

CANADA
PROVINCE OF QUÉBEC
DISTRICT OF MONTREAL

SUPERIOR COURT

(Commercial Division)

(Sitting as a court designated pursuant to the
Companies' Creditors Arrangement Act, R.S.C.
1995, c. 36, as amended)

N°:

***IN THE MATTER OF THE COMPROMISE OR
ARRANGEMENT OF:***

ZENABIS GLOBAL INC., a legal person
having its registered office at 510 West
Georgia Street, Suite 1800, Vancouver, British
Columbia;

-and-

ZGI ACQUISITION CORP., a legal person
having its registered office at 510 West
Georgia Street, Suite 1800, Vancouver, British
Columbia;

-and-

ZENABIS INVESTMENTS LTD., a legal
person having its registered office at 1, Place
Ville Marie, Suite 2500, Montréal, Québec;

-and-

ZENABIS REAL ESTATE HOLDINGS LTD., a
legal person having its registered office at 1,
Place Ville Marie, Suite 2500, Montréal,
Québec;

-and-

ZENABIS ANNACIS LTD., a legal person
having its registered office at 1, Place Ville
Marie, Suite 2500, Montréal, Québec;

-and-

ZENABIS ATHOLVILLE LTD., a legal person
having its registered office at 1, Place Ville
Marie, Suite 2500, Montréal, Québec;

-and-

ZENABIS STELLARTON LTD., a legal person
having its registered office at 1, Place Ville
Marie, Suite 2500, Montréal, Québec;

-and-

ZENABIS HOUSING LTD., a legal person
having its registered office at 1, Place Ville
Marie, Suite 2500, Montréal, Québec;

-and-

ZENABIS IP HOLDINGS LTD., a legal person
having its registered office at 1, Place Ville
Marie, Suite 2500, Montréal, Québec;

-and-

ZENABIS RETAIL HOLDINGS LTD., a legal person having its registered office at 1, Place Ville Marie, Suite 2500, Montréal, Québec;

-and-

ZENABIS VENTURES INC., a legal person having its registered office at 510 West Georgia Street, Suite 1800, Vancouver, British Columbia;

-and-

ZENABIS OPERATIONS LTD., a legal person having its registered office at 1, Place Ville Marie, Suite 2500, Montréal, Québec;

-and-

ZENABIS LTD., a legal person having its registered office at 1, Place Ville Marie, Suite 2500, Montréal, Québec;

-and-

VIDA CANNABIS (CANADA) LTD., a legal person having its registered office at 1, Place Ville Marie, Suite 2500, Montréal, Québec;

-and-

ZENABIS HEMP COMPANY LTD., a legal person having its registered office at 1, Place Ville Marie, Suite 2500, Montréal, Québec;

-and-

ZEN CRAFT GROW LTD., a legal person having its registered office at 510 West Georgia Street, Suite 1800, Vancouver, British Columbia

Petitioners

-and-

ERNST & YOUNG INC., a legal person having a place of business at 900 Maisonneuve West Blvd., Suite 2300, Montréal, Québec;

Proposed Monitor

-and-

2657408 ONTARIO INC., a legal person having a place of business at 919, 11th Avenue SW, Suite 300, Calgary, Alberta;

Impleaded Party

**PETITION FOR THE ISSUANCE OF (I) A FIRST DAY INITIAL ORDER AND
(II) AN AMENDED AND RESTATED INITIAL ORDER**
Sections 4, 5, 11 *et seq.* of the *Companies' Creditors Arrangement Act* ("CCAA")

TO THE HONOURABLE JUSTICE LOUIS-JOSEPH GOUIN, J.S.C. SITTING IN COMMERCIAL DIVISION IN THE DISTRICT OF MONTREAL, THE PETITIONERS RESPECTFULLY SUBMIT THE FOLLOWING:

I. INTRODUCTION

1. By the present Petition, the Petitioners seek the protection of the CCAA in order to maintain their businesses and operations and protect their assets for the benefit of all of their stakeholders through a court-supervised restructuring and reorganization process, as described more fully below.
2. The Petitioners seek the issuance of an initial order (the **Initial Order**) under the CCAA providing for, *inter alia*, the following relief:
 - (a) the appointment of Ernst & Young Inc., a licensed insolvency trustee, as monitor for the Petitioners in these proceedings (**EY** or the **Proposed Monitor**);
 - (b) a stay of proceedings against the Petitioners and their respective directors and officers for an initial period of ten (10) days until June 27, 2022, in accordance with the CCAA (the **Stay Period**);
 - (c) A deemed extension of the initial Stay Period, in light of the upcoming holiday season in Canada and the US, from June 27, 2022 until July 5, 2022, the date of the proposed comeback hearing (the **Comeback Hearing**), to occur unless a contestation is served and filed by June 21, 2022 in accordance with the terms of the Initial Order;
 - (d) the granting of an administration charge (the **Administration Charge**);
 - (e) the issuance of an order suspending any and all continuous disclosure, reporting and filing obligations of, and audit committee requirements applicable to Zenabis as a result of its status as a reporting issuer of each of the provinces in Canada subject to Canadian securities laws, rules, regulations and policy statements; and
 - (f) a sealing order with regards to certain exhibits filed in support of this Petition.
3. At the Comeback Hearing, the Petitioners will seek the issuance of an amended and restated initial order (the **ARIO**) providing for, *inter alia*, the following additional relief:
 - (a) the extension of the Stay Period until on or about September 26, 2022, which date will be confirmed at the Comeback Hearing; and
 - (b) the granting of a charge to secure the Zenabis Group's indemnity obligations to the directors and officers for liability that may arise post-filing, and which

also cover potential liabilities of the CRO (as defined below) (the **D&O Charge**).

4. Furthermore, the Petitioners will also seek, at the Comeback Hearing, the issuance of an Order (the **Bidding Procedures Order**) approving the proposed Sale and Investment Solicitation Process (the **SISP**) and approving the stalking horse agreement of purchase and sale (the **Stalking Horse Agreement**) to be entered into between the Petitioners, as vendors, and their secured creditor 2657408 Ontario Inc., as purchaser (in such capacity, the **Stalking Horse Bidder**) solely for the purpose of constituting the Stalking Horse Bid (in the form of a “credit bid”) under the SISP, subject to further order of this Court following the completion or termination of the SISP.
5. A copy of the Stalking Horse Agreement will be filed as an exhibit prior to the Comeback Hearing and submitted to this Court for consideration at that time.
6. The draft Initial Order sought is communicated herewith as **Exhibit R-1** and the comparison between said draft and the model Initial Order issued by the Bar of Montréal is communicated herewith as **Exhibit R-2**.
7. The draft ARIO to be sought at the Comeback Hearing is communicated herewith as **Exhibit R-3** and the comparison between said draft and the model Initial Order issued by the Bar of Montréal is communicated herewith as **Exhibit R-4**.
8. The draft Bidding Procedures Order is communicated herewith as **Exhibit R-5**.
9. A copy of the pre-filing report issued by the Proposed Monitor (the **Pre-Filing Report**) is communicated herewith as as **Exhibit R-6**, with certain of its appendices filed under seal with the Court (as explained in further detail below).

