Court File No. CV-20-00638930-00CL

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

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

AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF CANNTRUST HOLDINGS INC., CANNTRUST INC., CTI HOLDINGS (OSOYOOS) INC. AND ELMCLIFFE INVESTMENTS INC.

SECOND REPORT OF THE MONITOR

Dated May 4, 2020

INTRODUCTION

1. On March 31, 2020, CannTrust Holdings Inc. ("**CannTrust Holdings**"), CannTrust Inc., CTI Holdings (Osoyoos) Inc. and Elmcliffe Investments Inc. (each an "**Applicant**" and, collectively, the "**Applicants**" or "**CannTrust**") brought an application before this Court seeking an initial order pursuant to the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended ("**CCAA**") to, among other things, obtain a stay of proceedings to allow them an opportunity to restructure their business and affairs.

2. On March 31, 2020 (the "**Filing Date**"), the Court granted an initial order (the "**Initial Order**") in these proceedings (the "**CCAA Proceedings**") that, among other things, appointed Ernst & Young Inc. as monitor of the Applicants (in such capacity, the "**Monitor**"), approved a stay of proceedings until and including April 9, 2020 (the "**Stay Period**"), granted certain Court-ordered charges, and approved FTI Consulting Canada Inc. continuing to act as Chief Restructuring Officer (the "**CRO**") of the Applicants. In addition, the Initial Order granted a limited stay of proceedings during the Stay Period with

respect to O Cannabis We Stand on Guard For Thee Corporation, Cannatrek Ltd., Elmcliffe Investments [No. 2] Inc. and Cannabis Coffee and Tea Pod Company Ltd. staying any rights arising out of, related to, or triggered by the insolvency of any of the Applicants or the commencement of the CCAA Proceedings.

3. On April 9, 2020, the Court granted an order (the "**Amended and Restated Initial Order**") that, amongst other things:

a) extended the Stay Period to July 5, 2020;

b) increased the maximum amount of each of the Administration Charge, the Directors' Charge and the Intercompany Charge, as defined in the Initial Order;

c) approved Greenhill & Co. Canada Ltd. continuing to act as financial advisor (the "**Financial Advisor**") of the Applicants and approved the Transaction Fee Charge (as defined in the Amended and Restated Initial Order);

d) approved a priority charge for the Transaction Fee (the "**Transaction Fee Charge**"); and

e) approved a limited stay of proceedings in respect of various current and former directors, officers and employees of CannTrust, and the auditors, certain underwriters and certain selling shareholders (the "**Other Defendants**") that are currently named, in addition to the Applicants, as defendants in the Canadian Class Actions, the Zola Action, the US Class Actions and the Construction Action (collectively, the "**Pending Litigation**"), all as defined in the initial affidavit of Greg Guyatt dated March 31, 2020 (the "**March 31 Guyatt Affidavit**").

PURPOSE

4. The purpose of this second report of the Monitor (the "**Second Report**") is to provide information to the Court on:

   a) the Applicants' activities since the Monitor's first report dated April 7, 2020 (the "**First Report**");

   b) the Applicants' proposed sales and investment solicitation process (the "**SISP**");

   c) the Applicants' proposed claims procedure (the "**Claims Procedure**");

   d) the Applicants' proposed mediation process (the "**Mediation Process**"); and

   e) the Applicants' receipts and disbursements for the period from April 6, 2020 to April 26, 2020 compared to the cash flow forecast appended as Appendix "**B**" to the First Report (the "**Cash Flow Forecast**").

TERMS OF REFERENCE

5. In preparing this Second Report and making the comments herein, the Monitor has been provided with, and has relied upon, unaudited financial information, books and records prepared by the Applicants, discussions with management of the Applicants ("**Management**"), and information from other third-party sources (collectively, the "**Information**"). Except as described in this Second Report in respect of the Cash Flow Forecast and Variance Analysis:

   (a) the Monitor has reviewed the Information for reasonableness, internal consistency and use in the context in which it was provided. However, the Monitor has not audited or otherwise attempted to verify the accuracy or completeness of such information in a manner that would wholly or partially comply with Generally Accepted Assurance Standards ("**GAAS**") pursuant to the Chartered Professional Accountants Canada Handbook and, accordingly, the Monitor expresses no opinion or other form of assurance contemplated under GAAS in respect of the Information; and

(b) some of the information referred to in this Second Report consists of forecasts and projections. An examination or review of the financial forecast and projections, as outlined in the Chartered Professional Accountants Canada Handbook, has not been performed.

6. Future oriented financial information referred to in this Second Report was prepared based on Management's estimates and assumptions. Readers are cautioned that since projections are based upon assumptions about future events and conditions that are not ascertainable, the actual results will vary from the projections, even if the assumptions materialize, and the variations could be significant.

7. Unless otherwise indicated, the Monitor's understanding of factual matters expressed in this Second Report concerning the Applicants and their business is based on the Information, and not independent factual determinations made by the Monitor.

8. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian dollars.

9. Unless otherwise specified, capitalized terms not defined herein are as defined the Amended and Restated Initial Order.

BACKGROUND

10. CannTrust was founded in 2013 and, prior to the partial suspension of its Cannabis Licences (as that term is defined below), was a licensed producer that supplied cannabis to the medical and adult-use recreational cannabis markets. The principal activities of CannTrust were the cultivation, processing, distribution, and sale of dried cannabis flower, cannabis soft gel capsules, and cannabis oil.

11. Anyone wishing to cultivate, process and/or sell cannabis in Canada must have a license from Health Canada to do so. In addition to issuing licences, Health Canada is responsible for ensuring compliance with, and enforcement of, the *Cannabis Act*, S.C. 2018, c-16 and the *Cannabis Regulations,* SOR/2018-144 (together, the "**Cannabis Legislation**"). CannTrust Inc., a wholly owned subsidiary of CannTrust Holdings, is a licensed producer of cannabis under the Cannabis Legislation, with production and processing facilities in Fenwick, Ontario (the "**Fenwick Facility**") and Vaughan, Ontario (the "**Vaughan Facility**"). The licences issued in respect of the Fenwick Facility and the Vaughan Facility are referred to herein as the "**Cannabis Licences**" (each, a "**Cannabis Licence**"). As explained in the March 31Guyatt Affidavit, CannTrust's Cannabis Licences are currently under partial suspension.

12. CannTrust derived the majority of its revenue from the sale of medical cannabis to registered patients for medical use. By March 31, 2019, CannTrust had approximately 68,000 registered patients in Canada, which was among the top tier of Cannabis Licence holders by patient count. CannTrust also sold its product in the wholesale market to provincial distributors which ultimately supply the adult-use recreational market. As at March 31, 2019, wholesale revenue represented 32.5% of CannTrust's total revenue.

13. In addition to its production and processing facilities in Ontario, CannTrust also owns 81 acres of land in British Columbia, through its wholly owned subsidiary CTI Holdings (Osoyoos) Inc., which was purchased with the intent to commence outdoor cannabis cultivation. CannTrust applied to Health Canada for a licence to plant and cultivate on these lands. CannTrust has not been informed of Health Canada's decision to date.

14. Prior to commencing these proceedings, CannTrust was listed on the Toronto Stock Exchange under the ticker TRST and the New York Stock Exchange under the ticker CTST.

15. All court documents and materials related to these CCAA Proceedings have been posted on the Monitor's website at www.ey.com/ca/canntrust (the "**Monitor's Website**").

UPDATE ON THE ACTIVITIES OF THE APPLICANTS

16. On February 14, 2020, CannTrust submitted a comprehensive package to Health Canada evidencing that it had completed the remediation plan for the Fenwick Facility and requested the reinstatement of its Cannabis Licence for the Fenwick Facility. CannTrust has since received and responded to questions from Health Canada regarding the remediation and is awaiting Health Canada's decision regarding reinstatement.

17. On April 17, 2020, CannTrust submitted a comprehensive package to Health Canada evidencing that it had completed the remediation plan for the Vaughan Facility and requested the reinstatement of its Cannabis Licence at that location as well. CannTrust is awaiting Health Canada's decision regarding reinstatement.

