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 OF THE CCAA REPRESENTATIVES

(Sanction Hearing)
(Returnable June 11, 2021)

June 2, 2021

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INDEX

TAB 1

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AFFIDAVIT OF SERGE KALLOGHLIAN

(Sworn June 2, 2021)

TABLE OF CONTENTS

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

ONTARIO
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AFFIDAVIT OF SERGE KALLOGHLIAN

(Sworn June 2, 2021)

I, SERGE KALLOGHLIAN, of the City of Toronto, in the Province of Ontario, AFFIRM:

1. I am a partner at Kalloghlian Myers LLP, co-counsel to Patrick Hrusa and Dharambir Singh (the "**CCAA Canadian Representatives**") in these proceedings, and in the proposed class action against CannTrust Holdings Inc. ("**CannTrust Holdings**") and others bearing (Toronto) Court File No. 19-000625181-00CP in the Ontario Superior Court of Justice ("**Ontario Class Action**"). The statement of claim in the Ontario Class Action is attached as **Exhibit** "**A**".[1]

[1] The Fresh as Amended Statement of Claim is attached as a schedule to the Order of Justice Hainey dated January 28, 2020, appointing carriage to Ontario Class Action counsel. The Fresh as Amended Statement of Claim had not yet been issued as of the commencement of these insolvency proceedings.

2. Counsel to the CCAA Canadian Representatives is comprised of Henein Hutchison LLP ("**Henein**"), Strosberg Sasso Sutts LLP ("**Strosberg**"), A Dimitri Lascaris Law Professional Corporation ("**Lascaris**"), and Kalloghlian Myers LLP ("**Kalloghlian**") (together, "**CCAA Canadian Representative Counsel**").

3. Granite Point Master Fund, LP and Granite Point Capital Scorpion Focused Ideas Fund (the "**CCAA U.S. Representatives**" and together with the CCAA Canadian Representatives, the "**CCAA Representatives**") commenced a class action against CannTrust Holdings and others in the Southern District of New York bearing court file No. 1:19-CV-06396 (JPO) (the "**U.S. Class Action**"). The Complaint in that action is attached as **Exhibit "B".**

4. Counsel to the U.S. Class Action plaintiffs is Labaton Sucharow LLP in the United States and Weisz Fell Kour LLP in Canada ("**CCAA U.S. Representative Counsel**", and together with CCAA Canadian Representative Counsel, "**CCAA Representative Counsel**").

5. Where I use the terms "us", "our", or "we" in this affidavit, I am referring to myself and the other lawyers comprising CCAA Representative Counsel.

6. The Ontario Class Action and U.S. Class Action (together, the "**Class Actions**") assert claims against CannTrust Holdings and others on behalf of a global class of CannTrust shareholders.

7. On January 29, 2021, this court issued an order (the "**CCAA Representation Order**") (i) appointing the CCAA Representatives to represent the interests of all Securities Claimants (subject to some exclusions, discussed below) and (ii) appointing CCAA Representative Counsel as counsel to the Securities Claimants. The CCAA Representation Order is attached as **Exhibit** "**C**".

I swore an affidavit on January 20, 2021 in support of the CCAA Representation Order, which is attached (without exhibits) as **Exhibit "D"**.

8. The CCAA Representation Order authorizes CCAA Representative Counsel to take instructions from the CCAA Representatives and to act on behalf of the Securities Claimants in respect of their Securities Claims and related claims.

9. The CCAA Representation Order also authorizes the CCAA Representatives and CCAA Representative Counsel to enter into the RSA (defined below) and to negotiate, settle, and prosecute Securities Claimants' related claims against other defendants to the Class Actions and the insurers of those defendants.

10. Notice of the appointment of the CCAA Representatives and CCAA Representative Counsel was provided to Securities Claimants in accordance with the CCAA Representation Order. I am not aware of any Securities Claimants (other than those excluded from the Representation Order) that have indicated they do not want to be represented by the CCAA Representatives and CCAA Representative Counsel in connection with the CCAA Proceedings.

11. 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.

12. I swear this affidavit in support of the Applicants' motion for an order approving the plan of compromise, arrangement and reorganization of CannTrust Holdings, CannTrust Inc. ("**CannTrust Opco**") and Elmcliffe Investments Inc. under the *Companies' Creditors*

Arrangement Act (the "**CCAA**") (as amended from time to time) ("**CCAA Plan**") in these proceedings (the "**CCAA Proceedings**").

13. 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.