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II. OVERVIEW

A. Summary of the Petitioners' Operations

10. Each Petitioner is a direct or indirect wholly-owned subsidiary of Zenabis Global Inc. (**Zenabis** or the **Parent Petitioner**).
11. The Parent Petitioner and all of its subsidiaries, with the exception of ZenPharm Limited (**ZenPharm**), a Malta-based legal entity, and two inactive subsidiaries based in the United States, are Petitioners under the present CCAA proceedings (collectively, the **Zenabis Group**).
12. The Zenabis Group is a Canadian medical and recreational cannabis cultivator with certain of the Petitioners holding or having held various licences from Health Canada.
13. On February 16, 2021, the Parent Petitioner and HEXO Corp. (**HEXO**), a Canadian-based publicly traded cannabis company, entered into an arrangement agreement providing for the acquisition by HEXO of all of the shares of the Parent Petitioner in consideration for shares of the capital of HEXO by way of court-approved plan of arrangement, which transaction was completed on June 1, 2021 (the **Arrangement**).
14. The Parent Petitioner's common shares were listed on the Toronto Stock Exchange (the **TSX**) until June 2, 2021, the trading day immediately following the effective date of the Arrangement.
15. Due to certain warrants to purchase common shares of the Parent Petitioner that became warrants of the Parent Petitioner to purchase common shares of HEXO as a result of the Arrangement, which warrants expired in April 2022, the Parent Petitioner has remained, for legacy reasons, a reporting issuer under the securities legislation of each of the provinces of Canada. Were it not for the filing of the present CCAA proceedings, the Parent Petitioner would be applying to the relevant Canadian securities regulatory authorities for a decision that it no longer be a reporting issuer.
16. Until recently, the Zenabis Group had 1,085,000 sq. ft. of licensed cultivation space in Canada across the Atholville Facility, the Stellarton Facility and the Langley Facility (as these terms are defined below). The Zenabis Group also has a cannabis import, export and processing joint venture with ZenPharm, operating from Birżebbuġa, Malta.
17. Following the Arrangement in June 2021, the Zenabis Group continued operating as a going concern, supported operationally and financially by HEXO as needed from time to time.
18. However, commencing in the Fall of 2021, the Petitioners decided to proceed with a progressive rationalization of part of their operations that were either unprofitable or redundant, which ultimately led to the decommissioning of certain of its facilities and assets. The Zenabis Group continues to operate its business and cultivate cannabis with its remaining assets mainly at the Atholville Facility (as defined below), the whole as will be more fully detailed below.
19. For ease of reference only in the present Petition and not as part of a formal process, the various steps taken from time to time to rationalize, decommission, wind up, put in care and

maintenance and/or cease certain activities, operations or assets within the Zenabis Group after Fall 2021 will be referred to as the **Rationalization Process**.

20. As a result, the Zenabis Group currently owns a facility in Atholville, New Brunswick (the **Atholville Facility**), which is still operating, and a facility in Stellarton, Nova Scotia (the **Stellarton Facility**), where operations ceased on or about February 28, 2022, following a gradual scale-down and decommissioning initiated in November 2021.
21. The Petitioner Zenabis Operations Ltd. (**ZenOps**) also leased a facility in Langley, British Columbia (the **Langley Facility**); however, in the weeks leading up to the filing of the present proceedings, ZenOps has progressively wound down its activities at the Langley Facility, and the Langley Facility is currently not operating with respect to the production of cannabis.
22. As of the date hereof, the Zenabis Group is operating pursuant to one licence issued by Health Canada to Zenabis Ltd. (**ZenLtd**) for the purposes of the cultivation and processing and sale of medical and recreational cannabis out of the Atholville Facility. All other cannabis licences that were held by other entities of the Zenabis Group were either revoked, have expired, or were not renewed following the initiation of the Rationalization Process in or about November 2021.
23. The Zenabis Group has sold cannabis products from time to time pursuant to various supply agreements governing purchase orders in certain jurisdictions across Canada, or by supply arrangements made based on stand-alone purchase orders in certain other jurisdictions in Canada or abroad, as applicable. Although such supply agreements remain in place and are not terminated, certain agreements are not currently used as a result of the Rationalization Process, and only certain supply agreements entered into by ZenLtd with respect to products from the Atholville Facility are currently actively used and implemented.
24. The Zenabis Group's active product brands include *Zenabis* (medical cannabis), *Namaste* (recreational cannabis) and *Re-Up* (recreational cannabis).

B. Summary of Petitioners' Financial Situation and Insolvency

25. As of April 30, 2022, the Petitioners had aggregate liabilities in excess of \$128 million. The Petitioners are seeking creditor protection as they cannot meet such obligations as they become due, and their liabilities exceed the value of the assets of the Zenabis Group, as more detailed hereinafter.
26. Since the Arrangement of June 2021, the Zenabis Group has incurred significant operating losses and has not been profitable in its current form and with its current capital structure, which situation required the operational and financial support of HEXO from time to time with a view to the Zenabis Group attempting to eventually become profitable.
27. The Rationalization Process reduced operating expenses and allowed Zenabis to focus on the Atholville Facility as its key income-producing asset, including by having benefitted, following the Arrangement, from being able to access the business and network of its parent company HEXO as an outlet for its cannabis production. However, the Zenabis Group is still not profitable, does not generate sufficient income and cash flow on its own to meet its obligations as they become due, carries liabilities exceeding the value of its assets and is now insolvent.

28. In that context, the following factors have precipitated the need for creditor protection:
- (a) **Insufficient funds.** The Zenabis Group is currently operating at a loss and as such, is not generating sufficient cash flow to meet its liabilities as they become due. The liabilities of the Zenabis Group are greater than both the book and in all likelihood, the fair market value of its assets, and Zenabis is not in a position to seek further financing in the current circumstances. The Zenabis Group has been advised by its parent company, HEXO, that the latter does not have any intention to extend financing or inject further funds into the Zenabis Group at this point;
 - (b) **Bevo Dispute and Claims.** The recent deterioration of the dispute between ZenOps and Bevo Farms Ltd. (**Bevo Farms**) with respect to the Langley Facility Lease (as this term is defined below) has precipitated the need for the present filing;
 - (c) **Secured Debentureholder Dispute and Claims.** Ongoing negotiation between Zenabis Group and the Secured Debentureholder (as defined below), the Zenabis Group's senior secured creditor, did not result in a resolution of the dispute between them and repayment of the Secured Debentureholder's claims; however, the outcome of these discussions has resulted in the parties entering into the Stalking Horse Agreement and support from the Secured Debentureholder for the Zenabis Group's decision to seek creditor protection under the CCAA;
 - (d) **Long-term stability.** The need to stabilize the business of Zenabis Group and implement a transaction that will ensure the going concern in the long term.
29. As indicated above, the recent evolution of the dispute between ZenOps and its landlord at the Langley Facility, Bevo Farms, with respect to its Lease Agreement dated January 21, 2019, as amended or as amended and restated from time to time (the **Langley Facility Lease** and the **Bevo Dispute**), is an additional factor precipitating the need for creditor protection.
30. ZenOps has recently ceased its operational activities at the Langley Facility, has not been able to agree with Bevo Farms about certain alleged defaults and/or the terms pursuant to which this dispute could be settled and/or the Langley Facility Lease was to be terminated.
31. Consequently, on May 9, 2022, Bevo Farms terminated the Langley Facility Lease, and on May 13, 2022, Bevo Farms filed a Notice of Civil Claim with the Supreme Court of British Columbia against ZenOps, alleging significant financial claims.
32. In parallel, the Petitioners have been involved since early 2021 in a separate ongoing dispute between Zenabis Investments Ltd. (**ZenInv**) and the Petitioners' primary senior secured creditor, 2657408 Ontario Inc. (the **Secured Debentureholder**), a wholly-owned subsidiary of Sundial Growers Inc. (**Sundial**), over the Amended and Restated Debenture (Fifth Amendment) dated June 18, 2020 (prior to the Arrangement), issued by Sun Pharm Investments Ltd. (now known as Zenabis Investments Ltd.) to the Secured Debentureholder with a principal amount outstanding of approximately \$52 million due in 2025 (the **Zenabis Debenture**).
33. This dispute with the Secured Debentureholder, the details of which are outlined further below, is centred around two aspects: (i) royalty payments allegedly owing to the Secured

Debentureholder under the Zenabis Debenture; and (ii) the payment to the Secured Debentureholder of default interest (the **Secured Debentureholder Dispute**).