18. Since the First Report, the Applicants have focused on continuing activities to reinstate their Cannabis Licenses. As part of this preparation, the Applicants have considered their existing organization structure and future personnel requirements to develop a more effective structure and reviewed existing contractual agreements. The Applicants' operations have been stabilized, and there has been no significant disruption to the business as of the date of this Second Report.

19. The Applicants have been able to negotiate with their vendors and, when applicable, have brought certain vendors forth to the Monitor for consultation and approval of that vendor being paid amounts owing for goods or services supplied prior to the Filing Date on the basis that the supplier is critical to the ongoing operations of the Applicants and such payment was required to ensure continued supply. To date, the Monitor has approved such critical supplier payments totalling approximately $20,000.

20. On April 8, 2020, the Monitor was made aware that the Ontario Securities Commission (the "**OSC**") intended to issue a cease trade order with respect to the securities of CannTrust Holdings (the "**Cease Trade Order**") and was asked by the OSC if the Monitor had any issues regarding the imposition of the Cease Trade Order. After consulting with the Applicants and their counsel, and considering the provisions of the Initial Order which approved the decision by CannTrust Holdings to incur no further expenses to cure its disclosure defaults under applicable securities legislation, the Monitor indicated to the OSC that it did not have issues with respect to the imposition of the Cease Trade Order.

21. On April 13, 2020, the Cease Trade Order was issued by the OSC, and received by CannTrust Holdings, as a result of CannTrust Holdings' failure to file certain periodic disclosure required by Ontario securities legislation.

22. On April 28, 2020, the Monitor received notice from the United States Financial Industry Regulatory Authority ("**FINRA**") that a trading symbol "CNTTQ" has been assigned to the Applicants' common shares by FINRA's Department of Market Operations effective April 14, 2020 and that the common shares may be quoted and traded in the market for unlisted securities (i.e., the "over-the-counter market") in the United States.

SUMMARY OF THE PROPOSED SALE AND INVESTMENT SOLICITATION PROCESS

23. The Applicants, in consultation with the CRO, the Financial Advisor and the Monitor, have developed the SISP to explore both sale and recapitalization options for all or part of CannTrust's assets and business operations. As the Financial Advisor has familiarity with the business and transaction options available to the Applicants, the SISP contemplates that the Financial Advisor will be primarily responsible for carrying out the SISP, in consultation with the Monitor.

24. A summary of the proposed SISP is set out below. Reference should be made to the complete text contained in an appendix to the order contained at Tab 3 to the Motion Record of the Applicants dated May 1, 2020 (the "**SISP Order**"), which is reproduced herein as Appendix "**A**" to this Second Report. In this section, capitalized terms not otherwise defined herein are as defined in the proposed SISP Order.

25. The timeline of events relating to the proposed SISP are as follows:

Milestone	Deadline
The Applicants will arrange for notice of the SISP (the "**SISP Notice**") to be published in the Globe and Mail (National Edition) and any other publication it considers appropriate; and issue a press release containing similar information as the Notice (the "**SISP Press Release**").	No later than May 15, 2020
The Financial Advisor will send the Teaser Letter (as defined below) and a non-disclosure agreement (the "**NDA**") to all Known Potential Bidders (as defined below). The Monitor will post the SISP Notice, the SISP Press Release, the Teaser Letter and the NDA on the Monitor's Website.	No later than May 20, 2020
Phase 1 Bid Deadline	June 22, 2020 (5:00 pm Eastern Time)
The Financial Advisor will send the Bid Process Letter (the "**Phase 2 Bid Process Letter**") to Phase 2 Qualified Bidders, and it will be posted by the Monitor on the Monitor's Website	Sent to all Phase 2 Qualified Bidders after June 22, 2020
Phase 2 Bid Deadline	To be specified in Phase 2 Bid Process Letter
Outside Closing Date	To be specified in Phase 2 Bid Process Letter

Overview of the SISP

26. The Applicants have proposed a flexible SISP, designed to maximize the opportunities for sale of, or investment in, all or part of the Applicants' assets and business operations (the "**Opportunity**"). These opportunities may include one or more of a restructuring, recapitalization or other form or reorganization of the business and affairs of the Applicants as a going concern, or a sale of all, substantially all or one or more components of the Applicants' assets (the "**Property**") and business operations (the "**Business**"), as a going concern or otherwise.

27. The Applicants, with the assistance of the Financial Advisor, and in consultation with the Monitor, will develop a list of potential bidders (the "**Known Potential Bidders**"). This list will include local and international strategic and financial parties, parties that have previously shown interest in transacting with the Applicants, and any other parties suggested by a stakeholder as a potential bidder, if reasonable.

Notice

28. To advertise the Opportunity, the Applicants will send out the SISP Press Release, publish the SISP Notice in the Globe and Mail (National Edition) and any other publication that is appropriate; and post the SISP Notice and the SISP Press Release on the Monitor's Website, no later than May 15, 2020.

29. The Financial Advisor and the Applicants, in consultation with the Monitor, will also develop preliminary materials regarding the Opportunity (the "**Teaser Letter**") that will be sent to all Known Potential Bidders no later than May 20, 2020, inviting them to participate in the SISP, as well as a form of NDA.

30. The Monitor will post the SISP Notice, the SISP Press Release, the Teaser Letter and the form of NDA on the Monitor's Website.

Phase 1

31. Potential bidders will be required to submit an NDA (if currently subject to an NDA that has not expired, a new NDA is not required) and any such additional information that will allow the Applicants and the Financial Advisor, in consultation with the Monitor, to determine if such potential bidder is likely to be able to consummate a potential transaction based on the availability of financing, experience and other considerations to allow the potential bidder to continue through the process. If the potential bidder is determined to meet these criteria, such potential bidder will be deemed to be "**Phase 1 Qualified Bidder**".

32. The Financial Advisor, with the assistance of the Applicants, and in consultation with the Monitor, will prepare and send each Phase 1 Qualified Bidder a confidential information package (the "**Confidential Information Package**"), which contains additional information regarding the Applicants that is relevant to the Opportunity.

33. CannTrust, in consultation with the Financial Advisor and the Monitor, reserves the right to limit any Phase 1 Qualified Bidder's access to any confidential information (including any information in the Confidential Information Package or a data room) and to customers and suppliers of CannTrust, where, in CannTrust's opinion after consultation with the Financial Advisor and the Monitor, such access could negatively impact the SISP, the ability to maintain the confidentiality of the confidential information, the Business or the Property.

34. Phase 1 Qualified Bidders that wish to pursue the Opportunity shall deliver a non-binding letter of interest by the Phase 1 Bid Deadline which, to be considered a qualified letter of interest (a "**Qualified LOI**"), must, among other criteria which are detailed in the SISP, indicate whether the offer is to acquire all, substantially all or a portion of the Property, or make an investment in, recapitalization, arrangement or other form of investment in or reorganization of the Business or the Applicants.

35. The Applicants and the Financial Advisor, in consultation with the Monitor, may waive compliance with any of the requirements and deem a non-compliant bid to be a Qualified LOI.

Phase 2

36. Qualified LOIs received by the Phase 1 Bid Deadline will be reviewed by the Financial Advisor and the Applicants, in consultation with the Monitor, to determine if they should be deemed "**Phase 2 Qualified Bidders**". The Applicants have the right under the SISP to limit the number of Phase 2 Qualified Bidders, taking into account certain factors enumerated in paragraph 16 of the SISP Order. If the Applicants and the Financial Advisor determine that a bidder who submits a Qualified LOI shall not be deemed a Phase 2 Qualified Bidder, the Monitor must approve such decision.

37. The Applicants and the Financial Advisor, in consultation with and with the approval of the Monitor, will determine the manner in which to proceed in Phase 2 of the SISP, and a letter outlining the second phase of the SISP, (the "**Bid Process Letter**") will be sent to all Phase 2 Qualified Bidders and posted on the Monitor's Website.

