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.

Applicants

MOTION RECORD

(Stay Extension and CCAA Representation)
(Returnable January 29, 2021)

January 20, 2021

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INDEX

TAB 1

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Applicants

NOTICE OF MOTION
(Stay Extension and CCAA Representation)
(Returnable January 29, 2021)

The Applicants will make a motion before a judge of the Ontario Superior Court of Justice (Commercial List) on January 29, 2021 at 11:00 a.m., or as soon after that time as the motion can be heard, by judicial videoconference via Zoom at Toronto, Ontario due to the COVID-19 pandemic. Please refer to the conference details attached as Schedule "A" hereto in order to attend. Please advise if you intend to join the motion by emailing Alexander Steele at asteele@mccarthy.ca.

THE MOTION IS FOR:

(a) an order (the "**Stay Extension Order**"), substantially in the form of the draft order included at Tab 5 of the Motion Record of CannTrust, among other things:

(i) extending the Stay Period (as defined in the order of the Honourable Mr. Justice Hainey dated March 31, 2020 as amended (the "**Initial Order**")), to April 30, 2021;

(ii) approving the activities, fees and disbursements of Ernst & Young Inc. in its capacity as court-appointed monitor of CannTrust (the "**Monitor**") and its counsel; and

(iii) sealing a supplemental letter agreement (the "**SLA**") between CannTrust and the Supporting Parties (as defined below); and

(b) an order (the "**CCAA Representation Order**"), substantially in the form of the draft order included at Tab 6 of the Motion Record of CannTrust, among other things, appointing:

(iv) Dharambir Singh and Patrick Hrusa (the "**CCAA Canadian Representatives**") to represent the interests of all Canadian and Non-U.S. Securities Claimants (as defined in the Draft CCAA Representation Order) in these proceedings in relation to their Securities Claims (as defined in the Draft CCAA Representation Order) and any related claims, including in relation to any negotiations with respect to the settlement of Securities Claims and any related claims and the development of the CCAA Plan (as defined in the Draft CCAA Representation Order) and any related definitive documentation;

(v) Granite Point Master Fund, LP and Granite Point Capital Scorpion Focused Ideas Fund (the "**CCAA U.S. Representatives**") to represent the interests of the U.S. Securities Claimants (as defined in the Draft CCAA Representation Order) in these proceedings in relation to their Securities Claims and any related claims, including in relation to any negotiations with respect to the settlement of Securities Claims and any related claims and the development of the CCAA Plan and any related definitive documentation;

(vi) A. Dimitri Lascaris Law Professional Corporation, Henein Hutchinson LLP, Kalloghlian Professional Corporation and Strosberg Sasso Sutts LLP ("**CCAA Canadian Representative Counsel**") as counsel for the Canadian and Non-U.S. Securities Claimants in these proceedings in relation to their Securities Claims and any related claims; and

(vii) Weisz Fell Kour LLP in association with U.S. class action counsel Laboton Sucharow LLP (together with CCAA Canadian Representative Counsel, "**CCAA Representative Counsel**") as counsel for the U.S. Securities Claimants in these proceedings in relation to their Securities Claims and any related claims; and

(c) such other relief as this Honourable Court may allow.

THE GROUNDS FOR THE MOTION ARE:

1. The facts in support of this motion are set out in the affidavit of Greg Guyatt sworn January 20, 2021 (the "**Guyatt Affidavit**"). Capitalized terms used and not otherwise defined herein have the meanings given to them in the Guyatt Affidavit.

Background and Previous Stay Extensions

2. On March 31, 2020, the Honourable Mr. Justice Hainey granted the Applicants (or "**CannTrust**") an initial order pursuant to the *Companies' Creditors Arrangement Act* (Canada) (the "**CCAA**"), that, among other things, imposed a stay of proceedings, up to and including April 9, 2020 (the "**Stay Period**").

3. On April 9, 2020, the Honourable Mr. Justice Hainey granted an order (the "**Amended and Restated Initial Order**") amending and restating the Initial Order to, among other things, extend the Stay Period to July 5, 2020.

4. On July 2, 2020 and October 28, 2020, the Honourable Mr. Justice Hainey granted orders further extending the Stay Period, which currently runs until and including January 31, 2021.

Mediation Process

5. Following regulatory audits of CannTrust's facilities in June and July 2019, multiple putative securities class actions were commenced against CannTrust in several provinces in Canada and at the federal and state level in the United States (the "**Actions**").

6. CannTrust believed that commencing the CCAA Proceedings was necessary, among other reasons, to provide a single forum in which to seek to resolve all of the claims and contingent claims against it, including those related to the Actions.

7. Accordingly, on May 8, 2020, CannTrust sought and obtained an order (the "**Mediation Order**") appointing Dennis O'Connor, Q.C. (the "**Court-Appointed Mediator**") to mediate a global settlement of certain claims related to the Actions (the "**Mediation Process**").

8. Since the commencement of the Mediation Process, CannTrust has dedicated significant time and resources to the mediation. It has participated in plenary sessions, exchanged mediation briefs with participants, and met on numerous occasions throughout the summer and fall with different parties, all in accordance with the process established by the Court-Appointed Mediator. The Monitor participated in the Mediation Process and worked closely with the Court-Appointed Mediator.

9. From the perspective of CannTrust, the extensive efforts that have occurred in the Mediation Process over a period of more than eight months so far (and are continuing) have been very successful to date.

Restructuring Support Agreement

10. On January 19, 2021 CannTrust reached a restructuring support agreement (the "**RSA**") with the representative plaintiffs in the Ontario Class Action, the representative plaintiffs in the U.S. Class Action, Ontario Class Action Counsel and U.S. Class Action Counsel (collectively, the "**Supporting Parties**") regarding a framework for the settlement of all Securities Claims against CannTrust and various related claims.

11. The RSA contemplates that CannTrust will prepare and file a plan of arrangement (the "**CCAA Plan**") and then seek its approval by creditors and the Court. The CCAA Plan will contain the following features, among others:

(a) a trust will be established for the benefit securities claimants in these proceedings (the "**Securities Claimant Trust**") to which CannTrust Holdings will contribute $50 million;

(b) CannTrust will work with the Supporting Parties to seek settlements with, and contributions to the Securities Claimant Trust from, other co-defendants and insurers;

(c) any claims that CannTrust has for any matters related to securities matters against any co-defendants and insurers who do not settle will be assigned to the Securities Claimant Trust;

(d) the contributions made to the Securities Claimant Trust by CannTrust Holdings and any other settlement parties, together with any proceeds from the prosecution or settlement of any claims assigned to the Securities Claimant Trust, will be distributed pursuant to an allocation and distribution scheme to be developed by the Supporting Parties and reflected in the CCAA Plan, and approved by the court; and

(e) CannTrust and all other parties to the settlement will be released from all Securities Claims and related claims against them, with very limited exceptions.

12. CannTrust is not seeking court approval of the RSA at this time.

Proposed CCAA Representation Order

13. CannTrust is seeking the appointment of the CCAA Canadian Representatives, the CCAA U.S. Representatives, CCAA Canadian Representative Counsel and CCAA U.S. Representative Counsel to, among other things, facilitate the restructuring of CannTrust and the resolution of the claims and contingent claims against it within the CCAA.

14. The limited number of Securities Claimants that have already engaged counsel and have been participating in these proceedings would be excluded from the CCAA Representation Order.

15. The appointment of the CCAA Representatives and CCAA Representative Counsel can be expected to have the following benefits, among others:

(a) it will result in all Securities Claimants who do not already have counsel being represented and addressed under the jurisdiction of this Court;

(b) the CCAA Representatives and CCAA Representative Counsel will be in a position to communicate and consult with each other, Securities Claimants, the Monitor and its counsel, CannTrust and its counsel, and other stakeholders and their respective counsel, including in relation to any negotiations with respect to the settlement of Securities Claims and any related claims and the development of the CCAA Plan and any related definitive documentation;

(c) CCAA Representative Counsel will be able to respond to inquiries from Securities Claimants;

(d) CCAA Representative Counsel will be able to inform the Securities Claimants of their rights and of the progression of the restructuring efforts of CannTrust;

(e) CCAA Representative Counsel will be able to provide the advice needed by the Securities Claimants to participate effectively in the restructuring process;

(f) CCAA Representative Counsel will be able to represent the interests of the Securities Claimants for the purpose of all decisions which might affect their rights in the course of these CCAA proceedings and, if necessary, bring to the court's attention any matters needing to be dealt with;

(g) the appointment of CCAA Representatives and CCAA Representative Counsel is consistent with the objective of resolving all Securities Claims and not merely those in any particular Action, and will avoid potential inconsistencies and delays that would be associated with multiple and potentially conflicting groups; and

(h) efficient, timely and consistent treatment of the Securities Claims.

16. The CCAA Representation Order provides for a process to notify Securities Claimants of the appointment of the CCAA Representatives and CCAA Representative Counsel and a means to communicate with them.

17. CCAA Representative Counsel have demonstrated expertise in securities matters, in complex class action matters and in CCAA matters, and therefore have the requisite knowledge, support staff and infrastructure to advise multiple clients and facilitate effective communication and information sharing among the CCAA Representatives, the Securities Claimants, the Applicants, the Monitor, the Court and other stakeholders.

18. The proposed CCAA Representation Order is necessary and appropriate in the circumstances and is supported by the Monitor.

Sealing

19. In connection with the RSA, CannTrust and the Supporting Parties have also entered into a supplemental letter agreement (the "**SLA**") containing a limited number of confidential terms benefitting the Original Settlement Parties (as defined in the RSA).

20. The disclosure of the SLA terms could prejudice CannTrust and the Supporting Parties and hinder their ability to successfully implement the settlement contemplated by the RSA and the CCAA Plan.

21. Accordingly, it is appropriate for the SLA to be sealed by the Court pursuant to the proposed Stay Extension Order.

Stay Extension

22. The Stay Period presently expires on January 31, 2021. CannTrust is seeking an extension of the Stay Period until and including April 30, 2021 (the "**Proposed Stay Extension Period**").

23. As set out in the Guyatt Affidavit, CannTrust has acted, and continues to act, in good faith and with due diligence since the granting of the most recent stay extension order. CannTrust will have sufficient liquidity to operate their business and meet their obligations during the Proposed Stay Extension Period.

24. The requested extension is necessary and appropriate in the circumstances to allow CannTrust to:

(a) continue to restructure and stabilize its business as it resumes the sale of recreational and medical cannabis products and further scales up its production and processing operations;

(b) continue to work with the Monitor to advance the Claims Procedure by reviewing the remaining Proofs of Claims filed in connection therewith, and continue to engage with several claimants that have filed Notices of Dispute with respect to certain Claims that have been revised or disallowed;

(c) assist with carrying out the noticing procedures contemplated in the proposed CCAA Representation Order should it be issued by this Court;

(d) develop its CCAA Plan to be filed with the Court and presented to the affected creditors of CannTrust, and engage in further discussions with stakeholders in that respect;

(e) negotiate other documentation required in connection with its CCAA Plan;

(f) continue to participate in negotiations with other parties to the Actions regarding whether they may be prepared to contribute to the settlement of the Actions;

(g) prepare the necessary materials and take the necessary steps to conduct one or more meetings of applicable creditors, and seek court approval of the CCAA Plan;

(h) take steps necessary to seek approval of the settlement in the U.S. Action; and

(i) pursue additional financing that will be necessary to allow CannTrust sufficient financial resources to implement the CCAA Plan and have sufficient working capital to emerge from the CCAA Proceedings as a going concern.

25. A stay extension until April 30, 2021 would provide CannTrust with a reasonable period to make substantial progress toward each of these objectives.

26. The proposed Stay Extension Order is necessary and appropriate in the circumstances and is supported by the Monitor.

27. CannTrust also relies upon the following:

(a) Section 11.02 and other provisions of the CCAA and the inherent and equitable jurisdiction of this Court;

(b) Rules 10 and 12.07 of the *Rules of Civil Procedure* (Ontario), as amended;

(c) Section 138 of the *Courts of Justice Act* (Ontario), as amended; and

(d) Such further and other grounds as counsel may advise and this Honourable Court may permit.

THE FOLLOWING DOCUMENTARY EVIDENCE will be used at the hearing of the motion:

(a) the affidavit of Greg Guyatt, sworn January 20, 2021;

(b) the affidavit of Serge Kalloghlian, sworn January 20, 2021;

(c) the affidavit of James W. Johnson, sworn January 20, 2021; and

(d) the Sixth Report of the Monitor, to be filed; and

(e) such further and other materials as counsel may advise and this Court may permit.

January 20, 2021

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Lawyers for the Applicants

TO: SERVICE LIST

SCHEDULE "A"

Conference Details to join Motion via Zoom

Zoom Details:

Topic: CannTrust - Stay Extension
Time: January 29, 2021 11:00 AM Eastern Time (US and Canada)

Join Zoom Meeting
https://zoom.us/j/99648499267

Meeting ID: 996 4849 9267

Find your local number: https://zoom.us/u/aeo1RCV63u

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. ET AL.

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ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

Proceeding commenced at Toronto

NOTICE OF MOTION
(Stay Extension and CCAA Representation)
(Returnable January 29, 2021)

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TAB 2

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

ONTARIO
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AFFIDAVIT OF GREG GUYATT
(Sworn January 20, 2021)

TABLE OF CONTENTS

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Applicants

AFFIDAVIT OF GREG GUYATT
(Sworn January 20, 2021)

I, Greg Guyatt, of the City of Mississauga, in the Province of Ontario, MAKE OATH AND SAY:

1. I am the Chief Executive Officer ("**CEO**") of CannTrust Holdings Inc. ("**CannTrust Holdings**"). I have served in this capacity since February 17, 2020. Prior to my appointment as CEO, I served as the Chief Financial Officer ("**CFO**") of CannTrust Holdings since joining CannTrust Holdings on or around February 19, 2019. I am a Chartered Professional Accountant and have more than 20 years of experience in the consumer packaged goods, retail, pharmaceutical and private equity sectors.

2. Through my current role as CEO, and my former role as CFO, of CannTrust Holdings, I am familiar with the operations, financial results and strategies of the Applicants. As such, I have personal knowledge of the matters to which I depose in this affidavit. Where I do not possess personal knowledge, I have stated the source of my knowledge and believe it to be true.

3. For ease of reference, the Applicants will be collectively referred to herein as "**CannTrust**". All dollar references herein are Canadian dollars unless otherwise referenced.

4. CannTrust has reached a critical stage in these proceedings. As described below, CannTrust has just reached an agreement regarding a framework to settle the securities litigation against it as part of a *Companies' Creditors Arrangement Act* ("**CCAA**") plan. To move forward, CannTrust will need an extension of the stay of proceedings and CannTrust is seeking the appointment of representatives of securities claimants in these proceedings so that it can advance the framework and a CCAA plan. Due to its limited liquidity, CannTrust needs to continue to progress toward the filing and implementation of a CCAA plan without delay.

I. OVERVIEW

(i) Circumstances Leading to the CCAA Proceedings

5. CannTrust is a licensed producer of cannabis in Canada that, prior to June 2019, operated an award-winning business that was experiencing operational growth and expanding into new markets and product segments. However, following regulatory audits of CannTrust's facilities in June and July 2019 (the "**Health Canada Audits**"), Health Canada determined that CannTrust was growing and storing cannabis contrary to applicable laws.

6. Following the Health Canada Audits, among other things, shipments of all CannTrust's cannabis products were stopped, its cannabis licences were partially suspended and multiple putative securities class actions were commenced against CannTrust in several provinces in Canada and at the federal and state level in the United States (as detailed further herein, the "**Actions**").

7. In the second half of 2019 and the first quarter of 2020, CannTrust undertook extensive efforts to address these challenges including, among other things, investigating the findings of the Health Canada Audits, cooperating with regulators such as Health Canada and the Ontario Securities Commission, and implementing a comprehensive remediation plan at its production and processing facilities in Fenwick, Ontario (the "**Fenwick Facility**") and Vaughan, Ontario (the "**Vaughan Facility**"). By March 2020, CannTrust had completed the remediation work at its Fenwick Facility and sought the reinstatement of its licence there, and had almost completed remediation work at its Vaughan Facility.

8. Despite these efforts, the situation facing CannTrust by the end of March 2020 was highly uncertain due to the confluence of the following factors:

(a) although its remediation work was almost complete, CannTrust had no certainty with respect to whether Health Canada would reinstate its licences or the timing of any such decisions given the increased burden on Health Canada resulting from the COVID-19 pandemic;

(b) without its cannabis licences, CannTrust had no revenue since July 2019;

(c) CannTrust would continue to incur significant ongoing costs to complete the remediation measures;

(d) CannTrust would also continue to expend significant time and resources defending the Actions, and it was not clear whether the litigation could be resolved within a reasonable time period and on a basis that would leave CannTrust with sufficient financial resources;

(e) if Health Canada decided to reinstate CannTrust's licences, CannTrust would require significant working capital to restore its operations and return to profitability; and

(f) the disruption of global and Canadian capital markets from an oil price shock and the COVID-19 pandemic, coupled with the downturn in the Canadian cannabis industry, rendered CannTrust's ability to attract capital highly doubtful.

9. Taking these factors into account, CannTrust determined that it was in the best interests of the Applicants and their stakeholders to commence these proceedings pursuant to the CCAA (the "**CCAA Proceedings**") and obtain the breathing space necessary to, among other things:

(a) complete the remainder of its remediation plan for its Vaughan Facility and continue to work with Health Canada to resolve any remaining compliance issues and obtain the reinstatement of its licences;

(b) right-size its business to better reflect its current and anticipated operational footprint;

(c) restore cultivation and processing operations and return to the recreational and medical cannabis market upon the reinstatement of its licences;

(d) facilitate the continuation of the Board of Directors' review of strategic alternatives, including any potential sale of or other strategic transaction involving CannTrust; and

(e) explore a global resolution of the Actions and address the other claims and contingent claims against CannTrust in a single forum.

(ii) CCAA Proceedings

10. CannTrust commenced these CCAA Proceedings on March 31, 2020 – less than 10 month ago. Since that time, CannTrust has either completed, or made significant progress with respect to, each of the above objectives. As detailed further herein:

(a) CannTrust completed the remainder of its remediation work;

(b) CannTrust obtained from Health Canada the reinstatement of its licenses for its Fenwick Facility and Vaughan Facility on May 29, 2020 and August 6, 2020, respectively;

(c) CannTrust restructured its operations and took certain steps to right-size its business, including reviewing its workforce, disclaiming various agreements that were unnecessary or uneconomic and engaging with key contract counterparties to renegotiate their existing arrangements;

(d) CannTrust resumed production and processing operations at the Fenwick Facility and Vaughan Facility and announced: (i) on December 2, 2020 that it was returning to the recreational cannabis marketplace with two of its recreational brands, Liiv and Synr.g,; and (ii) on January 8, 2021 that it was re-entering the medical cannabis market with its new medical brand, estora;

(e) CannTrust obtained the SISP Order (defined below) and, with the assistance of its financial advisor, Greenhill & Co. Canada Ltd. (the “**Financial Advisor**”), carried out a sale and investment solicitation process for the purpose of soliciting interest in and opportunities for a sale of, or investment in, the assets and business operations of CannTrust. In light of its preliminary assessment of the bids received in the first phase of the process and the progress made in the mediation, CannTrust decided, in consultation with the Monitor and the Financial Advisor, not to proceed with the second phase of the sale process;

(f) CannTrust obtained the Claims Procedure Order (defined below) in order to ascertain the universe of claims that may exist against CannTrust and the directors and officers of CannTrust other than certain Excluded Equity Claims (defined below). CannTrust, in consultation with the Monitor, has been working diligently to implement the claims procedure; and

(g) CannTrust obtained the Mediation Order (defined below) appointing the Hon. Dennis O’Connor, Q.C. (the “**Court-Appointed Mediator**”) to mediate a global settlement of the claims associated with the Actions.

11. Very recently, CannTrust has achieved another very significant milestone in its restructuring effort. With the assistance of the Court-Appointed Mediator, CannTrust has reached an agreement with key stakeholders on a framework for the settlement of all Securities Claims (defined below) against CannTrust and various related claims.

12. With the benefit of this important agreement, CannTrust intends to move towards the development and filing of a formal CCAA plan with a view to exiting these CCAA

Proceedings and emerging as a going concern. Given CannTrust's liquidity constraints, it will need to do so in short order.

(iii) Relief Sought on This Motion

13. I swear this affidavit in support of CannTrust's motion for:

(a) an order (the "**Stay Extension Order**"), substantially in the form of the draft order included at Tab 5 of the Motion Record of CannTrust, among other things:

(i) extending the Stay Period (defined below) to April 30, 2021 (the "**Proposed Stay Extension Period**"); and

(ii) approving the activities, fees and disbursements of Ernst & Young Inc. in its capacity as court-appointed monitor of CannTrust (the "**Monitor**") and its counsel; and

(b) an order (the "**CCAA Representation Order**"), substantially in the form of the draft order included at Tab 6 of the Motion Record of CannTrust, among other things, appointing:

(i) Dharambir Singh and Patrick Hrusa (the "**CCAA Canadian Representatives**") to represent the interests of all Canadian and Non-U.S. Securities Claimants (as defined in the proposed CCAA Representation Order) in these proceedings in relation to their Securities Claims (as defined in the proposed CCAA Representation

Order) and any related claims, including in relation to any negotiations with respect to the settlement of Securities Claims and any related claims and the development of a plan of arrangement of CannTrust (the "**CCAA Plan**") pursuant to the CCAA and any related definitive documentation;

(ii) Granite Point Master Fund, LP and Granite Point Capital Scorpion Focused Ideas Fund (the "**CCAA U.S. Representatives**", and together with the Canadian Representatives, the "**CCAA Representatives**") to represent the interests of the U.S. Securities Claimants (as defined in the proposed CCAA Representation Order) in these proceedings in relation to their Securities Claims and any related claims, including in relation to any negotiations with respect to the settlement of Securities Claims and any related claims and the development of the CCAA Plan and any related definitive documentation;

(iii) A. Dimitri Lascaris Law Professional Corporation, Henein Hutchinson LLP, Kalloghlian Myers LLP and Strosberg Sasso Sutts LLP ("**CCAA Canadian Representative Counsel**") as counsel for the Canadian and Non-U.S. Securities Claimants in these proceedings in relation to their Securities Claims and any related claims; and

(iv) Weisz Fell Kour LLP in association with U.S. class action counsel Laboton Sucharow LLP (together with CCAA Canadian Representative Counsel, "**CCAA Representative Counsel**") as counsel for the U.S.

Securities Claimants in these proceedings in relation to their Securities Claims and any related claims.

14. The proposed Stay Extension Order is necessary to allow CannTrust to continue to move forward towards completing its few remaining restructuring objectives. The length of the Proposed Stay Extension Period is appropriate in light of the progress made to date and the progress that is anticipated to be made in the near term. CannTrust is expected to have sufficient liquidity to operate throughout the Proposed Stay Extension Period.

15. The proposed CCAA Representation Order is necessary and appropriate to ensure that all Securities Claimants (as defined below) are represented and are able to participate effectively in these proceedings and to ensure that Securities Claims are resolved in an efficient, timely and consistent manner that will allow CannTrust to proceed to develop and put forward the CCAA Plan for approval by its creditors and the Court.

II. BACKGROUND

(i) Initial Orders

16. On March 31, 2020, the Honourable Mr. Justice Hainey granted an initial order (the "**Initial Order**") pursuant to the CCAA in favour of CannTrust, including a stay of proceedings until April 9, 2020 (the "**Stay Period**").

17. On April 9, 2020, the Honourable Mr. Justice Hainey granted an order (the "**Amended and Restated Initial Order**") amending and restating the Initial Order to, among other things, extend the Stay Period to July 5, 2020. A copy of the Amended and Restated Initial Order is attached hereto as **Exhibit "A"**.

(ii) SISP, Claims Procedure and Mediation Orders

18. On May 8, 2020, the Honourable Mr. Justice Hainey granted:

(a) an order (the "**SISP Order**") approving a sale and investment solicitation process for the purpose of soliciting interest in and opportunities for a sale of, or investment in, the assets and business operations of CannTrust (the "**SISP**"), a copy of which is attached hereto as **Exhibit "B"**;

(b) an order (the "**Claims Procedure Order**") approving a claims procedure for the identification, quantification, and resolution of certain claims of creditors of CannTrust and its directors and officers (the "**Claims Procedure**"), a copy of which is attached hereto as **Exhibit "C"**; and

(c) an order (the "**Mediation Order**") appointing the Court-Appointed Mediator to mediate a global settlement of certain claims related to the Actions (the "**Mediation Process**"), a copy of which is attached hereto as **Exhibit "D"**.

(iii) Previous Stay Extensions

19. On July 2, 2020 and October 28, 2020, the Honourable Mr. Justice Hainey granted orders further extending the Stay Period, which currently runs until and including January 31, 2021. The 3-month length of the Proposed Stay Extension is commensurate with the length of the stay extensions previously granted by this Court. A copy of the most recent such order dated October 28, 2020 (the "**October Stay Extension Order**") is attached hereto as **Exhibit "E"**.

III. BUSINESS RESTRUCTURING

(i) Remediation and Licence Reinstatements

20. The Fenwick Facility and Vaughan Facility are each essential to CannTrust's ability to produce consistent, high quality cannabis products for the recreational and medical cannabis markets. The Fenwick Facility is a state-of-the-art commercial greenhouse with a perpetual harvest system, computer controlled irrigation, co-generation power supply and full supplemental lighting. The Vaughan Facility is an extraction, manufacturing and packaging facility.

21. Prior to and following the commencement of the CCAA Proceedings, CannTrust undertook significant efforts to address the findings in the Health Canada Audit Reports, remediate the Fenwick Facility and the Vaughan Facility and seek the reinstatement of its cannabis licenses. This was CannTrust's first and foremost priority as without its cannabis licenses, CannTrust had no ability to generate any material revenue and no prospect of emerging from the CCAA Proceedings as a going concern.

22. CannTrust was successful in achieving this objective. As set out in previous affidavits filed in these proceedings:

(a) on February 14, 2020, CannTrust submitted a comprehensive package to Health Canada evidencing its remediation of the Fenwick Facility and seeking the reinstatement of its suspended cannabis licence for that location;

(b) on April 3, 2020, Health Canada wrote to CannTrust confirming that it had completed reviewing the remediation package with respect to the Fenwick

Facility and asked questions about the remediation package;

(c) on April 17, 2020, CannTrust provided its responses to those questions to Health Canada;

(d) on April 24, 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 suspended cannabis licences for that location;

(e) on May 29, 2020, CannTrust received notice from Health Canada that its licences for its Fenwick Facility had been reinstated;

(f) on May 29, 2020, Health Canada wrote to CannTrust confirming that it had completed reviewing the remediation package with respect to the Vaughan Facility and asking one question about the remediation package;

(g) on June 2, 2020, CannTrust provided its response to the question to Health Canada; and

(h) on August 6, 2020, CannTrust received notice from Health Canada that its licences for its Vaughan Facility had been reinstated.

(ii) Recommencing Operations

Fenwick Facility

23. As noted in my affidavit sworn June 25, 2020, CannTrust immediately took steps to recommence operations at the Fenwick Facility upon the reinstatement of its licences for that

location on May 29, 2020. By the time that affidavit was sworn, CannTrust had propagated an initial harvest which represented less than 20% of the Fenwick Facility's capacity.

24. As noted in my affidavit sworn October 21, 2020, CannTrust continued to propagate additional plants as it continued to ramp up production to establish appropriate harvest timing under its perpetual harvest methodology. By that time, CannTrust was using approximately 40% of its licensed cultivation space at the Fenwick Facility.

25. As of January 19, 2021, (i) CannTrust continues to use approximately 40% of its licensed cultivation space at the Fenwick Facility, and (ii) CannTrust has harvested approximately 3,600 kg of cannabis since recommencing operations at its Fenwick Facility.

26. CannTrust anticipates that cultivation space utilization and harvest levels will continue to increase with its sales levels given its recent return to the recreational and medical cannabis markets, as detailed further below.

Vaughan Facility

27. As noted in my affidavit sworn October 21, 2020, following the reinstatement of its licenses for the Vaughan Facility on August 6, 2020, CannTrust worked diligently to prepare for the commencement of extraction, manufacturing and packaging operations at the Vaughan Facility following the initial harvest at the Fenwick Facility. Following the successful commencement of processing activities at the Vaughan Facility in late September, CannTrust worked to build inventory to meet expected demand once its products returned to market.

28. CannTrust's extraction, manufacturing and packaging operations at its Vaughan Facility are now fully operational. As of January 19, 2021, CannTrust has packaged almost 360,000 grams of dried flower and over 130,000 ml of cannabis oil since recommencing operations at its Vaughan Facility.

(iii) Returning to Market

29. Alongside the work that was being performed to obtain the reinstatement of its licences and resume cultivation and processing operations, CannTrust undertook the necessary regulatory, distribution logistics and marketing work so that it was prepared to return to the recreational and medical cannabis markets promptly after its products were ready to be brought to market.

30. As detailed further below, CannTrust has recently made a successful return to the recreational and medical cannabis markets.

Return to Recreational Cannabis Market

31. On December 2, 2020, CannTrust announced that it was returning to the Canadian recreational cannabis marketplace with the relaunch of sales of two of its recreational brands, Liiv and Synr.g.

32. Liiv and Snyr.g were first introduced in 2018 and targeted experienced cannabis consumers. Both brands are sold in dried flower, pre-rolled joint, oil, and capsule form.

33. CannTrust is initially focused on regenerating recreational sales in Ontario, Alberta, and British Columbia. These provinces have received initial orders of dried flower at their

wholesale distribution facilities and have moved inventory into their retail channels where it is available to consumers.

34. The company intends to begin expanding its portfolio of recreational products and their market availability in early 2021.

Return to Medical Cannabis Market

35. On January 8, 2021, CannTrust announced that it was returning to the medical cannabis market with its new medical brand estora, and would begin serving patients immediately.

36. The estora branding also included the launch of a new digital platform for engaging with patients and health care practitioners. The platform aims to connect patients, health care practitioners and partners with educational resources and products to assist patients and it includes information on cannabis strains, formats, and accessories.

37. estora's portfolio of 16 cannabis products has been designed with patients in mind, with easy-to-use formats and standardized processes that ensure consistency in every bottle.

38. Patients have commenced registering with, and placing orders on, CannTrust’s digital platform and CannTrust has begun fulfilling medical cannabis orders.

(iv) Right-Sizing Operations

39. As set out in previous affidavits filed in these proceedings, CannTrust has taken numerous steps to right-size its operational footprint to better reflect its current and anticipated needs as it ramps up its production and processing operations.

40. CannTrust has also continuously reviewed its work force to ensure that the number and skillset of its employees appropriately reflect its short and long term business plan.

41. As a result of this operational restructuring, CannTrust has built a stronger, more efficient business which it believes will be highly competitive in the Canadian cannabis market upon its emergence from the CCAA Proceedings.

IV. SISP

42. On May 8, 2020, the SISP Order was issued which approved and authorized the implementation of the SISP.

43. I previously swore an affidavit on June 25, 2020 (the "**June Affidavit**") in these proceedings which sets out, among other things, the steps taken by CannTrust, the Financial Advisor and the Monitor to implement the SISP. A copy of the June Affidavit, without exhibits, is attached hereto as **Exhibit "F"**.

44. The Phase 1 Bid Deadline (as defined in the SISP Order) was 5:00 p.m. (Eastern Time) on June 22, 2020.

45. As set out in the June Affidavit, CannTrust and the Financial Advisor made a preliminary assessment of the Phase 1 Bids received. In light of the progress being made in the Mediation Process and the result that CannTrust hoped to achieve, CannTrust decided, in consultation with the Financial Advisor and the Monitor, to prioritize the Mediation Process.

46. After recently reaching agreement with a key stakeholder group on a framework for the settlement of all Securities Claims and related claims, CannTrust intends to move forward on the basis of a standalone restructuring, to be implemented by way of a CCAA plan.

V. CLAIMS PROCEDURE

47. On May 8, 2020, the Claims Procedure Order was issued, which authorized the implementation of the Claims Procedure by CannTrust, in consultation with the Monitor.

48. CannTrust sought to commence the Claims Procedure in order to ascertain the universe of claims that may exist against CannTrust and the directors and officers of CannTrust, other than certain Excluded Equity Claims (as defined in the Claims Procedure Order) which are subject to the Mediation Process and are described in more detail below.

49. The Pre-Filing Claims Bar Date was June 22, 2020. The Restructuring Claims Bar Date is the later of 5:00 p.m. on: (i) the Pre-Filing Claims Bar Date; and (ii) 30 days after the Claimant is deemed to have received a Claims Package with respect to such Restructuring Claim.

50. CannTrust has continued to diligently work with the Monitor to review the Proofs of Claim received to assess which claims require additional information, require revisions, can be resolved or settled, or may be accepted (in whole or in part). That assessment is on-going and is being conducted in accordance with the Claims Procedure Order. Further information with respect to the status of the Claims Process will be provided in the Sixth Report of the Monitor, to be filed (the "**Sixth Report**").

VI. MEDIATION PROCESS AND CCAA REPRESENTATION ORDER

51. Prior to receiving the Health Canada Audit Reports, CannTrust was not a party to, nor was any of its property the subject of, any legal proceedings or regulatory actions material to it.

52. As described more fully in my affidavit sworn March 31, 2020, following CannTrust's receipt of the Health Canada Audit Reports, eight putative class action lawsuits were commenced in Canada and five putative class action lawsuits were commenced in the U.S., alleging that CannTrust Holdings made misrepresentations in its disclosure to investors related to the findings of the Health Canada Audit Reports. The aggregate damages sought exceed $500 million.

(i) Canadian Actions

53. In Canada, five of the eight putative class action lawsuits were commenced in Ontario. The Ontario class actions, which were brought by different plaintiffs' counsel, plead claims, class descriptions and class periods that were not identical but had a great deal of overlap between one another.

54. On January 28, 2020, the Honourable Mr. Justice Hainey issued an endorsement awarding carriage of the Ontario putative class actions (the "**Ontario Class Action**") to a consortium comprised of Henein Hutchison LLP, Strosberg Sasso Sutts LLP, A Dimitri Lascaris Law Professional Corporation, and Kalloghlian Professional Corporation ("**Ontario Class Action Counsel**" and the proposed CCAA Canadian Representative Counsel).

55. In addition to the Ontario Class Action, separate class action lawsuits were commenced by Merchant Law Group in British Columbia, Alberta and Quebec (collectively, the "**Merchant Class Actions**"). To my knowledge, there have been no material developments in these other lawsuits, although prior to the commencement of the CCAA Proceedings CannTrust consented to the relief sought in a leave motion to commence a claim pursuant to the relevant securities legislation of Alberta. None of the Merchant Class Actions has been certified.

56. An action was commenced in Ontario against CannTrust Holdings and other defendants by two shareholders, Zola Finance Holdings Ltd. and Igor Gimelshtein, relating to the drop in CannTrust Holding's share price after July 8, 2019 (the "**Zola Action**"). The total amounts claimed in this lawsuit overlap with the Ontario Class Action and have not been quantified by CannTrust at the present time.

(ii) US Securities Class Actions

57. In the United States, four of the five putative securities class actions were commenced in the Southern District of New York and alleged violations of the *Securities Act of 1933* (United States) and the *Securities Exchange Act of 1934* (United States). An order consolidating the federal putative class actions was granted on April 16, 2020. Labaton Sucharow LLP was appointed as lead counsel ("**U.S. Class Action Counsel**") in the consolidated action (the "**U.S. Class Action**").

58. A separate case is pending in California State Court alleging claims pursuant to the State *Securities Act* (the "**California Class Action**"). The plaintiff's counsel in the California Class Action has agreed to temporarily suspend the steps in the litigation and has been liaising

with U.S. Class Action Counsel in connection with CannTrust's global settlement discussions in the Mediation Process described below.

59. Neither the U.S. Class Action nor the California Class Action has been certified.

60. The Ontario Class Action, the Merchant Class Actions, the Zola Action, the U.S. Class Action and the California Class Action are referred to collectively as the "**Actions**".

(iii) Mediation Process

61. As noted above, prior to commencing the CCAA Proceedings, CannTrust Holdings had expended significant time and resources investigating and preparing to defend the Actions in multiple jurisdictions. With respect to the Actions, CannTrust believed that commencing the CCAA Proceedings was necessary, among other reasons:

(a) to avoid the cost of defending multiple putative class actions and other litigation brought against it in several jurisdictions;

(b) to provide a single forum in which to seek to resolve all of the claims and contingent claims against it;

(c) to place all creditors and contingent creditors on an equal footing and to avoid one creditor or group of creditors potentially gaining a timing advantage over others;

(d) in relation to those claimants with securities claims, to ensure that they would all be able to participate on an equal footing and to avoid potentially inconsistent classes and claims across different Actions; and

(e) to provide a means by which CannTrust could be released from all securities claims and related claims (including indemnity claims) against it so that it could emerge from CCAA proceedings on a restructured basis, free and clear of all such claims.

62. Shortly after obtaining CCAA protection pursuant to the Initial Order, and consistent with its desire to pursue a global resolution of the claims against it in the Actions, on May 8, 2020, CannTrust sought and obtained the Mediation Order pursuant to which the Honourable Dennis O'Connor, Q.C. was appointed as the Court-Appointed Mediator to conduct the Mediation Process between CannTrust Holdings, plaintiffs and representative plaintiffs, co-defendants and insurers with a view to reaching a resolution of some or all of the securities claims and related claims between the various parties.

63. Since the commencement of the Mediation Process, CannTrust has dedicated significant time and resources to the mediation. It has participated in plenary sessions, exchanged mediation briefs with participants, and met on numerous occasions throughout the summer and fall with different parties, all in accordance with the process established by the Court-Appointed Mediator. The Monitor participated in the Mediation Process and worked closely with the Court-Appointed Mediator.

64. Because the Mediation Process is confidential, comments about the substance of the discussions and negotiations would not be appropriate. However, from the perspective of CannTrust, the extensive efforts that have occurred in the Mediation Process over a period of more than eight months so far (and are continuing) have been very successful to date.

65. CannTrust anticipates that the Mediation Process will continue to determine, among other things, whether other parties to the Actions may be prepared to contribute to and participate in the settlement of the Actions.

(iv) Restructuring Support Agreement

66. On January 19, 2021 CannTrust reached an agreement with the representative plaintiffs in the Ontario Class Action, the representative plaintiffs in the U.S. Class Action, Ontario Class Action Counsel and U.S. Class Action Counsel (collectively, the "**Supporting Parties**") regarding a framework for the settlement of all Securities Claims against CannTrust Holdings and various related claims. Attached as **Exhibit "G"** is a copy of the restructuring support agreement between CannTrust and the Supporting Parties dated January 19, 2021 (the "**RSA**"). Capitalized terms used below and not defined elsewhere in this Affidavit have the meanings given to them in the RSA.

67. The RSA is the product of extensive negotiations facilitated by the Court-Appointed Mediator over many months, not only between CannTrust Holdings and the Supporting Stakeholders, but also taking into account the negotiations with other participants and feedback and directions provided by the Court-Appointed Mediator and the Monitor.

68. The RSA contemplates that CannTrust will prepare and file a CCAA Plan and then seek approval of it by creditors and the court, containing the following features, among others:

(a) a trust will be established for the benefit of Securities Claimants (the "**Securities Claimant Trust**");

(b) CannTrust Holdings will contribute $50 million to the Securities Claimant Trust;

(c) CannTrust will work with the Supporting Stakeholders to seek settlements with, and contributions to the Securities Claimant Trust from, other co-defendants and insurers;

(d) any claims that CannTrust has for Securities-Related Matters against any co-defendants and insurers who do not settle will be assigned to the Securities Claimant Trust;

(e) the contributions made to the Securities Claimant Trust by CannTrust Holdings and any other settlement parties, together with any proceeds from the prosecution or settlement of any claims assigned to the Securities Claimant Trust, will be distributed pursuant to an allocation and distribution scheme to be developed by the Supporting Parties and reflected in the CCAA Plan, and approved by the court; and

(f) CannTrust and all other parties to the settlement will be released from all Securities Claims and related claims against them, with very limited exceptions.

69. CannTrust is not seeking court approval of the RSA at this time. Instead, the RSA contemplates that CannTrust will, among other things:

(a) prepare its CCAA Plan and file it with the court, and bring a motion for a meeting order (and, if necessary, a supplemental claims process), to be heard on or before March 12, 2021;

(b) seek approval of its CCAA Plan at meetings of affected creditors;

(c) if the CCAA Plan is approved by the required majorities of creditors, seek approval of the CCAA Plan from the Court at a sanction hearing; and

(d) thereafter seek approval, within the U.S. Class Action, of the settlement with U.S. Securities Claimants contemplated by the CCAA Plan.

70. Reaching an agreement of this nature with key stakeholders is a crucial milestone in CannTrust's restructuring effort. It does not come a moment too soon.

71. As detailed further below, CannTrust is projected to be cash flow negative throughout the Proposed Stay Extension Period. To remain as a going concern, CannTrust must implement a settlement of Securities Claims and emerge from the CCAA Proceedings in the near term or it will run out of its remaining cash (i.e., the cash it has on hand in excess of the $50 million it needs to fund the proposed settlement). CannTrust is currently seeking to arrange financing that will provide it with funds needed to exit the CCAA Proceedings and continue to operate post-implementation. However, the availability of operating financing is doubtful absent a clear path toward a successful restructuring and exit from these CCAA Proceedings.

(v) Proposed CCAA Representation Order

72. As the next important step in its restructuring effort, CannTrust is now seeking the appointment of representatives and representative counsel for Securities Claimants within the CCAA Proceedings. For the reasons described below, it is appropriate and necessary for CCAA representatives and representative counsel to be appointed to facilitate the restructuring of CannTrust and the resolution of the claims and contingent claims against it within the CCAA.

73. Because none of the class actions against CannTrust Holdings is certified, most of the Securities Claimants are not formally represented, and with limited exceptions, they do not have representation in the CCAA Proceedings. One of the main objectives of these CCAA proceedings is to resolve all of the Securities Claims against CannTrust and the various related claims. Securities Claimants are an important stakeholder group in these CCAA Proceedings and should have meaningful representation so they can participate effectively in the proceedings.

74. Now that an agreement has been achieved with the Supporting Parties with the assistance of the Court-Appointed Mediator and as a result of the Mediation Process, it is in the interest of all stakeholders that the Securities Claimants that are not already formally represented by counsel be formally represented in these CCAA proceedings in an effective, timely and cost-efficient manner.

75. CannTrust proposes that, subject to the exceptions described below:

(a) the representative plaintiffs in the Ontario Class Action who have already prevailed in a contested carriage motion be appointed to represent the interests of all Canadian and Non-U.S. Securities Claimants in these proceedings in relation to their Securities Claims and any related claims;

(b) the representative plaintiffs in the U.S. Class Action who have already prevailed in a contested carriage motion be appointed to represent the interests of the U.S. Securities Claimants in these proceedings in relation to their Securities Claims and any related claims;

(c) Ontario Class Action Counsel be appointed as counsel for the Canadian and Non-U.S. Securities Claimants in these proceedings in relation to their Securities Claims and any related claims; and

(d) Weisz Fell Kour LLP, in association with U.S. Class Action Counsel, be appointed as counsel for the U.S. Securities Claimants in these proceedings in relation to their Securities Claims and any related claims.

76. The limited number of Securities Claimants that have already engaged counsel and have been participating in these proceedings would be excluded from the CCAA Representation Order.

77. I have reviewed the affidavits of Serge Kalloghlian and James W. Johnson, each sworn on January 20, 2021, which confirm that each of the representatives and representative counsel is prepared to act in the applicable capacity if so appointed.

78. Further information with respect to the Actions and the expertise of Ontario Class Action Counsel and U.S. Class Action Counsel is provided in the affidavits of Mr. Kalloghlian and Mr. Johnson.

(vi) Benefits of the CCAA Representation Order

79. The proposed CCAA Representation Order is necessary and appropriate in the circumstances for CannTrust to proceed toward emerging from these CCAA Proceedings as a going concern. The appointment of the CCAA Representatives and CCAA Representative Counsel can be expected to have the following benefits:

(a) it will result in all Securities Claimants who do not already have counsel being represented and addressed under the jurisdiction of this Court;

(b) the CCAA Representatives and CCAA Representative Counsel will be in a position to communicate and consult with each other, Securities Claimants, the Monitor and its counsel, CannTrust and its counsel, and other stakeholders and their respective counsel, including in relation to any negotiations with respect to the settlement of Securities Claims and any related claims and the development of the CCAA Plan and any related definitive documentation;

(c) CCAA Representative Counsel will be able to respond to inquiries from Securities Claimants;

(d) CCAA Representative Counsel will be able to inform the Securities Claimants of their rights and of the progression of the restructuring efforts of CannTrust;

(e) CCAA Representative Counsel will be able to provide the advice needed by the Securities Claimants to participate effectively in the restructuring process;

(f) CCAA Representative Counsel will be able to represent the interests of the Securities Claimants for the purpose of all decisions which might affect their rights in the course of these CCAA proceedings and, if necessary, bring to the court's attention any matters needing to be dealt with;

(g) the appointment of CCAA Representatives and CCAA Representative Counsel is consistent with the objective of resolving all Securities Claims and not merely those in any particular Action, and will avoid potential inconsistencies and delays that would be associated with multiple and potentially conflicting groups; and

(h) efficient, timely and consistent treatment of the Securities Claims.

80. The proposed CCAA Representation Order provides for a process to notify Securities Claimants of the appointment of the CCAA Representatives and CCAA Representative Counsel and a means to communicate with them.

81. As noted above, the Monitor is supportive of the proposed CCAA Representation Order. Further information in this respect will be provided in the Sixth Report, to be filed.

VII. STAY EXTENSION

82. CannTrust seeks an extension of the Stay Period until April 30, 2021. The requested extension is necessary and appropriate as: (i) CannTrust has continued to act in good faith and

with due diligence; (ii) CannTrust is expected to have sufficient liquidity to operate throughout the Proposed Stay Extension Period; and (iii) CannTrust requires further time to implement the RSA, advance the Claims Procedure and develop and put forward its CCAA Plan for approval by its creditors and the Court.

(i) CannTrust Has Continued to Act in Good Faith and With Due Diligence

83. The Stay Period presently expires on January 31, 2021. As set out further above, since the granting of the October Stay Extension Order, CannTrust has acted, and continues to act, in good faith and with due diligence. Among other things, CannTrust has:

(a) worked diligently to accelerate its cultivation operations at the Fenwick Facility;

(b) worked diligently to advance certain extraction, manufacturing and packaging operations at the Vaughan Facility;

(c) re-entered the cannabis market place with the relaunch of sales of two of its recreational cannabis brands, Liiv and Synr.g;

(d) resumed sales of medical cannabis under a new brand name, estora;

(e) continued to take steps to right-size its operational footprint including by renegotiating or disclaiming certain contracts;

(f) continued to work with the Monitor to advance the Claims Procedure and review the approximately 234 Claims that were filed in connection therewith;

(g) continued to actively participate in the Mediation Process in accordance with the procedures and timelines established by the Court-Appointed Mediator; and

(h) engaged in extensive discussions with the Supporting Stakeholders and negotiated and documented the RSA and the proposed CCAA Representation Order.

(ii) CannTrust Will Have Sufficient Liquidity

84. CannTrust, with the assistance of the Monitor and the CRO, has prepared a cash flow forecast for the Proposed Stay Extension Period (the "**Cash Flow Forecast**"), which will be appended to the Sixth Report. The Cash Flow Forecast demonstrates that the Applicants will have sufficient liquidity to operate their business and meet their obligations during the Proposed Stay Extension Period.

(iii) Progress to be Made During Proposed Extension

85. The requested extension is necessary and appropriate in the circumstances to allow CannTrust to:

(a) continue to restructure and stabilize its business as it resumes the sale of recreational and medical cannabis products and further scales up its production and processing operations;

(b) continue to work with the Monitor to advance the Claims Procedure by reviewing the remaining Proofs of Claims filed in connection therewith, and continue to engage with several claimants that have filed Notices of Dispute with respect to certain Claims that have been revised or disallowed;

(c) assist with carrying out the noticing procedures contemplated in the CCAA Representation Order should it be issued by this Court;

(d) develop its CCAA Plan to be filed with the Court and presented to the affected creditors of CannTrust, and engage in further discussions with stakeholders in that respect;

(e) negotiate other documentation required in connection with its CCAA Plan;

(f) continue to participate in negotiations with other parties to the Actions regarding whether they may be prepared to contribute to and participate in the settlement of the Actions;

(g) prepare the necessary materials and take the necessary steps to conduct one or more meetings of applicable creditors, and seek court approval of the CCAA Plan;

(h) take steps necessary to seek approval of the settlement in the U.S. Action; and

(i) pursue additional financing that will be necessary to allow CannTrust sufficient financial resources to implement the CCAA Plan and have sufficient working capital to emerge from the CCAA Proceedings as a going concern.

86. A stay until April 30, 2021 would provide CannTrust with a reasonable period to make substantial progress toward each of these objectives.

87. The requested extension of the stay of proceedings is necessary and appropriate to keep various stakeholders on equal footing while CannTrust completes the above steps and explores a plan of compromise or arrangement.

(iv) Sealing

88. In connection with the RSA, CannTrust and the Supporting Parties have also entered into a supplemental letter agreement (the "**SLA**") containing a limited number of confidential terms benefitting the Original Settlement Parties. The disclosure of the SLA terms could prejudice CannTrust and the Supporting Parties and hinder their ability to successfully implement the settlement contemplated by the RSA and the CCAA Plan. A copy of the SLA is attached hereto as **Confidential Exhibit "H"**. The proposed Stay Extension Order contemplates that the SLA will be sealed by the Court.

VIII. CONCLUSION

89. For the reasons stated above, the relief requested in the CCAA Representation Order and the Stay Extension Order is in the best interests of CannTrust and its stakeholders and is appropriate in the circumstances.

SWORN BEFORE ME over videoconference on this 20th day of January, 2021. The affiant was located in the City of Mississauga, in the Province of Ontario and the Commissioner was located in the City of Toronto, in the Province of Ontario. This affidavit was commissioned remotely as a result of the COVID-19 pandemic.	Greg Guyatt

A Commissioner for taking Affidavits
Name: Alexander Steele (LSO# 75719P)

THIS IS EXHIBIT "A" REFERRED TO

IN THE AFFIDAVIT OF

GREG GUYATT

SWORN BEFORE ME VIRTUALLY,

ON THE 20th DAY OF JANUARY, 2021

A COMMISSIONER, ETC.

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

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

THE HONOURABLE	)	THURSDAY, THE 9TH
	)	
MR. JUSTICE HAINEY	)	DAY OF APRIL, 2020

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.

Applicants

AMENDED AND RESTATED INITIAL ORDER

THIS APPLICATION, made by the Applicants pursuant to the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the "**CCAA**") for an order amending and restating the Initial Order (the "**Initial Order**") issued on March 31, 2020 (the "**Initial Filing Date**") and extending the stay of proceedings provided for therein was heard this day at 330 University Avenue, Toronto, Ontario.

ON READING the affidavit of Greg Guyatt sworn March 31, 2020 and the Exhibits thereto (the "**Guyatt Affidavit**"), the affidavit of Greg Guyatt sworn April 6, 2020 and the Exhibits thereto (the "**Second Guyatt Affidavit**"), the consent of Ernst & Young Inc. ("**EYI**") to act as the Monitor (in such capacity, the "**Monitor**"), the Pre-Filing Report of EYI in its capacity as the proposed Monitor dated March 31, 2020, and the First Report of the Monitor dated April 8, 2020, and on hearing the submissions of counsel for the Applicants, the Monitor and those other parties that were present as listed on the counsel slip, no other party appearing although duly served as appears from the Affidavit of Service of Trevor Courtis sworn April 7, 2020.

AMENDING AND RESTATING INITIAL ORDER

1. **THIS COURT ORDERS** that the Initial Order, reflecting the Initial Filing Date, shall be amended and restated as provided for herein.

SERVICE

2. **THIS COURT ORDERS** that the time for service and filing of the Notice of Application, the Application Record and the Supplementary Application Record is hereby abridged and validated so that this Application is properly returnable today and hereby dispenses with further service thereof.

APPLICATION

3. **THIS COURT ORDERS AND DECLARES** that the Applicants are companies to which the CCAA applies.

PLAN OF ARRANGEMENT

4. **THIS COURT ORDERS** that the Applicants shall have the authority to file and may, subject to further order of this Court, file with this Court one or more plans of compromise or arrangement (hereinafter referred to as the "**Plan**").

POSSESSION OF PROPERTY AND OPERATIONS

5. **THIS COURT ORDERS** that the Applicants shall remain in possession and control of their current and future assets, undertakings and properties of every nature and kind whatsoever, and wherever situate including all proceeds thereof (the "**Property**"). Subject to further Order of this Court, the Applicants shall continue to carry on business in a manner consistent with the preservation of their businesses (the "**Business**") and Property. The Applicants are authorized and empowered to continue to retain and employ the employees, contractors, consultants, agents, experts, accountants, counsel and such other persons (collectively "**Assistants**") currently retained or employed by them, with liberty to retain such further Assistants as it deems reasonably necessary or desirable in the ordinary course of business, to preserve the value of the Property or for the carrying out of the terms of this Order.

6. **THIS COURT ORDERS** that the Applicants shall be entitled to continue to utilize the central cash management system currently in place or, with the consent of the Monitor, replace it with another substantially similar central cash management system (the "**Cash Management System**") and that any present or future bank providing the Cash Management System shall not be under any obligation whatsoever to inquire into the propriety, validity or legality of any transfer, payment, collection or other action taken under the Cash Management System, or as to the use or application by the Applicants of funds transferred, paid, collected or otherwise dealt with in the Cash Management System, shall be entitled to provide the Cash Management System without any liability in respect thereof to any Person (as hereinafter defined) other than the Applicants, pursuant to the terms of the documentation applicable to the Cash Management System, and shall be, in its capacity as provider of the Cash Management System, an unaffected creditor under the Plan with regard to any claims or expenses it may suffer or incur in connection with the provision of the Cash Management System.

7. **THIS COURT ORDERS** that each of the Applicants' existing depository and disbursement banks (collectively, the "**Banks**") is authorized to debit the applicable Applicant's accounts in the ordinary course of business without the need for further order of this Court for: (i) all cheques drawn on the applicable Applicant's accounts which are cashed at such Bank's counters or exchanged for cashier's cheques by the payees thereof prior to the date of this Order; (ii) all cheques or other items deposited in one of the Applicant's accounts with such Bank prior to the date of this Order which have been dishonoured or returned unpaid for any reason, together with any fees and costs in connection therewith, to the same extent an Applicant was responsible for such items prior to the date of this Order; and (iii) all undisputed pre-filing amounts outstanding as of the date hereof, if any, owed to any Bank as service charges for the maintenance of the Cash Management System.

8. **THIS COURT ORDERS** that any of the Banks may rely on the representations of the applicable Applicant with respect to whether any cheques or other payment order drawn or issued by the applicable Applicant prior to the date of this Order should be honoured pursuant to this or any other order of this Court, and such Bank shall not have any liability to any party for relying on such representations by the applicable Applicant as provided for herein.

9. **THIS COURT ORDERS** that (i) those certain existing deposit agreements between the Applicants and the Banks shall continue to govern the post-filing cash management relationship between the Applicants and the Banks, and that all of the provisions of such agreements, including, without limitation, the termination and fee provisions, shall remain in full force and effect, (ii) either any of the Applicants, with the consent of the Monitor, or the Banks may, without further Order of this Court, implement changes to the Cash Management System and procedures in the ordinary course of business pursuant to the terms of those certain existing deposit agreements, including, without limitation, the opening and closing of bank accounts, and (iii) all control agreements in existence prior to the date of this Order shall apply.

10. **THIS COURT ORDERS** that the Applicants shall be entitled but not required to pay the following expenses whether incurred prior to, on or after the Initial Filing Date:

(a) all outstanding and future wages, salaries, contract amounts, amounts payable pursuant to the CannTrust Capital Appreciation Plan (whether accrued prior to, on or after the Initial Filing Date), employee and pension benefits, vacation pay and expenses (including, without limitation, in respect of expenses charged by employees to corporate credit cards) payable on or after the Initial Filing Date to employees or contractors, in each case incurred in the ordinary course of business and consistent with existing compensation policies and arrangements;

(b) the fees and disbursements of any Assistants retained or employed by the Applicants, or retained by employees or officers of the Applicants that the Applicants have agreed to reimburse, in respect of these proceedings, at their standard rates and charges; and

(c) with the consent of the Monitor, amounts owing for goods or services actually supplied to the Applicants prior to the Initial Filing Date by third party suppliers if in the opinion of the Applicants the supplier is critical to the Business, ongoing operations of the Applicants, or preservation of the Property and the payment is required to ensure ongoing supply.

11. **THIS COURT ORDERS** that, except as otherwise provided to the contrary herein, the Applicants shall be entitled but not required to pay all reasonable expenses incurred by the

Applicants in carrying on the Business in the ordinary course after the Initial Filing Date, and in carrying out the provisions of this Order, which expenses shall include, without limitation:

(a) all expenses and capital expenditures reasonably necessary for the preservation of the Property or the Business including, without limitation, payments on account of insurance (including directors and officers insurance), maintenance and security services;

(b) expenses required to ensure compliance with any governmental or regulatory rules, orders or directions; and

(c) payment for goods or services actually supplied to the Applicants following the Initial Filing Date.

12. **THIS COURT ORDERS** that the Applicants shall remit, in accordance with legal requirements, or pay:

(a) any statutory deemed trust amounts in favour of the Crown in right of Canada or of any Province thereof or any other taxation authority which are required to be deducted from employees' wages, including, without limitation, amounts in respect of (i) employment insurance, (ii) Canada Pension Plan (iii) Quebec Pension Plan, and (iv) income taxes;

(b) all goods and services or other applicable sales taxes and all federal excise taxes and duties (collectively, "**Sales & Excise Taxes**") required to be remitted by the Applicants in connection with the sale of goods and services by the Applicants, but only where such Sales & Excise Taxes are accrued or collected after the Initial Filing Date, or where such Sales & Excise Taxes were accrued or collected prior to the Initial Filing Date but not required to be remitted until on or after the Initial Filing Date; and

(c) any amount payable to the Crown in right of Canada or of any Province thereof or any political subdivision thereof or any other taxation authority in respect of municipal realty, municipal business or other taxes, assessments or levies of any nature or kind which are entitled at law to be paid in priority to claims of secured creditors and which are attributable to or in respect of the carrying on of the Business by the Applicants.

13. **THIS COURT ORDERS** that until a real property lease is disclaimed in accordance with the CCAA, the Applicants shall pay all amounts constituting rent or payable as rent under real property leases (including, for greater certainty, common area maintenance charges, utilities and realty taxes and any other amounts payable to the landlord under the lease) or as otherwise may be negotiated between the Applicants and the landlord from time to time ("**Rent**"), for the period commencing from and including the Initial Filing Date twice-monthly in equal payments on the first and fifteenth day of each month, in advance (but not in arrears), or, at the election of the applicable Applicant, at such intervals as such Rent is usually paid pursuant to the applicable lease. On the date of the first of such payments, any Rent relating to the period commencing from and including the Initial Filing Date shall also be paid.

14. **THIS COURT ORDERS** that, except as specifically permitted herein, the Applicants are hereby directed, until further Order of this Court: (a) to make no payments of principal, interest thereon or otherwise on account of amounts owing by the Applicants to any of their creditors as of the Initial Filing Date; (b) to grant no security interests, trust, liens, charges or encumbrances upon or in respect of any of their Property; and (c) to not grant credit or incur liabilities except in the ordinary course of the Business.

RESTRUCTURING

15. **THIS COURT ORDERS** that the Applicants shall, subject to such requirements as are imposed by the CCAA, have the right to:

(a) permanently or temporarily cease, downsize or shut down any of their businesses or operations, and to dispose of redundant or non-material assets not exceeding $500,000 in any one transaction or $1,000,000 in the aggregate;

(b) terminate the employment of such of their employees or temporarily lay off such of their employees as it deems appropriate; and

(c) pursue all avenues of refinancing or selling their Business or Property, in whole or part, subject to prior approval of this Court being obtained before any material refinancing or sale,

all of the foregoing to permit the Applicants to proceed with an orderly restructuring of the Business (the "**Restructuring**").

16. **THIS COURT ORDERS** that the Applicants shall provide each of the relevant landlords with notice of the Applicants' intention to remove any fixtures from any leased premises at least seven (7) days prior to the date of the intended removal. The relevant landlord shall be entitled to have a representative present in the leased premises to observe such removal and, if the landlord disputes the Applicants' entitlement to remove any such fixture under the provisions of the lease, such fixture shall remain on the premises and shall be dealt with as agreed between any applicable secured creditors, such landlord and the Applicants, or by further Order of this Court upon application by the Applicants on at least two (2) days notice to such landlord and any such secured creditors. If the Applicants disclaim the lease governing such leased premises in accordance with Section 32 of the CCAA, it shall not be required to pay Rent under such lease pending resolution of any such dispute (other than Rent payable for the notice period provided for in Section 32(5) of the CCAA), and the disclaimer of the lease shall be without prejudice to the Applicants' claims to the fixtures in dispute.

17. **THIS COURT ORDERS** that if a notice of disclaimer is delivered pursuant to Section 32 of the CCAA, then (a) during the notice period prior to the effective time of the disclaimer, the landlord may show the affected leased premises to prospective tenants during normal business hours, on giving the Applicants and the Monitor 24 hours' prior written notice, and (b) at the effective time of the disclaimer, the relevant landlord shall be entitled to take possession of any such leased premises without waiver of or prejudice to any claims or rights such landlord may have against the Applicants in respect of such lease or leased premises, provided that nothing herein shall relieve such landlord of its obligation to mitigate any damages claimed in connection therewith.

NO PROCEEDINGS AGAINST THE APPLICANTS OR THE PROPERTY

18. **THIS COURT ORDERS** that from the Initial Filing Date until and including July 5, 2020, or such later date as this Court may order (the "**Stay Period**"), no proceeding or enforcement process in any court or tribunal (each, a "**Proceeding**") shall be commenced or continued against or in respect of the Applicants or the Monitor, or affecting the Business or the Property (including, for greater certainty, any process or steps or other rights and remedies under or relating to any class action proceeding against any of the Applicants or in respect of the Property), except with the written consent of the Applicants and the Monitor, or with leave of this Court, and any and all Proceedings currently under way against or in respect of the Applicants or affecting the Business or the Property are hereby stayed and suspended pending further Order of this Court.

19. **THIS COURT ORDERS** that during the Stay Period, none of the Pending Litigation (as defined in the Guyatt Affidavit) or any Proceeding in relation thereto shall be commenced, continued or take place against or in respect of any Person named as a defendant or respondent in any of the Pending Litigation (such Persons, the "**Other Defendants**"), except with leave of this Court, and any and all such Proceedings currently underway or directed to take place against or in respect of any of the Other Defendants, or affecting the Business or the Property are hereby stayed and suspended pending further Order of this Court.

20. **THIS COURT ORDERS** that, to the extent any prescription, time or limitation period relating to any Proceeding by, against or in respect of the Applicants or any of the Other Defendants that is stayed pursuant to this Order may expire, the term of such prescription, time or limitation period shall hereby be deemed to be extended by a period equal to the Stay Period.

NO EXERCISE OF RIGHTS OR REMEDIES

21. **THIS COURT ORDERS** that during the Stay Period, all rights and remedies of any individual, firm, corporation, governmental body or agency, or any other entities (all of the foregoing, collectively being "**Persons**" and each being a "**Person**") against or in respect of the Applicants or the Monitor, or affecting the Business or the Property, are hereby stayed and suspended except with the written consent of the Applicants and the Monitor, or leave of this Court, provided that nothing in this Order shall (i) empower the Applicants to carry on any

business which the Applicants are not lawfully entitled to carry on, (ii) affect such investigations, actions, suits or proceedings by a regulatory body as are permitted by Section 11.1 of the CCAA, (iii) prevent the filing of any registration to preserve or perfect a security interest, or (iv) prevent the registration of a claim for lien.

22. **THIS COURT ORDERS** that, during the Stay Period, all rights and remedies of any Person against or in respect of Cannabis Coffee and Tea Pod Company Ltd., Cannatrek Ltd., Elmcliffe Investments [No. 2] Inc. and O Cannabis We Stand on Guard For Thee Corporation (each, an "**Affected Party**", and collectively, the "**Affected Parties**") arising out of, relating to, or triggered by the insolvency of any of the Applicants, the making or filing of these proceedings or any allegation, admission or evidence in these proceedings (collectively, the "**Cross-Default Matters**"), are hereby stayed and suspended except with the written consent of the relevant Applicants, the relevant Affected Party and the Monitor, or leave of this Court, and the operation of any provision of any agreement or other arrangement between any Person and any of the Affected Parties whether written or oral that purports to accelerate, terminate, cancel, suspend or modify such agreement or arrangement or create a right to purchase, a right of first refusal or a lien with respect to any property of an Affected Party as a result of any of the Cross-Default Matters is hereby stayed and restrained pending further order of this Court.

NO INTERFERENCE WITH RIGHTS

23. **THIS COURT ORDERS** that during the Stay Period, no Person shall discontinue, fail to honour, alter, interfere with, repudiate, terminate or cease to perform any right, renewal right, contract, agreement, licence or permit in favour of or held by the Applicants, except with the written consent of the Applicants and the Monitor, or leave of this Court.

CONTINUATION OF SERVICES

24. **THIS COURT ORDERS** that during the Stay Period, all Persons having oral or written agreements with the Applicants or statutory or regulatory mandates for the supply of goods and/or services, including without limitation all computer software, communication and other data services, centralized banking services, payroll services, insurance, transportation services, utility or other services to the Business or the Applicants, are hereby restrained until further Order of this Court from discontinuing, altering, interfering with or terminating the supply of

such goods or services as may be required by the Applicants, and that the Applicants shall be entitled to the continued use of their current premises, telephone numbers, facsimile numbers, internet addresses and domain names, provided in each case that the normal prices or charges for all such goods or services received after the Initial Filing Date are paid by the Applicants in accordance with normal payment practices of the Applicants or such other practices as may be agreed upon by the supplier or service provider and each of the Applicants and the Monitor, or as may be ordered by this Court.

NON-DEROGATION OF RIGHTS

25. **THIS COURT ORDERS** that, notwithstanding anything else in this Order, no Person shall be prohibited from requiring immediate payment for goods, services, use of leased or licensed property or other valuable consideration provided on or after the Initial Filing Date, nor shall any Person be under any obligation on or after the Initial Filing Date to advance or re-advance any monies or otherwise extend any credit to the Applicants. Nothing in this Order shall derogate from the rights conferred and obligations imposed by the CCAA.

PROCEEDINGS AGAINST DIRECTORS AND OFFICERS

26. **THIS COURT ORDERS** that during the Stay Period, and except as permitted by subsection 11.03(2) of the CCAA, no Proceeding may be commenced or continued against any of the current or future directors or officers of the Applicants with respect to any claim against the directors or officers that arose before the Initial Filing Date and that relates to any obligations of the Applicants whereby the directors or officers are alleged under any law to be liable in their capacity as directors or officers for the payment or performance of such obligations, until a compromise or arrangement in respect of the Applicants, if one is filed, is sanctioned by this Court or is refused by the creditors of the Applicants or this Court.

DIRECTORS' AND OFFICERS' INDEMNIFICATION AND CHARGE

27. **THIS COURT ORDERS** that the Applicants shall indemnify their current and future directors and officers against obligations and liabilities that they may incur as directors or officers of the Applicants after the commencement of the within proceedings, except to the extent that, with respect to any officer or director, the obligation or liability was incurred as a result of the director's or officer's gross negligence or wilful misconduct.

28. **THIS COURT ORDERS** that the current and future directors and officers of the Applicants shall be entitled to the benefit of and are hereby granted a charge (the "**Directors' Charge**") on the Property, which charge shall not exceed an aggregate amount of $3.55 million, as security for the indemnity provided in paragraph 27 of this Order. The Directors' Charge shall have the priority set out in paragraphs 57 and 59 herein.

29. THIS COURT ORDERS that, notwithstanding any language in any applicable insurance policy to the contrary, (a) no insurer shall be entitled to be subrogated to or claim the benefit of the Directors' Charge, and (b) the Applicants' directors and officers shall only be entitled to the benefit of the Directors' Charge to the extent that they do not have coverage under any directors' and officers' insurance policy, or to the extent that such coverage is insufficient to pay amounts indemnified in accordance with paragraph 27 of this Order.

APPOINTMENT OF MONITOR

30. **THIS COURT ORDERS** that EYI is, as of the Initial Filing Date, appointed pursuant to the CCAA as the Monitor, an officer of this Court, to monitor the business and financial affairs of the Applicants with the powers and obligations set out in the CCAA or set forth herein and that the Applicants and their shareholders, officers, directors, and Assistants shall advise the Monitor of all material steps taken by the Applicants pursuant to this Order, and shall co-operate fully with the Monitor in the exercise of its powers and discharge of its obligations and provide the Monitor with the assistance that is necessary to enable the Monitor to adequately carry out the Monitor's functions.

31. **THIS COURT ORDERS** that the Monitor, in addition to its prescribed rights and obligations under the CCAA, is hereby directed and empowered to:

(a) monitor the Applicants' receipts and disbursements;

(b) review and approve Intercompany Advances (as defined below);

(c) report to this Court at such times and intervals as the Monitor may deem appropriate with respect to matters relating to the Property, the Business, and such other matters as may be relevant to the proceedings herein;

(d) advise the Applicants in the preparation of the Applicants' cash flow statements, which information shall be reviewed with the Monitor;

(e) advise the Applicants in its development of the Plan and any amendments to the Plan;

(f) assist the Applicants, to the extent required by the Applicants, with the holding and administering of creditors' meetings for voting on the Plan;

(g) assist the Applicants, to the extent required by the Applicants, in connection with any sale and investment solicitation process conducted by the Applicants;

(h) have full and complete access to the Property, including the premises, books, records, data, including data in electronic form, and other financial documents of the Applicants, to the extent that is necessary to adequately assess the Applicants' business and financial affairs or to perform its duties arising under this Order;

(i) be at liberty to engage independent legal counsel or such other persons as the Monitor deems necessary or advisable respecting the exercise of its powers and performance of its obligations under this Order; and

(j) perform such other duties as are required by this Order or by this Court from time to time.

32. **THIS COURT ORDERS** that the Monitor shall not take possession of the Property and shall take no part whatsoever in the management or supervision of the management of the Business and shall not, by fulfilling its obligations hereunder, be deemed to have taken or maintained possession or control of the Business or Property, or any part thereof.

33. **THIS COURT ORDERS** that nothing herein contained shall require the Monitor to occupy or to take control, care, charge, possession or management (separately and/or collectively, "**Possession**") of (i) any of the Property that might be environmentally contaminated, might be a pollutant or a contaminant, or might cause or contribute to a spill, discharge, release or deposit of a substance contrary to any federal, provincial or other law respecting the protection, conservation, enhancement, remediation or rehabilitation of the environment or relating to the disposal of waste or other contamination including, without

limitation, the *Canadian Environmental Protection Act*, the Ontario *Environmental Protection Act*, the *Ontario Water Resources Act*, or the Ontario *Occupational Health and Safety Act* and regulations thereunder (the "**Environmental Legislation**"), or (ii) any of the Property, the administration and control of which is subject to the provisions of any federal, provincial or other law respecting, among other things, the manufacturing, possession, processing and distribution of cannabis or cannabis products including without limitation, the *Cannabis Act* (Canada), the *Cannabis Regulations* (Canada) the *Controlled Drugs and Substances Act* (Canada), the *Excise Tax Act* (Canada), the *Cannabis Control Act* (Ontario), or other such applicable federal or provincial legislation ("**Cannabis Legislation**"), provided however that nothing herein shall exempt the Monitor from any duty to report or make disclosure imposed by applicable Environmental Legislation or Cannabis Legislation. The Monitor shall not, as a result of this Order or anything done in pursuance of the Monitor's duties and powers under this Order, be deemed to be in Possession of any of the Property within the meaning of any Environmental Legislation or the Cannabis Legislation, unless it is actually in possession.

34. **THIS COURT ORDERS** that the Monitor shall provide any creditor of the Applicants with information provided by the Applicants in response to reasonable requests for information made in writing by such creditor addressed to the Monitor. The Monitor shall not have any responsibility or liability with respect to the information disseminated by it pursuant to this paragraph. In the case of information that the Monitor has been advised by the Applicants is confidential, the Monitor shall not provide such information to creditors unless otherwise directed by this Court or on such terms as the Monitor and the Applicants may agree.

35. **THIS COURT ORDERS** that, in addition to the rights and protections afforded the Monitor under the CCAA or as an officer of this Court, the Monitor shall incur no liability or obligation as a result of its appointment or the carrying out of the provisions of this Order or the Initial Order, save and except for any gross negligence or wilful misconduct on its part. Nothing in this Order or the Initial Order shall derogate from the protections afforded the Monitor by the CCAA or any applicable legislation.

APPROVAL OF CHIEF RESTRUCTURING OFFICER ENGAGEMENT

36. **THIS COURT ORDERS** that the agreement dated as of March 27, 2020 pursuant to which the Applicants have engaged FTI Consulting Canada Inc. ("**FTI**") to act as Chief

Restructuring Officer ("**CRO**") and provide certain financial advisory and consulting services to the Applicants, a copy of which is attached as Exhibit "G" to the Guyatt Affidavit (the "**CRO Engagement Letter**"), the execution of the CRO Engagement Letter by the Applicants, *nunc pro tunc*, and the appointment of the CRO pursuant to the terms thereof is hereby approved, including, without limitation, the payment of the fees and expenses contemplated thereby.

37. **THIS COURT ORDERS** that the CRO shall not be or be deemed to be a director, *de facto* director or employee of the Applicants.

38. **THIS COURT ORDERS** that the CRO shall not, as a result of the performance of its obligations and duties in accordance with the terms of the CRO Engagement Letter, be deemed to be in Possession of (i) any of the Property that might be environmentally contaminated, might be a pollutant or a contaminant, or might cause or contribute to a spill, discharge, release or deposit of a substance contrary to the Environmental Legislation, (ii) any of the Property, the administration and control of which is subject to the provisions of the Cannabis Legislation, however, if the CRO is nevertheless later found to be in Possession of any Property, then the CRO shall be entitled to the benefits and protections in relation to the Applicants and such Property as are provided to a monitor under Section 11.8(3) of the CCAA, provided however that nothing herein shall exempt the CRO from any duty to report or make disclosure imposed by applicable Environmental Legislation or Cannabis Legislation.

39. **THIS COURT ORDERS** that the CRO shall not have any liability with respect to any losses, claims, damages or liabilities, of any nature or kind, to any Person from and after the Initial Filing Date except to the extent such losses, claims, damages or liabilities result from the gross negligence or wilful misconduct on the part of the CRO.

40. **THIS COURT ORDERS** that no action or other proceeding shall be commenced directly, or by way of counterclaim, third party claim or otherwise, against or in respect of the CRO, and all rights and remedies of any Person against or in respect of them are hereby stayed and suspended, except with the written consent of the CRO or with leave of this Court on notice to the Applicant, the Monitor and the CRO. Notice of any such motion seeking leave of this Court shall be served upon the Applicants, the Monitor and the CRO at least seven (7) days prior to the return date of any such motion for leave.

41. **THIS COURT ORDERS** that the obligations of the Applicant to the CRO pursuant to the CRO Engagement Letter shall be treated as unaffected and may not be compromised in any Plan or proposal filed under *Bankruptcy and Insolvency Act* (Canada) (the "**BIA**") in respect of the Applicants.

APPROVAL OF FINANCIAL ADVISOR ENGAGEMENT

42. **THIS COURT ORDERS** that the agreement dated as of April 3, 2020 pursuant to which the Applicants have engaged Greenhill & Co. Canada Ltd. (the "**Financial Advisor**") to assist the Applicants in a review of strategic alternatives, a copy of which is attached as Exhibit "D" to the Second Guyatt Affidavit (the "**Financial Advisor Engagement Letter**"), the execution of the Financial Advisor Engagement Letter by the Applicants, *nunc pro tunc*, and the appointment of the Financial Advisor pursuant to the terms thereof is hereby approved, including, without limitation, the payment of the fees and expenses contemplated thereby.

43. **THIS COURT ORDERS** that the Financial Advisor shall not be or be deemed to be a director, *de facto* director or employee of the Applicants.

44. **THIS COURT ORDERS** that the Financial Advisor shall not have any liability with respect to any losses, claims, damages or liabilities, of any nature or kind, to any Person from and after the date of this Order except to the extent such losses, claims, damages or liabilities result from the gross negligence or wilful misconduct on the part of the Financial Advisor.

45. **THIS COURT ORDERS** that no action or other proceeding shall be commenced directly, or by way of counterclaim, third party claim or otherwise, against or in respect of the Financial Advisor, and all rights and remedies of any Person against or in respect of them are hereby stayed and suspended, except with the written consent of the Financial Advisor or with leave of this Court on notice to the Applicant, the Monitor and the Financial Advisor. Notice of any such motion seeking leave of this Court shall be served upon the Applicants, the Monitor and the Financial Advisor at least seven (7) days prior to the return date of any such motion for leave.

46. **THIS COURT ORDERS** that the obligations of the Applicant to the Financial Advisor pursuant to the Financial Advisor Engagement Letter shall be treated as unaffected and may not be compromised in any Plan or proposal filed under the BIA in respect of the Applicants.

ADMINISTRATION CHARGE

47. **THIS COURT ORDERS** that the Monitor, counsel to the Monitor, the CRO, the Financial Advisor and counsel to the Applicants shall be paid their reasonable fees and disbursements, in each case at their standard rates and charges, and in the case of the CRO in accordance with the CRO Engagement Letter, and in the case of the Financial Advisor in accordance with the Financial Advisor Engagement Letter, by the Applicants as part of the costs of these proceedings. The Applicants are hereby authorized and directed to pay the accounts of the Monitor, counsel for the Monitor, the CRO, the Financial Advisor and counsel for the Applicants on a bi-weekly basis and, in addition, the Applicants are hereby authorized to pay to the Monitor, counsel to the Monitor, the CRO and counsel to the Applicants, retainers to be held by them as security for payment of their respective fees and disbursements outstanding from time to time.

48. **THIS COURT ORDERS** that the Monitor and its legal counsel shall pass their accounts from time to time, and for this purpose the accounts of the Monitor and its legal counsel are hereby referred to a judge of the Commercial List of the Ontario Superior Court of Justice.

49. **THIS COURT ORDERS** that the Monitor, counsel to the Monitor, the CRO and counsel to the Applicants shall be entitled to the benefit of and are hereby granted a charge (the "**Administration Charge**") on the Property, which charge shall not exceed an aggregate amount of $1.4 million, as security for their professional fees and disbursements incurred at their standard rates and charges, and in the case of the CRO in accordance with the CRO Engagement Letter, both before and after the Initial Filing Date in respect of these proceedings. The Administration Charge shall have the priority set out in paragraphs 57 and 59 hereof.

TRANSACTION FEE CHARGE

50. THIS COURT ORDERS that the Financial Advisor shall be entitled to the benefit of and is hereby granted a charge (the "**Transaction Fee Charge**") on the Property, as security for the Transaction Fee (as defined the Financial Advisor Engagement Letter). The Transaction Fee Charge shall have the priority set out in paragraphs 57 and 59 hereof.

INTERCOMPANY FINANCING

51. **THIS COURT ORDERS** that CannTrust Holdings Inc. (the "**Intercompany Lender**") is authorized to loan to each of CannTrust Inc., Elmcliffe Investments Inc. and CTI Holdings (Osoyoos) Inc. (each, an "**Intercompany Borrower**"), and each Intercompany Borrower is authorized to borrow, repay and re-borrow, such amounts from time to time as the Intercompany Borrower, with the approval of the Monitor, considers necessary or desirable on a revolving basis to fund its ongoing expenditures and to pay such other amounts as are permitted by the terms of this Order (the "**Intercompany Advances**"), on terms consistent with existing arrangements or past practice or otherwise approved by the Monitor.

52. **THIS COURT ORDERS** that the Intercompany Lender shall be entitled to the benefit of and is hereby granted a charge (the "**Intercompany Charge**") on all of the Property of each Intercompany Borrower, as security for the Intercompany Advances made to such Intercompany Borrower, which Intercompany Charge shall not secure an obligation that exists before the Initial Filing Date. The Intercompany Charge shall have the priority set out in paragraphs 57 and 59 hereof.

53. **THIS COURT ORDERS AND DECLARES** that the Intercompany Lender shall be treated as unaffected and may not be compromised in any Plan or any proposal filed under the BIA in respect of the Applicants, with respect to any Intercompany Advances made on or after the Initial Filing Date.

KERP AND KERP CHARGE

54. **THIS COURT ORDERS** that the Key Employee Retention Plan (the "**KERP**"), as described and defined in the Second Guyatt Affidavit, for the benefit of the Key Employees (as defined in the Second Guyatt Affidavit) is hereby approved and the Applicants are authorized and directed to make payments in accordance with the terms and conditions of the KERP.

55. **THIS COURT ORDERS** that the Key Employees shall be entitled to the benefit of and are hereby granted a charge (the "**KERP Charge**") on the Property, which charge shall not exceed an aggregate amount of $1.4 million to secure amounts owing to the Key Employees under the KERP. The KERP Charge shall have the priority set out in paragraphs 57 and 59 hereof.

56. **THIS COURT ORDERS** that the unredacted version of the KERP, a copy of which is attached as Confidential Exhibit "B" to the Second Guyatt Affidavit, shall be and is hereby sealed, kept confidential, and shall not form part of the public record unless otherwise ordered by the Court.

VALIDITY AND PRIORITY OF CHARGES CREATED BY THIS ORDER

57. **THIS COURT ORDERS** that the priorities of the Administration Charge, the Directors' Charge, the KERP Charge, the Transaction Fee Charge and the Intercompany Charge (the "**Charges**"), as among them with respect to any Property to which they apply, shall be as follows:

> First – Administration Charge (to the maximum amount of $1.4 million);
>
> Second – Directors' Charge (to the maximum amount of $3.55 million);
>
> Third – KERP Charge (to the maximum amount of $1.4 million);
>
> Fourth – Transaction Fee Charge;
>
> Fifth – Intercompany Charge.

58. **THIS COURT ORDERS** that the filing, registration or perfection of the Charges shall not be required, and that the Charges shall be valid and enforceable for all purposes, including as against any right, title or interest filed, registered, recorded or perfected subsequent to the Charges coming into existence, notwithstanding any such failure to file, register, record or perfect.

59. **THIS COURT ORDERS** that each of the Charges (all as constituted and defined herein) shall constitute a charge on the Property and such Charges shall rank in priority to all other security interests, trusts, liens, charges, encumbrances and claims of secured creditors, statutory or otherwise (collectively, "**Encumbrances**") in favour of any Person.

60. **THIS COURT ORDERS** that except as otherwise expressly provided for herein, or as may be approved by this Court, the Applicants shall not grant any Encumbrances over any Property that rank in priority to, or *pari passu* with, any of the Charges, unless the Applicants

also obtains the prior written consent of the Monitor and the beneficiaries of the Charges, or further Order of this Court.

61. **THIS COURT ORDERS** that the Charges shall not be rendered invalid or unenforceable and the rights and remedies of the chargees entitled to the benefit of the Charges (collectively, the "**Chargees**") thereunder shall not otherwise be limited or impaired in any way by (a) the pendency of these proceedings and the declarations of insolvency made herein; (b) any application(s) for bankruptcy order(s) issued pursuant to the BIA, or any bankruptcy order made pursuant to such applications; (c) the filing of any assignments for the general benefit of creditors made pursuant to the BIA; (d) the provisions of any federal or provincial statutes; or (e) any negative covenants, prohibitions or other similar provisions with respect to borrowings, incurring debt or the creation of Encumbrances, contained in any existing loan documents, lease, sublease, offer to lease or other agreement (collectively, an "**Agreement**") which binds the Applicants, and notwithstanding any provision to the contrary in any Agreement:

(a) the creation of the Charges shall not create or be deemed to constitute a breach by the Applicants of any Agreement to which it is a party;

(b) none of the Chargees shall have any liability to any Person whatsoever as a result of any breach of any Agreement caused by or resulting from the creation of the Charges; and

(c) the payments made by the Applicants pursuant to this Order and the granting of the Charges do not and will not constitute preferences, fraudulent conveyances, transfers at undervalue, oppressive conduct, or other challengeable or voidable transactions under any applicable law.

62. **THIS COURT ORDERS** that any Charge created by this Order over leases of real property in Canada shall only be a Charge in the Applicants' interest in such real property leases.

RELIEF FROM REPORTING OBLIGATIONS

63. **THIS COURT ORDERS** that the decision by the Applicants to incur no further expenses in relation to any filings, disclosures, core or non-core documents, restatements, amendments to existing filings, press releases or any other actions (collectively, the "**Securities**

Filings") that may be required by any federal, provincial or other law respecting securities or capital markets in Canada or the United States, or by the rules and regulations of a stock exchange, including, without limitation, the *Securities Act* (Ontario) and comparable statutes enacted by other provinces of Canada, the *Securities Act of 1933* (United States) and the *Securities Exchange Act of 1934* (United States) and comparable statutes enacted by individual states of the United States, the TSX Company Manual and other rules, regulations and policies of the Toronto Stock Exchange, and the NYSE Listed Company Manual and other rules, regulations and policies of the New York Stock Exchange (collectively, the "**Securities Provisions**"), is hereby authorized, provided that nothing in this paragraph shall prohibit any securities regulator or stock exchange from taking any action or exercising any discretion that it may have of a nature described in section 11.1(2) of the CCAA as a consequence of the Applicants failing to make any Securities Filings required by the Securities Provisions.

64. **THIS COURT ORDERS** that none of the directors, officers, employees, and other representatives of the Applicants, the Monitor (and its directors, officers, employees and representatives), nor the CRO shall have any personal liability for any failure by the Applicants to make any Securities Filings required by the Securities Provisions.

SERVICE AND NOTICE

65. **THIS COURT ORDERS** that the Monitor shall (i) without delay, publish in the Globe and Mail (National Edition) a notice containing the information prescribed under the CCAA, (ii) within five days after the date of this Order, (A) make this Order publicly available in the manner prescribed under the CCAA, (B) send, or cause to be sent, in the prescribed manner or by electronic message to the e-mail address as last shown on the records of the Applicants, a notice to every known creditor who has a claim against the Applicants of more than $1,000, and (C) prepare a list showing the names and addresses of those creditors and the estimated amounts of those claims, and make it publicly available in the prescribed manner, all in accordance with Section 23(1)(a) of the CCAA and the regulations made thereunder.

66. **THIS COURT ORDERS** that the E-Service Protocol of the Commercial List (the "**Protocol**") is approved and adopted by reference herein and, in this proceeding, the service of documents made in accordance with the Protocol (which can be found on the Commercial List website at https://www.ontariocourts.ca/scj/practice/practice-directions/toronto/eservice-

commercial/) shall be valid and effective service. Subject to Rule 17.05 this Order shall constitute an order for substituted service pursuant to Rule 16.04 of the Rules of Civil Procedure. Subject to Rule 3.01(d) of the Rules of Civil Procedure and paragraph 21 of the Protocol, service of documents in accordance with the Protocol will be effective on transmission. This Court further orders that a Case Website shall be established in accordance with the Protocol with the following URL: http://www.ey.com/ca/canntrust.

67. **THIS COURT ORDERS** that if the service or distribution of documents in accordance with the Protocol is not practicable, the Applicants and the Monitor are at liberty to serve or distribute this Order, any other materials and orders in these proceedings, any notices or other correspondence, by forwarding true copies thereof by prepaid ordinary mail, courier, personal delivery or facsimile transmission to the Applicants' creditors or other interested parties at their respective addresses as last shown on the records of the Applicants and that any such service or distribution by courier, personal delivery or facsimile transmission shall be deemed to be received on the next business day following the date of forwarding thereof, or if sent by ordinary mail, on the third business day after mailing.

GENERAL

68. **THIS COURT ORDERS** that the Applicants or the Monitor may from time to time apply to this Court for advice and directions in the discharge of their powers and duties hereunder.

69. **THIS COURT ORDERS** that nothing in this Order shall prevent the Monitor from acting as an interim receiver, a receiver, a receiver and manager, or a trustee in bankruptcy of the Applicants, the Business or the Property.

70. **THIS COURT HEREBY REQUESTS** the aid and recognition of any court, tribunal, regulatory body or administrative body having jurisdiction in Canada or in the United States, to give effect to this Order and to assist the Applicants, the Monitor and their respective agents in carrying out the terms of this Order. All courts, tribunals, regulatory and administrative bodies are hereby respectfully requested to make such orders and to provide such assistance to the Applicants and to the Monitor, as an officer of this Court, as may be necessary or desirable to give effect to this Order, to grant representative status to the Monitor in any foreign proceeding,

or to assist the Applicants and the Monitor and their respective agents in carrying out the terms of this Order.

71. **THIS COURT ORDERS** that each of the Applicants and the Monitor be at liberty and is hereby authorized and empowered to apply to any court, tribunal, regulatory or administrative body, wherever located, for the recognition of this Order and for assistance in carrying out the terms of this Order, and that CannTrust Holdings Inc. is authorized and empowered to act as a representative in respect of the within proceedings for the purpose of having these proceedings recognized in the United States and any other jurisdiction outside Canada.

72. **THIS COURT ORDERS** that any interested party (including the Applicants and the Monitor) may apply to this Court to vary or amend this Order on not less than seven (7) days notice to any other party or parties likely to be affected by the order sought or upon such other notice, if any, as this Court may order.

73. **THIS COURT ORDERS** that this Order and all of its provisions are effective as of 12:01 a.m. Eastern Standard/Daylight Time on the date of this Order.

Hainey J.

SUPERIOR COURT OF JUSTICE
ENTERED

APR 15 2020 JP

COUR SUPÉRIEURE DE JUSTICE
ENTRÉ

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. ET AL.

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

***ONTARIO* SUPERIOR COURT OF JUSTICE**
(COMMERCIAL LIST)

Proceeding commenced at Toronto

AMENDED AND RESTATED INITIAL ORDER

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Lawyers for the Applicants

DOC#: 19528138

THIS IS EXHIBIT "B" REFERRED TO

IN THE AFFIDAVIT OF

GREG GUYATT

SWORN BEFORE ME VIRTUALLY,

ON THE 20th DAY OF JANUARY, 2021

A COMMISSIONER, ETC.

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

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

THE HONOURABLE	)	FRIDAY, THE 8TH
	)	
MR. JUSTICE HAINEY	)	DAY OF MAY, 2020

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.

Applicants

SALE AND INVESTMENT SOLICITATION PROCESS ORDER

THIS MOTION, made by the Applicants pursuant to the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended, for an order approving a sale and investment solicitation process, was heard this day by way of videoconference due to the COVID-19 crisis.

ON READING the affidavit of Greg Guyatt sworn May 1, 2020 and the exhibits thereto, and the Second Report of the Monitor dated May 4, 2020 (the "**Second Report**"), and on hearing the submissions of counsel for the Applicants, the Monitor and those other parties that were present as listed on the counsel slip, no other party appearing although duly served as appears from the Affidavit of Service of Trevor Courtis sworn May 4, 2020.

MARKETING PROCESS

1. **THIS COURT ORDERS** that the Applicants are authorized to implement the sale and investment solicitation process attached hereto as Schedule "A" (the "**SISP**") for the purpose of

soliciting interest in, and opportunities for, a sale of or investment in the assets and business operations of the Applicants. Capitalized terms used in this Order and not otherwise defined have the meanings given to them in the SISP.

2. **THIS COURT ORDERS** that the SISP is hereby approved and the Applicants, the Monitor and the Financial Advisor are hereby authorized and directed to perform their respective obligations thereunder and to do all things reasonably necessary to perform their obligations thereunder.

3. **THIS COURT ORDERS** that each of the Monitor, the CRO and the Financial Advisor, and their respective affiliates, partners, directors, employees, agents and controlling persons shall have no liability with respect to any and all losses, claims, damages or liabilities, of any nature or kind, to any person in connection with or as a result of the SISP, except to the extent such losses, claims, damages or liabilities result from the gross negligence or wilful misconduct of the Monitor, the CRO or the Financial Advisor, as applicable, in performing its obligations under the SISP (as determined by this Court).

Hainey J.

SUPERIOR COURT OF JUSTICE
ENTERED

MAY 1 1 2020 JP

COUR SUPÉRIEURE DE JUSTICE
ENTRÉ

Schedule "A"

Sale and Investment Solicitation Process Outline

Introduction

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).

Opportunity

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.

Timeline

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.

Non-Binding Letters of Intent from Qualified Bidders

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.

Supervision of the SISP

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.

Schedule "1"

Address for Submitting LOI / Phase 2 Bid

Greenhill & Co. Canada Ltd.
79 Wellington West
Suite 3403, P.O. Box 333
Toronto, ON M5K 1K7

Attn: Michael Nessim and Usman Masood
Email: michael.nessim@greenhill.com and usman.masood@greenhill.com

with copies to:

McCarthy Tétrault LLP
Suite 5300, TD Bank Tower
Box 48, 66 Wellington Street West
Toronto ON M5K 1E6

Fax: 416-868-0673

Attn: James Gage
Email: jgage@mccarthy.ca

Ernst & Young Inc.
Ernst & Young Tower, 100 Adelaide Street West
P.O. Box 1
Toronto, ON M5H 0B3

Fax: 416-943-3300

Attn: Alex Morrison and Karen Fung
Email: alex.f.morrison@ca.ey.com and karen.l.fung@ca.ey.com

Aird & Berlis
Brookfield Place, 181 Bay Street
Suite 180
Toronto, ON M5J 2T9

Fax: 416-865-4707

Attn: Steve Graff and Kathryn Esaw
Email: sgraff@airdberlis.com and kesaw@airdberlis.com

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. ET AL.

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

ONTARIO
SUPERIOR COURT OF JUSTICE - COMMERCIAL LIST

Proceeding commenced at Toronto

SALE AND INVESTMENT SOLICITATION PROCESS ORDER

McCarthy Tétrault LLP
Suite 5300, TD Bank Tower
Toronto ON M5K 1E6
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James Gage LSO#: 34676I
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Email: tcourtis@mccarthy.ca

Alexander Steele LSO#: 475719P
Tel: 416-601-8370
Email: asteele@mccarthy.ca

Lawyers for the Applicants
20323697

THIS IS EXHIBIT “C” REFERRED TO

IN THE AFFIDAVIT OF

GREG GUYATT

SWORN BEFORE ME VIRTUALLY,

ON THE 20th DAY OF JANUARY, 2021

A COMMISSIONER, ETC.

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

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

THE HONOURABLE	)	FRIDAY, THE 8TH
	)	
MR. JUSTICE HAINEY	)	DAY OF MAY, 2020

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.

Applicants

CLAIMS PROCEDURE ORDER

THIS MOTION, made by the Applicants pursuant to the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the "**CCAA**") for an order (the "**Claims Procedure Order**") approving a procedure for the identification, quantification, and resolution of certain claims of creditors of the Applicants and their respective directors and officers, was heard this day by way of videoconference due to the COVID-19 crisis.

ON READING the affidavit of Greg Guyatt sworn May 1, 2020 and the exhibits thereto, and the Second Report of the Monitor dated May 4, 2020 (the "**Second Report**"), and on hearing the submissions of counsel for the Applicants, the Monitor and those other parties that were present as listed on the counsel slip, no other party appearing although duly served as appears from the Affidavit of Service of Trevor Courtis sworn May 4, 2020.

SERVICE AND INTERPRETATION

1. **THIS COURT ORDERS** that the time for service and filing of this motion and the Second Report is hereby abridged and validated such that this motion is properly returnable today and hereby dispenses with further service thereof.

2. **THIS COURT ORDERS** that, in addition to terms defined elsewhere herein, the following terms shall have the following meanings:

(a) "**BIA**" means the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3, as, amended;

(b) "**Business Day**" means a day, other than a Saturday, Sunday or a statutory holiday, on which banks are generally open for business in Toronto, Ontario;

(c) "**CCAA Proceedings**" means the within proceedings in respect of the Applicants under the CCAA;

(d) "**CCAA Charges**" means the Administration Charge, the Directors' Charge, the KERP Charge, the Transaction Fee Charge and the Intercompany Charge (as each such term is defined in the Initial Order) and any other court-ordered charge over the property of the Applicants that may be granted by the Court;

(e) "**Claim**" means a Pre-Filing Claim, a Restructuring Claim and a D&O Claim, provided, however, that "Claim" shall not include an Excluded Claim;

(f) "**Claimant**" means any Person asserting a Claim and includes the transferee or assignee of a Claim, transferred and recognized in accordance with paragraphs 36 and 37 hereof or a trustee, executor, liquidator, receiver, receiver and manager, or other Person acting on behalf of or through such Person;

(g) "**Claims Officer**" means one or more individuals appointed in accordance with paragraph 32 of this Claims Procedure Order to act as a claims officer for the purposes of this Claims Procedure Order;

(h) "**Claims Package**" means the Proof of Claim form, the Notice to Claimants, the Instruction Letter, and any other documentation the Applicants, in consultation with the Monitor, may deem appropriate;

(i) "**Claims Procedure**" means the procedures outlined in this Claims Procedure Order, including the Schedules hereto;

(j) "**Court**" means the Ontario Superior Court of Justice (Commercial List);

(k) "**D&O Claim**" means, as against any Director or Officer, in his or her capacity as such, any D&O Restructuring Claim and any and all demands, claims (including claims for contribution or indemnity), actions, causes of action, counterclaims, suits, debts, sums of money, liabilities, accounts, covenants, damages, judgments, orders (including orders for injunctive relief or specific performance and compliance orders), expenses, executions, encumbrances and recoveries on account of any liability, obligation, demand or cause of action of whatever nature that any creditor or other Person has or may be entitled to assert (including for, in respect of or arising out of environmental matters, pensions or post-employment benefits or alleged wrongful or oppressive conduct, misrepresentation, fraud or breach of fiduciary duty), whether known or unknown, matured or unmatured, contingent or actual, direct, indirect or derivative, at common law, in equity or under statute, foreseen or unforeseen, existing or hereafter arising, based in whole or in part on any act, omission, transaction, duty, responsibility, indebtedness, liability, obligation, dealing, matter or occurrence that in any way relate to or arise out of or in connection with (i) any Pre-Filing Claim; (ii) the assets, obligations, business or affairs of the Applicants; or (iii) the CCAA Proceedings or any matter or transaction occurring in or in connection with the CCAA Proceedings, but "D&O Claim" does not include a claim that cannot be compromised due to the provisions of subsection 5.1(2) of the CCAA;

(l) "**D&O Restructuring Claim**" means, any right or claim of any Person against any Director or Officer, in his or her capacity as such, in connection with any indebtedness, liability or obligation of any kind whatsoever by any such Director or Officer to such Person arising out of the restructuring, disclaimer, repudiation, resiliation or termination by an Applicant on or after the Filing Date of any contract, lease, other agreement or obligation whether written or oral but “D&O Restructuring Claim” does not include a claim that cannot be compromised due to the provisions of subsection 5.1(2) of the CCAA;

(m) “**Director**” means any former or present director of any of the Applicants or any Person of similar position or any other Person who by applicable law is deemed to be or is treated similarly to a director of any of the Applicant or who currently manages or supervises the management of the business and affairs of any of the Applicants or did so in the past;

(n) “**Directors’ Charge**” has the meaning given to such term in the Initial Order;

(o) “**Directors’ Counsel**” means counsel to any of the Directors and/or Officers;

(p) “**Dispute Package**” means the Proof of Claim filed by a Claimant, the Notice of Revision or Disallowance delivered by the Monitor in respect of that Proof of Claim, the Notice of Dispute filed by the Claimant in respect of the Notice of Revision or Disallowance, and any ancillary documentation as determined by the Monitor;

(q) “**Equity Claim**” has the meaning set forth in Section 2(1) of the CCAA;

(r) “**Excluded Claim**” means:

(i) any Excluded Equity Claim;

(ii) any claim secured by any of the CCAA Charges; and

(iii) any investigation, action, suit, order or proceeding in respect of the Applicants or any of them 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;

(s) "**Excluded Equity Claim**" means any Equity Claim against or in respect of CannTrust Holdings Inc. or its Directors or Officers, including for greater certainty: (i) any claim against or in respect of CannTrust Holdings Inc. or its Directors or Officers in the Pending Litigation; and (ii) any claim of a Director or Officer or any other Person for contribution or indemnity from CannTrust Holdings Inc. in respect of the Pending Litigation or an Equity Claim;

(t) "**Filing Date**" means March 31, 2020;

(u) "**Initial Order**" means the Initial Order of the Honourable Mr. Justice Hainey made March 31, 2020 in these CCAA Proceedings, as amended, restated or varied from time to time;

(v) "**Instruction Letter**" means the instruction letter to Claimants, substantially in the form attached as Schedule "**B**" hereto, regarding the completion of a Proof of Claim by a Claimant and the Claims Procedure described herein;

(w) "**Meeting**" means a meeting of the creditors of the Applicants called for the purpose of considering and voting in respect of a Plan;

(x) "**Monitor**" means Ernst & Young Inc., in its capacity as the Court-appointed Monitor of the Applicants;

(y) "**Monitor's Website**" means the case website established by the Monitor with the following URL: http://www.ey.com/ca/canntrust;

(z) "**Notice to Claimants**" means the notice for publication by the Monitor as described in paragraph 15 hereof, in the form attached as Schedule "**A**";

(aa) "**Notice of Dispute**" means the notice referred to in paragraph 28 hereof substantially in the form attached as Schedule "**E**" hereto which must be delivered to the Monitor by any Claimant wishing to dispute a Notice of Revision or Disallowance, with reasons for its dispute;

(bb) "**Notice of Revision or Disallowance**" means the notice referred to in paragraph 27 hereof, substantially in the form of Schedule "**D**" advising a Claimant that the Applicants, with the consent of the Monitor, have revised or rejected all or part of such Claimant's Claim as set out in its Proof of Claim;

(cc) "**Officer**" means any former or present officer of any of the Applicants or any Person of similar position or any other Person who by applicable law is deemed to be or is treated similarly to an officer of any of the Applicants;

(dd) "**Orders**" means any and all orders issued by the Court within the CCAA Proceedings, including the Initial Order;

(ee) "**Pending Litigation**" has the meaning given to such term in the Initial Order;

(ff) "**Person**" means any individual, corporation, firm, limited or unlimited liability company, general or limited partnership, association (incorporated or unincorporated), trust, unincorporated organization, joint venture, trade union, government authority or any agency, regulatory body or officer thereof or any other entity, wherever situate or domiciled, and whether or not having legal status, and whether acting on their own or in a representative capacity;

(gg) "**Plan**" means a plan of compromise or arrangement contemplated by the Initial Order;

(hh) "**Pre-Filing Claim**" means any right of claim of any Person that may be asserted or made in whole or in part against any of the Applicants, whether or not asserted or made, in connection with any indebtedness, liability or obligation of any kind whatsoever, and any interest accrued thereon or costs payable in respect thereof, including by reason of the commission of a tort (international or unintentional), by reason of any breach of contract or other agreement (oral or written), by reason of any breach of duty (including any legal, statutory, equitable or fiduciary duty) or by reason of any right of ownership of or title to property or assets or right to a trust or deemed trust (statutory, express, implied, resulting, constructive, or otherwise), and whether or not such indebtedness, liability or obligation is reduced to judgment, liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, undisputed, legal, equitable, secured, unsecured, perfected, unperfected, present or future, known or unknown, by guarantee, surety or otherwise, and whether or not such right is executory or anticipatory in nature, including any right or ability of any Person to advance a claim for contribution or indemnity or otherwise against any of the Applicants with respect to any matter, action, cause or chose in action, whether existing at present or commenced in the future, which indebtedness, liability or obligation, and any interest accrued thereon or costs payable in respect thereof that (A) is based in whole or in part on facts existing prior to the Filing Date, (B) relates to a time period prior to the Filing Date, or (C) is a right or claim of any kind that would be claim provable in bankruptcy within the meaning of the BIA had the Applicant become bankrupt on the Filing Date, including for greater certainty any claim against any of the Applicants for indemnification by any Directors or Officers in respect of a D&O Claim other than a D&O Restructuring Claim (but excluding any such claim for indemnification that (i) is covered by the Directors' Charge, or (ii) is in respect of an Excluded Claim);

(ii) "**Pre-Filing Claims Bar Date**" means 5:00 p.m. (Eastern Time) on June 22, 2020;

(jj) "**Proof of Claim**" means the Proof of Claim referred to in paragraphs 19 to 22 hereof to be filed by Claimants, substantially in the form attached hereto as Schedule "**C**";

(kk) "**Proven Claim**" means the amount and Status of a Claim of a Claimant as finally determined in accordance with this Claims Procedure Order;

(ll) "**Restructuring Claim**" means a D&O Restructuring Claim and any right of claim of any Person against any of the Applicants in connection with any indebtedness, liability or obligation of any kind whatsoever owed by any such Applicant to such Person arising out of the restructuring, disclaimer, repudiation, resiliation or termination by such Applicant on or after the Filing Date of any contract, lease, other agreement or obligation whether written or oral, including for greater certainty any claim against any of the Applicants for indemnification by any Directors or Officers in respect of a Restructuring Claim (but excluding any such claim for indemnification that (i) is covered by the Directors' Charge, or (ii) is in respect of an Excluded Claim);

(mm) "**Restructuring Claims Bar Date**" means 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 in accordance with paragraph 14 or 18 hereof, as applicable;

(nn) "**Secured Claim**" means that portion of a Claim that is (i) secured by security validly charging or encumbering property or assets of the Applicants (including statutory and possessory liens that create security interests) taking into account the value of such collateral and the priority of such security, and (ii) duly and properly perfected in accordance with the relevant legislation in the appropriate jurisdiction, as of the Filing Date or after the Filing Date if permitted by the Initial Order; and

(oo) "**Status**" means, with respect to a Claim, whether such claim is an unsecured Claim, Secured Claim, or Equity Claim.

3. **THIS COURT ORDERS** that all references as to time herein shall mean local time in Toronto, Ontario, Canada, and any reference to an event occurring on a Business Day shall mean prior to 5:00 p.m. on such Business Day unless otherwise indicated herein.

4. **THIS COURT ORDERS** that all references to the word "including" shall mean "including without limitation".

5. **THIS COURT ORDERS** that all references to the singular herein include the plural, the plural include the singular, and any gender includes the other gender.

GENERAL PROVISIONS

6. **THIS COURT ORDERS** that the Applicants, in consultation with the Monitor, are hereby authorized (i) to use reasonable discretion as to the adequacy of compliance with respect to the manner in which forms delivered hereunder are completed and executed, and may, where they are satisfied that a Claim has been adequately proven, waive strict compliance with the requirements of this Claims Procedure Order as to completion and execution of such forms, and (ii) to request any further documentation from a Claimant that the Applicants or the Monitor may reasonably require in order to determine the validity and/or Status of a Claim.

7. **THIS COURT ORDERS** that notwithstanding any other provisions of this Claims Procedure Order, the solicitation by the Applicants or the Monitor of Claims and the filing by any Claimant of any Claims shall not, for that reason only, grant any Person standing in these proceedings.

8. **THIS COURT ORDERS** that nothing in this Claims Procedure Order shall constitute or be deemed to constitute an allocation or assignment of a Claim or an Excluded Claim into particular affected or unaffected classes for the purpose of a Plan and, for greater certainty, the treatment of Claims, Excluded Claims or any other claims are to be subject to a Plan and the class or classes of creditors for voting and distribution purposes shall be subject to the terms of any proposed Plan or further order of the Court.

9. **THIS COURT ORDERS** that all Claims filed shall be denominated in the original currency of the Claim. Where no currency is indicated, the Claim shall be presumed to be in Canadian Dollars. Any Claims denominated in a foreign currency shall be converted to Canadian Dollars based on the Bank of Canada’s daily average exchange rate for that currency against the Canadian Dollar on the Filing Date.

MONITOR’S ROLE

10. **THIS COURT ORDERS** that the Monitor, in addition to its prescribed rights, duties, responsibilities and obligations under the CCAA and under the Initial Order, shall assist the Applicants in connection with the administration of the Claims Procedure, including the determination of Claims of the Claimants and the referral of a particular Claim to the Court, as

requested by the Applicants from time to time, and is hereby directed and empowered to take such other actions and fulfill such other roles as are contemplated by this Claims Procedure Order or incidental thereto.

11. **THIS COURT ORDERS** that (i) in carrying out the terms of this Claims Procedure Order, the Monitor shall have all of the protections given it by the CCAA, the Initial Order, and this Claims Procedure Order, and as an officer of this Court, including the stay of proceedings in its favour, (ii) the Monitor shall incur no liability or obligation as a result of the carrying out of the provisions of this Claims Procedure Order, except to the extent that the Monitor has acted with gross negligence or willful misconduct, (iii) the Monitor shall be entitled to rely on the books and records of the Applicants and any information provided by the Applicants, all without independent investigation, and (iv) the Monitor shall not be liable for any claims or damages resulting from any errors or omissions in such books, records or information or in any information provided by any Claimant, except to the extent that the Monitor has acted with gross negligence or willful misconduct.

NOTICE TO CLAIMANTS

12. **THIS COURT ORDERS** that the Applicants shall provide to the Monitor a complete list of known potential Claimants, listed in the books and records of the Applicants (the "**Known Claimants**" and each a "**Known Claimant**") as at the date of this Claims Procedure Order, showing for each Known Claimant, their name, address and amount owed pursuant to the Applicants' books and records.

13. **THIS COURT ORDERS** that the Monitor shall send a Claims Package to each Known Claimant by ordinary mail or email to the last known mailing address or email address of the Known Claimant within five (5) Business Days following the issuance of the Claims Procedure Order.

14. **THIS COURT ORDERS** that the Monitor shall send the Claims Package by ordinary mail or email to the last known mailing address or email address of each Claimant with a Restructuring Claim that arose prior to the date of the Claims Procedure Order no later than five

(5) Business Days following the time the Monitor actually becomes aware of the existence of the Restructuring Claim.

15. **THIS COURT ORDERS** that as soon as practicable, but no later than 5:00 p.m. on May 14, 2020, the Monitor shall cause the Notice to Claimants to be published, for at least one (1) Business Day, in the Globe and Mail (National Edition).

16. **THIS COURT ORDERS** that the Monitor shall cause the Notice to Claimants, the Claims Package and the Claims Procedure Order to be posted to the Monitor's Website as soon as reasonably possible and cause it to remain posted thereon until its discharge as Monitor of the Applicants.

17. **THIS COURT ORDERS** that upon request by a Claimant for a Claims Package or documents or information relating to the Claims Procedure prior to the Pre-Filing Claims Bar Date or Restructuring Claims Bar Date, as applicable, the Monitor shall forthwith send a Claims Package, direct such Person to the documents posted on the Monitor's Website, or otherwise respond to the request for information or documents as the Monitor considers appropriate in the circumstances.

18. **THIS COURT ORDERS** that with respect to Restructuring Claims arising from the restructuring, disclaimer, resiliation or termination of any lease, contracts, or other agreement or obligation, on or after the date of the Claims Procedure Order, the Monitor shall send to the counterparty(ies) to such lease, contract or other agreement or obligation a Claims Package by ordinary mail or email to the last known mailing address or email address of the Claimant no later than five (5) Business Days following the time the Monitor actually becomes aware of the effective date of such restructuring, disclaimer, resiliation or termination of any lease, contract or other agreement or obligation.

19. **THIS COURT ORDERS** that the form and substance of each of the Notice to Claimants, Proof of Claim form, Instruction Letter, Notice of Revision or Disallowance and Notice of Dispute, substantially in the forms attached as schedules hereto, are hereby approved. Despite the foregoing, the Monitor may, from time to time, make such minor changes to such forms as the Monitor, in consultation with the Applicants, considers necessary or desirable.

PROOFS OF CLAIMS

20. **THIS COURT ORDERS** that any Person that wishes to assert a Pre-Filing Claim must deliver to the Monitor on or before the Pre-Filing Claims Bar Date a completed Proof of Claim, including all relevant supporting documentation in respect of such Claim, in the manner set out in this Claims Procedure Order.

21. **THIS COURT ORDERS** that any Person that wishes to assert a D&O Claim other than a D&O Restructuring Claim must deliver to the Monitor on or before the Pre-Filing Claims Bar Date a completed Proof of Claim form, together with all relevant supporting documentation in respect of such Claim, in the manner set out in this Claims Procedure Order.

22. **THIS COURT ORDERS** that any Person that wishes to assert a Restructuring Claim must deliver to the Monitor on or before the Restructuring Claims Bar Date a completed Proof of Claim form, together with all relevant supporting documentation in respect of such Claim, in the manner set out in this Claims Procedure Order.

23. **THIS COURT ORDERS** that any Person wishing to assert a Claim shall include any and all Claims it asserts against an Applicant or a Director or Officer of that Applicant in a single Proof of Claim.

24. **THIS COURT ORDERS** that any Person who does not file a Proof of Claim in accordance with this Claims Procedure Order with the Monitor by the Pre-Filing Claims Bar Date or Restructuring Claims Bar Date, as applicable, shall:

(a) not be entitled to receive further notice with respect to, and shall not be entitled to participate as a Claimant or creditor in, the Claims Procedure or the CCAA Proceedings in respect of such Claim;

(b) with respect to a Pre-Filing Claim or a Restructuring Claim other than a D&O Restructuring Claim, be forever barred, estopped and enjoined from asserting or enforcing such Claim against any of the Applicants and the Applicants shall not have any liability whatsoever in respect of such Claim and such Claim shall be extinguished without any further act or notification by the Applicants or the Monitor;

(c) with respect to a D&O Claim, be forever barred, estopped and enjoined from asserting or enforcing such Claim against any of the Directors and Officers and the Directors and Officers shall not have any liability whatsoever in respect of such Claim and such Claim shall be extinguished without any further act or notification by the Applicants, the Monitor or the Directors or Officers;

(d) not be permitted to vote at any Meeting on account of such Claim; and

(e) not be permitted to participate in any distribution under any Plan related to such Claim or under these CCAA Proceedings.

ADJUDICATION OF CLAIMS

25. **THIS COURT ORDERS** that the Monitor and the Applicants (and in the case of a D&O Claim, in consultation with the applicable Director, Officer and/or Directors' Counsel, if applicable) shall review all Proofs of Claim filed in accordance with this Claims Procedure Order, and at any time may:

(a) request additional information from a Claimant;

(b) request that a Claimant file a revised Proof of Claim;

(c) attempt to resolve and settle any issue arising in a Proof of Claim or in respect of a Claim;

(d) accept (in whole or in part), the amount and/or Status of any Claim and so notify the Claimant in writing; and

(e) revise or disallow (in whole or in part) the amount and/or Status of any Claim and so notify the Claimant in writing.

26. **THIS COURT ORDERS** that where a Claim has been accepted by the Monitor in accordance with this Claims Procedure Order, such Claim shall constitute such Claimant's

Proven Claim. The acceptance of any Claim or other determination of same in accordance with this Claims Procedure Order, in full or in part, shall not constitute an admission of any fact, thing, liability, or quantum or status of any claim by any Person, save and except in the context of the CCAA Proceedings.

27. **THIS COURT ORDERS** that where a Claim is revised or disallowed (in whole or in part, and whether as to amount and/or Status), the Monitor shall deliver to the Claimant a Notice of Revision or Disallowance, attaching the form of Notice of Dispute.

28. **THIS COURT ORDERS** that any Person who intends to dispute a Notice of Revision or Disallowance sent pursuant to paragraph 27 hereof shall deliver a Notice of Dispute to the Applicants in writing, with a copy to the Monitor, by 5:00 p.m. (Eastern Time) on the day that is not later than fourteen (14) days after such Claimant is deemed to have received the Notice of Revision or Disallowance in accordance with paragraph 39 of this Claims Procedure Order or such longer period as may be agreed to by the Monitor in writing. The receipt of a Notice of Dispute by the Monitor within the fourteen (14) day period specific in this paragraph shall constitute an application to have the amount and/or Status of such claim determined pursuant to the Claims Procedure as provided in this Claims Procedure Order.

29. **THIS COURT ORDERS** that if any Person who received a Notice of Revision or Disallowance does not return a Notice of Dispute in accordance with paragraph 28 of this Claims Procedure Order, the value and Status of such Claim shall be deemed to be set out in the Notice of Revision or Disallowance for voting and distribution purposes, and the Claimant will be barred from disputing or appealing same, and the balance of such Claimant's Claim, if any, shall be forever barred and extinguished.

RESOLUTION OF CLAIMS

30. **THIS COURT ORDERS** that as soon as practicable after a Notice of Dispute is received by the Monitor in accordance with this Claims Procedure Order, the Monitor, in consultation with the Applicants, may attempt to resolve and settle the Claim with the Claimant.

31. **THIS COURT ORDERS** that in the event that a dispute raised in a Notice of Dispute is not settled within a reasonable time period or in a manner satisfactory to the Applicants, the

Monitor and the applicable Claimant, the Monitor, in consultation with the Applicants, shall either: (i) send a Dispute Package to a Claims Officer, or (ii) on notice to the disputing Claimant, schedule an appointment with the Court for the purpose of scheduling a motion to seek a determination by the Court of the disputed Claim, at which appointment directions will be sought from the Court on the process for such determination. For greater certainty, the foregoing includes any dispute arising as to whether a Claim or any portion thereof is or is not a Secured Claim or an Equity Claim.

32. **THIS COURT ORDERS** that the appointment of any Claims Officer to adjudicate a disputed Claim shall be subject to mutual agreement between the affected Claimant and the Applicants, in consultation with the Monitor and if such agreement is not possible, Court approval. Either the Applicants or the Monitor are hereby authorized to bring a motion to seek an order of the Court appointing a Claims Officer in respect of any and all disputed Claims. The Applicants shall pay the reasonable professional fees and disbursements of each Claims Officer on presentation and acceptance of invoices from time to time. Each Claims Officer shall be entitled to a reasonable retainer against his or her fees and disbursements which shall be paid upon request by the Applicants, with the consent of the Monitor.

33. **THIS COURT ORDERS** that, subject to further order of the Court, the Claims Officer shall determine the Status and/or amount of each Claim in respect of which a dispute has been referred to such Claims Officer and in doing so, the Claims Officer shall be empowered to determine the process in which evidence may be brought before him or her as well as any other procedural matters which may arise in respect of the determination of any Claim.

34. **THIS COURT ORDERS** that the Applicants or the Claimant may appeal the Claims Officer's determination to this Court by serving upon the other (with a copy to the Monitor) and filing with this Court, within ten (10) calendar days of notification of the Claims Officer's determination of such Claimant's Claim, a notice of motion returnable on a date to be fixed by this Court. If a notice of motion is not filed within such period, then the Claims Officer's determination shall be deemed to be final and binding and shall be such Claimant's Proven Claim.

EXCLUDED CLAIMS

35. **THIS COURT ORDERS** that, for greater certainty, no Person holding an Excluded Claim shall be required to file a Proof of Claim in respect of such Excluded Claim, and such Person shall be unaffected by this Claims Procedure Order in respect of such Excluded Claim. The Applicants may apply to the Court for a further order to govern the identification, quantification and resolution of Excluded Claims, whether by way of amendments to this Claims Procedure Order or a supplemental claims procedure order, if at any time the Applicants consider it necessary or desirable to do so.

NOTICE OF TRANSFEREES

36. **THIS COURT ORDERS** that neither the Monitor nor the Applicants shall be obligated to give notice or otherwise deal with the transferee or assignee of a Claim unless and until actual notice of the transfer or assignment, together with satisfactory evidence of the existence and validity of such transfer or assignment, shall have been received and acknowledged by the Applicants and the Monitor in writing. Thereafter, such transferee or assignee shall, for all purposes hereof, constitute the "Claimant" in respect of such Claim. Any such transferee or assignee of a Claim shall be bound by any notices given or steps taken in respect of such Claim in accordance with this Claims Procedure Order prior to the receipt and acknowledgment by the Applicants and the Monitor of satisfactory evidence of such transfer or assignment. A transferee or assignee of a Claim takes the Claim subject to any right of set-off to which the Applicants may be entitled with respect to such Claim. For greater certainty, a transferee or assignee of a Claim is not entitled to set off, apply, merge, consolidate or combine any Claims assigned or transferred to it against or on account or in reduction of any amounts owing by such Person to any of the Applicants.

37. **THIS COURT ORDERS** that if a Claimant or any subsequent holder of a Claim, who in any such case has previously been acknowledged by the Applicants and the Monitor as the holder of the Claim, transfers or assigns the whole of such Claim to more than one Person or part of such Claim to another Person, such transfers or assignments shall not create separate Claims and such Claims shall continue to constitute and be dealt with as a single Claim notwithstanding such transfers or assignments. The Applicants and the Monitor shall not, in each case, be

required to recognize or acknowledge any such transfers or assignments and shall be entitled to give notices to and to otherwise deal with such Claim only as a whole and then only to and with the Person last holding such Claim, provided such Claimant may, by notice in writing delivered to the Monitor, direct that subsequent dealings in respect of such Claim, but only as a whole, shall be dealt with by a specified Person and in such event, such Person shall be bound by any notices given or steps taken in respect of such Claim with such Claimant or in accordance with the provisions of this Claims Procedure Order.

SERVICE AND NOTICES

38. **THIS COURT ORDERS** that the forms of notice to be provided in accordance with this Claims Procedure Order shall constitute good and sufficient service and delivery of notice of this Claims Procedure Order, the Pre-Filing Claims Bar Date and Restructuring Claims Bar Date on all Persons who may be entitled to receive notice and who may assert a Claim and no other notice or service need be given or made and no other documents or material need be sent to or served upon any Person in respect of this Claims Procedure Order.

39. **THIS COURT ORDERS** that the Applicants and the Monitor may, unless otherwise specified by this Claims Procedure Order, serve and deliver the Claims Package, and any letters, notices or other documents to the Claimants or any other interested Person by forwarding true copies thereof by prepaid ordinary mail, registered mail, courier, personal delivery, facsimile transmission or email to such Persons at the physical or electronic address, as applicable, last shown on the books and records of the Applicants or set out in such Claimant's Proof of Claim. Any such service and delivery shall deemed to have been received: (a) if sent by ordinary mail or registered mail, on the third Business Day after mailing within Ontario, the fifth Business Day after mailing within Canada (other than within Ontario), and the tenth Business Day after mailing internationally; (b) if sent by courier or personal delivery, on the next Business Day following dispatch; and (c) if delivered by facsimile transmission or email by 5:00 p.m. on a Business Day, on such Business Day and if delivered after 5:00 p.m. or other than on a Business Day, on the following Business Day.

40. **THIS COURT ORDERS** that any notice or communication (including Proofs of Claim and Notices of Dispute) to be given under this Claims Procedure Order by any Person to the

Monitor or the Applicants shall be in writing in substantially the form, if any, provided for in this Claims Procedure Order and will be sufficiently given only if delivered by email, or if it cannot be given by email by prepaid registered mail, courier or personal delivery, addressed to:

Ernst & Young Inc.
Court-appointed Monitor of CannTrust
100 Adelaide Street West, PO Box 1
Toronto, Ontario M5H 0B3

Attention: Alex Morrison and Karen Fung

Email: canntrust.monitor@ca.ey.com
Fax: 416-943-3300
Phone: 416-943-2091

Any such notice or communication delivered by a Claimant shall be deemed to be received upon actual receipt thereof during normal business hours on a Business Day or if delivered outside of normal business hours, the next Business Day.

41. **THIS COURT ORDERS** that if during any period during which notices or other communications are being given pursuant to this Claims Procedure Order, a postal strike or postal work stoppage of general application should occur, such notices, notifications or other communications sent by ordinary or registered mail and then not received shall not, absent further order of this Court, be effective and notices and other communications given hereunder during the course of any such postal strike or work stoppage of general application shall only be effective if given by courier, personal delivery, facsimile transmission or email in accordance with this Claims Procedure Order.

42. **THIS COURT ORDERS** that in the event that this Claims Procedure Order is later amended by further order of the Court, the Monitor shall post such further order on the Monitor's Website, and such posting shall constitute adequate notice to Claimants of such amended Claims Procedure.

MISCELLANEOUS

43. **THIS COURT ORDERS** that notwithstanding the terms of this Claims Procedure Order, and without limitation to paragraph 35 of this Claims Procedure Order, the Monitor and

the Applicants may apply to this Court from time to time for directions from this Court with respect to this Claims Procedure Order, or for such further order or orders as any of them may consider necessary or desirable to amend, supplement or clarify the terms of this Claims Procedure Order.

44. **THIS COURT ORDERS** that this Claims Procedure Order shall have full force and effect in all provinces and territories in Canada, outside Canada and against all Persons against whom it may be enforceable.

45. **THIS COURT HEREBY REQUESTS** the aid and recognition of any court, tribunal, regulatory or administrative body having jurisdiction in Canada or in the United States, or abroad, to give effect to this Claims Procedure Order and to assist the Applicants, the Monitor and their respective agents in carrying out the terms of this Claims Procedure Order. All courts, tribunals, regulatory and administrative bodies are hereby respectfully requested to make such orders and to provide such assistance to the Applicants and to the Monitor, as an officer of this Court, as may be necessary or desirable to give effect to this Claims Procedure Order, to grant representative status to the Monitor in any foreign proceeding, or to assist the Applicants and the Monitor and their respective agents in carrying out the terms of this Claims Procedure Order.

46. **THIS COURT ORDERS** that each of the Applicants and the Monitor be at liberty and are hereby authorized and empowered to apply to any court, tribunal, regulatory or administrative body, wherever located, for the recognition of this Claims Procedure Order and for assistance in carrying out the terms of this Claims Procedure Order.

Hainey J.

SUPERIOR COURT OF JUSTICE
ENTERED

MAY 1 1 2020 JP

COUR SUPÉRIEURE DE JUSTICE
ENTRÉ

SCHEDULE "A"

NOTICE TO CLAIMANTS

NOTICE TO CREDITORS
of CANNTRUST HOLDINGS INC., CANNTRUST INC.,
CTI HOLDINGS (OSOYOOS) INC., AND ELMCLIFFE INVESTMENTS INC.
(hereinafter referred to as the "**Applicants**") **or THEIR FORMER and CURRENT DIRECTORS and OFFICERS** (hereinafter referred to as the "**Directors**" and "**Officers**")

NOTICE OF CLAIMS PROCESS FOR THE APPLICANTS PURSUANT TO THE COMPANIES' CREDITORS ARRANGEMENT ACT ("CCAA")

This notice is pursuant to the Order of the Honourable Mr. Justice Hainey of the Ontario Superior Court of Justice (Commercial List) dated May 8, 2020 (the "**Claims Procedure Order**"). Any person having a claim against an Applicant or a Director or Officer arising prior to March 31, 2020 (the "**Filing Date**"), other than an Excluded Claim (as defined in the Claims Procedure Order), must send a Proof of Claim to Ernst & Young Inc., in its capacity as the court-appointed Monitor of the Applicants, to be received **by no later than 5:00 p.m. (Eastern Time) on June 22, 2020** (the "**Pre-Filing Claims Bar Date**").

Proofs of Claim for claims arising out of the restructuring, disclaimer, repudiation, resiliation or termination by any of the Applicants after the Filing Date of any contract, lease, employment agreement or other agreement or obligation of any nature whatsoever, whether oral or written, must be received **by no later than 5:00 p.m. (Eastern Time) on the later of: (a) the Pre-Filing Claims Bar Date, and (b) the day which is 30 days after the date the Monitor sends a Claims Package with respect to such Claim** (the "**Restructuring Claims Bar Date**").

A separate Proof of Claim must be filed for claims against each of the Applicants and the applicable Directors and Officers. Claimants who have not received a Proof of Claim form should contact Ernst & Young Inc., the court-appointed Monitor of the Applicants, by telephone at 1-855-224-0800 or 416-943-2091, fax at 416-943-3300 or email at CannTrust.Monitor@ca.ey.com to obtain a Proof of Claim form or visit the Monitor's website www.ey.com/ca/canntrust.

CLAIMS FOR WHICH A PROPERLY COMPLETED PROOF OF CLAIM HAS NOT BEEN RECEIVED BY THE MONITOR BY THE APPLICABLE BAR DATE SPECIFIED HEREIN WILL BE BARRED AND EXTINGUISHED FOREVER.

SCHEDULE "B"

INSTRUCTION LETTER

GUIDE TO COMPLETING THE PROOF OF CLAIM

This guide has been prepared to assist Claimants in filling out the Proof of Claim. If you have any additional questions regarding completion of the Proof of Claim, please consult the Monitor's website at www.ey.com/ca/canntrust or contact the Monitor, whose contact information is shown below.

Additional copies of the Proof of Claim form may be found at the Monitor's website address noted above.

Please note that this is a guide only and that, in the event of any inconsistency between the terms of this guide and the terms of the Claims Procedure Order made on May 8, 2020, the terms of the Claims Procedure Order will govern.

A. PARTICULARS OF CLAIMANT

- The full legal name of the Claimant must be provided.
- If the Claimant uses a different name or names, please indicate this in a separate schedule in the supporting documentation.
- All future correspondence, notices, etc. regarding the Claim will be directed to the address and contact indicated in this section.
- If you are an individual, filing for yourself, you do not have to state your position or title.

B. PARTICULARS OF ASSIGNEE(S)

- Only complete this section if the Claim has been assigned by the original Claimant to a third party.
- Assignment documentation must be provided along with the Proof of Claim form.
- If there is more than one assignee, please attach a separate sheet with the required contact information for each of the assignees.

C. PROOF OF CLAIM

- A separate Proof of Claim form must be filed by each Claimant asserting a claim against any Applicant.
- The Claimant shall include any and all Claims it asserts against any Applicant in a single Proof of Claim.
- If you have Claims against multiple Applicants, a separate Proof of Claim must be filed for each Applicant.
- If you are making a claim against the Directors or Officers of an Applicant, please list the Director(s) or Officer(s) against which you assert your claim.
- Pre-Filing Claims and D&O Claims are claims that arise prior to March 31, 2020.
- Restructuring Claims against any Applicant or any Director or Officer are claims arising out of the restructuring, disclaimer, repudiation, resiliation or termination of any contract, lease, employment agreement or other agreement or obligation by any Applicant on or after March 31, 2020.
- Claims that are contingent or unliquidated should be valued. Please provide the basis for your valuation of the Claim, if applicable.
- Note that an Equity Claim against CannTrust Holdings Inc. is an Excluded Claim and therefore no Proof of Claim for such Excluded Equity Claim should be submitted as part of this Claims Procedure.
- Indicate the amount the Applicant / Director(s) or Officer(s) was, and still is, indebted to the Claimant

in the original currency of such Claim. If the original currency is not Canadian Dollars, indicate the currency of the Claim. Note that Claims in a foreign currency will be converted to Canadian Dollars using the Bank of Canada's daily average rate on the Filing Date.

- If the Claim is denominated in multiple currencies, use a separate line to indicate the Claim amount in each such currency. If there are insufficient lines to record these amounts, attach a separate schedule providing the required information.

D. **NATURE OF CLAIM**

- The total Claim amount as indicated in section C should be separated into the portion that is unsecured and secured/priority.

Secured/Priority

- Check the Secured/Priority box ONLY if the Claim recorded on that line is secured. Do not check this box if your Claim is unsecured. NOTE: Most Claims in general are unsecured claims.
- Evidence supporting the security you hold must be submitted with the Proof of Claim form. Provide full particulars of the nature of the security, including the date on which the security was given and the value you attribute to the collateral securing your Claim.
- Attach a copy of all related security documents.
- If the value of the collateral securing your Claim is less than the amount of your Claim, enter the shortfall portion on a separate line as an unsecured claim.
- If a priority claim is being asserted, please provide details as to the priority claim being asserted, and the basis for this priority claim over secured creditors and all other unsecured creditors.

Directors and Officers

- Check this box only if the Claim you are making is also being asserted against a current or former Director or Officer of an Applicant.
- You must identify the individual Director(s) or Officer(s) against whom you are asserting the Claim.

E. **PARTICULARS OF CLAIM AND DOCUMENTATION**

- Attach to the Proof of Claim all particulars of the Claim and supporting documentation, including amount, description of transaction(s) or agreement(s) giving rise to the Claim and name of any guarantor which has guaranteed the Claim.

F. **FILING OF CLAIM**

- The person signing the Proof of Claim form should:
  - Have knowledge of all the circumstances connected with the Claim; and
  - Be the Claimant, or an Authorized Representative of the Claimant.
- By signing and submitting the Proof of Claim, the Claimant is asserting the claim against the Applicant and/or the indicated Director(s) or Officer(s).

Proofs of Claim for Pre-Filing Claims or D&O Claims must be received by the Monitor by no later than **5:00 p.m.** (Eastern Time) on **June 22, 2020** (the "**Pre-Filing Claims Bar Date**"). Proofs of Claim for Restructuring Claims must be received no later than 5:00 p.m. (Eastern Time) on the later of: (i) June 22, 2020; and (ii) 30 days after the Claimant is deemed to have received the Claims Package from the Monitor (the "**Restructuring Claims Bar Date**"). Proofs of Claim should be sent by email or, if not possible to send by email, by prepaid ordinary mail, courier, personal delivery or fax to the following address:

Ernst & Young Inc.
Court-appointed Monitor of CannTrust Inc. & others

E-mail: CannTrust.Monitor@ca.ey.com
Fax: 416-943-3300
Address: 100 Adelaide Street, West, PO Box 1, Toronto ON M5H 0B3

If you have any questions you can contact us using the information above or call us at 1-855-224-0800 or 416-943-2091.

Failure to file your Proof of Claim as directed by **5:00 p.m.** (Eastern Time) on the applicable Claims Bar Date will result in your claim being barred and in you being prevented from making or enforcing a Claim against the Applicants or any Director or Officer. In addition, you shall not be entitled to further notice in, and shall not be entitled to participate as a creditor in these proceedings.

SCHEDULE "C"

PROOF OF CLAIM FORM

PROOF OF CLAIM
relating to CANNTRUST HOLDINGS INC., CANNTRUST INC.,
CTI HOLDINGS (OSOYOOS) INC., and ELMCLIFFE INVESTMENTS INC.
(hereinafter referred to as the "**Applicants**") or THEIR FORMER and CURRENT DIRECTORS and OFFICERS (hereinafter referred to as the "**Directors**" and “**Officers**”)

A. PARTICULARS OF CLAIMANT

Full Legal Name of Claimant:

____(the “**Claimant**”)

(Full legal name should be the name of the Claimant of the Applicants or the Directors or Officers as of March 31, 2020 (the "**Filing Date**"), notwithstanding whether an assignment of a Claim, or a portion thereof, has occurred following that date.)

Attention (Contact Person): ____

Email Address:____

Telephone Number: ________________________ Fax Number_________________________

Full Mailing Address of the Claimant (the Claimant as of March 31, 2020):

____

____

____

B. PARTICULARS OF ASSIGNEE(S) (IF ANY)

Has the Claim been sold or assigned by the Claimant to another party [check (√) one]?

Yes: ☐ No: ☐

(If Yes, you must include the details and documentation that support the assignment including if all or portion of the Claim has been assigned. If there is more than one assignee, please attach a separate sheet with the required contact information for each.)

Full Legal Name of Assignee(s) ____

Attention (Contact Person): ____

Email Address: ____

Telephone Number: ________________________ Fax Number_________________________

Full Mailing Address of the Assignee:

____

C. PROOF OF CLAIM

I, ____
(name of Claimant or as a representative of the Claimant)

as _______________________________________ (state position or title, if applicable)

of ______________________________________ (city and province), do hereby certify:

a. that I [check (√) only if applicable]

   am a Director of ☐ CannTrust Holding Inc., ☐ CannTrust Inc., ☐ CTI Holdings (OSOYOOS) Inc., and/or ☐ Elmcliffe Investment Inc. and a Claimant;

b. that I have knowledge of all the circumstances connected with the Claim referred to below;

c. the Claimant asserts its Claim against [check (√) one or both, as applicable]:

   ☐ ____ (Name of Applicant)

   ☐ Director(s) or Officer(s) of ________________________(Name of Applicant)

   Specifically,____

   ____

   ____

   (If you are making a Claim against the Directors or Officers, please list the Director(s) or Officer(s) against which you assert your Claim); and

d. the Applicant/Director(s) was/were and still is/are indebted to the Creditor as follows:

   i. PRE-FILING CLAIM arising prior to March 31, 2020:

   $____ (amount and currency)

   ii. RESTRUCTURING CLAIM:

   $____ (amount and currency)

   (A Restructuring Claim is a claim against any Applicant or any Director or Officer arising out of the restructuring, termination, repudiation or disclaimer of any lease, contract, or other agreement on or after the Filing Date.)

   iii. TOTAL CLAIM: $_________________________ (Total i. plus ii.)

D. NATURE OF CLAIM [Check (√) one and complete appropriate category]

☐ UNSECURED CLAIM OF $_______________________________ (amount and currency)

That in respect of this debt, I do not hold any security or claim any priority.

☐ SECURED CLAIM OR PRIORITY CLAIM OF $___________________(amount and currency)

That in respect of this debt, the Claimant holds security valued at $_________________________ (amount and currency), or claims a priority over other unsecured or secured creditors in the amount of $__________________ (amount and currency), particulars of which are attached.

If a secured claim is being asserted, please give full particulars of the security, including the date on which the security was given and the value at which you assess the security, and attach a copy of the security documents. If a priority claim is being asserted, please provide details as to the priority claim being asserted, and the basis for this priority claim.

☐ CLAIM AGAINST THE DIRECTORS AND OFFICERS OF

$____ (amount and currency)

E. PARTICULARS OF CLAIM AND DOCUMENTATION

Other than as already set out herein, the particulars of the undersigned's total Claim are attached.

Provide all particulars of the Claim and supporting documentation, including amount, description of transaction(s) or agreement(s) giving rise to the Claim, name of any guarantor which has guaranteed the Claim, and amount of invoices, particulars of all credits, discounts, etc. claimed, description of the security, if any, granted by any Applicant or any Director or Officer to the Claimant and estimated value of such security, and particulars of any Restructuring Claim.

This Proof of Claim must be received by the Monitor by no later than **5:00 p.m.** (Eastern Time) on the applicable Claims Bar Date specified in the Claims Procedure Order. The Claims Bar Date applicable to Pre-Filing Claims and D&O Claims is **June 22, 2020** (the "**Pre-Filing Claims Bar Date**"). The Claims Bar Date applicable to Restructuring Claims is 5:00 p.m. (Eastern Time) on the later of (i) June 22, 2020, and (ii) the day which is 30 days after the date the Monitor sends a Claims Package with respect to such Claim (the "**Restructuring Claims Bar Date**"). Proofs of Claim should be sent by email or, if not possible to send by email, by prepaid ordinary mail, courier, personal delivery or fax to the following address:

Ernst & Young Inc.
Court-appointed Monitor of CannTrust Inc. & others

E-mail: CannTrust.Monitor@ca.ey.com
Fax: 416-943-3300
Address: 100 Adelaide Street, West, PO Box 1, Toronto ON M5H 0B3

If you have any questions you can contact us using the information above or call us at 1-855-224-0800 or 416-943-2091.

F. FILING OF CLAIM

Failure to file your proof of claim as directed by **5:00 p.m.** (Eastern Time), on the applicable Claims Bar Date will result in your claim being barred and in you being prevented from making or enforcing a Claim against the Applicants or any Director or Officer. In addition, you shall not be entitled to further notice in, and shall not be entitled to participate as a creditor in these proceedings.

Dated at________________ this ________day of _____________, 2020.

____

Signature of Claimant /Representative of Claimant

SCHEDULE "D"

NOTICE OF REVISION OR DISALLOWANCE

NOTICE OF REVISION OR DISALLOWANCE
of CANNTRUST HOLDINGS INC., CANNTRUST INC.,
CTI HOLDINGS (OSOYOOS) INC., and ELMCLIFFE INVESTMENTS INC.
(hereinafter referred to as the "**Applicants**" or individually as the "**Applicant**") or
THEIR FORMER and CURRENT DIRECTORS and OFFICERS (hereinafter referred to as the "**Directors**" and "**Officers**")

To: [Name of Claimant] **Reference #: [ID]**

Re: Proof of Claim filed by you against [Applicant(s) and/or Director(s) or Officer(s)]

Pursuant to the order of the Honourable Mr. Justice Hainey dated May 8, 2020, Ernst & Young Inc. in its capacity as Monitor of the Applicants, hereby gives you notice that the Applicants have reviewed your Proof of Claim and has revised or disallowed all or part of your Claim as follows:

Type of Claim	Amount as Submitted ($CDN)	Amount allowed ($CDN)	Amount allowed as secured ($CDN)	Amount allowed as unsecured ($CDN)
Pre-Filing Claim				
D&O Claim				
Restructuring Claim				

Reason for the Revision or Disallowance:

Next Steps:

If you do not agree with this Notice of Revision or Disallowance please take notice of the following:

1. If you intend to dispute a Notice of Revision or Disallowance, you must, by no later than **5:00 p.m. (Eastern Time) on the day which is fourteen (14) days after the date of this Notice of Revision or Disallowance**, deliver a Notice of Dispute, in the form attached hereto, by e-mail (in PDF format) (*preferred*), registered mail, personal service, facsimile or courier to the address indicated herein. The form of Notice of Dispute is enclosed.

2. If you do not deliver a Notice of Dispute in the time specified, the value of your Pre-Filing Claim, D&O Claim or Restructuring Claim, as the case may be, shall be determined to be as set out in this Notice of Revision or Disallowance.

Address and numbers for service of Notice of Dispute:

Ernst & Young Inc.
Court-appointed Monitor of CannTrust Inc. & others
E-mail: CannTrust.Monitor@ca.ey.com

Fax: 416-943-3300
Address: 100 Adelaide Street, West, PO Box 1, Toronto ON M5H 0B3

If you have any questions you can contact us using the information above or call us at 1-855-224-0800 or 416-943-2091.

IF YOU FAIL TO TAKE ACTION WITHIN THE PRESCRIBED TIME PERIOD, THIS NOTICE OF REVISION OR DISALLOWANCE WILL BE BINDING UPON YOU.

Dated at Toronto this [DATE].

ERNST & YOUNG INC.

In its capacity as Court-Appointed Monitor of CANNTRUST HOLDINGS INC., CANNTRUST INC., CTI HOLDINGS (OSOYOOS) INC., and ELMCLIFFE INVESTMENTS INC.

Per: ______________________________

Name:
Encl.

SCHEDULE "E"

NOTICE OF DISPUTE

NOTICE OF DISPUTE
of CANNTRUST HOLDINGS INC., CANNTRUST INC.,
CTI HOLDINGS (OSOYOOS) INC., and ELMCLIFFE INVESTMENTS INC.
(hereinafter referred to as the "**Applicants**" or individually as the "**Applicant**") or
THEIR FORMER and CURRENT DIRECTORS and OFFICERS (hereinafter referred to as the "**Directors**" and "**Officers**")

Name of Creditor:

Pursuant to the order of the Honourable Mr. Justice Hainey dated May 8, 2020, I/we hereby give you notice of our intention to dispute the Notice of Revision or Disallowance bearing Reference Number **[ID]** and dated [**DATE**] issued by Ernst & Young Inc. in its capacity as Monitor of the Applicants in respect of our Claim.

Reasons for Dispute:

Include the amount you are disputing and where applicable, any dispute against the revision of your status (unsecured, secured, or priority). Attach copies of all supporting documentation and additional sheets, if necessary:

____

____

____

____

____

Signature of Individual completed the Dispute Notice: ______________________________

(Please print name): ____

Date: ____________________ Email Address: ______________________________

Telephone Number: ______________________ Fax Number: ________________________

Full Mailing Address: ____

____

THIS FORM AND SUPPORTING DOCUMENTATION TO BE RETURNED BY REGISTERED MAIL, PERSONAL SERVICE, E-MAIL (IN PDF FORMAT), FACSIMILE OR COURIER TO THE ADDRESS INDICATED HEREIN AND TO BE RECEIVED BY NO LATER THAN 5:00 P.M. (EASTERN TIME) ON THE DAY WHICH IS FOURTEEN (14) DAYS AFTER THE DATE OF THE NOTICE OF REVISION OR DISALLOWANCE.

Address and numbers for service of Notices of Dispute:

Ernst & Young Inc.
Court-appointed Monitor of CannTrust Inc. & others

E-mail: CannTrust.Monitor@ca.ey.com
Fax: 416-943-3300
Address: 100 Adelaide Street, West, PO Box 1, Toronto ON M5H 0B3

If you have any questions you can contact us using the information above or call us at 1-855-224-0800 or 416-943-2091.

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. ET AL.

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

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

Proceedings commenced at Toronto

CLAIMS PROCEDURE ORDER

McCarthy Tétrault LLP
Suite 5300, Toronto Dominion Bank Tower
Toronto ON M5K 1E6
Fax: 416-868-0673

James Gage LSO#: 34676I
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Lawyers for the Applicants

DOC#: 20327494

THIS IS EXHIBIT "D" REFERRED TO

IN THE AFFIDAVIT OF

GREG GUYATT

SWORN BEFORE ME VIRTUALLY,

ON THE 20th DAY OF JANUARY, 2021

A COMMISSIONER, ETC.

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

ONTARIO
SUPERIOR COURT OF JUSTICE
COMMERCIAL LIST

THE HONOURABLE	)	FRIDAY, THE 8TH
	)	
MR. JUSTICE HAINEY	)	DAY OF MAY, 2020

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.

Applicants

MEDIATION ORDER

THIS MOTION, made by the Applicants pursuant to the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended (the "**CCAA**"), was heard this day by way of videoconference due to the COVID-19 crisis.

ON READING the affidavit of Greg Guyatt sworn May 1, 2020 and the exhibits thereto, and the Second Report of the Monitor dated May 4, 2020 (the "**Second Report**"), and on hearing the submissions of counsel for the Applicants, the Monitor and those other parties that were present as listed on the counsel slip, no other party appearing although duly served as appears from the Affidavit of Service of Trevor Courtis sworn May 4, 2020.

SERVICE AND INTERPRETATION

1. **THIS COURT ORDERS** that the time for service and filing of this motion and the Second Report is hereby abridged and validated such that this motion is properly returnable today and hereby dispenses with further service thereof.

2. **THIS COURT ORDERS** that for the purposes of this Order, the following terms shall have the following meanings:

(a) "**CCAA Proceedings**" means the within proceedings in respect of the Applicants under the CCAA;

(b) "**Claims Procedure Order**" means the Claims Procedure Order issued in these proceedings dated May 8, 2020, as amended, restated or varied from time to time;

(c) "**Director**" means any former or present director of CannTrust Holdings Inc. or any Person of similar position or any other Person who by applicable law is deemed to be or is treated similarly to a director of CannTrust Holdings Inc. or who currently manages or supervises the management of the business and affairs of CannTrust Holdings Inc. or did so in the past;

(d) "**Excluded Equity Claims**" has the meaning given to such term in the Claims Procedure Order;

(e) "**Initial Order**" means the Initial Order of the Honourable Mr. Justice Hainey dated March 31, 2020 in these CCAA Proceedings, as amended, restated or varied from time to time;

(f) "**Mediation Claim**" means any right, claim or dispute arising in or in relation to the Pending Litigation (other than the Pending Litigation where CannTrust Holdings Inc. is not a defendant), including any Excluded Equity Claim and any right, claim or dispute against or in respect of CannTrust Holdings Inc., the Directors or Officers or the Other Defendants in the Pending Litigation;

(g) "**Monitor**" means Ernst & Young Inc., in its capacity as the court-appointed monitor of the Applicants;

(h) "**Officer**" means any former or present officer of CannTrust Holdings Inc. or any Person of similar position or any other Person who by applicable law is deemed to be or is treated similarly to an officer of CannTrust Holdings Inc.; and

(i) “**Person**” means any individual, corporation, firm, limited or unlimited liability company, general or limited partnership, association (incorporated or unincorporated), trust, unincorporated organization, joint venture, trade union, government authority or any agency, regulatory body or officer thereof or any other entity, wherever situate or domiciled, and whether or not having legal status, and whether acting on their own or in a representative capacity.

3. **THIS COURT ORDERS** that any capitalized term used but not defined herein shall have the meaning given to such term in the Initial Order.

COURT-APPOINTED MEDIATOR

4. **THIS COURT ORDERS** that the Hon. Dennis O’Connor, Q.C. is hereby appointed as an officer of the Court and shall act as a neutral third party (the "**Court-Appointed Mediator**") to mediate a global settlement of the Mediation Claims (the “**Mediation Process**”).

5. **THIS COURT ORDERS** that in carrying out his mandate, the Court-Appointed Mediator may, among other things:

(a) adopt processes and utilize resources which, in his discretion, he considers appropriate to facilitate negotiation of a global settlement;

(b) consult with all Persons with Mediation Claims, the Monitor, the Applicants, the Other Defendants, any insurer of the Applicants or the Directors or Officers and any other Persons the Court-Appointed Mediator considers appropriate; and

(c) apply to this Court for advice and directions as, in his discretion, the Court-Appointed Mediator deems necessary.

6. **THIS COURT ORDERS** that, subject to an agreement between the Applicants and the Court-Appointed Mediator, all reasonable fees and disbursements of the Court-Appointed Mediator as may have been incurred prior to the date of this Order or which shall be incurred by the Court-Appointed Mediator in relation to carrying out his mandate shall be paid by the Applicants on a monthly basis, forthwith upon the rendering of accounts to the Applicants.

7. **THIS COURT ORDERS** that the Applicants are hereby authorized to pay to the Court-Appointed Mediator a retainer to be held by the Court-Appointed Mediator as security for payment of the Court-Appointed Mediator's fees and disbursements outstanding from time to time.

8. **THIS COURT ORDERS** that the Court-Appointed Mediator is authorized to take all steps and to do all acts necessary or desirable to carry out the terms of this Order, including dealing with any Court, regulatory body or other government ministry, department or agency, and to take all such steps as are necessary or incidental thereto.

9. **THIS COURT ORDERS** that, in addition to the rights and protections afforded as an officer of this Court, the Court-Appointed Mediator shall incur no liability or obligation as a result of his appointment or the carrying out of the provisions of this Order, save and except for any gross negligence or wilful misconduct on his part. Nothing in this Order shall derogate from the protections afforded a person pursuant to Section 142 of the *Courts of Justice Act* (Ontario).

10. **THIS COURT ORDERS** that participation in the Mediation Process will not constitute attornment to the jurisdiction of the Ontario Superior Court of Justice by any foreign defendant to the Pending Litigation.

COMMUNICATION AND CONFIDENTIALITY PROTOCOL

11. **THIS COURT ORDERS** that the following communication and confidentiality protocol between the Court, the Court-Appointed Mediator and participants in the Mediation Process be and is hereby approved:

(a) the Court and the Court-Appointed Mediator may communicate between one another directly to discuss, on an on-going basis, the conduct of the Mediation Process and the manner in which it will be coordinated with the CCAA Proceedings, including but not limited to the Mediation Claims;

(b) the Court will not disclose to the Court-Appointed Mediator how the Court will decide any matter which may come before the Court for determination;

(c) the Court-Appointed Mediator will not disclose to the Court the negotiating positions or confidential information of any of the parties in the Mediation Process;

(d) all statements, discussions, offers made and documents produced by any of the parties in the course of the Mediation Process shall not be subject to disclosure through discovery or any other process; shall be confidential; shall not be referred to in Court and shall not be admissible into evidence for any purpose, including impeaching credibility or to establish the meaning and/or validity of any settlement or alleged settlement arising from the Mediation Process; and

(e) any notes, records, statements made, discussions had and recollections of the Court-Appointed Mediator or any of his assistants in conducting the Mediation Process shall be confidential and without prejudice and protected from disclosure for all purposes in accordance with paragraph 115(b)(d) above.

GENERAL

12. **THIS COURT ORDERS** that the Monitor and the Applicants may apply to this Court from time to time for directions from this Court with respect to this Order, or for such further order or orders as any of them may consider necessary or desirable to amend, supplement or clarify the terms of this Order.

13. **THIS COURT HEREBY REQUESTS** the aid and recognition of any court, tribunal, regulatory or administrative body having jurisdiction in Canada or in the United States, or abroad, to give effect to this Order and to assist the Applicants, the Monitor and their respective agents in carrying out the terms of this Order. All courts, tribunals, regulatory and administrative bodies are hereby respectfully requested to make such orders and to provide such assistance to the Applicants and to the Monitor, as an officer of this Court, as may be necessary or desirable to give effect to this Order, to grant representative status to the Monitor in any foreign proceeding, or to assist the Applicants and the Monitor and their respective agents in carrying out the terms of this Order.

14. **THIS COURT ORDERS** that each of the Applicants and the Monitor be at liberty and are hereby authorized and empowered to apply to any court, tribunal, regulatory or administrative body, wherever located, for the recognition of this Order and for assistance in carrying out the terms of this Order.

Hainey J.

SUPERIOR COURT OF JUSTICE
ENTERED

MAY 1 1 2020 JP

COUR SUPÉRIEURE DE JUSTICE
ENTRÉ

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. ET AL.

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

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

Proceedings commenced at Toronto

MEDIATION ORDER

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Lawyers for the Applicants

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THIS IS EXHIBIT "E" REFERRED TO

IN THE AFFIDAVIT OF

GREG GUYATT

SWORN BEFORE ME VIRTUALLY,

ON THE 20th DAY OF JANUARY, 2021

A COMMISSIONER, ETC.

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

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

THE HONOURABLE	)	WEDNESDAY, THE 28th
	)	
MR. JUSTICE HAINEY	)	DAY OF OCTOBER, 2020

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.

Applicants

ORDER
(re: Stay Extension and Late Claims)

THIS MOTION, made by the Applicants, pursuant to the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended, for an order (i) extending the stay of proceedings up to and including January 31, 2021, (ii) approving the activities, fees and disbursements of Ernst & Young Inc. in its capacity as court-appointed monitor of the Applicants (the "**Monitor**") and its counsel; and (iii) authorizing the Monitor to accept certain Late Claims (as defined below) was heard this day by way of Zoom judicial video conference due to the COVID-19 pandemic.

ON READING the affidavit of Greg Guyatt sworn October 21, 2020 and the exhibits thereto and the Fifth Report of the Monitor dated October 26, 2020 (the "**Fifth Report**"), and on hearing the submissions of counsel for the Applicants, the Monitor, and those other parties that were present as listed on the counsel slip, and on being advised that all parties on the service list maintained in these proceedings were served with the motion record of the Applicants and the Fifth Report:

SERVICE AND INTERPRETATION

1. **THIS COURT ORDERS** that the time for service and filing of the Notice of Motion and the Motion Record of the Applicants in support of this motion and the Fifth Report is hereby abridged and validated such that this motion is properly returnable today and hereby dispenses with further service thereof.

2. **THIS COURT ORDERS** that all capitalized terms used but not defined herein shall have the meanings given to them in the Claims Procedure Order dated May 8, 2020 (the "**Claims Procedure Order**").

EXTENSION OF STAY PERIOD

3. **THIS COURT ORDERS** that the Stay Period provided in the Initial Order dated March 31, 2020 in these proceedings, as amended, be and is hereby extended until and including January 31, 2021 or such later date as this Court may order.

LATE CLAIM ACCEPTANCE

4. **THIS COURT ORDERS** that the Monitor is authorized, in its discretion, to accept the Proofs of Claim identified in the Fifth Report as having been received subsequent to the Pre-Filing Claims Bar Date or the Restructuring Claims Bar Date, as applicable ("**Late Claims**"), which late Claims shall be reviewed by the Monitor in accordance with the Claims Procedure Order for the purposes of determining whether such Late Claims are Proven Claims.

APPROVAL OF THE FOURTH AND FIFTH REPORTS

5. **THIS COURT ORDERS** that the fourth report of the Monitor, dated September 15, 2020 (the "**Fourth Report**"), and the Fifth Report (together, the "**Monitor's Reports**") are hereby approved, and the actions and activities of the Monitor described in the Monitor's Reports are hereby approved, provided however, that only the Monitor, in its personal capacity and only with respect to its own personal liability, shall be entitled to rely upon or utilize in any way such approval.

FEE APPROVAL

6. **THIS COURT ORDERS** that the fees and disbursements of the Monitor in the amount of $370,284.77 (exclusive of HST) for the period from June 13, 2020 to October 9, 2020 inclusive, as set out in the Fifth Report, are hereby approved.

7. **THIS COURT ORDERS** that the fees and disbursements of Aird & Berlis LLP, in its capacity as counsel to the Monitor, in the amount of $163,331.81 (exclusive of HST) for the period from June 29, 2020 to October 9, 2020 inclusive, as set out in the Fifth Report, are hereby approved.

GENERAL

8. **THIS COURT ORDERS** that this Order shall have full force and effect in all provinces and territories in Canada, outside Canada and against all Persons against whom it may be enforceable.

9. **THIS COURT ORDERS** that, notwithstanding Rule 59.05, this Order is effective from the date that it is made, and is enforceable without any need for entry and filing. In accordance with Rules 77.07(6) and 1.04, no formal order need be entered and filed unless an appeal or a motion for leave to appeal is brought to an appellate court. Any party may nonetheless submit a formal order for original signing, entry and filing when the Court returns to regular operations.

10. **THIS COURT HEREBY REQUESTS** the aid and recognition of any court, tribunal, regulatory or administrative body having jurisdiction in Canada or in the United States to give effect to this Order and to assist the Applicants and the Monitor, and their respective agents in carrying out the terms of this Order. All courts, tribunals, regulatory and administrative bodies are hereby respectfully requested to make such orders and to provide such assistance to the Monitor, as an officer of this Court, as may be necessary or desirable to give effect to this Order or to assist the Monitor and its agents in carrying out the terms of this Order.