34. All of the Petitioners, other than ZenInv and ZGI Acquisition Corp., are guarantors under the Zenabis Debenture. ZenInv is not a guarantor as it is the issuer of the Zenabis Debenture.
35. Leading up to the decision to seek protection under the CCAA and to file the CCAA Petition, the parties have in the past weeks been in negotiation in order to resolve the Secured Debentureholder Dispute in a mutually acceptable manner, including by seeking the support of the Secured Debentureholder as Zenabis' primary senior secured creditor with respect to the commencement of the present CCAA proceedings in order to achieve a fulsome resolution of the issues of the Zenabis Group at hand, including the Secured Debentureholder Dispute, the whole in an orderly manner that is most beneficial to the stakeholders of the Zenabis Group in the present insolvency context.
36. If creditor protection is granted, the Petitioners intend to use the time afforded by the stay of proceedings to, among other things:
 - (a) monetize current cannabis inventory of the Zenabis Group in order to fund the restructuring process;
 - (b) expand, in the form of a SISP with the assistance of brokers, solicitation efforts in order to seek offers with respect to the sale of:
 - (i) the business based in the Altholville Facility as a going concern, which is likely the most valuable asset of the Zenabis Group; and
 - (ii) the Stellarton Facility, with respect to which offers have been solicited since February 2022, the whole in order to maximize the value of the assets and business of the Petitioners in doing so;

the whole in order to further maximize the value of the assets and business of the Petitioners, while facilitating as needed the definitive resolution and settlement of the claim of the Secured Debentureholder as the main secured creditor of the Petitioners; and
 - (c) implement any other restructuring options that may be beneficial for the restructuring of the Petitioners and for their stakeholders, including their creditors.
37. The Zenabis Group requires time and stability to implement the SISP, explore the various restructuring options available to it, and, in this process, maximize the value of its assets for the benefit of all of its creditors and other stakeholders.
38. The Petitioners believe that these proceedings are preferable to the alternatives, which would likely result in a disorganized liquidation that would significantly impair and negatively affect the value of their assets to the detriment of the various stakeholders of the Zenabis Group.

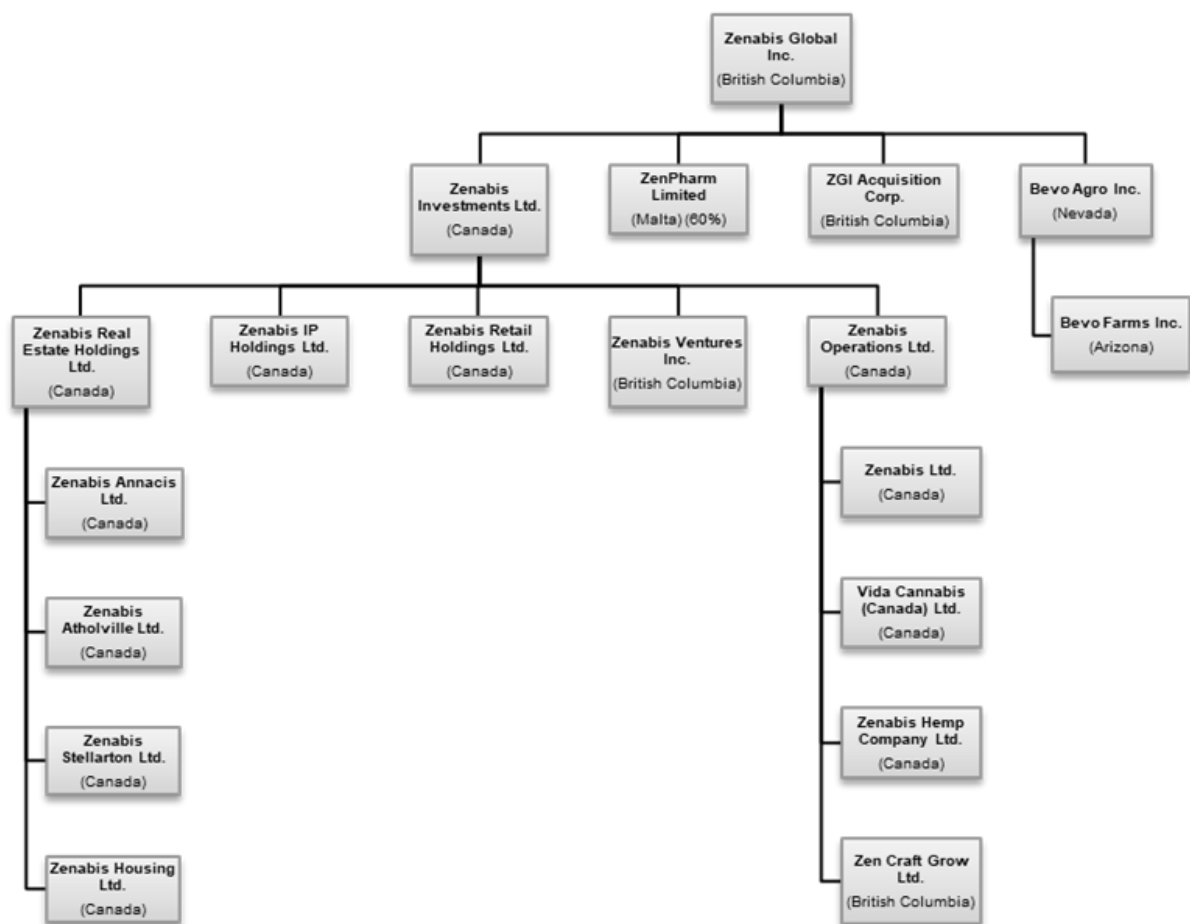
III. THE ZENABIS GROUP

39. The Parent Petitioner, Zenabis, was founded in 2014 and was originally known by the name of International Herbs Medical Marijuana Ltd.

A. Corporate Structure and Governance

40. Zenabis is a vertically integrated cannabis company. It has three direct wholly-owned subsidiaries:
- (a) ZenInv, which in turn owns a number of direct and indirect subsidiaries, as detailed further below;
 - (b) ZGI Acquisition Corp. (**ZGI AC**); and
 - (c) Bevo Agro Inc., which is a U.S. corporation like its wholly-owned subsidiary, Bevo Farms Inc., both of which are inactive corporations and are not part of the present proceedings as Petitioners.
41. Also, Bevo Agro Inc. and Bevo Farms Inc. are not related to Bevo Farms Ltd., the entity in dispute with Zenabis over the Langley Facility Lease. In fact, Bevo Farms Ltd. was a subsidiary of Zenabis until December 31, 2020, when Zenabis sold 99% of its shares to Langley Propagation and Floral Company Ltd. with the remaining 1% having been sold in March 2021, but Zenabis remained a tenant of Bevo Farms at the Langley Facility.
42. Zenabis also holds a 60% interest in ZenPharm, a Maltese legal entity, which is not a Petitioner in the present proceedings.

43. The following organizational chart illustrates the corporate structure of the Zenabis Group:



44. The registered offices of each of the Petitioners incorporated under the *Canada Business Corporations Act*, RSC 1985, c C-44 are located at 1, Place Ville Marie, Suite 2500, Montréal, Québec.
45. The registered offices of the Parent Petitioner and its subsidiaries incorporated under the *Business Corporations Act*, SBC 2002 c 57 is located at 510 West Georgia Street, Suite 1800, Vancouver, British Columbia.
46. Mr. Roch Vaillancourt is currently the sole director of each entity of the Zenabis Group.

B. Business and Operations

47. The Zenabis Group primarily operates its cannabis business through ZenOps, which itself owns, directly or indirectly, all of the outstanding shares of ZenLtd, Vida Cannabis (Canada) Ltd. (**Vida**), Zenabis Hemp Company Ltd. and Zen Craft Grow Ltd.
48. The Zenabis Group conducted its cultivation activities at the Atholville Facility in New Brunswick (380,000 sq. ft. indoor facility) and the Langley Facility in British Columbia (450,000 sq. ft. greenhouse), and its packaging, processing and manufacturing activities at the Stellarton Facility in Nova Scotia (255,000 sq. ft. indoor facility).