38. Phase 2 Qualified Bidders will have the opportunity to conduct further due diligence relating to the Property and Business during this period. Access to further materials and information relating to the Business and Property shall be granted on the reasonable business judgment of the Applicants and the Financial Advisor, in consultation with the Monitor, subject to competitive and other business considerations.

39. Phase 2 Qualified Bidders that wish to make a formal offer to purchase or make an investment in CannTrust or its Property and Business shall submit a binding offer that complies with all of the requirements indicated in the SISP prior to the date set out the Bid Process Letter (the "**Phase 2 Bid Deadline**").

Formal Binding Offers and Selection of the Successful Bid

40. The Applicants and the Financial Advisor, in consultation with the Monitor, will review and assess all the Phase 2 bids received and will designate the most competitive of those bids to be "**Qualified Bids**". No Phase 2 bids received shall be deemed not to be Qualified Bids unless the Monitor so approves. All Phase 2 Qualified Bidders which have submitted a formal bid by the Phase 2 Bid Deadline will receive notice in writing as to whether their bid is a Qualified Bid within ten business days of the Phase 2 Bid Deadline.

41. The Applicants and the Financial Advisor, in consultation with the Monitor, have the ability to negotiate with the Phase 2 Qualified Bidders, and will determine the highest or otherwise best bid (the "**Successful Bid(s)**") and the bidder (such bidder, the "**Successful Bidder**").

42. A closing date has not been determined at this point but will be determined and outlined in the Bid Process Letter.

43. The Successful Bid and any transaction arising therefrom are subject to approval of the Court. All other Phase 2 Qualified Bids other than the Successful Bid(s), if any, shall be deemed rejected by the Applicants on and as at the date of approval of the Successful Bid(s) by the Court.

Monitor's Involvement in the SISP

44. As noted above, the Monitor was consulted in designing the SISP and will be involved throughout the SISP, including having certain approval rights in respect of steps taken therein.

45. The Monitor will participate in the conduct of the SISP in the manner set out in the SISP and is entitled to receive all information in relation to the SISP.

46. The Applicants will have the right to modify the SISP with the prior written approval of the Monitor if, in their reasonable business judgement, such modification will enhance the process or better achieve the objectives of the SISP; provided that the CCAA service list will be advised of any substantive modification. The Monitor is of the view that this flexibility is appropriate to ensure the best possible outcome from the SISP.

47. The Monitor also notes that the SISP provides that, notwithstanding the process and deadlines set out in the SISP, the Applicants may, in consultation with the Financial Advisor, at any time bring a motion to seek approval of a stalking horse agreement in

respect of some or all of the Property or Business and related bid procedures in respect of such Property or to establish further or other procedures for Phase 2.

Monitor's Comments on the SISP

48. The Monitor is of the view that the proposed SISP is well-structured and will provide for a robust opportunity to canvass sale, restructuring and recapitalization options for the benefit of the Applicants and their creditors and other stakeholders. The Monitor believes it is appropriate for the SISP to be undertaken at this time as the Applicants continue to progress through the Health Canada review process.

49. Some of the key benefits of the proposed SISP can be summarized as follows:

a) the proposed SISP allows for ample notice of the Opportunity, as the process allows for the Applicants to canvass known bidders and notice will be published in a major daily newspaper and via a press release to generate interest amongst a broad base of potential bidders and interested parties;

b) the SISP provides bidders with the ability to indicate their initial interest in a non-binding manner in Phase 1 and then complete further due diligence to understand the Applicants and its assets and business and determine whether to proceed further with a Phase 2 bid;

c) the assessment of the current market at this time will afford the Applicants the ability to pivot their approach in response to changing circumstances surrounding the timing of the reinstatement of the Cannabis Licences and the impact of COVID-19. The proposed SISP provides the flexibility to develop the details of the Phase 2 process and the Bid Process Letter once the level of interest is known after the completion of Phase 1;

d) the SISP is appropriately managed by the Applicants and the Financial Advisor, subject to consultation with and, in some cases, the approval of the Monitor, and subject to the ultimate oversight and supervision of the Court; and

e) the factors to be considered in arriving at a Successful Bid(s) are appropriate in the circumstances.

PROPOSED CLAIMS PROCEDURE

50. This Second Report summarizes the material terms of the Claims Procedure, the full text of which is contained in the order contained at Tab 4 to the Motion Record of the Applicants dated May 1, 2020 (the "**Claims Procedure Order**"). In this section, capitalized terms not otherwise defined herein are as defined in the proposed Claims Procedure Order.

51. The Claims Procedure establishes a procedure for the submission of claims against any of the Applicants and the Directors and Officers of the Applicants, by filing a proof of claim (a "**Proof of Claim**") except for claims that have been explicitly excluded (such claims, the "**Excluded Claims**").

52. The Applicants will provide the Monitor with a list of known potential Claimants (the "**Known Claimants**") based on its books and records. The Monitor will then send a Claims Package to:

a) each of the Claimants on the list of Known Claimants within five Business Days of the issuance of the Claims Procedure Order, if granted;

b) each Claimant with a Restructuring Claim (as that term is defined below), no later than five Business Days following the time the Monitor becomes aware of the existence of the event that might give rise to a Restructuring Claim; and

c) each Claimant that requests a copy of the Claims Package or related documents.

53. The Claims Package will contain the Proof of Claim form, the Notice to Claimants, the Instruction Letter, and any other documentation the Applicants, in consultation with the Monitor, deems appropriate.

54. The Monitor will publish the Notice to Claimants in the Globe and Mail (National Edition) by no later than May 14, 2020.

55. The Notice to Claimants and the claims package will be posted on the Monitor's Website as soon as possible following of the issuance of the Claims Procedure Order, if granted, and will remain on the Monitor's Website until the Monitor's discharge as Monitor of the Applicants.

56. The Notice to Claimants, Claims Package and other documents relevant to the Claims Procedure are attached as schedules to the Claims Procedure Order and, as such, are not attached to this Second Report.

57. The Claims, whether secured or unsecured, to be called for through the Claims Procedure are, as more specifically outlined in the Claims Procedure Order:

a) Claims arising prior to the Filing Date, (each a "**Pre-Filing Claim**");

b) Claims arising on or after the Filing Date in connection with any indebtedness, liability or obligation of any kind arising out of the repudiation or disclaimer of any contract lease, employment agreement or other agreement by the Applicants, (each a "**Restructuring Claim**"); and

c) Pre-filing Claims and Restructuring Claims against one or more of the Directors or Officers for which the Directors or Officers are by statute or otherwise by law liable to pay in their capacity as Directors or Officers (each a "**D&O Claim**") but does not include a claim that cannot be compromised due to the provisions of subsection 5.1(2) of the CCAA.

58. The following are Excluded Claims from the Claims Procedure:

a) any Equity Claims, against or in respect of CannTrust Holdings, or its Directors or Officers, including for greater certainty; (i) any claims against or in respect of CannTrust Holdings or its Directors or Officers in the Pending Litigation; and (ii) any claims of a Director or Officer or any other Person for contribution or indemnity from CannTrust Holdings in respect of the Pending Litigation or an Equity Claim;

b) any claim secured by any of the CCAA Charges; and

c) any investigation, action, suit, order or proceeding in respect of the Applicants by or before a regulatory body (as defined in the CCAA), unless such investigation, action, suit order or proceeding constitutes a "claim" within the meaning of the CCAA.

59. Persons holding an Excluded Claim are not required to file a Proof of Claim for such Excluded Claim. The Applicants may apply to Court for a further Order in respect of such Excluded Claims. As detailed below, the Applicants are seeking approval of the Mediation Process in connection with certain of the Excluded Claims.

60. For further clarity, even though the Construction Action is included in the definition of "Pending Litigation", claims related to the Construction Action are not an Excluded Equity Claim and may be proved as part of the Claims Procedure.