11. **THIS COURT ORDERS** that each of the Applicants and the Monitor be at liberty and are hereby authorized and empowered to apply to any court, tribunal, regulatory or administrative body, wherever located, for the recognition of this Order and for assistance in carrying out the terms of this Order.

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. ET AL.

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

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

Proceeding commenced at Toronto

ORDER
(Re: Stay Extension and Late Claims)

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Lawyers for the Applicants

THIS IS EXHIBIT "F" REFERRED TO

IN THE AFFIDAVIT OF

GREG GUYATT

SWORN BEFORE ME VIRTUALLY,

ON THE 20th DAY OF JANUARY, 2021

A COMMISSIONER, ETC.

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.

Applicants

AFFIDAVIT OF GREG GUYATT
(Sworn June 25, 2020)

I, Greg Guyatt, of the City of Mississauga, in the Province of Ontario, MAKE OATH AND SAY:

1. I am the Chief Executive Officer ("**CEO**") of CannTrust Holdings Inc. ("**CannTrust Holdings**"). I have served in this capacity since February 17, 2020. Prior to my appointment as CEO, I served as the Chief Financial Officer ("**CFO**") of CannTrust Holdings since joining CannTrust Holdings on or around February 19, 2019. I am a Chartered Professional Accountant and have more than 20 years of experience in the consumer packaged goods, retail, pharmaceutical and private equity sectors.

2. Through my current role as CEO, and my former role as CFO, of CannTrust Holdings, I am familiar with the operations, financial results and strategies of the Applicants. As such, I have personal knowledge of the matters to which I depose in this affidavit. Where I do not possess personal knowledge, I have stated the source of my knowledge and believe it to be true.

3. I swear this affidavit in support of CannTrust's motion for an order (the "**Stay Extension Order**"), substantially in the form of the draft order included at Tab 3 of the Motion Record of CannTrust, extending the Stay Period to October 30, 2020 (the "**Stay Extension Period**").

4. For ease of reference, the Applicants will be collectively referred to herein as "**CannTrust**". All dollar references herein are Canadian dollars unless otherwise referenced.

I. OVERVIEW

(i) Background

5. CannTrust is a licensed producer of cannabis in Canada that, prior to June 2019, operated an award-winning business that was experiencing operational growth and expanding into new markets and product segments. However, following regulatory audits of CannTrust's facilities in June and July 2019 (the "**Health Canada Audits**"), Health Canada determined that CannTrust was growing and storing cannabis contrary to applicable laws.

6. Following the Health Canada Audits, among other things, shipments of all CannTrust's cannabis products were stopped, its cannabis licences were partially suspended and multiple putative securities class actions and other actions have been commenced against the company.

7. In the second half of 2019 and the first quarter of 2020, CannTrust undertook extensive efforts to address these challenges including, among other things, investigating the findings of the Health Canada Audits, cooperating with regulators such as Health Canada and

the Ontario Securities Commission and implementing a comprehensive remediation plan at its production and processing facilities in Fenwick, Ontario (the "**Fenwick Facility**") and Vaughan, Ontario (the "**Vaughan Facility**") to address the findings of the Health Canada Audits and investigation with a view to obtaining the reinstatement of its licences.

8. Due to, among other things, uncertainty regarding:

(a) the reinstatement and the timing of such reinstatement of CannTrust's licences;

(b) whether the above-noted litigation and other claims against CannTrust could be resolved within a reasonable time period and on a basis that would leave CannTrust with sufficient financial resources; and

(c) the impact of the current disruption of global capital markets and the downturn of the Canadian cannabis industry on CannTrust's ability to attract capital that it may require to restore its operations,

CannTrust determined that it was in the best interests of the company and its stakeholders to complete its efforts to address these challenges in a court-supervised restructuring process.

9. On March 31, 2020, the Honourable Mr. Justice Hainey granted an initial order (the "**Initial Order**") pursuant to the *Companies' Creditors Arrangement Act* (Canada) (the "**CCAA**") in favour of CannTrust, including a stay of proceedings until April 9, 2020 (the "**Stay Period**"). Ernst & Young was appointed as monitor of CannTrust (in such capacity, the "**Monitor**").

10. On April 9, 2020, the Honourable Mr. Justice Hainey granted an order (the "**Amended

and Restated Initial Order") amending and restating the Initial Order to, among other things, extend the Stay Period to July 5, 2020. A copy of the Amended and Restated Initial Order is attached hereto as **Exhibit "A"**.

11. On May 8, 2020, the Honourable Mr. Justice Hainey granted:

(a) an order (the "**SISP Order**") approving a sale and investment solicitation process for the purpose of soliciting interest in and opportunities for a sale of, or investment in, the assets and business operations of CannTrust (the "**SISP**");

(b) an order (the "**Claims Procedure Order**") approving a claims procedure for the identification, quantification, and resolution of certain claims of creditors of CannTrust and its directors and officers (the "**Claims Procedure**"); and

(c) an order (the "**Mediation Order**") appointing the Honourable Dennis O'Connor, Q.C. to mediate a global settlement of certain class action and other claims that have been excluded from the Claims Procedure for the time being (the "**Mediation Process**").

(ii) Relief Sought on this Motion

12. The Stay Period presently expires on July 5, 2020. Since the granting of the Amended and Restated Initial Order on April 9, 2020, CannTrust has acted, and continues to act, in good faith and with due diligence. Among other things, CannTrust has:

(a) completed the remainder of its remediation activities and sought the reinstatement of its licence at the Vaughan Facility;

(b) provided additional information requested by Health Canada and successfully obtained the reinstatement of its licence at the Fenwick Facility;

(c) restarted cultivation operations at the Fenwick Facility;

(d) taken steps to right-size its operational footprint including by renegotiating or disclaiming certain contracts; and

(e) advanced the SISP, the Claims Procedure and the Mediation Process in accordance with the procedures and timelines applicable to those processes.

13. Many of these processes remain ongoing and require more time to see through. CannTrust seeks an extension of the Stay Period until October 30, 2020. The requested extension is necessary and appropriate in the circumstances to allow CannTrust to:

(a) continue to work with Health Canada to resolve any remaining *Cannabis Act* compliance issues with a view towards obtaining reinstatement of its Vaughan Facility licence, subject to the availability of resources as a result of the COVID-19 pandemic;

(b) continue to restructure its business and operations and take steps towards resuming production at its Fenwick Facility;

(c) engage with the plaintiffs and other parties in the Pending Litigation through the Mediation Process in order to explore a potential resolution of those claims;

(d) assess the claims that have been submitted in the Claims Process and that may still be submitted, in consultation with the Monitor;

(e) engage with the interested parties who submitted first-round proposals with respect to the SISP, through and with the assistance of Greenhill & Co. Canada Ltd. in its capacity as financial advisor to CannTrust (the "**Financial Advisor**"), in consultation with the Monitor and with oversight provided by CannTrust's board of directors (the "**Board**");

(f) assess the proposals that have been submitted in the SISP, and any proposals that may still be submitted, with the assistance of the Financial Advisor and in consultation with the Monitor and the Board; and

(g) continue its review of strategic alternatives with the assistance of the Monitor, FTI Consulting Canada Inc. in its capacity as chief restructuring officer to CannTrust (the "**CRO**") and the Financial Advisor.

14. Further, once sufficient progress is made on these fronts, CannTrust will need to formulate a CCAA plan of arrangement to propose to creditors and prepare the necessary materials and take the necessary steps to conduct one or more meetings of applicable creditors, seek court approval and, if approved by the creditors and court, implement the CCAA plan. A stay until October 30, 2020 would provide CannTrust with a reasonable period to make substantial progress toward those restructuring goals.

15. CannTrust, with the assistance of the Monitor, will be appending a revised cash flow forecast to its third report to the Court, to be filed (the "**Third Report**"), and that cash flow

forecast will demonstrate that the Business is projected to have sufficient cash over the proposed extension of the Stay Period to enable CannTrust to meet its day-to-day obligations. I further understand that the Monitor supports the requested extension of the Stay Period and will provide further information in that regard in the Third Report.

II. BUSINESS UPDATES

16. Since April 9, 2020 hearing of the motion for the Amended and Restated Initial Order (the "**Comeback Motion**") at which CannTrust last requested an extension to the Stay Period, CannTrust has taken a number of steps to improve its position, including undertaking extensive remediation efforts to address, among other things, the findings of the Health Canada Audits and other potential concerns. Most significant among its achievements is the reinstatement of its Health Canada licence for the Fenwick Facility.

(i) Licence Reinstatement and Amendment

17. 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 requesting the reinstatement of its partially suspended licences with respect to the Fenwick Facility. On April 2, 2020, Health Canada wrote to CannTrust confirming that it had completed its review of the remediation package for the Fenwick Facility and asking three questions about the remediation package. On April 17, 2020, CannTrust provided its responses to those questions to Health Canada.

18. Also on April 24, 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 suspended licences with respect to the Vaughan Facility. On the same day, CannTrust also submitted a licence amendment application to Health Canada.

19. On May 29, 2020, Health Canada wrote to CannTrust asking one question about the remediation package. On June 2, 2020, CannTrust provided its response to the question to Health Canada.

20. Health Canada has also written to CannTrust on May 27, 2020 and again on June 18, 2020 requesting additional information related to CannTrust's licence amendment application. CannTrust provided its responses to those questions on June 9, 2020 and June 25, 2020 respectively.

21. On May 29, 2020, CannTrust received notice from Health Canada that its licences for its Fenwick Facility have been reinstated. The Fenwick Facility is a state-of-the-art commercial greenhouse with a perpetual harvest system, computer controlled irrigation, co-generation power supply and full supplemental lighting. The reinstatement of CannTrust's licences at the Fenwick Facility is a major achievement and is a significant step towards restoring operations and returning CannTrust to profitability.

22. CannTrust immediately took steps to recommence operations at the Fenwick Facility, which is licensed to sell bulk product to other licence holders. Thus far, CannTrust has propagated approximately 18,000 new plants, which represents less than 20% of the facility's capacity. As CannTrust ramps up production, additional plants will be propagated to establish appropriate harvest timing under its perpetual harvest methodology. The first harvest is expected to occur in the second week of September, 2020. At this time, CannTrust cannot

provide an exact timeframe for when its products will be available in the market, as this is dependent upon the reinstatement of the licence with respect to the Vaughan extraction, manufacturing and packaging facility, which timing remains uncertain at this time.

(ii) Mother Plant Propagation

23. As noted in the affidavit that I swore on March 31, 2020 in support of the Initial Order (the "**March 31 Affidavit**"), an additional potential complication that CannTrust faced was that the mother plants used by CannTrust as a source of cuttings for new plants were reaching the end of their useful life and CannTrust had been unable to propagate any new plants since the suspension of its licence for the Fenwick Facility. If the mother plants were compromised, CannTrust would have needed to initiate its genetics stock from seeds once its licences were reinstated, which would have added six months or more to its propagation, cultivation and processing cycle and further delayed CannTrust's ability to generate revenue from operations.

24. CannTrust worked with Health Canada to address this issue. On April 1, 2020, Health Canada advised CannTrust that it had no objections to CannTrust's request to propagate its mother plants in the manner that CannTrust had proposed. CannTrust has since propagated a sufficient number of new mother plants to sustain its current business requirements.

(iii) Right-Sizing Operations

25. CannTrust has taken steps to right-size its operational footprint to reflect its expected needs as production ramps up. CannTrust has identified and implemented operational efficiencies at its various sites and identified certain business relationships to approach counterparties about revising the terms to better reflect CannTrust's anticipated business

needs. In particular:

(a) on June 15, 2020, CannTrust delivered a notice of disclaimer of the lease for its head office space in Vaughan, Ontario. CannTrust leases two floors of this office building and it became clear to CannTrust management, especially in the wake of COVID-19 related work-from-home measures, that a reduced footprint was an appropriate and necessary cash conservation measure. For the time being, the Vaughan Facility will be used as the head office of CannTrust.

(b) CannTrust has engaged with key contract counterparties to renegotiate their existing arrangements and in several cases has been able to obtain new terms that are more appropriate and economical for CannTrust.

III. SISP UPDATE

(iv) Overview

26. On May 8, 2020, the SISP Order was issued which approved and authorized the implementation of the SISP.

27. The SISP solicits interest in, and opportunities for, a sale of or investment in all or part of CannTrust's assets and business operations (a "**Transaction**"). A Transaction 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 (the "**Property**") and business operations (the "**Business**") as a going concern or otherwise.

28. The SISP includes a notification process and two phases to evaluate proposals from qualified interested bidders, which are described further below. For ease of reference, the following are the key milestones and deadlines under the SISP:

(a) Implementation of Notification Process: May 20, 2020;

(b) Phase 1 Bid Deadline:[1] June 22, 2020; and

(c) Phase 2 Bid Deadline: To be specified in the Bid Process Letter to be provided by the Financial Advisor to Phase 2 Qualified Bidders.

(v) Progress to Date

29. CannTrust and the Financial Advisor promptly took steps following the issuance of the SISP Order to implement the SISP and have continued to work diligently to seek a Transaction that is beneficial for all of CannTrust's stakeholders.

30. Prior to the SISP Order, CannTrust, in consultation with the Financial Advisor, had been engaged in a strategic review that considered, among other strategies, a sale of or investment in, the company and had begun soliciting interest in such a sale or investment.

31. Over the course of their marketing and solicitation efforts, both before and after the issuance of the SISP Order, CannTrust, the Financial Advisor, and the Monitor have been in contact with 101 potentially interested parties that either: (i) approached CannTrust, the Financial Advisor or the Monitor indicating an interest in the SISP opportunity, (ii) were

[1] All capitalized terms used but not otherwise defined in this part have the meanings given to them in the SISP Order.

identified as local and international strategic and financial parties (including a number of parties with whom the Financial Advisor was in contact prior to the Initial Order as part of CannTrust's strategic review), or (iii) were reasonably suggested by a stakeholder as a potential bidder that may be interested in the SISP opportunity.

32. Since the SISP Order, CannTrust, the Financial Advisor and/or the Monitor have:

(a) prepared a list of 36 Known Potential Bidders;

(b) sent each Known Potential Bidder a process summary describing the Opportunity and inviting expressions of interest ("**Teaser Letter**") along with a Non-Disclosure Agreement ("**NDA**") prior to May 20, 2020;

(c) sent an identical package to 6 new parties that were subsequently identified as potential bidders;

(d) published a SISP Notice in The Globe and Mail (National Edition) on May 15, 2020;

(e) issued a SISP Press Release which was disseminated in Canada and major financial centres in the United States, on May 15, 2020;

(f) posted the SISP Notice, the SISP Press Release, the Teaser Letter and the NDA on the case website established for these proceedings with the URL: http://www.ey.com/ca/canntrust (the "**Monitor's Website**");

(g) negotiated the terms of the NDAs as required for certain Known Potential

Bidders;

(h) provided a Confidential Information Package to Phase 1 Qualified Bidders and provided certain further information requested by Phase 1 Qualified Bidders;

(i) received and begun the review of bids received prior to the Phase 1 Bid Deadline of June 22, 2020.

(vi) Bids Received

33. All Phase 1 Qualified Bidders wishing to pursue the SISP opportunity were required to deliver a non-binding letter of interest to the Financial Advisor by the Phase 1 Bid Deadline of 5:00 p.m.(Eastern Time) on June 22, 2020.

34. CannTrust and the Financial Advisor made a preliminary assessment of the Phase 1 Bids received and, in consultation with and with the approval of the Monitor, are working to determine the process and timing to be followed for proceeding to Phase 2 of the SISP. CannTrust and the Financial Advisor will report to the Court at the hearing of the motion if the Phase 2 process has been determined by that point.

35. As discussed in more detail below, the Mediation Process has commenced and, although it is in its early stages, CannTrust has been encouraged by the support of the participants for the process. As a result, in deciding the process and timing for Phase 2, CannTrust may seek to prioritize the Mediation Process and align the SISP accordingly.

IV. CLAIMS PROCEDURE UPDATE

(vii) Overview

36. On May 8, 2020, the Claims Procedure Order was issued, which authorized the implementation of the Claims Procedure by CannTrust, in consultation with the Monitor.

37. CannTrust sought to commence the Claims Procedure in order to ascertain the universe of claims that may exist against CannTrust and the directors and officers of CannTrust other than certain Excluded Equity Claims[2] which will be subject to the Mediation Order and are described in more detail below.

38. Identifying and quantifying these claims will allow CannTrust to begin contemplating the form of a plan of compromise or arrangement and will allow CannTrust to assess what impact the claims may have on potential transactions and/or restructurings proposed in the SISP.

39. For ease of reference, the following are the key milestones and deadlines under the Claims Procedure, which is described further below:

(a) Claims Package sent to Known Claimants: Within 5 Business Days following the issuance of the Proposed Claims Procedure Order;

(b) Publication of newspaper notice and press release: May 12, 2020;

[2] All capitalized terms used but not otherwise defined in this part have the meanings given to them in the Claims Procedure Order.

(c) Pre-Filing Claims Bar Date: 5:00 p.m. (Eastern Time) on June 22, 2020; and

(d) Restructuring Claims Bar Date: 5:00 p.m. (Eastern Time) on the later of: (i) the Pre-Filing Claims Bar Date; and (ii) the day which is 30 days after the Monitor sends a Claims Package with respect to a Restructuring Claim to the Claimant.

(viii) Progress to Date

40. CannTrust and the Monitor promptly took steps to implement the Claims Procedure following the issuance of the Claims Procedure Order and have continued to work diligently to carry out the steps contemplated therein.

41. Specifically, CannTrust provided to the Monitor a complete list of Known Claimants based on its books and records and their respective email addresses or, where CannTrust did not know the email address of any Known Claimant, the Known Claimant's mailing address. The Monitor, in turn:

(a) sent each Known Claimant a Claims Package on May 12, 2020 by email or, where the email address of the Known Claimant was not known, by ordinary mail;

(b) sent a Claims Package to any Claimants who contacted the Monitor and did not receive the initial Claims Package;

(c) sent a Claims Package to each Known Claimant with a Restructuring Claim arising from the restructuring, disclaimer, resiliation or termination of any lease, contracts, or other agreements or obligation, on or after May 8, 2020 (which practice will continue as Restructuring Claims arise);

(d) published a newspaper notice in the Globe and Mail (National Edition) on May 12, 2020;

(e) issued a press release on May 12, 2020; and

(f) posted the Notice to Claimants, Claims Package and Claims Procedure Order on the Monitor's Website.

42. As noted above, the Pre-Filing Claims Bar Date was June 22, 2020. CannTrust, in consultation with the Monitor, is currently undertaking a preliminary review of the Proofs of Claim received to assess which claims require additional information, require revisions, can be resolved or settled, or may be accepted (in whole or in part) and/or resolved (in whole or in part). That assessment is on-going and is being conducted in accordance with the Claims Procedure Order. To-date no Claimants have been contacted by CannTrust or the Monitor in respect of their Proofs of Claim. CannTrust and the Monitor will report to the Court as the review process unfolds. CannTrust anticipates that this claims review process will take several months to complete.

V. MEDIATION UPDATE

(ix) Overview – Mediation Claims

43. As described more fully in the March 31 Affidavit, CannTrust is currently a defendant in various litigation proceedings, including putative securities class actions commenced in Ontario, British Columbia, Alberta, Quebec and the United States, a securities action

commenced in Ontario against CannTrust Holdings by two shareholders, and a construction claim (the "**Pending Litigation**").

44. To address the complex and overlapping nature of the Pending Litigation, CannTrust sought the appointment of a mediator to assist the parties in working towards a global resolution of the Pending Litigation through the Mediation Process.

45. On May 8, 2020, the Mediation Order was issued appointing the Hon. Dennis O'Connor, Q.C. as an officer of the Court, acting as an independent and neutral third party to mediate a global settlement of the Mediation Claims (the "**Court-Appointed Mediator**").[3] Among other things, the Court-Appointed Mediator is empowered to do the following in carrying out his mandate:

(a) adopt processes and utilize resources which, in his discretion, he considers appropriate to facilitate negotiation of a global settlement; and

(b) consult with all Persons with Mediation Claims, the Monitor, the Applicant, the Other Defendants, any insurer of the Applicants or the Directors or Officers and any other persons the Court-Appointed Mediator considers appropriate.

46. Further to the Mediation Order, the Court-Appointed Mediator has established and is implementing a process that he considers appropriate to facilitate the resolution of issues in

[3] All capitalized terms used but not otherwise defined in this part have the meanings given to them in the Mediation Order.

this complex case.. Although the Mediation Process remains in its early stages, CannTrust has actively engaged in it.

47. Pursuant to the Mediation Order, the Mediation Process is confidential and all statements, discussions, offers made and documents produced by any of the parties in the course of the Mediation Process shall not be disclosed. Accordingly, the description of the activities of CannTrust and the Mediation Process below is general in nature.

48. Counsel for all interested plaintiffs in the Pending Litigation are participating in the Mediation, specifically a consortium of counsel in the Ontario Class Actions (as defined in the March 31 Affidavit), plaintiffs' counsel in the separate class action lawsuits commenced in British Columbia, Alberta and Quebec, plaintiffs' counsel in the New York Class Actions, plaintiffs' counsel in the separate class action commenced in California, and counsel to two individual plaintiffs. Representatives of the law firm Rochon Genova, which has applied for leave to appeal the decision denying it carriage of the Ontario Class Actions have been allowed to participate in the Mediation Process by filing briefs, but on the understanding that, as it stands now, it only represents its individual client.

49. Counsel for numerous defendants are also participating in the Mediation, including counsel to CannTrust, counsel to two individual former directors of CannTrust, counsel to a director and shareholder, counsel to KMPG (auditors), and counsel to the Canadian Underwriters. Counsel for numerous providers of insurance to CannTrust and its directors and officers are also participating although Allianz, the lead carrier in the insurance tower, which has not agreed to mediate its denial of insurance coverage to CannTrust as of the date of this affidavit. CannTrust has a contractual right to a mediation with Allianz and may seek

directions from this Court if Allianz does not mediate its denial of coverage contemporaneously with the main mediation, ideally with the assistance of the Court-Appointed Mediator.

50. CannTrust is committed to engaging in the Mediation Process and is responding to substantial plaintiff data requests and taking other meaningful steps to seek to develop and implement a global resolution of the Mediation Claims. To that end, CannTrust has actively participated in the Mediation Process led by the Court-Appointed Mediator and is committed to continuing to do so.

VI. RELIEF REQUESTED

(x) The Stay Extension Order Should be Approved

51. The Stay Period presently expires on July 5, 2020. In the time since the Stay Period was last extended, CannTrust has acted in good faith and with due diligence as detailed throughout this affidavit, particularly in paragraph 12 above.

52. CannTrust is seeking an extension of the Stay Period up to and including October 30, 2020.

53. Given the number of parties and scope of the issues, CannTrust anticipates that the Mediation Process will take significant time to explore positions, develop a resolution and create consensus in respect thereof. CannTrust believes that it is critical to give the multi-party Mediation Process directed by the Court-Appointed Mediator the time and attention required to ensure the best chances of achieving a successful global resolution of the

Mediation Claims. Meaningful progress has been made already.

54. Similarly, the Claims Procedure and SISP and, which are critical to CannTrust's restructuring process have both just reached their first milestone deadlines, the Phase 1 Bid Deadline and the Pre-Filing Claims Bar Date, respectively. It is anticipated that significant time will still be required to assess the Claims submitted in the Claims Procedure to date and those that are still to be submitted and to assess what impact the claims may have on potential transactions and/or restructurings proposed in the SISP.

55. Once sufficient progress is made on the processes above, CannTrust will need to formulate a CCAA plan of arrangement to propose to creditors, prepare the necessary materials and take the necessary steps to conduct one or more meetings of applicable creditors, seek court approval and, if approved by the creditors and court, implement the CCAA plan. A stay until October 30, 2020 would provide CannTrust with a reasonable period to make substantial progress toward those restructuring goals.

56. Further, CannTrust continues to wait on a decision from Health Canada on the reinstatement of its licence for the Vaughan Facility after which, if the licence is reinstated, CannTrust will have to continue its efforts to resume production in an appropriate and cost-effective manner considering the status of the global economy and the cannabis market specifically, and any COVID-19 restrictions still in place at that time.

57. The requested extension of the stay of proceedings is important to keep CannTrust's litigation creditors and contingent creditors on an equal footing while it explores a plan of compromise or arrangement with its creditors.

58. As noted above, CannTrust is expected to have sufficient funds through the new proposed Stay Period. I understand the Monitor supports the requested extension of the Stay Period.

59. The requested extension of the stay of proceedings is important to keep various stakeholders on equal footing while CannTrust explores a plan of compromise or arrangement.

VII. CONCLUSION

60. For the reasons stated above, the relief requested in the Stay Extension Order is in the best interests of CannTrust and its stakeholders and is appropriate in the circumstances.

SWORN BEFORE ME (Virtually), on June 25, 2020.	
A Commissioner for taking Affidavits Name: Alexander Steele (LSO# 75719P)	Greg Guyatt

THIS IS EXHIBIT "G" REFERRED TO

IN THE AFFIDAVIT OF

GREG GUYATT

SWORN BEFORE ME VIRTUALLY,

ON THE 20th DAY OF JANUARY, 2021

A COMMISSIONER, ETC.

RESTRUCTURING SUPPORT AGREEMENT

THIS AGREEMENT is made as of January 19, 2021 between:

CannTrust Holdings Inc.,
CannTrust Inc.,
CTI Holdings (Osoyoos) Inc. and
Elmcliffe Investments Inc.

(the "**CannTrust Group**")

– and –

Patrick Hrusa and Dharambir Singh

(the "**Ontario Class Action Lead Plaintiffs**")

– and –

A. Dimitri Lascaris Law Professional Corporation,
Henein Hutchinson LLP,
Kalloghlian Myers LLP and
Strosberg Sasso Sutts LLP

(**"Ontario Class Action Counsel"**)

– and –

Granite Point Master Fund, LP and
Granite Point Capital Scorpion Focussed Ideas Fund

(the "**U.S. Class Action Lead Plaintiffs**", and collectively with the Ontario Class Action Lead Plaintiffs, the "**Class Action Lead Plaintiffs**")

– and –

Labaton Sucharow LLP and Weisz Fell Kour LLP

(**"U.S. Class Action Counsel"**, and collectively with Ontario Class Action Counsel, **"Class Action Counsel"**)

RECITALS:

A. Capitalized terms used in this Agreement and not defined above have the meanings given to them in Section 1.01.

B. The CannTrust Group commenced the CCAA Proceedings on the Filing Date.

C. Pursuant to the Mediation being conducted within the CCAA Proceedings, the CannTrust Group has been engaged in negotiations with the Class Action Lead Plaintiffs and Class Action Counsel, among others, regarding the restructuring of the CannTrust Group, including negotiations with respect to the settlement of the Securities Claims and any related claims.

D. Pursuant to those negotiations, the Agreement Parties have agreed upon terms for the settlement of the Securities Claims that will form part of the restructuring of the CannTrust Group pursuant to a CCAA Plan and related arrangements, which terms are reflected in the Term Sheet.

E. The Agreement Parties wish to enter into this Agreement to set forth their agreements concerning the CCAA Plan, the related process to implement it, and the commitment of the Class Action Lead Plaintiffs and Class Action Counsel to support the CCAA Plan.

NOW THEREFORE, in consideration of the premises, the covenants and agreements herein contained and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by the Agreement Parties, the Agreement Parties agree as follows:

ARTICLE 1 - INTERPRETATION

1.01 Definitions

In this Agreement:

"**Actions**" means the actions and other litigation set out in Schedule A.

"**Additional Settlement Party**" means any Co-Defendant or Insurer that has been designated as an Additional Settlement Party in accordance with Section 3.04 of this Agreement or the terms of the CCAA Plan.

"Affected Claims" means the Securities Claims and all other Claims that the CannTrust Group seeks, in its sole discretion, to compromise, settle and/or release pursuant to the CCAA Plan to effect its restructuring.

"Affected Creditor" means a holder of an Affected Claim.

"**Agreement**" means this agreement, including its recitals and Schedules, as amended from time to time.

"**Agreement Parties**" means the CannTrust Group, the Class Action Lead Plaintiffs and Class Action Counsel.

"**Allocation and Distribution Scheme**" means the scheme to be developed by the Class Action Lead Plaintiffs and Class Action Counsel and approved by the CCAA Court, for the allocation and distribution by the Trustee (or its designate, as approved by the CCAA Court) of the funds held by the Securities Claimant Trust from time to time among and to Securities Claimants, among others, which scheme will be included within the terms of, or will be a schedule to, the Trust Declaration and/or the CCAA Plan.

"**Assigned Claims**" means the claims of CannTrust Holdings against any Co-Defendant that is a Non-Settlement Party and, if applicable, the claims of CannTrust Holdings and the other Settlement Parties against any Insurer that is a Non-Settlement Party, in each case to the extent such claims are for loss or damage up to the date of the CCAA Sanction Order and arise from or relate to the Securities-Related Matters.

"Bar Order" is defined in Section 3.02(c).

"**Business Day**" means a day other than a Saturday or Sunday on which banks are generally open for business in Toronto, Ontario.

"California Action" means *Owens v. CannTrust Holdings Inc. et al.,* Court File No. 19CV352374 (California Superior Court, Santa Clara County).

"Canadian and Non-U.S. Securities Claimants" means all Securities Claimants other than U.S. Securities Claimants.

"**CannTrust Holdings**" means CannTrust Holdings Inc.

"**Cash Contributions**" means, collectively:

(i) the contribution of $50 million to the Securities Claimant Trust to be made by CannTrust Holdings pursuant to the CCAA Plan, as contemplated by the Term Sheet; and

(ii) each cash contribution to the Securities Claimant Trust to be made by an Additional Settlement Party, in the amount agreed between the Additional Settlement Party, the Class Action Lead Plaintiffs and the CannTrust Group.

"**CCAA**" means the *Companies' Creditors Arrangement Act* (Canada).

"CCAA Canadian Representatives" is defined in Section 2.02(1).

"CCAA Canadian Representative Counsel" is defined in Section 2.02(1).

"**CCAA Court**" means the Ontario Superior Court of Justice (Commercial List).

"**CCAA Plan**" means the plan of compromise, arrangement and reorganization of the CannTrust Group to be proposed by it pursuant to the CCAA, consistent with the Term Sheet and this Agreement, and otherwise in form and content satisfactory to the CannTrust Group in its sole discretion, as may be amended from time to time in accordance with the provisions of the CCAA Plan and the Meeting Order.

"**CCAA Proceedings**" means the proceedings under the CCAA in respect of the CannTrust Group commenced by the Initial Order.

"CCAA Representation Order" is defined in Section 2.02(1).

"CCAA Representative Counsel" is defined in Section 2.02(1).

"CCAA Representatives" is defined in Section 2.02(1).

"**CCAA Sanction Order**" means the order to be made under the CCAA sanctioning the CCAA Plan and providing for the Bar Order and other relief contemplated in the CCAA Plan, as such order may be amended from time to time, in form and content satisfactory to the CannTrust Group in its sole discretion and otherwise consistent with the Term Sheet and this Agreement.

"**Claim**" means any right or claim of any Person that may be asserted or made in whole or in part against any of member of the CannTrust Group, whether or not asserted or made, in connection with any indebtedness, liability or obligation of any kind whatsoever, and any interest accrued thereon or costs payable in respect thereof, including by reason of the commission of a tort (intentional or unintentional), by reason of any breach of contract or other agreement (oral or written), by reason of any breach of duty (including any legal, statutory, equitable or fiduciary duty) or by reason of any right of ownership of or title to property or assets or right to a trust or deemed trust (statutory, express, implied, resulting, constructive or otherwise), and whether or not any such indebtedness, liability or obligation is reduced to judgment, liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, undisputed, legal, equitable, secured, unsecured, perfected, unperfected, present or future, known or unknown, by guarantee, surety or otherwise, and whether or not such right or claim is executory or anticipatory in nature (including any right or claim in connection with the sale of any securities by CannTrust Holdings or others pursuant to the public distribution of its securities or any right or ability of any Person to advance a claim for contribution or indemnity or otherwise with respect to any matter, action, cause or chose in action, whether existing at present or commenced in the future), which indebtedness, liability or obligation, and any interest accrued thereon or costs payable in respect thereof (A) is based in whole or in part on facts existing prior to the Filing Date, (B) relates to a time period prior to the Filing Date, or (C) is a right or claim of any kind that would be a claim provable in bankruptcy within the meaning of the *Bankruptcy and Insolvency Act* (Canada) had such member of the CannTrust Group become bankrupt on the Filing Date, including any Securities Claim and any Securities-Related Indemnity Claim.

"**Claims Procedure Order**" means the claims procedure order of the CCAA Court made in the CCAA Proceedings on October 13, 2020 and any supplemental claims procedure order made in respect of the process governing the proof of claims, in each case as amended from time to time.

"Co-Defendant" means, at the relevant time (i) any Person named as a defendant in an Action that is not a Settlement Party, and (ii) any Person that could be named as a co-defendant in an Action based on or arising out of the Securities-Related Matters and who has or could have a Securities-Related Indemnity Claim against a Released Party.

"Cooperation Agreement" means an agreement between the Agreement Parties consistent with the general principles set out in Schedule C, in form and content satisfactory to the Agreement Parties.

"**Cross-Border Action**" is defined in Section 3.01(d)(i).

"**Definitive Documents**" means the CCAA Plan, the Settlement-Related Agreements, the CCAA Sanction Order, the U.S. Approval Order, the Bar Order and all other agreements, releases, consents, documents and orders contemplated by, or necessary or desirable to implement the transactions contemplated by, this Agreement, the Supplemental Letter Agreement or any of the foregoing.

"Director" means any Person who, as at the Effective Time, is a former or current director or officer of any member of the CannTrust Group or any other Person of a similar position or who by applicable law is deemed to be or is treated similarly to a director or officer of a member of the CannTrust Group or who currently manages or supervises the management of the business and affairs of a member of the CannTrust Group or did so in the past.

"**Effective Time**" means the first moment on the Plan Implementation Date or such other time on the Plan Implementation Date as may be designated by the CannTrust Group in accordance with the CCAA Plan.

"**Filing Date**" means March 31, 2020.

"**Initial Order**" means the initial order made by the CCAA Court on the Filing Date under the CCAA upon application by the CannTrust Group, as amended and/or amended and restated from time to time.

"**Insurer**" means an insurer that has provided insurance with respect to Securities-Related Matters to (i) an Original Settlement Party, or (ii) a Co-Defendant that is or was a Director of CannTrust Holdings.

"**Mediation**" means the mediation being conducted in the CCAA Proceedings pursuant to the order made on May 8, 2020.

"Meeting Order" is defined in Section 2.02(1).

"**Meetings**" means, collectively, each meeting of a class of Affected Creditors of the CannTrust Group, including a class that includes Securities Claimants if necessary, called for the purpose of considering and voting on the CCAA Plan.

"**Monitor**" means Ernst & Young Inc., in its capacity as the monitor appointed pursuant to the Initial Order.

"**Non-Released CannTrust Claims**" means:

(i) the right to enforce against the applicable member(s) of the CannTrust Group its obligations under the CCAA Plan;

(ii) the right to enforce the Unaffected Claims against the applicable member(s) of the CannTrust Group;

(iii) solely as against a director in his or her capacity as such, any claim that is not permitted to be compromised pursuant to section 5.1(2) of the CCAA;

(iv) any claim against a member of the CannTrust Group for the purchase or supply of goods or services delivered after the Filing Date; and

(v) the right to enforce against the applicable member(s) of the CannTrust Group any agreement in force at the Effective Time that was entered into by such member(s) between the Filing Date and the Plan Implementation Date, or that was entered into prior to the Filing Date and not disclaimed during the CCAA Proceedings pursuant to the applicable paragraph of the Initial Order and related provision by the CCAA.

"Non-Settlement Party" means, at the relevant time, any Co-Defendant or Insurer that is not a Settlement Party.

"Ontario Class Action" means *Hrusa et al. v. CannTrust Holdings Inc. et al.,* Court File No. CV-19-00623567-00CP (ON SC).

"Opt Out Claimant" means, to the extent an opt out process is imposed by the CCAA Representation Order or the Meeting Order, any Securities Claimant that provides notice to the Monitor and CCAA Representative Counsel that they do not want the CCAA Representatives and/or CCAA Representative Counsel to represent them or act as their proxy, as applicable.

"**Original Settlement Parties**" means each member of the CannTrust Group, Mark Dawber, Greg Guyatt, John Kaden, Robert Marcovitch, Shawna Page, Ilana Platt, Mitchell Sanders and Cajun Capital Corporation.

"Outside Date" means December 31, 2021.

"**Person**" means any individual, corporation, firm, limited or unlimited liability company, general or limited partnership, association, trust, unincorporated organization, joint venture, government or any agency, officer or instrumentality thereof or any other entity, wherever situate or domiciled, and whether or not having legal status.

"**Plan Implementation Date**" means the date upon which all of the conditions to the CCAA Plan and other Definitive Documents have been satisfied or waived and the transactions contemplated by the CCAA Plan and the other Definitive Documents are to be implemented.

"**Released Additional Settlement Parties**" means the Additional Settlement Parties and their respective Representatives.

"**Released CannTrust Claims**" means (A) any and all Claims and (B) any and all other demands, claims (including claims for contribution or indemnity), actions, causes of action, counterclaims, suits, debts, sums of money, liabilities, accounts, covenants, damages, judgments, orders (including orders for injunctive relief or specific performance and compliance orders), expenses, executions, encumbrances and recoveries on account of any liability, obligation, demand or cause of action of whatever nature (including for, alleged oppression, misrepresentation, wrongful conduct, fraud or breach of fiduciary duty by any Released CannTrust Party) that any Affected Creditor or other Person has or may be entitled to assert against any of the Released CannTrust Parties, whether known or unknown, matured or unmatured, contingent or actual, direct, indirect or derivative, at common law, in equity or under statute, foreseen or unforeseen, existing or hereafter arising, in any jurisdiction, based in whole or in part on any act, omission, transaction, duty, responsibility, indebtedness, liability, obligation, dealing, matter or occurrence existing or taking place at or prior to the Effective Time that in any way relate to or arise out of or in connection with:

(i) any Claim, including any Claim that is enumerated in section 19(2) of the CCAA and that is compromised under the CCAA Plan in accordance with such section as a consequence of the applicable creditor's vote in favour of or other form of consent to the CCAA Plan;

(ii) any of the assets, obligations, business or affairs of a member of the CannTrust Group; or

(iii) the CCAA Proceedings or any matter or transaction involving any member of the CannTrust Group occurring in or in connection with the CCAA Proceedings (including the CCAA Plan and the development of it),

but excluding Non-Released CannTrust Claims.

"**Released CannTrust Parties**" means the Original Settlement Parties, the Monitor and their respective Representatives, but excluding the Directors named as defendants in one or more of the Actions who are not Original Settlement Parties and the Representatives of each such excluded Director.

"**Released Claims**" means the Released CannTrust Claims and the Released Securities-Related Claims.

"**Released Parties**" means the Released CannTrust Parties and the Released Additional Settlement Parties.

"**Released Securities-Related Claims**" means (A) any and all Securities Claims and Securities-Related Claims against any of the Released Parties, (B) any and all Securities-Related Indemnity Claims against any of the Released Parties, and (C) any and all other demands, claims (including claims for contribution or indemnity), actions, causes of action, counterclaims, suits, debts, sums of money, liabilities, accounts, covenants, damages, judgments, orders (including orders for injunctive relief or specific performance and compliance orders), expenses, executions, encumbrances and recoveries on account of any liability, obligation, demand or cause of action of whatever nature (including for, alleged oppression, misrepresentation, wrongful conduct, fraud or breach of fiduciary duty by any Settlement Party) that any Securities Claimant or Co-Defendant has or may be entitled to assert against any of the Released Parties, whether known or unknown, matured or unmatured, contingent or actual, direct, indirect or derivative, at common law, in equity or under statute, foreseen or unforeseen, existing or hereafter arising, in any jurisdiction, based in whole or in part on any act, omission, transaction, duty, responsibility, indebtedness, liability, obligation, dealing, matter or occurrence existing or taking place at or prior to the Effective Time that in any way relate to or arise out of or in connection with:

(i) any of the Actions;

(ii) any of the Securities Claims, Securities-Related Claims, Securities-Related Indemnity Claims or Securities-Related Matters; or

(iii) the CCAA Proceedings or any matter or transaction involving any member of the CannTrust Group occurring in or in connection with the CCAA Proceedings (including the CCAA Plan and the development of it),

but excluding Non-Released CannTrust Claims.

"**Representatives**" means, in relation to a Person, such Person's current and former directors, officers, partners, employees, consultants, legal counsel, advisers and agents, including their respective heirs, executors, administrators and other legal representatives, successors and assigns, and each of their respective employees and partners.

"Represented Securities Claimants" means all Canadian and Non-U.S. Securities Claimants and all U.S. Securities Claimants, excluding Opt Out Claimants (if any).

"Schedules" is defined in Section 1.03.

"**Securities Claim**" means:

(i) any Claim against CannTrust Holdings asserted by a plaintiff or putative plaintiff in an Action; and

(ii) any other Claim against CannTrust Holdings that has been or could be asserted by or on behalf of a current or former shareholder of CannTrust Holdings or another Person in relation to the purchase, sale or ownership by such Person (including as a legal, registered or beneficial purchaser, seller or owner) on or before the Filing Date of an equity interest (as defined in the CCAA) in CannTrust Holdings,

other than a Securities-Related Indemnity Claim.

"Securities Claimants" means the holders of Securities Claims.

"**Securities Claimant Trust**" means the trust, to be established pursuant to the Trust Declaration on or before the Plan Implementation Date, to which the Cash Contributions will be paid and the Assigned Claims will be assigned on the Plan Implementation Date for the benefit of Securities Claimants, among others.

"**Securities-Related Claim**" means:

(i) any claim against a Settlement Party or Co-Defendant asserted by a plaintiff or putative plaintiff in an Action; and

(ii) any other claim against a Settlement Party or a Co-Defendant that has been or could be asserted by or on behalf of a current or former shareholder of CannTrust Holdings or another Person in relation to the purchase, sale or ownership by such Person (including as a legal, registered or beneficial purchaser, seller or owner) on or before the Filing Date of an equity interest (as defined in the CCAA) in CannTrust Holdings,

other than a Securities Claim or Securities-Related Indemnity Claim.

"Securities-Related Indemnity Claim" means any claim of any Person that has been or could be asserted against a Settlement Party (whether pursuant to an agreement, under applicable law or otherwise) for indemnity, advancement, contribution, reimbursement, set-off or otherwise, arising from or in connection with any Securities Claim or Securities-Related Claim asserted against such Person or arising from or in connection with any other claim asserted by a Co-Defendant against such Person.

"Securities-Related Matters" means the facts, events and transactions alleged in one or more of the Actions giving rise to the claims asserted therein or that could give rise to claims similar to the ones asserted therein.

"**Securities-Related Section 5.1(2) Claims**" means any Securities-Related Claim against a Director who is an Original Settlement Party and which claim is not permitted to be compromised pursuant to Section 5.1(2) of the CCAA.

"**Settlement-Related Agreements**" means the Trust Declaration, the Allocation and Distribution Scheme, the Cooperation Agreement and all other agreements, releases, consents or other documents contemplated by, or necessary or desirable to implement the transactions contemplated by, this Agreement or the CCAA Plan to settle the Securities Claims and any related claims, in each case in form and content satisfactory to the Agreement Parties.

"Settlement Parties" means the Original Settlement Parties and the Additional Settlement Parties.

"Supplemental Letter Agreement" means the letter agreement dated the date hereof between the Agreement Parties supplemental to this Agreement, containing certain additional terms that are confidential.

"Term Sheet" means the term sheet attached as Schedule B.

"**Trust Declaration**" means the declaration of trust in respect of, among other things, the creation of the Securities Claimant Trust and appointment of the Trustees, in form and content satisfactory to the Agreement Parties, acting reasonably.

"**Trustees**" means the individual lawyers from the firms that comprise Class Action Counsel, in their capacity as the trustees of the Securities Claimant Trust, to be appointed pursuant to the Trust Declaration on the basis contemplated in Section 3.03.

"Unaffected Claims" means any Claims designated as unaffected Claims in and for the purposes of the CCAA Plan.

"U.S. Approval Order" means a court order entered in the U.S. Class Action, (i) approving a settlement and final judgment in the U.S. Class Action; (ii) containing a bar order in customary form containing such judgment reduction provisions as may be required by the *Private Securities Litigation Reform Act*; and (iii) approving customary broad releases by Securities Claimants within the putative class of any claims that were or could have been asserted in the Actions (including the California Action), in form and content satisfactory to the CannTrust Group and the U.S. Class Action Lead Plaintiffs.

"U.S. Class Action" means *In Re: CannTrust Holdings Inc. Securities Litigation*, No. 1:19-CV-06396 (JPO).

"U.S. Securities Claimants" means all Securities Claimants who purchased the publicly traded common shares of CannTrust Holdings on the New York Stock Exchange or on any other U.S. based trading platform.

1.02 **Construction**

In this Agreement, unless otherwise stated or the context otherwise requires:

(a) the division of this Agreement into Sections and the use of headings are for convenience of reference only and do not affect the construction or interpretation of this Agreement;

(b) the words "hereunder", "hereof" and similar expressions refer to this Agreement and not to any particular Section or Schedule and references to "Sections" and "Schedules" are to Sections of and Schedules to this Agreement;

(c) words importing the singular include the plural and *vice versa* and words importing any gender include all genders;

(d) the word "including" means "including without limiting the generality of the foregoing";

(e) a reference to any statute is to that statute as now enacted or as the statute may from time to time be amended, re-enacted or replaced and includes any regulation made thereunder;

(f) references to dollar amounts are to Canadian dollars;

(g) references to times are to local time in Toronto;

(h) references to the "CannTrust Group" refer to each member of the CannTrust Group;

(i) if the CCAA Representation Order is granted, references to the "Class Action Lead Plaintiffs" and "Class Action Counsel" will include the CCAA Representatives and CCAA Representative Counsel after the agreement of the CCAA Class Representatives and CCAA Representative Counsel to become parties to and bound by this Agreement in accordance with Section 2.03(d) has become effective;

(j) any reference in this Agreement to a requirement or condition that (i) the CCAA Plan or another Definitive Document must be consistent with this Agreement means that such document must be consistent with this Agreement and the Supplemental Letter Agreement, and (ii) something be done as contemplated in or by this Agreement means as contemplated in or by this Agreement or the Supplemental Letter Agreement; and

(k) if there is a conflict between the terms of a Schedule and this Agreement (excluding the Schedules), the terms of this Agreement (excluding the Schedules) will govern, and any reference in this Agreement to a requirement or condition that the CCAA Plan or another Definitive Document must be consistent with the Term Sheet means that such Definitive Document must be consistent with the terms of this Agreement (excluding the Term Sheet) to the extent of any conflict between this Agreement (excluding the Term Sheet) and the Term Sheet.

1.03 **Schedules**

The following are the schedules (the **"Schedules"**) to this Agreement:

Schedule A	−	Actions
Schedule B	−	Term Sheet
Schedule C	−	Cooperation Agreement – General Principles

ARTICLE 2 - THE CCAA PLAN

2.01 **Settlement of Securities Claims Pursuant to CCAA Plan**

Each Agreement Party agrees that:

(a) all Securities Claims, Securities-Related Claims, Securities-Related Section 5.1(2) Claims and Securities-Related Indemnity Claims against the Released Parties will be settled or otherwise addressed pursuant to and in accordance with the CCAA Plan and the other Definitive Documents;

(b) the terms of the CCAA Plan and other Definitive Documents that relate to the treatment of the Securities Claims, Securities-Related Claims, Securities-Related Section 5.1(2) Claims and Securities-Related Indemnity Claims against the Released Parties will be consistent with the Term Sheet and this Agreement;

(c) it will negotiate in good faith with the other Agreement Parties to finalize the terms of the CCAA Plan and the other Definitive Documents on terms consistent with the Term Sheet and this Agreement;

(d) it will cooperate with the other Agreement Parties in good faith during the Mediation and the pendency of the CCAA Proceedings to seek a contribution from and settlement with each Co-Defendant and Insurer that is acceptable to the Class Action Lead Plaintiffs and Class Action Counsel and to cause it to become an Additional Settlement Party; and

(e) it will do all such things and take all such actions as may be reasonably necessary to carry out the purposes and intent of this Agreement and will refrain from doing anything or taking any action that would frustrate the purposes and intent of this Agreement, including refraining from bringing motions or supporting motions brought by third parties seeking relief that is not consistent with this Agreement.

2.02 **Process and Timetable to Implement CCAA Plan**

(1) The CannTrust Group will:

(a) file a motion on or before January 31, 2021, returnable at a hearing to be held on or before February 12, 2021 (or as soon after that date as the CCAA Court will hear the motion), seeking an order in the CCAA Proceedings (the "**CCAA Representation Order**") that, among other things:

(i) appoints the Ontario Class Action Lead Plaintiffs (or such other Person(s) as may be agreed by the Agreement Parties) to represent the interests of all Canadian and Non-U.S. Securities Claimants in the CCAA Proceedings in relation to their Securities Claims and any related claims (the "**CCAA Canadian Representatives**");

(ii) appoints the U.S. Class Action Lead Plaintiffs (or such other Person(s) as may be agreed by the Agreement Parties) to represent the interests of the U.S. Securities Claimants in the CCAA Proceedings in relation to their Securities Claims and any related claims (together with the CCAA Canadian Representatives, the "**CCAA Representatives**");

(iii) appoints Ontario Class Action Counsel as counsel for the Canadian and Non-U.S. Securities Claimants in the CCAA Proceedings in relation to their Securities Claims and any related claims ("**CCAA Canadian Representative Counsel**");

(iv) appoints Weisz Fell Kour LLP in association with Labaton Sucharow LLP as counsel for the U.S. Securities Claimants in the CCAA Proceedings in relation to their Securities Claims and any related claims (together with CCAA Canadian Representative Counsel, "**CCAA Representative Counsel**");

(v) authorizes the Class Action Lead Plaintiffs and Class Action Counsel, each in their capacity as such, to agree to become parties to and be bound by this Agreement;

(vi) approves the manner in which notice of the CCAA Representation Order and this Agreement is to be provided to Securities Claimants; and

(vii) approves the process, if any, by which Securities Claimants may opt out of representation by the CCAA Representatives and CCAA Representative Counsel in the CCAA Proceedings (but on a basis that is without prejudice to, and does not limit or otherwise affect, the treatment that may be proposed by the CannTrust Group in the CCAA Plan of Securities Claims held by Securities Claimants that opt out);

(b) file a motion on or before February 26, 2021, returnable at a hearing to be held on or before March 12, 2021 (or as soon after such date as the CCAA Court will hear the motion), seeking an order in the CCAA Proceedings (the "**Meeting Order**") that, among other things:

(i) authorizes the CannTrust Group to file the CCAA Plan with the Court;

(ii) approves the classification of Affected Creditors contemplated by the CCAA Plan;

(iii) authorizes the CannTrust Group to send the CCAA Plan and other meeting materials to Affected Creditors in the manner provided in the order;

(iv) directs that Meetings of Affected Creditors be held;

(v) if necessary, establishes a claims procedure supplemental to the one established by the Claims Procedure Order to require Securities Claimants to prove their claims prior to a claims bar date;

(vi) if proofs of claim are required in respect of Securities Claims, authorizes the CCAA Representatives and CCAA Representative Counsel to file one or more proofs of claim on behalf of all Represented Securities Claimants;

(vii) if a vote of Securities Claimants is conducted, appoints CCAA Representative Counsel to act as proxy for the Represented Securities Claimants at the applicable Meeting; and

(viii) authorizes the Monitor, with the approval of the applicable member of the CannTrust Group, to agree to the amount of any Claim for voting purposes, including the amount of the Securities Claims of Represented Securities Claimants and Opt Out Claimants (if any);

(c) if the Meeting Order is granted, seek approval of the CCAA Plan by Affected Creditors at the Meetings;

(d) if the CCAA Plan is approved by the required majorities of Affected Creditors at the Meetings, seek approval of the CCAA Plan by the CCAA Court pursuant to the CCAA Sanction Order within ten (10) Business Days after the Meetings (or the first available date thereafter if the CannTrust Group is unable to obtain a hearing date within such period);

(e) seek to obtain the final U.S. Approval Order (with the settlement to be effective on the Plan Implementation Date); and

(f) if the CCAA Sanction Order and U.S. Approval Order are granted, seek to implement the CCAA Plan in the manner contemplated by the CCAA Plan as soon as possible and in any event, on or before the Outside Date.

(2) Any of the dates referenced in Section 2.02(1), and the Outside Date, may be extended by agreement in writing between CannTrust Holdings and Class Action Counsel.

2.03 **Support for the CCAA Plan**

The Class Action Lead Plaintiffs and Class Action Counsel agree:

(a) to cooperate with the CannTrust Group in good faith to pursue and support the restructuring of the CannTrust Group and the settlement of the Securities Claims, Securities-Related Claims and Securities-Related Section 5.1(2) Claims against the Released Parties and the treatment of the Securities-Related Indemnity Claims in the manner contemplated by this Agreement;

(b) to use all reasonable efforts to assist the CannTrust Group to meet the timetable and obtain the orders and approvals contemplated by Section 2.02(1);

(c) to vote in favour of the CCAA Plan and that, without the consent of the CannTrust Group, they will not in any way support any plan or restructuring in respect of the CannTrust Group other than the CCAA Plan and the restructuring of the CannTrust Group contemplated by this Agreement, and will vote against and otherwise actively oppose any such other plan or restructuring; and

(d) if the CCAA Representation Order is granted, they will agree to become parties to and be bound by this Agreement in their respective capacities as CCAA Representatives and CCAA Representative Counsel.

ARTICLE 3 - ADDITIONAL ACKNOWLEDGEMENTS AND AGREEMENTS

3.01 Additional Acknowledgements and Agreements of CannTrust Holdings

CannTrust Holdings acknowledges and agrees:

(a) prior to the Plan Implementation Date, CannTrust Holdings will not compromise or settle any of its potential claims against any Non-Settlement Party in relation to the Actions (whether as an Additional Settlement Party or on another basis) without the consent of the Class Action Lead Plaintiffs and Class Action Counsel;

(b) it will pay its Cash Contribution and assign its Assigned Claims (if any) to the Securities Claimant Trust on the Plan Implementation Date;

(c) it will be a condition to the CCAA Plan that the Original Settlement Parties assign their Assigned Claims (if any) to the Securities Claimant Trust on the Plan Implementation Date;

(d) pursuant to the CCAA Plan and to take effect after the CCAA Sanction Order and the U.S. Approval Order are granted, CannTrust Holdings will consent to orders:

(i) appointing the law firm of Weisz Fell Kour LLP as the Canadian representative for plaintiffs in the U.S. Class Action and allowing U.S. Class Action Counsel, in conjunction with U.S. Class Action Lead Plaintiffs to, at their option:

(A) file an action (with Weisz Fell Kour LLP as counsel) in the Commercial List against any Non-Settlement Parties; or

(B) establish a subclass in the Ontario Class Action (with Weisz Fell Kour LLP as counsel),

with a class defined in the same way as the class is defined in the U.S. Class Action and subject to U.S. law in respect to the causes of action (the "**Cross-Border Action**");

(ii) continuing the CCAA Representation Order permitting the plaintiffs in the Ontario Class Action, U.S. Class Action, and Cross-Border Action to settle such actions or to prosecute the Ontario Class Action and Cross-Border Action against any Non-Settlement Parties under the terms of such order;

(iii) approving any (A) settlement with the Non-Settlement Parties; (B) notice to members of the Ontario Class Action and U.S. Class Action further to any such settlement; (C) distribution protocol (*i.e.* plan of allocation) setting forth the distribution of the funds to class members from such settlement (less Class Action Counsel's fees and litigation expenses); and (D) Class Action Counsel's request for fees to be paid from such settlement;

(iv) permitting the plaintiffs in the Ontario Class Action to apply to the Commercial List to obtain an expedited hearing for an order granting leave under the *Securities Act* (Ontario) further to their prosecution or settlement of the Ontario Class Action against any Non-Settlement Parties;

(v) at Class Action Counsel's option, permitting the plaintiffs in the Ontario Class Action and Cross-Border Action to apply to the Commercial List to obtain an expedited hearing for an order certifying the Ontario Class Action and Cross-Border Action under the *Class Proceedings Act, 1992* (Ontario) (as necessary) against any Non-Settlement Parties;

(vi) directing an expedited hearing date on the Commercial List of the claims in the Ontario Class Action and Cross-Border Action against any Non-Settlement Parties under the provisions of the *Class Proceedings Act, 1992* (Ontario) (as necessary) or pursuant to the Commercial List's statutory or discretionary powers on behalf of the classes defined in the Ontario Class Action and Cross-Border Action;

(vii) permitting the Securities Claimant Trust to obtain on an expedited basis a joint trial date for the claims in the Ontario Class Action, Cross-Border Action and any of the Assigned Claims including the claims of the Securities Claimant Trust against any Non-Settlement Parties; and

(viii) prohibiting any other action from being commenced or prosecuted in Canada against any Released Parties or any Non-Settlement Parties alleging facts substantially the same or similar as those alleged in the Ontario Class Action, Cross-Border Action or the Assigned Claims held by the Securities Claimant Trust.

3.02 **Additional Acknowledgements and Agreements of Class Action Lead Plaintiffs and Class Action Counsel**

The Class Action Lead Plaintiffs and Class Action Counsel acknowledge and agree:

(a) the terms of the CCAA Plan, other than those terms that relate to the settlement of the Securities Claims and any related claims (which terms will be consistent with the Term Sheet and this Agreement), will be at the sole discretion of the CannTrust Group, including any terms that relate to the proposed treatment of any Claims other than Securities Claims. Class Action Counsel shall have the opportunity to review the CCAA Plan for compliance with the Term Sheet and this Agreement;

(b) the Definitive Documents will provide that when the aggregate amount recovered by Securities Claimants and the Securities Claimant Trust from Additional Settlement Parties and Non-Settlement Parties, whether pursuant to settlements or prosecution of the Actions and Assigned Claims, exceeds $250 million net of litigation fees and expenses, then CannTrust Holdings will be entitled to paid up to $50 million in staged amounts from the Securities Claimant Trust (such staged amounts to be agreed between the Agreement Parties in the Definitive Documents), acting reasonably;

(c) the Definitive Documents will include releases and injunctions in favour of the Released Parties in respect of the Released Claims and Securities-Related Section 5.1(2) Claims, including one or more orders (whether pursuant to the CCAA Sanction Order or otherwise), satisfactory to the CannTrust Group in its sole discretion, enjoining, barring and/or extinguishing the Released Claims and Securities-Related Section 5.1(2) Claims against the Released Parties to the fullest extent permitted by applicable law (including an order "channeling" the Securities-Related Section 5.1(2) Claims to the Securities Claimant Trust) (the "**Bar Order**");

(d) the Definitive Documents will provide that the Securities Claimants and the Securities Claimant Trust jointly and severally agree and undertake (A) not to seek any damages from any Co-Defendant nor threaten, make or settle any claim or take any proceeding against any other Person, which in either case could result in a Securities-Related Indemnity Claim or any other claim for damages against any of the Released Parties in any jurisdiction that is permitted to proceed notwithstanding the Bar Order, and (B) to obtain a full and final release satisfactory to the Released Parties if the Securities Claimants or Securities Claimant Trust settle with any Non-Settlement Parties (with the form of such release to be finalized between the Agreement Parties on or before January 29, 2021 or as soon as practicable thereafter);

(e) with respect to the U.S. Class Action:

(i) U.S. Class Action Lead Plaintiffs and the applicable Released Parties will seek preliminary approval of the settlement in the U.S. Class Action and thereafter final approval of the settlement of the U.S. Class Action after entry of the CCAA Sanction Order. U.S. Class Action Lead Plaintiffs and the applicable Released Parties will cooperate and jointly file any motions in support of preliminary approval and final approval of the settlement in the U.S. Class Action. The California Action will be voluntarily dismissed with prejudice;

(ii) to the extent permitted, notice to the putative class in the U.S. Class Action of the settlement will be given in conjunction with any notice required in connection with the CCAA Proceedings. If a joint notice is not permitted or feasible, notice will be given to the putative class in the U.S. Class Action in a form as may be agreed or as directed by the U.S. court.

(A) Any notice provided in connection with the settlement will caution putative class members that U.S. Class Action Lead Plaintiffs and the applicable Released Parties believe that the claims of any opt-outs will be barred by the Bar Order and principles of comity;

(B) Any notice or administration expenses prior to the CCAA Sanction Order being granted shall be paid by the Applicants, following which such costs will be funded from the Securities Claimant Trust;

(iii) the relevant Agreement Parties will jointly seek entry of the U.S. Approval Order. Such Agreement Parties will request that the U.S. Approval Order recite that it is without prejudice to, and does not limit, the applicability of the Bar Order;

(iv) U.S. Class Action Lead Plaintiffs will request that the U.S. Class Action be stayed against the Non-Settlement Parties to enable the claims to be litigated in the Cross-Border Action;

(i) U.S. Class Action Lead Plaintiffs will request that the U.S. Class Action shall be dismissed after the Cross-Border Action is filed.

(f) all fees and costs of the Class Action Lead Plaintiffs, Class Action Counsel, the Trustee and the Securities Claimant Trust will be paid from amounts held in the Securities Claimant Trust from time to time in accordance with the terms of the Trust Declaration and any other applicable Definitive Documents and following CCAA Court Approval; and

(g) without delay after implementation of the CCAA Plan, they will cause the Actions in Canada to be dismissed against the Settlement Parties without costs.

3.03 **Other Acknowledgements and Agreements**

The Agreement Parties agree that:

(a) half of the Trustees will be designated by Ontario Class Action Counsel and half of the Trustees will be designated by U.S. Class Action Counsel for appointment pursuant to the Trust Declaration;

(b) the Trustees will appoint Class Action Counsel as counsel to the Securities Claimant Trust; and

(c) from and after the Plan Implementation Date, the Trustees of the Securities Claimant Trust will have the sole authority to prosecute and resolve the Assigned Claims.

3.04 **Additional Settlement Parties**

By written agreement between CannTrust Holdings and Class Action Counsel, , such agreement not to be unreasonably withheld, a Co-Defendant or Insurer may be designated as an Additional Settlement Party for the purposes of this Agreement and the CCAA Plan if such proposed Additional Settlement Party has signed a restructuring support agreement, in form and content satisfactory to the Agreement Parties, acting reasonably, pursuant to which such proposed Additional Settlement Party has agreed, among other things:

(a) to make a Cash Contribution to the Securities Claimant Trust on the Plan Implementation Date in an amount acceptable to Class Action Counsel;

(b) to assign its Assigned Claims (if any) to the Securities Claimant Trust on the Plan Implementation Date; and

(c) to support the CCAA Plan in a manner consistent with this Agreement.

ARTICLE 4 - CONDITIONS

4.01 Conditions to Implementation of CCAA Plan

(1) Unless otherwise provided in the CCAA Plan or the CCAA Sanction Order, implementation of the CCAA Plan will be conditional on the satisfaction of each of the following conditions on or before the Plan Implementation Date:

(a) the CCAA Plan will have been approved by the required majorities of Affected Creditors at the Meetings;

(b) the CCAA Sanction Order will have been issued by the CCAA Court;

(c) the U.S. Approval Order will have been issued by the U.S. Court;

(d) to the extent not contained within the CCAA Sanction Order, the Bar Order will have been issued by the CCAA Court;

(e) the terms of the Settlement-Related Agreements and any other Definitive Documents not otherwise expressly addressed in this Section 4.01(1) will have been settled in form and substance satisfactory to each of the Agreement Parties, acting reasonably, and each of the Definitive Documents will have become effective in accordance with its terms, subject only to the occurrence of the Plan Implementation Date (if applicable);

(f) the conditions set out in the CCAA Plan and each of the other Definitive Documents will have been satisfied or waived in accordance with the terms of the applicable Definitive Document;

(g) all relevant Persons will have executed, delivered and filed all consents, agreements, documents and other instruments that, in the opinion of the CannTrust Group, acting reasonably, are necessary to implement the provisions of the CCAA Plan and the other Definitive Documents;

(h) all applicable consents, approvals and orders of, and all applicable submissions and filings with, Governmental Authorities having jurisdiction for the completion of the steps and transactions contemplated by the CCAA Plan will have been obtained or made, as the case may be, in each case to the extent deemed necessary or advisable by the CannTrust Group, in form and substance satisfactory to the CannTrust Group, acting reasonably; and

(i) no action or proceeding will be pending by any third party to enjoin or prohibit the implementation of the CCAA Plan.

(2) In the event that any of the foregoing conditions precedent is not satisfied by the Outside Date, this Agreement will be of no further force and effect and each of the Agreement Parties will be released from any and all obligations under this Agreement and the Definitive Documents.

ARTICLE 5 - AMENDMENT AND TERMINATION

5.01 Amendments and Waivers

No amendment to this Agreement will be valid or binding unless set forth in writing and duly executed by the Agreement Parties. No waiver of any breach of any provision of this Agreement will be effective or binding unless made in writing and signed by the Agreement Party purporting to give the same and, unless otherwise provided, will be limited to the specific breach waived.

5.02 Termination

(1) This Agreement may be terminated prior to the Outside Date:

(a) by the CannTrust Group, on written notice to the Class Action Lead Plaintiffs and Class Action Counsel, if:

- (i) the Class Action Lead Plaintiffs or Class Action Counsel fail materially to comply with any material obligation under this Agreement or any of the Definitive Documents;
- (ii) the CCAA Sanction Order or the U.S. Approval Order is refused;
- (iii) it is entitled to do so in accordance with the Supplemental Letter Agreement; or
- (iv) the consent of the plaintiff and counsel in the California Action to the settlement of Securities Claims, Securities-Related Claims, Securities-Related Section 5.1 (2) Claims and Securities-Related Indemnity Claims on the basis contemplated by this Agreement is not obtained.

(b) by the Class Action Lead Plaintiffs and Class Action Counsel, on written notice to the CannTrust Group, if:

- (i) the CannTrust Group fails materially to comply with any material obligation under this Agreement or any of the Definitive Documents, or
- (ii) the CCAA Sanction Order or the U.S. Approval Order is refused.

(2) In the event that this Agreement is terminated, this Agreement will be of no further force and effect, each of the Agreement Parties will be released from any and all obligations under this Agreement and the Agreement Parties will be restored to their respective positions prior to this Agreement to the maximum extent possible.

ARTICLE 6 - GENERAL

6.01 Entire Agreement

This Agreement and the Supplemental Letter Agreement constitute the entire agreement between the Agreement Parties with respect to the subject matter hereof and cancels and supersedes any prior understanding and agreements between the Agreement Parties with respect thereto. There are no representations, warranties, terms, conditions, undertakings or collateral agreements, express, implied or statutory, between the Agreement Parties other than as expressly set forth in this Agreement or the Supplemental Letter Agreement.

6.02 Assignment

This Agreement may not be assigned by any Agreement Party without the prior written consent of the other Agreement Parties.

6.03 Benefit of the Agreement

This Agreement will enure to the benefit of and be binding upon the respective heirs, executors, administrator, other legal representatives, successors and permitted assigns of the Agreement Parties.

6.04 No Third Party Beneficiaries

This Agreement is solely for the benefit of the Agreement Parties and their respective heirs, executors, administrators, other legal representatives, successors and permitted assigns, and this Agreement will not be deemed to confer upon or give to any other Person any remedy, claim, liability, reimbursement, cause of action or other right.

6.05 Notices

Any demand, notice or other communication to be given in connection with this Agreement must be given in writing and will be given by personal delivery or by electronic means of communication addressed to the recipient as follows:

To the CannTrust Group:

c/o CannTrust Holdings Inc.
7300 Keele Street, Suite 200
Vaughan ON L4K 0E5

Fax No.: 1-844-295-6641
Attention: Greg Guyatt
E-mail: gguyatt@canntrust.ca

with a copy to:

McCarthy Tétrault LLP
Suite 4700, Toronto Dominion Bank Tower
Toronto-Dominion Centre
Toronto, ON M5K 1E6

Fax No.: 416 868-0673
Attention: Jamey Gage, Paul Steep and Shane D'Souza
E-mail: jgage@mccathy.ca; psteep@mccarthy.ca; sdsouza@mccarthy.ca

To the Class Action Lead Plaintiffs and Class Action Counsel:

c/o Class Action Counsel at the street addresses, facsimile numbers or e-mail addresses (as the case may be) set forth below on the signature pages for Class Action Counsel,

or to such other street address, facsimile number or e-mail address as may be designated by notice given by an Agreement Party to the other Agreement Parties. Any demand, notice or other communication given by personal delivery will be conclusively deemed to have been given on the day of actual delivery thereof and, if given by electronic communication, on the day of transmittal thereof if given during the normal business hours of the recipient and on the Business Day during which such normal business hours next occur if not given during such hours on any day.

6.06 **Governing Law**

This Agreement will be governed by and construed in accordance with the laws the Province of Ontario and the laws of Canada applicable therein, without regard to any conflicts of law provision that would require the application of the law of any other jurisdiction.

6.07 **Attornment**

For the purpose of all legal proceedings, this Agreement will be deemed to have been performed in the Province of Ontario and the CCAA Court will have jurisdiction to determine any dispute arising under this Agreement.

6.08 **English Language**

The Agreement Parties hereto have expressly agreed that this Agreement be executed in the English Language. Les parties ont expressément convenu que la présente Convention soit rédigée en langue anglaise.

6.09 **No Curative Provision**

A breach of any term of this Agreement is a breach of the entire agreement by the defaulting or breaching Agreement Party.

6.10 **Counterparts**

This Agreement (and any modifications, amendments, supplements or waivers in respect hereof) may be executed in any number of counterparts by manual or facsimile signature of each undersigned Agreement Party, each of which when executed and delivered will be deemed to be an original and all of which when taken together will constitute one and the same agreement. This Agreement may be delivered by facsimile or email.

IN WITNESS WHEREOF the Agreement Parties have executed this Agreement.

THE CANNTRUST GROUP:

CannTrust Holdings Inc.

By: ______________________
(Authorized Signature)

CannTrust Inc.

By: ______________________
(Authorized Signature)

CTI Holdings (Osoyoos) Inc.

By: ______________________
(Authorized Signature)

Elmcliffe Investments Inc.

By: ______________________
(Authorized Signature)

ONTARIO CLASS ACTION LEAD PLAINTIFFS:

Witness:	Patrick Hrusa
Witness:	Dharambir Singh

ONTARIO CLASS ACTION LEAD PLAINTIFFS:

Witness:	**Patrick Hrusa**
Gurpreet Kalsi **Witness:** GURPREET KALSI	Dharambir Singh **Dharambir Singh**

ONTARIO CLASS ACTION COUNSEL:

for: **A. Dimitri Lascaris Law Professional Corporation**

By: ______________________________
(Authorized Signature)

Address for Notices:

Street Address: ______________________________

Facsimile:
Attention: Dimitri Lascaris
Email Address: alexander.lascaris@gmail.com

Henein Hutchinson LLP

By: ______________________________
(Authorized Signature) S. HUTCHISON

Address for Notices:

Street Address: 235 KING ST. E.
TORONTO, ONTARIO
M5A 1J9
Facsimile: 416 368-6640
Attention: Marie Henein
Email Address: mhenein@hhllp.ca

Kalloghlian Myers LLP

By: ______________________________
(Authorized Signature)

Address for Notices:

Street Address: ____________________

Facsimile: ____________________
Attention: Serge Kalloghlian
Email Address: serge@kalloghlianmyers.com

Strosberg Sasso Sutts LLP

By: ______________________________
(Authorized Signature)

Address for Notices:

Street Address: ____________________

Facsimile: ____________________
Attention: David Wingfield
Email Address: dwingfield@strosbergco.com

U.S. CLASS ACTION LEAD PLAINTIFFS:

Granite Point Master Fund, LP

By: ______________________
(Authorized Signature)

Granite Point Capital Scorpion Focussed Ideas Fund

By: ______________________
(Authorized Signature)

- 29 -

U.S. CLASS ACTION COUNSEL:

Labaton Sucharow LLP

By: ______________________
(Authorized Signature)

Address for Notices

Street Address: 140 BROADWAY
23RD Floor
NY NY 10005
Facsimile: 212 818 0477
Attention: JAMES W JOHNSON
Email Address: JJOHNSON@LABATON.COM

Weisz Fell Kour LLP

By: ______________________
(Authorized Signature)

Address for Notices:

Street Address: 100 King St. W.
Suite 5600
Toronto, ON M5X 1C9
Facsimile: 416.613.8290
Attention: Steve Weisz
Email Address: sweisz@wfklaw.ca

SCHEDULE A

Actions

Hrusa et al. v. CannTrust Holdings Inc. et al., Court File No. CV-19-00623567-00CP (ON SC)

Webb v. CannTrust Holdings Inc. et al., Court File No. CV-19-1554 (ON SC)

Jeff Dyck v. CannTrust Holdings Inc. et al., Court File No. 217559 (BC SC)

Selanders v. CannTrust Holdings Inc. et al., Court File No. 1910983 (AB QB)

Diran Avedian v. CannTrust Holdings Inc. et al., Court File No. 500-06-001011-192 (QC CS)

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

In Re: CannTrust Holdings Inc. Securities Litigation, No. 1:19-CV-06396 (JPO)

Alvarado v. CannTrust Holdings Inc. et al., 1:19-CV-6438 (JPO)

Jones v. CannTrust Holdings Inc. et al., 1:19-CV-6883 (JPO)

Justiss v. CannTrust Holdings Inc. et al., 1:19-CV-7164 (JPO)

Huang v. CannTrust Holdings Inc. et al., 1:19-CV-6396 (JPO)

Owens v. CannTrust Holdings Inc. et al., Court File No. 19CV352374 (California Superior Court, Santa Clara County)

SCHEDULE B

Term Sheet

Proposed Settlement Framework
Securities Claimants and CannTrust (collectively, the "Parties")

Settlement Framework

1. The "**Cash Contribution**" is comprised of:

   (a) a voluntary contribution by the insurers in an amount acceptable to Class Counsel (defined below), failing which the claims of CannTrust and the Original Settlement Parties against the insurers will be assigned to the Securities Claimants Trust (defined below);

   (b) voluntary contributions by any Additional Settlement Parties (defined below) in amounts acceptable to Class Counsel; and

   (c) an additional contribution of $50M by CannTrust.

2. The Cash Contribution will be paid to a trust (the "**Securities Claimants' Trust**") for the benefit of the Plaintiffs and putative class members in the proposed class action(s) brought in Ontario by the Consortium (the "**Ontario Class Action**") and in the United States by Labaton Sucharow (the "**US Class Action**", and collectively with the Ontario Class Action, the "**Actions**") (collectively, counsel for the Plaintiffs in the Ontario Class Action and the US Class Action are "**Class Counsel**") and described below, and such other claimants (collectively, the "**Securities Claimants**") as may be agreed to by CannTrust and Class Counsel.

3. The trustees of the Securities Claimants' Trust (the "**Trustees**") will be those members of the law firms comprising Class Counsel as selected by Class Counsel with half of the Trustees appointed by counsel for the Ontario Class Action and the other half appointed by counsel for the US Class Action. The Trustees will appoint Class Counsel as counsel to the Securities Claimants' Trust. The Trustees of the Securities Claimants' Trust will have the power and discretion to prosecute or settle the claims held by the Securities Claimants' Trust as described herein.

4. This settlement also is contingent on obtaining the agreement of the Plaintiff in the California state court action (the "**California Action**") to all terms hereof .

5. CannTrust and Class Counsel will cooperate in good faith during the mediation and the pendency of the CCAA proceedings to seek a mutually-agreeable settlement with and contribution from (A) each other person or entity named as a defendant in the Actions and/or (B) that is an insurer of (i) an Original Settlement Party (defined below), or (ii) a defendant in the Actions that is a current or former director or officer of CannTrust (together, the **"Other Parties**" and each such Other Party that settles, an "**Additional Settlement Party**"), except for Shawna Page, Robert Marcovitch, Mark Dawber, John Kaden, Mitchell Sanders,

Greg Guyatt, Ilana Platt and Cajun Capital Corporation (collectively with CannTrust, the "**Original Settlement Parties**"; the Original Settlement Parties and the Additional Settlement Parties, if any, are collectively the "**Released Parties**").

6. During the mediation and pendency of the CCAA proceedings, CannTrust will not compromise or settle any of its potential claims against any of the Other Parties without Class Counsel's consent.

7. In the case of any Other Parties that are not the Released Parties ("**Non-Settlement Parties**") at the time that CannTrust implements its CCAA plan of arrangement (the "**CCAA Plan**"), CannTrust will assign to the Securities Claimants' Trust all claims that CannTrust (or its affiliates) has against the Non-Settlement Parties arising out of loss or damage caused to CannTrust in relation to the allegations in the Actions up to the date the court approves the CCAA Plan (the "**CannTrust Claims**"), and all claims that each of the other Original Settlement Parties has against the insurers in relation to the facts alleged in the Actions (collectively with the CannTrust Claims, the "**Assigned Claims**").

8. Class Counsel, counsel for the Securities Claimants' Trust (collectively, "**Prosecution Counsel**") and CannTrust will negotiate a Cooperation Agreement. The Cooperation Agreement will stipulate, among other things, the general principles stated in Appendix "A".

9. Pursuant to the CCAA Plan, and conditional on the plaintiffs in the Actions or Class Counsel, acting on behalf of the Securities Claimants**,** voting in favour of the CCAA Plan and approval of the CCAA Plan by the Court, CannTrust will consent to orders:

   (i) (a) appointing the law firm of Weisz Fell Kour LLP , in association with Labaton Sucharow LLP, as the Canadian representative for plaintiffs in the US Class Action; and (b) allowing US plaintiffs to file an action (with Weisz Fell Kour LLP as counsel) on the Commercial List against any Non-Settlement Parties, or establish a subclass in the Ontario Class Action, with a class defined in same way as the class is defined in the US Class Action and subject to US law in respect to the causes of action (the "**Cross-Border Action"**);

   (ii) continuing the Representation Order (described below) permitting the plaintiffs in the Actions to settle the Ontario Class Action, US Class Action, and Cross-Border Action or prosecute the Ontario Class Action and Cross-Border Action against any Non-Settlement Parties under the terms of such order;

   (iii) approving any settlement with the Non-Settlement Parties; approving notice to members of the Canadian Class Action and US Class Action further to the such settlements; a distribution protocol (*i.e.* plan of allocation) setting forth the distribution of the funds to class members from the Securities Claimants' Trust (less attorneys' fees and litigation expenses) that is consistent with the Securities Claimants' Trust's obligations in paragraph 11 herein; and approving Class Counsel's request for attorneys' fees to be paid from the Securities Claimants' Trust;

(iv) permitting the plaintiffs in the Ontario Class Action to apply to the Commercial List and obtaining an expedited hearing for an order granting leave under the Securities Act (Ontario) further to their prosecution or settlement of the Ontario Class Action against any Non-Settlement Parties;

(v) at Class Counsel's option, permitting the plaintiffs in the Ontario Class Action and Cross-Border Action to apply to the Commercial List and obtaining an expedited hearing for an order certifying the Ontario Class Action and Cross-Border Action under the Class Proceedings Act (Ontario) against any Non-Settlement Parties;

(vi) directing an expedited hearing date on the Commercial List of the claims in the Ontario Class Action and Cross-Border Action against any Non-Settlement Parties under the provisions of the Class Proceedings Act (Ontario) or pursuant to the Commercial List's statutory or discretionary powers on behalf of the classes defined in the Ontario Class Action and Cross-Border Action;

(vii) permitting the Securities Claimants' Trust to obtain on an expedited basis a joint trial date for the claims in the Ontario Class Action, Cross-Border Action and any of the Assigned Claims including the claims of the Securities Claimants' Trust against any Non-Settlement Parties; and

(viii) prohibiting any other action from being commenced or prosecuted against any Released Parties or any Non-Settlement Parties alleging facts substantially the same or similar as those alleged in the Actions Cross-Border Action or the Assigned Claims held by the Securities Claimants' Trust.

10. The Securities Claimants' Trust and Class Counsel agree that where the aggregate amount recovered from the Additional Settlement Parties and Non-Settlement Parties, whether pursuant to settlements or prosecution of the Class Actions and Assigned Claims, exceeds $250 million net of litigation fees and expenses then CannTrust will be entitled to receive in staged amounts to be agreed up to the settlement amount of $50 million.

11. In relation to the CCAA Plan, whether in the sanction order or a separate order, the Court will grant an order, satisfactory to the Released Parties, enjoining, barring and/or extinguishing to the fullest extent permitted by applicable law all claims against the Released Parties in any jurisdiction that have been asserted in the Actions or are based on the events giving rise to the Actions, and all potential claims relating to those claims, including all indemnity, contribution and set off claims, as well as all claims that relate to or arise out of facts and transactions alleged in any of the pending actions against CannTrust or the Released Parties in any jurisdiction (the "**Bar Order**"). Additionally:

    (a) The Securities Claimants and the Securities Claimants' Trust jointly and severally agree and undertake (i) not to seek any damages from any defendant, (ii) not to threaten, make or settle any claim or take any proceeding against any other person or entity, which in either case might result in a claim over, contribution or indemnity or any other claim for damages, being made against any of the Released Parties in any jurisdiction that is permitted to proceed notwithstanding the Bar Order, and (iii) to obtain a full and final release satisfactory to the Released Parties and to be finalized with the Securities Claimants and the Securities Claimants Trust on or before January 31, 2021, if the Securities Claimants or the Securities Claimants' Trust settle with any Non-Settlement Parties;

    (b) Class Counsel and the representative plaintiffs will enter into a supplemental letter containing additional terms that are confidential.

12. The Securities Claimants will support a CCAA Plan and Court Orders in Canada and the United States, and sign appropriate agreements, releases and other documents acceptable to the Released Parties which shall include, without limitation, releases of all United States and Canadian claims against the Released Parties, and documents reasonably necessary and acceptable to CannTrust in order for it to exit CCAA protection. This also includes settlement papers in the United States class actions, whereby releases will be approved by the Court releasing all United States-based federal and state claims.

13. With respect to the US Action:

    (a) Class Counsel and the applicable Released Parties will seek preliminary approval of the settlement in the US Class Action after the CCAA sanction order is granted. Class Counsel and the applicable Released Parties shall cooperate and jointly file any motions in support of preliminary approval and final approval of the settlement in the US Class Action. The California Action shall be voluntarily dismissed with prejudice;

    (b) The parties shall endeavor to rely on notices given in the CCAA proceedings to the maximum extent practicable.

    (c) Any notice provided in connection with the settlement shall caution putative class members that Class Counsel and the applicable Released Parties believe that the claims of any opt-outs have been barred by the CCAA sanction order and principles of comity;

(d) The final order in the US Class Action (the “**US Approval Order**”) shall contain customary broad releases by the putative class of any claims that were or could have been asserted in the Actions (including the California Action).

(e) US Approval Order shall contain a bar order in customary form (the “**US Settlement Discharge**”), which will contain such judgment reduction provisions as may be required by the *Private Securities Litigation Reform Act*. The Parties shall request that the US Approval Order recite that the US Settlement Discharge is without prejudice to and does not limit the applicability of the Bar Order.

(f) Class Counsel shall request that the US Class Action be stayed against the Non-Settlement Parties to enable these claims to be litigated in Cross-Border Action.

(g) The US Class Action shall be dismissed after the Cross-Border Action is initiated.

(h) At the option of the Original Settlement Parties, the settlement may be terminated if: (i) the court in the US Class Action does not approve a settlement containing classwide releases and the US Settlement Discharge in a form acceptable to the Original Settlement Parties; or (ii) if they are otherwise entitled to do so pursuant to the supplemental letter.

<u>Process to Implement Proposed Settlement</u>

1. Pursuant to the Mediation, CannTrust will seek to negotiate and enter into a restructuring support agreement (the “**RSA**”) with Class Counsel pursuant to which the Parties would agree to pursue the settlement of all claims by the Securities Claimants and related matters on terms consistent with the “Settlement Framework” above, which will be reflected in a term sheet (the “**Term Sheet**”) and attached to the RSA (some of which settlement terms are summarized in paragraph 4 below), following the steps and process described below. The RSA would include other terms customary for a support agreement in a CCAA context and would be in form and content satisfactory to the parties.

2. After the RSA is settled and signed, CannTrust will seek a representation order in the CCAA proceedings (“**Representation Order**”). The order will amongst other things:

(a) appoint the plaintiffs in the Ontario Class Action as the court-appointed representatives of all holders of Securities Claims in Canada (“**Canadian Securities Claimants**”) for the purposes of the CCAA proceedings (the “**Canadian Representatives**”) and appoint Class Counsel in the Ontario Class Action as counsel for the Canadian Representatives in the CCAA proceedings, with authority to act on behalf of all Canadian Securities Claimants in the CCAA proceedings and for the purposes of carry out the transactions contemplated in the RSA;

(b) appoint the plaintiffs in the US Action as the court-appointed representatives of all holders of Securities Claims in the US (“**US Securities Claimants**”) for the purposes of the CCAA proceedings (the “**US Representatives**” and collectively with the Canadian Representatives, the “**Representatives**”) and appoint Class Counsel in the

US Action as counsel for the US Representatives in the CCAA proceedings, with authority to act on behalf of all US Securities Claimants in the CCAA proceedings and for the purposes of carry out the transactions contemplated in the RSA; and

(c) establish a process to notify Securities Claimants of the appointment of the Representatives and their counsel and the terms of the settlement contemplated by the RSA, and if necessary, an opportunity for individual Securities Claimants to opt out of representation by the applicable Representatives for the purposes of the CCAA proceedings (the "**Opt Out Claimants**").

3. Any notice or administration expenses prior to the CCAA Sanction Order being granted shall be paid by the Applicants, following which such costs will be funded from the Securities Claimant Trust.

4. CannTrust and the Representatives (with assistance from counsel), consistent with their obligations under the RSA, will negotiate and finalize the terms of the CCAA Plan, the form of CCAA sanction order to be proposed to the court and other definitive documents. The CCAA Plan would contemplate the following features, among other things, consistent with the Term Sheet attached to the RSA:

(a) the creation of the Securities Claimants' Trust on or before the plan implementation date, to which contributions from CannTrust and any Additional Settlement Party would be made to fund distributions to Securities Claimants;

(b) appointing the Trustees and counsel to the Securities Claimants' Trust as contemplated in section 3 of the settlement framework above;

(c) the payment by the insurers, if applicable, on the plan implementation date, of their share of the Cash Contribution to the Securities Claimants Trust;

(d) the payment by CannTrust, on the plan implementation date, of its share of the Cash Contribution to the Securities Claimants Trust;

(e) the payment by the other Settlement Parties, if applicable, on the plan implementation date, of their respective contributions to the Securities Claimants Trust;

(f) the assignment of the Assigned Claims to the Securities Claimants Trust on the plan implementation date;

(g) broad releases in favour of the Released Parties by way of:

(i) the CCAA Plan and sanction order;

(ii) the US Approval Order; and

(iii) a contractual release, authorized by the CCAA Plan and sanction order and delivered by the Representatives on behalf of Securities Claimants (other than Opt Out Claimants);

(h) to the fullest extent permitted by applicable law and without limitation to the releases described above, a sanction order that enjoins Non-Settlement Parties in any jurisdiction from asserting any claims against the Released Parties that have been asserted in the Actions or are based on the events giving rise to the Actions, and all potential claims relating to those claims, including all indemnity, contribution and set off claims, as well as all claims that relate to or arise out of facts and transactions alleged in any of the pending actions against CannTrust or the Released Parties; and

(i) after the CCAA sanction order and US approval order are obtained, CannTrust will consent to:

(i) (a) appointing the law firm of Weisz Fell Kour LLP as the Canadian representative for plaintiffs in the US Class Action; and (b) allowing US plaintiffs to file the Cross-Border Action;

(ii) continuing the Representation Order permitting the plaintiffs in the Actions to settle the Ontario Class Action, US Class Action, and Cross-Border Action or prosecute the Ontario Class Action and Cross-Border Action against any Non-Settlement Parties under the terms of this order;

(iii) approving any settlement with the Non-Settlement Parties; approving notice to members of the Canadian Class Action and US Class Action further to such settlements; a distribution protocol (*i.e.* plan of allocation) setting forth the distribution of the funds to class members from the Securities Claimants' Trust (less attorneys' fees and litigation expenses) that is consistent with the Securities Claimants' Trust's obligations to Released Parties; and approving Class Counsel's request for attorneys' fees to be paid from the Securities Claimants' Trust;

(iv) permitting the plaintiffs in the Ontario Class Action to apply to the Commercial List and obtaining an expedited hearing for an order granting leave under the Securities Act (Ontario) further to their prosecution or settlement of the Ontario Class Action against any Non-Settlement Parties;

(v) at Class Counsel's option, permitting the plaintiffs in the Ontario Class Action and Cross-Border Action to apply to the Commercial List and obtaining an expedited hearing for an order certifying the Ontario Class Action and Cross-Border Action under the Class Proceedings Act (Ontario) against any Non-Settlement Parties;

(vi) directing an expedited hearing date on the Commercial List of the claims in the Ontario Class Action and Cross-Border Action against any Non-Settlement Parties under the provisions of the Class Proceedings Act

(Ontario) or pursuant to the Commercial List's statutory or discretionary powers on behalf of the classes defined in the Ontario Class Action and Cross-Border Action;

(vii) permitting the Securities Claimants' Trust to obtain on an expedited basis a joint trial date for the claims in the Ontario Class Action, Cross-Border Action and any of the Assigned Claims including the claims of the Securities Claimants' Trust against KPMG and/or any other Non-Settlement Parties as the Securities Claimants' Trust chooses; and

(viii) prohibiting any other action from being commenced or prosecuted against any Released Parties or any Non-Settlement Parties alleging facts substantially the same or similar as those alleged in the Actions, Cross-Border Action or the Assigned Claims held by the Securities Claimants' Trust.

5. CannTrust would file its CCAA Plan with the court and bring a related motion for (i) if necessary, a claims process in respect of Securities Claims and (ii) a meeting order (the "**Meeting Order**"). Among other things, the Meeting Order would:

(a) order creditor meetings to be held to enable affected creditors (including, if necessary, Securities Claimants including Opt Out Claimants), or their proxies, to vote on the CCAA Plan;

(b) approve the form of materials to be distributed and the notice procedures for the meetings;

(c) if a supplemental claims process and/or a vote is conducted, authorize the Representatives to file a "global" proof of claim in the CCAA claims process, and act as voting proxy, on behalf of all Securities Claimants other than the Opt Out Claimants. Purely for voting purposes, the number of Securities Claimants and aggregate amount of the claims for which the Representatives act as proxy would be agreed by CannTrust and the Representatives and confirmed in the Meeting Order; and

(d) if a supplemental claims process and/or a vote is conducted, require each of the Opt Out Claimants to prove the amount of its Securities Claim individually, although CannTrust with Monitor approval would be authorized to consent to the amount of individual Securities Claims by Opt Out Claimants for voting purposes only.

6. Creditor meetings would be held to vote on the CCAA Plan in accordance with the Meeting Order.

7. If the CCAA Plan is approved by the requisite majorities of affected creditors, CannTrust will bring a motion for the CCAA sanction order in respect of the CCAA Plan. If approved by the CCAA court, the CCAA Plan will be binding on all Securities Claimants including Opt Out Claimants (subject to the CCAA Plan thereafter being implemented in accordance

with its terms).

8. After the CCAA sanction order is granted, CannTrust and the US Representatives would seek approval of the US Approval Order.

9. After the US Approval Order is granted, CannTrust with the support of the Representatives would proceed to implement the CCAA Plan and the transactions contemplated by the definitive documents on the plan implementation date, including:

   (a) funding of the Cash Contributions and assignment of the Assigned Claims to the Securities Claimant Trust;

   (b) delivery of the contractual releases;

   (c) dismissal of all actions in the US and Canada as against the Released Parties;

   (d) disbursement of funds from the Securities Claimants' Trust to the extent permitted by the definitive documents; and

   (e) provision by CannTrust of the information and cooperation contemplated in the RSA in relation to the Assigned Claims, as summarized in Schedule C.

SCHEDULE C

Cooperation Agreement – General Principles

A. A material factor influencing CannTrust's decision to execute the Cooperation Agreement is the desire to limit its burden and expense in complying with the agreement. Accordingly, Prosecution Counsel agree to exercise good faith in seeking cooperation from CannTrust and agree not to seek information that is unnecessary, cumulative or duplicative and agree otherwise to avoid imposing undue or unreasonable burdens or expense on CannTrust.

B. The scope of CannTrust's cooperation shall be limited to the allegations asserted in the Actions as presently filed and the Assigned Claims.

C. All cooperation shall be coordinated in such a manner so that all unnecessary duplication and expense is avoided.

D. CannTrust shall not be required to provide cooperation: (i) in violation of any law or Order from a court of competent jurisdiction; (ii) that waives any privilege; or (iii) with regard to conduct outside the scope of the Assigned Claims.

E. Within ● days after the CCAA Plan is implemented:

(a) CannTrust will provide all non-privileged documents (including electronically stored documents) relevant to the Actions and the Assigned Claims in a form mutually acceptable to the Parties. CannTrust makes no representation regarding, and shall bear no liability with respect to, the accuracy of, or that they have, can or will produce a complete set of any of the documents or information, and the failure to do so shall not constitute a breach or violation of the Cooperation Agreement.

(b) If any documents protected by any privilege, including solicitor-client, litigation, attorney work product, settlement, common-interest or joint defence privilege, or any other privilege, doctrine or law, and/or any privacy law or other rule or law of Ontario, Quebec or any other jurisdiction, are accidentally or inadvertently disclosed or produced, such documents shall be promptly returned to CannTrust and the documents and the information contained therein shall not be disclosed or used directly or indirectly, except with the express written permission of CannTrust, and the production of such documents shall in no way be construed to have waived in any manner any privilege, doctrine, law, or protection attached to such documents.

(c) CannTrust's counsel will meet with Prosecution Counsel to provide an evidentiary proffer which will include information that is not covered by privilege, including solicitor-client, litigation, attorney work product, settlement, common-interest or joint defence privilege, or any other privilege relating to the Actions and the Assigned Claims. The Parties agree that there shall be no audio or video recording or written transcription or record of any statements made or information provided by CannTrust's counsel at the proffer, and that Prosecution Counsel may only make written notes of their own thoughts and impressions at the proffer for the purpose of formulating legal advice, pursuing litigation and/or for the purpose of advancing settlement discussions in the interests of the Securities Claimants and the Securities Claimant Trust, as applicable. Notwithstanding any other provision of the Cooperation Agreement, and for greater certainty, it is agreed that any such written notes, and all statements made and information provided by CannTrust's counsel are privileged, will be kept strictly confidential, may not be directly or indirectly disclosed to any other party, and shall not be used by Prosecution Counsel for any purpose other than for their own internal use in connection with the prosecution of the Actions and Assigned Claims and for no other purpose whatsoever.

F. Prosecution Counsel agree that all documents and information made available or provided by CannTrust under the Cooperation Agreement shall be used only in connection with the prosecution of the Actions and the Assigned Claims, and shall not be used directly or indirectly for any other purpose, except to the extent that the documents or information are already publicly available prior to the time of production from CannTrust or subsequently become publicly available other than through the actions of Prosecution Counsel, the Securities Claimants or the Securities Claimant Trust. Prosecution Counsel agree they shall not disclose the documents and information provided by CannTrust beyond what is reasonably necessary for the prosecution of the Actions or Assigned Claims or as otherwise required by law, and acknowledge that they are bound by the deemed undertaking and Rule 30.1 of the Rules of Civil Procedure and the equivalent rules in other Provinces or jurisdictions, except to the extent that the documents or information are publicly available.

G. Prosecution Counsel may request to interview certain of CannTrust's current or former officers, directors or employees under oath. CannTrust will make best efforts to encourage witnesses to attend the interviews but will not compel witnesses to provide witness statements or other testimony under oath.[1] The Securities Claimant Trust will bear the reasonable costs of counsel retained by CannTrust and witnesses to assist in their interactions with Prosecution Counsel. It shall not be a breach of cooperation if any person or entity asserts any right against self-incrimination or similar privilege.

H. The Securities Claimants and the Securities Claimant Trust agree that section 7 is the exclusive means by which they may obtain discovery or information or documents from CannTrust's current or former officers, directors or employees. They agree not to pursue any other means of discovery against, or seek to compel the evidence of CannTrust's current or former officers, directors or employees, whether in Canada or elsewhere and whether under the rules or laws of this or any other Canadian or foreign jurisdiction, unless that person does not cooperate pursuant to section 7.

I. Subject to the rules of evidence or any court Order, CannTrust agrees to use reasonable efforts to produce at trial or through acceptable affidavits for use at trial a current representative qualified to establish the authenticity of the documents provided by CannTrust pursuant to the Cooperation Agreement (after Class Counsel and counsel for the Securities Claimant Trust, as applicable, has used best efforts to authenticate documents for use at trial without a live witness).

[1] **NTD:** CannTrust has taken the same position with law enforcement since July 2019.

J. To the extent any of CannTrust's cooperation obligations require any current or former employees of CannTrust to travel from their principal place of business or residence to another location, the Securities Claimant Trust shall reimburse that person for reasonable expenses incurred by any such person in connection with fulfilling CannTrust's cooperation obligations.

K. The failure of a specific officer, director, employee or former employee of CannTrust to agree to make him or herself available shall not constitute a violation of the Cooperation Agreement.

L. Any dispute regarding the Cooperation Agreement will not invalidate the CCAA Plan and shall be resolved by way of confidential mediation/arbitration, in a manner to be agreed among the Parties.

THIS IS CONFIDENTIAL EXHIBIT "H" REFERRED TO

IN THE AFFIDAVIT OF

GREG GUYATT

SWORN BEFORE ME VIRTUALLY,

ON THE 20th DAY OF JANUARY, 2021

____

A COMMISSIONER, ETC.

CONFIDENTIAL

Submitted to Court subject to a request for a sealing order

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. ET AL.

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

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

Proceeding commenced at Toronto

AFFIDAVIT OF GREG GUYATT
(Sworn January 20, 2021)

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Lawyers for the Applicants

MT DOCS 21122157

TAB 3

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.

AFFIDAVIT OF SERGE KALLOGHLIAN

(Sworn January 20, 2021)

I, SERGE KALLOGHLIAN, of the City of Toronto, in the Province of Ontario, MAKE OATH AND SAY:

1. I am a partner at Kalloghlian Myers LLP, co-counsel for the plaintiffs, Patrick Hrusa and Dharambir Singh ("**Ontario Class Action Plaintiffs**"), in the proposed class action against CannTrust Holdings Inc. ("**CannTrust**") and others bearing (Toronto) Court File No. 19-000625181-00CP in the Ontario Superior Court of Justice ("**Ontario Class Action**").

2. I have been involved in the prosecution of the Ontario Class Action since its inception and I participated in the mediation process described below. As such, I have knowledge of the matters contained in this affidavit, except where stated to be based on information and belief, in

which case I have indicated the source of that information and believe that information to be true.

3. I swear this affidavit in support of the Applicants' motion for an order appointing representatives and representative counsel for all (subject to certain exclusions) Securities Claimants (defined below), under the *Companies' Creditors Arrangement Act* (the "**CCAA**") in these proceedings (the "**CCAA Proceedings**").

4. No portion of this affidavit is meant to waive, nor should it be construed as a waiver of, solicitor-client, litigation, or any other privilege.

NATURE OF THIS MOTION

The Class Actions and Settlement Framework

5. Counsel for the Ontario Class Action Plaintiffs in the Ontario Class Action is comprised of Henein Hutchison LLP ("**Henein**"), Strosberg Sasso Sutts LLP ("**Strosberg**"), A Dimitri Lascaris Law Professional Corporation ("**Lascaris**"), and Kalloghlian Myers LLP ("**Kalloghlian**") (collectively "**Ontario Class Action Counsel**").

6. Granite Point Master Fund, LP and Granite Point Capital Scorpion Focussed Ideas Fund (the "**U.S. Class Action Plaintiffs**") commenced a class action against CannTrust and others in the Southern District of New York bearing court file No. 1:19-CV-06396 (JPO) (the "**U.S. Class Action**"). Counsel to the U.S. Class Action Plaintiffs is Labaton Sucharow LLP in the United States and Weisz Fell Kour LLP in Canada ("**U.S. Class Action Counsel**").

7. The Ontario Class Action and U.S. Class Action (together, the "**Class Actions**") assert claims against CannTrust and others on behalf of a global class of CannTrust shareholders.

8. Following the issuance of the Mediation Order in these proceedings, Ontario and U.S. Class Action Counsel (together, "**Class Action Counsel**") began to work cooperatively to resolve the claims of all affected shareholders. Following months of complex negotiations with multiple parties, CannTrust and Class Action Counsel have agreed to a framework to resolve the securities claims against CannTrust and certain other defendants.

9. The agreement is reflected in the Restructuring Support Agreement, which is attached to the affidavit of Greg Guyatt, sworn January 20, 2021 at Exhibit "I" (the "**RSA**").

10. The RSA contemplates the resolution of all Securities Claims[1] against CannTrust (and certain others) pursuant to a CCAA plan of compromise, arrangement, and reorganization (the "**CCAA Plan**"). Upon the implementation of the CCAA Plan and satisfaction of certain preconditions, CannTrust will (among other things):

(a) pay the amount of CAD $50 million into a trust (the "**Securities Claimants Trust**") for the benefit of all holders of Securities Claims ("**Securities Claimants**"); and

(b) assign to the Securities Claimants Trust all claims that CannTrust has against other defendants to the class action or its insurers ("**Assigned Claims**").

11. Following implementation of the CCAA Plan, CannTrust will consent to orders permitting the plaintiffs in the Class Actions and the Securities Claimants Trust to obtain on an expedited

[1] As defined in the RSA.

basis a joint trial date for the prosecution of the Class Actions and Assigned Claims against the remaining defendants.

__**Scope of the CCAA Representation Order Sought**__

12. On this motion, the Applicants seek an order (the "**CCAA Representation Order**") appointing representatives and representative counsel to all Securities Claimants (subject to the exclusions identified at paragraph 28 below) as follows:

(a) appointing the Ontario Class Action Plaintiffs ("**CCAA Canadian Representatives**") to represent the interests of all Securities Claimants that acquired shares on an exchange anywhere in the world except an exchange in the United States ("**Canadian and Non-U.S. Securities Claimants**");

(b) appointing Ontario Class Action Counsel ("**CCAA Canadian Representative Counsel**") as counsel to the Canadian and Non-U.S. Securities Claimants;

(c) appointing the U.S. Class Action Plaintiffs ("**CCAA U.S. Representatives**") to represent the interests of all Securities Claimants that acquired shares on an exchange in the United States ("**U.S. Securities Claimants**");

(d) appointing Weisz Fell Kour LLP in association with Labaton Sucharow LLP as counsel ("**CCAA U.S. Representative Counsel**") to the U.S. Securities Claimants.

13. The CCAA Representation Order authorizes CCAA Canadian Representative Counsel and U.S. Representative Counsel (together, **"CCAA Representative Counsel**") to take instructions from the CCAA Canadian Representatives and CCAA U.S. Representatives ("together, "**CCAA Representatives"**) and to act on behalf of the Securities Claimants in respect of their Securities Claims and related claims.

14. The CCAA Representation Order would, among other things, authorize the CCAA Representatives and CCAA Representative Counsel to enter into the RSA and to negotiate,

settle, and prosecute Securities Claimants' related claims against other defendants and their insurers.

BACKGROUND TO THIS MOTION

<u>The Class Actions</u>

15. CannTrust is a publicly traded company and its shares were traded on the Toronto Stock Exchange ("**TSX**") and on the New York Stock Exchange ("**NYSE**"), under the ticker symbols "TRST" and "CTST" respectively, and elsewhere.

16. The Ontario and U.S. Class Actions arise out of the same circumstances and make substantially similar allegations. They allege that, among other things, CannTrust, its officers, and directors, made, or were involved in making, misrepresentations and failed to disclose material facts about CannTrust's compliance with applicable laws, regulations, and standards.

17. The Ontario and U.S. Class Actions allege, respectively, that CannTrust is liable for misrepresentations under Parts XXIII and XXIII of the Ontario *Securities Act* and under Rule 10b-5 and s 10(b) of the United States Securities Exchange Act of 1934 and ss 11, 12(a)(2) and 15 of the United States Securities Act of 1933 (among other claims asserted).

18. They also allege that CannTrust's auditor (KPMG LLP) made misrepresentations regarding its audit of CannTrust's financial statements, and that its underwriters made misrepresentations in connection with its US$200 million May 2019 prospectus offering.

19. Following CannTrust's announcement on July 8, 2019 that it was in breach of regulations, the price of CannTrust shares fell significantly on the TSX and the NYSE.

20. The Class Actions alleges that CannTrust securities traded at artificially inflated prices during the Class Period. They seek recovery of the losses sustained by the Class Members because of CannTrust's misrepresentations.

Ontario Carriage Order

21. Following CannTrust's disclosures on July 8, 2019, several class actions were commenced in Ontario making substantially similar allegations on behalf of CannTrust shareholders. By Order dated January 28, 2020, carriage of the CannTrust securities class actions was granted to the Ontario Class Action Counsel and all other proposed class actions in Ontario relating to the same subject matter were stayed. A copy of the carriage Order of Justice Hainey dated January 28, 2020 is attached as **Exhibit "A"**. A copy of the Reasons of Justice Hainey is attached as **Exhibit "B"**.

22. One of the law firms that was unsuccessful in the carriage motion sought leave to appeal this decision to the Divisional Court of Ontario. After the commencement of these CCAA Proceedings, that law firm sought to schedule a determination of its leave to appeal motion. On July 14, 2020, the Honourable Mr. Justice Penny of the Divisional Court of Ontario determined that the application for leave to appeal was stayed and the law firm was required to bring a motion before this Court to lift the stay of proceedings in order to proceed. No such motion was brought before this Court. A copy of the Honourable Mr. Justice Penny's endorsement is attached hereto as **Exhibit "C"**.

23. The proposed Fresh as Amended Statement of Claim in the Ontario Class Action is attached as Schedule A to the carriage Order of Justice Hainey. The Fresh as Amended

Statement of Claim had not been filed as of the date of the Initial Order in the CCAA Proceedings. The Ontario Class Action Counsel, on behalf of Messrs. Hrusa and Singh, commenced an action on October 24, 2019 bearing Court File No. CV-19-00629743-00CP that, apart from naming additional financial institutions as defendants, is materially identical to the Fresh as Amended Statement of Claim. A copy of the statement of claim in that action is attached as **Exhibit "D"**.

Other Actions

24. Several class actions making substantially similar allegations as the Class Actions were commenced in Ontario following July 8, 2019. All such actions were stayed pursuant to the carriage Order. I am not aware of any other carriage motion having taken place in Canada concerning the subject matter of the Class Actions.

25. Proposed class actions were also commenced in British Columbia, Alberta and Québec by the Merchant Law Group. Based on information obtained from Morningstar, Ontario Class Action Counsel estimates that of the damaged CannTrust shares held by Canadian residents at the start of these CCAA Proceedings, well over 90% of such shares were held by Ontario residents. Investors resident in British Columbia, Alberta and Québec would make up a fraction of the remaining percentage.

26. The pleadings in the Merchant Law Group class actions (or excerpts thereof) are attached and marked as **Exhibits "E-1" to "E-3".** None of those actions have been certified. None of

those actions name any defendants apart from CannTrust and certain individual directors or officers.[2]

27. I am also aware of other individual CannTrust shareholders that have commenced or asserted similar claims to the Class Actions. Counsel to the individual plaintiffs in those actions have appeared in these CCAA Proceedings on behalf of their individual clients. All of these shareholders fall under the definition of Securities Claimant:

(a) Zola Finance Holdings Ltd and Igor Gimelshtein (represented by Siskinds LLP and Wright Henry LLP);

(b) 1604070 Alberta Ltd., Jeff Dyck, and Diran Avedian (represented by Merchant Law Group);

(c) Stephen Rosen and Albert Wahbe (represented by Rochon Genova LLP); and

(d) Shmuel Farhi (represented by Miller Thomson LLP).

28. The shareholders identified above will be excluded from the Securities Claimants represented by the CCAA Representatives and Representative Counsel because they are already formally represented by counsel.

CannTrust's Insolvency and Mediation Process

29. On March 31, 2020, CannTrust commenced these CCAA Proceedings and obtained an order for a stay of proceedings against it, including stays of the Class Actions.

30. Ontario Class Action counsel immediately appeared in the CCAA Proceedings and took steps to ensure that the rights of Securities Claimants would not be unfairly compromised.

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[2] For example, the Merchant Law Group's Alberta action names only CannTrust and Greg Guyatt as defendants. With the consent of CannTrust, the plaintiff in that action obtained an

31. On May 8, 2020, the Court made an order ("**Mediation Order**") appointing the Hon. Dennis O'Connor, Q.C. (the "**Court-Appointed Mediator**") as a neutral third party to mediate a global settlement of the various actions and claims made against CannTrust (the "**Mediation Process**").

32. In addition to Ontario and US Class Action Counsel, counsel to each of the plaintiffs identified at paragraph 27 sought to participate in the Mediation Process. It soon became clear that such a multi-party mediation would be unworkable.

33. Ontario and U.S. Class Action Counsel therefore agreed to work together as a single negotiating unit (the "**Coalition**") to advance the interests of all Securities Claimants represented by them in the Mediation Process. The Coalition estimates that the proposed classes it represents make up an estimated 98% of total damages suffered by Securities Claimants represented in these proceedings.

34. Throughout the Mediation Process, only the Coalition conducted negotiations on behalf of all Securities Claimants. All other mediation participants with claims negotiated only on behalf of themselves.

35. Since the beginning of the Mediation Process, the Coalition, on behalf of the Securities Claimants, attended numerous formal mediation sessions with CannTrust and other defendants and many additional informal discussions with the Mediator and other mediation participants.

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order for leave to assert the secondary market claim under s. 211.08 of the Alberta *Securities Act*.

36. Following protracted negotiations taking place over six months, the Coalition and CannTrust reached the agreement reflected in the RSA. In coming to this agreement, the Coalition conducted extensive legal and factual investigation, including:

(a) reviewing CannTrust's public disclosure documents and other publicly available information regarding CannTrust;

(b) holding discussions with a CannTrust whistleblower and obtaining relevant emails;

(c) retaining and communicating with private "fact" investigators;

(d) identifying and interviewing potential "fact" witnesses;

(e) communicating with numerous individual Securities Claimants;

(f) retaining a cannabis consultant to advise counsel;

(g) retaining Sunita Surana, Ph.D., of Forensic Economics to provide an expert economic opinion on market efficiency, materiality, and damages;

(h) retaining Cyrus Khory, managing director at Froese Forensic Partners Ltd., to provide an expert opinion regarding applicable accounting standards;

(i) retaining Professor Efrim Boritz, Ph.D., FCPA, FCA, CISA, to provide an expert opinion regarding applicable auditing standards;

(j) retaining James Miller to provide an expert opinion regarding applicable underwriting standards;

(k) reviewing CannTrust's responsive insurance policies and other non-public information provided to the Coalition in the course of the Mediation Process; and

(l) considering the written mediation briefs and positions taken by the parties during the Mediation Process.

EVIDENCE TO SUPPORT A REPRESENTATION ORDER

Vulnerability of the Security Holders

37. Based on my experience prosecuting securities class actions, and my knowledge of the various Securities Claimants that have communicated with Ontario Class Action Counsel, I believe that most of the Securities Claimants are retail investors who likely lack the financial resources to pursue litigation of this type and scale on an individual basis. The losses of some of the individual Securities Claimants may well be significant from a personal perspective. For example, Dharambir Singh suffered investment losses of over $250,000. However, in the absence of the Ontario Class Action, he likely would not have commenced litigation against the defendants, including CannTrust, due to the high cost of advancing a securities action on that scale.

38. In my view, even significant individual losses such as those suffered by the plaintiffs do not justify the legal and expert costs of advancing these claims as individual actions or participating individually in these CCAA Proceedings.

39. The vast majority of Securities Claimants would generally not have the financial ability to pay these costs. Absent the CCAA Representation Order, individual Securities Claimants would either have no representation in these proceedings, or be forced to participate individually (assuming they had the capacity to do so). The latter scenario would result in a multiplicity of legal retainers, which would compromise judicial economy and risk the possibility of inconsistent claims and results.

The CCAA Representation Order Benefits CannTrust

40. One of the Applicants' main stated goals in entering these CCAA Proceedings was to provide a single forum for global resolution of all claims against them. The CCAA Representation Order accords with this goal and benefits the Applicants by providing a method for the Applicants to resolve all such claims by Securities Claimants through the RSA.

The CCAA Representation Order Provides a Social Benefit

41. The Class Actions seek to provide harmed investors with access to justice. The Ontario Class Action asserts claims under Part XXIII.1 of the Ontario *Securities Act*, which has as its core the twin goals of deterrence of corporate malfeasance and compensation of investors. The CCAA Representation Order sought is consistent with those goals because it allows the goal of the legislation to be realized.

The CCAA Representation Order Facilitates the Administration of the CCAA Proceedings

42. The Securities Claimants have commonality in interest in recovering compensation for damages arising from their acquisition and holding of CannTrust securities. The CCAA Representation Order will allow CannTrust to deal with the adjudication of the Securities Claimants' claims, in a consistent and localized manner, and will avoid the need for CannTrust and the Court to deal with a potentially large number of individual unrepresented Securities Claimants advancing individual and possibly inconsistent claims.

43. If appointed as CCAA Representative Counsel, the Coalition will not make a funding request from CannTrust in the CCAA Proceedings. The members of the Coalition have assumed responsibility for funding the litigation and have ample resources to ensure that the litigation is

advanced expeditiously, efficiently and vigorously. As such, I believe there should not be any tangible prejudice to the CCAA Proceedings and/or the other interested parties if the CCAA Representation Order sought on this motion is made by the Court.

Suitability of the CCAA Representatives to Serve as Securities Claimants' Representatives

44. The proposed CCAA Representatives are suitable to serve as representatives of the Securities Claimants. Copies of the affidavits of the respective Ontario Class Action Plaintiffs as proffered on the carriage motion in the Ontario Class Action (without exhibits) are attached as **Exhibits "F-1" and "F-2".**

45. The individual Ontario Class Action Plaintiffs have advised me and my co-counsel that just as they remain prepared to act as representative plaintiffs for the Class Members in the Ontario Class Action, they are also willing and able to fulfill a similar role if appointed as CCAA Representatives. They understand that, as CCAA Representatives, they would be required to give instructions to the CCAA Representative Counsel, and to act in the best interests of the Securities Claimants, among other responsibilities.

46. To date, the Ontario Class Action Plaintiffs have fairly and adequately represented the interests of the proposed Class by retaining, interacting with and instructing the Ontario Class Action Counsel as necessary. It is my belief that they can and will serve in a similarly beneficial capacity if appointed as CCAA Representatives in the CCAA Proceedings.

Suitability of the Ontario Class Action Counsel to Serve as Representative Counsel

47. CCAA Representative Counsel are suitable to act as counsel to the CCAA Representatives and the Securities Claimants in these proceedings.

48. They have extensive experience prosecuting complex class action litigation, including securities litigation. I have been advised of the information that follows by my co-counsel David Wingfield, Jay Strosberg, A. Dimitri Lascaris, Marie Henein, and Scott Hutchison.

49. Strosberg is a boutique litigation firm with offices in Windsor and Toronto focusing on class actions and commercial litigation. Strosberg was one of the early pioneers in the development of class actions in Ontario, and continues to be involved in many important regional, national, and international class actions, including securities and regulatory compliance class actions. Strosberg has also been ranked as a leading plaintiff-side practice in Canada by Chambers Global. Among other jurisprudential milestones, Strosberg's class action lawyers were involved in:

(a) the first securities class action commenced in Ontario (*Bre-X*);

(b) the first securities class action where leave was sought under Part XXIII.1 of the Ontario Securities Act (*Southwestern Resources*); and

(c) the first securities class action where the court granted leave to commence an action under Part XXIII.1 of the Ontario Securities Act (*Silver v. Imax*).

50. David R. Wingfield, a partner at Strosberg, has particular experience in Commercial List matters, including those involving insolvency and the CCAA. For example, Mr. Wingfield has acted as:

(a) counsel to the Attorney General of Canada on whether wireless spectrum licences may be transferred under the CCAA without the Minister of Industry's consent;

(b) counsel for the Appellant (the Province of Newfoundland and Labrador) in the Supreme Court of Canada on whether Canada's bankruptcy and insolvency laws permit an insolvent debtor to avoid provincial environmental laws (*Newfoundland and Labrador v. AbitibiBowater Inc.*, [2012] 3 S.C.R. 443);

(c) counsel to The Ravelston Corporation (the parent company of the Hollinger newspaper group) in its Canadian and U.S. litigation over control of the Sun-Times Media Group (see *Ravelston Corporation Limited (Re)*, 2007 ONCA 272); and

(d) counsel to one of the Hollinger Group directors following allegations of misconduct (see *Catalyst Fund General Partner I Inc. v. Hollinger Inc*., 2006 CanLII 7392 (ON CA)).

51. A. Dimitri Lascaris, principal at Lascaris, was a partner in the class actions department of Siskinds LLP until 2016. Since 2004, his practice focused almost exclusively on securities and derivative actions against companies listed on the TSX and other global stock exchanges. He successfully argued the first two contested leave motions under Part XXIII.1 of the Ontario *Securities Act* – *Imax* and *Arctic Glacier* – and argued or participated in arguing numerous other successful Part XXIII.1 leave motions. He has also negotiated, with and without the assistance of a mediator, settlements in over twenty-five securities class actions and shareholders derivative cases. Mr. Lascaris has acted and continues to act in many multi-jurisdictional class actions involving parallel class actions in the United States.

52. Several of the securities class actions in which Mr. Lascaris acted for the plaintiffs were resolved successfully after the issuer of the securities had filed for insolvency. One such action was the Sino-Forest securities litigation.

53. Marie Henein is one of Canada’s top trial lawyers. She has appeared before all levels of Ontario courts and the courts of certain other Canadian provinces as well as the Supreme Court of Canada. Ms. Henein is Past President of the Advocates Society (2010-2011) and is a fellow of the American College of Trial Lawyers. Ms. Henein has been counsel on numerous high-profile cases and has been repeatedly named one of Canada’s 25 most influential lawyers.

54. Scott Hutchison is an experienced litigator and has appeared at all levels of the Canadian court system, including more than two dozen appearances at the Supreme Court of Canada, generating numerous reported decisions. Mr. Hutchison's recent practice includes advising in relation to both the prosecution and defence of complex class actions. Mr. Hutchison sits on the Class Proceedings Committee of the Law Foundation of Ontario (appointed by the Attorney General of Ontario). Mr. Hutchison appears regularly before senior professional discipline tribunals, including the Ontario Securities Commission. Mr. Hutchison is a Fellow of the American College of Trial Lawyers.

55. Kalloghlian's practice is dedicated almost exclusively to class actions and investor rights litigation. Prior to forming Kalloghlian, I worked at the Toronto office of Siskinds LLP since 2012, specializing in securities class actions. My practice has focused on class actions since my call to the bar in 2008. I have appeared before all levels of Ontario courts as well as the Supreme Court of Canada in connection with securities class actions, including in the landmark decision in *Green v. CIBC*, 2015 SCC 60.

56. I have acted for plaintiffs in securities class actions which were resolved successfully after the issuer entered into insolvency proceedings, including the *Sino-Forest* and *The Cash Store Financial Services Inc.*, securities litigation.

57. Class Action Counsel are willing and able to continue to serve these above functions if appointed as Representative Counsel in the CCAA Proceedings.

AFFIRMED BEFORE ME over video-teleconference in accordance with Ontario Regulation 431/20, with the affiant and the commissioner being located in the City of Toronto, in the Province of Ontario, this 20th day of January, 2021.	
A Commissioner for taking Affidavits *(or as may be)*	Serge Kalloghlian

This is Exhibit "A" referred to in the affidavit of Serge Kalloghlian, sworn before me this 20th day of January, 2021

A Commissioner for taking Affidavits

Court File No. CV-19-000625181-00CP
CV-19-00625351-00CP

ONTARIO
SUPERIOR COURT OF JUSTICE

THE HONOURABLE	)	TUESDAY, THE 28th DAY OF
	)	
JUSTICE HAINEY	)	JANUARY, 2020

BETWEEN:

WENDY EARLE, ATIQUR SARKER, DHARAMBIR SINGH, AND RON REID

Plaintiffs

- and -

CANNTRUST HOLDINGS INC., ERIC PAUL, PETER ACETO, GREG GUYATT, IAN ABRAMOWITZ, MARK DAWBER, JOHN KADEN, MARK IAN LITWIN, ROBERT MARCOVITCH, MITCHELL J. SANDERS, STAN ABRAMOWITZ, BRAD ROGERS, MICHAEL RAVENSDALE, SHAWNA PAGE, ILLANA PLATT, GRAHAM LEE, KPMG LLC, MERRILL LYNCH CANADA INC., CITIGROUP GLOBAL MARKETS CANADA INC., CREDIT SUISSE SECURITIES (CANADA) INC., RBC DOMINION SECURITIES INC., JEFFERIES SECURITIES, INC., CANACCORD GENUITY CORP., CANNAMED FINANCIAL CORP., and CAJUN CAPITAL CORPORATION

Defendants

BETWEEN:

STEPHEN ROSEN

Plaintiff

-and-

CANNTRUST HOLDINGS INC., PETER ACETO, ERIC PAUL, GREG GUYATT, IAN ABRAMOWITZ, MARK LITWIN and KPMG LLP

Defendants

Proceeding under the Class Proceedings Act, 1992

O R D E R
(Carriage Motion)

THIS MOTION, made by the plaintiffs in the actions styled *Wendy Earle et* al. *v Canntrust Holdings Inc., et* al. (CV-19-00062518l-00CP) and *Hrusa v. CannTrust et al.* (Court File No. CV-19000623567-00CP) for an order granting their counsel carriage of the class proceedings, and for ancillary and other relief; and

THIS MOTION, made by the plaintiff in the action styled *Stephen Rosen v Canntrust Holdings Inc. et al* (CV-19-00625351-00CP) for an order granting his counsel carriage of the class proceeding, and for ancillary and other relief were heard on December 3, 2019, at the Courthouse, 330 University Ave., Toronto, Ontario.

ON READING the materials filed and on hearing the submissions of counsel;

1. **THIS COURT ORDERS** that the action styled *Wendy Earle et* al. *v Canntrust Holdings Inc., et* al. (CV-19-00062518l-00CP) is consolidated with the action styled *Hrusa v. CannTrust et al.* (Court File No. CV-19000623567-00CP) (the **"Consolidated Action"**).

2. **THIS COURT ORDERS** that carriage of the Consolidated Action is granted to Henein Hutchison LLP, Strosberg Sasso Sutts LLP, A Dimitri Lascaris Law Professional Corporation, and Kalloghlian Professional Corporation, and that those law firms are appointed class counsel for the proposed class of plaintiffs in the Consolidated Action.

3. **THIS COURT ORDERS** that in the event that any firm identified in paragraph 2 of this Order forms a partnership, merges, or otherwise joins together with another law firm, any references in this Order to such firm shall apply to the successor firm.

4. **THIS COURT ORDERS** that the Consolidated Action be amended to (i) remove Wendy Earle, Atiqur Sarker, and Ron Reid as plaintiffs; (ii) add Brady Green, Andrea Kirk, and Norman Paul as defendants; and (iii) correct the name of the

defendant KPMG LLC to KPMG LLP, and that the style of cause of the proceeding be amended accordingly.

5. **THIS COURT ORDERS** that the plaintiffs in the Consolidated Action are permitted to amend the statement of claim in the form attached as Schedule "A".

6. **THIS COURT ORDERS** that the actions styled *Stephen Rosen v Canntrust Holdings Inc. et al* (CV-19-00625351-00CP), *Webb v. CannTrust et al.* (Court File No. CV-19-1554); *Meandro v. CannTrust et al.* (Court File No. 1402/19 CP) and any other proposed class proceedings relating to the same facts or subject matter of the Consolidated Action are permanently stayed.

7. **THIS COURT ORDERS** that no other proposed class proceeding may be commenced in Ontario in respect of the facts pleaded in the Consolidated Action without leave of the court.

8. **THIS COURT ORDERS** that there shall be no costs payable to any party.

~~JUSTICE HAINEY~~
CM CHIBA, Registrar
Superior Court of Justice

393 UNIVERSITY AVE.
6TH FLOOR
TORONTO, ONTARIO
M5G 1E6

393 AVE. UNIVERSITY
6E ÉTAGE
TORONTO, ONTARIO
M5G 1E6

ENTERED AT / INSCRIT À TORONTO
ON / BOOK NO:
LE / DANS LE REGISTRE NO.:

MAR 1 1 2020

PER / PAR:

Schedule "A"

Court File No: CV-19-00625181-00CP

ONTARIO
SUPERIOR COURT OF JUSTICE

B E T W E E N:

PATRICK HRUSA and DHARAMBIR SINGH

Plaintiffs

- and -

CANNTRUST HOLDINGS INC., ERIC PAUL, PETER ACETO, GREG GUYATT, IAN ABRAMOWITZ, MARK DAWBER, JOHN KADEN, MARK IAN LITWIN, ROBERT MARCOVITCH, MITCHELL J. SANDERS, STAN ABRAMOWITZ, BRAD ROGERS, MICHAEL RAVENSDALE, SHAWNA PAGE, ILLANA PLATT, GRAHAM LEE, BRADY GREEN, ANDREA KIRK, NORMAN PAUL, KPMG LLP, MERRILL LYNCH CANADA INC., CITIGROUP GLOBAL MARKETS CANADA INC., CREDIT SUISSE SECURITIES (CANADA) INC., RBC DOMINION SECURITIES INC., JEFFERIES SECURITIES, INC., CANACCORD GENUITY CORP., CANNAMED FINANCIAL CORP., and CAJUN CAPITAL CORPORATION

Defendants

Proceeding under the *Class Proceedings Act, 1992*

FRESH AS AMENDED STATEMENT OF CLAIM

TO THE DEFENDANTS

A LEGAL PROCEEDING HAS BEEN COMMENCED AGAINST YOU by the plaintiff. The claim made against you is set out in the following pages.

IF YOU WISH TO DEFEND THIS PROCEEDING, you or an Ontario lawyer acting for you must prepare a statement of defence in Form 18A prescribed by the *Rules of Civil Procedure*, serve it on the plaintiff's lawyer or, where the plaintiff does not have a lawyer, serve it on the plaintiff, and file it, with proof of service, in this court office, WITHIN TWENTY DAYS after this statement of claim is served on you, if you are served in Ontario.

If you are served in another province or territory of Canada or in the United States of America, the period for serving and filing your statement of defence is forty days. If you are served outside Canada and the United States of America, the period is sixty days.

Instead of serving and filing a statement of defence, you may serve and file a notice of intent to defend in Form 18B prescribed by the *Rules of Civil Procedure*. This will entitle you to ten more days within which to serve and file your statement of defence.

IF YOU FAIL TO DEFEND THIS PROCEEDING, JUDGMENT MAY BE GIVEN AGAINST YOU IN YOUR ABSENCE AND WITHOUT FURTHER NOTICE TO YOU. IF YOU WISH TO DEFEND THIS PROCEEDING BUT ARE UNABLE TO PAY LEGAL FEES, LEGAL AID MAY BE AVAILABLE TO YOU BY CONTACTING A LOCAL LEGAL AID OFFICE.

TAKE NOTICE: THIS ACTION WILL AUTOMATICALLY BE DISMISSED if it has not been set down for trial or terminated by any means within five years after the action was commenced unless otherwise ordered by the court.

Date: ________________ Issued by ______________________________

Local registrar

Address of court office: Superior Court of Justice
393 University Avenue, 10th Flr.
Toronto, Ontario M5G 1E6

TO: **CannTrust Holdings Inc.**
7300 Keele Street
Vaughan, Ontario, L4K 1Z9

AND TO: **Eric Paul**
c/o CannTrust Holdings Inc.
7300 Keele Street
Vaughan, Ontario, L4K 1Z9

AND TO: **Peter Aceto**
c/o CannTrust Holdings Inc.
7300 Keele Street
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AND TO: **Greg Guyatt**
c/o CannTrust Holdings Inc.
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AND TO: **Ian Abramowitz**
c/o CannTrust Holdings Inc.
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AND TO: **Mark Dawber**
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AND TO: **John Kaden**
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AND TO: **Robert Marcovitch**
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AND TO: **Mitchell J. Sanders**
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AND TO: **Stan Abramowitz**
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AND TO: **Michael Ravensdale**
c/o CannTrust Holdings Inc.
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AND TO: **Shawna Page**
c/o CannTrust Holdings Inc.
7300 Keele Street
Vaughan, Ontario, L4K 1Z9

AND TO:	**Illana Platt** c/o CannTrust Holdings Inc. 7300 Keele Street Vaughan, Ontario, L4K 1Z9
AND TO:	**Graham Lee** c/o CannTrust Holdings Inc. 7300 Keele Street Vaughan, Ontario, L4K 1Z9
AND TO:	**Brady Green** c/o CannTrust Holdings Inc. 7300 Keele Street Vaughan, Ontario, L4K 1Z9
AND TO:	**Andrea Kirk** c/o CannTrust Holdings Inc. 7300 Keele Street Vaughan, Ontario, L4K 1Z9
AND TO:	**Norman Paul** c/o CannTrust Holdings Inc. 7300 Keele Street Vaughan, Ontario, L4K 1Z9
AND TO:	**KPMG LLP** 100 New Park Place, Suite 1400 Vaughan, Ontario, L4K 0J3
AND TO:	**Merrill Lynch Canada Inc.** 181 Bay Street, 4th & 5th Floors Toronto, ON M5J 2V8
AND TO:	**Citigroup Global Markets Canada Inc.** 123 Front Street West, Suite 1900 Toronto, Ontario M5J 2M3
AND TO:	**Credit Suisse Securities (Canada), Inc.** 1 First Canadian Place Suite 2900, P.O. Box 301 Toronto, Ontario M5X 1C9
AND TO:	**RBC Dominion Securities Inc.** 200 Bay Street, Suite 400, South Tower Toronto, ON M5J 2W7

AND TO: **Jefferies Securities, Inc.**
161 Bay Street, Suite 2600,
Toronto, Ontario, M5J 2S1.

AND TO: **Canaccord Genuity Corp.**
161 Bay Street, Suite 3000
P.O. Box 516
Toronto, Ontario, M5J 2S1

AND TO: **Cannamed Financial Corp.**
106 Avenue Road
Toronto Ontario, M5R 2H3

AND TO: **Cajun Capital Corporation**
40 Sheppard Ave. West, Suite 700
Toronto ON M2N 6K9

I. DEFINED TERMS

1. In this Statement of Claim, in addition to the terms that are defined elsewhere herein, the following terms have the following meanings:

(a) "***ACMPR***" means *Access to Cannabis for Medical Purposes Regulations*, SOR/2016-230;

(b) "**Aceto**" means Peter Aceto;

(c) "**AIF**" means Annual Information Form;

(d) "***Cannabis Act***" means the *Cannabis Act*, SC 2018, c 16;

(e) "***Cannabis Regulations***" means the *Cannabis Regulations*, SOR/2018-144;

(f) "**Canaccord**" means Canaccord Genuity Corp;

(g) "**Cannamed**" means Cannamed Financial Corp;

(h) "**CannTrust**" means CannTrust Holdings Inc.;

(i) "**CEO**" means Chief Executive Officer;

(j) "**CFO**" means Chief Financial Officer;

(k) "**Citigroup**" means Citigroup Global Markets Canada Inc.;

(l) "**Cajun**" means Cajun Capital Corporation;

(m) "**Class**" and "**Class Members**" are comprised of the following, other than the **Excluded Persons**

(i) **Primary Market Class**: all persons and entities who acquired **CannTrust's** Shares in the Offering; and

(ii) **Secondary Market Class**: all persons and entities who acquired CannTrust's Shares in the secondary market during the Class Period;

(n) "**Class Period**" means the period from the opening of trading on June 1, 2018 to the close of trading on the **TSX** on September 17, 2019;

(o) "***CJA***" means the *Courts of Justice Act*, RSO 1990, c C-43, as amended;

(p) "**Compliance Representations**" means the Niagara Compliance Representation and the Vaughan Compliance Representation;

(q) "**Controls Representation**" means the representation that CannTrust had effective DC&P and ICFR except as disclosed in its annual and interim MD&As;

(r) "***CPA***" means the *Class Proceedings Act, 1992*, SO 1992, c 6;

(s) "**Credit Suisse**" means Credit Suisse Securities (Canada), Inc.;

(t) "**CSA**" means the Canadian Securities Administrators;

(u) "**Dawber**" means Mark Dawber;

(v) "**DC&P**" means disclosure controls and procedures;

(w) "**Defendants**" means, collectively, **Canntrust**, **Cannamed**, **Cajun**, **KPMG**, the **Underwriters**, and the **Individual Defendants**;

(x) "**EDGAR**" means Electronic Data Gathering, Analysis, and Retrieval system of the SEC;

(y) "**Excluded Persons**" means the Defendants, their past and present subsidiaries, affiliates, officers, directors, senior employees, legal representatives, heirs, predecessors, successors and assigns, and any member of the families of an Individual Defendants;

(z) "**Green**" means Brady Green;

(aa) "**Guyatt**" means Greg Guyatt;

(bb) "**IFRS**" means International Financial Reporting Standards;

(cc) "**IFRS Representation**" means the representation that CannTrust's financial statements complied with IFRS;

(dd) "**Individual Defendants**" means **Aceto**, Ian Abramowitz, **Dawber**, **Green**, **Guyatt**, **Kaden**, **Kirk**, **Lee**, **Litwin**, **Page**, Eric Paul, Norman Paul, **Sanders**, **Marcovitch**, Stan Abramowitz, **Rogers**, **Ravensdale**, and **Platt**;

(ee) "**ICFR**" means internal controls over financial reporting;

(ff) "**Jefferies**" means Jefferies Securities, Inc.;

(gg) "**Kaden**" means John Kaden;

(hh) "**Kirk**" means Andrea Kirk;

(ii) "**KPMG**" means KPMG LLP;

(jj) "**KPMG Representations**" has the meaning ascribed to it at paragraph 133;

(kk) "**Lee**" means the defendant Graham Lee;

(ll) "**Litwin**" means Mark Ian Litwin;

(mm) "**Marcovitch**" means Robert Marcovitch;

(nn) "**MD&A**" means Management's Discussion and Analysis;

(oo) "**Merrill**" means Merrill Lynch Canada Inc;

(pp) "**Misleading Documents**" means, collectively,

(i) the AIF of CannTrust for the year ended December 31, 2017, filed on SEDAR March 29, 2018 ("**2017 AIF**");

(ii) the MD&A of CannTrust for the year ended December 31, 2017, filed on SEDAR March 29, 2018 ("**Annual 2017 MD&A**");

(iii) the annual audited financial statements of CannTrust for the year ended December 31, 2017, filed on SEDAR March 29, 2018 ("**Annual 2017 Financial Statements**");

(iv) the condensed interim consolidated financial statements of CannTrust for the three and six months ended June 30, 2018, filed on SEDAR August 14, 2018 ("**Q2 2018 Financial Statements**");

(v) the MD&A of CannTrust for the three and six months ended June 30, 2018, filed on SEDAR August 14, 2018 ("**Q2 2018 MD&A**");

(vi) the condensed interim consolidated financial statements of CannTrust for the three and nine months ended September 30, 2018, filed on SEDAR November 14, 2018 ("**Q3 2018 Financial Statements**");

(vii) the MD&A of CannTrust for the three and nine months ended September 30, 2018, filed on SEDAR November 14, 2018 ("**Q3 2018 MD&A**");

(viii) the annual audited consolidated financial statements for the year ended December 31, 2018 filed on SEDAR March 28, 2019 ("**Annual 2018 Financial Statements**");

(ix) the MD&A of CannTrust for the year ended December 31, 2018, filed on SEDAR March 28, 2019 ("**Annual 2018 MD&A**");

(x) the AIF of CannTrust for the year ended December 31, 2018, filed on SEDAR March 28, 2019 ("**2018 AIF**");

(xi) the condensed interim consolidated financial statements of CannTrust for the three months ended March 31, 2019, filed on SEDAR May 14, 2019 ("**Q1 2019 Financial Statements**");

(xii) the MD&A of CannTrust for the three months ended March 31, 2019, filed on SEDAR May 14, 2019 ("**Q1 2019 MD&A**");

(xiii) the Material Change Reports of CannTrust filed on SEDAR on June 5 and October 4, 2018, and February 19, May 6, May 14, July 12, August 2, and August 15, 2019;

(xiv) the **Press Releases**; and

(xv) the **Prospectuses**

including any documents incorporated therein by reference or otherwise;

(qq) "**NI 51-102**" means National Instrument 51-102 – Continuous Disclosure Obligations;

(rr) "**NI 52-109**" means National Instrument 52-109 – Certification of Disclosure in Issuer's Annual and Interim Filings;

(ss) "**Niagara Compliance Representation**" means the representation that CannTrust had all required licenses and/or approvals for the activities conducted at the Niagara Facility, and that the cannabis produced there was in compliance with applicable laws, rules and regulations;

(tt) "**Niagara Facility**" has the meaning ascribed to it at paragraph 77 below;

(uu) "**NYSE**" means the New York Stock Exchange;

(vv) "***OBCA***" means the *Ontario Business Corporations Act*,, RSO 1990, C B 16;

(ww) "**Offering**" means the distribution of **CannTrust** Shares pursuant to the **May 1 Prospectus**;

(xx) "***OSA***" means the *Securities Act*, RSO 1990, c S.5, as amended

(yy) "**Page**" means Shawna Page;

(zz) "**Plaintiffs**" means Patrick Hrusa and Dharambir Singh;

(aaa) "**Platt**" means Illana Platt;

(bbb) "**Press Releases**" (any one being a "**Press Release**") means

(i) the press release titled "CannTrust reports record revenue for Q2 2018 and is on track to full completion of its million sq ft Niagara facility" filed on SEDAR August 14, 2018 ("**Q2 2018 Press Release**")

(ii) the press release titled "CannTrust reports record revenue for Q3 2018 and is taking steps to list on the New York Stock Exchange" filed on SEDAR November 14, 2018 ("**Q3 2018 Press Release**");

(iii) the press release titled "CannTrust Provides Business Update" filed on SEDAR December 19, 2018; ("**December 19, 2018 Press Release**");

(iv) the press release titled "CannTrust Reports Financial Results for Q4 2018" dated and filed on SEDAR March 28, 2019; ("**Q4 2018 Press Release**");

(v) the press release titled "CannTrust receives Health Canada Approval for Phase 2 Expansion" dated and filed on SEDAR April 8, 2019; ("**April 8, 2019 Press Release**")

(vi) the press release titled "CannTrust Provides Business Update" dated and filed on SEDAR April 22, 2019 ("**April 22, 2019 Press Release**");

(vii) the press release titled "CannTrust Reports Financial Results for Q1 2019" dated and filed on SEDAR May 14, 2019 ("**Q1 2019 Press Release**"); and

(viii) the press releases of CannTrust dated June 5, 12, 13, and 26, 2018; July 6, 11, and 13, 2018; August 8, 21, 22 and 28, 2018; September 5, 9, 10, and 18; October 1, 3, 10, 18, and 28, 2018; November 14, 26 and 30, 2018; January 8 and 22, 2019; February 13, 20, and 25, 2019; March 4, 14, 18, and 28, 2019; April 2, 8, 10, and 22, 2019; May 2, 6, 13, 14, 16, 27 and 31, 2019; June 6, 19, and 21, 2019; July 3, 8, 11, 22, 25, and 31, 2019; August 1, 9, 12, 15, 19, and 29, 2019; and September 5, 2019;

(ccc) "**Prospectuses**" means **CannTrust's**

(i) Preliminary Short Form Base Shelf Prospectus dated and filed on SEDAR March 1, 2019 ("**March 1 Prospectus**");

(ii) Final Short Form Base Shelf Prospectus dated and filed on SEDAR March 18, 2019 ("**March 18 Prospectus**");

(iii) Draft Shelf Prospectus Supplement dated and filed on SEDAR April 22, 2019; ("**April 22 Prospectus**"); and

(iv) Prospectus Supplement dated May 1, 2019 and filed on SEDAR May 3, 2019 ("**May 1 Prospectus**");

(ddd) "**Ravensdale**" means Michael Ravensdale;

(eee) "**RBC**" means RBC Dominion Securities Inc.;

(fff) "**Representations**" means, collectively, the Compliance Representations, the Controls Representation, the IFRS Representation, the KPMG Representations, and the Underwriters Representation;

(ggg) "**Rogers**" means Brad Rogers;

(hhh) "**Sanders**" means Mitchell J. Sanders;

(iii) "**SEC**" means the United States Securities and Exchange Commission;

(jjj) "**Securities Legislation**" means, collectively, the *Securities Act*, RSA 2000, c S-4, as amended; the *Securities Act*, RSBC 1996, c 418, as amended; *The Securities Act*, CCSM, c S50, as amended; the *Securities Act*, SNB 2004, c S5.5, as amended; the *Securities Act*, RSNL 1990, c S-13, as amended; the *Securities Act*, SNWT 2008, c 10, as amended; the *Securities Act*, RSNS 1989, c 418, as amended; the *Securities Act*, S Nu 2008, c 12, as amended; the *Securities Act*, RSPEI 1988, c S-3.1, as amended; the *Securities Act*, RSQ c V-1.1, as amended; *The Securities Act*, 1988, SS 1988-89, c S-42.2, as amended; and the *Securities Act*, SY 2007, c 16, as amended;

(kkk) "**SEDAR**" means the system for electronic document analysis and retrieval of the **CSA**;

(lll) "**Shares**" means **CannTrust's** common shares;

(mmm) "**TSX**" means the Toronto Stock Exchange;

(nnn) "**Underwriters Representation**" has the meaning ascribed to it at paragraph 136;

(ooo) "**Underwriters**" means **Merrill**, **Citigroup**, **Credit Suisse**, **RBC**, **Jefferies**, and **Cannacord**;

(ppp) "**Vaughan Compliance Representations**" means the representations that, with respect to the Vaughan Facility, CannTrust (i) had all required licenses and/or approvals for the activities conducted, and (ii) met standards and/or requirements applicable to security controls, quality assurance investigations and controls, operating procedures, and document retention; and

(qqq) "**Vaughan Facility**" has the meaning ascribed to it at paragraph 76 below.

2. Unless otherwise stated, all dollar amounts stated herein are in Canadian dollars.

II. CLAIM

3. The Plaintiffs claim:

(a) an order certifying this action as a class proceeding and appointing the plaintiffs as the representative plaintiffs for the Class, pursuant to sections 5 and 8 of the *CPA*;

(b) an order granting leave to proceed with the statutory claim for misrepresentation under Part XXIII.1 of the *OSA* and, if necessary, the corresponding provisions of the Securities Legislation;

(c) a declaration that the Misleading Documents contained one or more misrepresentations within the meaning of the *OSA*, the Securities Legislation, and the common law;

(d) a declaration that the Individual Defendants authorized, permitted or acquiesced in the making of the misrepresentations while knowing them to be misrepresentations;

(e) a declaration that the Defendants owed the Plaintiffs and Class Members a duty of care in the preparation and dissemination of the Misleading Documents and that they breached that duty of care;

(f) a declaration that CannTrust, the Individual Defendants, and KPMG are liable in damages to the Secondary Market Class for misrepresentations in CannTrust's public disclosures and failures to make timely disclosure alleged herein pursuant to Part XXIII.1 of the *OSA*, the corresponding provisions of the Securities Legislation, and the common law;

(g) a declaration that the Defendants are liable in damages to the Primary Market Class for negligence and for misrepresentations in the May 1 Prospectus pursuant to s 130 of the *OSA*, the corresponding provisions of the Securities Legislation, and the common law;

(h) a declaration that, in the alternative to damages, any Primary Market Class member who specifically elects to do so may exercise a right of rescission in respect of the Offering;

(i) a declaration that:

(i) the acts or omissions of CannTrust or its affiliates have effected a result;

(ii) the business and affairs of CannTrust or its affiliates have been carried on or conducted in a manner; and,

(iii) the powers of the directors of CannTrust or its affiliates, or one or more of them, have been exercised in a manner;

that is or has been oppressive or unfairly prejudicial to or that unfairly disregards or disregarded the interests of the Plaintiffs and Class, pursuant to section 248 of the *OBCA*;

(j) a declaration that CannTrust, Aceto, Green, Kirk, Eric Paul, Lee, Ian Abramowitz and Platt are liable in damages to the Class Members for conspiracy;

(k) compensation for oppression and damages for negligent misrepresentation, negligence, conspiracy, and pursuant to s 130 and Part XXIII.1 of the OSA and, if necessary, the corresponding provisions of the other Securities Legislation in an amount to be proven at trial;

(l) punitive damages against the Defendants in an amount that this Court finds appropriate;

(m) a declaration that CannTrust, KPMG, Cannamed, Cajun and the Underwriters are vicariously liable for the acts and omissions of its officers, directors, agents and employees;

(n) an order directing a reference or giving such other directions as may be necessary to determine issues not determined in the trial of the common issues

(o) costs of this action, plus the costs of notice and of administering the plan of distribution of the recovery in this action plus applicable taxes, pursuant to section 26(9) of the *CPA*;

(p) pre-judgment and post-judgment interest pursuant to the *CJA*; and

(q) such further and other relief as this Honourable Court may deem just.

III. OVERVIEW

4. CannTrust is in the business of producing and selling cannabis products. As a federally regulated licensed producer of cannabis during the Class Period, CannTrust operated in a strictly regulated environment governed by various laws, regulations and standards administered in part by Health Canada.

5. Of critical importance to CannTrust's business was that it strictly comply with those laws, regulations, and standards including obtaining activity-specific licenses (such as cultivation, processing, sale testing, and research of cannabis) and location-specific licences for the facilities and/or rooms in which those activities would take place. Failure to comply with these rules would expose CannTrust to sanction and penalties, ranging from fines to the suspension or revocation of its licenses.

6. Before and throughout the Class Period, CannTrust told investors that it had obtained all necessary licenses for the cannabis activities to be undertaken at the facilities it owned, and that it would apply for additional licenses as necessary in the future. It also told investors that it met all applicable standards for security, quality assurance, standard operating procedures, and document retention.

7. However, unbeknownst to investors, on or around June 1, 2018, CannTrust began storing cannabis in rooms in its Vaughan Facility without the required approval from Health Canada. Then, starting on or around October 1, 2018, CannTrust, with the knowledge and approval of executive management, began producing and selling cannabis made in rooms that did not have the required licenses. CannTrust employees intentionally deceived Health Canada inspectors, including by installing fake walls to hide the cannabis being grown in the unlicensed rooms. In addition, during the Class Period, CannTrust produced and sold cannabis grown from seeds that were illegally obtained through the black market.

8. This conduct exposed CannTrust's business to serious risks, including penalties ranging from fines, products holds and/or recalls, to suspension or complete revocation of its licenses, and which could lead to product shortages, increased costs, decreased sales, and/or the inability to do business altogether.

9. This material information ought to have been immediately disclosed to investors. Instead, throughout the Class Period CannTrust and the Individual Defendants misled the Class Members by representing that they were in full compliance with all laws and regulations, and had validly obtained appropriate licenses for all activities and locations.

10. The failure to disclose this conduct resulted in other misleading information to be reported by the company, including:

(a) materially false revenue, sales, biological assets and inventory figures (which were artificially inflated because they included cannabis being stored, produced and sold that CannTrust was not entitled to store, produce or sell);

(b) misleading statements that the financial statements issued during the Class Period were compiled in accordance with IFRS; and

(c) misleading statements that the company had effective internal controls, including ICFR and DC&P.

11. The misrepresentations and failure to disclose this information caused CannTrust's Shares to trade at an artificially high price during the Class Period, when the Class Members acquired those Shares. CannTrust, Eric Paul, Litwin, Sanders, Cannamed and Cajun profited by selling Shares at those artificially inflated prices during the Class Period, both in the secondary and primary markets.

12. The misrepresentations propping up those artificial values were blessed during the Class Period by the Underwriters and KPMG. To their detriment, the Class Members relied upon these supposed gatekeepers.

13. Starting on July 8, 2019, the market began to learn the truth. On that date, CannTrust announced that it had been found noncompliant by Health Canada for conducting the unlicensed activities in its Niagara Facility, and that over 5200 kg of cannabis, representing the majority of its inventory, had been put on hold by Health Canada. CannTrust placed a voluntary hold on a separate and additional 7500 kg of dried cannabis inventory being held at the Vaughan Facility. In the weeks that followed, the market continued to learn additional information and consequences of that information to the Share price, including:

(a) that distributors and partners were putting already-shipped product on hold or recall;

(b) that CannTrust's business was adversely affected from product shortages, increased costs, and decreased sales;

(c) that CannTrust was at risk of a license suspension and/or revocation which could impede its ability to continue doing business;

(d) that senior management knew and sanctioned the conduct, which increased the risk of harsher sanctions and/or penalties;

(e) that, as a result, CannTrust's plans for growth and expansion could be delayed or jeopardized;

(f) that reported sales, revenues, biological assets and inventory figures were inflated;

(g) that CannTrust's internal controls and procedures were ineffective and overridden by management during the Class Period; and,

(h) that CannTrust's financial statements did not comply with IFRS.

14. In the wake of these disclosures, a special committee of directors was formed, CannTrust's CEO (Aceto) was fired, and its founder and Chairman of the Board (Paul) was forced to resign. The special committee announced on July 31, 2019 that it had engaged a financial adviser "to assist in a review of strategic alternatives" including a possible sale of all or some of the company, a business combination, or changes to the company's operation or strategy.

15. On August 1, 2019, the special committee announced that CannTrust would miss the deadline for filing its quarterly financial disclosures, that there was "significant uncertainty" regarding the impact of the illegal activity on the valuation of the Company's inventory, biological assets, and revenue recognition, and that the financial statements and MD&A for the year ended 2018 and first quarter of 2019 could require restatements. It also disclosed that the OSC had opened an investigation into CannTrust which was being carried out by the Joint Serious Offences Team of the Enforcement Branch of the OSC.

16. On August 9, 2019, CannTrust announced that its auditor, KPMG, had withdrawn its audit report for the 2018 Financial Statements and the interim report to CannTrust's audit committee for the Q1 2019 Financial Statements, and that those reports should no longer be relied upon.

17. However, that was not the end of the bad news for investors. On August 12, 2019, the company revealed that a second facility, the Vaughan Facility, had also been "rated noncompliant with certain regulations" by Health Canada, had been conducting activities without the required licenses and/or approvals, and did not meet applicable standards for security, quality assurance, standard operating procedures, and document retention.

18. Then, on September 6, 2019 , mainstream news outlets reported that CannTrust had been producing and selling cannabis that was grown from seeds that were illegally obtained through the black market.

19. Finally, on the last day of the Class Period, September 17, 2019, CannTrust revealed that Health Canada had suspended CannTrust's license, and its ability to do business, putting its future as a going concern in jeopardy.

20. As the Defendants' misrepresentations and omissions were publicly corrected, the price of CannTrust's Shares plummeted from \$6.46 on the TSX prior to the July 8, 2018 announcement to a close of \$1.70 at the end of the Class Period. The Class Members suffered massive losses as a result.

21. In this action, the Plaintiffs seek to recover those losses on behalf of the Class Members from those responsible: the Defendants.

IV. THE PARTIES

A. Plaintiffs

22. Patrick Hrusa is an individual residing in Mississauga, Ontario. During the Class Period, Mr. Hrusa acquired CannTrust Shares on the secondary market and held some or all of those Shares through one or more of the corrective disclosures described herein.

23. Dharambir Singh is an individual residing in Surrey, British Columbia. During the Class Period, Mr. Singh acquired CannTrust Shares on the secondary market and held some or all of those Shares through one or more of the corrective disclosures described herein. During the Class Period, a business owned by Mr. Singh acquired CannTrust Shares on the secondary market, and held some or all of those Shares through one or more of the corrective disclosures described herein. During the Class Period, Mr. Singh's wife, Gurpreet Kalsi, acquired CannTrust Shares on the secondary market, and held some or all of those Shares through one or more of the corrective disclosures described herein.

B. Defendants

24. CannTrust is a corporation formed under the *OBCA*, with its registered and head office located in Vaughan, Ontario. It is a licensed producer of medical and recreational cannabis in Canada.

25. During the Class Period, CannTrust was a reporting issuer in all provinces of Canada except Quebec, and its Shares were publicly listed for trading on the TSX, NYSE, and other trading venues in Canada and elsewhere. It published the documents identified below on, among other places, SEDAR and EDGAR.

26. Eric Paul is a co-founder of CannTrust and was its CEO from inception until October 1, 2018, when he stepped down to assume the role of Chairman of CannTrust's Board and Special Advisor to CannTrust's management team. He was a director of CannTrust since 2015. Eric Paul resides in Ontario. Eric Paul (i) certified the Q2 2018 Financial Statements and MD&A, and (ii) on behalf of the board of directors, signed each of CannTrust's financial statement issued during the Class Period, and in doing so, he adopted as his own the false statements made in those documents. As a board member, he caused CannTrust to make the misrepresentations particularized below.

27. During the Class Period, Eric Paul, through entities he owns and/or controls (including Cannamed and the Paul Family Trust) sold CannTrust Shares while having actual or constructive knowledge of the material, non-public information described herein, including over 3 million Shares in the Offering and over 780,000 Shares in the secondary market, for proceeds in excess of $28 million.

28. Aceto was the CEO of CannTrust since October 1, 2018. He resides in Ontario, Canada. Aceto (i) certified each of the Misleading Documents that are CannTrust's annual and interim MD&As and financial statements issued after October 1, 2018; and (ii) signed and certified the Prospectuses. In doing so, he adopted as his own the false statements such documents contained, as particularized below. As an officer, he caused CannTrust to make the misrepresentations particularized below.

29. Ian Abramowitz was the CFO of CannTrust until February 13, 2019, when he stepped down to assume a role as Senior Vice President of Global Investments and Partnerships. He resides in Ontario, Canada. Abramowitz certified each of the Misleading Documents that are CannTrust's

annual and interim MD&As and financial statements that were issued prior to February 13, 2019. In doing so, he adopted as his own the false statements such documents contained, as particularized below. As an officer, he caused CannTrust to make the misrepresentations particularized below.

30. Guyatt has been the CFO of CannTrust since February 13, 2019. He resides in Ontario, Canada. Guyatt (i) certified each of the Misleading Documents that are CannTrust's annual and interim MD&As and financial statements that were issued after February 13, 2019; and (ii) signed and certified the Prospectuses. In doing so, he adopted as his own the false statements such documents contained, as particularized below. As an officer, he caused CannTrust to make the misrepresentations particularized below.

31. Litwin has been a director of CannTrust since 2015. He resides in Ontario, Canada. Litwin, on behalf of the board of directors, signed each of CannTrust's financial statements issued during the Class Period and the May 1 Prospectus, and in doing so, he adopted as his own the false statements made in those documents. As a board member, he caused CannTrust to make the misrepresentations particularized below.

32. During the Class Period, Litwin, through entities owned and/or controlled by him and his family members (including Cannamed, Mar-Risa Holdings, Forum Financial Corporation, and York Capital Funding) sold CannTrust Shares while having actual or constructive knowledge of the material, non-public information described herein, including over 1.5 million Shares in the Offering, and over 2.8 million Shares in the public markets for proceeds in excess of $34 million.

33. Sanders has been a director of CannTrust since 2015. He resides in Ontario, Canada. As a board member, he adopted as his own the false statements made in each of CannTrust's annual financial statements released while he was a board member, particularized below, when such

statements were signed on his behalf. As a board member, he caused CannTrust to make the misrepresentations particularized below.

34. During the Class Period, Sanders, through Cajun, which he controls, sold 250,000 Shares in the Offering for proceeds of over $1.8 million and 100,000 Shares in the public markets for proceeds in excess of $900,000 while having actual or constructive knowledge of the material, non-public information described herein.

35. Marcovitch has been a director of CannTrust since 2017. He resides in Washington state, in the United States of America. During the Class Period, Marcovitch was a member of the audit committee of CannTrust's board of directors. As a board member, he adopted as his own the false statements made in each of CannTrust's annual financial statements released while he was a board member, particularized below, when such statements were signed on his behalf. As a board member, he caused CannTrust to make the misrepresentations particularized below.

36. Dawber has been a director of CannTrust since 2017. He resides in Ontario, Canada. During the Class Period, Dawber was a member of the audit committee of CannTrust's board of directors. As a board member, he adopted as his own the false statements made in each of CannTrust's annual financial statements released while he was a board member, particularized below, when such statements were signed on his behalf. Dawber signed the May 1 Prospectus. As a board member, he caused CannTrust to make the misrepresentations particularized below.

37. Page has been a director of CannTrust since 2018. She resides in Ontario, Canada. As a board member, she adopted as her own the false statements made in each of CannTrust's annual financial statements released while she was a board member, particularized below, when such

statements were signed on her behalf. As a board member, she caused CannTrust to make the misrepresentations particularized below.

38. Kaden has been a director of CannTrust since October 22, 2018. Kaden resides in New York in the United States of America. During the Class Period (as of February 14, 2019), Kaden was a member of the audit committee of CannTrust's board of directors. As a board member, he adopted as his own the false statements made in each of CannTrust's annual financial statements released while he was a board member, particularized below, when such statements were signed on his behalf. As a board member, he caused CannTrust to make the misrepresentations particularized below.

39. Norman Paul was a director of CannTrust during the Class Period until September 9, 2018. As a board member, he adopted as his own the false statements made in each of CannTrust's annual financial statements released while he was a board member, particularized below, when such statements were signed on his behalf. As a board member, he caused CannTrust to make the misrepresentations particularized below.

