlers, in association with a company known as AHL0T. However, the association with AHL0T is being discontinued. BC Craft decided to bring the marketing efforts in-house to recapture the 10 % margin being paid to AHL0T.
13. Going forward, the Petitioner is focussed on growth initiatives, including the development of the Grizzlers branded products in association with Safari and plans to launch other brands in 2022.
14. At this time, the Petitioner has no employees. The management team are consultants.

Petitioner’s Assets

15. As at December 31, 2021, the assets of the Petitioner have a net book value of \$7,356,918 consisting of the following amounts:

Figure 1

| | |
|-------------------------------|---------------------|
| Accounts Receivable | \$47,364 |
| GST Receivable | \$1,700 |
| Intangible Assets, being | |
| (i) Cultivation License | \$6,836,752 |
| (ii) Interest in Subsidiaries | \$367,312 |
| | \$7,204,064 (total) |
| Due from Subsidiary | \$83,909 |
| Right of Use Asset | \$19,881 |
| Total Assets | \$7,356,918 |

16. The Petitioner's principal assets are:

- (a) Accounts Receivables: The Petitioner has approximately \$41,700 from purchase orders relating to the Grizzlers product and \$5,664 from consulting services.
- (b) GST Receivable: The Petitioner received a notice of assessment from Canada Revenue Agency indicating a GST refund in the amount of about \$1,700, that is expected to be received in the coming weeks.
- (c) Cultivation License: the Petitioner holds a license to cultivate and process cannabis plants and seeds under the Canada Act (Canada), issued by Health Canada. The license is tied to a facility leased by Medcann (that expires at the end of March 2022) and a significant financial investment would be required in order to equip the facility for production. Accordingly, the net book value of the asset may be impaired during the year end audit for 2021.
- (d) Interest in Subsidiaries: the Petitioner, through its ownership of the subsidiaries, owns intellectual property which includes brands such as Grizzlers, Roll Model and Earth Dragon. Grizzlers is the Petitioner's main brand and focus.

- (e) Due from Subsidiaries: The Petitioner is owed \$83,909 from Medcann. This intercompany receivable has arisen as a result of the Petitioner making lease payments on behalf of Medcann for the Medcann facility. As noted above, the Lease is set to expire at the end of March 2022. However, the Petitioner intends to assign the lease prior to the lease expiry and expects the intercompany receivable may be paid in full or if not in some amount (if there is a successful assignment).
- (f) Right of Use Asset: The Petitioner has a right of use asset in accordance with International Financial Reporting Standards ("IFRS") in the amount of \$19,881. This relates to an accounting entry relating to the Leased Medcann facility pursuant to the IFRS #16 standard.

PETITIONER'S LIABILITIES

17. As at December 31, 2021, the liabilities of the Petitioner have a net book value of about \$8,997,617.56 consisting of the following amounts:

Figure 2

| | |
|--|-----------------------|
| Bridge Loan | \$47,500 |
| Ministry of Labour, Training and Skills Development of Ontario | \$2,407.69 |
| Director of Employment Standards of BC | \$30,727.37 |
| Convertible Debentures | \$3,351,438 |
| Convertible Promissory Notes | \$500,028 |
| Promissory Notes | \$2,614,869 |
| Lease liability | \$331,825.82 |
| Accounts payable | \$2,118,046.88 |
| Cash | \$774.80 |
| Total Liabilities (approx.) | \$8,997,617.56 |

18. The following is a brief summary of the material liabilities of the Petitioner.

Secured Liabilities

Bridge Loan Agreement with Avro Capital Corp.

19. In December 2021, to help cover operating shortfalls and pay for the professional fees of the Proposal Trustee and the Petitioner's legal counsel, the Petitioner, as borrower, entered into a loan agreement, with Avro Capital Corp. ("**Avro**"), as lender (the "**Bridge Loan Agreement**").
20. Pursuant to the terms of the Bridge Loan Agreement, the principal amount advanced is \$85,000, with interest that accrues 14% per annum payable quarterly to Avro in arrears.
21. In December 2021, Avro advanced \$47,500 under the Bridge Loan Agreement. The balance of the Bridge Loan Agreement, being \$37,500, was received by the Petitioner from Avro on January 13, 2022. Avro holds a general security agreement over all of the Petitioner's present and future property.
22. As at January 24, 2022, the principal amount owing by the Petitioner to Avro under the Bridge Loan Agreement totals to \$85,000.