61. Proofs of Claim in respect to Pre-Filing Claims must be received by the Monitor by 5:00 p.m. (Eastern Time) on June 22, 2020 (the "**Pre-Filing Claims Bar Date**") unless this Court orders that the Proof of Claim be accepted after that date, failing which that creditor

will be forever barred from advancing a claim against the Applicants. Any creditor asserting a Restructuring Claim must file a Proof of Claim by the later of (i) the Pre-Filing Claims Bar Date; and (ii) 5:00 p.m. (Eastern Time) on the day which is thirty (30) days after the Monitor sends a Claims Package with respect to a Restructuring Claim.

62. The Monitor and the Applicants (and in the case of a D&O Claim, in consultation with counsel to the Directors and Officers and the respective Directors or Officers, if applicable) will review all Proofs of Claim filed in accordance with the Claims Procedure and may accept (in whole or in part) or revise or disallow (in whole or in part) the amount and/or secured or unsecured status of any Claim and will notify the Claimant of such decision in writing. In the case of a revision or disallowance, such notice will be in the form of a Notice of Revision or Disallowance.

63. Any Claimant that wishes to dispute a Notice of Revision or Disallowance will be required to deliver a Dispute Notice to the Applicants, with a copy to the Monitor, within 14 days after the Claimant is deemed to have received the Notice of Revision or Disallowance.

64. The Applicants and the Monitor (and in the case of a D&O Claim, with counsel to the Directors and Officers and the respective Directors or Officers, if applicable), may attempt to consensually resolve the amount and/or status of any Claim subject to a Dispute Notice. If a resolution cannot be reached, the Claim will be adjudicated by the Court or by a claims officer to be agreed upon by the parties or appointed by the Court, if considered appropriate.

Monitor's Comments on the Claims Process

65. The Monitor has been consulted during the development of the Claims Procedure and is of the opinion that the proposed process is broadly consistent with claims procedure orders issued in similar CCAA proceedings and will provide creditors with a fair opportunity to assert their claims against the Applicants.

66. The Monitor believes it is appropriate for the Claims Procedure to be undertaken at this time in order to enable the Applicants and the Monitor to identify, quantify and resolve potential Claims so that the Applicants can:

a) assess the impact of the Claims with respect to a restructuring and plan of compromise and arrangement;

b) continue to progress through the restructuring process on a timely basis for the benefit of their stakeholders generally; and

c) understand and address potential Claims as they may impact the SISP.

MEDIATION PROCESS AND MEDIATION ORDER

67. This Second Report summarizes the material terms of the Mediation Process, the full text of which is contained in the order contained at Tab 5 to the Motion Record of the Applicants dated May 1, 2020 (the "**Mediation Order**"). In this section, capitalized terms not otherwise defined herein are as defined in the proposed Mediation Order.

68. CannTrust Holdings and certain of the Other Defendants are named as defendants in various actions which allege, among other things, that CannTrust Holdings made misrepresentations in its disclosure to investors. As of March 31, 2020, there are 14 actions, 13 of which are putative class actions, relating to these securities matters (the 14 actions, the "**Securities Actions**"), which are listed in Appendix "**B**" hereto. The Securities

Actions claim damages of at least $500 million in the aggregate and are Excluded Claims under the proposed Claims Procedure Order.

69. The Applicants have previously noted that the CCAA Proceedings provide an opportunity to, among other things, address and resolve the Securities Actions, among other things, through a single forum. Further to this, the Applicants have developed the Mediation Process to appoint a neutral third party to mediate a global settlement of the Securities Actions and claims related thereto.

70. The Securities Actions are complex: they span multiple jurisdictions, have certain areas of overlap as among them, and name a multitude of defendants in addition to CannTrust Holdings. Further, certain of the Other Defendants may have claims for contribution and indemnity against CannTrust Holdings or against one another. In light of this complexity, the Applicants have determined that the best path forward in resolving any right, claim or dispute arising in or in relation to the Securities Actions, is the Mediation Process (such claims, the "**Mediation Claims**").

Court-Appointed Mediator

71. The Applicants are seeking the appointment of the Hon. Dennis O'Connor, Q.C. as mediator in the Mediation Process (the "**Court-Appointed Mediator**"). Mr. O'Connor's extensive experience and qualifications are detailed in the affidavit of Greg Guyatt sworn May 1, 2020 and therefore not repeated herein. The Monitor was consulted in respect of the proposed Court-Appointed Mediator and supports the appointment of Mr. O'Connor.

72. The Mediation Order provides that the Applicants will pay the reasonable fees and disbursements of the Court-Appointed Mediator on a monthly basis.

<u>Mediation Process</u>

73. The Mediation Order contemplates a flexible approach to the Mediation Process, granting the Court-Appointed Mediator the necessary powers to conduct the Mediation Process in the manner that he determines appropriate, including: the power to adopt processes he considers appropriate to facilitate negotiation of a global settlement; the power to consult with the stakeholders with Mediation Claims and other persons as he considers appropriate; and the ability to seek advice and directions from the Court as necessary.

74. The Mediation Order also contemplates a communication and confidentiality protocol between the Court, the Court-Appointed Mediator and the participants in the Mediation Process which will, among other things, protect the confidentiality of the Mediation Process and permit the coordination of the Mediation Process with the CCAA Proceedings.

<u>Monitor's Comments on the Mediation</u>

75. The Monitor is of the view that a global settlement of the Mediation Claims is in the best interests of the Applicants and their stakeholders, and that the terms of the Mediation Order provide for an appropriate process to advance such a settlement.

APPLICANTS' RECEIPTS AND DISBURSEMENTS

76. A summary of the Applicants' actual receipts and disbursements during the period from April 6, 2020 to April 26, 2020 (the "**Reporting Period**") as compared to the Cash Flow Forecast (the "**Variance Analysis**") is attached as Appendix **"C"** to this Second Report.

77. During the Reporting Period, the Applicants' operations generated a net cash outflow of approximately $1.2 million. The receipt received is interest income and the disbursements relate mainly to payroll and employee related expenses, consulting fees, freight and logistics contract fees and rental expenses. As at April 26, 2020, the Applicants' cash on hand was approximately $135 million. The Applicants have not needed any Intercompany Advances (as that term is defined in the Amended and Restated Initial Order) during the Reporting Period.

78. The favourable cash position variance for the Reporting Period of approximately $3.6 million is a result of the delay in ramp up costs and favourable terms with vendors. Details of the differences, both permanent and timing differences are attached to the Variance Analysis.

79. Based on discussion with the Applicants and the CRO, the receipt and disbursements projection and assumptions in the Cash Flow Forecast are still consistent and valid. Therefore, the Applicants and the Monitor do not believe a revised cash flow forecast is required at this time.

CONCLUSIONS AND RECOMMENDATIONS

80. The SISP, the Claims Procedure and the Mediation Process will each allow CannTrust to begin the process of identifying the potential restructuring options to most effectively restructure CannTrust and to assess which options may be in the best interests of CannTrust and its stakeholders.

81. For the reasons stated herein, the Monitor recommends that the Court approve the Claims Procedure, Mediation Process and SISP and issue the related orders, should it see fit to do so.

All of which is respectfully submitted this 4th day of May, 2020.

ERNST & YOUNG INC., in its capacity as Monitor of the Applicants, and not in its corporate or personal capacity.

per:

Alex Morrison, CPA, CA
Senior Vice President

APPENDIX "A"

Sale and Investment Solicitation Process Outline

<u>Introduction</u>

On March 31, 2020, CannTrust Holdings Inc., CannTrust Inc., CTI Holdings (Osoyoos) Inc., and Elmcliffe Investments Inc. (collectively "**CannTrust**") obtained an initial order (as amended or amended and restated from time to time, the "**Initial Order**") under the *Companies' Creditors Arrangement Act* (the "**CCAA**") from the Ontario Superior Court of Justice, Commercial List (Toronto) (the "**Court**"). Pursuant to the Initial Order, Ernst & Young Inc. was appointed as monitor of CannTrust (in such capacity, the "**Monitor**"), and CannTrust's agreement engaging Greenhill & Co. Canada Ltd. (the "**Financial Advisor**") as financial advisor in respect of CannTrust and agreement engaging FTI Consulting Canada Inc. as chief restructuring officer to CannTrust (the "**CRO**") were each approved.