40. Rogers held the role of CannTrust's President and Chief Operating Officer until November 9, 2018. As an officer, he authorized, permitted, or acquiesced in CannTrust making the misrepresentations particularized below.

41. Stan Abramowitz held the position of CannTrust's Secretary during the Class Period. As an officer, he authorized, permitted, or acquiesced in CannTrust making the misrepresentations particularized below.

42. Ravensdale held the role of CannTrust's Senior Vice-President of Quality and Production until November 11, 2018. As an officer, he authorized, permitted, or acquiesced in CannTrust making the misrepresentations particularized below.

43. Lee was CannTrust's director of quality and compliance during the Class Period. As an officer, he authorized, permitted, or acquiesced in CannTrust making the misrepresentations particularized below.

44. Platt was CannTrust's vice-president of innovation and regulatory affairs during the Class Period. As an officer, she authorized, permitted, or acquiesced in CannTrust making the misrepresentations particularized below.

45. Green was CannTrust's master grower during the Class Period. As an officer, he authorized, permitted, or acquiesced in CannTrust making the misrepresentations particularized below.

46. Kirk was CannTrust's Vice President, Quality during the Class Period. As an officer, she authorized, permitted, or acquiesced in CannTrust making the misrepresentations particularized below.

47. Dawber, Marcovitch, and Kaden were members of the Audit Committee of CannTrust's board of directors and were responsible for CannTrust's financial reporting process and the quality of its financial reporting. They were charged with the mandate of providing independent review and oversight of CannTrust's financial reporting process, the system of internal control and management of financial risks, and the audit process, including the selection, oversight and compensation of CannTrust's external auditors.

48. Each of the Individual Defendants were, during the Class Period, directors and/or officers of CannTrust within the meaning of the *OSA* and Securities Legislation.

49. KPMG has been engaged as CannTrust's auditor since 2018. KPMG is an expert of CannTrust within the meaning of the *OSA* and Securities Legislation. KPMG, providing what it purported to be audit services to CannTrust, made statements in the Audit Report (defined below) that it knowingly intended to be, and which were, disseminated to CannTrust's current and prospective security holders. KPMG undertook to provide the Audit Report to those current and prospective securities holders (i.e. the Class Members) for the purpose of allowing them to make informed decisions as to whether to acquire the Shares. KPMG knew and intended that the Class Members would rely on the Audit Report in their decisions to purchase Shares, which they did, to their detriment.

50. KPMG consented to the inclusion in the May 1 Prospectus of its Audit Report on CannTrust's 2018 Annual Financial Statements.

51. The Underwriters are financial institutions that served as underwriters in the Offering. The Underwriters were paid, in aggregate, in excess of US$ 12.8 million in underwriting commissions.

52. None of the Underwriters conducted a reasonable investigation into CannTrust in connection with the Offering. None of the Underwriters had reasonable grounds to believe that there was no misrepresentation in the May 1 Prospectus or the Misleading Documents incorporated therein. In the circumstances of this case, the Underwriters all ought to have exercised heightened vigilance and caution in the course of discharging their duties to investors, which they did not do. Had they done so, the Class Members to whom they owed their duties would not have sustained the losses they sustained on their investments.

53. Cannamed is a holding company owned and controlled by Eric Paul (through the Paul Family Trust, which he owns and/or controls) and Litwin (through companies he or his family members own and/or control, including Mar-Risa Holdings and York Capital Funding). During the Class Period, it sold Shares while having actual or constructive knowledge of the material, non-public information described herein, including 730,000 Shares in the secondary market, and over 6 million Shares in the Offering.

54. Cajun Capital Corp is a holding company owned and controlled by the defendant Sanders. During the Class Period, it sold 250,000 Shares in the Offering and 100,000 Shares in the public markets while having actual or constructive knowledge of the material, non-public information described herein.

V. THE DEFENDANTS' DISCLOSURE OBLIGATIONS

A. CannTrust's Disclosure Obligations

55. As a reporting issuer in Ontario and other provinces, CannTrust was subject to the continuous disclosure obligations prescribed by NI 51-102 to prepare and file on SEDAR certain disclosure documents prepared on regular basis, including

(a) *annual and interim financial statements*, which provide information about CannTrust's business and financial positions;

(b) *annual and interim MD&As* (filed together with the financial statements) which provides material information about CannTrust's business, management and operational and financial status during the period covered by the financial statements; and

(c) *an AIF* (filed on an annual basis) which provides material information about CannTrust and its business at a point in time in the context of its historical and possible future development.

56. An MD&A is a narrative explanation, through the eyes of management, of how the company performed during the period covered by the financial statements, and of its financial conditions and future prospects. Among other things, the MD&A is required to

(a) discuss material information that may not be fully reflected in the financial statements;

(b) discuss important trends and risks that have affected the financial statements, and trends and risks that are reasonably likely to affect them in the future; and

(c) provide information about the quality and potential variability, of the company's profit, loss or cash flow, to assist investors in determining if past performance is indicative of future performance.

57. In particular, item 1.4(g) of Form 51-102F1 (which prescribes the content of MD&As as required under NI 51-102) required CannTrust to disclose in each annual and interim MD&A any commitments, events, risks or uncertainties that it reasonably believed would materially affect CannTrust's future performance, total revenue and income or loss.

58. An AIF describes the company, its operations and prospects, risks and other external factors that may impact the reporting issuer specifically.

59. In fulfilling its continuous disclosure obligations, CannTrust was prohibited from making a statement that it knew or reasonably ought to have known: (a) in a material respect and at the time and in the light of the circumstances under which it was made, was misleading or untrue or did not state a fact that was required to be stated or that was necessary to make the statement not

misleading; and (b) would reasonably be expected to have a significant effect on the market price or value of its securities.

60. Contemporaneously with the filing of the interim and annual financial statements and MD&As, and the AIF, CannTrust was required to file certifications signed by the CEO and CFO certifying their review of the required documents and certain other matters.

61. In addition to the regular reporting requirements, CannTrust was also required to immediately disclose to investors any material change in its business or affairs by:

(a) immediately issuing and filing a news release disclosing the nature and substance of the material change; and

(b) as soon as practicable, and in any even within 10 days of the material change, prepare and file a material change report in accordance with the *OSA*, regulations and NI 51-102;

62. A material change report must include a brief but accurate summary of the nature and substance of the material change as well as sufficient additional disclosure to enable a reader to appreciate the significance and impact of the material change without having to refer to other material.

63. As a company listed on the TSX, CannTrust was also required to disclose material information concerning its business and affairs forthwith upon the information becoming known to management.

64. The Plaintiffs plead and rely on: (a) the *OSA*, in particular section 126.2, and the concordant provisions of the Securities Legislation; (b) NP 51-201, in particular sections 2.1 and 4.1 to 4.5; and (c) the TSX Company Manual, in particular sections 406 to 410.

65. CannTrust and the Individual Defendants controlled the contents of its MD&As, financial statements, AIFs, and the other Misleading Documents particularized herein and the misrepresentations made therein were made by CannTrust and the Individual Defendants.

B. Individual Defendants' Roles in Disclosure

66. Each of the Individual Defendants knew that CannTrust was a reporting issuer and that in his or her role as a director and/or officer of CannTrust, he or she would have direct responsibility for ensuring the accuracy and completeness of CannTrust's disclosure documents.

67. The *OSA*, Securities Legislation, and certain National Instruments and Companion Policies promulgated thereunder imposed specific obligations on the Individual Defendants in the preparation of CannTrust's continuous disclosure documents.

68. Sections 77 and 78 of the *OSA*, and the concordant provisions of the Securities Legislation, informed by NI 52-109, required Aceto as CEO, and Abramowitz and Guyatt as CFOs to review, approve and certify the accuracy of CannTrust's annual and interim financial statements and MD&As released during the Class Period.

69. NI 51-102 requires the board of directors of a reporting issuer to approve each annual and interim financial statement and MD&A released by an issuer prior to the release of those documents.

70. Each of the Individual Defendants was aware of and accepted these obligations in assuming his or her position as a director and/or officer of CannTrust. The Individual Defendants authorized, permitted and/or acquiesced in the release or making of, and adopted as their own, the false statements particularized below.

VI. EVENTS GIVING RISE TO THE ACTION

A. Governing Legislation and Regulations

71. As a licensed producer of cannabis, CannTrust was governed by the *Cannabis Act* and *Cannabis Regulations* which came into force on October 17, 2018, legalizing the sale of cannabis for adult recreational use, and replacing the former *ACMPR* and *Controlled Drugs and Substances Act* as the governing legislation on the production, sale and distribution of medical cannabis.

72. The *Cannabis Act* prescribes the regulatory framework and licensing scheme for production, importation, exportation, testing, packaging, labelling, sending, delivery, transportation, sale, possession and disposal of cannabis for non-medicinal use. It also regulates access to cannabis for medical purposes.

73. The *Cannabis Regulations* provide more detailed rules and standards that apply to the production, distribution, sale, importation and exportation of cannabis by federal license holders. They also establish different classes of licenses that are required depending on the nature of the activity being undertaken, including licenses for cultivation, processing, sale, testing, and research.

74. The regulations require that a company apply for, and obtain, licenses for each specific activity and location in which it intends to perform regulated activities.

75. Despite the change in governing legislation, the regulatory framework remained substantively similar. In particular, CannTrust reported that cannabis licenses obtained under the *ACMPR* are deemed to be licenses under the *Cannabis Act* and continue to be in effect until revoked or expired.

B. CannTrusts' Representations About the Vaughan and Niagara Facilities

76. CannTrust (through its operating subsidiary) received its cultivation license under the *ACMPR* from Health Canada on June 12, 2014 and began production of medical cannabis at its production facility in Vaughan, Ontario ("**Vaughan Facility**").

77. On March 6, 2017, CannTrust (through a wholly owned subsidiary) acquired a 450,000 square foot commercial greenhouse facility in the Niagara Region ("**Niagara Facility**"). Prior to the start of the Class Period, CannTrust announced an intention to redevelop the Niagara Facility to expand its cannabis production capacity significantly through a three-phase plan that would allow it to produce up to 100,000 kg of cannabis per year.

78. CannTrust reported that the 250,000 square foot first phase was completed in the fall of 2017, and the 200,000 square foot phase 2 redevelopment was substantially completed during the Class Period, in the first quarter of 2019. CannTrust reported that the phase 3 expansion was expected to be completed during 2020.

79. Prior to the start of the Class Period, CannTrust represented to investors that it had obtained all necessary licenses and approvals for activities to be undertaken at the Vaughan and Niagara Facilities, that its operations were compliant with applicable laws and regulations, and that the facilities met all standards and/or requirements applicable to security controls, quality assurance investigations and controls, operating procedures, and document retention.

80. For example, in its AIF for the year ended 2017, filed on March 28, 2018 (prior to the start of the Class Period), CannTrust stated that

(a) it received its cultivation license from Health Canada under the ACMPR for the Vaughan Facility on June 12, 2014;

(b) it received its Health Canada cultivation license under the ACMPR for the phase 1 development of the Niagara Facility on October 10, 2017;

(c) it received its Health Canada sales license under the ACMPR for its 250,000 phase 1 development of the Niagara Facility on February 12, 2018;

(d) the sales licenses issued by Health Canada for the Vaughan Facility and the Niagara Facility allowed for the production, sale or provision, possession, shipping, transportation, delivery and destruction of dried cannabis and cannabis plants or seeds, and were effective until the expected renewal dates of March 13, 2020 and October 6, 2020, respectively;

(e) it had sought and received its ACMPR Licenses for the Vaughan Facility and Niagara Facility which each provided for the production and sale of dried cannabis, cannabis oil, cannabis in its natural form, cannabis resin, cannabis plants, and cannabis seeds;

(f) it believed that it currently held or had applied for all necessary licences and permits to carry on the activities which it was currently conducting under applicable laws and regulations, and also believed that it was complying in all material respects with the terms of such licences and permits;

(g) in addition, it would apply for, as the need arises, all necessary licences and permits to carry on the activities it expected to conduct in the future;

(h) it obtained cannabis seeds for growing from legal sources;

(i) to the knowledge of management, other than the requirement that CannTrust make routine corrections that may be required by Health Canada from time to time, the Company was currently in compliance with all laws, regulations and guidelines relating to the manufacture, management, transportation, storage and disposal of medical cannabis as well as laws and regulations relating to health and safety, the conduct of operations and the protection of the environment;

(j) it understood the importance placed upon adhering to the "Good Production Practices" mandated by the ACMPR which related to the premises, storage of dried cannabis, equipment, sanitation program, standard operating procedures, recall of product, and quality assurance personnel;

(k) it currently had an in-house quality control laboratory and employed quality assurance persons with appropriate training, experience, and technical knowledge to approve the quality of its products;

(l) its facilities met the updated security requirements of the ACMPR;

(m) it complied with record keeping requirements imposed by the ACMPR;

81. In fact, and as later disclosed, CannTrust:

(a) did not have the required licenses for the rooms and activities conducted at the Niagara Facility, and was using unlicensed rooms in these facilities to produce and distribute cannabis, in contravention of laws and regulations;

(b) was producing and selling cannabis from the Niagara Facility that was grown from illegally obtained black market seeds;

(c) was storing cannabis in rooms in the Vaughan Facility without the required licenses and/or approvals; and

(d) did not meet required standards at the Vaughan Facility with respect to security controls, quality assurance investigations and controls, standard operating procedures, and document retention.

VII. THE OFFERING

82. On May 6, 2019 CannTrust announced the closing of its underwritten public offering of 36,363,636 Shares at a price of US$ 5.50 per share.

83. The Offering took place pursuant to the May 1 Prospectus, which incorporated by reference the March 18 Prospectus and certain other Misleading Documents. Pursuant to the Offering, on May 6, 2019:

(a) CannTrust sold 30,909,091 Shares for total gross proceeds of approximately US$ 170 million (before expenses);

(b) Cannamed sold 5,204,545 Shares for total gross proceeds of approximately US$ 28.6 million (before expenses); and

(c) Cajun sold 250,000 Shares for total gross proceeds of approximately US$ 1.375 million (before expenses).

84. On May 14, 2019, CannTrust announced that the Underwriters had exercised in full their option to purchase 4,636,363 and 818,182 additional Shares, respectively from the Company and Cannamed, for total gross proceeds of approximately US$ 25.5 million (to CannTrust) and US$ 4.5 million (to Cannamed) before expenses.

85. The May 1 Prospectus was signed by Aceto, Guyatt, Dawber and Litwin, and on behalf of the board of directors of CannTrust, who therein falsely certified that the prospectus, together with the documents incorporated therein by reference, constituted full, true and plain disclosure of all material facts relating to the securities offered thereby.

86. Each of the Underwriters also signed the May 1 Prospectus, and therein falsely certified that, to the best of its knowledge, information and belief, that prospectus, together with the

documents incorporated therein by reference, constituted full, true and plain disclosure of all material facts relating to the securities offered thereby.

87. KPMG consented in writing to the inclusion in the May 1 Prospectus of its audit report on CannTrust's 2018 Annual Financial Statements, as alleged below.

88. The May 1 Prospectus was filed with the securities commission in all Canadian provinces except Quebec, and with the SEC.

VIII. CANNTRUST'S MISREPRESENTATIONS AND OMISSIONS

89. During the Class Period, the Defendants made misrepresentations and failed to make timely disclosure of material changes.

90. CannTrust and the Individual Defendants made the following misrepresentations during the Class Period:

(a) misrepresentations that CannTrust was appropriately licensed and in compliance with applicable laws, rules and regulations for the activities conducted at the Niagara Facility, and that the cannabis produced there was in compliance with applicable laws, rules and regulations;

(b) misrepresentations that, with respect to the Vaughan Facility, CannTrust (i) had all required licenses and/or approvals for the activities conducted, and (ii) met standards and/or requirements applicable to security controls, quality assurance investigations and controls, operating procedures, and document retention;

(c) misrepresentations regarding sales, revenues, biological assets, and inventory;

(d) misrepresentations that CannTrust had effective ICFR and DC&P except as disclosed in its annual and interim filings; and

(e) misrepresentations that the financial statements were compiled in accordance with IFRS.

91. CannTrust and the Individual Defendants also failed to make timely disclosure that

(a) CannTrust was producing cannabis for distribution and sale in rooms in the Niagara Facility without the required licenses for those rooms and/or activities, and that it was producing and selling cannabis grown from seeds illegally obtained on the black market; and,

(b) with respect to the Vaughan Facility, CannTrust (i) was storing cannabis in rooms without the required licenses and/or approvals; and (ii) failed to meet standards and requirements applicable to security controls, quality assurance investigations and controls, operating procedures, and document retention.

92. During the Class Period, KPMG made misrepresentations regarding its audit and presentation of the 2018 Annual Financial Statements, as particularized below.

93. During the Class Period, the Underwriters made misrepresentations that the May 1 Prospectus, and information incorporated therein, made full, plain and true disclosure of all material facts relating to the Shares offered thereby, as particularized below.

A. Misrepresentations that CannTrust had the required licenses for activities conducted at the Niagara Facility

94. During the Class Period, CannTrust and the Individual Defendants falsely represented that CannTrust was appropriately licensed and in compliance with applicable laws, rules and regulations for the activities conducted at the Niagara Facility, and that the cannabis produced

there was in compliance with applicable laws, rules and regulations. Such representations were made in each of the Misleading Documents, as described below.

Core Documents

95. Each of CannTrust's annual and interim financial statements and MD&As, AIFs, material change reports, and the Prospectuses issued during the Class Period contained misrepresentations that the Niagara Facility was licensed and in compliance with applicable regulations for the activities conducted there, and that the cannabis produced there was in compliance with applicable laws, rules and regulations. Each of these documents is a core document as defined in the *OSA* and other Securities Legislation.

96. The 2017 AIF and 2017 Annual MD&A (incorporated by reference into certain Misleading Documents) 2018 AIF, 2018 Annual MD&A and Prospectuses each contained some or all of the following representations, including those particularized at Schedule "A":

(a) the Niagara Facility had obtained cultivation and sales licenses from Health Canada;

(b) the sales licenses for the Niagara Facility were effective until the expected renewal dates of October 6, 2020;

(c) the licenses allowed for the production, sale or provision, possession, shipping, transportation, delivery and destruction of cannabis;

(d) seeds for growing cannabis were obtained in accordance with the Cannabis Regulations, and were obtained from legal sources which included seeds acquired from Health Canada, seeds imported from a jurisdiction allowed to export seeds or seeds acquired from another licensed producer;

(e) CannTrust adhered to prescribed packaging requirements under the *Cannabis Act* and Cannabis Regulations;

(f) CannTrust responded and complied with all requests from Health Canada in connection with regular inspections;

(g) CannTrust believed that it held or had applied for all necessary licenses and permits;

(h) CannTrust believed that it was complying in all material respects with the terms of such licenses and permits;

(i) CannTrust would apply for necessary licenses and permits as the need arose in the future; and

(j) to the knowledge of management, the Company was currently in compliance with all laws relating to the manufacture, management, transportation, storage and disposal of medical cannabis as well as laws and regulations relating to health and safety.

97. Each of the annual and interim financial statements issued during the Class Period contained representations that the Niagara Facility had obtained a sales license from Health Canada.

98. Each of the interim MD&As issued during the Class Period contained representations that the Niagara Facility had obtained cultivation and sales licenses from Health Canada.

99. The Material Change Reports issued by CannTrust on October 4, 2018, February 19, 2019, May 6, 2019, May 14, 2019, July 12, 2019, August 2, 2019, and August 15, 2019 incorporated by reference press releases which each

(a) contained statements describing CannTrust as a "licensed producer" that operates its "Niagara Perpetual Harvest Facility"; and

(b) referred to and incorporated the "risk factors and other cautionary statements" set out in the 2017 AIF and/or the 2018 AIF, which contained the representations particularized herein.

100. Excerpts of certain of the misrepresentations, among others, from the Misleading Documents identified above are set out at Schedule "A."

Press Releases

101. Each of the Press Releases:

(a) contained a statement describing CannTrust as a "licensed producer" that operates its "Niagara Perpetual Harvest Facility"; and

(b) referred to and incorporated the "risk factors and other cautionary statements" set out in the 2017 AIF and/or the 2018 AIF, which contained the representations particularized herein.

102. The April 8, 2019 Press Release stated in part:

> CannTrust Holdings Inc. ("CannTrust" or the "Company", TSX:TRST, NYSE:CTST) is pleased to announce that its cultivation and processing permit under Health Canada Cannabis Regulations was amended to include the final 20% of its Phase 2 expansion. The entire 450,000 sq. ft. of its perpetual harvest greenhouse in Pelham, Ontario, is now fully licensed.
>
> "We have always been confident that our processes meet and exceed regulatory standards, and we now have further validation of this from our regulators," said Peter Aceto, Chief Executive Officer.

103. The April 22, 2019 Press Release stated in part:

> These preliminary results represent the excellent efforts the CannTrust team has made in increasing output at our Niagara perpetual harvest greenhouse. We are quickly approaching our stated capacity of 50,000kg per year from our Phase 2 expansion. Our 96% sequential increase in production over the prior quarter will enable us to service both our rapidly growing base of medical patients and the high demand in the recreational market for our award-winning products and brands." said Peter Aceto, Chief Executive Officer.
>
> ...
>
> In April 2019, CannTrust's cultivation and processing permit under Health Canada Cannabis Regulations was amended to include the final 20% of its Phase 2 expansion, which is now fully licensed. With the Phase 2 expansion, the Company expects full production to be achieved by the end of the second quarter of 2019 at an annualized rate of 50,000kg per year.

Public Oral Statements

104. On a March 28, 2019 conference call, in response to a question regarding the outstanding licensing for phase 2 of the Niagara Facility redevelopment, Aceto stated:

> "Yeah. So, the construction is complete on Phase 2, and we await final license -- so, we have a broad license which we make amendments to, which has created efficiency in our process with Health Canada, but there still remains our last few rooms that we await Health Canada approval from, and we will continue to wait for that. Their turnaround times have been generally reasonable, so the last rooms, we await final licensing for."

105. On the same call, in response to a question about the outdoor growing activities, Aceto stated:

> "We also -- these outdoor grows, just like our rooms in our Perpetual Harvest greenhouse, need to be licensed by Health Canada, and that's something we're respectful of, so, not 100% sure of the timing there as well."

106. Also on that call, in response to questions concerning the capacity of the Niagara Facility, Aceto stated:

> "So, phase 2 has ramped up gradually throughout the year, only being completed very recently, and not all rooms are fully licensed."
>
> . . .
>
> "When we get our final rooms licensed in Phase 2, we'll be at 50,000 kg annualized, but we've brought room systematically online as we've continued to build Phase 2, so I think that number has changed. And actually, Phase 2 -- for much of the case, the output that we sold in Q4 did not primarily come from plants grown in Phase 2."

107. On a May 14, 2019 conference call, Aceto stated:

> "In April, we received Health Canada approval for the remaining 20% of our phase 2 greenhouse. We expect that production will continue to increase to the full promised annualized capacity of 50,000 kilograms in the third quarter of this year."
>
> . . .
>
> "I think with phase 2 being completed, being fully licensed, where we're very close to being at full production capacity at the 50,000 kilograms, we'll certainly be in a better position to meet all of the stakeholder needs."

108. The statements described at paragraphs 94 to 107 and at Schedule "A," were untrue statements of material fact, and/or omitted to state a material fact that is required or that is necessary to make those statements not misleading in light of the circumstances in which they were made, because:

(a) between October 2018 and March 2019, CannTrust was growing and distributing cannabis that was grown in five rooms in the Niagara Facility that were not licensed and/or compliant with regulations, in violation of applicable laws;

(b) CannTrust employees, at the direction of top management, intentionally misled Health Canada about its non-compliance with regulations;

(c) CannTrust was producing and selling cannabis grown from seeds that were illegally obtained from the black market; and

(d) as a result, there was a significant risk that (i) CannTrust would be subject to suspension, penalties, or other regulatory and/or legal action that could jeopardize its current and future business prospects; and (ii) this conduct would result in product shortages, inventory hold, and/or that distributed products would have to be returned and/or recalled, which would have an adverse economic impact on the business.

109. In addition, every statement in every Misleading Document or public oral statement regarding

(a) the Niagara Facility;

(b) CannTrust's status as a licensed producer;

(c) CannTrust's cannabis or biological assets;

(d) CannTrust's production practices and product quality control; and/or

(e) risks associated with CannTrust and/or its business;

was a misrepresentation because it omitted to disclose the facts identified at paragraph 108, which were required or necessary to make those statements not misleading in light of the circumstances in which they were made.

B. Misrepresentations regarding the Vaughan Facility.

110. During the Class Period, CannTrust and the Individual Defendants falsely represented that the Vaughan Facility (i) had all required licenses and/or approvals for the activities conducted, and (ii) met standards and/or requirements applicable to security controls, quality assurance investigations and controls, operating procedures, and document retention. Such representations were made in each of the Misleading Documents, as described below.

Core Documents

111. Each of CannTrust's annual and interim financial statements and MD&As, AIFs, material change reports, and the Prospectuses issued during the Class Period contained misrepresentations that the Vaughan Facility (i) had all required licenses and/or approvals for the activities conducted, and/or (ii) met standards and/or requirements applicable to security controls, quality assurance investigations and controls, operating procedures, and document retention. Each of these documents is a core document as defined in the *OSA* and other Securities Legislation.

112. The 2017 AIF, 2017 MD&A (incorporated by reference into certain Misleading Documents), 2018 AIF and Prospectuses each contained some or all of the following representations, including those particularized at Schedule "B":

(a) CannTrust had obtained a cultivation and sale license from Health Canada for the Vaughan Facility;

(b) the licenses for the Vaughan Facility were effective until the expected renewal date of March 13, 2020;

(c) the license allowed for the production, sale or provision, possession, shipping, transportation, delivery and destruction of cannabis;

(d) the license allowed the Vaughan Facility to produce dried cannabis and cannabis extracts up to such amounts as permitted by CannTrust's storage capacity;

(e) CannTrust believed that it held or had applied for all necessary licenses and permits to carry on the activities it is currently conducting under applicable laws and regulations;

(f) CannTrust believed that it was complying in all material respects with the terms of such licenses and permits;

(g) CannTrust would apply for, as the need arose, all necessary licences and permits to carry on the activities it expected to conduct in the future;

(h) to the knowledge of management, the Company was currently in compliance with all laws relating to the manufacture, management, transportation, storage and disposal of medical cannabis as well as laws and regulations relating to health and safety;

(i) CannTrust responded to and complied with all requests from Health Canada in connection with regular inspections;

(j) CannTrust continuously reviewed and enhanced its operational procedures at the Vaughan Facility both proactively and in response to Health Canada inspections;

(k) there were no outstanding inspection issues with Health Canada beyond day-to-day adjustments that may occur in order to ensure ongoing compliance;

(l) CannTrust complied with or exceeded Health Canada's quality assurance standards and guidelines;

(m) CannTrust's facilities met prescribed security requirements;

(n) CannTrust adhered to the "Good Production Practices" mandated by the ACMPR and Cannabis Regulations relating to the premises, storage of dried cannabis, equipment, sanitation program, standard operating procedures, recall of product, and quality assurance personnel; and

(o) CannTrust complied with applicable record keeping requirements.

113. The 2018 Annual MD&A and each of the interim MD&As issued during the Class Period contained representations that CannTrust had validly obtained a license from Health Canada for the Vaughan Facility.

114. Each of the annual and interim financial statements issued during the Class Period contained representations that CannTrust had obtained a license from Health Canada for the Vaughan Facility.

115. The Material Change Reports issued by CannTrust on June 5, 2018 October 4, 2018, February 19, 2019, May 6, 2019, May 14, 2019, July 12, 2019, August 2, 2019, and August 15, 2019 incorporated by reference press releases which each

(a) contained a statement describing CannTrust as a "licensed producer" that operates a facility in Vaughan, Ontario; and

(b) referred to and incorporated the "risk factors and other cautionary statements" set out in the 2017 AIF and/or the 2018 AIF, which contained the representations particularized herein.

116. The Material Change Report issued by CannTrust on July 12, 2019 also stated that CannTrust's operations at the Vaughan facility remain fully licensed.

117. Excerpts of certain of the misrepresentations, among others, from the Misleading Documents identified above are set out at Schedule "B."

Press Releases

118. Each of the Press Releases:

(a) contained a statement describing CannTrust as a "licensed producer" that operates a facility in Vaughan, Ontario; and

(b) referred to and incorporated the "risk factors and other cautionary statements" set out in the 2017 AIF and/or the 2018 AIF, which contained the representations particularized herein.

119. The statements described at paragraphs 110 to 118, and at Schedule "B," were untrue statements of material fact, and/or omitted to state a material fact that is required or that is necessary to make those statements not misleading in light of the circumstances in which they were made, because:

(a) since June 2018, rooms in the Vaughan Facility were used to store cannabis without prior approval from Health Canada;

(b) CannTrust constructed two new areas in the Vaughan Facility without prior approval of Health Canada, one of which was used to store cannabis since November 2018;

(c) the Vaughan Facility

(i) had insufficient security controls;

(ii) had inadequate quality assurance investigations and controls;

(iii) had standard operating procedures that did not meet requirements under regulations; and,

(iv) did not retain documents or information in a manner to enable Health Canada to complete its audit in a timely manner; and

(d) as a result, there was a significant risk that (i) CannTrust would be subject to suspension, penalties, or other regulatory and/or legal action that could jeopardize its current and future business prospects; and (ii) this conduct would result in product shortages, inventory hold, and/or that distributed products would have to be returned and/or recalled, which would have an adverse economic impact on the business.

120. In addition, every statement in every Misleading Document or public oral statement regarding

(a) the Vaughan Facility;

(b) the company's production practices, product quality control, security, storage, operating procedures, or reporting requirements; and

(c) risks associated with the company and/or its business;

was a misrepresentation because it omitted to disclose the facts identified at paragraph 119, which were required or necessary to make those statements not misleading in light of the circumstances in which they were made.

C. Misrepresentations regarding sales, revenue, inventory and biological assets.

121. During the Class Period, CannTrust and the Individual Defendants reported inaccurate financial results and figures.

122. Each of the Q2 2018 Financial Statements, MD&A, and Press Release, the Q3 2018 Financial Statements, MD&A, and Press Release, the 2018 Annual Financial Statements and MD&A, the Q4 2018 Press Release, the Q1 2019 Financial Statements, MD&A, and Press Release, the April 22, 2019 Press Release, and the Prospectuses reported financial results and figures, including sales, revenue, biological assets and inventory as well as other financial results and figures that are derived from or affected by them.

123. Such figures were also reported in earnings calls on March 28, 2019 and May 14, 2019 by Aceto and Guyatt.

124. All such figures were artificially inflated from their true values, and were materially false and misleading because they included cannabis that was illegally grown and which CannTrust was not entitled to possess or sell.

D. Misrepresentations that CannTrust had effective ICFR and DC&P

125. During the Class Period, CannTrust and the Individual Defendants falsely represented that CannTrust's internal controls, including DC&P and ICFR, were effective except as disclosed in its interim and annual MD&As.

126. DC&P are intended to provide reasonable assurance that material information relating to the company is made known to senior management, including the CEO and CFO, and that information required to be disclosed by the company is recorded, processed, summarized and reported as required by legislation.

127. ICFR is intended to provide reasonable assurance regarding the reliability of the company's financial reporting and preparation of financial statements in accordance with IFRS.

128. Each of the Q2 2018 MD&A, Q3 2018 MD&A, Annual 2018 MD&A, the Q1 2019 MD&A and the Prospectuses contained statements describing CannTrust's DC&P and ICFR, as excerpted at Schedule "C."

129. All such statements were untrue and misleading, because during the Class Period, CannTrust and its senior management knew that the DC&P and ICFR were ineffective or defective in respect of cannabis grown in, stored, and/or distributed from, rooms and facilities that were not appropriately licensed or otherwise non-compliant pursuant to applicable regulations or standards.

130. In addition, CannTrust and its senior management knew that its DC&P and ICFR were overridden by the Individual Defendants and CannTrust's management generally, rendering them ineffective or defective. The fact that CannTrust's internal control were overridden constituted a material fact that the Defendants ought to have, but failed to, disclose.

E. Misrepresentations that the financial statements were compiled in accordance with IFRS

131. During the Class Period, CannTrust and the Individual Defendants, falsely represented that CannTrust's financial statements were compiled in accordance with IFRS. Such representations were made in each of CannTrust's interim and annual financial statements, MD&As, the Audit Report (defined below) and the Prospectuses issued during the Class Period. KPMG also made this false representation in the Audit Report (defined below).

132. Such representations were untrue and misleading. The failure to disclose the cannabis stored and grown in the unlicensed and/or unapproved rooms in the Niagara and Vaughan Facilities, and the treatment of such cannabis by the company as if it was stored and produced in

accordance with regulations, caused the financial statements to be materially noncompliant with a number of IFRS standards, including, among others

(a) IAS 1 – *Presentation of Financial Statements*;

(b) IAS 41 – *Agriculture*;

(c) IAS 2 – *Inventories*

(d) IFRS 15 – *Revenue from Contracts with Customers*; and

(e) IAS 37 – *Contingent Liabilities*.

F. KPMG's Misrepresentations

133. The 2018 Annual Financial Statements contained an audit report from KPMG ("**Audit Report**") that stated:

(a) KPMG had audited the 2018 Annual Financial Statements in accordance with PCAOB standards, which required that it plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud;

(b) the audit included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements;

(c) the audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements; and

(d) KPMG believed that the audit provided a reasonable basis for its opinion;

(e) the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018, and the financial performance and its cash flows for the year then ended, in conformity with IFRS.

together, (the "**KPMG Representations**").

134. These statements were materially untrue and misleading because the financial statements did not present CannTrust's financial position and performance fairly in accordance with IFRS, and KPMG had no reasonable basis to opine that they did, because, contrary to its representations, it:

(a) did not conduct the audit in accordance with PCAOB standards,

(b) did not plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud; and/or

(c) did not perform appropriate procedures to assess the risk of material misstatement due to error or fraud, and/or did not perform procedures that respond to such risks.

135. KPMG consented in writing to the inclusion of the Audit Report in the May 1 Prospectus in the manner required by securities regulations.

G. The Underwriters' Misrepresentations

136. Each of the Underwriters signed and certified the following statement contained in the May 1 Prospectus:

> To the best of our knowledge, information and belief, the short form prospectus, together with the documents incorporated in the prospectus by reference, as supplemented by the foregoing, constitutes full, true and plain disclosure of all material facts relating to the securities offered by the prospectus and this supplement as required by the securities legislation of each of the provinces of Canada, except Québec.

the ("**Underwriters Representation**").

137. This statement was materially untrue and misleading because the May 1 Prospectus and documents incorporated therein by reference, contained misrepresentations as particularized herein, and the Underwriters ought to have known that fact.

138. Each Underwriter had obligations under applicable law to conduct all required due diligence in connection with each of their offerings. However, the Underwriters failed in their obligations and allowed, acquiesced and approved offerings made on the basis of disclosure documents which contained misrepresentations.

H. Failure to Make Timely Disclosure

139. CannTrust and the Individual Defendants failed to make timely disclosure of the fact that, with respect to the Vaughan Facility, CannTrust (i) was storing cannabis in rooms without the required licenses and/or approvals; and (ii) failed to meet standards and requirements applicable to security controls, quality assurance investigations and controls, operating procedures, and document retention ("**Vaughan Change**").

140. CannTrust and the Individual Defendants also failed to make timely disclosure of the fact that CannTrust was conducting activities in the Niagara Facility without the required licenses and was in material noncompliance with laws and regulations ("**Niagara Change**").

141. The Vaughan Change and the Niagara Change were changes in the business, operations and/or capital of CannTrust that would reasonably be expected to have a significant effect on the market price or value of CannTrust's securities.

142. Accordingly, as of June 1, 2018, CannTrust was required to, but failed, to:

(a) forthwith issue and file a news release disclosing the Vaughan Change; and

(b) as soon as practicable, and within 10 days of the event, file a material change report disclosing the Vaughan Change.

143. Also, as of October 1, 2018 CannTrust was required, but failed, to:

(a) forthwith issue and file a news release disclosing the Niagara Change; and

(b) as soon as practicable, and within 10 days of the event, file a material change report disclosing the Niagara Change.

IX. INDIVIDUAL DEFENDANTS' FALSE CERTIFICATIONS

144. Pursuant to NI 52-109, Eric Paul and Aceto (as CEOs) and Ian Abramowitz and Guyatt (as CFOs) were required to certify the Misleading Documents that were CannTrust's financial statements, MD&As and AIFs.

145. Eric Paul and Ian Abramowitz certified the Q2 2018 Financial Statements and MD&A. Aceto and Ian Abramowitz certified the Q3 2018 Financial Statements and MD&A. Aceto and Guyatt certified the Annual 2018 Financial Statements and MD&A, the 2018 AIF, and the Q1 2019 Financial Statements and MD&A.

146. Among other things, Eric Paul, Aceto, Ian Abramowitz, and Guyatt certified that

(a) such documents did not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made;

(b) such documents fairly presented in all material respects the financial condition, financial, financial performance, and cash flows of CannTrust;

(c) they were responsible for establishing and maintaining CannTrust's disclosure controls and procedures as well as CannTrust's internal controls over financial reporting;

(d) they had designed the DC&P, or caused them to be designed under their supervision, to provide reasonable assurance that material information relating to CannTrust's was made known to them by others, particularly during the period in which the documents were being prepared and information required to be disclosed by CannTrust's in its annual filings, interim filings or other reports filed or submitted under Securities Legislation was recorded, processed, summarized and reported within the time periods specified in Securities Legislation;

(e) they had designed ICFR, or caused it to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP;

(f) in respect of CannTrust's annual filings, they had evaluated, or caused to be evaluated under their supervision, the design of CannTrust's ICFR for the year ended and had disclosed in its annual MD&A any material weaknesses and the impact on the financial reporting and its ICFR;

(g) in respect of CannTrust's annual filings, they had evaluated, or caused to be evaluated under their supervision, the effectiveness of CannTrust's DC&P and ICFR, at the financial year end and had disclosed in its annual MD&As their conclusions about the effectiveness of CannTrust's controls.

147. These certifications were false and were themselves misrepresentations.

X. THE CORRECTIVE DISCLOSURES

148. Between July 8, 2019 and the end of the Class Period, material information began to be reported by CannTrust and various news outlets, which disclosed to the market for the first time that:

(a) between October 2018 and March 2019, CannTrust had violated applicable laws and regulations by growing cannabis in five unlicensed rooms in the Niagara Facility, and by distributing and/or selling the illegally grown cannabis;

(b) CannTrust employees had intentionally deceived regulators regarding the non-compliance;

(c) noncompliance and deception of regulators was sanctioned by the highest levels of the company's management, which, among other things, increased the likelihood of a harsh penalty such as license suspension or revocation;

(d) between June 2018 and August 2019, CannTrust' violated applicable laws and regulations by storing cannabis in rooms in the Vaughan facility without the required licenses and/or approvals, and the Vaughan facility did not meet standards and/or requirements applicable to security controls, quality assurance investigations and controls, operating procedures, and document retention;

(e) CannTrust was producing and selling cannabis grown from seeds illegally obtained from the black market;

(f) as a result of this conduct, most or all of CannTrust's cannabis product and/or inventory were subject to quarantine, recall, or destruction;

(g) accordingly, CannTrust's revenues, sales volume, biological assets, inventory, and other figures derived from or affected by them and reported throughout the Class Period were artificially inflated;

(h) CannTrust was subject and exposed to penalties and fines that would materially adversely affect its ability to expand or do business going forward, including actual or potential halts on sales of products, recall and/or destruction of already shipped products, increased costs to fill its inventory, and delays or difficulties in obtaining required licenses, and/or suspension or revocation of its existing licenses (which in fact did occur);

(i) CannTrust did not have effective DC&P and ICFR; and

(j) CannTrust's Class Period financial statements were not compiled in accordance with IFRS.

149. The release of this information caused the price of CannTrust's Shares to drop significantly. The information also caused a number of financial analysts covering CannTrust to downgrade or cut their ratings of the company.

150. On July 8, 2019, before the start of trading on the TSX, CannTrust issued a press release disclosing, for the first time, that it was non-compliant with certain regulations because it had been growing cannabis in unlicensed rooms at its Niagara Facility between October 2018 to March 2019. The press release stated, in part:

> Canntrust Holdings Inc. has received a compliance report from Health Canada notifying the company that its greenhouse facility in Pelham, Ont., is non-compliant with certain regulations. Canntrust has accepted Health Canada's non-compliance finding and has taken actions to ensure current and future compliance.
>
> The non-compliant rating is based on observations by the regulator regarding the growing of cannabis in five unlicensed rooms and inaccurate information provided to the regulator by Canntrust employees. Growing in unlicensed rooms took place from October, 2018, to March, 2019, during which time Canntrust had pending applications for these rooms with Health Canada. These rooms were constructed in accordance with regulations and good production practices, and licences were issued for each of the five rooms in April, 2019. There are 12 rooms in total at the facility.
>
> Health Canada has placed a hold on inventory which includes approximately 5,200 kilograms of dried cannabis that was harvested in the previously unlicensed rooms in Pelham, until it deems that the company is compliant with regulations. In addition, Canntrust has instituted a voluntary

hold of approximately 7,500 kg of dried cannabis equivalent at its Vaughan manufacturing facility that was produced in the previously unlicensed rooms.

Canntrust's operations at its Pelham and Vaughan facilities remain fully licensed and the company continues to grow, cultivate, harvest and sell cannabis. Health Canada is conducting quality checks of product samples on hold at Pelham, with results expected in 10 to 12 business days. Due to the product on hold, some Canntrust customers and patients will experience temporary product shortages. The company is exploring options to mitigate these shortages.

All product sold from the impacted rooms has passed quality control testing at Health Canada certified labs as well as Canntrust's own quality control processes and safety reviews.

"Our team has focused on building a culture of transparency, trust and excellence in every aspect of our business, including our interactions with the regulator. We have made many changes to make this right with Health Canada. We made errors in judgment, but the lessons we have learned here will serve us well moving forward," said Peter Aceto, chief executive officer.

Corrective actions and additions to the Canntrust executive team

Canntrust has implemented a number of corrective actions including:

- Further comprehensive employee training;
- Retained external advisers for an independent review of compliance processes;
- Comprehensive review and update of processes and procedures;
- Voluntarily advised Health Canada of issues that may impact compliance at its Vaughan facility regarding product storage;
- Improving the quality and compliance function at the company has been a priority for senior leadership. The first executive addition under the new leadership team was Andrea Kirk, for the newly created role of vice-president, quality. Ms. Kirk brings nearly 20 years of quality and compliance experience from the pharmaceutical industry to Canntrust and her mandate is to lead the quality and compliance department. Since joining the company in March, 2019, she has hired and trained 17 quality and compliance professionals.

151. That press release stated "the impact of these matters on CannTrust's financial results are unknown until Health Canada completes its quality testing of product from Pelham which is currently on hold."

152. Also on July 8, 2019, Aceto gave an interview to the *Financial Post*, where he revealed that some of the cannabis grown by CannTrust in unlicensed rooms had been shipped to provinces across Canada. In that interview, he stated that the company was going to conduct a "root cause analysis" to determine who was responsible in sanctioning the illegal conduct. In fact, as detailed below, Aceto himself was the individual sanctioning such conduct.

153. On this news, the price of CannTrust's share dropped 23% from a closing price of $6.46 on the TSX on July 5, 2019 to a close of $5.00 on July 8, 2019.

154. However, the full extent of CannTrust's conduct had not yet been revealed to the Class Members or the market. In the days and weeks that followed, CannTrust, its business partners, and news outlets provided additional information regarding the extent of the deception worked on Health Canada, the involvement of senior management, the amounts of illegal product shipped and now subject to quarantine or recall, the effect on CannTrust's ability to continue growing and distributing cannabis, and the impact on the company's future prospects. As a result of each additional revelation, CannTrust's share price continued to decline.

155. Between July 9 and 11, 2019, mainstream news outlets including *The Globe and Mail* and the *Financial Post* reported that:

(a) the Ontario Cannabis Store and the Alberta Gaming and Liquor Commission were removing affected CannTrust products from distribution;

(b) CannTrust's Danish partner StenoCare (which earlier announced it had received only one unlicensed batch of product from CannTrust) quarantined five batches of product;

(c) according to a former employee, CannTrust employees were instructed to mislead Health Canada inspectors, including by setting up fake walls to hide "several thousand plants" from view.

156. As a result of these news items being disclosed to the market, the price of CannTrust's Shares continued to decline from a close on the TSX of $4.73 on July 9, to $4.12 on July 10, to $4.04 on July 11, 2019.

157. After the close on trading on July 11, 2019, CannTrust issued a press release announcing that it had implemented a voluntary hold on sale and shipment of all cannabis products while Health Canada visited and reviewed the Vaughan Facility. It also disclosed that it had established a Special Committee of the Board of Directors to "investigate this matter in its entirety." In the press release, the company continued to state that "the impact of these matters on CannTrust's financial statements are unknown until the regulatory review process is complete."

158. On this news, the price of CannTrust's Shares continued their decline, dropping 17% from a closing price on the TSX of $4.04 on July 11 to $3.34 on July 12, 2019.

159. However, CannTrust and the Individual Defendants continued to mislead investors regarding the full extent of CannTrust's noncompliance and in particular, that senior officers and directors were not only aware of the misconduct, but that they sanctioned and encouraged it.

160. On July 22, 2019, CannTrust announced that the special committee of the board of directors was comprised of Marcovitch, Page, Dawber, and Kaden, and was "appointed with a broad

mandate to, among other things, investigate the Company's non-compliance with Health Canada regulations and ancillary matters, to make recommendations to the Board of Directors regarding any actions to be taken by CannTrust as a result of the investigation, and to assess any impact on the Company's bio assets, inventory, sales and revenue."

161. On July 23, 2019, after hours, *The Globe and Mail* published an article disclosing that Eric Paul, Aceto, Ian Abramowitz, and Platt were made aware by Lee that the company was growing cannabis in unlicensed rooms since the beginning of the Class Period, and that Eric Paul instructed employees on how to respond. The article stated in part:

> Both the chairman and the chief executive officer of CannTrust Holdings Inc. were informed that the company was growing cannabis in unlicensed rooms about seven months before Health Canada uncovered the regulatory breach, internal e-mails show.
>
> The company communications, seen by The Globe and Mail, show chairman Eric Paul and CEO Peter Aceto were made aware that cannabis was being cultivated in rooms at a growing facility in Southern Ontario that had yet to be licensed by the federal regulator, and that Mr. Paul counselled staff on how to respond.
>
> In an e-mail dated Nov. 16, 2018, Graham Lee, CannTrust's director of quality and compliance, informed Mr. Aceto and other top executives about a Health Canada inspection that had just been completed. It had revealed several compliance breaches but missed the plants growing in unlicensed rooms.
>
> "We dodged some bullets," Mr. Lee wrote. "[Health Canada] did not ask about RG8E/W, which are unlicensed rooms currently full of plants."
>
> The e-mail outlines a number of "current risks," including plants growing in unlicensed rooms, the storage of cannabis in unlicensed rooms and the "large number of lost bottles [of cannabis] we have not reported."
>
> "Although serious, on their own, each of these can be talked through with [Health Canada]. The concern is that together they will paint a picture with the regulator of a company not in control. We have dodged observations for items 1 and 6 despite having HC in the building," Mr. Lee wrote.

> Along with Mr. Aceto, the e-mail was sent to Ian Abramowitz, a CannTrust executive who was chief financial officer at the time, and Ilana Platt, the company's vice-president of innovation and regulatory affairs.
>
> The e-mail was forwarded to Mr. Paul later the same day, who responded, "We need to clearly point out that we have been diligent in submitting the applications for each new area and they have been slow in responding. We are supporting the legislation and we need their cooperation. Politely as always."

162. On July 24, 2019, *BNN Bloomberg* reported further information about senior management's knowledge of the unlicensed activities at the Niagara Facility. The article stated in part:

> CannTrust Holdings Inc. (TRST.TO) Chief Executive Officer Peter Aceto told senior company officials to "continue as planned" and plant cannabis in an unlicensed room in mid-November, according to internal company documents obtained by BNN Bloomberg that establish a clear timeline of when illegal production was brought to management's knowledge.
>
> In minutes from weekly production meetings held by conference call from Nov. 14 to Nov. 28, seven CannTrust employees – including three vice-presidents as well as Graham Lee, the company's director of quality and compliance – provided updates on developments at RG9, one of five unlicensed rooms at the company's facility in Pelham, Ont. where Health Canada inspectors later determined the company grew thousands of kilograms of cannabis.
>
> During a meeting held on Nov. 14, senior CannTrust staff stated that RG9 was not licensed by Health Canada and that further work in the room "needs up (sic) be run up the chain before anything is planted in there." The room was estimated to be 50,000 square feet, roughly the same size as a football field, the minutes showed.
>
> As well, Aceto – who was not present for any of the three production meetings – was to be informed by Lee that the RG9 room was not licensed, and that any repercussions if the company started planting in that room despite being unlicensed were "unknown."
>
> That meeting also detailed how employee morale "seems to be unaffected" by corporate changes that led to the departure of president Brad Rogers as well as Michael Ravensdale, CannTrust's former head of production, and that construction of additional rooms at the Pelham, Ont. facility was moving as planned.

> "Doing what we can to make sure that deadlines are met and that [we are] holding people accountable," the minutes showed.
>
> On Nov. 21, the minutes stated that RG9 remained unlicensed but Lee – who attended each of the production meetings – stated he spoke to Aceto about the unlicensed room and was instructed to "continue as planned."
>
> Minutes from the Nov. 28 production meeting stated CannTrust employees had submitted an application to Health Canada for the RG9 licence and were still waiting for approval from the federal regulator. "Still moving forward with planting today – 3 lots," the minutes stated. One lot is approximately 1,000 cannabis plants, which can produce as much as 1,000 kilograms of marijuana.

163. On this news, the price of CannTrust's Shares declined approximately 22% from a close on the TSX of $3.43 on July 23 to $2.68 on July 24, 2019.

164. On July 25, 2019, CannTrust issued a press release disclosing that the board of directors had terminated Aceto and demanded the resignation of Eric Paul, who complied. Marcovitch had stepped into the role of interim CEO. The press release continued to indicate that the impact of the matter on CannTrust's financial results is unknown.

165. On July 31, 2019, CannTrust issued a press release announcing that the special committee had retained a financial adviser to assist in a review of strategic alternatives. The press release stated in part:

> The special committee of Canntrust Holdings Inc.'s board of directors has retained Greenhill & Co. Canada Ltd. as the special committee's financial adviser, to assist in a review of strategic alternatives. These alternatives could include, among other things, a sale of the company or a portion thereof, a strategic investment, a business combination, changes to the company's operations or strategy, or continuing to execute on the company's current business plan.
>
> There can be no assurance that the special committee's review of strategic alternatives will result in any transaction. The special committee has not set a timetable for the conclusion of its review of strategic alternatives and it does not intend to comment further. The nature, timing and outcome of the

> strategic review process will be influenced by, among other things, the resolution of the company's regulatory compliance issues with Heath Canada.

166. On August 1, 2019, CannTrust issued a press release announcing that (i) it would be late in filing its interim financial statements and MD&A due August 14, 2019; (ii) that there is "significant uncertainty with respect to the potential impact of pending Health Canada decisions on the valuation of the Company's inventory and biological assets and revenue recognition"; (iii) the impacted inventory and biological assets is approximately $51 million as at June 30, 2019; (iv) the financial statements and MD&A for 2018 and Q1 2019 could require restatement; (v) CannTrust had applied to the OSC for a management cease trade order pending the filings of the restatements; and (vi) staff of the OSC had advised the Special Committee's legal counsel that an investigation has been opened into matters and parties related to CannTrust and the investigation has been assigned to the Joint Serious Offences Team of the Enforcement Branch of the OSC.

167. On August 9, 2019, CannTrust issued a press release announcing that KPMG was withdrawing its audit report for the 2018 Financial Statements and the interim report to CannTrust's audit committee for the Q1 2019 Financial Statements, and that those reports should no longer be relied upon. The press release stated in part:

> Canntrust Holdings Inc.'s independent auditor, KPMG LLP, chartered professional accountants, has informed the company that effective Aug. 8, 2019, is withdrawing its report dated March 27, 2019, on the company's consolidated financial statements as at and for the year ended Dec. 31, 2018, and its interim report to the audit committee dated May 13, 2019, on the unaudited condensed interim consolidated financial statements as at and for the three-month period ended March 31, 2019, and therefore, the KPMG reports should no longer be relied upon. KPMG remains Canntrust's independent auditor. The company's co-operation with KPMG is being directed by the company's audit committee and a special committee of its board of directors which is conducting a continuing investigation into various matters.

> As previously disclosed, management is of the view that there is significant uncertainty with respect to the potential impact of pending Health Canada decisions on the valuation of the company's inventory and biological assets and revenue recognition. Accordingly, Canntrust cautions against any reliance on its consolidated financial statements as at Dec. 31, 2018, and interim consolidated financial statements as at and for the three-month period ended March 31, 2019. Canntrust is continuing to co-operate with Health Canada and the impact of the matters being investigated by the special committee on Canntrust's financial results is unknown at this time. Further updates, to the extent material, will be provided as they become available.
>
> KPMG's decision was prompted by the company's caution against reliance on its financial statements for the year ended Dec. 31, 2018, and for the three months ended March 31, 2019, as well as the recent sharing with KPMG of newly uncovered information from the special committee's investigation, including information that led to senior leadership changes announced on July 25, 2019. KPMG was not aware of the information recently shared by the company when it issued the KPMG reports and had relied upon representations made by individuals who are no longer at the company.

168. The following trading day (August 12, 2019), CannTrust issued a press release disclosing that the Vaughan Facility had also been "rated noncompliant with certain regulations" by Health Canada. The press release stated in part:

> After trading hours on Friday, Aug. 9, 2019, Canntrust received a report from Health Canada notifying the company that its manufacturing facility in Vaughan, Ont., has been rated non-compliant with certain regulations. Canntrust has accepted Health Canada's findings and remedial actions are under way.
>
> Heath Canada's rating was based on observations made during an inspection completed during the period July 10 to July 16, 2019, which noted:
>
> - The conversion of five rooms from operational areas to storage areas, which were used for storage since June, 2018, without prior approval of Health Canada;
> - The construction of two new areas without prior approval of Health Canada, one of which was used to store cannabis since November, 2018;
> - Insufficient security controls at the manufacturing facility;
> - Inadequate quality assurance investigations and controls;

- Standard operating procedures that did not to meet the requirements under regulations;
- Documents or information that were not retained in a manner to enable Health Canada to complete its audit in a timely manner.

...

Although the company, under the supervision of the special committee, is preparing a remediation plan for submission to and consideration by Health Canada, Health Canada has advised the company that it is currently unable to provide any guidance about the timing or content of its decisions concerning the company.

169. On August 15, 2018, after trading hours, CannTrust issued a press release providing an interim update on various matter. The press release stated in part:

> Canntrust announced that its application for a management cease trade order (MCTO) under National Policy 12-203 (Management Cease Trade Orders) has been approved by the Ontario Securities Commission (OSC). The MCTO does not affect the ability of investors who are not insiders to trade in the securities of the company.
>
> Canntrust announced on Aug. 1, 2019, that it was filing an application seeking an MCTO from the OSC because the company was likely to miss its filing deadline of Aug. 14, 2019, to file an interim financial report for the three- and six-month periods ended June 30, 2019, an interim management's discussion and analysis for the corresponding period, and certifications of interim filings (the second quarter financials).
>
> The timing and content of Canntrust restoring any defaults in its second quarter financials will depend, in large measure, upon the timing and impact of Health Canada's decisions regarding the company's non-compliance with regulatory requirements. Although the company, under the supervision of the special committee, is preparing a remediation plan for submission to and consideration by Health Canada, Health Canada has advised the company that it is unable to provide any guidance about the timing or content of its decisions concerning the company.
>
> The MCTO prohibits the directors and executive officers of the company from trading in securities of the company until two full business days after all filings Canntrust is required to make under Ontario securities laws are made, including the filing of the second quarter financials. The MCTO does not affect the ability of any other persons to trade in the securities of the

company. Cantrust had already voluntarily imposed a blackout period on its directors and executive officers trading in the company's securities.

The company intends to satisfy the provisions of the alternative information guidelines in NP 12-203 by filing biweekly status reports in the form of news releases containing prescribed updating information until the second quarter financials are filed.

New York Stock Exchange discussions

The company has been working pro-actively with the New York Stock Exchange (NYSE) to keep the NYSE apprised of its interactions with Health Canada and related matters. Following a discussion on Aug. 9, 2019, between representatives of the NYSE, the company, the company's counsel and counsel to the company's special committee of independent directors, the NYSE advised the company that as a consequence of the company's announcements concerning its audited financial statements for the year ended Dec. 31, 2018, and its unaudited financial statements for the quarter ended March 31, 2019, the company is viewed as no longer having a complete annual report on Form 40-F on file for the year ended Dec. 31, 2018.

Trading of the company's securities on the Toronto Stock Exchange and the NYSE continues. However, the NYSE advised the company that: (a) it will closely monitor the status of the company's late filing and any related public disclosures for up to six months from its due date; and (b) if the company fails to file its annual report and any subsequent reports within six months of their filing due dates, the NYSE will determine, in its sole discretion, whether to halt trading in the company's securities or whether to allow the company's securities to trade for up to an additional six months, depending upon the circumstances. If the NYSE determines that an additional six-month trading period is not appropriate, suspension and delisting procedures will commence pursuant to Section 804.00 of the NYSE's listed company manual. Regardless of the procedures described above, the NYSE may commence delisting proceedings at any time during the period that is available to complete the filing, if circumstances warrant.

Interim financial update

As previously disclosed, the company estimates that the value of the inventory and biological assets impacted by the pending Health Canada decisions is approximately \$51-million as at June 30, 2019. Management of the company further estimates the impacted inventory represents approximately 53 per cent of the company's total inventory as at June 30, 2019, and the impacted biological assets represent approximately 30 per cent of the company's total biological assets as at June 30, 2019.

> As at June 30, 2019, the company had approximately $250-million in cash and cash equivalents.
>
> Remediation efforts
>
> Under the supervision of the special committee, the company is preparing a remediation plan for submission to and consideration by Health Canada. Although the special committee is directing the company to work closely with Health Canada to remediate the root causes of any non-compliance identified by Health Canada, to date the company has not had any substantive discussions with Health Canada concerning remediation matters, and Health Canada has advised the company that it is currently unable to provide any guidance about the timing or content of its decisions concerning the company. As previously announced, Health Canada has placed a hold on inventory which includes approximately 5,200 kilograms of dried cannabis that was harvested in the previously unlicensed rooms in Pelham, until it deems that the company is compliant with regulations. In addition, Canntrust has instituted a voluntary hold of approximately 7,500 kilograms of dried cannabis equivalent at its Vaughan manufacturing facility that was produced in the previously unlicensed rooms. Health Canada has broad discretion to exercise a wide range of regulatory powers. In the event that Health Canada orders the destruction of all or a substantial portion of the product grown in the previously unlicensed rooms, the company's results for the second quarter of 2019 would be materially adversely impacted. Health Canada has given no clear indication of what decisions it will come to with respect to the company.

170. On August 19, 2019, CannTrust issued a press release announcing that the Ontario Cannabis Store ("**OCS**") would be returning "all or substantially all of the company's products currently held at the OCS" valued at approximately $2.9 million. The press release stated in part:

> Canntrust Holdings Inc. has received a notice from the Ontario Cannabis Store (the OCS), the Crown corporation in charge of wholesale distribution of cannabis products to licensed cannabis retailers in Ontario and the operator of Ontario's on-line recreational cannabis store, advising the company that the OCS has determined certain of the company's products sold to the OCS are non-conforming products under the terms of the master cannabis supply agreement between the company and the OCS and that the OCS has elected to return these products to the company. Under the terms of the master agreement, any product that does not comply with applicable law is considered to be non-conforming product and the OCS may elect to exercise its right, among others, to return such product to the company at the company's expense.

> The products listed in the OCS return notice constitute all or substantially all of the company's products currently held at the OCS and are valued at approximately $2.9-million in the aggregate. The company intends to fully perform its obligations under the master agreement. The OCS operates independently of Health Canada. Health Canada has not ordered a recall in respect of any of the company's products.

171. On August 20, the *Financial Post* reported that Brady Green and Andrea Kirk had departed from their roles at the company.

172. On September 5, 2019, CannTrust announced that it was reducing its work force by approximately 180 people or 20 percent.

173. On September 6, 2019, BNN Bloomberg published an article disclosing that senior operating staff working at the Niagara Facility in late 2018 brought cannabis seeds from the black market into production rooms, leading to some illicit cannabis flowing into the legal market. The article stated in part:

> The documents suggest that, in an apparent effort to conceal the black market cannabis seeds from regulatory inspections and other staff members, some CannTrust employees changed the names of as many as 20 strains to those which the company was licensed to sell in the legal medical and recreational markets.
>
> Cannabis plants from at least two strains that originated from the black market-sourced seeds entered production rooms where they were fully grown to flower, packaged and sold into the recreational market, according to the sources.
>
> In total, more than one thousand cannabis plants that originated from the illicit seeds were grown at CannTrust's cultivation facility, the documents show. It is unknown how many of those plants were eventually processed for sale or destroyed, according to two of the sources.
>
> Adding cannabis seeds obtained through the black market would have allowed CannTrust to significantly bolster its production at a time when it had overcommitted itself with supply contracts with provinces and other licensed marijuana producers, the sources said.

Three sources who said they directly tended to the unauthorized cannabis said the operation was led by Brady Green, who recently left CannTrust after a five-year tenure that culminated as the company's vice-president of cultivation. Green was hired by CannTrust in May 2014 as a grow technician and quickly rose through the ranks, holding several production roles including head grower and director of cultivation, according to a biography on the company's website. CannTrust removed Green's biography from its website Friday morning shortly after BNN Bloomberg published this story.

"[Green] has a passion for developing new cannabis strains, constantly improving growing methods and efficiencies, and passing his knowledge onto budding growers at the CannTrust Niagara Perpetual Harvest Facility," CannTrust said on its website.

The team that Green allegedly tasked with handling the unauthorized cannabis was dubbed "The Brady Bunch" by other staff members, the three sources said.

"[Green's team] didn't order [the seeds] through the normal chain of command," alleged one of the sources directly familiar with the production of unauthorized cannabis.

"There is no way because it would take way too long if you wanted to do it right. I asked myself, 'We already have [the strain] Cannatonic. How come we have Cannatonic here and I have to take care of these [new] seedlings?' I learned that they're under those names because those are the registered names that we have which we're allowed to grow, but they're really not those [strains]."

Green did not respond to BNN Bloomberg's multiple requests to comment for this story.

Licensed cannabis producers grow their legal marijuana plants either straight from seeds obtained through Health Canada-authorized suppliers or cut "clones" from mother plants which are transferred to larger cultivation rooms in order to flower under optimal conditions.

Plants grown from two strains of CannTrust's black market-sourced cannabis seeds – listed in internal company documents as "Citradelic Sunset" and "Code Black OG" before being re-labelled – eventually entered into production rooms where they were packaged and sold into the recreational market, two of the sources with direct knowledge of CannTrust's operations said.

Another source with direct knowledge said several unauthorized strains re-labelled under the "Cannatonic" strain also entered the recreational market.

> "I can guarantee you they would harvest [plants that originated from black market seeds], trim them and send them out … Guaranteed, they went to the legal market. I can tell you 100 per cent they did," one of the sources said.
>
> Nick Lalonde, a former CannTrust employee who was responsible for disposing of cannabis at its Pelham facility and who previously blew the whistle on fake walls being installed to shield unlicensed production, told BNN Bloomberg he was instructed to deceptively label unauthorized product when he was cataloging waste material.
>
> "No one [from Health Canada] had a clue about the seeds," Lalonde said in a recent phone interview.
>
> None of the claims made by Lalonde or the sources who were granted anonymity by BNN Bloomberg have been tested or proven by a regulator or law enforcement.
>
> The alleged strain-name subterfuge is the latest example of apparent wrongdoing at the beleaguered cannabis producer which has been beset by various forms of material suggesting the company's senior management approved plans that led to thousands of kilograms of cannabis being grown in unlicensed rooms.
>
> Those revelations include meeting minutes obtained by BNN Bloomberg where former CEO Peter Aceto instructed staff in November to "continue as planned" growing cannabis in unlicensed rooms.

174. On September 13, 2019, CannTrust was deleted from the S&P/TSX Composite Index.

175. On September 17, 2019 CannTrust issued a press release announcing that it had received a notice of license suspension under the *Cannabis Act*. The press release stated in part:

> Canntrust Holdings Inc. received late this morning a notice of licence suspension under Section 64(1) of the Cannabis Act (Canada). The notice cites the company's previous non-compliance with certain requirements of the Cannabis Act (Canada) and the regulation made thereunder in respect of the matters that the company has been discussing with Health Canada.
>
> The notice states that Health Canada has suspended Canntrust's authority to produce cannabis, other than cultivating and harvesting, and to sell cannabis. As such, the notice constitutes a partial suspension of the company's licence for standard cultivation and a full suspension of its licences for standard processing, medical sales, cannabis drugs and research issued under the Cannabis regulations. While the suspension remains in

> effect, Canntrust will be permitted to cultivate and harvest existing lots or batches previously propagated, as well as conducting ancillary activities to those lots, including drying, trimming and milling. During the suspension, Canntrust may not propagate new lots or batches of cannabis or engage in the sale or distribution of cannabis.
>
> The notice states that Health Canada will reinstate Canntrust's licences under Section 64(4) of the Cannabis Act if the reasons for the suspension no longer exist or if Canntrust demonstrates that the suspension was unfounded. The notice also states that Health Canada considers that implementation of the following measures could potentially address the public health and safety risks that contributed to Health Canada's decision to issue the notice:
>
> - Measures to ensure that cannabis will be produced and distributed only as authorized, including measures to control the movement of cannabis in and out of Canntrust's site;
> - Measures to recover cannabis that was not authorized by Canntrust's licence;
> - Measures to improve key personnel's knowledge of, and compliance with, the provisions of the act and the regulations that apply to Canntrust;
> - Measures for improving the manner in which records are kept, including a plan to improve the inventory tracking and any interim measures to ensure that information provided to Health Canada can be reconciled.

176. In total, the price of CannTrust's Shares dropped 73% from $6.46 before the July 8, 2019 announcement to $1.70 at the end of the Class Period as a result of the public corrections of the misrepresentations and failure to make timely disclosure alleged herein.

177. Following the end the Class Period, additional news continued to be disclosed about CannTrust that had a negative effect on its stock price.

178. On September 19, 2019, CannTrust issued a press release announcing that the Alberta Gaming, Liquor, and Cannabis Commission ("**AGLC**") would be returning "all or substantially all of the company's products currently held at the AGLC" valued at approximately $1.3 million.

XI. RIGHTS OF ACTION

A. Negligent Misrepresentation

179. Against CannTrust and the Individual Defendants, and on behalf of the Secondary Market Class, the plaintiffs plead negligent misrepresentation

(a) in all of the Misleading Documents in respect of the Vaughan Compliance Representation;

(b) in all of the Misleading Documents issued after October 1, 2018 in respect of the Niagara Compliance Representation

(c) in the Class Period interim and annual financial statements, MD&As, and Prospectuses in respect of the IFRS Representation; and

(d) in the Class Period MD&As, Prospectuses, and interim and annual certifications in respect of the Controls Representation.

180. Against KPMG, and on behalf of the Secondary Market Class, the plaintiffs plead negligent misrepresentation in the Audit Report (incorporated in the Annual 2018 Financial Statements and May 1 Prospectus) in respect of the KPMG Representations and the IFRS Representation.

181. Against the Underwriters, and on behalf of the Secondary Market Class, the plaintiffs plead negligent misrepresentation in the May 1 Prospectus in respect of the Underwriters Representation.

182. On behalf of the Primary Market Class, the plaintiffs plead negligent misrepresentation in the May 1 Prospectus

(a) against CannTrust and the Individual Defendants for the Compliance Representation, IFRS Representation, and Controls Representation;

(b) against KPMG in respect of the KPMG Representations and IFRS Representation; and

(c) against the Underwriters in respect of the Underwriters Representation.

183. Each of these representations was untrue for the reasons particularized herein.

184. The Misleading Documents were prepared for the purpose of attracting investment and inducing members of the investing public to purchase Shares. The Defendants undertook to provide the Misleading Documents to those current and prospective securities holders (i.e. the Class Members) for the purpose of allowing them to make informed decisions as to whether to acquire the Shares.

185. The Defendants knew and intended at all material times that those documents had been prepared for that purpose, and that the Class Members would reasonably rely to their detriment upon such documents in making their decision to purchase Shares.

186. The Defendants had a duty at common law to exercise care and diligence to ensure that the Misleading Documents were free from material misstatement. Those defendants breached that duty by making the Representations as particularized above.

187. The Plaintiffs and other Class Members directly or indirectly relied upon the Representations in making a decision to purchase the Shares and suffered damages when the falsity of the information was revealed.

188. Alternatively, the Plaintiffs and other Class Members relied upon the Representations by the act of acquiring Shares in an efficient market that promptly incorporated into the price of those Shares all publicly available information regarding CannTrust, including the Representations.

which were false. As a result, the repeated publication of these misrepresentations caused the price of the Shares to trade an inflated prices during the Class Period, thus directly resulting in damages to the Plaintiffs and Class Members.

B. Part XXIII.1 of the *OSA*

189. On behalf of the Secondary Market Class, the plaintiffs plead the right of action in Part XXIII.1 of the *OSA* and, if necessary, the equivalent provisions of the other Securities Legislation against CannTrust, the Individual Defendants, and KPMG, for misrepresentations in the Misleading Documents and/or public oral statements, and/or for the failure to make timely disclosure of the Change, as particularized herein.

190. CannTrust is a responsible issuer within the meaning of the *OSA* and Securities Legislation.

Misrepresentations in Documents – OSA section 138.3(1)

191. Each of the Misleading Documents is a document under section 138.1 of the *OSA* and corresponding provisions of the Securities Legislation.

192. The Misleading Documents that are AIFs, financial statements, MD&As, material change reports and Prospectuses are core documents under section 138.1 of the *OSA* and corresponding provisions of the Securities Legislation.

193. CannTrust was a responsible issuer at the time that each of the Misleading Documents was released by it.

194. The Individual Defendants were officers and/or directors of CannTrust at the time that each of the Misleading Documents was released, and each of them authorized, permitted and/or acquiesced in the release of such documents.

195. KPMG was an expert of CannTrust within the meaning of the *OSA* and Securities Legislation and consented to use of their statements in the Misleading Documents particularized above.

196. Each of CannTrust, the Individual Defendants, and KPMG knew, at the time the Misleading Documents were released, that the documents contained misrepresentations, or, in the alternative, deliberately avoided acquiring such knowledge or, in the alternative, were guilty of gross misconduct in connection with the making of the misrepresentations.

197. Accordingly, each of CannTrust, the Individual Defendants, and KPMG are, pursuant to *OSA* section 138.3(1), liable in respect of the misrepresentations made by them that are contained in the Misleading Documents as particularized above.

Misrepresentations in Public Oral Statements – OSA section 138.3(2)

198. CannTrust and the Individual Defendants either made the public oral statements particularized above, or authorized, permitted and/or acquiesced in the making of the public oral statements.

199. Each of CannTrust and the Individual Defendants knew such public oral statements contained misrepresentations, or, in the alternative, deliberately avoided acquiring such knowledge or, in the alternative, were guilty of gross misconduct in connection with the making of the public oral statements.

200. Accordingly, each of CannTrust and the Individual Defendants are, pursuant to *OSA* section 138.3(2), liable in respect of the misrepresentations contained in the public oral statements particularized herein.

Failure to Make Timely Disclosure of Material Change – OSA section 138.3(4)

201. CannTrust was a responsible issuer at the time it failed to make timely disclosure of the Vaughan Change and the Niagara Change ("**Changes**") as a material change to its business or operations as described herein.

202. The Individual Defendants were officers and/or directors of CannTrust at the time of CannTrust's failure to make timely disclosure of the Changes, and each of them authorized, permitted and/or acquiesced in the failure to make timely disclosure.

203. Each of CannTrust and the Individual Defendants knew, at the time that failure to make timely disclosure first occurred, of the Changes and that the Changes were a material change, or in the alternative, deliberately avoided acquiring such knowledge or, in the alternative, were guilty of gross misconduct in connection with the failure to make timely disclosure.

204. Accordingly, each of CannTrust and the Individual Defendants are, pursuant to *OSA* section 138.3(4), liable in respect of the failure to make timely disclosure of the Changes as a material change.

C. Part XXIII of the *OSA*

205. Against CannTrust, the Individual Defendants that are its directors, Aceto, Guyatt, Cannamed, Cajun, KPMG, and the Underwriters, and on behalf of the Primary Market Class, the

plaintiffs plead the right of action in section 130 of the *OSA* and, if necessary, the equivalent provisions of the other Securities Legislation for misrepresentations in the May 1 Prospectus.

206. The distribution of Shares under the May 1 Prospectus was made on behalf of CannTrust (as issuer) and Cannamed and Cajun (as selling security holders).

207. The Underwriters were required to sign, and did sign, the certificate of underwriters prescribed by s. 59 of the OSA contained in the May 1 Prospectus.

208. The Individual Defendants that are directors of CannTrust held those positions at the time the May 1 Prospectus was filed.

209. Aceto, Guyatt, Dawber and Litwin signed the May 1 Prospectus.

210. KPMG consented to use of its name and incorporation of the Audit Report in the May 1 Prospectus pursuant to securities regulations.

211. CannTrust issued the May 1 Prospectus, which contained the misrepresentations particularized herein and in the documents incorporated by reference into the May 1 Prospectus.

D. Negligence

212. Against all Defendants and on behalf of the Primary Market Class, the Plaintiffs plead negligence simpliciter in connection with the Offering.

213. The Defendants caused and/or enabled the May 1 Prospectus to be issued and the Offering to occur while the May 1 Prospectus contained misrepresentations.

214. The Defendants owed a duty of care to ensure that the May 1 Prospectus they issued, authorized to be issued or in respect of which they acted as an underwriter, made full true and plain disclosure of all material facts relating to the Shares offered thereby, or to ensure that their opinions or reports contained in the May 1 Prospectus did not contain a misrepresentation.

215. At all material times, the Defendants knew or ought to have known that the May 1 Prospectus and documents incorporated therein by reference were materially misleading in that they contained the Representations and other misrepresentations particularized above.

216. The Individual Defendants were senior officers and/or directors at the time of the Offering. The May 1 Prospectus was created for the purpose of obtaining financing for CannTrust's operations.

217. Aceto, Guyatt, Dawber and Litwin signed the May 1 Prospectus on behalf of the board of directors of CannTrust, and therein falsely certified that the prospectus, together with the documents incorporated therein by reference, constituted full, true and plain disclosure of all material facts relating to the securities offered thereby.

218. The Underwriters had an obligation to conduct due diligence in respect of the Offering and ensure that the securities were offered at a price that reflected their true value or that the distribution did not proceed if inappropriate. In addition, the Underwriters signed the May 1 Prospectus and certified that to the best of their knowledge, information and belief, the May 1 Prospectus constitutes full, true and plain disclosure of all material facts relating to the Shares offered.

219. KPMG wrote a letter to securities regulators consenting to the use of the Audit Report in the May 1 Prospectus, and stating that it had read the May 1 Prospectus and all information incorporated by reference and that it did not believe that it contained any misrepresentations regarding the financial statements that were the subject of the Audit Report.

220. Cannamed and Cajun sold their Shares in the Offering for their own accounts and had an obligation to ensure that the Offering did not occur while the May 1 Prospectus contained misrepresentations.

221. The reasonable standard of care expected in the circumstances required the Defendants to prevent the Offering from occurring while the May 1 Prospectus contained the misrepresentations alleged herein. The Defendants failed to meet the standard of care by causing and/or allowing the Offering to proceed while the May 1 Prospectus contained the misrepresentations.

222. Had the Defendants not breached their duties, then securities regulators would not have issued a receipt for the May 1 Prospectus, and the Offering would not have occurred, or would have occurred at a price that reflected the true value of the Shares.

223. The Defendants' negligence resulted in damage to the Primary Market Class. Had the Defendants not breached their duties, the Primary Market Class members would not have purchased their Shares, or would have done so at a price that reflected their true value.

E. Oppression

224. The plaintiffs seek relief from oppression against CannTrust and the Individual Defendants.

225. The plaintiffs and Class Members are complainants within the meaning of sections 245 and 248(1) of the *OBCA*.

226. The plaintiffs and Class Members had reasonable expectations about the manner by which the business and affairs of CannTrust would be conducted. Those reasonable expectations included the following:

(a) that the Individual Defendants would act honestly and in good faith with a view to the best interests of CannTrust, and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances;

(b) that CannTrust's public disclosure documents would disclose all material facts and be free from misrepresentations;

(c) that CannTrust would make timely disclosure of any material changes to its business or operations;

(d) that the business and affairs of CannTrust would be conducted in a manner that complied with the *Cannabis Act* and associated regulations, and the *OSA* and other applicable laws;

(e) that the Individual Defendants would implement adequate corporate governance procedures and internal controls to ensure that CannTrust disclosed material facts and material changes in the company's business and operations on a timely basis; and

(f) that CannTrust and the Individual Defendants would not act in a way that would cause the trading price of CannTrust's securities to be artificially inflated.

227. CannTrust and the Individual Defendants acted in a manner contrary to those reasonable expectations in the following manner:

(a) making the misrepresentations and failing to disclose in a timely way the Niagara Change and the Vaughan Change in breach of the OSA requirements, as pleaded herein;

(b) by breaching or causing CannTrust to breach the *Cannabis Act* and regulations, as pleaded herein;

(c) by engaging in the above and other conduct, which caused the CannTrust Shares to trade or be sold at artificially inflated prices during the Class Period;

(d) during the Class Period with actual or constructive knowledge of material facts and changes not generally disclosed, certain Individual Defendants and/or companies they control sold CannTrust securities for their personal benefit thereby avoiding losses they would have otherwise incurred, contrary to section 76 of the *OSA*.

228. This conduct had the effect of oppressing and unfairly disregarding and unfairly prejudicing the interests of the plaintiffs and Class Members and caused damage to them.

229. CannTrust and the Individual Defendants knew of the impact that their conduct could be expected to have on the investments made by the Class Members, and their disregard for the reasonable expectations of the Class Members was oppressive or unfairly prejudicial to or unfairly disregarded the interests of the Class Members.

230. The appropriate remedy for the oppressive conduct is an award of compensation, pursuant to section 248(3)(j) of the *OBCA*.

F. Conspiracy

231. During the Class Period, CannTrust, Aceto, Green, Kirk, Eric Paul, Lee, Ian Abramowitz, and Platt conspired with each other and persons unknown ("**Conspirators**") to inflate the price of CannTrust's securities. During the Class Period, the Conspirators unlawfully, maliciously and

lacking *bona fides*, agreed together to, among other things, make the misrepresentations particularized above and to profit from such misrepresentations.

232. The Conspirators' predominant purpose in so conspiring were to:

(a) artificially inflate or maintain an artificially inflated trading price of CannTrust's Shares;

(b) artificially increase the value of Shares they held; and

(c) inflate the portion of their compensation that was dependent in whole or part upon the performance of CannTrust's business and/or its securities.

233. In furtherance of the conspiracy, the Conspirators carried out the following acts, among others:

(a) agreed to, and did, make the misrepresentations particularized above, which they knew were false;

(b) agreed to, and did, breach the *Cannabis Act* and regulations, and to mislead Health Canada inspectors;

(c) authorized, permitted, or acquiesced in the issuance of the Misleading Documents which they knew to be misleading; and

(d) authorized, permitted, or acquiesced in the sales of Shares pursuant to the May 1 Prospectus which they knew to be misleading.

234. The conspiracy was unlawful because the Conspirators knowingly and intentionally committed the foregoing acts when they knew such conduct was in violation of the *Cannabis Act* and regulations, the *OSA* and other Securities Legislation, and the rules and requirements of the

TSX and the *OBCA*. The Conspirators intended to, and did, harm the Class by causing artificial inflation in the price of CannTrust's securities.

235. The Conspirators directed the conspiracy toward the Plaintiffs and the other Class Members. The Conspirators knew in the circumstances that the conspiracy would, and did, cause loss to the Plaintiffs and the other Class Members. The Plaintiffs and the Class Members suffered damages when the falsity of the misrepresentations were revealed.

XII. RELATIONSHIP BETWEEN THE MISREPRESENTATIONS/OMISSIONS AND THE PRICE OF CANNTRUST'S SECURITIES

236. The price of CannTrust's securities was directly affected during the Class Period by the release of the documents and making of the public oral statements containing the misrepresentations as particularized herein. The Defendants were aware at all material times of the effect of CannTrust's disclosure documents and public oral statements upon the price of CannTrust's securities.

237. The Misleading Documents were filed, among other places, with SEDAR and EDGAR, and thereby became immediately available to, and were reproduced for inspection by, the Class Members, other members of the investing public, financial analysts and the financial press.

238. CannTrust routinely transmitted the Misleading Documents to the financial press, financial analysts and certain prospective and actual holders of CannTrust's securities. CannTrust provided either copies of the Misleading Documents or links thereto on its website.

239. CannTrust regularly communicated with investors and financial analysts via established market communication mechanisms, including through regular disseminations of their disclosure

documents, including on newswire services in Canada, the United States and elsewhere. When CannTrust communicated that new material information about CannTrust's business, and operations and its financial results to the public, the price of CannTrust's securities was directly affected.

240. CannTrust was the subject of analysts' reports that incorporated certain of the information contained in the Misleading Documents and public oral statements, with the effect that any recommendations to buy, hold or sell CannTrust's securities in such reports during the Class Period were based, in whole or in part, upon that information.

241. CannTrust's securities were and are traded, among other places, on the TSX, which is an efficient and automated market. The price at which CannTrust's securities traded promptly incorporated material information from CannTrust's disclosure documents and public oral statements about CannTrust's business and affairs, including the misrepresentations alleged herein, which were disseminated to the public through the Misleading Documents and public oral statements referred to herein and distributed by CannTrust, as well as by other means.

XIII. DAMAGES

242. The Class Members suffered damages as a result of the Defendants' breach of their duties, misrepresentations, negligence, conspiracy, and oppressive conduct. The Plaintiffs and the other Class Members suffered damages equivalent to the inflation in the price of the Shares they acquired during the Class Period which was related to the misrepresentations alleged herein. If the Defendants had not breached their duties and made the misrepresentations described above, CannTrust's Shares would not have traded or been sold at artificially high levels that Class Members paid for them, and the Class Members would not have suffered losses as alleged herein.

243. The Defendants' conduct was high-handed, outrageous, reckless, wanton, entirely without care, deliberate, callous, motivated by economic considerations, and amounted to an abuse of the capital markets. Such conduct renders the Defendants liable to pay punitive damages.

XIV. VICARIOUS LIABILITY

A. CannTrust and the Individual Defendants

244. CannTrust is vicariously liable for the acts and omissions of the Individual Defendants particularized in this claim.

245. The acts or omissions alleged herein to have been done by CannTrust were authorized, ordered and done by the Individual Defendants and other agents, employees and representatives of CannTrust, while engaged in the management, direction, control and transaction of the business and affairs of CannTrust. Such acts and omissions are, therefore, not only the acts and omissions of the Individual Defendants, but are also the acts and omissions of CannTrust.

246. At all material times, the Individual Defendants were officers and/or directors of CannTrust. As their acts and omissions are independently tortious, they are personally liable for same to the plaintiffs and the other Class Members.

B. KPMG

247. KPMG is vicariously liable for the acts and omissions of each of its officers, directors, partners, agents and employees as set out herein.

248. The acts or omissions alleged herein to have been done by KPMG were authorized, ordered and done by officers, directors, partners, agents and employees of KPMG while engaged in the

management, direction, control and transaction of the business and affairs of KPMG. Such acts and omissions are, therefore, not only the acts and omissions of those persons, but are also the acts and omissions of KPMG.

C. Underwriters

249. The Underwriters are vicariously liable for the acts and omissions of each of their officers, directors, partners, agents and employees as set out herein.

250. The acts or omissions alleged herein to have been done by the Underwriters were authorized, ordered and done by officers, directors, partners, agents and employees of the Underwriters while engaged in the management, direction, control and transaction of the business and affairs of the Underwriters. Such acts and omissions are, therefore, not only the acts and omissions of those persons, but are also the acts and omissions of the respective Underwriters.

D. Cajun and Cannamed

251. Cajun and Cannamed are vicariously liable for the acts and omissions of each of their officers, directors, partners, agents and employees as set out herein.

252. The acts or omissions alleged herein to have been done by Cajun and Cannamed were authorized, ordered and done by officers, directors, partners, agents and employees of Cajun and Cannamed while engaged in the management, direction, control and transaction of the business and affairs of Cajun and Cannamed. Such acts and omissions are, therefore, not only the acts and omissions of those persons, but are also the acts and omissions of Cajun and Cannamed.

XV. REAL AND SUBSTANTIAL CONNECTION WITH ONTARIO

253. This action has a real and substantial connection with Ontario because, among other things:

(a) CannTrust is a reporting issuer in Ontario,

(b) CannTrust's Shares trade on the TSX which is located in Toronto, Ontario;

(c) CannTrust carries on business in Ontario;

(d) CannTrust's registered and head office is in Vaughan, Ontario;

(e) CannTrust's productions facilities, including the Niagara Facility, are located in Ontario;

(f) the CannTrust disclosure documents referred to herein were disseminated in and from Ontario;

(g) a substantial portion of Class Members reside in Ontario;

(h) a substantial portion of the damages sustained by the Class were sustained by person and entities domiciled in Ontario.

XVI. LEGISLATION

254. The Plaintiffs plead and rely upon the *Courts of Justice Act*, RSO 1990, c C43, the *OBCA*, the *CPA*, the *OSA*, the Securities Legislation, and the *Cannabis Act*, all as amended.

XVII. SERVICE OUTSIDE ONTARIO AND PLACE OF TRIAL

255. The Plaintiffs plead and rely on Rules 17.02(a), (g), (n), and (p) of the *Rules of Civil Procedure* to serve this statement of claim outside Ontario without leave.

256. The plaintiffs propose that this action be tried in the City of Toronto, in the Province of Ontario.

[date]

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Schedule "A"
Misrepresentations Regarding Compliance with Regulations
related to the Niagara Facility

Excerpts from the 2017 AIF (incorporated by reference into certain Misleading Documents)

(Page 4):

- On October 10, 2017, CannTrust received its Health Canada cultivation license under the ACMPR for its 250,000 square foot redevelopment of the 430,000 square foot Niagara Facility.

(Page 5):

- On February 12, 2018, the Company announced it received its Health Canada sales license under the ACMPR for its 250,000 square foot Phase 1 redevelopment of its 430,000 square foot Niagara Facility.

(Page 6):

- The Company completed its 250,000 square foot Phase 1 redevelopment of the Niagara Facility for which Health Canada granted a sales license under the ACMPR.

(Page 7):

- The sales licenses issued by Health Canada to CannTrust Opco for the Vaughan Facility and the Niagara Facility (collectively, the "**ACMPR Licenses**") are effective until the expected renewal dates of March 13, 2020 and October 6, 2020, respectively. The ACMPR Licenses allow for the production, sale or provision, possession, shipping, transportation, delivery and destruction of dried cannabis and cannabis plants or seeds. It allows the Vaughan Facility and the Niagara Facility to produce dried cannabis and cannabis extracts up to such amounts as permitted by CannTrust Opco's storage capacity.

- CannTrust Opco currently produces approximately five core strains, chosen from a genetic library of over 15 strains.

- The production of medical cannabis is a specialized skill. The Company's qualified and experienced growing team are focused on continuously improving its growing and production techniques and have refined and developed an advanced, disciplined approach with a focus on producing high quality and consistent medical cannabis. The production of medical cannabis is closely monitored by the Company's management with a focus on producing high quality dried cannabis and cannabis extracts.

- Health Canada, pursuant to the ACMPR, sets the standard required for production and sale of medical cannabis. CannTrust Opco's Quality Assurance team is led by a group of experienced operators and scientists and is focused on generating the highest quality and most consistent product that meets or exceeds Health Canada expectations.

- The combination of the Company's experienced growing team along with its goal of exceeding Health Canada's ACMPR quality assurance guidelines are essential to consistently providing high quality medical cannabis products that are safe for doctor prescribed medical cannabis clients.

(Page 10-11):

- Health Canada conducts ad hoc, unscheduled site inspections of licensed producers. The Company has experienced these inspections at its Vaughan Facility and Niagara Facility on a monthly basis and has responded to and complied with all requests from Health Canada within the time frames indicated in such requests. As of the date hereof, there are no outstanding inspection issues with Health Canada beyond day-to-day adjustments that may occur in order to ensure ongoing compliance.

- *Quality Control*

  The Company understands the importance placed upon adhering to the "Good Production Practices" which are mandated by the ACMPR. These practices relate to the premises, storage of dried cannabis, equipment, sanitation program, standard operating procedures, recall of product, and quality assurance personnel. The Company currently has an in-house quality control laboratory and employs quality assurance persons with appropriate training, experience, and technical knowledge to approve the quality of the Company's products.

  In accordance with Section 73 of the ACMPR, all of the Company's quality control and sanitation procedures have been outlined for all personnel as standard operating procedures. New employees undergo a training program in which they are taught the appropriate implementation of these protocols.

  For the purposes of quality control, the Company tracks each "lot" (a specific genotype of medical cannabis that is initiated for production at one time, either by seed or clonal propagation) using a lot number, which is used to track lot quality control and sales in the Company's tracking software. Furthermore, the lot number is used in all sales transactions, and as such will serve as an identifier to rapidly initiate recall reporting as outlined in Section 77 of the ACMPR.

  Final dried cannabis that passes quality control is sealed in plastic bottles and stored within the climate-controlled vaults. Cannabis oil that passes quality control is sealed in containers and also stored in the climate-controlled vaults. Only products that pass the tests in the Company's quality control process will be offered for sale. As of the date hereof, the Company has not been required to recall distributed product.

(Page 12):

- *ACMPR License Renewal*

  CannTrust Opco's ACMPR Licenses for the Vaughan Facility and the Niagara Facility are valid until March 13, 2020 and October 6, 2020, respectively. Before the end of the terms of the ACMPR Licenses, CanuTrust Opco must submit an application for renewal to Health Canada containing information prescribed by the ACMPR. The ACMPR requires that the Minister of Health (the "Minister"), after examining the application and any supplementary information requested, issue renewed ACMPR Licenses, unless:

d) the Minister has reasonable grounds to believe that false or misleading information or false or falsified documents were submitted in or with the application;

g) the applicant is in contravention of or has contravened in the past 10 years:

- a provision of the CDSA or its regulations or the Food and Drugs Act, or
- a term or condition of another licence or a permit issued to it under any of those regulations;

(Page 19):

- The Company has sought and received its ACMPR Licenses for the Vaughan Facility and Niagara Facility which each provide for (a) the production and sale of dried cannabis; (b) the production and sale of cannabis oil (c) the production and sale of cannabis in its natural form: cannabis resin; (d) the production and sale of cannabis plants; and (e) the production and sale of cannabis seeds.

(Page 20):

- The Company's qualified and experienced growing team is focused on continuously improving its growing and production techniques and has refined and developed an advanced, disciplined approach with a focus on producing high quality and consistent medical cannabis. The production of medical cannabis is closely monitored by the Company's management with a focus on producing high quality dried cannabis and cannabis extracts.
- Differentiation in the strains of medical cannabis is primarily achieved through the procurement of seeds and our breeding programs. Obtaining seeds for growing medical cannabis must be done in accordance with the ACMPR. Seeds must be obtained from a legal source which includes seeds acquired from Health Canada, seeds imported from a jurisdiction allowed to export seeds or seeds acquired from another licensed producer. An authorization from Health Canada may be required to conduct such a transaction depending on its nature.

(Page 21):

- The operations of the Company require it to obtain ACMPR Licences for the transportation, distribution, production and sale of medical cannabis, and in some cases, renewals of existing licences from, and the issuance of permits by certain national authorities in Canada. The Company believes that it currently holds or has applied for all necessary licences and permits to carry on the activities which it is currently conducting under applicable laws and regulations, and also believes that it is complying in all material respects with the terms of such licences and permits.

(Page 22):

- The failure of the Company to obtain and maintain the applicable licenses and amendments thereto would have a material adverse impact upon the Company.

- In addition, the Company will apply for, as the need arises, all necessary licences and permits to carry on the activities it expects to conduct in the future.

- The ACMPR License for the Vaughan Facility expires on March 13, 2020 and the ACMPR License for the Niagara Facility expires on October 6, 2020.

- *Regulatory Risks*

  Achievement of the Company's business objectives is contingent, in part, upon compliance with regulatory requirements enacted by governmental authorities and obtaining all regulatory approvals, where necessary, for the sale of its products. The Company cannot predict the impact of the compliance regime Health Canada is implementing for the Canadian medical cannabis industry. Similarly, the Company cannot predict the time required to secure all appropriate regulatory approvals for its products, or the extent of testing and documentation that may be required by governmental authorities. The impact of Health Canada's compliance regime, any delays in obtaining, or failure to obtain regulatory approvals may significantly delay or impact the development of markets, products and sales initiatives and could have a material adverse effect on the business, results of operations and financial condition of the Company.

  The Company will incur ongoing costs and obligations related to regulatory compliance. Failure to comply with regulations may result in additional costs for corrective measures, penalties or restrictions on the Company's operations. In addition, changes in regulations, more vigorous enforcement thereof or other unanticipated events could require extensive changes to the Company's operations, increased compliance costs or give rise to material liabilities, which could have a material adverse effect on the business, results of operations and financial condition of the Company.

- The Company's operations are subject to various laws, regulations and guidelines relating to the manufacture, management, transportation, storage and disposal of medical cannabis as well as laws and regulations relating to health and safety, the conduct of operations and the protection of the environment. To the knowledge of management, other than the requirement that the Company make routine corrections that may be required by Health Canada from time to time, the Company is currently in compliance with all such laws.

(Page 23):

- Health Canada inspectors routinely assess the Vaughan Facility and the Niagara Facility against ACMPR regulations and provide the Company with follow up reports noting observed deficiencies. The Company is continuously reviewing and enhancing its operational procedures at the Vaughan Facility and the Niagara Facility both proactively and in response to routine inspections. The Company follows all regulatory requirements in response to inspections in a timely manner.

(Page 26):

- Although the Company has detailed procedures in place for testing its products, there can be no assurance that any quality, potency or contamination problems will be detected in time to avoid unforeseen product recalls, regulatory action or lawsuits.

Excerpts from the 2017 Annual MD&A (incorporated by reference into certain Misleading Documents)

(Page 2):

- CannTrust Opco is a Licenced Producer and distributor of medical cannabis pursuant to the provisions of the *Access to Cannabis for Medical Purposes Regulations* (Canada) ("ACMPR").

(Page 2-3):

- In March 2017, through Elmcliffe, the Company acquired the real estate assets and related equipment of a Greenhouse in the Town of Fenwick, Ontario within the Niagara Region (the "Greenhouse Facility"). In October 2017, CannTrust Opco received its Health Canada Cultivation Licence under the ACMPR for its completed 250,000 square foot Phase 1 redevelopment of its 430,000 square foot Greenhouse Facility and began production there. Phase 1 was completed both on budget and on time. The Company received its Health Canada Sales License for Phase 1 in February 2018.

(Page 5):

- Completed the 250,000 square foot Phase 1 redevelopment of the Greenhouse Facility and the Company received its Health Canada Cultivation License in respect thereof

(Page 7):

- In November 2017 Phase 1 was granted its Health Canada Cultivation Licence and in February 2018 obtained its Sales Licence.

(Page 10):

- In March 2017, the Company, through its wholly-owned subsidiary Elmcliffe, completed the acquisition of a 430,000 square foot commercial Greenhouse Facility in the Niagara region for cash consideration of $6,500,000. . . . The Greenhouse Facility, once fully converted to cannabis production, will provide the Company with the capacity to produce in excess of 40,000 kg of additional medical cannabis per year . . . The Company received its Health Canada License under the ACMPR on October 6, 2017 for the Phase 1 redevelopment. The Company has completed multiple harvests at the Greenhouse Facility subsequent to December 31, 2017 and on February 12, 2018 obtained its Health Canada sales license under the ACMPR

(Page 16):

- The operations of the Company require it to obtain ACMPR Licences for the transportation, distribution, production and sale of medical cannabis, and in some cases, renewals of existing licences from, and the issuance of permits by certain national authorities in Canada. The Company believes that it currently holds or has applied for all necessary licences and permits to carry on the activities which it is currently conducting under applicable laws and regulations, and also believes that it is complying in all material respects with the terms of such licences and permits.

(Page 17-18):

- *The failure of the Company to obtain and maintain the applicable licenses and amendments thereto would have a material adverse impact upon the Company.*

  In addition, the Company will apply for, as the need arises, all necessary licences and permits to carry on the activities it expects to conduct in the future. However, the ability of the Company to obtain, sustain or renew any such licences and permits on acceptable terms is subject to changes in regulations and policies and to the discretion of the applicable authorities or other governmental agencies in foreign jurisdictions. The ACMPR License for the Vaughan Facility expires on March 13, 2020 and the ACMPR License for the Greenhouse Facility expires on October 6, 2020.

- The Company's operations are subject to various laws, regulations and guidelines relating to the manufacture, management, transportation, storage and disposal of medical cannabis as well as laws and regulations relating to health and safety, the conduct of operations and the protection of the environment. To the knowledge of management, other than the requirement that the Company make routine corrections that may be required by Health Canada from time to time, the Company is currently in compliance with all such laws.

- Health Canada inspectors routinely assess the Vaughan Facility and the Greenhouse Facility against ACMPR regulations and provide the Company with follow up reports noting observed deficiencies. The Company is continuously reviewing and enhancing its operational procedures at the Vaughan Facility and the Greenhouse Facility both proactively and in response to routine inspections. The Company follows all regulatory requirements in response to inspections in a timely manner.

(Page 22):

- Although the Company has detailed procedures in place for testing its products, there can be no assurance that any quality, potency or contamination problems will be detected in time to avoid unforeseen product recalls, regulatory action or lawsuits. Additionally, if one of the products produced by the Company were subject to recall, the image of that product and the Company could be harmed. A recall for any of the foregoing reasons could lead to decreased demand for the Company's products and could have a material adverse effect on the results of operations and financial condition of the Company. Additionally, product recalls may lead to increased scrutiny of the Company's operations by Health Canada or other regulatory agencies, requiring further management attention and potential legal fees and other expenses.

Excerpts from the 2017 Annual Financial Statements (incorporated by reference into certain Misleading Documents)

(Page 18):

- On March 6, 2017, the Company, through its wholly owned subsidiary Elmcliffe Investments Inc., executed a Purchase and Sale Agreement to acquire various Greenhouse assets located in the regional municipality of Niagara, Ontario . . . The Company received its Health Canada Sales License for the completed Greenhouse Phase 1 conversion on February 12, 2018.

Excerpts from the Q2 2018 MD&A

(Page 2-3):

- CannTrust Opco is a Licenced Producer and distributor of medical cannabis pursuant to the provisions of the Access to Cannabis for Medical Purposes Regulations (Canada) ("ACMPR"). CannTrust Opco received its license from Health Canada on June 12, 2014 and began production of medical cannabis at its state-of-the-art hydroponic indoor facility in Vaughan, Ontario (the "Vaughan Facility").
- In March 2017, through Elmcliffe, the Company acquired the real estate assets and related equipment of a Greenhouse in the Town of Fenwick, Ontario within the Niagara Region (the "Perpetual Harvest Facility"). In October 2017, CannTrust Opco received its Health Canada Cultivation Licence under the ACMPR for its completed 250,000 square foot Phase 1 redevelopment of the Perpetual Harvest Facility and began production there.
- The Company received its Health Canada Sales License for Phase 1 in February 2018.

Excerpts from the Q2 2018 Financial Statements

(Page 6):

- The Company is a licensed producer and distributor of medical cannabis in Canada pursuant to the provisions of the Access to Cannabis for Medical Purposes Regulations ("ACMPR") and the Controlled Drugs and Substances Act and its Regulations. The Company began production of medicinal cannabis at its hydroponic facility located in Vaughan, Ontario in Canada and received its license from Health Canada to sell on February 9, 2015. The Company commenced sale of medicinal cannabis under the Marijuana for Medical Purposes Regulations ("MMPR") in February 2015.

- On January 13, 2017, the Company, through its wholly owned subsidiary Elmcliffe Investments Inc. acquired various Greenhouse and related assets located in the regional municipality of Niagara, Ontario. The Company received is Health Canada Sales License for its Niagara Facility in February 2018.

Excerpts from the Q3 2018 MD&A

(Page 2):

- CannTrust Opco is a Licenced Producer and distributor of medical and recreational cannabis pursuant to the provisions of the Cannabis Act and its regulations which came into force on October 17, 2018.

- In March 2017, through Elmcliffe, the Company acquired the real estate assets and related equipment of a Greenhouse in the Town of Fenwick, Ontario within the Niagara Region (the "Perpetual Harvest Facility"). In October 2017, CannTrust Opco received its Health Canada Cultivation Licence under the ACMPR for its completed 250,000 square foot Phase 1 redevelopment of the Perpetual Harvest Facility and began production there. The redevelopment of the Perpetual Harvest Facility was Canada's first continuous harvest automated perpetual harvest designed specifically for this quantum scale of cannabis production. The Company received its Health Canada Sales License for the Perpetual Harvest Facility in February 2018.

(Page 9):

- The Company received its Health Canada License under the ACMPR on October 6, 2017 for the Phase 1 redevelopment. On February 12, 2018 the Company obtained its Health Canada sales license under the ACMPR and is now operating Phase 1 at full capacity.

Excerpts from the Q3 2018 Financial Statements

(Page 6):

- On January 13, 2017, the Company, through its wholly owned subsidiary Elmcliffe Investments Inc. acquired various Greenhouse and related assets located in the regional municipality of Niagara, Ontario. The Company received its Health Canada Sales License for its Niagara Facility in February 2018.

(Page 11):

- On March 6, 2017, the Company, through its wholly owned subsidiary Elmcliffe Investments Inc. executed a Purchase and Sale Agreement to acquire various Greenhouse assets located in the regional municipality of Niagara, Ontario. The aggregate purchase price for the Greenhouse assets was $7,500,000. On execution of the Purchase and Sale Agreement, the operating business and all related intangible assets and intellectual property was assigned to a related party. Upon closing of the transaction, the existing operations ceased and the Company began a site conversion project in order to convert the facility into a Health Canada Approved

Cannabis growth facility. With this purchase the Company has enhanced its ability to serve (i) the Canadian and International Medicinal Cannabis markets and (ii) the Adult Recreational market in Canada which became legal on October 17, 2018. The Company received its Health Canada Sales License for this facility on February 12, 2018.

Excerpts from the 2018 AIF

(Page 4):

- On March 6, 2017, through its wholly-owned OBCA-incorporated subsidiary, Elmcliffe Investments Inc. ("Elmcliffe"), the Company acquired the real estate assets and related equipment of a greenhouse facility in the Town of Pelham, Ontario within the Niagara Region (the "Niagara Facility"). On October 10, 2017, the Company received its Health Canada cultivation licence under the Access to Cannabis for Medical Purposes Regulations ("ACMPR") for its 250,000 square foot Phase 1 redevelopment of the 450,000 square foot Niagara Facility.

(Page 5):

- On February 12, 2018, the Company received its Health Canada Sales Licence under the ACMPR for the Niagara Facility, having completed the Phase 1 renovation.

(Page 9):

- The Company also owns a 450,000 square foot commercial greenhouse facility in the Niagara region through its wholly-owned subsidiary Elmcliffe. The Niagara Facility is the Company's current primary grow facility, which will increase the Company's annual grow capacity from 3,600 kg previously available in the Vaughan Facility to 50,000 kg. The Niagara Facility is a state of the art hydroponic greenhouse with computer controlled irrigation, co-generation and full supplemental lighting. The Niagara Facility is equipped with a perpetual harvest cropping system which produces cannabis 365 days a year and allows for a continuous work cycle, creating a steady production capacity and a more stable work environment for employees.

(Page 10):

- The licences issued by Health Canada to CannTrust Opco for the Vaughan Facility and the Niagara Facility (collectively, the "Cannabis Licences") are effective until the expected renewal dates of March 13, 2020 and October 6, 2020, respectively. The Cannabis Licences allow for the production, sale or provision, possession, shipping, transportation, delivery and destruction of dried cannabis and cannabis plants or seeds. It allows the Vaughan Facility and the Niagara Facility to produce dried cannabis and cannabis extracts up to such amounts as permitted by CannTrust Opco's storage capacity.

- CannTrust Opco has an extensive genetic strain bank and currently produces approximately eight core strains. The strains have been optimized for greenhouse horticultural practices.

- The Company's qualified and experienced growing team is focused on continuously improving its growing and production techniques and have refined and developed an advanced, disciplined approach with a focus on producing high quality and consistent cannabis. The production of cannabis is closely monitored by the Company's management with a focus on producing high quality dried cannabis and cannabis extracts.

- Health Canada, pursuant to the Cannabis Act and the Cannabis Regulations, sets the standard required for production and sale of cannabis. CannTrust Opco's Quality Assurance team is led by a group of experienced operators and scientists and is focused on generating the highest quality and most consistent product that meets or exceeds Health Canada expectations.

(Pages 14-15):

Production

- The Company currently grows its cannabis in the state of the art greenhouse in the Niagara Facility. The harvested product is then shipped to the Vaughan Facility for extraction, manufacturing, packaging and order fulfillment.

Facilities & Operations

- The Company has repurposed its Vaughan Facility from a grow facility into a state-of-the-art extraction, manufacturing and packaging facility of approximately 60,000 square feet, including an in-house quality control laboratory. The Company also owns the Niagara Facility, a commercial greenhouse facility of approximately 450,000 square feet in the Niagara region. The Niagara Facility is a state-of-the-art hydroponic greenhouse with computer controlled irrigation, co-generation and full supplemental lighting. The Niagara Facility is equipped with a perpetual harvest cropping system which produces cannabis 365 days a year and allows for a continuous work cycle, creating a steady production capacity and a more stable work environment for employees.

Packaging

- The Company adheres to prescribed packaging requirements under the Cannabis Act and the Cannabis Regulations. The Cannabis Regulations set out requirements pertaining to the packaging and labelling of cannabis products. The purpose of the packaging and labeling rules is to promote informed consumer choice, allow for the safe handling and transportation of cannabis, and to reduce the appeal of the products to youth. Vendors must package cannabis in a way that is tamper-proof, child-resistant, prevents contamination and ensures dryness. The Cannabis Regulations also require plain packaging, with strict requirements for logos, colours and branding. The packaging must also contain the following product information:
  - (i) product source information, including the class of cannabis and the name, phone number and email of the cultivator;
  - (ii) a mandatory health warning, rotating between Heath Canada's list of standard health warnings;
  - (iii) the Health Canada standardized cannabis symbol; and

- (iv) information specifying THC and CBD content. The Cannabis Regulations provide a six-month transitional period to allow licensed holders to sell cannabis products labelled in accordance with the ACMPR.

(Page 15):

- Health Canada conducts ad hoc, unscheduled site inspections of licensed producers. Health Canada inspectors assess the Vaughan Facility and the Niagara Facility on a monthly basis against Cannabis Regulations and provide the Company with follow up reports noting observed deficiencies The Company is continuously reviewing and enhancing its operational procedures at the Vaughan Facility and the Niagara Facility both proactively and in response to routine inspections. The Company follows all regulatory requirements in response to inspections in a timely manner. As of the date hereof, there are no outstanding inspection issues with Health Canada beyond day-to-day adjustments that may occur in order to ensure ongoing compliance.

(Page 25):

- CannTrust Opco's Cannabis Licences for the Vaughan Facility and the Niagara Facility are valid until March 13, 2020 and October 6, 2020, respectively.

- The Company believes that it currently holds or has applied for all necessary licences and permits to carry on the activities which it is currently conducting under applicable laws and regulations, and also believes that it is complying in all material respects with the terms of such licences and permits.

- Differentiation in the strains of cannabis is primarily achieved through the procurement of seeds and the Company's breeding programs. Obtaining seeds for growing cannabis must be done in accordance with the Cannabis Regulations. Seeds must be obtained from a legal source which includes seeds acquired from Health Canada, seeds imported from a jurisdiction allowed to export seeds or seeds acquired from another licensed producer. An authorization from Health Canada may be required to conduct such a transaction depending on its nature.

(Page 29):

- The Cannabis Licence for the Vaughan Facility expires on March 13, 2020 and the Cannabis Licence for the Niagara Facility expires on October 6, 2020.

(Page 33):

The Vaughan Facility and Niagara Facility are integral to the Company's business and adverse changes or developments affecting any of these facilities may have an adverse impact on the Company.

- Currently, the Company's activities and resources are focused on the operation of the Vaughan Facility and Niagara Facility, and its current licenses under the Cannabis Act are specific to the Vaughan and Niagara facilities.

(Page 63):

MATERIAL CONTRACTS

- The following are the material contracts entered into by the Company, including certain contracts entered into in the ordinary course of business, since the beginning of the most recently completed financial year and prior to the most recently completed financial year if those material contracts are still in effect:
    - (ii) Cannabis Licences granted by Health Canada in respect of the Vaughan Facility and the Niagara Facility.

Excerpts from the Annual 2018 MD&A

(Page 3):

- CannTrust received its license from Health Canada in June 2014, and began production of medical cannabis at its hydroponic indoor facility in Vaughan, Ontario (the "Vaughan Facility"). In 2018, the Company repurposed the Vaughan Facility from a grow facility into a state-of-the-art extraction, manufacturing and packaging facility of approximately 60,000 square feet, including an in-house quality control laboratory. The Company owns and operates an approximately 450,000 square foot perpetual harvest facility in the Niagara region (the "Perpetual Harvest Facility"), which is expected to have an annual capacity of approximately 50,000 kilograms. The planned Phase 3 expansion is expected to increase the annual capacity of the Perpetual Harvest Facility to 100,000 kilograms upon its completion.

(Page 8):

- In March 2017, through Elmcliffe, the Company acquired the real estate assets and related equipment of a greenhouse in the Town of Fenwick, Ontario within the Niagara Region. In October 2017, CannTrust received its Health Canada Cultivation Licence under the ACMPR for its completed 250,000 square foot Phase 1 redevelopment of the Perpetual Harvest Facility and began production there. The redevelopment of the Perpetual Harvest Facility was Canada's first automated perpetual harvest designed specifically for this scale of cannabis production. The Company received its Health Canada Sales License for the Perpetual Harvest Facility in February 2018.

(Page 17):

- The Company received its Health Canada License under the ACMPR on October 6, 2017 for the Phase 1 redevelopment. On February 12, 2018 the Company obtained its Health Canada sales license under the ACMPR and began operating Phase 1 at full capacity. The 200,000 square foot Phase 2 expansion at the Perpetual Harvest Facility was substantially completed in the first quarter of 2019.

Excerpts from the Annual 2018 Financial Statements

(Page 8):

- The Company is a licensed producer and distributor of medical and recreational cannabis in Canada pursuant to the federal Cannabis Act and its regulations (the "Cannabis Act") which came into force on October 17, 2018. The Company began production of medicinal cannabis at its hydroponic facility located in Vaughan, Ontario in Canada and received its license from Health Canada to sell on February 9, 2015. The Company commenced sale of medicinal cannabis under the Marijuana for Medical Purposes Regulations ("MMPR") in February 2015. On October 17, 2018, the Company commenced sale of recreational cannabis for adult use under the Cannabis Act.

- On January 13, 2017, the Company, through its wholly owned subsidiary Elmcliffe Investments Inc. acquired various greenhouse and related assets located in the regional municipality of Niagara, Ontario. The Company received its Health Canada Sales License for its Niagara Facility in February 2018.

(Page 19):

- On March 6, 2017, the Company, through its wholly owned subsidiary Elmcliffe Investments Inc. executed a Purchase and Sale Agreement to acquire various greenhouse assets located in the regional municipality of Niagara, Ontario . . . The Company received its Health Canada Sales License for this facility on February 12, 2018.

<u>Excerpts from the Q1 2019 MD&A</u>

(Page 3):

- CannTrust received its license from Health Canada in June 2014, and began production of medical cannabis at its hydroponic indoor facility in Vaughan, Ontario (the "Vaughan Facility"). In 2018, the Company repurposed the Vaughan Facility from a grow facility into a state-of-the-art extraction, manufacturing and packaging facility of approximately 60,000 square feet, including an in-house quality control laboratory. The Company owns and operates an approximately 450,000 square foot perpetual harvest facility in the Niagara region (the "Perpetual Harvest Facility"), which is expected to have an annual capacity of approximately 50,000 kilograms. The planned Phase 3 expansion is expected to increase the annual capacity of the Perpetual Harvest Facility to 100,000 kilograms upon its completion.

(Page 8):

- In March 2017, through Elmcliffe, the Company acquired the real estate assets and related equipment of a greenhouse in the Town of Fenwick, Ontario within the Niagara Region. In October 2017, CannTrust received its Health Canada Cultivation Licence under the ACMPR for its completed 250,000 square foot Phase 1 redevelopment of the Perpetual Harvest Facility and began production there. The redevelopment of the Perpetual Harvest Facility was Canada's first automated perpetual harvest designed specifically for this scale of cannabis production. The Company received its Health Canada Sales License for the Perpetual Harvest Facility in February 2018. The Phase 2 expansion at the Perpetual Harvest Facility was substantially completed during the first quarter of 2019, and is as of the date of this MD&A, fully licensed by Health Canada.

(Page 13):

	Location	Use	Size	Capacity	Status	License
Vaughan	Vaughan, Ontario, Canada	Manufacturing and Packaging	60,000 sq ft	n/a	In production	Cultivation and sale
Niagara Phase 1 and 2	Pelham, Ontario, Canada	Grow	450,000 sq ft	50,000 kg/year	In production	Cultivation and sale

(Page 17):

- The Company received its Health Canada License under the ACMPR on October 6, 2017 for the Phase 1 redevelopment. On February 12, 2018 the Company obtained its Health Canada sales license under the ACMPR and began operating Phase 1 at full capacity. The 200,000 square foot Phase 2 expansion at the Perpetual Harvest Facility was substantially completed in the first quarter of 2019 and was fully licensed as of April 2019.

Excerpts from the Q1 2019 Financial Statements

(Page 6):

- The Company is a licensed producer and distributor of medical and recreational cannabis in Canada pursuant to the federal Cannabis Act and its regulations (the "Cannabis Act") which came into force on October 17, 2018. The Company began production of medicinal cannabis at its hydroponic facility located in Vaughan, Ontario in Canada and received its license from Health Canada to sell on February 9, 2015. The Company commenced sale of medicinal cannabis under the Marijuana for Medical Purposes Regulations ("MMPR") in February 2015. On October 17, 2018, the Company commenced sale of recreational cannabis for adult use under the Cannabis Act.
- On January 13, 2017, the Company, through its wholly owned subsidiary Elmcliffe Investments Inc. acquired various greenhouse and related assets located in the regional municipality of Niagara, Ontario. The Company received its Health Canada Sales License for its Niagara Facility in February 2018.

Excerpts from the May 1 Prospectus

Incorporates by reference the Annual 2018 AIF, Financial Statements, and MD&A, and the Short Form Base Shelf Prospectus dated March 18, 2019, which in turn incorporates by reference the Annual 2017 AIF, Financial Statements, and MD&A, Q3 2018 FS and MD&A.

(Page S-10):

- In April 2019, our cultivation and processing permit under Health Canada Cannabis Regulations was amended to include the final 20% of our Phase 2 expansion, which is now fully licensed.

(Page S-19):

- Health Canada has issued licences to CannTrust Opco for each of our facilities (the "Cannabis Licences" and each a "Cannabis Licence"). The Cannabis Licence for the Vaughan Facility expires on March 13, 2020, and the Cannabis Licence for the Niagara Facility expires on October 6, 2020.

(Page S-21 to S-22):

The Vaughan Facility and Niagara Facility are integral to our business and adverse changes or developments affecting any of these facilities may have an adverse impact on us.

- Currently, our activities and resources are focused on the operation of the Vaughan Facility and Niagara Facility, and our current licences under the Cannabis Act are specific to the Vaughan and Niagara Facilities.

(Page S-44)

- We received our license from Health Canada in June 2014, and began production of medical cannabis at our hydroponic indoor facility in Vaughan, Ontario (the "Vaughan Facility"). In 2018, we repurposed the Vaughan Facility from a grow facility into a state-of-the-art extraction, manufacturing and packaging facility of approximately 60,000 square feet, including an in-house quality control laboratory. We own and operate an approximately 450,000 square foot perpetual harvest facility in the Niagara region (the "Niagara Facility"), which is expected to have an annual capacity of approximately 50,000 kilograms. The planned Phase 3 expansion is expected to increase the annual capacity of the Niagara Facility to 100,000 kilograms upon its completion.

(Page S-48):

- In March 2017, through Elmcliffe, we acquired the real estate assets and related equipment of a greenhouse in the Town of Fenwick, Ontario within the Niagara Region. In October 2017, we received our Health Canada Cultivation Licence under the ACMPR for its completed 250,000 square foot Phase 1 redevelopment of the Niagara Facility and began production there. We believe the redevelopment of the Niagara Facility was Canada's first automated perpetual harvest designed specifically for this scale of cannabis production. We received our Health Canada Sales License for the Niagara Facility in February 2018. The Phase 2 expansion at the Niagara Facility was substantially completed during the first quarter of 2019 and Health Canada approved the amendment of our cultivation and processing permit to include the final 20% of the Phase 2 expansion on April 8, 2019.

(Page S-52):

	Location	Use	Size	Capacity	Status	License
Vaughan	Vaughan, Ontario, Canada	Manufacturing and Packaging	60,000 sq ft	n/a	In production	Cultivation and sale
Niagara Phase 1 and 2	Pelham, Ontario, Canada	Grow	450,000 sq ft	50,000 kg/year	In production	Cultivation and sale

(Page S-55):

- We received our Health Canada License under the ACMPR on October 6, 2017 for the Phase 1 redevelopment. On February 12, 2018 we obtained our Health Canada sales license under the ACMPR and began operating Phase 1 at full capacity. The 200,000 square foot Phase 2 expansion at the Niagara Facility was substantially completed in the first quarter of 2019.

(Page S-73):

Facilities & Operations

- We have completed the Phase 1 redevelopment of the Niagara Facility which is approximately 250,000 square feet and the Phase 2 expansion of approximately 200,000 square feet to which Health Canada granted a cultivation and production license.

(Page F-8):

- The Company is a licensed producer and distributor of medical and recreational cannabis in Canada pursuant to the federal Cannabis Act and its regulations (the "Cannabis Act") which came into force on October 17, 2018. The Company began production of medicinal cannabis at its hydroponic facility located in Vaughan, Ontario in Canada and received its license from Health Canada to sell on February 9, 2015. The Company commenced sale of medicinal cannabis under the Marijuana for Medical Purposes Regulations ("MMPR") in February 2015. On October 17, 2018, the Company commenced sale of recreational cannabis for adult use under the Cannabis Act.

- On January 13, 2017, the Company, through its wholly owned subsidiary Elmcliffe Investments Inc. acquired various greenhouse and related assets located in the regional municipality of Niagara, Ontario.The Company received its Health Canada Sales License for its Niagara Facility in February 2018.

(Page F-18 to F-19):

- On March 6, 2017, the Company, through its wholly owned subsidiary Elmcliffe Investments Inc. executed a Purchase and Sale Agreement to acquire various greenhouse assets located in the regional municipality of Niagara, Ontario. . . . The Company received its Health Canada Sales License for this facility on February 12, 2018.

(Page 8 to 9 of March 18 Prospectus, incorporated into the May 1 Prospectus).

- The following summary addresses the primary Canadian federal and provincial laws and regulations associated with the production and distribution of legal cannabis and related products. It does not address the laws and regulations of any other jurisdiction. The Company believes that, as of the date of this Prospectus, it is in material compliance with all laws and regulations summarized below.

. . .

The Cannabis Regulations establish the following different classes of licences that are required depending on the nature of the activity being undertaken:

- Cultivation licences — standard cultivation, micro-cultivation and nursery cultivation;
- Processing licences — standard processing and micro-processing;
- Sale, and sale for medical purposes;
- Analytical testing;
- Research; and
- Cannabis drug licence.

Pursuant to the Cannabis Regulations, any licence issued will be valid for no more than five years. Each class and subclass of licence carries different rules and requirements. The licence, once issued, identifies the specific activities that the licensee is authorized to conduct. The activities permitted under each class or subclass of licence are set out in the Cannabis Regulations.

For example, cultivation licence holders may be authorized to: (i) possess cannabis; (ii) obtain cannabis by cultivating, propagating and harvesting cannabis; (iii) obtain cannabis by altering its chemical or physical properties by any means, for the purpose of testing; and (iv) sell cannabis. Unlike under the ACMPR, the cultivation licence holders are permitted to conduct both indoor and outdoor cultivation of cannabis.

Schedule "B"
Misrepresentations Regarding Compliance with Regulations related to the Vaughan Facility

<u>Excerpts from the 2017 AIF (incorporated by reference into certain Misleading Documents)</u>

(Page 3):

- CannTrust Opco received its cultivation license from Health Canada under the *Access to Cannabis for Medical Purposes Regulations* ("**ACMPR**") on June 12, 2014 and began production of medical cannabis at its production facility in Vaughan, Ontario (the "**Vaughan Facility**").

(Page 5-6):

- We produce standardized pharmaceutical grade medical cannabis products that are completely pesticide-free at the Vaughan Facility, which is a 40,000 square foot, state-of-the-art hydroponic indoor facility in Vaughan, Ontario, including an in-house quality control laboratory. The Vaughan Facility currently has a potential production capacity of 3,600 kg of medical cannabis per year. We have made a significant infrastructure investment in technology for sanitation, risk mitigation and the prevention of crop failures. Automated nutrient management systems within the Vaughan Facility provide industry-leading, standardized horticultural practices.

(Page 7):

- The sales licenses issued by Health Canada to CannTrust Opco for the Vaughan Facility and the Niagara Facility (collectively, the "**ACMPR Licenses**") are effective until the expected renewal dates of March 13, 2020 and October 6, 2020, respectively. The ACMPR Licenses allow for the production, sale or provision, possession, shipping, transportation, delivery and destruction of dried cannabis and cannabis plants or seeds. It allows the Vaughan Facility and the Niagara Facility to produce dried cannabis and cannabis extracts up to such amounts as permitted by CannTrust Opco's storage capacity.

- The production of medical cannabis is a specialized skill. The Company's qualified and experienced growing team are focused on continuously improving its growing and production techniques and have refined and developed an advanced, disciplined approach with a focus on producing high quality and consistent medical cannabis. The production of medical cannabis is closely monitored by the Company's management with a focus on producing high quality dried cannabis and cannabis extracts.

- Health Canada, pursuant to the ACMPR, sets the standard required for production and sale of medical cannabis. CannTrust Opco's Quality Assurance team is led by a group of experienced operators and scientists and is focused on generating the highest quality and most consistent product that meets or exceeds Health Canada expectations.

- The combination of the Company's experienced growing team along with its goal of exceeding Health Canada's ACMPR quality assurance guidelines are essential to consistently providing high quality medical cannabis products that are safe for doctor prescribed medical cannabis clients.

(Page 9)

Production

- The Company, pursuant to the requirements of the ACMPR grows its medical cannabis indoors. The production process begins in the growing areas of the Vaughan Facility and the Niagara Facility, where plants are grown until ready for harvesting and drying. Once the plants have sufficiently dried, they are packaged and stored and are subject to quality control testing throughout that process at our onsite laboratory and at a third-party laboratory.

Packaging

- All medical cannabis products sold by the Company are sold or provided in tamper-evident containers or packages. Cannabis and cannabis oil extracts are provided in child-resistant containers. The Company complies with the Health Canada-prescribed labelling requirements which vary depending on the product type.

(Page 10-12):

- *Storage and Security*

  Storage is a very important aspect of maintaining the integrity and quality of cannabis. The environment needs to be controlled. The Company is sensitive to the environmental risks that threaten the product and stores its finished product in a vault with full control over the environment, including heat, light, temperature and humidity. Deterioration is usually a result of dehydration arising from one of these environmental concerns. The Company's ability to control aspects of the environment within the storage facility allow the Company to uphold the quality of its products.

  Subdivision C of the ACMPR sets out physical security requirements that are necessary to secure sites where licensed producers conduct activities with medical cannabis other than storage. As per Health Canada regulations, the Vaughan Facility contains four Level 8 Vaults and the Niagara Facility recently added three Level 9 Vaults. The vaults are equipped with security cameras, motion sensors, finger print, pass code locked doors and seismic sensors that trigger alarms when vibrations are detected.

  On January 25, 2018, Health Canada revised the storage and security requirements of the ACMPR such that vaults are no longer required as outlined in the Directive on Physical Security Requirements for Controlled Substances. Instead licensed producers will be required to store cannabis within a secure area of their facility. In addition, licensed producers will no longer be required to maintain 24/7 video surveillance inside the rooms where cannabis is being cultivated, propagated or harvested. All access points to cultivation, propagation and harvesting rooms will, however, continue to be subject to 24/7 video surveillance and recording in order to record all entries and exits.

The Company has taken advantage of these less stringent regulations. Pursuant to the updated security requirements of the ACMPR, the Company's facilities meet the following requirements:

1) each site is designed in a manner that prevents unauthorized access to the site itself and, once inside the site, to any area within the site where cannabis is present (the "Key Areas");
2) the perimeter of each site and the Key Areas are each visually monitored at all times by recording devices that will detect any actual or attempted unauthorized access or illicit conduct;
3) there is an intrusion detection system which detects actual or attempted unauthorized access to the site or, once inside the site, to the Key Areas which intrusion detection system be monitored by such personnel as can take appropriate steps in response to any such unauthorized access and make a record on any such unauthorized access;
4) records are kept of every person entering and exiting the Key Areas;
5) there are physical barriers preventing unauthorized access to Key Areas; and
6) the Key Areas are equipped with an air filtration system that prevents the escape of odours and pollen.

Health Canada conducts ad hoc, unscheduled site inspections of licensed producers. The Company has experienced these inspections at its Vaughan Facility and Niagara Facility on a monthly basis and has responded to and complied with all requests from Health Canada within the time frames indicated in such requests.

- *Quality Control*

The Company understands the importance placed upon adhering to the "Good Production Practices" which are mandated by the ACMPR. These practices relate to the premises, storage of dried cannabis, equipment, sanitation program, standard operating procedures, recall of product, and quality assurance personnel. The Company currently has an in-house quality control laboratory and employs quality assurance persons with appropriate training, experience, and technical knowledge to approve the quality of the Company's products.

In accordance with Section 73 of the ACMPR, all of the Company's quality control and sanitation procedures have been outlined for all personnel as standard operating procedures. New employees undergo a training program in which they are taught the appropriate implementation of these protocols.

For the purposes of quality control, the Company tracks each "lot" (a specific genotype of medical cannabis that is initiated for production at one time, either by seed or clonal propagation) using a lot number, which is used to track lot quality control and sales in the Company's tracking software. Furthermore, the lot number is used in all sales transactions, and as such will serve as an identifier to rapidly initiate recall reporting as outlined in Section 77 of the ACMPR.

Final dried cannabis that passes quality control is sealed in plastic bottles and stored within the climate-controlled vaults. Cannabis oil that passes quality control is sealed in containers and also stored in the climate-controlled vaults. Only products that pass the tests in the Company's quality control process will be offered for sale. As of the date hereof, the Company has not been required to recall distributed product.

- *Sanitation*

The Company has implemented a rigorous process to maintain a sanitary environment for the growth of its flowers, which includes a sanitation protocol for personnel entry into the growing areas, the use of stainless steel to allow for efficient cleaning and sanitation and regularly scheduled surface and drain sterilization.

- *Operations*

The facilities and equipment required to manage production include the following:

1) walk-in vaults;
2) building security, including access control, video surveillance and motion detectors;
3) shipping bay for client shipments;
4) growing equipment, including trays, containers, specialized lighting and associated controls, circulating fans and watering systems;
5) oil production equipment, including a grinder, vacuum oven, kettle, and a state of the art C02 extractor;
6) HVAC systems, primarily exhaust and cooling, to maintain an optimal growing environment;
7) odour control systems;
8) enhanced electrical distribution primarily for the high intensity lighting systems; and
9) laboratory equipment or outsourcing arrangements to monitor and test product quality for compliance with the Food and Drugs Act, Pest Control Products Act and product labelling standards under the ACMPR.

(Page 12 -14):

- *ACMPR License Renewal*

CannTrust Opco's ACMPR Licenses for the Vaughan Facility and the Niagara Facility are valid until March 13, 2020 and October 6, 2020, respectively. Before the end of the terms of the ACMPR Licenses, CannTrust Opco must submit an application for renewal to Health Canada containing information prescribed by the ACMPR. The ACMPR requires that the Minister of Health (the "Minister"), after examining the application and any supplementary information requested, issue renewed ACMPR Licenses, unless:

d) the Minister has reasonable grounds to believe that false or misleading information or false or falsified documents were submitted in or with the application;

f) the applicant does not have in place the security measures set out in the Security Directive and Subdivision C of the ACMPR in respect of an activity for which the ACMPR Licence is sought;

g) the applicant is in contravention of or has contravened in the past 10 years:

- a provision of the CDSA or its regulations or the Food and Drugs Act, or
- a term or condition of another licence or a permit issued to it under any of those regulations;

j) the proposed method of record keeping does not meet the requirements of the ACMPR

- *Reporting Requirements*

The ACMPR imposes certain general requirements and reporting obligations on licensed producers such as CannTrust Opco. These requirements and obligations include:

(f) within five days after such change, CannTrust Opco must notify the Minister of any change to:

i. the method used for keeping records;

ii. the security of the sites, other than a change that affects the security level of any building at which cannabis, other than cannabis plants, is stored;

(l) the Minister must be provided with any information that the Minister may require in respect of the records, documents and information referred to in the ACMPR, in the form and at the times that the Minister specifies.

(Page 19):

- The Company has sought and received its ACMPR Licenses for the Vaughan Facility and Niagara Facility which each provide for (a) the production and sale of dried cannabis; (b) the production and sale of cannabis oil (c) the production and sale of cannabis in its natural form: cannabis resin; (d) the production and sale of cannabis plants; and (e) the production and sale of cannabis seeds.

(Page 20):

The Company's qualified and experienced growing team is focused on continuously improving its growing and production techniques and has refined and developed an advanced, disciplined approach with a focus on producing high quality and consistent medical cannabis. The production of medical cannabis is closely monitored by the Company's management with a focus on producing high quality dried cannabis and cannabis extracts.

(Page 21 to Page 22):

- The operations of the Company require it to obtain ACMPR Licences for the transportation, distribution, production and sale of medical cannabis, and in some cases, renewals of existing licences from, and the issuance of permits by certain national authorities in Canada. The Company believes that it currently holds or has applied for all necessary licences and permits to carry on the activities which it is currently conducting under applicable laws and regulations, and also believes that it is complying in all material respects with the terms of such licences and permits.

(Page 22):

- The failure of the Company to obtain and maintain the applicable licenses and amendments thereto would have a material adverse impact upon the Company.

- In addition, the Company will apply for, as the need arises, all necessary licences and permits to carry on the activities it expects to conduct in the future. ... The ACMPR License for the Vaughan Facility expires on March 13, 2020 and the ACMPR License for the Niagara Facility expires on October 6, 2020.

- *Regulatory Risks*

  Achievement of the Company's business objectives is contingent, in part, upon compliance with regulatory requirements enacted by governmental authorities and obtaining all regulatory approvals, where necessary, for the sale of its products. The Company cannot predict the impact of the compliance regime Health Canada is implementing for the Canadian medical cannabis industry. Similarly, the Company cannot predict the time required to secure all appropriate regulatory approvals for its products, or the extent of testing and documentation that may be required by governmental authorities. The impact of Health Canada's compliance regime, any delays in obtaining, or failure to obtain regulatory approvals may significantly delay or impact the development of markets, products and sales initiatives and could have a material adverse effect on the business, results of operations and financial condition of the Company.

  The Company will incur ongoing costs and obligations related to regulatory compliance. Failure to comply with regulations may result in additional costs for corrective measures, penalties or restrictions on the Company's operations. In addition, changes in regulations, more vigorous enforcement thereof or other unanticipated events could require extensive changes to the Company's operations, increased compliance costs or give rise to material liabilities, which could have a material adverse effect on the business, results of operations and financial condition of the Company.

- The Company's operations are subject to various laws, regulations and guidelines relating to the manufacture, management, transportation, storage and disposal of medical cannabis as well as laws and regulations relating to health and safety, the conduct of operations and the protection of the environment. To the knowledge of management, other than the requirement that the Company make routine corrections that may be required by Health Canada from time to time, the Company is currently in compliance with all such laws.

(Page 23):

- Health Canada inspectors routinely assess the Vaughan Facility and the Niagara Facility against ACMPR regulations and provide the Company with follow up reports noting observed deficiencies. The Company is continuously reviewing and enhancing its operational procedures at the Vaughan Facility and the Niagara Facility both proactively and in response to routine inspections. The Company follows all regulatory requirements in response to inspections in a timely manner.

(Page 26):

- Although the Company has detailed procedures in place for testing its products, there can be no assurance that any quality, potency or contamination problems will be detected in time to avoid unforeseen product recalls, regulatory action or lawsuits.

(Page 28):

- Given the nature of the Company's products and the lack of legal availability of such products outside of channels approved by the Government of Canada, as well as the concentration of inventory in its facilities, despite meeting or exceeding Health Canada's security requirements, there remains a risk of shrinkage as well as theft. A security breach at the Company's facilities could expose the Company to additional liability and to potentially costly litigation, increased expenses relating to the resolution and future prevention of these breaches and may deter potential patients from choosing the Company's products.

(Page 32):

- Due to the nature of the Company's products, security of the product during transportation to and from the Company's facilities is of the utmost concern. A breach of security during transport or delivery could have a material and adverse effect on the Company's business, financial condition and prospects. Any breach of the security measures during transport or delivery, including any failure to comply with recommendations or requirements of Health Canada, could also have an impact on the Company's ability to continue operating under the ACMPR Licenses or the prospect of renewing the ACMPR Licenses.

Excerpts from the 2017 Annual MD&A (incorporated by reference into certain Misleading Documents)

(Page 2):

- CannTrust Opco is a Licenced Producer and distributor of medical cannabis pursuant to the provisions of the Access to Cannabis for Medical Purposes Regulations (Canada) ("ACMPR"). CannTrust Opco received its license from Health Canada on June 12, 2014 and began production of medical cannabis at its state-of-the-art hydroponic indoor facility in Vaughan, Ontario (the "Vaughan Facility").

(Page 16):

- The operations of the Company require it to obtain ACMPR Licences for the transportation, distribution, production and sale of medical cannabis, and in some cases, renewals of existing licences from, and the issuance of permits by certain national authorities in Canada. The Company believes that it currently holds or has applied for all necessary licences and permits to carry on the activities which it is currently conducting under applicable laws and regulations, and also believes that it is complying in all material respects with the terms of such licences and permits.

(Page 17-18):

- The failure of the Company to obtain and maintain the applicable licenses and amendments thereto would have a material adverse impact upon the Company.

- In addition, the Company will apply for, as the need arises, all necessary licences and permits to carry on the activities it expects to conduct in the future. However, the ability of the Company to obtain, sustain or renew any such licences and permits on acceptable terms is subject to changes in regulations and policies and to the discretion of the applicable authorities or other governmental agencies in foreign jurisdictions. The ACMPR License for the Vaughan Facility expires on March 13, 2020 and the ACMPR License for the Greenhouse Facility expires on October 6, 2020.

- The Company's operations are subject to various laws, regulations and guidelines relating to the manufacture, management, transportation, storage and disposal of medical cannabis as well as laws and regulations relating to health and safety, the conduct of operations and the protection of the environment. To the knowledge of management, other than the requirement that the Company make routine corrections that may be required by Health Canada from time to time, the Company is currently in compliance with all such laws.

- Health Canada inspectors routinely assess the Vaughan Facility and the Greenhouse Facility against ACMPR regulations and provide the Company with follow up reports noting observed deficiencies. The Company is continuously reviewing and enhancing its operational procedures at the Vaughan Facility and the Greenhouse Facility both proactively and in response to routine inspections. The Company follows all regulatory requirements in response to inspections in a timely manner.

(Page 22):

- Although the Company has detailed procedures in place for testing its products, there can be no assurance that any quality, potency or contamination problems will be detected in time to avoid unforeseen product recalls, regulatory action or lawsuits. Additionally, if one of the products produced by the Company were subject to recall, the image of that product and the Company could be harmed. A recall for any of the foregoing reasons could lead to decreased demand for the Company's products and could have a material adverse effect on the results of operations and financial condition of the Company. Additionally, product recalls may lead to increased scrutiny of the Company's operations by Health Canada or other regulatory agencies, requiring further management attention and potential legal fees and other expenses.

(Page 24):

- Given the nature of the Company's products and the lack of legal availability of such products outside of channels approved by the Government of Canada, as well as the concentration of inventory in its facilities, despite meeting or exceeding Health Canada's security requirements, there remains a risk of shrinkage as well as theft. A security breach at the Company's facilities could expose the Company to additional liability and to potentially costly litigation, increased expenses relating to the resolution and future prevention of these breaches and may deter potential patients from choosing the Company's products.

(Page 28):

- Due to the nature of the Company's products, security of the product during transportation to and from the Company's facilities is of the utmost concern. A breach of security during transport or delivery could have a material and adverse effect on the Company's business, financial condition and prospects. Any breach of the security measures during transport or delivery, including any failure to comply with recommendations or requirements of Health Canada, could also have an impact on the Company's ability to continue operating under the ACMPR Licenses or the prospect of renewing the ACMPR Licenses.

Excerpts from the 2017 Annual Financial Statements (incorporated by reference into certain Misleading Documents)

(Page 7):

The Company is a licensed producer and distributor of medical cannabis in Canada pursuant to the provisions of the Access to Cannabis for Medical Purposes Regulations ("ACMPR") and the Controlled Drugs and Substances Act and its Regulations. The Company began production of medicinal cannabis at its hydroponic facility located in Vaughan, Ontario in Canada and received its license from Health Canada to sell on February 9, 2015. The Company commenced sale of medicinal cannabis under the Marihuana for Medical Purposes Regulations ("MMPR") in February 2015.

Excerpts from the Q2 2018 MD&A

(Page 2):

- CannTrust Opco is a Licenced Producer and distributor of medical cannabis pursuant to the provisions of the Access to Cannabis for Medical Purposes Regulations (Canada) ("ACMPR"). CannTrust Opco received its license from Health Canada on June 12, 2014 and began production of medical cannabis at its state-of-the-art hydroponic indoor facility in Vaughan, Ontario (the "Vaughan Facility").

Excerpts from the Q2 2018 Financial Statements

(Page 6):

- The Company is a licensed producer and distributor of medical cannabis in Canada pursuant to the provisions of the Access to Cannabis for Medical Purposes Regulations ("ACMPR") and the Controlled Drugs and Substances Act and its Regulations. The Company began production of medicinal cannabis at its hydroponic facility located in Vaughan, Ontario in Canada and received its license from Health Canada to sell on February 9, 2015. The Company commenced sale of medicinal cannabis under the Marijuana for Medical Purposes Regulations ("MMPR") in February 2015.

Excerpts from the Q3 2018 MD&A

(Page 2):

- CannTrust Opco is a Licenced Producer and distributor of medical and recreational cannabis pursuant to the provisions of the Cannabis Act and its regulations which came into force on October 17, 2018. CannTrust Opco received its license from Health Canada on June 12, 2014 and began production of medical cannabis at its state-of-the-art hydroponic indoor facility in Vaughan, Ontario (the "Vaughan Facility"). The Company's primary focus is to produce and deliver the highest quality, standardized, pharmaceutical grade cannabis products and in so doing strengthen its market share in legal cannabis markets in Canada and to establish positions for its products in legal cannabis markets abroad.

Excerpts from the Q3 2018 Financial Statements

(Page 6):

- The Company is a licensed producer and distributor of medical and recreational cannabis in Canada pursuant to the Cannabis Act and its regulation which came into force on October 17, 2018. The Company began production of medicinal cannabis at its hydroponic facility located in Vaughan, Ontario in Canada and received its license from Health Canada to sell on February 9, 2015. The Company commenced sale of medicinal cannabis under the Marijuana for Medical Purposes Regulations ("MMPR") in February 2015. On October 17, 2018, the Company commenced sale of recreational cannabis for adult use under the Canadian Cannabis Act.

Excerpts from the 2018 AIF

(Page 9)

- The Company produced standardized medical cannabis products at the Vaughan Facility, which has been repurposed from a grow facility into a 60,000 square foot, state-of-the-art extraction, manufacturing and packaging facility, including an in-house quality control laboratory. The lease for the Vaughan Facility commenced on December 1, 2013 for an initial term of 10 years ending on November 30, 2023, with CannTrust Opco having an option to extend for two additional terms of five years each if it is not otherwise in default under the terms of the lease.

(Page 10):

- The licences issued by Health Canada to CannTrust Opco for the Vaughan Facility and the Niagara Facility (collectively, the "Cannabis Licences") are effective until the expected renewal dates of March 13, 2020 and October 6, 2020, respectively. The Cannabis Licences allow for the production, sale or provision, possession, shipping, transportation, delivery and destruction of dried cannabis and cannabis plants or seeds. It allows the Vaughan Facility and the Niagara Facility to produce dried cannabis and cannabis extracts up to such amounts as permitted by CannTrust Opco's storage capacity.

(Page 14)

Production

- The Company currently grows its cannabis in the state of the art greenhouse in the Niagara Facility. The harvested product is then shipped to the Vaughan Facility for extraction, manufacturing, packaging and order fulfillment.

Facilities & Operations

- The Company has repurposed its Vaughan Facility from a grow facility into a state-of-the-art extraction, manufacturing and packaging facility of approximately 60,000 square feet, including an in-house quality control laboratory.

Packaging

- The Company adheres to prescribed packaging requirements under the Cannabis Act and the Cannabis Regulations. The Cannabis Regulations set out requirements pertaining to the packaging and labelling of cannabis products.

(Page 15):

Storage and Security

- Storage is a very important aspect of maintaining the integrity and quality of cannabis. The environment needs to be controlled. The Company is sensitive to the environmental risks that threaten the product and stores its finished product in a secure area with full control over the environment, including heat, light, temperature and humidity. Deterioration is usually a result of dehydration arising from one of these environmental concerns. The Company's ability to control aspects of the environment within the storage facility allow the Company to uphold the quality of its products.

- In addition, the Company's facilities meet the following prescribed security requirements for its sites and storage areas:

  1) each site is designed in a manner that prevents unauthorized access to the site itself and, once inside the site, to any area within the site where cannabis is present (the "**Key Areas**");

2) the perimeter of each site and the Key Areas are each visually monitored at all times by recording devices that will detect any actual or attempted unauthorized access or illicit conduct;

3) there is an intrusion detection system which detects actual or attempted unauthorized access to the site or, once inside the site, to the Key Areas which intrusion detection system be monitored by such personnel as can take appropriate steps in response to any such unauthorized access and make a record on any such unauthorized access;

4) records are kept of every person entering and exiting the Key Areas;

5) there are physical barriers preventing unauthorized access to Key Areas; and

6) the Key Areas are equipped with an air filtration system that prevents the escape of odours and pollen.

- Health Canada conducts ad hoc, unscheduled site inspections of licensed producers. Health Canada inspectors assess the Vaughan Facility and the Niagara Facility on a monthly basis against Cannabis Regulations and provide the Company with follow up reports noting observed deficiencies The Company is continuously reviewing and enhancing its operational procedures at the Vaughan Facility and the Niagara Facility both proactively and in response to routine inspections. The Company follows all regulatory requirements in response to inspections in a timely manner. As of the date hereof, there are no outstanding inspection issues with Health Canada beyond day-to-day adjustments that may occur in order to ensure ongoing compliance.

(Page 16):

Quality Control

- The Company understands the importance placed upon adhering to "Good Production Practices", which were previously mandated by the ACMPR and continue under the Cannabis Regulations. These practices relate to the premises for and production of cannabis, as well as the equipment, sanitation program, standard operating procedures, recall, and quality assurance personnel required to operate in these regulations. The Company currently has an in-house quality control laboratory and employs quality assurance persons with appropriate training, experience, and technical knowledge to assure the quality of the Company's products.

- All of the Company's quality control and sanitation procedures have been outlined for all personnel as standard operating procedures. New employees undergo a training program in which they are taught the appropriate implementation of these protocols.

- For the purposes of quality control, the Company tracks each "lot" (a specific genotype of medical cannabis that is initiated for production at one time, either by seed or clonal propagation) using a unique lot number, via electronic and paper based systems. Furthermore, the lot number is used in all sales transactions, and as such serves as an identifier to rapidly initiate recall reporting.

- Final dried cannabis that passes quality control is sealed in plastic bottles and stored within the climate-controlled secure area. Cannabis extract that passes quality control is sealed in containers and also stored in a climate-controlled area. All product is tested for potency, microbiological, heavy metal, and pesticide contamination using validated methods. Only products that pass the tests in the Company's quality control process are offered for sale.

(Page 17)

Reporting Requirements

- Licence holders have extensive reporting obligations under the Cannabis Regulations and under the specific terms of the licences they hold.

(Page 25):

- CannTrust Opco's Cannabis Licences for the Vaughan Facility and the Niagara Facility are valid until March 13, 2020 and October 6, 2020, respectively.

- The Company believes that it currently holds or has applied for all necessary licences and permits to carry on the activities which it is currently conducting under applicable laws and regulations, and also believes that it is complying in all material respects with the terms of such licences and permits.

(Page 29):

- The Cannabis Licence for the Vaughan Facility expires on March 13, 2020 and the Cannabis Licence for the Niagara Facility expires on October 6, 2020.

(Page 33):

The Vaughan Facility and Niagara Facility are integral to the Company's business and adverse changes or developments affecting any of these facilities may have an adverse impact on the Company.

- Currently, the Company's activities and resources are focused on the operation of the Vaughan Facility and Niagara Facility, and its current licenses under the Cannabis Act are specific to the Vaughan and Niagara facilities.

(Page 63):

MATERIAL CONTRACTS

- The following are the material contracts entered into by the Company, including certain contracts entered into in the ordinary course of business, since the beginning of the most recently completed financial year and prior to the most recently completed financial year if those material contracts are still in effect:

- (i) Lease agreement for the Vaughan Facility between the Company and N.H.D. Developments Limited, dated September 27, 2013. See "Description of the Business – General" for more information.
- (ii) Cannabis Licences granted by Health Canada in respect of the Vaughan Facility and the Niagara Facility. See "Description of the Business – ACMPR Licences" for more information.

Excerpts from the Annual 2018 MD&A

(Page 3):

- CannTrust is a Licensed Producer and distributor of medical and recreational cannabis pursuant to the provisions of the Cannabis Act (Canada) (the "Cannabis Act") and its regulations which came into force on October 17, 2018. The Company's primary focus is to produce and deliver the highest quality, standardized, cannabis products, strengthen its market share in legal cannabis markets in Canada, and expand its business in legal cannabis markets internationally.
- CannTrust received its license from Health Canada in June 2014, and began production of medical cannabis at its hydroponic indoor facility in Vaughan, Ontario (the "Vaughan Facility"). In 2018, the Company repurposed the Vaughan Facility from a grow facility into a state-of-the-art extraction, manufacturing and packaging facility of approximately 60,000 square feet, including an in-house quality control laboratory. The Company owns and operates an approximately 450,000 square foot perpetual harvest facility in the Niagara region (the "Perpetual Harvest Facility"), which is expected to have an annual capacity of approximately 50,000 kilograms. The planned Phase 3 expansion is expected to increase the annual capacity of the Perpetual Harvest Facility to 100,000 kilograms upon its completion.

(Page 13):

- *Operational Overview*

Location	Use	Size	Capacity	Status	License
Vaughan, Ontario, Canada	Manufacturing and Packaging	60,000 sq ft	n/a	In production	Cultivation and sale

Excerpts from the Annual 2018 Financial Statements

(Page 8):

- The Company is a licensed producer and distributor of medical and recreational cannabis in Canada pursuant to the federal Cannabis Act and its regulations (the "Cannabis Act") which came into force on October 17, 2018. The Company began production of medicinal cannabis at its hydroponic facility located in Vaughan, Ontario in Canada and received its license from Health Canada to sell on February 9, 2015. The Company commenced sale of medicinal cannabis under the Marijuana for Medical Purposes Regulations ("MMPR") in February 2015. On October 17, 2018, the Company commenced sale of recreational cannabis for adult use under the Cannabis Act.

Excerpts from the Q1 2019 MD&A

(Page 3)

- CannTrust received its license from Health Canada in June 2014, and began production of medical cannabis at its hydroponic indoor facility in Vaughan, Ontario (the "Vaughan Facility"). In 2018, the Company repurposed the Vaughan Facility from a grow facility into a state-of-the-art extraction, manufacturing and packaging facility of approximately 60,000 square feet, including an in-house quality control laboratory. The Company owns and operates an approximately 450,000 square foot perpetual harvest facility in the Niagara region (the "Perpetual Harvest Facility"), which is expected to have an annual capacity of approximately 50,000 kilograms. The planned Phase 3 expansion is expected to increase the annual capacity of the Perpetual Harvest Facility to 100,000 kilograms upon its completion.

(Page 13):

	Location	Use	Size	Capacity	Status	License
Vaughan	Vaughan, Ontario, Canada	Manufacturing and Packaging	60,000 sq ft	n/a	In production	Cultivation and sale

Excerpts from the Q1 2019 Financial Statements

(Page 6):

- The Company is a licensed producer and distributor of medical and recreational cannabis in Canada pursuant to the federal Cannabis Act and its regulations (the "Cannabis Act") which came into force on October 17, 2018. The Company began production of medicinal cannabis at its hydroponic facility located in Vaughan, Ontario in Canada and received its license from Health Canada to sell on February 9, 2015. The Company commenced sale of medicinal cannabis under the Marijuana for Medical Purposes Regulations ("MMPR") in February 2015. On October 17, 2018, the Company commenced sale of recreational cannabis for adult use under the Cannabis Act.

Excerpts from the Prospectus May 1, 2019

Incorporates by reference the Annual 2018 AIF, Financial Statements, and MD&A, and the Short Form Base Shelf Prospectus dated March 18, 2019, which in turn incorporates by reference the Annual 2017 AIF, Financial Statements, and MD&A, Q3 2018 FS and MD&A.

(page S-7)

- We have scaled and diversified our growing and cultivation capabilities across our facilities in both Niagara, Ontario and Vaughan, Ontario.

(Page S-8)

- Our manufacturing center of excellence is approximately 60,000 square feet and is located in Vaughan, Ontario (the "Vaughan Facility"). It uses state of the art processes, such as our multihead weigher (a machine that quickly and accurately weighs product for packaging), capper and labeler technology, which allow us to maximize our output of dried flower product and our in-house quality control laboratory helps us ensure the quality and standardization of our product.

(Page S-19):

- Health Canada has issued licences to CannTrust Opco for each of our facilities (the "Cannabis Licences" and each a "Cannabis Licence"). The Cannabis Licence for the Vaughan Facility expires on March 13, 2020, and the Cannabis Licence for the Niagara Facility expires on October 6, 2020.

(Page S-21 to S-22):

The Vaughan Facility and Niagara Facility are integral to our business and adverse changes or developments affecting any of these facilities may have an adverse impact on us.

- Currently, our activities and resources are focused on the operation of the Vaughan Facility and Niagara Facility, and our current licences under the Cannabis Act are specific to the Vaughan and Niagara Facilities.

(Page S-44)

- We received our license from Health Canada in June 2014, and began production of medical cannabis at our hydroponic indoor facility in Vaughan, Ontario (the "Vaughan Facility"). In 2018, we repurposed the Vaughan Facility from a grow facility into a state-of-the-art extraction, manufacturing and packaging facility of approximately 60,000 square feet, including an in-house quality control laboratory. We own and operate an approximately 450,000 square foot perpetual harvest facility in the Niagara region (the "Niagara Facility"), which is expected to have an annual capacity of approximately 50,000 kilograms. The planned Phase 3 expansion is expected to increase the annual capacity of the Niagara Facility to 100,000 kilograms upon its completion.

(Page S-52):

	Location	Use	Size	Capacity	Status	License
Vaughan	Vaughan, Ontario, Canada	Manufacturing and Packaging	60,000 sq ft	n/a	In production	Cultivation and sale

(Page S-69):

- The Company has scaled and diversified its growing and cultivation capabilities across its facilities in both Niagara, Ontario and Vaughan, Ontario.

(Page S-70):

- The Company's manufacturing center of excellence is approximately 60,000 square feet and is located in Vaughan, Ontario (the "Vaughan Facility"). It uses state of the art processes, such as its multihead weigher (a machine that quickly and accurately weighs product for packaging), capper and labeler technology, which allows the Company to maximize the Company's output of dried flower product and the Company's in-house quality control laboratory helps us ensure the quality and standardization of the Company's product.

(Page S-73):

Facilities & Operations

- We have repurposed our Vaughan Facility from a grow facility into a state-of-the-art extraction, manufacturing and packaging facility of approximately 60,000 square feet, including an in-house quality control laboratory.

(Page F-8):

- The Company is a licensed producer and distributor of medical and recreational cannabis in Canada pursuant to the federal Cannabis Act and its regulations (the "Cannabis Act") which came into force on October 17, 2018. The Company began production of medicinal cannabis at its hydroponic facility located in Vaughan, Ontario in Canada and received its license from Health Canada to sell on February 9, 2015. The Company commenced sale of medicinal cannabis under the Marijuana for Medical Purposes Regulations ("MMPR") in February 2015. On October 17, 2018, the Company commenced sale of recreational cannabis for adult use under the Cannabis Act.

(Page 8 to 9 of March 18 Prospectus, incorporated into the May 1 Prospectus):

Vaughan Facility

- The Vaughan Facility has been repurposed from a grow facility into a state-of-the-art extraction, manufacturing and packaging facility of approximately 60,000 square feet, including an in-house quality control laboratory. The Vaughan Facility is currently being upgraded to obtain Good Manufacturing Practices (GMP) certification at an expected capital cost of between \$5 – \$10 million and is expected to be completed in the next 12 months.

- The following summary addresses the primary Canadian federal and provincial laws and regulations associated with the production and distribution of legal cannabis and related products. It does not address the laws and regulations of any other jurisdiction. The Company believes that, as of the date of this Prospectus, it is in material compliance with all laws and regulations summarized below.

. . .

The Cannabis Regulations establish the following different classes of licences that are required depending on the nature of the activity being undertaken:

- Cultivation licences — standard cultivation, micro-cultivation and nursery cultivation;
- Processing licences — standard processing and micro-processing;
- Sale, and sale for medical purposes;
- Analytical testing;
- Research; and
- Cannabis drug licence.

Pursuant to the Cannabis Regulations, any licence issued will be valid for no more than five years. Each class and subclass of licence carries different rules and requirements. The licence, once issued, identifies the specific activities that the licensee is authorized to conduct. The activities permitted under each class or subclass of licence are set out in the Cannabis Regulations.

For example, cultivation licence holders may be authorized to: (i) possess cannabis; (ii) obtain cannabis by cultivating, propagating and harvesting cannabis; (iii) obtain cannabis by altering its chemical or physical properties by any means, for the purpose of testing; and (iv) sell cannabis. Unlike under the ACMPR, the cultivation licence holders are permitted to conduct both indoor and outdoor cultivation of cannabis.

Schedule "C"

Misrepresentations that CannTrust had effective ICFR and DC&P

Excerpts from Q2 2018 MD&A

(Page 17):

Disclosure Controls and Internal Controls over Financial Reporting

Internal Control over Financial Reporting

In accordance with National Instrument 52-109 of the Canadian Securities Administrators, management is responsible for establishing and maintaining adequate Disclosure Controls and Procedures ("DCP") and Internal Control over Financial Reporting ("ICFR"). The Company's CEO and CFO are required to file certifications relating to DCP and ICFR for the Company in connection with its interim and annual filings.

Limitations of Controls and Procedures

The Company's management, including the President and Chief Executive Officer and Chief Financial Officer, believes that any disclosure controls and procedures or internal control over financial reporting, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been prevented or detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by unauthorized override of the control. The design of any control system is also based in part upon certain assumptions about the likelihood of future events and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Excerpts from Q3 2018 MD&A

(Page 18):

Disclosure Controls and Internal Controls over Financial Reporting

Internal Control over Financial Reporting

In accordance with National Instrument 52-109 of the Canadian Securities Administrators, management is responsible for establishing and maintaining adequate Disclosure Controls and Procedures ("DCP") and Internal Control over Financial Reporting ("ICFR"). The Company's CEO and CFO are required to file certifications relating to DCP and ICFR for the Company in connection with its interim and annual filings.