49. Historically, each facility had its own Health Canada licence(s) as follows:
- (a) **Atholville:** a licence for cultivation, processing, medical sales and recreational sales, held by ZenLtd, currently in effect and bearing number LIC-HY146R3MKV and expiring on July 12, 2024 (the **Atholville Licence**);
 - (b) **Stellarton:** a licence for cultivation and processing, which was held by Vida;
 - (c) **Langley:** a licence for cultivation and processing, and another licence for cultivation, which were both held by ZenLtd; and
 - (d) **All sites (Atholville, Stellarton and Langley):** a licence for research (palatability and sensory), which was held by ZenLtd.
50. However, as mentioned above, following the Arrangement in June 2021, the Zenabis Group progressively implemented during Fall 2021 and Winter 2022 a gradual scale down of its operations to eliminate redundancy in its production capacity and operations, reduce its costs and address its operating losses, the various steps having been taken in the context of the Rationalization Process.
51. As a result, as of the date hereof, the activities and operations of the Zenabis Group have been directed towards supplying cannabis to HEXO as well as continuing to supply its own customers, in both cases from the cannabis it produces at the Atholville Facility.
52. As such, as of the date hereof, from a sales and operations standpoint, the Zenabis Group operates through ZenLtd as the sole remaining Health Canada licensed entity for the production of cannabis at the Atholville Facility, which facility is owned by Zenabis Housing Ltd. Indeed, the Atholville Licence is now the only licence that has been renewed and is still in effect, the other ones having been allowed to expire or having been revoked in anticipation of ceasing activities at such facilities.
53. As mentioned earlier, the brands of cannabis currently sold on the recreational market by the Zenabis Group are the Namaste and the Re-Up brands.
54. For illustrative purposes, for the nine months ended April 30, 2022, the Zenabis Group had a net of revenue (including sales to HEXO and its other subsidiaries excluding the Zenabis Group) of approximately \$49.1M, which includes the sale of the brands Zenabis, Namaste and Re-Up.
55. The Zenabis Group does not currently employ any employees, with the production at the Atholville Facility being conducted by staff employed by a subsidiary of HEXO, HEXO Operations Inc., through arrangements between the Zenabis Group and HEXO that have been documented and formalized through a Transition Services Agreement effective as of May 1, 2022 (as explained in further detail below).
56. Finally, as appears from the Pre-Filing Report, the Zenabis Group's current monthly operating burn rate is approximately \$350,000, as follows:
- (a) General and administrative expenses of \$1.9 million;
 - (b) Salaries, benefits and management fee of \$1.3 million;

- (c) Financing costs of \$700,000; and
 - (d) Utilities and Rent Expense of \$650,000.
57. In addition to the monthly cash operating cash burn, the Zenabis Group is required to repay the principal amount of the Zenabis Debenture at a rate of approx. \$1.4 million per month as of April 2022.

C. Assets

58. Being a wholly-owned subsidiary of HEXO since the Arrangement, the Zenabis Group's financial results have been included in HEXO's consolidated financial statements, subject to appropriate adjustments per relevant financial reporting standards; however, on a non-consolidated basis, the financial statements for the Zenabis Group are only prepared in-house and are not subject to an audit specific to the Zenabis Group. As a result, the financial statements of Zenabis Group may not be used or relied upon by any third party for any purpose. The a copy of the unaudited consolidated interim financial statements prepared in-house by the Zenabis Group are attached as Appendix B to the Pre-Filing Report (the **Financial Statements**), Exhibit R-6.
59. The Financial Statements indicate that the Zenabis Group's assets were comprised of:
- (a) **Cash.** \$2.013 million in cash;
 - (b) **Account Receivables.** Approx. \$7.819 million;
 - (c) **Prepaid Expenses and Deposits.** Approx. \$2.784 million;
 - (d) **Inventory and Biological Assets.** \$34.958 million;
 - (e) **Plant, Property and Equipment.** Approx. \$27.619 million.

IV. LIABILITIES

60. The total indebtedness of the Zenabis Group is at least \$128 million, not taking into account the disputed claims with the Secured Debentureholder and Bevo Farms, and is in large measure made up of the following (all amounts being approximate, without interest, and for indication purposes only):
- (a) **Secured Debentureholder & the Zenabis Debenture:** Secured indebtedness (first ranking) owed to the Secured Debentureholder in principal under the Zenabis Debenture (not taking into account interest and disputed amounts): \$52 million;
 - (b) **Zenabis-HEXO Convertible Debenture:** In connection with the entering into of the Arrangement Agreement that gave rise to the Arrangement, the Parent Petitioner, Zenabis, issued an unsecured convertible debenture in an amount of \$19.5 million maturing on the earlier of February 15, 2023 and the date on which an event of default occurs (the **Zenabis-HEXO Convertible Debenture**), representing and evidencing a prior debt owing by Zenabis to HEXO in an amount of \$7.0 million, and a new loan and advance made by HEXO to Zenabis in order to have funded a settlement for a dispute by the Zenabis Group with a contractual counterparty. The

Zenabis-HEXO Convertible Debenture remains outstanding as of the date hereof for an amount of approximately \$20.76 million;

(c) **Unsecured indebtedness:**

- (i) Lease obligations (Bevo Farms): approx. \$12.6 million;
- (ii) Accounts payables and accrued liabilities: approx. \$11.9 million;
- (iii) Intercompany loans, mainly owed to HEXO (including the Zenabis-HEXO Convertible Debenture): approx. \$53.1 million.

A. The Zenabis Debenture

- 61. On or around October 17, 2018, Sun Pharm Investments Ltd. (now ZenInv) and guarantors of ZenInv entered into a Debenture in the principal amount of \$25,000,000 with the Secured Debentureholder (the **Original Zenabis Debenture**) as agent and nominee on behalf of certain lenders, not identified by name in the Original Zenabis Debenture.
- 62. On June 18, 2020, the Secured Debentureholder, ZenInv and guarantors from among the Zenabis Group entered into the current version of the Zenabis Debenture, which amended and restated the Original Zenabis Debenture. The principal amount outstanding under the Zenabis Debenture is approximately \$52 million and the maturity date for the repayment of principal amounts is March 31, 2025. The Zenabis Debenture bears interest at a rate of 14% *per annum*.
- 63. On December 29, 2020, Sundial acquired all of the issued and outstanding shares of the capital of the Secured Debentureholder. At the time, the principal amount outstanding under the Zenabis Debenture was \$58.9M.
- 64. The Zenabis Debenture is secured by all of the assets of ZenInv and its subsidiaries and is guaranteed by various Petitioners, including the Parent Petitioner.
- 65. Pursuant to the terms of the Zenabis Debenture, ZenInv also agreed to pay to the Secured Debentureholder a royalty (the **Royalty**) calculated on the basis of its own quarterly sales revenue from its medical, recreational and wholesale cannabis lines net of value added or sales taxes. The Zenabis Debenture also contains a provision and formula for a buyout of the Royalty by ZenInv.
- 66. As referred to above and further outlined below, there is currently a dispute between ZenInv and the Secured Debentureholder over the amount that is currently outstanding under the Zenabis Debenture. The disputed amount is significant and the dispute is centred around two aspects: (i) the calculation of the buyout amount of the Royalty; and (ii) the amount of default interest accrued and owed, if any. A prior petition filed by ZenInv with the Supreme Court of British Columbia was not determinative of the issues raised by the parties in relation to the foregoing.
- 67. As previously mentioned, at the present moment, the Zenabis Group estimates that the value of its assets is less than the current principal amount outstanding under the Zenabis Debenture.

B. High Trail

68. In connection with a senior secured convertible note issued by HEXO to HT Investments MA LLC (**High Trail**) in May 2021 (the **High Trail Note**), the entities within the Zenabis Group signed joinders to subsidiary guarantee agreements in December 2021 such that they each became a joint and several guarantor of HEXO's indebtedness to High Trail, and, between December 2021 and February 2022, depending on the jurisdiction in Canada, High Trail registered a security interest in all of the Petitioners' present and after-acquired personal property of the Zenabis Group, for an amount of \$700 million per entity.
69. HEXO's indebtedness to High Trail under the High Trail Note is currently estimated to be approximately US\$185 million. As disclosed to the markets by HEXO on April 12, 2022, HEXO and Tilray Brands, Inc. (**Tilray**) have entered into a definitive agreement pursuant to which, subject to the satisfactory completion of certain closing conditions, Tilray will acquire 100% of the outstanding principal balance of the High Trail Note, as appears from a copy of a press release dated April 12, 2022, communicated herewith as **Exhibit R-7**.
70. Subject to confirmation of the validity, opposability and perfection of the security interests registered over the assets of the Zenabis Group, the High Trail security interest is second ranking to the security interests of the Secured Debentureholder with respect to the Zenabis Debenture.

V. CHALLENGES FACING THE ZENABIS GROUP HAVING LED TO ITS INSOLVENCY

A. The Operations of the Zenabis Group Since the Arrangement

71. Prior to the filing of this Petition, it has become increasingly apparent that, despite the Arrangement, the financial and operational challenges of the Zenabis Group have remained.
72. The Zenabis Group has consistently produced negative cash flows due to a variety of factors, including market pressures caused by the fragmentation of the overall cannabis industry and the resulting downwards pressure on margins and general operational and financial underperformance by the Zenabis Group. These factors were compounded by the financial pressures resulting from Zenabis Group's obligations to its creditors, including the Secured Debentureholder and the landlord under the Langley Facility Lease, as detailed below.
73. For instance, annual lease payments are \$3,000,536 for the Langley Facility Lease, and annual cash interest payments on the Zenabis Debenture are, as at and including April 30, 2022, \$7,262,499.96 in addition to annual monitoring fees of \$1,260,000.