Unpaid wages

23. As at December 31, 2021, the Petitioner owes the total amount of \$33,727.37 in unpaid wages, vacation pay and severance to two past employees for pay periods in 2019. On December 1, 2021, the British Columbia Director of Employment Standards registered a lien against the Petitioner for the amounts due and owing. The Petitioner also believes it owes the Ontario Ministry of Labour, Training and Skills Development the amount of about \$2,407.69.

Unsecured Liabilities

Convertible Debentures

24. During 2019, the Petitioner raised approximately \$12.2 million pursuant to offerings of unsecured convertible debentures ("**Debentures**"). The Debentures accrued interest at

10% per annum and had varying maturity dates in 2020, convertible to stock in the company.

25. During 2020, the Petitioner converted principal and interest of \$11,005,766 and issued 37,379,646 units with a fair value of \$11,005,765 to the Debenture holders.
26. During 2020, the Petitioner entered into convertible debenture amending agreements (the "**Amending Agreements**") with two Debenture holders. Pursuant to the terms of the Amending Agreements, the expiration date of the Debentures were extended by 18 months and the conversion price and warrant exercise price was amended. Pursuant to the Amending Amendments, the Petitioner recorded a derivative liability with a fair value of \$354,246.
27. As at December 31, 2021, the amount owing by the Petitioner to the one remaining Debenture holder, Nesbitt Burns ITF MMCAP International Inc. ("**MMCAP**") totalled approximately \$3,351,438.

Convertible Promissory Note with BC Green Life Growers Inc.

28. In June 2019, the Petitioner raised approximately \$700,000 pursuant to an unsecured convertible promissory note ("**Convertible Promissory Note**") with an arm's length party, BC Green Life Growers Inc. The Convertible Promissory Note is non-interest bearing, had a maturity date of July 26, 2019, and bears a financing fee of \$70,000. The principal and financing fee were convertible into common shares of the Petitioner.
29. The Petitioner has repaid a total of \$270,000 under the Convertible Promissory Note. The amount still owing as of December 31, 2021 is \$500,028. There has been no conversion of the amounts owed to shares of the Petitioner.

Promissory Notes

30. Between 2018 to 2022, the Petitioner entered into numerous unsecured promissory note agreements with various parties, including directors, shareholders and arm's length parties for total principal amount of around \$2,641,912. The outstanding promissory

notes are listed below, are due on demand and bear between 0% to 18% compounded interest per annum as described in more detail in the table below:

Figure 3

| Promissory Note Holder (Name) | Principal Amount | Interest Rate % | Principal Amount Outstanding as of Dec 31st 2022 - (All converted to CAD) |
|--|------------------|-----------------|---|
| Protea Global Funds | CDN\$400,000 | 12% | \$246,074 |
| Wetcoast Holdings Ltd. | CDN\$250,000 | 12% | \$324,432 |
| Wetcoast Holdings Ltd. | USD\$550,000 | 12% | \$893,173 |
| Wetcoast Holdings Ltd. | CDN\$83,644 | 12% | \$94,872 |
| Nathan Goetz | CDN\$275,000 | 12% | \$356,894 |
| 2394997 Ontario Inc. | CDN\$80,000 | 0% | \$80,000 |
| Ascent Marketing Ltd. (formally, DCM Holdings) | CDN\$128,000 | 3% | \$131,504 |
| Geomin Consulting Inc. | CDN\$50,000 | 18% | \$60,194 |
| Tom English/Burton Financial | CDN\$275,000 | 18% | \$236,515 |
| Kevin Taylor | USD\$100,000 | 1.5% | \$129,099 |
| Reiner Voigt | CDN\$50,000 | 18% | \$62,112 |
| Total Approximate Principal Amount Outstanding under the Promissory Notes | | | \$2,614,869 CAD |

Accounts Payable

31. As outlined above, as at December 31, 2021, the principal amount owing for accounts payables totals to approximately \$2,118,046.88.

Lease Liability - The Old B.C. Electric Building Corp. Lease

32. On June 4, 2019, the Petitioner (under its former name Pasha Brands Ltd.), as tenant, Mr. Patrick Brauckmann, as indemnifier, and The Old B.C. Electric Building Corp. ("Old BC Electric"), as landlord, entered into a lease for the rental of building #610 Carrall Street, Vancouver, British Columbia. (the "Lease").

33. On around August 16, 2021, Old BC Electric filed a Notice of Civil Claim against the Petitioner in the Supreme Court of British Columbia and continues to send the Petitioner notices of default and demands for payment of the rent arrears and to restore the security deposit.
34. The demand from Old BC Electric on December 2, 2021 was in the total amount of \$331,835.82, including interest owing as of December 1, 2021, at 18% per annum and three months' accelerated rent pursuant to the terms of the Lease (the "**December 2021 Lease Demand**").