Limitations of Controls and Procedures

The Company's management, including the Chief Executive Officer and Chief Financial Officer, believes that any disclosure controls and procedures or internal control over financial reporting, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been prevented or detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by unauthorized override of the control. The design of any control system is also based in part upon certain assumptions about the likelihood of future events and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Excerpts from 2018 Annual MD&A

(Pages 27-28):

Disclosure Controls and Internal Controls over Financial Reporting

In accordance with National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings, and as required by the applicable rules of the SEC, management is responsible for establishing and maintaining disclosure controls and procedures ("DC&P"), as defined in Rules 13a-15(e) and 15d-15(e) under the United States Securities Exchange Act of 1934, as amended (the "Exchange Act") and internal control over financial reporting ("ICFR"), as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Management has designed ICFR based on the 2013 Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

The Company's disclosure controls and procedures are designed to provide reasonable assurance that material information relating to the Company is made known to senior management, including the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") and information required to be disclosed by the Company is recorded, processed, summarized and reported within the time periods specified in securities legislation. ICFR is designed by management, under the supervision of the CEO and CFO, to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of its financial statements in accordance with IFRS.

As of December 31, 2018, the Company had limited accounting personnel with expertise to assist in the effective preparation of financial statements and related note disclosures. In particular, the Company did not have sufficient resources with appropriate knowledge of IFRS to allow for an independent review in complex areas of financial reporting with respect to non-routine transactions, resulting in a reasonable likelihood that a material misstatement to the consolidated financial statements may not be prevented or detected on a timely basis. As a result of the non-routine transaction assessment, management concluded that the DC&P and ICFR were not effective as of December 31, 2018, and has since implemented new mitigating controls and procedures. This assessment was not related to internal control deficiencies identified for routine operating activities. The Company has devoted significant resources and time to design and implement its current ICFR program and continues to engage third party resources specialized in ICFR implementations to enhance its current controls and the associated processes and systems. Additionally, the Company has provided significant human resources to these efforts, including hiring new employees to assist in ICFR activities and training of key process owners. In particular, since December 31, 2018, we have hired a new Chief Financial Officer and a new Vice President of Finance, both of whom have expertise in internal controls and governance, to enhance the existing team. Management has consistently embraced the importance of maintaining a robust ICFR program and is committed to enhancing the current system through continuous improvement and review.

Changes in Internal Control Over Financial Reporting

In the ordinary course of business, the Company's management reviews its ICFR system and make changes to its applications and processes to improve such controls and increase efficiency, while ensuring that the Company maintains an adequate internal control environment. Other than as discussed above, during Q4 2018, there were no changes in ICFR that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Limitations of Controls and Procedures

The Company's management, including the Chief Executive Officer and Chief Financial Officer, believes that any DC&P or ICFR, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been prevented or detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by unauthorized override of the control. The design of any control system is also based in part upon certain assumptions about the likelihood of future events and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

<u>Excerpts from Q1 2019 MD&A</u>

(Pages 26-27):

Disclosure Controls and Internal Controls over Financial Reporting

In accordance with National Instrument 52-109 - Certification of Disclosure in Issuers' Annual and Interim Filings, and as required by the applicable rules of the SEC, management is responsible for establishing and maintaining disclosure controls and procedures ("DC&P"), as defined in Rules 13a-15(e) and 15d-15(e) under the United States Securities Exchange Act of 1934, as amended (the "Exchange Act") and internal control over financial reporting ("ICFR"), as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Management has designed ICFR based on the 2013 Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

The Company's disclosure controls and procedures are designed to provide reasonable assurance that material information relating to the Company is made known to senior management, including the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") and information required to be disclosed by the Company is recorded, processed, summarized and reported within the time periods specified in securities legislation. ICFR is designed by management, under the supervision of the CEO and CFO, to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of its financial statements in accordance with IFRS.

As of December 31, 2018, the Company had limited accounting personnel with expertise to assist in the effective preparation of financial statements and related note disclosures. In particular, the Company did not have sufficient resources with appropriate knowledge of IFRS to allow for an independent review in complex areas of financial reporting with respect to non-routine transactions, resulting in a reasonable likelihood that a material misstatement to the consolidated financial statements may not be prevented or detected on a timely basis. As a result of the non-routine transaction assessment, management concluded that the DC&P and ICFR were not effective as of December 31, 2018, and has since implemented new mitigating controls and procedures. This assessment was not related to internal control deficiencies identified for routine operating activities. The Company has devoted significant resources and time to design and implement its current ICFR program and continues to engage third party resources specialized in ICFR implementations to enhance its current controls and the associated processes and systems. Additionally, the Company has provided significant human resources to these efforts, including hiring new employees to assist in ICFR activities and training of key process owners. In particular, since December 31, 2018, the Company hired a new Chief Financial Officer and a new Vice President of Finance, both of whom have expertise in internal controls and governance, to enhance the existing team. Management has consistently embraced the importance of maintaining a robust ICFR program and is committed to enhancing the current system through continuous improvement and review. As at March 31, 2019, the Company continues to be in the process of evaluating the effectiveness of the new controls and procedures implemented to enhance the control environment.

Changes in Internal Control Over Financial Reporting

In the ordinary course of business, the Company's management reviews its ICFR system and make changes to its applications and processes to improve such controls and increase efficiency, while ensuring that the Company maintains an adequate internal control environment. Other than as discussed above, during the first quarter of 2019 there were no changes in ICFR that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Limitations of Controls and Procedures

The Company's management, including the Chief Executive Officer and Chief Financial Officer, believes that any DC&P or ICFR, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been prevented or detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by unauthorized override of the control. The design of any control system is also based in part upon certain assumptions about the likelihood of future events and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Excerpts from May 1 Prospectus

(Page S-63 to S-64)

Disclosure Controls and Internal Controls over Financial Reporting
In accordance with National Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings*, and as required by the applicable rules of the SEC, management is responsible for establishing and maintaining disclosure controls and procedures ("**DC&P**"), as defined in Rules 13a-15(e) and 15d-15(e) under the United States Securities Exchange Act of 1934, as amended (the "**U.S. Exchange Act**") and internal control over financial reporting ("**ICFR**"), as defined in Rules 13a-15(f) and 15d-15(f) under the U.S. Exchange Act. Management has designed ICFR based on the 2013 Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Our disclosure controls and procedures are designed to provide reasonable assurance that material information relating to us is made known to senior management, including the Chief Executive Officer ("**CEO**") and the Chief Financial Officer ("**CFO**") and information required to be disclosed by us is recorded, processed, summarized and reported within the time periods specified in securities legislation. ICFR is designed by management, under the supervision of the CEO and CFO, to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of its financial statements in accordance with IFRS.

As of December 31, 2018, we had limited accounting personnel with expertise to assist in the effective preparation of financial statements and related note disclosures. In particular, we did not have sufficient resources with appropriate knowledge of IFRS to allow for an independent review in complex areas of financial reporting with respect to non-routine transactions, resulting in a reasonable likelihood that a material misstatement to the consolidated financial statements may not be prevented or detected on a timely basis. As a result of the non-routine transaction assessment, management concluded that the DC&P and ICFR were not effective as of December 31, 2018, and has since implemented new mitigating controls and procedures. This assessment was not related to internal control deficiencies identified for routine operating activities. We have devoted significant resources and time to design and implement its current ICFR program and continues to engage third party resources specialized in ICFR implementations to enhance its current controls and the associated processes and systems. Additionally, we have provided significant human resources to these efforts, including hiring new employees to assist in ICFR activities and training of key process owners. In particular, since December 31, 2018, we have hired a new Chief Financial Officer and a new Vice President of Finance, both of whom have expertise in internal controls and governance, to enhance the existing team. Management has consistently embraced the importance of maintaining a robust ICFR program and is committed to enhancing the current system through continuous improvement and review.

Changes in Internal Control Over Financial Reporting

In the ordinary course of business, our management reviews our ICFR system and make changes to its applications and processes to improve such controls and increase efficiency, while ensuring that we maintain an adequate internal control environment. Other than as discussed above, during Q4 2018, there were no changes in ICFR that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations of Controls and Procedures

Our management, including the Chief Executive Officer and Chief Financial Officer, believes that any DC&P or ICFR, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within our business have been prevented or detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by unauthorized override of the control. The design of any control system is also based in part upon certain assumptions about the likelihood of future events and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Patrick Hrusa, *et al* Plaintiffs and CannTrust Holdings Inc., *et al*

Court File No.: 19-00062518I-00CP

ONTARIO
SUPERIOR COURT OF JUSTICE

Proceeding commenced at Toronto

Proceeding under the *Class Proceedings Act, 1992*

FRESH AS AMENDED STATEMENT OF CLAIM

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Plaintiff/Moving Party
Court File No.: CV-19-00625351-00CP

-and-

CANNTRUST HOLDINGS INC., et al.
Defendants

SINGH et al.
Plaintiffs/Responding Parties
Court File No.: CV-19-000625181-00CP

-and-

CANNTRUST HOLDINGS INC., et al
Defendants

ONTARIO
SUPERIOR COURT OF JUSTICE
DIVISIONAL COURT

Proceeding Commenced in Toronto

ORDER
(Carriage Motion)

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This is Exhibit "B" referred to in the affidavit of Serge Kalloghlian, sworn before me this 20th day of January, 2021

A Commissioner for taking Affidavits

Type text here

CITATION: Earle v. CannTrust Holdings Inc., 2020 ONSC 579
COURT FILE NO.: CV-19-000625181-00CP
COURT FILE NO.: CV-19-00625351-00CP
DATE: 2020/01/28

ONTARIO
SUPERIOR COURT OF JUSTICE

BETWEEN:	
WENDY EARLE, ATIQUR SARKER, DHARAMBIR SINGH, and RON REID	*David Wingfield* and *Dimitri Lascaris* for the Plaintiffs
Plaintiffs	
- and -	
CANNTRUST HOLDINGS INC., ERIC PAUL, PETER ACETO, GREG GUYATT, IAN ABRAMOWITZ, MARK DAWBER, JOHN KADEN, MARK IAN LITWIN, ROBERT MARCOVITCH, MITCHELL J. SANDERS, STAN ABRAMOWITZ, BRAD ROGERS, MICHAEL RAVENSDALE, SHAWNA PAGE, ILLANA PLATT, GRAHAM LEE, KPMG LLC, MERRILL LYNCH CANADA INC., CITIGROUP GLOBAL MARKETS CANADA INC., CREDIT SUISSE SECURITIES (CANADA) INC., RBC DOMINION SECURITIES INC., JEFFERIES SECURITIES, INC., CANACCORD GENUITY CORP., CANNAMED FINANCIAL CORP., and CAJUN CAPITAL CORPORATION	
Defendants	
AND BETWEEN:	
STEPHEN ROSEN	*John Finnigan, Peter Jervis, Douglas Worndl,* and *Paul Guy* for the Plaintiff
Plaintiff	
- and –	
CANNTRUST HOLDINGS INC., PETER ACETO, ERIC PAUL, GREG GUYATT,	

IAN ABRAMOWITZ, MARK LITWIN and KPMG LLP Defendants	))))	
Proceedings under the *Class Proceedings Act, 1992*	)))	**HEARD**: December 3, 2019

HAINEY, J.

ENDORSEMENT

BACKGROUND

[1] This is a carriage motion pursuant to the *Class Proceedings Act*, 1992 S.O. 1992, c.6, ("CPA") in which I must determine which of two highly experienced teams of legal counsel should represent the interests of proposed class members in a securities misrepresentation class proceeding brought against CannTrust Holdings Inc. ("CannTrust") and other defendants relating to losses suffered by the proposed class members as a result of their investments in CannTrust.

[2] The two competing teams of legal counsel are the following:

(a) The "Consortium" comprised of Henein Hutchison LLP ("Henein"), Strosberg Sasso Sutts LLP ("Strosberg"), A Dimitri Lascaris Law Professional Corporation ("Lascaris PC"), and Kalloghlian Professional Corporation ("Kalloghlian PC") who represent the proposed representative plaintiffs, Patrick Hrusa and Dharambir Singh ("Hrusa/Singh Action") and

(b) The "TGF/RG Team" comprised of Thorton Grout Finnigan LLP ("TGF") and Rochon Genova LLP ("RG") who represent the representative plaintiff, Stephen Rosen ("Rosen Action").

FACTS

[3] CannTrust is in the business of producing and selling cannabis products. Its shares are publicly listed for trading on the Toronto Stock Exchange ("TSX"), the New York Stock Exchange ("NYSE") and other trading venues. As a federally regulated licensed cannabis producer, it operates in a strictly regulated environment governed by various laws, regulations and standards administered in part by Health Canada. Failure to comply with these rules and regulations exposes CannTrust to sanctions and penalties, ranging from fines to the suspension or revocation of its licenses.

[4] Between June 1, 2018 and September 17, 2019, CannTrust, its directors and officers issued securities filings and made public statements representing that it had obtained all the necessary licenses at the facilities it owned, and that it would apply for additional licenses as necessary in the future. It also represented to investors that it met all standards for security, quality assurance, standard operating procedures, and document retention.

[5] These representations were included in a prospectus dated May 1, 2019 ("May Prospectus") pursuant to which US$230 million worth of CannTrust shares were sold to investors.

[6] It is alleged that these representations and statements were false. Unbeknownst to investors, starting on June 1, 2018, CannTrust breached Health Canada regulations by storing cannabis in its manufacturing facility in Vaughan, Ontario ("Vaughan Facility") without the required approval from Health Canada. The Vaughan Facility also failed to meet the required standards for security, quality assurance, standard operating procedures and document retention.

[7] On or around October 1, 2018, CannTrust, with the knowledge and approval of executive management, began producing and selling cannabis made in rooms in its facility in Niagara ("Niagara Facility") that did not have the required licenses. CannTrust employees deceived Health Canada inspectors, going so far as to install fake walls to hide the cannabis being illegally grown in the unlicensed rooms. In addition, CannTrust produced and sold cannabis grown from seeds that were illegally obtained through the black market.

[8] It was not until a series of five key public disclosures issued between July 8 and September 17, 2019, that CannTrust's investors learned the truth about the company's illegal activities. These disclosures are the basis for the allegations in the proposed class proceedings.

(1) On July 8, 2019, CannTrust issued a press release admitting that it had breached Health Canada regulations by growing cannabis in five unlicensed rooms at the Niagara Facility between October 2018 and March 2019.

(2) On July 23, 2019, The Globe and Mail reported that top CannTrust executives, including its chief executive officer, chief financial officer and chairman of the board, knew and directed the illegal growing of cannabis in the unlicensed rooms at the Niagara Facility.

(3) On August 12, 2019, CannTrust issued a press release announcing that Health Canada had discovered noncompliance with Health Canada regulations in another facility in Vaughan dating back to June 2018.

(4) On September 6, 2019, BNN Bloomberg published an article disclosing that senior operating staff working at the Niagara Facility in late 2018 brought cannabis seeds from the black market into production rooms, leading to illicit cannabis flowing into the legal market.

(5) On September 17, 2019, CannTrust issued a press release announcing that it had received a notice of license suspension from Health Canada.

[9] As a result of these disclosures the price of CannTrust's shares dropped 73% from before the July 8^{th} announcement to the September 17^{th} announcement.

[10] The regulatory noncompliance findings had a significant impact on CannTrust's business and operations and its previously-disclosed financial results.

[11] On August 1, 2019, CannTrust announced that it would miss the filing deadline for its Q2 2019 financial statements, because “there was significant uncertainty with respect to the potential impact of pending Health Canada decisions on the valuation of the Company’s inventory and biological assets and revenue recognition”, and that previously-issued financial statements could require restatement.

[12] On October 24, 2019, CannTrust announced that it would be filing restated financial statements for fiscal 2018 and the first quarter of 2019 “within the next 60 days”.

[13] As a result of these developments CannTrust’s investors lost millions of dollars of their investments. The proposed class proceedings are an effort to recover those loses for these investors. The primary defendants in the proposed class proceedings are CannTrust, its officers and directors, its auditor, KPMG, and CannTrust’s underwriters on its public offering.

LEGAL PRINCIPLES

[14] The CPA gives the court broad jurisdiction to manage class proceedings. Courts are charged with a broad supervisory role in class proceedings from deciding who will have carriage of the proceedings to the approval of settlements in class proceedings. To fulfill this mandate the court must protect class members and their interests. Determining who should represent prospective class members engages this supervisory role at a very high level.

[15] The jurisprudence establishes that the court should grant carriage to the legal team whose proposed class proceeding is better for the proposed class members and best represents and protects their interests, while being fair to the defendants and promoting the prime objectives of class proceedings, access to justice, behaviour modification and judicial economy.

[16] In *Rogers v. Aphria Inc.*, 2019 ONSC 3698, at para. 17, Perell J. set out the following factors that the court should consider in deciding which action should proceed on a carriage motion:

> [17] Courts generally consider a list of overlapping and non-exhaustive factors in determining which action should proceed; including: (1) the Quality of the Proposed Representative Plaintiffs; (2) Funding; (3) Fee and Consortium Agreements; (4) The Quality of Proposed Class Counsel; (5) Disqualifying Conflicts of Interest; (6) Relative Priority of Commencement of the Action; (7) Preparation and Readiness of the Action; (8) Preparation and Performance on Carriage Motion; 9) Case Theory; (10) Scope of Causes of Action; (11) Selection of Defendants; (12) Correlation of Plaintiffs and Defendants; (13) Class Definition; (14) Class Period; (15) Prospect of Success: (Leave and) Certification; (16) Prospect of Success Against the Defendants; and (17) Interrelationship of Class Actions in more than one Jurisdiction.

[17] Almost all of these factors apply to both the Consortium and the TGF/RG Team. They are excellent and experienced legal teams. They have both developed impressive litigation plans with qualified representative plaintiffs and are ready to proceed with their respective actions.

[18] However, the crucial issue in this case is the Consortium’s submission that the TGF/RG team has a disqualifying conflict of interest because they cannot pursue the class action against

one of the underwriters, RBC Dominion Securities Inc. ("RBC"), because it is a current client of TGF's.

[19] Ronald Podolny, a member of the TGF/RG Team explained in his affidavit, filed in support of the carriage motion, why the TGF/RG Team decided to name CannTrust's underwriters as defendants in the Rosen Action but could not include RBC as a defendant as follows:

> 66. In the current TGF/RG Claim as filed in August 2019, we did not name the underwriters as defendants, but instead named CannTrust, the Individual Defendants and the auditor KPMG.
>
> 67. The decision not to name the underwriters was informed, in part, by the fact that on August 9, 2019, CannTrust announced that it had been advised by KPMG that it was withdrawing the KPMG Report regarding the FY/2018 Annual Financial Statements as well as KPMG's interim report to the CannTrust Audit Committee dated May 13, 2019 in respect of the CannTrust Q1/2019 Interim Financial Statements and that KPMG's reports "should no longer be relied upon."
>
> 68. This was a strong indication of liability on the part of KPMG in respect of the use of its audit report in the Prospectus.
>
> 69. Section 130(8) provides for joint and several liability among section 130(1) defendants. Because we were confident of some finding of liability against KPMG in respect of Prospectus misrepresentation, we considered the addition of the underwriters to be unnecessary.
>
> 70. In addition, we considered the fact that CannTrust appeared to have appropriate licenses in place for all of the Pelham Facility as of April 2019. Therefore, even though there were unlicensed grow rooms in Pelham between October and April, by the time the underwriters did their due diligence in advance of the May 1 Prospectus Offering, the Pelham Facility may have had the appropriate licenses in place.
>
> 71. While this was conjecture, we were comfortable with the decision, given KPMG's exposure to all Prospectus damages and their admission on August 9 that their audit opinion could no longer be relied on. It was a judgment call based on available information.
>
> 72. The available information changed almost immediately when, on August 12, 2019, CannTrust announced that Health Canada rated the Vaughan Facility non-compliant for several regulatory infractions, one of which involved poor record keeping.
>
> 73. In addition, the news about CannTrust's prospects for long-term survival was getting increasingly grim, suggesting that the bulk of the recovery in this case may be coming from "gatekeepers," like KPMG, CannTrust's D&O insurers and, potentially, the underwriters.

74. We consulted with several highly experienced investment bankers/underwriters, who advised that it appeared to them that a good case could be made that the underwriters were not duly diligent in conjunction with the May 1, 2019 Prospectus Offering. We did not obtain a formal opinion from them, however, their reactions to the facts alleged here gave us comfort that the pleading should be amended to include the underwriters as defendants to the section 130(1) claim.

75. An additional issue then presented itself, and that is that TGF was not able to sue one member of the underwriting syndicate, RBC Dominion Securities ("RBC"), because RBC is a current client of TGF.

76. We made an assessment as to whether the failure to name RBC would materially prejudice the Class, and we determined that it did not. Our reasoning was as follows:

(a) While section 130(8) provides that liability among named defendants under section 130(1) is joint and several, section 130(6) provides that no underwriter may be liable for more than the total public offering price represented by the portion of the distribution underwritten by the underwriter.

(b) Therefore, the most that RBC could be found liable for was the portion of the Underwriting underwritten by it. I understand this portion to be approximately 10% of the approximately US$200 million offering.

(c) Therefore, if there was a finding of Prospectus liability under section 130(1), there would be joint and several liability between KPMG, CannTrust, the individual defendants and the underwriters, however the underwriters could be called upon collectively to contribute 90% of the total, because RBC is not named.

(d) In our judgment, it was highly unlikely that the absence of RBC as a defendant would prejudice the Class.

(e) I am advised by Paul Guy that he informed the two proposed representative plaintiffs of the situation, and they instructed him to name the underwriters, without RBC.

[20] For these reasons, RBC is not named as a defendant in the Rosen Action. However, in the Hrusa/Singh Action, the Consortium names as defendants all six financial institutions (including RBC) that served as underwriters in CannTrust's public offering. These underwriters all signed certificates confirming that the May Prospectus contained full, true and plain disclosure of all material facts relating to CannTrust's shares. The underwriters, or their US affiliates, were collectively paid more than US$12.8 million in underwriting commissions for their role in CannTrust's public offering.

[21] The TGF/RG Team acknowledges that they decided to add the underwriters as defendants because the "bulk of the recovery in this case may be coming from 'gatekeepers' like ... the underwriters". However, they have excluded their client, RBC, as a defendant. RBC is a significant source of possible recovery for the class members and, in my view, should be named as a defendant in the class proceeding.

[22] The Consortium submits as follows at paras. 12 and 13 of its factum:

> [12] Unlike the Consortium, which named all the defendant underwriters to maximize the potential recovery for class members, RG/TGF allowed RBC DS to walk scot-free simply because RBC DS is a client of TGF (a conflict for which RG/TGF should be disqualified). RG/TGF try to explain away this conflict by asserting that the exclusion of RBC DS will not prejudice the potential recovery of class members, but it has articulated no justification whatsoever (other than its desire to remain invested in the litigation) for allowing RBC DS to walk scot-free.
>
> [13] RG/TGF's argument that excluding RBC DS will not reduce access to justice for class members is contingent on a number of assumptions that turn out to be untrue. Specifically, this argument depends on KPMG, CannTrust and the individual defendants being (i) found liable; and (ii) having enough money to satisfy the US$230 million worth of shares sold in the Offering. Neither of these scenarios is inevitable, especially given that RG/TGF's other arguments assume that CannTrust will be insolvent, and the individual defendants will only be able to contribute to the extent of the D&O policy. Moreover, excluding RBC DS would undermine the goal of behaviour modification underpinning the CPA.

[23] I agree with and accept the Consortium's submission. By excluding RBC as a defendant, the TGF/RG Team has chosen to prefer the interests of their client, RBC, over the interests of the class members. They have reduced by 10%, or roughly US$20 million, the maximum recoverable damages against the underwriters. This is not in the proposed class members' best interests.

[24] By preferring the interests of their client, RBC, over the class, the TGF/RG Team has reduced the class members' potential recovery before the litigation has even started. In view of my mandate to protect the interests of the proposed class members on this carriage motion, I must ensure that they have legal representation that is not in any way restricted by class counsel's conflicts of interest.

[25] I am satisfied that RBC is a necessary defendant in these proposed class proceedings. It is a possible source of damages of approximately US$20 million and could also be the subject of behaviour modification, one of the objectives of class proceedings. It should not be excluded as a defendant in the proceedings simply because it is a client of TGF's.

CONCLUSION

[26] I have concluded for these reasons that the TGF/RG Team has a disqualifying conflict of interest that makes the team unsuitable to act as class counsel in these proceedings. I therefore grant carriage of these class proceedings to the Consortium.

[27] There shall be no order as to costs.

HAINEY J.

Date: January 28, 2020

This is Exhibit “C” referred to in the affidavit

of Serge Kalloghlian, sworn before me this 20th

day of January, 2021

A Commissioner for taking Affidavits

CITATION: Rosen v. Canntrust Holdings Inc.
Earle v. Canntrust Holdings Inc.
DIVISIONAL COURT FILE NO.: 72/20
COURT FILE NO.: 19-0006-251181-00CP
DATE: 20200714

SUPERIOR COURT OF JUSTICE – ONTARIO
DIVISIONAL COURT

RE: STEPHEN ROSEN, Plaintiff

AND:

CANNTRUST HOLDINGS INC., et al. Defendants

AND RE:

WENDY EARLE, et al. Plaintiffs

AND:

CANNTRUST HOLDINGS INC., et al. Defendants

BEFORE: Penny J.

COUNSEL: *S. Hutchison and S. Kalloghlian*, for the Moving Parties (Earle Plaintiffs)

P Jervis and R. Podolny, for the Responding Parties (Rosen Plaintiffs)

T. Courtis for Canntrust Holdings Inc.

K. Esaw for the Monitor of Canntrust Holdings Inc.

HEARD by Zoom conference due to COVID-19: July 14, 2020

ENDORSEMENT

[1] This is a motion for directions arising out of the intersection of class actions brought by two groups of plaintiffs and an application under the *Companies' Creditors Arrangement Act* brought by the defendant in those class proceedings, Canntrust.

[2] In essence, there is a motion pending before the Divisional Court for leave to appeal the carriage order of Hainey J. in the class proceedings. After that motion was filed, Canntrust applied for an Initial Order under the CCAA. As it happens, that order was also made by Hainey J.

[3] Paras. 18 and 19 of the Initial Order stay all proceedings against Canntrust. The Rosen plaintiffs, who lost the carriage motion before Hainey J. and brought the motion for leave to appeal, wish to proceed with their motion and their appeal before the Divisional Court. They say the CCAA stay does not apply to a carriage motion or to their appeal.

[4] The Earle plaintiffs argue that the leave motion is caught by the stay and that the Rosen plaintiffs must obtain an order in the CCAA proceedings lifting the stay for the limited purpose of proceeding with the motion for leave to appeal. Their position is supported by Canntrust and the Monitor.

[5] In my view, the language of paras. 18 and 19 of the Initial Order is broad and captures the pending motion for leave to appeal. The motion for leave and the appeal, if leave were granted, constitute a process, step or other right and remedy under or relating to a class proceeding within the meaning of para 18. These actions also involve the continuation of a proceeding against or in respect of a defendant, Canntrust, in the pending class proceedings within the meaning of para. 19.

[6] This interpretation of paras. 18 and 19 of the Initial Order is also consistent with, indeed necessary for, the underlying single control or single proceeding model in which all claims are managed within one CCAA proceeding. This single proceeding approach maximizes the opportunity to serve the best interests of all stakeholders in a significant insolvency.

[7] Most of the Rosen plaintiffs' other arguments go to the merits of whether an order lifting the stay ought to be granted, which is not for me to decide.

[8] Accordingly, the Rosen plaintiffs must seek an order in the CCAA proceedings lifting the stay for the limited purpose of proceeding with their leave motion and, if granted, their appeal on the carriage issue.

[9] My endorsement is in no way a comment on whether the stay should or should not be lifted. That is for the Court with responsibility for managing the CCAA proceedings to decide.

[10] To the extent there is some concern about the propriety of Hainey J., who made the carriage order being appealed from, deciding the question of whether the stay should be lifted to allow the Rosen plaintiffs' appeal process to go forward, this can be reviewed with Hainey J. and, if appropriate, arrangements made for a different judge of the Commercial List to hear that motion.

[11] The parties agree there should be no order as to costs.

Penny J.

Date: July 14, 2020

This is Exhibit "D" referred to in the affidavit

of Serge Kalloghlian, sworn before me this 20th

day of January, 2021

A Commissioner for taking Affidavits

Court File No:

ONTARIO CV-19-00629743-00CP.

SUPERIOR COURT OF JUSTICE

BETWEEN:

PATRICK HRUSA and DHARAMBIR SINGH

Plaintiffs

- and -

CANNTRUST HOLDINGS INC., ERIC PAUL, PETER ACETO, GREG GUYATT, IAN ABRAMOWITZ, MARK DAWBER, JOHN KADEN, MARK IAN LITWIN, ROBERT MARCOVITCH, MITCHELL J. SANDERS, STAN ABRAMOWITZ, BRAD ROGERS, MICHAEL RAVENSDALE, SHAWNA PAGE, ILANA PLATT, GRAHAM LEE, BRADY GREEN, ANDREA KIRK, NORMAN PAUL, KPMG LLP, MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED, MERRILL LYNCH CANADA INC., CITIGROUP GLOBAL MARKETS INC., CITIGROUP GLOBAL MARKETS CANADA INC., CREDIT SUISSE SECURITIES (USA) LLC, CREDIT SUISSE SECURITIES (CANADA) INC., RBC DOMINION SECURITIES INC., JEFFERIES LLC, JEFFERIES SECURITIES, INC., CANACCORD GENUITY LLC, CANACCORD GENUITY CORP., CANNAMED FINANCIAL CORP., and CAJUN CAPITAL CORPORATION

Defendants

Proceeding under the *Class Proceedings Act, 1992*

STATEMENT OF CLAIM

TO THE DEFENDANTS

A LEGAL PROCEEDING HAS BEEN COMMENCED AGAINST YOU by the plaintiff. The claim made against you is set out in the following pages.

IF YOU WISH TO DEFEND THIS PROCEEDING, you or an Ontario lawyer acting for you must prepare a statement of defence in Form 18A prescribed by the *Rules of Civil Procedure*, serve it on the plaintiff's lawyer or, where the plaintiff does not have a lawyer, serve it on the plaintiff, and file it, with proof of service, in this court office, WITHIN TWENTY DAYS after this statement of claim is served on you, if you are served in Ontario.

If you are served in another province or territory of Canada or in the United States of America, the period for serving and filing your statement of defence is forty days. If you are served outside Canada and the United States of America, the period is sixty days.

Instead of serving and filing a statement of defence, you may serve and file a notice of intent to defend in Form 18B prescribed by the *Rules of Civil Procedure*. This will entitle you to ten more days within which to serve and file your statement of defence.

IF YOU FAIL TO DEFEND THIS PROCEEDING, JUDGMENT MAY BE GIVEN AGAINST YOU IN YOUR ABSENCE AND WITHOUT FURTHER NOTICE TO YOU. IF YOU WISH TO DEFEND THIS PROCEEDING BUT ARE UNABLE TO PAY LEGAL FEES, LEGAL AID MAY BE AVAILABLE TO YOU BY CONTACTING A LOCAL LEGAL AID OFFICE.

TAKE NOTICE: THIS ACTION WILL AUTOMATICALLY BE DISMISSED if it has not been set down for trial or terminated by any means within five years after the action was commenced unless otherwise ordered by the court.

Date: October 24 2019

Issued by R Sipidias
Local registrar

Address of court office: Superior Court of Justice
393 University Avenue, 10th Flr.
Toronto, Ontario M5G 1E6

TO: **CannTrust Holdings Inc.**
7300 Keele Street
Vaughan, Ontario, L4K 1Z9

AND TO: **Eric Paul**
c/o CannTrust Holdings Inc.
7300 Keele Street
Vaughan, Ontario, L4K 1Z9

AND TO: **Peter Aceto**
c/o CannTrust Holdings Inc.
7300 Keele Street
Vaughan, Ontario, L4K 1Z9

AND TO: **Greg Guyatt**
c/o CannTrust Holdings Inc.
7300 Keele Street
Vaughan, Ontario, L4K 1Z9

AND TO: **Ian Abramowitz**
c/o CannTrust Holdings Inc.
7300 Keele Street
Vaughan, Ontario, L4K 1Z9

AND TO:	**Mark Dawber** c/o CannTrust Holdings Inc. 7300 Keele Street Vaughan, Ontario, L4K 1Z9
AND TO:	**John Kaden** c/o CannTrust Holdings Inc. 7300 Keele Street Vaughan, Ontario, L4K 1Z9
AND TO:	**Mark Ian Litwin** c/o CannTrust Holdings Inc. 7300 Keele Street Vaughan, Ontario, L4K 1Z9
AND TO:	**Robert Marcovitch** c/o CannTrust Holdings Inc. 7300 Keele Street Vaughan, Ontario, L4K 1Z9
AND TO:	**Mitchell J. Sanders** c/o CannTrust Holdings Inc. 7300 Keele Street Vaughan, Ontario, L4K 1Z9
AND TO:	**Stan Abramowitz** c/o CannTrust Holdings Inc. 7300 Keele Street Vaughan, Ontario, L4K 1Z9
AND TO:	**Brad Rogers** c/o CannTrust Holdings Inc. 7300 Keele Street Vaughan, Ontario, L4K 1Z9
AND TO:	**Michael Ravensdale** c/o CannTrust Holdings Inc. 7300 Keele Street Vaughan, Ontario, L4K 1Z9
AND TO:	**Shawna Page** c/o CannTrust Holdings Inc. 7300 Keele Street Vaughan, Ontario, L4K 1Z9

AND TO: **Ilana Platt**
c/o CannTrust Holdings Inc.
7300 Keele Street
Vaughan, Ontario, L4K 1Z9

AND TO: **Graham Lee**
c/o CannTrust Holdings Inc.
7300 Keele Street
Vaughan, Ontario, L4K 1Z9

AND TO: **Brady Green**
c/o CannTrust Holdings Inc.
7300 Keele Street
Vaughan, Ontario, L4K 1Z9

AND TO: **Andrea Kirk**
c/o CannTrust Holdings Inc.
7300 Keele Street
Vaughan, Ontario, L4K 1Z9

AND TO: **Norman Paul**
c/o CannTrust Holdings Inc.
7300 Keele Street
Vaughan, Ontario, L4K 1Z9

AND TO: **KPMG LLP**
100 New Park Place, Suite 1400
Vaughan, Ontario, L4K 0J3

AND TO: **Merrill Lynch, Pierce, Fenner & Smith Incorporated**
One Bryant Park
New York, New York, 10036
USA

AND TO: **Merrill Lynch Canada Inc.**
181 Bay Street, 4th & 5th Floors
Toronto, ON M5J 2V8

AND TO: **Citigroup Global Markets Inc.**
388 Greenwich Street
New York, New York, 10013
USA

AND TO: **Citigroup Global Markets Canada Inc.**
123 Front Street West, Suite 1900
Toronto, Ontario M5J 2M3

AND TO: **Credit Suisse Securities (USA) LLC**
Eleven Madison Avenue
New York, New York, 10010
USA

AND TO: **Credit Suisse Securities (Canada), Inc.**
1 First Canadian Place
Suite 2900, P.O. Box 301
Toronto, Ontario M5X 1C9

AND TO: **RBC Dominion Securities Inc.**
200 Bay Street, Suite 400,
South Tower
Toronto, ON M5J 2W7

AND TO: **Jefferies LLC**
520 Madison Avenue
10th Floor
New York, New York, 10022
USA

AND TO: **Jefferies Securities, Inc.**
161 Bay Street, Suite 2600,
Toronto, Ontario, M5J 2S1

AND TO: **Canaccord Genuity LLC**
535 Madison Avenue
New York, New York, 10022
USA

AND TO: **Canaccord Genuity Corp.**
161 Bay Street, Suite 3000
P.O. Box 516
Toronto, Ontario, M5J 2S1

AND TO: **Cannamed Financial Corp.**
106 Avenue Road
Toronto Ontario, M5R 2H3

AND TO: **Cajun Capital Corporation**
40 Sheppard Ave. West, Suite 700
Toronto ON M2N 6K9

I. DEFINED TERMS

1. In this Statement of Claim, in addition to the terms that are defined elsewhere herein, the following terms have the following meanings:

(a) "***ACMPR***" means *Access to Cannabis for Medical Purposes Regulations*, SOR/2016-230;

(b) "**Aceto**" means Peter Aceto;

(c) "**AIF**" means Annual Information Form;

(d) "***Cannabis Act***" means the *Cannabis Act*, SC 2018, c 16;

(e) "***Cannabis Regulations***" means the *Cannabis Regulations*, SOR/2018-144;

(f) "**Canaccord**" means Canaccord Genuity Corp;

(g) "**Canaccord USA**" means Canaccord Genuity LLC;

(h) "**Cannamed**" means Cannamed Financial Corp;

(i) "**CannTrust**" means CannTrust Holdings Inc.;

(j) "**CEO**" means Chief Executive Officer;

(k) "**CFO**" means Chief Financial Officer;

(l) "**Citigroup**" means Citigroup Global Markets Canada Inc.;

(m) "**Citigroup USA**" means Citigroup Global Markets Inc.;

(n) "**Cajun**" means Cajun Capital Corporation;

(o) "**Class**" and "**Class Member**s" are comprised of the following, other than the **Excluded Persons**

(i) **Primary Market Class**: all persons and entities who acquired **CannTrust's** Shares in the Offering; and

(ii) **Secondary Market Class**: all persons and entities who acquired CannTrust's Shares in the secondary market during the Class Period;

(p) "**Class Period**" means the period from the opening of trading on June 1, 2018 to the close of trading on the **TSX** on September 17, 2019;

(q) "***CJA***" means the *Courts of Justice Act*, RSO 1990, c C-43, as amended;

(r) "**Compliance Representations**" means the Niagara Compliance Representation and the Vaughan Compliance Representation;

(s) "**Controls Representation**" means the representation that CannTrust had effective DC&P and ICFR except as disclosed in its annual and interim MD&As;

(t) "***CPA***" means the *Class Proceedings Act, 1992*, SO 1992, c 6;

(u) "**Credit Suisse**" means Credit Suisse Securities (Canada), Inc.;

(v) "**Credit Suisse USA**" means Credit Suisse Securities (USA) LLC;

(w) "**CSA**" means the Canadian Securities Administrators;

(x) "**Dawber**" means Mark Dawber;

(y) "**DC&P**" means disclosure controls and procedures;

(z) "**Defendants**" means, collectively, **Canntrust**, **Cannamed**, **Cajun**, **KPMG**, the **Underwriters**, and the **Individual Defendants**;

(aa) "**EDGAR**" means Electronic Data Gathering, Analysis, and Retrieval system of the SEC;

(bb) "**Excluded Persons**" means the Defendants, their past and present subsidiaries, affiliates, officers, directors, senior employees, legal representatives, heirs, predecessors, successors and assigns, and any member of the families of an Individual Defendants;

(cc) "**Green**" means Brady Green;

(dd) “**Guyatt**” means Greg Guyatt;

(ee) “**IFRS**” means International Financial Reporting Standards;

(ff) “**IFRS Representation**” means the representation that CannTrust’s financial statements complied with IFRS;

(gg) “**Individual Defendants**” means **Aceto**, Ian Abramowitz, **Dawber**, **Green, Guyatt**, **Kaden**, **Kirk**, **Lee**, **Litwin**, **Page**, Eric Paul, Norman Paul, **Sanders**, **Marcovitch**, Stan Abramowitz, **Rogers**, **Ravensdale**, and **Platt**;

(hh) “**ICFR**” means internal controls over financial reporting;

(ii) “**Jefferies**” means Jefferies Securities, Inc.;

(jj) “**Jefferies USA**” means Jefferies LLC;

(kk) “**Kaden**” means John Kaden;

(ll) “**Kirk**” means Andrea Kirk;

(mm) “**KPMG**” means KPMG LLP;

(nn) “**KPMG Representations**” has the meaning ascribed to it at paragraph 133;

(oo) “**Lee**” means the defendant Graham Lee;

(pp) “**Litwin**” means Mark Ian Litwin;

(qq) “**Marcovitch**” means Robert Marcovitch;

(rr) “**MD&A**” means Management’s Discussion and Analysis;

(ss) “**Merrill**” means Merrill Lynch Canada Inc;

(tt) “**Merrill USA**” means Merrill Lynch, Pierce, Fenner & Smith Incorporated;

(uu) “**Misleading Documents**” means, collectively,

(i) the AIF of CannTrust for the year ended December 31, 2017, filed on SEDAR March 29, 2018 (“**2017 AIF**”);

(ii) the MD&A of CannTrust for the year ended December 31, 2017, filed on SEDAR March 29, 2018 (“**Annual 2017 MD&A**”);

(iii) the annual audited financial statements of CannTrust for the year ended December 31, 2017, filed on SEDAR March 29, 2018 (“**Annual 2017 Financial Statements**”);

(iv) the condensed interim consolidated financial statements of CannTrust for the three and six months ended June 30, 2018, filed on SEDAR August 14, 2018 (“**Q2 2018 Financial Statements**”);

(v) the MD&A of CannTrust for the three and six months ended June 30, 2018, filed on SEDAR August 14, 2018 (“**Q2 2018 MD&A**”);

(vi) the condensed interim consolidated financial statements of CannTrust for the three and nine months ended September 30, 2018, filed on SEDAR November 14, 2018 (“**Q3 2018 Financial Statements**”);

(vii) the MD&A of CannTrust for the three and nine months ended September 30, 2018, filed on SEDAR November 14, 2018 (“**Q3 2018 MD&A**”);

(viii) the annual audited consolidated financial statements for the year ended December 31, 2018 filed on SEDAR March 28, 2019 (“**Annual 2018 Financial Statements**”);

(ix) the MD&A of CannTrust for the year ended December 31, 2018, filed on SEDAR March 28, 2019 (“**Annual 2018 MD&A**”);

(x) the AIF of CannTrust for the year ended December 31, 2018, filed on SEDAR March 28, 2019 (“**2018 AIF**”);

(xi) the condensed interim consolidated financial statements of CannTrust for the three months ended March 31, 2019, filed on SEDAR May 14, 2019 ("**Q1 2019 Financial Statements**");

(xii) the MD&A of CannTrust for the three months ended March 31, 2019, filed on SEDAR May 14, 2019 ("**Q1 2019 MD&A**");

(xiii) the Material Change Reports of CannTrust filed on SEDAR on June 5 and October 4, 2018, and February 19, May 6, May 14, July 12, August 2, and August 15, 2019;

(xiv) the **Press Releases**; and

(xv) the **Prospectuses**

including any documents incorporated therein by reference or otherwise;

(vv) "**NI 51-102**" means National Instrument 51-102 – Continuous Disclosure Obligations;

(ww) "**NI 52-109**" means National Instrument 52-109 – Certification of Disclosure in Issuer's Annual and Interim Filings;

(xx) **"Niagara Compliance Representation"** means the representation that CannTrust had all required licenses and/or approvals for the activities conducted at the Niagara Facility, and that the cannabis produced there was in compliance with applicable laws, rules and regulations;

(yy) **"Niagara Facility"** has the meaning ascribed to it at paragraph 77 below;

(zz) "**NYSE**" means the New York Stock Exchange;

(aaa) "***OBCA***" means the *Ontario Business Corporations Act,*, RSO 1990, C B 16;

(bbb) "**Offering**" means the distribution of **CannTrust** Shares pursuant to the **May 1 Prospectus**;

(ccc) "***OSA***" means the *Securities Act*, RSO 1990, c S.5, as amended (ddd) "**Page**" means Shawna Page;

(eee) "**Plaintiffs**" means Patrick Hrusa and Dharambir Singh;

(fff) "**Platt**" means Illana Platt;

(ggg) "**Press Releases**" (any one being a "**Press Release**") means

(i) the press release titled "CannTrust reports record revenue for Q2 2018 and is on track to full completion of its million sq ft Niagara facility" filed on SEDAR August 14, 2018 ("**Q2 2018 Press Release**")

(ii) the press release titled "CannTrust reports record revenue for Q3 2018 and is taking steps to list on the New York Stock Exchange" filed on SEDAR November 14, 2018 ("**Q3 2018 Press Release**");

(iii) the press release titled "CannTrust Provides Business Update" filed on SEDAR December 19, 2018; ("**December 19, 2018 Press Release**");

(iv) the press release titled "CannTrust Reports Financial Results for Q4 2018" dated and filed on SEDAR March 28, 2019; ("**Q4 2018 Press Release**");

(v) the press release titled "CannTrust receives Health Canada Approval for Phase 2 Expansion" dated and filed on SEDAR April 8, 2019; ("**April 8, 2019 Press Release**")

(vi) the press release titled "CannTrust Provides Business Update" dated and filed on SEDAR April 22, 2019 ("**April 22, 2019 Press Release**");

(vii) the press release titled "CannTrust Reports Financial Results for Q1 2019" dated and filed on SEDAR May 14, 2019 ("**Q1 2019 Press Release**"); and

(viii) the press releases of CannTrust dated June 5, 12, 13, and 26, 2018; July 6, 11, and 13, 2018; August 8, 21, 22 and 28, 2018; September 5, 9, 10, and 18; October 1, 3, 10, 18, and 28, 2018; November 14, 26 and 30, 2018; January 8 and 22, 2019; February 13, 20, and 25, 2019; March 4, 14, 18, and 28, 2019; April 2, 8, 10, and 22, 2019; May 2, 6, 13, 14, 16, 27 and 31, 2019; June 6, 19, and 21, 2019; July 3, 8, 11, 22, 25, and 31, 2019; August 1, 9, 12, 15, 19, and 29, 2019; and September 5, 2019;

(hhh) "**Prospectuses**" means **CannTrust's**

(i) Preliminary Short Form Base Shelf Prospectus dated and filed on SEDAR March 1, 2019 ("**March 1 Prospectus**");

(ii) Final Short Form Base Shelf Prospectus dated and filed on SEDAR March 18, 2019 ("**March 18 Prospectus**");

(iii) Draft Shelf Prospectus Supplement dated and filed on SEDAR April 22, 2019; ("**April 22 Prospectus**"); and

(iv) Prospectus Supplement dated May 1, 2019 and filed on SEDAR May 3, 2019 ("**May 1 Prospectus**");

(iii) "**Ravensdale**" means Michael Ravensdale;

(jjj) "**RBC**" means RBC Dominion Securities Inc.;

(kkk) "**Representations"** means, collectively, the Compliance Representations, the Controls Representation, the IFRS Representation, the KPMG Representations, and the Underwriters Representation;

(lll) "**Rogers**" means Brad Rogers;

(mmm)"**Sanders**" means Mitchell J. Sanders;

(nnn) "**SEC**" means the United States Securities and Exchange Commission;

(ooo) "**Securities Legislation**" means, collectively, the *Securities Act*, RSA 2000, c S-4, as amended; the *Securities Act*, RSBC 1996, c 418, as amended; *The Securities Act*, CCSM, c S50, as amended; the *Securities Act*, SNB 2004, c S5.5, as amended; the *Securities Act*, RSNL 1990, c S-13, as amended; the *Securities Act*, SNWT 2008, c 10, as amended; the *Securities Act*, RSNS 1989, c 418, as amended; the *Securities*

Act, S Nu 2008, c 12, as amended; the *Securities Act*, RSPEI 1988, c S-3.1, as amended; the *Securities Act*, RSQ c V-1.1, as amended; *The Securities Act*, 1988, SS 1988-89, c S-42.2, as amended; and the *Securities Act*, SY 2007, c 16, as amended;

(ppp) "**SEDAR**" means the system for electronic document analysis and retrieval of the **CSA**;

(qqq) "**Shares**" means **CannTrust's** common shares;

(rrr) "**TSX**" means the Toronto Stock Exchange;

(sss) "**Underwriters Representation**" has the meaning ascribed to it at paragraph 136;

(ttt) "**Underwriters**" means **Merrill**, **Merrill USA**, **Citigroup**, **Citigroup USA**, **Credit Suisse**, **Credit Suisse USA, RBC**, **Jefferies**, **Jefferies USA Canaccord, and Canaccord USA**;

(uuu) "**Vaughan Compliance Representations**" means the representations that, with respect to the Vaughan Facility, CannTrust (i) had all required licenses and/or approvals for the activities conducted, and (ii) met standards and/or requirements applicable to security controls, quality assurance investigations and controls, operating procedures, and document retention; and

(vvv) "**Vaughan Facility**" has the meaning ascribed to it at paragraph 76 below.

2. Unless otherwise stated, all dollar amounts stated herein are in Canadian dollars.

II. CLAIM

3. The Plaintiffs claim:

(a) an order certifying this action as a class proceeding and appointing the plaintiffs as the representative plaintiffs for the Class, pursuant to sections 5 and 8 of the *CPA*;

(b) an order granting leave to proceed with the statutory claim for misrepresentation under Part XXIII.1 of the *OSA* and, if necessary, the corresponding provisions of the Securities Legislation;

(c) a declaration that the Misleading Documents contained one or more misrepresentations within the meaning of the *OSA*, the Securities Legislation, and the common law;

(d) a declaration that the Individual Defendants authorized, permitted or acquiesced in the making of the misrepresentations while knowing them to be misrepresentations;

(e) a declaration that the Defendants owed the Plaintiffs and Class Members a duty of care in the preparation and dissemination of the Misleading Documents and that they breached that duty of care;

(f) a declaration that CannTrust, the Individual Defendants, and KPMG are liable in damages to the Secondary Market Class for misrepresentations in CannTrust's public disclosures and failures to make timely disclosure alleged herein pursuant to Part XXIII.1 of the *OSA*, the corresponding provisions of the Securities Legislation, and the common law;

(g) a declaration that the Defendants are liable in damages to the Primary Market Class for negligence and for misrepresentations in the May 1 Prospectus pursuant to s 130 of the *OSA*, the corresponding provisions of the Securities Legislation, and the common law;

(h) a declaration that, in the alternative to damages, any Primary Market Class member who specifically elects to do so may exercise a right of rescission in respect of the Offering;

(i) a declaration that:

(i) the acts or omissions of CannTrust or its affiliates have effected a result;

(ii) the business and affairs of CannTrust or its affiliates have been carried on or conducted in a manner; and,

(iii) the powers of the directors of CannTrust or its affiliates, or one or more of them, have been exercised in a manner;

that is or has been oppressive or unfairly prejudicial to or that unfairly disregards or disregarded the interests of the Plaintiffs and Class, pursuant to section 248 of the *OBCA*;

(j) a declaration that CannTrust, Aceto, Green, Kirk, Eric Paul, Lee, Ian Abramowitz and Platt are liable in damages to the Class Members for conspiracy;

(k) compensation for oppression and damages for negligent misrepresentation, negligence, conspiracy, and pursuant to s 130 and Part XXIII.1 of the *OSA* and, if necessary, the corresponding provisions of the other Securities Legislation in an amount to be proven at trial;

(l) punitive damages against the Defendants in an amount that this Court finds appropriate;

(m) a declaration that CannTrust, KPMG, Cannamed, Cajun and the Underwriters are vicariously liable for the acts and omissions of its officers, directors, agents and employees;

(n) an order directing a reference or giving such other directions as may be necessary to determine issues not determined in the trial of the common issues

(o) costs of this action, plus the costs of notice and of administering the plan of distribution of the recovery in this action plus applicable taxes, pursuant to section 26(9) of the *CPA*;

(p) pre-judgment and post-judgment interest pursuant to the *CJA*; and

(q) such further and other relief as this Honourable Court may deem just.

III. OVERVIEW

4. CannTrust is in the business of producing and selling cannabis products. As a federally regulated licensed producer of cannabis during the Class Period, CannTrust operated in a strictly regulated environment governed by various laws, regulations and standards administered in part by Health Canada.

5. Of critical importance to CannTrust's business was that it strictly comply with those laws, regulations, and standards including obtaining activity-specific licenses (such as cultivation, processing, sale testing, and research of cannabis) and location-specific licences for the facilities and/or rooms in which those activities would take place. Failure to comply with these rules would expose CannTrust to sanction and penalties, ranging from fines to the suspension or revocation of its licenses.

6. Before and throughout the Class Period, CannTrust told investors that it had obtained all necessary licenses for the cannabis activities to be undertaken at the facilities it owned, and that it would apply for additional licenses as necessary in the future. It also told investors that it met all applicable standards for security, quality assurance, standard operating procedures, and document retention.

7. However, unbeknownst to investors, on or around June 1, 2018, CannTrust began storing cannabis in rooms in its Vaughan Facility without the required approval from Health Canada. Then, starting on or around October 1, 2018, CannTrust, with the knowledge and approval of executive management, began producing and selling cannabis made in rooms that did not have the required licenses. CannTrust employees intentionally deceived Health Canada inspectors, including by installing fake walls to hide the cannabis being grown in the unlicensed rooms. In

addition, during the Class Period, CannTrust produced and sold cannabis grown from seeds that were illegally obtained through the black market.

8. This conduct exposed CannTrust's business to serious risks, including penalties ranging from fines, products holds and/or recalls, to suspension or complete revocation of its licenses, and which could lead to product shortages, increased costs, decreased sales, and/or the inability to do business altogether.

9. This material information ought to have been immediately disclosed to investors. Instead, throughout the Class Period CannTrust and the Individual Defendants misled the Class Members by representing that they were in full compliance with all laws and regulations, and had validly obtained appropriate licenses for all activities and locations.

10. The failure to disclose this conduct resulted in other misleading information to be reported by the company, including:

(a) materially false revenue, sales, biological assets and inventory figures (which were artificially inflated because they included cannabis being stored, produced and sold that CannTrust was not entitled to store, produce or sell);

(b) misleading statements that the financial statements issued during the Class Period were compiled in accordance with IFRS; and

(c) misleading statements that the company had effective internal controls, including ICFR and DC&P.

11. The misrepresentations and failure to disclose this information caused CannTrust's Shares to trade at an artificially high price during the Class Period, when the Class Members acquired those Shares. CannTrust, Eric Paul, Litwin, Sanders, Cannamed and Cajun profited by selling

Shares at those artificially inflated prices during the Class Period, both in the secondary and primary markets.

12. The misrepresentations propping up those artificial values were blessed during the Class Period by the Underwriters and KPMG. To their detriment, the Class Members relied upon these supposed gatekeepers.

13. Starting on July 8, 2019, the market began to learn the truth. On that date, CannTrust announced that it had been found noncompliant by Health Canada for conducting the unlicensed activities in its Niagara Facility, and that over 5200 kg of cannabis, representing the majority of its inventory, had been put on hold by Health Canada. CannTrust placed a voluntary hold on a separate and additional 7500 kg of dried cannabis inventory being held at the Vaughan Facility. In the weeks that followed, the market continued to learn additional information and consequences of that information to the Share price, including:

(a) that distributors and partners were putting already-shipped product on hold or recall;

(b) that CannTrust's business was adversely affected from product shortages, increased costs, and decreased sales;

(c) that CannTrust was at risk of a license suspension and/or revocation which could impede its ability to continue doing business;

(d) that senior management knew and sanctioned the conduct, which increased the risk of harsher sanctions and/or penalties;

(e) that, as a result, CannTrust's plans for growth and expansion could be delayed or jeopardized;

(f) that reported sales, revenues, biological assets and inventory figures were inflated;

(g) that CannTrust's internal controls and procedures were ineffective and overridden by management during the Class Period; and,

(h) that CannTrust's financial statements did not comply with IFRS.

14. In the wake of these disclosures, a special committee of directors was formed, CannTrust's CEO (Aceto) was fired, and its founder and Chairman of the Board (Paul) was forced to resign. The special committee announced on July 31, 2019 that it had engaged a financial adviser "to assist in a review of strategic alternatives" including a possible sale of all or some of the company, a business combination, or changes to the company's operation or strategy.

15. On August 1, 2019, the special committee announced that CannTrust would miss the deadline for filing its quarterly financial disclosures, that there was "significant uncertainty" regarding the impact of the illegal activity on the valuation of the Company's inventory, biological assets, and revenue recognition, and that the financial statements and MD&A for the year ended 2018 and first quarter of 2019 could require restatements. It also disclosed that the OSC had opened an investigation into CannTrust which was being carried out by the Joint Serious Offences Team of the Enforcement Branch of the OSC.

16. On August 9, 2019, CannTrust announced that its auditor, KPMG, had withdrawn its audit report for the 2018 Financial Statements and the interim report to CannTrust's audit committee for the Q1 2019 Financial Statements, and that those reports should no longer be relied upon.

17. However, that was not the end of the bad news for investors. On August 12, 2019, the company revealed that a second facility, the Vaughan Facility, had also been "rated noncompliant with certain regulations" by Health Canada, had been conducting activities without the required licenses and/or approvals, and did not meet applicable standards for security, quality assurance, standard operating procedures, and document retention.

18. Then, on September 6, 2019 , mainstream news outlets reported that CannTrust had been producing and selling cannabis that was grown from seeds that were illegally obtained through the black market.

19. Finally, on the last day of the Class Period, September 17, 2019, CannTrust revealed that Health Canada had suspended CannTrust's license, and its ability to do business, putting its future as a going concern in jeopardy.

20. As the Defendants' misrepresentations and omissions were publicly corrected, the price of CannTrust's Shares plummeted from $6.46 on the TSX prior to the July 8, 2018 announcement to a close of $1.70 at the end of the Class Period. The Class Members suffered massive losses as a result.

21. In this action, the Plaintiffs seek to recover those losses on behalf of the Class Members from those responsible: the Defendants.

IV. THE PARTIES

A. Plaintiffs

22. Patrick Hrusa is an individual residing in Mississauga, Ontario. During the Class Period, Mr. Hrusa acquired CannTrust Shares on the secondary market and held some or all of those Shares through one or more of the corrective disclosures described herein.

23. Dharambir Singh is an individual residing in Surrey, British Columbia. During the Class Period, Mr. Singh acquired CannTrust Shares on the secondary market and held some or all of those Shares through one or more of the corrective disclosures described herein. During the Class Period, a business owned by Mr. Singh acquired CannTrust Shares on the secondary market, and held some or all of those Shares through one or more of the corrective disclosures described herein.

During the Class Period, Mr. Singh's wife, Gurpreet Kalsi, acquired CannTrust Shares on the secondary market, and held some or all of those Shares through one or more of the corrective disclosures described herein.

B. Defendants

24. CannTrust is a corporation formed under the *OBCA*, with its registered and head office located in Vaughan, Ontario. It is a licensed producer of medical and recreational cannabis in Canada.

25. During the Class Period, CannTrust was a reporting issuer in all provinces of Canada except Quebec, and its Shares were publicly listed for trading on the TSX, NYSE, and other trading venues in Canada and elsewhere. It published the documents identified below on, among other places, SEDAR and EDGAR.

26. Eric Paul is a co-founder of CannTrust and was its CEO from inception until October 1, 2018, when he stepped down to assume the role of Chairman of CannTrust's Board and Special Advisor to CannTrust's management team. He was a director of CannTrust since 2015. Eric Paul resides in Ontario. Eric Paul (i) certified the Q2 2018 Financial Statements and MD&A, and (ii) on behalf of the board of directors, signed each of CannTrust's financial statement issued during the Class Period, and in doing so, he adopted as his own the false statements made in those documents. As a board member, he caused CannTrust to make the misrepresentations particularized below.

27. During the Class Period, Eric Paul, through entities he owns and/or controls (including Cannamed and the Paul Family Trust) sold CannTrust Shares while having actual or constructive knowledge of the material, non-public information described herein, including over 3 million

Shares in the Offering and over 780,000 Shares in the secondary market, for proceeds in excess of $28 million.

28. Aceto was the CEO of CannTrust since October 1, 2018. He resides in Ontario, Canada. Aceto (i) certified each of the Misleading Documents that are CannTrust's annual and interim MD&As and financial statements issued after October 1, 2018; and (ii) signed and certified the Prospectuses. In doing so, he adopted as his own the false statements such documents contained, as particularized below. As an officer, he caused CannTrust to make the misrepresentations particularized below.

29. Ian Abramowitz was the CFO of CannTrust until February 13, 2019, when he stepped down to assume a role as Senior Vice President of Global Investments and Partnerships. He resides in Ontario, Canada. Abramowitz certified each of the Misleading Documents that are CannTrust's annual and interim MD&As and financial statements that were issued prior to February 13, 2019. In doing so, he adopted as his own the false statements such documents contained, as particularized below. As an officer, he caused CannTrust to make the misrepresentations particularized below.

30. Guyatt has been the CFO of CannTrust since February 13, 2019. He resides in Ontario, Canada. Guyatt (i) certified each of the Misleading Documents that are CannTrust's annual and interim MD&As and financial statements that were issued after February 13, 2019; and (ii) signed and certified the Prospectuses. In doing so, he adopted as his own the false statements such documents contained, as particularized below. As an officer, he caused CannTrust to make the misrepresentations particularized below.

31. Litwin has been a director of CannTrust since 2015. He resides in Ontario, Canada. Litwin, on behalf of the board of directors, signed each of CannTrust's financial statements issued during the Class Period and the May 1 Prospectus, and in doing so, he adopted as his own the false

statements made in those documents. As a board member, he caused CannTrust to make the misrepresentations particularized below.

32. During the Class Period, Litwin, through entities owned and/or controlled by him and his family members (including Cannamed, Mar-Risa Holdings, Forum Financial Corporation, and York Capital Funding) sold CannTrust Shares while having actual or constructive knowledge of the material, non-public information described herein, including over 1.5 million Shares in the Offering, and over 2.8 million Shares in the public markets for proceeds in excess of $34 million.

33. Sanders has been a director of CannTrust since 2015. He resides in Ontario, Canada. As a board member, he adopted as his own the false statements made in each of CannTrust's annual financial statements released while he was a board member, particularized below, when such statements were signed on his behalf. As a board member, he caused CannTrust to make the misrepresentations particularized below.

34. During the Class Period, Sanders, through Cajun, which he controls, sold 250,000 Shares in the Offering for proceeds of over $1.8 million and 100,000 Shares in the public markets for proceeds in excess of $900,000 while having actual or constructive knowledge of the material, non-public information described herein.

35. Marcovitch has been a director of CannTrust since 2017. He resides in Washington state, in the United States of America. During the Class Period, Marcovitch was a member of the audit committee of CannTrust's board of directors. As a board member, he adopted as his own the false statements made in each of CannTrust's annual financial statements released while he was a board member, particularized below, when such statements were signed on his behalf. As a board member, he caused CannTrust to make the misrepresentations particularized below.

36. Dawber has been a director of CannTrust since 2017. He resides in Ontario, Canada. During the Class Period, Dawber was a member of the audit committee of CannTrust's board of directors. As a board member, he adopted as his own the false statements made in each of CannTrust's annual financial statements released while he was a board member, particularized below, when such statements were signed on his behalf. Dawber signed the May 1 Prospectus. As a board member, he caused CannTrust to make the misrepresentations particularized below.

37. Page has been a director of CannTrust since 2018. She resides in Ontario, Canada. As a board member, she adopted as her own the false statements made in each of CannTrust's annual financial statements released while she was a board member, particularized below, when such statements were signed on her behalf. As a board member, she caused CannTrust to make the misrepresentations particularized below.

38. Kaden has been a director of CannTrust since October 22, 2018. Kaden resides in New York in the United States of America. During the Class Period (as of February 14, 2019), Kaden was a member of the audit committee of CannTrust's board of directors. As a board member, he adopted as his own the false statements made in each of CannTrust's annual financial statements released while he was a board member, particularized below, when such statements were signed on his behalf. As a board member, he caused CannTrust to make the misrepresentations particularized below.

39. Norman Paul was a director of CannTrust during the Class Period until September 9, 2018. As a board member, he adopted as his own the false statements made in each of CannTrust's annual financial statements released while he was a board member, particularized below, when such statements were signed on his behalf. As a board member, he caused CannTrust to make the misrepresentations particularized below.

40. Rogers held the role of CannTrust's President and Chief Operating Officer until November 9, 2018. As an officer, he authorized, permitted, or acquiesced in CannTrust making the misrepresentations particularized below.

41. Stan Abramowitz held the position of CannTrust's Secretary during the Class Period. As an officer, he authorized, permitted, or acquiesced in CannTrust making the misrepresentations particularized below.

42. Ravensdale held the role of CannTrust's Senior Vice-President of Quality and Production until November 11, 2018. As an officer, he authorized, permitted, or acquiesced in CannTrust making the misrepresentations particularized below.

43. Lee was CannTrust's director of quality and compliance during the Class Period. As an officer, he authorized, permitted, or acquiesced in CannTrust making the misrepresentations particularized below.

44. Platt was CannTrust's vice-president of innovation and regulatory affairs during the Class Period. As an officer, she authorized, permitted, or acquiesced in CannTrust making the misrepresentations particularized below.

45. Green was CannTrust's master grower during the Class Period. As an officer, he authorized, permitted, or acquiesced in CannTrust making the misrepresentations particularized below.

46. Kirk was CannTrust's Vice President, Quality during the Class Period. As an officer, she authorized, permitted, or acquiesced in CannTrust making the misrepresentations particularized below.

47. Dawber, Marcovitch, and Kaden were members of the Audit Committee of CannTrust's board of directors and were responsible for CannTrust's financial reporting process and the quality of its financial reporting. They were charged with the mandate of providing independent review and oversight of CannTrust's financial reporting process, the system of internal control and management of financial risks, and the audit process, including the selection, oversight and compensation of CannTrust's external auditors.

48. Each of the Individual Defendants were, during the Class Period, directors and/or officers of CannTrust within the meaning of the *OSA* and Securities Legislation.

49. KPMG has been engaged as CannTrust's auditor since 2018. KPMG is an expert of CannTrust within the meaning of the *OSA* and Securities Legislation. KPMG, providing what it purported to be audit services to CannTrust, made statements in the Audit Report (defined below) that it knowingly intended to be, and which were, disseminated to CannTrust's current and prospective security holders. KPMG undertook to provide the Audit Report to those current and prospective securities holders (i.e. the Class Members) for the purpose of allowing them to make informed decisions as to whether to acquire the Shares. KPMG knew and intended that the Class Members would rely on the Audit Report in their decisions to purchase Shares, which they did, to their detriment.

50. KPMG consented to the inclusion in the May 1 Prospectus of its Audit Report on CannTrust's 2018 Annual Financial Statements.

51. The Underwriters are financial institutions that served as underwriters in the Offering. The Underwriters were paid, in aggregate, in excess of US$ 12.8 million in underwriting commissions.

52. None of the Underwriters conducted a reasonable investigation into CannTrust in connection with the Offering. None of the Underwriters had reasonable grounds to believe that there was no misrepresentation in the May 1 Prospectus or the Misleading Documents incorporated therein. In the circumstances of this case, the Underwriters all ought to have exercised heightened vigilance and caution in the course of discharging their duties to investors, which they did not do. Had they done so, the Class Members to whom they owed their duties would not have sustained the losses they sustained on their investments.

53. Cannamed is a holding company owned and controlled by Eric Paul (through the Paul Family Trust, which he owns and/or controls) and Litwin (through companies he or his family members own and/or control, including Mar-Risa Holdings and York Capital Funding). During the Class Period, it sold Shares while having actual or constructive knowledge of the material, non-public information described herein, including 730,000 Shares in the secondary market, and over 6 million Shares in the Offering.

54. Cajun Capital Corp is a holding company owned and controlled by the defendant Sanders. During the Class Period, it sold 250,000 Shares in the Offering and 100,000 Shares in the public markets while having actual or constructive knowledge of the material, non-public information described herein.

V. THE DEFENDANTS' DISCLOSURE OBLIGATIONS

A. CannTrust's Disclosure Obligations

55. As a reporting issuer in Ontario and other provinces, CannTrust was subject to the continuous disclosure obligations prescribed by NI 51-102 to prepare and file on SEDAR certain disclosure documents prepared on regular basis, including

(a) *annual and interim financial statements*, which provide information about CannTrust's business and financial positions;

(b) *annual and interim MD&As* (filed together with the financial statements) which provides material information about CannTrust's business, management and operational and financial status during the period covered by the financial statements; and

(c) *an AIF* (filed on an annual basis) which provides material information about CannTrust and its business at a point in time in the context of its historical and possible future development.

56. An MD&A is a narrative explanation, through the eyes of management, of how the company performed during the period covered by the financial statements, and of its financial conditions and future prospects. Among other things, the MD&A is required to

(a) discuss material information that may not be fully reflected in the financial statements;

(b) discuss important trends and risks that have affected the financial statements, and trends and risks that are reasonably likely to affect them in the future; and

(c) provide information about the quality and potential variability, of the company's profit, loss or cash flow, to assist investors in determining if past performance is indicative of future performance.

57. In particular, item 1.4(g) of Form 51-102F1 (which prescribes the content of MD&As as required under NI 51-102) required CannTrust to disclose in each annual and interim MD&A any commitments, events, risks or uncertainties that it reasonably believed would materially affect CannTrust's future performance, total revenue and income or loss.

58. An AIF describes the company, its operations and prospects, risks and other external factors that may impact the reporting issuer specifically.

59. In fulfilling its continuous disclosure obligations, CannTrust was prohibited from making a statement that it knew or reasonably ought to have known: (a) in a material respect and at the time and in the light of the circumstances under which it was made, was misleading or untrue or did not state a fact that was required to be stated or that was necessary to make the statement not misleading; and (b) would reasonably be expected to have a significant effect on the market price or value of its securities.

60. Contemporaneously with the filing of the interim and annual financial statements and MD&As, and the AIF, CannTrust was required to file certifications signed by the CEO and CFO certifying their review of the required documents and certain other matters.

61. In addition to the regular reporting requirements, CannTrust was also required to immediately disclose to investors any material change in its business or affairs by:

(a) immediately issuing and filing a news release disclosing the nature and substance of the material change; and

(b) as soon as practicable, and in any even within 10 days of the material change, prepare and file a material change report in accordance with the *OSA*, regulations and NI 51-102;

62. A material change report must include a brief but accurate summary of the nature and substance of the material change as well as sufficient additional disclosure to enable a reader to appreciate the significance and impact of the material change without having to refer to other material.

63. As a company listed on the TSX, CannTrust was also required to disclose material information concerning its business and affairs forthwith upon the information becoming known to management.

64. The Plaintiffs plead and rely on: (a) the *OSA*, in particular section 126.2, and the concordant provisions of the Securities Legislation; (b) NP 51-201, in particular sections 2.1 and 4.1 to 4.5; and (c) the TSX Company Manual, in particular sections 406 to 410.

65. CannTrust and the Individual Defendants controlled the contents of its MD&As, financial statements, AIFs, and the other Misleading Documents particularized herein and the misrepresentations made therein were made by CannTrust and the Individual Defendants.

B. Individual Defendants' Roles in Disclosure

66. Each of the Individual Defendants knew that CannTrust was a reporting issuer and that in his or her role as a director and/or officer of CannTrust, he or she would have direct responsibility for ensuring the accuracy and completeness of CannTrust's disclosure documents.

67. The *OSA*, Securities Legislation, and certain National Instruments and Companion Policies promulgated thereunder imposed specific obligations on the Individual Defendants in the preparation of CannTrust's continuous disclosure documents.

68. Sections 77 and 78 of the *OSA*, and the concordant provisions of the Securities Legislation, informed by NI 52-109, required Aceto as CEO, and Abramowitz and Guyatt as CFOs to review, approve and certify the accuracy of CannTrust's annual and interim financial statements and MD&As released during the Class Period.

69. NI 51-102 requires the board of directors of a reporting issuer to approve each annual and interim financial statement and MD&A released by an issuer prior to the release of those documents.

70. Each of the Individual Defendants was aware of and accepted these obligations in assuming his or her position as a director and/or officer of CannTrust. The Individual Defendants authorized, permitted and/or acquiesced in the release or making of, and adopted as their own, the false statements particularized below.

VI. EVENTS GIVING RISE TO THE ACTION

A. Governing Legislation and Regulations

71. As a licensed producer of cannabis, CannTrust was governed by the *Cannabis Act* and *Cannabis Regulations* which came into force on October 17, 2018, legalizing the sale of cannabis for adult recreational use, and replacing the former *ACMPR* and *Controlled Drugs and Substances Act* as the governing legislation on the production, sale and distribution of medical cannabis.

72. The *Cannabis Act* prescribes the regulatory framework and licensing scheme for production, importation, exportation, testing, packaging, labelling, sending, delivery, transportation, sale, possession and disposal of cannabis for non-medicinal use. It also regulates access to cannabis for medical purposes.

73. The *Cannabis Regulations* provide more detailed rules and standards that apply to the production, distribution, sale, importation and exportation of cannabis by federal license holders. They also establish different classes of licenses that are required depending on the nature of the activity being undertaken, including licenses for cultivation, processing, sale, testing, and research.

74. The regulations require that a company apply for, and obtain, licenses for each specific activity and location in which it intends to perform regulated activities.

75. Despite the change in governing legislation, the regulatory framework remained substantively similar. In particular, CannTrust reported that cannabis licenses obtained under the *ACMPR* are deemed to be licenses under the *Cannabis Act* and continue to be in effect until revoked or expired.

B. CannTrusts' Representations About the Vaughan and Niagara Facilities

76. CannTrust (through its operating subsidiary) received its cultivation license under the *ACMPR* from Health Canada on June 12, 2014 and began production of medical cannabis at its production facility in Vaughan, Ontario ("**Vaughan Facility**").

77. On March 6, 2017, CannTrust (through a wholly owned subsidiary) acquired a 450,000 square foot commercial greenhouse facility in the Niagara Region ("**Niagara Facility**"). Prior to the start of the Class Period, CannTrust announced an intention to redevelop the Niagara Facility to expand its cannabis production capacity significantly through a three-phase plan that would allow it to produce up to 100,000 kg of cannabis per year.

78. CannTrust reported that the 250,000 square foot first phase was completed in the fall of 2017, and the 200,000 square foot phase 2 redevelopment was substantially completed during the Class Period, in the first quarter of 2019. CannTrust reported that the phase 3 expansion was expected to be completed during 2020.

79. Prior to the start of the Class Period, CannTrust represented to investors that it had obtained all necessary licenses and approvals for activities to be undertaken at the Vaughan and Niagara Facilities, that its operations were compliant with applicable laws and regulations, and that the facilities met all standards and/or requirements applicable to security controls, quality assurance investigations and controls, operating procedures, and document retention.

80. For example, in its AIF for the year ended 2017, filed on March 28, 2018 (prior to the start of the Class Period), CannTrust stated that

(a) it received its cultivation license from Health Canada under the ACMPR for the Vaughan Facility on June 12, 2014;

(b) it received its Health Canada cultivation license under the ACMPR for the phase 1 development of the Niagara Facility on October 10, 2017;

(c) it received its Health Canada sales license under the ACMPR for its 250,000 phase 1 development of the Niagara Facility on February 12, 2018;

(d) the sales licenses issued by Health Canada for the Vaughan Facility and the Niagara Facility allowed for the production, sale or provision, possession, shipping, transportation, delivery and destruction of dried cannabis and cannabis plants or seeds, and were effective until the expected renewal dates of March 13, 2020 and October 6, 2020, respectively;

(e) it had sought and received its ACMPR Licenses for the Vaughan Facility and Niagara Facility which each provided for the production and sale of dried cannabis, cannabis oil, cannabis in its natural form, cannabis resin, cannabis plants, and cannabis seeds;

(f) it believed that it currently held or had applied for all necessary licences and permits to carry on the activities which it was currently conducting under applicable laws and regulations, and also believed that it was complying in all material respects with the terms of such licences and permits;

(g) in addition, it would apply for, as the need arises, all necessary licences and permits to carry on the activities it expected to conduct in the future;

(h) it obtained cannabis seeds for growing from legal sources;

(i) to the knowledge of management, other than the requirement that CannTrust make routine corrections that may be required by Health Canada from time to time, the

Company was currently in compliance with all laws, regulations and guidelines relating to the manufacture, management, transportation, storage and disposal of medical cannabis as well as laws and regulations relating to health and safety, the conduct of operations and the protection of the environment;

(j) it understood the importance placed upon adhering to the "Good Production Practices" mandated by the ACMPR which related to the premises, storage of dried cannabis, equipment, sanitation program, standard operating procedures, recall of product, and quality assurance personnel;

(k) it currently had an in-house quality control laboratory and employed quality assurance persons with appropriate training, experience, and technical knowledge to approve the quality of its products;

(l) its facilities met the updated security requirements of the ACMPR;

(m) it complied with record keeping requirements imposed by the ACMPR;

81. In fact, and as later disclosed, CannTrust:

(a) did not have the required licenses for the rooms and activities conducted at the Niagara Facility, and was using unlicensed rooms in these facilities to produce and distribute cannabis, in contravention of laws and regulations;

(b) was producing and selling cannabis from the Niagara Facility that was grown from illegally obtained black market seeds;

(c) was storing cannabis in rooms in the Vaughan Facility without the required licenses and/or approvals; and

(d) did not meet required standards at the Vaughan Facility with respect to security controls, quality assurance investigations and controls, standard operating procedures, and document retention.

VII. THE OFFERING

82. On May 6, 2019 CannTrust announced the closing of its underwritten public offering of 36,363,636 Shares at a price of US$ 5.50 per share.

83. The Offering took place pursuant to the May 1 Prospectus, which incorporated by reference the March 18 Prospectus and certain other Misleading Documents. Pursuant to the Offering, on May 6, 2019:

(a) CannTrust sold 30,909,091 Shares for total gross proceeds of approximately US$ 170 million (before expenses);

(b) Cannamed sold 5,204,545 Shares for total gross proceeds of approximately US$ 28.6 million (before expenses); and

(c) Cajun sold 250,000 Shares for total gross proceeds of approximately US$ 1.375 million (before expenses).

84. On May 14, 2019, CannTrust announced that the Underwriters had exercised in full their option to purchase 4,636,363 and 818,182 additional Shares, respectively from the Company and Cannamed, for total gross proceeds of approximately US$ 25.5 million (to CannTrust) and US$ 4.5 million (to Cannamed) before expenses.

85. The May 1 Prospectus was signed by Aceto, Guyatt, Dawber and Litwin, and on behalf of the board of directors of CannTrust, who therein falsely certified that the prospectus, together with the documents incorporated therein by reference, constituted full, true and plain disclosure of all material facts relating to the securities offered thereby.

86. Each of the Underwriters, either directly or by their agent, also signed the May 1 Prospectus, and therein falsely certified that, to the best of its knowledge, information and belief,

that prospectus, together with the documents incorporated therein by reference, constituted full, true and plain disclosure of all material facts relating to the securities offered thereby.

87. KPMG consented in writing to the inclusion in the May 1 Prospectus of its audit report on CannTrust's 2018 Annual Financial Statements, as alleged below.

88. The May 1 Prospectus was filed with the securities commission in all Canadian provinces except Quebec, and with the SEC.

VIII. CANNTRUST'S MISREPRESENTATIONS AND OMISSIONS

89. During the Class Period, the Defendants made misrepresentations and failed to make timely disclosure of material changes.

90. CannTrust and the Individual Defendants made the following misrepresentations during the Class Period:

(a) misrepresentations that CannTrust was appropriately licensed and in compliance with applicable laws, rules and regulations for the activities conducted at the Niagara Facility, and that the cannabis produced there was in compliance with applicable laws, rules and regulations;

(b) misrepresentations that, with respect to the Vaughan Facility, CannTrust (i) had all required licenses and/or approvals for the activities conducted, and (ii) met standards and/or requirements applicable to security controls, quality assurance investigations and controls, operating procedures, and document retention;

(c) misrepresentations regarding sales, revenues, biological assets, and inventory;

(d) misrepresentations that CannTrust had effective ICFR and DC&P except as disclosed in its annual and interim filings; and

(e) misrepresentations that the financial statements were compiled in accordance with IFRS.

91. CannTrust and the Individual Defendants also failed to make timely disclosure that

(a) CannTrust was producing cannabis for distribution and sale in rooms in the Niagara Facility without the required licenses for those rooms and/or activities, and that it was producing and selling cannabis grown from seeds illegally obtained on the black market; and,

(b) with respect to the Vaughan Facility, CannTrust (i) was storing cannabis in rooms without the required licenses and/or approvals; and (ii) failed to meet standards and requirements applicable to security controls, quality assurance investigations and controls, operating procedures, and document retention.

92. During the Class Period, KPMG made misrepresentations regarding its audit and presentation of the 2018 Annual Financial Statements, as particularized below.

93. During the Class Period, the Underwriters made misrepresentations that the May 1 Prospectus, and information incorporated therein, made full, plain and true disclosure of all material facts relating to the Shares offered thereby, as particularized below.

A. Misrepresentations that CannTrust had the required licenses for activities conducted at the Niagara Facility

94. During the Class Period, CannTrust and the Individual Defendants falsely represented that CannTrust was appropriately licensed and in compliance with applicable laws, rules and regulations for the activities conducted at the Niagara Facility, and that the cannabis produced

there was in compliance with applicable laws, rules and regulations. Such representations were made in each of the Misleading Documents, as described below.

Core Documents

95. Each of CannTrust's annual and interim financial statements and MD&As, AIFs, material change reports, and the Prospectuses issued during the Class Period contained misrepresentations that the Niagara Facility was licensed and in compliance with applicable regulations for the activities conducted there, and that the cannabis produced there was in compliance with applicable laws, rules and regulations. Each of these documents is a core document as defined in the *OSA* and other Securities Legislation.

96. The 2017 AIF and 2017 Annual MD&A (incorporated by reference into certain Misleading Documents) 2018 AIF, 2018 Annual MD&A and Prospectuses each contained some or all of the following representations, including those particularized at Schedule "A":

(a) the Niagara Facility had obtained cultivation and sales licenses from Health Canada;

(b) the sales licenses for the Niagara Facility were effective until the expected renewal dates of October 6, 2020;

(c) the licenses allowed for the production, sale or provision, possession, shipping, transportation, delivery and destruction of cannabis;

(d) seeds for growing cannabis were obtained in accordance with the Cannabis Regulations, and were obtained from legal sources which included seeds acquired from Health Canada, seeds imported from a jurisdiction allowed to export seeds or seeds acquired from another licensed producer;

(e) CannTrust adhered to prescribed packaging requirements under the *Cannabis Act* and Cannabis Regulations;

(f) CannTrust responded and complied with all requests from Health Canada in connection with regular inspections;

(g) CannTrust believed that it held or had applied for all necessary licenses and permits;

(h) CannTrust believed that it was complying in all material respects with the terms of such licenses and permits;

(i) CannTrust would apply for necessary licenses and permits as the need arose in the future; and

(j) to the knowledge of management, the Company was currently in compliance with all laws relating to the manufacture, management, transportation, storage and disposal of medical cannabis as well as laws and regulations relating to health and safety.

97. Each of the annual and interim financial statements issued during the Class Period contained representations that the Niagara Facility had obtained a sales license from Health Canada.

98. Each of the interim MD&As issued during the Class Period contained representations that the Niagara Facility had obtained cultivation and sales licenses from Health Canada.

99. The Material Change Reports issued by CannTrust on October 4, 2018, February 19, 2019, May 6, 2019, May 14, 2019, July 12, 2019, August 2, 2019, and August 15, 2019 incorporated by reference press releases which each

(a) contained statements describing CannTrust as a “licensed producer” that operates its “Niagara Perpetual Harvest Facility”; and

(b) referred to and incorporated the “risk factors and other cautionary statements” set out in the 2017 AIF and/or the 2018 AIF, which contained the representations particularized herein.

100. Excerpts of certain of the misrepresentations, among others, from the Misleading Documents identified above are set out at Schedule “A.”

Press Releases

101. Each of the Press Releases:

(a) contained a statement describing CannTrust as a “licensed producer” that operates its “Niagara Perpetual Harvest Facility”; and

(b) referred to and incorporated the “risk factors and other cautionary statements” set out in the 2017 AIF and/or the 2018 AIF, which contained the representations particularized herein.

102. The April 8, 2019 Press Release stated in part:

> CannTrust Holdings Inc. (“CannTrust” or the “Company”, TSX:TRST, NYSE:CTST) is pleased to announce that its cultivation and processing permit under Health Canada Cannabis Regulations was amended to include the final 20% of its Phase 2 expansion. The entire 450,000 sq. ft. of its perpetual harvest greenhouse in Pelham, Ontario, is now fully licensed.
>
> “We have always been confident that our processes meet and exceed regulatory standards, and we now have further validation of this from our regulators,” said Peter Aceto, Chief Executive Officer.

103. The April 22, 2019 Press Release stated in part:

> These preliminary results represent the excellent efforts the CannTrust team has made in increasing output at our Niagara perpetual harvest greenhouse. We are quickly approaching our stated capacity of 50,000kg per year from our Phase 2 expansion. Our 96% sequential increase in production over the prior quarter will enable us to service both our rapidly growing base of medical patients and the high demand in the recreational market for our award-winning products and brands." said Peter Aceto, Chief Executive Officer.
>
> . . .
>
> In April 2019, CannTrust's cultivation and processing permit under Health Canada Cannabis Regulations was amended to include the final 20% of its Phase 2 expansion, which is now fully licensed. With the Phase 2 expansion, the Company expects full production to be achieved by the end of the second quarter of 2019 at an annualized rate of 50,000kg per year.

Public Oral Statements

104. On a March 28, 2019 conference call, in response to a question regarding the outstanding licensing for phase 2 of the Niagara Facility redevelopment, Aceto stated:

> "Yeah. So, the construction is complete on Phase 2, and we await final license -- so, we have a broad license which we make amendments to, which has created efficiency in our process with Health Canada, but there still remains our last few rooms that we await Health Canada approval from, and we will continue to wait for that. Their turnaround times have been generally reasonable, so the last rooms, we await final licensing for."

105. On the same call, in response to a question about the outdoor growing activities, Aceto stated:

> "We also -- these outdoor grows, just like our rooms in our Perpetual Harvest greenhouse, need to be licensed by Health Canada, and that's something we're respectful of, so, not 100% sure of the timing there as well."

106. Also on that call, in response to questions concerning the capacity of the Niagara Facility, Aceto stated:

> "So, phase 2 has ramped up gradually throughout the year, only being completed very recently, and not all rooms are fully licensed."
>
> . . .
>
> "When we get our final rooms licensed in Phase 2, we'll be at 50,000 kg annualized, but we've brought room systematically online as we've continued to build Phase 2, so I think that number has changed. And actually, Phase 2 -- for much of the case, the output that we sold in Q4 did not primarily come from plants grown in Phase 2."

107. On a May 14, 2019 conference call, Aceto stated:

> "In April, we received Health Canada approval for the remaining 20% of our phase 2 greenhouse. We expect that production will continue to increase to the full promised annualized capacity of 50,000 kilograms in the third quarter of this year."
>
> . . .
>
> "I think with phase 2 being completed, being fully licensed, where we're very close to being at full production capacity at the 50,000 kilograms, we'll certainly be in a better position to meet all of the stakeholder needs."

108. The statements described at paragraphs 94 to 107 and at Schedule "A," were untrue statements of material fact, and/or omitted to state a material fact that is required or that is necessary to make those statements not misleading in light of the circumstances in which they were made, because:

(a) between October 2018 and March 2019, CannTrust was growing and distributing cannabis that was grown in five rooms in the Niagara Facility that were not licensed and/or compliant with regulations, in violation of applicable laws;

(b) CannTrust employees, at the direction of top management, intentionally misled Health Canada about its non-compliance with regulations;

(c) CannTrust was producing and selling cannabis grown from seeds that were illegally obtained from the black market; and

(d) as a result, there was a significant risk that (i) CannTrust would be subject to suspension, penalties, or other regulatory and/or legal action that could jeopardize its current and future business prospects; and (ii) this conduct would result in product shortages, inventory hold, and/or that distributed products would have to be returned and/or recalled, which would have an adverse economic impact on the business.

109. In addition, every statement in every Misleading Document or public oral statement regarding

(a) the Niagara Facility;

(b) CannTrust's status as a licensed producer;

(c) CannTrust's cannabis or biological assets;

(d) CannTrust's production practices and product quality control; and/or

(e) risks associated with CannTrust and/or its business;

was a misrepresentation because it omitted to disclose the facts identified at paragraph 108, which were required or necessary to make those statements not misleading in light of the circumstances in which they were made.

B. Misrepresentations regarding the Vaughan Facility.

110. During the Class Period, CannTrust and the Individual Defendants falsely represented that the Vaughan Facility (i) had all required licenses and/or approvals for the activities conducted, and (ii) met standards and/or requirements applicable to security controls, quality assurance

investigations and controls, operating procedures, and document retention. Such representations were made in each of the Misleading Documents, as described below.

Core Documents

111. Each of CannTrust's annual and interim financial statements and MD&As, AIFs, material change reports, and the Prospectuses issued during the Class Period contained misrepresentations that the Vaughan Facility (i) had all required licenses and/or approvals for the activities conducted, and/or (ii) met standards and/or requirements applicable to security controls, quality assurance investigations and controls, operating procedures, and document retention. Each of these documents is a core document as defined in the *OSA* and other Securities Legislation.

112. The 2017 AIF, 2017 MD&A (incorporated by reference into certain Misleading Documents), 2018 AIF and Prospectuses each contained some or all of the following representations, including those particularized at Schedule "B":

(a) CannTrust had obtained a cultivation and sale license from Health Canada for the Vaughan Facility;

(b) the licenses for the Vaughan Facility were effective until the expected renewal date of March 13, 2020;

(c) the license allowed for the production, sale or provision, possession, shipping, transportation, delivery and destruction of cannabis;

(d) the license allowed the Vaughan Facility to produce dried cannabis and cannabis extracts up to such amounts as permitted by CannTrust's storage capacity;

(e) CannTrust believed that it held or had applied for all necessary licenses and permits to carry on the activities it is currently conducting under applicable laws and regulations;

(f) CannTrust believed that it was complying in all material respects with the terms of such licenses and permits;

(g) CannTrust would apply for, as the need arose, all necessary licences and permits to carry on the activities it expected to conduct in the future;

(h) to the knowledge of management, the Company was currently in compliance with all laws relating to the manufacture, management, transportation, storage and disposal of medical cannabis as well as laws and regulations relating to health and safety;

(i) CannTrust responded to and complied with all requests from Health Canada in connection with regular inspections;

(j) CannTrust continuously reviewed and enhanced its operational procedures at the Vaughan Facility both proactively and in response to Health Canada inspections;

(k) there were no outstanding inspection issues with Health Canada beyond day-to-day adjustments that may occur in order to ensure ongoing compliance;

(l) CannTrust complied with or exceeded Health Canada's quality assurance standards and guidelines;

(m) CannTrust's facilities met prescribed security requirements;

(n) CannTrust adhered to the "Good Production Practices" mandated by the ACMPR and Cannabis Regulations relating to the premises, storage of dried cannabis, equipment, sanitation program, standard operating procedures, recall of product, and quality assurance personnel; and

(o) CannTrust complied with applicable record keeping requirements.

113. The 2018 Annual MD&A and each of the interim MD&As issued during the Class Period contained representations that CannTrust had validly obtained a license from Health Canada for the Vaughan Facility.

114. Each of the annual and interim financial statements issued during the Class Period contained representations that CannTrust had obtained a license from Health Canada for the Vaughan Facility.

115. The Material Change Reports issued by CannTrust on June 5, 2018 October 4, 2018, February 19, 2019, May 6, 2019, May 14, 2019, July 12, 2019, August 2, 2019, and August 15, 2019 incorporated by reference press releases which each

(a) contained a statement describing CannTrust as a “licensed producer” that operates a facility in Vaughan, Ontario; and

(b) referred to and incorporated the “risk factors and other cautionary statements” set out in the 2017 AIF and/or the 2018 AIF, which contained the representations particularized herein.

116. The Material Change Report issued by CannTrust on July 12, 2019 also stated that CannTrust’s operations at the Vaughan facility remain fully licensed.

117. Excerpts of certain of the misrepresentations, among others, from the Misleading Documents identified above are set out at Schedule “B.”

Press Releases

118. Each of the Press Releases:

(a) contained a statement describing CannTrust as a "licensed producer" that operates a facility in Vaughan, Ontario; and

(b) referred to and incorporated the "risk factors and other cautionary statements" set out in the 2017 AIF and/or the 2018 AIF, which contained the representations particularized herein.

119. The statements described at paragraphs 110 to 118, and at Schedule "B," were untrue statements of material fact, and/or omitted to state a material fact that is required or that is necessary to make those statements not misleading in light of the circumstances in which they were made, because:

(a) since June 2018, rooms in the Vaughan Facility were used to store cannabis without prior approval from Health Canada;

(b) CannTrust constructed two new areas in the Vaughan Facility without prior approval of Health Canada, one of which was used to store cannabis since November 2018;

(c) the Vaughan Facility

(i) had insufficient security controls;

(ii) had inadequate quality assurance investigations and controls;

(iii) had standard operating procedures that did not meet requirements under regulations; and

(iv) did not retain documents or information in a manner to enable Health Canada to complete its audit in a timely manner; and

(d) as a result, there was a significant risk that (i) CannTrust would be subject to suspension, penalties, or other regulatory and/or legal action that could jeopardize its current and future business prospects; and (ii) this conduct would result in product shortages, inventory hold, and/or that distributed products would have to be returned and/or recalled, which would have an adverse economic impact on the business.

120. In addition, every statement in every Misleading Document or public oral statement regarding

(a) the Vaughan Facility;

(b) the company's production practices, product quality control, security, storage, operating procedures, or reporting requirements; and

(c) risks associated with the company and/or its business;

was a misrepresentation because it omitted to disclose the facts identified at paragraph 119, which were required or necessary to make those statements not misleading in light of the circumstances in which they were made.

C. Misrepresentations regarding sales, revenue, inventory and biological assets.

121. During the Class Period, CannTrust and the Individual Defendants reported inaccurate financial results and figures.

122. Each of the Q2 2018 Financial Statements, MD&A, and Press Release, the Q3 2018 Financial Statements, MD&A, and Press Release, the 2018 Annual Financial Statements and MD&A, the Q4 2018 Press Release, the Q1 2019 Financial Statements, MD&A, and Press Release,

the April 22, 2019 Press Release, and the Prospectuses reported financial results and figures, including sales, revenue, biological assets and inventory as well as other financial results and figures that are derived from or affected by them.

123. Such figures were also reported in earnings calls on March 28, 2019 and May 14, 2019 by Aceto and Guyatt.

124. All such figures were artificially inflated from their true values, and were materially false and misleading because they included cannabis that was illegally grown and which CannTrust was not entitled to possess or sell.

D. Misrepresentations that CannTrust had effective ICFR and DC&P

125. During the Class Period, CannTrust and the Individual Defendants falsely represented that CannTrust's internal controls, including DC&P and ICFR, were effective except as disclosed in its interim and annual MD&As.

126. DC&P are intended to provide reasonable assurance that material information relating to the company is made known to senior management, including the CEO and CFO, and that information required to be disclosed by the company is recorded, processed, summarized and reported as required by legislation.

127. ICFR is intended to provide reasonable assurance regarding the reliability of the company's financial reporting and preparation of financial statements in accordance with IFRS.

128. Each of the Q2 2018 MD&A, Q3 2018 MD&A, Annual 2018 MD&A, the Q1 2019 MD&A and the Prospectuses contained statements describing CannTrust's DC&P and ICFR, as excerpted at Schedule "C."

129. All such statements were untrue and misleading, because during the Class Period, CannTrust and its senior management knew that the DC&P and ICFR were ineffective or defective in respect of cannabis grown in, stored, and/or distributed from, rooms and facilities that were not appropriately licensed or otherwise non-compliant pursuant to applicable regulations or standards.

130. In addition, CannTrust and its senior management knew that its DC&P and ICFR were overridden by the Individual Defendants and CannTrust's management generally, rendering them ineffective or defective. The fact that CannTrust's internal control were overridden constituted a material fact that the Defendants ought to have, but failed to, disclose.

E. Misrepresentations that the financial statements were compiled in accordance with IFRS

131. During the Class Period, CannTrust and the Individual Defendants, falsely represented that CannTrust's financial statements were compiled in accordance with IFRS. Such representations were made in each of CannTrust's interim and annual financial statements, MD&As, the Audit Report (defined below) and the Prospectuses issued during the Class Period. KPMG also made this false representation in the Audit Report (defined below).

132. Such representations were untrue and misleading. The failure to disclose the cannabis stored and grown in the unlicensed and/or unapproved rooms in the Niagara and Vaughan Facilities, and the treatment of such cannabis by the company as if it was stored and produced in accordance with regulations, caused the financial statements to be materially noncompliant with a number of IFRS standards, including, among others

(a) IAS 1 – *Presentation of Financial Statements*;

(b) IAS 41 – *Agriculture*;

(c) IAS 2 – *Inventories*

(d) IFRS 15 – *Revenue from Contracts with Customers*; and

(e) IAS 37 – *Contingent Liabilities*.

F. KPMG's Misrepresentations

133. The 2018 Annual Financial Statements contained an audit report from KPMG ("**Audit Report**") that stated:

(a) KPMG had audited the 2018 Annual Financial Statements in accordance with PCAOB standards, which required that it plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud;

(b) the audit included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements;

(c) the audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements; and

(d) KPMG believed that the audit provided a reasonable basis for its opinion;

(e) the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018, and the financial performance and its cash flows for the year then ended, in conformity with IFRS.

together, (the "**KPMG Representations**").

134. These statements were materially untrue and misleading because the financial statements did not present CannTrust's financial position and performance fairly in accordance with IFRS, and KPMG had no reasonable basis to opine that they did, because, contrary to its representations, it:

(a) did not conduct the audit in accordance with PCAOB standards,

(b) did not plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud; and/or

(c) did not perform appropriate procedures to assess the risk of material misstatement due to error or fraud, and/or did not perform procedures that respond to such risks.

135. KPMG consented in writing to the inclusion of the Audit Report in the May 1 Prospectus in the manner required by securities regulations.

G. The Underwriters' Misrepresentations

136. Each of the Underwriters, either directly or by their agent, signed and certified the following statement contained in the May 1 Prospectus:

> To the best of our knowledge, information and belief, the short form prospectus, together with the documents incorporated in the prospectus by reference, as supplemented by the foregoing, constitutes full, true and plain disclosure of all material facts relating to the securities offered by the prospectus and this supplement as required by the securities legislation of each of the provinces of Canada, except Québec.
>
> the ("**Underwriters Representation**").

137. This statement was materially untrue and misleading because the May 1 Prospectus and documents incorporated therein by reference, contained misrepresentations as particularized herein, and the Underwriters ought to have known that fact.

138. Each Underwriter had obligations under applicable law to conduct all required due diligence in connection with each of their offerings. However, the Underwriters failed in their obligations and allowed, acquiesced and approved offerings made on the basis of disclosure documents which contained misrepresentations.

H. Failure to Make Timely Disclosure

139. CannTrust and the Individual Defendants failed to make timely disclosure of the fact that, with respect to the Vaughan Facility, CannTrust (i) was storing cannabis in rooms without the required licenses and/or approvals; and (ii) failed to meet standards and requirements applicable to security controls, quality assurance investigations and controls, operating procedures, and document retention ("**Vaughan Change**").

140. CannTrust and the Individual Defendants also failed to make timely disclosure of the fact that CannTrust was conducting activities in the Niagara Facility without the required licenses and was in material noncompliance with laws and regulations ("**Niagara Change**").

141. The Vaughan Change and the Niagara Change were changes in the business, operations and/or capital of CannTrust that would reasonably be expected to have a significant effect on the market price or value of CannTrust's securities.

142. Accordingly, as of June 1, 2018, CannTrust was required to, but failed, to:

(a) forthwith issue and file a news release disclosing the Vaughan Change; and

(b) as soon as practicable, and within 10 days of the event, file a material change report disclosing the Vaughan Change.

143. Also, as of October 1, 2018 CannTrust was required, but failed, to:

(a) forthwith issue and file a news release disclosing the Niagara Change; and

(b) as soon as practicable, and within 10 days of the event, file a material change report disclosing the Niagara Change.

IX. INDIVIDUAL DEFENDANTS' FALSE CERTIFICATIONS

144. Pursuant to NI 52-109, Eric Paul and Aceto (as CEOs) and Ian Abramowitz and Guyatt (as CFOs) were required to certify the Misleading Documents that were CannTrust's financial statements, MD&As and AIFs.

145. Eric Paul and Ian Abramowitz certified the Q2 2018 Financial Statements and MD&A. Aceto and Ian Abramowitz certified the Q3 2018 Financial Statements and MD&A. Aceto and Guyatt certified the Annual 2018 Financial Statements and MD&A, the 2018 AIF, and the Q1 2019 Financial Statements and MD&A.

146. Among other things, Eric Paul, Aceto, Ian Abramowitz, and Guyatt certified that

(a) such documents did not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made;

(b) such documents fairly presented in all material respects the financial condition, financial, financial performance, and cash flows of CannTrust;

(c) they were responsible for establishing and maintaining CannTrust's disclosure controls and procedures as well as CannTrust's internal controls over financial reporting;

(d) they had designed the DC&P, or caused them to be designed under their supervision, to provide reasonable assurance that material information relating to

CannTrust's was made known to them by others, particularly during the period in which the documents were being prepared and information required to be disclosed by CannTrust's in its annual filings, interim filings or other reports filed or submitted under Securities Legislation was recorded, processed, summarized and reported within the time periods specified in Securities Legislation;

(e) they had designed ICFR, or caused it to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP;

(f) in respect of CannTrust's annual filings, they had evaluated, or caused to be evaluated under their supervision, the design of CannTrust's ICFR for the year ended and had disclosed in its annual MD&A any material weaknesses and the impact on the financial reporting and its ICFR;

(g) in respect of CannTrust's annual filings, they had evaluated, or caused to be evaluated under their supervision, the effectiveness of CannTrust's DC&P and ICFR, at the financial year end and had disclosed in its annual MD&As their conclusions about the effectiveness of CannTrust's controls.

147. These certifications were false and were themselves misrepresentations.

X. THE CORRECTIVE DISCLOSURES

148. Between July 8, 2019 and the end of the Class Period, material information began to be reported by CannTrust and various news outlets, which disclosed to the market for the first time that:

(a) between October 2018 and March 2019, CannTrust had violated applicable laws and regulations by growing cannabis in five unlicensed rooms in the Niagara Facility, and by distributing and/or selling the illegally grown cannabis;

(b) CannTrust employees had intentionally deceived regulators regarding the non-compliance;

(c) noncompliance and deception of regulators was sanctioned by the highest levels of the company's management, which, among other things, increased the likelihood of a harsh penalty such as license suspension or revocation;

(d) between June 2018 and August 2019, CannTrust' violated applicable laws and regulations by storing cannabis in rooms in the Vaughan facility without the required licenses and/or approvals, and the Vaughan facility did not meet standards and/or requirements applicable to security controls, quality assurance investigations and controls, operating procedures, and document retention;

(e) CannTrust was producing and selling cannabis grown from seeds illegally obtained from the black market;

(f) as a result of this conduct, most or all of CannTrust's cannabis product and/or inventory were subject to quarantine, recall, or destruction;

(g) accordingly, CannTrust's revenues, sales volume, biological assets, inventory, and other figures derived from or affected by them and reported throughout the Class Period were artificially inflated;

(h) CannTrust was subject and exposed to penalties and fines that would materially adversely affect its ability to expand or do business going forward, including actual or potential halts on sales of products, recall and/or destruction of already shipped products, increased costs to fill its inventory, and delays or difficulties in obtaining required licenses, and/or suspension or revocation of its existing licenses (which in fact did occur);

(i) CannTrust did not have effective DC&P and ICFR; and

(j) CannTrust's Class Period financial statements were not compiled in accordance with IFRS.

149. The release of this information caused the price of CannTrust's Shares to drop significantly. The information also caused a number of financial analysts covering CannTrust to downgrade or cut their ratings of the company.

150. On July 8, 2019, before the start of trading on the TSX, CannTrust issued a press release disclosing, for the first time, that it was non-compliant with certain regulations because it had been growing cannabis in unlicensed rooms at its Niagara Facility between October 2018 to March 2019. The press release stated, in part:

> Canntrust Holdings Inc. has received a compliance report from Health Canada notifying the company that its greenhouse facility in Pelham, Ont., is non-compliant with certain regulations. Canntrust has accepted Health Canada's non-compliance finding and has taken actions to ensure current and future compliance.
>
> The non-compliant rating is based on observations by the regulator regarding the growing of cannabis in five unlicensed rooms and inaccurate information provided to the regulator by Canntrust employees. Growing in unlicensed rooms took place from October, 2018, to March, 2019, during which time Canntrust had pending applications for these rooms with Health Canada. These rooms were constructed in accordance with regulations and good production practices, and licences were issued for each of the five rooms in April, 2019. There are 12 rooms in total at the facility.
>
> Health Canada has placed a hold on inventory which includes approximately 5,200 kilograms of dried cannabis that was harvested in the previously unlicensed rooms in Pelham, until it deems that the company is compliant with regulations. In addition, Canntrust has instituted a voluntary hold of approximately 7,500 kg of dried cannabis equivalent at its Vaughan manufacturing facility that was produced in the previously unlicensed rooms.
>
> Canntrust's operations at its Pelham and Vaughan facilities remain fully licensed and the company continues to grow, cultivate, harvest and sell cannabis. Health Canada is conducting quality checks of product samples on hold at Pelham, with results expected in 10 to 12 business days. Due to the product on hold, some Canntrust customers and patients will experience temporary product shortages. The company is exploring options to mitigate these shortages.

> All product sold from the impacted rooms has passed quality control testing at Health Canada certified labs as well as Canntrust's own quality control processes and safety reviews.
>
> "Our team has focused on building a culture of transparency, trust and excellence in every aspect of our business, including our interactions with the regulator. We have made many changes to make this right with Health Canada. We made errors in judgment, but the lessons we have learned here will serve us well moving forward," said Peter Aceto, chief executive officer.
>
> Corrective actions and additions to the Canntrust executive team
>
> Canntrust has implemented a number of corrective actions including:
>
> - Further comprehensive employee training;
> - Retained external advisers for an independent review of compliance processes;
> - Comprehensive review and update of processes and procedures;
> - Voluntarily advised Health Canada of issues that may impact compliance at its Vaughan facility regarding product storage;
> - Improving the quality and compliance function at the company has been a priority for senior leadership. The first executive addition under the new leadership team was Andrea Kirk, for the newly created role of vice-president, quality. Ms. Kirk brings nearly 20 years of quality and compliance experience from the pharmaceutical industry to Canntrust and her mandate is to lead the quality and compliance department. Since joining the company in March, 2019, she has hired and trained 17 quality and compliance professionals.

151. That press release stated "the impact of these matters on CannTrust's financial results are unknown until Health Canada completes its quality testing of product from Pelham which is currently on hold."

152. Also on July 8, 2019, Aceto gave an interview to the *Financial Post*, where he revealed that some of the cannabis grown by CannTrust in unlicensed rooms had been shipped to provinces across Canada. In that interview, he stated that the company was going to conduct a "root cause analysis" to determine who was responsible in sanctioning the illegal conduct. In fact, as detailed below, Aceto himself was the individual sanctioning such conduct.

153. On this news, the price of CannTrust's share dropped 23% from a closing price of $6.46 on the TSX on July 5, 2019 to a close of $5.00 on July 8, 2019.

154. However, the full extent of CannTrust's conduct had not yet been revealed to the Class Members or the market. In the days and weeks that followed, CannTrust, its business partners, and news outlets provided additional information regarding the extent of the deception worked on Health Canada, the involvement of senior management, the amounts of illegal product shipped and now subject to quarantine or recall, the effect on CannTrust's ability to continue growing and distributing cannabis, and the impact on the company's future prospects. As a result of each additional revelation, CannTrust's share price continued to decline.

155. Between July 9 and 11, 2019, mainstream news outlets including *The Globe and Mail* and the *Financial Post* reported that:

(a) the Ontario Cannabis Store and the Alberta Gaming and Liquor Commission were removing affected CannTrust products from distribution;

(b) CannTrust's Danish partner StenoCare (which earlier announced it had received only one unlicensed batch of product from CannTrust) quarantined five batches of product;

(c) according to a former employee, CannTrust employees were instructed to mislead Health Canada inspectors, including by setting up fake walls to hide "several thousand plants" from view.

156. As a result of these news items being disclosed to the market, the price of CannTrust's Shares continued to decline from a close on the TSX of $4.73 on July 9, to $4.12 on July 10, to $4.04 on July 11, 2019.

157. After the close on trading on July 11, 2019, CannTrust issued a press release announcing that it had implemented a voluntary hold on sale and shipment of all cannabis products while Health Canada visited and reviewed the Vaughan Facility. It also disclosed that it had established a Special Committee of the Board of Directors to "investigate this matter in its entirety." In the press release, the company continued to state that "the impact of these matters on CannTrust's financial statements are unknown until the regulatory review process is complete."

158. On this news, the price of CannTrust's Shares continued their decline, dropping 17% from a closing price on the TSX of $4.04 on July 11 to $3.34 on July 12, 2019.

159. However, CannTrust and the Individual Defendants continued to mislead investors regarding the full extent of CannTrust's noncompliance and in particular, that senior officers and directors were not only aware of the misconduct, but that they sanctioned and encouraged it.

160. On July 22, 2019, CannTrust announced that the special committee of the board of directors was comprised of Marcovitch, Page, Dawber, and Kaden, and was "appointed with a broad mandate to, among other things, investigate the Company's non-compliance with Health Canada regulations and ancillary matters, to make recommendations to the Board of Directors regarding any actions to be taken by CannTrust as a result of the investigation, and to assess any impact on the Company's bio assets, inventory, sales and revenue."

161. On July 23, 2019, after hours, *The Globe and Mail* published an article disclosing that Eric Paul, Aceto, Ian Abramowitz, and Platt were made aware by Lee that the company was growing cannabis in unlicensed rooms since the beginning of the Class Period, and that Eric Paul instructed employees on how to respond. The article stated in part:

> Both the chairman and the chief executive officer of CannTrust Holdings Inc. were informed that the company was growing cannabis in unlicensed

> rooms about seven months before Health Canada uncovered the regulatory breach, internal e-mails show.
>
> The company communications, seen by The Globe and Mail, show chairman Eric Paul and CEO Peter Aceto were made aware that cannabis was being cultivated in rooms at a growing facility in Southern Ontario that had yet to be licensed by the federal regulator, and that Mr. Paul counselled staff on how to respond.
>
> In an e-mail dated Nov. 16, 2018, Graham Lee, CannTrust's director of quality and compliance, informed Mr. Aceto and other top executives about a Health Canada inspection that had just been completed. It had revealed several compliance breaches but missed the plants growing in unlicensed rooms.
>
> "We dodged some bullets," Mr. Lee wrote. "[Health Canada] did not ask about RG8E/W, which are unlicensed rooms currently full of plants."
>
> The e-mail outlines a number of "current risks," including plants growing in unlicensed rooms, the storage of cannabis in unlicensed rooms and the "large number of lost bottles [of cannabis] we have not reported."
>
> "Although serious, on their own, each of these can be talked through with [Health Canada]. The concern is that together they will paint a picture with the regulator of a company not in control. We have dodged observations for items 1 and 6 despite having HC in the building," Mr. Lee wrote.
>
> Along with Mr. Aceto, the e-mail was sent to Ian Abramowitz, a CannTrust executive who was chief financial officer at the time, and Ilana Platt, the company's vice-president of innovation and regulatory affairs.
>
> The e-mail was forwarded to Mr. Paul later the same day, who responded, "We need to clearly point out that we have been diligent in submitting the applications for each new area and they have been slow in responding. We are supporting the legislation and we need their cooperation. Politely as always."

162. On July 24, 2019, *BNN Bloomberg* reported further information about senior management's knowledge of the unlicensed activities at the Niagara Facility. The article stated in part:

> CannTrust Holdings Inc. (TRST.TO) Chief Executive Officer Peter Aceto told senior company officials to "continue as planned" and plant cannabis in an unlicensed room in mid-November, according to internal company

> documents obtained by BNN Bloomberg that establish a clear timeline of when illegal production was brought to management's knowledge.
>
> In minutes from weekly production meetings held by conference call from Nov. 14 to Nov. 28, seven CannTrust employees – including three vice-presidents as well as Graham Lee, the company's director of quality and compliance – provided updates on developments at RG9, one of five unlicensed rooms at the company's facility in Pelham, Ont. where Health Canada inspectors later determined the company grew thousands of kilograms of cannabis.
>
> During a meeting held on Nov. 14, senior CannTrust staff stated that RG9 was not licensed by Health Canada and that further work in the room "needs up (sic) be run up the chain before anything is planted in there." The room was estimated to be 50,000 square feet, roughly the same size as a football field, the minutes showed.
>
> As well, Aceto – who was not present for any of the three production meetings – was to be informed by Lee that the RG9 room was not licensed, and that any repercussions if the company started planting in that room despite being unlicensed were "unknown."
>
> That meeting also detailed how employee morale "seems to be unaffected" by corporate changes that led to the departure of president Brad Rogers as well as Michael Ravensdale, CannTrust's former head of production, and that construction of additional rooms at the Pelham, Ont. facility was moving as planned.
>
> "Doing what we can to make sure that deadlines are met and that [we are] holding people accountable," the minutes showed.
>
> On Nov. 21, the minutes stated that RG9 remained unlicensed but Lee – who attended each of the production meetings – stated he spoke to Aceto about the unlicensed room and was instructed to "continue as planned."
>
> Minutes from the Nov. 28 production meeting stated CannTrust employees had submitted an application to Health Canada for the RG9 licence and were still waiting for approval from the federal regulator. "Still moving forward with planting today – 3 lots," the minutes stated. One lot is approximately 1,000 cannabis plants, which can produce as much as 1,000 kilograms of marijuana.

163. On this news, the price of CannTrust's Shares declined approximately 22% from a close on the TSX of \$3.43 on July 23 to \$2.68 on July 24, 2019.

164. On July 25, 2019, CannTrust issued a press release disclosing that the board of directors had terminated Aceto and demanded the resignation of Eric Paul, who complied. Marcovitch had stepped into the role of interim CEO. The press release continued to indicate that the impact of the matter on CannTrust's financial results is unknown.

165. On July 31, 2019, CannTrust issued a press release announcing that the special committee had retained a financial adviser to assist in a review of strategic alternatives. The press release stated in part:

> The special committee of Canntrust Holdings Inc.'s board of directors has retained Greenhill & Co. Canada Ltd. as the special committee's financial adviser, to assist in a review of strategic alternatives. These alternatives could include, among other things, a sale of the company or a portion thereof, a strategic investment, a business combination, changes to the company's operations or strategy, or continuing to execute on the company's current business plan.
>
> There can be no assurance that the special committee's review of strategic alternatives will result in any transaction. The special committee has not set a timetable for the conclusion of its review of strategic alternatives and it does not intend to comment further. The nature, timing and outcome of the strategic review process will be influenced by, among other things, the resolution of the company's regulatory compliance issues with Heath Canada.

166. On August 1, 2019, CannTrust issued a press release announcing that (i) it would be late in filing its interim financial statements and MD&A due August 14, 2019; (ii) that there is "significant uncertainty with respect to the potential impact of pending Health Canada decisions on the valuation of the Company's inventory and biological assets and revenue recognition"; (iii) the impacted inventory and biological assets is approximately $51 million as at June 30, 2019; (iv) the financial statements and MD&A for 2018 and Q1 2019 could require restatement; (v) CannTrust had applied to the OSC for a management cease trade order pending the filings of the restatements; and (vi) staff of the OSC had advised the Special Committee's legal counsel that an

investigation has been opened into matters and parties related to CannTrust and the investigation has been assigned to the Joint Serious Offences Team of the Enforcement Branch of the OSC.

167. On August 9, 2019, CannTrust issued a press release announcing that KPMG was withdrawing its audit report for the 2018 Financial Statements and the interim report to CannTrust's audit committee for the Q1 2019 Financial Statements, and that those reports should no longer be relied upon. The press release stated in part:

> Canntrust Holdings Inc.'s independent auditor, KPMG LLP, chartered professional accountants, has informed the company that effective Aug. 8, 2019, is withdrawing its report dated March 27, 2019, on the company's consolidated financial statements as at and for the year ended Dec. 31, 2018, and its interim report to the audit committee dated May 13, 2019, on the unaudited condensed interim consolidated financial statements as at and for the three-month period ended March 31, 2019, and therefore, the KPMG reports should no longer be relied upon. KPMG remains Canntrust's independent auditor. The company's co-operation with KPMG is being directed by the company's audit committee and a special committee of its board of directors which is conducting a continuing investigation into various matters.
>
> As previously disclosed, management is of the view that there is significant uncertainty with respect to the potential impact of pending Health Canada decisions on the valuation of the company's inventory and biological assets and revenue recognition. Accordingly, Canntrust cautions against any reliance on its consolidated financial statements as at Dec. 31, 2018, and interim consolidated financial statements as at and for the three-month period ended March 31, 2019. Canntrust is continuing to co-operate with Health Canada and the impact of the matters being investigated by the special committee on Canntrust's financial results is unknown at this time. Further updates, to the extent material, will be provided as they become available.
>
> KPMG's decision was prompted by the company's caution against reliance on its financial statements for the year ended Dec. 31, 2018, and for the three months ended March 31, 2019, as well as the recent sharing with KPMG of newly uncovered information from the special committee's investigation, including information that led to senior leadership changes announced on July 25, 2019. KPMG was not aware of the information recently shared by the company when it issued the KPMG reports and had relied upon representations made by individuals who are no longer at the company.

168. The following trading day (August 12, 2019), CannTrust issued a press release disclosing that the Vaughan Facility had also been “rated noncompliant with certain regulations” by Health Canada. The press release stated in part:

> After trading hours on Friday, Aug. 9, 2019, Canntrust received a report from Health Canada notifying the company that its manufacturing facility in Vaughan, Ont., has been rated non-compliant with certain regulations. Canntrust has accepted Health Canada's findings and remedial actions are under way.
>
> Heath Canada's rating was based on observations made during an inspection completed during the period July 10 to July 16, 2019, which noted:
>
> - The conversion of five rooms from operational areas to storage areas, which were used for storage since June, 2018, without prior approval of Health Canada;
> - The construction of two new areas without prior approval of Health Canada, one of which was used to store cannabis since November, 2018;
> - Insufficient security controls at the manufacturing facility;
> - Inadequate quality assurance investigations and controls;
> - Standard operating procedures that did not to meet the requirements under regulations;
> - Documents or information that were not retained in a manner to enable Health Canada to complete its audit in a timely manner.
>
> …
>
> Although the company, under the supervision of the special committee, is preparing a remediation plan for submission to and consideration by Health Canada, Health Canada has advised the company that it is currently unable to provide any guidance about the timing or content of its decisions concerning the company.

169. On August 15, 2018, after trading hours, CannTrust issued a press release providing an interim update on various matter. The press release stated in part:

> Canntrust announced that its application for a management cease trade order (MCTO) under National Policy 12-203 (Management Cease Trade Orders) has been approved by the Ontario Securities Commission (OSC). The MCTO does not affect the ability of investors who are not insiders to trade in the securities of the company.

Canntrust announced on Aug. 1, 2019, that it was filing an application seeking an MCTO from the OSC because the company was likely to miss its filing deadline of Aug. 14, 2019, to file an interim financial report for the three- and six-month periods ended June 30, 2019, an interim management's discussion and analysis for the corresponding period, and certifications of interim filings (the second quarter financials).

The timing and content of Canntrust restoring any defaults in its second quarter financials will depend, in large measure, upon the timing and impact of Health Canada's decisions regarding the company's non-compliance with regulatory requirements. Although the company, under the supervision of the special committee, is preparing a remediation plan for submission to and consideration by Health Canada, Health Canada has advised the company that it is unable to provide any guidance about the timing or content of its decisions concerning the company.

The MCTO prohibits the directors and executive officers of the company from trading in securities of the company until two full business days after all filings Canntrust is required to make under Ontario securities laws are made, including the filing of the second quarter financials. The MCTO does not affect the ability of any other persons to trade in the securities of the company. Canntrust had already voluntarily imposed a blackout period on its directors and executive officers trading in the company's securities.

The company intends to satisfy the provisions of the alternative information guidelines in NP 12-203 by filing biweekly status reports in the form of news releases containing prescribed updating information until the second quarter financials are filed.

New York Stock Exchange discussions

The company has been working pro-actively with the New York Stock Exchange (NYSE) to keep the NYSE apprised of its interactions with Health Canada and related matters. Following a discussion on Aug. 9, 2019, between representatives of the NYSE, the company, the company's counsel and counsel to the company's special committee of independent directors, the NYSE advised the company that as a consequence of the company's announcements concerning its audited financial statements for the year ended Dec. 31, 2018, and its unaudited financial statements for the quarter ended March 31, 2019, the company is viewed as no longer having a complete annual report on Form 40-F on file for the year ended Dec. 31, 2018.

Trading of the company's securities on the Toronto Stock Exchange and the NYSE continues. However, the NYSE advised the company that: (a) it will closely monitor the status of the company's late filing and any related public disclosures for up to six months from its due date; and (b) if the company fails to file its annual report and any subsequent reports within six months of their filing due dates, the NYSE will determine, in its sole discretion, whether to halt trading in the company's securities or whether to allow the company's securities to trade for up to an additional six months, depending upon the circumstances. If the NYSE determines that an additional six-month trading period is not appropriate, suspension and delisting procedures will commence pursuant to Section 804.00 of the NYSE's listed company manual. Regardless of the procedures described above, the NYSE may commence delisting proceedings at any time during the period that is available to complete the filing, if circumstances warrant.

Interim financial update

As previously disclosed, the company estimates that the value of the inventory and biological assets impacted by the pending Health Canada decisions is approximately $51-million as at June 30, 2019. Management of the company further estimates the impacted inventory represents approximately 53 per cent of the company's total inventory as at June 30, 2019, and the impacted biological assets represent approximately 30 per cent of the company's total biological assets as at June 30, 2019.

As at June 30, 2019, the company had approximately $250-million in cash and cash equivalents.

Remediation efforts

Under the supervision of the special committee, the company is preparing a remediation plan for submission to and consideration by Health Canada. Although the special committee is directing the company to work closely with Health Canada to remediate the root causes of any non-compliance identified by Health Canada, to date the company has not had any substantive discussions with Health Canada concerning remediation matters, and Health Canada has advised the company that it is currently unable to provide any guidance about the timing or content of its decisions concerning the company. As previously announced, Health Canada has placed a hold on inventory which includes approximately 5,200 kilograms of dried cannabis that was harvested in the previously unlicensed rooms in Pelham, until it deems that the company is compliant with regulations. In addition, Canntrust has instituted a voluntary hold of approximately 7,500 kilograms of dried cannabis equivalent at its Vaughan manufacturing facility that was produced in the previously unlicensed rooms. Health Canada has broad discretion to exercise a wide range of regulatory powers. In the event that Health Canada orders the destruction of all or a substantial portion of the product grown in the previously unlicensed rooms, the company's results for the second quarter of 2019 would be materially adversely impacted. Health Canada has given no clear indication of what decisions it will come to with respect to the company.

170. On August 19, 2019, CannTrust issued a press release announcing that the Ontario Cannabis Store ("**OCS**") would be returning "all or substantially all of the company's products currently held at the OCS" valued at approximately $2.9 million. The press release stated in part:

> Canntrust Holdings Inc. has received a notice from the Ontario Cannabis Store (the OCS), the Crown corporation in charge of wholesale distribution of cannabis products to licensed cannabis retailers in Ontario and the operator of Ontario's on-line recreational cannabis store, advising the company that the OCS has determined certain of the company's products sold to the OCS are non-conforming products under the terms of the master cannabis supply agreement between the company and the OCS and that the OCS has elected to return these products to the company. Under the terms of the master agreement, any product that does not comply with applicable law is considered to be non-conforming product and the OCS may elect to exercise its right, among others, to return such product to the company at the company's expense.
>
> The products listed in the OCS return notice constitute all or substantially all of the company's products currently held at the OCS and are valued at approximately $2.9-million in the aggregate. The company intends to fully perform its obligations under the master agreement. The OCS operates independently of Health Canada. Health Canada has not ordered a recall in respect of any of the company's products.

171. On August 20, the *Financial Post* reported that Brady Green and Andrea Kirk had departed from their roles at the company.

172. On September 5, 2019, CannTrust announced that it was reducing its work force by approximately 180 people or 20 percent.

173. On September 6, 2019, BNN Bloomberg published an article disclosing that senior operating staff working at the Niagara Facility in late 2018 brought cannabis seeds from the black market into production rooms, leading to some illicit cannabis flowing into the legal market. The article stated in part:

> The documents suggest that, in an apparent effort to conceal the black market cannabis seeds from regulatory inspections and other staff members,

some CannTrust employees changed the names of as many as 20 strains to those which the company was licensed to sell in the legal medical and recreational markets.

Cannabis plants from at least two strains that originated from the black market-sourced seeds entered production rooms where they were fully grown to flower, packaged and sold into the recreational market, according to the sources.

In total, more than one thousand cannabis plants that originated from the illicit seeds were grown at CannTrust's cultivation facility, the documents show. It is unknown how many of those plants were eventually processed for sale or destroyed, according to two of the sources.

Adding cannabis seeds obtained through the black market would have allowed CannTrust to significantly bolster its production at a time when it had overcommitted itself with supply contracts with provinces and other licensed marijuana producers, the sources said.

. . .

Three sources who said they directly tended to the unauthorized cannabis said the operation was led by Brady Green, who recently left CannTrust after a five-year tenure that culminated as the company's vice-president of cultivation. Green was hired by CannTrust in May 2014 as a grow technician and quickly rose through the ranks, holding several production roles including head grower and director of cultivation, according to a biography on the company's website. CannTrust removed Green's biography from its website Friday morning shortly after BNN Bloomberg published this story.

"[Green] has a passion for developing new cannabis strains, constantly improving growing methods and efficiencies, and passing his knowledge onto budding growers at the CannTrust Niagara Perpetual Harvest Facility," CannTrust said on its website.

The team that Green allegedly tasked with handling the unauthorized cannabis was dubbed "The Brady Bunch" by other staff members, the three sources said.

"[Green's team] didn't order [the seeds] through the normal chain of command," alleged one of the sources directly familiar with the production of unauthorized cannabis.

"There is no way because it would take way too long if you wanted to do it right. I asked myself, 'We already have [the strain] Cannatonic. How come we have Cannatonic here and I have to take care of these [new] seedlings?' I learned that they're under those names because those are the registered names that we have which we're allowed to grow, but they're really not those [strains].”

Green did not respond to BNN Bloomberg’s multiple requests to comment for this story.

Licensed cannabis producers grow their legal marijuana plants either straight from seeds obtained through Health Canada-authorized suppliers or cut “clones” from mother plants which are transferred to larger cultivation rooms in order to flower under optimal conditions.

Plants grown from two strains of CannTrust’s black market-sourced cannabis seeds – listed in internal company documents as “Citradelic Sunset” and “Code Black OG” before being re-labelled – eventually entered into production rooms where they were packaged and sold into the recreational market, two of the sources with direct knowledge of CannTrust’s operations said.

Another source with direct knowledge said several unauthorized strains re-labelled under the “Cannatonic” strain also entered the recreational market.

“I can guarantee you they would harvest [plants that originated from black market seeds], trim them and send them out … Guaranteed, they went to the legal market. I can tell you 100 per cent they did,” one of the sources said.

Nick Lalonde, a former CannTrust employee who was responsible for disposing of cannabis at its Pelham facility and who previously blew the whistle on fake walls being installed to shield unlicensed production, told BNN Bloomberg he was instructed to deceptively label unauthorized product when he was cataloging waste material.

"No one [from Health Canada] had a clue about the seeds," Lalonde said in a recent phone interview.

None of the claims made by Lalonde or the sources who were granted anonymity by BNN Bloomberg have been tested or proven by a regulator or law enforcement.

The alleged strain-name subterfuge is the latest example of apparent wrongdoing at the beleaguered cannabis producer which has been beset by various forms of material suggesting the company's senior management approved plans that led to thousands of kilograms of cannabis being grown in unlicensed rooms.

Those revelations include meeting minutes obtained by BNN Bloomberg where former CEO Peter Aceto instructed staff in November to "continue as planned" growing cannabis in unlicensed rooms.

174. On September 13, 2019, CannTrust was deleted from the S&P/TSX Composite Index.

175. On September 17, 2019 CannTrust issued a press release announcing that it had received a notice of license suspension under the *Cannabis Act*. The press release stated in part:

> Canntrust Holdings Inc. received late this morning a notice of licence suspension under Section 64(1) of the Cannabis Act (Canada). The notice cites the company's previous non-compliance with certain requirements of the Cannabis Act (Canada) and the regulation made thereunder in respect of the matters that the company has been discussing with Health Canada.
>
> The notice states that Health Canada has suspended Canntrust's authority to produce cannabis, other than cultivating and harvesting, and to sell cannabis. As such, the notice constitutes a partial suspension of the company's licence for standard cultivation and a full suspension of its licences for standard processing, medical sales, cannabis drugs and research issued under the Cannabis regulations. While the suspension remains in effect, Canntrust will be permitted to cultivate and harvest existing lots or batches previously propagated, as well as conducting ancillary activities to those lots, including drying, trimming and milling. During the suspension, Canntrust may not propagate new lots or batches of cannabis or engage in the sale or distribution of cannabis.
>
> The notice states that Health Canada will reinstate Canntrust's licences under Section 64(4) of the Cannabis Act if the reasons for the suspension no longer exist or if Canntrust demonstrates that the suspension was unfounded. The notice also states that Health Canada considers that implementation of the following measures could potentially address the public health and safety risks that contributed to Health Canada's decision to issue the notice:
>
> - Measures to ensure that cannabis will be produced and distributed only as authorized, including measures to control the movement of cannabis in and out of Canntrust's site;
> - Measures to recover cannabis that was not authorized by Canntrust's licence;
> - Measures to improve key personnel's knowledge of, and compliance with, the provisions of the act and the regulations that apply to Canntrust;
> - Measures for improving the manner in which records are kept, including a plan to improve the inventory tracking and any interim measures to ensure that information provided to Health Canada can be reconciled.

176. In total, the price of CannTrust's Shares dropped 73% from $6.46 before the July 8, 2019 announcement to $1.70 at the end of the Class Period as a result of the public corrections of the misrepresentations and failure to make timely disclosure alleged herein.

177. Following the end the Class Period, additional news continued to be disclosed about CannTrust that had a negative effect on its stock price.

178. On September 19, 2019, CannTrust issued a press release announcing that the Alberta Gaming, Liquor, and Cannabis Commission ("**AGLC**") would be returning "all or substantially all of the company's products currently held at the AGLC" valued at approximately $1.3 million.

XI. RIGHTS OF ACTION

A. Negligent Misrepresentation

179. Against CannTrust and the Individual Defendants, and on behalf of the Secondary Market Class, the plaintiffs plead negligent misrepresentation

(a) in all of the Misleading Documents in respect of the Vaughan Compliance Representation;

(b) in all of the Misleading Documents issued after October 1, 2018 in respect of the Niagara Compliance Representation

(c) in the Class Period interim and annual financial statements, MD&As, and Prospectuses in respect of the IFRS Representation; and

(d) in the Class Period MD&As, Prospectuses, and interim and annual certifications in respect of the Controls Representation.

180. Against KPMG, and on behalf of the Secondary Market Class, the plaintiffs plead negligent misrepresentation in the Audit Report (incorporated in the Annual 2018 Financial Statements and May 1 Prospectus) in respect of the KPMG Representations and the IFRS Representation.

181. Against the Underwriters, and on behalf of the Secondary Market Class, the plaintiffs plead negligent misrepresentation in the May 1 Prospectus in respect of the Underwriters Representation.

182. On behalf of the Primary Market Class, the plaintiffs plead negligent misrepresentation in the May 1 Prospectus

(a) against CannTrust and the Individual Defendants for the Compliance Representation, IFRS Representation, and Controls Representation;

(b) against KPMG in respect of the KPMG Representations and IFRS Representation; and

(c) against the Underwriters in respect of the Underwriters Representation.

183. Each of these representations was untrue for the reasons particularized herein.

184. The Misleading Documents were prepared for the purpose of attracting investment and inducing members of the investing public to purchase Shares. The Defendants undertook to provide the Misleading Documents to those current and prospective securities holders (i.e. the Class Members) for the purpose of allowing them to make informed decisions as to whether to acquire the Shares.

185. The Defendants knew and intended at all material times that those documents had been prepared for that purpose, and that the Class Members would reasonably rely to their detriment upon such documents in making their decision to purchase Shares.

186. The Defendants had a duty at common law to exercise care and diligence to ensure that the Misleading Documents were free from material misstatement. Those defendants breached that duty by making the Representations as particularized above.

187. The Plaintiffs and other Class Members directly or indirectly relied upon the Representations in making a decision to purchase the Shares and suffered damages when the falsity of the information was revealed.

188. Alternatively, the Plaintiffs and other Class Members relied upon the Representations by the act of acquiring Shares in an efficient market that promptly incorporated into the price of those Shares all publicly available information regarding CannTrust, including the Representations, which were false. As a result, the repeated publication of these misrepresentations caused the price of the Shares to trade an inflated prices during the Class Period, thus directly resulting in damages to the Plaintiffs and Class Members.

B. Part XXIII.1 of the *OSA*

189. On behalf of the Secondary Market Class, the plaintiffs plead the right of action in Part XXIII.1 of the *OSA* and, if necessary, the equivalent provisions of the other Securities Legislation against CannTrust, the Individual Defendants, and KPMG, for misrepresentations in the Misleading Documents and/or public oral statements, and/or for the failure to make timely disclosure of the Change, as particularized herein.

190. CannTrust is a responsible issuer within the meaning of the *OSA* and Securities Legislation.

Misrepresentations in Documents – OSA section 138.3(1)

191. Each of the Misleading Documents is a document under section 138.1 of the *OSA* and corresponding provisions of the Securities Legislation.

192. The Misleading Documents that are AIFs, financial statements, MD&As, material change reports and Prospectuses are core documents under section 138.1 of the *OSA* and corresponding provisions of the Securities Legislation.

193. CannTrust was a responsible issuer at the time that each of the Misleading Documents was released by it.

194. The Individual Defendants were officers and/or directors of CannTrust at the time that each of the Misleading Documents was released, and each of them authorized, permitted and/or acquiesced in the release of such documents.

195. KPMG was an expert of CannTrust within the meaning of the *OSA* and Securities Legislation and consented to use of their statements in the Misleading Documents particularized above.

196. Each of CannTrust, the Individual Defendants, and KPMG knew, at the time the Misleading Documents were released, that the documents contained misrepresentations, or, in the alternative, deliberately avoided acquiring such knowledge or, in the alternative, were guilty of gross misconduct in connection with the making of the misrepresentations.

197. Accordingly, each of CannTrust, the Individual Defendants, and KPMG are, pursuant to *OSA* section 138.3(1), liable in respect of the misrepresentations made by them that are contained in the Misleading Documents as particularized above.

Misrepresentations in Public Oral Statements – OSA section 138.3(2)

198. CannTrust and the Individual Defendants either made the public oral statements particularized above, or authorized, permitted and/or acquiesced in the making of the public oral statements.

199. Each of CannTrust and the Individual Defendants knew such public oral statements contained misrepresentations, or, in the alternative, deliberately avoided acquiring such knowledge or, in the alternative, were guilty of gross misconduct in connection with the making of the public oral statements.

200. Accordingly, each of CannTrust and the Individual Defendants are, pursuant to *OSA* section 138.3(2), liable in respect of the misrepresentations contained in the public oral statements particularized herein.

Failure to Make Timely Disclosure of Material Change – OSA section 138.3(4)

201. CannTrust was a responsible issuer at the time it failed to make timely disclosure of the Vaughan Change and the Niagara Change ("**Changes**") as a material change to its business or operations as described herein.

202. The Individual Defendants were officers and/or directors of CannTrust at the time of CannTrust's failure to make timely disclosure of the Changes, and each of them authorized, permitted and/or acquiesced in the failure to make timely disclosure.

203. Each of CannTrust and the Individual Defendants knew, at the time that failure to make timely disclosure first occurred, of the Changes and that the Changes were a material change, or

in the alternative, deliberately avoided acquiring such knowledge or, in the alternative, were guilty of gross misconduct in connection with the failure to make timely disclosure.

204. Accordingly, each of CannTrust and the Individual Defendants are, pursuant to *OSA* section 138.3(4), liable in respect of the failure to make timely disclosure of the Changes as a material change.

C. Part XXIII of the *OSA*

205. Against CannTrust, the Individual Defendants that are its directors, Aceto, Guyatt, Cannamed, Cajun, KPMG, and the Underwriters, and on behalf of the Primary Market Class, the plaintiffs plead the right of action in section 130 of the *OSA* and, if necessary, the equivalent provisions of the other Securities Legislation for misrepresentations in the May 1 Prospectus.

206. The distribution of Shares under the May 1 Prospectus was made on behalf of CannTrust (as issuer) and Cannamed and Cajun (as selling security holders).

207. The Underwriters were required to sign, and did sign, either directly or by their agent, the certificate of underwriters prescribed by s. 59 of the *OSA* contained in the May 1 Prospectus.

208. In the alternative, Merrill, Citigroup, Credit Suisse, Canaccord and Jefferies signed the certificate of underwriters prescribed by s. 59 of the *OSA* contained in the May 1 Prospectus as agents of Merrill USA, Citigroup USA, Credit Suisse USA, Canaccord USA and Jefferies USA, respectively.

209. The Individual Defendants that are directors of CannTrust held those positions at the time the May 1 Prospectus was filed.

210. Aceto, Guyatt, Dawber and Litwin signed the May 1 Prospectus.

211. KPMG consented to use of its name and incorporation of the Audit Report in the May 1 Prospectus pursuant to securities regulations.

212. CannTrust issued the May 1 Prospectus, which contained the misrepresentations particularized herein and in the documents incorporated by reference into the May 1 Prospectus.

D. Negligence

213. Against all Defendants and on behalf of the Primary Market Class, the Plaintiffs plead negligence simpliciter in connection with the Offering.

214. The Defendants caused and/or enabled the May 1 Prospectus to be issued and the Offering to occur while the May 1 Prospectus contained misrepresentations.

215. The Defendants owed a duty of care to ensure that the May 1 Prospectus they issued, authorized to be issued or in respect of which they acted as an underwriter, made full true and plain disclosure of all material facts relating to the Shares offered thereby, or to ensure that their opinions or reports contained in the May 1 Prospectus did not contain a misrepresentation.

216. At all material times, the Defendants knew or ought to have known that the May 1 Prospectus and documents incorporated therein by reference were materially misleading in that they contained the Representations and other misrepresentations particularized above.

217. The Individual Defendants were senior officers and/or directors at the time of the Offering. The May 1 Prospectus was created for the purpose of obtaining financing for CannTrust's operations.

218. Aceto, Guyatt, Dawber and Litwin signed the May 1 Prospectus on behalf of the board of directors of CannTrust, and therein falsely certified that the prospectus, together with the

documents incorporated therein by reference, constituted full, true and plain disclosure of all material facts relating to the securities offered thereby.

219. The Underwriters had an obligation to conduct due diligence in respect of the Offering and ensure that the securities were offered at a price that reflected their true value or that the distribution did not proceed if inappropriate. In addition, the Underwriters signed the May 1 Prospectus and certified that to the best of their knowledge, information and belief, the May 1 Prospectus constitutes full, true and plain disclosure of all material facts relating to the Shares offered.

220. KPMG wrote a letter to securities regulators consenting to the use of the Audit Report in the May 1 Prospectus, and stating that it had read the May 1 Prospectus and all information incorporated by reference and that it did not believe that it contained any misrepresentations regarding the financial statements that were the subject of the Audit Report.

221. Cannamed and Cajun sold their Shares in the Offering for their own accounts and had an obligation to ensure that the Offering did not occur while the May 1 Prospectus contained misrepresentations.

222. The reasonable standard of care expected in the circumstances required the Defendants to prevent the Offering from occurring while the May 1 Prospectus contained the misrepresentations alleged herein. The Defendants failed to meet the standard of care by causing and/or allowing the Offering to proceed while the May 1 Prospectus contained the misrepresentations.

223. Had the Defendants not breached their duties, then securities regulators would not have issued a receipt for the May 1 Prospectus, and the Offering would not have occurred, or would have occurred at a price that reflected the true value of the Shares.

224. The Defendants' negligence resulted in damage to the Primary Market Class. Had the Defendants not breached their duties, the Primary Market Class members would not have purchased their Shares, or would have done so at a price that reflected their true value.

E. Oppression

225. The plaintiffs seek relief from oppression against CannTrust and the Individual Defendants.

226. The plaintiffs and Class Members are complainants within the meaning of sections 245 and 248(1) of the *OBCA*.

227. The plaintiffs and Class Members had reasonable expectations about the manner by which the business and affairs of CannTrust would be conducted. Those reasonable expectations included the following:

(a) that the Individual Defendants would act honestly and in good faith with a view to the best interests of CannTrust, and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances;

(b) that CannTrust's public disclosure documents would disclose all material facts and be free from misrepresentations;

(c) that CannTrust would make timely disclosure of any material changes to its business or operations;

(d) that the business and affairs of CannTrust would be conducted in a manner that complied with the *Cannabis Act* and associated regulations, and the *OSA* and other applicable laws;

(e) that the Individual Defendants would implement adequate corporate governance procedures and internal controls to ensure that CannTrust disclosed material facts and material changes in the company's business and operations on a timely basis; and

(f) that CannTrust and the Individual Defendants would not act in a way that would cause the trading price of CannTrust's securities to be artificially inflated.

228. CannTrust and the Individual Defendants acted in a manner contrary to those reasonable expectations in the following manner:

(a) making the misrepresentations and failing to disclose in a timely way the Niagara Change and the Vaughan Change in breach of the *OSA* requirements, as pleaded herein;

(b) by breaching or causing CannTrust to breach the *Cannabis Act* and regulations, as pleaded herein;

(c) by engaging in the above and other conduct, which caused the CannTrust Shares to trade or be sold at artificially inflated prices during the Class Period;

(d) during the Class Period with actual or constructive knowledge of material facts and changes not generally disclosed, certain Individual Defendants and/or companies they control sold CannTrust securities for their personal benefit thereby avoiding losses they would have otherwise incurred, contrary to section 76 of the *OSA*.

229. This conduct had the effect of oppressing and unfairly disregarding and unfairly prejudicing the interests of the plaintiffs and Class Members and caused damage to them.

230. CannTrust and the Individual Defendants knew of the impact that their conduct could be expected to have on the investments made by the Class Members, and their disregard for the reasonable expectations of the Class Members was oppressive or unfairly prejudicial to or unfairly disregarded the interests of the Class Members.

231. The appropriate remedy for the oppressive conduct is an award of compensation, pursuant to section 248(3)(j) of the *OBCA*.

F. Conspiracy

232. During the Class Period, CannTrust, Aceto, Green, Kirk, Eric Paul, Lee, Ian Abramowitz, and Platt conspired with each other and persons unknown ("**Conspirators**") to inflate the price of CannTrust's securities. During the Class Period, the Conspirators unlawfully, maliciously and lacking *bona fides*, agreed together to, among other things, make the misrepresentations particularized above and to profit from such misrepresentations.

233. The Conspirators' predominant purpose in so conspiring were to:

(a) artificially inflate or maintain an artificially inflated trading price of CannTrust's Shares;

(b) artificially increase the value of Shares they held; and

(c) inflate the portion of their compensation that was dependent in whole or part upon the performance of CannTrust's business and/or its securities.

234. In furtherance of the conspiracy, the Conspirators carried out the following acts, among others:

(a) agreed to, and did, make the misrepresentations particularized above, which they knew were false;

(b) agreed to, and did, breach the *Cannabis Act* and regulations, and to mislead Health Canada inspectors;

(c) authorized, permitted, or acquiesced in the issuance of the Misleading Documents which they knew to be misleading; and

(d) authorized, permitted, or acquiesced in the sales of Shares pursuant to the May 1 Prospectus which they knew to be misleading.

235. The conspiracy was unlawful because the Conspirators knowingly and intentionally committed the foregoing acts when they knew such conduct was in violation of the *Cannabis Act* and regulations, the *OSA* and other Securities Legislation, and the rules and requirements of the TSX and the *OBCA*. The Conspirators intended to, and did, harm the Class by causing artificial inflation in the price of CannTrust's securities.

236. The Conspirators directed the conspiracy toward the Plaintiffs and the other Class Members. The Conspirators knew in the circumstances that the conspiracy would, and did, cause loss to the Plaintiffs and the other Class Members. The Plaintiffs and the Class Members suffered damages when the falsity of the misrepresentations were revealed.

XII. RELATIONSHIP BETWEEN THE MISREPRESENTATIONS/OMISSIONS AND THE PRICE OF CANNTRUST'S SECURITIES

237. The price of CannTrust's securities was directly affected during the Class Period by the release of the documents and making of the public oral statements containing the misrepresentations as particularized herein. The Defendants were aware at all material times of the effect of CannTrust's disclosure documents and public oral statements upon the price of CannTrust's securities.

238. The Misleading Documents were filed, among other places, with SEDAR and EDGAR, and thereby became immediately available to, and were reproduced for inspection by, the Class Members, other members of the investing public, financial analysts and the financial press.

239. CannTrust routinely transmitted the Misleading Documents to the financial press, financial analysts and certain prospective and actual holders of CannTrust's securities. CannTrust provided either copies of the Misleading Documents or links thereto on its website.

240. CannTrust regularly communicated with investors and financial analysts via established market communication mechanisms, including through regular disseminations of their disclosure documents, including on newswire services in Canada, the United States and elsewhere. When CannTrust communicated that new material information about CannTrust's business, and operations and its financial results to the public, the price of CannTrust's securities was directly affected.

241. CannTrust was the subject of analysts' reports that incorporated certain of the information contained in the Misleading Documents and public oral statements, with the effect that any recommendations to buy, hold or sell CannTrust's securities in such reports during the Class Period were based, in whole or in part, upon that information.

242. CannTrust's securities were and are traded, among other places, on the TSX, which is an efficient and automated market. The price at which CannTrust's securities traded promptly incorporated material information from CannTrust's disclosure documents and public oral statements about CannTrust's business and affairs, including the misrepresentations alleged herein, which were disseminated to the public through the Misleading Documents and public oral statements referred to herein and distributed by CannTrust, as well as by other means.

XIII. DAMAGES

243. The Class Members suffered damages as a result of the Defendants' breach of their duties, misrepresentations, negligence, conspiracy, and oppressive conduct. The Plaintiffs and the other

Class Members suffered damages equivalent to the inflation in the price of the Shares they acquired during the Class Period which was related to the misrepresentations alleged herein. If the Defendants had not breached their duties and made the misrepresentations described above, CannTrust's Shares would not have traded or been sold at artificially high levels that Class Members paid for them, and the Class Members would not have suffered losses as alleged herein.

244. The Defendants' conduct was high-handed, outrageous, reckless, wanton, entirely without care, deliberate, callous, motivated by economic considerations, and amounted to an abuse of the capital markets. Such conduct renders the Defendants liable to pay punitive damages.

XIV. VICARIOUS LIABILITY

A. CannTrust and the Individual Defendants

245. CannTrust is vicariously liable for the acts and omissions of the Individual Defendants particularized in this claim.

246. The acts or omissions alleged herein to have been done by CannTrust were authorized, ordered and done by the Individual Defendants and other agents, employees and representatives of CannTrust, while engaged in the management, direction, control and transaction of the business and affairs of CannTrust. Such acts and omissions are, therefore, not only the acts and omissions of the Individual Defendants, but are also the acts and omissions of CannTrust.

247. At all material times, the Individual Defendants were officers and/or directors of CannTrust. As their acts and omissions are independently tortious, they are personally liable for same to the plaintiffs and the other Class Members.

B. KPMG

248. KPMG is vicariously liable for the acts and omissions of each of its officers, directors, partners, agents and employees as set out herein.

249. The acts or omissions alleged herein to have been done by KPMG were authorized, ordered and done by officers, directors, partners, agents and employees of KPMG while engaged in the management, direction, control and transaction of the business and affairs of KPMG. Such acts and omissions are, therefore, not only the acts and omissions of those persons, but are also the acts and omissions of KPMG.

C. Underwriters

250. The Underwriters are vicariously liable for the acts and omissions of each of their officers, directors, partners, agents and employees as set out herein.

251. The acts or omissions alleged herein to have been done by the Underwriters were authorized, ordered and done by officers, directors, partners, agents and employees of the Underwriters while engaged in the management, direction, control and transaction of the business and affairs of the Underwriters. Such acts and omissions are, therefore, not only the acts and omissions of those persons, but are also the acts and omissions of the respective Underwriters.

D. Cajun and Cannamed

252. Cajun and Cannamed are vicariously liable for the acts and omissions of each of their officers, directors, partners, agents and employees as set out herein.

253. The acts or omissions alleged herein to have been done by Cajun and Cannamed were authorized, ordered and done by officers, directors, partners, agents and employees of Cajun and

Cannamed while engaged in the management, direction, control and transaction of the business and affairs of Cajun and Cannamed. Such acts and omissions are, therefore, not only the acts and omissions of those persons, but are also the acts and omissions of Cajun and Cannamed.

XV. REAL AND SUBSTANTIAL CONNECTION WITH ONTARIO

254. This action has a real and substantial connection with Ontario because, among other things:

(a) CannTrust is a reporting issuer in Ontario,

(b) CannTrust's Shares trade on the TSX which is located in Toronto, Ontario;

(c) CannTrust carries on business in Ontario;

(d) CannTrust's registered and head office is in Vaughan, Ontario;

(e) CannTrust's productions facilities, including the Niagara Facility, are located in Ontario;

(f) the CannTrust disclosure documents referred to herein were disseminated in and from Ontario;

(g) a substantial portion of Class Members reside in Ontario;

(h) a substantial portion of the damages sustained by the Class were sustained by person and entities domiciled in Ontario.

XVI. LEGISLATION

255. The Plaintiffs plead and rely upon the *Courts of Justice Act*, RSO 1990, c C43, the *OBCA*, the *CPA*, the *OSA*, the Securities Legislation, and the *Cannabis Act*, all as amended.

XVII. SERVICE OUTSIDE ONTARIO AND PLACE OF TRIAL

256. The Plaintiffs plead and rely on Rules 17.02(a), (g), (n), and (p) of the *Rules of Civil Procedure* to serve this statement of claim outside Ontario without leave.

257. The plaintiffs propose that this action be tried in the City of Toronto, in the Province of Ontario.

October 24, 2019

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Schedule "A"
Misrepresentations Regarding Compliance with Regulations related to the Niagara Facility

Excerpts from the 2017 AIF (incorporated by reference into certain Misleading Documents)

(Page 4):

- On October 10, 2017, CannTrust received its Health Canada cultivation license under the ACMPR for its 250,000 square foot redevelopment of the 430,000 square foot Niagara Facility.

(Page 5):

- On February 12, 2018, the Company announced it received its Health Canada sales license under the ACMPR for its 250,000 square foot Phase 1 redevelopment of its 430,000 square foot Niagara Facility.

(Page 6):

- The Company completed its 250,000 square foot Phase 1 redevelopment of the Niagara Facility for which Health Canada granted a sales license under the ACMPR.

(Page 7):

- The sales licenses issued by Health Canada to CannTrust Opco for the Vaughan Facility and the Niagara Facility (collectively, the "**ACMPR Licenses**") are effective until the expected renewal dates of March 13, 2020 and October 6, 2020, respectively. The ACMPR Licenses allow for the production, sale or provision, possession, shipping, transportation, delivery and destruction of dried cannabis and cannabis plants or seeds. It allows the Vaughan Facility and the Niagara Facility to produce dried cannabis and cannabis extracts up to such amounts as permitted by CannTrust Opco's storage capacity.

- CannTrust Opco currently produces approximately five core strains, chosen from a genetic library of over 15 strains.

- The production of medical cannabis is a specialized skill. The Company's qualified and experienced growing team are focused on continuously improving its growing and production techniques and have refined and developed an advanced, disciplined approach with a focus on producing high quality and consistent medical cannabis. The production of medical cannabis is closely monitored by the Company's management with a focus on producing high quality dried cannabis and cannabis extracts.

- Health Canada, pursuant to the ACMPR, sets the standard required for production and sale of medical cannabis. CannTrust Opco's Quality Assurance team is led by a group of experienced operators and scientists and is focused on generating the highest quality and most consistent product that meets or exceeds Health Canada expectations.

- The combination of the Company's experienced growing team along with its goal of exceeding Health Canada's ACMPR quality assurance guidelines are essential to consistently providing high quality medical cannabis products that are safe for doctor prescribed medical cannabis clients.

(Page 10-11):

- Health Canada conducts ad hoc, unscheduled site inspections of licensed producers. The Company has experienced these inspections at its Vaughan Facility and Niagara Facility on a monthly basis and has responded to and complied with all requests from Health Canada within the time frames indicated in such requests. As of the date hereof, there are no outstanding inspection issues with Health Canada beyond day-to-day adjustments that may occur in order to ensure ongoing compliance.

- *Quality Control*

  The Company understands the importance placed upon adhering to the "Good Production Practices" which are mandated by the ACMPR. These practices relate to the premises, storage of dried cannabis, equipment, sanitation program, standard operating procedures, recall of product, and quality assurance personnel. The Company currently has an in-house quality control laboratory and employs quality assurance persons with appropriate training, experience, and technical knowledge to approve the quality of the Company's products.

  In accordance with Section 73 of the ACMPR, all of the Company's quality control and sanitation procedures have been outlined for all personnel as standard operating procedures. New employees undergo a training program in which they are taught the appropriate implementation of these protocols.

  For the purposes of quality control, the Company tracks each "lot" (a specific genotype of medical cannabis that is initiated for production at one time, either by seed or clonal propagation) using a lot number, which is used to track lot quality control and sales in the Company's tracking software. Furthermore, the lot number is used in all sales transactions, and as such will serve as an identifier to rapidly initiate recall reporting as outlined in Section 77 of the ACMPR.

  Final dried cannabis that passes quality control is sealed in plastic bottles and stored within the climate-controlled vaults. Cannabis oil that passes quality control is sealed in containers and also stored in the climate-controlled vaults. Only products that pass the tests in the Company's quality control process will be offered for sale. As of the date hereof, the Company has not been required to recall distributed product.

(Page 12):

- *ACMPR License Renewal*

  CannTrust Opco's ACMPR Licenses for the Vaughan Facility and the Niagara Facility are valid until March 13, 2020 and October 6, 2020, respectively. Before the end of the terms of the ACMPR Licenses, CannTrust Opco must submit an application for renewal to Health

Canada containing information prescribed by the ACMPR. The ACMPR requires that the Minister of Health (the "Minister"), after examining the application and any supplementary information requested, issue renewed ACMPR Licenses, unless:

d) the Minister has reasonable grounds to believe that false or misleading information or false or falsified documents were submitted in or with the application;

g) the applicant is in contravention of or has contravened in the past 10 years:

- a provision of the CDSA or its regulations or the Food and Drugs Act, or
- a term or condition of another licence or a permit issued to it under any of those regulations;

(Page 19):

- The Company has sought and received its ACMPR Licenses for the Vaughan Facility and Niagara Facility which each provide for (a) the production and sale of dried cannabis; (b) the production and sale of cannabis oil (c) the production and sale of cannabis in its natural form: cannabis resin; (d) the production and sale of cannabis plants; and (e) the production and sale of cannabis seeds.

(Page 20):

- The Company's qualified and experienced growing team is focused on continuously improving its growing and production techniques and has refined and developed an advanced, disciplined approach with a focus on producing high quality and consistent medical cannabis. The production of medical cannabis is closely monitored by the Company's management with a focus on producing high quality dried cannabis and cannabis extracts.
- Differentiation in the strains of medical cannabis is primarily achieved through the procurement of seeds and our breeding programs. Obtaining seeds for growing medical cannabis must be done in accordance with the ACMPR. Seeds must be obtained from a legal source which includes seeds acquired from Health Canada, seeds imported from a jurisdiction allowed to export seeds or seeds acquired from another licensed producer. An authorization from Health Canada may be required to conduct such a transaction depending on its nature.

(Page 21):

- The operations of the Company require it to obtain ACMPR Licences for the transportation, distribution, production and sale of medical cannabis, and in some cases, renewals of existing licences from, and the issuance of permits by certain national authorities in Canada. The Company believes that it currently holds or has applied for all necessary licences and permits to carry on the activities which it is currently conducting under applicable laws and regulations, and also believes that it is complying in all material respects with the terms of such licences and permits.

(Page 22):

- The failure of the Company to obtain and maintain the applicable licenses and amendments thereto would have a material adverse impact upon the Company.

- In addition, the Company will apply for, as the need arises, all necessary licences and permits to carry on the activities it expects to conduct in the future.

- The ACMPR License for the Vaughan Facility expires on March 13, 2020 and the ACMPR License for the Niagara Facility expires on October 6, 2020.

- *Regulatory Risks*

  Achievement of the Company's business objectives is contingent, in part, upon compliance with regulatory requirements enacted by governmental authorities and obtaining all regulatory approvals, where necessary, for the sale of its products. The Company cannot predict the impact of the compliance regime Health Canada is implementing for the Canadian medical cannabis industry. Similarly, the Company cannot predict the time required to secure all appropriate regulatory approvals for its products, or the extent of testing and documentation that may be required by governmental authorities. The impact of Health Canada's compliance regime, any delays in obtaining, or failure to obtain regulatory approvals may significantly delay or impact the development of markets, products and sales initiatives and could have a material adverse effect on the business, results of operations and financial condition of the Company.

  The Company will incur ongoing costs and obligations related to regulatory compliance. Failure to comply with regulations may result in additional costs for corrective measures, penalties or restrictions on the Company's operations. In addition, changes in regulations, more vigorous enforcement thereof or other unanticipated events could require extensive changes to the Company's operations, increased compliance costs or give rise to material liabilities, which could have a material adverse effect on the business, results of operations and financial condition of the Company.

- The Company's operations are subject to various laws, regulations and guidelines relating to the manufacture, management, transportation, storage and disposal of medical cannabis as well as laws and regulations relating to health and safety, the conduct of operations and the protection of the environment. To the knowledge of management, other than the requirement that the Company make routine corrections that may be required by Health Canada from time to time, the Company is currently in compliance with all such laws.

  (Page 23):

- Health Canada inspectors routinely assess the Vaughan Facility and the Niagara Facility against ACMPR regulations and provide the Company with follow up reports noting observed deficiencies. The Company is continuously reviewing and enhancing its operational procedures at the Vaughan Facility and the Niagara Facility both proactively and in response to routine inspections. The Company follows all regulatory requirements in response to inspections in a timely manner.