B. The Langley Facility Lease

74. The Langley Facility is a leased 450,000 sq. ft. greenhouse, which was previously retrofitted for cannabis cultivation and processing. The Langley Facility was licensed by Health Canada for Standard Cultivation and Standard Processing, as well as for the cultivation of hemp for industrial purposes in the form of flowering heads, leaves and branches. As mentioned above, these licences have since been revoked. The Langley Facility was also previously licensed for cannabis research and development, but the applicable licence was terminated on January 5, 2022.

75. The Langley Facility was leased by ZenOps for a term expiring on January 31, 2034. In August 2021, ZenOps began reducing its operations at the Langley Facility in order to realize synergistic cost savings. This process continued further under the Rationalization Process to scale down the operations of the Zenabis Group, and the decommissioning of certain assets was commenced approximately in October 2021.
76. On February 3, 2022 and May 3, 2022, Bevo Farms issued notices of default to ZenOps, alleging, notably, that ZenOps had defaulted under section 5.1(d) of the Langley Facility Lease, in that ZenOps had failed to continue to use the “Premises” to plant, cultivate, grow and harvest cannabis.
77. Despite the responses by ZenOps and its attempts to find a mutually agreeable resolution to this dispute, Bevo issued a notice of termination on May 9, 2022, thereby terminating the Langley Facility Lease on May 19, 2022. A copy of the aforementioned notice of termination is communicated herewith as **Exhibit R-8**.
78. On May 13 and 19, respectively, Bevo proceeded with the filing and service of a Notice of Civil Claim with the Supreme Court of British Columbia, seeking, *inter alia*, the payment of three months’ accelerated rent and the recovery of the amounts that would be owing under the remaining term of the Langley Facility Lease. This is a significant potential liability for ZenOps, given the length of the term remaining under the Langley Facility Lease. A copy of Bevo’s Notice of Civil Claim is communicated herewith as **Exhibit R-9**.
79. Considering the (i) positions taken by Bevo Farms and their potential consequences, even if contested by ZenOps, (ii) the precarious financial situation of the Zenabis Group and (iii) the outcome of the discussions with the Secured Debentureholder to date (as set out below) to resolve the dispute relating to the Zenabis Debenture, ZenOps decided in April 2022 to withhold any additional payment under the Langley Lease and to undertake the necessary steps for the Zenabis Group to seek protection under the CCAA.

C. Indebtedness Owing Under the Zenabis Debenture

80. As previously mentioned, on February 19, 2021, ZenInv filed a petition in the Supreme Court of British Columbia, seeking, among other things, a declaration of the amount required to be paid to satisfy in full all obligations and liabilities owing or payable by ZenInv or any guarantor to the Secured Debentureholder under or in connection with the Zenabis Debenture.
81. The Secured Debentureholder took the position that the amount to be paid to discharge the Zenabis Debenture and related security was approximately \$72 million, whereas ZenInv asserted that its indebtedness to the Secured Debentureholder at the time amounted to approximately \$53 million, the difference largely being related to whether a prepayment fee and default fees are payable under the Zenabis Debenture and to the amount required to buy out and discharge the Royalty.
82. The petition was heard on March 29, 30 and 31, April 1 and 15 and May 14, 2021. On December 17, 2021, the Supreme Court of British Columbia rendered judgment and concluded that, for procedural reasons, the proceedings had not been determinative of the issues raised by the parties and that the merits of these issues had yet to be determined.

83. The Court further found that, should ZenInv want to have the issues raised in the petition determined on their merits, it could prosecute its case by way of action as commenced by filing a notice of civil claim.
84. ZenInv and the Secured Debentureholder have since been discussing ways to resolve their ongoing dispute, but without success as of the date hereof. However, on May 17, 2022, the Secured Debentureholder issued to ZenInv a *Notice of Default and Reservation of Rights* in connection with the Zenabis Debenture, a copy of which is communicated herewith as **Exhibit R-10**.
85. Considering the Zenabis Group's current financial situation and the ongoing dispute with Bevo Farms, the Zenabis Group does not have the financial capacity to further pursue the resolution of the dispute between ZenInv and the Secured Debentureholder outside of a CCAA process.

VI. ZENABIS GROUPS' LIQUIDITY ISSUES

86. As of June 10, 2022, the Zenabis Group had remaining cash reserves of \$3.659 million.
87. Since the Arrangement and despite the Rationalization Process, the Zenabis Group has not yet achieved profitable operations and is expected to incur further losses and to generate negative cash flows from operations.
88. According to the Financial Statements, for the nine-month period ended April 30, 2022, the Zenabis Group reported a net loss of \$104.7M on net revenues of \$30.3M. As at April 30, 2022, the Zenabis Group had a shareholder deficit of \$45.2M with total assets of \$83.3M and total liabilities of \$128.5M, with an accumulated deficit of more than \$376 million.
89. The Zenabis Group's average monthly cash burn is approximately \$0.4 million. In addition, the Zenabis Group was required to begin making monthly principal payments of approximately \$1.4M to its Secured Debentureholder starting April 1, 2022. At this rate, and absent the protections available under the CCAA, the Zenabis Group will run out of cash in a matter of weeks and in advance of any anticipated resolution of the dispute with the Secured Debentureholder.

VII. THE CONTEMPLATED RESTRUCTURING AND THE NEED FOR CCAA RELIEF

A. The Restructuring Plan

90. In general terms, the restructuring plan of the Petitioners involves: (i) the monetization of the current cannabis inventory of the Zenabis Group; (ii) implementing the SISF and ensuring the closing of a transaction and a going concern outcome for the Atholville Facility as well as the Stellarton Facility, with the objective of maximizing the value of the assets of the Petitioners; (iii) completing a sale process for the Petitioners' remaining assets, if any; (iv) facilitating the definitive resolution, restructuring and/or settlement of the Secured Debentureholder Dispute and the secured claim of the Secured Debentureholder; and (v) implementing any other restructuring options that may be beneficial for the restructuring or the orderly wind down of the Petitioners.

91. More precisely, with the assistance of the Proposed Monitor in the SISP and in implementing a sale process for the remaining assets, if any, of the Zenabis Group can be expected to improve the odds of maximizing the value of the assets of the Zenabis Group, for the benefit of all of Zenabis' stakeholders, notably the Secured Debentureholder.
92. Indeed, the Petitioners' primary objective in seeking an initial order under the CCAA is to be afforded the time and shelter they require in order to pursue and bring to a conclusion their efforts to preserve and maximize the value of their most significant asset, the Atholville Facility and associated assets and goodwill, as well as their other remaining assets, the whole in the context of going concern transactions.
93. The Zenabis Group's limited cash and resources are being strained by the various crises facing the Zenabis Group, including the Langley Facility lease dispute and the Secured Debentureholder Dispute.
94. The Petitioners' efforts and resources ought to be focussed on the monetization of their inventory and the various asset sale processes (present and future), which are the only chance to preserve, and ultimately maximize, value for stakeholders, including the Secured Debentureholder.
95. The Petitioners require time and stability in order to focus on such asset sale processes without the distraction of pursuing non-value accretive litigation and proceedings.
96. The protection of the CCAA will also allow the Petitioners to benefit from the various restructuring tools available under the CCAA to facilitate any potential transaction or settlement between the Petitioners, the Secured Debentureholder and other stakeholders, the whole with a view to restructuring the Zenabis Group in an orderly manner and maximizing the creditors' recoveries.