Also pursuant to the Initial Order, CannTrust was authorized to pursue all avenues of sale or refinancing of its business or property, in whole or part, subject to prior approval of the Court before any material sale or refinancing is concluded. Prior to the Initial Order, CannTrust was conducting a review of strategic alternatives with the assistance of the Financial Advisor. CannTrust intends to continue that process and has decided to implement the sale and investment solicitation process described in this outline ("**SISP**") with the approval of the Court pursuant to the Court order dated May 8, 2020 (the "**SISP Order**"). The SISP is intended to solicit interest in and opportunities for a sale of or investment in all or part of CannTrust's assets and business operations. This document (the "**SISP Process Outline**") outlines the SISP, which will include a notification process and two phases of activity for qualified interested bidders ("**Phase 1**" and "**Phase 2**", respectively).

<u>Opportunity</u>

1. The SISP is intended to solicit interest in and opportunities for a sale of or investment in all or part of CannTrust's assets and business operations (the "**Opportunity**"). The Opportunity may include one or more of a recapitalization, arrangement or other form of investment in or reorganization of the business and affairs of CannTrust as a going concern or a sale of all, substantially all or one or more components of CannTrust's assets (including, without limitation, the shares of CannTrust Inc.) (the "**Property**") and its business operations (the "**Business**") as a going concern or otherwise.

2. Except to the extent otherwise set forth in a definitive sale or investment agreement with a successful bidder, any sale of the Property or investment in the Business will be on an "as is, where is" basis and without surviving representations or warranties of any kind, nature, or description by CannTrust, the Monitor or any of their respective agents, advisors or estates, and, in the event of a sale, all of the right, title and interest of CannTrust in and to the Property to be acquired will be sold free and clear of all pledges, liens, security interests, encumbrances, claims, charges, options, and interests therein and thereon pursuant to Court orders, except as otherwise provided in such Court orders.

<u>Timeline</u>

3. The following table sets out the key milestones under the SISP:

Milestone	Deadline
Teaser Letter sent to Known Potential Bidders	May 20, 2020
Phase 1 Bid Deadline	June 22, 2020
Phase 2 Bid Deadline	To be specified in Phase 2 Bid Process Letter

Any extensions or amendments to the deadlines above will be communicated to all Known Potential Bidders or Phase 2 Potential Bidders, as applicable, in writing and such extensions or amendments shall be posted on the website the Monitor maintains in respect of this CCAA proceeding at http://www.ey.com/ca/canntrust (the "**Monitor's Website**").

Solicitation of Interest: Notice of the SISP

4. As soon as reasonably practicable, but in any event by no later than May 15, 2020:

   (a) CannTrust and the Financial Advisor will prepare a list of potential bidders, including (i) parties that have approached CannTrust, the Financial Advisor or the Monitor indicating an interest in the Opportunity, (ii) local and international strategic and financial parties who CannTrust and the Financial Advisor, in consultation with the Monitor, believe may be interested in purchasing all or part of the Business and Property or investing in CannTrust pursuant to the SISP (including, without limitation, any parties with whom the Financial Advisor was in contact prior to the Initial Order as part of CannTrust's strategic review process) and (iii) any other parties reasonably suggested by a stakeholder as a potential bidder who may be interested in the Opportunity (collectively, "**Known Potential Bidders**");

   (b) CannTrust will cause a notice of the SISP (and such other relevant information which CannTrust, in consultation with the Financial Advisor and Monitor, considers appropriate) (the "**Notice**") to be published in The Globe and Mail (National Edition) and any other newspapers, journals, or industry publications as CannTrust and the Financial Advisor, in consultation with the Monitor, consider appropriate, if any;

   (c) CannTrust will issue a press release setting out the information contained in the Notice and such other relevant information which CannTrust and the Financial Advisor considers appropriate for dissemination in Canada and major financial centres in the United States; and

   (d) the Financial Advisor and CannTrust, in consultation with the Monitor, will prepare: (i) a process summary (the "**Teaser Letter**") describing the Opportunity and inviting recipients of the Teaser Letter to express their interest pursuant to the SISP; and (ii) a non-disclosure agreement in form and substance satisfactory to CannTrust and the Financial Advisor (an "**NDA**").

5. The Financial Advisor will send the Teaser Letter and NDA to all Known Potential Bidders by no later than May 20, 2020 and to any other party who requests a copy of the Teaser Letter and NDA or who is identified to the Financial Advisor, CannTrust or the Monitor as a potential bidder as soon as reasonably practicable after such request or identification, as applicable.

PHASE 1: NON-BINDING LOIs

Qualified Bidders and Delivery of Confidential Information Package

6. Any party who wishes to participate in the SISP (a "**Potential Bidder**") must provide to the Financial Advisor an NDA executed by it and a letter setting forth the identity of the Potential Bidder, the contact information for such Potential Bidder and full disclosure of the direct and indirect principals of the Potential Bidder. If a Potential Bidder has previously delivered an NDA and letter of this nature to the Financial Adviser and the NDA remains in effect, the Potential Bidder is not required to deliver a new NDA or letter to the Financial Advisor unless otherwise requested by CannTrust.

7. A Potential Bidder (who has delivered the executed NDA and letter as set out above) will be deemed a "**Phase 1 Qualified Bidder**" if CannTrust and the Financial Advisor in their reasonable business judgment and in consultation with the Monitor determine such person is likely, based on the availability of financing, experience and other considerations, to be able to consummate a sale or investment pursuant to the SISP.

8. At any time during Phase 1 of the SISP, CannTrust and the Financial Advisor may, in their reasonable business judgment and after consultation with and the consent of the Monitor, eliminate a Phase 1 Qualified Bidder from the SISP, in which case such bidder will be eliminated from the SISP and will no longer be a "Phase 1 Qualified Bidder" for the purposes of the SISP.

9. The Financial Advisor, with the assistance of CannTrust and in consultation with the Monitor, will prepare and send to each Phase 1 Qualified Bidder a confidential information package providing additional information considered relevant to the Opportunity (the "**Confidential Information Package**"). The Financial Advisor, CannTrust, the Monitor and their respective advisors make no representation or warranty as to the information contained in the Confidential Information Package or otherwise made available pursuant to the SISP or otherwise, except to the extent expressly contemplated in any definitive sale or investment agreement with a successful bidder ultimately executed and delivered by CannTrust.

10. CannTrust, in consultation with the Financial Advisor and the Monitor, reserves the right to limit any Phase 1 Qualified Bidder's access to any confidential information (including any information in the Confidential Information Package or a data room) and to customers and suppliers of CannTrust, where, in CannTrust's opinion after consultation with the Financial Advisor and the Monitor, such access could negatively impact the SISP, the ability to maintain the confidentiality of the confidential information, the Business or the Property.

11. Potential Bidders must rely solely on their own independent review, investigation and/or inspection of all information and of the Property and Business in connection with their participation in the SISP and any transaction they enter into with CannTrust.

<u>Non-Binding Letters of Intent from Qualified Bidders</u>

12. A Phase 1 Qualified Bidder that wishes to pursue the Opportunity further must deliver a non-binding letter of interest (an "**LOI**") to the Financial Advisor at the addresses specified in Schedule "1" hereto (including by email or fax transmission), so as to be received by them not later than 5:00 PM (Eastern Time) on or before June 22, 2020 (the "**Phase 1 Bid Deadline**").