  (Page 26):

- Although the Company has detailed procedures in place for testing its products, there can be no assurance that any quality, potency or contamination problems will be detected in time to avoid unforeseen product recalls, regulatory action or lawsuits.

Excerpts from the 2017 Annual MD&A (incorporated by reference into certain Misleading Documents)

(Page 2):

- CannTrust Opco is a Licenced Producer and distributor of medical cannabis pursuant to the provisions of the *Access to Cannabis for Medical Purposes Regulations* (Canada) ("ACMPR").

(Page 2-3):

- In March 2017, through Elmcliffe, the Company acquired the real estate assets and related equipment of a Greenhouse in the Town of Fenwick, Ontario within the Niagara Region (the "Greenhouse Facility"). In October 2017, CannTrust Opco received its Health Canada Cultivation Licence under the ACMPR for its completed 250,000 square foot Phase 1 redevelopment of its 430,000 square foot Greenhouse Facility and began production there. Phase 1 was completed both on budget and on time. The Company received its Health Canada Sales License for Phase 1 in February 2018.

(Page 5):

- Completed the 250,000 square foot Phase 1 redevelopment of the Greenhouse Facility and the Company received its Health Canada Cultivation License in respect thereof

(Page 7):

- In November 2017 Phase 1 was granted its Health Canada Cultivation Licence and in February 2018 obtained its Sales Licence.

(Page 10):

- In March 2017, the Company, through its wholly-owned subsidiary Elmcliffe, completed the acquisition of a 430,000 square foot commercial Greenhouse Facility in the Niagara region for cash consideration of $6,500,000. . . . The Greenhouse Facility, once fully converted to cannabis production, will provide the Company with the capacity to produce in excess of 40,000 kg of additional medical cannabis per year . . . The Company received its Health Canada License under the ACMPR on October 6, 2017 for the Phase 1 redevelopment. The Company has completed multiple harvests at the Greenhouse Facility subsequent to December 31, 2017 and on February 12, 2018 obtained its Health Canada sales license under the ACMPR

(Page 16):

- The operations of the Company require it to obtain ACMPR Licences for the transportation, distribution, production and sale of medical cannabis, and in some cases, renewals of existing licences from, and the issuance of permits by certain national authorities in Canada. The Company believes that it currently holds or has applied for all necessary licences and permits to carry on the activities which it is currently conducting under applicable laws and regulations, and also believes that it is complying in all material respects with the terms of such licences and permits.

(Page 17-18):

- *The failure of the Company to obtain and maintain the applicable licenses and amendments thereto would have a material adverse impact upon the Company.*

  In addition, the Company will apply for, as the need arises, all necessary licences and permits to carry on the activities it expects to conduct in the future. However, the ability of the Company to obtain, sustain or renew any such licences and permits on acceptable terms is subject to changes in regulations and policies and to the discretion of the applicable authorities or other governmental agencies in foreign jurisdictions. The ACMPR License for the Vaughan Facility expires on March 13, 2020 and the ACMPR License for the Greenhouse Facility expires on October 6, 2020.

- The Company's operations are subject to various laws, regulations and guidelines relating to the manufacture, management, transportation, storage and disposal of medical cannabis as well as laws and regulations relating to health and safety, the conduct of operations and the protection of the environment. To the knowledge of management, other than the requirement that the Company make routine corrections that may be required by Health Canada from time to time, the Company is currently in compliance with all such laws.

- Health Canada inspectors routinely assess the Vaughan Facility and the Greenhouse Facility against ACMPR regulations and provide the Company with follow up reports noting observed deficiencies. The Company is continuously reviewing and enhancing its operational procedures at the Vaughan Facility and the Greenhouse Facility both proactively and in response to routine inspections. The Company follows all regulatory requirements in response to inspections in a timely manner.

(Page 22):

- Although the Company has detailed procedures in place for testing its products, there can be no assurance that any quality, potency or contamination problems will be detected in time to avoid unforeseen product recalls, regulatory action or lawsuits. Additionally, if one of the products produced by the Company were subject to recall, the image of that product and the Company could be harmed. A recall for any of the foregoing reasons could lead to decreased demand for the Company's products and could have a material adverse effect on the results of operations and financial condition of the Company. Additionally, product recalls may lead to increased scrutiny of the Company's operations by Health Canada or other regulatory agencies, requiring further management attention and potential legal fees and other expenses.

Excerpts from the 2017 Annual Financial Statements (incorporated by reference into certain Misleading Documents)

(Page 18):

- On March 6, 2017, the Company, through its wholly owned subsidiary Elmcliffe Investments Inc., executed a Purchase and Sale Agreement to acquire various Greenhouse assets located in the regional municipality of Niagara, Ontario . . . The Company received its Health Canada Sales License for the completed Greenhouse Phase 1 conversion on February 12, 2018.

Excerpts from the Q2 2018 MD&A

(Page 2-3):

- CannTrust Opco is a Licenced Producer and distributor of medical cannabis pursuant to the provisions of the Access to Cannabis for Medical Purposes Regulations (Canada) ("ACMPR"). CannTrust Opco received its license from Health Canada on June 12, 2014 and began production of medical cannabis at its state-of-the-art hydroponic indoor facility in Vaughan, Ontario (the "Vaughan Facility").

- In March 2017, through Elmcliffe, the Company acquired the real estate assets and related equipment of a Greenhouse in the Town of Fenwick, Ontario within the Niagara Region (the "Perpetual Harvest Facility"). In October 2017, CannTrust Opco received its Health Canada Cultivation Licence under the ACMPR for its completed 250,000 square foot Phase 1 redevelopment of the Perpetual Harvest Facility and began production there.

- The Company received its Health Canada Sales License for Phase 1 in February 2018.

Excerpts from the Q2 2018 Financial Statements

(Page 6):

- The Company is a licensed producer and distributor of medical cannabis in Canada pursuant to the provisions of the Access to Cannabis for Medical Purposes Regulations ("ACMPR") and the Controlled Drugs and Substances Act and its Regulations. The Company began production of medicinal cannabis at its hydroponic facility located in Vaughan, Ontario in Canada and received its license from Health Canada to sell on February 9, 2015. The Company commenced sale of medicinal cannabis under the Marijuana for Medical Purposes Regulations ("MMPR") in February 2015.

- On January 13, 2017, the Company, through its wholly owned subsidiary Elmcliffe Investments Inc. acquired various Greenhouse and related assets located in the regional municipality of Niagara, Ontario. The Company received is Health Canada Sales License for its Niagara Facility in February 2018.

Excerpts from the Q3 2018 MD&A

(Page 2):

- CannTrust Opco is a Licenced Producer and distributor of medical and recreational cannabis pursuant to the provisions of the Cannabis Act and its regulations which came into force on October 17, 2018.

- In March 2017, through Elmcliffe, the Company acquired the real estate assets and related equipment of a Greenhouse in the Town of Fenwick, Ontario within the Niagara Region (the "Perpetual Harvest Facility"). In October 2017, CannTrust Opco received its Health Canada Cultivation Licence under the ACMPR for its completed 250,000 square foot Phase 1 redevelopment of the Perpetual Harvest Facility and began production there. The redevelopment of the Perpetual Harvest Facility was Canada's first continuous harvest automated perpetual harvest designed specifically for this quantum scale of cannabis production. The Company received its Health Canada Sales License for the Perpetual Harvest Facility in February 2018.

(Page 9):

- The Company received its Health Canada License under the ACMPR on October 6, 2017 for the Phase 1 redevelopment. On February 12, 2018 the Company obtained its Health Canada sales license under the ACMPR and is now operating Phase 1 at full capacity.

<u>Excerpts from the Q3 2018 Financial Statements</u>

(Page 6):

- On January 13, 2017, the Company, through its wholly owned subsidiary Elmcliffe Investments Inc. acquired various Greenhouse and related assets located in the regional municipality of Niagara, Ontario. The Company received its Health Canada Sales License for its Niagara Facility in February 2018.

(Page 11):

- On March 6, 2017, the Company, through its wholly owned subsidiary Elmcliffe Investments Inc. executed a Purchase and Sale Agreement to acquire various Greenhouse assets located in the regional municipality of Niagara, Ontario. The aggregate purchase price for the Greenhouse assets was $7,500,000. On execution of the Purchase and Sale Agreement, the operating business and all related intangible assets and intellectual property was assigned to a related party. Upon closing of the transaction, the existing operations ceased and the Company began a site conversion project in order to convert the facility into a Health Canada Approved Cannabis growth facility. With this purchase the Company has enhanced its ability to serve (i) the Canadian and International Medicinal Cannabis markets and (ii) the Adult Recreational market in Canada which became legal on October 17, 2018. The Company received its Health Canada Sales License for this facility on February 12, 2018.

<u>Excerpts from the 2018 AIF</u>

(Page 4):

- On March 6, 2017, through its wholly-owned OBCA-incorporated subsidiary, Elmcliffe Investments Inc. ("Elmcliffe"), the Company acquired the real estate assets and related equipment of a greenhouse facility in the Town of Pelham, Ontario within the Niagara Region (the "Niagara Facility"). On October 10, 2017, the Company received its Health Canada cultivation licence under the Access to Cannabis for Medical Purposes Regulations

("ACMPR") for its 250,000 square foot Phase 1 redevelopment of the 450,000 square foot Niagara Facility.

(Page 5):

- On February 12, 2018, the Company received its Health Canada Sales Licence under the ACMPR for the Niagara Facility, having completed the Phase 1 renovation.

(Page 9):

- The Company also owns a 450,000 square foot commercial greenhouse facility in the Niagara region through its wholly-owned subsidiary Elmcliffe. The Niagara Facility is the Company's current primary grow facility, which will increase the Company's annual grow capacity from 3,600 kg previously available in the Vaughan Facility to 50,000 kg. The Niagara Facility is a state of the art hydroponic greenhouse with computer controlled irrigation, co-generation and full supplemental lighting. The Niagara Facility is equipped with a perpetual harvest cropping system which produces cannabis 365 days a year and allows for a continuous work cycle, creating a steady production capacity and a more stable work environment for employees.

(Page 10):

- The licences issued by Health Canada to CannTrust Opco for the Vaughan Facility and the Niagara Facility (collectively, the "Cannabis Licences") are effective until the expected renewal dates of March 13, 2020 and October 6, 2020, respectively. The Cannabis Licences allow for the production, sale or provision, possession, shipping, transportation, delivery and destruction of dried cannabis and cannabis plants or seeds. It allows the Vaughan Facility and the Niagara Facility to produce dried cannabis and cannabis extracts up to such amounts as permitted by CannTrust Opco's storage capacity.

- CannTrust Opco has an extensive genetic strain bank and currently produces approximately eight core strains. The strains have been optimized for greenhouse horticultural practices.

- The Company's qualified and experienced growing team is focused on continuously improving its growing and production techniques and have refined and developed an advanced, disciplined approach with a focus on producing high quality and consistent cannabis. The production of cannabis is closely monitored by the Company's management with a focus on producing high quality dried cannabis and cannabis extracts.

- Health Canada, pursuant to the Cannabis Act and the Cannabis Regulations, sets the standard required for production and sale of cannabis. CannTrust Opco's Quality Assurance team is led by a group of experienced operators and scientists and is focused on generating the highest quality and most consistent product that meets or exceeds Health Canada expectations.

(Pages 14-15):

Production

- The Company currently grows its cannabis in the state of the art greenhouse in the Niagara Facility. The harvested product is then shipped to the Vaughan Facility for extraction, manufacturing, packaging and order fulfillment.

Facilities & Operations

- The Company has repurposed its Vaughan Facility from a grow facility into a state-of-the-art extraction, manufacturing and packaging facility of approximately 60,000 square feet, including an in-house quality control laboratory. The Company also owns the Niagara Facility, a commercial greenhouse facility of approximately 450,000 square feet in the Niagara region. The Niagara Facility is a state-of-the-art hydroponic greenhouse with computer controlled irrigation, co-generation and full supplemental lighting. The Niagara Facility is equipped with a perpetual harvest cropping system which produces cannabis 365 days a year and allows for a continuous work cycle, creating a steady production capacity and a more stable work environment for employees.

Packaging

- The Company adheres to prescribed packaging requirements under the Cannabis Act and the Cannabis Regulations. The Cannabis Regulations set out requirements pertaining to the packaging and labelling of cannabis products. The purpose of the packaging and labeling rules is to promote informed consumer choice, allow for the safe handling and transportation of cannabis, and to reduce the appeal of the products to youth. Vendors must package cannabis in a way that is tamper-proof, child-resistant, prevents contamination and ensures dryness. The Cannabis Regulations also require plain packaging, with strict requirements for logos, colours and branding. The packaging must also contain the following product information:

    - (i) product source information, including the class of cannabis and the name, phone number and email of the cultivator;

    - (ii) a mandatory health warning, rotating between Heath Canada's list of standard health warnings;

    - (iii) the Health Canada standardized cannabis symbol; and

    - (iv) information specifying THC and CBD content. The Cannabis Regulations provide a six-month transitional period to allow licensed holders to sell cannabis products labelled in accordance with the ACMPR.

(Page 15):

- Health Canada conducts ad hoc, unscheduled site inspections of licensed producers. Health Canada inspectors assess the Vaughan Facility and the Niagara Facility on a monthly basis against Cannabis Regulations and provide the Company with follow up reports noting observed deficiencies The Company is continuously reviewing and enhancing its operational procedures at the Vaughan Facility and the Niagara Facility both proactively and in response to routine inspections. The Company follows all regulatory requirements in response to inspections in a timely manner. As of the date hereof, there are no outstanding inspection issues with Health Canada beyond day-to-day adjustments that may occur in order to ensure ongoing compliance.

(Page 25):

- CannTrust Opco's Cannabis Licences for the Vaughan Facility and the Niagara Facility are valid until March 13, 2020 and October 6, 2020, respectively.

- The Company believes that it currently holds or has applied for all necessary licences and permits to carry on the activities which it is currently conducting under applicable laws and regulations, and also believes that it is complying in all material respects with the terms of such licences and permits.

- Differentiation in the strains of cannabis is primarily achieved through the procurement of seeds and the Company's breeding programs. Obtaining seeds for growing cannabis must be done in accordance with the Cannabis Regulations. Seeds must be obtained from a legal source which includes seeds acquired from Health Canada, seeds imported from a jurisdiction allowed to export seeds or seeds acquired from another licensed producer. An authorization from Health Canada may be required to conduct such a transaction depending on its nature.

(Page 29):

- The Cannabis Licence for the Vaughan Facility expires on March 13, 2020 and the Cannabis Licence for the Niagara Facility expires on October 6, 2020.

(Page 33):

The Vaughan Facility and Niagara Facility are integral to the Company's business and adverse changes or developments affecting any of these facilities may have an adverse impact on the Company.

- Currently, the Company's activities and resources are focused on the operation of the Vaughan Facility and Niagara Facility, and its current licenses under the Cannabis Act are specific to the Vaughan and Niagara facilities.

(Page 63):

MATERIAL CONTRACTS

- The following are the material contracts entered into by the Company, including certain contracts entered into in the ordinary course of business, since the beginning of the most recently completed financial year and prior to the most recently completed financial year if those material contracts are still in effect:

    - (ii) Cannabis Licences granted by Health Canada in respect of the Vaughan Facility and the Niagara Facility.

Excerpts from the Annual 2018 MD&A

(Page 3):

- CannTrust received its license from Health Canada in June 2014, and began production of medical cannabis at its hydroponic indoor facility in Vaughan, Ontario (the "Vaughan Facility"). In 2018, the Company repurposed the Vaughan Facility from a grow facility into a state-of-the-art extraction, manufacturing and packaging facility of approximately 60,000 square feet, including an in-house quality control laboratory. The Company owns and operates an approximately 450,000 square foot perpetual harvest facility in the Niagara region (the "Perpetual Harvest Facility"), which is expected to have an annual capacity of approximately 50,000 kilograms. The planned Phase 3 expansion is expected to increase the annual capacity of the Perpetual Harvest Facility to 100,000 kilograms upon its completion.

(Page 8):

- In March 2017, through Elmcliffe, the Company acquired the real estate assets and related equipment of a greenhouse in the Town of Fenwick, Ontario within the Niagara Region. In October 2017, CannTrust received its Health Canada Cultivation Licence under the ACMPR for its completed 250,000 square foot Phase 1 redevelopment of the Perpetual Harvest Facility and began production there. The redevelopment of the Perpetual Harvest Facility was Canada's first automated perpetual harvest designed specifically for this scale of cannabis production. The Company received its Health Canada Sales License for the Perpetual Harvest Facility in February 2018.

(Page 17):

- The Company received its Health Canada License under the ACMPR on October 6, 2017 for the Phase 1 redevelopment. On February 12, 2018 the Company obtained its Health Canada sales license under the ACMPR and began operating Phase 1 at full capacity. The 200,000 square foot Phase 2 expansion at the Perpetual Harvest Facility was substantially completed in the first quarter of 2019.

<u>Excerpts from the Annual 2018 Financial Statements</u>

(Page 8):

- The Company is a licensed producer and distributor of medical and recreational cannabis in Canada pursuant to the federal Cannabis Act and its regulations (the "Cannabis Act") which came into force on October 17, 2018. The Company began production of medicinal cannabis at its hydroponic facility located in Vaughan, Ontario in Canada and received its license from Health Canada to sell on February 9, 2015. The Company commenced sale of medicinal cannabis under the Marijuana for Medical Purposes Regulations ("MMPR") in February 2015. On October 17, 2018, the Company commenced sale of recreational cannabis for adult use under the Cannabis Act.

- On January 13, 2017, the Company, through its wholly owned subsidiary Elmcliffe Investments Inc. acquired various greenhouse and related assets located in the regional municipality of Niagara, Ontario. The Company received its Health Canada Sales License for its Niagara Facility in February 2018.

(Page 19):

- On March 6, 2017, the Company, through its wholly owned subsidiary Elmcliffe Investments Inc. executed a Purchase and Sale Agreement to acquire various greenhouse assets located in the regional municipality of Niagara, Ontario . . . The Company received its Health Canada Sales License for this facility on February 12, 2018.

<u>Excerpts from the Q1 2019 MD&A</u>

(Page 3):

- CannTrust received its license from Health Canada in June 2014, and began production of medical cannabis at its hydroponic indoor facility in Vaughan, Ontario (the "Vaughan Facility"). In 2018, the Company repurposed the Vaughan Facility from a grow facility into a state-of-the-art extraction, manufacturing and packaging facility of approximately 60,000 square feet, including an in-house quality control laboratory. The Company owns and operates an approximately 450,000 square foot perpetual harvest facility in the Niagara region (the "Perpetual Harvest Facility"), which is expected to have an annual capacity of approximately 50,000 kilograms. The planned Phase 3 expansion is expected to increase the annual capacity of the Perpetual Harvest Facility to 100,000 kilograms upon its completion.

(Page 8):

- In March 2017, through Elmcliffe, the Company acquired the real estate assets and related equipment of a greenhouse in the Town of Fenwick, Ontario within the Niagara Region. In October 2017, CannTrust received its Health Canada Cultivation Licence under the ACMPR for its completed 250,000 square foot Phase 1 redevelopment of the Perpetual Harvest Facility and began production there. The redevelopment of the Perpetual Harvest Facility was Canada's first automated perpetual harvest designed specifically for this scale of cannabis production. The Company received its Health Canada Sales License for the Perpetual Harvest Facility in February 2018. The Phase 2 expansion at the Perpetual Harvest Facility was substantially completed during the first quarter of 2019, and is as of the date of this MD&A, fully licensed by Health Canada.

(Page 13):

	Location	Use	Size	Capacity	Status	License
Vaughan	Vaughan, Ontario, Canada	Manufacturing and Packaging	60,000 sq ft	n/a	In production	Cultivation and sale
Niagara Phase 1 and 2	Pelham, Ontario, Canada	Grow	450,000 sq ft	50,000 kg/year	In production	Cultivation and sale

(Page 17):

- The Company received its Health Canada License under the ACMPR on October 6, 2017 for the Phase 1 redevelopment. On February 12, 2018 the Company obtained its Health Canada sales license under the ACMPR and began operating Phase 1 at full capacity. The 200,000 square foot Phase 2 expansion at the Perpetual Harvest Facility was substantially completed in the first quarter of 2019 and was fully licensed as of April 2019.

Excerpts from the Q1 2019 Financial Statements

(Page 6):

- The Company is a licensed producer and distributor of medical and recreational cannabis in Canada pursuant to the federal Cannabis Act and its regulations (the "Cannabis Act") which came into force on October 17, 2018. The Company began production of medicinal cannabis at its hydroponic facility located in Vaughan, Ontario in Canada and received its license from Health Canada to sell on February 9, 2015. The Company commenced sale of medicinal cannabis under the Marijuana for Medical Purposes Regulations (“MMPR”) in February 2015. On October 17, 2018, the Company commenced sale of recreational cannabis for adult use under the Cannabis Act.

- On January 13, 2017, the Company, through its wholly owned subsidiary Elmcliffe Investments Inc. acquired various greenhouse and related assets located in the regional municipality of Niagara, Ontario. The Company received its Health Canada Sales License for its Niagara Facility in February 2018.

Excerpts from the May 1 Prospectus

Incorporates by reference the Annual 2018 AIF, Financial Statements, and MD&A, and the Short Form Base Shelf Prospectus dated March 18, 2019, which in turn incorporates by reference the Annual 2017 AIF, Financial Statements, and MD&A, Q3 2018 FS and MD&A.

(Page S-10):

- In April 2019, our cultivation and processing permit under Health Canada Cannabis Regulations was amended to include the final 20% of our Phase 2 expansion, which is now fully licensed.

(Page S-19):

- Health Canada has issued licences to CannTrust Opco for each of our facilities (the “Cannabis Licences” and each a “Cannabis Licence”). The Cannabis Licence for the Vaughan Facility expires on March 13, 2020, and the Cannabis Licence for the Niagara Facility expires on October 6, 2020.

(Page S-21 to S-22):

The Vaughan Facility and Niagara Facility are integral to our business and adverse changes or developments affecting any of these facilities may have an adverse impact on us.

- Currently, our activities and resources are focused on the operation of the Vaughan Facility and Niagara Facility, and our current licences under the Cannabis Act are specific to the Vaughan and Niagara Facilities.

(Page S-44)

- We received our license from Health Canada in June 2014, and began production of medical cannabis at our hydroponic indoor facility in Vaughan, Ontario (the "Vaughan Facility"). In 2018, we repurposed the Vaughan Facility from a grow facility into a state-of-the-art extraction, manufacturing and packaging facility of approximately 60,000 square feet, including an in-house quality control laboratory. We own and operate an approximately 450,000 square foot perpetual harvest facility in the Niagara region (the "Niagara Facility"), which is expected to have an annual capacity of approximately 50,000 kilograms. The planned Phase 3 expansion is expected to increase the annual capacity of the Niagara Facility to 100,000 kilograms upon its completion.

(Page S-48):

- In March 2017, through Elmcliffe, we acquired the real estate assets and related equipment of a greenhouse in the Town of Fenwick, Ontario within the Niagara Region. In October 2017, we received our Health Canada Cultivation Licence under the ACMPR for its completed 250,000 square foot Phase 1 redevelopment of the Niagara Facility and began production there. We believe the redevelopment of the Niagara Facility was Canada's first automated perpetual harvest designed specifically for this scale of cannabis production. We received our Health Canada Sales License for the Niagara Facility in February 2018. The Phase 2 expansion at the Niagara Facility was substantially completed during the first quarter of 2019 and Health Canada approved the amendment of our cultivation and processing permit to include the final 20% of the Phase 2 expansion on April 8, 2019.

(Page S-52):

	Location	Use	Size	Capacity	Status	License
Vaughan	Vaughan, Ontario, Canada	Manufacturing and Packaging	60,000 sq ft	n/a	In production	Cultivation and sale
Niagara Phase 1 and 2	Pelham, Ontario, Canada	Grow	450,000 sq ft	50,000 kg/year	In production	Cultivation and sale

(Page S-55):

- We received our Health Canada License under the ACMPR on October 6, 2017 for the Phase 1 redevelopment. On February 12, 2018 we obtained our Health Canada sales license under the ACMPR and began operating Phase 1 at full capacity. The 200,000 square foot Phase 2 expansion at the Niagara Facility was substantially completed in the first quarter of 2019.

(Page S-73):

Facilities & Operations

- We have completed the Phase 1 redevelopment of the Niagara Facility which is approximately 250,000 square feet and the Phase 2 expansion of approximately 200,000 square feet to which Health Canada granted a cultivation and production license.

(Page F-8):

- The Company is a licensed producer and distributor of medical and recreational cannabis in Canada pursuant to the federal Cannabis Act and its regulations (the "Cannabis Act") which came into force on October 17, 2018. The Company began production of medicinal cannabis at its hydroponic facility located in Vaughan, Ontario in Canada and received its license from Health Canada to sell on February 9, 2015. The Company commenced sale of medicinal cannabis under the Marijuana for Medical Purposes Regulations ("MMPR") in February 2015. On October 17, 2018, the Company commenced sale of recreational cannabis for adult use under the Cannabis Act.

- On January 13, 2017, the Company, through its wholly owned subsidiary Elmcliffe Investments Inc. acquired various greenhouse and related assets located in the regional municipality of Niagara, Ontario.The Company received its Health Canada Sales License for its Niagara Facility in February 2018.

(Page F-18 to F-19):

- On March 6, 2017, the Company, through its wholly owned subsidiary Elmcliffe Investments Inc. executed a Purchase and Sale Agreement to acquire various greenhouse assets located in the regional municipality of Niagara, Ontario. . . . The Company received its Health Canada Sales License for this facility on February 12, 2018.

(Page 8 to 9 of March 18 Prospectus, incorporated into the May 1 Prospectus):

- The following summary addresses the primary Canadian federal and provincial laws and regulations associated with the production and distribution of legal cannabis and related products. It does not address the laws and regulations of any other jurisdiction. The Company believes that, as of the date of this Prospectus, it is in material compliance with all laws and regulations summarized below.

. . .

The Cannabis Regulations establish the following different classes of licences that are required depending on the nature of the activity being undertaken:

- Cultivation licences — standard cultivation, micro-cultivation and nursery cultivation;
- Processing licences — standard processing and micro-processing;
- Sale, and sale for medical purposes;
- Analytical testing;
- Research; and

- Cannabis drug licence.

Pursuant to the Cannabis Regulations, any licence issued will be valid for no more than five years. Each class and subclass of licence carries different rules and requirements. The licence, once issued, identifies the specific activities that the licensee is authorized to conduct. The activities permitted under each class or subclass of licence are set out in the Cannabis Regulations.

For example, cultivation licence holders may be authorized to: (i) possess cannabis; (ii) obtain cannabis by cultivating, propagating and harvesting cannabis; (iii) obtain cannabis by altering its chemical or physical properties by any means, for the purpose of testing; and (iv) sell cannabis. Unlike under the ACMPR, the cultivation licence holders are permitted to conduct both indoor and outdoor cultivation of cannabis.

Schedule "B"
Misrepresentations Regarding Compliance with Regulations related to the Vaughan Facility

<u>Excerpts from the 2017 AIF (incorporated by reference into certain Misleading Documents)</u>

(Page 3):

- CannTrust Opco received its cultivation license from Health Canada under the *Access to Cannabis for Medical Purposes Regulations* ("**ACMPR**") on June 12, 2014 and began production of medical cannabis at its production facility in Vaughan, Ontario (the "**Vaughan Facility**").

(Page 5-6):

- We produce standardized pharmaceutical grade medical cannabis products that are completely pesticide-free at the Vaughan Facility, which is a 40,000 square foot, state-of-the-art hydroponic indoor facility in Vaughan, Ontario, including an in-house quality control laboratory. The Vaughan Facility currently has a potential production capacity of 3,600 kg of medical cannabis per year. We have made a significant infrastructure investment in technology for sanitation, risk mitigation and the prevention of crop failures. Automated nutrient management systems within the Vaughan Facility provide industry-leading, standardized horticultural practices.

(Page 7):

- The sales licenses issued by Health Canada to CannTrust Opco for the Vaughan Facility and the Niagara Facility (collectively, the "**ACMPR Licenses**") are effective until the expected renewal dates of March 13, 2020 and October 6, 2020, respectively. The ACMPR Licenses allow for the production, sale or provision, possession, shipping, transportation, delivery and destruction of dried cannabis and cannabis plants or seeds. It allows the Vaughan Facility and the Niagara Facility to produce dried cannabis and cannabis extracts up to such amounts as permitted by CannTrust Opco's storage capacity.

- The production of medical cannabis is a specialized skill. The Company's qualified and experienced growing team are focused on continuously improving its growing and production techniques and have refined and developed an advanced, disciplined approach with a focus on producing high quality and consistent medical cannabis. The production of medical cannabis is closely monitored by the Company's management with a focus on producing high quality dried cannabis and cannabis extracts.

- Health Canada, pursuant to the ACMPR, sets the standard required for production and sale of medical cannabis. CannTrust Opco's Quality Assurance team is led by a group of experienced operators and scientists and is focused on generating the highest quality and most consistent product that meets or exceeds Health Canada expectations.

- The combination of the Company's experienced growing team along with its goal of exceeding Health Canada's ACMPR quality assurance guidelines are essential to consistently providing high quality medical cannabis products that are safe for doctor prescribed medical cannabis clients.

(Page 9)

Production

- The Company, pursuant to the requirements of the ACMPR grows its medical cannabis indoors. The production process begins in the growing areas of the Vaughan Facility and the Niagara Facility, where plants are grown until ready for harvesting and drying. Once the plants have sufficiently dried, they are packaged and stored and are subject to quality control testing throughout that process at our onsite laboratory and at a third-party laboratory.

Packaging

- All medical cannabis products sold by the Company are sold or provided in tamper-evident containers or packages. Cannabis and cannabis oil extracts are provided in child-resistant containers. The Company complies with the Health Canada-prescribed labelling requirements which vary depending on the product type.

(Page 10-12):

- *Storage and Security*

  Storage is a very important aspect of maintaining the integrity and quality of cannabis. The environment needs to be controlled. The Company is sensitive to the environmental risks that threaten the product and stores its finished product in a vault with full control over the environment, including heat, light, temperature and humidity. Deterioration is usually a result of dehydration arising from one of these environmental concerns. The Company's ability to control aspects of the environment within the storage facility allow the Company to uphold the quality of its products.

  Subdivision C of the ACMPR sets out physical security requirements that are necessary to secure sites where licensed producers conduct activities with medical cannabis other than storage. As per Health Canada regulations, the Vaughan Facility contains four Level 8 Vaults and the Niagara Facility recently added three Level 9 Vaults. The vaults are equipped with security cameras, motion sensors, finger print, pass code locked doors and seismic sensors that trigger alarms when vibrations are detected.

  On January 25, 2018, Health Canada revised the storage and security requirements of the ACMPR such that vaults are no longer required as outlined in the Directive on Physical Security Requirements for Controlled Substances. Instead licensed producers will be required to store cannabis within a secure area of their facility. In addition, licensed producers will no longer be required to maintain 24/7 video surveillance inside the rooms where cannabis is being cultivated, propagated or harvested. All access points to cultivation, propagation and harvesting rooms will, however, continue to be subject to 24/7 video surveillance and recording in order to record all entries and exits.

The Company has taken advantage of these less stringent regulations. Pursuant to the updated security requirements of the ACMPR, the Company's facilities meet the following requirements:

1) each site is designed in a manner that prevents unauthorized access to the site itself and, once inside the site, to any area within the site where cannabis is present (the "Key Areas");
2) the perimeter of each site and the Key Areas are each visually monitored at all times by recording devices that will detect any actual or attempted unauthorized access or illicit conduct;
3) there is an intrusion detection system which detects actual or attempted unauthorized access to the site or, once inside the site, to the Key Areas which intrusion detection system be monitored by such personnel as can take appropriate steps in response to any such unauthorized access and make a record on any such unauthorized access;
4) records are kept of every person entering and exiting the Key Areas;
5) there are physical barriers preventing unauthorized access to Key Areas; and
6) the Key Areas are equipped with an air filtration system that prevents the escape of odours and pollen.

Health Canada conducts ad hoc, unscheduled site inspections of licensed producers. The Company has experienced these inspections at its Vaughan Facility and Niagara Facility on a monthly basis and has responded to and complied with all requests from Health Canada within the time frames indicated in such requests.

- *Quality Control*

The Company understands the importance placed upon adhering to the "Good Production Practices" which are mandated by the ACMPR. These practices relate to the premises, storage of dried cannabis, equipment, sanitation program, standard operating procedures, recall of product, and quality assurance personnel. The Company currently has an in-house quality control laboratory and employs quality assurance persons with appropriate training, experience, and technical knowledge to approve the quality of the Company's products.

In accordance with Section 73 of the ACMPR, all of the Company's quality control and sanitation procedures have been outlined for all personnel as standard operating procedures. New employees undergo a training program in which they are taught the appropriate implementation of these protocols.

For the purposes of quality control, the Company tracks each "lot" (a specific genotype of medical cannabis that is initiated for production at one time, either by seed or clonal propagation) using a lot number, which is used to track lot quality control and sales in the Company's tracking software. Furthermore, the lot number is used in all sales transactions, and as such will serve as an identifier to rapidly initiate recall reporting as outlined in Section 77 of the ACMPR.

Final dried cannabis that passes quality control is sealed in plastic bottles and stored within the climate-controlled vaults. Cannabis oil that passes quality control is sealed in containers and also stored in the climate-controlled vaults. Only products that pass the tests in the Company's quality control process will be offered for sale. As of the date hereof, the Company has not been required to recall distributed product.

- *Sanitation*

  The Company has implemented a rigorous process to maintain a sanitary environment for the growth of its flowers, which includes a sanitation protocol for personnel entry into the growing areas, the use of stainless steel to allow for efficient cleaning and sanitation and regularly scheduled surface and drain sterilization.

- *Operations*

  The facilities and equipment required to manage production include the following:

  1) walk-in vaults;
  2) building security, including access control, video surveillance and motion detectors;
  3) shipping bay for client shipments;
  4) growing equipment, including trays, containers, specialized lighting and associated controls, circulating fans and watering systems;
  5) oil production equipment, including a grinder, vacuum oven, kettle, and a state of the art C02 extractor;
  6) HVAC systems, primarily exhaust and cooling, to maintain an optimal growing environment;
  7) odour control systems;
  8) enhanced electrical distribution primarily for the high intensity lighting systems; and
  9) laboratory equipment or outsourcing arrangements to monitor and test product quality for compliance with the Food and Drugs Act, Pest Control Products Act and product labelling standards under the ACMPR.

(Page 12 -14):

- *ACMPR License Renewal*

  CannTrust Opco's ACMPR Licenses for the Vaughan Facility and the Niagara Facility are valid until March 13, 2020 and October 6, 2020, respectively. Before the end of the terms of the ACMPR Licenses, CannTrust Opco must submit an application for renewal to Health Canada containing information prescribed by the ACMPR. The ACMPR requires that the Minister of Health (the "Minister"), after examining the application and any supplementary information requested, issue renewed ACMPR Licenses, unless:

  d) the Minister has reasonable grounds to believe that false or misleading information or false or falsified documents were submitted in or with the application;

  f) the applicant does not have in place the security measures set out in the Security Directive and Subdivision C of the ACMPR in respect of an activity for which the ACMPR Licence is sought;

g) the applicant is in contravention of or has contravened in the past 10 years:

- a provision of the CDSA or its regulations or the Food and Drugs Act, or
- a term or condition of another licence or a permit issued to it under any of those regulations;

j) the proposed method of record keeping does not meet the requirements of the ACMPR

- *Reporting Requirements*

The ACMPR imposes certain general requirements and reporting obligations on licensed producers such as CannTrust Opco. These requirements and obligations include:

(f) within five days after such change, CannTrust Opco must notify the Minister of any change to:
i. the method used for keeping records;
ii. the security of the sites, other than a change that affects the security level of any building at which cannabis, other than cannabis plants, is stored;

(I) the Minister must be provided with any information that the Minister may require in respect of the records, documents and information referred to in the ACMPR, in the form and at the times that the Minister specifies.

(Page 19):

- The Company has sought and received its ACMPR Licenses for the Vaughan Facility and Niagara Facility which each provide for (a) the production and sale of dried cannabis; (b) the production and sale of cannabis oil (c) the production and sale of cannabis in its natural form: cannabis resin; (d) the production and sale of cannabis plants; and (e) the production and sale of cannabis seeds.

(Page 20):

The Company's qualified and experienced growing team is focused on continuously improving its growing and production techniques and has refined and developed an advanced, disciplined approach with a focus on producing high quality and consistent medical cannabis. The production of medical cannabis is closely monitored by the Company's management with a focus on producing high quality dried cannabis and cannabis extracts.

(Page 21 to Page 22):

- The operations of the Company require it to obtain ACMPR Licences for the transportation, distribution, production and sale of medical cannabis, and in some cases, renewals of existing licences from, and the issuance of permits by certain national authorities in Canada. The Company believes that it currently holds or has applied for all necessary licences and permits to carry on the activities which it is currently conducting under applicable laws and regulations, and also believes that it is complying in all material respects with the terms of such licences and permits.

(Page 22):

- The failure of the Company to obtain and maintain the applicable licenses and amendments thereto would have a material adverse impact upon the Company.

- In addition, the Company will apply for, as the need arises, all necessary licences and permits to carry on the activities it expects to conduct in the future. … The ACMPR License for the Vaughan Facility expires on March 13, 2020 and the ACMPR License for the Niagara Facility expires on October 6, 2020.

- *Regulatory Risks*

  Achievement of the Company's business objectives is contingent, in part, upon compliance with regulatory requirements enacted by governmental authorities and obtaining all regulatory approvals, where necessary, for the sale of its products. The Company cannot predict the impact of the compliance regime Health Canada is implementing for the Canadian medical cannabis industry. Similarly, the Company cannot predict the time required to secure all appropriate regulatory approvals for its products, or the extent of testing and documentation that may be required by governmental authorities. The impact of Health Canada's compliance regime, any delays in obtaining, or failure to obtain regulatory approvals may significantly delay or impact the development of markets, products and sales initiatives and could have a material adverse effect on the business, results of operations and financial condition of the Company.

  The Company will incur ongoing costs and obligations related to regulatory compliance. Failure to comply with regulations may result in additional costs for corrective measures, penalties or restrictions on the Company's operations. In addition, changes in regulations, more vigorous enforcement thereof or other unanticipated events could require extensive changes to the Company's operations, increased compliance costs or give rise to material liabilities, which could have a material adverse effect on the business, results of operations and financial condition of the Company.

- The Company's operations are subject to various laws, regulations and guidelines relating to the manufacture, management, transportation, storage and disposal of medical cannabis as well as laws and regulations relating to health and safety, the conduct of operations and the protection of the environment. To the knowledge of management, other than the requirement that the Company make routine corrections that may be required by Health Canada from time to time, the Company is currently in compliance with all such laws.

(Page 23):

- Health Canada inspectors routinely assess the Vaughan Facility and the Niagara Facility against ACMPR regulations and provide the Company with follow up reports noting observed deficiencies. The Company is continuously reviewing and enhancing its operational procedures at the Vaughan Facility and the Niagara Facility both proactively and in response to routine inspections. The Company follows all regulatory requirements in response to inspections in a timely manner.

(Page 26):

- Although the Company has detailed procedures in place for testing its products, there can be no assurance that any quality, potency or contamination problems will be detected in time to avoid unforeseen product recalls, regulatory action or lawsuits.

(Page 28):

- Given the nature of the Company's products and the lack of legal availability of such products outside of channels approved by the Government of Canada, as well as the concentration of inventory in its facilities, despite meeting or exceeding Health Canada's security requirements, there remains a risk of shrinkage as well as theft. A security breach at the Company's facilities could expose the Company to additional liability and to potentially costly litigation, increased expenses relating to the resolution and future prevention of these breaches and may deter potential patients from choosing the Company's products.

(Page 32):

- Due to the nature of the Company's products, security of the product during transportation to and from the Company's facilities is of the utmost concern. A breach of security during transport or delivery could have a material and adverse effect on the Company's business, financial condition and prospects. Any breach of the security measures during transport or delivery, including any failure to comply with recommendations or requirements of Health Canada, could also have an impact on the Company's ability to continue operating under the ACMPR Licenses or the prospect of renewing the ACMPR Licenses.

Excerpts from the 2017 Annual MD&A (incorporated by reference into certain Misleading Documents)

(Page 2):

- CannTrust Opco is a Licenced Producer and distributor of medical cannabis pursuant to the provisions of the Access to Cannabis for Medical Purposes Regulations (Canada) ("ACMPR"). CannTrust Opco received its license from Health Canada on June 12, 2014 and began production of medical cannabis at its state-of-the-art hydroponic indoor facility in Vaughan, Ontario (the “Vaughan Facility”).

(Page 16):

- The operations of the Company require it to obtain ACMPR Licences for the transportation, distribution, production and sale of medical cannabis, and in some cases, renewals of existing licences from, and the issuance of permits by certain national authorities in Canada. The Company believes that it currently holds or has applied for all necessary licences and permits to carry on the activities which it is currently conducting under applicable laws and regulations, and also believes that it is complying in all material respects with the terms of such licences and permits.

(Page 17-18):

- The failure of the Company to obtain and maintain the applicable licenses and amendments thereto would have a material adverse impact upon the Company.

- In addition, the Company will apply for, as the need arises, all necessary licences and permits to carry on the activities it expects to conduct in the future. However, the ability of the Company to obtain, sustain or renew any such licences and permits on acceptable terms is subject to changes in regulations and policies and to the discretion of the applicable authorities or other governmental agencies in foreign jurisdictions. The ACMPR License for the Vaughan Facility expires on March 13, 2020 and the ACMPR License for the Greenhouse Facility expires on October 6, 2020.

- The Company's operations are subject to various laws, regulations and guidelines relating to the manufacture, management, transportation, storage and disposal of medical cannabis as well as laws and regulations relating to health and safety, the conduct of operations and the protection of the environment. To the knowledge of management, other than the requirement that the Company make routine corrections that may be required by Health Canada from time to time, the Company is currently in compliance with all such laws.

- Health Canada inspectors routinely assess the Vaughan Facility and the Greenhouse Facility against ACMPR regulations and provide the Company with follow up reports noting observed deficiencies. The Company is continuously reviewing and enhancing its operational procedures at the Vaughan Facility and the Greenhouse Facility both proactively and in response to routine inspections. The Company follows all regulatory requirements in response to inspections in a timely manner.

(Page 22):

- Although the Company has detailed procedures in place for testing its products, there can be no assurance that any quality, potency or contamination problems will be detected in time to avoid unforeseen product recalls, regulatory action or lawsuits. Additionally, if one of the products produced by the Company were subject to recall, the image of that product and the Company could be harmed. A recall for any of the foregoing reasons could lead to decreased demand for the Company's products and could have a material adverse effect on the results of operations and financial condition of the Company. Additionally, product recalls may lead to increased scrutiny of the Company's operations by Health Canada or other regulatory agencies, requiring further management attention and potential legal fees and other expenses.

(Page 24):

- Given the nature of the Company’s products and the lack of legal availability of such products outside of channels approved by the Government of Canada, as well as the concentration of inventory in its facilities, despite meeting or exceeding Health Canada’s security requirements, there remains a risk of shrinkage as well as theft. A security breach at the Company’s facilities could expose the Company to additional liability and to potentially costly litigation, increased expenses relating to the resolution and future prevention of these breaches and may deter potential patients from choosing the Company’s products.

(Page 28):

- Due to the nature of the Company's products, security of the product during transportation to and from the Company's facilities is of the utmost concern. A breach of security during transport or delivery could have a material and adverse effect on the Company's business, financial condition and prospects. Any breach of the security measures during transport or delivery, including any failure to comply with recommendations or requirements of Health Canada, could also have an impact on the Company's ability to continue operating under the ACMPR Licenses or the prospect of renewing the ACMPR Licenses.

Excerpts from the 2017 Annual Financial Statements (incorporated by reference into certain Misleading Documents)

(Page 7):

The Company is a licensed producer and distributor of medical cannabis in Canada pursuant to the provisions of the Access to Cannabis for Medical Purposes Regulations ("ACMPR") and the Controlled Drugs and Substances Act and its Regulations. The Company began production of medicinal cannabis at its hydroponic facility located in Vaughan, Ontario in Canada and received its license from Health Canada to sell on February 9, 2015. The Company commenced sale of medicinal cannabis under the Marihuana for Medical Purposes Regulations ("MMPR") in February 2015.

Excerpts from the Q2 2018 MD&A

(Page 2):

- CannTrust Opco is a Licenced Producer and distributor of medical cannabis pursuant to the provisions of the Access to Cannabis for Medical Purposes Regulations (Canada) ("ACMPR"). CannTrust Opco received its license from Health Canada on June 12, 2014 and began production of medical cannabis at its state-of-the-art hydroponic indoor facility in Vaughan, Ontario (the "Vaughan Facility").

Excerpts from the Q2 2018 Financial Statements

(Page 6):

- The Company is a licensed producer and distributor of medical cannabis in Canada pursuant to the provisions of the Access to Cannabis for Medical Purposes Regulations ("ACMPR") and the Controlled Drugs and Substances Act and its Regulations. The Company began production of medicinal cannabis at its hydroponic facility located in Vaughan, Ontario in Canada and received its license from Health Canada to sell on February 9, 2015. The Company commenced sale of medicinal cannabis under the Marijuana for Medical Purposes Regulations ("MMPR") in February 2015.

Excerpts from the Q3 2018 MD&A

(Page 2):

- CannTrust Opco is a Licenced Producer and distributor of medical and recreational cannabis pursuant to the provisions of the Cannabis Act and its regulations which came into force on October 17, 2018. CannTrust Opco received its license from Health Canada on June 12, 2014 and began production of medical cannabis at its state-of-the-art hydroponic indoor facility in Vaughan, Ontario (the “Vaughan Facility”). The Company's primary focus is to produce and deliver the highest quality, standardized, pharmaceutical grade cannabis products and in so doing strengthen its market share in legal cannabis markets in Canada and to establish positions for its products in legal cannabis markets abroad.

Excerpts from the Q3 2018 Financial Statements

(Page 6):

- The Company is a licensed producer and distributor of medical and recreational cannabis in Canada pursuant to the Cannabis Act and its regulation which came into force on October 17, 2018. The Company began production of medicinal cannabis at its hydroponic facility located in Vaughan, Ontario in Canada and received its license from Health Canada to sell on February 9, 2015. The Company commenced sale of medicinal cannabis under the Marijuana for Medical Purposes Regulations (“MMPR”) in February 2015. On October 17, 2018, the Company commenced sale of recreational cannabis for adult use under the Canadian Cannabis Act.

Excerpts from the 2018 AIF

(Page 9)

- The Company produced standardized medical cannabis products at the Vaughan Facility, which has been repurposed from a grow facility into a 60,000 square foot, state-of-the-art extraction, manufacturing and packaging facility, including an in-house quality control laboratory. The lease for the Vaughan Facility commenced on December 1, 2013 for an initial term of 10 years ending on November 30, 2023, with CannTrust Opco having an option to extend for two additional terms of five years each if it is not otherwise in default under the terms of the lease.

(Page 10):

- The licences issued by Health Canada to CannTrust Opco for the Vaughan Facility and the Niagara Facility (collectively, the "Cannabis Licences") are effective until the expected renewal dates of March 13, 2020 and October 6, 2020, respectively. The Cannabis Licences allow for the production, sale or provision, possession, shipping, transportation, delivery and destruction of dried cannabis and cannabis plants or seeds. It allows the Vaughan Facility and the Niagara Facility to produce dried cannabis and cannabis extracts up to such amounts as permitted by CannTrust Opco's storage capacity.

(Page 14)

Production

- The Company currently grows its cannabis in the state of the art greenhouse in the Niagara Facility. The harvested product is then shipped to the Vaughan Facility for extraction, manufacturing, packaging and order fulfillment.

Facilities & Operations

- The Company has repurposed its Vaughan Facility from a grow facility into a state-of-the-art extraction, manufacturing and packaging facility of approximately 60,000 square feet, including an in-house quality control laboratory.

Packaging

- The Company adheres to prescribed packaging requirements under the Cannabis Act and the Cannabis Regulations. The Cannabis Regulations set out requirements pertaining to the packaging and labelling of cannabis products.

(Page 15):

Storage and Security

- Storage is a very important aspect of maintaining the integrity and quality of cannabis. The environment needs to be controlled. The Company is sensitive to the environmental risks that threaten the product and stores its finished product in a secure area with full control over the environment, including heat, light, temperature and humidity. Deterioration is usually a result of dehydration arising from one of these environmental concerns. The Company's ability to control aspects of the environment within the storage facility allow the Company to uphold the quality of its products.

- In addition, the Company's facilities meet the following prescribed security requirements for its sites and storage areas:

1) each site is designed in a manner that prevents unauthorized access to the site itself and, once inside the site, to any area within the site where cannabis is present (the "**Key Areas**");

2) the perimeter of each site and the Key Areas are each visually monitored at all times by recording devices that will detect any actual or attempted unauthorized access or illicit conduct;

3) there is an intrusion detection system which detects actual or attempted unauthorized access to the site or, once inside the site, to the Key Areas which intrusion detection system be monitored by such personnel as can take appropriate steps in response to any such unauthorized access and make a record on any such unauthorized access;

4) records are kept of every person entering and exiting the Key Areas;

5) there are physical barriers preventing unauthorized access to Key Areas; and

6) the Key Areas are equipped with an air filtration system that prevents the escape of odours and pollen.

- Health Canada conducts ad hoc, unscheduled site inspections of licensed producers. Health Canada inspectors assess the Vaughan Facility and the Niagara Facility on a monthly basis against Cannabis Regulations and provide the Company with follow up reports noting observed deficiencies The Company is continuously reviewing and enhancing its operational procedures at the Vaughan Facility and the Niagara Facility both proactively and in response to routine inspections. The Company follows all regulatory requirements in response to inspections in a timely manner. As of the date hereof, there are no outstanding inspection issues with Health Canada beyond day-to-day adjustments that may occur in order to ensure ongoing compliance.

(Page 16):

Quality Control

- The Company understands the importance placed upon adhering to "Good Production Practices", which were previously mandated by the ACMPR and continue under the Cannabis Regulations. These practices relate to the premises for and production of cannabis, as well as the equipment, sanitation program, standard operating procedures, recall, and quality assurance personnel required to operate in these regulations. The Company currently has an in-house quality control laboratory and employs quality assurance persons with appropriate training, experience, and technical knowledge to assure the quality of the Company's products.

- All of the Company's quality control and sanitation procedures have been outlined for all personnel as standard operating procedures. New employees undergo a training program in which they are taught the appropriate implementation of these protocols.

- For the purposes of quality control, the Company tracks each "lot" (a specific genotype of medical cannabis that is initiated for production at one time, either by seed or clonal propagation) using a unique lot number, via electronic and paper based systems. Furthermore, the lot number is used in all sales transactions, and as such serves as an identifier to rapidly initiate recall reporting.

- Final dried cannabis that passes quality control is sealed in plastic bottles and stored within the climate-controlled secure area. Cannabis extract that passes quality control is sealed in containers and also stored in a climate-controlled area. All product is tested for potency, microbiological, heavy metal, and pesticide contamination using validated methods. Only products that pass the tests in the Company's quality control process are offered for sale.

(Page 17)

Reporting Requirements

- Licence holders have extensive reporting obligations under the Cannabis Regulations and under the specific terms of the licences they hold.

(Page 25):

- CannTrust Opco's Cannabis Licences for the Vaughan Facility and the Niagara Facility are valid until March 13, 2020 and October 6, 2020, respectively.

- The Company believes that it currently holds or has applied for all necessary licences and permits to carry on the activities which it is currently conducting under applicable laws and regulations, and also believes that it is complying in all material respects with the terms of such licences and permits.

(Page 29):

- The Cannabis Licence for the Vaughan Facility expires on March 13, 2020 and the Cannabis Licence for the Niagara Facility expires on October 6, 2020.

(Page 33):

The Vaughan Facility and Niagara Facility are integral to the Company's business and adverse changes or developments affecting any of these facilities may have an adverse impact on the Company.

- Currently, the Company's activities and resources are focused on the operation of the Vaughan Facility and Niagara Facility, and its current licenses under the Cannabis Act are specific to the Vaughan and Niagara facilities.

(Page 63):

MATERIAL CONTRACTS

- The following are the material contracts entered into by the Company, including certain contracts entered into in the ordinary course of business, since the beginning of the most recently completed financial year and prior to the most recently completed financial year if those material contracts are still in effect:
    - (i) Lease agreement for the Vaughan Facility between the Company and N.H.D. Developments Limited, dated September 27, 2013. See "Description of the Business – General" for more information.
    - (ii) Cannabis Licences granted by Health Canada in respect of the Vaughan Facility and the Niagara Facility. See "Description of the Business – ACMPR Licences" for more information.

<u>Excerpts from the Annual 2018 MD&A</u>

(Page 3):

- CannTrust is a Licensed Producer and distributor of medical and recreational cannabis pursuant to the provisions of the Cannabis Act (Canada) (the "Cannabis Act") and its regulations which came into force on October 17, 2018. The Company's primary focus is to produce and deliver the highest quality, standardized, cannabis products, strengthen its market share in legal cannabis markets in Canada, and expand its business in legal cannabis markets internationally.

- CannTrust received its license from Health Canada in June 2014, and began production of medical cannabis at its hydroponic indoor facility in Vaughan, Ontario (the "Vaughan Facility"). In 2018, the Company repurposed the Vaughan Facility from a grow facility into a state-of-the-art extraction, manufacturing and packaging facility of approximately 60,000 square feet, including an in-house quality control laboratory. The Company owns and operates an approximately 450,000 square foot perpetual harvest facility in the Niagara region (the "Perpetual Harvest Facility"), which is expected to have an annual capacity of approximately 50,000 kilograms. The planned Phase 3 expansion is expected to increase the annual capacity of the Perpetual Harvest Facility to 100,000 kilograms upon its completion.

(Page 13):

- *Operational Overview*

Location	**Use**	**Size**	**Capacity**	**Status**	**License**	
Vaughan, Ontario, Canada	Manufacturing and Packaging	60,000 sq ft	n/a	In production	Cultivation and sale	

Excerpts from the Annual 2018 Financial Statements

(Page 8):

- The Company is a licensed producer and distributor of medical and recreational cannabis in Canada pursuant to the federal Cannabis Act and its regulations (the "Cannabis Act") which came into force on October 17, 2018. The Company began production of medicinal cannabis at its hydroponic facility located in Vaughan, Ontario in Canada and received its license from Health Canada to sell on February 9, 2015. The Company commenced sale of medicinal cannabis under the Marijuana for Medical Purposes Regulations ("MMPR") in February 2015. On October 17, 2018, the Company commenced sale of recreational cannabis for adult use under the Cannabis Act.

Excerpts from the Q1 2019 MD&A

(Page 3)

- CannTrust received its license from Health Canada in June 2014, and began production of medical cannabis at its hydroponic indoor facility in Vaughan, Ontario (the "Vaughan Facility"). In 2018, the Company repurposed the Vaughan Facility from a grow facility into a state-of-the-art extraction, manufacturing and packaging facility of approximately 60,000 square feet, including an in-house quality control laboratory. The Company owns and operates an approximately 450,000 square foot perpetual harvest facility in the Niagara region (the "Perpetual Harvest Facility"), which is expected to have an annual capacity of approximately 50,000 kilograms. The planned Phase 3 expansion is expected to increase the annual capacity of the Perpetual Harvest Facility to 100,000 kilograms upon its completion.

(Page 13):

	Location	Use	Size	Capacity	Status	License
Vaughan	Vaughan, Ontario, Canada	Manufacturing and Packaging	60,000 sq ft	n/a	In production	Cultivation and sale

<u>Excerpts from the Q1 2019 Financial Statements</u>

(Page 6):

- The Company is a licensed producer and distributor of medical and recreational cannabis in Canada pursuant to the federal Cannabis Act and its regulations (the "Cannabis Act") which came into force on October 17, 2018. The Company began production of medicinal cannabis at its hydroponic facility located in Vaughan, Ontario in Canada and received its license from Health Canada to sell on February 9, 2015. The Company commenced sale of medicinal cannabis under the Marijuana for Medical Purposes Regulations ("MMPR") in February 2015. On October 17, 2018, the Company commenced sale of recreational cannabis for adult use under the Cannabis Act.

<u>Excerpts from the Prospectus May 1, 2019</u>

Incorporates by reference the Annual 2018 AIF, Financial Statements, and MD&A, and the Short Form Base Shelf Prospectus dated March 18, 2019, which in turn incorporates by reference the Annual 2017 AIF, Financial Statements, and MD&A, Q3 2018 FS and MD&A.

(page S-7)

- We have scaled and diversified our growing and cultivation capabilities across our facilities in both Niagara, Ontario and Vaughan, Ontario.

(Page S-8)

- Our manufacturing center of excellence is approximately 60,000 square feet and is located in Vaughan, Ontario (the "Vaughan Facility"). It uses state of the art processes, such as our multihead weigher (a machine that quickly and accurately weighs product for packaging), capper and labeler technology, which allow us to maximize our output of dried flower product and our in-house quality control laboratory helps us ensure the quality and standardization of our product.

(Page S-19):

- Health Canada has issued licences to CannTrust Opco for each of our facilities (the "Cannabis Licences" and each a "Cannabis Licence"). The Cannabis Licence for the Vaughan Facility expires on March 13, 2020, and the Cannabis Licence for the Niagara Facility expires on October 6, 2020.

(Page S-21 to S-22):

The Vaughan Facility and Niagara Facility are integral to our business and adverse changes or developments affecting any of these facilities may have an adverse impact on us.

- Currently, our activities and resources are focused on the operation of the Vaughan Facility and Niagara Facility, and our current licences under the Cannabis Act are specific to the Vaughan and Niagara Facilities.

(Page S-44)

- We received our license from Health Canada in June 2014, and began production of medical cannabis at our hydroponic indoor facility in Vaughan, Ontario (the "Vaughan Facility"). In 2018, we repurposed the Vaughan Facility from a grow facility into a state-of-the-art extraction, manufacturing and packaging facility of approximately 60,000 square feet, including an in-house quality control laboratory. We own and operate an approximately 450,000 square foot perpetual harvest facility in the Niagara region (the "Niagara Facility"), which is expected to have an annual capacity of approximately 50,000 kilograms. The planned Phase 3 expansion is expected to increase the annual capacity of the Niagara Facility to 100,000 kilograms upon its completion.

(Page S-52):

	Location	**Use**	**Size**	**Capacity**	**Status**	**License**
Vaughan	Vaughan, Ontario, Canada	Manufacturing and Packaging	60,000 sq ft	n/a	In production	Cultivation and sale

(Page S-69):

- The Company has scaled and diversified its growing and cultivation capabilities across its facilities in both Niagara, Ontario and Vaughan, Ontario.

(Page S-70):

- The Company's manufacturing center of excellence is approximately 60,000 square feet and is located in Vaughan, Ontario (the "Vaughan Facility"). It uses state of the art processes, such as its multihead weigher (a machine that quickly and accurately weighs product for packaging), capper and labeler technology, which allows the Company to maximize the Company's output of dried flower product and the Company's in-house quality control laboratory helps us ensure the quality and standardization of the Company's product.

(Page S-73):

Facilities & Operations

- We have repurposed our Vaughan Facility from a grow facility into a state-of-the-art extraction, manufacturing and packaging facility of approximately 60,000 square feet, including an in-house quality control laboratory.

(Page F-8):

- The Company is a licensed producer and distributor of medical and recreational cannabis in Canada pursuant to the federal Cannabis Act and its regulations (the "Cannabis Act") which came into force on October 17, 2018. The Company began production of medicinal cannabis at its hydroponic facility located in Vaughan, Ontario in Canada and received its license from Health Canada to sell on February 9, 2015. The Company commenced sale of medicinal cannabis under the Marijuana for Medical Purposes Regulations ("MMPR") in February 2015. On October 17, 2018, the Company commenced sale of recreational cannabis for adult use under the Cannabis Act.

(Page 8 to 9 of March 18 Prospectus, incorporated into the May 1 Prospectus):

Vaughan Facility

- The Vaughan Facility has been repurposed from a grow facility into a state-of-the-art extraction, manufacturing and packaging facility of approximately 60,000 square feet, including an in-house quality control laboratory. The Vaughan Facility is currently being upgraded to obtain Good Manufacturing Practices (GMP) certification at an expected capital cost of between $5 – $10 million and is expected to be completed in the next 12 months.
- The following summary addresses the primary Canadian federal and provincial laws and regulations associated with the production and distribution of legal cannabis and related products. It does not address the laws and regulations of any other jurisdiction. The Company believes that, as of the date of this Prospectus, it is in material compliance with all laws and regulations summarized below.

. . .

The Cannabis Regulations establish the following different classes of licences that are required depending on the nature of the activity being undertaken:

- Cultivation licences — standard cultivation, micro-cultivation and nursery cultivation;
- Processing licences — standard processing and micro-processing;
- Sale, and sale for medical purposes;
- Analytical testing;
- Research; and
- Cannabis drug licence.

Pursuant to the Cannabis Regulations, any licence issued will be valid for no more than five years. Each class and subclass of licence carries different rules and requirements. The licence, once issued, identifies the specific activities that the licensee is authorized to conduct. The activities permitted under each class or subclass of licence are set out in the Cannabis Regulations.

For example, cultivation licence holders may be authorized to: (i) possess cannabis; (ii) obtain cannabis by cultivating, propagating and harvesting cannabis; (iii) obtain cannabis by altering its chemical or physical properties by any means, for the purpose of testing; and (iv) sell cannabis. Unlike under the ACMPR, the cultivation licence holders are permitted to conduct both indoor and outdoor cultivation of cannabis.

Schedule “C”

Misrepresentations that CannTrust had effective ICFR and DC&P

<u>Excerpts from Q2 2018 MD&A</u>

(Page 17):

Disclosure Controls and Internal Controls over Financial Reporting

Internal Control over Financial Reporting

In accordance with National Instrument 52-109 of the Canadian Securities Administrators, management is responsible for establishing and maintaining adequate Disclosure Controls and Procedures ("DCP") and Internal Control over Financial Reporting ("ICFR"). The Company’s CEO and CFO are required to file certifications relating to DCP and ICFR for the Company in connection with its interim and annual filings.

Limitations of Controls and Procedures

The Company's management, including the President and Chief Executive Officer and Chief Financial Officer, believes that any disclosure controls and procedures or internal control over financial reporting, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been prevented or detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by unauthorized override of the control. The design of any control system is also based in part upon certain assumptions about the likelihood of future events and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

<u>Excerpts from Q3 2018 MD&A</u>

(Page 18):

Disclosure Controls and Internal Controls over Financial Reporting

Internal Control over Financial Reporting

In accordance with National Instrument 52-109 of the Canadian Securities Administrators, management is responsible for establishing and maintaining adequate Disclosure Controls and Procedures ("DCP") and Internal Control over Financial Reporting ("ICFR"). The Company’s CEO and CFO are required to file certifications relating to DCP and ICFR for the Company in connection with its interim and annual filings.

Limitations of Controls and Procedures

The Company's management, including the Chief Executive Officer and Chief Financial Officer, believes that any disclosure controls and procedures or internal control over financial reporting, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been prevented or detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by unauthorized override of the control. The design of any control system is also based in part upon certain assumptions about the likelihood of future events and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Excerpts from 2018 Annual MD&A

(Pages 27-28):

Disclosure Controls and Internal Controls over Financial Reporting

In accordance with National Instrument 52-109 – Certification of Disclosure in Issuers’ Annual and Interim Filings, and as required by the applicable rules of the SEC, management is responsible for establishing and maintaining disclosure controls and procedures (“DC&P”), as defined in Rules 13a-15(e) and 15d-15(e) under the United States Securities Exchange Act of 1934, as amended (the “Exchange Act”) and internal control over financial reporting (“ICFR”), as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Management has designed ICFR based on the 2013 Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

The Company’s disclosure controls and procedures are designed to provide reasonable assurance that material information relating to the Company is made known to senior management, including the Chief Executive Officer (“CEO”) and the Chief Financial Officer (“CFO”) and information required to be disclosed by the Company is recorded, processed, summarized and reported within the time periods specified in securities legislation. ICFR is designed by management, under the supervision of the CEO and CFO, to provide reasonable assurance regarding the reliability of the Company’s financial reporting and the preparation of its financial statements in accordance with IFRS.

As of December 31, 2018, the Company had limited accounting personnel with expertise to assist in the effective preparation of financial statements and related note disclosures. In particular, the Company did not have sufficient resources with appropriate knowledge of IFRS to allow for an independent review in complex areas of financial reporting with respect to non-routine transactions, resulting in a reasonable likelihood that a material misstatement to the consolidated financial statements may not be prevented or detected on a timely basis. As a result of the non-routine transaction assessment, management concluded that the DC&P and ICFR were not effective as of December 31, 2018, and has since implemented new mitigating controls and procedures. This assessment was not related to internal control deficiencies identified for routine operating activities. The Company has devoted significant resources and time to design and implement its current ICFR program and continues to engage third party resources specialized in ICFR implementations to enhance its current controls and the associated processes and systems. Additionally, the Company has provided significant human resources to these efforts, including hiring new employees to assist in ICFR activities and training of key process owners. In particular, since December 31, 2018, we have hired a new Chief Financial Officer and a new Vice President of Finance, both of whom have expertise in internal controls and governance, to enhance the existing team. Management has consistently embraced the importance of maintaining a robust ICFR program and is committed to enhancing the current system through continuous improvement and review.

Changes in Internal Control Over Financial Reporting

In the ordinary course of business, the Company’s management reviews its ICFR system and make changes to its applications and processes to improve such controls and increase efficiency, while ensuring that the Company maintains an adequate internal control environment. Other than as discussed above, during Q4 2018, there were no changes in ICFR that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

Limitations of Controls and Procedures

The Company's management, including the Chief Executive Officer and Chief Financial Officer, believes that any DC&P or ICFR, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been prevented or detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by unauthorized override of the control. The design of any control system is also based in part upon certain assumptions about the likelihood of future events and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

<u>Excerpts from Q1 2019 MD&A</u>

(Pages 26-27):

Disclosure Controls and Internal Controls over Financial Reporting

In accordance with National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings, and as required by the applicable rules of the SEC, management is responsible for establishing and maintaining disclosure controls and procedures ("DC&P"), as defined in Rules 13a-15(e) and 15d-15(e) under the United States Securities Exchange Act of 1934, as amended (the "Exchange Act") and internal control over financial reporting ("ICFR"), as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Management has designed ICFR based on the 2013 Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

The Company's disclosure controls and procedures are designed to provide reasonable assurance that material information relating to the Company is made known to senior management, including the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") and information required to be disclosed by the Company is recorded, processed, summarized and reported within the time periods specified in securities legislation. ICFR is designed by management, under the supervision of the CEO and CFO, to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of its financial statements in accordance with IFRS.

As of December 31, 2018, the Company had limited accounting personnel with expertise to assist in the effective preparation of financial statements and related note disclosures. In particular, the Company did not have sufficient resources with appropriate knowledge of IFRS to allow for an independent review in complex areas of financial reporting with respect to non-routine transactions, resulting in a reasonable likelihood that a material misstatement to the consolidated financial statements may not be prevented or detected on a timely basis. As a result of the non-routine transaction assessment, management concluded that the DC&P and ICFR were not effective as of December 31, 2018, and has since implemented new mitigating controls and procedures. This assessment was not related to internal control deficiencies identified for routine operating activities. The Company has devoted significant resources and time to design and implement its current ICFR program and continues to engage third party resources specialized in ICFR implementations to enhance its current controls and the associated processes and systems. Additionally, the Company has provided significant human resources to these efforts, including hiring new employees to assist in ICFR activities and training of key process owners. In particular, since December 31, 2018, the Company hired a new Chief Financial Officer and a new Vice President of Finance, both of whom have expertise in internal controls and governance, to enhance the existing team. Management has consistently embraced the importance of maintaining a robust ICFR program and is committed to enhancing the current system through continuous improvement and review. As at March 31, 2019, the Company continues to be in the process of evaluating the effectiveness of the new controls and procedures implemented to enhance the control environment.

Changes in Internal Control Over Financial Reporting

In the ordinary course of business, the Company's management reviews its ICFR system and make changes to its applications and processes to improve such controls and increase efficiency, while ensuring that the Company maintains an adequate internal control environment. Other than as discussed above, during the first quarter of 2019 there were no changes in ICFR that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Limitations of Controls and Procedures

The Company's management, including the Chief Executive Officer and Chief Financial Officer, believes that any DC&P or ICFR, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been prevented or detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by unauthorized override of the control. The design of any control system is also based in part upon certain assumptions about the likelihood of future events and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Excerpts from May 1 Prospectus

(Page S-63 to S-64)

Disclosure Controls and Internal Controls over Financial Reporting

In accordance with National Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings*, and as required by the applicable rules of the SEC, management is responsible for establishing and maintaining disclosure controls and procedures ("**DC&P**"), as defined in Rules 13a-15(e) and 15d-15(e) under the United States Securities Exchange Act of 1934, as amended (the "**U.S. Exchange Act**") and internal control over financial reporting ("**ICFR**"), as defined in Rules 13a-15(f) and 15d-15(f) under the U.S. Exchange Act. Management has designed ICFR based on the 2013 Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Our disclosure controls and procedures are designed to provide reasonable assurance that material information relating to us is made known to senior management, including the Chief Executive Officer ("**CEO**") and the Chief Financial Officer ("**CFO**") and information required to be disclosed by us is recorded, processed, summarized and reported within the time periods specified in securities legislation. ICFR is designed by management, under the supervision of the CEO and CFO, to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of its financial statements in accordance with IFRS.

As of December 31, 2018, we had limited accounting personnel with expertise to assist in the effective preparation of financial statements and related note disclosures. In particular, we did not have sufficient resources with appropriate knowledge of IFRS to allow for an independent review in complex areas of financial reporting with respect to non-routine transactions, resulting in a reasonable likelihood that a material misstatement to the consolidated financial statements may not be prevented or detected on a timely basis. As a result of the non-routine transaction assessment, management concluded that the DC&P and ICFR were not effective as of December 31, 2018, and has since implemented new mitigating controls and procedures. This assessment was not related to internal control deficiencies identified for routine operating activities. We have devoted significant resources and time to design and implement its current ICFR program and continues to engage third party resources specialized in ICFR implementations to enhance its current controls and the associated processes and systems. Additionally, we have provided significant human resources to these efforts, including hiring new employees to assist in ICFR activities and training of key process owners. In particular, since December 31, 2018, we have hired a new Chief Financial Officer and a new Vice President of Finance, both of whom have expertise in internal controls and governance, to enhance the existing team. Management has consistently embraced the importance of maintaining a robust ICFR program and is committed to enhancing the current system through continuous improvement and review.

Changes in Internal Control Over Financial Reporting

In the ordinary course of business, our management reviews our ICFR system and make changes to its applications and processes to improve such controls and increase efficiency, while ensuring that we maintain an adequate internal control environment. Other than as discussed above, during Q4 2018, there were no changes in ICFR that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations of Controls and Procedures

Our management, including the Chief Executive Officer and Chief Financial Officer, believes that any DC&P or ICFR, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within our business have been prevented or detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by unauthorized override of the control. The design of any control system is also based in part upon certain assumptions about the likelihood of future events and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Patrick Hrusa, *et al* and CannTrust Holdings Inc., *et al*

Plaintiffs

Court File No.: CV-19-00629743-00CP.

ONTARIO

SUPERIOR COURT OF JUSTICE

Proceeding commenced at Toronto

Proceeding under the *Class Proceedings Act, 1992*

STATEMENT OF CLAIM

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Lawyers for the Plaintiffs

This is Exhibit "E-1" referred to in the affidavit of Serge Kalloghlian, sworn before me this 20th day of January, 2021

A Commissioner for taking Affidavits

217559

No.
NEW WESTMINSTER REGISTRY

IN THE SUPREME COURT OF BRITISH COLUMBIA

BETWEEN:

JEFF DYCK

PETITIONER

AND:

CANNTRUST HOLDINGS INC.,
PETER ACETO, ERIC PAUL, MARK LITWIN,
GREG GUYATT, AND IAN ABRAMOWITZ

RESPONDENTS

Proceeding under the *Class Proceedings Act,* R.S.B.C. 1996, c. 50

PETITION TO THE COURT

This proceeding has been started by the petitioner(s) for the relief set out in Part 1 below.

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

(a) file a response to petition in Form 67 in the above-named registry of this court within the time for response to petition described below, and

(b) serve on the petitioner(s)

(i) 2 copies of the filed response to petition, and

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

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

Time for response to petition

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

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

(1)	The address of the registry is: Law Courts, Begbie Square 651 Carnarvon Street New Westminster, BC V3M 1C9
(2)	The ADDRESS FOR SERVICE of the petitioner is: **MERCHANT LAW GROUP LLP** 303 – 304 15127 100th Avenue Vancouver-Surrey, British Columbia V3R 0N9 Fax number for delivery: 604-951-7721
(3)	The name and office address of the petitioner's lawyer is: Mr. E.F. Anthony Merchant, Q.C. Address same as above.

Claim of the Petitioner

PART 1: ORDER(S) SOUGHT

1. An order granting the Petitioner leave to commence an action based upon Part 16.1 of the Securities Act, R.S.B.C. 1996, ch. 418, as amended, in the form attached as Schedule "A" to this Petition or as may be amended and presented by the Petitioner prior to the determination of the Petition.

PART 2: FACTUAL BASIS

1. CannTrust Holdings Inc.'s ("CannTrust") shares are listed on the Toronto Stock Exchange ("TSX").

2. The Petitioner purchased 4400 shares of CannTrust on the TSX on April 26, 2019, at an average price of $9.90 per share.

3. Between March 29, 2018 and July 12, 2019, the Respondents made repeated misrepresentations to investors in connection with CannTrust's compliance with Health Canada regulations.

4. The Petitioner and putative Class Members were harmed by CannTrust's misrepresentations.

PART 3: LEGAL BASIS

1. The causes of action for misrepresentation and failure to make timely disclosure based upon Part 16.1 of the Securities Act, are being brought in good faith.

2. There is a reasonable possibility that the action will be resolved at trial in favor of the petitioner.

PART 4: MATERIAL TO BE RELIEF UPON

1. Affidavit of J, made July 30, 2019.

2. Proposed Notice of Civil Claim attached hereto as Schedule "A".

The petitioner estimates that the hearing of the petition will take one-half day.

Dated: July 31, 2019.

Signature of Steven Roxborough
☐ lawyer for petitioner(s)

To be completed by the court only:
Order made
[ ] in the terms requested in paragraphs ____ of Part 1 of this notice of application
[ ] with the following variations and additional terms:
Date:______________ [dd/mm/yyyy] ______________________ Signature of [ ] Judge [ ] Master

This is Schedule "A" referred to in the Petition to the Court dated July 31, 2019.

____

No.
NEW WESTMINSTER REGISTRY

IN THE SUPREME COURT OF BRITISH COLUMBIA

BETWEEN

JEFF DYCK

PLAINTIFF

AND:

CANNTRUST HOLDINGS INC.,
PETER ACETO, ERIC PAUL, MARK LITWIN,
GREG GUYATT, AND IAN ABRAMOWITZ

DEFENDANTS

Proceeding under the *Class Proceedings Act,* R.S.B.C. 1996, c. 50

NOTICE OF CIVIL CLAIM

This action has been started by the Plaintiff for the relief set out in Part 2 below.

If you intend to respond to this action, you or your lawyer must
(a) file a Response to Civil Claim in Form 2 in the above-named registry of this court within the time for Response to Civil Claim described below, and
(b) serve a copy of the filed Response to Civil Claim on the Plaintiffs.

If you intend to make a counterclaim, you or your lawyer must
(a) file a Response to Civil Claim in Form 2 and a Counterclaim in Form 3 in the above-named registry of this court within the time for Response to Civil Claim described below, and
(b) serve a copy of the filed Response to Civil Claim and counterclaim on the Plaintiffs and on any new parties named in the Counterclaim.

JUDGMENT MAY BE PRONOUNCED AGAINST YOU IF YOU FAIL to file the Response to Civil Claim within the time for Response to Civil Claim described below.

TIME FOR RESPONSE TO CIVIL CLAIM

A Response to Civil Claim must be filed and served on the Plaintiffs,
(a) if you reside anywhere in Canada, within 21 days after the date on which a copy of the filed Notice of Civil Claim was served on you,
(b) if you reside in the United States of America, within 35 days after the date on which a copy of the filed Notice of Civil Claim was served on you,
(c) if you reside elsewhere, within 49 days after the date on which a copy of the filed Notice of Civil Claim was served on you, or
(d) if the time for Response to Civil Claim has been set by order of the court, within that time.

Part 1: STATEMENT OF FACTS

Definitions

1. In this Statement of Claim the capitalized terms have the following meanings:

(a) "CannTrust" means CannTrust Holdings Inc.;

(b) "Class" and "Class Members" means all persons and entities who, during the Class Period, acquired CannTrust's shares in the secondary market, other than the Excluded Persons;

(c) "Class Period" means the period from March 29, 2018, to July 12, 2019;

(d) "Defendants" means CannTrust, Peter Aceto, Eric Paul, Mark Litwin, Gregory Guyatt, and Ian Abramowitz;

(e) "Excluded Persons" means CannTrust or its subsidiaries, affiliates, officers, directors, senior employees, legal representatives, heirs, predecessors, successors and assigns, the Individual Defendants and any member of their families and any entity in which any of them has or had during the Class Period any legal or de facto controlling interest;

(f) "Impugned Documents" means CannTrust's:

(i) Annual Information Form for the year ended December 31, 2017;

(ii) Management Discussion & Analysis for the year ended December 31, 2017;

(iii) Annual Information Form for the year ended December 31, 2018;

(iv) Management Discussion & Analysis for the year ended December 31, 2018;

(g) "NYSE" means New York Stock Exchange;

(h) "Securities Act" means the *Securities Act*, R.S.B.C. 1996, c. 418;

(i) "Securities Legislation" means, collectively, the *Securities Act*, R.S.O. 1990, c. S.5, as amended; the *Securities Act*, RSA 2000, c S-4, as amended; the *Securities Act*, RSBC 1996, c 418, as amended; the *Securities Act*, CCSM c S50, as amended; the

Securities Act, SNB 2004, c S-5.5, as amended; the *Securities Act*, RSNL 1990, c S-13, as amended; the *Securities Act*, SNWT 2008, c 10, as amended; the *Securities Act* RSNS 1989, c 418, as amended; the *Securities Act*, S Nu 2008, c 12, as amended; the *Securities Act*, RSPEI 1988, c S-31., as amended; the *Securities Act*, RSQ c V-1.1, as amended; the *Securities Act*, 1988, SS 1988-89, C S-42.2, as amended; and the *Securities Act*, SY 2007, c 16, as amended;

(j) "SEDAR" means the System for Electronic Document Analysis and Retrieval which is a filing system developed for the Canadian Securities Administration;

(k) "TSX" means Toronto Stock Exchange.

The Representative Plaintiff

2. The Plaintiff, Jeff Dyck (the "Plaintiff") has at all material times resided in Cranbrook, British Columbia. The Plaintiff purchased 4400 shares of CannTrust on the TSX on April 26, 2019, at an average price of $9.90 per share.

The Defendants

3. CannTrust is a public corporation organized pursuant to the laws of Ontario. CannTrust produces and distributes recreational and medicinal cannabis products. CannTrust's products include dried flower, capsules, oil tinctures, and topicals, along with products for the pet and coffee markets. Its registered office is in Ontario and its shares are listed under the symbol "TRST" on the TSX.

4. Defendant Peter Aceto ("Aceto") was, between October 1, 2018 and July 22, 2019, Chief Executive Officer of CannTrust.

5. Defendant Eric Paul ("Paul") was the co-founder and Chief Executive Officer of CannTrust and remained in that role until October 1, 2018.

6. Defendant Mark Litwin ("Litwin") is and has at all material times been a Director of CannTrust.

7. Defendant Gregory Guyatt ("Guyatt") assumed the role of Chief Financial Officer of CannTrust on February 19, 2019.

8. Defendant, Ian Abramowitz ("Abramowitz") is the Senior Vice-President of Global Investments and Partners and, prior to February 19, 2019, was the Chief Financial Officer of CannTrust.

9. CannTrust, Aceto, Paul, Litwin, Guyatt, and Abramowitz are collectively referred to as the "Defendants".

10. Aceto, Paul, Litwin, Guyatt, and Abramowitz are collectively referred to as the "Individual Defendants".

11. The Defendants controlled the contents of the Impugned Documents.

<u>The Class and Class Period</u>

12. This action is brought under the *Class Proceedings Act* on behalf of all persons of the Class.

<u>Operation of CannTrust</u>

13. On March 5, 2018, CannTrust's shares began trading on the TSX.

14. As a reporting issuer in British Columbia, CannTrust was required throughout the Class Period to issue and file with SEDAR:

    (a) within 45 days of the end of each quarter, quarterly interim financial statements;

    (b) within 90 days of the end of the fiscal year, annual financial statements;

    (c) contemporaneously with each of the above, a MD&A of each of the above financial statements. MD&A's are a narrative explanation of how the company performed during the period covered by the financial statements, and of the company's financial condition and future prospects; and

(d) within 90 days of the end of the fiscal year, an AIF, including material information about the company and its business at a point in time in the context of its historical and possible future development. AIFs are an annual disclosure document intended to provide material information about the company and its business at a point in time in the context of its historical and future development. The AIF must describe the company, its operations and prospects, risks and other external factors that impact the company specifically.

15. CannTrust operates under a multi-layered legal framework in Canada. The Canadian market for medicinal products is primarily regulated at the federal level. CannTrust is a "Licensed Producer" of medicinal cannabis under Canada's Access to Cannabis for Medical Purposes Regulations ("ACMPR"). This designation subjects CannTrust to certain regulations (e.g., requiring security for facilities) and reporting requirements, as well as to unscheduled site inspections by Health Canada, the agency primarily responsible for regulating the cultivation and marketing of cannabis products in Canada.

16. The ACMPR also requires the Company to obtain facility- and room-specific licenses for each location in which it cultivates, processes, and stores its products. According to the Company, it has sought and received its ACMPR Licenses for two facilities, one located in Pelham, British Columbia, which the Company refers to as the "Pelham Facility" or "Niagara Facility," and the other located in Vaughan, British Columbia, which the Company calls the "Vaughan Facility."

17. At the start of the Class Period, Health Canada had licensed these facilities for certain activities, such as the indoor cultivation of cannabis, but not for other activities, such as outdoor cultivation. In addition, not all rooms within each facility were licensed for certain activities, such as cultivation. Nevertheless, CannTrust improperly used these facilities to cultivate cannabis without the necessary licenses and included the proceeds from illegally grown cannabis in the Company's financial results. The failure of CannTrust to receive the proper licenses for the

cultivation of cannabis at these facilities was of material importance to investors, because such failure negatively impacted the Company's ability to generate and grow revenues and subjected the Company to adverse regulatory actions. CannTrust's revenues are derived almost entirely from the sale of dried cannabis and cannabis extracts.

18. On October 17, 2018, Canada legalized the distribution of recreational cannabis. In doing so, the federal government required companies to be federally licensed, but largely delegated other regulatory matters to the Canadian provinces, including responsibility for regulating sale and distribution, minimum age requirements, places where cannabis can be consumed, and other matters. On November 14, 2018, Defendants reported that CannTrust was "one of only four producers with at least nine provincial agreements" permitting the cultivation and sale of recreational cannabis products.

19. Defendants declared their intention to expand CannTrust internationally, especially after Canada and other countries loosened regulation of recreational cannabis products. Health Canada requires companies to apply for licenses to export such products. On November 6, 2017, CannTrust received Health Canada approval to export medical marijuana internationally to countries where medical marijuana is legalized, and the Company began shipping to Australia. On March 13, 2018, the Company announced it had entered into a joint venture with a company in Denmark to distribute its products. As discussed below, during the Class Period the Company announced its intention to begin exporting to the United States, beginning with the state of California.

20. Defendants' expansion plans were fueled in significant measure by the desire to seize the market opportunity created by the legalization of recreational cannabis in Canada and in other countries (as well as states within the United States).

21. The other key component of Defendants' growth plans was their strategy to significantly expand CannTrust's production of cannabis. Prior to and during the Class Period Defendants laid out to investors a three-phase plan to support this strategy. The Company's May 3, 2019 Prospectus, for example, described the phases of their expansion strategy as follows:

> We have completed the Phase 1 redevelopment of the Niagara Facility which is approximately 250,000 square feet and the Phase 2 expansion of approximately 200,000 square feet to which Health Canada granted a cultivation and production license. On October 24, 2018, we purchased a 19.4 acre property adjacent to the Niagara Facility and will begin construction of an additional 390,000 square foot Phase 3 expansion on that land. On January 22, 2019, we obtained all necessary permits from the Town of Pelham (where the Niagara Facility is located) for the Phase 3 expansion, which is expected to be completed during 2020. After completion of the Phase 3 expansion, the Company expects the Niagara Facility to have a total production capacity of approximately 100,000 kg per year. The Company expects to have more than 800,000 square feet of production capacity after completion of all phases of the Niagara Facility expansion.

22. In early 2019, CannTrust also began listing its common shares on the NYSE, which increased liquidity and demand for CannTrust stock. These actions and statements to investors pushed the price of CannTrust stock to near record highs. Then, in May 2019, Defendants conducted a public offering of CannTrust common shares (the "Secondary Offering"). In the Secondary Offering, Defendants sold over 36 million CannTrust shares at $5.50 per share, for nearly $200 million in gross proceeds.

23. But as demand started to outpace supply, unbeknownst to investors, CannTrust cut corners, lied to regulators, and illegally grew cannabis at its facilities in order to continue to show revenue and sales growth.

24. On March 29, 2018, CannTrust released its Annual Information Form for the financial year ended December 31, 2017 (the "2017 AIF") which was filed with the Canadian Securities Administrators (on SEDAR) along with a signed certification

on Form 52- 109F2 that represented that the filing contained no misrepresentations. The 2017 AIF stated in pertinent part:

> Under the ACMPR, CannTrust Opco sells dried cannabis and oil extractions to the client based on the medication document provided by his or her health care practitioner. There is no limit imposed by the ACMPR on the strains that may be produced nor does the ACMPR set out specific requirements for pricing.
>
> The sales licenses issued by Health Canada to CannTrust Opco for the Vaughan Facility and the Niagara Facility (collectively, the "ACMPR Licenses") are effective until the expected renewal dates of March 13, 2020 and October 6, 2020, respectively. The ACMPR Licenses allow for the production, sale or provision, possession, shipping, transportation, delivery and destruction of dried cannabis and cannabis plants or seeds. It allows the Vaughan Facility and the Niagara Facility to produce dried cannabis and cannabis extracts up to such amounts as permitted by CannTrust Opco's storage capacity (See "Storage and Security"). Health Canada requires that medical documents be written to include the amount of dried cannabis in grams per day a patient may consume. This requirement applies equally to oils. To assist patients with determining how much oil they should be consuming per day, licensed producers are required to provide an equivalency factor outlining how much oil is equivalent to one gram of dried cannabis
>
> ...
>
> Health Canada, pursuant to the ACMPR, sets the standard required for production and sale of medical cannabis. **CannTrust Opco's Quality Assurance team is led by a group of experienced operators and scientists and is focused on generating the highest quality and most consistent product that meets or exceeds Health Canada expectations.**
>
> The combination of the Company's experienced growing team **along with its goal of exceeding Health Canada's ACMPR quality assurance guidelines** are essential to consistently providing high quality medical cannabis products that are safe for doctor prescribed medical cannabis clients. [Emphasis Added].

25. On March 28, 2019, CannTrust released its Annual Information Form for the financial year ended December 31, 2018 (the "2018 AIF") which was filed with the Canadian Securities Administrators (on SEDAR at www.sedar.com) along with a

signed certification on Form 52- 109F2 that represented that the filing contained no misrepresentations. The 2018 AIF stated in pertinent part:

> The licenses issued by Health Canada to CannTrust Opco for the Vaughan Facility and the Niagara Facility (collectively, the "Cannabis Licences") are effective until the expected renewal dates of March 13, 2020 and October 6, 2020, respectively. The Cannabis Licences allow for the production, sale or provision, possession, shipping, transportation, delivery and destruction of dried cannabis and cannabis plants or seeds. It allows the Vaughan Facility and the Niagara Facility to produce dried cannabis and cannabis extracts up to such amounts as permitted by CannTrust Opco's storage capacity. See " Description of the Business – Production – Storage and Security".
>
> ...
>
> Health Canada, pursuant to the Cannabis Act and the Cannabis Regulations, sets the standard required for production and sale of cannabis. **CannTrust Opco's Quality Assurance team is led by a group of experienced operators and scientists and is focused on generating the highest quality and most consistent product that meets or exceeds Health Canada expectations.**
>
> The combination of the Company's experienced growing team **along with its goal of exceeding Health Canada's quality assurance guidelines** are essential to consistently providing high quality medical cannabis products that are safe for doctor prescribed medical cannabis clients.

26. On January 8, 2019, CannTrust filed a Registration Statement on Form 40-F with the Securities and Exchange Commission in order to register its common shares for trading on the NYSE. After several amendments, CannTrust shares began trading on the NYSE on February 25, 2019.

27. The Registration Statement incorporated a number of documents by reference, such as the 2017 AIF, and the 2018 AIF. While the 2018 AIF warned that CannTrust's business could suffer in the future due to the "impact of Health Canada's compliance regime," and thus the material importance of complying with applicable regulations, they failed to disclose that the Company had ***already*** failed

to obtain necessary licenses for the cultivation of cannabis at its facilities and had attempted to conceal its illegal activities from regulators.

28. Indeed, 2018 AIF claimed that Defendants routinely inspected the Company's facilities and that CannTrust was in compliance with all relevant laws, including maintaining all necessary licenses. For example, the 2018 AIF, in a section titled "Change in Laws, Regulations and Guidelines," stated in pertinent part:

> The Company's operations are subject to various laws, regulations and guidelines relating to the manufacture, management, transportation, storage and disposal of medical cannabis as well as laws and regulations relating to health and safety, the conduct of operations and the protection of the environment. To the knowledge of management, other than the requirement that the Company make routine corrections that may be required by Health Canada from time to time, the Company is currently in compliance with all such laws. . . .
>
> Health Canada inspectors routinely assess the Vaughan Facility and the Niagara Facility against ACMPR regulations and provide the Company with follow up reports noting observed deficiencies. **The Company is continuously reviewing and enhancing its operational procedures at the Vaughan Facility and the Niagara Facility both proactively and in response to routine inspections. The Company follows all regulatory requirements** in response to inspections in a timely manner.

29. The 2017 AIF also represented that CannTrust had "sought and received" the necessary licenses, stating in pertinent part:

> The Company has sought and received its ACMPR Licenses for the Vaughan Facility and Niagara Facility which each provide for (a) the production and sale of dried cannabis; (b) the production and sale of cannabis oil (c) the production and sale of cannabis in its natural form: cannabis resin; (d) the production and sale of cannabis plants; and (e) the production and sale of cannabis seeds.

30. These statements were materially false and misleading at the time they were made because they failed to disclose adverse facts. These false and misleading statements remained alive in the market and uncorrected at the start of the Class Period.

31. In fact, no later than November 16, 2018, the Individual Defendants were made aware that cannabis was being cultivated in rooms which had yet to be licensed by Health Canada.

32. On July 8, 2019, the Company issued a press release revealing that Health Canada had discovered during an audit of the Company that it had been growing cannabis in five unlicensed rooms at the Niagara Facility over a six-month period and had provided misleading information to the regulator. The Company also announced that Health Canada had placed a hold on a significant quantity of CannTrust's cannabis inventory, and that CannTrust had placed a voluntary hold on additional inventory as Health Canada investigated just how far CannTrust's wrongdoing extended.

33. On this news, the price of CannTrust common stock on the TSX dropped from a close of $6.46 per share on Friday July 5, 2019 to a close of $5.00 per share on Monday July 8, 2019, a decline of more than 32%.

34. Two days later, a whistleblower who said he worked at the Niagara Facility alleged that CannTrust had created fake walls to conceal from Health Canada the fact that the Company was growing several thousand cannabis plants in unlicensed rooms. CannTrust now faces the possibility of not only fines and criminal charges, but stiffer penalties, up to and including the loss of its licenses to operate, which would pose an existential threat the Company.

35. Then, on July 12, 2019, CannTrust announced that it had implemented a voluntary and indefinite hold on ***all*** of its products pending an internal review and the results of the investigation by Health Canada.

36. On this news, the price of CannTrust common stock on the TSX dropped from a close of $4.04 per share on July 11, 2019 to a close of $3.34 per share on July 12, 2019, a decline of more than 17%.

Part 2: LEGAL BASIS

A. Negligent Misrepresentation

37. The Plaintiff pleads negligent misrepresentation against the Defendants for all of the Impugned Documents.

38. The Plaintiff pleads that the misrepresentations alleged herein were contained in or were incorporated by reference into the Impugned Documents.

39. The Impugned Documents were prepared, in part, for the purpose of attracting investment and inducing members of the investing public to purchase CannTrust shares. The Defendants knew and intended at all material times that the Class Members would reasonably rely to their detriment upon such documents in making the decision to purchase CannTrust shares.

40. The Defendants were in a relationship of proximity with the Class Members and it was reasonably foreseeable that any act or omission on their part could cause damage to the Class Members.

41. The Defendants owed a duty to Class Members to ensure the accuracy of its public statements. Therefore, they had an obligation to make full, true and accurate disclosure of material facts and changes with respect to its business and affairs.

42. The Individual Defendants, by virtue of their positions as officers and directors of CannTrust, also owed a duty to Class Members to ensure that public statements on behalf of CannTrust were true, accurate and not misleading. They owed a duty to ensure that material information was publicly disclosed to Class Members in a timely manner and that there were no material omissions in any of the Impugned Documents.

43. The continuous disclosure requirements in Canadian securities law mandated CannTrust to provide quarterly and annual reports. These reports were meant to be read by investors in the secondary market and to be relied upon in making investment decisions. These reports and other public disclosure were prepared to attract investment in CannTrust and the Defendants intended that Class Members would rely upon public disclosure for that purpose.

44. Further, the Individual Defendants had similar statutory obligations under Canadian securities law to ensure the accuracy of these disclosure documents.

45. During the Class Period, the Individual Defendants signed annual reports and certified that the quarterly reports and annual reports did not contain any untrue statement of material fact or omit to state a material fact necessary to make the statements made not misleading. They also certified that CannTrust has appropriate Disclosure Controls & Procedures.

46. The Defendants breached the standard of conduct required in the circumstances by making the misrepresentations alleged herein.

47. The Individual Defendants made the misrepresentations alleged herein by signing, authorizing, permitting and/or acquiescing to the release of the Impugned Documents.

48. The Defendants further knew and intended that the information contained in the Impugned Documents would be incorporated into the price of CannTrust's publicly traded shares such that the trading price of those shares would at all times reflect the information contained in the Impugned Documents.

49. The Plaintiff and the other Class Members directly or indirectly relied upon the misrepresentations alleged herein in making the decision to purchase and/or hold shares of CannTrust, and suffered damages arising from the decline in CannTrust's share price when the truth was revealed.

50. The Plaintiff and other Class Members relied on the Defendants' obligation to make timely disclosure of all material facts. The Defendants violated these obligations.

51. The Plaintiff and other Class Members invested in and continued to hold CannTrust shares relying on the misrepresentations in the Impugned Documents alleged herein. The Plaintiff reviewed CannTrust's public disclosure and relied on information contained therein.

52. Alternatively, the Plaintiff and the other Class Members relied upon the misrepresentations alleged herein by the act of acquiring shares of CannTrust in an efficient market. As a result, the repeated publication of the misrepresentations alleged herein in these Impugned Documents caused the price of CannTrust's shares to trade at inflated prices during the Class Period, thus directly resulting in damage to the Plaintiff and the other Class Members.

Part 16.1 of the British Columbia Securities Act

53. The Plaintiff asserts the claims in Part 16.1 of the Securities Act and, if required, the equivalent sections of the Securities Legislation, against all Defendants in respect of all of CannTrust's shares that traded in the secondary market during the Class Period. Each of the Impugned Documents are "Core Documents" within the meaning of the Securities Act.

54. Each of these Impugned Documents contained one or more of the misrepresentations alleged herein.

55. Each of the Individual Defendants was an officer and/or director of CannTrust at material times. Each of the Individual Defendants authorized, permitted or acquiesced in the release of some or all of the Impugned Documents.

56. CannTrust is a reporting issuer within the meaning of the Securities Act.

57. At all material times, each of the Defendants knew or, in the alternative, ought to have known, that the Impugned Documents contained the misrepresentations alleged herein.

58. The Plaintiff and the other Class suffered damages arising from the decline in CannTrust's share price when the truth was revealed.

B. PUNITIVE DAMAGES

59. The Plaintiff claims punitive damages against CannTrust and the Individual Defendants as a result of their conduct particularized herein and, in particular, their callous disregard for their obligations to make full, plain, and true disclosure.

60. In particular, CannTrust and the Individual Defendants' conduct in hiding and continuing to hide the truth warrants an award of punitive damages.

61. Additionally, some of the Individual Defendants engaged in insider trading transactions. On November 6, 2018, a holding company called Cannamed Financial Corp. ("Cannamed"), and which was controlled by defendants Paul and Litwin, sold nearly $1 million worth of CannTrust shares after receiving an email from an employee which outlined CannTrust's illicit growing operations. The holding company sold a further $5-million in CannTrust shares over the next 30 days. More specifically, Cannamed sold 110,000 shares on November 6, 2018, for $8.77 per share for gross proceeds of $964,854. From November 20 through December 12, 2018, Cannamed sold another 620,000 shares at prices ranging between $7.00 per shares to $8.50 per share, thereby grossing $5.06-million.

C. THE RELATIONSHIP BETWEEN THE MISREPRESENTATIONS AND THE PRICE OF CANNTRUST'S SHARES

62. The price of CannTrust's shares was directly affected during the Class Period by the issuance of the Impugned Documents. The Defendants were aware at all material times of the effect of CannTrust's disclosure documents upon the price of CannTrust's shares.

63. The Impugned Documents were filed, among other places, with SEDAR and the TSX, and thereby became immediately available to, and were reproduced for inspection by, the Class Members, other members of the investing public, financial analysts and the financial press.

64. CannTrust routinely transmitted the its financial documents to the financial press, financial analysts and certain prospective and actual holders of CannTrust shares. CannTrust either provided copies of the above referenced documents or links thereto on its website.

65. CannTrust regularly communicated with public investors and financial analysts via established market communication mechanisms, including through regular disseminations of their disclosure documents, including press releases on newswire services in Canada, the United States and elsewhere. Each time CannTrust communicated new material information about CannTrust's financial results to the public, the price of CannTrust's shares was directly affected.

66. CannTrust was the subject of analysts' reports that incorporated certain of the material information contained in the Impugned Documents, with the effect that any recommendations to purchase CannTrust shares in such reports during the Class Period were based, in whole or in part, upon that information.

67. At all material times during the Class Period, CannTrust's shares were traded, among other places, on the TSX, which is an efficient and automated market. The price at which CannTrust's shares traded promptly incorporated material information from CannTrust's disclosure documents about CannTrust's business and affairs, including the Misrepresentations, which were disseminated to the public through the documents referred to above and distributed by CannTrust, as well as by other means.

D. VICARIOUS LIABILITY OF CANNTRUST

68. CannTrust is vicariously liable for the acts and omissions of the Individual Defendants and its other officers, directors, and employees because their acts and omissions with respect to the misrepresentations were carried out while they were

engaged in the management, direction and control of the business affairs of CannTrust.

Part 3: RELIEF SOUGHT

69. The Plaintiff claims for the following relief, on a joint and several basis, against the Defendants:

a) An order certifying this action as a class action;

b) an order granting leave to proceed with the statutory claim for misrepresentation under Part 16.1 of *the Securities Act*, or, if necessary, the corresponding provisions of the Securities Legislation;

c) a declaration that the Impugned Documents contained one or more misrepresentations within the meaning of the British Columbia *Securities Act*, or, if necessary, the Securities Legislation, and the common law;

d) a declaration that the Individual Defendants authorized, permitted or acquiesced in the making of the misrepresentations while knowing them to be misrepresentations;

e) a declaration that the Defendants are liable in damages to the Class Members for misrepresentations in CannTrust's public disclosure alleged herein pursuant to Part 16.1 of the *Securities Act*, or, if necessary, the corresponding provisions of the other Securities Legislation, and the common law;

f) damages in an amount that this Court find appropriate;

g) punitive damages against CannTrust and the Individual Defendants in an amount that this Court find appropriate;

h) a declaration that CannTrust is vicariously liable for the acts and omissions of its officers, directors and employees;

i) an order directing a reference or giving such other directions as may be necessary to determine issues not determined in the trial of the common issues;

j) prejudgment interest and post-judgment interest;

k) the costs of notices and of administering the plan of distribution of the recovery in this action; and

l) such further and other relief as to this Honourable Court seems just.

PLAINTIFFS' ADDRESS FOR SERVICE:

MERCHANT LAW GROUP LLP
303 – 304 15127 100th Avenue
Vancouver, British Columbia
V3R 0N9

Direct Fax number for service: 604-951-7721

Place of trial: North Westminster

The address of the registry is: Law Courts, Begbie Square
651 Carnarvon Street
New Westminster, B.C. V3M 1C9

DATED: July 30, 2019

E.F. Anthony Merchant, Q.C.
Steve Roxborough
Linh Pham
Solicitors for the Plaintiff

Rule 7-1 (1) of the *Supreme Court Civil Rules* states:
1. Unless all parties of record consent or the court otherwise orders, each party of record to an action must, within 35 days after the end of the pleading period,
   (a) prepare a list of documents in Form 22 that lists
      (i) all documents that are or have been in the party's possession or control and that could, if available, be used by any party at trial to prove or disprove a material fact, and
      (ii) all other documents to which the party intends to refer at trial, and
   (b) serve the list on all parties of record.

ENDORSEMENT FOR SERVICE OUTSIDE BRITISH COLUMBIA

There is a real and substantial connection between British Columbia and the facts alleged in this proceeding and the Plaintiffs and other Class Members plead and rely upon the *Court Jurisdiction and Proceedings Transfer Act*, R.S.B.C. 2003, c 28 (the "*CJPTA*") in respect of these Defendants. Without limiting the foregoing, a real and substantial connection between British Columbia and the facts alleged in this proceeding exists pursuant to ss 10 (e) - (i) of the *CJPTA* because this proceeding:

a) concerns a resident of British Columbia;
b) concerns contractual obligations that, to a substantial extent, were to be performed in British Columbia and resulted from a solicitation of business in British Columbia;
c) concerns restitutionary obligations that, to a substantial extent, arose in British Columbia;
d) concerns a tort committed in British Columbia;
e) concerns a business carried on in British Columbia; and
f) is a claim for damages sustained in British Columbia.

Appendix

Part 1: CONCISE SUMMARY OF NATURE OF CLAIM:

This is a proposed class action on behalf of all persons and entities who, from March 29, 2018, to July 12, 2019, acquired CannTrust's shares in the secondary market, other than CannTrust itself or its subsidiaries, affiliates, officers, directors, senior employees, legal representatives, heirs, predecessors, successors and assigns;.

Part 2: THIS CLAIM ARISES FROM THE FOLLOWING:

A personal injury arising out of:

[ ] a motor vehicle accident

[ ] medical malpractice

[ ] another cause

A dispute concerning:

[ ] contaminated sites

[ ] construction defects

[ ] real property (real estate)

[ ] personal property

[ ] the provision of goods or services or other general commercial matters

[X] investment losses

[ ] the lending of money

[ ] an employment relationship

[ ] a will or other issues concerning the probate of an estate

[] a matter not listed here

Part 3: THIS CLAIM INVOLVES:

[X] a class action

[ ] maritime law

[ ] aboriginal law

[ ] constitutional law

[ ] conflict of laws

[ ] none of the above

[ ] do not know

Part 4:

Class Proceedings Act, R.S.B.C. 1996, c. 50

Court Order Interest Act, R.S.B.C. 1996, c. 79

Securities Act, R.S.B.C. 1996, c. 418

This is Exhibit "E-2" referred to in the affidavit of Serge Kalloghlian, sworn before me this 20th day of January, 2021

A Commissioner for taking Affidavits

ACTION NUMBER	1910983
COURT	Court of Queen's Bench of Alberta
JUDICIAL CENTRE	Calgary
APPLICANT	Derek Selanders
RESPONDENTS	CannTrust Holdings Inc., Peter Aceto, Eric Paul, Mark Litwin, Greg Guyatt, and Ian Abramowitz
DOCUMENT	Originating Application - *Part 17.01 of the Securities Act*
ADDRESS FOR SERVICE AND CONTACT INFORMATION OF PARTY FILING THIS DOCUMENT	**MERCHANT LAW GROUP LLP** 2710 17th Avenue S.E. (Merchant Law Building) Calgary, AB T2A 0P6 E.F. Anthony Merchant, Q.C. Tel: (403) 225-7777 Fax: (403) 273-9411 Email: tmerchant@merchantlaw.com

NOTICE TO THE RESPONDENTS

This application is made against you. You are a Respondent.
You have the right to state your side of this matter before the Court.

To do so, you must be in Court when the application is heard as shown below:	
Date:	September 12, 2019
Time:	10:00 am
Where:	Calgary Courts Centre, 601-5 Street SW, Calgary, AB T2P 5P7
Before Whom:	~~Unknown~~ Justice in Chambers

Go to the end of this document to see what you can do and when you must do it.

Basis for this claim:

1. The Applicant, Derek Selanders (the "Plaintiff") has at all material times resided in Airdrie, Alberta. The Plaintiff purchased 1850 shares of CannTrust on the TSX on July 3, 2019, at an average price of $6.61 per share. On July 9, 2019, he sold 700 shares of CannTrust on the TSX at an average price of $4.81 per share. On July 12, 2019, he sold 510 shares of CannTrust on the TSX at an average price of $4.28 per share. On July 19, 2019, he sold 640 shares of CanTrust on the TSX at an average price of $4.12 per share.

2. CannTrust is a public corporation organized pursuant to the laws of Ontario. CannTrust produces and distributes recreational and medicinal cannabis products. CannTrust's products include dried flower, capsules, oil tinctures, and topicals, along with products for the pet and coffee markets. Its registered office is in Ontario and its shares are listed under the symbol "TRST" on the TSX.

3. Respondent Peter Aceto ("Aceto") was, between October 1, 2018 and July 22, 2019, Chief Executive Officer of CannTrust.

4. Respondent Eric Paul ("Paul") was the co-founder and Chief Executive Officer of CannTrust and remained in that role until October 1, 2018.

5. Respondent Mark Litwin ("Litwin") is and has at all material times been a Director of CannTrust.

6. Respondent Gregory Guyatt ("Guyatt") assumed the role of Chief Financial Officer of CannTrust on February 19, 2019.

7. Respondent, Ian Abramowitz ("Abramowitz") is the Senior Vice-President of Global Investments and Partners and, prior to February 19, 2019, was the Chief Financial Officer of CannTrust.

9. Between March 29, 2018 and July 12, 2019, the Respondents made repeated misrepresentations to investors in connection with CannTrust's compliance with Health Canada regulations.

10. The Applicant and putative Class Members were harmed by the Respondents' misrepresentations.

<u>Proceeding under Part 17.01 of the Securities Act</u>

11. The causes of action for misrepresentation and failure to make timely disclosure based upon Part 17.01 of the Securities Act, RSA 2000, c S-4, as amended, are being brought in good faith.

12. There is a reasonable possibility that the action will be resolved at trial in favour of the Applicant.

Remedy sought:

13. The Applicant seeks an order granted the Applicant leave to commence an action based upon Part 17.01 of the Securities Act, RSA 2000, c S-4, as amended, in the form attached as Schedule "A" to this Application or as may be amended and presented by the Applicant prior to the determination of the Application.

14. Such further and other orders as counsel may advise and this Honourable Court may grant.

Affidavit or other evidence to be used in support of this application:

15. Affidavit of ***, sworn July 31, 2019.

Applicable Acts and regulations:

1. Alberta Rules of Court Rules 1.4, 3.8-3.14, 4.33

3. *Securities Act*, RSA 2000, c S-4, Part 17.01

WARNING

You are named as a respondent because you have made or are expected to make an adverse claim in respect of this originating application. If you do not come to Court either in person or by your lawyer the Court may make an order declaring you and all persons claiming under you to be barred from taking any further proceedings against the applicant and against all persons under the applicant. You will be bound by any order the Court makes, or another order might be given or other proceedings taken which the applicant is entitled to make without any further notice to you.

If you want to take part in the application, you or your lawyer must attend in Court on the date and the time shown at the beginning of this form. If you intend to give evidence in response to the application, you must reply by filing an affidavit or other evidence with the Court and serving a copy of that affidavit or other evidence on the applicant a reasonable time before the application is to be heard or considered.

Y:\Wpdata\Class Actions\CannTrust\2019-07-31 - Leave Application.wpd

This is Exhibit "E-3" referred to in the affidavit of Serge Kalloghlian, sworn before me this 20th day of January, 2021

A Commissioner for taking Affidavits

CANADA

PROVINCE OF QUEBEC
DISTRICT OF MONTREAL

500-06-001011-192

SUPERIOR COURT
(CLASS ACTION)

DIRAN AVEDIAN, residing and domiciled at 1270 - 1250 Ave des Pins, in the city of Montreal, Province of Quebec, H3G 2P5

Applicant

-vs-

CANNTRUST HOLDINGS INC., a legal person, incorporated under the laws of Ontario and having its registered office at 1 - 3280 Langstaff Road, Vaughan, Ontario, L4K 4Z8

-and-

PETER ACETO, former Chief Executive Officer of CANNTRUST HOLDINGS INC., whose address for service is 7300 Keele Street, Vaughan, Ontario, L4K 1Z9

-and-

ERIC PAUL, former Chairman and Director of CANNTRUST HOLDINGS INC., whose address for service is 7300 Keele Street, Vaughan, Ontario, L4K 1Z9

-and-

MARK LITWIN, Director of CANNTRUST HODLINGS INC., whose address for service is 106 Avenue Road, Toronto, Ontario, M5R 2H3

-and-

GREGORY GUYATT, Chief Financial Officer of CANNTRUST HOLDINGS INC., whose address for service is 7 Godfrey's Lane, Mississauga, Ontario, L5H 2T1

-and-

(continued)

IAN ABRAMOWITZ, Senior Vice-President of Global Investments and Partnerships, whose address for service is 106 Avenue Road, Toronto, Ontario, M5R 2H3

APPLICATION FOR AUTHORIZATION TO INSTITUTE A CLASS ACTION AND TO APPOINT THE APPLICANT AS THE REPRESENTATIVE PLAINTIFF AND FOR AUTHORIZATION TO INSTITUTE AN ACTION PURSUANT TO TITLE VIII, CHAPTER II, DIVISION II OF THE *SECURITIES ACT*

(Art. 574 C.C.P. and following; *Securities Act*, CQLR c V-1.1, ss. 225.4 and following)

TO ONE OF THE HONOURABLE JUSTICES OF THE SUPERIOR COURT OF QUEBEC, SITTING IN AND FOR THE DISTRICT OF MONTREAL, THE APPLICANT STATES THE FOLLOWING:

I. THE CLASS

1. The Applicant wishes to institute a class action on behalf of the following Class, of which the Applicant is a member, namely:

> All persons or entities in Québec who purchased through the secondary market securities of CannTrust Holdings Inc. (TSX: TRST) between March 29, 2018 and July 12, 2019 inclusively (the "**Class Period**"), excluding CannTrust Holdings Inc. or its subsidiaries, affiliates, officers, directors, senior employees, legal representatives, heirs, predecessors, successors and assigns, the Individual Defendants and any member of their families and any entity in which any of them has or had during the Class Period any legal or de facto controlling interest ("**Excluded Persons**")

(the "**Class**")

II. THE DEFENDANTS

2. CannTrust Holdings Inc. ("**CannTrust**") is a corporation organized pursuant to Ontario's *Business Corporations Act*, as it appears in the extract from the Ontario corporate registry communicated herewith as **Exhibit P-1**. Its registered office is located at 3280 Langstaff Road, Unit 1, Vaughan, Ontario, L4K 4Z8.

3. CannTrust produces and distributes recreational and medicinal cannabis products in Ontario and across Canada. CannTrust's products include dried flower, capsules, oil tinctures, and topicals, along with products for the pet and coffee markets.

4. Shares of CannTrust have, since March 5, 2018, been traded on the Toronto Stock Exchange under the ticker symbol "TRST".

5. Peter Aceto ("**Aceto**") was, between October 1, 2018 and July 22, 2019, Chief Executive Officer of CannTrust. According to CannTrust's corporate profile report (Exhibit P-1), Aceto may be notified of court documents at 7300 Keele Street, Vaughan, Ontario, L4K 1Z9.

6. As described in the October 1, 2018 CannTrust press release communicated herewith as **Exhibit P-2**, Eric Paul ("**Paul**") was the co-founder and Chief Executive Officer of CannTrust and remained in that role until October 1, 2018 when he became Chairman of the Board and assumed a role as a Special Advisor to CannTrust's management team. According to CannTrust's corporate profile report (Exhibit P-1), Paul may be notified of court documents at 7300 Keele Street, Vaughan, Ontario, L4K 1Z9.

7. Mark Litwin ("**Litwin**") is and has at all material times been a Director of CannTrust. According to CannTrust's corporate profile report (Exhibit P-1), Litwin may be notified of court documents at 106 Avenue Road, Toronto, Ontario, M5R 2H3.

8. As described in the February 13, 2019 CannTrust press release communicated herewith as **Exhibit P-3**, Gregory Guyatt ("**Guyatt**") assumed the role of Chief Financial Officer of CannTrust on February 19, 2019. According to CannTrust's corporate profile report (Exhibit P-1), Guyatt may be notified of court documents at 7 Godfrey's Lane, Mississauga, Ontario, L5H 2T1.

9. As described in Exhibit P-3, Ian Abramowitz ("**Abramowitz**") is the Senior Vice-President of Global Investments and Partnerships but, prior to February 19, 2019, was the Chief Financial Officer of CannTrust. According to CannTrust's corporate profile report (Exhibit P-1), Abramowitz may be notified of court documents at 106 Avenue Road, Toronto, Ontario, M5R 2H3.[1]

10. Aceto, Paul, Litwin, Guyatt, and Abramowitz will be referred to herein as the "**Individual Defendants**".

11. Each of the Individual Defendants was either:
    (a) directly involved in the management of CannTrust;
    (b) directly involved in the day-to-day operations of CannTrust at the highest levels;
    (c) privy to confidential proprietary information concerning CannTrust and its business and operations;
    (d) directly or indirectly involved in drafting, producing, reviewing and/or disseminating the false and misleading statements and information alleged herein;
    (e) directly or indirectly involved in the oversight or implementation of CannTrust's internal controls;
    (f) aware of or recklessly disregarded the fact that the false and misleading statements were being issued concerning CannTrust; or

[1] The Ontario corporate registry profile lists Abramowitz as "Stan Abramowitz" rather than "Ian Ambramowitz". This appears, given the consistency of all other reporting and records, to be a typographical error in the corporate registry.

(g) approved or ratified these statements in violation of the Québec and other provincial securities laws.

12. As such, each of the Individual Defendants had a significant and material role in the activities of CannTrust or its public reporting and disclosures and each is liable for damages pursuant to, without limitation, ss. 225.8, 225.9, 225.10 and/or 225.11 of the *Securities Act*, CQLR c V-1.1 (the "***Securities Act***").

III. GENERAL FACTS

(a) CannTrust's Operating Context

13. As a publicly traded corporation and reporting issuer, CannTrust was required throughout the Class Period to issue and file through the Canadian Securities Administrators' System for Electronic Document Analysis and Retrieval ("**SEDAR**"), without limitation:

(a) within 45 days of the end of each quarter, quarterly interim financial statements;

(b) within 90 days of the end of the fiscal year, annual financial statements;

(c) contemporaneously with each of the above, a Management Discussion & Analysis report ("**MD&A**") explaining how the company performed during the period covered by the financial statements, and of the company's financial condition and future prospects;

(d) within 90 days of the end of the fiscal year, an Annual Information Form ("**AIF**"), including material information about the company and its business at a point in time in the context of its historical and possible future development. AIFs are an annual disclosure document intended to provide material information about the company and its business at a point in time in the context of its historical and future development. The AIF must describe the company, its operations and prospects, risks and other external factors that impact the company specifically; and

(e) Material Change Reports ("**MCRs**") when any new information becomes available which may be material to the company's operations.

14. The aforementioned financial statements, MD&A reports, AIFs, and MCRs were all required to be signed and/or certificated as true and correct by directors or officers of CannTrust, including the various Individual Defendants.

15. In addition to the financial regulatory regime, CannTrust operates under a multi-layered cannabis legal framework in Canada, with different regulatory schemes applying depending on whether the cannabis was intended for medicinal or recreational use and within or outside of Canada.

(1) Medicinal Cannabis (in Canada)

16. The Canadian market for medicinal products is primarily regulated at the federal level. CannTrust is a "Licensed Producer" of medicinal cannabis under Canada's *Access to Cannabis for Medical Purposes Regulations* ("**ACMPR**"). This designation subjects CannTrust to certain regulations (e.g., requiring security for facilities) and reporting requirements, as well as to unscheduled site inspections by Health Canada, the agency primarily responsible for regulating the cultivation and marketing of cannabis products in Canada.

17. The ACMPR also requires CannTrust to obtain facility- and room-specific licenses for each location in which it cultivates, processes, and stores its products.

18. According to CannTrust, it has sought and received its ACMPR Licenses for two facilities: one located in Pelham, Ontario (which CannTrust refers to as the "**Pelham**

Facility" or "**Niagara Facility**") and the other in Vaughan, Ontario which the Company refers to as its "**Vaughan Facility**".

19. At the start of the Class Period, Health Canada had licensed these facilities for certain activities, such as the indoor cultivation of cannabis, but not for other activities, such as outdoor cultivation. In addition, not all rooms within each facility were licensed for certain activities, such as cultivation.

(2) Recreational Cannabis (in Canada)

20. On October 17, 2018, Canada legalized the distribution of recreational cannabis. In doing so, the federal government required companies to be federally licensed, but largely delegated other regulatory matters to the Canadian provinces, including responsibility for regulating sale and distribution, minimum age requirements, places where cannabis can be consumed, and other matters.

(3) Medicinal Cannabis (Internationally)

21. CannTrust has repeatedly, in its public statements and other documents, declared its intention to expand internationally, especially after Canada and other countries loosened regulation of recreational cannabis products.

22. Health Canada requires companies to apply for licenses to export such products. On or about November 6, 2017, CannTrust received Health Canada approval to export medical marijuana internationally to countries where medical marijuana is legalized, and the Company began shipping to Australia.

23. On March 13, 2018, the Company announced it had entered into a joint venture with a company in Denmark to distribute its products.

24. As discussed below, during the Class Period the Company announced its intention to begin exporting to the United States, beginning with the state of California.

25. CannTrust's expansion plans were fuelled in significant measure by the desire to seize the market opportunity created by the legalization of recreational cannabis in Canada and in other countries (as well as states within the United States).

(b) CannTrust's Misrepresentations: 2018 Canadian Documentation

26. On March 29, 2018, CannTrust released its AIF for the financial year ended December 31, 2017 (the "**2017 AIF**"), which is communicated herewith as **Exhibit P-5**.

27. On March 29, 2018, CannTrust released its annual financial statements for the year ended December 31, 2017 (the "**2017 Financials**"), which are communicated herewith as **Exhibit P-6**. The 2017 Financials were signed by Eric Paul and Mark Litwin in their capacities as Directors of CannTrust.

28. On March 29, 2018, CannTrust released its MD&A report for the year ended December 31, 2017 (the "**March 29, 2018 MD&A**"), which is communicated herewith as **Exhibit P-7**.

29. The 2017 AIF, 2017 Financials, and March 29, 2018 MD&A were accompanied by Form 52-109FV1 (Certification of Annual Filings) certificates endorsed by:
   (a) Eric Paul, then President and Chief Executive Officer of CannTrust, which is communicated herewith as **Exhibit P-8**; and
   (b) Ian Abramowitz, then Chief Financial Officer of CannTrust, which is communicated herewith as **Exhibit P-9**.

30. The 2017 AIF represented, in its pertinent parts:

(a) That the product being provided by CannTrust would meet or exceed Health Canada's quality requirements:

> Under the ACMPR, CannTrust Opco sells dried cannabis and oil extractions to the client based on the medication document provided by his or her health care practitioner. There is no limit imposed by the ACMPR on the strains that may be produced nor does the ACMPR set out specific requirements for pricing.
>
> The sales licenses issued by Health Canada to CannTrust Opco for the Vaughan Facility and the Niagara Facility (collectively, the "ACMPR Licenses") are effective until the expected renewal dates of March 13, 2020 and October 6, 2020, respectively. The ACMPR Licenses allow for the production, sale or provision, possession, shipping, transportation, delivery and destruction of dried cannabis and cannabis plants or seeds. It allows the Vaughan Facility and the Niagara Facility to produce dried cannabis and cannabis extracts up to such amounts as permitted by CannTrust Opco's storage capacity (See "Storage and Security"). Health Canada requires that medical documents be written to include the amount of dried cannabis in grams per day a patient may consume. This requirement applies equally to oils. To assist patients with determining how much oil they should be consuming per day, licensed producers are required to provide an equivalency factor outlining how much oil is equivalent to one gram of dried cannabis
>
> ...
>
> Health Canada, pursuant to the ACMPR, sets the standard required for production and sale of medical cannabis. **CannTrust Opco's Quality Assurance team is led by a group of experienced operators and scientists and is focused on generating the highest quality and most consistent product that meets or exceeds Health Canada expectations**.
>
> The combination of the Company's experienced growing team **along with its goal of exceeding Health Canada's ACMPR quality assurance guidelines are essential to consistently**

> **providing high quality medical cannabis products** that are safe for doctor prescribed medical cannabis clients.

(Exhibit P-5, p. 7 - emphasis added)

(b) That CannTrust was operating entirely within the confines of the applicable laws and regulations:

> The Company's operations are subject to various laws, regulations and guidelines relating to the manufacture, management, transportation, storage and disposal of medical cannabis as well as laws and regulations relating to health and safety, the conduct of operations and the protection of the environment. **To the knowledge of management, other than the requirement that the Company make routine corrections that may be required by Health Canada from time to time, the Company is currently in compliance with all such laws**. If any changes to such laws, regulations or guidelines occur, which are matters beyond the control of the Company, the Company may incur significant costs in complying with such changes or it may be unable to comply therewith, which in turn may result in a material adverse effect on the Company's business, financial condition and results of operations.

(Exhibit P-5, p. 22 - emphasis added)

(c) More particularly, that CannTrust possessed all of the necessary licenses for the operation of its facilities:

> **The Company has sought and received its ACMPR Licenses for the Vaughan Facility and Niagara Facility** which each provide for (a) the production and sale of dried cannabis; (b) the production and sale of cannabis oil © the production and sale of cannabis in its natural form: cannabis resin; (d) the production and sale of cannabis plants; and (e) the production and sale of

> cannabis seeds. See "Description of the Business – Principal Products" above for more information.

(Exhibit P-5, p. 21 - emphasis added)

(d) That CannTrust's operations are subject to ongoing and continuous regulatory oversight, including site inspections:

> **Health Canada inspectors routinely assess the Vaughan Facility and the Niagara Facility** against ACMPR regulations and provide the Company with follow up reports noting observed deficiencies. **The Company is continuously reviewing and enhancing its operational procedures at the Vaughan Facility and the Niagara Facility both proactively and in response to routine inspections. The Company follows all regulatory requirements in response to inspections in a timely manner**.

(Exhibit P-5, p. 23 - emphasis added)

31. The aforementioned statements in the 2017 AIF were materially misleading in that, *inter alia*:

(a) the ACMPR Licenses held by CannTrust were not for the entirety of the Niagara and Vaughan Facilities but were only for a subset of the space in those locations;

(b) they implied that Health Canada had the capacity to, and did in fact, directly monitor CannTrust's operations, without disclosing that CannTrust was taking steps to hide, obscure, or otherwise mislead Health Canada about its activities.

(c) CannTrust's Misrepresentations: 2019 U.S. Documentation

32. On January 8, 2019, CannTrust filed a Registration Statement (Form 40-F) with the United States' Securities and Exchange Commission ("**SEC**") in order to register its common shares for trading on the New York Stock Exchange ("**NYSE**"). A copy of Form 40-F (without its attached exhibits), as retrieved from the SEC database, is communicated herewith as Exhibit P-10.

33. The Form 40-F incorporated a number of documents by reference, including the 2017 AIF (Form 40-F Exhibit 99.57), 2017 Financials (Form 40-F Exhibit 99.55), March 29, 2018 MD&A (Form 40-F Exhibit 99.58), and the Paul and Abramowitz certificates (Form 40-F Exhibits 99.60 and 99.59 respectively), reinforcing to the market the statements contained in those disclosures. To the extent that those documents contained misrepresentations, they were repeated by virtue of the U.S. registration.

(d) ConnTrust's Misrepresentations: 2019 Canadian Documentation

34. On March 28, 2019, CannTrust released its AIF for the financial year ended December 31, 2018 (the "**2018 AIF**"), which is communicated herewith as **Exhibit P-11**.

35. On March 28, 2019, CannTrust released its annual financial statements for the year ended December 31, 2018 (the "**2018 Financials**"), which are communicated herewith as **Exhibit P-12**. The 2018 Financials were signed by Eric Paul and Mark Litwin in their capacities as Directors of CannTrust.

36. On March 28, 2019, CannTrust released its MD&A report for the year ended December 31, 2018 (the "**March 28, 2019 MD&A**"), which is communicated herewith as **Exhibit P-13**.

37. The 2018 AIF, 2018 Financials, and March 28, 2019 MD&A were accompanied by Form 52-109FV1 (Certification of Annual Filings) certificates endorsed by:

   (a) Peter Aceto, then President and Chief Executive Officer of CannTrust, which is communicated herewith as **Exhibit P-14**; and

   (b) Gregory Guyatt, Chief Financial Officer of CannTrust, which is communicated herewith as **Exhibit P-15**.

38. The 2018 AIF represented, in its pertinent parts:

   (a) That the product being provided by CannTrust would meet or exceed Health Canada's quality requirements:

> Health Canada, pursuant to the Cannabis Act and the Cannabis Regulations, sets the standard required for production and sale of cannabis. **CannTrust Opco's Quality Assurance team is led by a group of experienced operators and scientists and is focused on generating the highest quality and most consistent product that meets or exceeds Health Canada expectations**
> ...
> The combination of the Company's experienced growing team **along with its goal of exceeding Health Canada's quality assurance guidelines** are essential to consistently providing high quality medical cannabis products that are safe for doctor prescribed medical cannabis clients

(Exhibit P-11, p. 10-11 - emphasis added)

   (b) That CannTrust was subject to various laws:

> The Company's operations are subject to various laws, regulations and guidelines relating to the manufacture, management, transportation, storage and disposal of cannabis as well as laws and regulations relating to health and safety, the conduct of operations and the protection of the environment. If any changes to such laws, regulations or guidelines occur, which are matters beyond the control of the Company, the Company may incur significant costs in complying with such changes or it may be unable to comply therewith, which in turn may result in

> a material adverse effect on the Company's business, financial condition and results of operations.

(Exhibit P-11, p. 30)

(c) More particularly, that CannTrust possessed all of the necessary licenses for the operation of its facilities:

> **The licences issued by Health Canada to CannTrust Opco for the Vaughan Facility and the Niagara Facility (collectively, the "Cannabis Licences")** are effective until the expected renewal dates of March 13, 2020 and October 6, 2020, respectively. The Cannabis Licences **allow for the production, sale or provision, possession, shipping, transportation, delivery and destruction of dried cannabis and cannabis plants or seeds. It allows the Vaughan Facility and the Niagara Facility to produce dried cannabis and cannabis extracts** up to such amounts as permitted by CannTrust Opco's storage capacity. See " Description of the Business – Production – Storage and Security".

(Exhibit P-11, p. 10 - emphasis added)

(d) That CannTrust's operations are subject to ongoing and continuous regulatory oversight, including site inspections:

> **Health Canada conducts ad hoc, unscheduled site inspections of licensed producers.** Health Canada inspectors assess the Vaughan Facility and the Niagara Facility on a monthly basis against Cannabis Regulations and provide the Company with follow up reports noting observed deficiencies **The Company is continuously reviewing and enhancing its operational procedures at the Vaughan Facility and the Niagara Facility both proactively and in response to routine inspections. The Company follows all regulatory requirements in response to inspections in a timely manner. As of the date hereof, there are no outstanding inspection issues with Health Canada** beyond day-to-day adjustments that may occur in order to ensure ongoing compliance.

(Exhibit P-11, p. 16 - emphasis added)

39. The aforementioned statements in the 2018 AIF were materially misleading in that, *inter alia*:

(a) the Licenses held by CannTrust were not for the entirety of the Niagara and Vaughan Facilities but were only for a subset of the space in those locations;

(b) they fail to disclose that notwithstanding that they did not have Licenses to cover the entirety of their facilities, CannTrust was nonetheless producing cannabis in unlicensed areas of the facilities in violation of the applicable laws and regulations;

(c) they disclose that CannTrust is subject to various legal and regulatory regimes, but make no statement (as did the 2017 AIF) to confirm that CannTrust was in fact complying with those regimes; and

(d) they implied that Health Canada had the capacity to, and did in fact, directly monitor CannTrust's operations, without disclosing that CannTrust was taking steps to hide, obscure, or otherwise mislead Health Canada about its activities.

40. Moreover, the 2018 Financials were misleading in that they impermissibly included, as revenue and assets, proceeds and inventory from illegally grown cannabis plants.

(e) Effects of CannTrust's Activities and Misrepresentations

41. Investors (including the Applicant and other members of the Class) have suffered and will continue to suffer significant financial harm by the conduct of CannTrust and the Individual Defendants.

42. CannTrust's growth plan was to significantly expand its production of cannabis. Prior to and during the Class Period, CannTrust laid out to investors a three-phase plan to support this strategy. CannTrust's May 3, 2019 Prospectus, communicated herewith as **Exhibit P-4**, for example, described the phases of their expansion strategy as follows:

> We have completed the Phase 1 redevelopment of the Niagara Facility which is approximately 250,000 square feet and the Phase 2 expansion of approximately 200,000 square feet to which Health Canada granted a cultivation and production license. On October 24, 2018, we purchased a 19.4 acre property adjacent to the Niagara Facility and will begin construction of an additional 390,000 square foot Phase 3 expansion on that land. On January 22, 2019, we obtained all necessary permits from the Town of Pelham (where the Niagara Facility is located) for the Phase 3 expansion, which is expected to be completed during 2020. After completion of the Phase 3 expansion, the Company expects the Niagara Facility to have a total production capacity of approximately 100,000 kg per year. The Company expects to have more than 800,000 square feet of production capacity after completion of all phases of the Niagara Facility expansion.

(Exhibit P-4, p. S-73 to S-74)

43. The expansion into trading on the NYSE (commencing February 25, 2019) increased liquidity and demand for CannTrust stock, pushing the price of CannTrust shares to near record highs. Moreover, a secondary offering of 36.36 million common shares in May 2019 at US$5.50 per share raised almost $200 million in additional capital for the company.

44. The May 2019 prospectus is communicated herewith as **Exhibit P-17** and included reference to a significant increase in production in the preceding quarter:

> In the quarter ended March 31, 2019, we harvested approximately 9,424 kg of cannabis from our Niagara Facility, representing an increase of 96% from the fourth quarter of 2018. In April 2019, our cultivation and processing permit under Health Canada Cannabis Regulations was amended to include the final 20% of our Phase 2 expansion, which is now fully licensed. With the Phase 2 expansion, we expect full production to be achieved by the end of the second quarter of 2019 at an annualized rate of 50,000 kg per year.

(Exhibit P-17, p. S-10)

45. The May 2019 prospectus did not disclose that this increased production was achieved by growing cannabis illicitly and without the appropriate regulatory licenses, which were only acquired in April 2019.

(f) The truth is revealed

46. The demand for recreational cannabis significantly outstripped the available supply after it was legalized in October 2018, as described by a January 22, 2019 report by BNN Bloomberg, "*Canada's post shortage could last 5 years amid edibles demand: Expert*", communicated herewith as **Exhibit P-18**;

47. As demand started to outpace supply, unbeknownst to investors, CannTrust had cut corners, lied to regulators, and illegally grew cannabis at its facilities in order to continue to show revenue and sales growth.

48. On July 8, 2019, the Company issued a press release, communicated herewith as **Exhibit P-19**, revealing that Health Canada had discovered during an audit of the Company that it had been growing cannabis in five unlicensed rooms at the Niagara Facility over a six-month period and had provided misleading information to the regulator.

49. The Company also announced that Health Canada had placed a hold on a significant quantity of CannTrust's cannabis inventory, and that CannTrust had placed a voluntary hold on additional inventory as Health Canada investigated just how far CannTrust's wrongdoing extended.

50. On this news, the price of CannTrust common stock dropped from a close of $6.46 per share on Friday July 5, 2019 to a close of $5.00 per share on Monday July 8, 2019, a decline of more than 32%.

51. Two days later, a whistleblower who said he worked at the Niagara Facility alleged that CannTrust had created fake walls to conceal from regulators the fact that the Company was growing cannabis in unlicensed rooms, as discussed in the July 16, 2019 article "*Stock plummets, CEO's future uncertain, as whistleblower Nick Lalonde lets loose*", communicated herewith as **Exhibit P-20.**

52. Nick Lalonde, a former CannTrust employee, claimed to have alerted Health Canada to the fact that cannabis was being grown in unlicensed areas of the facility. Lalonde had been asked by supervisors to hang temporary walls to hide large quantities of plants from view, in an effort to mislead Health Canada about the extent of the operation.

53. In response to that tip, on or about June 17, 2019, Health Canada conducted a surprise inspection of the facility and uncovered 5,200 kg of unlicensed cannabis at one of CannTrust's facilities.

54. CannTrust now faces the possibility of not only fines and criminal charges, but stiffer penalties, up to and including the loss of its licenses to operate, which would pose an existential threat the Company.

55. On July 12, 2019, CannTrust announced in a press release, communicated herewith as **Exhibit P-21**, that it had implemented a voluntary and indefinite hold on all of its products pending an internal review and the results of the investigation by Health Canada.

56. On this news, the price of CannTrust common stock dropped from a close of $4.04 per share on July 11, 2019 to a close of $3.34 per share on July 12, 2019, a decline of more than 17%. This represented a greater than 50% decline from the price at which defendants had sold $200 million worth of CannTrust stock to the investing public only two months before in the May 2019 offering.

57. On July 25, 2019, CannTrust announced in a press release, communicated herewith as **Exhibit P-22**, the termination with cause of CEO Peter Aceto and the compelled resignation of Eric Paul as Chair of the Board.

(g) Insider trading by Paul and Litwin

58. Additionally, as described in the July 29, 2019 Globe and Mail article, *"Two CannTrust officials sold $6-million of stock after the chair was informed of unlicensed cannabis growing*," communicated herewith as **Exhibit P-25**, some of the Individual Defendants engaged in insider trading transactions.

59. On November 16, 2018, a holding company called Cannamed Financial Corp. ("**Cannamed**"), and which was controlled by defendants Paul and Litwin, sold nearly $1 million worth of CannTrust shares after receiving an email from an employee which outlined CannTrust's illicit growing operations.

60. The holding company sold a further $5-million in CannTrust shares over the next 30 days. More specifically, Cannamed sold 110,000 shares on November 6, 2018, for $8.77 per share for gross proceeds of $964,854. From November 20 through December 12, 2018, Cannamed sold another 620,000 shares at prices ranging between $7.00 per shares to $8.50 per share, thereby grossing $5.06-million.

IV. CLAIMS

(a) Civil Claim - Article 1457 CCQ

61. The Applicant pleads a fault on the basis of art. 1457 CCQ for the breaches by the Defendants of their general private law duty of diligence as owed to the Applicant and the Class.

62. The Defendants failed to abide by the rules of conduct incumbent on them in the circumstances of their relationships with members of the Class as well as the transactions in which they acted, at law and as was reasonably required from them.

63. As a result, the Defendants committed a fault and therefore caused injuries to the members of the Class in terms of causing their significant monetary damages and losses, and are bound to compensate the members of the Class for those losses.

(b) Secondary market misrepresentation - *Securities Act*

64. The Applicant pleads and seeks authorization pursuant to s. 225.4 of the *Securities Act*, CQLR c V-1.1 to pursue a claim for secondary market misrepresentation as found in Title VIII, Chapter II, Division II of the *Securities Act*.

65. During the Class Period, CannTrust released to the public and filed financial statements, information forms, certificates, and other documents which contained misrepresentations as particularized herein.

66. The representations misrepresented the financial condition of CannTrust and failed to disclose material information regarding its license position and legal growing and revenue potentials as particularized above.

67. Per s. 5 of the *Securities Act*, "material information" means "a fact that may reasonably be expected to have a significant effect on the market price or value of securities issued ...". A "misrepresentation" means "any misleading information on a material fact as well as any pure and simple omission of a material fact."

68. CannTrust and the Individual Defendants owed a duty to the Applicant and to members of the Class at law and under provisions of the *Securities Act* to disseminate promptly, or to ensure the prompt dissemination of truthful, complete, and accurate statements regarding CannTrust's business and affairs, and to promptly correct any previously-issued, materially inaccurate information, so that the price of CannTrust's publicly traded securities was based on complete, accurate, and truthful information.

69. At all material times, the Defendants and each of them knew or ought reasonably to have known that the trading price of CannTrust's publicly-traded securities was directly influenced by the statements disseminated, authorized, or otherwise disclosed concerning the business and affairs of CannTrust.

70. The Defendants knew or ought reasonably to have known that a failure to ensure that CannTrust's disclosures were materially accurate and materially complete would cause CannTrust's securities to become inflated and thus would cause damage to persons who invested in CannTrust's securities while their price remained inflated by such false statements.

71. Pursuant to s. 225.12 of the *Securities Act*, the Applicant and members of the Class are not required to prove that they relied on any document, public oral statement, or other communication by the Defendants in respect of their decision to acquire or dispose of CannTrust securities.

(c) Insider Trading - *Securities Act*

72. Paul and Litwin, and their relatives, through Canamed, engaged in insider trading as particularized herein contrary to s. 187 of the *Securities Act.*

73. As a result of this conduct, the Plaintiff and the Class who sold their CannTrust securities have suffered damage.

74. The Applicant pleads and relies on ss. 226 and 227 of the *Securities Act* accordingly.

V. FACTS GIVING RISE TO AN INDIVIDUAL ACTION BY THE APPLICANT

75. The Applicant, Diran Avedian ("**Avedian**") is a resident of Montreal, Quebec.

76. As indicated in the transaction records communicated herewith as **Exhibit P-23** and the investment account summary communicated herewith as **Exhibit P-24**, the Applicant acquired 200 shares of CannTrust @ $13.28 per share (at a total cost of $2,656) on September 19, 2018. The Applicant acquired an additional 1,000 shares of CannTrust @ $8.50 per share (at a total cost of $8,500 plus commissions) on November 12, 2018. 800 shares of CannTrust were sold on September 17, 2018 (for $8,800 less commissions). The Applicant continues to hold 2,000 CanTrust shares.

77. As a consequence of the misrepresentations alleged herein and the decline in CannTrust share price between July 5, 2019 and July 12, 2019 as the misrepresentations were revealed ($5.00 to $3.34, or a 33.2% loss), the Applicant incurred compensable losses of at least $3,320.

78. The Applicant therefore has suffered, and is justified in claiming, damages which are a direct and proximate result of the Defendants' conduct.

VI. FACTS GIVING RISE TO AN INDIVIDUAL ACTION BY EACH OF THE MEMBERS OF THE CLASS

79. Each member of the Class purchased or otherwise acquired CannTrust securities during the Class Period.

80. Thus, each member of the Class shares common claims that are founded on the same underlying facts as the Applicant's as they pertain to the acts and omissions of the Defendants.

81. Each member of the Class suffered damages directly related to the acts and ommissions of the Defendants.

VII. CONDITIONS REQUIRED TO INSTITUTE AN ACTION

(a) The claims of the members of the Class raise identical, similar or related questions of law or fact

82. During the Class Period, CannTrust and the Individual Defendants had legal obligations of periodic and timely disclosure of material facts and changes under the *Securities Act*. They violated those legal obligations.

83. During the Class Period, CannTrust and the Individual Defendants had legal obligations to disclose and correctly state its financial situation in a forthright, honest, truthful, and complete manner. They violated those legal obligations.

84. Additionally, CannTrust owed its securities holders duties under article 1457 CCQ. These duties were informed by the *Securities Act* and subsidiary instruments thereof

including NI 51-102, NI 52-109, NI 41-101, NI 45-106, NI 52-110, and their related rules and policies.

85. During the Class Period, CannTrust and the Individual Defendants committed a fault in respect of the Class by failing to comply with their duties and responsibilities and by making the false and misleading representations pleaded herein.

86. The Individual Defendants oversaw the preparation and reporting of CannTrust's disclosures to the market including the 2017 and 2018 annual reports and knew or should have known of the misleading statements and the omissions of material facts they contained.

87. The Individual Defendants authorized, permitted or acquiesced to the release of public disclosures during the Class Period by CannTrust containing omissions of material facts and the misrepresentations plead herein.

88. In addition to its direct liability, pursuant to art. 1463 CCQ, CannTrust is vicariously liable for the acts or omissions of the Individual Defendants and its agents and employees because all of the wrongful acts complained of herein were carried out within the scope or guise of their agency or employment.

89. As a result of the Defendants' conduct and their misrepresentations in CannTrust's disclosure documents, CannTrust's securities traded at artificially inflated prices during the Class Period and the Class acquired those securities at prices that were inflated and did not reflect their true value. When the truth began to emerge, the market price or value of CannTrust's securities plummeted, causing significant losses and damages to the Applicant and the Class.

90. In this context, the principle questions of fact and law to be dealt with collectively are the following:

(a) Did the 2017 or 2018 annual filings (including the financial statements, MD&A, and AIF) contain one or more misrepresentations within the meaning of the *Securities Act*? If so, what documents contained the misrepresentations?

(b) Are any of the Defendants liable to the Class or any members thereof under Title VIII, Chapter II, Division II of the *Securities Act*? If so, what Defendant is liable and to whom?

(c) Did any of the Defendants owe a duty of diligence or care to the Class, or any members of the Class, under the general private law of Québec? If so, what Defendant owed a duty of diligence or care and to whom?

(d) If some or all of the Defendants owed a duty of diligence or care to the Class, or any members of the Class, did any of the Defendants violate such duty of diligence or care and commit a fault under article 1457 of the CCQ? If so, what Defendant committed a fault and with respect to whom?

(e) What damages are sustained by the Plaintiffs and the other members of the Class:

(i) under general principles of Québec civil law; and

(ii) pursuant to the damage calculation provisions of the *Securities Act*?

(f) Are any of the Defendants liable to the Plaintiffs and the Class, or any of them, for damages? If so, what Defendant is liable, to whom and in what amount?

91. Consequently, the Applicant and the members of the Class seek for this Honourable Court to authorize the following conclusions to the proposed proceedings:

GRANT this class action on behalf of the Class;

GRANT the Plaintiff's action against the Defendants in respect of the rights of action asserted against the Defendants under Title VIII, Chapter II, Division II of the *Securities Act* and article 1457 of the *Civil Code of Québec*;

CONDEMN the Defendants to pay to the Plaintiff and the Class compensatory damages for all monetary losses;

ORDER collective recovery in accordance with articles 595 to 598 of the *Code of Civil Procedure*;

THE WHOLE with interest and additional indemnity provided for in the *Civil Code of Quebec* and with full costs and expenses, including expert fees, notice fees and fees relating to administering the plan of distribution of the recovery in this action.

(b) The facts alleged appear to justify the conclusions sought

92. As particularized herein, the Defendants violated their legal obligations and their duties and responsibilities to the Class, and made misrepresentations to the Class in the annual filing documents within the meaning of the *Securities Act*, supporting the Applicant's and the Class' claims.

(c) The composition of the group makes it difficult or impracticable to apply the rules for mandates to take part in judicial proceedings on behalf of others or for consolidation of proceedings

93. CannTrust is a large multinational corporation traded on two stock exchanges with many millions of outsanding securities.

94. There are thousands of investors that could be members of the putative Class, scattered throughout Québec.

95. The names, addresses, and other coordinates of the members of the Class are unknown to the Applicant.

96. In addition, given the costs and risks inherent in an action before the Courts, it can be reasonably anticipated that many people will hesitate to institute an individual action against the Defendants. Even if the Class Members themselves could afford such individual litigation, the Court system could not as it would be overloaded. Furthermore, individual litigation of the factual and legal issues raised by the conduct of Defendants would increase delay and expense to all parties and to the Court system.

(d) The representative plaintiff is in a position to properly represent the class members

97. The Applicant understands the requirements of time and dedication required of the role as representative plaintiff and is prepared to devote the required resources to carry forward this proposed class action on behalf of the Class.

98. The Applicant is a member of the Class as proposed, having purchased CannTrust securities during the Class Period.

99. The Applicant has sustained damages as a consequence of the misrepresentations and has a direct interest in the outcome of the proceedings.

100. The Applicant has no conflict of interest with other members of the Class.

101. The Applicant is represented by counsel that are experienced at litigating class actions in Québec and across Canada against multinational corporations.

VIII. PLACE OF TRIAL

102. The Applicant suggests that this class action be exercised before the Superior Court in the District of Montréal for the following reasons:

(a) The Applicant resides in Montreal;

(b) Many Class Members are domiciled in the District of Montréal; and

(c) The Applicant's counsel has an office in the District of Montréal.

FOR THESE REASONS, MAY IT PLEASE THE COURT TO:

AUTHORIZE the bringing of a class action in the form of an application to institute proceedings in damages;

DECLARE the Class to be:

> All persons or entities in Québec who purchased through the secondary market securities of CannTrust Holdings Inc. (TSX: TRST) between March 29, 2018 and July 12, 2019 inclusively (the "**Class Period**"), excluding CannTrust Holdings Inc. or its subsidiaries, affiliates, officers, directors, senior employees, legal representatives, heirs, predecessors, successors and assigns, the Individual Defendants and any member of their families and any entity in which any of them has or had during the Class Period any legal or de facto controlling interest ("**Excluded Persons**")

APPOINT Diran Avedian as the representative plaintiff for the Class;

IDENTIFY the questions of fact and law to be be dealt with collectively to be:

(a) Did the 2017 or 2018 annual filings (including the financial statements, MD&A, and AIF) contain one or more misrepresentations within the meaning of the *Securities Act*? If so, what documents contained the misrepresentations?

(b) Are any of the Defendants liable to the Class or any members thereof under Title VIII, Chapter II, Division II of the *Securities Act*? If so, what Defendant is liable and to whom?

(c) Did any of the Defendants owe a duty of diligence or care to the Class, or any members of the Class, under the general private law of Québec? If so, what Defendant owed a duty of diligence or care and to whom?

(d) If some or all of the Defendants owed a duty of diligence or care to the Class, or any members of the Class, did any of the Defendants violate such duty of diligence or care and commit a fault under article 1457 of the CCQ? If so, what Defendant committed a fault and with respect to whom?

(e) What damages are sustained by the Plaintiffs and the other members of the Class:

  (i) under general principles of Québec civil law; and

  (ii) pursuant to the damage calculation provisions of the *Securities Act*?

(f) Are any of the Defendants liable to the Plaintiffs and the Class, or any of them, for damages? If so, what Defendant is liable, to whom and in what amount?

AUTHORIZE the class action proceeding to seek the following conclusions:

GRANT this class action on behalf of the Class;

GRANT the Plaintiffs' action against the Defendants in respect of the rights of action asserted against the Defendants under Title VIII, Chapter II, Division II of the *Securities Act* and article 1457 of the *Civil Code of Québec*;

CONDEMN the Defendants to pay to the Plaintiff and the Class compensatory damages for all monetary losses;

ORDER collective recovery in accordance with articles 595 to 598 of the *Code of Civil Procedure*;

THE WHOLE with interest and additional indemnity provided for in the *Civil Code of Quebec* and with full costs and expenses, including expert fees, notice fees and fees relating to administering the plan of distribution of the recovery in this action.

AUTHORIZE these proceedings to include claims arising from secondary market misrepresentations under section 225.4 of the *Securities Act*;

APPROVE the form and manner of dissemination of notice to the members of the Class in the form to be submitted to the Court;

ORDER the publication of the notice to the members of the Class no later than sixty (60) days after the expiry of all applicable appeal periods flowing from the judgment authorizing the class proceedings;

ORDER that the deadline for a member of the Class to exclude themselves from the class action proceedings shall be sixty (60) days from the publication of the notice to the members of the Class;

THE WHOLE WITH COSTS including experts' fees.

MONTREAL, this 30th day of July, 2019.

Merchant Law Group

MERCHANT LAW GROUP LLP
Attorneys for the Applicant

SUMMONS
(Articles 145 and following C.C.P.)

Filing of a Judicial Application

Take notice that the Applicant have filed this *Application for Authorization to Institute a Class Action and to Appoint the Applicant as Representative Plaintiff and for Authorization to Institute an Action Pursuant to Title VIII, Chapter II, Division II of the Securities Act* in the office of the Superior Court of Quebec in the judicial district of Montreal.

Defendants' Answer

You must answer the application in writing, personally or through a lawyer, at the courthouse of Montreal situated at 1 Rue Notre-Dame Street Est, Montréal, Québec, H2Y 1B6, within 15 days of service of the Application or, if you have no domicile, residence or establishment in Québec, within 30 days. The answer must be notified to the Applicant's lawyer or, if the Applicant is not represented, to the Applicant.

Failure to Answer

If you fail to answer within the time limit of 15 or 30 days, as applicable, a default judgement may be rendered against you without further notice and you may, according to the circumstances, be required to pay the legal costs.

Content of Answer

In your answer, you must state your intention to:

- negotiate a settlement;
- propose mediation to resolve the dispute;
- defend the application and, in the cases required by the *Code*, cooperate with the Applicant in preparing the case protocol that is to govern the conduct of the proceeding. The protocol must be filed with the court office in the district specified above within 45 days after service of the summons or, in family matters or if you have no domicile, residence or establishment in Québec, within 3 months after service;
- propose a settlement conference.

The answer to the summons must include your contact information and, if you are represented by a lawyer, the lawyer's name and contact information.

Change of judicial district

You may ask the court to refer the originating Application to the district of your domicile or residence, or of your elected domicile or the district designated by an agreement with the Applicant.

If the application pertains to an employment contract, consumer contract or insurance contract, or to the exercise of a hypothecary right on an immovable serving as your main residence, and if you are the employee, consumer, insured person, beneficiary of the insurance contract or hypothecary debtor, you may ask for a referral to the district of your domicile or residence or the district where the immovable is situated or the loss occurred. The request must be filed with the special clerk of the district of territorial jurisdiction after it has been notified to the other parties and to the office of the court already seized of the originating application.

Transfer of Application to Small Claims Division

If you qualify to act as an Applicant under the rules governing the recovery of small claims, you may also contact the clerk of the court to request that the Application be processed according to those rules. If you make this request, the Applicant's legal costs will not exceed those prescribed for the recovery of small claims.

Calling to a case management conference

Within 20 days after the case protocol mentioned above is filed, the court may call you to a case management conference to ensure the orderly progress of the proceeding. Failing this, the protocol is presumed to be accepted.

Exhibits supporting the application

In support of the *Application for Authorization to Institute a Class Action and to Appoint the Applicant as Representative Plaintiff and for Authorization to Institute an Action Pursuant to Title VIII, Chapter II, Division II of the Securities Act* the Applicant intends to use the following exhibits:

Exhibit P-1 - CannTrust Holdings Inc. - Ontario Corporate Profile Report
Exhibit P-2 - October 1, 2018 Press Release - Appointment of Aceto as CEO
Exhibit P-3 - February 13, 2019 Press Release - Appointment of Guyatt as CFO
Exhibit P-4 - May 3, 2019 Prospectus Supplement
Exhibit P-5 - 2017 AIF, dated March 29, 2018
Exhibit P-6 - 2017 Financials
Exhibit P-7 - March 29, 2018 MD&A
Exhibit P-8 - 2017 Annual Filings - Paul Certificate
Exhibit P-9 - 2017 Annual Filings - Abramowitz Certificate
Exhibit P-10 - Form 40-F (US Registration)

Exhibit P-11 - 2018 AIF, dated March 28, 2019
Exhibit P-12 - 2018 Financials
Exhibit P-13 - March 28, 2019 MD&A
Exhibit P-14 - 2018 Annual Filings - Aceto Certificate
Exhibit P-15 - 2018 Annual Filings - Guyatt Certificate
Exhibit P-16 - TSX-TRST Historical Share Values (PDF)
Exhibit P-17 - May 2019 Prospectus (Secondary Offering)
Exhibit P-18 - BNN Bloomberg - January 23, 2019
Exhibit P-19 - July 8, 2019 Press Release - Statement re Health Canada Audit
Exhibit P-20 - Pelham Voice - July 16, 2019
Exhibit P-21 - July 11, 2019 Press Release - Hold on Products
Exhibit P-22 - July 25, 2019 Press Release - Leadership Changes
Exhibit P-23 - Diran Avedian - CannTrust Transactions
Exhibit P-24 - Diran Avedian - Account Summary
Exhibit P-25 - Global and Mail - July 29, 2019

These Exhibits are available upon request.

Notice of presentation of an application

If the application is an application in the course of a proceeding or an application under Book III, V, excepting an application in family matters mentioned in article 409, or VI of the *Code*, the establishment of a case protocol is not required; however, the application must be accompanied by a notice stating the date and time it is to be presented.

Montreal, July 30th, 2019

Merchant Law Group

Merchant Law Class LLP
10 rue Notre Dame Est, suite 200
Montréal (Québec) H2Y 1B7

Me Erik Lowe
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Fax : 514-842-6687
Email: elowe@merchantlaw.com
Attorneys for the Applicant

NOTICE OF PRESENTATION
(Articles 146 and 574 al.2 C.P.C.)

TO: CANNTRUST HOLDINGS INC.
1 - 3280 Langstaff Road, Vaughan, Ontario, L4K 4Z8

TO: PETER ACETO
7300 Keele Street, Vaughan, Ontario, L4K 1Z9

TO: ERIC PAUL
7300 Keele Street, Vaughan, Ontario, L4K 1Z9

TO: MARK LITWIN
106 Avenue Road, Toronto, Ontario, M5R 2H3

TO: GREGORY GUYATT
7 Godfrey's Lane, Mississauga, Ontario, L5H 2T1

TO: IAN ABRAMOWITZ
106 Avenue Road, Toronto, Ontario, M5R 2H3

TAKE NOTICE that the present *Application for Authorization to Institute a Class Action and to Appoint the Applicant as Represtnative Plaintiff and for Authorization to Institute an Action Pursuant to Title VIII, Chapter II, Division II of the Securities Act* will be presented before one of the Honourable Judges of the Superior Court of Québec, at the Montreal courthouse, located at 1, rue Notre-Dame Est, in the city and District of Montréal, on the date set by the coordinator of the class actions chamber.

PLEASE ACT ACCORDINGLY.

Montreal, July 30th, 2019

Merchant Law Group

Merchant Law Class LLP
Attorneys for the Applicant

500-06-001011-192

SUPERIOR COURT
(CLASS ACTION)
DISTRICT OF MONTREAL

DIRAN AVEDIAN

Applicant

- VS -

CANNTRUST HOLDINGS INC.

-and-

PETER ACETO

-and-

ERIC PAUL

-and-

MARK LITWIN

-and-

GREGORY GUYATT

-and-

IAN ABRAMOWITZ

Respondents

APPLICATION FOR AUTHORIZATION TO INSTITUTE A CLASS ACTION AND TO APPOINT THE APPLICANT AS REPRESENTATIVE PLAINTIFF AND FOR AUTHORIZATION TO INSTITUTE AN ACTION PURSUANT TO TITLE VIII, CHAPTER II, DIVISION II OF THE *SECURITIES ACT*

ORIGINAL

Me Erik Lowe
MERCHANT LAW GROUP LLP
10 Notre-Dame E., Suite 200
Montreal, Quebec H2Y 1B7
Telephone: (514) 248-7777
Telecopier: (514) 842-6687
Email: elowe@merchantlaw.com

This is Exhibit "F-1" referred to in the affidavit of Serge Kalloghlian, sworn before me this 20th day of January, 2021

A Commissioner for taking Affidavits

Court File No. 19-000625181-00CP

ONTARIO
SUPERIOR COURT OF JUSTICE

B E T W E E N:

WENDY EARLE, ATIQUR SARKER,
DHARAMBIR SINGH, and RON REID

Plaintiffs

and

CANNTRUST HOLDINGS INC., ERIC PAUL, PETER ACETO, GREG GUYATT, IAN ABRAMOWITZ, MARK DAWBER, JOHN KADEN, MARK LITWIN, ROBERT MARCOVITCH, MITCHELL SANDERS, STAN ABRAMOWITZ, BRAD ROGERS, MICHAEL RAVENSDALE, SHAWNA PAGE, ILLANA PLATT, GRAHAM LEE, KPMG LLC, MERRILL LYNCH CANADA INC, CITIGROUP GLOBAL MARKETS CANADA INC, CREDIT SUISSE SECURITIES (CANADA) INC, RBC DOMINION SECURITIES INC, JEFFERIES SECURITIES INC, CANACCORD GENUITY CORP, CANNAMED FINANCIAL CORP AND CAJUN CAPITAL CORP

Defendants

Proceeding under the *Class Proceedings Act, 1992*

AFFIDAVIT OF PATRICK HRUSA
(sworn on October 11, 2019)

I, Patrick Hrusa, of the City of Mississauga, in the Province of Ontario, MAKE OATH AND SAY:

INTRODUCTION

1. I am the plaintiff in the proposed class action bearing Court File No. CV-19000623567-00CP. As such I have personal knowledge of the matters to which I hereinafter depose, except where the statements are based on information and belief, in which case I have disclosed the source of the information and I believe the information is true.