B. The SISP

97. The SISP has been developed by the Petitioners, in consultation with the Proposed Monitor and with the support of the Secured Debentureholder, as a means of seeking to maximize the value of the Petitioners' assets, on a going concern basis.
98. The SISP, if approved by the Court, is to be conducted in accordance with the proposed Procedures for the Sale and Investment Solicitation Process (the **Bidding Procedures**) and is intended to solicit interest in, and opportunities for: (i) sales in respect of the Petitioners' business and/or assets; and/or (ii) an investment, restructuring, recapitalization, refinancing or other form of reorganization transaction, in respect of the Petitioners, as appears from a copy of the proposed Bidding Procedures, communicated herewith as **Exhibit R-11**.
99. The SISP is to be conducted by the Monitor in accordance with the Bidding Procedures. It is contemplated to be deployed in July 2022, with a two-phase bidding process according to the following timeline (subject to any extensions and modifications that may be made pursuant to, and in accordance with, the Bidding Procedures):

<u>Event</u>	<u>Date</u>
1. <u>Approval of Stalking Horse Agreement and Bidding Procedures</u>	July 5, 2022
Phase 1	
2. <u>Solicitation Letter</u> Monitor to distribute Solicitation Letter, to potentially interested parties	Starting on July 6, 2022
3. <u>CIM and VDR</u> Petitioners to prepare and have available for parties having executed the NDA (Potential Bidders) the CIM and VDR	July 7 to July 20, 2022
4. <u>Phase 1 Qualified Bidders & Bid Deadline</u> Phase 1 Bid Deadline (for delivery of non-binding LOIs by Phase 1 Qualified Bidders in accordance with the Bidding Procedures)	By no later than August 15, 2022, at 5:00 p.m. (prevailing Eastern Time)
5. <u>Phase 1 Satisfactory Bid</u> Monitor to notify each Phase 1 Qualified Bidder in writing as to whether its bid constituted a Phase 1 Satisfactory Bid	By no later than August 19, 2022, at 5:00 p.m. (prevailing Eastern Time)
6. <u>Approval Motion if No Other Bids</u> Filing of Approval Motion in respect of the Stalking Horse Agreement in the event that no other Phase 1 Satisfactory Bid is received and issuance of Approval and Vesting Order	Week of August 22, 2022
7. <u>Closing – No Other Bids</u> Anticipated deadline for closing of the Stalking Horse Agreement in the event that no other Phase 1 Satisfactory Bid is received	August 31, 2022
Phase 2 (if applicable)	
8. <u>Management Presentations</u>	August 22 to September 9, 2022
9. <u>Phase 2 Bid Deadline & Qualified Bidders</u> Phase 2 Bid Deadline (for delivery of definitive offers by Phase 2 Qualified Bidders in accordance with the Bidding Procedures)	By no later than September 21, 2022, at 5:00 p.m. (prevailing Eastern Time)
10. <u>Auction</u> Auction (if needed)	September 26, 2022
11. <u>Selection of final Successful Bid</u> Deadline for selection of final Successful Bid	By no later than September 28, at 5:00 p.m. (prevailing Eastern Time)

<u>Event</u>	<u>Date</u>
12. Definitive Documentation Deadline for completion of definitive documentation in respect of Successful Bid	By no later than October 12, 2022
13. Approval Motion – Successful Bid Deadline for filing of Approval Motion in respect of Successful Bid	Week of October 17, 2022
14. Closing – Successful Bid Anticipated deadline for closing of Successful Bid being the Target Closing Date	October 26, 2022 or such earlier date as is achievable
15. Outside Date – Closing Outside Date by which the Successful Bid must close	October 28, 2022

the whole as appears from the Bidding Procedures.

100. According to the above timeline, the Petitioners expect to be able to fund these CCAA proceedings and the SISF through their cash flows, as appears from the cash flow projections annexed to the Pre-Filing Report.
101. The Stalking Horse Bidder has concluded an agreement with the Petitioners to enter into a transaction whereby it would acquire all of almost all of the assets and business of the Petitioners in consideration of a credit bid of all or part of the amount outstanding on the Zenabis Debenture, the whole in accordance with the terms and conditions of the Stalking Horse Agreement, which is intended to be communicated and filed into the Court record prior to the initial hearing (the **Stalking Horse Bid**).
102. The Stalking Horse Bid would serve as a baseline transaction for the Petitioners with the potential for attracting a superior bid in the marketplace through the SISF. It would also, and most importantly, guarantee that a transaction will be implemented, hence ensuring a successful restructuring of the business and the continuation of same as a going concern, in the best interest of all stakeholders.
103. In the event the Stalking Horse Bid is retained in accordance with the Bidding Procedures, the Petitioners would seek Court-approval for the transactions contemplated in the Stalking Horse Agreement, which are expected to be implemented through a reverse vesting order (the **Approval and Vesting Order**). The structure of this transaction is justified in order to facilitate and accelerate the transition of the business in an efficient and orderly manner, including with respect to the maintaining of the cannabis licences with Health Canada which are essential to the Petitioners' business.
104. In the event the Stalking Horse Bid is not retained, and an alternative transaction is identified through the SISF, the Stalking Horse Bidder would be entitled to collect the reimbursement of its expenses in the amount of \$750,000 (the **Expense Reimbursement**), as compensation for the expenses incurred in connection with the preparation of the Stalking Horse Bid and the value added to the restructuring, in particular to the SISF. The Stalking Horse Agreement will include a condition requiring that the Expense Reimbursement be secured by a court-ordered charge (the **Transaction Charge**).

105. As noted above, the Petitioners have consulted with the Proposed Monitor as well as with the Secured Debentureholder, their most important creditor, in developing the SISP and the Bidding Procedures, which they consider to be in line with those used in other recent comparable insolvency proceedings.
106. Moreover, the Proposed Monitor is of the view that the SISP and the Bidding Procedures are reasonable and appropriate in the circumstances, as appears from the Pre-Filing Report.

VIII. REQUESTED RELIEF UNDER THE INITIAL ORDER

107. For the reasons mentioned above, the following relief is requested by the Petitioners.

A. Administration Charge

108. The Petitioners retained Norton Rose Fulbright Canada LLP (**Norton Rose Fulbright**) to assist with litigation matters and the restructuring.
109. The Proposed Monitor, EY, retained Osler, Hoskin & Harcourt LLP (together with EY and Norton Rose Fulbright, the **Professionals**) to assist with the fulfilment of its mandate in such capacity, should this Court grant the relief requested by the Petitioners.
110. To secure the fees and disbursements incurred in connection with services rendered by the Professionals, the Petitioners seek an Administration Charge on their current and future assets in the initial maximum amount of \$500,000. The Administration Charge will have the highest priority of the court-ordered charges (collectively, the **Charges**) created by the proposed form of Initial Order.
111. Considering the nature of this file, which contemplates the conclusion of a complex, multifaceted transaction, it is respectfully submitted that the amount of the Administration Charge should be increased at the Comeback Hearing and that the amount of \$750,000 is appropriate in order to secure the fees of the Professionals.
112. The Petitioners have worked with the Proposed Monitor to determine the proposed quantum of the Administration Charge and believe it to be reasonable and appropriate in the circumstances, in light of the services to be provided by beneficiaries of the proposed Administration Charge. Specifically, the Petitioners require the expertise, knowledge and continuing participation of the intended beneficiaries of the Administration Charge in these proceedings, and the Petitioners believe that said professionals are unlikely to continue providing these essential services to the Petitioners if the Administration Charge is not granted, in the amounts set forth above.

B. Directors' and Officers' Charge

113. To ensure the ongoing stability of the Zenabis Group's business and the continued participation of the Petitioners' directors and officers during the CCAA period, Zenabis Group requires the continued participation of Mr. Roch Vaillancourt as a director and officer of each of the Petitioners.
114. The Zenabis Group has also retained the services of Curtis G. Solsvig III of the advisory firm Teneo Holdings LLC (**Teneo**) to oversee the management of its affairs and assist in

keeping the Zenabis Group stable and productive during the CCAA period. Mr. Curt Solsvig at Teneo will act on a consultancy basis as Chief Restructuring Officer (**CRO**) during the present proceedings.