13. Subject to paragraph 14, an LOI so submitted will be considered a qualified LOI (a "**Qualified LOI**") only if:

    (a) it is submitted on or before the Phase 1 Bid Deadline by a Phase 1 Qualified Bidder;

    (b) it contains an indication of whether the Phase 1 Qualified Bidder is proposing:

        (i) to acquire all, substantially all or a portion of the Property (a "**Sale Proposal**"), or

        (ii) a recapitalization, arrangement or other form of investment in or reorganization of the Business/CannTrust (an "**Investment Proposal**");

    (c) in the case of a Sale Proposal, it identifies or contains the following:

        (i) the purchase price or price range in Canadian dollars, including details of any liabilities to be assumed by the Phase 1 Qualified Bidder and key assumptions supporting the valuation;

        (ii) a description of the Property that is expected to be subject to the transaction and any of the Property expected to be excluded;

        (iii) a description of the Phase 1 Qualified Bidder's proposed treatment of material agreements and employees (for example, anticipated employment offers):

        (iv) a specific indication of the financial capability of the Phase 1 Qualified Bidder and the expected structure and financing of the transaction (including, but not limited to, the sources of financing to fund the acquisition, preliminary evidence of the availability of such financing or such other form of financial disclosure and credit-quality support or enhancement that will allow CannTrust, the Financial Advisor and the Monitor and each of their respective advisors to make a reasonable business or professional judgment as to the Phase 1 Qualified Bidder's financial or other capabilities to consummate the transaction and to perform all obligations to be assumed in such transaction; and the steps necessary and associated timing to obtain financing and any related contingencies, as applicable);

        (v) a description of the conditions and approvals required for the Phase 1 Qualified Bidder to be in a position to submit a final and binding offer, including any anticipated corporate, securityholder or other internal approvals and any anticipated impediments for obtaining such approvals;

(vi) an outline of any additional due diligence required to be conducted in order to submit a final and binding offer;

(vii) a description of all conditions to closing that the Phase 1 Qualified Bidder expects to include in its final and binding offer, including without limitation any regulatory approvals and any form of agreement required from a government body, stakeholder or other third party ("**Third Party Agreement"**) and an outline of the principal terms thereof; and

(viii) any other terms or conditions of the Sale Proposal that the Phase 1 Qualified Bidder believes are material to the transaction;

(d) in the case of an Investment Proposal, it identifies the following:

(i) a description of how the Phase 1 Qualified Bidder proposes to structure the proposed investment;

(ii) the aggregate amount of the equity and/or debt investment to be made in the Business/CannTrust in Canadian dollars;

(iii) key assumptions supporting the Phase 1 Qualified Bidders' valuation;

(iv) a description of the Phase 1 Qualified Bidder's proposed treatment of any liabilities, material contracts and employees;

(v) the underlying assumptions regarding the pro forma capital structure (including the form and amount of anticipated equity and/or debt levels, debt service fees, interest or dividend rates, amortization, voting rights or other protective provisions (as applicable), redemption, prepayment or repayment attributes and any other material attributes of the investment);

(vi) a specific indication of the sources of capital for the Phase 1 Qualified Bidder and the structure and financing of the transaction (including, but not limited to, the sources of capital to fund the investment, preliminary evidence of the availability of such capital or such other form of financial disclosure and credit-quality support or enhancement that will allow CannTrust, the Financial Advisor and the Monitor and each of their respective advisors to make a reasonable business or professional judgment as to the Phase 1 Qualified Bidder's financial or other capabilities to consummate the transaction, steps necessary and associated timing to obtain such capital and any related contingencies, as applicable, and a sources and uses analysis);

(vii) a description of the conditions and approvals required for the Phase 1 Qualified Bidder to be in a position to submit a final and binding offer, including any anticipated corporate, securityholder or other internal approvals and any anticipated impediments for obtaining such approvals;

(viii) an outline of any additional due diligence required to be conducted in order to submit a final and binding offer;

(ix) a description of all conditions to closing that the Phase 1 Qualified Bidder expects to include in its final and binding offer, including without limitation any regulatory approvals and any Third Party Agreement required and an outline of the principal terms thereof; and

(x) any other terms or conditions of the Investment Proposal which the Phase 1 Qualified Bidder believes are material to the transaction; and

(e) in the case of either a Sale Proposal or an Investment Proposal, it contains such other information as reasonably requested by CannTrust and/or the Financial Advisor in consultation with the Monitor.

14. CannTrust and the Financial Advisor, in consultation with the Monitor, may waive compliance with any one or more of the requirements specified above and deem such non-compliant bids to be a Qualified LOI. For the avoidance of doubt, the completion of any Sale Proposal or Investment Proposal shall be subject to the approval of the Court and the requirement of approval of the Court may not be waived.

Preliminary Assessment of Phase 1 Bids and Subsequent Process

15. Following the Phase 1 Bid Deadline, CannTrust and the Financial Advisor, in consultation with the Monitor, will assess the Qualified LOIs. If it is determined by CannTrust and the Financial Advisor, in consultation with the Monitor, that a Phase 1 Qualified Bidder that has submitted a Qualified LOI: (i) has a bona fide interest in completing a Sale Proposal or Investment Proposal (as the case may be); and (ii) has the financial capability (based on availability of financing, experience and other considerations) to consummate such a transaction based on the financial information provided, then such Phase 1 Qualified Bidder will be deemed a "**Phase 2 Qualified Bidder**", provided that CannTrust and the Financial Advisor may, in their reasonable business judgment and after consultation with and with the approval of the Monitor, limit the number of Phase 2 Qualified Bidders (and thereby eliminate some bidders from the process) taking into account the factors identified in paragraph 16 below and any material adverse impact on the operations and performance of CannTrust. Only Phase 2 Qualified Bidders shall be permitted to proceed to Phase 2 of the SISP. No Phase 1 Qualified Bidder that has submitted a Qualified LOI shall be deemed not to be a Phase 2 Qualified Bidder unless the Monitor so approves.

16. As part of the assessment of Qualified LOIs and the determination of the process subsequent thereto, CannTrust and the Financial Advisor, in consultation with the Monitor and with the approval of the Monitor, shall determine the process and timing to be followed in pursuing Qualified LOIs based on such factors and circumstances as they consider appropriate in the circumstances including, but not limited to: (i) the number of Qualified LOIs received, (ii) the extent to which the Qualified LOIs relate to the same Property or Business or involve Investment Proposals predicated on certain Property or Business, (iii) the scope of the Property or Business to which any Qualified LOIs may relate, and (iv) whether to proceed by way of sealed bid or auction (with or without a stalking horse bidder) with respect to some or all of the Property.

17. Upon the determination by CannTrust and the Financial Advisor, in consultation with the Monitor and with the approval of the Monitor, of the manner in which to proceed to Phase 2 of the SISP, CannTrust and the Financial Advisor, in consultation with and with the approval of the Monitor, will prepare a bid process letter for Phase 2 (the "**Bid Process**

Letter"), and the Bid Process Letter will be (i) sent by the Financial Advisor to all Phase 2 Qualified Bidders, and (ii) posted by the Monitor on the website the Monitor maintains in respect of this CCAA proceeding.

18. Notwithstanding the process and deadlines outlined above with respect to Phase 1 of the SISP and the process to supplement Phase 2 by way of the Bid Process Letter, CannTrust may, in consultation with the Financial Advisor, at any time bring a motion to seek approval of a stalking horse agreement in respect of some or all of the Property or Business and related bid procedures in respect of such Property or to establish further or other procedures for Phase 2.

PHASE 2: FORMAL OFFERS AND SELECTION OF SUCCESSFUL BIDDER

19. Paragraphs 20 to 30 below and the conduct of Phase 2 are subject to paragraphs 16, 17, and 18 and any adjustments made to Phase 2 in accordance with the Bid Process Letter and any further Court order regarding the SISP.

Due Diligence

20. CannTrust and the Financial Advisor, in consultation with the Monitor, shall in their reasonable business judgment and subject to competitive and other business considerations, afford each Phase 2 Qualified Bidder such access to due diligence materials and information relating to the Property and Business as they deem appropriate. Due diligence access may include management presentations, access to an electronic data room, on-site inspections, and other matters which a Phase 2 Qualified Bidder may reasonably request and as to which CannTrust and the Financial Advisor, in their reasonable business judgment and after consulting with the Monitor, may agree. The Financial Advisor will designate a representative to coordinate all reasonable requests for additional information and due diligence access from Phase 2 Qualified Bidders and the manner in which such requests must be communicated. None of CannTrust, the Financial Advisor and the Monitor will be obligated to furnish any information relating to the Property or Business to any person other than to Phase 2 Qualified Bidders. Further and for the avoidance of doubt, selected due diligence materials may be withheld from certain Phase 2 Qualified Bidders if CannTrust and the Financial Advisor, in consultation with the Monitor, determine such information to represent proprietary or sensitive competitive information.