2. I swear this affidavit in support of the plaintiffs' motion for carriage and for no other or improper purpose. No portion of this affidavit is meant to waive, nor should it be construed as, a waiver of solicitor-client, litigation or any other privilege.

BACKGROUND

3. I originally retained Strosberg Sasso Sutts LLP ("SSS") to represent me and the proposed class in this action. On July 11, 2019, I commenced an action against CannTrust Holdings Inc. ("CannTrust") and certain of its officers and directors, bearing Court File No. CV-19000623567-00CP.

4. I subsequently agreed to SSS working with Kalloghlian Professional Corporation ("KPC"), A. Dimitri Lascaris Professional Corporation ("LPC"), and Henein Hutchison LLP ("HHLLP") (together the "Consortium") in the prosecution of the action and to my addition as a plaintiff in this action or the consolidation of this action with the action commenced by me. I have signed a retainer agreement with the Consortium, a copy of which is attached as **Exhibit "A".**

5. Between June 1, 2018 and July 8, 2019, I purchased shares of CannTrust on the Toronto Stock Exchange ("TSX") through my personal trading accounts. I continued to hold shares of CannTrust as of July 8, 2019, and have since sold all but 4,360 of my shares. I suffered losses of approximately $150,000 on my investments in CannTrust shares.

6. Attached as **Exhibit "B"** is a table summarizing my trades in CannTrust shares to date.

THIS MOTION

7. Justin Smith of SSS has advised me that other actions were commenced based on the facts pleaded in this action and that the plaintiffs in those actions are represented by the law firms of by Morganti & Co., P.C. (the "Webb Action", bearing court file no. CV-19-1554), and Rochon Genova LLP and Thornton Grout Finnigan LLP (the "Rosen Action", bearing court file no. CV-1900625351-000CP), respectively. Mr. Smith also advised me that the Consortium has offered to work cooperatively with the other law firms in the prosecution of this action in an effort to avoid a carriage motion.

8. I retained SSS, KPC, LPC, and HHLLP to represent me on the basis of their experience and expertise in prosecuting class proceedings and securities litigation of this nature. I believe that they have the necessary financial resources and personnel to prosecute this case effectively.

9. I am committed to being actively involved in this litigation and maximizing the recovery for the class by providing evidence, attending examinations for discovery and trial, and overseeing the preparation and filing of pleadings and related materials as necessary.

10. I respectfully request that the plaintiffs' motion for carriage in this action be granted.

SWORN OR AFFIRMED before me at the City of Mississauga in the province of Ontario this 11th day of October, 2019	
A Commissioner, etc. Adam Jarvis	Patrick Hrusa

This is Exhibit "F-2" referred to in the affidavit of Serge Kalloghlian, sworn before me this 20th day of January, 2021

A Commissioner for taking Affidavits

Court File No. 19-000625181-00CP

ONTARIO
SUPERIOR COURT OF JUSTICE

B E T W E E N:

WENDY EARLE, ATIQUR SARKER,
DHARAMBIR SINGH, and RON REID

Plaintiffs

and

CANNTRUST HOLDINGS INC., ERIC PAUL, PETER ACETO, GREG GUYATT, IAN ABRAMOWITZ, MARK DAWBER, JOHN KADEN, MARK LITWIN, ROBERT MARCOVITCH, MITCHELL SANDERS, STAN ABRAMOWITZ, BRAD ROGERS, MICHAEL RAVENSDALE, SHAWNA PAGE, ILLANA PLATT, GRAHAM LEE, KPMG LLC, MERRILL LYNCH CANADA INC, CITIGROUP GLOBAL MARKETS CANADA INC, CREDIT SUISSE SECURITIES (CANADA) INC, RBC DOMINION SECURITIES INC, JEFFERIES SECURITIES INC, CANACCORD GENUITY CORP, CANNAMED FINANCIAL CORP AND CAJUN CAPITAL CORP

Defendants

Proceeding under the *Class Proceedings Act, 1992*

AFFIDAVIT OF DHARAMBIR SINGH
(Sworn on October 10, 2019)

I, Dharambir Singh, of the City of Surrey, in the Province of British Columbia, MAKE OATH AND SAY:

INTRODUCTION

1. I am a plaintiff in this proposed class action. As such I have personal knowledge of the matters to which I hereinafter depose, except where the statements are based on information and belief, in which case I have disclosed the source of the information and I believe the information is true.

2. I swear this affidavit in support of the plaintiffs' motion for carriage and for no other or improper purpose. No portion of this affidavit is meant to waive, nor should it be construed as, a waiver of solicitor-client, litigation or any other privilege.

BACKGROUND

3. I originally retained Kalloghlian Professional Corporation ("KPC") to represent me and the proposed class in this action. I subsequently agreed to KPC working with A. Dimitri Lascaris Professional Corporation ("LPC"), Henein Hutchison LLP ("HHLLP"), and Strosberg Sasso Sutts LLP ("SSS") (together the "Consortium") in the prosecution of the action, to the removal and addition of other plaintiffs in the action and/or the consolidation of this action with the action commenced by SSS. I have signed a retainer agreement with the Consortium, a copy of which is attached as **Exhibit "A".**

4. Since 2018, I purchased shares of CannTrust Holdings Inc. ("CannTrust") on the Toronto Stock Exchange ("TSX") and the New York Stock Exchange ("NYSE") through my personal trading accounts as well as through the trading accounts of my business, Wellgroomed Designs Inc ("Wellgroomed"). My wife, Gurpreet Kalsi, also purchased shares on the TSX. My business, my wife, and I collectively suffered losses in excess of $250,000 on our investments in CannTrust shares.

5. Attached as **Exhibits "B-1"** through "**B-5"** are tables summarizing the trades in CannTrust shares through the Wellgroomed Canadian account, the Wellgroomed US account, my Canadian account, my US account, and my wife's account, respectively.

THIS MOTION

7. Justin Smith of SSS has advised me that other actions were commenced based on the facts pleaded in this action and that the plaintiffs in those actions are represented by the law firms of by Morganti & Co., P.C. (the "Webb Action", bearing court file no. CV-19-1554), and Rochon Genova LLP and Thornton Grout Finnigan LLP (the "Rosen Action", bearing court file no. CV-1900625351-000CP), respectively. Mr. Smith also advised me that the Consortium has offered to work cooperatively with the other law firms in the prosecution of this action in an effort to avoid a carriage motion.

8. I retained SSS, KPC, LPC, and HHLLP to represent me on the basis of their experience and expertise in prosecuting class proceedings and securities litigation of this nature. I believe that they have the necessary financial resources and personnel to prosecute this case effectively.

9. I am committed to being actively involved in this litigation and maximizing the recovery for the class by providing evidence, attending examinations for discovery and trial, and overseeing the preparation and filing of pleadings and related materials as necessary.

10. I respectfully request that the plaintiffs' motion for carriage in this action be granted.

SWORN OR AFFIRMED before me at the City of Mississauga in the province of Ontario this 11th day of October, 2019	
A Commissioner, etc. Adam Jarvis	Patrick Hrusa

TAB 4

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.

Applicants

AFFIDAVIT OF JAMES W. JOHNSON

(Sworn January 20, 2021)

I, JAMES W JOHNSON, of the City of New York, in the State of New York, MAKE OATH AND SAY:

1. I am a partner at Labaton Sucharow LLP, counsel for court-appointed lead plaintiffs Granite Point Master Fund, L.P., and Granite Point Capital Scorpion Focused Ideas Fund ("**U.S. Class Action Plaintiffs**") in the proposed class action against CannTrust Holdings, Inc. ("**CannTrust**") and others commenced in the Southern District of New York bearing court file No. 1:19-CV-06390 (JPO) ("**U.S. Class Action**"). Counsel for U.S. Class Action Plaintiffs is Labaton Sucharow LLP in the United States and Weisz Fell Kour LLP in Canada ("**U.S. Class Action Counsel**").

2. I have been involved in the prosecution of the U.S. Class Action since its inception and have participated in the mediation process described in the Affidavit of Serge Kalloghlian sworn January 20, 2021 ("**Kalloghlian Affidavit**"). As such, I have knowledge of the matters in this affidavit, except where stated to be based on information and belief, in which case I have indicated the source of that information and believe the information to be true.

3. I swear this affidavit in support of the Applicants' motion for an order appointing representatives and representative counsel for all Securities Claimants, as defined in the Kalloghlian Affidavit, except for those excluded parties, under the *Companies' Creditors Arrangement Act* ("**CCAA**") in these proceedings ("**CCAA Proceedings**").

The U.S. Class Action

4. A class action against CannTrust and others was commenced in the Southern District of New York on July 10, 2019. On April 16, 2020, the court appointed the U.S. Class Action Plaintiffs and U.S. Class Counsel. A copy of that Order is attached as **Exhibit "A"**.

5. On June 26, 2020, the U.S. Class Action Plaintiffs and U.S. Class Counsel filed their Consolidated Class Action Complaint, a copy of which is attached as **Exhibit "B"**.

6. On July 7, 2020, the parties to the U.S. Class Action agreed to stay the U.S. Class Action and voluntarily participate in the mediation before the Hon. Dennis O'Connor, Q.C. A copy of that order is attached as **Exhibit "C"**.

Suitability of the U.S. Class Action Lead Plaintiffs to Serve as Securities Claimants' Representatives

7. The U.S. Class Action Plaintiffs have advised me that just as they remain prepared to act as lead plaintiffs for the class members in the U.S. Class Action, they are also willing and able to fulfill a similar role if appointed as CCAA Representatives. They understand that, as CCAA Representatives, they would be required to give instructions to the CCAA Representative Counsel and to act in the best interests of the Securities Claimants, among other responsibilities.

8. To date, the U.S. Class Action Lead Plaintiffs have fairly and adequately represented the interests of the proposed Class by retaining, interacting with and instructing the U.S. Class Counsel as necessary. It is my belief that they can and will serve in a similarly beneficial capacity if appointed as CCAA Representatives in the CCAA Proceedings.

Suitability of the U.S. Class Counsel to Serve as Representative Counsel

9. Labaton Sucharow LLP ("**LS**") is a nationally recognized U.S. law firm dedicated to class action and investor rights. LS has excelled as lead counsel in numerous actions on behalf of defrauded investors, including noteworthy cases throughout the United States and has recovered more than $12 billion dollars on behalf of defrauded investors. For example, LS served as lead counsel in *In re American International Group, Inc. Securities Litigation*, No. 04-cv-08141 (S.D.N.Y.), in which it achieved a recovery totaling more than $1 billion for injured investors; and secured a $294.9 million recovery in *In re Bear Stearns Cos., Inc. Securities, Derivative & ERISA Litigation*, No. 08-md-01963 (S.D.N.Y.), in which LS served as co-lead counsel. LS presently serves as lead or co-lead counsel in several significant investor class actions.

10. I have practiced law for more than 40 years and have worked at the New York office of LS since 1991, specializing in securities class actions. My practice has focused on class actions since 1980. I have appeared before all levels of U.S. courts including the United States Supreme Court in connection with securities class actions. I have been recognized by *LawDragon* as one of the country's top "500 Leading Lawyers in America" and one of the country's top "Plaintiffs' Financial Lawyers". I have also received a rating of AV Preeminent from the publishers of Martindale-Hubbell directory.

11. The U.S. Class Counsel is willing and able to continue to serve these above functions if appointed as Representative Counsel in the CCAA Proceedings.

Dated at New York, New York, this 20th day of January, 2021.

James W. Johnson

Subscribed and sworn to before me this 20th day of January, 2021.

Notary Public

PATRICIA KLOS
Notary Public-State of New York
No. 01KL4604998
Qualified in Suffolk County
Commission Expires May 31, 2023

EXHIBIT A

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

CHUN HUANG,
Plaintiff,

-v-

CANNTRUST HOLDINGS INC., *et al.*,
Defendants.

19-CV-6396 (JPO)

GUSTAVO ALVERADO,
Plaintiff,

-v-

CANNTRUST HOLDINGS INC., *et al.*,
Defendants.

19-CV-6438 (JPO)

RONALD E. JONES,
Plaintiff,

-v-

CANNTRUST HOLDINGS INC., *et al.*,
Defendants.

19-CV-6883 (JPO)

SCOTT JUSTISS,
Plaintiff,

-v-

CANNTRUST HOLDINGS INC., *et al.*,
Defendants.

19-CV-7164 (JPO)

OPINION AND ORDER

J. PAUL OETKEN, District Judge:

This is a putative shareholder class action against CannTrust Holdings Inc. ("CannTrust") and its executives. The crux of the plaintiffs' allegations is that CannTrust misled investors regarding its compliance with Canadian cannabis regulations, and that CannTrust's stock price dropped as a result. For the reasons that follow, the Court (1) consolidates the four above captioned cases, (2) appoints Granite Point Capital Master Fund, LP and Granite Point Capital Scorpion Focused Ideas Fund as lead plaintiffs, and (3) approves the choice of Labaton Sucharow LLP, as lead counsel for the class.

I. Background

In July 2019, the above-captioned actions were filed. Since then, thirteen plaintiffs or groups of plaintiffs have filed motions requesting consolidation of the above captioned actions, appointment as lead plaintiff, and approval of lead counsel. (Dkt. Nos.[1] 9, 12, 17, 18, 22, 26, 28, 33, 35, 39, 40, 47, 48.) Ultimately, all but three movants filed notices of non-opposition, withdrew their motions, or failed to file an opposition. (*See* Dkt. Nos. 54–59, 61–63.) The three movants that continue to press their lead plaintiff claims are (1) Eric Glasson, Mike Hopson, Joshua Smith, and Ray Brubaker (collectively, "Glasson Group"); (2) Jose Silva; and (3) Granite Point Capital Master Fund, LP and Granite Point Capital Scorpion Focused Ideas Fund (collectively, "Granite Point"). (Dkt. Nos. 17, 22, 40.)

II. Legal Standard

Under Rule 42 of the Federal Rules of Civil Procedure, courts may consolidate cases "involv[ing] a common question of law or fact." Fed. R. Civ. P. 42(a). "The trial court has

[1] All docket citations herein refer to *Huang v. CannTrust Holdings, Inc.*, No. 19 Civ. 6396.

broad discretion to determine whether consolidation is appropriate." *Johnson v. Celotex Corp.*, 899 F.2d 1281, 1284 (2d Cir. 1990).

Under the Private Securities Litigation Reform Act of 1995 ("PSLRA"), Pub. L. No. 104-67, 109 Stat. 737 (codified as amended in scattered sections of 15 U.S.C.), a court is to appoint as lead plaintiff the member or members of the purported class are the "most capable of adequately representing the interests of class members," referred to in the statute as the "most adequate plaintiff." 15 U.S.C. § 78u-4(a)(3)(B)(i). The PSLRA establishes a rebuttable presumption that the "most adequate plaintiff" is the "person or group of persons" that (1) "has either filed the complaint or made a motion in response to a notice"; (2) "in the determination of the court, has the largest financial interest in the relief sought by the class"; and (3) "otherwise satisfies the requirements of Rule 23 of the Federal Rules of Civil Procedure." *Id.* § 78u-4(a)(3)(B)(iii)(I). Finally, as to the selection of lead counsel, the PSLRA states that "[t]he most adequate plaintiff shall, subject to the approval of the court, select and retain counsel to represent the class." *Id.* § 78u-4(a)(3)(B)(v).

III. Discussion

A. Consolidation

All three pending motions seek the consolidation of the *Huang, Alverado, Jones,* and *Justiss* actions. (Dkt. Nos. 17, 22, 40.) Federal Rule of Civil Procedure 42(a) permits consolidation where "actions before the court involve a common question of law or fact." Fed. R. Civ. P. 42(a)(2). In determining whether to exercise its "broad discretion" to consolidate actions that satisfy that baseline criterion, a court must ask "[w]hether the specific risks of prejudice and possible confusion" that could arise from consolidation "[are] overborne by the risk of inconsistent adjudications of common factual and legal issues, the burden on parties, witnesses, and available judicial resources posed by multiple lawsuits, the length of time required to conclude multiple suits as against a single one, and the relative expense to all concerned." *Barkley v. Olympia Mortg. Co.*, 557 F. App'x 22, 25 (2d Cir. 2014) (summary order) (alterations in original) (quoting *Johnson v. Celotex Corp.*, 899 F.2d 1281, 1284 (2d Cir. 1990)).

The Court easily concludes that consolidation is warranted here. No party has opposed consolidation, and all four actions assert identical claims against almost identical defendants on behalf of an identical plaintiff class on the basis of almost identical factual allegations. Nothing would be gained by trying these cases separately, and indeed, taking such a course would be inefficient and would raise the risk of inconsistent outcomes. *See, e.g.*, *In re Braskem S.A. Sec. Litig.*, No. 15 Civ. 5132, 2015 WL 5244735, at *3 (S.D.N.Y. Sept. 8, 2015) ("Courts routinely consolidate securities class actions arising from the same allegedly actionable statements."); *In re Gen. Elec. Sec. Litig.*, No. 09 Civ. 1951, 2009 WL 2259502, at *2 (S.D.N.Y. July 29, 2009) (consolidating actions raising Exchange Act claims where there was "substantial overlap in the complaints").

The Court therefore orders the consolidation of these four actions.

B. Lead Plaintiff

Granite Point is the presumptive lead plaintiff in this action. It moved in a timely manner for appointment as lead plaintiff on September 9, 2019, is the movant with the largest financial interest in the relief sought by the class, and satisfies the requirements of Rule 23. Because the Glasson Group fails to rebut the presumption in favor of Granite Point, and Silva advances no independent argument to rebut, Granite Point is appointed lead plaintiff.

While the PSLRA "does not provide any explicit guidance about how to calculate" the size of a given plaintiff's financial interest, "[c]ourts in this Circuit have traditionally examined four factors: (1) the number of shares purchased during the class period; (2) the number of net shares purchased during the class period . . . ; (3) the total net funds expended during the class period; and (4) the approximate loss suffered during the class period." *In re Veeco Instruments Inc. Sec. Litig.*, 233 F.R.D. 330, 332 (S.D.N.Y. 2005). "It is well settled that '[f]inancial loss, the last factor, is the most important element of the test.'" *Peters v. Jinkosolar Holding Co.*, No. 11 Civ. 7133, 2012 WL 946875, at *5 (S.D.N.Y. Mar. 19, 2012) (alteration in original) (quoting *Varghese v. China Shenghuo Pharm. Holdings, Inc.*, 589 F. Supp. 2d 388, 395 (S.D.N.Y. 2008)). "In calculating loss, courts in this district have a very strong preference for the last-in, first-out method of calculating losses." *Gutman v. Sillerman*, No. 15 Civ. 7192, 2015 WL 13791788, at *4 (S.D.N.Y. Dec. 8, 2015) (internal quotation marks, citation, and alteration omitted).

It is undisputed that Granite Point has suffered the greatest amount of financial loss calculated using the preferred last-in, first-out method. It claims that it incurred $2,135,246 in losses in CannTrust securities. (Dkt. No. 45-2 at 3.) In comparison, Silva claims $1,070,739.21 in losses (Dkt. No. 25-2 at 3), and the Glasson Group claims $468,451.30 in losses (Dkt. No. 32-1 at 2). Neither Silva nor Glasson Group raises any argument that they have a greater financial interest than Granite Point. And neither disputes that Granite Point is the presumptive lead plaintiff. (Dkt. No. 65 at 2; *see* Dkt. No. 69 at 1.)

Granite Point's status as the presumptive lead plaintiff may be rebutted "only upon proof by a member of the purported plaintiff class that the presumptively most adequate plaintiff" (1) "will not fairly and adequately protect the interest of the class"; or (2) "is subject to unique defenses that render such plaintiff incapable of adequately representing the class." 15 U.S.C. § 78u-4(a)(3)(B)(iii)(II). Here, the Glasson Group argues that the presumption is rebutted because Granite Point is subject to unique defenses due to short positions it has taken on CannTrust stock. (*See* Dkt. No. 65 at 2–6.)

Short sellers "sell stock that they borrow from brokers but do not own, incurring the obligation to 'cover' their sales in the future. Such traders purchase shares with the expectation that the share price will decline." *In re Diamond Foods, Inc., Sec. Litig.*, 295 F.R.D. 240, 258 (N.D. Cal. 2013). However, entities that engage in short sales are not automatically excluded from appointment as a lead plaintiff. *Cf. In re Imax Sec. Litig.*, No. 06 Civ. 6128, 2011 WL 1487090, at *7 (S.D.N.Y. Apr. 15, 2011) (rejecting the argument that engaging in "sophisticated investment strategies" necessarily precludes appointment as a lead plaintiff). This is especially true here, because while Granite Point has taken short positions on CannTrust stock, the vast majority of its CannTrust investments were traditional "long" purchases. (*See* Dkt No. 45-2.) And it closed its short position on April 22, 2019, prior to the alleged July 2019 corrective disclosures. (*See id*.)

Glasson Group argues that Granite Point, because it has taken a short position on CannTrust stock, is vulnerable to unique "knowledge-based defenses" and that it may be more difficult for Granite Point to prove loss causation. However, Glasson Group does not explain why Granite Point's short-selling activity necessarily exposes it to "knowledge-based defenses" that it did not rely on any misleading statements made by CannTrust. *See Constance Sczesny Tr. v. KPMG LLP*, 223 F.R.D. 319, 324–25 (S.D.N.Y. 2004) ("[C]onclusory assertions of inadequacy are . . . insufficient to rebut the statutory presumption under the PSLRA without specific support in evidence of the existence of . . . a defense to which [the potential lead plaintiff] would be uniquely subject.")

And Glasson Group's claim that Granite Point may have unique difficulty proving loss causation is without merit. Glasson Group argues that because short sellers necessarily bet that the price of the stock would fall, "[a]ssessing loss causation . . . is further complicated because the standard model of a securities fraud class action based on misrepresentations or omissions is inverted." (Dkt. No. 65 at 5 (quoting *Collier v. Aksys Ltd.*, No. 04 Civ. 1232, 2005 WL 1949868, at *11 (D. Conn. Aug. 15, 2005)).) However, Granite Point does not claim any losses based on its short position. (Dkt. No. 45-2.) And on its loss calculation submission, Granite Point's short position gains were properly disclosed and offset by losses on traditional long stock. (*Id.*) Because Granite Point need only prove that its traditional long stock losses (less any short gains), were caused by any CannTrust misrepresentations, it will have no greater difficulty proving loss causation than any other movant.

In sum, because the fact that Granite Point "made some short sales does not render its claims atypical of the other plaintiffs in the putative class or subject to unique defenses such that it is incapable of adequately representing the case," *Fields v. Biomatrix, Inc.*, 198 F.R.D. 451, 461 (D.N.J. 2000), and no other movant has advanced sufficient "proof" to rebut the presumption that Granite Point should be appointed as lead plaintiff, Granite Point is hereby appointed as lead plaintiff in this action.[2]

C. Lead Counsel

Under the PSLRA, the lead plaintiff is entitled, "subject to the approval of the court, [to] select and retain counsel to represent the class." 15 U.S.C. § 78u-4(a)(3)(B)(v). Granite Point, which the Court has now appointed lead plaintiff, has chosen Labaton Sucharow LLP to serve as

[2] Glasson Group also argues that Granite Point's PLSRA certification is deficient because it does not adequately establish Granite Point's declarant's authority to bind it. (Dkt. No. 65 at 7.) Granite Point's declarant, C. David Bushley, is the COO of Granite Capital and was "personally authorized to enter into and execute th[e] certification on behalf of Granite Point." (Dkt. No. 45-1 at 2.) And Granite Point Capital is the general partner of both Granite Point Capital Master Fund, LP and Granite Point Capital Scorpion Focused Ideas Fund. (Dkt. No. 72 at 6 n.7.) Because Glasson Group has advanced no evidence to suggest that Granite Point's PLSRA certification was deficient, it cannot defeat the presumption that Granite Point should be appointed lead plaintiff on this basis.

lead counsel. Labaton Sucharow LLP has extensive experience in securities fraud litigation (*see* Dkt. No. 45-4 at 1–7), and no class member has offered any reason why Labaton Sucharow LLP would be ill-equipped to act as lead counsel in this consolidated action. This Court therefore concludes, as have other courts in this District, that Labaton Sucharow LLP is "well-qualified and experienced to serve as lead counsel to the class." *In re Facebook, Inc., IPO Sec. & Derivative Litig.*, 288 F.R.D. 26, 41 (S.D.N.Y. 2012).

IV. Conclusion

For the foregoing reasons, Granite Point's motion to consolidate these four related cases, to be appointed as lead plaintiff, and to have Labaton Sucharow LLP approved as lead counsel is GRANTED. All other corresponding motions are DENIED.

Pursuant to Federal Rule of Civil Procedure 42(a), the above-captioned actions are to be consolidated under Case Number 19 Civ. 6396 for all purposes, including discovery, pretrial proceedings, and trial. Every pleading filed in this consolidated action shall be captioned "In Re: CANNTRUST HOLDINGS INC. SECURITIES LITIGATION."

The parties are directed to file a status letter with the Court on or before May 18, 2020.

The Clerk of Court is directed to close the following motions:

- Docket Numbers 9, 12, 17, 18, 22, 26, 28, 33, 35, 39, 40, 47, and 48 in *Huang v. CannTrust Holdings, Inc., et al.*, No. 19 Civ. 6396;
- Docket Numbers 18 and 21 in *Alvarado v. CannTrust Holdings, Inc., et al.*, No. 19 Civ. 6438;
- Docket Numbers 13 and 16 in *Jones v. CannTrust Holdings, Inc., et al.*, No. 19 Civ. 6883; and

- Docket Numbers 11 and 14 in *Justiss v. CannTrust Holdings, Inc.*, *et al.*, No. 19 Civ. 7164.

SO ORDERED.

Dated: April 16, 2020
New York, New York

J. PAUL OETKEN
United States District Judge

EXHIBIT B

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

In Re: CANNTRUST HOLDINGS INC. SECURITIES LITIGATION	No. 1:19-cv-06396-JPO JURY TRIAL DEMANDED Judge J. Paul Oetken CLASS ACTION

CONSOLIDATED CLASS ACTION COMPLAINT

TABLE OF CONTENTS

PAGE

Court-appointed Lead Plaintiffs Granite Point Master Fund, LP and Granite Point Capital Scorpion Focused Ideas Fund ("Lead Plaintiffs" or "Granite Point"), and additional plaintiff Jose A. Silva ("Dr. Silva," and collectively with Granite Point, "Plaintiffs"), bring this action under Section 10(b) and 20(a) of the Exchange Act of 1934 (the "Exchange Act Claims") and separately under Sections 11, 12(a)(2) and 15 of the Securities Act of 1933 (the "Securities Act Claims") against CannTrust Holdings Inc. ("CannTrust" or the "Company"), several of its officers and directors, CannTrust's auditor, the underwriters of CannTrust's secondary public offering completed on May 6, 2019 (the "Offering"), and two holding companies owned by members of CannTrust's Board of Directors that sold shares in the Offering.

As it pertains to the Exchange Act Claims, Plaintiffs bring the Consolidated Class Action Complaint against Defendants: CannTrust; CannTrust's auditor, KPMG LLP ("KPMG"); and several of CannTrust's senior executives and directors: former Chief Executive Officer ("CEO") Peter Aceto, former Chief Financial Officer ("CFO") and current CEO Greg Guyatt, former CFO Ian Abramowitz, and former President and Chief Operating Officer ("COO") Brad Rogers (the "Individual Defendants"); and former Chairman of the Board and CEO, Eric Paul, and members of CannTrust's Board of Directors: Mark E. Dawber, Mitchell J. Sanders, John T. Kaden, Mark I. Litwin, Shawna Page, and Robert F. Marcovitch (the "Director Defendants," and together with CannTrust and the Individual Defendants, "Defendants").

As it pertains to the Securities Act Claims, Lead Plaintiffs bring the Consolidated Class Action Complaint against Defendants: CannTrust; Paul, Aceto, Guyatt, Litwin, Sanders, Marcovitch, Dawber, Page, and Kaden (collectively referred to herein as the "Individual Securities Act Defendants"); Merrill Lynch, Pierce, Fenner & Smith Inc. ("Merrill Lynch"), Citigroup Global Markets Inc. ("Citigroup"), Credit Suisse Securities (USA) LLC ("Credit

Suisse"), Jefferies LLC ("Jefferies"), RBC Dominion Securities Inc. ("RBC"), and Canaccord Genuity LLC ("Canaccord") (collectively referred to herein as the "Underwriter Defendants"); Cannamed Financial Corp. ("Cannamed") and Cajun Capital Corp. ("Cajun," and together with Cannamed the "Selling Shareholder Defendants"); and KPMG. CannTrust, the Individual Securities Act Defendants, the Underwriter Defendants, the Selling Shareholder Defendants and KPMG, are collectively referred to as the "Securities Act Defendants." The Securities Act Claims solely allege strict liability and negligence causes of action, and do not sound in fraud. Accordingly, for the purpose of these Securities Act Claims, Plaintiffs expressly exclude and disclaim any allegation that could be construed as alleging fraud, intentional misconduct or deliberately reckless misconduct.

Plaintiffs' claims are brought upon personal knowledge as to their own acts, and upon information and belief as to all other matters, based upon, among other things, a review and analysis of: (1) reports and documents filed by CannTrust with the Securities and Exchange Commission ("SEC") and Canada's System for Electronic Document Analysis and Retrieval ("SEDAR"); (2) reports issued by analysts covering or concerning CannTrust and its business; (3) press releases, news articles, transcripts, videos, and other public statements issued by or about CannTrust, its business, and the Individual Defendants; (4) an investigation conducted by Plaintiffs' attorneys, including interviews with former CannTrust employees; and (5) other publicly available information concerning CannTrust, its business, and the allegations contained herein. Plaintiffs believe that substantial additional evidentiary support exists for the allegations herein and will continue to be revealed after Plaintiffs have a reasonable opportunity for discovery.

I. VIOLATIONS OF SECTIONS 10(b) AND 20(a) OF THE EXCHANGE ACT

The Exchange Act Claims set forth below in Counts I and II allege violations of Sections 10(b) and (20(a) of the Securities and Exchange Act of 1934. Plaintiffs bring the Exchange Act Claims individually and on behalf of all persons and entities who, during the period from June 26, 2018 through September 17, 2019, inclusive (the "Class Period"), purchased the publicly traded common stock of CannTrust on the New York Stock Exchange or on any U.S.-based trading platform during the Class Period and were damaged thereby (the "Exchange Act Class").[1]

II. NATURE OF THE EXCHANGE ACT CLAIMS

1. The Exchange Act Claims arise from Defendants' fraudulent attempt to take advantage of surging demand in the recreational and medicinal cannabis industry caused by the Canadian government's legalization of cannabis in 2018.

2. Defendants did so by knowingly growing and storing massive amounts of cannabis in unlicensed rooms to artificially boost the Company's production capacity. This unlicensed growing and storing scheme was accomplished purposely—with the knowledge and consent of CEO Defendant Aceto and Chairman of the Board Defendant Paul—in direct violation of the laws and regulations set forth by the Canadian Cannabis Act and the Canadian equivalent of the U.S. Food and Drug Administration, Health Canada.

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[1] The following are excluded from the Exchange Act Class: (i) Defendants; (ii) members of the immediate family of any Defendant who is an individual; (iii) any person who was an officer or director of CannTrust during the Class Period; (iv) any firm, trust, corporation, or other entity in which any Defendant (or members of the immediate family of any Defendant) has or had a controlling interest; (v) CannTrust's employee retirement and benefit plan(s) and their participants or beneficiaries, to the extent they made purchases through such plan(s); and (vi) the legal representatives, affiliates, heirs, successors-in-interest, or assigns of any such excluded person.

3. CannTrust also intentionally falsified its license applications to Health Canada by hanging up fake walls and staging photographs to make it appear as if its cannabis growing rooms were empty when they were in fact filled with thousands of cannabis plants.

4. Finally, CannTrust also boosted production capacity (and increased profits from surging demand) by growing cannabis using cheaper, unregulated seeds obtained on the black-market. CannTrust then mislabeled the cannabis grown from unregulated seeds to customers as if it were regulated and approved by Health Canada.

5. Because Health Canada was unaware of the black-market cannabis, CannTrust was able to increase its production capacity by commingling black-market and regulated cannabis and labeling it all as regulated. By engaging in this illicit growing and storing scheme and concealing it all from Health Canada, CannTrust knowingly put the entire Company and investors' money at serious risk were the regulator to discover the scheme.

6. Nonetheless, throughout the Class Period, Defendants consistently assured investors that CannTrust was in compliance with all Health Canada regulations and boasted that CannTrust was in pole-position to become one of the market leading cannabis companies in the world as demonstrated by its ostensibly strong revenue growth and inventory numbers.

7. However, little did investors know that CannTrust was in violation of numerous Health Canada regulations and that the Company's strong revenue and growth were directly attributable to the Company's illicit growing and storing of cannabis in unlicensed rooms and reliance on black-market seeds. As a result CannTrust also issued financial statements (some audited by KPMG) that materially overstated the Company's revenues, assets, and inventories throughout the Class Period.

8. The risk that Defendants' fraud would come crashing down eventually materialized in June 2019 when a former employee blew the whistle to Health Canada about Defendants' fraudulent practices. Shortly thereafter, Health Canada performed a surprise inspection of CannTrust's facilities, uncovering uncontroverted evidence of the illicit growing and storing scheme. Over the course of the next two months, the truth about CannTrust's fraudulent business practices and Defendants' knowledge and direction thereof were revealed in a series of bombshell disclosures that caused CannTrust's stock price to plunge **more than 73%**, injuring investors as nearly three-quarters of the Company's market cap disappeared.

A. CannTrust's Aggressive Expansion Plan

9. CannTrust was founded in 2013 and for years made money by selling medical cannabis to its approximately 58,000 prescription-carrying customers. However, beginning in 2017, the prospect of the legalization of recreational cannabis in Canada and an increasing number of U.S. states began to gain considerable momentum. By April 2018, legislation was introduced and quickly passed in Canada legalizing the recreational use and sale of cannabis as of October 17, 2018. Cannabis market commenters—and CannTrust itself—announced that they were anticipating a massive increase in demand that would come along with legalization and even predicted a nationwide shortage of recreational cannabis. This surge in demand presented a once-in-a-lifetime opportunity for CannTrust—which already had an established medicinal cannabis operation—to establish itself as a market leader in the soon-to-be booming recreational cannabis industry.

10. In order to take advantage of the upcoming surge in demand, CannTrust undertook an ambitious expansion plan in order to increase its production capacity. Accordingly, in March 2017, CannTrust acquired a massive 450,000-square-foot greenhouse facility in the Town of Pelham, within the regional municipality of Niagara, Ontario (the

"Niagara Facility").[2] Prior to that, CannTrust operated entirely out of a separate facility in Vaughan, Ontario, Canada (the "Vaughan Facility"). CannTrust's plan was to make the Niagara Facility the Company's sole growing facility, while the Vaughan Facility would exclusively handle the storage, processing, packaging, and shipping of CannTrust's cannabis products.

11. In addition to overhauling its growing and processing facilities, CannTrust also brought in a new team of executives who lacked expertise in the cannabis industry but had strong corporate finance backgrounds. These new executives presumably would take the Company from a mid-level medicinal cannabis producer to a large, market-leading recreational cannabis brand with hundreds-of-thousands of customers and investors.

12. Such a transformation would be required if CannTrust was to attract new investors who believed CannTrust had the expertise to become one of the top cannabis corporations in the world. At the forefront of this corporate overhaul was the hiring of Defendant Peter Aceto—a former banking and corporate finance CEO at Tangerine Bank— in October 2018 as the Company's new CEO who replaced Defendant Paul, the Company's Chairman of the Board of Directors, who assumed a role as a "Special Advisor."

13. Armed with a new corporate leadership team, 450,000 square feet of potential growing space in Niagara, and a streamlined storage and processing center in Vaughan, CannTrust appeared to be ideally positioned to profit from the booming demand for recreational cannabis.

14. Nevertheless, one major hurdle existed: many of the growing rooms at the new Niagara Facility and the storage rooms at the Vaughan Facility were **not yet licensed by Health Canada** and therefore **could not be used to grow or store cannabis**.

[2] The Niagara Facility is sometimes also referred to as the "Pelham Facility."

B. CannTrust Was Required to Follow Strict Regulations Governing the Production and Sale of Cannabis

15. Because cannabis and cannabis-related products are consumed by human beings, the production and sale of cannabis are highly regulated. Accordingly, along with the legalization of recreational cannabis came strict regulations governing CannTrust's growing, storage, and sale of cannabis. Indeed, the Cannabis Act, which replaced the previous Access to Cannabis for Medicinal Purposes Regulations ("ACMPR"), set forth a thorough regulatory framework and licensing process for CannTrust to comply with, including detailed licensing requirements for each phase or activity in the cannabis industry including production, growing, importation, exportation, testing, packaging, labelling, sending, delivery, transportation, sale, possession, and disposal of cannabis for both recreational and medical purposes.

16. Critically, CannTrust was also required to obtain **location-specific** licenses for each of the facilities and rooms in which each distinct phase or activity took place—each of which was required to comply with its own specific regulations depending on the activity for which that the room was designated (and licensed). Obtaining a license for a specific location or room, Health Canada required, *inter alia*: (i) verification of the physical security requirements for the site; (ii) confirmation that the activities of the licensed producer correspond to those indicated on the licensed producer's license; (iii) identification of the legal source from which the licensed producer obtains its starting materials (*i.e.*, seeds and plants); and (iv) confirmation that adequate standard operating procedures (SOPs) have been established.

17. As of the start of the Class Period, however, at least **five of the twelve growing rooms** in the Niagara Facility were **not yet fully licensed** by Health Canada. Likewise, many of the rooms at the Company's Vaughan Facility were yet to be licensed for storage. Nonetheless, as early as June 2018, CannTrust started illicitly storing cannabis in unlicensed rooms at the

Vaughan Facility. And as early as October 2018, CannTrust started illicitly growing cannabis in unlicensed rooms at the Niagara Facility—in flagrant violation of Health Canada regulations. Moreover, as another way to boost production capacity, beginning in June 2018, CannTrust began to grow and sell cannabis from seeds obtained on the black-market and commingling it with regulated cannabis and labeling it all as the regulated strain and selling it to CannTrust's customers.

C. Defendants Knowingly Violated Health Canada Regulations to Increase Production Capacity[3]

18. Defendants' knowledge of the illicit growing and storage scheme is not reasonably in dispute. Following the November 2018 inspection by Health Canada of CannTrust's Niagara greenhouse growing facility, Graham Lee, CannTrust's Director of Quality and Compliance, **sent Defendants Aceto and Abramowitz— CannTrust's CEO and CFO, respectively—an email warning them:** *"***We dodged some bullets . . . [Health Canada] did not ask about RG8E/W, which are unlicensed rooms currently full of plants**."

19. Lee explicitly listed the numerous instances of unlicensed growing and storing that was already occurring at CannTrust's facilities, with plans to expand the illicit practice in days: "**1) RG8 is not licenced but has plants in it; 2) RG9 is not licenced but we are intending to put plants in it on Monday; 3) PA2A-E are not licenced but we have moved the encapsulation equipment into them and will begin running it next week**." This email was later **sent to Defendant Paul—CannTrust's Chairman of the Board—**who responded to the communication evidencing his knowledge of the illicit scheme.

[3] All emphases are added unless otherwise noted.

20. Neither Defendants Aceto, Abramowitz nor Paul reacted as they should have: immediately intervening to stop the illicit growing and storing practice. In fact, Defendant Aceto did exactly the opposite. According to internal CannTrust weekly production minutes from November 2018, while discussing the fact that CannTrust had plants growing in unlicensed rooms, **Defendant Aceto instructed CannTrust employees to "continue as planned**."

21. CannTrust then took affirmative steps to conceal the practice from Health Canada. According to former CannTrust employee and whistleblower, Nick Lalonde, senior CannTrust employees instructed him to hang fake walls in front of the unlicensed rooms so the Company could take pictures making it appear as though the room was empty when in reality it was filled to capacity with cannabis plants. CannTrust did this **so it could submit falsified pictures to Health Canada** as part of its application for a license to grow cannabis for those very rooms.

22. These allegations are all fully corroborated by numerous former CannTrust employees and confidential witnesses ("CWs") who confirmed that Defendants grew and stored cannabis in unlicensed rooms and engaged in other regulatory violations in order to boost production capacity and concealed it all from Health Canada.

23. For example, one former employee, CW1, who attended Quality Control meetings where issues at the Niagara Facility were discussed, recalled that she saw plants and greenhouses being opened where the Company had not obtained the proper permitting. The same employee confirmed that CannTrust took affirmative steps to hide the unlicensed growing from Health Canada, which included misleading Health Canada inspectors and hanging up fake walls and curtains in front of the plants in the unlicensed rooms so it appeared in photographs sent to Health Canada that the rooms were empty. Critically, **three former employees, CW1, CW2,**

and CW6 all confirmed that Defendant Aceto knew about and directed the unlicensed growing.

24. In fact, Defendants' knowledge of the illicit growing and storing scheme was so egregious that once Health Canada uncovered the violations, Defendants promptly admitted to the illicit practices. Indeed, in two separate press releases issued following Health Canada's surprise inspection of the Niagara Facility in June 2019 and audit of the Vaughan Facility in July 2019, **CannTrust admitted to engaging in the practice of growing and storing cannabis in unlicensed rooms from October 2018 and June 2018 respectively** (in addition to a multitude of other regulatory violations). Rather than provide an explanation, Defendant Aceto simply told investor investors: "**We made errors in judgement**."

25. Likewise, in a July 8, 2019 interview with a Canadian news outlet Globe & Mail, Defendant Aceto admitted: "We constructed these rooms in accordance with all the rules and regulations; the mistake that was made by CannTrust was putting plants in these rooms before we'd actually received the approval to do so."

D. Defendants Knowingly Misled Investors About The Illicit Growing and Storing Scheme and the Risks it Posed

26. Yet, in complete contradiction to what was happening behind CannTrust's walls, throughout the Class Period, Defendants brazenly and repeatedly assured investors that CannTrust was in compliance with all applicable regulations. For example, Defendants repeatedly assured investors during the Class Period:

- **[CannTrust] currently holds or has applied for all necessary licences and permits to carry on the activities which it is currently conducting under applicable laws and regulations . . . .**

- **CannTrust is a Licensed Producer and distributor of medical and recreational cannabis pursuant to the provisions of the Cannabis Act (Canada) (the "Cannabis Act") and its regulations.**

- **The Company distributes its recreational cannabis products in accordance with the federal and provincial regulatory frameworks**.

27. Likewise, Defendants boasted to investors that CannTrust was successfully ramping up its production capacity and increasing inventory, which in turn led to massive increases in revenues from surging demand. But Defendants failed to disclose the true reason for the Company's new-found success: the illicit growing and storing strategy.

28. For example, during the Class Period Defendants told investors:

- ***CannTrust is excited and well-positioned to enter this new marketplace and has the production capacity and infrastructure . . . to immediately begin fulfilling adult consumer [i.e., recreational] use market orders on a national level.***

- ***CannTrust is a front-runner in the industry and perfectly positioned to continue its exponential growth in Canada and abroad following the legislative changes set to become effective in Canada on October 17th.***

- ***In the quarter ended March 31, 2019, we harvested approximately 9,424 kg of cannabis from our Niagara [F]acility, representing an increase of 96% from the fourth quarter of 2018.***

- ***The total quantity of medical cannabis sold to patients during the three months ended December 31, 2018 increased to 2,017 kg, a 166% from the comparable 2017 period. For the full year 2018, the [C]ompany sold 5,372 kg of medical cannabis, an increase of 141% from the comparable 2017 period.***

- ***The increase in gross profit excluding the impact of the change in the fair value of biological assets was as a result of increased scale of operations.***

29. However, contrary to what Defendants told investors, and as known internally among CannTrust's executives, the real reason CannTrust was "perfectly positioned" and had the "production capacity and infrastructure" to "continue its exponential growth" and the resultant "increase in gross profit" was directly attributable to their knowing violation of Health Canada regulations in order to increase production capacity and take advantage of increased demand.

30. Moreover, Defendants' illicit growing and storage scheme also misleadingly propped up the Company's financial figures they reported to the market. Indeed during the Class Period, CannTrust boasted about its strong balance sheet of biological assets, inventory, and revenue figures when in reality those line items were materially overstated because they included cannabis that was both grown and stored in violation of Heath Canada regulations and accordingly in violation of numerous International Financial Reporting Standards and International Accounting Standards. Notably, because CannTrust lacked legal title to the illicitly grown cannabis, it was not able to properly recognize revenue therefrom. Some of these misleading financial statements were also purportedly audited by CannTrust's certified public accountants, KPMG, in stark violation of relevant auditing standards.

E. Defendants Cash-In While Unsuspecting Investors Pour Money Into CannTrust

31. By the beginning on 2019 CannTrust became one of the hottest cannabis stocks in the world based on the Company's exponential growth and soaring profits—much of which was unknowingly attributable to the production and sale of unlicensed cannabis. Indeed the Company applied to—and shortly thereafter was listed on—the New York Stock Exchange in February 2019 and became one of the most popular cannabis stocks to invest in.

32. Shortly afterwards, the Company filed a registration statement for a secondary offering of CannTrust common stock in order to generate additional capital. The registration statement and the supplemental prospectus filed pursuant thereto were riddled with false and misleading statements, including many of those mentioned above, regarding CannTrust's compliance with Health Canada regulations, increased production capacity and profits, and misleading consolidated financial statements supposedly audited by well-regarded member of the "big four" accounting firms, KPMG.

33. The secondary offering closed on May 6, 2019. All told, CannTrust generated approximately $200 million in the Offering. Critically however, Defendants Paul and Litwin—who signed the false consolidated financial statements—and Defendant Sanders collectively reaped more than **$33 million** in personal proceeds from the Offering.

F. Defendants' Illicit Growing and Storing Scheme—and The Risks It Posed—Are Revealed In a Series of Explosive Disclosures

34. Eventually, CannTrust's illicit growing and storage scheme could no longer be contained. In June 2019, Nick Lalonde, one of CannTrust's former employees, blew the whistle on CannTrust by sending an email to Health Canada detailing Defendants' fraud and stating "[i]f you look through the camera footage prior to the dates the pictures were taken and requested **you will clearly see us hanging up white poly walls to cover up thousands of plants**." Shortly thereafter, Health Canada conducted a surprise inspection and audit of the Niagara Facility that uncovered uncontroverted evidence of Defendants' unlicensed growing operations.

35. Then, on July 8, 2019, prior to the market opening, CannTrust issued a press release, disclosing that CannTrust had "received a compliance report from Health Canada notifying the Company that its greenhouse facility in [Niagara] is non-compliant with certain regulations" and that "[t]he non-compliant rating is based on observations by the regulator regarding the growing of cannabis in five unlicensed rooms . . . [which] took place from October 2018 to March 2019." The press release also stated that CannTrust "accepted Health Canada's non-compliance finding and has taken actions to ensure current and future compliance."

36. Health Canada's findings also had financial ramifications. The press release explained: "Health Canada has placed a hold on inventory which includes approximately 5,200kg of dried cannabis that was harvested in the previously unlicensed rooms in [Niagara], until it deems that the Company is compliant with regulations" and that "CannTrust has

instituted a voluntary hold of approximately 7,500kg of dried cannabis equivalent at its Vaughan manufacturing facility that was produced in the previously unlicensed rooms." In response to this news, CannTrust's share price fell **more than 22%**.

37. As the explosive news of CannTrust's fraudulent scheme spread, the Canadian regulators and authorities and news outlets began to dig into the details of CannTrust's illicit growing and storage practices causing CannTrust stock to continue to plummet in a series of explosive revelations, decimating CannTrust's stock price.

38. On July 10, 2019 the Globe and Mail newspaper issued a news report that revealed the explicit details of Mr. Lalonde's email to Health Canada, including senior CannTrust employees directing Mr. Lalonde and others to hang fake walls in front of the unlicensed rooms to hide their unlicensed growing from Health Canada. In response, CannTrust's stock price fell over **12%**.

39. On July 11, 2019, after the market closed, CannTrust announced that "it has implemented a voluntary hold on sale and shipment of all cannabis products as a precaution while Health Canada visits and reviews its Vaughan, Ontario manufacturing facility." CannTrust also informed investors that it created a Special Committee "comprised of independent members of the Board of Directors" to "investigate [a compliance report] from Health Canada in its entirety." On this news, CannTrust fell another **17%**.

40. On July 15, 2019, after the market closed, the Financial Post published an article discussing an initial investigation by the enforcement team of the Ontario Securities Commission and the potential that Defendants' scheme could rise to the level of a "criminal offence." The article also explained that a number of class action lawsuits had been filed against the Company

in both Canada and the United States for securities fraud violations. As a result, CannTrust's stock price fell **10%**.

41. Then, on July 23, 2019, multiple news reports published for the first time excerpts from the internal CannTrust emails discussed above demonstrating that CannTrust executives, including Defendants Aceto and Paul, **knew about and directed** the unlicensed growing and storage scheme. On this news, CannTrust stock fell **over 22%.**

42. Following these revelations of Defendants Aceto's and Paul's direct involvement with the growing in the five unlicensed rooms, on July 25, 2019, the Company issued a press release, announcing: "The investigation into the Company's non-compliance with Health Canada regulations and ancillary matters uncovered new information that has resulted in a determination by the Board to **terminate with cause** CannTrust CEO Peter Aceto." The press release also announced that "the Board of Directors demanded the resignation of the Company's Chair Eric Paul and he complied."

43. On August 12, 2019, prior to the market opening, CannTrust told investors that Health Canada found significant regulatory violations at the Vaughan Facility. On that day, the Company issued a press release, stating "[a]fter trading hours on Friday, August 9, 2019, CannTrust received a report from Health Canada notifying the Company that its manufacturing facility in Vaughan, Ontario has been rated non-compliant with certain regulations."

44. Specifically, the disclosure revealed for the first time that CannTrust "conver[ted] five rooms from operational areas to storage areas, which were used for storage since June 2018 without prior approval of Health Canada." Again, Defendants admitted that the regulator's findings were accurate noting: "CannTrust has accepted Health Canada's findings and remedial actions are underway." On this news, CannTrust's stock price fell another **27%**.

45. The parade of troubling revelations ended on the last day of the Class Period—September 17, 2019. On that day, the Company informed investors that Health Canada was suspending its licenses, preventing CannTrust from continuing to produce and sell cannabis altogether. Of course, this also meant the Company's apparently legitimate and sustainable revenue stream would dry up. On this news, CannTrust's stock price fell **14%**.

46. Not long after that, on March 31, 2020, CannTrust filed for creditor protection (*i.e.*, bankruptcy) in Canada and trading was halted on the Toronto and New York Stock Exchanges.

III. JURISDICTION AND VENUE

47. These claims arise under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 (15 U.S.C. §§ 78j(b) and 78t(a)) and Rule 10b-5 promulgated thereunder by the SEC (17 C.F.R. § 240.10b-5).

48. This Court has jurisdiction over the subject matter of this action pursuant to 28 U.S.C. § 1331 and Section 27 of the Exchange Act (15 U.S.C. § 78aa).

49. Venue is proper in this Judicial District pursuant to 28 U.S.C. § 1391(b) and Section 27 of the Exchange Act (15 U.S.C. § 78aa(c)). Substantial acts in furtherance of the alleged fraud or the effects of the fraud occurred in this Judicial District. CannTrust's common stock traded on the NYSE in this district during the Class Period and Defendants made materially false and misleading representations to investors that were disseminated to investors in this District.

50. In connection with the acts, transactions, and conduct alleged herein, Defendants, directly and indirectly, used the means and instrumentalities of interstate commerce, including the United States mail, interstate telephone communications, or the facilities of a national securities exchange.

IV. PARTIES

A. Plaintiffs

51. On April 16, 2020, the Court appointed Granite Point Master Fund, LP and Granite Point Capital Scorpion Focused Ideas Fund ("Granite Point") to serve as Lead Plaintiffs pursuant to the Private Securities Litigation Reform Act of 1995 ("PSLRA"). Located in Boston, Massachusetts, Granite Point is a hedge fund that manages approximately $177 million in assets. Granite Point purchased CannTrust securities during the Class Period, and suffered damages as a result of the federal securities law violations alleged herein. A list of Granite Point's Class Period transactions is included in Lead Plaintiffs' certification submitted with its application to be named Lead Plaintiff. (ECF No. 45-1).

52. Additional Plaintiff Jose A. Silva ("Dr. Silva") purchased CannTrust securities during the Class Period, and suffered damages as a result of the federal securities law violations alleged herein. A list of Dr. Silva's Class Period transactions is included in Dr. Silva's certification submitted with his application to be named lead plaintiff. (ECF No. 25-1).

B. Defendants

1. Corporate Defendant

53. CannTrust is incorporated in Ontario, Canada and maintains its principal executive offices at 3280 Langstaff Road, Unit 1, Vaughan, Ontario L4K 4Z8, Canada. At the start of the Class Period, the Company's stock traded on the Toronto Stock Exchange under the symbol "TRST" and as F-Shares[4] under the symbol "CNTTF" on the OTC Pink Open Market in

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[4] An F-share is a foreign security denominated in U.S. currency, and traded on the U.S. OTC Market based in New York. One share of CNTTF represents ownership of one share of CannTrust common stock sold under the ticker symbol TRST in Canada. An F-share is established in the U.S. when a broker-dealer files with the Financial Industry Regulatory

the United States.[5] On February 25, 2019, the Company's shares began trading on the NYSE under the symbol "CTST."

2. Individual Defendants

54. Defendant Peter Aceto ("Aceto") served as the Company's Chief Executive Officer since October 1, 2018. Prior to joining CannTrust, Defendant Aceto was President & CEO of Tangerine Bank (formerly, ING Direct); prior to that, Aceto held the positions of Chief Risk Officer, Chief of Staff and Chief Lending Officer at ING Direct in the U.S., and was Legal and General Counsel at ING Direct in Canada. Defendant Aceto made materially false and misleading statements and material omissions in CannTrust filings with the SEC and SEDAR,[6] press releases and on public conference calls and media platforms throughout the Class Period.

55. Defendant Greg Guyatt ("Guyatt") has served as the Company's CFO since February 19, 2019 and is CannTrust's current CEO since February 2020. Defendant Guyatt made materially false and misleading statements and material omissions in CannTrust filings with the SEC and SEDAR.

56. Defendant Ian Abramowitz ("Abramowitz") was the Company's CFO at the beginning of the Class Period through February 19, 2019. As of February 19, 2019, Defendant Abramowitz serves as CannTrust's SVP of Global Investments and Partnerships. Defendant

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Authority ("FINRA") to create a U.S. ticker symbol in order to facilitate reporting trades in the U.S. in the Company's security.

[5] CNTTF shares trade on the OTC Pink Open Market which is owned and operated by the OTC Markets Group, Inc. The OTC Markets Group is headquartered at 300 Vesey Street, 12th Floor, North End Ave, New York, NY 10282.

[6] SEDAR is the Canadian equivalent of the SEC website known as EDGAR and serves as the official website that provides access to public securities documents and information filed by issuers with the thirteen provincial and territorial securities regulatory authorities ("Canadian Securities Administrators" or "CSA"). SEDAR provides investors with real-time quantitative and qualitative information on all Canadian issuers and provides investors with transparency when choosing to invest in a Canadian company.

Abramowitz made materially false and misleading statements and material omissions in CannTrust filings with the SEC and SEDAR.

57. Defendant Brad Rogers ("Rogers") was the Company's President and COO at the beginning of the Class Period through November 9, 2018. Defendant Rogers made materially false and misleading statements and material omissions in CannTrust's SEDAR filings and press releases.

58. The Individual Defendants, by virtue of their high-level positions at CannTrust, directly participated in the management of the Company, were directly involved in the day-to-day operations of the Company at the highest levels, and were privy to confidential proprietary information about the Company, its business, operations, internal controls, growth, financial statements, and financial condition, as alleged herein.

3. Director Defendants

59. Eric Paul ("Paul") is a co-founder of CannTrust and was its CEO from inception until October 1, 2018, when he stepped down to assume the role of Chairman of CannTrust's Board and Special Advisor to CannTrust's management team. He was a director of CannTrust since 2015. Defendant Paul resides in Ontario, Canada. Defendant Paul (i) signed the Offering Materials; (ii) certified the August 14, 2018 Financial Statements and Management's Discussion and Analysis ("MD&A"), and (iii) on behalf of the board of directors, signed each of CannTrust's financial statements issued during the Class Period, and in doing so, he adopted as his own the false statements made in those documents. As a board member, he caused CannTrust to make the misrepresentations particularized below. During the Class Period, Defendant Paul, through entities he owns and/or controls (including Cannamed and the Paul Family Trust) sold CannTrust shares while having actual or constructive knowledge of the

material, non-public information described herein, including over three million shares in the Offering, and over 780,000 shares in the secondary market.

60. Mark E. Dawber ("Dawber") has been a director of CannTrust since 2017. He resides in Ontario, Canada. During the Class Period, Dawber was a member of the Audit Committee of CannTrust's Board of Directors. As a board member, he adopted as his own the false statements made in each of CannTrust's annual financial statements released while he was a board member, particularized below, when such statements were signed on his behalf. As a board member, he caused CannTrust to make the misrepresentations particularized below, including by signing the Offering Materials. Dawber was responsible for CannTrust's financial reporting process and the quality of its financial reporting. He was charged with the mandate of providing independent review and oversight of CannTrust's financial reporting process, the system of internal control and management of financial risks, and the audit process, including the selection, oversight and compensation of CannTrust's external auditors.

61. Mitchell J. Sanders ("Sanders") has been a director of CannTrust since 2015. He resides in Ontario, Canada. As a board member, he adopted as his own the false statements made in each of CannTrust's annual financial statements released while he was a board member, particularized below, when such statements were signed on his behalf. As a board member, Defendant Sanders caused CannTrust to make the misrepresentations particularized below, including by signing the Offering Materials. During the Class Period, Sanders, through Cajun Capital Corporation Inc., which he controls, sold 250,000 CannTrust shares in the Offering while having actual or constructive knowledge of the material, non-public information described herein.

62. John T. Kaden ("Kaden") has been a director of CannTrust since October 22, 2018 until October 28, 2019. Kaden resides in New York in the United States of America. During the Class Period (as of February 14, 2019), Kaden was a member of the Audit Committee of CannTrust's Board of Directors, and was appointed to the Special Committee July 2019. As a board member, he adopted as his own the false statements made in each of CannTrust's annual financial statements released while he was a board member, particularized below, when such statements were signed on his behalf, including by signing the Offering Materials. As a board member, he caused CannTrust to make the misrepresentations particularized below. Kaden was responsible for CannTrust's financial reporting process and the quality of its financial reporting. He was charged with the mandate of providing independent review and oversight of CannTrust's financial reporting process, the system of internal control and management of financial risks, and the audit process, including the selection, oversight and compensation of CannTrust's external auditors.

63. Mark I. Litwin ("Litwin") has been a director of CannTrust since 2015. He resides in Ontario, Canada. Litwin, on behalf of the board of directors, signed each of CannTrust's financial statements issued during the Class Period, and in doing so, he adopted as his own the false statements made in those documents, including by signing the Offering Materials. As a board member, he caused CannTrust to make the misrepresentations particularized below, including by signing the Offering Materials. During the Class Period, Litwin, through entities owned and/or controlled by him and his family members (including Cannamed, Mar-Risa Holdings, Inc., Forum Financial Corporation, and York Capital Funding, Inc.) sold CannTrust shares while having actual or constructive knowledge of the material, non-

public information described herein, including approximately 1.5 million CannTrust shares in the Offering, and over 2.3 million CannTrust shares in the secondary markets.

64. Shawna Page ("Page") has been a director of CannTrust since February 22, 2018. She resides in Ontario, Canada. As a board member, she adopted as her own the false statements made in each of CannTrust's annual financial statements released while she was a board member, particularized below, when such statements were signed on her behalf. As a board member, she caused CannTrust to make the misrepresentations particularized below, including by signing the Offering Materials.

65. Robert F. Marcovitch ("Marcovitch") has been a director of CannTrust since 2017. He resides in Washington State. During the Class Period, Marcovitch was a member of the audit committee of CannTrust's board of directors. As a board member, he signed SEC filings that contained false and misleading statements therein.

C. KPMG

66. Defendant KPMG has been engaged as CannTrust's auditor since 2018. KPMG purportedly provided audit services to CannTrust beginning in December 2018. CannTrust paid KMPG approximately $500,000 for professional audit services related to CannTrust's fiscal year 2018. KPMG is a Canadian member firm of KPMG International Cooperative. KPMG International Cooperative is based in Switzerland and is a membership-based company with member and network accounting and advisory firms operating locally in countries around the world, including the United States and Canada. All KPMG member firms are affiliated with KPMG International.

67. KPMG issued a Report of Independent Registered Public Accounting Firm to the shareholders and Board of Directors of CannTrust that included an audit of CannTrust's consolidated statement of financial position, as of December, 31, 2018 (the "Audit Report").

KPMG consented to the use of its Audit Report and notes on CannTrust's consolidated financial statements for the year ended December 31, 2018. The Audit Report was published in numerous documents filed by CannTrust during the Class Period including the supplemental prospectus CannTrust filed on May 3, 2019.

D. Relevant Third Parties[7]

68. **CW1** worked at CannTrust's Niagara Facility from August 2018 until May 2019 as a Document Coordinator. CW1 was responsible for issuing paperwork for harvests, cleanliness of the facility, sanitation logs, and, as she explained, "everything that is required by Health Canada." CW1 handled those documents internally, and then her boss, Quality Supervisor Jared Epp, communicated directly with Health Canada. Epp reported to Graham Lee who in turn reported to Defendant Aceto. During her tenure, CW1 attended Quality Control meetings where issues at the Niagara Facility were discussed. Furthermore, CW1 knew at the time that CannTrust staff, such as Cam Fletcher and Nick Lalonde, removed plants from the unlicensed rooms, hung up curtains, and took framed pictures to make it look like there were no cannabis growth activities occurring in those rooms.

69. **CW2** worked at CannTrust's headquarters at its Vaughan Facility from May 2019 until July 2019 as a Compliance Manager. CW2 was responsible for oversight and audits of CannTrust's business including their adherence to Health Canada's regulatory requirements. CW2 reported directly to Andrea Kirk, VP of Quality Operations, who reported to Defendant Aceto. CW2 initially shared an office with Andrea Kirk and Graham Lee, the Director of Quality and Compliance, but then Kirk moved to another office. According to CW2, Andrea

[7] All Confidential Witnesses ("CWs") are referred to with female pronouns, regardless of gender, to protect their identity.

Kirk would thereafter frequently come to their shared office to have closed door meetings with Lee and CW2 present.

70. **CW3** worked at CannTrust's headquarters at its Vaughan Facility from October 2018 until August 2019. In October 2018, when CW3 first joined CannTrust, she worked in operational quality assurance, which involved working on the floor and overseeing enforcement of procedures. In January 2019, CW3 transitioned into a new role that involved deviation closures. In April 2019, CW3 was promoted to the rank of QAP (Quality Assurance Professional) at CannTrust. In that role, CW3 worked with the product quality team and was responsible for training that team in advance of its product releases. In February 2019, CW3 started doing the pre-review for product batches before they were released. CW3 initially reported to Steven Khemraj, then Laura Leung, then Victoria Malov.

71. **CW4** worked at CannTrust's Niagara Facility from May 2018 until June 2019 as a Senior Grow Technician. CW4 was responsible for growth activities for CannTrust's cannabis plants.

72. **CW5** worked at CannTrust's headquarters at its Vaughan Facility from June 2018 until January 2020 as a Brand Manager. CW5 was hired by and worked for Jeff Zietlow, until Zietlow changed positions within CannTrust in December 2018. Then from December 2018 through October 2019, CW5 reported to Bernie Yeung until approximately October 2019. As a Brand Manager, CW5 was responsible for marketing CannTrust's products.

73. **CW6** worked at CannTrust's Niagara Facility from August 2018 to July 2019 as a Vault Inventory Supervisor. CW6 was responsible for overseeing the vault in the Niagara Facility that stored CannTrust's products after they were harvested, dried, cured, trimmed, and finished. CW6 reported to Chris Ash, Plant Manager. CW6 communicated with Defendant

Aceto during the Class Period when Defendant Aceto would visit the Niagara Facility, typically once a week. Indeed, Defendant Aceto visited the specific vault where CW6 worked.

74. **Nick Lalonde** worked at CannTrust's Niagara Facility from June 2017 to May 2019 as head of disposal operations. Shortly after Mr. Lalonde left CannTrust for a company outside the cannabis industry, Mr. Lalonde blew the whistle on CannTrust's illicit scheme of growing cannabis in unlicensed rooms to Health Canada. Specifically, on June 14, 2019, Mr. Lalonde sent Health Canada officials an email outlining the wrongdoing that took place at CannTrust during the Class Period, which included informing Health Canada that CannTrust staged photographs sent to Health Canada by erecting fake walls to conceal the unlicensed growing. When asked by The Voice, a weekly newspaper published in Pelham, Canada, why he came forward, Mr. Lalonde explained that his main motivation was to "show the country and the world that you shouldn't be scared to stand up for what's right. And for all the amazing employees that CannTrust lied to and made do illegal activities, risking their future for minimum wage."

75. **Health Canada**, pursuant to the Cannabis Act and the Cannabis Regulations, sets and enforces the standards required for production and sale of cannabis in Canada. Health Canada also held the sole authority to grant regulatory approval of all licenses and permits for cannabis production, as well as for any cannabis facility or growing rooms. In addition, Health Canada conducted site inspections of licensed producers, such as CannTrust to ensure regulatory compliance. According to Health Canada's website, "Health Canada can inspect the operations of a licensed producer at any reasonable time to confirm that the applicable legislative and regulatory requirements are being met."

V. SUBSTANTIVE ALLEGATIONS[8]

A. CannTrust Rapidly Expanded Its Growing Capacity in Light of Increased Demand for its Products

1. CannTrust's Medicinal Cannabis Business

76. Founded in 2013 by a group of pharmacists (including Defendant Paul), CannTrust was a federally regulated, licensed producer and distributor of medical cannabis in Canada, the United States and other international markets. CannTrust sold various dried, extract, and capsule cannabis products to its approximately 58,000 medical patients that use the Company's products to treat a variety of medical conditions. The Company sold its medicinal products as dried flower (*i.e.*, dried plants), cannabis drops, encapsulated cannabis oil, and pre-rolled marijuana cigarettes. CannTrust has also developed, produced and sold a broad spectrum of concentrated, water-soluble, tasteless, and odorless consumer products, including food additives, beverages, edibles, and sprays—all providing the same intended effects as the Company's more traditional cannabis products.[9]

2. CannTrust Tries to Capitalize on Skyrocketing Demand Following the Legalization of Recreational Cannabis in Canada and the United States

77. CannTrust had been licensed to produce and sell medicinal marijuana in Canada for years prior to the start of the Class Period. On June 12, 2014, CannTrust received its initial license from Health Canada to produce and cultivate medicinal cannabis, which the Company began doing at its facility and headquarters located in Vaughan, Ontario, Canada (the "Vaughan

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[8] Unless otherwise noted, all references to CannTrust's business and operations refer to events that occurred during the Class Period as defined herein.

[9] During the Class Period the Company offered products under a variety of different marketing brands: liiv, Synr.g, Xscape, and Peak Leaf. CannTrust also offered different flavors of its cannabis products to attract new cannabis users who would were unfamiliar with the practice of smoking or otherwise consuming cannabis.

Facility"). Shortly thereafter, on February 9, 2015, the Company received its license to sell medicinal cannabis from Health Canada. But even by the start of the Class Period in June 2018, CannTrust was limited to selling its products to the approximately 58,000 customers who had a prescription from a medical professional to take cannabis as a treatment for a variety of conditions.

78. However, the legalization of recreational cannabis in Canada and in certain states within the United States presented a massive opportunity for CannTrust (and the cannabis industry) to grow its customer base exponentially. Rumors of legalization in Canada had been circulating for years after an increasing number of U.S. states began to legalize recreational cannabis including California and Colorado. Indeed, as far back as 2015, Canadian Prime Minister Justin Trudeau promised that he would legalize and regulate cannabis for recreational use in Canada. But, in 2017 the prospect of legal recreational cannabis in Canada became a reality. Specifically, on April 13, 2017, the Canadian government issued an official press release introducing legislation to legalize and regulate the use of recreational cannabis in Canada.

79. On June 26, 2018 (the first day of the Class Period) CannTrust issued a press release entitled "**CannTrust Positioned for Rapid Growth as Canada's Cannabis Act Receives Royal Assent**" that boasted to investors about CannTrust's position in the industry and ability to meet the production capacity needed to serve the soon-to-be booming recreational market: "***CannTrust is excited and well-positioned to enter this new marketplace and has the production capacity and infrastructure together with standardized products with precise label claims indicating the exact dosage, to immediately begin fulfilling adult consumer [i.e., recreational] use market orders on a national level***."

80. On October 17, 2018, the sale of cannabis for adult recreational use in Canada was legalized. According to the Wall Street Journal, "Canada became the largest country to legalize the recreational use of marijuana . . . , a potentially watershed moment for a nascent cannabis industry that is banking on showing the drug can be safely regulated." André Gagnon, a spokesman for Health Canada, was quoted by the New York Times as stating that October 17, 2018 "marked the end of nearly a century of criminal prohibition of cannabis and the launch of an entirely new regulated industry in our country."

3. Health Canada Strictly Regulated the Growing, Storing, and Sale of Medicinal and Recreational Cannabis

81. Along with the legalization of recreational cannabis came strict regulations imposed by the Canadian government, which had significant implications for CannTrust's plans to seize on surging demand and become a cannabis market leader. Indeed, during the Class Period, CannTrust and other cannabis companies all operated under a strictly regulated environment governed by various laws, regulations, and standards primarily administered by Health Canada—the Canadian equivalent of the FDA.

82. The regulatory framework that gave Health Canada its authority over CannTrust was the federal *Cannabis Act* and the regulations promulgated thereunder (the "Cannabis Act"). The Cannabis Act went into effect on October 17, 2018—the same day as the legalization of Cannabis in Canada.[10]

[10] The Cannabis Act replaced the old cannabis regulatory regime under the ACMPR standards, which had previously replaced the *Marijuana for Medical Purposes Regulations* ("MMPR") as of August 24, 2016. The Cannabis Act also replaced the *Controlled Drugs and Substances Act (Canada)* ("CDSA"), and both the ACMPR and CDSA were repealed the same day. However, like the Cannabis Act the previous ACMPR and CDSA regulations also imposed strict activity and location licensing requirements.

83. The Cannabis Act set forth a thorough regulatory framework and licensing scheme for Cannabis manufacturing companies such as CannTrust. The Cannabis Act contained detailed regulations and licensing requirements for each phase or activity in the cannabis industry including production, importation, exportation, testing, packaging, labelling, sending, delivery, transportation, sale, possession, and disposal of cannabis for both recreational and medical purposes. Accordingly, CannTrust was required to obtain activity-specific licenses for **each phase** of the Company's cannabis operations (such as cultivation, testing, processing, and sale of cannabis).

84. Critically, CannTrust was also required to obtain **location-specific** licenses for each of the facilities and rooms in which the distinct phase or activity took place—each of which was required to comply with its own specific regulations depending on the activity for which that room was designated (and licensed). Under these strict regulations, CannTrust was required to obtain specific licenses for any new room or facilities—such as the Niagara Facility and each room therein—depending on what that room was being used for (*i.e.*, growing, storing, testing, packaging, *etc.*).

85. Indeed, for each room within each facility, Health Canada required, *inter alia*: (i) verification of the physical security requirements for the site; (ii) confirmation that the activities of the licensed producer correspond to those indicated on the licensed producer's license; (iii) identification of the legal source from which the licensed producer obtains their starting materials (*i.e.*, seeds and plants); and (iv) confirmation that adequate standard operating procedures (SOPs) have been established.

86. However, because of the legalization of cannabis in the Fall of 2018 and the resulting surge in cannabis production and applications for licenses, Health Canada allowed

cannabis producers to apply for licenses through an online portal known as the Cannabis Tracking and Licensing System ("CTLS").[11] As the Financial Post explained, "[a]s the number of licensed producers increased in the lead-up to legalization, Health Canada introduced an online portal called the [CTLS] where producers would submit any kind of amendment request through an online application form, which would then be reviewed by the department."

87. Critically, the license application process **required the producer to submit** an evidence package containing detailed visual evidence of the facilities compliance. For example, when applying for standard processing, standard cultivation, and sale for medical purposes with possession licenses, the license producer must send to Health Canada an evidence package with: (i) "Guided video tour of entire site (including both indoor and outdoor areas), highlighting all security features of the site perimeter, operations areas (including all grow areas) and storage areas. All devices must correspond to their location as indicated on the site plan (including all floor plans)"; (ii) "Photographic overview of each side of the defined site perimeter"; (3) "Visual recording device footage that includes the front, back and sides of the defined site perimeter (*e.g.*, east, west, south and north walls). Complete coverage may be best demonstrated by displaying multiple visual recording device feeds that capture an individual walking around the perimeter"; and (iv) "Footage from all visual recording devices in each operations areas (including the entry and exit points of the grow areas) and all storage areas." Additionally, the

[11] The Cannabis Act also allowed for Health Canada to conduct ad hoc, unscheduled site inspections of cannabis producers such as CannTrust to ensure compliance. According to Health Canada's website, "Health Canada can inspect the operations of a licensed producer at any reasonable time to confirm that the applicable legislative and regulatory requirements are being met." In the event that Health Canada's inspections uncovered violations, Health Canada could then issue the licensed producer a compliance report, informing the company of the violations and requiring corrective measures to be taken.

videos and images must "[c]apture the entirety of the areas identified (*i.e.*, no blind spots and/or obstructed views)."

88. It was well-known to all cannabis growers, producers, and sellers that failure to comply with these regulations would result in Health Canada seeking significant penalties against non-compliant producers, including the suspension and revocation of the producer's license to grow and sell cannabis in Canada. Indeed, CannTrust acknowledged that there would be serious adverse consequences to its business if it was found to be non-compliant with Health Canada regulations. In its Form 40-F for the year ended December 31, 2018 ("2018 Form 40-F"): "**A significant failure of the Company's site security measures and other facility requirements, including any failure to comply with regulatory requirements, could have an impact on its ability to continue operating under its Cannabis Licences or its prospects of renewing its Cannabis Licences, and could also result in a suspension or revocation of the Cannabis Licences**."

89. Moreover, Defendants were well aware of the severe ramifications of buying seeds on the black market and failing to comply with other applicable regulations. Indeed, Health Canada put all Canadian licensed producers on notice that if they fail to comply with the regulations, they *will* lose their licenses. For instance, Ascent Industries Corporation ("Ascent") deviated from applicable regulations by failing to meet its record keeping and other compliance requirements. On September 26, 2018, Health Canada partially suspended Ascent's producer's and dealer's licenses.

90. Similarly, Bonify Medical Cannabis ("Bonify") procured illegal cannabis from the black market and possessed, distributed, and sold product purchased from that illegal source. On February 4, 2019, Health Canada suspended its sales license and demanded Bonify to

"immediately suspend sales of all cannabis for both medical and nonmedical purposes." CannTrust therefore knew that if it failed to comply with applicable regulations that it would suffer the same fate as its peers.

4. CannTrust Rapidly Expanded its Production Capacity in Light of Increased Demand From Canadian and U.S. Legalization of Marijuana

91. As expected, almost immediately following legalization, demand for recreational cannabis skyrocketed—causing an imminent nationwide supply shortage of cannabis in Canada. According to a November 7, 2018 New York Times article, "Canada is running low on legal pot three weeks after sales of recreational marijuana were authorized."

92. Similarly, in November 2018, MarketWatch published an article explaining that "[a]fter more than a month of legal recreational marijuana sales in Canada, provinces say stores are still having trouble procuring enough pot from producers that have built large valuations on promises of selling tons of the drug."

93. Prior to and during the time when cannabis was legalized, CannTrust began a massive undertaking to expand its growing capacity in order to capitalize on the outsized demand for recreational cannabis thereby establishing itself as a market leader in the cannabis industry.

94. However, in order to accomplish this goal, CannTrust had to expand dramatically its growing capacity in a relatively short period of time. Accordingly, in March 2017, CannTrust acquired real estate assets and related equipment of a 450,000-square-foot greenhouse facility in the Town of Pelham, Ontario within the regional municipality of Niagara, Ontario (the "Niagara Facility").[12]

[12] The Company acquired the facility through its wholly owned subsidiary, Elmcliffe Investments Inc. Specifically, Elmcliffe Investments is a wholly owned subsidiary of CannTrust Inc., and CannTrust Inc. is a wholly owned subsidiary of CannTrust Holdings, Inc.

95. CannTrust's plan was to operate the Niagara Facility as the Company's sole growing facility and convert the formerly all-purpose Vaughan Facility to serve as the Company's processing facility (*i.e.*, growing no longer occurred there). During the Class Period, the Company thus grew all its cannabis in its Niagara Facility and then shipped the harvested product to its Vaughan Facility for processing, extraction, manufacturing, packaging, and order fulfillment.

96. However, before growing cannabis in the newly acquired Niagara Facility in accordance with Health Canada's stringent requirements, the Company had to bring it into compliance with applicable regulations. Since CannTrust wanted to begin production in the new facility as soon as possible, and converting the entire 450,000-square-foot facility all at once would have taken a long time, the Company chose to split the redevelopment of the facility into three phases. Splitting the conversion into three phases would allow the Company to begin producing cannabis in part of the facility while the Company worked to convert the rest of the facility into compliance with Health Canada regulations.

97. Specifically, Phase 1 of the development of the Niagara Facility involved converting 250,000 square feet of the 450,000-square-foot facility into compliance with Health Canada regulations.[13] Phase 2—the phase most germane to this action—involved bringing the other 200,000 square feet into compliance with applicable regulations. When completed with Phases 1 and 2, the Niagara Facility would consist of a total of twelve grow rooms with the

[13] CannTrust received its Health Canada cultivation license for Phase 1 in October 2017 and its sales license in February 2018—allowing the Company to legally grow and sell cannabis, but only for medicinal purposes until the use of recreational cannabis was legalized.

capacity to produce an estimated 50,000 kilograms of cannabis per year.[14] However, as discussed above, in order to reach that growing capacity, CannTrust had to receive permits and licenses from Health Canada for each of the rooms in the Niagara Facility.

98. As of the start of the Class Period, five of the twelve growing rooms in the Niagara Facility—those rooms that were part of Phase 2 of the expansion—were not yet fully licensed by Health Canada. Specifically, the five rooms that were last to get licensed were rooms RG8, RG9, RG10, RG11, and RG12. Accordingly, CannTrust was not permitted to grow cannabis in those five rooms for any purpose.

99. As discussed below, CannTrust did not receive those licenses from Health Canada until April 2019. Nonetheless, CannTrust started illicitly growing cannabis in those rooms by October 2018—in flagrant violation of Health Canada regulations—so Defendants could begin reaping the profits from the almost unrelenting demand for recreational cannabis.

5. CannTrust Replaced its Medicinal Cannabis Management Team With Individuals With Financial Backgrounds but With Little or No Experience with Cannabis Growing, Production, or Regulation

100. During the same time, in response to concerns over an inability to meet increased demand, CannTrust replaced the Company's senior management with individuals with finance backgrounds who had the corporate financial knowledge to take CannTrust from a medicinal cannabis producer to a trusted market-leader in the recreational and medicinal cannabis space. Accordingly, on October 1, 2018, CannTrust announced that Defendant Paul, CannTrust's co-founder and leader, had stepped down from his role as CEO, and has transitioned to Chairman of

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[14] In January 2019, the Company received the necessary permits from Health Canada to develop an additional 390,000-square-foot expansion of the facility known as Phase 3. However, Phase 3 was never completed as a result of Health Canada's suspension of CannTrust's cannabis production and selling licenses for growing and storing cannabis in unlicensed rooms in direct violation of the Cannabis Act.

the Board and "Special Advisor" to CannTrust's management team. Defendant Aceto, a former CEO and President at Tangerine Bank, replaced Defendant Paul as CEO effective immediately.

101. Because of his extensive background in corporate finance, Defendant Aceto was appointed with one goal in mind—to maximize capacity and take advantage of the limitless demand facing the cannabis industry at the time. Indeed, as the Financial Post reported, Defendant "Aceto was brought in to lead CannTrust in a climate where licensed producers were under pressure to scale-up production because of a nationwide supply shortage."

102. Shortly thereafter, in November 2018, CannTrust continued to re-vamp its management team and announced the departures of the Company's long-time president, Defendant Rogers, who is credited with growing CannTrust from 20 to nearly 500 employees at the time of his departure, as well as Michael Ravensdale, CannTrust's SVP of Quality and Production Management.[15]

103. However, this transition meant that the Company was at that time being run by corporate finance rather than medicinal cannabis executives. Indeed, according to several CannTrust employees that spoke to the Financial Post, the change in leadership resulted in the Company being run by "a group of 'young, inexperienced growers calling the shots.'" The article further explained that those same CannTrust employees recalled that at that time the Company became "disorganized and chaotic" and that this change in management "was the beginning of a major shift in the [C]ompany's workplace culture, one that saw a drive towards increased productivity 'at all costs.'" The Company would soon find out that attention to detail, and ensuring adherence to regulations in a highly regulated industry like recreational cannabis

[15] As discussed below, on February 19, 2019, CannTrust also replaced their Chief Financial Officer Defendant Abramowitz, with Defendant Guyatt who had no prior cannabis experience.

was as critical, if not more critical, to CannTrust's success than simply driving increased productivity at all costs.

B. CannTrust Purposefully Violated the Cannabis Act In Order to Take Advantage of Massive Demand For Recreational Cannabis

104. Leading up to Canada's legalization of cannabis in October 2018 (and the surge in demand it created), CannTrust—led by its newly-appointed CEO Defendant Aceto and new "Special Advisor" Defendant Paul—began implementing an expansion and growing strategy that would allow CannTrust to profit from the dramatic increase in demand. The key to this expansion and growing strategy was to increase the Company's growing capacity—and its profits—by growing massive amounts of cannabis in illegal, unlicensed rooms at the Niagara Facility and hiding it from Health Canada.

105. Similarly, and at that same time, when Defendants ran out of licensed space to store the excess cannabis grown in the unlicensed rooms, they chose to store the overflow in similarly unlicensed rooms in the Company's Vaughan Facility. Simultaneously, Defendants were committing a number of other regulatory violations including the use of cheaper, black-market cannabis seeds in order to maximize profits and then selling that cannabis with false labeling stating that the cannabis came from an approved cannabis strain.

106. Critically, in addition to knowingly violating Health Canada's strict regulations, Defendants also repeatedly concealed this fact from investors despite profiting handsomely themselves by selling considerable amounts of stock and raising approximately $200 million of cash in the Offering—all prior to Defendants' illicit scheme becoming public.

107. By engaging in this illicit practice, Defendants put the entire Company (and investors' money) at risk. Indeed, were Health Canada to uncover CannTrust's illicit growing strategy and suspend or terminate the Company's license to grow and sell marijuana from those

unlicensed rooms or even altogether, the foreseeably result would be the end of the Company's apparently legitimate and sustainable revenue stream.

1. CannTrust Began Illegally Growing and Storing Cannabis in Unlicensed Rooms

108. Defendants' fraudulent concealment of their illegal growing strategy is straightforward. At the time that recreational cannabis became legal in Canada, CannTrust's Niagara Facility was the Company's only growing facility. The Company's other facility, the Vaughan Facility, was repurposed into solely an extraction, manufacturing, and packaging facility (*i.e.*, where the raw cannabis grown at the Niagara facility was sent to be packaged and shipped to customers). The Niagara Facility consisted of twelve grow rooms total. However, by October 2018, CannTrust was unable to utilize the Niagara Facility at full capacity because only seven of the twelve rooms had the proper Health Canada license to allow the growing of cannabis at that time.

109. Five of the grow rooms—RG8, RG9, RG10, RG11, and RG12—did not have the proper Health Canada licenses, and therefore CannTrust was prohibited from growing cannabis inside them. But, for Defendants, the fact remained that they were not producing enough cannabis to keep up with demand. Growing in those rooms would allow Defendants to sell more cannabis and vastly increase their profits. So they did.

110. From October 2018 through March 2019, Defendants grew cannabis in those five unlicensed rooms within their Niagara Facility—in direct violation of Health Canada regulations. This foreseeably put the Company's ability to continue selling recreational and medicinal cannabis in serious jeopardy, which in turn put the Company's revenue stream at risk.[16]

[16] As discussed in Section V.F.2, *infra*, Defendants eventually admitted to this illicit growing practice. In their July 8, 2019 press release the Company stated: "[g]rowing in unlicensed rooms

111. Defendants' carried out their unlicensed growing scheme, in part, by instructing their employees, including whistleblower Nick Lalonde, to conceal the unlicensed rooms and the plants therein by staging photographs sent to Health Canada to make it appear as though the unlicensed rooms were empty when they were not. As discussed below, Mr. Lalonde detailed CannTrust's wrongdoing in an email he sent to Health Canada, which explained that CannTrust was growing thousands of plants in unlicensed growing rooms at the Niagara Facility.

112. Mr. Lalonde's description of Defendants' illicit growing scheme is corroborated by numerous CannTrust employees who observed the growing of cannabis plants in unlicensed rooms. For example, CW1 confirmed that she knew about the plants in the unlicensed rooms during the Class Period. CW2 also recalled that during the Class Period, Defendants were growing cannabis in unlicensed rooms. According to CW4, the illegal growing started at the same time that Defendant Aceto took over as CEO. Similarly, CW2 explained that there were discussions in Vaughan about the illegal growing activities in the Niagara Facility "way before" May 2019.

113. Critically, as a result of increased cannabis production caused by growing in the unlicensed rooms, Defendants began to ship more and more cannabis to the Company's Vaughan Facility for storage. However, like the Niagara Facility, not all of the storage rooms in Defendants' Vaughan Facility were licensed. But that did not stop Defendants. Defendants went

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took place from October 2018 to March 2019 during which time CannTrust had pending applications for these rooms with Health Canada." This unlicensed growing ultimately led to CannTrust receiving a compliance report from Health Canada, and as the July 8, 2019 press release indicated, the "non-compliant rating is based on observations by the regulator regarding the growing of cannabis in five unlicensed rooms. . ."

ahead anyway and chose to store the excess unlicensed grown cannabis inside unlicensed storage rooms in the Vaughan Facility.[17]

114. Multiple former CannTrust employees corroborated that the overflow cannabis that was grown in the unlicensed Niagara Facility rooms were later stored in the unlicensed Vaughan Facility rooms. For instance, CW3 recalled that some cannabis being stored in the Vaughan Facility that had been highlighted in the violations by Health Canada was the same cannabis grown in the rooms in the Niagara Facility without proper permitting. CW3 explained that CannTrust transferred the product in bulk from its Niagara Facility to its Vaughan Facility, and that there was so much product being sent from the Niagara Facility that CannTrust did not have the capacity in the licensed rooms so CannTrust used the unlicensed rooms to store the excess product. CW3 further explained that she knew this because she worked in these rooms to do her quality checks and observed the excess product being stored there.

115. CW2 similarly recalled that CannTrust was doing the same thing in Vaughan as it was in Niagara by storing product in unlicensed rooms. CW2 stated that CannTrust had opened up extra areas in the Vaughan Facility that had also not received the proper permitting from Health Canada, and those areas were referred to internally as "the new warehouse."

116. CW2 explained that CannTrust had decided to use the warehouse in the Vaughan Facility because it needed it for all the product coming from Niagara, and that CannTrust knew it was waiting for the licenses to come through from Health Canada but they said "screw it, we are

[17] As with the illicit growing in unlicensed rooms, Defendants also eventually admitted to the illicit practice of storing cannabis in unlicensed rooms at the Vaughan Facility. Specifically, the Company's August 12, 2019 press release noted that Health Canada has uncovered "[t]he conversion of five rooms from operational areas to storage areas, which were used for storage since June 2018 without prior approval of Health Canada and that "CannTrust has accepted Health Canada's findings and remedial actions are underway."

just going to use them." CW2 also recounted an example of a room that was supposed to be for packaging but CannTrust was using it for storage of excess dry cannabis. CW2 further recalled that CannTrust Director of Distribution Luca Rea told CannTrust employees "don't tell anybody . . . we do not have anywhere to put anything."

117. In fact, according to several former CannTrust employees—whose accounts of the unlicensed growing strategy were published in a July 24, 2019 Financial Post article—**photographic evidence of cannabis being grown in one of the unlicensed rooms (and Defendant Aceto's undeniable knowledge of that fact) actually appeared in a CannTrust promotional video that was published on CannTrust's YouTube account on February 27, 2019**. Specifically, according to the Financial Post news article, five former CannTrust employees confirmed to the Financial Post that the Company's February 27, 2019 YouTube video shows Defendant Aceto standing outside grow room RG8—one of the five unlicensed rooms—while it was still unlicensed yet **filled with cannabis plants**.

118. According to the former employees, several of them knew the video depicted unlicensed growing in RG8 because "[t]hree of those employees worked in the room as grow technicians between October 2018 and April 2019" during the time when RG8 was unlicensed. And two of those employees "saw the video being filmed in early 2019." The following image is a screen shot from the February 27, 2019 YouTube video of the specific scene described by the former employees of Defendant Aceto (pictured on the left, with the green hairnet) standing in front of the unlicensed RG8 growing room with cannabis plants inside RG8 in the background:

2. Defendants Hid the Unlicensed Growing from Health Canada

119. As explained above, Health Canada required producers who sought license approval to submit an evidence package consisting of, *inter alia*, photographs of each grow room in each facility. However, CannTrust could not easily submit photographs of the yet to be licensed rooms at the Niagara Facility because, at the time, **Defendants had already put thousands of cannabis plants in those rooms in violation of Health Canada regulations**. CannTrust was nonetheless required to send photographs of the rooms as part of the evidence package in order to obtain licenses. Thus, Defendants took it upon themselves to hide the illicit growing strategy.

120. In order to conceal the plants in the unlicensed rooms, CannTrust management (at the direction of Defendants Aceto and Paul) told CannTrust employees to hang fake walls in front of the thousands of plants in the unlicensed rooms so when photographs of the rooms were

taken, it would appear as though the rooms were empty. Indeed, as whistleblower Mr. Lalonde explained in an email he wrote to Health Canada detailing Defendants' wrongdoing, he had been asked by his supervisors to hang white poly walls so that the unlicensed rooms would appear empty in photographs the Company submitted to Health Canada. In fact, Mr. Lalonde even suggested to Health Canada how to confirm that the Company engaged in this illicit practice telling Health Canada: "If you look through the camera footage prior to the dates the pictures were taken and requested you will clearly see us hanging up white poly walls to cover up thousands of plants." Furthermore, according to Mr. Lalonde, CannTrust employees were also "moving tables with hundreds of plants on them out of the camera view, just to snap a picture of the room with nothing in it."

121. Other former CannTrust employees confirm Mr. Lalonde's contentions. For example, CW1 also recalled that CannTrust hung up curtains to to make it look like there were not cannabis growth activities in those rooms. CW1 confirmed that she knew at the time that CannTrust staff removed the plants from the unlicensed rooms, hung up curtains, and took framed pictures to make it look like there were no growth activities occurring in those rooms.

122. Likewise, with respect to the cannabis being stored in unlicensed rooms in the Vaughan Facility, CW2 recalled that when she questioned Director of Distribution Luca Rea about how they were going explain to Health Canada that they were using a room to store excess dry cannabis contrary to the room's permitted use, Luca Rea's response to CW2 was to "just put some bins in front of it" so the regulators would not ask about it. Indeed, CW2 explained that the purpose of putting storage containers in front of the doors of the rooms was to "deter" Health Canada from wanting to enter those unlicensed storage rooms.

3. Defendants Themselves Directed the Illicit Growing and Storing of Cannabis in Unlicensed Rooms

123. Defendant Aceto personally directed the illicit growing strategy at CannTrust notwithstanding the serious risk it was putting CannTrust (and investors' money) in. Indeed, CannTrust executives indisputably knew that the Company was growing cannabis in five unlicensed rooms from the beginning of the Class Period. To be sure, the decision to engage in the illegal growing strategy came directly from the Company's top executives, namely Defendant Aceto.

124. According to a BNN Bloomberg news article which obtained internal CannTrust emails, on November 14, 2018—the same day as the conference call discussing the earnings result for the third quarter of 2018 ("3Q 2018 Earnings Call")—the Company held a weekly production meeting, which was attended by at least seven CannTrust employees, including three vice-presidents and Graham Lee, the Company's Director of Quality and Compliance. The purpose of the meeting was to provide updates on developments at RG9, one of five unlicensed rooms at the Company's Niagara Facility. During the meeting, senior CannTrust staff confirmed that RG9 was not licensed by Health Canada and that further work in the room "needs [to] be run up the chain before anything is planted in there."

125. According to the internal emails, at the production meeting held the next week on November 21, 2018, the meeting minutes stated that RG9 remained unlicensed but Lee—who attended each of the production meetings—stated he **spoke to Defendant Aceto about the unlicensed room and was instructed to "continue as planned."** Defendant Aceto and Lee's "plan[]" was to begin planting cannabis in the unlicensed rooms despite knowing that they were not yet approved by Health Canada.

126. The emails continued to detail that, a week later, at the November 28, 2018 weekly production meeting, the minutes similarly stated that CannTrust employees had submitted an application to Health Canada for the RG9 license and were still waiting for approval from the federal regulator. Yet, the minutes went on to state that CannTrust still decided to plant a huge quantity of cannabis in RG9 that day noting: "**Still moving forward with planting today – 3 lots.**" One lot is approximately 1,000 cannabis plants, which can produce as much as 1,000 kilograms (or 2,200 pounds) of marijuana, Thus, **Defendants planted approximately 3,000 plants in RG9 without a license, enough to produce 3,000 kilograms (or 6,600 pounds) of cannabis.**

127. In addition to weekly production meetings, the unlicensed rooms were also discussed in Quality Control Meetings. For example, CW1 recalled that at the Quality Control meetings, which were held weekly in Niagara, and attended by Epp, Scott Rolph, Emily Tarrant, Emily Mclinchey, and others, issues at the Niagara Facility were discussed. Specifically, CW1 explained that at these meetings, they discussed the Niagara Facility "not being up to par," documents not being filled out properly, cleanliness issues along with other quality issues. CW1 further explained that they openly discussed the unlicensed grow rooms, RG8-12, and referred to them by their numbers.

128. Indeed, CW1 recalled that they openly discussed making sure those rooms were clean before the plants were put in but CW1 explained that she refused to partake in documenting the related cleaning logs because the rooms were unlicensed. According to CW1, because she "pushed back" by saying that it was "above her pay grade," those logs were handled by someone else. CW1 recalled that Rolph and Mclinchey also pushed back on the unlicensed rooms.

129. Notably, CW1 explained that Tarrant took the notes for the minutes at those Quality Control Meetings and that all documents and minutes "went to corporate" in Vaughan. CW1 stated that the minutes sent to corporate reflected discussions of RG8-RG12, and CW1 confirmed that those discussions that were reflected in the minutes included references to the unlicensed rooms.

130. Defendants' knowledge of the illicit growing strategy and direct participation in the fraud on investors was further confirmed in another article detailing their brazen and risky scheme. A July 23, 2019 Globe & Mail article revealed that—based on internal CannTrust emails that the news organization obtained—"[b]oth the chairman and the chief executive officer of CannTrust Holdings Inc. were informed that the [C]ompany was growing cannabis in unlicensed rooms about seven months before Health Canada uncovered the regulatory breach."

131. Indeed, according to internal CannTrust emails sent directly to Defendants Aceto and Abramowitz and was forwarded on the same day to Defendant Paul in November 2018, Graham Lee, CannTrust's Director of Quality and Compliance expressed relief that Defendants "**dodged some bullets**" because Health Canada did not find out about Defendants' growing in the unlicensed rooms during an in-person, on-site inspection. The emails confirmed that CannTrust executives—including Defendants Aceto, Paul and Abramowitz—were aware that this unlicensed growing was occurring in multiple rooms, as well as the fact that doing so posed a significant risk and exposed the Company to potential liability. The article revealed the explosive contents of the email:

> In an e-mail dated Nov. 16, 2018, Graham Lee, CannTrust's [D]irector of [Q]uality and [C]ompliance, informed [Defendant] Aceto and other top executives about a Health Canada inspection that had just been completed. It had revealed several compliance breaches but missed the plants growing in unlicensed rooms.

“We dodged some bullets,” Mr. Lee wrote. “[Health Canada] did not ask about RG8E/W, which are unlicensed rooms currently full of plants.”

The e-mail outlines a number of “current risks,” including **plants growing in unlicensed rooms, the storage of cannabis in unlicensed rooms** and the “large number of lost bottles [of cannabis] we have not reported.”

“Although serious, on their own, each of these can be talked through with [Health Canada]. The concern is that together they will paint a picture with the regulator of a company not in control. We have dodged observations for items 1 and 6 despite having [Health Canada] in the building,” Mr. Lee wrote.

Along with [Defendant] Aceto, the e-mail was sent to [Defendant] Ian Abramowitz, a CannTrust executive who was chief financial officer at the time, and Ilana Platt, the [C]ompany’s vice-president of innovation and regulatory affairs.

***

The November e-mail was sent shortly after a targeted inspection of CannTrust’s Pelham [F]acility by Health Canada, which turned up several regulatory breaches, including poor paperwork, missing personnel and an incorrect protocol for releasing batches of cannabis, according to Mr. Lee’s e-mail.

“The fallout from this inspection will be major observations, and possibly a ‘critical’ one. I am not ruling out a censure letter of some sort. That said, in the past I have had success explaining away these types of observations to [Health Canada], and they have dialed down the rhetoric. Practically, this may lead to increased inspections and more scrutiny, but hopefully will have no other immediate material [e]ffect,” Mr. Lee wrote.

“That said, if that’s all that happens, we got very lucky here. **There are several points of exposure in our business we need to consider. I would not be surprised if [Health Canada] visits [the] Vaughan [Facility] in the near future and that could compound [Health Canada’s] concerns,”** he added.

Mr. Lee outlined a number of risks, referring to room numbers in the facility: “1) RG8 is not licenced but has plants in it; 2) RG9 is not licenced but we are intending to put plants in it on Monday; 3) PA2A-E are not licenced but we have moved the encapsulation equipment into them and will begin running it next week.”

> **Mr. Lee said CannTrust was storing product in unlicensed rooms at both its Pelham and Vaughan facilities.**
>
> "We have a large number of lost bottles we have not reported. I suspect due to bad counting rather than diversion [into the black market]," Mr. Lee added. "I will continue working to eliminate our exposure on all these items, but they remain a liability. Please advise of any actions you would like me to take."

132. Former CannTrust employees further corroborated the internal emails in which Defendant Aceto directed employees to grow in unlicensed rooms and conceal the illicit growing from Health Canada. For example, CW1 recalled that Defendant Aceto and the executives in Vaughan "dictated" what they did at the facility level and corporate level, such as Graham Lee, "mandated all aspects of the business" including growth, and how they set-up the greenhouses.

133. Similarly, CW6 recalled that the decision to grow in the unlicensed rooms came from Defendants Aceto and Abramowitz. According to CW6, Defendant Aceto visited the Niagara Facility typically once a week. CW6 also stated that Defendant Abramowitz and Defendant Guyatt also visited the Niagara Facility.

134. Likewise, former CannTrust employees also recounted that other CannTrust executives had knowledge of the Company's unlicensed growing as well. For instance, CW2 recalled that both Andrea Kirk, VP of Quality Operations, and Lee knew about the unlicensed growing and that **Lee had told the executives and the board of directors that if Health Canada found out about the rooms, "there was going to be a lot of issues."** Yet, while CW2 stated that Kirk and Lee knew about the unlicensed rooms in the Niagara Facility, the decision to go ahead with growing in those rooms was made by Defendants Aceto and Paul. CW2 was privy to this information because she sat in the same office as Lee, and Kirk would frequently come to their shared office to have a lot of closed door meetings.

135. Additionally, with respect to storing the excess unlicensed-grown cannabis in the unlicensed storage rooms in the Vaughan Facility, CW2 recalled that the decision to store in the warehouse was made by Kirk with Defendant Aceto's and the Board's blessing. CW2 explained that those decisions were made in an Upper Management meeting attended by Defendant Aceto, Defendant Abramowitz, Defendant Paul, Kirk, Lee, and others. These Upper Management meetings were scheduled monthly and held in the boardroom in Vaughan. CW2 further explained that Kirk instructed her to audit the unlicensed rooms or "new warehouse." Yet, after CW2 audited the warehouse and wrote up her findings and detailed the problems, she was told that the warehouse was going to be used anyway. Additionally, CW2 explained that Defendant Paul and Graham met regularly, and that Defendant Paul was on site regularly.

4. Defendants Grew Cannabis Using Illegal, Black Market Seeds In Order to Increase Production

136. In addition to growing and storing cannabis in unlicensed rooms, as far back as June 2018, CannTrust was growing cannabis from black-market cannabis seeds and then relabeling and selling the cannabis as a different, Health Canada- approved strain. In doing so, CannTrust was able to significantly bolster its production capacity because the black market seeds were not part of the regulated (and then highly in-demand) purchase and sale of seeds from cannabis strains approved by Health Canada. Therefore, CannTrust could use the cannabis grown from the black market seeds to supplement its production capacity from legitimate health Canada-approved seeds.

137. Indeed, according to a September 6, 2019 BNN Bloomberg article—which disclosed information from four sources and internal CannTrust documents—senior CannTrust staff working at the Niagara Facility brought cannabis seeds from the black market into

production rooms and that some of that illicitly-grown marijuana was sold in the legal market. The article goes on to note:

> Cannabis plants from at least two strains that originated from the black market-sourced seeds entered production rooms where they were fully grown to flower, packaged and sold into the recreational market, according to the sources. In total, more than one thousand cannabis plants that originated from the illicit seeds were grown at CannTrust's cultivation facility, the documents show.

138. According to the internal documents cited in the article, in an effort to conceal the use of the black market cannabis seeds from regulators, CannTrust employees changed the names of as many as twenty strains to names which the Company was already licensed to sell in the medicinal and recreational markets.

139. The article went on to quote one of the sources who stated: "I can guarantee you they would harvest [plants that originated from black market seeds], trim them and send them out . . . Guaranteed, they went to the legal market. I can tell you 100 per cent they did."

140. According to three of the sources cited in the article, the use of black market seeds ramped up shortly after CannTrust president Brad Rogers and head of production, Michael Ravensdale, left the Company in October 2018.

141. However, according to other former employees, Defendants' use of black market seeds to bolster CannTrust's production capacity began as early as June 2018. Specifically, CW5 stated that three of the strains that she was responsible for selling were "cultivated illegally" and came from seeds not approved by Health Canada. According to CW5, specifically "Blueberry Kush" and "Gold Kush" were two of the strains that were cultivated illegally. She went on to say that at CannTrust, the Blueberry Kush and Gold Kush strains were "snuck in" to their operations and grown at mass. According to CW5, CannTrust then sold them without the proper permitting and one was even an award winning strain.

142. CW5 went on to say that CannTrust did not go through the proper Health Canada channels to have those strains become a part of the Company's "assortment." According to CW5, the Blueberry and Gold Kush were some of the most potent strains sold by CannTrust.

143. CW5 confirmed that she knows that Gold Kush was being grown by CannTrust before the Cannabis Act had even passed and specifically that it was launched about a week before she joined the Company in June 2018.

C. CannTrust Misled Investors About Growing and Storing Cannabis in Unlicensed Rooms and Knowingly Violating Health Canada Regulations

144. Despite the magnitude of the scheme to defraud that CannTrust was perpetrating, throughout the Class Period, Defendants repeatedly concealed the truth about the illicit growing and storing schemes at the Niagara and Vaughan Facilities from investors.

145. During the Class Period, Defendants consistently told investors that CannTrust was in compliance with applicable Health Canada regulations despite knowing they were illicitly growing and storing cannabis in unlicensed rooms. In doing so, Defendants also concealed the risk of being caught by Health Canada for growing and storing cannabis in unlicensed rooms and having to put holds on their inventory, being banned from producing any more cannabis, and losing their license to sell cannabis which in turn put the Company's only revenue stream at risk.

146. Likewise, prior to the Niagara Facility receiving the necessary licenses and permits to legally grow cannabis in each of its rooms (which they eventually received in April 2019), Defendants repeatedly told investors that CannTrust was in a position to materially expand its growing capacity with the upcoming approval of the unlicensed growing rooms at the Niagara Facility.

147. But Defendants concealed the fact that they had already been growing in the unlicensed rooms despite not having the necessary licenses and permits. This undisclosed fact

rendered their statements about increased capacity and attributing their success to increased capacity materially misleading because the true reason for the increased capacity was the illicitly grown cannabis. As such, Defendants also concealed the risk of being caught by Health Canada for growing and storing cannabis in unlicensed rooms and having to put holds on their inventory, being banned from producing any more cannabis, and losing their license to sell cannabis and thereby risking the complete loss of their only revenue stream.

148. After the Niagara Facility received the necessary licenses and permits to grow in each of its rooms in April 2019, Defendants continued to tout to investors that they were now fully licensed and in position to capitalize on the increased growing capacity. However, as before, Defendants failed to disclose that they had already been growing in unlicensed rooms prior to ever receiving the necessary licenses and permits which was the true reason for the Company's increased cannabis production. As with the above, Defendants also concealed the continued and on-going risk of Health Canada uncovering the illicit growing and storing strategy and having to put holds on their inventory, being banned from producing any more cannabis, and losing their license to sell cannabis which in turn put the Company's only revenue stream at risk.

149. Finally, as a result of their illicit growing strategy, Defendants reported materially overstated inventory, biological assets and profitability figures because they falsely included the cannabis that was grown and stored in unlicensed rooms and sold thereafter in those financial figures. Included in those falsely issued financial statements was the Company's 2018 consolidated financial statements which were purportedly audited by Defendant KPMG who knowingly or recklessly issued a clean audit report which contained misleading financial figures and misstatements about KPMG's audit.

1. Defendants Touted Being In Compliance with Applicable Regulations

150. During the Class Period, Defendants also blatantly misled investors about CannTrust's compliance with Health Canada regulations. Yet at the same time those statements were made, Defendants knew that the Company was growing and storing cannabis in unlicensed rooms—in direct violation of Health Canada regulations.

151. For example, on January 8, 2019, CannTrust filed with the SEC a Form 40-F registration statement pursuant to Section 12 of the Exchange Act (the "January 8, 2019 Form 40-F), which was signed by Defendant Abramowitz. Filed with the January 8, 2019 Form 40-F were 130 exhibits. The January 8, 2019 Form 40-F, through those exhibits, touted that CannTrust was complying with all applicable regulations:

> The Company's operations are subject to various laws, regulations and guidelines relating to the manufacture, management, transportation, storage and disposal of medical cannabis as well as laws and regulations relating to health and safety, the conduct of operations and the protection of the environment. To the knowledge of management, other than the requirement that the Company make routine corrections that may be required by Health Canada from time to time, ***the Company is currently in compliance with all such laws***.

152. Similarly, the January 8, 2019 Form 40-F stated:

> Health Canada conducts ad hoc, unscheduled site inspections of Licensed Producers. CannTrust Opco has experienced these inspections at its Vaughan Facility on a monthly basis. CannTrust Opco has responded to and complied with all requests from Health Canada within the time frames indicated in such requests. ***As of the date hereof, there are no outstanding inspection issues with Health Canada beyond day- to- day adjustments that may occur in order to ensure ongoing compliance***.

153. The January 8, 2019 Form 40-F further stated that "[t]he Company believes that it currently holds or has applied for all necessary licences and permits to carry on the activities which it is ***currently conducting under applicable laws and regulations,*** and also ***believes that it is complying in all material respects with the terms of such licences and permits***."

154. Likewise, on March 28, 2019, CannTrust filed its 2018 Form 40-F, which was signed by Defendant Guyatt and accompanied by certifications pursuant to the Sarbanes-Oxley Act ("SOX") Sections 302 and 906 signed by Defendants Aceto and Guyatt. Notably, CannTrust touted to investors in the 2018 Form 40-F that the "***Company believes that it currently holds or has applied for all necessary licences and permits to carry on the activities which it is currently conducting under applicable laws and regulations, and also believes that it is complying in all material respects with the terms of such licences and permits***."

155. The 2018 Form 40-F further stated "[t]he Company distributes its recreational cannabis products in accordance with the federal and provincial regulatory frameworks" and continued that "any expansion of the Niagara Facility is subject to Health Canada regulatory approvals." And despite knowing that once Health Canada discovered the growing in the five unlicensed rooms that they would lose approval to continue operations and not meet demand, Defendants stated, "[t]he delay or denial of such approvals may have a material adverse impact on the business of the Company and may result in the Company not meeting anticipated or future demand when it arises."

156. Likewise, despite knowing the consequences of Health Canada finding out that they were growing in rooms prior to receiving the proper licenses, Defendants continued to tout in both the 2018 Form 40-F and the March 28, 2019 Form 6-K, with respect to increasing production in their Niagara Facility, that the "***Company is positioned to receive all necessary regulatory approvals to support this planned growth.***"

157. Defendants continued to conceal the truth during the March 28, 2019 conference call discussing the earnings result for the fourth quarter of 2018 ("4Q 2018 Earnings Call") when asked directly about the outstanding licenses in the Company's Phase 2 expansion plan. Indeed,

Defendant Aceto blatantly misled investors when explaining that Defendants were still waiting on Health Canada approval on the final rooms of Phase 2, while reassuring investors that CannTrust planted in the licensed rooms and will plant in the remaining rooms, but only once they receive the proper licenses.

158. Specifically, during the 4Q 2018 Earnings Call, Defendant Aceto explicitly stated in a back-and-forth with an analyst that Defendants had planted in licensed rooms, while omitting that they had also planted in unlicensed rooms:

> **Analyst:** Okay, got it. And last question here is, so you mentioned that construction of Phase 2 is now complete, but could you talk a bit more about where are you in ramping up the growing and planting of the Phase 2? And what licensing, if any, is still outstanding for the Phase 2 part?
>
> **Defendant Aceto:** Yes. So the construction is complete on Phase 2, and we await final license. So we have a broad license which we make amendments to, which has created sort of efficiency in our process with Health Canada. ***But there still remains our last few rooms that we await Health Canada approval from, and we will continue to wait for that.*** Their turnaround times have been generally reasonable. ***So the last rooms, we await final licensing for.***
>
> **Analyst:** And the rest have been planted, I assume?
>
> **Defendant Aceto:** ***Correct. Anything that's been licensed has been planted***.

159. Additionally, on April 8, 2019, CannTrust issued a press release that quoted Defendant Aceto touting CannTrust's ability to always "meet and exceed regulatory standards":

> ***We have always been confident that our processes meet and exceed regulatory standards, and we now have further validation of this from our regulators*** . . . . With this approval, CannTrust is set to meet its plan to reach 50,000kg of annualized capacity at the perpetual harvest greenhouse and continue providing award-winning products in a cost-effective manner.

160. Defendants' statements and material omissions affirming CannTrust's compliance with all applicable regulations were false and misleading because contrary to Defendants' statements CannTrust was purposefully violating Health Canada regulations in order to increase

production capacity and capitalize on increasing demand. Among other regulatory violations, CannTrust: (1) illicitly grew cannabis in unlicensed rooms at the Niagara Facility; (2) illicitly stored cannabis in unlicensed rooms at the Vaughan Facility; and (3) grew and sold marijuana from unlicensed, black-market seeds. Defendants knowingly engaged in these activities but failed to disclose the practices to investors despite knowing that were Health Canada to uncover the practices, CannTrust would have its licenses to grow and sell marijuana suspended or revoked which in turn put the Company's only revenue stream at risk.

2. From November 2018 through April 2019 Defendants Touted CannTrust's Success and Growth Due to Increased Capacity and Expansion of the Niagara Facility

161. Throughout the Class Period, Defendants repeatedly touted CannTrust's success and growth to investors, and attributed that success and growth to the increased capacity and expansion of the Niagara Facility. In doing so, Defendants led investors to believe that the Company was in position to meet the surge in demand for cannabis and become a market leader in recreational and medicinal cannabis sales. Accordingly, Defendants reassured investors that they had taken certain steps and implemented the regulatory requirements required to do so.

162. However, unbeknownst to investors, Defendants were growing cannabis in five unlicensed rooms within their Niagara Facility from October 2018 through March 2019 and then storing that excess cannabis in unlicensed rooms at the Vaughan Facility. Thus, even if the CannTrust's expansion plans and success were literally true, Defendants concealed from investors that the real reason CannTrust's capacity was increasing was because the Company was engaging in an illicit, unlicensed growing strategy in order to take advantage of the surging demand despite attributing the Company's success and growth to other factors. Moreover, Defendants failed to disclose the practices to investors despite knowing that were Health Canada

to uncover the practices, CannTrust would have its licenses to grow and sell marijuana suspended or revoked which in turn put the Company's only revenue stream at risk.

163. For example, on June 26, 2018—the first day of the Class Period—Defendants touted: "CannTrust is excited and well-positioned to enter this new marketplace and has the production capacity and infrastructure together with standardized products with precise label claims indicating the exact dosage, to immediately begin fulfilling adult consumer use market orders on a national level."

164. Similarly, on August 14, 2018, CannTrust issued a press release, touting that "[o]perating a facility of this scale, CannTrust is well-positioned to meet the increased Canadian and global demand for cannabis."

165. On October 1, 2018, CannTrust issued a press release, announcing the appointment of Defendant Aceto as CEO and boasting, "CannTrust is a front-runner in the industry and perfectly positioned to continue its exponential growth in Canada and abroad following the legislative changes set to become effective in Canada on October 17th."

166. Likewise, on November 14, 2018, Defendants issued a MD&A based on information available to management as of November 13, 2018, which was filed with SEDAR that same day touting the Company's ability to meet surging demand: "***With the completion of all phases of the Niagara expansion, the Company will have the ability to supply a substantial share of the increased demand*** arising from international markets."

167. Similarly, in a December 19, 2018 press release, Defendant Aceto continued to reassure investors that the Company had no issues meeting demand by using its other greenhouses: "***The use of other greenhouses and outdoor crop production are both viable***

options that can help us meet our production targets. If developments change our production targets, we plan to communicate that with investors."

168. Analysts were encouraged by Defendants' ability to leverage and profit from the surge in demand of recreational cannabis. For example, on December 21, 2018, ROTH Capital Partners ("ROTH Capital") initiated a "Buy" rating on CannTrust and reported, "[o]ngoing production expansion allows recreational focus around own brands and potential for new alcohol beverage, food, and cosmetics partnerships."

169. However, Defendants' statements were false and misleading because the true reason CannTrust had "***the ability to supply a substantial share of the increased demand***" and "***meet [its] production targets***" was not because of any "***alternatives to increase capacity***" or the "***completion of all phases of the Niagara expansion***" but because the Company was, at the time these statements were made, knowingly engaging in an illicit growing strategy in direct violation of Health Canada regulations in order to increase its cannabis production capacity.

170. Indeed, as set forth in Section V.B, *supra*, Defendants Aceto, Paul, and Abramowitz knew that CannTrust was growing cannabis in five unlicensed rooms at the Niagara Facility and that CannTrust purposefully concealed that fact from Health Canada by ordering Company employees to hang up fake walls and stage photographs to make it appear as though the unlicensed rooms were empty.

171. Defendants continued to make similar false and misleading statements concealing the Company's illicit growing strategy right up until the time the Company actually received its license. For example, in an interview with Global Edmonton News Morning on January 9, 2019, Defendant Aceto again touted that "***every single week that goes by, we're getting new records in***

terms of what we're getting out and so it is getting better all the time, and I think you can expect that improvement to continue."

172. Analysts continued to believe that CannTrust was well positioned to profit from increased demand, establishing the Company a major player in the cannabis industry. For instance, on January 22, 2019, Canaccord Genuity Capital Markets ("Canaccord") opined, after discussing the Company's Phases 2 and 3, that "[w]e continue to believe CannTrust is generating strong momentum and market share gains within the segment, as we estimate the [C]ompany is capturing more than a third of all new medical patients registered with Health Canada."

173. Furthermore, within CannTrust's 2018 Form 40-F, which was filed on March 28, 2019, Defendants touted that "***[t]he redeveloped [Niagara] Facility provides the Company with increased production capacity to meet growing market demand.***"

174. The 2018 Form 40-F also misleadingly boasted to investors about the remarkable increased revenue, biological assets, and inventory the Company had achieved, omitting, of course, the illicit scheme underlying this apparent growth, and thereby painting an artificially inflated picture of the Company's financial health, as reflected on its balance sheet and income statement:

- ***For the three months ended December 31, 2018, harvested production was 4,816 kg, a 712% increase from the 593 kg in the comparable 2017 period***.
- 2018 Fourth Quarter Highlights . . . ***Sold 3,407 kg of dried Cannabis and dried Cannabis equivalent*** at an average net price of $4.75 per gram.
- Gross profit/(loss) for the three and twelve months ended December 31, 2018 was a loss of $8,282 and profit of $36,493, respectively, compared to a gross profit of $11,036 and $23,980 in the comparable prior year periods . . . . ***The increase in gross profit in 2018 compared to 2017 was principally due to the increase in sales.***
- Excluding the impact of the change in the fair value of biological assets, gross profit for the three and twelve months ended December 31, 2018 was $5,677 and

> \$25,955, respectively, compared to a gross profit of \$2,406 and \$13,018 in the comparable prior year periods. ***The increase in gross profit excluding the impact of the change in the fair value of biological assets was as a result of increased scale of operations.***

> - ***Record annual revenue of \$45,645, a 132% increase from 2017*** . . . . 2018 Fourth Quarter Highlights . . . ***Record quarterly revenues of \$16,166***, a 28% increase from third quarter of 2018.

175. On March 28, 2019, Defendants also issued a press release attached to a Form 6-K signed by Defendant Guyatt and dated that same day, which also boasted about the Company's success while omitting that the primary reason for the success came from the Company's unlicensed growing. For example, in the March 28, 2019 press release, Defendant Aceto touted that the "***CannTrust team has delivered remarkable growth in the fourth quarter of 2018***" and that "***CannTrust remained in a strong financial position***." Moreover, in connection with detailing the specific revenue increases, the press release continued to explain that the "***increase in revenue was attributable to increased sales volumes primarily due to the continued growth in the Company's medical patient base and sales derived from the recreational market in Canada***."

176. Defendants' positive statements about the Company's strong financial position, ability to meet the high demand for cannabis, and the expansion of the Niagara Facility continued to leave analysts and the Company's investors in the dark with respect to Defendants' illicit practice of growing and storing cannabis in unlicensed rooms and the serious consequences or risks the practice posed if Health Canada found out.

177. For example, a report by ROTH Capital on March 29, 2019, which issued a "Buy" rating on CannTrust stock, relied on Defendants' assurances that CannTrust was not yet growing in the remaining rooms in the Niagara Facility's Phase 2, and that once Defendants obtained approval from Health Canada, they would be operating at improved capacities.

Specifically, the report stated, "[t]he Company expects gross margins to improve by the second half of this year due to potential price increases and production efficiency improvements now that the Phase 2 build is soon to be fully licensed." Likewise, that same day, Canaccord issued an analyst report noting that "CannTrust has yet to fully ramp-up production within its recently expanded [Niagara Facility]." On April 1, 2019, Jefferies similarly reported that CannTrust's "facility [was] not yet at full operations."

3. Defendants Overstated Their Audited Financial Figures, Including Revenues and the Values of Inventory and Biological Assets

178. Throughout the Class Period, Defendants routinely touted their positive financial figures, including their values of inventory and biological assets. However, what Defendants did not disclose to investors was that those values **included revenue, inventory, and biological assets that were being grown in the five unlicensed rooms**. Moreover, Defendants failed to disclose the practices to investors despite knowing that were Health Canada to uncover the practices, CannTrust would have its licenses to grow and sell marijuana suspended or revoked, which in turn would put the Company's only revenue stream at risk as well as the Company's biological assets and inventory, which could be seized or ordered to be destroyed.

179. The fact that CannTrust's inventory and biological assets were overstated during the Class Period cannot be disputed. Indeed, on August 1, 2019, the Company disclosed that the value of impacted inventory and biological assets from the five unlicensed rooms totaled approximately $51 million. The Company also explained that the impacted inventory represented approximately 53% of the Company's total inventory and the impacted biological assets represented approximately 30% of the Company's total biological assets. Later, on October 14, 2019, CannTrust explained that to effectuate the Company's remediation efforts, "CannTrust's Board of Directors has determined that it is necessary to destroy approximately

$12 million of biological assets and approximately $65 million worth of inventory that was not authorized by CannTrust's licence."

180. On March 28, 2019, CannTrust released its Consolidated Financial Statements for period ended December 31, 2018 ("2018 Consolidated Financial Statements"), which was signed by Director Defendants Paul and Litwin. The 4Q 2018 Consolidated Financial Statements were audited by Defendant.

CannTrust Holdings Inc.
Consolidated Statements of Financial Position
As at December 31
(in Canadian dollars)

	Notes	2018	2017
Assets			
Current			
Cash		$ 9,022,821	$ 17,961,045
Short term investments	7	63,023,908	201,538
Harmonized sales tax recoverable		1,492,110	2,636,710
Inventory	8	35,389,490	10,959,022
Biological assets	8	10,502,579	9,843,690
Accounts receivable		6,151,604	160,383
Prepaid expenses		2,859,039	2,465,506
Total current assets		128,441,551	44,227,892
Investments	15	10,661,932	156,073
Restricted cash	7	100,000	100,765
Property and equipment	9	62,208,905	33,963,685
Financial assets	11	901,350	-
Total Assets		202,313,738	78,448,415
Liabilities			
Current			
Accounts payable and accrued liabilities		12,806,458	6,579,997
Current portion of promissory note	6	200,000	200,000
Current portion of mortgage	12	3,790,610	-
Total current liabilities		16,797,068	6,779,997
Promissory note	6	600,000	800,000
Mortgage	12	9,457,876	-
Deferred tax	19	1,433,000	-
Total Liabilities		28,287,944	7,579,997
Shareholders' Equity			
Share capital	13	207,061,423	104,824,215
Share-based payment reserve		8,714,188	2,272,302
Warrants reserve	15	11,393,687	3,361,789
Deficit		(53,143,504)	(39,589,888)
Total Shareholders' Equity		174,025,794	70,868,418
Total Liabilities and Shareholders' Equity		$ 202,313,738	$ 78,448,415

Commitments (Note 16)

The accompanying notes are an integral part of the consolidated financial statements.

(signed) "Eric Paul" Director (signed) "Mark Litwin" Director

CannTrust Holdings Inc.
Consolidated Statements of Net (Loss) Income and Comprehensive (Loss) Income
For the Years Ended December 31
(in Canadian dollars)

	Notes		2018		2017 (Restated) (Note 5)
Gross revenue	22	$	48,390,103	$	20,697,764
Excise duty			(2,744,960)		-
Net revenue			45,645,143		20,697,764
Cost of goods sold	5		19,690,162		7,680,234
Gross profit, before changes in fair value of biological assets	5		25,954,981		13,017,530
Fair value changes in biological assets included in inventory sold	5		17,301,866		8,929,308
Unrealized gain on changes in fair value of biological assets	5,8		(27,840,156)		(17,891,851)
Gross profit			36,493,271		21,980,073
Expenses					
Amortization	9		2,169,281		964,396
General and administrative	17		9,014,467		5,636,808
Marketing and promotion			7,274,454		198,858
Salaries and benefits			9,823,942		3,853,314
Selling and shipping costs			8,971,434		1,803,056
Share based compensation	14		8,056,451		2,310,678
Operating expenses			45,310,029		14,767,110
(Loss) income from operations			(8,816,758)		7,212,963
Mortgage interest expense			(478,169)		(260,203)
Interest income			790,123		-
Accretion expense	12		(208,842)		(233,716)
Transaction costs	6		-		(204,282)
Other (loss) income	18		(2,035,700)		143,060
(Loss) on equity accounted investment	18		(385,110)		(147,056)
Impairment loss on assets	10		(986,160)		-
Loss on revaluation of derivative liability			-		(1,625,336)
(Loss) income before income taxes			(12,120,616)		4,885,430
Deferred income tax expense	19		1,433,000		-
Net (loss) income and comprehensive (loss) income		$	(13,553,616)	$	4,885,430
Weighted average number of common shares - basic			99,282,045		76,876,971
Weighted average number of common shares - diluted			99,282,045		80,526,105
Earnings (loss) per share - basic	13		(0.14)		0.06
Earnings (loss) per share - diluted	13		(0.14)		0.06

181. However, these figures were false and misleading and were materially overstated because they included inventory, biological assets, and revenues derived therefrom in violation of applicable Health Canada regulations and International Financial Reporting Standards ("IFRS") standards. Critically, CannTrust routinely issued inflated biological asset, inventory, and revenue figures in its financial statements throughout the Class Period. Moreover, as

discussed below, CannTrust's Class Period financial statements violated numerous well established accounting rules that CannTrust claimed it followed.

4. CannTrust Issued Financial Statements In Violation of International Accounting Standards

182. International Financial Reporting Standards ("IFRS") represent the set of accounting principles that domestic public companies in Canada are required to employ for purposes of preparing financial statements.[18] IFRS are generally accepted around the globe and at least 100 countries have adopted IFRS. *See* SEC Release No. 33-8879. For example, the SEC allows "foreign private issuers in their filings with the Commission [to prepare] financial statements . . . in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB")." (*Id.*) IFRS are comparable to U.S. generally accepted accounting principles ("GAAP") and the SEC has supported efforts to converge the standards. (*Id.*).

183. According to CannTrust's 2017 and 2018 annual reports, the Company reported and prepared its financial statements in accordance with the IFRS.[19]

(a) CannTrust's Illicit Growing and Storing Scheme Resulted in Overstated Biological Assets and Inventory

184. During the Class Period, CannTrust consistently overstated its biological assets and inventory according to IFRS. CannTrust's inventory and biological assets were critical assets on the Company's balance sheet and to investors because they represented approximately 40% of total current assets and more than 80% when excluding short-term investments.

[18] https://www.ifrs.org/use-around-the-world/use-of-ifrs-standards-by-jurisdiction/canada/
[19] IFRS include International Accounting Standards ("IAS") that were issued by the International Accounting Standards Committee.

	Notes		2018		2017
Assets					
Current					
Cash		$	9,022,821	$	17,961,043
Short term investments	7		63,023,908		201,538
Harmonized sales tax recoverable			1,492,110		2,636,710
Inventory	8		35,389,490		10,959,022
Biological assets	8		10,502,579		9,843,690
Accounts receivable			6,151,604		160,383
Prepaid expenses			2,859,039		2,465,506
Total current assets			128,441,551		44,227,892

185. According to CannTrust's SEC and SEDAR filings, biological assets represented pre-harvest seeds and plants and were reported at fair value less costs to sell at time of harvest. Biological assets were then transferred to inventory when the cannabis plants were harvested. Inventory included harvested finished goods, cannabis in process, extracts, accessories and packing supplies, and was valued at the lower of cost and net realizable value.

186. CannTrust claimed that it valued biological assets and inventory in accordance with IAS Rule 41, which covers "Agriculture that applied to Biological Assets," and IAS 2 and IAS 41.3, which apply to "Inventories that applied to post-harvest products." However, as discussed above, CannTrust grew and stored cannabis in unlicensed facilities and from black-market seeds that were then improperly recorded as biological assets and inventory for multiple reasons.

187. First, CannTrust did not have control, including legal ownership, of the biological assets, which is a required condition for asset measurement under IAS 41.10-11. Under IAS 41, legal ownership requires that the asset is acquired or produced by legitimate means. Here, CannTrust did not have legal ownership or control over the cannabis grown and stored in unlicensed rooms because it was not produced by legitimate means. Likewise, the cannabis grown from black-market seeds was unquestionably not acquired by legitimate means.

188. Second, CannTrust's valuation of biological assets is necessarily overstated because the Company could not and did not accurately account for the **fair market value** of unlicensed cannabis or cannabis grown from black-market seeds. As mentioned above, CannTrust's biological assets represented "pre-harvest seeds and plants . . . [are] reported at fair value."

189. However, CannTrust did not and could not demonstrate or report any evidence that a market participant would have been willing to pay the same price for an unlicensed product as a licensed product **as is required to accurately assess fair market value under IAS 41.8**.[20] For example, CannTrust could not have identified quoted market prices for unlicensed cannabis products as required by IAS 41.30 because no such market prices for unlicensed or black-market products existed. Consequently, CannTrust did not have the ability to reliably measure the fair value of those biological assets.

190. Moreover, IFRS 13 – Fair Value Measurement, states that in determining fair value, a market participant would be expected to use the asset in its highest and best use taking into account the use of the asset that is physically possible, **legally permissible**, and financially feasible. *See* IFRS 13.28.[21] Yet, CannTrust still reported increased biological assets during the Class Period even though it did not and could not accurately account for the fair value of illicitly grown cannabis. Accordingly, CannTrust violated IFRS in reporting biological assets at the level that they did during the Class Period.

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[20] "Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date." *See* IFRS 13 Fair Value Measurement.

[21] *See also*, IFRS 13.28(b), "[a] use that is legally permissible takes into account any legal restrictions on the use of the asset that market participants would take into account when pricing the asset."

191. Further, CannTrust did not and could not report inventory that was unlicensed (such as cannabis sold in violation of Health Canada regulations) under IAS 2.7 because the cannabis could not be sold in the ordinary course of business. Under IAS 2.7, net realizable value is the net amount that an entity expects to realize from the sale of inventory in the ordinary course of business. The net realizable value of inventory decreases when, for example, inventory is damaged or market prices decline. Here, such products have a net realizable **value of zero** because illicitly grown products cannot be sold in the ordinary course of business as they were grown in violation of Health Canada regulations. Consequently, CannTrust vastly overstated the value of inventory during the Class Period.

192. CannTrust overstated a material portion of the Company's biological assets and inventory during the Class Period. As discussed above, following Health Canada's discovery of the illicit growing and storing scheme, CannTrust was forced to place the sale of impacted inventory on hold (*i.e.*, it was unable to sell the inventory). Ultimately, CannTrust estimated that the reported value of the impacted inventory and biological assets was $51 million as of June 30, 2019. As described above, this inventory was later destroyed. As of March 31, 2019, the Company's total inventory and biological assets totaled approximately $77.6 million. Thus, the Company's fraudulent scheme imperiled at least 65% of the reported value of biological assets and inventory. Yet, CannTrust concealed this information from investors.

(b) Defendants Recognized Revenue in Violation of International Financial Reporting Standards

193. In addition to overstating inventory and biological assets, Defendants also overstated its revenue. Indeed, as discussed below, under relevant IFRS standards, CannTrust was permitted to recognize revenue only for products for which the Company **held valid legal title**. And because CannTrust generated revenue from cannabis that it grew, stored and sold

through illegitimate means, it improperly recognized revenue from any cannabis that was grown or stored in unlicensed rooms or were from black-market seeds.

194. However, because CannTrust grew and stored cannabis in unlicensed, unregulated rooms and from black-market seeds, CannTrust did not possess legal title and control over the illicitly grown cannabis because it was non-conforming with Health Canada regulations. Nor could CannTrust transfer legal title and control to its customers because it did not have it to begin with. Accordingly, any illicitly grown cannabis that was transferred or sold to CannTrust's customers was subject to immediate return and refund.

195. According to CannTrust's SEC and SEDAR filings, the Company "[r]evenue is recognized when **control of the goods has transferred to the purchaser** and the collectability is reasonably assured. **This is generally when goods have been delivered, which is also when the performance obligations have been fulfilled under the terms of the related sales contract**." Like all of its financial information, CannTrust represented to investors that its revenue recognition policy was consistent with IFRS—including the IFRS rules governing revenue recognition, IFRS rule15.31-32.

196. However, because CannTrust did not have a valid license to produce all of its cannabis (and specifically the illicitly grown cannabis), CannTrust was unable to legitimately transfer **control** of the cannabis to its customers. For accounting purposes (and according to CannTrust's auditor KPMG's IFRS Handbook), **control refers to the right to use, consume, and sell the asset**. *See* KPMG Revenue – IFRS 15 Handbook, p.114 (hereafter the "KPMG Guide"). The following diagram summarizes the analysis of the transfer of control according to the KPMG Guide, p.149, IFRS 15.38.

197. In addition to not having legal title to pass, CannTrust also could not establish a second, separate condition for revenue recognition—**that collectability was reasonably assured**, even if the customer had already paid for it—for the simple reason that CannTrust was faced with the very real prospect that customers would demand a refund if the unlicensed **or** black market nature of the product was revealed. In other words, customers could demand a refund because they were not buying the same product that CannTrust was representing and warranted that it was selling.[22]

198. In such circumstances where an entity cannot conclude that a **legally enforceable** contract exists (either because the entity does not have legal title or collectability cannot be reasonably assured) CannTrust was **required to defer the revenue on sales of such products because the customer payments received constitute a deposit liability**. *See* IFRS 15.16 and 15.B20; KPMG Guide, pp.15, 241.[23]

[22] To be sure, these exact events occurred after Health Canada discovered CannTrust's illicit growing and storing scheme. For example, on August 19, 2019, the Ontario Cannabis Store (OCS) determined that all of its inventory of CannTrust product constituted Non-Conforming Products and would be returned. The value of OCS's inventory at that time was C$2.9 million. This return was substantial despite the fact that it was from a single customer. Indeed, CannTrust's total revenue for the quarter ended March 31, 2019 was C$16.9 million. Thus, this customer return accounted for approximately 17% of CannTrust's total quarterly revenue.

[23] *See also*, KPMG Guide § 1.1, "A contract with a customer is in the scope of the standard when the contract is legally enforceable and certain criteria are met. If the criteria are not met, then the contract does not exist for the purpose of applying the general model of the standard, and any consideration received from the customer is generally recognised as a deposit (liability)."

Revenue recognition may be deferred for a significant period

If an entity cannot conclude that a legally enforceable contract exists, then it may be difficult to evaluate when all or substantially all of the promised consideration has been received and is non-refundable. In some cases, an entity may have a deposit liability recognised for a significant period of time before it can conclude that a contract exists in the model or that the criteria for recognising the consideration as revenue are met.

KPMG Guide, p.15

199. Critically however, CannTrust's financial statements, did not reflect any accounting for deferred revenue as of either December 31, 2018 or March 31, 2019 or at any other time during the Class Period:

CannTrust Holdings Inc.
Condensed Interim Consolidated Statements of Financial Position
(in Canadian dollars)

	Notes	March 31, 2019	December 31, 2018
Current			
Accounts payable and accrued liabilities		**11,327,922**	12,806,458
Current portion of promissory note		**200,000**	200,000
Current portion of mortgage	10	**13,210,731**	3,790,610
Total current liabilities		**24,738,653**	16,797,068
Promissory note		**400,000**	600,000
Mortgage	10	-	9,457,876
Lease liability	3	**1,785,059**	-
Deferred tax	17	**7,430,000**	1,433,000
Total Liabilities		**34,353,712**	28,287,944

200. Furthermore, under IFRS Rule 15.110 CannTrust was required to disclose sufficient information to enable investors who rely on its financial statements to understand the nature, amount, timing, **and uncertainty** of revenue and cash flows arising from contracts with customers. During the Class Period, CannTrust failed to disclose the existence of any uncertainty surrounding the Company's revenues and cash flows despite knowing that—as discussed above—there was significant uncertainty surrounding revenue generated from illicitly grown and sold cannabis.

201. That Defendants did not disclose any such uncertainty is not surprising. Defendants knew that if Health Canada were to discover the illicit unlicensed growing and storing scheme and use of black market seeds, there was an extremely high probability that CannTrust's customers would return the non-conforming cannabis because, like CannTrust, the customer would no longer have or be able to pass legal title of an unregulated and non-conforming product. However, CannTrust obviously did not disclose the existence of such regulatory uncertainty because in doing so they would have to simultaneously disclose that the reason for deferring such revenue was because of the uncertainty associated with CannTrust's fraudulent illicit growing and storing scheme and use of black-market seeds.

202. Accordingly, CannTrust overstated its revenue because it recognized revenue from illicitly grown and black-market cannabis that was not recognizable under the relevant IFRS and KPMG accounting standards set forth above.

(c) CannTrust Lacked Effective Internal Controls During the Class Period

203. Under IFRS, CannTrust was required to have disclosure controls and procedures ("DC&P") to provide reasonable assurance that material information relating to the Company was made known to senior management, including the CEO (*i.e.*, Defendant Aceto and former CEO Defendant Paul) and CFO (*i.e.*, Defendant Guyatt and former CFO Defendant Abramowitz). Accordingly, Internal Controls over Financial Reporting ("ICFR") was required to be designed by management, under the supervision of the CEO and CFO, so that investors could be assured that financial statements were prepared and reported in accordance with IFRS. Effective DC&P also required CannTrust's financial information be recorded, processed, summarized, and reported within the time periods specified under the Securities Act, Exchange Act, and the rules and regulations promulgated thereunder.

204. Despite these requirements, CannTrust acknowledged in its 2018 Form 40-F that a deficiency in internal controls existed as of December 31, 2018. However, while the Company disclosed these past internal control issues, it immediately reassured investors that "as of December 31, 2018, and [the Company] **has since implemented new mitigating controls and procedures**." Specifically, CannTrust disclosed:

> As of December 31, 2018, the Company had limited accounting personnel with expertise to assist in the effective preparation of financial statements and related note disclosures. In particular, the Company did not have sufficient resources with appropriate knowledge of IFRS to allow for an independent review in complex areas of financial reporting with respect to non-routine transactions, resulting in a reasonable likelihood that a material misstatement to the consolidated financial statements may not be prevented or detected on a timely basis. As a result of the non-routine transaction assessment, management concluded that the DC&P and ICFR were not effective as of December 31, 2018, and has since implemented new mitigating controls and procedures.

205. In reality, however, CannTrust's internal controls were significantly out of compliance with relevant ICFR standards both before and after this disclosure.

206. First, CannTrust failed to address the deficiencies in its "control environment" as required by their own auditor KPMG's Internal Control over Financial Reporting Guide ("KPMG ICFR Guide"). One of the requirements for an adequate internal controls and control environment is an adequate "tone at the top" of the organization.

207. For example, the first principle of the control environment required that the organization demonstrates a commitment to integrity and ethical values. CannTrust, however, knowingly violated Health Canada regulations by engaging in the unlicensed growing and storing of cannabis, the acquisition of black-market seeds, and the mislabeling of cannabis grown from the black market seeds—all with the knowledge of CannTrust's CEO and Chairman of the

Board. Such behavior by CannTrust's leadership demonstrates a significant lack of effective internal controls.

208. Second, CannTrust failed to address obvious deficiencies in its Risk Assessment process. For example, according to the KPMG ICFR Guide, a compliant entity is expected to have controls in place to mitigate the risk of noncompliance with laws and regulations that have a direct impact on the financial statements. During the Class Period, CannTrust either failed to appropriately design effective control activities or failed to monitor whether such control activities operated effectively as demonstrated by the fact that the Company engaged in a far-ranging illicit scheme of growing and storing of cannabis in unlicensed rooms and growing and selling cannabis from black-market seeds for months.

209. Based on these observations, CannTrust lacked sufficient internal controls during the Class Period.

(d) CannTrust Was Required to Disclose the Significant Uncertainty that the Company Could Not Continue As a Going Concern, But Failed to Do So

210. According to CannTrust's SEC and SEDAR filings, the Company prepared its financial statements on a going concern basis. Going concern is an accounting principle under IAS Rule 1 that allows the readers of financial statements to assume that the company will continue on long enough to carry out its objectives and commitments. In other words, the lack of disclosure regarding the uncertainties about the Company's going concern indicates to investors that the Company's accountants believe that the Company will not liquidate in the near future.

211. At the time CannTrust prepared its financial statements, CannTrust was required to periodically perform an assessment of material uncertainties that cast doubt on its ability to continue as a going concern under IAS 1 – Presentation of Financial Statements, 1.25. This

assessment of material uncertainties was required to consider all information regarding the foreseeable future, including at least the next twelve months. *See* IAS 1.26.

212. Here, the uncertainty caused by Health Canada uncovering CannTrust's growing and storing cannabis in unlicensed rooms and using black-market seeds—and revoking the Company's license as a result—cast significant doubt on CannTrust's ability to operate as a going concern—the Company would not be able to operate at all were its licenses suspended or revoked.

213. Indeed, after Health Canada uncovered CannTrust's actions, CannTrust was forced to stop the sale of inventory, stop the sale of new products, and continuously failed to meet financial statement filing deadlines since. Following the end of the Class Period, on March 31, 2020, CannTrust effectively admitted that there was substantial doubt regarding its ability to continue as a going concern:

> Despite the efforts by CannTrust's management and Board of Directors to preserve the Company's cash liquidity while seeking to restore the Company to operations and resolve the multiple litigations and other contingent claims facing the Company, the Company's future remains uncertain.

214. However, under the applicable regulations, the conditions for disclosing the uncertainty regarding the Company's status as a going concern existed beginning in June 2018 through the end of the Class Period while CannTrust operated under the substantial risk that the Company's licenses could be suspended or revoked. Thus, while significant risks to CannTrust's ability to operate as a going concern existed, the Company's financial statements in 2018 and 2019 failed to identify any such uncertainties caused by the operation of its business in direct violation of Health Canada regulations.

5. KPMG Knowingly or Recklessly Issued An Audit Report In Violation of Auditing and Accounting Standards

(a) KPMG Was Required to Follow PCAOB Standards in Conducting its Audit of CannTrust

215. When it performed its audit of CannTrust, KPMG was required to comply with auditing standards issued by the Public Company Accounting Oversight Board ("PCAOB"). Indeed, KPMG's Audit Report confirmed that the auditor had audited the 2018 Annual Financial Statements "**in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud**."

216. As described herein, KPMG knowingly and/or recklessly violated applicable audit standards and thereby provided clean audit opinions that allowed CannTrust to perpetrate its fraud with respect to its financial statements. As a result, KPMG's Audit Report contained false and misleading statements therein.

217. An independent auditor's role has been described as that of a "public watchdog," established in part to improve the reliability of financial statements, enhance the credibility of those financial statements, and allow investors to invest in companies with confidence that an independent auditor has verified the company's financial statements.

218. To oversee independent auditors, the Sarbanes-Oxley Act of 2002 established the PCAOB. The PCAOB is responsible for establishing professional audit standards applicable to audits of publicly-traded companies, including CannTrust. PCAOB Standards set the minimum level of ethical, performance and quality that auditors are expected to achieve. PCAOB Standards are referred to herein as "AS."

219. Since 2004, the PCAOB has required that foreign issuer auditors register with the PCAOB. The introduction of this requirement by the PCAOB had the effect of compelling the "big four" accounting firms, including KPMG, to provide greater oversight and control over their respective foreign issuer auditors in order to protect the credibility and independence of the big four accounting firms. The consequence of this new PCAOB requirement was a heightened oversight and agency relationship by and among those KPMG affiliated entities.

(b) KPMG Was Responsible for Obtaining Reasonable Assurance that CannTrust's Financial Statements were Fairly Presented in Conformity with IFRS Standards

220. The objective of a financial statement audit under PCAOB standards is the expression of an opinion on the fairness with which the financial statements present, in all material respects, the financial position, results of operations, and the cash flows, in conformity with generally accepted accounting principles, here IFRS. *See* AS 1001, *Responsibilities and Functions of the Independent Auditor*, AS 1001.01. However, as discussed below, KPMG simply did not perform its obligations as an independent auditor as required by PCAOB Standards. Had it done so, KPMG would have discovered that CannTrust was materially overstating its revenue, biological assets, and inventory figures by including the proceeds of cannabis grow and stored in unlicensed rooms and cannabis sourced from black-market seeds.

221. These misstatements had pervasive impacts on CannTrust's financial statements. Specifically, the overstatement of the value of inventory and biological assets resulted in corresponding overstatements of current and total assets, as well as Shareholders' Equity. Similarly, the overstatement of revenue resulted in corresponding overstatements of gross profit and earnings metrics including earnings per share and Adjusted EBITDA. In essence, CannTrust's fraud caused virtually all measures in its financial statements to be misleading.

222. KPMG had a responsibility to plan and perform its audit in order to obtain reasonable assurance about whether CannTrust's financial statements were free of material misstatement whether caused by error or fraud. *See* AS 1001.02. PCAOB standards state that "reasonable assurance" means a "high level" of assurance. *See* AS 1015, *Due Professional Care in the Performance of Work,* 1015.10.

223. KPMG was also required to identify and assess the *risks* of material misstatement. *See* AS 2110, *Identifying and Assessing Risks of Material Misstatement*. For example, KPMG was obligated to perform risk assessment procedures that were "sufficient to provide a reasonable basis for identifying and assessing" the risks of material misstatement affecting CannTrust's financial statements, whether due to error or fraud. *See* AS 2110.04 and AS 2110.74. In order to satisfy these requirements, KPMG was required to obtain a sufficient understanding of CannTrust, its business environment, and its internal controls over financial reporting. *See* AS 2110.05. Matters that KPMG was required to investigate and understand included:

> (a) Relevant industry, regulatory, and other external factors affecting CannTrust. Obtaining an understanding of relevant industry, regulatory, and other external factors encompasses industry factors, including the competitive environment and technological developments; the regulatory environment, including the applicable financial reporting framework and the legal and political environment; and external factors, including general economic conditions. *See* AS 1101, AS 2110, AS 2110.09 and AS 2301;
>
> (b) The nature of the Company, including the organizational structure, management personnel, key personnel, key supplier and customer relationships, significant investments, joint ventures and the Company's operating characteristics, including its size and complexity; *See* AS 2110.10; and
>
> (c) The Company's objectives and strategies and those related business risks that might reasonably be expected to result in risks of material misstatement. Examples of situations in which business risks might result in material misstatement of the financial statements include industry developments, **expansion of the business, current and prospective financing requirements**

and regulatory requirements (including increased legal exposure). *See* AS 2110.15.

224. Through these procedures, KPMG was expected to obtain an understanding of CannTrust's business processes to ensure that no misstatements related to these matters existed. *See* AS 2110.31. For instance, business processes are the activities designed to "**[e]nsure compliance with laws and regulations relevant to the financial statements**." *See* AS 2110.30. Similarly, KPMG's audit planning should have evaluated the laws and regulations and regulatory matters important to CannTrust's financial statements. *See* AS 2101, *Audit Planning*, AS 2101.07.

225. After obtaining an appropriate understanding of CannTrust's business and identifying applicable risks of material misstatement, regulatory risks, and legal risks, PCAOB standards required KPMG to "design and implement audit responses that address the [assessed] risks of material misstatement" and reduce "audit risk to an appropriately low level." *See* AS 1101.03, AS 2301, *The Auditor's Responses to the Risks of Material Misstatement,* AS 2301.03. In simple terms, an "audit response" is the procedure, work process, or action the auditor performs to adequately address any identified risks of material misstatement so that the auditor can accurately assess whether or not a material misstatement exists. *See* AS 2301.04, AS 2301.05, AS 2301.08-10.

226. Audit responses recognized by PCAOB Standards to address risks of material misstatement include: (1) "[r]esponses that have an overall effect on how the audit is conducted" (*e.g.*, evaluating the company's "selection and application of significant accounting principles" and "[p]roviding the extent of supervision that is appropriate for the circumstances, including, in particular, the assessed risks of material misstatement" (*see* AS 2301.04 and AS 2301.05.) and

(2) "responses involving the nature, timing and extent of audit procedures to be performed." *See* AS 2301.04.

227. For significant risks, including the risk that revenue was overstated (as it was with CannTrust), KPMG was required to "perform substantive procedures, including tests of details, that are specifically responsive to the assessed risks." *See* AS 2301.11. KPMG was also required to "plan and perform audit procedures to obtain sufficient appropriate audit evidence to provide a reasonable basis" for its audit opinion. *See* AS 1105, *Audit Evidence*, 1105.04. In this regard, PCAOB Standards state that as the risk of material misstatement increases, "the amount of evidence that the auditor should obtain also increases. For example, more evidence is needed to respond to significant risks." This is a requirement because it assures that the auditor has a reasonable basis for its opinion where a significant risk of material misstatement exists. *See* AS 1105.05.

228. Under PCAOB Standards, fraud is an intentional act that results in a material misstatement in financial statements that are the subject of an audit. *See* AS 2401.05, *Consideration of Fraud in a Financial Statement Audit*. For purposes of its audits, KPMG was required to exercise "professional skepticism," which is defined as an attitude that includes a questioning mind and a critical assessment of the audit evidence. *See* AS 2401.13. Specifically, "professional skepticism is described as follows:

> [P]rofessional skepticism requires an ongoing questioning of whether the information and evidence obtained suggests that a material misstatement due to fraud has occurred. In exercising professional skepticism in gathering and evaluating evidence, the auditor should not be satisfied with less-than-persuasive evidence because of a belief that management is honest.

(c) KPMG Ignored Red Flags and Inconsistencies Related to CannTrust's Revenue Biological Assets and Inventory

229. By any objective measure, revenue, inventory, and biological assets were significant accounts for CannTrust's financial statements. For example, these accounts had large balances that grew significantly in a year-over-year basis, were highly susceptible to misstatement, and had increased activity. *See* AS 2110.60. In particular, KPMG should have presumed a fraud risk existed related to improper revenue recognition by CannTrust:

> *Presumption of Fraud Risk Involving Improper Revenue Recognition*. The auditor should presume that there is a fraud risk involving improper revenue recognition and evaluate which types of revenue, revenue transactions, or assertions may give rise to such risks.

See AS 2110.68.

230. Yet, rather than presume there is a fraud risk regarding improper revenue recognition, KPMG simply rubber-stamped CannTrust's financial statements while ignoring massive red flags and inconsistencies. Under these circumstances, KPMG's practices were so deficient that the audit amounted to no audit at all, or an egregious refusal to see the obvious.

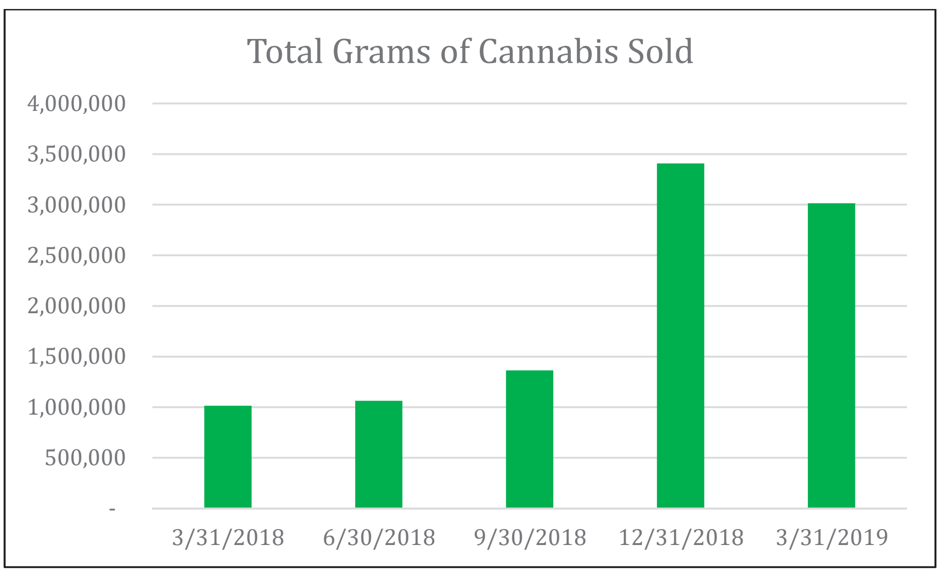
231. As an initial matter, KPMG appears to have failed to perform any required analytical procedures. Analytical procedures are an important part of the audit process that evaluate the correlation or financial relationships between financial and non-financial information. *See* AS 2305, *Analytical Procedures*, AS 2305.02. Analytical procedures are effective tests for misstatements that would not be apparent from an examination of more detailed evidence (*e.g.*, simply evaluating invoices and cash receipts for the sale of cannabis would not effectively detect whether CannTrust was licensed to sell the cannabis). *See* AS 2305.12.

232. Here, given the spike in CannTrust's cannabis production, KPMG should have performed analytical procedures to identify the underlying financial relationship between

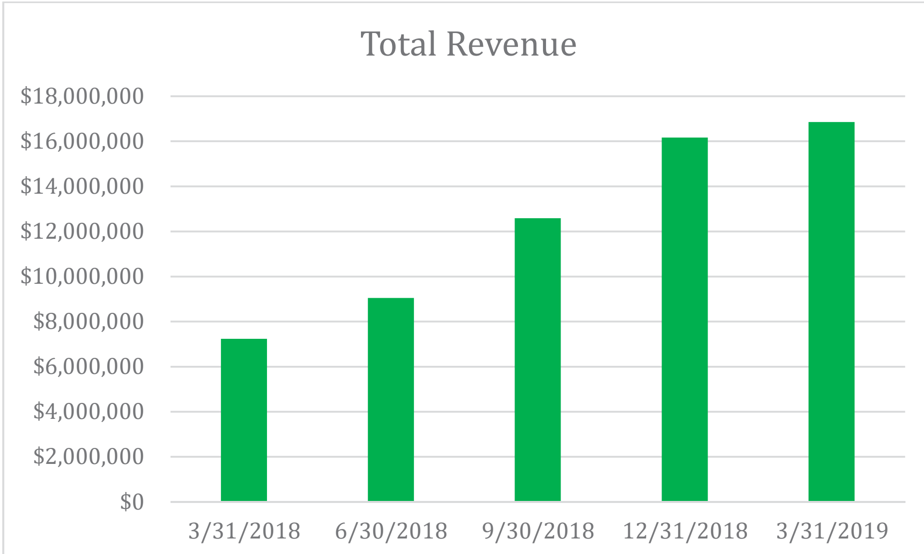
CannTrust's increased cannabis production and financial results. *See* AS 2110.46.a. Such analytical procedures would have enabled KPMG to identify specific risks relevant to the audit, including unusual transactions and events that warrant investigation. AS 2110.46.b. Analytical procedures were particularly relevant to CannTrust's reporting of revenue:

> In applying analytical procedures as risk assessment procedures, the auditor should perform analytical procedures relating to revenue with the objective of identifying unusual or unexpected relationships involving revenue accounts that might indicate a material misstatement, including material misstatement due to fraud. *See* AS 2110.47.

233. CannTrust's unlicensed production of cannabis began in October 2018. Unsurprisingly, the next quarter CannTrust experienced an immediate and unprecedented growth in volume in grams of cannabis sold. The following chart summarizes this growth over the five quarters leading up to March 31, 2019:



234. The growth in grams of cannabis fueled a comparable level of growth in reported revenue. Such growth would not have been possible without the unlicensed use of CannTrust's growing facilities:



235. This spike had pervasive and material impacts on CannTrust's financial statements. A basic analytical procedure that KPMG should have performed was to compare cannabis production with revenue. In doing so, KPMG would have identified that CannTrust's cannabis volume tripled in Q4 2018 as compared to the three earlier quarters in 2018. Consequently, the total grams of cannabis sold by CannTrust in Q4 2018 constituted 50% of total grams sold during 2018 and was therefore clearly inconsistent with its licensed level of cannabis production.

236. Confronted with these circumstances and its knowledge of CannTrust's business, KPMG should have pursued audit evidence to investigate this inconsistency and to corroborate that CannTrust was in fact licensed for the related magnitude of production. For example, KPMG should have performed procedures including inquiry of operating personnel unrelated to the financial reporting process to address the risk of fraud. *See* AS 2110.57. Rather than approach these circumstances with the "questioning mind" required under AS 2110.53, instead, KPMG simply failed to probe the reason for the changes reported by CannTrust in its financial statements.

237. PCAOB rule AS 1105.29 required KPMG to perform additional audit procedures in light of these inconsistencies:

> If audit evidence obtained from one source is inconsistent with that obtained from another, or if the auditor has doubts about the reliability of information to be used as audit evidence, the auditor should perform the audit procedures necessary to resolve the matter and should determine the effect, if any, on other aspects of the audit.

238. KPMG ignored the inconsistent audit evidence regarding CannTrust's clearly evident failure to limit its production to what it was licensed to grow and sell, and should have applied audit procedures to respond to this inconsistent audit evidence, understand the limits of those licenses and the resulting impact on the Company's financial results. Indeed, CannTrust's periodic filings with SEDAR and the SEC set forth the importance of its business licenses in operating the Vaughan and Niagara facilities.

239. For example, CannTrust's Form 40-F explained "[a] significant failure of the Company's site security measures and other facility requirements, including any failure to comply with regulatory requirements, could have an impact on its ability to continue operating under its Cannabis Licences or its prospects of renewing its Cannabis Licences, and could also result in a suspension or revocation of the Cannabis Licences."

240. Accordingly, because of the licenses' importance, KPMG was required to consider such information in performing its audit. *See* AS 2701, *Other Information in Documents Containing Audited Financial Statements*, AS 2701.04. This data served to emphasize what was already clear from the Company's financial statement disclosures: the operation of CannTrust's facilities required licensure and CannTrust's rights to the related assets were dependent on CannTrust's compliance with applicable laws and regulations in order to maintain those business licenses.