14. All capitalized terms used and not otherwise defined herein have the meanings given to them in the CCAA Plan.

I. OVERVIEW

15. Following months of complex negotiations with multiple parties facilitated by the Hon. Dennis O'Connor, Q.C. (the "**Court-Appointed Mediator**"), the CCAA Representatives and CCAA Representative Counsel reached agreements to resolve the Securities Claims against CannTrust Holdings and the related claims against a number of co-defendants to the Class Actions.

16. On January 19, 2021, the CCAA Representatives and CCAA Representative Counsel reached an agreement with the Applicants regarding a framework for the settlement of all Securities Claims against CannTrust Holdings and various related claims, a copy of which is attached and marked as **Exhibit "E"** (the "**RSA**").[2] The CCAA Plan implements the RSA settlement framework for the resolution of all Securities Claims against CannTrust Holdings and related claims against the co-defendants that have reached settlements with the CCAA Representatives and CCAA Representative Counsel, as detailed further below.

[2] The RSA is dated January 19, 2021. Following issuance of the Representation Order, the parties executed the joinder agreement dated January 29, 2021(attached to the RSA) whereby the CCAA Representatives and CCAA Representative Counsel became parties to the RSA.

17. In exchange for broad releases of their liabilities, upon the implementation of the CCAA Plan and satisfaction of certain preconditions, CannTrust Holdings, CannTrust Opco, the other Original Settlement Parties and the settling co-defendants will (i) collectively pay a total of approximately $83,000,000 into a trust (the "**Securities Claimant Trust**") to be established for the benefit of all holders of Securities Claims ("**Securities Claimants**"); and (ii) assign to the Securities Claimant Trust certain claims that they have against other co-defendants or their insurers ("**Assigned Claims**").

18. Below, I explain the rationale for entering into the RSA and the Additional RSAs with the Additional Settlement Parties and why I believe they are fair and reasonable.

II. THE CLASS ACTIONS

19. CannTrust Holdings 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.

20. 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 Holdings, its officers, and directors, made, or were involved in making, misrepresentations and failed to disclose material facts about CannTrust Holdings' compliance with applicable laws, regulations, and standards.

21. The Ontario and U.S. Class Actions allege (among other claims asserted) that the defendants are liable for misrepresentations to shareholders that acquired their shares (i) on the TSX, NYSE, or other secondary market pursuant to Parts XXIII.1 of the Ontario Securities Act and under Rule

10b-5 and s 10(b) of the United States Securities Exchange Act of 1934 (“**Secondary Market Claims**”); and (ii) pursuant to the May 2019 prospectus share offering pursuant to Part XXIII of the OSA and ss 11, 12(a)(2) and 15 of the United States Securities Act of 1933 (“**Prospectus Claims**”).

22. The Class Actions allege that CannTrust Holdings’ securities traded at artificially inflated prices due to the misrepresentations. Following its announcement on July 8, 2019 that it was in breach of regulations, the price of CannTrust Holdings’ shares began to fall significantly on the TSX and the NYSE.

23. The Class Actions seek recovery of the losses sustained by investors because of those misrepresentations.

III. THE MEDIATION PROCESS

24. On March 31, 2020, the Applicants commenced these CCAA Proceedings and obtained an order for a stay of proceedings against them in Canada. The US Class Action was subsequently stayed pending the Mediation Process (defined below) by agreement of the parties.

25. On May 8, 2020, the Court made an order (the “**Mediation Order**”) appointing the Court-Appointed Mediator, the Hon. Dennis O’Connor, Q.C. as a neutral third party to mediate a global settlement of the various securities actions and related claims made against CannTrust Holdings (the “**Mediation Process**”).

26. Since the beginning of the Mediation Process, CCAA Representative Counsel, on behalf of the Securities Claimants, attended numerous formal mediation sessions with counsel to the

Applicants, the co-defendants, and the insurers and countless informal discussions with the Court-Appointed Mediator, the Monitor, and other mediation participants. At all times, CCAA Representative Counsel followed the directions of the Court-Appointed Mediator.