Contingent Liabilities

Wetcoast Holdings Ltd. Litigation

35. On March 1, 2021, the Petitioner was named in a Supreme Court of British Columbia civil claim filed by Wetcoast Holdings Ltd. ("**Wetcoast**") stating alleged failure to pay the claimant for various amounts owing in the total amount of about \$2.2 million (including \$1.2 million for promissory notes owed, \$100,000 for expenses incurred, \$600,000 for consulting fees, and \$300,000 for advisory fees). The lawsuit seeks to recover these amounts along with legal expenses, interest on amounts owing, and damages. However, the Petitioner estimates the lawsuit will be unsuccessful and damages are not probable in the measure of those listed in the civil claim by Wetcoast. In addition, the Petitioner counterclaimed against Wetcoast and Mr. Patrick Brauckmann, alleging set-off.

Dormant Litigation

36. The Petitioner is named in three other proceedings in before the Courts of British Columbia:
 - (g) *Wayne Powell v BC Craft* (case number: 2066261); and
 - (h) *Stephanie Wilmott v BC Craft* (case number: 193092).
37. However, these cases have remained dormant for some time.

Financial Problems and Insolvency of Petitioner

38. As mentioned above, the Petitioner has historically accessed equity and debt financing from the public and/or private placements in Canada.
39. Due to the evolving nature of the cannabis industry, along with economic impacts of the COVID-19 pandemic (in terms of destabilizing the entire cannabis value chain, including suppliers, processors, licensed producers, retailers and consumers themselves), the Petitioner, like many others, has experienced increasing challenges in accessing additional debt or equity financing to sustain operations.
40. Consequently, the business focus of the Petitioner over the past 12 to 18 months has been to eliminate non-value added activities, to remove debt off the balance sheet and to ensure financial viability of the business as a whole. To that end, the Petitioner relieved itself of nearly \$20 million of debt off the balance sheet through a series of write-downs, negotiations and debt settlements. However, this approach has reconciled a series of actions which put the Petitioner in a less favourable position in the Canadian cannabis market and the remaining debt on the balance sheet impaired the Petitioner's ability to raise new operating capital.
41. Furthermore, despite significant progress to date and the tremendous potential of BC Craft's craft cannabis brands, previous debt obligations and a series of lawsuits (as outlined above) impeded progress.
42. Accordingly, at this time, the Petitioner is now facing an impending liquidity crisis which has resulted in it being unable to meet its obligations as they fall due.
43. The Petitioner has further attempted to address its anticipated financial difficulties by reducing expenses, settling debts and exploring new sources of financing, including entering into the Bridge Loan Agreement with Avro.
44. Notwithstanding these efforts, the Petitioner is currently insolvent since it is unable to meet its obligations going forward as they become due.

Notice of Intention to Make a Proposal

45. On January 24, 2022, the Petitioner filed a Notice of Intention to Make a Proposal (the “NOI”) to its creditors under the Bankruptcy and Insolvency Act (Canada) providing the Petitioner with a stay of proceedings and the opportunity to restructure its affairs.
46. Pursuant to section 69 of the BIA, all proceedings against BC Craft are stayed as of the filing date of the NOI from January 24, 2022 to February 23, 2022.
47. As set out in the NOI, Crowe MacKay & Company Ltd. consented to act as the Proposal Trustee.
48. The Petitioner intends to continue the business and preserve its assets while formulating a proposal to its creditors.

Cash-Flow Statement

49. In consultation with the Proposal Trustee, the Petitioner has prepared a 13-week cash flow forecast for the period ending January 24 to April 24, 2022 (the “Cash Flow Statement”).
50. As evidenced by the Cash Flow Statement, the main purposes of the interim financing (described below in more detail) is to finance ongoing operations, to meet obligations as they become due and help fund various growth initiatives contemplated by the Petitioner. These growth initiatives are projected to generate increased revenues through increased sales of products by its distribution partner, Safari and through possible other sales channels.

Interim Financing

51. As contemplated by the Cash Flow Statement, in order to provide the required liquidity needed to fund the continuation of its business, to meet its normal course obligations as they become due, the Petitioner requires interim financing.