Formal Binding Offers

21. Phase 2 Qualified Bidders that wish to make a formal offer to purchase or make an investment in CannTrust or its Property and Business shall submit a binding offer that complies with all of the following requirements prior to the date set out the Bid Process Letter (the "**Phase 2 Bid Deadline**"):

   (a) the bid shall comply with all of the requirements set forth in respect of Phase 1 Qualified LOIs;

   (b) the bid (either individually or in combination with other bids that make up one bid) is an offer to purchase or make an investment in some or all of the Property or Business and is consistent with any necessary terms and conditions communicated to Phase 2 Qualified Bidders;

(c) the bid includes a letter stating that the Phase 2 Qualified Bidder's offer is irrevocable until the selection of the Successful Bidder (as defined below), provided that if such Phase 2 Qualified Bidder is selected as the Successful Bidder, its offer shall remain irrevocable until the closing of the transaction with the Successful Bidder;

(d) the bid includes duly authorized and executed transaction agreements, including the purchase price, investment amount and any other key economic terms expressed in Canadian dollars (the "**Purchase Price**"), together with all exhibits and schedules thereto, all applicable ancillary agreements with all exhibits and schedules thereto (or term sheets that describe the material terms and provisions of such agreements), and proposed order to approve the sale by the Court;

(e) the bid includes written evidence of a firm, irrevocable commitment for financing or other evidence of ability to consummate the proposed transaction, that will allow CannTrust, with the assistance of the Financial Advisor, and the Monitor to make a determination as to the Phase 2 Qualified Bidder's financial and other capabilities to consummate the proposed transaction;

(f) the bid is not conditioned on (i) the outcome of unperformed due diligence by the Phase 2 Qualified Bidder, apart from, to the extent applicable, to the disclosure of due diligence materials that represent proprietary or sensitive competitive information which was withheld in Phase 2 from the Phase 2 Qualified Bidder and/or (ii) obtaining financing;

(g) the bid fully discloses the identity of each entity that will be entering into the transaction or the financing (including through the issuance of debt in connection with such bid), or that is participating or benefiting from such bid, and such disclosure shall include, without limitation: (i) in the case of a Phase 2 Qualified Bidder formed for the purposes of entering into the proposed transaction, the identity of each of the actual or proposed direct or indirect equity holders of such Phase 2 Qualified Bidder and the terms and participation percentage of such equity holder's interest in such bid; and (ii) the identity of each entity that has or will receive a benefit from such bid from or through the Phase 2 Qualified Bidder or any of its equity holders and the terms of such benefit;

(h) the bid includes a commitment by the Phase 2 Qualified Bidder to provide a non-refundable deposit in the amount of not less than 10% of the purchase price offered upon the Phase 2 Qualified Bidder being selected as the Successful Bidder and in any event, prior to service of the materials for the Sale Approval Motion;

(i) the bid includes acknowledgements and representations of the Phase 2 Qualified Bidder that: (i) the transaction is on an "as is, where is" basis; (ii) it has had an opportunity to conduct any and all due diligence regarding the Property, Business and CannTrust prior to making its offer (apart from, to the extent applicable, the disclosure of due diligence materials that represent proprietary or sensitive competitive information which were withheld in Phase 2 from the Phase 2 Qualified Bidder); (iii) it has relied solely upon its own independent review, investigation and/or inspection of any documents and/or the Property in making its bid; (iv) it did not rely upon any written or oral statements, representations, warranties, or guarantees whatsoever, whether express, implied, statutory or otherwise, regarding the Business, Property, or CannTrust or the completeness of any information provided in connection therewith, except as expressly stated in the definitive transaction agreement(s) signed by CannTrust;

(j) the bid includes evidence, in form and substance reasonably satisfactory to CannTrust, in consultation with the Financial Advisor, and to the Monitor, of authorization and approval from the Phase 2 Qualified Bidder's board of directors (or comparable governing body) with respect to the submission, execution, delivery and closing of the transaction agreement(s) submitted by the Phase 2 Qualified Bidder;

(k) the bid contains other information required by CannTrust, the Financial Advisor or the Monitor including, without limitation, such additional information as may be required in the event Phase 2 is supplemented in accordance with paragraph 17 to contemplate that an auction of certain Property be conducted; and

(l) the bid is received by the Phase 2 Bid Deadline.

22. Following the Phase 2 Bid Deadline, CannTrust and the Financial Advisor, in consultation with the Monitor, will assess the Phase 2 bids received. CannTrust and the Financial Advisor, in consultation with the Monitor, will designate the most competitive bids that comply with the foregoing requirements to be "**Qualified Bids**". No Phase 2 bids received shall be deemed not to be Qualified Bids unless the Monitor so approves. Only Phase 2 Qualified Bidders whose bids have been designated as Qualified Bids are eligible to become the Successful Bidder(s).

23. CannTrust and the Financial Advisor, in consultation with the Monitor, may waive strict compliance with any one or more of the requirements specified above and deem such non-compliant bids to be a Qualified Bid.

24. The Financial Advisor shall notify each Phase 2 Qualified Bidder in writing as to whether its bid constituted a Qualified Bid within ten (10) business days of the Phase 2 Bid Deadline, or at such later time as CannTrust and the Financial Advisor, in consultation with the Monitor, deem appropriate.

25. If CannTrust and the Financial Advisor, in consultation with the Monitor, are not satisfied with the number or terms of the Qualified Bids, CannTrust and the Financial Advisor may, with the approval of the Monitor, extend the Phase 2 Bid Deadline, or CannTrust may seek Court approval of an amendment to the SISP.

26. CannTrust and the Financial Advisor, may, in consultation with the Monitor, aggregate separate bids from unaffiliated Phase 2 Qualified Bidders to create one "Qualified Bid".

Evaluation of Competing Bids

27. A Qualified Bid will be valued based upon several factors, including, without limitation, items such as the Purchase Price and the net value provided by such bid, the claims likely to be created by such bid in relation to other bids, the identity, circumstances and ability of the Phase 2 Qualified Bidder to successfully complete such transactions, the proposed transaction documents, the effects of the bid on the stakeholders of CannTrust, factors

affecting the speed, certainty and value of the transaction (including any regulatory approvals or third party contractual arrangements required to close the transactions), the assets included or excluded from the bid, any related restructuring costs, and the likelihood and timing of consummating such transactions, each as determined by CannTrust, with the assistance of the Financial Advisor, and the Monitor.

Selection of Successful Bid

28. CannTrust and the Financial Advisor, in consultation with the Monitor, (a) will review and evaluate each Qualified Bid, provided that each Qualified Bid may be negotiated between CannTrust, in consultation with the Financial Advisor and the Monitor, and the applicable Phase 2 Qualified Bidder, and may be amended, modified or varied to improve such Phase 2 Qualified Bid as a result of such negotiations, and (b) identify the highest or otherwise best bid (the "**Successful Bid**"), and the Phase 2 Qualified Bidder making such Successful Bid, the "**Successful Bidder**") for any particular Property or the Business in whole or part. The determination of any Successful Bid by CannTrust, with the assistance of the Financial Advisor and the Monitor, shall be subject to approval by the Court.

29. CannTrust shall have no obligation to enter into a Successful Bid, and it reserves the right, after consultation with the Monitor and the Financial Advisor, to reject any or all Phase 2 Qualified Bids.

Sale Approval Motion Hearing

30. At the hearing of the motion to approve any transaction with a Successful Bidder (the "**Sale Approval Motion**"), CannTrust shall seek, among other things, approval from the Court to consummate any Successful Bid. All the Phase 2 Qualified Bids other than the Successful Bid, if any, shall be deemed rejected by CannTrust on and as of the date of approval of the Successful Bid by the Court.