27. In January 2021, following protracted negotiations over six months, with the assistance of the Court-Appointed Mediator and the Monitor, the CCAA Representatives and the Applicants reached the agreement reflected in the RSA. In the five months since then, additional settlements have been reached with the following co-defendants to the Class Actions:

(a) Eric Paul and the Paul Family Trust (the "**Paul Settling Parties**");

(b) Canaccord Genuity Corp., Canaccord Genuity LLC, Citigroup Global Markets Inc., Citigroup Global Markets Canada Inc., Credit Suisse Securities (Canada) Inc., Credit Suisse Securities (USA) LLC, Jefferies Securities, Inc, Jefferies LLC, Merrill Lynch Canada Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, and RBC Dominion Securities Inc. (the "**Underwriters**");

(c) Mark Ian Litwin, Fred Litwin, Stan Abramowitz, Cannamed Financial Corp., Forum Financial Corporation, Mar-Risa Holdings Inc., York Capital Funding Inc., and Sutton Management Limited (the "**Litwin Group**");

(d) Ian Abramowitz; and

(e) Kenneth Brady Green.

28. The CCAA Representatives have also entered into an agreement with Zola Finance Holdings Ltd. and Igor Gimelshtein (the "**Zola Plaintiffs**") to transfer their Securities Claims and certain related claims against CannTrust Holdings and the co-defendants to the Securities Claimant Trust in exchange for a payment of $3.25 million.

29. As I explain below, it is CCAA Representative Counsel's view that each of these agreements in fair, reasonable, and in the best interests of the Securities Claimants.

IV. CCAA REPRESENTATIVE COUNSELS' CONSIDERATIONS IN NEGOTIATING THE SETTLEMENTS

A. Factual and Legal Investigation Supporting the Settlement

30. In coming to these settlement agreements, CCAA Representative Counsel conducted extensive legal and factual investigation, including:

(a) reviewing CannTrust Holdings' public disclosure documents and other publicly available information regarding CannTrust Holdings;

(b) holding discussions with a CannTrust Holdings whistleblower and obtaining relevant emails;

(c) retaining and communicating with private "fact" investigators;

(d) identifying and interviewing potential "fact" witnesses;

(e) communicating to date with over 1,000 individuals identifying themselves as Securities Claimants;

(f) retaining a cannabis consultant to advise counsel;

(g) retaining Cyrus Khory, managing director at Froese Forensic Partners Ltd., to provide an expert opinion regarding applicable accounting standards;

(h) retaining Professor Efrim Boritz, Ph.D., FCPA, FCA, CISA, to provide an expert opinion regarding applicable auditing standards;

(i) retaining James Miller to provide an expert opinion regarding applicable underwriting standards;

(j) retaining Sunita Surana, Ph.D., of Forensic Economics to provide an expert economic opinion on market efficiency, materiality, and damages;

(k) reviewing CannTrust Holdings' responsive insurance policies and other non-public information provided to CCAA Representative Counsel in the course of the Mediation Process; and

(l) considering the written mediation briefs, information and documents provided, and positions taken by the parties during the Mediation Process.

31. CCAA Representative Counsel believes there was more than adequate information available from which to make an appropriate recommendation concerning the resolution of the claims against the settling defendants and to resolve certain matters with the Zola Plaintiffs. As mentioned above, the Court-Appointed Mediator was heavily involved in the Mediation Process and in the negotiation of the settlements reached with most of the defendants noted above.

B. Damages Estimates

32. In assessing the reasonableness of the settlement values, we were guided by the advice of our damages expert, Dr. Sunita Surana. Dr. Surana provided us with an estimate of damages to Securities Claimants using the statutory damages formulas in Part XXIII.1 of the *OSA*.

33. Damages estimates are based largely on trading models and various assumptions, the results of which could vary from actual trading patterns. Damages estimates also depend on the dates of the alleged misrepresentations and corrective disclosures, the price impact on securities of those events, and the existence of confounding information on the stock price reaction. Changes to the underlying assumptions, or to the misrepresentation or correction dates could cause significant differences in estimates.

34. Based on CCAA Representative Counsel's allegations and other assumptions and instructions provided to her, Dr. Surana estimated aggregate damages to Securities Claimants of approximately $510 million. Of those damages, approximately $48 million are attributable to Prospectus Claims, and $461.5 million are attributable to Secondary Market Claims.

35. We were guided by this estimate, but were also cognizant that it is common for defendants to produce opinions which make different assumptions and put forth lower damages figures.

36. Moreover, in the event that this case went to trial and the plaintiffs were successful, the actual damages to be paid may only be for claims actually filed by class members. For a variety of reasons, significantly less than 100% of class members generally file claims. Although claim rates vary from case to case, to our knowledge, it is never the case that all class members file claims in a case of this nature. Therefore, actual payable damages would be some portion of the experts' estimated damages figures if the matter proceeded to trial and the defendants succeeded in establishing that damages should be only on claims filed.

