CV-20-00638930-00CL March 31, 2020

Re CannTrust Holdings Inc

## Endorsement

(1) This application was heard by teleconference in accordance with the changes to the operations of the Commercial List in light of the Covid-19 Crisis and the Chief Justice's Notice to the Profession dated March 15, 2020

(2) The applicants apply for creditor protection and other relief under the Companies' Creditors Arrangement Act, R.S.C. 1985, c. C-36 ("CCAA"). They seek an initial order substantially in the form included in the

application Record.

3 The applicants operated a Cannabis cultivation business that was experiencing operational growth. In July 2019, as a result of regulatory audits of its facilities which disclosed that CanTrust was growing and storing cannabis unlawfully, shipments of its products were stopped and its cannabis licences have been suspended.

4 Since then its executives have been terminated, it has laid off over 500 employees, it faces

multiple class actions and other litigation seeking at least $500 million in damages and its market capitalization has declined by 90 %. It has had no revenue since July 2019.

5 The current ~~disruption~~ DISRUPTION of the global capital markets resulting from the Covid-19 crisis and the serious downturn in the Canadian cannabis industry have made the Applicants' financial situation most precarious and it is highly doubtful that they could attract more capital to

restore their operations.

6 As a result, I am satisfied that the Applicants are insolvent because the realizable value of their assets is not sufficient to satisfy their existing and contingent liabilities.

7 The issues that I must decide on this application are the following:

(a) Do the applicants meet the test for protection under the CCAA?

(b) Should I grant an initial order staying all proceedings in respect of the applicants?

(c) Should the Court extend the Stay of proceedings to the Cross-Default Rights?

(d) Should I approve the intercompany advances?

(e) Should I appoint EY as Monitor?

(f) Should I approve the engagement of the CRO?

(g) Should I grant the priority charges sought?

(h) Should I grant the relief sought regarding securities laws reporting?

(i) Should I grant the other relief sought?

8 Analysis –

Section 11.001 of the CCAA is clear that, absent exceptional circumstances, the relief that can be granted at the initial hearing "shall be limited to relief that is reasonably necessary for the continued operations of the debtor company in the ordinary course of business during that period." The period can be no more than 10 days and, whenever possible, the status quo should be maintained.

9) These new amendments to the CCAA make it clear that I must limit the relief I grant for the initial 10-day period to measures necessary to avoid the immediate liquidation of an insolvent company.

10) It is against this backdrop that the Applicants' requested relief must be scrutinized to ensure that the relief granted is restricted to what is reasonably necessary for the continued operation of the Applicants' business for the initial

10-day period. This is often referred to as a "Skinny" initial order.

(a) Issue #1 – I am satisfied that each of the applicants is a "debtor company" as defined by the CCAA because they are insolvent companies that have debts in excess of $5 Million. They are eligible for CCAA protection.

(b) Issue #2 – I am satisfied that I should grant a stay of proceedings to maintain the status quo and ensure that there is a level playing field among the Applicants' creditors. This will provide the single forum structure of the CCAA & address the numerous litigation claims against the Applicants

(c) Issue #3 - It is also appropriate to extend the Stay of proceedings & the Cross-Default Rights to maintain the status quo.

(d) Issue #4 - It is appropriate to approve the ordinary course intercompany advances & fund the ongoing operations and other amounts permitted by the initial order.

Issue - 5

(e) I am satisfied that EY should be appointed Monitor pursuant to s. 11.7 of the CCAA.

(f) Issue - 6 - The applicants do not seek the appointment of Mr Bishop as a court-appointed CRO but wish to continue using his services as a CRO pursuant to the CRO Engagement Letter already entered into. I am satisfied this engagement should be approved as it is in the best interests of the applicants and third stakeholders.

(9) Issue - 7 - I indicated to counsel during the hearing that the requested administration charge of $700,000 was excessive for the 10-day initial period and I declined to approve it. In response counsel suggested an administration charge of $500,000 which I am satisfied is reasonably necessary for the continued operation of the Applicants' business during the initial 10-day period. This charge is approved.

10 Similarly, counsel requested a Director's charge of $1.4 Million that I also declined to approve on the ground that it was excessive for the initial 10-day period. In response, counsel proposed a Director's Charge of $550,000. I am satisfied that this amount is reasonably necessary for the continued operation of the applicants' business during the initial 10-day period. This charge is approved.

11 Issue - 8 - I am satisfied that the Securities Reporting relief should be granted to preserve the resources of the Applicants to deal with issues in the CCAA proceedings.

12 Issue - 9 - I am also satisfied that the other relief sought referred to at paras 56 and 57 of the Applicants Factum should be granted for the reasons set out there.

13 For all of these reasons this application is granted on the terms of the

attached initial order.

(14) This order is effective as of today's date whether or not it is formally entered.

Haines J.