115. Due to the potential for personal liability, it is necessary that the Initial Order create a D&O Charge (as defined below) to secure the Zenabis Group's indemnity obligations to the directors and officers, as well as Teneo, for potential liability that may arise post-filing, in order for Mr. Vaillancourt to remain as a director and for and Mr. Solsvig to act as CRO consultant during the CCAA period.
116. With the assistance of the Proposed Monitor, the Petitioners have calculated that certain director and officer's liabilities, namely value-added tax amounts, may accrue to approximately \$1,700,000 between the payment cycles applicable to those amounts.
117. At the initial hearing, the Petitioners therefore request a D&O Charge in favour of their directors and officers in the amount of \$800,000 to cover potential liability that may arise during the period between the Initial Order and the ARIO. The D&O Charge will then be increased to \$1,700,000 at the Comeback Hearing. It is proposed that this D&O Charge would rank second in the priority of the Charges. The benefit of the proposed D&O Charge will only be available to the directors and officers to the extent that a liability is not covered by the D&O Insurance (as defined below).
118. The directors and officers of entities of the Zenabis Group may benefit and be covered by a captive directors and officers liability insurance set up by HEXO and extended to the Zenabis Group (the **D&O Insurance**). The current D&O Insurance policies provide a total of \$30 million of coverage, however, such coverage is limited to "Side A", namely the insurer is only responsible to pay insurance for covered amounts up to the limit that the relevant company cannot pay. Furthermore, the D&O Insurance covers the directors and officers of HEXO and all of its subsidiaries, and not only the directors and officers of the Zenabis Group.
119. In these circumstances, the coverage of the D&O Insurance may be insufficient. The issuance of the D&O Charge is therefore appropriate, it being understood that the D&O Charge would only be used to the extent that the D&O Insurance would not be sufficient to cover any liabilities that are sought to be covered by the D&O Charge.
120. It is respectfully submitted that the D&O Charge is reasonable and appropriate in the circumstances and that it should be approved.

C. Proposed Ranking of Court Ordered Charges

121. To summarize, the proposed ranking of the Charges is as follows:
 - (a) First, the Administration Charge;
 - (b) Second, the D&O Charge; and
 - (c) Third, the Transaction Charge.

D. Stay of Proceedings

122. In the draft Initial Order, the Petitioners are requesting a Stay Period until the Comeback Hearing, which shall be extended until on or about September 26, 2022 (which date will be confirmed at the Comeback Hearing) upon the issuance of the ARIO, as the case may be.
123. The Petitioners are also requesting the issuance of orders suspending any and all continuous disclosure, reporting and filing obligations of, and audit committee requirements applicable to, the Parent Petitioner as a result of its status as a reporting issuer of each of the provinces in Canada, subject to Canadian securities laws, rules, regulations and policy statements.
124. As mentioned above, given the current Canadian and American national holiday seasons, the Petitioners request that a deemed extension to the Stay Period be authorized subject to the contestation mechanism provided for in the Initial Order.

E. Appointment of the Proposed Monitor

125. The draft Initial Order also seeks the appointment of EY as the Proposed Monitor in the CCAA proceeding. EY is prepared to act as Monitor during the CCAA proceeding and to assist the Petitioners with all aspects of a restructuring pursuant to, and subject to, the terms of the Initial Order of the Court and the statutory provisions of the CCAA.
126. EY is a trustee within the meaning of section 2 of the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3, as amended, and has advised that it is not subject to any of the restrictions that are set out in section 11.7(2) of the CCAA.

F. Sealing of Confidential Documents

127. The Petitioners request that the Appendices B, D and E of the Pre-Filing Report, Exhibit R-6 be filed under seal.
128. These documents provide information as to the internal affairs of the Petitioners which might give an undue advantage to third parties or cause them harm. A redacted copy of Exhibit R-6 will, however, be posted on the Monitor's website.
129. The Petitioners are no longer listed public companies since the Arrangement, and their financial statements are therefore not public. Although many financial details are contained herein and in the redacted copy of the Pre-Filing Report, the Petitioners wish to keep confidential the rest of the information contained in the financial statements and the aforementioned appendices filed herewith under seal, as they may become of interest to third parties depending on the next steps of the restructuring process.
130. Furthermore, given the interim and unaudited nature of the Financial Statements, they should not be relied upon by third parties outside the context of the present proceedings.

G. The Bidding Procedures Order

131. As noted above, the Petitioners have developed the SISP and the Bidding Procedures in consultation with the Proposed Monitor with a view to identifying a viable transaction as quickly and efficiently as possible that will meet their immediate and long-term needs.

132. The Petitioners have determined that their preferred means of seeking to maximize value for their stakeholders is by conducting the SISP with a stalking horse. As explained above, the SISP is to be conducted by the Monitor in two phases and according to the contemplated timeline and other conditions set out in the Bidding Procedures.
133. The SISP enhances the prospect of receiving a bid that would be superior in value to the Stalking Horse Bid. If such a superior bid is received in Phase 2, it is noteworthy that the Bidding Procedures also provide for an auction to take place to further increase the potential value offered for the Petitioners' business and/or assets.
134. The Secured Debentureholder has agreed to act as Stalking Horse Bidder in the context of the SISP, the whole with the objective of facilitating the proposed restructuring and allowing the Petitioners to emerge as a going concern business.
135. As noted above, the Stalking Horse Bid allows the Petitioners to secure a transaction guaranteeing the future of Zenabis Group's business while the SISP sets up a fair and open sale process that will aim to maximize the value of the Petitioners' assets, the whole to the benefit of the Petitioners' stakeholders.
136. The approval of the Stalking Horse Bid as part of the SISP is therefore hereby requested, although the approval of the transactions contemplated in the Stalking Horse Agreement, including the anticipated Approval and Vesting Order, will be sought at a later date in the event the Stalking Horse Bid is retained as the successful bid.

IX. TRANSITION SERVICES

137. As previously mentioned, since the Arrangement and the resulting Rationalization Process, the Zenabis Group has undertaken significant reductions in its costs.
138. In this context, HEXO has assisted the Zenabis Group from time to time by providing certain services, such as management, production, human resources, finance, tax, accounting, legal, corporate secretariat, procurement, marketing and sales (collectively, the **Services**) in order to allow the Zenabis Group to operate.
139. However, in the period leading up to the filing of this Petition, HEXO has informed the Petitioners that it is no longer willing to provide the Services without a reasonable arm's-length compensation.
140. To minimize the impact of this decision on the present restructuring efforts, HEXO has agreed to maintain certain necessary Services for the duration of the SISP and to provide employees to the Zenabis Group pursuant to the terms of a Transition Services Agreement dated as of May 1, 2022 (the **Transition Services Agreement**), a copy of which is communicated hereto as **Exhibit R-12**.
141. The expenses incurred by the Zenabis Group under the Transition Services Agreement have been accounted for in the Monitor's Cash Flow Forecast (as defined below). The Zenabis Group is expected to have sufficient cash to fund the procurement of Services, which are essential to the success of its restructuring efforts.

X. CASH FLOW FORECAST

142. As set out in the cash flow forecast (the **Cash Flow Forecast**) attached under seal as Appendix E to the Pre-Filing Report, over the period ending October 2, 2022, the Petitioners are expected to have a net cash flow that will allow them to honor the post-filing debts in the normal course of business.
143. The Petitioners' Cash Flow Forecast projects that, subject to obtaining the relief sought in this Petition, the Zenabis Group will have sufficient cash to fund its projected operating costs until the end of the Stay Period.

XI. CONCLUSION

144. The Petitioners believe that it is wholly appropriate for the orders requested herein to be made forthwith seeing as they find themselves in dire financial circumstances, are insolvent, are not able to meet their obligations and require a stay of proceedings for the benefit of their creditors and other stakeholders.
145. The Proposed Monitor has informed the Petitioners that it supports their petition and the issuance of an order taking substantially the form of the draft Initial Order and the draft ARIO, as appears from a copy of the Pre-Filing Report, EXHIBIT R-6.
146. Considering the foregoing, it is in the best interest of the Petitioners and their stakeholders that the Initial Order and the ARIO be granted by this honourable Court.

FOR THESE REASONS, MAY IT PLEASE THE COURT TO:

GRANT the present *Petition for the Issuance of (i) a First Day Initial Order and (ii) an Amended and Restated Initial Order*,

AT THE FIRST DAY HEARING, ISSUE a first day initial order in the form of the draft Initial Order communicated as **Exhibit R-1**;

AT THE COMEBACK HEARING, ISSUE an amended and restated initial order in the form of the draft ARIO communicated as **Exhibit R-3**;

THE WHOLE without costs, except in case of contestation.