C. CannTrust Holdings' Claim Against KPMG LLP

37. KPMG LLP ("**KPMG**") was the auditor of CannTrust Holdings during the period that it issued false and misleading financial statements. KPMG is a defendant in the Class Actions and faces statutory claims by shareholders that acquired CannTrust Holdings' shares on the TSX or NYSE, or in the May 2019 prospectus offering.

38. Early in the Mediation Process, CCAA Representative Counsel concluded that CannTrust Holdings also had a potentially valuable auditor's negligence claim against KPMG, although no such claim had been asserted. As discussed later in this affidavit, our assessment of the significant value of this claim was a critical factor in our determination to enter into the RSA instead of seeking a judgment against CannTrust Holdings.

39. CannTrust Holdings' potential claim against KPMG is for breach of contract, negligence, negligent misrepresentation, and negligent performance in connection with its audit of CannTrust's 2018 annual financial statements and Q1 2019 review engagement. Counsel to KPMG have been aware of the intention of the CCAA Representatives to pursue CannTrust

Holdings' potential claim against KPMG for several months and at least since the RSA was entered into.

40. On April 22, 2021, I wrote to counsel to KPMG regarding tolling of limitation periods for CannTrust Holdings' claim against it. Following their response to that letter, on May 3, 2021, I provided a draft statement of claim to KPMG's counsel advising that should we fail to reach an agreement, we would demand that CannTrust Holdings issue the claim through independent counsel to ensure that CannTrust Holdings' claim against KPMG that was to be assigned to the Securities Claimant Trust was not prejudiced by the passage of time. A copy of the draft statement of claim sent to KPMG's counsel is attached as **Exhibit** "**F**", with certain redactions to confidential information. Copies of the correspondence between me and KPMG's counsel are attached as **Exhibits** "**G-1**" to "**G-5**".

41. The draft claim alleges that KPMG owed a duty to CannTrust Holdings to conduct its audit and review engagements in accordance with applicable professional audit standards and practices. The gravamen of the claim is that had KPMG conducted a proper audit, CannTrust Holdings would have stopped the illegal activity and would not have issued US $230 million worth of shares in May 2019, thereby worsening its financial condition by incurring liabilities it was rendered unable to satisfy.

42. In consultation with our expert, we estimate potential damages in the proposed action to be well in excess of $270 million with reference to the damages analysis from *Livent v Deloitte & Touche*.

D. Settlements Parties' Claims against Insurers

43. As indicated in previous affidavits filed in these proceedings, CannTrust Holdings' insurers have denied coverage to it in respect of the Class Action claims. Pursuant to the CCAA Plan, the claims of CannTrust Holdings and other Settlement Parties against the Insurers will be transferred to the Securities Claimant Trust. The CCAA Plan provides a mechanism to allow continued litigation against such Settlement Parties solely for the purpose of establishing liability in order to collect from responsive insurance policies. In our view, the claims of CannTrust Holdings and other Settlement Parties against the Insurers have significant value.

44. CCAA Representative Counsel are engaged in continuing negotiations with the Insurers and hope to reach a resolution prior to the implementation of the CCAA Plan.

E. Risks and Challenges to Continued Litigation

45. Despite our view of the strength of the claims against CannTrust Holdings, a number of factors in this case presented a risk to the ultimate recovery from it and the other defendants. In this section I describe the risks and factors applicable to the litigation as a whole (which are in addition to the general risks associated with complex litigation). The specific claims made against each defendant other than CannTrust Holdings and the considerations regarding the settlement of those claims are discussed later in this affidavit.

(i) CannTrust Holdings' Ability to Satisfy a Judgment

46. The most significant factor in negotiating the settlement with CannTrust Holdings was its ability to satisfy a judgment. It has always been our view that the case against CannTrust Holdings

was very strong on the merits, and that the plaintiffs would prevail in establishing damages at trial well in excess of the $50,000,000 settlement payment contemplated by the RSA.

47. Nevertheless, since CannTrust Holdings was and remains in a precarious financial situation and its insurers had denied coverage, any judgment would likely result in a contested liquidation over CannTrust Holdings' assets. The extent to which the Securities Claimants could collect on a judgment was therefore questionable and the time it would take to obtain a recovery was unknown. Accordingly, and as discussed further below, counsel determined that it was reasonable for the Securities Claimants to enter into the RSA and work with CannTrust Holdings either to pursue litigation against, or obtain settlements with, the insurers and co-defendants to the Class Actions. For this reason, the Assigned Claims represented an important potential source of recovery for the Securities Claimants which they would not have had without the RSA.