Confidentiality, Stakeholder/Bidder Communication and Access to Information

31. All discussions regarding an LOI, Sale Proposal or Investment Proposal must be directed through the Financial Advisor. Under no circumstances should the management of the CannTrust or any stakeholder of CannTrust be contacted directly without the prior consent of the Financial Advisor. Any such unauthorized contact or communication could result in exclusion of the interested party from the SISP process.

32. Participants and prospective participants in the SISP shall not be permitted to receive any information that is not made generally available to all participants relating to the number or identity of Potential Bidders, Phase 1 Qualified Bidders, Phase 2 Qualified Bidders, Phase 2 Qualified Bids, the details of any bids submitted or the details of any confidential discussions or correspondence between CannTrust, the Financial Advisor, the Monitor and such other bidders or Potential Bidders in connection with the SISP, except to the extent CannTrust and the Financial Advisor, with the approval of the Monitor and consent of the applicable participants, are seeking to combine separate bids from Phase 1 Qualified Bidders or Phase 2 Qualified Bidders.

33. The Financial Advisor, in consultation with the Monitor, may consult with the legal and financial advisers to parties with a material interest in the CCAA proceedings regarding the status of the SISP to the extent considered appropriate (subject to taking into account,

among other things, whether any particular party is a Potential Bidder, Phase 1 Qualified Bidder, Phase 2 Qualified Bidder or other participant or prospective participant in the SISP or involved in a bid), provided that any such party has entered into confidentiality arrangements satisfactory to CannTrust.

<u>Supervision of the SISP</u>

34. The participation of CannTrust and the Financial Advisor in the SISP will be directed by the CRO, subject to ongoing direction from CannTrust's CEO and board of directors.

35. The Monitor will participate in the conduct of the SISP in the manner set out in this SISP Process Outline and the Initial Order and is entitled to receive all information in relation to the SISP.

36. This SISP does not, and will not be interpreted to create any contractual or other legal relationship between CannTrust and any Phase 1 Qualified Bidder, any Phase 2 Qualified Bidder or any other party, other than as specifically set forth in a definitive agreement that may be signed with CannTrust.

37. Participants in the SISP are responsible for all costs, expenses and liabilities incurred by them in connection with the submission of any LOI, Phase 2 bid, due diligence activities, and any further negotiations or other actions whether or not they lead to the consummation of a transaction.

38. CannTrust and the Financial Advisor shall have the right to modify the SISP (including, without limitation, pursuant to the Bid Process Letter) with the prior written approval of the Monitor if, in their reasonable business judgment, such modification will enhance the process or better achieve the objectives of the SISP; provided that the Service List in this CCAA proceeding shall be advised of any substantive modification to the procedures set forth herein.

APPENDIX "B"
LIST OF SECURITIES ACTIONS

Canadian Putative Class Actions

1. Jeffrey Webb et al v. CannTrust Holdings Inc., Court File No: CV-19-1554 (Ontario)

2. Patrick Hrusa v. CannTrust Holdings Inc., Court File No: CV-19-00623567 (Ontario)

3. Sam Meandro and Heli Wu v. CannTrust Holdings Inc., Court File No: 1402/19 (Ontario)

4. Earle et al. v. CannTrust Holdings Inc., Court File No: CV-19-00625181 (Ontario)

5. Stephen Rosen v. CannTrust Holdings Inc., Court File No: CV-19-00625351-00 (Ontario)

6. Jeff Dyck v. CannTrust Holdings Inc., Court File No: 217536 (British Columbia)

7. Derek Selanders v. CannTrust Holdings Inc., Court File No: 1910983 (Alberta)

8. Diran Avedian v. CannTrust Holdings Inc., Court File No: 500-06-001011-192 (Quebec)

Other Canadian Action

9. Zola Finance Holdings Ltd. et al. v. CannTrust Holdings Inc., Court File No.: CV-19-00002329-00CP (Ontario)

U.S. Putative Class Actions

10. Alvarado v. CannTrust Holdings Inc. et al., 1:19-cv-6438 (JPO) (New York)

11. Jones v. CannTrust Holdings Inc. et al., 1:19-cv-6883 (JPO) (New York)

12. Justiss v. CannTrust Holdings Inc. et al., 1:19-cv-7164 (JPO) (New York)

13. Huang v. CannTrust Holdings Inc. et al., 1:19-cv-6396 (JPO) (New York)

14. Owens v. CannTrust Holdings Inc. et al., 19-cv-352374 (California)

APPENDIX "C"
VARIANCE ANALYSIS FROM APRIL 6, 2020 TO APRIL 26, 2020

CannTrust Variance Analysis (CAD $000s)	Notes	Cumulative for the period April 6, 2020 to April 26, 2020 Forecast	 Actual	 Variance
Receipts				
Receipts from Operations		-	-	-
Other Receipts	[1]	-	119	119
Total Receipts		**-**	**119**	**119**
Operating Disbursements				
Payroll and benefits		(822)	(809)	13
Property Leases		(74)	(70)	4
Utilities	[2]	(315)	-	315
Other operating expenses	[3]	(2,212)	(322)	1,890
Capital expenditures	[4]	(130)	(9)	121
Total Operating Disbursements		**(3,554)**	**(1,211)**	**2,342**
Cash Flow From Operations		**(3,554)**	**(1,092)**	**2,461**
Restructuring Disbursements	[5]	(1,216)	(113)	1,103
Net Cash Inflows / (Outflows)		**(4,769)**	**(1,205)**	3,564
Cash *				
Beginning Balance		136,316	136,316	-
Net Cash Inflows / (Outflows)		(4,769)	(1,205)	3,564
Ending Balance		**131,546**	**135,111**	**3,564**
Intercompany Advances	[6]	(3,773)	-	

* Cash balances exclude amounts held in the D&O Trust.

Notes to the Variance Analysis:

[1] Other Receipts - Interest income received on cash and short-term investments. The forecast assumes $20,000 of interest income received by the Company at month-end, however interest income of $119,000 was received during the Reporting Period. This has resulted in a permanent positive variance of $99,000.

[2] Utilities - CannTrust is experiencing a natural gas surplus due to delayed production ramp-up and as such the gas is being resold to Enbridge, thus lowering the anticipated disbursement for utilities. This results in a permanent positive variance of $79,000. CannTrust paid Access Gas prior to the Reporting Period, resulted in permanent positive variance of $125,000. The remaining positive variance of $111,000 is a timing difference that is anticipated to reverse in subsequent periods.

[3] Other Operating Expenses – The variance includes:
- the Applicants have delayed commencement of the ramp-up cost. This has resulted in a timing difference of $200,000 related to marketing costs to rebuild the brand image, and a permanent different of $400,000 related to production costs.
- the Applicants continues to negotiate payment terms with vendors, and this is creating a timing difference of $558,000
- the Applicants had included $730,000 in consultation and professional fees related to various class actions. As a result of the CCAA filing, there is a positive permanent difference of $400,000 and timing difference of $330,000.

[4] Capital Expenditures – The timing of these projects is pending the completion of certain remediation activities. Therefore, this variance is a timing difference.

[5] Restructuring Disbursements - This variance is a timing difference that will reverse in future weeks.

[6] Intercompany Advance - There was no Intercompany Advance from CannTrust Holding Inc. to any subsidiaries during the Reporting Period.

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

AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF CANNTRUST HOLDINGS INC., CANNTRUST INC., CTI HOLDINGS (OSOYOOS) INC. AND ELMCLIFFE INVESTMENTS INC. (each an "Applicant" and, collectively, the "Applicants" or "CannTrust")

Court File No. CV-20-00638930-00CL

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

PROCEEDING COMMENCED AT TORONTO

SECOND REPORT OF THE MONITOR
(May 4, 2020)

AIRD & BERLIS LLP
Barristers and Solicitors
Suite 1800, Box 754
181 Bay Street
Toronto, Ontario M5J 2T9
Tel: 416.863.1500
Fax: 416.865.1515

Steve Graff (LSO # 31871V)
Email: sgraff@airdberlis.com

Kathryn Esaw (LSO # 58264F)
Email: kesaw@airdberlis.com

Lawyers for the Monitor, Ernst & Young Inc. .