Montréal, June 15, 2022

Norton Rose Fulbright Canada LLP

NORTON ROSE FULBRIGHT CANADA LLP

(Mtres. Luc Morin, Guillaume Michaud and Arad Mojtahedi)
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Our reference: 1001207502

AFFIDAVIT OF

I, the undersigned, Curt Solsvig, the consultant Chief Restructuring Officer of each petitioner corporation including Zenabis Global Inc., residing at 207 Farms Road in the city of Stamford, State of Connecticut, United States, solemnly affirm that:

1. I am the authorized representative of the Petitioners and, as such, I have cognizance of all the facts in the present matter;
2. All the facts alleged in the *Petition for the Issuance of (i) a First Day Initial Order and (ii) an Amended and Restated Initial Order* are true.

AND I HAVE SIGNED:

Curtis G. Solsvig III

CURTIS G. SOLSVIG III

Solemnly declared before me at Montreal,
this 15th day of June, 2022

Rebecca Thibeault 

Rebecca Thibeault-Doonan (208,252)
Commissioner of Oaths for Province of Quebec

CANADA
PROVINCE OF QUÉBEC
DISTRICT OF MONTREAL

SUPERIOR COURT
(Commercial Division)
(Sitting as a court designated pursuant to the
Companies' Creditors Arrangement Act, R.S.C.
1995, c. 36, as amended)

N°:

***IN THE MATTER OF THE COMPROMISE OR
ARRANGEMENT OF:***

**ZENABIS GLOBAL INC.,
ZGI ACQUISITION CORP.,
ZENABIS INVESTMENTS LTD.,
ZENABIS REAL ESTATE HOLDINGS LTD.,
ZENABIS ANNACIS LTD.,
ZENABIS ATHOLVILLE LTD.,
ZENABIS STELLARTON LTD.,
ZENABIS HOUSING LTD.,
ZENABIS IP HOLDINGS INC.,
ZENABIS RETAIL HOLDINGS INC.,
ZENABIS VENTURES INC.,
ZENABIS OPERATIONS LTD.,
ZENABIS LTD.,
VIDA CANNABIS (CANADA) LTD.,
ZENABIS HEMP COMPANY LTD.,
ZEN CRAFT GROW LTD.**

Petitioners

and

ERNST & YOUNG INC.

Monitor

**NOTICE OF PRESENTATION
COMMERCIAL DIVISION (ROOM 16.10)**

To: **THE SERVICE LIST (See attached)**

1. PRESENTATION OF THE PROCEEDING

TAKE NOTICE that the *Petition for the Issuance of (i) a First Day Initial Order and (ii) an Amended and Restated Initial Order* will be presented for adjudication before the Commercial Division of the Superior

Court of Québec, in room 16.10, of the Montréal Courthouse, at the **virtual calling of the roll** on June 17, 2022, at 8:45 a.m., or so soon thereafter as counsel may be heard.

2. HOW TO JOIN THE VIRTUAL CALLING OF THE ROLL

The coordinates for you to join the virtual calling of the roll in room 16.10 are as follows:

a) By Teams: via the Teams link (available on the website <http://www.tribunaux.qc.ca>)

You must fill in your name and click on “Join now” (“*Rejoindre maintenant*”). To facilitate the process and identification of participants, we invite you to fill in your name as follows:

Attorneys: Mtre Name, Surname (Name of the party you represent)

Trustees: Name, Surname (Trustee)

Superintendent: Name, Surname (Superintendent)

Parties not represented by a lawyer: Name, Surname (specify : Plaintiff, Defendant, Petitioner, Respondent, Creditor, Opponent or Other)

Persons attending a public hearing may simply indicate “public”.

b) By telephone:

Canada, Québec (Charges may apply): +1 (581) 319-2194

Canada (Toll free): (833) 450-1741

Conference ID: 820 742 874#

c) By VTC videoconference: teams@teams.justice.gouv.qc.ca

VTC Conference ID: 1193653703

d) In person, if and only if you do not have access to one of the above mentioned technological means of connecting, you may then attend in room 16.10 of the Montreal Courthouse located at : 1, Notre-Dame Street East, Montréal, Québec.

3. FAILURE TO PARTICIPATE IN THE VIRTUAL CALLING OF THE ROLL

TAKE NOTICE that if you wish to contest the proceeding, you must inform in writing the party that initiated the proceeding at the contact information mentioned in the present Notice of Presentation at least 48 hours before the date of presentation of the proceeding and participate at the virtual calling of the roll, failing which, judgment may be rendered against you during the presentation of the proceeding, without further notice or delay.

4. OBLIGATIONS

4.1 Duty of cooperation

TAKE NOTICE that the parties are duty-bound to co-operate and, in particular, to keep one another informed at all times of the facts and particulars conducive to a fair debate and make sure that relevant evidence is preserved. (*Code of Civil Procedure*, art. 20).

4.2 Dispute prevention and resolution processes

TAKE NOTICE hat before referring your dispute to the Court, you must consider private dispute prevention and resolution processes, which consist of negotiation between the parties as well as mediation and arbitration, in which the parties call on a third person to assist them (*Code of Civil Procedure*, art. 2).

DO GOVERN YOURSELF ACCORDINGLY.

Montréal, June 16, 2022



NORTON ROSE FULBRIGHT CANADA LLP

(Mtres. Luc Morin, Guillaume Michaud and Arad Mojtahedi)
Attorneys for the Petitioners

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Our reference: 1001207502

CANADA
PROVINCE OF QUÉBEC
DISTRICT OF MONTREAL

SUPERIOR COURT
(Commercial Division)
(Sitting as a court designated pursuant to the
Companies' Creditors Arrangement Act, R.S.C.
1995, c. 36, as amended)

N°:

***IN THE MATTER OF THE COMPROMISE OR
ARRANGEMENT OF:***

**ZENABIS GLOBAL INC.,
ZGI ACQUISITION CORP.,
ZENABIS INVESTMENTS LTD.,
ZENABIS REAL ESTATE HOLDINGS LTD.,
ZENABIS ANNACIS LTD.,
ZENABIS ATHOLVILLE LTD.,
ZENABIS STELLARTON LTD.,
ZENABIS HOUSING LTD.,
ZENABIS IP HOLDINGS INC.,
ZENABIS RETAIL HOLDINGS INC.,
ZENABIS VENTURES INC.,
ZENABIS OPERATIONS LTD.,
ZENABIS LTD.,
VIDA CANNABIS (CANADA) LTD.,
ZENABIS HEMP COMPANY LTD.,
ZEN CRAFT GROW LTD.**

Petitioners

and

ERNST & YOUNG INC.

Monitor

LIST OF EXHIBITS

(In support of the *Petition for the Issuance of (i) a First Day Initial Order and (ii) an Amended and Restated Initial Order*)

EXHIBIT R-1: Draft Initial Order;

EXHIBIT R-2: Comparison between the Draft Initial Order (R-1) and the model Initial Order issued by the Bar of Montréal;

- EXHIBIT R-3:** Draft Amended and Restated Initial Order (ARIO) to be sought at the Comeback Hearing;
- EXHIBIT R-4:** Comparison between the Draft ARIO to be sought at the Comeback Hearing (R-3) and the model Initial Order issued by the Bar of Montréal;
- EXHIBIT R-5:** Draft Bidding Procedures Order;
- EXHIBIT R-6:** **APPENDICES B, D & E UNDER SEAL** – Pre-Filing Report issued by the Proposed Monitor;
- EXHIBIT R-7:** Press Release dated April 12, 2022;
- EXHIBIT R-8:** Notice of Termination issued by Bevo on May 9, 2022;
- EXHIBIT R-9:** Bevo's Notice of Civil Claim with the Supreme Court of British Columbia;
- EXHIBIT R-10:** Notice of Default and Reservation of Rights issued by the Secured Debentureholder to ZenInv dated May 17, 2022;
- EXHIBIT R-11:** Proposed Procedures for the Sale and Investment Solicitation Process (the Bidding Procedures);
- EXHIBIT R-12:** Transition Services Agreement dated as of May 1, 2022.

Montréal, June 15, 2022

Norton Rose Fulbright Canada LLP

NORTON ROSE FULBRIGHT CANADA LLP

(Mtres. Luc Morin, Guillaume Michaud and Arad Mojtahedi)
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