(ii) Part XXIII.1 Liability Limits

48. Damages under Part XXIII.1 are subject to liability limits. For the issuer (i.e. CannTrust Holdings) the liability limit is equal to 5% of the company's market capitalization at the time of the misrepresentation. The liability limit may not be lifted under any circumstances.

49. It is uncertain how a court would apply the liability limits to a case with multiple misrepresentations such as those alleged in the Ontario Class Action. If this action proceeded to trial, we expect that CannTrust Holdings would argue that that the liability for the Part XXIII.1 claims against it were capped at approximately $43 million.

50. In the case of an officer or director, the limit is the greater of $25,000 and 50% of the individuals' compensation from CannTrust Holdings over the 12 month period preceding the date the misrepresentation was made. This liability limit may be lifted only if the plaintiff proves the individual made the misrepresentation with knowledge. The liability limits, if applied to the individual defendants, would limit recoveries to amounts that were not significant relative to the current settlement amounts.

(iii) Common law, conspiracy, and oppression claims

51. The Ontario Class Action asserts claims in negligence, negligent misrepresentation, conspiracy, and oppression. These claims present their own substantive and procedural issues, including (i) uncertainty as to the applicability and merits of such causes of action in the circumstances, (ii) calculation of damages on these fact patterns under these claims; and (iii) the possibility of significant individual issues following the common issues trial.

V. THE SETTLEMENTS

A. The RSA

52. The settlement reflected in the RSA is with the Applicants, Mark Dawber, Greg Guyatt, John Kaden, Robert Marcovitch, Shawna Page, Ilana Platt, Mitchell Sanders and Cajun Capital Corporation (the "**Original Settlement Parties**"). In exchange for releases of liability:

(a) CannTrust Holdings will pay a "**Cash Contribution**" of $50,000,000 to the Securities Claimant Trust;

(b) the Original Settlement Parties will assign their Assigned Claims to the Securities Claimant Trust; and

(c) CannTrust Holdings will provide information and cooperation to the plaintiffs in the prosecution of the continuing litigation.

53. The CCAA Representatives' compromise with the Original Settlement Parties was driven primarily by CannTrust Holdings' ability to pay, the anticipated value of their cooperation against other defendants, the anticipated impact of a settlement with the Original Settlement Parties on our negotiations with other defendants, and the anticipated significant value of their Assigned Claims, including CannTrust Holdings' potential claim against KPMG and the potential claims against Insurers of the directors and officers who are Original Settlement Parties.

54. The Original Settlement Parties other than CannTrust Holdings were not required to make separate monetary contributions. The Original Settlement Parties other than the Applicants were those directors and officers of CannTrust Holdings with respect to whom no evidence of wrongdoing was found during its internal investigation. Our decision not to require separate contributions from such persons was informed by that fact, as well as by our understanding that such persons were not material sources of recovery because they had limited legal or financial exposure relative to the $50,000,000 payment and/or did not have the capacity to make a meaningful contribution to a settlement thereby making litigation against these parties uneconomic.

55. CCAA Representative Counsel believe that the settlement reflected in the RSA is superior to the result that could be obtained through a judgment and contested liquidation of CannTrust Holdings' assets. In coming to this conclusion, we had regard to and considered the following:

(a) the RSA provided an orderly mechanism for the CCAA Representatives, with CannTrust Holdings' help to obtain additional settlements and provide releases to additional parties;

(b) the Assigned Claims, particularly against the Insurers and KPMG LLP, had significant value; and

(c) the RSA provided a mechanism to prosecute, on an expedited basis, the remaining Class Action claims and Assigned Claims in a single forum.

56. As indicated above, the significant value of CannTrust Holdings' Assigned Claims, and specifically, its claim against KPMG, was fundamental to the decision of the CCAA Representatives to enter into the RSA. CCAA Representative Counsel would not have agreed to the settlement payment of $50,000,000 without confirmation that the Assigned Claims and, in particular, CannTrust Holdings' claim against KPMG, would be assigned to the Securities Claimant Trust where the class action counsel could pursue recovery along with the other claims held by the Securities Claimant Trust.

57. Often, as here, where continuing litigation remains after some parties have settled in a class action, a distribution will be made to class members. Class counsel will continue the class action on behalf of the class against any remaining defendant(s), and if there is recovery, there will be a further distribution.