52. Accordingly, on or about January 20, 2022, the Petitioner accepted the terms of an interim financing facility (the “**Interim Facility**”) from Avro Capital Corp. (the “**Interim Lender**”), to be provided by the Interim Lender pursuant to the terms of the debtor-in-possession financing term sheet dated January 20, 2022 (the “**Commitment Letter**”), subject to court approval. The Interim Lender is the same party acting as lender pursuant to the Bridge Loan Agreement.
53. The Interim facility will be used in accordance with the budget and cash flow projections, to pay, among other things, utilities (such as telephones and IT expenses), professional fees of the Petitioner’s legal counsel and the Proposal trustee, an upcoming financial audit, contractor fees for key management and personnel, Canadian Securities Exchange fees and Health Canada fees.
54. The Commitment Letter contains usual and ordinary terms for this type of financing, including standard events of default, repayment terms and conditions, and the Petitioner views it as fair and the Petitioner reasonable offer in the circumstances.
55. The Petitioner expects that upon the Court granting an order approving the Commitment Letter and the Interim Lender’s Charge, the conditions to the Interim Facility will have been met or waived.
56. The Petitioner understands that unsecured creditors are potentially prejudiced by the Interim Financing. However, without the Interim Financing, the Petitioner is unable to continue a viable business and make a proposal to its creditors. The Petitioner is of the view that the Interim Financing is the best option available at this time rather than in a bankruptcy scenario.

Interim Lender’s Charge

57. The Petitioner also seeks a charge on its assets, properties and undertakings (herein referred to as the “**Interim Lender’s Charge**”) to secure the amounts advanced by the Interim Lender to the Petitioner under the Commitment Letter in the maximum principal

amount of \$415,000, plus interest, costs, fees and disbursements payable under the Commitment Letter.

58. The Interim Lender's Charge is to rank in priority to all other encumbrances on the Petitioner's assets, properties and undertakings, other than the Administration Charge.

Administration Charge

59. The Petitioner's legal counsel, the Proposal Trustee and the Proposal Trustee's legal counsel are essential to the Petitioner's restructuring by a proposal to its creditors.
60. The Petitioner is seeking approval on the Administration Charge over its assets, properties and undertakings up to a maximum amount of \$200,000 to secure payment of the fees and disbursements of the Proposal Trustee, counsel to the Proposal Trustee, and counsel to the Petitioner. The Administration Charge is to rank in priority to all other encumbrances, including all other court-ordered charges such as the Interim Lender's Charge.
61. The Administration Charge will ensure that the Petitioner retains access to the professionals whose expertise and knowledge is required to pursue a restructuring by a proposal to its creditors under the BIA.

Priority Ranking of the Charges

62. The Petitioner seeks to have the Interim Lender's Charge and Administration Charge rank in priority, relative to all and any other charges, as follows:
- (a) First – Administration Charge (up to a maximum amount of \$200,000); and
 - (b) Second – Interim Lender's Charge (to a maximum of \$415,000, plus interest, costs, fees and disbursements under the Commitment Letter).

Urgency

63. The Petitioner requires the relief sought on an urgent basis, in view of its cash flow position as evidenced by the Cash Flow Statement. Without the interim financing, the Petitioner cannot meet its obligations in the next two weeks.
64. Without the protection of the stay from the NOI and the approval of Interim Financing, the Petitioner will have very little funds in view of its cash-flow situation and the Petitioner will be unable to meet its obligations going forward and/or present a proposal to its creditors. The relief requested will in turn significantly improve its financial position to the benefit of all stakeholders, rather than in bankruptcy scenario.

Part 3: LEGAL BASIS

65. The Petitioner relies on:
- (a) The *Bankruptcy and Insolvency Act*, R.S.C. 1985, C. B-3, as amended.
 - (b) The *Supreme Court Civil Rules*, B.C. Reg. 241/2010, as amended.
 - (c) The inherent and equitable jurisdiction of this Court.
 - (d) Such further and other legal basis as counsel may advise and this Court may allow.

Interim Lender's Charge and Priority is Appropriate

66. The Petitioner seeks an Interim Lender's Charge in the maximum amount of \$415,000 plus interest, costs, disbursements and fees, which will rank in priority to all other encumbrances on the assets, properties and undertakings of the Petitioner, other than the Administration Charge.
67. Section 50.6(1) of the BIA provides the court with the authority to grant a priority charge against the property of the debtor in respect of interim financing.
68. Section 50.6(3) of the BIA provides that the court may order the security or charge rank in priority over the claim of any secured creditor of the debtor.