241. Likewise, under PCAOB Standards, KPMG was required to consider laws and regulations that had a direct and material effect on the determination of CannTrust's financial statement amounts. *See* AS 2405.05. This requirement is consistent with other applicable standards that required KPMG to understand laws and regulations relevant to CannTrust's financial statements. AS 2110.30-31.

242. PCAOB Standards provide an example of compliance with laws and regulations that have a direct and material effect on the determination of financial statement amounts. An example of a circumstance where the auditors must investigate and ensure compliance with relevant laws and regulations includes where "applicable laws and regulations may affect the amount of revenue accrued." *See* AS 2405.05. This scenario is wholly consistent with the circumstances confronted by KPMG when performing the audit of CannTrust. That is, KPMG was obligated to assess how much cannabis CannTrust was licensed to sell and thereby ask the question whether revenue fairly presented based on the price at which CannTrust reportedly sold the cannabis.

243. Specifically, KPMG was responsible for assessing how CannTrust's compliance with laws and regulations impacted financial statement assertions made by CannTrust:

> [T]he auditor considers such laws or regulations from the perspective of their known relation to audit objectives derived from **financial statements assertions** rather than from the perspective of legality per se. The auditor's responsibility to detect and report misstatements resulting from illegal acts having a direct and material effect on the determination of financial statement amounts is the same as that for misstatements caused by error or fraud as described in AS 1001, *Responsibilities and Functions of the Independent Auditor*; AS 2405.05.

244. Under PCAOB auditing standards (*see* AS 1105.11), CannTrust's financial statements reflected assertions made by management classified into the following five categories:

No.	Assertion	Definition
1	Existence or occurrence	Assets or liabilities of the company exist at a given date, and recorded transactions have occurred during a given period.
2	Completeness	All transactions and accounts that should be presented in the financial statements are so included.
3	Valuation or allocation	Asset, liability, equity, revenue, and expense components have been included in the financial statements at appropriate amounts.
4	Rights and obligations	The company holds or controls rights to the assets, and liabilities are obligations of the company at a given date.
5	Presentation and disclosure	The components of the financial statements are properly classified, described, and disclosed.

245. KPMG was required to perform substantive audit procedures for each relevant assertion of each significant account and disclosure. *See* AS 2301.36. In other words, CannTrust's reported revenue, inventory and biological assets reflected management's assertion that the Company possessed the *rights* to such amounts. Thus, KPMG was required to obtain relevant and reliable evidence to audit whether CannTrust's assertions, including those about *valuation* and *rights* to its revenue, biological assets, and inventory supported the amounts the Company reported in its financial statements. AS 1105.02, AS 1105.07-08.

246. As discussed in Section V.C.4, *supra*, KPMG failed to adequately determine that CannTrust's revenue, biological assets, and inventory were adequately *valued* at the appropriate amounts. Indeed, CannTrust violated IFRS in presenting materially overstated revenue, biological assets, and inventory in its consolidated financial statements, as well as all of the consequential effects on earnings measures and liquidity. Yet, KPMG's audit failed to identify any of the accounting violations. KPMG's failures constitute an extreme departure from the standards of ordinary care.

247. KPMG also failed to assess whether or not CannTrust held or controlled the rights to its biological assets and inventory. The need for KPMG to carry out testing of CannTrust's

assertion that it had adequate *rights* to its cannabis was heightened by the fact that CannTrust was both: (1) subject to "new accounting, statutory, or regulatory requirements" under the Cannabis Act; and (2) experiencing "[r]apid growth or unusual profitability, especially compared to that of other companies in the same industry." Both of these items are specifically listed by the PCAOB standards as risk factors (*i.e.*, red flags) of fraudulent financial reporting. *See* AS 2401.A.2.a. Yet, KPMG performed no such assessment, allowing CannTrust's fraud to be perpetrated.

248. Further, under PCAOB rules, "it is ordinarily necessary for the independent auditor to be present at the time of [the inventory] count." *See* AS 2510, *Auditing Inventories*, AS 2510.09. Thus, at least for purposes of inventory testing, KPMG would have been physically present at CannTrust's facilities, including at or around the December 31, 2018, when such a count was performed. As discussed above, CannTrust's inventory was materially overstated because it included cannabis grown and stored in unlicensed rooms and was sourced from black-market seeds. Yet, KPMG reported no such overstatement of inventory.

249. Moreover, given the above evidence demonstrating that CannTrust violated Health Canada regulations, KPMG was presented with the illegal act under PCAOB Standards. *See* AS 2405, *Illegal Acts by Client,* 2405.02. Generally, the further removed an illegal act is from the events and transactions reflected in the financial statements, the less likely the auditor is to become aware of the act or recognize its possible illegality. *See* AS 2405.04. Here, however, Defendants' violations of Health Canada regulations are **directly related to the events and transactions reflected in the financial statements** because the Company's illicit growing and storing scheme resulted in overstated financial statements.

250. Presented with audit evidence that a possible illegal act occurred, KPMG should have applied audit procedures to detect whether an illegal act had occurred. AS 2405.07. Specifically, KPMG should have reviewed relevant regulatory filings to, and communications with, Health Canada and other information to understand the extent CannTrust was authorized to produce and grow cannabis at the levels of revenue and assets it was reporting. *See e.g.*, AS 1105, AS 2101, AS 2110, AS 2301, AS 2401 and AS 2405.09 (including any "[i]nvestigation by a governmental agency," and "[v]iolations of laws or regulations cited in reports of examinations by regulatory agencies that have been made available to the auditor"). If no such communications had occurred, KPMG should have consulted CannTrust's counsel to understand whether CannTrust could legitimately operate outside of its business licenses. *See* AS 2405.08. Yet, it appears KPMG engaged in no such inquiry.

251. Furthermore, the evaluation of an illegal act such as CannTrust's operation without a business license should have caused KPMG to consider the indirect impact on the financial statements, such as the payment of fines and penalties. KPMG was required to consider such contingencies for purposes of CannTrust's 2018 financial statements. *See* AS 2405.13-14.

252. Ultimately, KPMG should have ensured that CannTrust's financial statements disclosed the potential effects of the illegal act on its operations:

> The auditor should evaluate the adequacy of disclosure in the financial statements of the potential effects of an illegal act on the entity's operations. **If material revenue or earnings are derived from transactions involving illegal acts**, or if **illegal acts create significant unusual risks associated with material revenue or earnings**, such as loss of a significant business relationship, **that information should be considered for disclosure**. *See* AS 2405.15.

253. Despite these rules and requirements, KPMG's audit knowingly and/or recklessly failed to detect CannTrust's material misstatements of revenue, inventory, and biological assets.

As a result, KPMG issued an Audit Report with materially false and misleading statements and that aided CannTrust in the fraud being perpetrated.

(d) KPMG Was on Notice of CannTrust's Lack of Internal Controls and Failed to Respond With Increased Audit Procedures

254. As discussed in Section V.C.4.c, *supra*, KPMG was on notice that CannTrust acknowledged in its 2018 Form 40-F that deficiency in internal controls existed as of December 31, 2018. Knowing this, KPMG was under a heighted responsibility to assess CannTrust's financial statements and assertions as the Company's independent auditor.

255. An auditor's understanding of internal controls over financial reporting includes evaluating the design of controls that are relevant to the audit and determining whether the controls have been implemented. Effective internal controls mitigate fraud risk. *See* AS 2110.72. Conversely, ineffective controls increase the risk of fraud. *See, e.g.*, AS 2405.07, ("circumstances [for fraud] exist, for example, [where there is] the absence of controls, ineffective controls, or the ability of management to override controls-that provide an opportunity for a fraud to be perpetrated").[24]

256. Here, CannTrust's internal controls were woefully inadequate because the Company conceded that it "had limited accounting personnel with expertise to assist in the effective preparation of financial statements and related note disclosures." Consequently, KPMG knew that a reasonable possibility existed that the CannTrust's financial statements were inaccurate or overstated.

[24] Even if KPMG asserts that CannTrust's misstatement of revenue was attributable to management override of internal controls, KPMG was still required to have considered this risk. *See* AS 2110.69.

257. Thus, KPMG should have been responsive to the increased risk by augmenting its audit procedures to detect improper revenue recognition. KPMG should have considered the types of misstatements that could have arisen and obtained more persuasive evidence to assure that no such misstatements existed. *See* AS 2301.09. Specifically, KPMG should have changed the nature, timing, and extent of its audit procedures to address the risk that revenue, inventory, and biological assets were misstated. *See* AS 2301.14. Audit procedures were relevant to evaluate whether significant transactions (*e.g.*, the Q4 2018 spike in revenue) were unusual for reasons related to the nature of the transactions, here revenue from unlicensed and illicit growing and storing of cannabis. *See* AS 2301.15.

(e) KPMG Failed to Evaluate Whether CannTrust Could Continue as a Going Concern

258. In addition to the above, KPMG was also obligated to evaluate CannTrust's ability to continue as a going concern. AS 2415, *Consideration of an Entity's Ability to Continue as a Going Concern*, AS 2415.02. That is, if CannTrust's businesses were suspended or revoked, was there substantial doubt about its ability to continue to operate as a going concern? As discussed in Section V.C.4.d, *supra*, such doubt regarding CannTrust's ability to operate as a going concern existed at the time KPMG performed its audit of the Company. Specifically, under PCAOB standards, the need to significantly revise operations, and external matters that may jeopardize an entity's ability to operate are recognized conditions that may indicate such substantial doubt exists. *See* AS 2415.06.

259. When an auditor identifies substantial doubt about an entity's ability to continue as a going concern, the auditor is required to pursue evidence from management to mitigate the circumstances causing the substantial doubt. *See* AS 2415.07. If the auditor is unable to overcome this substantial doubt, the audit report should include an explanatory paragraph to that

effect. *See* AS 2415.12. Moreover, because CannTrust itself failed to provide disclosure with respect to its ability to continue as a going concern, a departure from IFRS existed. KPMG's audit report failed to follow this standard by not addressing CannTrust's departure from IFRS or providing an explanatory paragraph to address the substantial doubt about CannTrust's ability to continue as a going concern.

(f) KPMG Issued a Clean Audit Report That Contained False and Misleading Statements

260. In addition to the false and misleading revenue, biological assets, and inventory figures set forth in CannTrust's KPMG audited consolidated financial statements filed on March 28, 2019, KPMG made numerous false and misleading statements in its Audit Report.

261. Specifically, KPMG's Audit Report misleadingly told investors that KPMG audited the March 28, 2019 Consolidated Financial Statements and that "***the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018***."

262. KPMG's Audit Report claimed that the auditor had audited the 2018 Annual Financial Statements "***in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud***."

263. In addition the Audit Report misleadingly reassured investors that "***the audit included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements***."

264. The Audit Report continued "***the audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements" and "[KPMG] believe[d] that the audit provide[d] a reasonable basis for [its] opinion***."

265. Finally, the Audit Report stated "***the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018, and the financial performance and its cash flows for the year then ended, in conformity with [IFRS]***."

266. Each of these statements were false and misleading because, as discussed in Sections V.C.5.a-c, *supra*, KPMG's audit of CannTrust violated numerous PCAOB auditing standards and CannTrust's financial statements violated applicable accounting standards. KPMG's clean audit opinion reinforced the credibility of CannTrust's financial statements and allowed CannTrust to perpetrate its fraud. Indeed, contrary to these statements and the representations, KPMG did not conduct its audit in accordance with PCAOB standards; as described herein, the financial statements referred to in these statements contained material errors and omissions in violation of IFRS; and KPMG lacked a reasonable basis for its opinion that the financial statements referred to in these statements were fairly presented in accordance with IFRS.

D. CannTrust Failed to Disclose to Investors That the Company's Success Was Attributable to the Cannabis Grown in the Unlicensed Rooms

267. Propped up by the increased production and capacity of cannabis from the unlicensed rooms, in early 2019, CannTrust began to distinguish itself as a powerful market leader in the medicinal and recreational cannabis sector. On February 13, 2019, CannTrust announced that it was hiring a new CFO, Defendant Guyatt, who had previous experience, as a

CPA at Deloitte & Touche, as an investment banker at UBS, and as a senior finance member of Sears Canada, running the financial aspects of a larger company. And effective, February 19, 2019, Defendant Guyatt became the Company's CFO, replacing Defendant Abramowitz, who remained with the Company but transitioned to a role as SVP of Global Investments and Partnerships.

268. Shortly thereafter, CannTrust took another step towards becoming a cannabis powerhouse by applying to be listed on the pre-eminent stock exchange in the world, the NYSE. The application was granted, and on February 25, 2019, common shares began trading on the NYSE under the ticker symbol "CTST." The Company explained that its shares would continue to be listed on the TSE under the ticker symbol "TRST" and that shareholders that purchased common shares on the OTC Pink Open Market could now trade their shares on the NYSE.

269. After being listed on the NYSE, Defendants decided to cash in while the Company's ongoing illicit growing strategy was still a secret to CannTrust's regulators and investors. Accordingly, on March 18, 2019, CannTrust issued a press release announcing that the Company "filed a (final) short form base shelf prospectus (the 'Shelf Prospectus') with the securities commissions in each of the provinces of Canada, except Québec, and a corresponding shelf registration statement on Form F-10 (the 'Registration Statement') with the [SEC] under the U.S./Canada Multijurisdictional Disclosure System ('MJDS')." The Shelf Prospectus and Registration statement allowed CannTrust to offer up to $200 million worth of common shares.

270. The Registration Statement and Prospectus issued in connection with the Offering were riddled with misleading statements falsely inducing investors to invest in CannTrust's booming cannabis business. For example, the Prospectus misleadingly touted CannTrust's explosive growth and profitability while failing to disclose that the real reason for CannTrust's

success was directly attributable to the Company's illicit practice of growing and storing cannabis in unlicensed rooms and use of cheaper black market seeds to boost production numbers stating, *inter alia*: "***Our rapidly growing patient base has increased organically at a rate we believe is faster than any other licensed producer, experiencing a 57% growth from 2017 to 2018***." The Prospectus continued: "Gross profit/(loss) for the three and twelve months ended December 31, 2018 was a loss of $8,282 and profit of $36,493, respectively, compared to a gross profit of $11,036 and $23,980 in the comparable prior year periods. . . . ***The increase in gross profit in 2018 compared to 2017 was principally due to the increase in sales***."

E. Defendants Continued to Mislead Investors About the Illicit Growing and Storing Scheme After Health Canada Approved the Rooms for Growing Based on Defendants' Falsified Applications

271. On April 8, 2019, CannTrust announced that its Niagara Facility became fully licensed by Health Canada. However, Defendants continued to mislead investors regarding the increased capacity after Health Canada licensed the unlicensed growing rooms. Indeed, Defendants failed to tell investors that they had already been growing thousands of plants in those rooms since at least October 2018—notwithstanding the fact that they knew the rooms were not licensed. Specifically, CannTrust's press release, which was attached to a Form 6-K signed by Defendant Guyatt and dated that same day, announced that CannTrust "is pleased to announce that its cultivation and processing permit under Health Canada Cannabis Regulations was amended to include the final 20% of its Phase 2 expansion. ***The entire 450,000 sq. ft. of its perpetual harvest greenhouse in [Niagara], is now fully licensed.***"

272. Likewise, in the MD&A that CannTrust issued on May 14, 2019 and based on information available to CannTrust management as of May 13, 2019 ("May 14, 2019 MD&A"), the Company reiterated that the Niagara Facility "***was fully licensed as of April 2019***."

273. The May 14, 2019 MD&A also explained that "[t]he redeveloped Perpetual Harvest Facility provides the Company with increased production capacity to meet growing market demand."

274. As the Class Period continued, Defendants continued to mislead investors about the Company's growing, production, and sale of cannabis that was grown in unlicensed rooms. For instance, in its May 14, 2019 press release, attached to a Form 6-K signed by Defendant Guyatt, the Company continued to tout "***exceptional operational growth in the first quarter [of 2019], with harvested production of over 9,400kg***," which is the quarter prior to receiving the license approvals from Health Canada for the remaining rooms in the Niagara Facility. The press release further touted the increased harvested production, yet omitted that growing in unlicensed grow rooms attributed to such production: "***Harvested production increased by more than 400% to over 9,400kg, versus the first quarter of 2018, and 96% over the fourth quarter of 2018***."

275. However, Defendants' statements continued to mislead investors by falsely attributing the Company's success to legitimate means while failing to disclose that the real reason was because of the illicit growing and storing scheme and reliance on black market seeds to increase production capacity.

276. Analysts continued to believe that CannTrust was succeeding by legitimate means, and had not the slightest clue of the catastrophic risks that the Company faced from Health Canada should the regulator uncover the Company's unlicensed growing practices. Furthermore, analysts continued to report on the recently completed Phase 2, optimistic that such completion would allow Defendants to operate at full capacity and improve harvest numbers.

277. For example, on May 14, 2019, Jefferies issued a "Buy" rating for CannTrust and reported: "The near term outlook for CannTrust also appears strong. With kg harvested doubling in the [first quarter], and the Phase 2 expansion fully operational and planted, expect a 50,000kg/y run rate by Q3, contributing significantly to the top line. This leverage will contribute to gross margin improvements." The next day, ROTH Capital maintained a "Buy" rating and similarly reported that "[w]ith the completion of the Phase 2 expansion, [CannTrust] is ramping the production capacity to further penetrate supply constrained recreational markets through its LIIV and Xscape brands. We forecast a meaningful increase in revenues in 2H19, with continuing strong medical and increasing recreational sales."

F. CannTrust's Unlicensed Growing Strategy is Revealed and the Undisclosed Risks of the Illicit Strategy Materialized Causing the Company's Stock Price to Plummet

278. As discussed above, from October 2018 to March 2019—the months that CannTrust was growing cannabis in five unlicensed rooms—CannTrust concealed the five unlicensed grow rooms (and the thousands of plants therein) from Health Canada. To do so, CannTrust management directed lower level employees, many of which were making close to minimum wage, to work late hours and hang fake walls to make it appear as though the unlicensed rooms were empty.

279. However, in June 2019, one of those employees, Nick Lalonde,[25] blew the whistle on CannTrust and its practice of concealing the unlicensed rooms from regulators. These explosive revelations caused a chain of events that would result in not only the precipitous decline of the Company's stock price, but Health Canada suspending CannTrust's licenses to

[25] Mr. Lalonde worked for CannTrust from June 2017 to May 2019, and served as head of disposal operations at the Niagara Facility.

grow and sell cannabis altogether and, ultimately, the Company filing for the Canadian equivalent of bankruptcy.

1. CannTrust Whistleblower Nick Lalonde Reported Defendants' Fraudulent Scheme to Health Canada

280. On June 14, 2019, Mr. Lalonde sent Health Canada officials an email outlining the wrongdoing that took place at CannTrust beginning in October 2018. In the email, Mr. Lalonde told Health Canada that he had been asked by his supervisors to hang the white poly walls so that the unlicensed greenhouse rooms would appear empty in photos the Company submitted to the regulator in order to have the rooms licensed for growing. Mr. Lalonde further asked Health Canada to investigate and even suggested exactly how Health Canada could uncover the illicit scheme. In his letter, Mr. Lalonde detailed to Health Canada, "[i]f you look through the camera footage prior to the dates the pictures were taken and requested **you will clearly see us hanging up white poly walls to cover up thousands of plants**."

281. Indeed, in an interview Mr. Lalonde had with the Globe and Mail on July 10, 2019, Mr. Lalonde elaborated that in the Fall of 2018 (before November), employees were asked to stay late to set up fake walls to hide "several thousand" plants from view, in order to take photographs that had been required by Health Canada as part of routine licensing requirements. Mr. Lalonde explained to the Globe and Mail, "**Health Canada requested pictures of the ranges [greenhouse rooms] in order to give the licence and the permit; they wanted to see pictures of the range complete and functioning correctly with no plants in it, because it's not a licensed room at the time.**" Mr. Lalonde continued, "**We're hanging these poly walls, these white poly walls . . . moving tables with hundreds of plants on them out of the camera view, just to snap a picture of the room with nothing in it.**"

282. Mr. Lalonde also explained to the Financial Post in a July 11, 2019 article that when he asked why they were hanging the walls, he was told that they were for "before and after photos." Mr. Lalonde further told the Financial Post that: "If I wouldn't have sent that email, CannTrust would've still been going along, day-to-day, like nothing happened," and "Health Canada would have no knowledge of it. Nobody would have any knowledge of this going on."

2. Health Canada Conducts a Surprise Inspection Uncovering CannTrust's Illicit Growing Scheme And Sanctions the Company

283. Several days after Health Canada received Mr. Lalonde's email, on June 17, 2019, Health Canada conducted a surprise inspection and audit of the Niagara Facility that uncovered uncontroverted evidence of Defendants unlicensed growing operations.

284. Following the surprise inspection, Health Canada issued CannTrust a compliance report detailing the regulators damning findings. On July 8, 2019, prior to the market opening, CannTrust issued a press release, disclosing that CannTrust had "received a compliance report from Health Canada notifying the Company that its greenhouse facility in Pelham, Ontario is non-compliant with certain regulations" and that the Company "accepted Health Canada's non-compliance finding and has taken actions to ensure current and future compliance."

285. The press release went on to confirm that from October 2018 to March 2019, Defendants had been growing cannabis in five unlicensed rooms and misled Health Canada inspectors during their audit in June of the Niagara Facility:

> The non-compliant rating is based on observations by the regulator regarding the growing of cannabis in five unlicensed rooms and inaccurate information provided to the regulator by CannTrust employees. Growing in unlicensed rooms took place from October 2018 to March 2019 during which time CannTrust had pending applications for these rooms with Health Canada.

286. Although these rooms were eventually issued licenses in April 2019, Defendants further explained that "Health Canada has placed a hold on inventory which includes

approximately 5,200kg of dried cannabis that was harvested in the previously unlicensed rooms in [Niagara], until it deems that the Company is compliant with regulations." Defendants also told investors that "CannTrust has instituted a voluntary hold of approximately 7,500kg of dried cannabis equivalent at its Vaughan manufacturing facility that was produced in the previously unlicensed rooms." CannTrust further announced that "[d]ue to the product on hold, some CannTrust customers and patients will experience temporary product shortages."

287. Notably, within that same press release, Defendant Aceto conceded that with respect to their communications with Health Canada about growing in five unlicensed rooms, "[w]e made errors in judgment."

288. In response to this news, CannTrust's share price fell $1.11, or **more than 22%**, to close at $3.83 per share on July 8, 2019 from $4.94 per share on July 5, 2019, on **unusually heavy trading volume**.

289. Analysts and the media were shocked by this news and directly linked CannTrust's stock decline to its disclosure of the compliance issues. For example, on July 8, 2019, Canaccord reported that "a breach of Hea[l]th Canada regulations is an unfortunate setback for CannTrust and will likely materially impact Q3/19 results." Jefferies also issued a report that same day that explained that "today's update was the last thing [CannTrust] needed," and that "[n]ear term, there will undoubtedly be a financial impact" and "[l]ong term, it impacts credibility." The report further noted that "[t]he fact the [C]ompany never spotted this, or indeed still doesn't know how it happened, is a concern."

290. Similarly, ROTH Capital issued a report that same day linking the drop in share price to Defendants' announcement: "CTST shares are down ~20% to $3.87 while investors weigh the ramifications of cannabis production in unlicensed rooms and the pending inventory

concerns in the near term." The analyst report further expressed concern over Defendants' misrepresentations that they made to Health Canada, stating, "we are concerned with the non-compliance rating and that Health Canada felt [CannTrust] employees misled regulators during the June audit."

291. Likewise, news outlet Globe and Mail published an article on July 8, 2019, explaining that "CannTrust Holdings Inc. shares plunged more than 20 per cent on Monday, after the NYSE-listed cannabis grower disclosed that Health Canada discovered unlicensed growing activity at the [C]ompany's main greenhouse in Ontario and put a sales freeze on 5,200 kilograms of CannTrust's inventory, pending further investigation." Indeed, the article quoted Defendant Aceto admitting: "We constructed these rooms in accordance with all the rules and regulations; the mistake that was made by CannTrust was putting plants in these rooms before we'd actually received the approval to do so."

292. ROTH Capital issued another report the next day on July 9, 2019 and downgraded the Company's stock to Neutral, further explaining that "CannTrust has taken a huge credibility hit from the issued Hea[l]th Canada non-compliance rating audit report," and opining that CannTrust demonstrated "a flagrant lack of compliance surrounding cultivating cannabis in five unlicensed rooms over a five month timeframe." The report further found that "[w]ith a number of cannabis brands currently competing for market share, we believe this will materially slow CTST's likelihood of becoming a top-tier cannabis producer over the next year."

293. However, the revelation of the unlicensed growing rooms was just the tip of the iceberg. Investors were still unaware of the extent of Company's regulatory violations, Defendants' direct knowledge and participation in the scheme, and what penalties Health Canada would impose on CannTrust as more and more was uncovered by the regulator. Indeed, some

analysts expressed concern that there might still be further measures or actions by Health Canada or other authorities as a result of Defendants' non-compliance. As ROTH Capital explained on July 8, 2019, "It is still unclear if this is a temporary hold (with CTST able to sell inventory once cannabis quality from unlicensed rooms is verified), or if Health Canada will require more drastic measures such as destroying the crop grown in the unlicensed rooms."

3. CannTrust's Stock Price Continues to Plummet as the Extent of Defendants' Illicit Growing Scheme is Revealed

294. On July 10, 2019, the Globe and Mail published an explosive article detailing whistleblower Nick Lalonde's email to Health Canada, further revealing details about Defendants' fraudulent conduct. As explained above, the Globe and Mail article for the first time revealed the explicit details of Mr. Lalonde's email, such as Defendants requiring CannTrust employees to hang fake walls in front of the unlicensed rooms to hide their unregulated growing from Health Canada.

295. In response to this news CannTrust's stock price fell over **12%** from $3.60 per share on July 9, 2019 to $3.16 per share on July 10, 2019, again on unusually heavy trading volume.

296. Analysts responded to the revelation in turn. For example, on July 11, 2019, Canaccord reduced its rating of CannTrust stock to Hold, in light of recent "allegations that employees of CannTrust may have knowingly deceived Health Canada to grow cannabis in rooms which had yet to be licensed."

4. CannTrust Announces a Hold on the Sale and Shipment of All Cannabis Products While Health Canada Continued its Audit

297. On July 11, 2019, CannTrust announced that "it has implemented a voluntary hold on sale and shipment of all cannabis products as a precaution ***while Health Canada visits and reviews its Vaughan, Ontario manufacturing facility***." Critically, despite the fact

Defendants knew at the time that the Company had also been storing excess cannabis from the Niagara Facility in unlicensed rooms at the Vaughan Facility, they once again failed to disclose to investors that they had illicitly stored cannabis there, and accordingly, that there was a considerable risk that Health Canada would uncover the illicit storage during its review of the Vaughan Facility. Defendants' failure to disclose this information rendered their statement regarding the review of the Vaughan Facility false and misleading.

298. CannTrust also informed investors that it created a Special Committee "comprised of independent members of the Board of Directors" to "investigate th[e] matter in its entirety." Specifically, per a later press release, "the Special Committee was appointed by the Board of Directors to investigate a compliance report from Health Canada notifying the Company that its greenhouse facility in Pelham, Ontario is non-compliant with certain regulations."

299. Moreover, the Special Committee had a "broad mandate to, among other things, investigate the Company's non-compliance with Health Canada regulations and ancillary matters, to make recommendations to the Board of Directors regarding any actions to be taken by CannTrust as a result of the investigation, and to assess any impact on the Company's bio assets, inventory, sales and revenue." At the time, the Special Committee met with its legal counsel, McCarthy Tétrault LLP, several times.

300. As a result of this news, CannTrust's stock price fell over **17%** from $3.11 per share on July 11, 2019 to $2.58 per share on July 12, 2019, on unusually high trading volume.

5. CannTrust's Stock Price Continues to Decline Following News of Several Legal Actions Filed Against the Company

301. Then, on July 15, 2019, after the close of trading, the Financial Post published an article entitled "OSC complaint, class-action lawsuits could add to CannTrust's woes," which detailed the various legal actions CannTrust was facing as a result of the illicit growing scheme

and the negative impact they could have on the Company. Specifically, the article discussed an initial investigation by the enforcement team of the Ontario Securities Commission ("OSC") revealed the possibility that Defendants' actions concerning the growing in the five unlicensed rooms could rise to the level of a "criminal offence." The article also explained that a number of class action lawsuits had been filed against the Company in both Canada and the United States for securities fraud violations.

302. As a result, on July 16, 2019, CannTrust's stock price fell over **10%**, from $3.06 per share on July 15, 2019 to $2.75 per share on July 16, 2019, on unusually high trading volume.

303. Analysts continued to be uncertain about the full impact that Defendants' fraudulent conduct would have on the Company going forward. For example, on July 15, 2019, ROTH Capital issued a report that placed CannTrust shares "Under Review" and reported: "The biggest unknown is the response by Health Canada, as the federal regulator has the power to potentially suspend or revoke CTST's license. Additional legal actions may come about pending further investigations of violating The Cannabis Act. At this time, the impact of these matters on CTST's financial results are unknown."

304. Likewise, Jefferies reported on July 15, 2019 that "[f]or a company that we had found to be well set up to succeed, we have been disappointed by execution and a lack of catalysts." The report further stated: "As more details emerge, it becomes less likely that Health Canada will provide a swift resolution to the situation, with a number of cases likely to be put to CannTrust for violation of the Cannabis Act, or potentially worse. There are also question marks over whether management had been aware of such schemes during its $200m equity offering."

6. CannTrust Shares Continue to Plunge as Investors Discover that Defendants Aceto, Abramowitz and Paul Were Aware of the Illicit Growing Scheme

305. Then, between July 23, 2019 and July 24, 2019, multiple news reports revealed for the first time that CannTrust executives, including Defendants Aceto, Abramowitz and Paul, knew of the unlicensed growing. On July 23, 2019 Globe & Mail published an article revealing that—based on internal CannTrust emails obtained by the news organization—"**[b]oth the chairman and the chief executive officer of CannTrust Holdings Inc. were informed that the [C]ompany was growing cannabis in unlicensed rooms about seven months before Health Canada uncovered the regulatory breach.**" As explained in further detail above, the article explained that the internal emails "show chairman Eric Paul and CEO Peter Aceto were made aware that cannabis was being cultivated in rooms at a growing facility in Southern Ontario that had yet to be licensed by the federal regulator, and that Mr. Paul counselled staff on how to respond."

306. Similarly, on July 24, 2019, BNN Bloomberg published an article that—according to internal Company documents obtained by BNN Bloomberg—disclosed that Defendant "Aceto told senior company officials to 'continue as planned' and plant cannabis in an unlicensed room in mid-November." In reviewing internal weekly production meeting minutes, the article set forth a detailed timeline of when senior CannTrust executives—including Defendant Aceto and Paul—knew of the illegal growing.

307. On this news, CannTrust stock fell **over 22%** from $2.62 per share on July 23, 2019 to $2.04 per share on July 24, 2019, on unusually high trading volume.

308. The financial media attributed the stock drop directly to the new information about Defendants' explicit knowledge of the illicit unlicensed growing rooms. For example, Global News reported on July 24, 2019 that "CannTrust Holdings Corp. shares have plummeted

further after a media report alleging that the cannabis company's chief executive and chairman of the board were aware of pot cultivation in rooms without government approval months before Health Canada discovered the illicit activity."

309. Following these revelations of Defendant Aceto's and Paul's direct involvement with the growing in the five unlicensed rooms, on July 25, 2019, the Company issued a press release, announcing: "The investigation into the Company's non-compliance with Health Canada regulations and ancillary matters uncovered new information that has resulted in a determination by the Board to **terminate with cause** CannTrust CEO Peter Aceto." The press release also announced that "the Board of Directors demanded the resignation of the Company's Chair Eric Paul and he complied." The Company named the Special Committee Chair, Defendant Marcovitch, as interim CEO.

310. Shortly thereafter, on August 1, 2019, the OSC initiated an investigation into CannTrust surrounding the five unlicensed rooms. The investigation was being handled by the OSC's Joint Serious Offences Team ("JSOT"), and was understood to be pursuing the matter as a "quasi-criminal" case, a type of proceeding that has the potential to lead to jail time depending on what charges are uncovered, brought, and successfully prosecuted.

311. The same day, the Company issued a press release on August 1, 2019, that estimated the value of impacted inventory and biological assets from the five unlicensed rooms at approximately $51 million as of June 30, 2019.[26] The August 1, 2019 press release further announced that CannTrust "will likely miss its filing deadline . . . of August 14, 2019 to file an

[26] As the Company announced in an August 15, 2019 press release, that "impacted inventory represents approximately 53% of the Company's total inventory as at June 30, 2019 and the impacted biological assets represent approximately 30% of the Company's total biological assets as at June 30, 2019."

interim financial report for the three and six month periods ended June 30, 2019, an interim management's discussion and analysis for the corresponding period and certifications of interim filings." The likely missed filing deadline was due to the uncertainty of the Health Canada investigation related to revenue and asset valuation.

312. As time passed, the fallout from Defendants' fraudulent concealment of the unlicensed growing rooms continued to materialize. On August 9, 2019, CannTrust issued a press release, attached to a Form 6-K dated that same day, announcing that, effective the day prior, "the Company's independent auditor, [KPMG], . . . is withdrawing its report dated March 27, 2019 on the Company's consolidated financial statements as at and for the year ended December 31, 2018 and its interim report to the Audit Committee dated May 13, 2019 on the unaudited condensed interim consolidated financial statements as at and for the three month period ended March 31, 2019 (collectively, the 'KPMG Reports'), and therefore, the KPMG Reports should no longer be relied upon."

313. Additionally, in light of the "significant uncertainty with respect to the potential impact of pending Health Canada decisions on the valuation of the Company's inventory and biological assets and revenue recognition," "CannTrust cautions against any reliance on its consolidated financial statements as at December 31, 2018 and interim consolidated financial statements as at and for the three month period ended March 31, 2019."

314. KPMG's decision to withdraw its reports were directly linked to the Special Committee's adverse findings, as well as the Company's own comments cautioning the public from relying on prior financial reports. Specifically, with respect to why KPMG withdrew its reports, the press release explained:

> KPMG's decision was prompted by the Company's caution against reliance on its financial statements for the year ended December 31, 2018 and for the three

> months ended March 31, 2019, as well as the recent sharing with KPMG of newly uncovered information from the Special Committee's investigation, including information that led to senior leadership changes announced on July 25, 2019. KPMG was not aware of the information recently shared by the Company when it issued the KPMG Reports and had relied upon representations made by individuals who are no longer at the Company

7. Health Canada Uncovers Additional Violations at the Vaughan Facility Including the Storage of Cannabis in Unlicensed Rooms

315. In addition to previously reprimanding CannTrust for growing in unlicensed rooms in its Niagara Facility, Health Canada soon discovered that CannTrust had been storing cannabis in unlicensed rooms in its Vaughan Facility following its review of the facility in July 2019. Indeed, on August 12, 2019, CannTrust told investors that Health Canada found significant regulatory violations at the Vaughan facility. On that day, the Company issued a press release, stating "[a]fter trading hours on Friday, August 9, 2019, CannTrust received a report from Health Canada notifying the Company that its manufacturing facility in Vaughan, Ontario has been rated non-compliant with certain regulations." Health Canada found the following violations:

1. The conversion of five rooms from operational areas to storage areas, which were used for storage since June 2018 without prior approval of Health Canada;

2. The construction of two new areas without prior approval of Health Canada, one of which was used to store cannabis since November 2018;

3. Insufficient security controls at the manufacturing facility;

4. Inadequate quality assurance investigations and controls;

5. Standard operating procedures that did not [] meet the requirements under regulations; and

6. Documents or information that were not retained in a manner to enable Health Canada to complete its audit in a timely manner.

316. These findings were "based on observations made during an inspection completed during the period July 10-16, 2019." Again, Defendants admitted that the regulator's findings were accurate noting: "CannTrust has accepted Health Canada's findings and remedial actions are underway."

317. As explained above, Defendants' need to store cannabis in the unlicensed rooms was a result of their growing in the unlicensed rooms in the Niagara Facility. As discussed above, CW3 recalled that some cannabis being stored in the Vaughan Facility was the same cannabis grown in the unlicensed rooms in the Niagara Facility. CW3 explained that there was so much product being sent from the Niagara Facility that CannTrust did not have the capacity in the licensed rooms so CannTrust used the unlicensed rooms to store the excess product.

318. Defendants had thus concealed not only that they had stored the excess illegally grown cannabis in unlicensed rooms, but also that if Health Canada discovers the unlicensed store rooms, then CannTrust would suffer further ramifications. Accordingly, the risk that Health Canada would discover that CannTrust was storing its excess inventory in unlicensed rooms fully materialized causing CannTrust's stock price to plummet.

319. On this news CannTrust's stock price fell approximately **30%** from a closing price of $3.17 per share on Friday, August 9, 2019 to a closing price of $2.32 on Monday, August 12, 2019.

320. Analysts attributed the additional regulatory violations related to the use of unlicensed rooms at CannTrust's Vaughan Facility as the cause of the stock drop. For example, on August 19, 2019, Jefferies reported that despite CannTrust's shares experiencing a gain as a possible result of a certain cannabis ETF rebalancing (*i.e.*, allocating a larger portion of the overall ETF to CannTrust shares), "[t]hese gains were all but lost though after CannTrust

announced on Monday morning that it has received a report from Health Canada informing it that its manufacturing facility in Vaughan, Ontario was non-compliant with certain regulations, which is in addition to the non-compliance finding for its Pelham facility previously."

321. As more news about CannTrust's non-compliance was disclosed, the Company's customers, including the provincial entities in charge of wholesale distribution began to return the illicitly grown cannabis that CannTrust sold to them because the cannabis was non-conforming. For example, on August 19, 2019, the CannTrust filed a Form 6-K and press release disclosing that the Ontario Cannabis Store, the Crown corporation in charge of wholesale distribution of cannabis products in Ontario, notified the Company that certain products sold were non-conforming (C$2.9 million) and would be returned.

322. Then, on September 6, 2019, numerous news reports were released revealing CannTrust's use of black-market seeds and mislabeling of cannabis from those seeds as a regulated and approved strain. For example, on that day, BNN Bloomberg published an article entitled "Black market pot entered CannTrust facility, flowed into legal market last year: Sources" According to the article, internal CannTrust documents obtained by BNN Bloomberg showed that CannTrust tried to conceal the black-market cannabis seeds from Health Canada and that some CannTrust employees changed the names of the black market cannabis strains to those which the Company was licensed to sell in the legal medical and recreational markets. The article went on to note "[a]dding cannabis seeds obtained through the black market would have allowed CannTrust to significantly bolster its production at a time when it had overcommitted itself with supply contracts with provinces and other licensed marijuana producers."

8. The Risk of Growing Cannabis in Unlicensed Rooms and Violating Health Canada Regulations Materializes When Health Canada Suspends CannTrust's License to Grow and Sell Cannabis

323. The foreseeable risk associated with Defendants' illicit growing and storing scheme fully materialized on September 17, 2019 when the Company informed investors that Health Canada was suspending its license, preventing CannTrust from continuing to sell cannabis altogether.

324. On that day, CannTrust published a press release, attached to a Form 6-K dated September 18, 2019, that "it received late this morning a Notice of Licence Suspension . . . under section 64(1) of the Cannabis Act (Canada)," which "states that **Health Canada has suspended CannTrust's authority to produce . . . and to sell cannabis**."

325. The press release continued: "As such, the Notice constitutes a partial suspension of the Company's licence for standard cultivation and a full suspension of its licences for standard processing, medical sales, cannabis drugs and research issued under the Cannabis regulations." Also, "[d]uring the suspension, CannTrust may not propagate new lots or batches of cannabis or engage in the sale or distribution of cannabis." The Notice cited "the Company's previous non-compliance with certain requirements of the Cannabis Act (Canada) and the regulation made thereunder (the 'Cannabis regulations') in respect of the matters that the Company has been discussing with Health Canada."

326. On this news, CannTrust's stock price fell **14%** from a closing price of $1.50 per share on September 16, 2019 to a closing price of $1.29 on September 17, 2019, on unusually high trading volume.

327. Analysts acknowledged that the suspension was a result of Defendants' illicit growing in the five unlicensed rooms at the Niagara facility and the other regulatory violations.

For example, on September 18, 2019, ROTH Capital reported that "[t]he recent announcement stems from the previous non-compliance of CTST growing cannabis in five unlicensed rooms."

G. Post-Class Period Events

328. On October 14, 2019, CannTrust issued a press release, attached to a Form 6-K dated that same day, announcing its purported success in its remediation efforts. Critically, part of the Company's remediation efforts involved destroying a significant amount of biological assets and inventory that related to their illegal growing in the five unlicensed rooms. Specifically, the press release explained:

> In order to implement these measures, CannTrust's Board of Directors has determined that it is **necessary to destroy approximately $12 million of biological assets and approximately $65 million worth of inventory that was not authorized by CannTrust's licence**. The exact amount of material destroyed will be validated and verified once the destruction is complete. The inventory being destroyed includes product that was returned by patients, distributors, and retailers. **Given the status of its licenses, the Company is unable to process the material being destroyed or sell it to other licensed producers.** The destruction process will allow the Company to free up much needed capacity to both implement remediation measures and store material that has been grown and processed in accordance with the Company's license since April 5, 2019.

329. Similarly, in an October 24, 2019 press release, attached to a Form 6-K dated that same day, CannTrust explained that it "will also take steps to recover all cannabis from distributors and retailers that has not already been sold to end consumers or returned to CannTrust." Within that same press release, interim CEO Defendant Marcovitch reiterated that as a result of the Special Committee's findings, "CannTrust has taken swift action to begin addressing the factors that led to its non-compliance, including several involuntary departures from the Company's leadership team"—referring mainly to Defendant Aceto being terminated for cause.

330. On November 26, 2019, the Company announced that "the Toronto Stock Exchange ('TSX') has advised the Company that it intends to review CannTrust's eligibility for continued listing of the Company's common shares on the TSX, pursuant to Part VII of the *TSX Company Manual*." The TSX indicated the reason for the review related to Company being in arrears for satisfying certain disclosure requirements, namely the preparation and filing of the Company's restated audited financial statements for the year ended December 31, 2018, its restated interim financial statements for the first quarter of 2019, and its interim financial statements for the second and third quarters of 2019, together with the related management's discussion and analysis ("MD&A") for the corresponding periods."

331. Then, on December 10, 2019, the Company announced that it received written notification on December 9, 2019 from the NYSE that "CannTrust is no longer in compliance with the NYSE's continued listing standard rules because the per share trading price of the Company's common shares has fallen below the NYSE's share price rule," *i.e.*, "[a]s of December 9, 2019, the 30 trading-day average closing price of the Company's common shares was" less than $1.00 per share.

332. Finally, on March 31, 2020—similar to bankruptcy protection in the United States—CannTrust applied for and obtained an order from the Ontario Superior Court of Justice granting protection under the *Companies' Creditors Arrangement Act*, c. C-36, as amended, a Canadian federal law allowing insolvent corporations that owe their creditors in excess of $5 million to restructure their business and financial affairs. In a press release issued by the Company on March 31, 2020, it indicated that it seeks to address "the multiple putative class actions and other litigation brought against CannTrust in several jurisdictions, seeking to resolve all of the claims and contingent claims against the Company in a single forum."

333. CannTrust informed investors in its March 31, 2020 press release that trading in CannTrust's common shares on the TSX and NYSE had been halted. CannTrust common stock was ultimately delisted from the NYSE on April 27, 2020.

VI. DEFENDANTS' FALSE AND MISLEADING STATEMENTS

334. Plaintiffs allege that the statements highlighted in bold and italics within this section were knowingly and materially false and misleading and/or omitted to disclose material information of which Defendants were aware or were reckless in not knowing. As alleged herein, such statements artificially inflated or maintained the price of CannTrust's publicly traded common stock and operated as a fraud or deceit on all persons and entities that purchased common stock during the Class Period.

335. Throughout the Class Period, Defendants made a series of misrepresentations concerning the Niagara and Vaughan Facilities in which they concealed from investors that they grew and stored cannabis in rooms prior to receiving the proper licenses in addition to committing several other regulatory violations including the growth and sale of cannabis from black-market seeds.

336. Because Defendants failed to disclose that they grew and stored cannabis in unlicensed rooms from June 2018 through March 2019 in violation of applicable rules and regulations, and that this illicit practice subjected CannTrust to significant regulatory risks, Defendants misled investors each time Defendants touted: (1) that CannTrust was in compliance with applicable regulations; (2) CannTrust's success and growth due to increases in capacity and expansion of the Niagara Facility; (3) the Company's continued successful expansion after Health Canada licensed the five unlicensed rooms in April 2019; and (4) reported certain overstated financial figures as a result of counting illicitly grown cannabis toward their reported inventory and biological assets.

A. Defendants Misled Investors About Being In Compliance with Applicable Regulations

337. During the Class Period, Defendants consistently told investors that the Company was in compliance with Health Canada regulations when in fact the Company knew that it was growing and storing cannabis in unlicensed rooms, and growing and selling cannabis from black-market seeds in direct violation of Health Canada regulations. Moreover, if Health Canada found CannTrust to be in violation of its regulations, it posed significant regulatory risks that would negatively impact CannTrust's continuing ability to operate including, *inter alia*, the loss or suspension of CannTrust's license to grow and sell cannabis.

338. In addition, even if Defendants' statements were literally true, they were false and misleading by omission because they failed to disclose material facts, rendering their statements misleading. Specifically, Defendants failed to disclose that they were growing cannabis in unlicensed rooms in their Niagara Facility, were storing cannabis in unlicensed rooms in their Vaughan Facility, were obtaining seeds from the black market, and in light of these direct violations of applicable regulations, risked Health Canada suspending CannTrust's growing and selling licenses.

1. December 19, 2018 – Press Release

339. On December 19, 2018, CannTrust issued a press release, which was filed with SEDAR that same day, updating investors on Phases 2 and 2 of the Niagara Facility expansion. In the December 19, 2018 press release, CannTrust told investors that "***[t]he fully-permitted Phase II expansion remains on course to bring the Company's capacity to 50,000 kg per year. CannTrust expects first harvest from the expansion in Q1/19. Construction of the final range should be complete in January 2019***."

340. The statements above regarding CannTrust's compliance with regulations as well as CannTrust's representations that it was a licensed or permitted producer and distributer were materially false and misleading when made because: (i) starting in October 2018, CannTrust began illegally growing cannabis in unlicensed rooms at the Niagara Facility; (ii) since June 2018, CannTrust was illegally storing dried cannabis in unlicensed rooms in the Vaughan facility; (iii) by June 2018, CannTrust was using illegal "black market" seeds to grow over one thousand cannabis plants without approval from Health Canada; (iv) CannTrust's product packaging mislabeled "black market" seed cannabis as one of the licensed strain names, in violation of the Cannabis Act; and (v) CannTrust distributed and sold cannabis to consumers without a proper permit. Accordingly, CannTrust was not operating in compliance with regulations and did not have a license to produce, store, and sell certain of its products.

341. For example, multiple former CannTrust employees corroborated that Defendants were growing in unlicensed rooms during the Class Period. According to former CannTrust employees, including whistleblower Nick Lalonde, Defendants knew or were reckless in not knowing that the Company was growing cannabis in five unlicensed rooms in the Niagara Facility from the beginning of the Class Period—in violation of Health Canada regulations. For example, Mr. Lalonde, who served as head of disposal operations at the Niagara Facility, recounted that CannTrust was growing in unlicensed rooms and intentionally concealed that fact from both Health Canada and investors. In fact, Mr. Lalonde detailed CannTrust's wrongdoing to Health Canada in an email, which included divulging that CannTrust was growing thousands of plants in unlicensed rooms and concealed the illicit growing scheme from Health Canada.

342. Similarly, CW1, who attended Quality Control meetings where issues in the facility were discussed, recalled that she saw plants and greenhouses being opened where the

Company had not obtained the proper permitting. CW4 likewise stated that the illegal growing started at the same time that Defendant Aceto took over as CEO, which happened in October 2018.

343. Indeed, Defendants admitted to doing so after receiving a compliance report from Health Canada on July 8, 2019. For instance, CannTrust issued a press release that same day, explaining that the "non-compliant rating is based on observations by the regulator regarding the growing of cannabis in five unlicensed rooms and inaccurate information provided to the regulator by CannTrust employees," and that the "[g]rowing in unlicensed rooms took place from October 2018 to March 2019 during which time CannTrust had pending applications for these rooms with Health Canada." Notably, the press release further stated that "CannTrust has accepted Health Canada's non-compliance finding," and Defendant Aceto conceded that with respect to Defendants' communications with Health Canada about growing in five unlicensed rooms, "[w]e made errors in judgement."

344. In addition, not only did CannTrust grow cannabis in five unlicensed rooms from October 2018 through March 2019, but the Individual Defendants either knew or were reckless in not knowing that it was occurring. Critically, the decision to do so was given by CannTrust executives—including Defendant Aceto. For example, as explained in Section V.B, according to internal CannTrust minutes from weekly production meetings held on November 21, 2018 and November 28, 2018, CannTrust executives explicitly discussed growing in unlicensed rooms and stated that Defendant Aceto was informed of the same and that Defendant Aceto instructed them to "continue as planned." Former CannTrust employees, such as whistleblower Mr. Lalonde, CW1, CW6, and CW2, corroborated that certain Individual Defendants knew about and directed the unlicensed growing.

345. Moreover, in addition to weekly production meetings, the unlicensed rooms were also discussed in Quality Control Meetings. For example, CW1 recalled that at the Quality Control meetings, which were held weekly in Niagara, and attended by Epp, Scott Rolph, Emily Tarrant, Emily Mclinchey, and others, issues at the Niagara Facility were discussed. Specifically, CW1 explained that at these meetings, they discussed the Niagara Facility "not being up to par," documents not being filled out properly, cleanliness issues along with other quality issues. CW1 further explained that they openly discussed the unlicensed grow rooms, RG8-12, and referred to them by their numbers.

346. Indeed, CW1 recalled that they openly discussed making sure those rooms were clean before the plants were put in but CW1 explained that she refused to partake in documenting the related cleaning logs because the rooms were unlicensed. According to CW1, because she "pushed back" by saying that it was "above her pay grade," those logs were handled by someone else. CW1 recalled that Rolph and Mclinchey also pushed back on the unlicensed rooms.

347. Notably, CW1 explained that Tarrant took the notes for the minutes at those Quality Control Meetings and that all documents and minutes "went to corporate" in Vaughan. CW1 stated that the minutes sent to corporate reflected discussions of RG8-RG12, and CW1 confirmed that those discussions that were reflected in the minutes included references to the unlicensed rooms.

348. In addition, as explained in Section V.B, according to Mr. Lalonde and CW1, CannTrust took affirmative steps to hide the unlicensed growing from Health Canada, which included misleading Health Canada inspectors and hanging up fake walls and curtains in front of

the plants in the unlicensed rooms so it appeared in photographs sent to Health Canada that the rooms were empty.

349. CannTrust executives—including Defendant Aceto—acknowledged that very fact in an email exchange on November 16, 2018. Subsequent to a Health Canada inspection, Graham Lee, CannTrust's director of quality and compliance, sent Defendant Aceto an email explaining, "[w]e dodged some bullets," and "[Health Canada] did not ask about RG8E/W, which are unlicensed rooms currently full of plants." Critically, the email further explicitly mentioned that Defendants had plants in unlicensed rooms: "1) RG8 is not licenced but has plants in it; 2) RG9 is not licenced but we are intending to put plants in it on Monday; 3) PA2A-E are not licenced but we have moved the encapsulation equipment into them and will begin running it next week." Defendant Paul was then forwarded this email and responded to this email later that same day on November 16, 2018.

350. Moreover, in addition to growing cannabis in unlicensed rooms in their Niagara Facility, Defendants also stored cannabis in unlicensed rooms in their Vaughan Facility. Defendants ran out of space to store the excess cannabis that Defendants had grown in the unlicensed rooms, and thus chose to store the overflow from the unlicensed rooms in Niagara in other unlicensed rooms at the Company's Vaughan Facility.

351. Health Canada reprimanded CannTrust for this very practice in August 2019. Specifically, CannTrust announced on August 12, 2019 that Health Canada issued Defendants a report on August 12, 2019 that outlined violations found in the Vaughan Facility. These violations included, *inter alia*, "[t]he conversion of five rooms from operational areas to storage areas, which were used for storage since June 2018 without prior approval of Health Canada";

and "[t]he construction of two new areas without prior approval of Health Canada, one of which was used to store cannabis since November 2018."

352. Multiple former CannTrust employees corroborate that much of the overflow cannabis that was grown in the unlicensed Niagara Facility rooms were stored in the unlicensed Vaughan Facility rooms. For instance, CW3 recalled that some cannabis being stored in the Vaughan Facility was the same cannabis grown in the unlicensed rooms and that there was so much product being sent from the Niagara Facility that CannTrust did not have the capacity in the licensed rooms so CannTrust used the unlicensed rooms to store the excess product.

353. CW2 similarly recalled that CannTrust had opened up extra areas in the Vaughan Facility to use as storage because it needed it for all the product coming from the Niagara Facility, and that CannTrust knew it was waiting for the licenses to come through from Health Canada but they said "screw it, we are just going to use them." Additionally, CW2 recalled that there was product coming from the Niagara Facility, and CW2 recounted an example of a room that was supposed to be for packaging but CannTrust was using it for storage of excess dry cannabis. CW2 further recalled that CannTrust Director of Distribution Luca Rea told CannTrust employees "don't tell anybody . . . we do not have anywhere to put anything."

354. Finally, as set forth in Section V.B.4, according to former CannTrust employees and internal CannTrust documents, CannTrust obtained and used illegal seeds from the black-market to create additional strains of cannabis and to increase production and then mislabeled the cannabis grown from those seeds as approved and regulated strains.

355. For example, according to CW5, three of the strains that she was responsible for selling were "cultivated illegally" and came from seeds that were not approved by Health Canada. CW5 also stated that CannTrust did not go through the proper Health Canada channels

to have those strains become a part of the Company's "assortment." Specifically, CW5 recalled that "Blueberry Kush" and "Gold Kush" were two of the strains that were cultivated illegally.

356. CW5 recalled that CannTrust had been growing Gold Kush as early as June 2018. CW5 further explained that at CannTrust, the Blueberry and Gold strains were "snuck in" to their operations and grown at mass. CW5 stated that CannTrust then sold them without the proper permitting.

357. Moreover, BNN Bloomberg published an article on September 6, 2019 stating that—according to internal CannTrust documents and four sources directly familiar with the matter—"[s]enior operating staff working at [CannTrust's] Pelham, Ont[ario] facility late last year brought cannabis seeds from the black market into production rooms, leading to some illicitly-grown pot flowing into the legal market." The documents obtained by BNN Bloomberg "suggest that, in an apparent effort to conceal the black market cannabis seeds from regulatory inspections and other staff members, some CannTrust employees changed the names of as many as 20 strains to those which the [C]ompany was licensed to sell in the legal medical and recreational markets."

358. The article's sources also explained that "[c]annabis plants from at least two strains that originated from the black market-sourced seeds entered production rooms where they were fully grown to flower, packaged and sold into the recreational market." The documents indicated that "more than one thousand cannabis plants that originated from the illicit seeds were grown at CannTrust's cultivation facility." The sources further informed BNN Bloomberg that "[a]dding cannabis seeds obtained through the black market would have allowed CannTrust to significantly bolster its production at a time when it had overcommitted itself with supply contracts with provinces and other licensed marijuana producers."

359. In addition, even if Defendants' statement was literally true, it was false and misleading by omission because Defendants failed to disclose material facts, rendering their statement misleading. Specifically, Defendants failed to disclose that they were growing cannabis in unlicensed rooms in their Niagara Facility, were storing cannabis in unlicensed rooms in their Vaughan Facility, were obtaining seeds from the black market, and in light of these direct violations of applicable regulations, risked Health Canada suspending CannTrust's growing and selling licenses.

2. January 8, 2019 – Form 40-F (Registration Statement)

360. On January 8, 2019, CannTrust filed with the SEC a Form 40-F registration statement pursuant to Section 12 of the Exchange Act (the "January 8, 2019 Form 40-F), which was signed by Defendant Abramowitz. Filed with the January 8, 2019 Form 40-F were 130 exhibits. The January 8, 2019 Form 40-F, through those exhibits, touted that CannTrust was complying with all applicable regulations:

> The Company's operations are subject to various laws, regulations and guidelines relating to the manufacture, management, transportation, storage and disposal of medical cannabis as well as laws and regulations relating to health and safety, the conduct of operations and the protection of the environment. To the knowledge of management, other than the requirement that the Company make routine corrections that may be required by Health Canada from time to time, ***the Company is currently in compliance with all such laws***.

361. Similarly, the January 8, 2019 Form 40-F stated:

> Health Canada conducts ad hoc, unscheduled site inspections of Licensed Producers. CannTrust Opco has experienced these inspections at its Vaughan Facility on a monthly basis. CannTrust Opco has responded to and complied with all requests from Health Canada within the time frames indicated in such requests. ***As of the date hereof, there are no outstanding inspection issues with Health Canada beyond day- to- day adjustments that may occur in order to ensure ongoing compliance.***

362. The January 8, 2019 Form 40-F further stated that "[t]he Company believes that it currently holds or has applied for all necessary licences and permits to carry on the activities

which it is ***currently conducting under applicable laws and regulations,*** and also ***believes that it is complying in all material respects with the terms of such licences and permits***."

363. The January 8, 2019 Form 40-F also purported to warn that "***[t]he failure of the Company to obtain and maintain the applicable licenses and amendments thereto would have a material adverse impact upon the Company.***"

364. Defendants' statements concerning being in compliance with all applicable regulations and the Company's purported risk factors *should* it fail to comply with applicable regulations were materially false and misleading for the same reasons set forth in paragraphs 340-358.

365. In addition, even if Defendants' purported risk factor was literally true, it was false and misleading by omission because Defendants failed to disclose material facts, rendering their statement misleading. Specifically, Defendants failed to disclose that they were growing cannabis in unlicensed rooms in their Niagara Facility, were storing cannabis in unlicensed rooms in their Vaughan Facility, were obtaining seeds from the black market, and in light of these direct violations of applicable regulations, risked Health Canada suspending CannTrust's growing and selling licenses.

366. Moreover, Defendants' purported warning was materially false and misleading because it was misleading for Defendants to issue a warning that failing to "obtain and maintain applicable licenses" *would* adversely impact CannTrust when Defendants already knew, or were reckless in not knowing, that CannTrust was already failing to comply with applicable licenses.

367. To the extent any of Defendants' statements above were opinions, they were false and misleading because they lacked a reasonable basis and omitted the above material facts,

which did not fairly align with Defendants' positive statements regarding their ability to increase growing capacity to meet the high demand for cannabis.

3. March 1, 2019 – Registration Statement

368. On March 1, 2019, CannTrust filed a Registration Statement on Form 10-F with the SEC for a proposed offering of securities (the "Registration Statement"). The Registration Statement was signed by Defendants Aceto, Guyatt, Dawber, Paul, Sanders, Kaden, Page, Litwin, and Marcovitch.

369. The Registration Statement touted that the Company was not violating any regulations at the time the statement was made: "***The Company believes that, as of the date of this Prospectus, it is in material compliance with all laws and regulations***."

370. The Registration Statement further stated:

> ***Any delays or complications in obtaining regulatory approvals, as well as failure to obtain any regulatory approvals, may have a material adverse effect on the business of the Company and result in additional costs.***
>
> ***Achievement of the Company's business objectives is contingent, in part, upon compliance with regulatory requirements enacted by governmental authorities and obtaining all regulatory approvals, where necessary for the sale of its product.*** The Company may not be able to accurately predict the impact of the compliance regime Health Canada is implementing for the Canadian medical and recreational cannabis industry. Similarly, the Company may not be able to accurately predict the time required to secure all appropriate regulatory approvals for its product, or the extent of testing and documentation that may be required by governmental authorities. ***The impact of Health Canada's compliance regime, any delays in obtaining, or failure to obtain, regulatory approvals may significantly delay or impact the development of markets, products and sales initiatives and could have a material adverse effect on the business, results of operations and financial condition of the Company.***

371. Defendants' statements that the Company was *"in material compliance with all laws and regulations*" and concerning the Company's purported risk factors should it fail to comply with applicable regulations were materially false and misleading for the same reasons set forth in paragraphs 340-358.

372. In addition, even if Defendants' purported warnings were literally true, they were false and misleading by omission because Defendants failed to disclose material facts, rendering their statements misleading. Specifically, Defendants failed to disclose that they were growing cannabis in unlicensed rooms in their Niagara Facility, were storing cannabis in unlicensed rooms in their Vaughan Facility, were obtaining seeds from the black market, and in light of these direct violations of applicable regulations, risked Health Canada suspending CannTrust's growing and selling licenses.

373. Moreover, Defendants' purported warnings were materially false and misleading because it was misleading for Defendants to issue a warning that CannTrust *may* or *could* face the risk of adverse consequences if Defendants fail to comply with applicable regulations when Defendants already knew, or were reckless in not knowing, that CannTrust was already failing to comply with applicable regulations and had already faced the risk of having its licenses suspended from Health Canada.

374. To the extent any of Defendants' statements above were opinions, they were false and misleading because they lacked a reasonable basis and omitted the above material facts, which did not fairly align with Defendants' positive statements regarding their ability to increase growing capacity to meet the high demand for cannabis.

4. March 18, 2019 – Amended Registration Statement

375. On March 18, 2019, the Company filed with the SEC an amendment to the Registration Statement on Form F-10/A (the "Amended Registration Statement"). The Amended Registration Statement was signed by Defendants Aceto, Guyatt, Dawber, Paul, Sanders, Kaden, Page, Litwin, and Marcovitch. On March 19, 2019, the SEC declared the Amended Registration Statement effective.

376. Like the Registration Statement, the Amended Registration Statement similarly touted that "***[t]he Company believes that, as of the date of this Prospectus, it is in material compliance with all laws and regulations summarized below***" and stated:

> ***Any delays or complications in obtaining regulatory approvals, as well as failure to obtain any regulatory approvals, may have a material adverse effect on the business of the Company and result in additional costs.***
>
> ***Achievement of the Company's business objectives is contingent, in part, upon compliance with regulatory requirements enacted by governmental authorities and obtaining all regulatory approvals, where necessary for the sale of its product.*** The Company may not be able to accurately predict the impact of the compliance regime Health Canada is implementing for the Canadian medical and recreational cannabis industry. Similarly, the Company may not be able to accurately predict the time required to secure all appropriate regulatory approvals for its product, or the extent of testing and documentation that may be required by governmental authorities. ***The impact of Health Canada's compliance regime, any delays in obtaining, or failure to obtain, regulatory approvals may significantly delay or impact the development of markets, products and sales initiatives and could have a material adverse effect on the business, results of operations and financial condition of the Company.***

377. The Amended Registration Statement also purported to warn that "any expansion of the Niagara Facility is subject to Health Canada regulatory approvals. ***The delay or denial of such approvals may have a material adverse impact on the business of the Company and may result in the Company not meeting anticipated or future demand when it arises.***"

378. The Amended Registration Statement also stated: "***The Company is required to obtain and maintain certain permits, licenses or other approvals from regulatory agencies*** in countries and markets outside of Canada in which it operates, or to which it exports, in order to produce or export to, and sell its medical products in, these countries, including, in the case of certain countries, the ability to demonstrate compliance with Good Manufacturing Practices ("GMP"). ***There can be no assurance that the Company will be able to comply with these standards***."

379. Defendants' statements that the Company was *"in material compliance with all laws and regulations*" and concerning the Company's purported risk factors should it fail to comply with applicable regulations were materially false and misleading for the same reasons set forth in paragraphs 340-358.

380. In addition, even if Defendants' purported warnings were literally true, they were false and misleading by omission because Defendants failed to disclose material facts, rendering their statements misleading. Specifically, Defendants failed to disclose that they were growing cannabis in unlicensed rooms in their Niagara Facility, were storing cannabis in unlicensed rooms in their Vaughan Facility, were obtaining seeds from the black market, and in light of these direct violations of applicable regulations, risked Health Canada suspending CannTrust's growing and selling licenses.

381. Moreover, Defendants' purported warnings were materially false and misleading because it was misleading for Defendants to issue a warning that CannTrust *may* or *could* face the risk of adverse consequences if Defendants fail to comply with applicable regulations when Defendants already knew, or were reckless in not knowing, that CannTrust was already failing to comply with applicable regulations and had already faced the risk of having its licenses suspended from Health Canada.

382. To the extent any of Defendants' statements above were opinions, they were false and misleading because they lacked a reasonable basis and omitted the above material facts, which did not fairly align with Defendants' positive statements regarding their ability to increase growing capacity to meet the high demand for cannabis.

5. March 28, 2019 – Press Release and 2018 Form 40-F

383. On March 28, 2019, CannTrust issued a press release, attached to a Form 6-K signed by Defendant Guyatt and dated that same day, announcing its financial results for the

fourth quarter of 2018. The March 28, 2019 press release explained to investors the Company's "expect[ation] to increase production capacity to 50,000kg on an annualized basis," and notably, that the "***Company is positioned to receive all necessary regulatory approvals to support this planned growth.***"

384. Also on March 28, 2019, CannTrust filed with the SEC its 2018 Form 40-F, which was signed by Defendant Guyatt and accompanied by certifications signed by Defendants Aceto and Guyatt, in which Defendants represented: "***As of the date hereof, there are no outstanding inspection issues with Health Canada beyond day-to-day adjustments that may occur in order to ensure ongoing compliance.***"

385. Notably, the 2018 Form 40-F touted that the "***Company believes that it currently holds or has applied for all necessary licences and permits to carry on the activities which it is currently conducting under applicable laws and regulations, and also believes that it is complying in all material respects with the terms of such licences and permits.***"

386. The 2018 Form 40-F further stated that "***[f]ailure to comply with regulations may result in additional costs for corrective measures, penalties or restrictions on the Company's operations.***"

387. The 2018 Form 40-F further stated that "***any expansion of the Niagara Facility is subject to Health Canada regulatory approvals.***" Furthermore, despite knowing that once Health Canada discovered the growing in the five unlicensed rooms, they would lose approval to continue operations and not meet demand, Defendants stated, "***[t]he delay or denial of such approvals may have a material adverse impact on the business of the Company and may result in the Company not meeting anticipated or future demand when it arises***."

388. Similarly, the 2018 Form 40-F touted that "***[t]he Company distributes its recreational cannabis products in accordance with the federal and provincial regulatory frameworks.***"

389. Defendants' statements concerning complying with Health Canada regulations were materially false and misleading for the same reasons set forth in paragraphs 340-358.

390. In addition, even if Defendants' statements were literally true, they were false and misleading by omission because Defendants failed to disclose material facts, rendering their statements misleading. Specifically, Defendants failed to disclose that they were growing cannabis in unlicensed rooms in their Niagara Facility, were storing cannabis in unlicensed rooms in their Vaughan Facility, were obtaining seeds from the black market, and in light of these direct violations of applicable regulations, risked Health Canada suspending CannTrust's growing and selling licenses.

391. Moreover, Defendants' purported warnings were materially false and misleading because it was misleading for Defendants to issue a warning that CannTrust *may* face the risk of adverse consequences if Defendants fail to comply with applicable regulations when Defendants already knew, or were reckless in not knowing, that CannTrust was already failing to comply with applicable regulations and had already faced the risk of having its licenses suspended from Health Canada.

392. To the extent any of Defendants' statements above were opinions, they were false and misleading because they lacked a reasonable basis and omitted the above material facts, which did not fairly align with Defendants' positive statements regarding their ability to increase growing capacity to meet the high demand for cannabis.

6. April 8, 2019 – Press Release

393. On April 8, 2019, within CannTrust's press release, which was attached to a Form 6-K signed by Defendant Guyatt and dated that same day, announcing that its Pelham Facility became fully licensed, Defendant Aceto touted CannTrust's ability to always "meet and exceed regulatory standards":

> ***We have always been confident that our processes meet and exceed regulatory standards, and we now have further validation of this from our regulators*** . . . . With this approval, CannTrust is set to meet its plan to reach 50,000kg of annualized capacity at the perpetual harvest greenhouse and continue providing award-winning products in a cost-effective manner.

394. Defendant Aceto's statement that "[w]e have always been confident that our processes meet and exceed regulatory standards, and we now have further validation of this from our regulators," was materially false and misleading for the same reasons set forth in paragraphs 340-358.

7. April 22, 2019 – Preliminary Prospectus

395. On April 22, 2019, CannTrust filed a Preliminary Prospectus Supplement (the "Preliminary Prospectus") with the SEC, which preliminarily announced offering an aggregate of $200 million of common shares but did not set an offering price.

396. The Preliminary Prospectus touted: "***The Company believes that, as of the date of this Prospectus, it is in material compliance with all laws and regulations.***"

397. The Preliminary Prospectus further touted that "[w]ith [The Company's] increased production capability, we believe revenue will increase significantly in 2019 compared to the 2018 full year results, with revenue growth accelerating throughout the year starting in the second quarter of 2019. ***We are positioned to receive all necessary regulatory approvals to support this planned growth***."

398. The Preliminary Prospectus also stated that "[w]e operate only in countries where cannabis is legal and ***abide by applicable federal, state and provincial laws.***"

399. Furthermore, the Preliminary Prospectus stated:

> ***Any delays or complications in obtaining regulatory approvals, as well as failure to obtain any regulatory approvals, may have a material adverse effect on the business of the Company and result in additional costs.***
>
> ***Achievement of the Company business objectives is contingent, in part, upon compliance with regulatory requirements enacted by governmental authorities and obtaining all regulatory approvals, where necessary for the sale of its product.*** The Company may not be able to accurately predict the impact of the compliance regime Health Canada is implementing for the Canadian medical and recreational cannabis industry. Similarly, the Company may not be able to accurately predict the time required to secure all appropriate regulatory approvals for its product, or the extent of testing and documentation that may be required by governmental authorities. ***The impact of Health Canada's compliance regime, any delays in obtaining, or failure to obtain, regulatory approvals may significantly delay or impact the development of markets, products and sales initiatives and could have a material adverse effect on the business, results of operations and financial condition of the Company.***

400. The Preliminary Prospectus further stated:

> ***A significant failure of our site security measures and other facility requirements, including any failure to comply with regulatory requirements, could have an impact on our ability to continue operating under the Cannabis Licences or our prospects of renewing the Cannabis Licences, and could also result in a suspension or revocation of the Cannabis Licences.*** As we currently produce our cannabis products only at the Niagara Facility ***any event impacting our ability to continue production there, or requiring us to delay production, would prevent us from continuing to operate our business*** until operations at the Niagara Facility could be resumed, or until we were able to commence production at another facility.

401. Moreover, the Preliminary Prospectus stated that "any expansion of the Niagara Facility is subject to Health Canada regulatory approvals. ***The delay or denial of such approvals may have a material adverse impact on our business and may result in us not meeting anticipated or future demand when it arises***."

402. Defendants' statements that the Company was "in material compliance with all laws and regulations," that "[w]e are positioned to receive all necessary regulatory approvals,"

that "[we] abide by applicable federal, state and provincial laws," and concerning the Company's purported risk factors should it fail to comply with applicable regulations were materially false and misleading for the same reasons set forth in paragraphs 340-358.

403. In addition, even if Defendants' statements were literally true, they were false and misleading by omission because Defendants failed to disclose material facts, rendering their statements misleading. Specifically, Defendants failed to disclose that they were growing cannabis in unlicensed rooms in their Niagara Facility, were storing cannabis in unlicensed rooms in their Vaughan Facility, were obtaining seeds from the black market, and in light of these direct violations of applicable regulations, risked Health Canada suspending CannTrust's growing and selling licenses.

404. Moreover, Defendants' purported warnings were materially false and misleading because it was misleading for Defendants to issue a warning that CannTrust *may* or *could* face the risk of adverse consequences if Defendants fail to comply with applicable regulations when Defendants already knew, or were reckless in not knowing, that CannTrust was already failing to comply with applicable regulations and had already faced the risk of having its licenses suspended from Health Canada.

405. To the extent any of Defendants' statements above were opinions, they were false and misleading because they lacked a reasonable basis and omitted the above material facts, which did not fairly align with Defendants' positive statements regarding their ability to increase growing capacity to meet the high demand for cannabis.

8. May 3, 2019 – Prospectus Supplement

406. On May 3, 2019, CannTrust filed a Prospectus Supplement (the "Prospectus Supplement"), announcing its offering of 36,363,636 shares of common stock, which includes

the Cannamed and Cajun offering of 5,454,545 shares of common stock, at an offering price of $5.50 per share.

407. The Prospectus Supplement touted that "[w]ith [The Company's] increased production capability, we believe revenue will increase significantly in 2019 compared to the 2018 full year results, with revenue growth accelerating throughout the year starting in the second quarter of 2019. ***We are positioned to receive all necessary regulatory approvals to support this planned growth.***"

408. The Prospectus Supplement also stated that "***[f]ailure to comply with regulations may result in additional costs for corrective measures, penalties or restrictions on our operations.***"

409. The Prospectus Supplement further stated that "any expansion of the Niagara Facility is subject to Health Canada regulatory approvals. ***The delay or denial of such approvals may have a material adverse impact on our business and may result in us not meeting anticipated or future demand when it arises.***"

410. The Prospectus Supplement also touted that "[w]e operate only in countries where cannabis is legal and ***abide by applicable federal, state and provincial laws.***"

411. The Prospectus Supplement also purported to warn:

> ***Any delays or complications in obtaining regulatory approvals, as well as failure to obtain any regulatory approvals, may have a material adverse effect on the business of the Company and result in additional costs.***
>
> ***Achievement of the Company business objectives is contingent, in part, upon compliance with regulatory requirements enacted by governmental authorities and obtaining all regulatory approvals, where necessary for the sale of its product.*** The Company may not be able to accurately predict the impact of the compliance regime Health Canada is implementing for the Canadian medical and recreational cannabis industry. Similarly, the Company may not be able to accurately predict the time required to secure all appropriate regulatory approvals for its product, or the extent of testing and documentation that may be required by governmental authorities. ***The impact of Health***

> ***Canada's compliance regime, any delays in obtaining, or failure to obtain, regulatory approvals may significantly delay or impact the development of markets, products and sales initiatives and could have a material adverse effect on the business, results of operations and financial condition of the Company.***

412. Similarly, the Prospectus Supplement stated:

> ***A significant failure of our site security measures and other facility requirements, including any failure to comply with regulatory requirements, could have an impact on our ability to continue operating under the Cannabis Licences or our prospects of renewing the Cannabis Licences, and could also result in a suspension or revocation of the Cannabis Licences.*** As we currently produce our cannabis products only at the Niagara Facility ***any event impacting our ability to continue production there, or requiring us to delay production, would prevent us from continuing to operate our business*** until operations at the Niagara Facility could be resumed, or until we were able to commence production at another facility.

413. Defendants' statements that "[w]e are positioned to receive all necessary regulatory approvals to support this planned growth," that "[we] abide by applicable federal, state and provincial laws," and concerning their purported risk warnings were materially false and misleading for the same reasons set forth in paragraphs 340-358.

414. In addition, even if Defendants' statements were literally true, they were false and misleading by omission because Defendants failed to disclose material facts, rendering their statements misleading. Specifically, Defendants failed to disclose that they were growing cannabis in unlicensed rooms in their Niagara Facility, were storing cannabis in unlicensed rooms in their Vaughan Facility, were obtaining seeds from the black market, and in light of these direct violations of applicable regulations, risked Health Canada suspending CannTrust's growing and selling licenses.

415. Moreover, Defendants' purported warnings were materially false and misleading because it was misleading for Defendants to issue a warning that CannTrust *may* or *could* face the risk of adverse consequences if Defendants fail to comply with applicable regulations when Defendants already knew, or were reckless in not knowing, that CannTrust was already failing to

comply with applicable regulations and had already faced the risk of having its licenses suspended from Health Canada.

416. To the extent any of Defendants' statements above were opinions, they were false and misleading because they lacked a reasonable basis and omitted the above material facts, which did not fairly align with Defendants' positive statements regarding their ability to increase growing capacity to meet the high demand for cannabis.

B. Defendants Misled Investors Each Time They Touted Their Successful Increased Capacity and Expansion

417. During the Class Period, Defendants also repeatedly touted CannTrust's success and growth to investors, and attributed that success and growth to the increased capacity and expansion of the Niagara Facility. In doing so, Defendants led investors to believe that the Company was in position to meet the surge in demand and become a market leader in recreational and medicinal cannabis sales. However, Defendants failed to disclose the material fact that the real reason the Company was in position to meet increased demand was because of the increased production capacity from growing and storing of cannabis in unlicensed rooms and use of black-market seeds.

418. In addition, even if Defendants' statements were literally true, they were false and misleading by omission because Defendants failed to disclose material facts, rendering their statements misleading. Specifically, Defendants failed to disclose that they were obtaining seeds from the black market, and after October 2018, were growing cannabis in unlicensed rooms in their Niagara Facility, were storing cannabis in unlicensed rooms in their Vaughan Facility, and in light of these direct violations of applicable regulations, risked Health Canada suspending CannTrust's growing and selling licenses.

1. June 26, 2018 – Press Release

419. On June 26, 2018, CannTrust issued a press release applauding the granting of Royal Assent to Bill C-45, *the Cannabis Act*. The press release further explained, "[w]ith Royal Assent received, the legislation legalizing cannabis for adult consumer use has now passed its final official step, and retail sales are to commence on October 17, 2018, as announced by Canada's federal government."

420. In light of the upcoming legalization of recreational cannabis in Canada, Defendant Rogers touted: "***CannTrust is excited and well-positioned to enter this new marketplace and has the production capacity and infrastructure together with standardized products with precise label claims indicating the exact dosage, to immediately begin fulfilling adult consumer use market orders on a national level.***"

421. Similarly, the June 26, 2018 press release quoted Defendant Rogers: "[w]hile the federal government has recently announced the commencement date for adult consumer use, CannTrust has been working towards this date for a very long time. ***We are well positioned for this rapid growth with our new product offerings, infrastructure, research and development and staffing.***"

422. Defendants' statements above were materially false and misleading because as far back as June 2018, Defendants had been skirting Health Canada regulations to attempt to keep up with actual and anticipated demand for cannabis. Defendants at every turn tried to increase growing capacity and supply of their cannabis to get ready for the upcoming legalization of recreational cannabis in October 2018.

423. For example, set forth in Section V.B.4, according to former CannTrust employees and internal CannTrust documents, CannTrust obtained and used illegal seeds from the black-market to create additional strains of cannabis and to increase production.

424. According to CW5, three of the strains that she was responsible for selling were "cultivated illegally" and came from seeds that were not approved by Health Canada. CW5 also stated that CannTrust did not go through the proper Health Canada channels to have those strains become a part of the Company's "assortment." Specifically, CW5 recalled that "Blueberry Kush" and "Gold Kush" were two of the strains that were cultivated illegally.

425. CW5 recalled that CannTrust had been growing Gold Kush as early as June 2018. CW5 further explained that at CannTrust, the Blueberry and Gold strains were "snuck in" to their operations and grown at mass. CW5 stated that CannTrust then sold them without the proper permitting.

426. Moreover, BNN Bloomberg published an article on September 6, 2019 stating that—according to internal CannTrust documents and four sources directly familiar with the matter—"[s]enior operating staff working at [CannTrust's] Pelham, Ont[ario] facility late last year brought cannabis seeds from the black market into production rooms, leading to some illicitly-grown pot flowing into the legal market." The documents obtained by BNN Bloomberg "suggest that, in an apparent effort to conceal the black market cannabis seeds from regulatory inspections and other staff members, some CannTrust employees changed the names of as many as 20 strains to those which the Company was licensed to sell in the legal medical and recreational markets."

427. The article's sources also explained that "[c]annabis plants from at least two strains that originated from the black market-sourced seeds entered production rooms where they were fully grown to flower, packaged and sold into the recreational market." The documents indicated that "more than one thousand cannabis plants that originated from the illicit seeds were grown at CannTrust's cultivation facility." The sources further informed BNN Bloomberg that

"[a]dding cannabis seeds obtained through the black market would have allowed CannTrust to significantly bolster its production at a time when it had overcommitted itself with supply contracts with provinces and other licensed marijuana producers."

428. Additionally, as set forth in Section V.B.1-3, in light of Defendants' increased production of cannabis grown from illegal seeds, Defendants then stored their illegally grown cannabis in unlicensed rooms within their Vaughan Facility since at least June 2018. Indeed, Defendants were later reprimanded by Health Canada for the conversion of five rooms from operational areas to storage areas, which were used for storage since June 2018 without prior approval of Health Canada.

429. In addition, even if Defendants' statements were literally true, they were false and misleading by omission because Defendants failed to disclose material facts, rendering their statements misleading. Specifically, Defendants failed to disclose that they were obtaining seeds from the black market, and in light of this direct violation of applicable regulations, risked Health Canada suspending CannTrust's growing and selling licenses.

2. July 13, 2018 – Press Release

430. On July 13, 2018, CannTrust issued a press release, which was filed with SEDAR on July 16, 2018. Within the July 13, 2018 press release, Defendant Rogers stated that "[t]his is just the beginning for CannTrust! ***We are now a trusted, primary supplier in British Columbia, Alberta and Manitoba, thanks to our unparalleled product quality, value, innovations and proven expertise***."

431. Defendant Rogers' above statement was materially false and misleading for the same reasons set forth in paragraphs 417-418 and 422-428.

432. Additionally, as of June 2018, CannTrust was growing cannabis from black-market seeds and then mislabeling the cannabis as an approved and regulated strain.

Accordingly, Defendant Rogers' statement boasting about being a ***"trusted, primary supplier"*** and having "***unparalleled product quality, value, innovations*** and proven expertise" was false and misleading because CannTrust was not a trusted supplier and did not provide unparalleled product quality and value when their product was, in reality, mislabeled and sold its customers a different product that the Company was advertising.

3. August 14, 2018 – Letter to Shareholders

433. On August 14, 2018, CannTrust filed with SEDAR a letter to the shareholders from Defendant Paul that touted the Company's financial success. For example, the letter stated that "***[w]e continue to experience dynamic growth in all areas of the Company as we execute our business plan aimed at being a market leader and innovator in the development of products and services*** to better serve our patients and physicians."

434. Defendant Paul's above statement was materially false and misleading for the same reasons set forth in paragraphs 417-418, 422-428, and 432.

435. In addition, even if Defendants' statement was literally true, it was false and misleading by omission because Defendants failed to disclose material facts, rendering their statement misleading. Specifically, Defendants failed to disclose that they were obtaining seeds from the black market, and in light of this direct violation of applicable regulations, risked Health Canada suspending CannTrust's growing and selling licenses.

4. August 14, 2018 – Press Release

436. On August 14, 2018, CannTrust issued a press release, which was filed with SEDAR that same day. Within the August 14, 2018 press release, Defendant Rogers touted that "***[o]perating a facility of this scale, CannTrust is well-positioned to meet the increased Canadian and global demand for cannabis***."

437. Defendant Rogers' above statement was materially false and misleading for the same reasons set forth in paragraphs 417-418, 422-428, and 432.

438. In addition, even if Defendants' statement was literally true, it was false and misleading by omission because Defendants failed to disclose material facts, rendering their statement misleading. Specifically, Defendants failed to disclose that they were obtaining seeds from the black market, and in light of this direct violation of applicable regulations, risked Health Canada suspending CannTrust's growing and selling licenses.

5. August 21, 2018 – Press Release

439. On August 21, 2018, CannTrust issued a press release, which was filed with SEDAR that same day, announcing that the Company "has signed an agreement with the Ontario Cannabis Retail Corporation (OCRC), operating as the Ontario Cannabis Store (OCS), to supply a broad range of adult-use products from all three of the Company's new recreational cannabis brands – liiv, Xscape and Synr.g." Within the August 21, 2018 press release, Defendant Rogers stated that "***[o]ur top-of-the-line greenhouse facility, processing operations and distribution network***, all based in Ontario, ***ideally position us to grow rapidly to meet the demand*** within the province and across the country."

440. Defendant Rogers' above statement was materially false and misleading for the same reasons set forth in paragraphs 417-418, 422-428, and 432.

6. August 22, 2018 – Press Release

441. On August 22, 2018, CannTrust issued a press release, which was filed with SEDAR that same day, introducing three new recreational cannabis brands. The August 22, 2018 press release stated that "[t]hese three new brands were cultivated by Canada's first pharmacist-operated and licensed producer, CannTrust. With four years as a trusted provider of

cannabis, ***CannTrust brings its high quality, trusted and standardized products to the liiv, Synr.g and Xscape brands to provide products that are of the highest quality*** and best flavor."

442. The August 22, 2018 press release further explained, "***[w]hen developing a new strain, CannTrust's expert cultivation team plants hundreds of seeds, monitoring the plants from seedling through to full flower and selecting only the varieties with high terpene levels and the right amount of THC and CBD as the mother plant for all future products.***"

443. Defendants' statements above were materially false and misleading for the same reasons set forth in paragraphs 417-418, 422-428, and 432. Indeed, at that time liiv, Synr.g and Xscape represented CannTrust's only three brands of cannabis. Accordingly, the cannabis sold under those brand names included cannabis that was grown and stored in unlicensed rooms as well as cannabis that was grown and sold from black-market seeds and then sold under these brand names rendering Defendants statements boasting about providing products of the highest quality" and "developing a new strain" were false and misleading.

444. In addition, even if Defendants' statement was literally true, it was false and misleading by omission because Defendants failed to disclose material facts, rendering their statement misleading. Specifically, Defendants failed to disclose that they were growing cannabis in unlicensed rooms in their Niagara Facility, were storing cannabis in unlicensed rooms in their Vaughan Facility, were obtaining seeds from the black market, and in light of these direct violations of applicable regulations, risked Health Canada suspending CannTrust's growing and selling licenses.

7. September 13, 2018 – Press Release

445. On September 13, 2018, CannTrust issued a press release, which was filed with SEDAR that same day, announcing "***supply agreements with Nova Scotia, New Brunswick, Prince Edward Island and Newfoundland. . . and has a long-term strategy to be a market***

share leader in the Canadian recreational space." The September 13, 2018 press release further touted, "***[b]eginning October 17, Canadians from coast-to-coast will have access to CannTrust's quality, standardized cannabis products grown in the [C]ompany's Niagara, Ontario perpetual harvest facility, which is setting new industry standards for product excellence and cost effectiveness.***"

446. Defendants' above statements were materially false and misleading for the same reasons set forth in paragraphs 417-418, 422-428, and 432.

447. In addition, the supply agreements CannTrust was touting were based on the sale of illicitly grown and stored cannabis and/or from the use of black-market seeds. Accordingly, such supply agreements were based on false information and conveyed cannabis for which CannTrust lacked legal title and, as set forth in Section V.C.4 was not entitled to transfer.

8. October 1, 2018 – Press Release

448. On October 1, 2018, CannTrust issued a press release, which was filed with SEDAR that same day, announcing the appointment of Defendant Aceto as CEO. Within the October 1, 2018 press release, Defendants touted, "***CannTrust is a front-runner in the industry and perfectly positioned to continue its exponential growth in Canada and abroad following the legislative changes set to become effective in Canada on October 17th***."

449. Defendants' above statement was materially false and misleading for the same reasons set forth in paragraphs 340-358, 417-418, 422-428, and 432.

450. In addition, even if Defendants' statement was literally true, it was false and misleading by omission because Defendants failed to disclose material facts, rendering their statement misleading. Specifically, Defendants failed to disclose that they were growing cannabis in unlicensed rooms in their Niagara Facility, were storing cannabis in unlicensed rooms in their Vaughan Facility, were obtaining seeds from the black market, and in light of

these direct violations of applicable regulations, risked Health Canada suspending CannTrust's growing and selling licenses.

9. October 10, 2018 – Press Release

451. On October 10, 2018, CannTrust issued a press release, which was filed with SEDAR that same day, introducing a fourth recreational brand, Peak Leaf. The October 10, 2018 press release explained, "***[w]hen developing a new strain, CannTrust's expert cultivation team plants hundreds of seeds, monitoring the plants from seedling through to full flower*** and selecting only the varieties with terpene levels and the right amount of THC and CBD as the mother plant for all future products."

452. Defendants' above statement was materially false and misleading for the same reasons set forth in paragraphs 340-358, 417-418, 422-428, 432, and 443.

453. In addition, even if Defendants' statement was literally true, it was false and misleading by omission because Defendants failed to disclose material facts, rendering their statement misleading. Specifically, Defendants failed to disclose that they were growing cannabis in unlicensed rooms in their Niagara Facility, were storing cannabis in unlicensed rooms in their Vaughan Facility, were obtaining seeds from the black market, and in light of these direct violations of applicable regulations, risked Health Canada suspending CannTrust's growing and selling licenses.

10. November 14, 2018 – MD&A and 3Q 2018 Earnings Call

454. On November 14, 2018, Defendants issued a MD&A based on information available to CannTrust management as of November 13, 2018, which was filed with SEDAR that same day. Filed with the November 14, 2018 MD&A were Form 52-109F2 Certifications of Interim Filings signed by Defendants Aceto and Abramowitz, which indicated that they "reviewed the interim financial report and interim MD&A (together, the 'interim filings')," and

that "having exercised reasonable diligence, the interim filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the interim filings."

455. The November 14, 2018 MD&A stated that "[t]he Company received its Health Canada Sales License for the Perpetual Harvest Facility in February 2018" and the "***planned Phase 2 expansion at the Perpetual Harvest Facility is progressing as planned and is nearing completion***."

456. The November 14, 2018 MD&A further stated: "***With the completion of all phases of the Niagara expansion, the Company will have the ability to supply a substantial share of the increased demand arising from international markets.***"

457. Also on November 14, 2018, Defendants held a conference call discussing the earnings results for the third quarter of 2018 ("3Q 2018 Earnings Call"). During the 3Q 2018 Earnings Call, with respect to the increased demand for cannabis created by the legalization of recreational cannabis in Canada, Defendant Aceto explained to investors that "***we have taken steps to add some additional laboratory partners to try and manage that***" and are "certainly very optimistic about the way our products have been received and ***our ability to deliver***."

458. Defendants' statements that the Niagara Facility's Phase 2 expansion was "progressing as planned and [] nearing completion," that the "Company will have the ability to supply a substantial share of the increased demand" once Phase 2 was complete, and that Defendants were optimistic about their "ability to deliver" and implementing steps and plans to meet demand for their cannabis products, including by "add[ing] some additional laboratory

partners," were materially false and misleading for the same reasons set forth in paragraphs 340-358, 417-418, 422-428, and 432.

459. In addition, even if Defendants' statements were literally true, they were false and misleading by omission because Defendants failed to disclose material facts, rendering their statement misleading. Specifically, Defendants failed to disclose that they were growing cannabis in unlicensed rooms in their Niagara Facility, were storing cannabis in unlicensed rooms in their Vaughan Facility, were obtaining seeds from the black market, and in light of these direct violations of applicable regulations, risked Health Canada suspending CannTrust's growing and selling licenses.

460. To the extent any of Defendants' statements above were opinions, they were false and misleading because they lacked a reasonable basis and omitted the above material facts, which did not fairly align with Defendants' positive statements regarding their ability to increase growing capacity to meet the high demand for cannabis.

11. December 19, 2018 – Press Release

461. On December 19, 2018, CannTrust issued a press release, which was filed with SEDAR that same day, updating investors on the Company's newly built 35,000 sq. ft. greenhouse facility adjacent to its current greenhouse in Pelham. The press release further explained that, "***[g]iven the very high demand for the Company's medical and recreational products, CannTrust had been considering many alternatives to increase capacity beyond the Phase III expansion***, prior to the enactment of this bylaw." To that end, in that press release, Defendant Aceto proceeded to reassure investors that the Company had no issues meeting demand by using its other greenhouses: "***The use of other greenhouses and outdoor crop production are both viable options that can help us meet our production targets***. If developments change our production targets, we plan to communicate that with investors."

462. Defendants' above statement was materially false and misleading for the same reasons set forth in paragraphs 340-358, 417-418, 422-428, and 432.

463. In addition, even if Defendants' statement was literally true, it was false and misleading by omission because Defendants failed to disclose material facts, rendering their statement misleading. Specifically, Defendants failed to disclose that they were growing cannabis in unlicensed rooms in their Niagara Facility, were storing cannabis in unlicensed rooms in their Vaughan Facility, were obtaining seeds from the black market, and in light of these direct violations of applicable regulations, risked Health Canada suspending CannTrust's growing and selling licenses.

12. January 9, 2019 – Interview

464. In an interview with Global Edmonton News Morning on January 9, 2019, Defendant Aceto touted to investors that despite Health Canada's extensive regulatory requirements, the Company was setting new production records every week. For example, Defendant Aceto explained that "demand was way beyond what any of us have imagined, so we're all certainly at CannTrust we're working very, very hard to optimize our processes; we've had a lot of rules and regulations that we have to comply with." Defendant Aceto continued to tout that "***every single week that goes by, we're getting new records in terms of what we're getting out and so it is getting better all the time, and I think you can expect that improvement to continue.***"

465. Defendant Aceto's statement that "every single week that goes by, we're getting new records in terms of what we're getting out and so it is getting better all the time, and I think you can expect that improvement to continue" was materially false and misleading for the same reasons set forth in paragraphs 340-358, 417-418, 422-428, and 432.

466. In addition, even if Defendants' statement was literally true, it was false and misleading by omission because Defendants failed to disclose material facts, rendering their statement misleading. Specifically, Defendants failed to disclose that they were growing cannabis in unlicensed rooms in their Niagara Facility, were storing cannabis in unlicensed rooms in their Vaughan Facility, were obtaining seeds from the black market, and in light of these direct violations of applicable regulations, risked Health Canada suspending CannTrust's growing and selling licenses.

467. To the extent any of Defendants' statements above were opinions, they were false and misleading because they lacked a reasonable basis and omitted the above material facts, which did not fairly align with Defendants' positive statements regarding their ability to increase growing capacity to meet the high demand for cannabis.

13. January 22, 2019 – Press Release

468. On January 22, 2019, CannTrust issued a press release, which was filed with SEDAR that same day, that similarly touted that "***[t]he fully-permitted Phase II expansion remains on course to bring the Company's capacity to 50,000 kg per year. CannTrust expects first harvest from the Phase II expansion in Q1/19. Construction of the final range should be complete by the end of January 2019.***"

469. Defendants' statements that "[t]he fully-permitted Phase II expansion remains on course to bring the Company's capacity to 50,000 kg per year," that "CannTrust expects first harvest from the Phase II expansion in Q1/19," and that "[c]onstruction of the final range should be complete by the end of January 2019," were materially false and misleading for the same reasons set forth in paragraphs 340-358, 417-418, 422-428, and 432.

470. In addition, even if Defendants' statement was literally true, it was false and misleading by omission because Defendants failed to disclose material facts, rendering their

statement misleading. Specifically, Defendants failed to disclose that they were growing cannabis in unlicensed rooms in their Niagara Facility, were storing cannabis in unlicensed rooms in their Vaughan Facility, were obtaining seeds from the black market, and in light of these direct violations of applicable regulations, risked Health Canada suspending CannTrust's growing and selling licenses.

471. To the extent any of Defendants' statements above were opinions, they were false and misleading because they lacked a reasonable basis and omitted the above material facts, which did not fairly align with Defendants' positive statements regarding their ability to increase growing capacity to meet the high demand for cannabis.

14. March 28, 2019 – 2018 Form 40-F, Press Release, 2018 Q4 Earnings Call

472. On March 28, 2019, CannTrust filed with the SEC its 2018 Form 40-F, which was signed by Defendant Guyatt and accompanied by certifications signed by Defendants Aceto and Guyatt, in which Defendants stated: The 2018 Form 40-F further stated "***[w]ith the completion of all phases of the Niagara expansion, the Company believes it ha[s] the ability to supply a substantial share of the increased demand arising from international markets***."

473. The 2018 Form 40-F further stated: "***The redeveloped Perpetual Harvest Facility provides the Company with increased production capacity to meet growing market demand.***"

474. The 2018 Form 40-F further stated: "At December 31, 2018, it is expected the Company's ***biological assets will yield, net of waste, approximately 13,926,974 grams (December 31, 2017- 1,911,972 grams) of biological produce, with net selling prices ranging from $2.92 to $12.00 per gram***."

475. The 2018 Form 40-F further stated: "As at [sic] December 31, 2018, the Company ***held 4,471,032 grams of dry cannabis (December 31, 2017 – 626,935) and 6,887,849 grams of extracts (December 31, 2017 – 977,186)***."

476. The 2018 Form 40-F further stated: "For the three months ended December 31, 2018, ***harvested production was 4,816 kg, a 712% increase from the 593 kg in the comparable 2017 period***."

477. The 2018 Form 40-F further stated: "2018 Full Year Highlights . . . ***Sold 7,251 kg of dried Cannabis and dried Cannabis equivalent*** at an average net price of $6.29 per gram."

478. The 2018 Form 40-F further stated: "2018 Fourth Quarter Highlights . . . ***Sold 3,407 kg of dried Cannabis and dried Cannabis equivalent*** at an average net price of $4.75 per gram."

479. The 2018 Form 40-F also falsely represented that CannTrust's revenue was increasing, and that the increase was due to organic customer growth and sales: "Revenue for the quarter ended December 31, 2018 was $16,166 compared to $6,983 for the comparable 2017 period, an increase of 132%. Revenue for the year ended December 31, 2018 was $45,645 compared to $20,698 in the comparable 2017 period, an increase of 121%. ***The increase in revenue in the quarter and year ended December 31, 2018 was primarily attributable to increased sales volume due to the growth in the Company's medical patient base from approximately 37,000 at December 31, 2017 to 58,000 as at December 31, 2018, as well as sales derived from the Company's new domestic and international wholesale revenue streams, which includes sales to the provinces related to the legalization of the adult-use recreational market.***"

480. The 2018 Form 40-F further stated: "***The total quantity of medical cannabis sold to patients during the three months ended December 31, 2018 increased to 2,017 kg, a 166% from the comparable 2017 period. For the full year 2018, the [C]ompany sold 5,372 kg of medical cannabis, an increase of 141% from the comparable 2017 period.***"

481. The 2018 Form 40-F further stated: "Cost of goods sold during the three and twelve months ended December 31, 2018 were $10,489 and $19,690, respectively, compared to $4,577 and $7,680 in the comparable prior year periods. Costs of goods sold includes pre-harvest production, post-harvest production and processing costs of cannabis, packaging, testing and inventory purchased from third parties. ***Costs of goods sold during the three and twelve months ended December 31, 2018 increased compared to the comparable 2017 periods due to increases in sales quantities and the associated increase in the scale of production activities.***"

482. The 2018 Form 40-F further stated: "Gross profit/(loss) for the three and twelve months ended December 31, 2018 was a loss of $8,282 and profit of $36,493, respectively, compared to a gross profit of $11,036 and $23,980 in the comparable prior year periods . . . . ***The increase in gross profit in 2018 compared to 2017 was principally due to the increase in sales.***"

483. The 2018 Form 40-F further stated: "Excluding the impact of the change in the fair value of biological assets, gross profit for the three and twelve months ended December 31, 2018 was $5,677 and $25,955, respectively, compared to a gross profit of $2,406 and $13,018 in the comparable prior year periods. ***The increase in gross profit excluding the impact of the change in the fair value of biological assets was as a result of increased scale of operations.***"

484. The 2018 Form 40-F further stated: "[2018 Full Year Highlights:] ***Record annual revenue of $45,645, a 132% increase from 2017*** . . . . 2018 Fourth Quarter Highlights . . . ***Record quarterly revenues of $16,166***, a 28% increase from third quarter of 2018."

485. Furthermore, on March 28, 2019, CannTrust issued a press release, attached to a Form 6-K signed by Defendant Guyatt and dated that same day, announcing its financial results for the fourth quarter of 2018. Without ever mentioning that the Company was growing in five unlicensed rooms which attributed to CannTrust's growth, Defendant Aceto touted within the March 28, 2019 press release that the "***CannTrust team has delivered remarkable growth in the fourth quarter of 2018***."

486. Likewise the press release touted: "[n]et revenue for the fourth quarter of 2018 increased to $16.2 million from $7.0 million in the fourth quarter of 2017," and continued to explain that the "***increase in revenue was attributable to increased sales volumes primarily due to the continued growth in the Company's medical patient base and sales derived from the recreational market in Canada.***"

487. Defendants' statements within the 2018 Form 40-F and March 28, 2019 press release concerning the Company's ability to increase growing capacity, and the misattributions for the Company's successful revenue, assets and inventory growth were materially false and misleading for the same reasons set forth in paragraphs 340-358, 417-418, 422-428, and 432.

488. The 2018 Form 40-F similarly represented that CannTrust would increase its production and profitability once the Phase 2 expansion was complete, stating: "The Company owns and operates an approximately 450,000 square foot perpetual harvest facility in the Niagara region (the "Perpetual Harvest Facility"), which is ***expected to have an annual capacity of approximately 50,000 kilograms***. The planned Phase 3 expansion is expected to increase the annual capacity of the Perpetual Harvest Facility to 100,000 kilograms upon its completion."

489. The 2018 Form 40-F further stated: "***Profitability is expected to improve following the full realization of the increased operational capacity of the Phase 2 expansion***.

As the Phase 2 expansion contributes to positive operating leverage, the Company is targeting a return to profitability."

490. The 2018 Form 40-F further stated: "***The Phase II expansion remains on course to bring the Company's capacity to 50,000 kg per year.***"

491. Defendant Aceto further told investors in the March 28, 2019 press release: "***We expect the trajectory of revenue growth to continue in 2019 as we bring additional capacity online through our Phase 2 expansion.***"

492. During the 4Q 2018 Earnings Call, Defendant Aceto explained, "***[w]e have completed the construction of our Phase 2 perpetual harvest greenhouse facility in Pelham, which should bring our capacity to 50,000 kilograms on an annualized basis.***"

493. Similarly, with respect to an analyst's question of "what proportion of full capacity did you achieve by the end of fourth quarter," Defendant Aceto stated during the 4Q 2018 Earnings Call:

> I don't know, that's a challenging question to ask. Just our -- ***when we get our final rooms licensed in Phase 2, we'll be at 50,000 kilograms annualized, but we brought room systematically online as we've continued to build Phase 2.*** So I think that number has changed. And ***actually Phase 2, for much of the case, the output that we sold in Q4 did not primarily come from plants grown in Phase 2.***

494. The 2018 Form 40-F further represented that "CannTrust Opco has an extensive genetic strain bank and ***currently produces approximately eight core strains***. The strains have been optimized for greenhouse horticultural practices."

495. Defendants' above statements were materially false and misleading for the reasons set forth in paragraphs 340-358, 417-418, 422-428, 432, and 443.

496. In addition, even if Defendants' statements were literally true, they were false and misleading by omission because Defendants failed to disclose material facts, rendering their

statements misleading. Specifically, Defendants failed to disclose that they were growing cannabis in unlicensed rooms in their Niagara Facility, were storing cannabis in unlicensed rooms in their Vaughan Facility, were obtaining seeds from the black market, and in light of these direct violations of applicable regulations, risked Health Canada suspending CannTrust's growing and selling licenses.

497. To the extent any of Defendants' statements above were opinions, they were false and misleading because they lacked a reasonable basis and omitted the above material facts, which did not fairly align with Defendants' positive statements regarding their ability to increase growing capacity to meet the high demand for cannabis.

C. Defendants Continued to Mislead Investors Regarding the Increased Capacity After Health Canada Licensed the Previously Unlicensed Growing Rooms in April 2019

498. In early April 2019, CannTrust announced that its Niagara Facility became fully licensed by Health Canada. Yet, although newly recognized by Health Canada as rooms that Defendants could properly grow cannabis in, nothing changed for CannTrust because prior to receiving the licenses in April 2019, Defendants had already been growing in those rooms since October 2018. Yet, each time that Defendants touted that they received the licenses and that as a result they had increased capacity to produce cannabis, Defendants failed to disclose the fact that CannTrust's increased capacity was attributable to the Company's illicit growing and storing scheme.

499. In addition, even if Defendants' statements were literally true, they were false and misleading by omission because Defendants failed to disclose material facts, rendering their statements misleading. Specifically, Defendants failed to disclose that they were growing cannabis in unlicensed rooms in their Niagara Facility, were storing cannabis in unlicensed rooms in their Vaughan Facility, were obtaining seeds from the black market, and in light of

these direct violations of applicable regulations, risked Health Canada suspending CannTrust's growing and selling licenses.

1. April 8, 2019 – Press Release

500. Specifically, on April 8, 2019, CannTrust issued a press release, which was attached to a Form 6-K signed by Defendant Guyatt and dated that same day, announcing that CannTrust "is pleased to announce that its cultivation and processing permit under Health Canada Cannabis Regulations was amended to include the final 20% of its Phase 2 expansion. ***The entire 450,000 sq. ft. of its perpetual harvest greenhouse in Pelham, Ontario, is now fully licensed***."

501. Defendants' statements above were materially false and misleading for the reasons set forth in paragraphs 340-358, 417-418, 422-428, and 432.

502. Additionally, Defendants' statement that "[t]he entire 450,000 sq. ft. of its perpetual harvest greenhouse in Pelham, Ontario, is now fully licensed" was materially false and misleading because even though Health Canada eventually approved licenses for the final rooms in Defendants' Phase 2 redevelopment in April 2019, Defendants misled investors each time Defendants touted that they received licenses for those rooms and that capacity to grow cannabis would increase since Defendants failed to disclose that they had already been using unlicensed rooms to grow and store cannabis and were relying on cannabis from black-market seeds long before Health Canada approved licenses for them and that engaging in these practices put the Company's ability to continue operating at serious risk were Health Canada to discover the illicit growing and storing scheme.

503. In addition, even if Defendants' statement was literally true, it was false and misleading by omission because Defendants failed to disclose material facts, rendering their statement misleading. Specifically, Defendants failed to disclose that they were growing

cannabis in unlicensed rooms in their Niagara Facility, were storing cannabis in unlicensed rooms in their Vaughan Facility, were obtaining seeds from the black market, and in light of these direct violations of applicable regulations, risked Health Canada suspending CannTrust's growing and selling licenses.

2. April 22, 2019 – Press Release and Preliminary Prospectus

504. On April 22, 2019, CannTrust issued a press release, attached to a Form 6-K signed by Defendant Guyatt and dated that same day, announcing the preliminary operational and financial results for the quarter ended March 31, 2019. The April 22, 2019 press release discussed its recently acquired licenses for the Niagara Facility, with no mention that the Company had already been growing in those rooms:

> ***In April 2019, CannTrust's cultivation and processing permit under Health Canada Cannabis Regulations was amended to include the final 20% of its Phase 2 expansion, which is now fully licensed. With the Phase 2 expansion, the Company expects full production to be achieved by the end of the second quarter of 2019 at an annualized rate of 50,000kg per year***.

505. The April 22, 2019 press release that announced the preliminary operational and financial results for the quarter ended March 31, 2019, quoted Defendant Aceto:

> ***These preliminary results represent the excellent efforts the CannTrust team has made in increasing output at our Niagara perpetual harvest greenhouse***. We are quickly approaching our stated capacity of 50,000kg per year from our Phase 2 expansion. ***Our 96% sequential increase in production over the prior quarter*** will enable us to service both our rapidly growing base of medical patients and the high demand in the recreational market for our award-winning products and brands.

506. Also on April 22, 2019, the Company filed with the SEC its Preliminary Prospectus, which similarly stated:

> In the quarter ended March 31, 2019, we harvested approximately 9,424 kg of cannabis from our Niagara Facility, representing an increase of 96% from the fourth quarter of 2018. ***In April 2019, our cultivation and processing permit under Health Canada Cannabis Regulations was amended to include the final 20% of our Phase 2 expansion, which is now fully licensed. With the Phase 2***

> ***expansion, we expect full production to be achieved by the end of the second quarter of 2019 at an annualized rate of 50,000 kg per year***.

507. The Preliminary Prospectus likewise touted that "***[t]he completed Phase 2 expansion of the Niagara Facility is expected to increase production capacity to 50,000 kg on an annualized basis.***"

508. The Preliminary Prospectus further touted, "***[w]ith the completion of all phases of the Niagara expansion, we believe we have the ability to supply a substantial share of the increased demand arising from international markets***."

509. Furthermore, the Preliminary Prospectus explained that "[t]he Company's approximately 450,000 square foot perpetual harvest facility in Niagara (the "Niagara Facility"), ***has an annual capacity of approximately 50,000 kilograms, as of April 2019*** and, through its planned expansion, the Company is targeting annual capacity of 100,000 kilograms by 2020."

510. Likewise, the Preliminary Prospectus stated "[t]he Phase 2 expansion at the Niagara Facility was substantially completed during the first quarter of 2019 and ***Health Canada approved the amendment of our cultivation and processing permit to include the final 20% of the Phase 2 expansion on April 8, 2019***."

511. The Preliminary Prospectus also touted "[w]***e are also making strategic investments into our capacity to prepare for expected increases in demand for our products.***"

512. The Preliminary Prospectus also stated that "[t]he Company believes that the efficiency of its operating model, ***including its production capacity*** and research and development, ***makes the Company one of the few licensed producers with a clear, identifiable path to growth and profitability***."

513. The Preliminary Prospectus also touted CannTrust's increased production and growth, stating "we ***harvested approximately 9,424 kg of cannabis from our Niagara [F]acility, representing an increase of 96% from the fourth quarter of 2018***."

514. The Preliminary Prospectus also stated: "***For the year ended December 31, 2018, harvested production was 16,212 kg, a 471% increase from the 2,839 kg in the prior year period. For the three months ended December 31, 2018, harvested production was 4,816 kg, a 712% increase from the 593 kg in the comparable 2017 period***. ***The increase in the fair value of biological assets recorded during the period was due to the ramp up of production at the Niagara Facility,*** partially offset by the impact of valuation assumptions such as the average revenue per gram and the stage of the plants as of the reporting date. While the total number of plants in production increased significantly year over year, as at December 31, 2018 the average stage of the plants in the grow cycle combined with lower expected revenue per gram as a result of the recreational market resulted in the limited increase in the value of biological assets."

515. The Preliminary Prospectus further stated: "***As of December 31, 2018, the Company supplied more than 10,000 finished units of its products per day for its medical and adult-use recreational market***."“***Our rapidly growing patient base has increased organically at a rate we believe is faster than any other licensed producer, experiencing a 57% growth from 2017 to 2018.*** We believe that we have supported this growth through our commitment to patients' access to cannabis."

516. The Preliminary Prospectus further stated: "***Net revenue is expected to be approximately $17 million, an increase of 116% as compared to $7.8 million for the quarter ended March 31, 201[9]. The estimated increase in revenue is primarily due to a 68% increase in medical patients combined with the contributions from the Canadian adult-use recreational***

market, which was legalized in October of 2018. This estimated revenue represents an increase of approximately 5% as compared to $16.2 million for the quarter ended December 31, 2018, primarily due to a 16% increase in medical patients."

517. The Preliminary Prospectus also stated: "***The Phase 2 expansion at the Niagara Facility was substantially completed during the first quarter of 2019*** and Health Canada approved the amendment of our cultivation and processing permit to include the final 20% of the Phase 2 expansion on April 8, 2019."

518. The Preliminary Prospectus further stated: "***With the Phase 2 expansion, we expect full production to be achieved by the end of the second quarter of 2019 at an annualized rate of 50,000 kg per year***."

519. The Preliminary Prospectus stated: "***The completed Phase 2 expansion of the Niagara Facility is expected to increase production capacity to 50,000 kg on an annualized basis. With this increased production capability, we believe revenue will increase significantly in 2019 compared to the 2018 full year results, with revenue growth accelerating throughout the year starting in the second quarter of 2019. We are positioned to receive all necessary regulatory approvals to support this planned growth***. In addition, having obtained all necessary permits from the Town of Pelham for the construction of its Phase 3 expansion, we continue to expect our Niagara Facility capacity to reach 100,000 kg on an annualized basis in the second half of 2020."

520. Defendants' statements concerning "making strategic investments into our capacity," "production capacity," and purported reasons why CannTrust was successfully able to meet increased demand of cannabis and grow its revenues and financial figures were materially

false and misleading for the same reasons set forth in paragraphs 340-358, 417-418, 422-428, 432, 498, and 502.

521. The same or substantially similar statements as in paragraphs 506-519 were also set forth in the Company's May 3, 2019 prospectus supplement.

522. In addition, even if Defendants' statements were literally true, they were false and misleading by omission because Defendants failed to disclose material facts, rendering their statements misleading. Specifically, Defendants failed to disclose that they were growing cannabis in unlicensed rooms in their Niagara Facility, were storing cannabis in unlicensed rooms in their Vaughan Facility, were obtaining seeds from the black market, and in light of these direct violations of applicable regulations, risked Health Canada suspending CannTrust's growing and selling licenses.

523. To the extent any of Defendants' statements above were opinions, they were false and misleading because they lacked a reasonable basis and omitted the above material facts, which did not fairly align with Defendants' positive statements regarding their ability to increase growing capacity to meet the high demand for cannabis.

3. May 14, 2019 – MD&A, Press Release, and 1Q 2019 Earnings Call

524. On May 14, 2019, CannTrust issued a MD&A based on information available to CannTrust management as of May 13, 2019 ("May 14, 2019 MD&A"), which was filed with the SEC as an attachment to a Form 6-K signed by Defendant Guyatt that same day. Filed with the May 14, 2019 MD&A were Form 52-109F2 Certifications of Interim Filings signed by Defendants Aceto and Guyatt, which indicated that they "reviewed the interim financial report and interim MD&A (together, the 'interim filings')," and that "having exercised reasonable diligence, the interim filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading

in light of the circumstances under which it was made, with respect to the period covered by the interim filings."

525. Within the May 14, 2019 MD&A, CannTrust touted that "[t]he Phase 2 expansion at the Perpetual Harvest Facility was substantially completed during the first quarter of 2019, and is ***as of the date of this MD&A, fully licensed by Health Canada***" and similarly that "[t]he 200,000 square foot Phase 2 expansion at the Perpetual Harvest Facility was substantially completed in the first quarter of 2019 and ***was fully licensed as of April 2019***."

526. The May 14, 2019 MD&A also explained that "***[w]ith the completion of all phases of the Niagara expansion, the Company believes it has the ability to supply a substantial share of the increased demand arising from international markets***" and that "***[t]he redeveloped Perpetual Harvest Facility provides the Company with increased production capacity to meet growing market demand***."

527. The May 14, 2019 MD&A reported a "gain of $26 million" in the fair value of biological assets, which it attributed in part to "***the ramp up of production at the Perpetual Harvest Facility following approval from Health Canada of the final rooms from Phase 2, and an increase in the average stage of the plants in the grow cycle combined with higher expected revenue per gram as a result of the selling price increases in the medical and recreational markets.***"

528. On May 14, 2019, CannTrust issued a press release, attached to a Form 6-K signed by Defendant Guyatt and dated that same day, announcing its financial results for the first quarter of 2019, which ended March 31, 2019—the quarter prior to receiving the license approvals from Health Canada on its growing rooms in its Pelham Facility. Filed with the May 14, 2019 Form 6-K were Form 52-109F2 Certifications of Interim Filings signed by Defendants

Aceto and Guyatt, which indicated that they "reviewed the interim financial report and interim MD&A (together, the 'interim filings')," and that "having exercised reasonable diligence, the interim filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the interim filings."

529. Defendant Aceto stated within the May 14, 2019 press release that "***[t]he CannTrust team delivered exceptional operational growth in the first quarter, with harvested production of over 9,400kg. This is a 96% increase in production over the prior quarter and reflects the impact of the investments made into our facilities, as well as process improvements to increase throughput.***"

530. The May 14, 2019 press release further touted the increased harvested production, yet omitted that growing in illegal grow rooms attributed to such production: "***Harvested production increased by more than 400% to over 9,400kg, versus the first quarter of 2018, and 96% over the fourth quarter of 2018***."

531. The May 14, 2019 press release also reiterated that the "entire 450,000 sq. ft. of the Perpetual Harvest Facility in Pelham, Ontario, ***is now fully licensed and planted***," and similarly explained that "***[t]he Company has received all necessary regulatory approvals for the Phase 2 expansion, which is now fully operational and planted***."

532. On May 14, 2019, Defendants also held a conference call discussing the earnings results for the first quarter of 2019 ("1Q 2019 Earnings Call"). During the 1Q 2019 Earnings Call, Defendant Aceto explained to investors that "***[i]n April, we received Health Canada approval for the remaining 20% of our Phase II greenhouse***" and "***[w]e expect that production***

will continue to increase to the full promised annualized capacity of 50,000 kilograms in the third quarter of this year."

533. During the 1Q 2019 Earnings Call, Defendant Aceto further told investors that "***I think with phase II being completed, being fully licensed, where we're very close to being at full production capacity at the 50,000 kilograms, we [will] certainly be in a better position to meet all of the stakeholder needs.***"

534. During the 1Q 2019 Earnings Call, Defendant Aceto touted that "***[t]his increased production is the result of our investment into people, training and facilities, and our company wide dedication to producing the highest quality cannabis in the market, today***."

535. Defendants' statements within the May 14, 2019 MD&A and May 14, 2019 press release and during the 1Q 2019 Earnings Call concerning the Niagara Facility being "fully licensed as of April 2019," the completion of Phase 2 bringing the Company an "increased production capacity to meet growing market demand," and other similar statements were materially false and misleading for the same reasons set forth in paragraphs 340-358, 417-418, 422-428, 432, 498, and 502.

536. In addition, even if Defendants' statements were literally true, they were false and misleading by omission because Defendants failed to disclose material facts, rendering their statements misleading. Specifically, Defendants failed to disclose that they were growing cannabis in unlicensed rooms in their Niagara Facility, were storing cannabis in unlicensed rooms in their Vaughan Facility, were obtaining seeds from the black market, and in light of these direct violations of applicable regulations, risked Health Canada suspending CannTrust's growing and selling licenses.

537. To the extent any of Defendants' statements above were opinions, they were false and misleading because they lacked a reasonable basis and omitted the above material facts, which did not fairly align with Defendants' positive statements regarding their ability to increase growing capacity to meet the high demand for cannabis.

4. July 11, 2019 –Press Release

538. On July 11, 2019, CannTrust issued a press release, which was filed that same day with the SEC as an attachment to a Form 6-K signed by Defedant Guyatt, announcing that it created a Special Committee "comprised of independent members of the Board of Directors" "to investigate [a compliance report from Health Canada] in its entirety." CannTrust also informed investors that "it has implemented a voluntary hold on sale and shipment of all cannabis products as a precaution ***while Health Canada visits and reviews its Vaughan, Ontario manufacturing facility***."

539. Defendants' statement above was false and misleading for the same reasons set forth in paragraphs 340-358, 417-418, 422-428, 432, 498, and 502. In addition, taken together with the fact that the Company had just recently been the subject of a surprise inspection that uncovered violations of unlicensed *growing* at the Niagara Facility, Defendants omitted the material risk that "Health Canada['s] visit[] and review[] of its Vaughan, Ontario manufacturing facility" was likely to uncover similar violations of unlicensed *storing* of cannabis, much of which was the same cannabis that was grown in the unlicensed rooms in the Niagara Facility. Accordingly, Defendants knew, but failed to disclose that there was a considerable risk that Health Canada would uncover the Company's illicit storage practice during its review of the Vaughan Facility and increased risk that the Health Canada would suspend or revoke CannTrust's licenses to grow and sell cannabis.

540. In addition, even if Defendants' statements were literally true, they were false and misleading by omission because Defendants failed to disclose material facts, rendering their statements misleading. Specifically, Defendants failed to disclose that they were growing cannabis in unlicensed rooms in their Niagara Facility, were storing cannabis in unlicensed rooms in their Vaughan Facility, were obtaining seeds from the black market, and in light of these direct violations of applicable regulations, risked Health Canada suspending CannTrust's growing and selling licenses.

D. Defendants Misled Investors When They Misleadingly Reported Overstated Financial Figures That Included Illicitly Grown Cannabis as Biological Assets and Inventory and Revenue Generated Therefrom

541. During the Class Period, Defendants consistently reported that CannTrust was maintaining a strong financial position. In particular, Defendants touted, *inter alia*, the values of the Company's revenue, income, inventory, and biological assets which misleadingly included: (1) cannabis grown from illegally obtained seeds from June 2018 onwards; (2) the value of cannabis that was stored in unlicensed rooms from June 2018 onwards; and (3) the value of cannabis that was grown in unlicensed rooms from October 2018 onwards. Defendants engaged in each of these practices in direct violation of Health Canada rules and regulations and accordingly violated IFRS, IAS, and PCAOB Standards because they recognized revenue and accounted for assets and inventory from cannabis for which they lacked title because it was obtained through illegitimate means, among other accounting violations.

1. August 14, 2018 – Condensed Interim Consolidated Financial Statements (Unaudited)

542. On August 14, 2018, CannTrust filed with SEDAR its condensed interim consolidated financial statements for the three months and six months ended June 30, 2018 and

June 30, 2017 ("August 14, 2018 Consolidated Financial Statements"), which was signed by Defendants Paul and Litwin.

543. The August 14, 2018 Consolidated Financial Statements, as well as the Company's MD&A filed that same day, contained a materially false and misleading balance sheet and income statement:

CannTrust Holdings Inc.
Condensed Interim Consolidated Statements of Financial Position
(in Canadian dollars)

		June 30, 2018 (Unaudited)		December 31, 2017 (Audited)
Assets				
Current				
Cash	$	11,728,174	$	17,961,043
Short term investments (Note 6)		87,976,562		201,538
Harmonized sales tax recoverable		4,103,059		2,636,710
Inventory (Note 7)		25,651,950		10,959,022
Biological assets (Note 7)		22,182,880		9,845,690
Accounts receivable		503,939		160,383
Prepaids		2,048,778		2,465,506
Total current assets		154,195,342		44,227,892
Investment (Note 17)		174,673		156,073
Restricted cash (Note 6)		150,765		100,765
Property and equipment (Note 8)		48,860,635		33,963,685
Intangible assets (Note 9)		326,275		-
Financial assets (Note 10)		1,896,840		-
Total Assets		205,604,530		78,448,415
Liabilities				
Current				
Accounts payable and accrued liabilities		6,553,206		6,579,997
Current portion of promissory note (Note 5)		200,000		200,000
Current portion of mortgage (Note 11)		38,895		-
Total current liabilities		6,792,101		6,779,997
Promissory note (Note 5)		600,000		800,000
Mortgage (Note 11)		9,478,549		-
Deferred tax (Note 18)		4,289,290		-
Total Liabilities		21,159,940		7,579,997
Shareholders' Equity				
Share capital (Note 12)		193,935,293		104,824,215
Share-based payment reserve (Note 13)		6,609,311		2,272,302
Warrants reserve (Note 14)		11,653,284		3,361,789
Retained Earnings (Deficit)		(27,753,298)		(39,589,888)
Total Shareholders' Equity		184,444,590		70,868,418
Total Liabilities and Shareholders' Equity	$	205,604,530	$	78,448,415

Commitments (Note 15)
Subsequent Events (Note 22)

The accompanying notes are an integral part of the condensed interim consolidated financial statements.

(signed) "Eric Paul" Director (signed) "Mark Litwin" Director

CannTrust Holdings Inc.

Condensed Interim Consolidated Statements of Net Income (Loss) and Comprehensive Income (Loss)
For the Three Months and Six Months Ended June 30, 2018 and June 30, 2017
(in Canadian dollars) (unaudited)

	Three months ended		Six months ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Revenue (Note 21)	$ 9,050,239	$ 4,541,378	$ 16,890,086	$ 7,574,621
Cost of goods sold	4,085,159	1,040,963	8,051,578	1,791,452
Amortization expensed to cost of sales (Note 8)	377,064	224,131	623,092	444,148
Gross profit, before the unrealized gain on changes in fair value of biological assets	4,588,016	3,276,284	8,215,416	5,339,023
Fair value changes in biological assets included in inventory sold	8,754,109	3,024,249	14,285,936	5,315,296
Unrealized gain on changes in fair value of biological assets (Note 7)	(15,350,984)	(3,747,495)	(38,515,005)	(7,765,701)
Gross profit	11,184,891	3,999,530	32,444,485	7,789,428
Expenses				
Amortization (Note 8)	688,438	332,765	1,571,743	513,678
General and administrative	1,003,121	351,091	1,772,870	586,058
Loss on Equity Accounted Investment (Note 17)	43,080	48,773	86,174	74,726
Management fees (Note 16)	80,000	35,000	160,000	235,000
Marketing and promotion	631,741	125,083	898,189	223,247
Professional fees	321,583	204,679	751,132	420,287
Rent and facilities	491,600	117,653	1,078,641	141,542
Salaries and benefits	1,865,473	909,645	3,448,662	1,649,665
Selling and shipping costs	2,111,169	659,355	3,581,886	1,238,540
Share based compensation (Note 13)	1,343,298	355,864	4,973,874	552,369
Expenses before Financing Activities and Transaction Costs	8,579,403	3,140,308	18,323,171	5,635,110
Income from Operations before Financing Activities and Transaction Costs	2,605,488	859,222	14,121,314	2,154,318
Interest expense	(119,632)	(62,347)	(191,454)	(158,242)
Accretion expense (Note 11)	(52,250)	(90,246)	(83,619)	(179,694)
Transaction costs (Note 5)	-	-	-	(204,282)
Other income (Note 10)	1,960,589	-	1,990,064	-
Gain (Loss) on revaluation of derivative liability	-	48,835	-	(1,635,140)
Income (loss) before income taxes	4,394,195	754,864	15,836,305	(23,040)
Deferred income tax expense (Note 18)	(4,289,290)	-	(4,289,290)	-
Net Income (Loss) and Comprehensive Income (Loss)	$ 104,905	$ 754,864	$ 11,547,015	$ (23,040)
Weighted average number of common shares - basic	95,708,683	71,362,575	93,825,315	70,129,251
Weighted average number of common shares - diluted	98,911,671	72,457,234	97,028,302	70,129,251
Earnings (loss) per share - basic (Note 12)	$ 0.00	$ 0.01	$ 0.12	$ (0.00)
Earnings (loss) per share - diluted (Note 12)	$ 0.00	$ 0.01	$ 0.12	$ (0.00)

544. In addition to the reasons set forth in paragraphs 417-418, 422-428, 432, 498, and 541 CannTrust's figures were false and misleading and Defendants' statements concerning the then-current financial condition of the Company were materially false and misleading because as far back as June 2018, CannTrust stored cannabis in unlicensed rooms in its Vaughan Facility and had been obtaining and using seeds from the black market to grow, harvest, and sell cannabis. The financial figures above, such as revenue, biological assets, and inventory are thus false and misleading because Defendants failed to disclose that they included the revenue, biological assets, and inventory from cannabis that was stored in unlicensed rooms and grown

from illegal seeds. Indeed, as set forth in Section V.C, CannTrust violated numerous IFRS and IAS accounting standards when it accounted for biological assets and inventory for which it lacked legal title as a result of the illicit cannabis being grown and stored in direct violation of Health Canada regulations. Likewise, CannTrust improperly recognized revenue for which it lacked legal title to transfer and was subject to a deposit liability and should have properly been accounted for as deferred revenue.

545. Additionally, because seeds are counted as part of the Company's biological assets, the above figures concerning biological assets were artificially inflated because they also consisted of illegal seeds.

2. November 14, 2018 – Condensed Interim Consolidated Financial Statements (Unaudited)

546. On November 14, 2018, CannTrust filed with SEDAR its condensed interim consolidated financial statements for the three months and nine months ended September 30, 2018 and September 30, 2017 ("November 14, 2018 Consolidated Financial Statements"), which was signed by Defendants Paul and Litwin.

547. The November 14, 2018 Consolidated Financial Statements, as well as the Company's MD&A filed that same day, contained a materially false and misleading balance sheet and income statement:

CannTrust Holdings Inc.
Condensed Interim Consolidated Statements of Financial Position
As at September 30, 2018 and December 31, 2017
(in Canadian dollars)

	Notes		September 30, 2018 (Unaudited)		December 31, 2017 (Audited)
Assets					
Current					
Cash		$	5,421,183	$	17,961,043
Short term investments	7		80,896,436		201,538
Harmonized sales tax recoverable			5,318,769		2,636,710
Inventory	8		42,244,976		10,959,022
Biological assets	8		16,222,928		9,843,690
Accounts receivable			2,047,935		160,383
Prepaids			1,755,452		2,465,506
Total current assets			153,907,679		44,227,892
Investments	18		1,101,199		156,073
Restricted cash	7		150,765		100,765
Property and equipment	9		53,310,267		33,963,685
Intangible assets	10		657,434		-
Financial assets	11		1,896,840		-
Total Assets			211,024,174		78,448,415
Liabilities					
Current					
Accounts payable and accrued liabilities			8,472,030		6,579,997
Current portion of promissory note	6		200,000		200,000
Current portion of mortgage	12		39,743		-
Total current liabilities			8,711,773		6,779,997
Promissory note	6		600,000		800,000
Mortgage	12		9,468,324		-
Deferred tax	19		4,758,104		-
Total Liabilities			23,538,201		7,579,997
Shareholders' Equity					
Share capital	13		195,779,143		104,824,215
Share-based payment reserve			7,346,685		2,272,302
Warrants reserve	15		11,479,381		3,361,789
Deficit			(27,139,236)		(39,589,888)
Total Shareholders' Equity			187,465,973		70,868,418
Total Liabilities and Shareholders' Equity		$	211,024,174	$	78,448,415

The accompanying notes are an integral part of the condensed interim consolidated financial statements.

(signed) "Eric Paul" Director (signed) "Mark Litwin" Director

CannTrust Holdings Inc.

Condensed Interim Consolidated Statements of Net Income and Comprehensive Income
For the Three Months and Nine Months ended September 30, 2018 and September 30, 2017
(in Canadian dollars) (unaudited)

	Notes	Three months ended September 30, 2018	Three months ended September 30, 2017 (Restated) (Note 5)	Nine months ended September 30, 2018	Nine months ended September 30, 2017 (Restated) (Note 5)
Revenue	22	$ 12,588,727	$ 8,140,224	$ 29,478,813	$ 13,714,847
Cost of goods sold	5	3,869,655	1,171,352	9,201,201	3,103,235
Gross profit, before the unrealized gain on changes in fair value of biological assets	5	8,719,072	4,968,872	20,277,612	10,611,612
Fair value changes in biological assets included in inventory sold	5	5,222,601	4,597,289	17,218,074	7,935,943
Unrealized gain on changes in fair value of biological assets	5,8	(9,044,160)	(4,985,223)	(41,716,084)	(10,268,825)
Gross profit		12,540,631	5,356,806	44,775,622	12,944,494
Expenses					
Amortization	9	1,171,798	464,045	2,634,047	977,723
General and administrative		1,242,415	469,225	3,015,385	1,055,283
Loss on Equity Accounted Investment	18	109,179	26,926	195,363	101,652
Management fees	17	80,000	63,548	240,000	298,548
Marketing and promotion		1,614,780	130,391	2,612,978	553,638
Professional fees		300,094	410,453	1,051,126	830,740
Rent and facilities		172,200	83,356	1,250,841	226,898
Salaries and benefits		2,587,681	929,073	6,035,743	2,376,996
Selling and shipping costs		2,705,428	1,186,089	6,285,314	2,424,629
Share based compensation	14	1,514,168	908,223	6,488,142	1,460,592
Expenses before Financing Activities and Transaction Costs		11,495,152	4,673,329	29,608,929	10,106,699
Income from Operations before Financing Activities, Transaction Costs and Other Income		1,045,479	683,477	15,166,693	2,837,795
Interest expense		(143,429)	(62,332)	(334,883)	(220,574)
Accretion expense	12	(62,643)	(54,022)	(146,262)	(233,716)
Transaction costs	6	-	-	-	(204,282)
Other income	11	50,747	78,382	2,040,811	78,382
Gain (Loss) on revaluation of derivative liability		-	9,804	-	(1,625,336)
Income before income taxes		890,154	655,309	16,726,359	632,269
Deferred income tax expense	19	(468,814)	-	(4,758,104)	-
Net Income and Comprehensive Income		$ 421,340	$ 655,309	$ 11,968,255	$ 632,269
Weighted average number of common shares - basic		104,054,171	78,701,498	97,630,021	73,097,008
Weighted average number of common shares - diluted		108,160,500	81,155,187	101,736,351	75,450,697
Earnings per share - basic	13	$ 0.00	$ 0.01	$ 0.12	$ 0.01
Earnings per share - diluted	13	$ 0.00	$ 0.01	$ 0.12	$ 0.01

548. Defendants' statements concerning the then-current financial condition of CannTrust were materially false and misleading for the same reasons set forth in paragraphs 340-358, 417-418, 422-428, 432, 498, 502, 541, and 544-545.

549. In addition, Defendants' statements concerning the values of the Company's revenue, biological assets, and inventories were materially false and misleading because Defendants did not disclose to investors that those values included, inventory and biological assets and revenues that were derived from the sale of cannabis that was grown and stored in unlicensed rooms and from black-market seeds.

550. Indeed, the Company ultimately disclosed on August 1, 2019 that the value of impacted inventory and biological assets from the five unlicensed rooms totaled approximately $51 million. The Company also explained on August 16, 2019 that the impacted inventory represented approximately 53% of the Company's total inventory and the impacted biological assets represented approximately 30% of the Company's total biological assets. Later, on October 14, 2019, CannTrust explained that to effectuate the Company's remediation efforts, "CannTrust's Board of Directors has determined that it is necessary to destroy approximately $12 million of biological assets and approximately $65 million worth of inventory that was not authorized by CannTrust's licence."

3. March 28, 2019 – Consolidated Financial Statements

551. On March 28, 2019, CannTrust filed with the SEC on Form 40-F and with SEDAR its consolidated financial statements for the year ended December 31, 2018 and December 31, 2017 ("March 28, 2019 Consolidated Financial Statements"), which was signed by Defendants Paul and Litwin.

552. The March 28, 2019 Consolidated Financial Statements also included a Report of Independent Registered Public Accounting Firm signed by KPMG (the "Audit Report"). Addressing the shareholders, the Audit Report explained that KPMG audited the March 28, 2019 Consolidated Financial Statements and stated that "the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018."

553. The March 28, 2019 Consolidated Financial Statements, as well as the Company's MD&A filed that same day, contained a materially false and misleading balance sheet and income statement:

CannTrust Holdings Inc.
Consolidated Statements of Financial Position
As at December 31
(in Canadian dollars)

	Notes	2018	2017
Assets			
Current			
Cash		$ 9,022,821	$ 17,961,045
Short term investments	7	63,023,908	201,538
Harmonized sales tax recoverable		1,492,110	2,636,710
Inventory	8	35,389,490	10,959,022
Biological assets	8	10,502,579	9,843,690
Accounts receivable		6,151,604	160,383
Prepaid expenses		2,859,039	2,465,506
Total current assets		128,441,551	44,227,892
Investments	15	10,661,932	156,073
Restricted cash	7	100,000	100,765
Property and equipment	9	62,208,905	33,963,685
Financial assets	11	901,350	-
Total Assets		202,313,738	78,448,415
Liabilities			
Current			
Accounts payable and accrued liabilities		12,806,458	6,579,997
Current portion of promissory note	6	200,000	200,000
Current portion of mortgage	12	3,790,610	-
Total current liabilities		16,797,068	6,779,997
Promissory note	6	600,000	800,000
Mortgage	12	9,457,876	-
Deferred tax	19	1,433,000	-
Total Liabilities		28,287,944	7,579,997
Shareholders' Equity			
Share capital	13	207,061,423	104,824,215
Share-based payment reserve		8,714,188	2,272,302
Warrants reserve	13	11,393,687	3,361,789
Deficit		(53,143,504)	(39,589,888)
Total Shareholders' Equity		174,025,794	70,868,418
Total Liabilities and Shareholders' Equity		$ 202,313,738	$ 78,448,415

Commitments (Note 16)

The accompanying notes are an integral part of the consolidated financial statements.

(signed) "Eric Paul" Director

(signed) "Mark Litwin" Director

CannTrust Holdings Inc.
Consolidated Statements of Net (Loss) Income and Comprehensive (Loss) Income
For the Years Ended December 31
(in Canadian dollars)

	Notes		2018		2017
					(Restated) (Note 5)
Gross revenue	22	$	48,390,103	$	20,697,764
Excise duty			(2,744,960)		-
Net revenue			45,645,143		20,697,764
Cost of goods sold	5		19,690,162		7,680,234
Gross profit, before changes in fair value of biological assets	5		25,954,981		13,017,530
Fair value changes in biological assets included in inventory sold	5		17,301,866		8,929,308
Unrealized gain on changes in fair value of biological assets	5,8		(27,840,156)		(19,891,851)
Gross profit			36,493,271		23,980,073
Expenses					
Amortization	9		2,169,281		964,396
General and administrative	17		9,014,467		3,636,808
Marketing and promotion			7,274,454		198,858
Salaries and benefits			9,823,942		3,853,514
Selling and shipping costs			8,971,434		1,800,056
Share based compensation	14		8,056,451		2,310,678
Operating expenses			45,310,029		14,767,110
(Loss) income from operations			(8,816,758)		9,212,963
Mortgage interest expense			(478,169)		(260,203)
Interest income			790,123		-
Accretion expense	12		(208,842)		(233,716)
Transaction costs	6		-		(204,282)
Other (loss) income	18		(2,033,700)		143,060
(Loss) on equity accounted investment	18		(385,110)		(147,056)
Impairment loss on assets	10		(986,160)		-
Loss on revaluation of derivative liability			-		(1,625,336)
(Loss) income before income taxes			(12,120,616)		6,885,430
Deferred income tax expense	19		1,433,000		-
Net (loss) income and comprehensive (loss) income		$	(13,553,616)	$	6,885,430
Weighted average number of common shares - basic			99,282,045		76,876,971
Weighted average number of common shares - diluted			99,282,045		80,526,105
Earnings (loss) per share - basic	13		(0.14)		0.09
Earnings (loss) per share - diluted	13		(0.14)		0.09

554. Defendants' statements concerning the then-current financial condition of CannTrust were materially false and misleading for the same reasons set forth in paragraphs 340-358, 417-418, 422-428, 432, 498, 502, 541, 544-545, and 550.

4. May 14, 2019 – Consolidated Financial Statements

555. On May 14, 2019, CannTrust filed with SEDAR its consolidated financial statements for the three months ended March 31, 2019 and March 31, 2018 ("May 14, 2019 Consolidated Financial Statements"), which was signed by Defendants Paul and Litwin.

556. The May 14, 2019 Consolidated Financial Statements, as well as the Company's MD&A filed that same day, contained a materially false and misleading balance sheet and income statement:

CannTrust Holdings Inc.

Condensed Interim Consolidated Statements of Financial Position
(in Canadian dollars)

	Notes		March 31, 2019		December 31, 2018
Assets			(Unaudited)		(Audited)
Current					
Cash		$	3,203,741	$	9,022,821
Short term investments	5		39,543,366		63,023,908
Harmonized sales tax recoverable			718,026		1,492,110
Inventory	7		55,813,185		35,389,490
Biological assets	7		21,802,426		10,502,579
Accounts receivable			3,430,525		6,151,604
Prepaid expenses			14,999,144		2,859,039
Total current assets			139,510,411		128,441,551
Investments	16		11,912,719		10,661,932
Restricted cash	6		100,000		100,000
Property and equipment	8		70,504,503		62,208,905
Right-of-Use assets	3,8		1,603,571		-
Financial assets	9		901,350		901,350
Total Assets			224,532,554		202,313,738
Liabilities					
Current					
Accounts payable and accrued liabilities			11,327,922		12,806,458
Current portion of promissory note			200,000		200,000
Current portion of mortgage	10		13,210,731		3,790,610
Total current liabilities			24,738,653		16,797,068
Promissory note			400,000		600,000
Mortgage	10		-		9,457,876
Lease liability	3		1,785,059		-
Deferred tax	17		7,430,000		1,433,000
Total Liabilities			34,353,712		28,287,944
Shareholders' Equity					
Share capital	11		207,185,559		207,061,423
Share-based payment reserve			12,083,189		8,714,188
Warrants reserve	13		11,381,930		11,393,687
Deficit			(40,471,836)		(53,143,504)
Total Shareholders' Equity			190,178,842		174,025,794
Total Liabilities and Shareholders' Equity		$	224,532,554	$	202,313,738

Commitments (Note 14)

Subsequent events (Note 20)

The accompanying notes are an integral part of the condensed interim consolidated financial statements.

(signed) "Eric Paul" Director (signed) "Mark Litwin" Director

CannTrust Holdings Inc.
Condensed Interim Consolidated Statements of Net Income and Comprehensive Income
For the Three Months Ended March 31, 2019 and March 31, 2018
(in Canadian dollars) (unaudited)

	Notes		March 31, 2019		March 31, 2018
					(Restated) (Note 5)
Gross revenue		$	18,813,801	$	7,839,847
Excise duty			(1,960,725)		-
Net revenue	19		16,853,076		7,839,847
Cost of goods sold			9,142,532		2,877,048
Gross profit, before changes in fair value of biological assets			7,710,544		4,962,799
Fair value changes in biological assets included in inventory sold			6,654,488		4,444,258
Unrealized gain on changes in fair value of biological assets	7		(32,640,849)		(20,494,625)
Gross profit			33,696,905		21,013,166
Expenses					
Amortization	8		532,054		636,977
General and administrative	15		4,754,259		1,866,339
Marketing and promotion			1,932,654		266,448
Salaries and benefits			3,404,923		1,583,189
Selling and shipping costs			2,194,915		1,470,717
Share based compensation	12		3,406,090		3,630,576
Operating expenses			16,224,895		9,454,246
Income from operations			17,472,010		11,558,920
Interest expense			(219,396)		(71,822)
Interest income			262,442		-
Accretion expense	10		(62,516)		(31,369)
Other income			1,518,276		29,475
Loss on equity accounted investment	16		(122,839)		(43,094)
Income before income taxes			18,847,977		11,442,110
Deferred income tax expense	17		6,044,517		-
Net income and comprehensive income		$	12,803,460	$	11,442,110
Weighted average number of common shares - basic			105,627,315		91,921,020
Weighted average number of common shares - diluted			108,230,636		95,674,356
Earnings per share - basic	11		0.12		0.12
Earnings per share - diluted	11		0.12		0.12

557. Defendants' statements concerning the then-current financial condition of CannTrust were materially false and misleading for the same reasons set forth in paragraphs 340-358, 417-418, 422-428, 432, 498, 502, 541, 544-545, and 550.

E. KPMG's Clean Audit Report Contained False and Misleading Statements

558. In addition to the false and misleading revenue, biological assets, and inventory figures KPMG certified and consented to as set forth in CannTrust's audited consolidated

financial statements filed on March 28, 2019, KPMG also made numerous false and misleading statements in its Audit Report.

559. Specifically, KPMG's Audit Report misleadingly told investors that KPMG audited the March 27, 2019 Consolidated Financial Statements and that "***the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018***."

560. KPMG's Audit Report claimed that the auditor had audited the 2018 Annual Financial Statements "***in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud.***"

561. In addition, the Audit Report misleadingly reassured investors that "***the audit included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements***."

562. The Audit Report continued "***the audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements,***" and "***[KPMG] believe[d] that the audit provide[d] a reasonable basis for [its] opinion.***"

563. Finally, the Audit Report stated "***the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018,***

***and the financial performance and its cash flows for the year then ended, in conformity with IFRS*."

564. Each of these statements were false and misleading because, as discussed in Sections V.C.4-5, KPMG's audit of CannTrust violated numerous PCAOB auditing standards and CannTrust's financial statements violated applicable accounting standards. KPMG's clean audit opinion reinforced the credibility of CannTrust's financial statements and allowed CannTrust to perpetrate its fraud. Indeed, contrary to these statements and the representations: KPMG did not conduct its audits in accordance with PCAOB standards; as described herein, the financial statements referred to in these statements contained material errors and omissions in violation of IFRS; and KPMG lacked a reasonable basis for its opinion that the financial statements referred to in these statements were fairly presented in accordance with IFRS.

VII. LOSS CAUSATION

565. During the Class Period, as detailed herein, Defendants engaged in a course of conduct that artificially inflated or artificially maintained the price of CannTrust's common stock and operated as a fraud or deceit on Class Period purchasers of CannTrust common stock by failing to disclose and misrepresenting Defendants' non-compliance with applicable regulations and illicit business practices implemented to increase growing capacity in order to take advantage of surging demand, *i.e.*, the growing and storing of cannabis in unlicensed rooms, and other regulatory violations from June 2018 through March 2019.

566. Class members unknowingly and in reliance upon Defendants' materially false or misleading statements and/or omissions purchased CannTrust common stock at artificially inflated prices. But for Defendants' misrepresentations, omissions, and fraudulent scheme, Plaintiffs and other Class members would not have purchased CannTrust stock at the artificially inflated prices at which it traded during the Class Period.

567. The truth regarding Defendants' fraud was revealed in a series of partial corrective disclosures and/or materializations of concealed risk that occurred between July 8, 2019 and September 17, 2019. During this corrective disclosure period, CannTrust's stock fell precipitously as the artificial inflation caused by Defendants' unlawful conduct exited CannTrust's stock price. It was not until the final partial corrective disclosure and/or materialization of concealed risk on September 17, 2019 that the full truth and extent of Defendants' misrepresentations was known to the market and/or fully materialized such that there was no longer any artificial inflation in CannTrust's stock price attributable to the fraud.

568. The declines in CannTrust's stock price during the corrective disclosure period, including the declines summarized below, are directly attributable to the market absorbing information that corrected and/or reflected the materialization of undisclosed risks concealed by the Defendants' material misrepresentations or omissions.

569. As a result of their purchases of CannTrust common stock during the Class Period, Plaintiffs and the other Class members suffered economic loss (*i.e.*, damages) under the federal securities laws. Defendants' materially false and misleading statements had the intended effect and caused CannTrust common stock to trade at artificially inflated levels throughout the Class Period, reaching as high as $13.48 per share on March 19, 2019.

570. By concealing from investors the adverse facts detailed herein, Defendants presented a misleading picture of CannTrust's business practices, compliance with applicable regulations, and its ability to meet the high demand for cannabis. As the truth about the Company and the extent of the fraud was revealed to the market, the price of CannTrust common stock fell significantly. These declines removed the inflation from the price of CannTrust

common stock, causing real economic loss to investors who had purchased CannTrust common stock during the Class Period.

A. July 8, 2019 – First Partial Corrective Disclosure/Materialization of the Risk

571. On July 8, 2019, the relevant truth and foreseeable risks concealed by Defendants' misconduct and their false representations and omissions during the Class Period were partially revealed and/or partially materialized in connection with CannTrust's announcement that it received a compliance report from Health Canada. On that date, Defendants disclosed that CannTrust had "received a compliance report from Health Canada notifying the Company that its greenhouse facility in Pelham, Ontario is noncompliant with certain regulations" and that the Company "accepted Health Canada's non-compliance finding and has taken actions to ensure current and future compliance."

572. CannTrust disclosed that it had been growing cannabis in five unlicensed rooms in its Niagara Facility from October 2018 through March 2019 and misled Health Canada inspectors during their audit in June 2019 of the Niagara Facility. Specifically, the press release stated:

> The non-compliant rating is based on observations by the regulator regarding the growing of cannabis in five unlicensed rooms and inaccurate information provided to the regulator by CannTrust employees. Growing in unlicensed rooms took place from October 2018 to March 2019 during which time CannTrust had pending applications for these rooms with Health Canada.

573. Additionally, within that same press release, CannTrust disclosed that "Health Canada has placed a hold on inventory which includes approximately 5,200kg of dried cannabis that was harvested in the previously unlicensed rooms in Pelham, until it deems that the Company is compliant with regulations," and that "CannTrust has instituted a voluntary hold of approximately 7,500kg of dried cannabis equivalent at its Vaughan manufacturing facility that was produced in the previously unlicensed rooms." CannTrust further announced that "[d]ue to

the product on hold, some CannTrust customers and patients will experience temporary product shortages."

574. Moreover, in light of the truth that began to reveal itself to the public, Defendant Aceto conceded within that same press release that with respect to Defendants' communications with Health Canada about growing in five unlicensed rooms, "[w]e made errors in judgement." Additionally, in an interview later that day by the Globe and Mail of Defendant Aceto on July 8, 2019, Defendant Aceto similarly admitted: "We constructed these rooms in accordance with all the rules and regulations; the mistake that was made by CannTrust was putting plants in these rooms before we'd actually received the approval to do so."

575. The July 8, 2019 disclosures that Defendants received a compliance report from Health Canada and that much of their inventory was thus placed on hold, were foreseeable consequences of, and within the zone of risk concealed by, Defendants' misrepresentations and omissions concerning Defendants' growing of cannabis in unlicensed rooms in their Niagara Facility from October 2018 through March 2019.

576. Moreover, the July 8, 2019 disclosures revealed new information that Defendants' misstatements, omissions, and fraudulent course of conduct previously concealed and/or obscured from the market. These disclosures partially (but incompletely) revealed some of the relevant truth concealed and/or obscured by Defendants' prior misstatements and omissions surrounding the Company's illicit business practices, including the Company's ability to meet the high demand for cannabis by legitimate means and the Company's compliance with applicable regulations.

577. As a direct and proximate result of these partial corrective disclosures and/or materializations of foreseeable risks concealed by Defendants' fraud, CannTrust's stock price

fell over ***22%*** from $4.94 per share on July 5, 2019, to $3.83 per share at close on July 8, 2019, on unusually heavy trading volume.

578. Surprised by this news, analysts and the media linked the stock drop directly to the disclosures. For example, ROTH Capital issued a report on July 8, 2019 linking the drastic drop in share price to Defendants' announcement: "CTST shares are down ~20% to $3.87 while investors weigh the ramifications of cannabis production in unlicensed rooms and the pending inventory concerns in the near term." The analyst report further expressed concern over Defendants' misrepresentations that they made to Health Canada, stating, "we are concerned with the non-compliance rating and that Health Canada felt [CannTrust] employees misled regulators during the June audit." Canaccord similarly reported that same day that "a breach of Hea[l]th Canada regulations is an unfortunate setback for CannTrust and will likely materially impact Q3/19 results."

579. Likewise, news outlet Globe and Mail published an article on July 8, 2019, explaining that "CannTrust Holdings Inc. shares plunged more than 20 per cent on Monday, after the NYSE-listed cannabis grower disclosed that Health Canada discovered unlicensed growing activity at the [C]ompany's main greenhouse in Ontario and put a sales freeze on 5,200 kilograms of CannTrust's inventory, pending further investigation." The next day, on July 9, 2019, ROTH Capital issued another report and downgraded the Company's stock to Neutral, further explaining that "CannTrust has taken a huge credibility hit from the issued Hea[l]th Canada non-compliance rating audit report," and opining that CannTrust demonstrated "a flagrant lack of compliance surrounding cultivating cannabis in five unlicensed rooms over a five month timeframe."

580. However, despite these partial disclosures of adverse news which removed some of the artificial inflation in CannTrust's stock price, its stock price remained artificially inflated after this announcement as Defendants knew and failed to disclose or deliberately disregarded that Defendants actively attempted to cover up their unlicensed growing by putting up fake walls, the directive to grow in unlicensed rooms was known and given by CannTrust executives—including Individual Defendants—and that Defendants were storing the excess inventory in unlicensed rooms in their Vaughan Facility and that, as such, faced a high likelihood of getting the Company's license suspended. Indeed, acknowledging that it was not yet known that Defendants had a direct role in the unlicensed growing and cover up, Jefferies explained in a July 8, 2019 analyst report that "[t]he fact the [C]ompany never spotted this, or indeed still doesn't know how it happened, is a concern."

B. July 10, 2019 – Second Partial Corrective Disclosure/Materialization of the Risk

581. On July 10, 2019, the relevant truth and foreseeable risks concealed by Defendants' misconduct and their false representations and omissions during the Class Period were partially revealed and/or partially materialized in connection with an explosive article that Globe and Mail published detailing whistleblower Nick Lalonde's email to Health Canada, further revealing the gory details about Defendants' fraudulent conduct to investors. On that date, the public learned for the first time the explicit details of Mr. Lalonde's email, such as Defendants requiring CannTrust employees to hang fake walls in front of the unlicensed rooms to hide their unregulated growing from Health Canada inspections.

582. The July 10, 2019 disclosure that Defendants took affirmative steps to hide their unlicensed growing from Health Canada, was a foreseeable consequence of, and within the zone of risk concealed by, Defendants' misrepresentations and omissions concerning Defendants'

growing of cannabis in unlicensed rooms in their Niagara Facility from October 2018 through March 2019, as well as Defendants' attempts to hide their violations from Health Canada.

583. Moreover, the July 10, 2019 disclosure revealed new information that Defendants' misstatements, omissions, and fraudulent course of conduct previously concealed and/or obscured from the market. This disclosure partially (but incompletely) revealed some of the relevant truth concealed and/or obscured by Defendants' prior misstatements and omissions surrounding the Company's illicit business practices, including the Company's ability to meet the high demand for cannabis by legitimate means and the Company's compliance with applicable regulations.

584. As a direct and proximate result of this partial corrective disclosure and/or materialization of foreseeable risks concealed by Defendants' fraud, CannTrust's stock price fell over ***12%*** from $3.60 per share on July 9, 2019 to $3.16 per share on July 10, 2019, on unusually heavy trading volume.

585. However, despite this partial disclosure of adverse news which removed some of the artificial inflation in CannTrust's stock price, its stock price remained artificially inflated after this announcement as Defendants knew and failed to disclose or deliberately disregarded that the directive to grow in unlicensed rooms was known and given by CannTrust executives—including the Individual Defendants—and that Defendants were storing the excess inventory in unlicensed rooms in their Vaughan Facility and that, as such, faced a high likelihood of getting the Company's license suspended.

C. July 11, 2019 – Third Partial Corrective Disclosure/Materialization of the Risk

586. On July 11, 2019, after the close of trading, the relevant truth and foreseeable risks concealed by Defendants' misconduct and their false representations and omissions during

the Class Period were partially revealed and/or partially materialized in connection with CannTrust's announcement that "it has implemented a voluntary hold on sale and shipment of all cannabis products as a precaution ***while Health Canada visits and reviews its Vaughan, Ontario manufacturing facility***." CannTrust further informed investors on that date that it created a special committee "comprised of independent members of the Board of Directors" to "investigate this matter in its entirety"—referring to the unlicensed growing.

587. The July 11, 2019 disclosures that Defendants implemented a voluntary hold on sale and shipment of all cannabis products and that the Company created a Special Committee to investigate Defendants' wrongdoing were foreseeable consequences of, and within the zone of risk concealed by, Defendants' misrepresentations and omissions concerning Defendants' growing of cannabis in unlicensed rooms in their Niagara Facility from October 2018 through March 2019, as well as Defendants' decision to ship the cannabis grown in those unlicensed rooms to their Vaughan Facility for storage.

588. Moreover, the July 11, 2019 disclosures revealed new information that Defendants' misstatements, omissions, and fraudulent course of conduct previously concealed and/or obscured from the market. These disclosures partially (but incompletely) revealed some of the relevant truth concealed and/or obscured by Defendants' prior misstatements and omissions surrounding the Company's illicit business practices, including the Company's ability to meet the high demand for cannabis by legitimate means and the Company's compliance with applicable regulations. Defendants' statement that the Company "has implemented a voluntary hold on sale and shipment of all cannabis products as a precaution while Health Canada visits and reviews its Vaughan, Ontario manufacturing facility" was additionally false and misleading because Defendants failed to disclose that they engaged in the illicit practice of storing cannabis

in unlicensed rooms at the Vaughan Facility and that there was a considerable risk Health Canada would uncover the practice (especially given the recent findings of unlicensed growing at the Niagara Facility), increasing the risk of CannTrust losing its license to grow or sell cannabis.

589. As a direct and proximate result of these partial corrective disclosures and/or materializations of foreseeable risks concealed by Defendants' fraud, CannTrust's stock price fell over ***17%*** from \$3.11 per share on July 11, 2019 to \$2.58 per share on July 12, 2019, on unusually high trading volume.

590. The media linked the July 12, 2019 stock price drop directly to Defendants' disclosures. For example, on July 12, 2019, Barrons.com reported that "CannTrust Holdings said Friday morning it has halted all cannabis sales and shipments while Health Canada reviews its processing plant in Vaughan, Ontario. Now its shares are tanking." Similarly, that same day, Bloomberg News reported that "CannTrust said Thursday night that it[] put a voluntary hold on the sale and shipment of all its medical and recreational products" and that CannTrust stock "tumbled . . . Friday after the Canadian pot company halted all sales and shipments of its products."

591. However, despite these partial disclosures of adverse news which removed some of the artificial inflation in CannTrust's stock price, its stock price remained artificially inflated after this announcement as Defendants knew and failed to disclose or deliberately disregarded that the directive to grow in unlicensed rooms was known and given by CannTrust executives—including Individual Defendants—and that Defendants were storing the excess inventory in unlicensed rooms in their Vaughan Facility and that, as such, faced a high likelihood of getting the Company's license suspended.

D. July 15, 2019 – Fourth Partial Corrective Disclosure/Materialization of the Risk

592. On July 15, 2019, after the close of trading, the relevant truth and foreseeable risks concealed by Defendants' misconduct and their false representations and omissions during the Class Period were partially revealed and/or partially materialized in connection with an article published by the Financial Post discussing a recently filed action against CannTrust, which alleged CannTrust breached section 130 of the Ontario Securities Act which outlines liability for misrepresentation in offerings. On that date, the article revealed for the first time the possibility that Defendants' actions concerning the growing in the five unlicensed rooms could rise to the level of a "criminal offence."

593. The July 15, 2019 disclosure that Defendants' actions concerning the growing in the five unlicensed rooms could rise to the level of a criminal offence was a foreseeable consequence of, and within the zone of risk concealed by, Defendants' misrepresentations and omissions concerning Defendants' growing of cannabis in unlicensed rooms in their Niagara Facility from October 2018 through March 2019.