58. Here, the Securities Claimant Trust was an essential component of the RSA because the continuing litigation will involve both the Class Actions and the Assigned Claims. The Securities Claimant Trust is the mechanism through which the Securities Claimants will enjoy the benefits of the settlement proceeds from CannTrust Holdings and the Additional Settlement Parties, and through which they seek to realize the value of the remaining Assigned Claims alongside the Class Action claims.

59. I understand that KPMG objects to CCAA Representative Counsel acting as Trustee to the Securities Claimant Trust. I believe it would be against the Securities Claimants' interests to place

control of this litigation in the hands of someone other than counsel which has been appointed to act on behalf of the Securities Claimants. There are several reasons for why I hold this view:

(a) My co-counsel and I have worked on this matter for nearly two years and have developed a deep knowledge and understanding of the legal and factual issues in dispute;

(b) Appointing a different trustee (and hence counsel) to conduct the litigation of the Assigned Claims would eliminate the synergies and efficiency the RSA was designed to create for the continuing litigation;

(c) CCAA Representatives will be deprived of their choice of counsel, who this court already found was the counsel group best-suited to pursue this litigation;

(d) It will create unnecessary expense, complication, and the risk of inconsistent results in litigation being conducted over the same or similar facts for the benefit of the Securities Claimants, thereby potentially prejudicing them;

(e) It would be inconsistent with the Class Proceedings Act's goals of judicial economy, access to justice, and behaviour modification; and

(f) It is inconsistent with the party autonomy in litigation to permit a defendant to select the party and counsel against whom the defendant will be litigating.

B. Eric Paul and the Paul Family Trust

60. Eric Paul is the former CEO of CannTrust Holdings and Chairman of its board of directors. The Paul Family Trust is an entity that co-owned (together with members of the Litwin Group) Cannamed Financial Corp. ("**Cannamed**").

61. Eric Paul faces both Secondary Market Claims and Prospectus Claims. Cannamed faces only Prospectus Claims. The exposure to liability of the Paul Family Trust arises from its ownership of Cannamed and its participation with it in sales of CannTrust Holdings shares. Eric Paul and Cannamed are defendants in the Class Actions.

62. The CCAA Representatives, the Paul Settling Parties and the CannTrust Group entered into Minutes of Settlement effective as of May 20, 2021 (the "**Paul Settlement**") pursuant to which, among other things: (i) the Paul Settling Parties agreed to make a Cash Contribution of $12 million to the Securities Claimant Trust, (ii) Eric Paul agreed to assign his claims against his insurer; and (iii) the Paul Settling Parties agreed to support the CCAA Plan in a manner consistent with the RSA. A copy of the Paul Settlement is attached as **Exhibit** "**H**".

63. CCAA Representative Counsel believe the claims against Eric Paul and the Paul Family Trust are strong. These settlements were informed in part by CCAA Representatives Counsels' understanding of the parties' ability to satisfy a judgment.

64. As a result of the settlement and the transfer of his Assigned Claims, Eric Paul gave up his rights to insurance coverage that would respond to regulatory or criminal proceedings. Accordingly, the Paul Settlement provides that the Securities Claimant Trust will reserve $1 million in respect of legal costs to defend against any such proceedings. Any such funds remaining after the final disposition of such proceedings would revert back to the Securities Claimant Trust.

65. For the reasons set out above, CCAA Representative Counsel believe that the Paul Settlement is fair and reasonable.

C. The Underwriters

66. The Underwriters acted as underwriters in connection with the May 2019 offering of CannTrust Holdings shares and are defendants in the Class Actions.

67. The CCAA Representatives, the Underwriters, and the CannTrust Group entered into Minutes of Settlement effective as of April 27, 2021 (the "**Underwriters Settlement**") pursuant to which, among other things: (i) the Underwriters agreed to make a Cash Contribution of US $8 million to the Securities Claimant Trust; and (ii) the Underwriters agreed to support the CCAA Plan in a manner consistent with the RSA. A copy of the Underwriters Settlement is attached as **Exhibit "I"**.

68. The Underwriters faced Prospectus Claims. To succeed in these claims, the plaintiffs would have to prove that the Underwriters did not conduct a reasonable investigation into whether the prospectus contained a misrepresentation.

69. While it has always been our view that the claims against the Underwriters had merit and we would prevail at a trial, there was risk in prosecuting these claims. Among other things, we expect the Underwriters would vigorously dispute that they did not comply with due diligence standards, argue that primary market damages were significantly lower than our experts' estimate of $48.3 million, and that primary market purchasers could not establish "traceability" (i.e. that they would not be able to prove that their shares were purchased pursuant to the offering). We also expect they would argue that the joint and several liability claim under s. 130 is not available to shares distributed in the United States.