69. In deciding whether to make an order, section 50.6(5) of the BIA sets out the factors to be considered by the court:
- (a) the period during which the debtor is expected to be subject to proceedings under this Act;
 - (b) how the debtor's business and financial affairs are to be managed during the proceedings;
 - (c) whether the debtor's management has the confidence of its major creditors;
 - (d) whether the loan would enhance the prospects of a viable proposal being made in respect of the debtor;
 - (e) the nature and value of the debtor's property;
 - (f) whether any creditor would be materially prejudiced as a result of the security or charge; and
 - (g) the trustee's report, as the case may be.
70. In the case of the Petitioner, the following factors support the granting of the Interim Lender's Charge in this proceeding:
- (a) As set out above, the Petitioner intends to put forward a proposal with its creditors within the initial 30-day stay period.
 - (b) The Petitioner has implemented several strategies to address its financial difficulties, and has been responsibly managing its affairs since implementing those strategies to minimize the negative impact on its stakeholders.
 - (c) The Petitioner's current cashflow projections show that the Interim Financing will be necessary to fund the Petitioner's cash flow requirements throughout the proposal period.

- (d) The Petitioner is facing an imminent liquidity crisis. It will need to cease operations if it does not receive funding. In such circumstances, there will be little likelihood of a viable proposal.
- (e) The terms of the Interim Financing are reasonable and consistent with the terms of interim financing facilities in similar proceedings.
- (f) The Interim Lender is the same party acting as lender pursuant to the existing Bridge Loan Agreement, Avro.
- (g) Although the unsecured creditors may be potentially affected by the Interim Lender's Charge, without the Interim Financing, the Petitioner would be unable to continue its business or present a proposal to its creditors giving better return than in a bankruptcy scenario.
- (h) The Petitioner will continue to operate its business affairs, with the assistance of the Proposal Trustee. Without the provision of Interim Facility, the Petitioner would not be able to operate its business or preserve the value of its assets, to the detriment of all stakeholders.
- (i) The relief sought by the Petitioner with respect to the Interim Facility and Interim Lender's Charge is necessary and appropriate in the circumstances.
- (j) Lastly, the Proposal Trustee has recommended that the Court approve the relief sought and supports the approval Interim Facility and Interim Lender's Charge.

Administration Charge is Appropriate

71. The Petitioner is seeks approval on the Administration Charge over its assets, properties and undertakings up to a maximum amount of \$200,000 to secure payment of the fees and disbursements of the Proposal Trustee, counsel to the Proposal Trustee, and counsel to the Petitioner. The Administration Charge is to rank in priority to all other encumbrances, including all other court-ordered charges such as the Interim Lender's

Charge. The Proposal Trustees states in its Report at para. 57(a) *“The terms of the Commitment Letter and Interim Lender’s Charge are reasonable given the circumstances, and interim financing is necessary for the Company to remain liquid and continue operations.”*

72. Section 64.2(1) of the BIA provides that on notice to the secured creditors who are likely to be affected by the security or charge, the Court may make an order declaring that all or part of the property of a person in respect of whom a notice of intention is filed under section 50.4 is subject to a security or charge, in an amount that the court considers appropriate, in respect of the fees and expenses of:
- (a) the trustee, including the fees and expenses of any financial, legal or other experts engaged by the trustee in the performance of the trustee’s duties;
 - (b) any financial, legal or other experts engaged by the person for the purpose of the proceedings; and
 - (c) any financial, legal or other experts engaged by any other interested person if the court is satisfied that the security or charge is necessary for the effective participation of that person in the proceedings.
73. Section 64.2(2) of the BIA provides jurisdiction to grant a super-priority charge for such purposes.
74. Courts have recognized that, unless professional advisor fees are protected with the benefit of a charge over the assets of the debtor company, the objectives of restructuring would be frustrated because professionals are unlikely to risk offering their services without any assurances of ultimately getting paid.
75. As addressed in the context of a restructuring under the Companies’ Creditors Arrangement Act, Courts have stated that any failure to provide protection for professional fees will *“result in the overwhelming likelihood that the CCAA proceedings would come to an abrupt halt, followed, in all likelihood by bankruptcy proceedings”* Re

Timminco Ltd., 2012 ONSC 506 at para. 65; followed by League Assets Corp. (Re), 2013 BCSC 2043, 1057863 BC Ltd. (Re), 2020 BCSC 1057.