594. Moreover, the July 15, 2019 disclosure revealed new information that Defendants' misstatements, omissions, and fraudulent course of conduct previously concealed and/or obscured from the market. This disclosure partially (but incompletely) revealed some of the relevant truth concealed and/or obscured by Defendants' prior misstatements and omissions surrounding the Company's illicit business practices, including the Company's ability to meet the high demand for cannabis by legitimate means and the Company's compliance with applicable regulations.

595. As a direct and proximate result of this partial corrective disclosure and/or materialization of foreseeable risks concealed by Defendants' fraud, CannTrust's stock price fell

over ***10%*** from \$3.06 per share on July 15, 2019 to \$2.75 per share on July 16, 2019, on unusually high trading volume.

596. However, despite these partial disclosures of adverse news which removed some of the artificial inflation in CannTrust's stock price, its stock price remained artificially inflated after this announcement as Defendants knew and failed to disclose or deliberately disregarded that the directive to grow in unlicensed rooms was known and given by CannTrust executives—the including Individual Defendants—and that Defendants were storing the excess inventory in unlicensed rooms in their Vaughan Facility and that, as such, faced a high likelihood of getting the Company's license suspended.

597. Indeed, analysts were still uncertain about the full impact that Defendants' fraudulent conduct would have on the Company going forward. For example, on July 15, 2019, ROTH Capital issued a report that placed CannTrust shares "Under Review" and reported: "The biggest unknown is the response by Health Canada, as the federal regulator has the power to potentially suspend or revoke CTST's license. Additional legal actions may come about pending further investigations of violating The Cannabis Act. At this time, the impact of these matters on CTST's financial results [is] unknown." Likewise, Jefferies reported on July 15, 2019 that "[f]or a company that we had found to be well set up to succeed, we have been disappointed by execution and a lack of catalysts." The report further stated: "As more details emerge, it becomes less likely that Health Canada will provide a swift resolution to the situation, with a number of cases likely to be put to CannTrust for violation of the Cannabis Act, or potentially worse. There are also question marks over whether management had been aware of such schemes during its \$200m equity offering."

E. July 23–24, 2019 – Fifth Partial Corrective Disclosure/Materialization of the Risk

598. On July 23, 2019, the relevant truth and foreseeable risks concealed by Defendants' misconduct and their false representations and omissions during the Class Period were partially revealed and/or partially materialized in connection with an article published by the Globe and Mail revealing new information about Defendants' role in the unlicensed growing. On that date, the article revealed that—based on internal CannTrust emails obtained by the news organization—"[b]oth the chairman and the chief executive officer of CannTrust Holdings Inc. were informed that the [C]ompany was growing cannabis in unlicensed rooms about seven months before Health Canada uncovered the regulatory breach." The article further disclosed that the internal emails "show chairman Eric Paul and CEO Peter Aceto were made aware that cannabis was being cultivated in rooms at a growing facility in Southern Ontario that had yet to be licensed by the federal regulator, and that Mr. Paul counselled staff on how to respond."

599. Additionally, on July 24, 2019, further new facts were revealed by the media about Defendants' role in the unlicensed growing. On that day, BNN Bloomberg published an article that—according to internal Company documents obtained by BNN Bloomberg—disclosed that Defendant "Aceto told senior company officials to 'continue as planned' and plant cannabis in an unlicensed room in mid-November." In reviewing internal weekly production meetings minutes, BNN Bloomberg created a timeline of when senior CannTrust executives—including Defendant Aceto—knew of the illegal growing.

600. The July 23–24, 2019 disclosures that certain Individual Defendants knew about and directed the growing of cannabis in unlicensed rooms were foreseeable consequences of, and within the zone of risk concealed by, Defendants' misrepresentations and omissions concerning Defendants' growing of cannabis in unlicensed rooms in their Niagara Facility from October

2018 through March 2019, as well as certain Individual Defendants' direct and personal involvement with the unlicensed growing by directing it and allowing it to continue.

601. Moreover, the July 23–24, 2019 disclosures revealed new information that Defendants' misstatements, omissions, and fraudulent course of conduct previously concealed and/or obscured from the market. These disclosures partially (but incompletely) revealed some of the relevant truth concealed and/or obscured by Defendants' prior misstatements and omissions surrounding the Company's illicit business practices, including the Company's ability to meet the high demand for cannabis by legitimate means and the Company's compliance with applicable regulations.

602. As a direct and proximate result of these partial corrective disclosures and/or materializations of foreseeable risks concealed by Defendants' fraud, CannTrust's stock price fell over ***22%*** from $2.62 per share on July 23, 2019 to $2.04 per share on July 24, 2019, on unusually high trading volume.

603. The media attributed the stock drop directly to the new information about Defendants' explicit knowledge of the illicit activity in unlicensed growing rooms. For example, Global News reported on July 24, 2019 that "CannTrust Holdings Corp. shares have plummeted further after a media report alleging that the cannabis company's chief executive and chairman of the board were aware of pot cultivation in rooms without government approval months before Health Canada discovered the illicit activity." Similarly, the Canadian Press (CNP) reported that same day that "CannTrust Holdings Corp. shares took a nearly 22 per cent dive on Wednesday after a media report alleged that the cannabis company's chief executive and chairman of the board were aware of pot cultivation in rooms without government approval months before Health Canada discovered the illicit activity." That same day, Bloomberg News also reported

that "[t]he [C]ompany's shares plunged 22% to C$2.68 in Toronto on the Globe and Mail report which cited internal emails showing Chairman Eric Paul and Chief Executive Officer Peter Aceto were informed the [C]ompany was growing pot in unlicensed rooms about seven months before Health Canada raised the issue."

604. However, despite these partial disclosures of adverse news which removed some of the artificial inflation in CannTrust's stock price, its stock price remained artificially inflated after this announcement as Defendants knew and failed to disclose or deliberately disregarded that Defendants were storing the excess inventory in unlicensed rooms in their Vaughan Facility and that, as such, faced a high likelihood of getting the Company's license suspended.

F. August 12, 2019 – Sixth Partial Corrective Disclosure/Materialization of the Risk

605. On August 12, 2019, the relevant truth and foreseeable risks concealed by Defendants' misconduct and their false representations and omissions during the Class Period were partially revealed and/or partially materialized in connection with CannTrust's announcement that Health Canada found significant regulatory violations at a second cannabis facility. On that date, the Company disclosed that "[a]fter trading hours on Friday, August 9, 2019, CannTrust received a report from Health Canada notifying the Company that its [Vaughan Facility] has been rated non-compliant with certain regulations." The Company further disclosed that Health Canada found the following violations:

(a) The conversion of five rooms from operational areas to storage areas, which were used for storage since June 2018 without prior approval of Health Canada;

(b) The construction of two new areas without prior approval of Health Canada, one of which was used to store cannabis since November 2018;

(c) Insufficient security controls at the manufacturing facility;

(d) Inadequate quality assurance investigations and controls;

(e) Standard operating procedures that did not [] meet the requirements under regulations; and

(f) Documents or information that were not retained in a manner to enable Health Canada to complete its audit in a timely manner.

606. Defendants explained that these findings were "based on observations made during an inspection completed during the period July 10-16, 2019." Notably, Defendants admitted that the regulator's findings were accurate, noting: "CannTrust has accepted Health Canada's findings and remedial actions are underway."

607. The August 12, 2019 disclosure that Health Canada found significant regulatory violations at the Company's Vaughan Facility was a foreseeable consequence of, and within the zone of risk concealed by, Defendants' misrepresentations and omissions concerning Defendants' growing of cannabis in unlicensed rooms in their Niagara Facility from October 2018 through March 2019, as well as Defendants' decision to ship cannabis grown in those unlicensed rooms to their Vaughan Facility.

608. Moreover, the August 12, 2019 disclosure revealed new information that Defendants' misstatements, omissions, and fraudulent course of conduct previously concealed and/or obscured from the market. This disclosure partially (but incompletely) revealed some of the relevant truth concealed and/or obscured by Defendants' prior misstatements and omissions surrounding the Company's illicit business practices, including the Company's ability to meet the high demand for cannabis by legitimate means and the Company's compliance with applicable regulations.

609. As a direct and proximate result of this partial corrective disclosure and/or materialization of foreseeable risks concealed by Defendants' fraud, CannTrust's stock price fell

approximately ***30%*** from a closing price of $3.17 per share on Friday, August 9, 2019 to a closing price of $2.32 on Monday, August 12, 2019, on unusually high trading volume.

610. Analysts directly attributed the additional regulatory violations related to the use of unlicensed rooms at CannTrust's Vaughan Facility as the cause of the stock drop. For example, on August 19, 2019, Jefferies reported that despite CannTrust's shares experiencing a gain as a possible result of a certain ETF rebalancing, "[t]hese gains were all but lost though after CannTrust announced on Monday morning that it has received a report from Health Canada informing it that its manufacturing facility in Vaughan, Ontario was non-compliant with certain regulations, which is in addition to the non-compliance finding for its Pelham facility previously."

G. September 17, 2019 – Final Corrective Disclosure/Materialization of the Risk

611. On September 17, 2019, the relevant truth and foreseeable risks concealed by Defendants' misconduct and their false representations and omissions during the Class Period were fully revealed and/or materialized when the Company informed investors that Health Canada had suspended its license, preventing CannTrust from continuing to sell cannabis altogether. On that date, CannTrust disclosed that "it received late this morning a Notice of Licence Suspension . . . under section 64(1) of the Cannabis Act (Canada)," which "states that Health Canada has suspended CannTrust's authority to produce cannabis, other than cultivating and harvesting, and to sell cannabis."

612. The press release continued: "As such, the Notice constitutes a partial suspension of the Company's licence for standard cultivation and a full suspension of its licences for standard processing, medical sales, cannabis drugs and research issued under the Cannabis regulations." Also, "[d]uring the suspension, CannTrust may not propagate new lots or batches of cannabis or engage in the sale or distribution of cannabis." The Notice cited "the Company's

previous non-compliance with certain requirements of the Cannabis Act (Canada) and the regulation made thereunder (the "Cannabis regulations") in respect of the matters that the Company has been discussing with Health Canada."

613. The September 17, 2019 disclosure that Health Canada had suspended the Company's license, preventing CannTrust from continuing to sell cannabis altogether was a foreseeable consequence of, and within the zone of risk concealed by, Defendants' misrepresentations and omissions concerning Defendants' growing of cannabis in unlicensed rooms in their Niagara Facility from October 2018 through March 2019, their attempts to hide their violations from Health Canada, their decision to ship the cannabis grown in those unlicensed rooms to their Vaughan Facility, and certain of the Individual Defendants' direct and personal involvement with the unlicensed growing by directing it and allowing it to continue.

614. Moreover, the September 17, 2019 disclosure revealed new information that Defendants' misstatements, omissions, and fraudulent course of conduct previously concealed and/or obscured from the market. This disclosure revealed the relevant truth concealed and/or obscured by Defendants' prior misstatements and omissions surrounding the Company's illicit business practices, including the Company's ability to meet the high demand for cannabis by legitimate means and the Company's compliance with applicable regulations.

615. As a direct and proximate result of this partial corrective disclosure and/or materialization of foreseeable risks concealed by Defendants' fraud, CannTrust's stock price fell ***14%*** from a closing price of $1.50 per share on September 16, 2019 to a closing price of $1.29 on September 17, 2019, on unusually high trading volume.

616. Analysts acknowledged that the suspension was a result of Defendants' illicit growing in the five unlicensed rooms at the Niagara Facility. For example, on September 18,

2019, ROTH Capital reported that "[t]he recent announcement stems from the previous non-compliance of CTST growing cannabis in five unlicensed rooms."

617. Each decline in the price of CannTrust common stock, as detailed above, was a direct or proximate result of the nature and extent of Defendants' fraudulent misrepresentations being revealed to investors and the market. The timing and magnitude of the price declines in CannTrust common stock negate any inference that the loss suffered by Plaintiffs and the other Class members was caused by changed market conditions, macroeconomic or industry factors, or Company-specific facts unrelated to Defendants' fraudulent conduct.

618. The economic loss, *i.e.*, damages, suffered by Plaintiffs and the other Class members was a direct result of Defendants' fraudulent scheme to artificially inflate the price of CannTrust common stock and the subsequent significant decline in the value of CannTrust common stock when Defendants' prior misrepresentations and other fraudulent conduct were revealed.

619. The market for CannTrust common stock was open, well-developed, and efficient at all relevant times, with average daily trading volume of approximately 2,400,959 trades during the Class Period. As a result of Defendants' misstatements and material omissions, as alleged herein, CannTrust's common stock traded at artificially inflated prices. Plaintiffs and other Class members purchased CannTrust common stock relying upon the integrity of the market relating to CannTrust common stock and suffered economic losses as a result thereof.

620. The economic loss, *i.e.*, damages, suffered by Plaintiffs and other Class members was a direct result of Defendants' misrepresentations artificially inflating CannTrust's stock price and the subsequent significant decline in the value of CannTrust common stock when the

truth was revealed on July 8, 2019, July 10, 2019, July 11, 2019, July 15, 2019, July 23–24, 2019, August 12, 2019, and September 17, 2019.

621. The declines in CannTrust's common stock price on July 8, 2019, July 10, 2019, July 12, 2019, July 16, 2019, July 24, 2019, August 12, 2019, and September 17, 2019 were the direct result of the nature and extent of Defendants' prior misstatements and omissions being revealed to investors and the market. The timing and magnitude of CannTrust's stock price decline evidence the impact Defendants' statements had on the Company's stock price during the Class Period and negate any inference that the loss suffered by Plaintiffs and other Class members was caused by changed market conditions or macroeconomic, industry, or Company-specific factors unrelated to Defendants' fraudulent conduct.

622. Indeed, on the same day that CannTrust's common stock share price closed down 14%, the Standard & Poor's 500 Index and Dow Jones Industrial Index increased 0.26% and 0.13%, respectively. Moreover, there was no news about CannTrust, other than the disclosures in the July 8, 2019 press release, July 10, 2019 Globe and Mail article, July 11, 2019 press release, July 15, 2019 Financial Post article, July 23–24, 2019 Globe and Mail and BNN Bloomberg articles, August 12, 2019 press release, and September 17, 2019 press release that could fully explain the Company's stock price declines on July 8, 2019, July 10, 2019, July 12, 2019, July 16, 2019, July 24, 2019, August 12, 2019, and September 17, 2019.

VIII. ADDITIONAL INDICIA OF SCIENTER

623. Defendants were active and culpable participants in the fraud, as evidenced by their knowing and reckless issuance and/or ultimate authority over CannTrust's and the Individual Defendants' materially false or misleading statements and omissions. The Individual Defendants acted with scienter in that they knew or recklessly disregarded that the public statements more specifically set forth in Section VI were materially false or misleading when

made, and knowingly or recklessly participated or acquiesced in the issuance or dissemination of such statements as primary violators of the federal securities laws. In addition to the numerous allegations above setting forth Defendants' knowledge of the illicit growing and storing scheme alleged above, Defendants' scienter is further evidenced by the following facts.

A. Defendants Were Aware of the Unlicensed Growing and Staged Photographs Sent to Health Canada

624. Defendants took affirmative steps to hide from Health Canada the fact that they were growing in unlicensed rooms, and internal CannTrust communications unequivocally revealed the Individual Defendants' knowledge of the unlicensed growing. For instance, according to whistleblower Nick Lalonde, he and other co-workers were instructed by CannTrust managers, such as the greenhouse operations manager, to hang fake white poly walls in front of the unlicensed rooms and move tables with hundreds of plants on them out of camera view so that when a photograph was taken, the cannabis in the unlicensed rooms would not be seen.

625. As explained above, Health Canada required CannTrust, when applying for licenses, to submit an evidence package via the CTLS consisting of video footage and photographs of virtually every inch its Niagara Facility, including every single growing room within that facility.

626. Yet, in order to grow additional cannabis in violation of the regulations, Defendants staged and sent photographs—with fake walls blocking the cannabis in the unlicensed rooms—to Health Canada as part of its evidence package. As Mr. Lalonde informed Health Canada when he blew the whistle on Defendants' scheme, "[i]f you look through the camera footage prior to the dates the pictures were taken and requested you will clearly see us hanging up white poly walls to cover up thousands of plants."

627. Other former CannTrust employees further explained that Defendant Aceto had even participated in a promotional video in front of one of the unlicensed rooms while plants could clearly be seen in the room in the background.

628. Additionally, internal CannTrust emails sent to the Individual Defendants expressed a sigh of relief after an inspection of the Niagara Facility in which Health Canada did not uncover the unlicensed growing. Specifically, those internal CannTrust emails as well as meeting minutes further demonstrate that the Individual Defendants were aware that CannTrust was growing in five unlicensed rooms from October 2018 through March 2019.

629. For example, as explained above, Defendants Aceto, Abramowitz, and Paul received an email on November 16, 2018 from CannTrust's Director of Quality and Compliance, Graham Lee, explicitly stating that "RG8 is not licenced but has plants in it," "RG9 is not licenced but we are intending to put plants in it on Monday," and "PA2A-E are not licenced but we have moved the encapsulation equipment into them and will begin running it next week."

630. Critically, in light of Health Canada having just completed an inspection and not finding that Defendants were growing in unlicensed rooms, the email further stated, "[w]e dodged some bullets," and "[Health Canada] did not ask about RG8E/W, which are unlicensed rooms currently full of plants." Defendant Paul was then forwarded this email and responded to it later that same day on November 16, 2018.

631. Further exposing Defendants' knowledge of the illicit growing scheme of CannTrust were internal minutes from weekly production meetings held during the weeks of November 21, 2018 and November 28, 2018, which were attended by CannTrust vice presidents, Graham Lee, as well as others. According to the minutes from these meetings, CannTrust executives discussed growing in the unlicensed rooms. Notably, the minutes also stated that

Graham Lee spoke to Defendant Aceto about the unlicensed room and was instructed to "continue as planned."

632. In addition to weekly production meetings, the unlicensed rooms were also discussed in Quality Control Meetings. For example, CW1 recalled that at the Quality Control meetings, which were held weekly in Niagara, and attended by Epp, Scott Rolph, Emily Tarrant, Emily Mclinchey, and others, issues at the Niagara Facility were discussed. Specifically, CW1 explained that at these meetings, they discussed the Niagara Facility "not being up to par," documents not being filled out properly, cleanliness issues along with other quality issues. CW1 further explained that they openly discussed the unlicensed grow rooms, RG8-12, and referred to them by their numbers.

633. Indeed, CW1 recalled that they openly discussed making sure those rooms were clean before the plants were put in but CW1 explained that she refused to partake in documenting the related cleaning logs because the rooms were unlicensed. According to CW1, because she "pushed back" by saying that it was "above her pay grade," those logs were handled by someone else. CW1 recalled that Rolph and Mclinchey also pushed back on the unlicensed rooms.

634. Notably, CW1 explained that Tarrant took the notes for the minutes at those Quality Control Meetings and that all documents and minutes "went to corporate" in Vaughan. CW1 stated that the minutes sent to corporate reflected discussions of RG8-RG12, and CW1 confirmed that those discussions that were reflected in the minutes included references to the unlicensed rooms.

635. Former CannTrust employees corroborated that Defendant Aceto directed employees to grow in unlicensed rooms and conceal the growing from Health Canada. For

example, CW1 explained that Defendant Aceto knew everything that was occurring at the Niagara Facility because of the way the hierarchy of CannTrust worked, Defendant Aceto and the executives in Vaughan "dictated" what they did at the facility level and corporate "mandated all aspects of the business" including growth, and how they set-up the greenhouses.

636. Likewise, former CannTrust employees recounted that other CannTrust executives also had knowledge of the Company's unlicensed growing. For instance, CW2 recalled that both Andrea Kirk, VP of Quality Operations, and Lee knew about the unlicensed growing and that Lee had told the executives and the board that if Health Canada found out about the rooms, "there was going to be a lot of issues." Yet, while CW2 stated that Kirk and Lee knew about the unlicensed rooms in the Niagara Facility, the decision to go ahead with growing in those rooms was made by Defendants Aceto and Paul. CW2 was privy to this information because she sat in the same office as Lee, and Kirk would frequently come to their shared office to have closed door meetings.

637. Additionally, with respect to storing the excess illicitly grown cannabis in the unlicensed storage rooms in the Vaughan Facility, CW2 recalled that the decision to store in the warehouse was made by Kirk with Defendant Aceto's and the Board's blessing at an Upper Management meeting. CW2 further explained that Kirk instructed her to audit the warehouse. Yet, after CW2 audited the warehouse and wrote up her findings and detailed the problems, she was told that the warehouse was going to be used anyway.

638. Defendants nonetheless touted in their 2018 Form 40-F that the Company "believes that it is complying in all material respects with the terms of such licences and permits," and warned of what could happen if the Company did not comply with all regulations, while at the time those statements were made, CannTrust was already not in compliance.

Similarly, throughout the Class Period, Defendants discussed the Phase 2 expansion and either waiting for Health Canada to approve the final rooms or parading the fact that they eventually received approval for the final rooms.

639. But importantly, Defendants failed to disclose to investors that the Company had been growing in those rooms long before ever receiving the proper licenses to do so. These Class Period statements, and numerous others like them, indicated that Defendants either knew about the growing of cannabis in the five unlicensed rooms from October 2018 through March 2019 and failed to disclose this conduct, or were reckless in failing to ascertain this information before making these statements to investors.

B. The Growing and Storing of Cannabis Was a Core Operation of CannTrust's Business

640. The Individual Defendants' knowledge that CannTrust was growing and storing in unlicensed rooms from October 2018 through March 2019 and storing excess cannabis in unlicensed rooms at their Vaughan Facility since June 2018 can be inferred because these facts were critical to CannTrust's core operations.

641. Indeed, the Niagara and Vaughan Facilities were the only two facilities CannTrust operated in Canada during the Class Period. Notably, during the Class Period, CannTrust grew 100% of its cannabis at the Niagara Facility, which consisted of a total of twelve growing rooms, and then processed that cannabis in the Vaughan Facility.

642. Thus, the continued operation of the Niagara and Vaughan facilities was crucial to CannTrust's ongoing operation. Indeed, if either of the facilities (or rooms within the facilities) had their licenses revoked, the Company would no longer be able to continue producing and selling its only product and the Company's cannabis operations would grind to a halt. Accordingly, complying with all Health Canada regulations was important to CannTrust's

ongoing ability to sell medicinal and recreational cannabis. Defendants conceded as much within their 2018 Form 40-F when they stated that "[f]ailure to comply with regulations may result in additional costs for corrective measures, penalties or restrictions on the Company's operations" and "[t]he delay or denial of such approvals may have a material adverse impact on the business of the Company and may result in the Company not meeting anticipated or future demand when it arises."

643. In fact, CannTrust's Director of Quality and Compliance, Graham Lee, called attention to the risks the Company's illicit growing strategy created "several points of exposure" to CannTrust's business. Specifically, on November 16, 2018, Lee emailed Defendants Aceto, Abramowitz and Paul, and another high-level employee, explicitly informing them that "[t]here are several points of exposure in our business we need to consider," and continuing to outline such risks, referring to the growing of cannabis in unlicensed rooms in the Niagara Facility: "1) RG8 is not licenced but has plants in it; 2) RG9 is not licenced but we are intending to put plants in it on Monday; 3) PA2A-E are not licenced but we have moved the encapsulation equipment into them and will begin running it next week."

644. The Individual Defendants also had a direct role in communicating with Health Canada about the Company's facilities, and therefore either had knowledge about the facilities' operations or were reckless in not knowing. For instance, as CW1 recalled, Defendant Aceto "was strongly involved" with communicating with Health Canada, along with Cam Fletcher, and Graham Lee, and CW1's boss, Jared Epp. Furthermore, according to CW4, CannTrust executives visited the Niagara Facility "pretty often" from the Company's headquarters in Vaughan.

645. Moreover, the Niagara and Vaughan Facilities and their expansion plans were discussed by Defendants during virtually every earnings call and mentioned in frequent press releases. Defendants consistently talked about the pending license approvals on the remaining grow rooms in the Phase 2 redevelopment (*i.e.*, the five unlicensed rooms at issue), and once approved by Health Canada in April 2019, Defendants consistently touted that they were fully licensed.

646. Therefore, the knowledge that CannTrust was growing in five unlicensed rooms from October 2018 through March 2019 can be imputed to the Individual Defendants.

C. Defendants Were Motivated to Grow In Unlicensed Rooms to Profit from Surging Demand and Establish Itself as a Cannabis Market Leader

647. The Individual Defendants were highly motivated to grow and store in unlicensed rooms during the Class Period and conceal that fact from Health Canada and investors in order to take advantage of unprecedented and skyrocketing demand. In the wake of Canada legalizing the use of adult recreational cannabis on October 17, 2018, Canada experienced a nationwide supply shortage of cannabis, which extended to CannTrust. This presented a once in a lifetime opportunity for CannTrust—who already had a head start as a result of their established medicinal cannabis business—to establish itself as one of the market-leading cannabis producers, provided however, that the Company could provide the volume of cannabis needed to fill the void in demand for cannabis that existed. In order to accomplish this goal, CannTrust started growing thousands of cannabis plants in unlicensed rooms and concealed this fact from Health Canada and investors.

648. Specifically, the Niagara Facility consisted of twelve growing rooms, five of which were not licensed for growing cannabis until April 2019. But Defendants needed to increase capacity earlier than April 2019 when the rooms became licensed. As such, in October

2018, Defendants seized the illegal opportunity and began growing cannabis in the five remaining rooms in the Niagara Facility despite not yet having the proper licenses.

649. Then, once Defendants began growing cannabis in the five unlicensed rooms, Defendants were further motivated to conceal that fact from the public. As mentioned above, if Health Canada learned that Defendants were growing in unlicensed rooms in violation of applicable regulations, CannTrust faced severe risks of being restricted from selling cannabis grown in those rooms, or worse, a suspension of the Company's licenses altogether. Thus, Defendants were motivated to hide this fact from Health Canada by staging photographs sent to Health Canada as part of Defendants' applications, as well as omit this crucial fact from their publicly disseminated statements to investors and analysts.

D. Defendants Paul, Litwin, and Sanders Made Millions in Profits Offloading CannTrust Stock Through Insider Sales Transactions With Knowledge of the Illicit Growing Scheme and the Huge Regulatory Risks it Posed

650. During the Class Period, Defendants Paul, Litwin, and Sanders made huge profits off the inflated share price of CannTrust securities. For example, according to Defendant Paul's Class Period trading records, he sold off more than three million shares of CannTrust stock during the Class Period, while being aware of the illicit growing and storing scheme, resulting in a personal profit to him of over $16.5 million.

651. Critically during the Class Period, as discussed in Section V.B, *supra*, Defendant Paul knew that CannTrust was violating Heath Canada regulations and that were the regulator to uncover the Company's unlicensed growing scheme and suspend or withdraw CannTrust's licenses, it would materially impact the Company's ability to do business and cause its share price to plummet. Thus, in anticipation of the public eventually learning the truth about Defendants' scheme, Defendant Paul took advantage of the artificially inflated stock price and sold before the illicit growing and storing scheme was disclosed to the public.

652. Similarly, Defendant Litwin, along with Defendant Paul, sought to and did profit from the artificially inflated stock price during the Class Period. In particular, Defendants Litwin and Paul controlled a holding company, Cannamed Financial Corp., which reaped massive proceeds from trading CannTrust stock at highly suspicious times during the Class Period. Defendant Paul owned 50% of Cannamed through The Paul Family Trust, in which included Defendant Paul as the sole trustee and with his two children as beneficiaries. The remaining shares were owned by a mix of entities owned by Defendant Litwin, Defendant Litwin's father, Fred Litwin, and Defendant Litwin's sister, Risa Litwin.[27]

653. Trading records indicate that on the same day that Defendant Paul received an email outlining various risks associated with growing and storing cannabis in unlicensed rooms, Cannamed, which was controlled by Defendants Paul and Litwin, sold CannTrust stock. Specifically, on November 16, 2018, Defendant Paul received, and responded to, an email that also included Graham Lee and Defendant Aceto that explicitly stated that CannTrust was growing in unlicensed rooms and further laid out other concealed risks, such as storing cannabis in unlicensed rooms. That same day, Cannamed sold 110,000 shares and raked in approximately $1 million. Moreover, subsequent to its November 16, 2018 trades, Cannamed sold additional CannTrust shares from November 20, 2018 through December 12, 2018, realizing more than C$5 million in additional proceeds.

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[27] Specifically, other than Defendant Paul's 50% share of Cannamed, the remaining shareholders of Cannamed included: York Capital Funding Inc. – 21%; Forum Financial Corporation – 15%; Mar-Risa Holdings Inc. – 10.25%; and, Sutton Management Limited – 3.75%. York Capital Funding Inc. is beneficially owned 78.3% by Mar-Risa Holdings Inc., 9.8% by Mark Litwin and 9.8% by Risa Litwin. Mar- Risa Holdings Inc. is beneficially owned by the Litwin (1996) Trust, whose beneficiaries are Mark Litwin and Risa Litwin. Sutton Management Limited is owned 50% each by Mark Litwin and Risa Litwin.

654. Defendant Litwin also traded CannTrust stock through means other than Cannamed. For instance, through York Capital Funding Inc. and Mar-Risa Holdings Inc., Defendant Litwin sold an additional 1,964,410 shares of CannTrust during the Class Period for a total of at least $14.5 million.

655. Moreover, Defendants Paul and Litwin, through Cannamed, sold approximately $33 million worth of CannTrust shares in connection with the Offering—again reaping massive proceeds prior to the public learning the truth about Defendants' unlicensed growing and storing of cannabis throughout the Class Period.

656. Likewise, Defendant Sanders, through Cajun Capital Corporation, sold 250,000 shares of CannTrust stock during the Class Period for total proceeds of more than $1.3 million.

657. The suspicious timing and magnitude of Defendants Paul's, Litwin's, and Sanders' Class Period trades therefore support a strong inference of scienter.

E. The Timing and Circumstances of Defendants Aceto's and Paul's Departures Support a Strong Inference of Scienter

658. The timing and circumstances of the forced departures of Defendants Aceto and Paul, key executives during the Class Period, also support a strong inference of scienter. Moreover, that these forced departures came from the recommendation of the special committee investigating the Company's wrongdoing and are temporally connected to disclosures of the Company's fraud further support that strong inference.

659. After Health Canada issued its compliance report to CannTrust for growing in five unlicensed rooms and for misleading Health Canada inspectors, CannTrust created a special committee "comprised of independent members of the Board of Directors" to "investigate th[e] matter in its entirety."

660. Specifically, "the Special Committee was appointed by the Board of Directors to investigate a compliance report from Health Canada notifying the Company that its greenhouse facility in Pelham, Ontario is non-compliant with certain regulations." Moreover, the Special Committee had a "broad mandate to, among other things, investigate the Company's non-compliance with Health Canada regulations and ancillary matters, to make recommendations to the Board of Directors regarding any actions to be taken by CannTrust as a result of the investigation, and to assess any impact on the Company's bio assets, inventory, sales and revenue."

661. The results of the Special Committee's investigation were devastating for Defendants Aceto and Paul, who as CEO and Chairman, respectively, were Company leaders and played a significant role in the actions the Company had taken throughout the Class Period. On July 25, 2019, the Company announced that as a result of the Special Committee's investigation, the Company fired Defendant Aceto and demanded Defendant Paul's resignation.

662. The Company press release issued that day specifically explained that "[t]he investigation into the Company's non-compliance with Health Canada regulations and ancillary matters uncovered new information that has resulted in a determination by the Board to ***terminate with cause*** CannTrust CEO Peter Aceto." The press release further announced that "the Board of Directors demanded the resignation of the Company's Chair Eric Paul and he complied."

663. Additionally, the announcements of Defendant Aceto's firing and Defendant Paul's forced resignation came immediately after CannTrust's stock fell over 22% as a result of the public learning for the first time about internal CannTrust documents that revealed that

Defendants Aceto and Paul and other CannTrust executives not only knew about the unlicensed growing, but directed the Company to continue the unlicensed growing.

664. For example, on July 23, 2019, the Globe and Mail reported that, according to internal CannTrust emails, "[b]oth the chairman and the chief executive officer of CannTrust Holdings Inc. were informed that the [C]ompany was growing cannabis in unlicensed rooms about seven months before Health Canada uncovered the regulatory breach." The article further stated that the internal emails "show chairman Eric Paul and CEO Peter Aceto were made aware that cannabis was being cultivated in rooms at a growing facility in Southern Ontario that had yet to be licensed by the federal regulator, and that Mr. Paul counselled staff on how to respond."

665. Similarly, the next day, on July 24, 2019, BNN Bloomberg published an article that, according to internal Company documents, revealed that Defendant "Aceto told senior company officials to 'continue as planned' and plant cannabis in an unlicensed room in mid-November." These revelations and disclosures caused CannTrust's stock to drop over 22% on July 24, 2019.

666. Then, the very next day, on July 25, 2019, the Company announced that based on the investigation conducted by the Special Committee, Defendant Aceto had been fired and Defendant Paul had been forced to resign.

667. Therefore, the fact that the Special Committee's investigation resulted in Defendant Aceto being fired and Defendant Paul being forced to resign, and the fact that this occurred immediately after the public learned for the first time that both Defendant Aceto and Defendant Paul had knowledge and a direct role in the unlicensed growing and concealment of the same support a strong inference of scienter.

F. Defendants Aceto's, Guyatt's, and Abramowitz's SOX and Form 52-109F2 Certifications Support a Strong Inference of Scienter

668. Finally, accompanying Defendants' 2018 Form 40-F, which contained materially false and misleading statements, Defendants Aceto and Guyatt executed certifications pursuant to the Sarbanes-Oxley Act ("SOX") Section 302 attesting to the Company's disclosure controls, internal controls, and the accuracy and veracity of the statements within the 2018 Form 40-F. The certifications stated that Defendants Aceto and Guyatt were "responsible for establishing and maintaining disclosure controls and procedures" and "[e]valuated the effectiveness of the issuer's disclosure controls and procedures." The SOX Section 302 certifications further stated that Defendants Aceto and Guyatt "evaluat[ed] [] internal control over financial reporting," and that "th[e] report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by th[e] report." Defendants Aceto and Guyatt also executed certifications pursuant to SOX Section 906, which accompanied the 2018 Form 40-F, attesting to the accuracy of the Company's financial reporting.

669. In addition, accompanying the MD&A filed with SEDAR on November 14, 2018, which contained materially false and misleading statements, Defendants Aceto and Abramowitz executed Form 52-109F2 Certifications of Interim Filings, which indicated that they "reviewed the interim financial report and interim MD&A (together, the 'interim filings')," and that "having exercised reasonable diligence, the interim filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the interim filings."

670. The Form 52-109F2 certifications also stated that Defendants Aceto and Abramowitz were "responsible for establishing and maintaining disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR)." Similarly, Defendants Aceto and Guyatt executed Form 52-109F2 Certifications of Interim Filings accompanying the MD&A, Form 6-K, and press release filed with the SEC on May 14, 2019, which contained similar language to the certifications filed with the November 14, 2018 MD&A.

671. By signing these certifications, Defendants Aceto, Guyatt, and Abramowitz certified that the Company's internal controls over financial reporting and disclosure controls and procedures were effective, evidencing their access (and purported review of) CannTrust's financial data as well as the materially false and misleading statements set forth above.

672. Contrary to Defendants Aceto's, Guyatt's, and Abramowitz's representations, throughout the Class Period, CannTrust suffered from severe internal control deficiencies and deficient disclosure controls and procedures, as evidenced by the fact that, as alleged herein, Defendants' growing of cannabis in five unlicensed rooms and scheme to prevent Health Canada from learning of that were accomplished with the approval and at the direction of CannTrust management, and Defendants' scheme rendered Defendants' public statements materially false and misleading.

673. Had Defendants Aceto, Guyatt, and Abramowitz actually conducted the assessments and evaluations required, they would have discovered CannTrust's unlicensed growing and the misrepresentations and omissions contained within their public statements. Accordingly, Defendants Aceto, Guyatt, and Abramowitz, knew, or at the very least, were severely reckless in not knowing of the facts which rendered their public statements materially false and misleading.

IX. CONTROL PERSON ALLEGATIONS

674. Defendants Aceto, Guyatt, Abramowitz, Rogers, and Paul, by virtue of their high-level positions at CannTrust, directly participated in the management of the Company, were directly involved in the day-to-day operations of the Company at the highest levels, and were privy to confidential proprietary information about the Company, its business, operations, internal controls, growth, financial statements, and financial condition as alleged herein. As set forth below, the materially misstated information conveyed to the public was the result of the collective actions of these individuals.

675. Defendants Aceto, Guyatt, Abramowitz, and Rogers, as senior executive officers of CannTrust, and Defendant Paul as Chairman of the Board of Directors of CannTrust—a publicly held company whose common stock was traded on the NYSE, the TSX, and prior to February 25, 2019, the OTC Market, and governed by the federal securities laws—each had a duty to disseminate prompt, accurate, and truthful information with respect to the Company's business, operations, internal controls, growth, financial statements, and financial condition, and to correct any previously issued statements that had become materially misleading or untrue, so that the market prices of CannTrust's publicly-traded common stock would be based on accurate information. Defendants Aceto, Guyatt, Abramowitz, Rogers, and Paul each violated these requirements and obligations during the Class Period.

676. Defendants Aceto, Guyatt, Abramowitz, and Rogers, because of their positions of control and authority as senior executive officers of CannTrust, and Defendant Paul, as Chairman of the Board of Directors of CannTrust, were able to and did control the content of CannTrust's SEC and SEDAR filings, press releases, and other public statements issued by or on behalf of CannTrust during the Class Period. Each would have been provided with copies of the statements made in the SEC and SEDAR filings at issue in this action before they were issued to

the public and would have had the ability to prevent their issuance or cause them to be corrected. Accordingly, Defendants Aceto, Guyatt, Abramowitz, Rogers, and Paul are responsible for the accuracy of the public statements alleged herein.

677. Defendants Aceto, Guyatt, Abramowitz, Rogers, and Paul are liable as participants in a fraudulent scheme and course of conduct that operated as a fraud or deceit on purchasers of CannTrust common stock by disseminating materially false and misleading information, and concealing and omitting material adverse facts. The scheme deceived the investing public regarding CannTrust's business, operations, and management and execution of customer contracts, and the intrinsic value of CannTrust's common stock and options, and caused Plaintiffs and members of the Class to purchase CannTrust common stock and options at artificially inflated prices.

X. CLASS ACTION ALLEGATIONS

678. Plaintiffs bring this action as a class action pursuant to Rule 23 of the Federal Rules of Civil Procedure on behalf of all persons and entities who, during the period from June 26, 2018 through September 17, 2019, inclusive (the "Class Period"), purchased the publicly traded common stock of CannTrust Holdings Inc. ("CannTrust" or the "Company") on the New York Stock Exchange or on any U.S.-based trading platform during the Class Period and were damaged thereby. Excluded from the Class are: (i) Defendants; (ii) members of the immediate family of any Defendant who is an individual; (iii) any person who was an officer or director of CannTrust during the Class Period; (iv) any firm, trust, corporation, or other entity in which any Defendant (or members of the immediate family of any Defendant) has or had a controlling interest; (v) CannTrust's employee retirement and benefit plan(s) and their participants or beneficiaries, to the extent they made purchases through such plan(s); and (vi) the legal representatives, affiliates, heirs, successors-in-interest, or assigns of any such excluded person.

679. The members of the Class are so numerous that joinder of all members is impracticable. According to its quarterly and annual reports filed with the SEC, during the Class Period, CannTrust had approximately 136,563,951 shares of common stock outstanding and was actively traded on the NYSE under the ticker symbol "CTST," and, prior to February 25, 2019, on the OTC Market under the ticker symbol "CNTTF." While the exact number of Class members is unknown to Plaintiffs at this time, and such number can only be ascertained through appropriate discovery, Plaintiffs believe that the proposed Class has thousands of members and is widely dispersed geographically. Record owners and other members of the Class may be identified from records maintained by CannTrust and/or its transfer agent and may be notified of the pendency of this action by mail, using a form of notice similar to that customarily used in securities class actions.

680. Plaintiffs' claims are typical of the claims of the members of the Class. All members of the Class were similarly affected by Defendants' allegedly wrongful conduct in violation of the Exchange Act as complained of herein.

681. Plaintiffs will fairly and adequately protect the interests of the members of the Class. Plaintiffs have retained counsel competent and experienced in class and securities litigation.

682. Common questions of law and fact exist as to all members of the Class, and predominate over questions solely affecting individual members of the Class. The questions of law and fact common to the Class include, but are not necessarily limited to, the following:

(g) Whether Defendants violated the federal securities laws by their acts and omissions alleged herein;

(h) Whether the statements Defendants made to the investing public during the Class Period contained material misrepresentations or omitted to state material information;

(i) Whether, and to what extent, the market price of CannTrust common stock and exchange-traded options on such common stock was artificially inflated during the Class Period because of the material misstatements alleged herein;

(j) Whether Defendants acted with the requisite level of scienter;

(k) Whether the Individual Defendants were controlling persons of CannTrust; and

(l) Whether the members of the Class have sustained damages as a result of the conduct complained of herein, and if so, the proper measure of such damages.

683. A class action is superior to all other available methods for the fair and efficient adjudication of this controversy because, among other things, joinder of all members of the Class is impracticable. Furthermore, as the damages suffered by individual Class members may be relatively small, the expense and burden of individual litigation make it impossible for members of the Class to individually redress the wrongs done to them. There will be no difficulty in the management of this action as a class action.

XI. APPLICABILITY OF PRESUMPTION OF RELIANCE: FRAUD-ON-THE-MARKET DOCTRINE

684. To the extent that Plaintiffs allege that Defendants made affirmative misstatements, Plaintiffs will rely upon the presumption of reliance established by the fraud-on-the-market doctrine in that, among other things:

(a) Defendants made public misrepresentations or failed to disclose material facts during the Class Period;

(b) the omissions and misrepresentations were material;

(c) the Company's securities traded in an efficient market;

(d) the misrepresentations alleged would tend to induce a reasonable investor to misjudge the value of the Company's securities;

(e) Plaintiffs and other members of the Class purchased CannTrust's securities between the time Defendants misrepresented or failed to disclose material facts and the time the true facts were disclosed, without knowledge of the misrepresented or omitted facts;

(f) CannTrust stock met the requirements for listing and were listed and actively traded on the NYSE, TSX, and prior to February 25, 2019, the OTC Market, which are highly efficient and automated markets;

(g) as a regulated issuer, CannTrust filed periodic public reports with SEDAR, the SEC, the NYSE, and the TSX;

(h) CannTrust regularly communicated with public investors via established market communication mechanisms, including regular dissemination of press releases on the national circuits of major newswire services and other wide-ranging public disclosures, such as communications with the financial press and other similar reporting services; and

(i) CannTrust was followed by numerous securities analysts employed by major brokerage firms including, but not limited to, Bank of America Global Research, Jefferies, ROTH Capital, and Canaccord, all of which wrote reports that were distributed to the sales force and certain customers of their respective brokerage firm(s) and that were publicly available and entered the public marketplace.

685. As a result of the foregoing, the market for CannTrust's securities promptly digested current information regarding CannTrust from publicly available sources and reflected such information in CannTrust's securities price(s). Under these circumstances, all persons and

entities who purchased or otherwise acquired CannTrust's securities during the Class Period suffered similar injuries through their purchase of CannTrust at artificially inflated prices and thus, the presumption of reliance applies.

686. The material misrepresentations and omissions alleged herein would tend to induce a reasonable investor to misjudge the value of CannTrust's common stock.

687. Without knowledge of the misrepresented or omitted material facts alleged herein, Plaintiffs and other members of the Class purchased shares of CannTrust's common stock and exchange-traded options on such common stock between the time Defendants misrepresented or failed to disclose material facts and the time the true facts were disclosed.

688. To the extent that the Defendants concealed or improperly failed to disclose material facts with respect to CannTrust's business, Plaintiffs are entitled to a presumption of reliance in accordance with *Affiliated Ute Citizens of Utah v. United States*, 406 U.S. 128, 153 (1972).

XII. NO SAFE HARBOR

689. The statutory safe harbor provided by the PSLRA for forward-looking statements under certain circumstances does not apply to any of the materially false and misleading statements alleged in this pleading. First, many of the statements alleged to be false and misleading relate to historical facts or existing conditions. Second, to the extent any of the allegedly false and misleading statements may be characterized as forward-looking, they were not adequately identified as "forward-looking" statements when made. Third, any purported forward-looking statements were not accompanied by meaningful cautionary language because the risks that Defendants warned of had already come to pass.

690. To the extent any statements alleged to be false and misleading may be construed to discuss future intent, they are mixed statements of present or historical facts and future intent

and are not entitled to PSLRA safe-harbor protection—at least with respect to the part of the statement that refers to the present.

691. In addition, the PSLRA imposes an additional burden on oral forward-looking statements, requiring Defendants to include a cautionary statement that the particular oral statement is a forward-looking statement, and that "actual results might differ materially from those projected in the forward-looking statement." 15 U.S.C. § 78u-5(c)(2)(A)(i)-(ii). Defendants failed to both identify certain oral statements as forward-looking and include the cautionary language required by the PSLRA.

692. Furthermore, Defendants did not accompany their statements with meaningful cautionary language identifying important factors that could cause actual results to differ materially from any results projected. To the extent Defendants included any cautionary language, that language was not meaningful because any potential risks identified by Defendants had already passed or manifested. As detailed herein, Defendants failed to disclose to the market that CannTrust was growing cannabis in five unlicensed rooms from October 2018 through March 2019.

693. In the alternative, to the extent that the statutory safe harbor is determined to apply to any forward-looking statements pleaded herein, Defendants are liable for those false forward-looking statements because at the time each of those forward-looking statements were made, the speaker had actual knowledge that the forward-looking statement was materially false or misleading, or the forward-looking statement was authorized or approved by an executive officer of CannTrust who knew that the statement was false when made.

XIII. CAUSES OF ACTION

COUNT I

Violation of Section 10(b) of the Exchange Act and Rule 10b-5 Against CannTrust, KPMG, the Individual Defendants and the Director Defendants

694. Plaintiffs repeat and reallege the above paragraphs as though fully set forth herein.

695. This Count is asserted pursuant to Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder by the SEC against CannTrust, KPMG, the Individual Defendants and the Director Defendants.

696. As alleged herein, throughout the Class Period, CannTrust, KPMG, the Individual Defendants and the Director Defendants, individually and in concert, directly and indirectly, by the use of the means or instrumentalities of interstate commerce, the mails and/or the facilities of national securities exchanges, made untrue statements of material fact and/or omitted to state material facts necessary to make their statements not misleading and carried out a plan, scheme and course of conduct, in violation of Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder. CannTrust, KPMG, the Individual Defendants and the Director Defendants intended to and did, as alleged herein, (i) deceive the investing public, including Plaintiffs and members of the Class; (ii) artificially inflate and maintain the prices of CannTrust common stock; and (iii) cause Plaintiffs and members of the Class to purchase CannTrust common stock and exchange-traded options on such common stock at artificially inflated prices.

697. The Individual Defendants, Director Defendants and KPMG were individually and collectively responsible for making the false and misleading statements and omissions alleged herein and having engaged in a plan, scheme, and course of conduct designed to deceive Plaintiffs and members of the Class, by virtue of having made public statements and prepared,

approved, signed, and/or disseminated documents that contained untrue statements of material fact and/or omitted facts necessary to make the statements therein not misleading.

698. KPMG issued a clean Audit Report which contained false and misleading statements and financial figures and in doing so aided CannTrust in perpetrating its fraud on investors. KPMG's practices were so deficient that the audit amounted to no audit at all, or an egregious refusal to see the obvious.

699. As set forth above, CannTrust, KPMG, the Individual Defendants and the Director Defendants, made their false and misleading statements and omissions and engaged in the fraudulent activity described herein knowingly and intentionally, or in such a deliberately reckless manner as to constitute willful deceit and fraud upon Plaintiffs and the other members of the Class who purchased CannTrust common stock and exchange traded options on such common stock during the Class Period.

700. In ignorance of the false and misleading nature of Defendants' statements and omissions, and relying directly or indirectly on those statements or upon the integrity of the market price for CannTrust common stock and exchange traded options on such common stock, Plaintiffs and other members of the Class purchased CannTrust common stock and options at artificially inflated prices during the Class Period. But for the fraud, Plaintiffs and members of the Class would not have purchased CannTrust common stock and options at such artificially inflated prices. As set forth herein, when the true facts were subsequently disclosed, the price of CannTrust common stock declined precipitously and Plaintiffs and members of the Class were damaged and harmed as a direct and proximate result of their purchases of CannTrust common stock and options at artificially inflated prices and the subsequent decline in the price of that stock when the truth was disclosed.

701. By virtue of the foregoing, CannTrust, KPMG, the Individual Defendants and the Director Defendants, are liable to Plaintiffs and members of the Class for violations of Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder.

COUNT II

Violation of Section 20(a) of the Exchange Act Against Defendants Aceto, Guyatt, Abramowitz, Rogers, and Paul

702. Plaintiffs repeat and reallege the above paragraphs as though fully set forth herein.

703. This Count is asserted pursuant to Section 20(a) of the Exchange Act against Defendants Aceto, Guyatt, Abramowitz, Rogers, and Paul.

704. Defendants Aceto, Guyatt, Abramowitz, Rogers, and Paul had control over CannTrust and made the materially false and misleading statements and omissions on behalf of CannTrust within the meaning of Section 20(a) of the Exchange Act as alleged herein. By virtue of their executive leadership positions, positions as directors of CannTrust, and share ownership, as alleged above, Defendants Aceto, Guyatt, Abramowitz, Rogers, and Paul had the power to influence and control and did, directly or indirectly, influence and control the decision making of the Company, including the content and dissemination of the various statements which Plaintiffs contend, were false and misleading. Defendants Aceto, Guyatt, Abramowitz, Rogers, and Paul were provided with or had unlimited access to the Company's internal reports, press releases, public filings, and other statements alleged by Plaintiffs to be misleading prior to or shortly after these statements were issued, and had the ability to prevent the issuance of the statements or cause them to be corrected.

705. In particular, Defendants Aceto, Guyatt, Abramowitz, Rogers, and Paul had direct involvement in and responsibility over the day-to-day operations of the Company and, therefore,

are presumed to have had the power to control or influence the particular transactions giving rise to the securities violations as alleged herein.

706. By reason of such wrongful conduct, Defendants Aceto, Guyatt, Abramowitz, Rogers, and Paul are liable pursuant to Section 20(a) of the Exchange Act. As a direct and proximate result of the Defendants Aceto's, Guyatt's, Abramowitz's, Rogers', and Paul's wrongful conduct, Plaintiffs and the other members of the Class suffered damages in connection with their purchases of the Company's shares during the Class Period.

PRAYER FOR RELIEF

WHEREFORE, Plaintiffs prays for relief and judgment as follows:

A. Determining that this action is a proper class action, and certifying Plaintiffs as the Exchange Act Class representatives under Rule 23 of the Federal Rules of Civil Procedure and Lead Plaintiffs' counsel as Lead Counsel for the Exchange Act Class;

B. Awarding compensatory damages in favor of Plaintiffs and the other Exchange Act Class members against all Defendants, jointly and severally, for all damages sustained as a result of Defendants' wrongdoing, in an amount to be determined at trial, including pre-judgment and post-judgment interest, as allowed by law;

C. Awarding Plaintiffs and the Exchange Act Class their reasonable costs and expenses incurred in this action, including counsel fees and expert fees; and

D. Awarding such equitable/injunctive or other relief as deemed appropriate by the Court.

XIV. VIOLATIONS OF SECTIONS 11, 12(a)(2) AND 15 OF THE SECURITIES ACT

707. The claims set forth below in Counts III, IV and V allege violations of Sections 11, 12(a)(2) and 15 of the Securities Act. Lead Plaintiffs bring these claims individually and on behalf of the ("Securities Act Class"), consisting of all persons and entities who purchased or

otherwise acquired CannTrust common stock pursuant and traceable to the Offering Materials issued in connection with the secondary public offering, completed on or about May 6, 2019 (the "Offering").[28] The Securities Act Claims solely allege strict liability and negligence causes of action, and do not sound in fraud. Accordingly, for the purpose of these Securities Act Claims, Lead Plaintiffs expressly exclude and disclaim any allegation that could be construed as alleging fraud, intentional misconduct, or deliberately reckless misconduct. Lead Plaintiffs therefore expressly do not incorporate by reference any allegations contained in Sections I-XIII, *supra*.

A. Factual Background

708. Founded in 2013 by a group of pharmacists (including Defendant Paul), CannTrust was a federally regulated, licensed producer and distributor of medical cannabis in Canada, the United States and other international markets. On June 12, 2014, CannTrust received its initial license from Health Canada to produce and cultivate medicinal cannabis, which the Company began doing at its facility and headquarters located in Vaughan, Ontario, Canada (the "Vaughan Facility"). Shortly thereafter, on February 9, 2015, the Company received its license to sell medicinal cannabis from Health Canada.

709. On April 13, 2017, the prospect of legal recreational cannabis in Canada became a reality when the Canadian government issued an official press release introducing legislation to legalize and regulate the use of recreational cannabis in Canada. In order to prepare for the

[28] The following are excluded from the Securities Act Class: (i) Defendants; (ii) members of the immediate family of any Defendant who is an individual; (iii) any person who was an officer or director of CannTrust during the Class Period; (iv) any firm, trust, corporation, or other entity in which any Defendant (or members of the immediate family of any Defendant) has or had a controlling interest; (v) CannTrust's employee retirement and benefit plan(s) and their participants or beneficiaries, to the extent they made purchases through such plan(s); and (vi) the legal representatives, affiliates, heirs, successors-in-interest, or assigns of any such excluded person.

increased demand and dramatically expand its growing capacity from legalization, in March 2017, CannTrust acquired real estate assets and related equipment of a 450,000-square-foot greenhouse facility in the Town of Pelham, Ontario within the regional municipality of Niagara, Ontario (the "Niagara Facility"). On October 17, 2018, the sale of cannabis for adult recreational use in Canada was legalized, the largest country to do so at the time.

710. Along with the legalization came strict regulations imposed by the Canadian government, which had significant implications for CannTrust's plans to seize on surging demand and become a cannabis market leader. Indeed, during the Class Period, CannTrust and other cannabis companies all operated under a strictly regulated environment governed by various laws, regulations, and standards primarily administered by Health Canada—the Canadian equivalent of the FDA.

711. The regulatory framework that gave Health Canada its authority over CannTrust was the federal *Cannabis Act* and the regulations promulgated thereunder (the "Cannabis Act"). The Cannabis Act went into effect on October 17, 2018—the same day as the legalization of Cannabis in Canada.

712. The Cannabis Act set forth a thorough regulatory framework and licensing scheme for Cannabis manufacturing companies, such as CannTrust, for each phase or activity in the Cannabis industry including production, importation, exportation, testing, packaging, labelling, sending, delivery, transportation, sale, possession, and disposal of cannabis for both recreational and medical purposes. Accordingly, CannTrust was required to obtain activity-specific licenses for each phase of the Company's cannabis operations (such as cultivation, testing, processing, and sale of cannabis).

713. Critically, CannTrust was also required to obtain **location-specific** licenses for each of the facilities and rooms in which the distinct phase or activity took place—each of which was required to comply with its own specific regulations depending on the activity for which that the room was designated (and licensed). Under these strict regulations, CannTrust was required to obtain specific licenses for any new room or facilities—such as the Niagara Facility and each room therein—depending on what that room was being used for (*i.e.*, growing, storing, testing, packaging, *etc.*).

714. Indeed, for each room within each facility, Health Canada required, *inter alia*: (i) verification of the physical security requirements for the site; (ii) confirmation that the activities of the licensed producer correspond to those indicated on the licensed producer's license; (iii) identification of the legal source from which the licensed producer obtains their starting materials (*i.e.*, seeds and plants); and (iv) confirmation that adequate standard operating procedures (SOPs) have been established.

715. CannTrust's plan was to operate the Niagara Facility as the Company's sole growing facility and convert the formerly all-purpose Vaughan Facility to serve as the Company's processing facility (*i.e.*, growing no longer occurred there). The Company thus grew all its cannabis in its Niagara Facility and then shipped the harvested product to its Vaughan Facility for processing, extraction, manufacturing, packaging, and order fulfillment.

716. However, to begin growing cannabis in the newly acquired Niagara Facility, the Company had to bring it into compliance with applicable regulations. Since CannTrust wanted to begin production in the new facility as soon as possible, and converting the entire 450,000-square-foot facility all at once would have taken a long time, the Company split the redevelopment of the facility into three phases to allow the Company to begin producing

cannabis in part of the facility while the Company worked to convert the rest of the facility into compliance with Health Canada regulations.

717. Specifically, Phase 1 of the development of the Niagara Facility involved converting 250,000 square feet of the 450,000-square-foot facility into compliance with Health Canada regulations.[29] Phase 2—the phase most germane to this action—involved bringing the other 200,000 square feet into compliance with applicable regulations. When completed with Phases 1 and 2 the Niagara Facility would consist of twelve grow rooms with the growing capacity to produce an estimated 50,000 kilograms of cannabis per year.[30] However, as discussed above, in order to reach that growing capacity, CannTrust had to receive permits and licenses from Health Canada for each of the rooms in the Niagara Facility.

718. As of June 2018, five of the twelve growing rooms in the Niagara Facility—those rooms that were part of Phase 2 of the expansion—were not yet fully licensed by Health Canada. Accordingly, CannTrust was not permitted to grow cannabis in those five rooms for any purpose. Those licenses were not issued by Health Canada until April 2019.

719. Nonetheless, CannTrust started growing cannabis in unlicensed rooms at the Niagara Facility. Specifically, from October 2018 through March 2019, Defendants grew cannabis in five unlicensed rooms within their Niagara Facility—in direct violation of Health Canada regulations.

[29] CannTrust received its Health Canada cultivation license for Phase 1 in October 2017 and its sales license in February 2018—allowing the Company to legally grow and sell cannabis, but only for medicinal purposes until the use of recreational cannabis was legalized.

[30] In January 2019, the Company received the necessary permits from Health Canada to develop an additional 390,000-square-foot expansion of the facility known as Phase 3. However, Phase 3 was never completed as a result of Health Canada's suspension of CannTrust's cannabis production and selling licenses for growing and storing cannabis in unlicensed rooms in direct violation of the Cannabis Act.

720. Numerous CannTrust employees observed the growing of cannabis plants in unlicensed rooms. For example, CW1 confirmed that, during the Class Period, she knew about the plants in the unlicensed rooms. According to CW4 the unlicensed growing started in October 2018.

721. As a result of increased cannabis production caused by growing in the unlicensed rooms, Defendants began to ship more and more cannabis to the Company's Vaughan Facility for storage. However, like the Niagara Facility, not all of the storage rooms in Defendants' Vaughan Facility were licensed. Defendants stored the excess unlicensed grown cannabis inside unlicensed storage rooms in the Vaughan Facility.

722. Former CannTrust employees corroborated that the overflow cannabis that was grown in the unlicensed Niagara Facility rooms were later stored in the unlicensed Vaughan Facility rooms. CW3 explained that CannTrust transferred the product in bulk from its Niagara Facility to its Vaughan Facility, and that there was so much product being sent from the Niagara Facility that CannTrust did not have the capacity in the licensed rooms so CannTrust used the unlicensed rooms to store the excess product. CW3 further explained that she knew this because she worked in these rooms to do her quality checks and observed the excess product being stored there.

723. CannTrust employees hung fake walls in front of the thousands of plants in the unlicensed rooms. As a result, when photographs were taken of the rooms, they appeared empty. Ultimately, CannTrust, starting in October 2018, planted approximately 3,000 plants in unlicensed room RG9, enough to produce 3,000 kilograms (or 6,600 pounds) of cannabis.

724. In addition to growing and storing cannabis in unlicensed rooms, as far back as June 2018, CannTrust was growing cannabis from black-market cannabis seeds and then

relabeling the cannabis as a different strain approved by Health Canada and selling it. In doing so, CannTrust was able to significantly bolster its production capacity because the black market seeds were not part of the regulated (and then highly in-demand) purchase and sale of seeds from cannabis strains that were approved by Health Canada. Therefore, CannTrust could use the cannabis grown from the black market seeds to supplement its production capacity from legitimate health Canada approved seeds.

725. Indeed, according to a September 6, 2019 BNN Bloomberg—which disclosed information from four sources and internal CannTrust documents—senior CannTrust staff working at the Niagara Facility brought cannabis seeds from the black market in late 2018 into production rooms and that some of that illicitly-grown marijuana was sold in the legal market. The article goes on to note:

> Cannabis plants from at least two strains that originated from the black market-sourced seeds entered production rooms where they were fully grown to flower, packaged and sold into the recreational market, according to the sources. In total, more than one thousand cannabis plants that originated from the illicit seeds were grown at CannTrust's cultivation facility, the documents show.

726. According to three of the sources cited in the article, the use of black-market seeds ramped up in October 2018. However, other former employees stated that CannTrust used black-market seeds to bolster its production capacity and stated that the practice began as early as June 2018.

727. Ultimately, CannTrust's violations were revealed to the market and the risks associated with the Company's practice of growing and storing cannabis in unlicensed rooms and from black-market seeds materialized, causing CannTrust's stock to plummet in value.

B. Summary of the May 6, 2019 Public Offering

728. On March 1, 2019, CannTrust filed a Registration Statement on Form 10-F with the U.S. Securities and Exchange Commission (the "SEC") for a proposed offering of securities,

which was subsequently amended on March 18, 2019 (collectively, the "Registration Statement"). The Registration Statement was signed by Defendants Aceto, Guyatt, Dawber, Paul, Sanders, Kaden, Page, Litwin, and Marcovitch (defined below). On March 19, 2019, the SEC declared the Registration Statement effective.

729. On April 22, 2019, CannTrust filed a Preliminary Prospectus Supplement ("Preliminary Prospectus") with the SEC, which preliminarily announced offering an aggregate of $200 million of common shares but did not set an offering price. On May 3, 2019, CannTrust filed a Prospectus Supplement (collectively, with the preliminary prospectus, the "Prospectus"), announcing its offering of 36,363,636 shares of common stock at an offering price of $5.50 per share. In addition, the Prospectus stated that the Selling Shareholder Defendants were offering 5,454,545 shares of common stock at the same $5.50 offering price.

730. In the Prospectus, CannTrust incorporated, by reference, the following documents as part of its offering materials: (a) the annual information form of CannTrust for the fiscal year ended December 31, 2018, dated March 28, 2019 (the "2018 Form 40-F"); (b) the Company's audited consolidated financial statement for the years ended December 31, 2018, and 2017, together with the independent auditor's reports thereon and the notes thereto (the "2018 Financial Statements"); (c) CannTrust's management's discussion and analysis for the year ended December 31, 2018 (the "2018 MD&A"); and (d) the management information circular of CannTrust dated April 12, 2018 ("Management Information Circular") in connection with the annual meeting of shareholders held on May 22, 2018. These materials, along with the Registration Statement and Prospectus are collectively referred to herein as the "Offering Materials."

731. On May 6, 2019, CannTrust completed the Offering, selling 36,363,636 common shares for total gross proceeds of approximately $199 million. Cannamed and Cajun sold 6,272,727 common shares, including the exercised underwriter option, in the Offering. The Defendant Underwriters (defined below) exercised their full option to purchase additional shares which maximized the amount of cash received by CannTrust and the Selling Shareholders in the Offering.

XV. JURISDICTION

732. These claims arise under Sections 11, 12(a)(2) and 15 of the Securities Act (15 U.S.C. §§ 77k and 77o).

733. This Court has jurisdiction over the subject matter of this action pursuant to Section 22 of the Securities Act (15 U.S.C. § 77v).

734. Venue is proper in this Judicial District pursuant to Section 22 of the Securities Act. Substantial acts related to the Offering occurred in this Judicial District. CannTrust's common stock traded on the NYSE in this district during the Class Period and Defendants made materially false and misleading representations to investors that were disseminated to investors in this District.

735. In connection with the acts, transactions, and conduct alleged herein, Defendants, directly and indirectly, used the means and instrumentalities of interstate commerce, including the United States mail, interstate telephone communications, or the facilities of a national securities exchange.

XVI. THE SECURITIES ACT PARTIES

A. Lead Plaintiffs

736. On April 16, 2020, the Court appointed Granite Point Master Fund, LP and Granite Point Capital Scorpion Focused Ideas Fund ("Granite Point") to serve as Lead Plaintiffs

pursuant to the Private Securities Litigation Reform Act of 1995 ("PSLRA"). Granite Point is a hedge fund that manages approximately $177 million in assets. Granite Point is located in Boston, Massachusetts. As set forth in Lead Plaintiffs' certification submitted with their application to be named Lead Plaintiff (ECF No. 45-1), Granite Point purchased CannTrust securities pursuant to and/or traceable to the Offering Materials at artificially inflated prices and has been damaged thereby. Specifically, Granite Point purchased shares on May 3, 2018 at $5.89 per share.[31] Lead Plaintiffs' May 3, 2019 trades settled on May 6, 2019, the day the Offering closed.

B. Defendants

737. CannTrust is incorporated in Ontario, Canada and maintains its principal executive offices at 3280 Langstaff Road, Unit 1, Vaughan, Ontario L4K 4Z8, Canada. At the start of the Class Period the Company's stock traded on the Toronto Stock Exchange under the symbol "TRST" and as F-Shares under the symbol "CNTTF" on the OTC Pink Open Market in the United States. CannTrust completed its initial public offering on March 9, 2018 and on February 25, 2019, the Company's shares began trading on the NYSE under the symbol "CTST." CannTrust touts itself as "a leader in the Canadian cannabis industry" whose mission is

[31] Lead Plaintiffs' trades were not at the exact offering price of $5.50 because the Offering was offered at a non-fixed basis. According to CannTrust's prospectus supplement filed May 3, 2019, "[t]he [s]ecurities may be sold from time to time in one or more transactions at a fixed price or prices **or at non-fixed prices**. If offered on a non-fixed price basis, the [s]ecurities may be offered at market prices prevailing at the time of sale, at prices determined by reference to the prevailing price of a specified security in a specified market or at prices to be negotiated with purchasers, in which case the compensation payable to an underwriter, dealer or agent in connection with any such sale will be decreased by the amount, if any, by which the aggregate price paid for securities by the purchasers is less than the gross proceeds paid by the underwriter, deal or agent to the Company. **The price at which the [s]ecurities will be offered and sold may vary from purchaser to purchaser and during the period of distribution.**"

to "enrich our patient and customer experience by connecting them to the best quality products, educational resources and service[s]."

738. Defendant Eric Paul ("Paul") is CannTrust's co-founder and was the former CEO from the Company's inception in 2015 until October 1, 2018, when he stepped down to assume the role of Chairman of CannTrust's Board of Directors ("Board") and Special Advisor to CannTrust's management team. Paul is, and was at the time of the Offering, a member of CannTrust's Board of Directors. Paul signed the Registration Statement as well as the 2018 Financial Statements and Management Information Circular, which were incorporated by reference in the Offering Materials.

739. Defendant Paul Aceto ("Aceto") was the former CEO of CannTrust from October 1, 2018 until July 25, 2019. Aceto signed the Registration Statement as well as the 2018 Financial Statements, which was incorporated by reference in the Offering Materials.

740. Defendant Greg Guyatt ("Guyatt") has been the CFO of CannTrust since February 13, 2019. Guyatt signed the Registration Statement.

741. Defendant Mark I. Litwin ("Litwin") is, and was at the time of the Offering, a member of CannTrust's Board. Litwin signed the Registration Statement as well as the 2018 Financial Statements, which were incorporated by reference in the Offering Materials.

742. Defendant Mitchell J. Sanders ("Sanders") is, and was at the time of the Offering, a member of the CannTrust Board. Sanders signed the Registration Statement.

743. Defendant Robert F. Marcovitch ("Marcovitch") is, and was at the time of the Offering, a member of the CannTrust Board and a member of the audit committee. Marcovitch signed the Registration Statement.

744. Defendant Mark E. Dawber ("Dawber") is, and was at the time of the Offering, a member of the CannTrust Board. Dawber signed the Registration Statement.

745. Defendant Shawna Page ("Page") is, and was at the time of the Offering, a member of the CannTrust Board. Page signed the Registration Statement.

746. Defendant John T. Kaden ("Kaden") is, and was at the time of the Offering, a member of the CannTrust Board. As of February 14, 2019, Kaden was also a member of the audit committee of CannTrust's Board. Kaden signed the Registration Statement.

747. Defendant KPMG has been engaged as CannTrust's auditor since 2018. KPMG purportedly provided audit services to CannTrust beginning in 2018. CannTrust paid KMPG approximately $500,000 for professional audit services related to CannTrust's fiscal year 2018. KPMG is a Canadian member firm of KPMG International Cooperative. KPMG International Cooperative is based in Switzerland and is a membership-based company with member and network accounting and advisory firms operating locally in countries around the world, including the United States and Canada. All KPMG member firms are affiliated with KPMG International.

748. KPMG consented to the use of its Audit Report and notes on CannTrust's consolidated financial statements for the year ended December 31, 2018 in the April 22, 2019 Preliminary Prospectus Supplement ("Preliminary Prospectus") and May 3, 2019 Prospectus Supplement ("Prospectus Supplement," collectively, with Preliminary Prospectus, "Prospectus").

749. Defendant Cannamed is a holding company owned and controlled by Defendants Paul (through the Paul Family Trust, which he owns and/or controls) and Litwin (through companies he or his family own and/or control, including Mar-Risa Holdings, Inc. and York Capital Funding Inc.). Cannamed sold 6 million shares in the Offering.

750. Defendant Cajun is a holding company owned and controlled by Defendant Sanders. Cajun sold 250,000 shares in the Offering.

751. Defendant Merrill Lynch, Pierce, Fenner & Smith Incorporated ("Merrill Lynch") is a financial services firm that acted as underwriter and co-lead book-running manager for the Offering and helped to draft and disseminate the Offering Materials. Merrill Lynch agreed to purchase 13,051,300 shares of CannTrust common stock in the Offering, exclusive of any over-allotment options. Merrill Lynch maintains executive offices in this district at One Bryant Park, New York, New York 10036.

752. Defendant Citigroup Global Markets Inc. ("Citigroup") is a financial services firm that acted as underwriter and co-lead book-running manager for the Offering and helped to draft and disseminate the Offering Materials. Citigroup agreed to purchase 7,457,885 of CannTrust common stock in the Offering, exclusive of any over-allotment options. Citigroup maintains executive offices in this district at 388 Greenwich St., New York, New York 10013.

753. Defendant Credit Suisse Securities (USA) LLC ("Credit Suisse") is a financial services firm that acted as underwriter and co-lead book-running manager for the Offering and helped to draft and disseminate the Offering Materials. Credit Suisse agreed to purchase 7,457,885 of CannTrust common stock in the Offering, exclusive of any over-allotment options. Credit Suisse maintains executive offices in this district at 11 Madison Avenue, New York, New York, 10010.

754. Defendant Jefferies LLC ("Jefferies") is a financial services firm that acted as underwriter and book-running manager for the Offering and helped to draft and disseminate the Offering Materials. Jefferies agreed to purchase 2,701,505 of CannTrust common stock in the

Offering, exclusive of any over-allotment options. Jefferies maintains executive offices in this district at 520 Madison Ave, 10th Floor, New York, New York, 10022.

755. Defendant RBC Dominion Securities Inc. ("RBC") is a financial services firm that acted as underwriter and co-lead book-running manager for the Offering and helped to draft and disseminate the Offering Materials. RBC agreed to purchase 3,650,680 of CannTrust common stock in the Offering, exclusive of any over-allotment options. RBC directed substantial activities toward the state of New York in connection with the Offering.

756. Defendant Canaccord Genuity LLC ("Canaccord") is a financial services firm that acted as underwriter and book-running manager for the Offering and helped to draft and disseminate the Offering Materials. Canaccord agreed to purchase 2,044,381 shares of CannTrust common stock in the Offering, exclusive of any over-allotment options. Canaccord maintains a regional office in this district and/or directed substantial activities toward the state of New York in connection with the Offering.

757. Defendants Paul, Aceto, Guyatt, Litwin, Sanders, Marcovitch, Dawber, Page, and Kaden are collectively referred to herein as the "Individual Securities Act Defendants."

758. Cannamed and Cajun are collectively referred to herein as the "Selling Shareholder Defendants."

759. Merrill Lynch, Citigroup, Credit Suisse, Jefferies, RBC, and Canaccord are collectively referred to herein as the "Underwriter Defendants."

760. CannTrust, the Individual Securities Act Defendants, the Underwriter Defendants, KPMG, and the Selling Shareholder Defendants are collectively referred to as the "Securities Act Defendants."

C. Relevant Third Parties

761. **CW1** worked at CannTrust's Niagara Facility from August 2018 until May 2019 as a Document Coordinator. CW1 was responsible for issuing paperwork for harvests, cleanliness of the facility, sanitation logs, and, as she explained, "everything that is required by Health Canada." CW1 handled those documents internally, and then her boss, Quality Supervisor Jared Epp, communicated directly with Health Canada. Epp reported directly to Graham Lee who in turn reported to Defendant Aceto. During her tenure, CW1 attended Quality Control meetings where issues at the Niagara Facility were discussed. Furthermore, CW1 knew at the time that CannTrust staff removed plants from the unlicensed rooms, hung up curtains, and took framed pictures to make it look like there were no cannabis growth activities occurring in those rooms.

762. **CW3** worked at CannTrust's headquarters at its Vaughan Facility from October 2018 until August 2019. In October 2018, when CW3 first joined CannTrust, she worked in operational quality assurance, which involved working on the floor and overseeing enforcement of procedures. In January 2019, CW3 transitioned into a new role that involved deviation closures. In April 2019, CW3 was promoted to the rank of QAP (Quality Assurance Professional) at CannTrust. In that role, CW3 worked with the product quality team and was responsible for training that team in advance of its product releases. In February 2019, CW3 started doing the pre-review for product batches before they were released. CW3 initially reported to Steven Khemraj, then Laura Leung, then Victoria Malov.

763. **CW4** worked at CannTrust's Niagara Facility from May 2018 until June 2019 as a Senior Grow Technician. CW 4 was responsible for growth activities for CannTrust's cannabis plants.

XVII. THE MATERIALLY FALSE AND MISLEADING STATEMENTS IN THE OFFERING MATERIALS

764. The Underwriting Agreement, attached as Exhibit 99.1 to the May 3, 2019 Form 6-K, incorrectly represented that the Registration Statement and Prospectus "comply in all material respects with all applicable provisions of the 1933 Act" and "did not and will not contain any untrue statement of a material fact or omitted, omits or will omit to state a material fact necessary in order to make the statements therein" not misleading.

765. Contrary to this representation and, as set forth below, the Offering Materials contain untrue statements of material fact, omit to state material facts required to be stated therein, or omit to state material facts necessary to make the statements therein not misleading, concerning the licensing, regulatory compliance, production, and financial growth of CannTrust.

766. Moreover, Item 303 of SEC Regulation S-K, 17 C.F.R. §229.303 ("Item 303") requires the Offering Materials to "[d]escribe any known trends or uncertainties that have had or that the registrant reasonably expects will have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations." Item 303 also requires disclosure of: (i) whether those trends or uncertainties have had or are reasonably expected to have a material unfavorable impact on revenue; (ii) the extent of any such impact on revenue; and (iii) "events that will cause a material change in the relationship between costs and revenues (such as known . . . inventory adjustments)."

767. The Offering Materials failed to disclose known trends or uncertainties, as alleged further below, including with respect to illicitly growing cannabis at the Niagara facility, illegally storing cannabis in the Vaughan facility, and using "black market" seeds to grow cannabis as well as the uncertainty of what would happen to CannTrust were Health Canada to discover the illicit growing and storing scheme and revoke or rescind their licenses. As

discussed above, Defendant Paul and Aceto's knowledge of this trend or uncertainty is evidenced by numerous emails and CW allegations regarding the practices occurring at CannTrust. For example, in November 2018—prior to the Offering— Graham Lee sent an email to Defendant Aceto that was forwarded to Defendant Paul which stated: "1) RG8 is not licenced but has plants in it; 2) RG9 is not licenced but we are intending to put plants in it on Monday; 3) PA2A-E are not licenced but we have moved the encapsulation equipment into them and will begin running it next week."

768. The failure to disclose these facts violated Item 303 because the Securities Act Defendants were aware that these adverse, undisclosed facts could (and ultimately did) have an unfavorable impact on CannTrust's sales, revenues, and income from continuing operations. Item 303 required disclosure because these material, adverse facts were known events or uncertainties that, at the time of the Offering, had caused or were reasonably likely to cause CannTrust's disclosed financial information not to be indicative of its future operation results, and likely materially and adversely to affect CannTrust's future results and prospects.

A. False and Misleading Statements Concerning CannTrust's Compliance with Applicable Regulations[32]

769. The Offering Materials unequivocally stated that "CannTrust is a . . . licensed producer and disitributor of medical and recreational cannabis" that the Compnay "***abide[s] by applicable federal, state and provincial laws***," when, in reality, CannTrust had been illicitly growing cannabis from black-market seeds and storing cannabis since June 2018 and growing cannabis in unlicensed rooms from at least October 2018 and was therefore operating outside the parameters of its licenses. For example, the Prospectus stated:

[32] Bold and italicized statements are alleged to be false and misleading while other statements are provided for context.

(1) [CannTrust is] a ***licensed producer and distributor of medical and recreational cannabis pursuant to the provisions of the Cannabis Act (Canada) (the 'Cannabis Act') and its regulations*** which came into force on October 17, 2018.

(2) The following summary addresses the primary Canadian federal and provincial laws and regulations associated with the production and distribution of legal cannabis and related products. It does not address the laws and regulations of any other jurisdiction. ***The Company believes that, as of the date of this Prospectus, it is in material compliance with all laws and regulations*** summarized below.

(3) ***[CannTrust] believes that it currently holds*** or has applied for ***all necessary licenses and permits to carry on the activities which it is currently conducting under applicable laws and regulations and also believes that it is complying in all material respects with the terms of such licenses and permit***s.

770. The 2018 Form 40-F made similar representations as ¶769 above, representing:

(1) CannTrust Opco's Quality Assurance team is led by a group of experienced operators and scientists and ***is focused on generating the highest quality and most consistent product that meets or exceeds Health Canada expectations***.

(2) ***The Company distributes its recreational cannabis products in accordance with the federal and provincial regulatory framework***s.

(3) ***The Company adheres to prescribed packaging requirements under the Cannabis Act and the Cannabis Regulations***.

(4) The Company is continuously reviewing and enhancing its operational procedures at the Vaughan Facility and the Niagara Facility both proactively and in response to routine inspections. ***The Company follows all regulatory requirements in***

response to inspections in a timely manner. As of the date hereof, there are no outstanding inspection issues with Health Canada beyond day-to-day adjustments that may occur in order ***to ensure ongoing compliance.***

(5) ***The Company believes that it currently holds*** or has applied for ***all necessary licences and permits to carry on the activities which it is currently conducting under applicable laws and regulations, and also believes that it is complying in all material respects with the terms of such licences and permits***.

771. The 2018 MD&A similarly stated that "***CannTrust is a Licensed Producer and distributor of medical and recreational cannabis pursuant to the provisions of the Cannabis Act (Canada) (the ''Cannabis Act') and its regulations which came into force on October 17, 2018***."

772. Similarly, the Prospectus represented that "***Health Canada has issued licences to CannTrust Opco for each of our facilities*** (the '**Cannabis Licences**' and each a '**Cannabis Licence**')."

773. The statements above regarding CannTrust's compliance with federal, state and provincial laws, as well as CannTrust's representations that it was a licensed producer and distributor, were materially false and misleading when made because: (i) starting in October 2018, CannTrust began illegally growing cannabis in unlicensed rooms at the Niagara facility; (ii) since June 2018, CannTrust was illegally storing dried cannabis in unlicensed rooms in the Vaughan facility; (iii) by June 2018, CannTrust was using illegal "black market" seeds to grow over one thousand cannabis plants without approval from Health Canada; and (iv) CannTrust's product packaging mislabeled "black market" seed cannabis as one of the licensed strain names,

in violation of the Cannabis Act; Accordingly, CannTrust was not operating in compliance with regulations and did not have a license to produce, store, and sell certain of its products.

774. In addition, even if Defendants' statements were literally true, they were false and misleading by omission because Defendants failed to disclose material facts, rendering their statements misleading. Specifically, Defendants failed to disclose that they were growing cannabis in unlicensed rooms in their Niagara Facility, were storing cannabis in unlicensed rooms in their Vaughan Facility, were obtaining seeds from the black market, and in light of these direct violations of applicable regulations, risked Health Canada suspending CannTrust's growing and selling licenses.

775. To the extent any of Defendants' statements above were opinions, they were false and misleading because they lacked a reasonable basis and omitted the above material facts, which did not fairly align with Defendants' positive statements regarding their ability to increase growing capacity to meet the high demand for cannabis.

776. The Offering Materials also contained certain risk factors that were false and misleading, including the following:

(1) ***Any delays or complications in obtaining regulatory approvals, as well as failure to obtain any regulatory approvals, may have a material adverse effect on the business of the Company and result in additional costs.***

> ***Achievement of the Company's business objectives is contingent, in part, upon compliance with regulatory requirements enacted by governmental authorities and obtaining all regulatory approvals, where necessary for the sale of its product.*** The Company may not be able to accurately predict the impact of the compliance regime Health Canada is implementing for the Canadian medical and recreational cannabis industry. Similarly, we may not be able to accurately predict the time required to secure all appropriate regulatory approvals for its product, or the extent of testing and documentation that may be required by governmental authorities. ***The impact of Health Canada's compliance regime, any delays in obtaining, or failure to obtain, regulatory approvals may significantly delay or impact the development of markets,***

products and sales initiatives and could have a material adverse effect on the business, results of operations and financial condition of the Company.

(2) A significant failure of our site security measures and other facility requirements, including ***any failure to comply with regulatory requirements, could have an impact on our ability to continue operating under the Cannabis Licenses or our prospects of renewing the Cannabis Licenses, and could also in a suspension or revocation of the Cannabis Licenses.*** As we currently produce our cannabis products only at the Niagara Facility ***any event impacting our ability to continue production there, or requiring us to delay production, would prevent us from continuing to operate our business*** until operations at the Niagara Facility could be resumed, or until we are able to commence production at another facility.

(3) ***We are required to obtain and maintain certain permits, licenses or other approvals from regulatory agencies*** in countries and markets outside of Canada in which we operate, or to which we export, in order to produce or export to, and sell our medical products in, these countries, including, in the case of certain countries, the ability to demonstrate compliance with Good Manufacturing Practices ("GMP"). ***There can be no assurance that we will be able to comply with these standards***.

777. The above purported warnings were materially false and misleading when made because these risks warned of had already materialized and come to pass because CannTrust was not in compliance with regulations and was not licensed to produce or sell certain of its products, as described in paragraphs 773-775.

778. In addition, even if Defendants' statements were literally true, they were false and misleading by omission because Defendants failed to disclose material facts, rendering their statements misleading. Specifically, Defendants failed to disclose that they were growing

cannabis in unlicensed rooms in their Niagara Facility, were storing cannabis in unlicensed rooms in their Vaughan Facility, were obtaining seeds from the black market, and in light of these direct violations of applicable regulations, risked Health Canada suspending CannTrust's growing and selling licenses.

B. False and Misleading Statements Concerning CannTrust's Successful Increased Capacity and Expansion

779. As a result of CannTrust's illegal use of black seeds and unlicensed rooms to grow cannabis, the Offering Materials contained false and misleading statements concerning the true amount and timing of CannTrust's legal cannabis production and expansion.

780. For example, the Offering Materials touted CannTrust's production volume, yet failed to disclose this volume was the result of growing illegal and unlicensed cannabis. The 2018 MD&A and Prospectus stated:

> (1) ***In the quarter ended March 31, 2019, we harvested approximately 9,424 kg of cannabis from our Niagara facility***, representing an increase of 96% from the fourth quarter of 2018.
>
> (2) ***At December 31, 2018, it is expected that the Company's biological assets will yield, net of waste, approximately 13,926,974 grams (December 31, 2017-1,911,972 grams)*** of biological produce, with net selling prices ranging from $2.92 to $12.00 per gram.
>
> (3) ***As at [sic] December 31, 2018, the Company held 4,471,032 grams of dry cannabis (December 31, 2017 – 626,935) and 6,887,849 grams of extracts (December 31, 2017 – 977,186)***.
>
> (4) ***For the three months ended December 31, 2018, harvested production was 4,816 kg, a 712% increase from the 593 kg in the comparable 2017 period***.

(5) ***Our approximately 450,000 square foot perpetual harvest facility in Niagara (the 'Niagara Facility'), has an annual capacity of approximately 50,000 kilograms, as of April 2019 and, through our planned expansion, we are targeting annual capacity of 100,000 kilograms by 2020***.

(6) 2018 Full Year Highlights . . . ***Sold 7,251 kg of dried Cannabis and dried Cannabis equivalent*** at an average net price of $6.29 per gram.

(7) 2018 Fourth Quarter Highlights . . . ***Sold 3,407 kg of dried Cannabis and dried Cannabis equivalent*** at an average net price of $4.75 per gram.

(8) ***For the year ended December 31, 2018, harvested production was 16,212 kg, a 471% increase from the 2,839 kg in the prior year period. For the three months ended December 31, 2018, harvested production was 4,816 kg, a 712% increase from the 593 kg in the comparable 2017 period***. The increase in the fair value of biological assets recorded during the period was due to the ramp up of production at the Niagara Facility, partially offset by the impact of valuation assumptions such as the average revenue per gram and the stage of the plants as of the reporting date. While the total number of plants in production increased significantly year over year, as at December 31, 2018 the average stage of the plants in the grow cycle combined with lower expected revenue per gram as a result of the recreational market resulted in the limited increase in the value of biological assets.

(9) ***As of December 31, 2018, the Company supplied more than 10,000 finished units of its products per day*** for its medical and adult-use recreational market.

781. Likewise, the 2018 MD&A and Prospectus represented CannTrust's revenue was increasing, and that the increase was due to organic customer growth and sales:

(1) ***Our rapidly growing patient base has increased organically at a rate we believe is faster than any other licensed producer, experiencing a 57% growth from 2017 to 2018.*** We believe that we have supported this growth through our commitment to patients' access to cannabis.

(2) ***Revenue for the quarter ended December 31, 2018 was $16,166 compared to $6,983 for the comparable 2017 period, an increase of 132%. Revenue for the year ended December 31, 2018 was $45,645 compared to $20,698 in the comparable 2017 period, an increase of 121%. The increase in revenue in the quarter and year ended December 31, 2018 was primarily attributable to increased sales volume due to the growth in the Company's medical patient base from approximately 37,000 at December 31, 2017 to 58,000 as at December 31, 2018***, as well as sales derived from the Company's new domestic and international wholesale revenue streams, which includes sales to the provinces related to the legalization of the adult-use recreational market.

(3) ***Net revenue is expected to be approximately $17 million, an increase of 116% as compared to $7.8 million for the quarter ended March 31, 2018. The estimated increase in revenue is primarily due to a 68% increase in medical patients*** combined with the contributions from the Canadian adult-use recreational market, which was legalized in October of 2018. ***This estimated revenue represents an increase of approximately 5% as compared to $16.2 million for the quarter ended December 31, 2018, primarily due to a 16% increase in medical patients***.

(4) ***Gross profit is expected to be between $27 million to $28 million as compared to $21 million for the quarter ended March 31, 2018***.

(5) ***The total quantity of medical cannabis sold to patients during the three months ended December 31, 2018 increased to 2,017 kg, a 166% from the comparable 2017 period. For the full year 2018, the [C]ompany sold 5,372 kg of medical cannabis, an increase of 141% from the comparable 2017 period***.

(6) ***Cost of goods sold during the three and twelve months ended December 31, 2018 were $10,489 and $19,690, respectively, compared to $4,577 and $7,680 in the comparable prior year periods***. Costs of goods sold includes pre-harvest production, post-harvest production and processing costs of cannabis, packaging, testing and inventory purchased from third parties. ***Costs of goods sold during the three and twelve months ended December 31, 2018 increased compared to the comparable 2017 periods due to increases in sales quantities and the associated increase in the scale of production activities.***

(7) Gross profit/(loss) for the three and twelve months ended December 31, 2018 was a loss of $8,282 and profit of $36,493, respectively, compared to a gross profit of $11,036 and $23,980 in the comparable prior year periods . . . . ***The increase in gross profit in 2018 compared to 2017 was principally due to the increase in sales.***

(8) Excluding the impact of the change in the fair value of biological assets, gross profit for the three and twelve months ended December 31, 2018 was $5,677 and $25,955, respectively, compared to a gross profit of $2,406 and $13,018 in the comparable prior year periods. ***The increase in gross profit excluding the impact of the change in the fair value of biological assets was as a result of increased scale of operations.***

(9) ***Net income before income taxes and Adjusted EBITDA are expected to be between $12 million and $14 million*** . . . .

(10) [2018 Full Year Highlights:] ***Record annual revenues of $45,645, a 132% increase from 2017***. . . .2018 Fourth Quarter Highlights . . . ***Record quarterly revenues of $16,166***, a 28% increase from third quarter of 2018.

782. Defendants' statements above were materially false and misleading for the same reasons set forth in paragraphs 773-775. For example, the statements above regarding CannTrust's volume, capacity to grow and sell cannabis, and increased sales were materially false and misleading when made and omitted material information because they failed to disclose that the cannabis produced and sold: (a) was illegally grown in unlicensed rooms at the Niagara facility beginning in October 2018; (ii) was stored in unlicensed rooms in the Vaughan facility since June 2018; (iii) was grown from illegal "black market" seeds without approval from Health Canada, which ultimately grew over one thousand cannabis plants; and (iv) was distributed and sold to consumers without a proper permit. Accordingly, the touted production volume was based on illegal activities and did not represent CannTrust's legal production volume.

783. Further, the statements above concerning the purported increase in production of cannabis in 2018 as compared to 2017 were false and misleading and omitted material information because CannTrust failed to disclose that its production rates after June 2018 were artificially inflated due the growth of illegal and unlicensed cannabis, as described in ¶782 above.

784. The 2018 Form 40-F further represented that "CannTrust Opco has an extensive genetic strain bank and ***currently produces approximately eight core strains***. The strains have been optimized for greenhouse horticultural practices." This statement was false and misleading

because, by June 2018, CannTrust was using illegal "black market" seeds to grow over one thousand cannabis plants without approval from Health Canada, and CannTrust's product packaging for these products mislabeled the "black market" seed cannabis as coming from one of the licensed strains. Accordingly, CannTrust was producing over eight core strains but mislabeling the additional unlicensed strains as one of the eight approved strains.

785. In addition, even if Defendants' statements were literally true, they were false and misleading by omission because Defendants failed to disclose material facts, rendering their statements misleading. Specifically, Defendants failed to disclose that they were growing cannabis in unlicensed rooms in their Niagara Facility, were storing cannabis in unlicensed rooms in their Vaughan Facility, were obtaining seeds from the black market, and in light of these direct violations of applicable regulations, risked Health Canada suspending CannTrust's growing and selling licenses.

786. The Prospectus further made materially false and misleading statements when comparing CannTrust's production rates to competitors, stating:

> (1) ***Our plant genetics and related expertise, production experience, and integrated supply chain allow us to grow and cultivate cannabis at what we believe is a higher efficiency and lower cost than many of our competitors, while maintaining the award-winning quality*** and standardization necessary to produce high-quality cannabis.
>
> (2) We believe that the efficiency of our operating model, ***including our production capacity*** and research and development, ***makes us one of the few licensed producers with a clear, identifiable path to growth and profitability.***

787. Defendants' statements above were materially false and misleading for the same reasons set forth in paragraphs 773-775 and 782-784. For example, these statements were false

and misleading and omitted material information because they failed to disclose that: (i) CannTrust's purported efficiency rates, awards, and production capacity were not the result of expertise, but were the result of its illegal cannabis operations; and (ii) CannTrust's cost of production was lower than competitors due to the fact it was obtaining less costly seeds from the unregulated black market, rather than the more expensive licensed seeds from the regulated market.

788. In addition, even if Defendants' statements were literally true, they were false and misleading by omission because Defendants failed to disclose material facts, rendering their statements misleading. Specifically, Defendants failed to disclose that they were growing cannabis in unlicensed rooms in their Niagara Facility, were storing cannabis in unlicensed rooms in their Vaughan Facility, were obtaining seeds from the black market, and in light of these direct violations of applicable regulations, risked Health Canada suspending CannTrust's growing and selling licenses.

789. To the extent any of Defendants' statements above were opinions, they were false and misleading because they lacked a reasonable basis and omitted the above material facts, which did not fairly align with Defendants' positive statements regarding their ability to increase growing capacity to meet the high demand for cannabis.

790. In addition, the Prospectus discussed CannTrust's plans to expand and meet increased product demand, but failed to disclose that the Company was illegally growing, and would need to continue to illegally grow and sell cannabis in order to do so:

> (1) ***We plan to increase our presence in existing markets, drive growth by entering new regions***, and broaden consumer awareness and education of the benefits of cannabis globally.

(2) ***We are also making strategic investments into our capacity to prepare for expected increases in demand for our products***.

(3) ***With the completion of all phases of the Niagara expansion, we believe we have the ability to supply a substantial share of the increased demand*** arising from international markets.

791. Defendants' above statements were materially false and misleading for the same reasons set forth in paragraphs 773-775, 782-784, and 787. For example, these statements were false and misleading and omitted material information because they failed to disclose that CannTrust was growing, and would continue to grow cannabis illegally in order to meet its current demand and expansion efforts.

792. In addition, even if Defendants' statements were literally true, they were false and misleading by omission because Defendants failed to disclose material facts, rendering their statements misleading. Specifically, Defendants failed to disclose that they were growing cannabis in unlicensed rooms in their Niagara Facility, were storing cannabis in unlicensed rooms in their Vaughan Facility, were obtaining seeds from the black market, and in light of these direct violations of applicable regulations, risked Health Canada suspending CannTrust's growing and selling licenses.

793. The Prospectus and Registration Statement further represented that CannTrust "expects [the] first harvest from the Phase II expansion by the end of the first quarter of 2019, subject to Health Canada approval." The Prospectus and 2018 MD&A similarly represented that CannTrust would increase its production and profitability once the Phase 2 expansion was complete, stating:

(1) ***Profitability is expected to improve following the full realization of the increased operational capacity of the Phase 2 expansion***. As the Phase 2 expansion contributes to positive operating leverage, we are targeting a return to profitability.

(2) ***The Phase 2 expansion at the Niagara Facility was substantially completed during the first quarter of 2019*** and Health Canada approved the amendment of our cultivation and processing permit to include the final 20% of the Phase 2 expansion on April 8, 2019.

(3) ***With the Phase 2 expansion, we expect full production to be achieved by the end of the second quarter of 2019 at an annualized rate of 50,000 kg per year***.

(4) ***The completed Phase 2 expansion of the Niagara Facility is expected to increase production capacity to 50,000 kg on an annualized basis. With this increased production capability, we believe revenue will increase significantly in 2019 compared to the 2018 full year results***, with revenue growth accelerating throughout the year starting in the second quarter of 2019. ***We are positioned to receive all necessary regulatory approvals*** to support this planned growth. In addition, having obtained all necessary permits from the Town of Pelham for the construction of its Phase 3 expansion, ***we continue to expect our Niagara Facility capacity to reach 100,000 kg on an annualized basis in the second half of 2020***.

794. The Registration Statement also represented the Phase 2 expansion remained "on course" to increase the Company's capacity, stating:

(1) ***The Phase II expansion remains on course to bring the Company's capacity to 50,000 kg per year.***

(2) The build out of an additional 390,000 square feet of high-end greenhouse as part of ***the Niagara Phase III expansion would provide an expected additional 50,000 kg of annual high-quality cannabis flower production capacity. Once constructed, this expansion facility would require licencing by Health Canada***.

795. Defendants' above statements were materially false and misleading for the same reasons set forth in paragraphs 773-775, 782-784, and 787. Furthermore, CannTrust's representation that the expansion facility "would require licencing by Health Canada" "[o]nce constructed" was false and misleading and omitted material information because it failed to disclose that CannTrust was already operating the Phase II facilities without having obtained the necessary licensing. Accordingly, operations under the Phase 2 expansion were already underway with cannabis being grown, produced, stored, and sold without regulatory approval.

796. In addition, even if Defendants' statements were literally true, they were false and misleading by omission because Defendants failed to disclose material facts, rendering their statements misleading. Specifically, Defendants failed to disclose that they were growing cannabis in unlicensed rooms in their Niagara Facility, were storing cannabis in unlicensed rooms in their Vaughan Facility, were obtaining seeds from the black market, and in light of these direct violations of applicable regulations, risked Health Canada suspending CannTrust's growing and selling licenses.

797. To the extent any of Defendants' statements above were opinions, they were false and misleading because they lacked a reasonable basis and omitted the above material facts, which did not fairly align with Defendants' positive statements regarding their ability to increase growing capacity to meet the high demand for cannabis.

C. False and Misleading Statements Concerning CannTrust's Financial Growth and Values of Inventory and Biological Assets

798. The Offering Materials contained materially false and misleading statements concerning the financial growth of CannTrust in 2018. The March 28, 2019 Consolidated Financial Statements also included a Report of Independent Registered Public Accounting Firm signed by KPMG. Addressing the shareholders, the Audit Report explained that KPMG audited the March 28, 2019 Consolidated Financial Statements and stated that "the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018."

CannTrust Holdings Inc.
Consolidated Statements of Financial Position
As at December 31
(in Canadian dollars)

	Notes		2018		2017
Assets					
Current					
Cash		$	9,022,821	$	17,961,045
Short term investments	7		63,023,908		201,538
Harmonized sales tax recoverable			1,492,110		2,636,710
Inventory	8		35,389,490		10,959,022
Biological assets	8		10,502,579		9,843,690
Accounts receivable			6,151,604		160,383
Prepaid expenses			2,859,039		2,465,506
Total current assets			128,441,551		44,227,892
Investments	15		10,661,932		156,073
Restricted cash	7		100,000		100,765
Property and equipment	9		62,208,905		33,963,685
Financial assets	11		901,350		-
Total Assets			202,313,738		78,448,415
Liabilities					
Current					
Accounts payable and accrued liabilities			12,806,458		6,579,997
Current portion of promissory note	6		200,000		200,000
Current portion of mortgage	12		3,790,610		-
Total current liabilities			16,797,068		6,779,997
Promissory note	6		600,000		800,000
Mortgage	12		9,457,876		-
Deferred tax	19		1,433,000		-
Total Liabilities			28,287,944		7,579,997
Shareholders' Equity					
Share capital	13		207,061,423		104,824,215
Share-based payment reserve			8,714,188		2,272,302
Warrants reserve	15		11,393,687		3,361,789
Deficit			(53,143,504)		(39,589,888)
Total Shareholders' Equity			174,025,794		70,868,418
Total Liabilities and Shareholders' Equity		$	202,313,738	$	78,448,415

Commitments (Note 16)

The accompanying notes are an integral part of the consolidated financial statements.

(signed) "Eric Paul" Director (signed) "Mark Litwin" Director

CannTrust Holdings Inc.
Consolidated Statements of Net (Loss) Income and Comprehensive (Loss) Income
For the Years Ended December 31
(in Canadian dollars)

	Notes		2018		2017 (Restated) (Note 5)
Gross revenue	22	$	48,390,103	$	20,697,764
Excise duty			(2,744,960)		-
Net revenue			45,645,143		20,697,764
Cost of goods sold	5		19,690,162		7,680,234
Gross profit, before changes in fair value of biological assets	5		25,954,981		13,017,530
Fair value changes in biological assets included in inventory sold	5		17,301,866		8,929,308
Unrealized gain on changes in fair value of biological assets	5,8		(27,840,156)		(19,891,851)
Gross profit			36,493,271		23,980,073
Expenses					
Amortization	9		2,169,281		964,396
General and administrative	17		9,014,467		3,636,808
Marketing and promotion			7,274,454		198,858
Salaries and benefits			9,823,942		3,853,314
Selling and shipping costs			8,971,434		3,803,056
Share based compensation	14		8,056,451		2,310,678
Operating expenses			45,310,029		14,767,110
(Loss) income from operations			(8,816,758)		9,212,963
Mortgage interest expense			(478,169)		(260,203)
Interest income			790,123		-
Accretion expense	12		(208,842)		(233,716)
Transaction costs	6		-		(204,282)
Other (loss) income	18		(2,033,700)		143,060
(Loss) on equity accounted investment	18		(385,110)		(147,056)
Impairment loss on assets	10		(988,160)		-
Loss on revaluation of derivative liability			-		(1,625,336)
(Loss) income before income taxes			(12,120,616)		6,885,430
Deferred income tax expense	19		1,433,000		-
Net (loss) income and comprehensive (loss) income		$	(13,553,616)	$	6,885,430
Weighted average number of common shares - basic			99,282,045		76,876,971
Weighted average number of common shares - diluted			99,282,045		80,536,105
Earnings (loss) per share - basic	13		(0.14)		0.09
Earnings (loss) per share - diluted	13		(0.14)		0.09

799. The above statements concerning CannTrust's revenue, inventory, and financial growth in fiscal year 2018 were materially false and misleading and omit material information because they failed to disclose that CannTrust's 2018 revenue and sales were derived from: (i) illegally grown cannabis in unlicensed rooms at the Niagara facility beginning in October 2018; (ii) illegally stored cannabis in unlicensed rooms in the Vaughan facility since June 2018;

(iii) illegally grown cannabis from "black market" seeds without approval from Health Canada beginning no later than June 2018, which ultimately grew over one thousand cannabis plants; and (iv) illegally distributed and sold cannabis that CannTrust did not obtain a proper permit to sell. In fact, two of CannTrust's most popular strains of cannabis product were harvested from illegal "black market" seeds, further artificially increasing CannTrust's growth and earnings through inorganic means.

800. Further, the statements concerning the purported increase of revenue and sales in 2018 as compared to 2017 were false and misleading and omitted material information because they failed to disclose that CannTrust's production rates in 2018 were artificially inflated due to the growth of illegal and unlicensed cannabis, as described in paragraphs 799, *supra*, and 801-821, *infra*.

1. CannTrust Issued Financial Statements In Violation of International Accounting Standards

801. International Financial Reporting Standards ("IFRS") represent the set of accounting principles that domestic public companies in Canada are required to employ for purposes of preparing financial statements.[33] IFRS are generally accepted around the globe and at least 100 countries have adopted IFRS. *See* SEC Release No. 33-8879. For example, the SEC allows "foreign private issuers in their filings with the Commission [to prepare] financial statements…in accordance with International Financial Reporting Standards ("IFRS") as issued by the [IASB]." (*Id.*) IFRS are comparable to U.S. generally accepted accounting principles ("GAAP") and the SEC has supported efforts to converge the standards. (*Id.*)

[33] https://www.ifrs.org/use-around-the-world/use-of-ifrs-standards-by-jurisdiction/canada/

802. According to CannTrust's 2017 and 2018 annual reports, the Company purportedly reported and prepared its financial statements in accordance with the IFRS.[34]

(a) CannTrust's Illicit Growing and Storing Scheme Resulted in Overstated Biological Assets and Inventory

803. During the Class Period, CannTrust consistently overstated its biological assets and inventory according to IFRS. CannTrust's inventory and biological assets were critical assets on the Company's balance sheet and to investors because they represented approximately 40% of total current assets and more than 80% when excluding short-term investments.

	Notes		2018		2017
Assets					
Current					
Cash		$	9,022,821	$	17,961,043
Short term investments	7		63,023,908		201,538
Harmonized sales tax recoverable			1,492,110		2,636,710
Inventory	8		35,389,490		10,959,022
Biological assets	8		10,502,579		9,843,690
Accounts receivable			6,151,604		160,383
Prepaid expenses			2,859,039		2,465,506
Total current assets			128,441,551		44,227,892

804. According to CannTrust's SEC and SEDAR filings, biological assets represented pre-harvest seeds and plants and were reported at fair value less costs to sell at time of harvest. Biological assets were then transferred to inventory when the cannabis plants were harvested. Inventory included harvested finished goods, cannabis in process, extracts, accessories and packing supplies and was valued at the lower of cost and net realizable value.

805. CannTrust claimed that they valued biological assets and inventory in accordance with IAS Rule 41, which covers "Agriculture that applied to Biological Assets," and IAS 2 and

[34] IFRS include International Accounting Standards ("IAS") that were issued by the Board of the International Accounting Standards Committee.

IAS 41.3, which apply to "Inventories that applied to post-harvest products." However, as discussed above, CannTrust grew and stored cannabis in unlicensed facilities and from black-market seeds that were then improperly recorded as biological assets and inventory for multiple reasons.

806. First, CannTrust did not have control, including legal ownership, of the biological assets, which is a required condition for asset measurement under IAS 41.10-11. Under IAS 41, legal ownership requires that the asset is acquired or produced by legitimate means. Here, CannTrust did not have legal ownership or control over the cannabis grown and stored in unlicensed rooms because it was not produced by legitimate means. Likewise, the cannabis grown from black-market seeds was unquestionably not acquired by legitimate means.

807. Second, CannTrust's valuation of biological assets is necessarily overstated because the Company could not and did not accurately account for the **fair market value** of unlicensed cannabis or cannabis grown from black-market seeds. As mentioned above, CannTrust's biological assets represented "pre-harvest seeds and plants . . . [are] reported at fair value."

808. However, CannTrust did not and could not demonstrate or report any evidence that a market participant would have been willing to pay the same price for an unlicensed product as a licensed product a**s is required to accurately assess fair market value under IAS 41.8**.[35] For example, CannTrust could not have identified quoted market prices for unlicensed cannabis products as required by IAS 41.30 because no such market prices for unlicensed or

[35] "Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date." *See* IFRS 13 Fair Value Measurement.

black-market products existed. Consequently, CannTrust did not have the ability to reliably measure the fair value of those biological assets.

809. Moreover, IFRS 13 – Fair Value Measurement, states that in determining fair value, a market participant would be expected to use the asset in its highest and best use, taking into account the use of the asset that is physically possible, ***legally permissible***, and financially feasible. *See* IFRS 13.28.[36] Yet, CannTrust still reported increased biological assets during the Class Period, even though it did not and could not accurately account for the fair value of illicitly grown cannabis. Accordingly, CannTrust violated IFRS in reporting biological assets at the level that they did during the Class Period.

810. Further, CannTrust did not and could not report inventory that was unlicensed (such as cannabis sold in violation of Health Canada regulations) under IAS 2.7 because the cannabis could not be sold in the ordinary course of business. Under IAS 2.7, net realizable value is the net amount that an entity expects to realize from the sale of inventory in the ordinary course of business. The net realizable value of inventory decreases when, for example, inventory is damaged or market prices decline. Here, such products have a net realizable ***value of zero*** because illicitly grown products cannot be sold in the ordinary course of business, as they were grown in violation of Health Canada regulations. Consequently, CannTrust vastly overstated the value of inventory during the Class Period.

811. CannTrust overstated a material portion of the Company's biological assets and inventory during the Class Period. As discussed above, following Health Canada's discovery of the illicit growing and storing scheme, CannTrust was forced to place the sale of impacted

[36] *See also*, IFRS 13.28(b), "A use that is legally permissible takes into account any legal restrictions on the use of the asset that market participants would take into account when pricing the asset."

inventory on hold (*i.e.*, it was unable to sell the inventory). Ultimately, CannTrust estimated that the reported value of the impacted inventory and biological assets was $51 million as of June 30, 2019. As described above, this inventory was later destroyed. As of March 31, 2019, the Company's total inventory and biological assets totaled approximately $77.6 million. Thus, the Company's fraudulent scheme imperiled at least 65% of the reported value of biological assets and inventory. Yet, CannTrust concealed this information from investors.

(b) Defendants Recognized Revenue in Violation of International Financial Reporting Standards

812. In addition to overstating inventory and biological assets, Defendants also overstated its revenue. Indeed, as discussed below, under relevant IFRS standards, CannTrust was permitted to recognize revenue only for products for which the Company ***held valid legal title***. And because CannTrust generated revenue from cannabis that it grew, stored and sold through illegitimate means, it improperly recognized revenue from any cannabis that was grown or stored in unlicensed rooms or were from black-market seeds.

813. However, because CannTrust grew and stored cannabis in unlicensed, unregulated rooms and from black-market seeds, CannTrust did not possess legal title and control over the illicitly grown cannabis because it was non-conforming with Health Canada regulations. Nor could CannTrust transfer legal title and control to its customers because it did not have it to begin with. Accordingly, any illicitly grown cannabis that was transferred or sold to CannTrust's customers was subject to immediate return and refund.

814. According to CannTrust's SEC and SEDAR filings, the Company "[r]evenue is recognized when **control of the goods has transferred to the purchaser** and the collectability is reasonably assured. **This is generally when goods have been delivered, which is also when the performance obligations have been fulfilled under the terms of the related sales**

contract." Like all of its financial information, CannTrust represented to investors that its revenue recognition policy was consistent with IFRS—including the IFRS rules governing revenue recognition, IFRS rule15.31-32.

815. However, because CannTrust did not have a valid license to produce all of its cannabis (and specifically the illicitly grown cannabis), CannTrust was unable to legitimately transfer ***control*** of the cannabis to its customers. For accounting purposes (and according to CannTrust's auditor KPMG's IFRS Handbook), **control refers to the right to use, consume, and sell the asset**. *See* KPMG Revenue – IFRS 15 Handbook, p.114 (hereafter the "KPMG Guide"). The following diagram summarizes the analysis of the transfer of control according to the KPMG Guide, p.149, IFRS 15.38.

816. In addition to not having legal title to pass, CannTrust also could not establish a second, separate condition for revenue recognition—**that collectability was reasonably assured**, even if the customer had already paid for it—for the simple reason that CannTrust was faced with the very real prospect that customers would demand a refund if the unlicensed ***or*** black market nature of the product was revealed. In other words, customers could demand a

refund because they were not buying the same product that CannTrust was representing and warranted that it was selling.[37]

817. In such circumstances, where an entity cannot conclude that a **legally enforceable** contract exists (either because the entity does not have legal title or collectability cannot be reasonably assured), CannTrust was **required to defer the revenue on sales of such products because the customer payments received constitute a deposit liability**. *See* IFRS 15.16 and 15.B20; KPMG Guide, pp.15, 241.[38]

> **Revenue recognition may be deferred for a significant period**
>
> If an entity cannot conclude that a legally enforceable contract exists, then it may be difficult to evaluate when all or substantially all of the promised consideration has been received and is non-refundable. In some cases, an entity may have a deposit liability recognised for a significant period of time before it can conclude that a contract exists in the model or that the criteria for recognising the consideration as revenue are met.

KPMG Guide, p.15

818. Critically, however, CannTrust's financial statements did not reflect any accounting for deferred revenue as of either December 31, 2018 or March 31, 2019 or at any other time during the Class Period:

[37] To be sure, these exact events occurred after Health Canada discovered CannTrust's illicit growing and storing scheme. For example, on August 19, 2019, the Ontario Cannabis Store (OCS) determined that all of its inventory of CannTrust product constituted Non-Conforming Products and would be returned. The value of OCS's inventory at that time was C$2.9 million. This return was substantial despite the fact that it was from a single customer. Indeed, CannTrust's total revenue for the quarter ended March 31, 2019 was C$16.9 million. Thus, this customer return accounted for approximately 17% of CannTrust's total quarterly revenue.

[38] *See also*, KPMG Guide § 1.1, "A contract with a customer is in the scope of the standard when the contract is legally enforceable and certain criteria are met. If the criteria are not met, then the contract does not exist for the purpose of applying the general model of the standard, and any consideration received from the customer is generally recognised as a deposit (liability)."

CannTrust Holdings Inc.
Condensed Interim Consolidated Statements of Financial Position
(in Canadian dollars)

	Notes	March 31, 2019	December 31, 2018
Current			
Accounts payable and accrued liabilities		**11,327,922**	12,806,458
Current portion of promissory note		**200,000**	200,000
Current portion of mortgage	10	**13,210,731**	3,790,610
Total current liabilities		**24,738,653**	16,797,068
Promissory note		**400,000**	600,000
Mortgage	10	-	9,457,876
Lease liability	3	**1,785,059**	-
Deferred tax	17	**7,430,000**	1,433,000
Total Liabilities		**34,353,712**	28,287,944

819. Furthermore, under IFRS Rule 15.110, CannTrust was required to disclose sufficient information to enable investors who rely on its financial statements to understand the nature, amount, timing, **and uncertainty** of revenue and cash flows arising from contracts with customers. During the Class Period, CannTrust failed to disclose the existence of any uncertainty surrounding the Company's revenues and cash flows despite knowing that—as discussed above—there was significant uncertainty surrounding revenue generated from illicitly grown and sold cannabis.

820. That Defendants did not disclose any such uncertainty is not surprising. Defendants knew that if Health Canada were to discover the illicit growing and storing scheme and use of black market seeds, there was an extremely high probability that CannTrust's customers would return the non-conforming cannabis because, like CannTrust, the customer would no longer have or be able to pass legal title of an unregulated and non-conforming product. However, CannTrust obviously did not disclose the existence of such regulatory uncertainty because in doing so they would have to simultaneously disclose that the reason for deferring such revenue was because of the uncertainty associated with CannTrust's illicit growing and storing scheme and use of black-market seeds.

821. Accordingly, CannTrust overstated its revenue because it recognized revenue from illicitly grown and black-market cannabis that was not recognizable under the relevant IFRS and KPMG accounting standards set forth above.

2. KPMG Issued A Clean Audit Report That Containd False and Misleading Statements

822. In addition to the false and misleading revenue, biological assets, and inventory figures set forth in CannTrust's KPMG audited consolidated financial statements filed on March 27, 2019, KPMG made numerous false and misleading statements in its Audit Report.

823. Specifically, KPMG's Audit Report misleadingly told investors that KPMG audited the March 27, 2019 Consolidated Financial Statements and that "***the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018***."

824. KPMG's Audit Report claimed that the auditor had audited the 2018 Annual Financial Statements "***in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud***."

825. In addition the Audit Report misleadingly reassured investors that "***the audit included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements***."

826. The Audit Report continued "***the audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the***

***overall presentation of the consolidated financial statements" and "[KPMG] believe[d] that the audit provide[d] a reasonable basis for [its] opinion**."

827. Finally, the Audit Report stated "***the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018, and the financial performance and its cash flows for the year then ended, in conformity with IFRS**."

828. KPMG prepared and consented to the filing of the Audit Report which contained materially false and misleading consolidated financial statements and were incorporated into the Offering Materials. Specifically, the consolidated financial statements contained overstated revenue, biological assets, and inventory amounts that were disseminated to investors in the Offering. KPMG audited the consolidated financial statements and issued a clean Audit Report despite the fact that these financial figures were materially overstated.

829. Moreover, KPMG's Audit Report contained the false and misleading statements set forth in paragraphs 823-827. These statements were false and misleading because they falsely represented that KPMG performed a thorough audit in accordance with PCAOB Standards and relevant audit procedures, when in fact they had not, and that, as a result, CannTrust's consolidated financial statements were free of material misstatement, whether due to error or fraud, when in fact they contained overstated revenue, biological assets, and inventory figures.

3. The Underwriter Defendants Failed to Perform Adequate Due Diligence

830. Merrill Lynch, Citigroup, Credit Suisse, Jefferies, RBC, and Canaccord underwrote the Offering yet failed to perform satisfactory due diligence with respect to the offering and issuance of CannTrust shares in accordance with their responsibilities.

831. Underwriters are intended to be gatekeepers and are supposed to serve as independent checks on management and to bring to light critical negative information and risks about the issuer to investors intending on purchasing shares in the offering. During the due diligence process, the underwriter is charged with reviewing all pertinent documents and interviewing all relevant individuals to identify all aspects of the issuer's operations that need to be disclosed. As the treatise "Due Diligence - Periodic Reports and Securities Offerings" describes it, "[t]he underwriter should look upon due diligence primarily as an attempt to find 'red flags' which indicate potential danger."

832. This process provides comfort that investors receive full and fair disclosure of all material facts. If, during their due diligence investigation, the underwriters learn of material negative information regarding the issuer, they must insist that such information be disclosed to the investing public or withdraw from the offering. Complete and adequate disclosure is the very purpose of due diligence. Thus, no amount of due diligence or investigation can serve as a defense or an excuse to an underwriter who possesses material negative information about an issuer and fails to disclose such information to the public.

833. An underwriter needs to conduct substantial due diligence in connection with each public offering to ensure the timeliness and accuracy of the information as of the date of the offering. Moreover, Underwriters must conduct their due diligence with the reasonable care "required of a prudent man in the management of his own property." *See* 15 U.S.C. §77(k)(c).

834. Likewise, according to well-regarded treatises covering due diligence "[m]aterial federal, state and local regulations affecting the target company should be understood and, where appropriate, reviewed with target company or special counsel." *See* Due Diligence in Business Transactions, Lawrence, release 48, 2018, Law Journal Press, §1.05 [h]. Additionally, it may be

desirable for a member of the target company's management to assemble a list of material licenses and permits that it possesses in connection with the operation of its business or the ownership of its property." *See id.*

835. For issuers that conduct business in regulated industries (such as cannabis) the underwriters (or the underwriters' counsel) are obligated to review the regulatory status of the issuer. First, underwriters ask underwriters' counsel to undertake an investigation of the applicable laws and regulations affecting the issuer; second, underwriters or their counsel review correspondence between the applicable regulatory agencies and the issuer; and third, underwriters interview the issuer's general counsel or other responsible parties concerning regulatory compliance.

836. According to one well-regarded treatise, in such circumstances the Underwriter Defendants (or their counsel) were required to engage in a "comprehensive document review" of CannTrust's regulatory filings, permits, and licenses to ensure that the issuing company was in compliance with applicable regulations. According to one leading treatise on due diligence, "comprehensive document review" should cover:

i. Notices to and from regulatory authorities including notices of violation.

ii. Correspondence with regulatory authorities, including requests and responses…

iii. Audit and inspection reports . . .

iv. Permits and permit applications (especially when pending), related memoranda and correspondence.

v. Management/review committee reports, memoranda, intracompany correspondence…

See Due Diligence – Periodic Reports and Securities Offerings 2014- 2015 Edition, Haft, Haft & Hudson, Thompson Reuters, § 2.23 (e).

837. Critically, in conducting due diligence, an underwriter cannot simply rely on management statements and representations, and instead must conduct a reasonable investigation to independently verify management's statements. Similarly, underwriters may not rely on an accountant's or auditor's report as adequate due diligence for financial statements. Rather, underwriters have a duty to perform their own financial analysis of the issuer and identify for themselves any red flags, inconsistencies, or areas of concern that impact the issuer's business and financial condition, and follow up on any issues that they uncover in their investigation. Underwriters are uniquely positioned to investigate non-audited financial statements and protect investors.

838. As discussed above, there were numerous red flags contained in CannTrust's consolidated financial statements and other documents included in the Offering Materials. For example, in the fourth quarter of 2018, CannTrust's cannabis volume tripled as compared to the three earlier quarters in 2018. As a result, total grams of cannabis sold by CannTrust in Q4 2018 constituted at least 50% of total grams sold during the entire fiscal year 2018. A comprehensive document review of CannTrust's consolidated financial statements and the underlying materials should have included a review of this unprecedented increase in production capacity from the Niagara Facility as well as an inquiry into the source of the cannabis and confirmation that the appropriate regulatory licenses permits were in place.

839. Here, the Underwriters failed to perform any such due diligence. Had they done so, the Underwriter Defendants would have uncovered the fact that CannTrust was materially overstating its revenue, biological assets, and inventory as a result of growing and storing cannabis in unlicensed rooms and growing cannabis from black-market seeds in violation of Health Canada regulations.

XVIII. CLASS ALLEGATIONS

840. Lead Plaintiffs bring this action as a class action pursuant to Rule 23 of the Federal Rules of Civil Procedure on behalf of all persons and entities who purchased or otherwise acquired CannTrust common stock pursuant and traceable to the Offering Materials issued in connection with the secondary public offering, completed on May 6, 2019 (the "Offering"). Excluded from the Class are: (i) Defendants; (ii) members of the immediate family of any Defendant who is an individual; (iii) any person who was an officer or director of CannTrust during the Class Period; (iv) any firm, trust, corporation, or other entity in which any Defendant (or members of the immediate family of any Defendant) has or had a controlling interest; (v) CannTrust's employee retirement and benefit plan(s) and their participants or beneficiaries, to the extent they made purchases through such plan(s); and (vi) the legal representatives, affiliates, heirs, successors-in-interest, or assigns of any such excluded person.

841. The members of the Class are so numerous that joinder of all members is impracticable. According to its quarterly and annual reports filed with the SEC, during the Class Period, CannTrust had approximately 136,563,951 shares of common stock outstanding and was actively traded on the NYSE under the ticker symbol "CTST," on the TSX under the ticker symbol "TRST," and, prior to February 25, 2019, on the OTC Market under the ticker symbol "CNTTF." While the exact number of Class members is unknown to Lead Plaintiffs at this time, and such number can only be ascertained through appropriate discovery, Lead Plaintiffs believe that the proposed Class has thousands of members and is widely dispersed geographically. Record owners and other members of the Class may be identified from records maintained by CannTrust and/or its transfer agent and may be notified of the pendency of this action by mail, using a form of notice similar to that customarily used in securities class actions.

842. Lead Plaintiffs' claims are typical of the claims of the members of the Class. All members of the Class were similarly affected by the Security Act Defendants' allegedly wrongful conduct in violation of the Security Act as complained of herein.

843. Lead Plaintiffs will fairly and adequately protect the interests of the members of the Class. Lead Plaintiffs have retained counsel competent and experienced in class and securities litigation.

844. Common questions of law and fact exist as to all members of the Class, and predominate over questions solely affecting individual members of the Class. The questions of law and fact common to the Class include, but are not necessarily limited to, the following:

(a) Whether Defendants violated the federal securities laws by their acts and omissions alleged herein;

(b) Whether the Offering Documents were negligently prepared and contained inaccurate statements of material fact and/or omitted material information required to be stated therein;

(c) Whether, and to what extent, the market price of CannTrust common stock and exchange-traded options on such common stock was artificially inflated because of the material misstatements alleged herein;

(d) Whether the Securities Act Individual Defendants were controlling persons of CannTrust; and

(e) Whether the members of the Securities Act Class have sustained damages as a result of the conduct complained of herein, and if so, the proper measure of such damages.

845. A class action is superior to all other available methods for the fair and efficient adjudication of this controversy because, among other things, joinder of all members of the Class is impracticable. Furthermore, as the damages suffered by individual Class members may be relatively small, the expense and burden of individual litigation make it impossible for members of the Class to individually redress the wrongs done to them. There will be no difficulty in the management of this action as a class action.

XIX. CAUSES OF ACTION

COUNT III

For Violations of Section 11 of the Securities Act
Against The Securities Act Defendants

846. Plaintiffs repeat and reallege the allegations contained in paragraphs 707-845 above as if fully set forth herein.

847. This cause of action is predicated upon the Securities Act Defendants' strict liability for making false and materially misleading statements and omissions in the Registration Statement, which incorporated all Offering Materials.

848. This Cause of Action does not sound in fraud. Any proceeding allegations of fraud, fraudulent conduct, or improper motive are specifically excluded from this Cause of Action. Lead Plaintiffs do not allege for this cause of Action that the Securities Act Defendants had scienter or fraudulent intent, which are not elements of this claim.

849. This cause of Action is brought pursuant to Section 11 of the Securities Act of 1933, 15 U.S.C. §77k, on behalf of all persons who purchased CannTrust common stock pursuant to and/or traceable to the Offering, in which shares registered under the Registration Statement were sold.

850. CannTrust is the issuer of the securities purchased by Lead Plaintiffs and the Class. As such, CannTrust is strictly liable for the materially untrue statements contained in the Offering Materials and the failure of the Offering Materials to be complete and accurate.

851. The Individual Securities Act Defendants each signed the Registration Statement or authorized the signing of the Registration Statement on their behalf. As such, each is strictly liable for the materially inaccurate statements contained therein and the failure of the Registration Statement to be complete and accurate, unless they are able to carry their burden of establishing an affirmative "due diligence" defense. The Individual Securities Act Defendants each had a duty to make a reasonable and diligent investigation of the truthfulness and accuracy of the statements contained in the Registration Statement, to ensure that they were true and accurate, that there were no omissions of material facts that would make the Registration Statement misleading, and that the document contained all facts required to be stated therein. These Individual Securities Act Defendants failed to conduct a reasonable investigation and did not possess reasonable grounds for believing that the statements contained therein were true and not materially misleading. Accordingly, the Individual Securities Act Defendants are liable to Lead Plaintiffs and the Class.

852. KPMG is strictly liable for the contents of the Registration Statement as the auditor of CannTrust's 2018 financial statements that consented to the inclusion of its expert report and opinion pursuant to Section 11(a)(4) of the Securities Act.

853. The Underwriter Defendants each served as underwriters in connection with the Offering. As such, each is strictly liable for the materially inaccurate statements contained in the Offering Materials and the failure of the Offering Materials to be complete and accurate, unless they are able to carry their burden of establishing an affirmative "due diligence" defense. These

defendants each had a duty to make a reasonable and diligent investigation of the truthfulness and accuracy of the statements contained in the Offering Materials. They had a duty to ensure that the Offering Materials were true and accurate, that there were no omissions of material facts that would make the Offering Materials misleading, and that the documents contained all facts required to be stated therein. In the exercise of reasonable care, the Underwriter Defendants should have known of the material misstatements and omissions contained in the Offering Materials and also should have known of the omissions of material facts necessary to make the statements made therein not misleading. Accordingly, each of the Underwriter Defendants is liable to Lead Plaintiffs and the Class.

854. By reason of the conduct herein alleged, each of the Securities Act Defendants named herein violated Section 11 of the Securities Act.

855. Lead Plaintiffs acquired CannTrust common stock pursuant or traceable to the Registration Statement used for the Offering and without knowledge of the material omissions or misrepresentations alleged herein.

856. Lead Plaintiffs and the Class have sustained damages, as the value of CannTrust common stock has declined substantially subsequent to and due to the Securities Act Defendants' violations.

857. This claim was brought within one year after the discovery of the untrue statements and omissions and within three years of the date of the Offering.

858. By virtue of the foregoing, Lead Plaintiffs and the other members of the Class are entitled to damages under Section 11 as measured by the provisions of Section 11(e), from the Securities Act Defendants, jointly and severally.

COUNT IV

For Violation of Section 12 (a)(2) of the Securities Act of 1933 Against The Securities Act Defendants

859. Lead Plaintiffs repeat and reallege the allegations contained in paragraphs 707-845 above as if fully set forth herein.

860. This cause of action is brought pursuant to Section 12(a)(2) of the Securities Act, 15 U.S.C. § 771(a)(2), on behalf of the Class, against the Securities Act Defendants.

861. This cause of action does not sound in fraud. Lead Plaintiffs do not allege that any of the Defendants committed intentional or reckless misconduct or that any of the Defendants acted with scienter or fraudulent intent, which are not elements of a Section 12(a)(2) claim. This Count is based solely on negligence and/or strict liability. Lead Plaintiffs expressly disclaim any allegations of scienter or fraudulent intent in these non-fraud claims except that any challenged statements of opinion or belief made in connection with the Offering are alleged to have been materially misstated statements of opinion or belief when made.

862. Each of the Defendants named in this Count were sellers, offerors, and/or solicitors of purchasers of the Company's common stock pursuant to the defective Offering Documents. The actions of solicitation by the Defendants named in this Count included participating in the preparation of the false and misleading Offering Documents, roadshow, and marketing of CannTrust common stock to investors, such as Lead Plaintiffs and the other members of the Class.

863. The Prospectus contained untrue statements of material fact, omitted to state other facts necessary to make the statements made therein not misleading, and omitted to state material facts required to be stated therein.

864. Each of Defendants named in this Count owed to the purchasers of CannTrust's common stock, including Lead Plaintiffs and other members of the Class, the duty to make a reasonable and diligent investigation of the statements contained in the Registration Statement to ensure that such statements were true and that there was no omission to state a material fact required to be stated in order to make the statements contained therein not misleading. By virtue of each of these Defendants' failure to exercise reasonable care, the Registration Statement contained misrepresentations of material facts and omissions of material facts necessary to make the statements therein not misleading.

865. Lead Plaintiffs did not know, nor in the exercise of reasonable diligence could Lead Plaintiffs have known, of the untruths and omissions contained in the Prospectus at the time Lead Plaintiffs purchased CannTrust shares.

866. By reason of the conduct alleged herein, the Defendants named in this Count violated Section 12(a)(2) of the Securities Act. As a direct and proximate result of such violation, Lead Plaintiffs and the other members of the Class who purchased CannTrust shares pursuant to the Registration Statement sustained substantial damages in connection with their share purchases. Accordingly, Lead Plaintiffs and the other members of the Class who hold the shares issued pursuant to the Registration Statement have the right to rescind and recover the consideration paid for their shares with interest thereon or damages as allowed by law or in equity. Class members who have sold their CannTrust shares seek damages to the extent permitted by law.

COUNT V

For Violation of Section 15 of the Securities Act of 1933 Against CannTrust, the Individual Securities Act Defendants, Cannamed, and Cajun

867. Lead Plaintiffs repeat and reallege the allegations contained in paragraphs 707-845 above as if fully set forth herein.

868. This cause of action is brought pursuant to Section 15 of the Securities Act of 1933, 15 U.S.C. §77o, on behalf of all persons who purchased CannTrust common stock pursuant to and/or traceable to the Offering, against CannTrust, the Individual Securities Act Defendants, Cannamed and Cajun. This count is based solely on claims of strict liability and/or negligence under the Securities Act.

869. At all relevant times, the Individual Securities Act Defendants each were control persons of CannTrust by virtue of their positions as directors and/or senior officers of the Company. Each of the Individual Defendants had a series of direct and/or indirect business and/or personal relationships with other directors and/or officers and/or major stockholders of CannTrust.

870. At all relevant times, Cannamed and Cajun were control persons of CannTrust by virtue of their stockholdings in the Company and their affiliated Board members. CannTrust controlled the Individual Securities Act Defendants and all of its employees.

871. CannTrust, Cannamed, Cajun and the Individual Securities Act Defendants did not conduct a reasonable investigation or possess a reasonable basis for the belief that the statements contained in the Offering Materials were true, were without omission of material fact, and were not misleading.

872. CannTrust, and the Individual Securities Act Defendants each were culpable participants in the violations of Section 11 of the Securities Act alleged in the First Cause of

Action above, based on their having signed or authorized the signing of the Registration Statement and having otherwise participated in the process which allowed the Offering to be successfully completed.

873. As a direct result of the aforementioned conduct, these Class members suffered damages in connection with their purchase of CannTrust common stock. This claim was brought within one year after the discovery of the untrue statements and omissions and within three years of the date of the Offering.

PRAYER FOR RELIEF

WHEREFORE, Lead Plaintiffs pray for relief and judgment as follows:

A. Determining that this action is a proper class action, and certifying Lead Plaintiffs as the Securities Act Class representative under Rule 23 of the Federal Rules of Civil Procedure and Lead Plaintiffs' counsel as Lead Counsel for the Securities Act Class;

B. Awarding compensatory damages in favor of Lead Plaintiffs and the other Securities Act Class members against all Defendants, jointly and severally, for all damages sustained as a result of Defendants' wrongdoing, in an amount to be determined at trial, including pre-judgment and post-judgment interest, as allowed by law;

C. Awarding Lead Plaintiffs and the Securities Act Class their reasonable costs and expenses incurred in this action, including counsel fees and expert fees; and

D. Awarding such equitable/injunctive or other relief as deemed appropriate by the Court.

JURY DEMAND

Plaintiffs demand a trial by jury as to both the Exchange Act Claims and the Securities Act Claims.

DATED: June 26, 2020

Respectfully submitted,

/s/ James W. Johnson
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EXHIBIT C

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

In Re: CANNTRUST HOLDINGS INC. SECURITIES LITIGATION	19-cv-6396 (JPO) **STIPULATION AND ORDER**

WHEREAS, on July 10, 2019 Chun Huang filed the original complaint in the above-captioned action (the "Action") against CannTrust Holdings Inc. ("CannTrust"), Peter Aceto and Greg Guyatt (the "Individual Defendants" and together with CannTrust, the "Defendants");

WHEREAS, on or about March 31, 2020, CannTrust filed an application pursuant to the Companies' Creditors Arrangement Act ("CCAA") in the Ontario Superior Court of Justice in Canada (the "Canadian Action");

WHEREAS, on April 16, 2020, the Court issued an opinion and order granting the Granite Point Funds' motion for appointment as Lead Plaintiffs, approving the appointment of Labaton Sucharow LLP as Lead Counsel and consolidating the actions under Case Number 19 Civ. 6396 for all purposes, including discovery, pretrial proceedings, and trial;

WHEREAS, the Court entered a Stipulation and Order on April 27, 2020 (the "Stipulation"), pursuant to which Lead Plaintiffs were to file their Amended Complaint within 60 days;

WHEREAS, on May 6, 2020, the Court in the Canadian Action issued a Mediation Order and appointed the Hon. Dennis O'Connor, Q.C. as the Court-appointed mediator (the "Mediator") to mediate a global settlement of the claims against CannTrust;

WHEREAS, Lead Plaintiffs have voluntarily agreed to participate in the Canadian mediation process under the terms of the Mediation Order;

WHEREAS, pursuant to the Stipulation, Lead Plaintiffs filed their Amended Complaint on June 26, 2020 (the "Amended Complaint") naming several new parties as defendants and adding several new securities claims;

WHEREAS, the mediation process ordered by the Court in the Canadian Action is ongoing, with opening submissions scheduled to be submitted to the Mediator on July 10, 2020;

WHEREAS, pursuant to the Stipulation, the parties are required to meet and confer and submit a proposed schedule for responses to the Amended Complaint for the Court's consideration within 10 days of the filing of the Amended Complaint;

WHEREAS, the parties wish to avoid distracting from the mediation process, while expressly reserving all rights including, without limitation, any arguments concerning the applicability or extent of any stay that exists as a result of the process in the Canadian Action, and to enter into this stipulation without prejudice to such rights and arguments;

IT IS HEREBY STIPULATED AND AGREED, by and among the undersigned counsel for the parties, that:

1. This action is stayed until such time as; (a) the Mediator declares the mediation process has concluded; or (b) the Court in the Canadian Action lifts the stay of the proceedings in Canada, whichever is earlier.

2. The parties shall submit a joint status report in 60 days.

3. After such a declaration by the Mediator that the mediation process has concluded or the Court in the Canadian Action has lifted the stay of the proceedings in Canada, if this action has not been resolved, the parties shall meet and confer regarding the status of this action and, to the extent necessary, shall submit a proposed schedule for the Court's consideration regarding the timing for any answer, motion or other response to the Amended Complaint, which may include,

without limitation, motions concerning the applicability or scope of any stay applicable to this action.

4. Any party may seek to modify or lift the stay for good cause shown at any time and any and all defenses or arguments with respect to such a request are preserved.

Dated: July 6, 2020

/s/James W. Johnson (with consent)
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Michael H. Rogers
David J. Schwartz
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Counsel for Lead Plaintiffs Granite Point Capital Master Fund, LP and Granite Point Capital Scorpion Focused Ideas Fund, and Lead Counsel for the Class

/s/Susan L. Saltzstein
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Scott D. Musoff
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Counsel for Defendant CannTrust Holdings, Inc.

/s/Joseph De Simone (with consent)
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Counsel for Defendant Peter Aceto

/s/Andrew W. Stern (with consent)
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igreaney@sidley.com

Counsel for Defendant Greg Guyatt

Dated: July 7, 2020
New York, New York

SO ORDERED.

J. PAUL OETKEN
United States District Judge

TAB 5

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

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

THE HONOURABLE	)	THURSDAY, THE 28th
	)	
MR. JUSTICE HAINEY	)	DAY OF JANUARY, 2021

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.

Applicants

ORDER
(Stay Extension)

THIS MOTION, made by the Applicants, pursuant to the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended, for an order (i) extending the stay of proceedings up to and including April 30, 2021, (ii) approving the activities, fees and disbursements of Ernst & Young Inc. in its capacity as court-appointed monitor of the Applicants (the "**Monitor**") and its counsel, and (iii) sealing a supplemental letter agreement, was heard this day by way of Zoom judicial video conference due to the COVID-19 pandemic.

ON READING (i) the Notice of Motion of the Applicants dated January 20, 2021, (ii) the affidavit of Greg Guyatt sworn January 20, 2021 (the "**Guyatt Affidavit**") and the exhibits thereto, and (iii) the Sixth Report of Ernst & Young Inc. in its capacity as the monitor of the Applicants (the "**Monitor**") dated January ●, 2021 (the "**Sixth Report**"), and on hearing the submissions of counsel for the Applicants, the Monitor, and such other counsel as were present as listed on the counsel slip, no one else appearing although duly served as appears from the affidavit of service, filed:

SERVICE

1. **THIS COURT ORDERS** that the time for service and filing of the Notice of Motion and the Motion Record of the Applicants in support of this motion and the Sixth Report is hereby abridged and validated such that this motion is properly returnable today and hereby dispenses with further service thereof.

EXTENSION OF STAY PERIOD

2. **THIS COURT ORDERS** that the Stay Period provided in the Initial Order dated March 31, 2020 in these proceedings, as amended, be and is hereby extended until and including April 30, 2021 or such later date as this Court may order.

APPROVAL OF THE SIXTH REPORT

3. **THIS COURT ORDERS** that the Sixth Report and the actions and activities of the Monitor described therein are hereby approved, provided however, that only the Monitor, in its personal capacity and only with respect to its own personal liability, shall be entitled to rely upon or utilize in any way such approval.

FEE APPROVAL

4. **THIS COURT ORDERS** that the fees and disbursements of the Monitor in the amount of $● (exclusive of HST) for the period from ● to ● inclusive, as set out in the Sixth Report, are hereby approved.

5. **THIS COURT ORDERS** that the fees and disbursements of Aird & Berlis LLP, in its capacity as counsel to the Monitor, in the amount of $● (exclusive of HST) for the period from ● to ● inclusive, as set out in the Sixth Report, are hereby approved.

SEALING

6. **THIS COURT ORDERS** that the supplemental letter agreement, a copy of which is attached as Confidential Exhibit “H” to the Guyatt Affidavit, shall be and is hereby sealed, kept confidential, and shall not form part of the public record unless otherwise ordered by the Court.

GENERAL

7. **THIS COURT ORDERS** that this Order shall have full force and effect in all provinces and territories in Canada, outside Canada and against all persons against whom it may be enforceable.

8. **THIS COURT ORDERS** that this Order is effective from the date that it is made, and is enforceable without any need for entry and filing.

9. **THIS COURT HEREBY REQUESTS** the aid and recognition of any court, tribunal, regulatory or administrative body having jurisdiction in Canada or in the United States to give effect to this Order and to assist the Applicants and the Monitor, and their respective agents in carrying out the terms of this Order. All courts, tribunals, regulatory and administrative bodies are hereby respectfully requested to make such orders and to provide such assistance to the Monitor, as an officer of this Court, as may be necessary or desirable to give effect to this Order or to assist the Monitor and its agents in carrying out the terms of this Order.

10. **THIS COURT ORDERS** that each of the Applicants and the Monitor be at liberty and are hereby authorized and empowered to apply to any court, tribunal, regulatory or administrative body, wherever located, for the recognition of this Order and for assistance in carrying out the terms of this Order.

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. ET AL.

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

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

Proceeding commenced at Toronto

ORDER
(Stay Extension)

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Lawyers for the Applicants

TAB 6

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

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

THE HONOURABLE	)	THURSDAY, THE 28th
	)	
MR. JUSTICE HAINEY	)	OF JANUARY, 2021

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.

Applicants

ORDER

(CCAA Representatives and
CCAA Representative Counsel Appointment Order)

THIS MOTION made by the Applicants pursuant to the *Companies' Creditors Arrangement* Act, R.S.C. 1985, c. C-36, as amended (the "**CCAA**") for, among other things, an order appointing representatives and representative counsel for Securities Claimants (as defined below), was heard this day by way of Zoom judicial video conference due to the COVID-19 pandemic.

ON READING (i) the Notice of Motion of the Applicants dated January 20, 2021, (ii) the affidavit of Greg Guyatt sworn January 20, 2021 (the "**Guyatt Affidavit**") and the exhibits thereto, (iii) the affidavit of Serge Kalloghlian sworn January 20, 2021 and the exhibits thereto, (iv) the affidavit of James W. Johnson sworn January 20, 2021 and the exhibits thereto, and (v) the Sixth Report of Ernst & Young Inc. in its capacity as the monitor of the Applicants (the "**Monitor**") dated ●, 2021 (the "**Sixth Report**"), and on hearing the submissions of counsel for the Applicants, the Monitor and such other counsel as were present as listed on the counsel slip, no one else appearing although duly served as appears from the affidavit of service, filed:

SERVICE

1. **THIS COURT ORDERS** that the time for service and filing of the Notice of Motion and the Motion Record of the Applicants in support of this motion and the Sixth Report is hereby abridged and validated so that this motion is properly returnable today and hereby dispenses with further service thereof.

DEFINITIONS

2. **THIS COURT ORDERS** that, in addition to the capitalized terms defined elsewhere in this Order, the capitalized terms set out in Schedule "A" have the meanings given to them in that schedule.

APPOINTMENT OF CCAA REPRESENTATIVES AND CCAA REPRESENTATIVE COUNSEL

3. **THIS COURT ORDERS** that, subject to paragraph 7, Dharambir Singh and Patrick Hrusa (the **"CCAA Canadian Representatives"**) are hereby appointed to represent the interests of all Canadian and Non-U.S. Securities Claimants in these proceedings in relation to their Securities Claims and any related claims, including in relation to any negotiations with respect to the settlement of Securities Claims and the prosecution or settlement of any related claims and the development of the CCAA Plan and any related definitive documentation.

4. **THIS COURT ORDERS** that, subject to paragraph 7, Granite Point Master Fund, LP and Granite Point Capital Scorpion Focused Ideas Fund (the **"CCAA U.S. Representatives"**, and collectively with the CCAA Canadian Representatives, the **"CCAA Representatives"**) are hereby appointed to represent the interests of the U.S. Securities Claimants in these proceedings in relation to their Securities Claims and any related claims, including in relation to any negotiations with respect to the settlement of Securities Claims and the prosecution or settlement of any related claims and the development of the CCAA Plan and any related definitive documentation.

5. **THIS COURT ORDERS** that, subject to paragraph 7, A. Dimitri Lascaris Law Professional Corporation, Henein Hutchinson LLP, Kalloghlian Myers LLP and

Strosberg Sasso Sutts LLP **("CCAA Canadian Representative Counsel")** are hereby appointed as counsel for the Canadian and Non-U.S. Securities Claimants in these proceedings in relation to their Securities Claims and any related claims, and are authorized and directed to take instructions from the CCAA Canadian Representatives, when and to the extent instructions are provided by them on matters from time to time, and otherwise are authorized to act on behalf of the Canadian and Non-U.S. Securities Claimants from time to time in these proceedings in relation to their Securities Claims and any related claims.

6. **THIS COURT ORDERS** that, subject to paragraph 7, Weisz Fell Kour LLP in association with U.S. Class Action counsel Labaton Sucharow LLP, ("**CCAA U.S. Representative Counsel**", and collectively with CCAA Canadian Representative Counsel, **"CCAA Representative Counsel**") are hereby appointed as counsel for the U.S. Securities Claimants in these proceedings in relation to their Securities Claims and any related claims, and are authorized and directed to take instructions from the CCAA U.S. Representatives, when and to the extent instructions are provided by them on matters from time to time, and otherwise are authorized to act on behalf of the U.S. Securities Claimants from time to time in these proceedings in relation to their Securities Claims and any related claims.

7. **THIS COURT ORDERS** that: Zola Finance Holdings Ltd and Igor Gimelshtein; 1604070 Alberta Ltd., Jeff Dyck, and Diran Avedian; Stephen Rosen and Albert Wahbe; and Shmuel Farhi and their respective counsel are not subject to paragraphs 3, 4, 5, and 6 of this Order (collectively, together with any other person who this Court orders is not subject to paragraphs 3, 4, 5, or 6 of this Order, the "**Excluded Securities Claimants**").

8. **THIS COURT ORDERS** that, without limiting the scope of the authorizations granted in paragraphs 3, 4, 5, 6 and 9:

(a) the CCAA Representatives and CCAA Representative Counsel shall be at liberty to consult with each other, the Monitor and its counsel, the Applicants and their counsel, and other stakeholders and their respective counsel, including in relation to any negotiations with respect to the settlement of Securities Claims and the prosecution or settlement of any related claims and the development of the CCAA Plan and any related definitive documentation;

(b) the CCAA Representatives and CCAA Representative Counsel shall be at liberty to consult with and obtain input from Securities Claimants in relation to their activities in their respective roles under this Order;

(c) the CCAA Representatives and CCAA Representative Counsel, in their respective capacities as such, shall be at liberty to enter into one or more non-disclosure agreements with the Applicants in relation to confidential information of, or relating to, the Applicants or relating to the Securities Claims;

(d) the CCAA Representatives and CCAA Representative Counsel, in their capacities as such, shall be at liberty to agree to become parties to, and be bound by, the Restructuring Support Agreement (provided that nothing in this Order constitutes approval of the Restructuring Support Agreement or the transactions contemplated thereby); and

(e) the CCAA Representatives and CCAA Representative Counsel shall be at liberty to apply to this Court, on notice to the Monitor and the Applicants, for advice and directions at such times as they may so require.

9. **THIS COURT ORDERS** that the CCAA Representatives and CCAA Representative Counsel are authorized to take all steps and to do all acts necessary or desirable to carry out the terms of this Order, including dealing with any other court, regulatory body and other government ministry, department or agency, and to take all such steps as are necessary or incidental hereto.

NOTICE PROCEDURE

10. **THIS COURT ORDERS** that each of the Applicants and CCAA Representative Counsel are authorized and directed to provide to the Monitor without delay and without charge, the names, last known addresses and last known e-mail addresses (if any) of all Securities Claimants of which they are specifically aware currently or from whom they have received written notice, including the plaintiffs named in any of the Actions ("**Known Securities Claimants**"), and the Applicants and CCAA Representative Counsel are hereby permitted to do so pursuant to clause 7(3)(c) of the *Personal Information Protection and Electronic Documents Act,* S.C. 2000, c. 5, as amended.

11. **THIS COURT ORDERS** that the Monitor shall not disclose the names of any Securities Claimants or Known Securities Claimants, other than to the Applicants, without prior written notice from CCAA Representative Counsel.

12. **THIS COURT ORDERS** that notice of the granting of this Order shall be provided as follows:

(a) notice in substantially the form set out in Schedule "B" hereto (the "**Notice**") shall be published by the Applicants in *The Globe and Mail* (National Edition) and the Wall Street Journal on at least one occasion within five (5) Business Days of the date of this Order;

(b) the Applicants shall issue a press release consisting of, or that includes, the Notice, in form and content satisfactory to the Monitor, and make a corresponding filing on SEDAR, within five (5) Business Days of the date of this Order;

(c) the Monitor shall send a copy of the Notice to each of the Known Securities Claimants within three (3) Business Days of this Order by email (if known) or by first class mail, addressed to the Known Securities Claimants at the addresses provided by the Applicants and CCAA Representative Counsel pursuant to paragraph 10; and

(d) the Monitor shall post a copy of the Notice to the Monitor’s Website.

13. **THIS COURT ORDERS** that treatment of the Securities Claims of the Excluded Securities Claimants pursuant to any CCAA Plan proposed by the Applicants or any further Order of the Court in these proceedings is not changed, limited, or otherwise affected by their status as Excluded Securities Claimants under this Order.

PROTECTIONS

14. **THIS COURT ORDERS** that the CCAA Representatives and CCAA Representative Counsel shall have no liability as a result of their appointment or the fulfillment of their duties in carrying out the provisions of this Order or any further Order of the Court in these proceedings, save and except for any gross negligence or wilful misconduct on their part.

15. **THIS COURT ORDERS** that the appointment of CCAA Representative Counsel pursuant to this Order shall not prevent any of the individual lawyers from the firms that comprise CCAA Representative Counsel from acting as trustee(s) of any trust established for the benefit of Securities Claimants pursuant to the CCAA Plan.

MISCELLANEOUS

16. **THIS COURT ORDERS** that this Order shall have full force and effect in all provinces and territories in Canada, outside Canada and against all persons against whom it may be enforceable.

17. **THIS COURT ORDERS** that this Order is effective from the date that it is made, and is enforceable without any need for entry and filing.

18. **THIS COURT HEREBY REQUESTS** the aid and recognition of any court, tribunal, regulatory or administrative body having jurisdiction in Canada or in the United States, or abroad, to give effect to this Order and to assist the Applicants, the Monitor, the CCAA Representatives and CCAA Representative Counsel in carrying out the terms of this Order. All courts, tribunals, regulatory and administrative bodies are hereby respectfully requested to make such orders and to provide such assistance to the

Applicants, the Monitor, the CCAA Representatives and CCAA Representative Counsel as may be necessary or desirable to give effect to this Order, or to assist the Applicants, the Monitor, the CCAA Representatives and CCAA Representative Counsel in carrying out the terms of this Order.

19. **THIS COURT ORDERS** that each of the Applicants, the Monitor, the CCAA Representatives and CCAA Representative Counsel be at liberty and is hereby authorized and empowered to apply to any court, tribunal, regulatory or administrative body, wherever located, for the recognition of this Order and for assistance in carrying out the terms of this Order.

____

SCHEDULE "A"

DEFINITIONS

"**Actions**" means the actions and other litigation set out in Schedule "D".

"**Business Day**" means a day other than a Saturday or Sunday on which banks are generally open for business in Toronto, Ontario.

"**Canadian and Non-U.S. Securities Claimants**" means all Persons having Securities Claims, excluding U.S. Securities Claimants.

"**CannTrust Holdings**" means CannTrust Holdings Inc.

"**CCAA Plan**" means the plan of compromise, arrangement and reorganization of the Applicants to be filed in these proceedings to effect, among other things, a settlement of Securities Claims (as such plan may be amended from time to time in accordance with its terms).

"**Claim**" means any right or claim of any Person that may be asserted or made in whole or in part against CannTrust Holdings, whether or not asserted or made, in connection with any indebtedness, liability or obligation of any kind whatsoever, and any interest accrued thereon or costs payable in respect thereof, including by reason of the commission of a tort (intentional or unintentional), by reason of any breach of contract or other agreement (oral or written), by reason of any breach of duty (including any legal, statutory, equitable or fiduciary duty) or by reason of any right of ownership of or title to property or assets or right to a trust or deemed trust (statutory, express, implied, resulting, constructive, or otherwise), and whether or not any such indebtedness, liability or obligation is reduced to judgment, liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, undisputed, legal, equitable, secured, unsecured, perfected, unperfected, present or future, known or unknown, by guarantee, surety or otherwise, and whether or not such right or claim is executory or anticipatory in nature (including any right or claim in connection with the sale of any securities by CannTrust Holdings or others pursuant to the public distribution of its securities or any right or ability of any Person to advance a claim for contribution or indemnity or otherwise with respect to any matter, action, cause or chose in action, whether existing at present or commenced in the future), which indebtedness, liability or obligation, and any interest accrued thereon or costs payable in respect thereof (A) is based in whole or in part on facts existing prior to the Filing Date, (B) relates to a time period prior to the Filing Date, or (C) is a right or claim of any kind that would be a claim provable in bankruptcy within the meaning of the *Bankruptcy and Insolvency Act* (Canada) had CannTrust Holdings become bankrupt on the Filing Date.

"**Filing Date**" means March 31, 2020.

"**Person**" means any individual, corporation, firm, limited or unlimited liability company, general or limited partnership, association, trust, unincorporated organization, joint venture, government or any agency, officer or instrumentality thereof or any other entity, wherever situate or domiciled, and whether or not having legal status.

"Restructuring Support Agreement" means the restructuring support agreement dated January 18, 2021 between, among others, CannTrust Holdings and CCAA Representative Counsel.

"**Securities Claim**" means:

(i) any Claim against CannTrust Holdings asserted by a plaintiff or putative plaintiff in an Action; and

(ii) any other Claim against CannTrust Holdings that has been or could be asserted by or on behalf of a current or former shareholder of CannTrust Holdings or another Person in relation to the purchase, sale or ownership by such Person (including as a legal, registered or beneficial purchaser, seller or owner) on or before the Filing Date of an equity interest (as defined in the CCAA) in CannTrust Holdings,

other than a Securities-Related Indemnity Claim.

"**Securities Claimants**" means the holders of Securities Claims.

"Securities-Related Indemnity Claim" means any claim of any Person that has been or may be asserted against CannTrust Holdings (whether pursuant to an agreement, under applicable law or otherwise) for indemnity, advancement, contribution, reimbursement, set-off or otherwise, arising from or in connection with any Securities Claim or securities-related claim asserted against such Person or arising from or in connection with any other claim asserted by a co-defendant in an Action against such Person.

"U.S. Securities Claimants" means all Securities Claimants who purchased the publicly traded common shares of CannTrust Holdings on the New York Stock Exchange or on any other U.S. based trading platform.

SCHEDULE "B"

NOTICE

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. (the "Applicants")

NOTICE OF CCAA REPRESENTATION ORDER

On March 31, 2020, the Applicants commenced proceedings (the "**CCAA Proceedings**") under the *Companies' Creditors Arrangement Act* ("**CCAA**") pursuant to an order of the Ontario Superior Court of Justice (Commercial List) (the "**Court**"). Ernst & Young Inc. has been appointed as the monitor of the Applicants (the "**Monitor**") by the Court.

On January ●, 2021, the Court issued an order (the "**CCAA Representation Order**") appointing certain representatives and representative counsel, as detailed further below. All capitalized terms used but not defined in this Notice have the meaning given to them in the CCAA Representation Order.

TAKE NOTICE THAT, pursuant to the CCAA Representation Order, subject to certain limited exceptions set out therein:

1. the CCAA Canadian Representatives have been appointed to represent the interests of all Canadian and Non-U.S. Securities Claimants in the CCAA Proceedings in relation to their Securities Claims and any related claims;

2. the CCAA U.S. Representatives have been appointed to represent the interests of the U.S. Securities Claimants in the CCAA Proceedings in relation to their Securities Claims and any related claims;

3. A. Dimitri Lascaris Law Professional Corporation, Henein Hutchinson LLP, Kalloghlian Myers LLP and Strosberg Sasso Sutts LLP ("**CCAA Canadian Representative Counsel**") have been appointed as counsel for the Canadian and Non-U.S. Securities Claimants in the CCAA Proceedings in relation to their Securities Claims and any related claims, and are authorized and directed to take instructions from the CCAA Canadian Representatives;

4. Weisz Fell Kour LLP in association with U.S. Class Action counsel Labaton Sucharow LLP ("**CCAA U.S. Representative Counsel**" and collectively with CCAA Canadian Representative Counsel, "**CCAA Representative Counsel**") has been appointed as counsel for the U.S. Securities Claimants in the CCAA Proceedings in relation to their Securities Claims and any related claims, and are

authorized and directed to take instructions from the CCAA U.S. Representatives; and

5. the CCAA Representatives and CCAA Representative Counsel are authorized to, among other things, negotiate with respect to the settlement of Securities Claims and the prosecution or settlement of any related claims and the development of the CCAA Plan and any related definitive documentation.

Copies of the CCAA Representation Order and other documents related to the CCAA Proceedings may be obtained from the case website maintained by the Monitor at http://www.ey.com/ca/canntrust.

If you have any questions regarding these matters, you may contact CCAA Canadian Representative Counsel, CCAA U.S. Representative Counsel and/or the Monitor as follows:

CCAA Canadian Representative Counsel:

●

CCAA U.S. Representative Counsel:

●

Monitor:

Ernst & Young Inc.
Telephone: 1-855-224-0800 or 416-943-2091
Fax: 416-943-3300
Email: CannTrust.Monitor@ca.ey.com

SCHEDULE "C"

EMAIL ADDRESSES FOR NOTIFICATION
OF MONITOR AND CCAA REPRESENTATIVE COUNSEL

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Kalloghlian Myers LLP	serge@kalloghlianmyers.com
Strosberg Sasso Sutts LLP	dwingfield@strosbergco.com
Labaton Sucharow LLP Weisz Fell Kour LLP	jjohnson@labaton.com MRogers@labaton.com sweisz@wfklaw.ca skour@wfklaw.ca

SCHEDULE "D"

ACTIONS

Hrusa et al. v. CannTrust Holdings Inc. et al., Court File No. CV-19-00623567-00CP (ON SC)

Webb v. CannTrust Holdings Inc. et al., Court File No. CV-19-1554 (ON SC)

Jeff Dyck v. CannTrust Holdings Inc. et al., Court File No. 217559 (BC SC)

Selanders v. CannTrust Holdings Inc. et al., Court File No. 1910983 (AB QB)

Diran Avedian v. CannTrust Holdings Inc. et al., Court File No. 500-06-001011-192 (QC CS)

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

In Re: CannTrust Holdings Inc. Securities Litigation, No. 1:19-cv-06396 (JPO)

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

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

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

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

Owens v. CannTrust Holdings Inc. et al., Court File No. 19CV352374 (California Superior Court, Santa Clara County)

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. ET AL.

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

ONTARIO
SUPERIOR COURT OF JUSTICE
(COMMERCIAL LIST)

Proceeding commenced at Toronto

ORDER
(CCAA Representative and CCAA Representative Counsel Appointment Order)

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Trevor Courtis LSO#: 67715A
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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. ET AL.

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

ONTARIO
SUPERIOR COURT OF JUSTICE

Proceeding commenced at Toronto

MOTION RECORD

(Stay Extension and CCAA Representation)
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