70. Given the estimated damages and the attendant risks, CCAA Representative Counsel believe that the Underwriters Settlement is fair and reasonable.

D. The Litwin Group

71. The Litwin Group is comprised of:

(a) Mark Litwin – a former director of CannTrust Holdings and member of its audit committee;

(b) Stan Abramowitz – a former secretary of CannTrust Holdings;

(c) Fred Litwin – who controlled a significant amount of CannTrust Holdings shares; and

(d) Cannamed, Mar-Risa Holdings Inc., York Capital Funding Inc., and Sutton Management Limited – significant CannTrust Holdings shareholders.

72. The CCAA Representatives, the Litwin Group and the CannTrust Group entered into Minutes of Settlement effective as of May 24, 2021 (the "**Litwin Settlement**") pursuant to which, among other things: (i) the Litwin Group agreed to make a Cash Contribution of $11 million to the Securities Claimant Trust; (ii) Mark Litwin and Stanley Abramowitz agreed to assign their claims against the Insurers; and (iii) the Litwin Group agreed to support the CCAA Plan in a manner consistent with the RSA. A copy of the Litwin Settlement is attached as **Exhibit** "**J**".

73. Mark Litwin and Stan Abramowitz face Secondary Market Claims in their capacities as director and officer of CannTrust Holdings. Mark Litwin also faces a Prospectus Claim in his capacity as a director. Fred Litwin controlled significant amounts of CannTrust Holdings shares. Fred Litwin is not a defendant in any of the Class Actions, however, he faces a $12.67 million claim by the Zola Plaintiffs in connection with a direct sale of 1,000,000 shares to them in September 2018. As discussed below, the CCAA Representatives have acquired the rights to those claims.

74. As with the Original Settlement Parties, CannTrust Holdings' special committee investigation did not find any evidence that either Mark Litwin or Stan Abramowitz were guilty

of any wrongdoing. We are similarly not aware of any findings that Fred Litwin was involved in, or had knowledge of, any wrongful conduct.

75. The remaining members of the Litwin Group (Mar-Risa Holdings Inc., York Capital Funding Inc., and Sutton Management Limited) have exposure to the Prospectus Claims against Cannamed, which they co-owned with the Paul Family Trust. Their exposure to liability arises from their ownership of Cannamed and their participation with it in sales of CannTrust Holdings shares.

76. A selling shareholder such as Cannamed does not have access to the reasonable investigation defense under section 130 of the OSA. Accordingly, it is our view that our case against those entities is strong. However, we expect that those defendants would make similar arguments to the Underwriters regarding the quantum of damages and traceability problems.

77. Given the totality of the circumstances, it is CCAA Representative Counsel's view that the Litwin Settlement is fair and reasonable.

E. Ian Abramowitz

78. Ian Abramowitz is a former officer and director of CannTrust Holdings and is a defendant in the Class Actions.

79. The CCAA Representatives, Mr. Abramowitz, and the CannTrust Group entered into Minutes of Settlement effective as of May 5, 2021 (the "**Abramowitz Settlement**") pursuant to which, among other things: (i) Mr. Abramowitz agreed to assign any Assigned Claims against Insurers that he may have to the Securities Claimant Trust, excluding any claims, rights or entitlement that he may have to insurance coverage for criminal, regulatory or administrative

proceedings; (ii) Mr. Abramowitz will provide cooperation to the plaintiffs; and (iii) Mr. Abramowitz agreed to support the CCAA Plan in a manner consistent with the RSA. A copy of the Abramowitz Settlement is attached as **Exhibit** "**K**".

80. Mr. Abramowitz faced Secondary Market Claims in his capacity as an officer of CannTrust Holdings. The settlement with Mr. Abramowitz was driven by his ability to pay. We were satisfied that he did not have sufficient assets to make a meaningful contribution. Given that he was CannTrust Holdings' chief financial officer prior to February 19, 2019, it was our view that his cooperation would be valuable in pursuing claims against KPMG.

81. The settlement provides that the Securities Claimant Trust will pay costs of Abramowitz's legal representation to aid in his cooperation obligations up to a maximum of $100,000.

82. Given the circumstances, it is CCAA Representative Counsel's view that the Abramowitz Settlement is fair and reasonable.