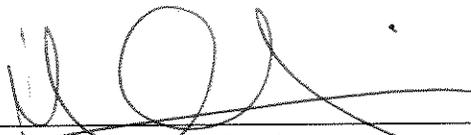
76. Also see In the Matter of the Bankruptcy of Bear Creek Contracting Ltd., 2021 BCSC 783, Mr. Justice Punnett noted that at para. 53: *"I am satisfied that the participation of financial, legal and other professionals is necessary to ensure the proceedings under the BIA are successful. The applicant is a substantial entity and its business is complex. The participation of the Proposal Trustee is necessary. I am also satisfied the quantum of the Administration Charge is fair and reasonable and is necessary for the participation of such professionals."*
77. The Petitioner requires specialized expertise, knowledge and continuing participation of the proposed beneficiaries of the Administration Charge in order to carry out and complete the BIA proposal process and the Administration Charge is necessary to ensure their continued assistance and participation.
78. The quantum of the Administration Charge was determined in consultation with the Proposal Trustee and is fair and reasonable in light of the number of beneficiaries, the size and complexity of the Petitioner's business affairs and proposed restructuring. It is not expected that there will be any duplication of the roles of the beneficiaries of the Administration Charge.

Part 4: MATERIAL TO BE RELIED ON

1. Affidavit #1 of Matthew Watters, sworn January 25, 2022;
2. Report of the Proposal Trustee, dated January 25, 2022; and
3. Such further and other materials as counsel may advise and this Honourable Court may permit.

The petitioner estimates that the hearing of the petition will take 60 minutes.

Dated: 26/January/2022



~~Signature of lawyer for the Petitioner~~
Helen Sevenoaks

To be completed by the court only:

Order made

- in the terms requested in paragraph _____ of Part 1 of this petition
- with the following variations and additional terms:

Dated: ____/____/2022

Signature of Judge Master

SCHEDULE "A"
ORDER MADE AFTER PETITION

No. _____
Vancouver Registry

In the Supreme Court of British Columbia

IN BANKRUPTCY AND INSOLVENCY

IN THE MATTER OF THE *BANKRUPTCY AND INSOLVENCY ACT*,
R.S.C. 1985, C. B-3, AS AMENDED

AND

IN THE MATTER OF THE NOTICE OF INTENTION TO MAKE
A PROPOSAL OF BC CRAFT SUPPLY CO. LTD.

PETITIONER

ORDER MADE AFTER PETITION

BEFORE) THE HONOURABLE MR. JUSTICE)
) GROVES) 26/January /2022
))

ON HEARING of the Petition VIA MS TEAMS at 800 Smithe Street, in the City of Vancouver, in the Province of British Columbia, on January 26, 2022; AND ON HEARING Helen Sevenoaks and John Fiddick, counsel for the Petitioner, and those other counsel listed in Schedule "A" hereto; AND UPON READING the material filed, including Affidavit #1 of Matthew Watters sworn January 25, 2022, and the First Report of Crowe MacKay & Company Ltd. in its capacity as the Proposal Trustee of the Petitioner to be filed (in such capacity, the "Proposal Trustee") (the "Report"); AND PURSUANT TO the Bankruptcy and Insolvency Act, R.S.C. 1985, C. B-3, as amended (the "BIA"), the British Columbia Supreme Court Rules and the inherent jurisdiction of this Honourable Court;

THIS COURT ORDERS AND DECLARES that:

ADMINISTRATION CHARGE

1. The Proposal Trustee, counsel to the Proposal Trustee, if any, and counsel to the Petitioner shall be paid their pre-filing and post-filing reasonable fees and disbursements,

in each case at their standard rates and charges, by the Petitioner as part of the cost of these proceedings. The Petitioner is hereby authorized and directed to pay the accounts of the Proposal Trustee, counsel to the Proposal Trustee, if any, and counsel to the Petitioner on a periodic basis.

2. The Proposal Trustee and its legal counsel, if any, shall pass their accounts from time to time, and for this purpose the accounts of the Proposal Trustee and its legal counsel, if any, are hereby referred to a judge of the Supreme Court of British Columbia.
3. The Proposal Trustee, counsel to the Proposal Trustee, if any, and counsel to the Petitioner shall be entitled to the benefit of and are hereby granted a charge (the "**Administration Charge**") on the Petitioner's current and future assets, undertakings and properties of every nature and kind whatsoever, and wherever situate including all proceeds thereof (the "**Property**"), which charge shall not exceed an aggregate amount of \$200,000, as security for their respective fees and disbursements incurred at the standard rates and charges of the Proposal Trustee and such counsel, both before and after the making of this Order which are related to the Petitioner's restructuring and proposal to its creditors. The Administration Charge shall have the priority set out in paragraphs 10 and 12 hereof.

INTERIM FINANCING

4. The Petitioner is hereby authorized and empowered to obtain and borrow under a credit facility from Avro Capital Corp. (the "**Interim Lender**") in order to finance the continuation of the Petitioner's business and preservation of the Property, provided that borrowings under such credit facility shall not exceed \$415,000 unless permitted by further Order of this Court.
5. Such credit facility shall be on the terms and subject to the conditions set forth in the commitment letter between the Petitioner and the Interim Lender dated as of January 20, 2022 (the "**Commitment Letter**"), filed.
6. The Petitioner is hereby authorized and empowered to execute and deliver such credit agreements, mortgages, charges, hypothecs and security documents, guarantees and other definitive documents (collectively, the "**Definitive Documents**"), as are contemplated by the Commitment Letter or as may be reasonably required by the Interim Lender pursuant to the terms thereof, and the Petitioner is hereby authorized and directed to pay and perform all of its indebtedness, interest, fees, liabilities and obligations to the Interim Lender under and pursuant to the Commitment Letter and the Definitive Documents as and when the same become due and are to be performed, notwithstanding any other provision of this Order.
7. The Interim Lender shall be entitled to the benefit of and is hereby granted a charge (the "**Interim Lender's Charge**") on the Property. The Interim Lender's Charge shall not secure

an obligation that exists before this Order is made. The Interim Lender's Charge shall have the priority set out in paragraphs 10 and 12 hereof.

8. Notwithstanding any other provision of this Order:
 - (a) the Interim Lender may take such steps from time to time as it may deem necessary or appropriate to file, register, record or perfect the Interim Lender's Charge or any of the Definitive Documents;
 - (b) upon the occurrence of an event of default under any of the Definitive Documents or the Interim Lender's Charge, the Interim Lender, upon 14 days notice to the Petitioner and the Proposal Trustee, may exercise any and all of its rights;
 - (c) and remedies against the Petitioner or the Property under or pursuant to the Commitment Letter, Definitive Documents and the Interim Lender's Charge, including without limitation, to cease making advances to the Petitioner and set off and/or consolidate any amounts owing by the Interim Lender to the Petitioner against the obligations of the Petitioner to the Interim Lender under the Commitment Letter, the Definitive Documents or the Interim Lender's Charge, to make demand, accelerate payment and give other notices, or to apply to this Court for the appointment of a receiver, receiver and manager or interim receiver, or for a bankruptcy order against the Petitioner and for the appointment of a trustee in bankruptcy of the Petitioner; and
 - (d) the foregoing rights and remedies of the Interim Lender shall be enforceable against any trustee in bankruptcy, interim receiver, receiver or receiver and manager of the Petitioner or the Property.
9. The Interim Lender, in such capacity, shall be treated as unaffected in any proposal filed by the Petitioner under the BIA, or a plan of arrangement or compromise filed by the Petitioner under the *Companies' Creditors Arrangement Act* (Canada), or any, with respect to any advances made under the Definitive Documents.

VALIDITY AND PRIORITY OF CHARGES CREATED BY THIS ORDER

10. The priorities of the Administration Charge and the Interim Lender's Charge, as among them, shall be as follows:
 - First – Administration Charge (to the maximum amount of \$200,000); and
 - Second – Interim Lender's Charge (to the maximum amount of \$415,000, plus interest, costs, fees and disbursements payable under the Commitment Letter).
11. Any security documentation evidencing, or the filing, registration or perfection of, the Administration Charge and the Interim Lender's Charge (collectively, the "Charges") shall

not be required, and that the Charges shall be effective as against the Property and shall be valid and enforceable for all purposes, including as against any right, title or interest filed, registered or perfected subsequent to the Charges coming into existence, notwithstanding any failure to file, register or perfect any such Charges.

12. Each of the Charges shall constitute a mortgage, security interest, assignment by way of security and charge on the Property and such Charges shall rank in priority to all other security interests, trusts, liens, mortgages, charges and encumbrances and claims of secured creditors, statutory or otherwise (collectively, "Encumbrances"), in favour of any person.
13. Except as otherwise expressly provided herein, or as may be approved by this Court, the Petitioner shall not grant or suffer to exist any Encumbrances over any Property that rank in priority to, or *pari passu* with the Charges, unless the Petitioner obtains the prior written consent of the Proposal Trustee, the Interim Lender and the beneficiaries of the Administration Charge.
14. The Administration Charge, the Commitment Letter, the Definitive Documents and the Interim Lender's Charge shall not be rendered invalid or unenforceable and the rights and remedies of the chargees entitled to the benefit of the Charges (collectively, the "Chargees") and/or the Interim Lender shall not otherwise be limited or impaired in any way by (a) the pendency of these proceedings and the declarations of insolvency made herein; (b) any application(s) for bankruptcy order(s) issued pursuant to the BIA, or any bankruptcy order made pursuant to such applications; (c) the filing of any assignments for the general benefit of creditors made pursuant to the BIA; (d) the provisions of any federal or provincial statutes; or (e) any negative covenants, prohibitions or other similar provisions with respect to borrowings, incurring debt or the creation of Encumbrances, contained in any existing loan documents, lease, mortgage, security agreement, debenture, sublease, offer to lease or other agreement (collectively, an "Agreement") which binds the Petitioner; and notwithstanding any provision to the contrary in any Agreement:
 - (a) neither the creation of the Charges nor the execution, delivery, perfection, registration or performance of the Commitment Letter or the Definitive Documents shall create or be deemed to constitute a breach by the Petitioner of any Agreement to which it is a party;
 - (b) none of the Chargees shall have any liability to any person whatsoever as a result of any breach of any Agreement caused by or resulting from the Petitioner entering into the Commitment Letter, the creation of the Charges, or the execution, delivery or performance of the Definitive Documents; and
 - (c) the payments made by the Petitioner pursuant to this Order, the Commitment Letter or the Definitive Documents, and the granting of the Charges, do not and will not constitute preferences, fraudulent conveyances, transfers at undervalue,

oppressive conduct, or other challengeable or voidable transactions under any applicable law.

AID AND RECOGNITION

15. THIS COURT REQUESTS the aid and recognition of other Canadian and foreign Courts, tribunal, regulatory or administrative bodies, including any Court or administrative tribunal of any federal or State Court or administrative body in the United States of America, to act in aid of and to be complementary to this Court in carrying out the terms of this Order where required. All courts, tribunals, regulatory and administrative bodies are hereby respectfully requested to make such orders and to provide such assistance to the Petitioner and to the Proposal Trustee, as an officer of this Court, as may be necessary or desirable to give effect to this Order, to grant representative status to the Proposal Trustee in any foreign proceeding, or to assist the Petitioner and the Proposal Trustee and their respective agents in carrying out the terms of this Order.

SERVICE AND NOTICE

16. Time for service of the Petition dated January 26, 2022 herein be and is hereby abridged such that the Petition is properly returnable today and service thereof on any interested party is hereby dispensed with.
17. The Petitioner and the Proposal Trustee are at liberty to serve this Order, any other materials and orders in these proceedings, any notices or other correspondence, by forwarding true copies thereof by prepaid ordinary mail, courier, personal delivery or electronic transmission to the Petitioner's creditors or other interested parties at their respective addresses as last shown on the records of the Petitioner and that any such service or notice by courier, personal delivery or electronic transmission shall be deemed to be received on the next business day following the date of forwarding thereof, or if sent by ordinary mail, on the third business day after mailing.
18. Any person that wishes to be served with any application and other materials in these proceedings must deliver to the Proposal Trustee by way of ordinary mail, courier, personal delivery or electronic transmission a request to be added to a service list (the "Service List") to be maintained by the Proposal Trustee.

GENERAL

19. Nothing in this Order shall prevent the Proposal Trustee from acting as an interim receiver, a receiver, a receiver and manager, or a trustee in bankruptcy of the Petitioner, its business or the Property.
20. The Petitioner is hereby at liberty to apply for such further interim or interlocutory relief as it deems advisable within the time limited for persons to file and serve Responses to the Petition.

21. Leave is hereby granted to hear any application in these proceedings on two (2) clear days' notice after delivery to all parties on the Service List of such Notice of Application and all affidavits in support, subject to the Court in its discretion further abridging or extending the time for service.
22. Any interested party (including the Petitioner and the Proposal Trustee) may apply to this Court to vary or amend this Order on not less than seven (7) days' notice to all parties on the Service List and to any other party or parties likely to be affected by the order sought or upon such other notice, if any, as this Court may order.
23. Endorsement of this Order by counsel appearing at the hearing of this petition, other than counsel for the Petitioner, is hereby dispensed with.
24. This Order and all of its provisions are effective as of 12:01 a.m. local Vancouver time on the Order date.

THE FOLLOWING PARTIES APPROVE THE FORM OF THIS ORDER AND CONSENT TO EACH OF THE ORDERS, IF ANY, THAT ARE INDICATED ABOVE AS BEING BY CONSENT:

Signature of lawyer for the Petitioner
Helen Sevenoaks

By the Court

Registrar

Schedule "A"

LIST OF COUNSEL

| <u>Name of Counsel</u> | <u>Party Represented</u> |
|------------------------|--------------------------|
| Jeff Scouten | Avro Capital Corp. |
| Ben La Borie | Proposal Trustee |
| | |