F. Brady Green

83. Kenneth Brady Green is the former head grower of CannTrust Opco and is a defendant in the Class Actions. The CCAA Representatives agreed to settle with Mr. Green in exchange for his cooperation.

84. Brady Green faces Secondary Market Claims. It is our understanding that he does not have sufficient assets to make a meaningful contribution. Given Mr. Green's role with respect to the operations of CannTrust Opco, our view is that his cooperation will be valuable in pursuing claims against KPMG.

85. In the circumstances, it is CCAA Representative Counsel's view that the settlement with Mr. Green is fair and reasonable.

G. Zola Plaintiffs

86. The CannTrust Group, the CCAA Representatives and the Zola Plaintiffs entered into a restructuring support agreement as of May 5, 2021 (the "**Zola RSA**"). A copy of the Zola RSA is attached as **Exhibit** "**L**".

87. The Zola Plaintiffs are Securities Claimants and fall under the definition of class members in the Ontario Class Action. However, they were excluded from the CCAA Representation Order and have their own counsel in these proceedings. The Zola Plaintiffs filed a proof of claim in these proceedings for voting purposes at the meeting of the Securities Claimants to vote on the CCAA Plan in the amount of $45 million. From before the commencement of the CCAA Proceedings, they announced an intention to opt out of the Ontario Class Action and pursue their own claims. The Zola Plaintiffs commenced an individual action against CannTrust Holdings and others in November of 2019. The statement of claim in that action is attached as **Exhibit** "**M**" ("**Zola Action**").

88. The Zola Action names many of the same defendants and many of its allegations and causes of action overlap with the Ontario Class Action. It also makes unique allegations and claims based on the Zola Plaintiffs' direct conversations with Eric Paul and Peter Aceto, as well as its direct purchase of shares from Fred Litwin (who is not named in any of the Class Actions).

89. It was desirable for the CCAA Representatives to acquire these claims and secure the Zola Plaintiffs' support for the RSA settlement framework so they could (i) offer global releases to

defendants that wished to settle; and (ii) strengthen the plaintiffs' position in any continuing litigation.

90. For the reasons set out above, it is CCAA Representative Counsel's view that the agreement with the Zola Plaintiffs has been a net benefit to the Securities Claimants and that it is fair and reasonable.

H. Conclusion on Settlements

91. In light of all the above considerations, it is CCAA Representative Counsel's opinion that the settlements described are fair and reasonable to the Securities Claimants.

VI. ALLOCATION & DISTRIBUTION SCHEME

92. The proposed CCAA Sanction Order would approve the Allocation & Distribution Scheme ("**A&DS**") which is appended to the CCAA Plan as Schedule "B", and authorize each of the CannTrust Plan Companies, the Monitor, the CCAA Representatives, CCAA Representative Counsel and the Trustees of the Securities Claimant Trust to do all things necessary to implement it.

93. The proposed A&DS prescribes the process for Securities Claimants to seek compensation from the net proceeds of the settlements. The A&DS is designed to provide compensation to Securities Claimants based on:

(a) The period in which CannTrust shares were acquired by the Securities Claimant;

(b) The date on which the shares were sold or if they are still held by the Securities Claimant; and

(c) whether the shares were acquired pursuant to the May 2019 offering or on the secondary market.

94. Under the A&DS, claimants would file claims with details of their trading in CannTrust Holdings' shares. The claims administrator will use this information to determine where the shares were acquired, the dates of acquisition and disposition, and each claimant's losses.

95. Only claims by persons that acquired shares during the period between June 1, 2018 and September 17, 2019 are eligible for compensation. Excluded from eligibility are the defendants in the Class Actions and certain persons related to them.

96. In creating the methodology in this A&DS, we were advised by our expert Dr. Sunita Surana. We believe the methods to be employed under the A&DS are fair and well-recognized methods.

A. Calculation of a Claimant's Entitlement

97. The net settlement funds will be distributed to claimants on a pro-rata basis based upon each claimant's "Recognized Claim". The key steps in calculating the Recognized Claim for each claimant are set out below.

Step 1: Recognized Loss Amount Per Share

98. The claims administrator will first calculate the "Recognized Loss Amount" for shares acquired by the claimant in CannTrust Holdings' May 2019 offering ("**Offering Shares**") and those purchased on the secondary market ("**Secondary Shares**").

99. First, the administrator will convert to CAD any purchase and sale amounts for shares acquired or disposed of in currencies other than CAD.

100. Next, the Recognized Loss Amount for each Offering Share and Secondary Share is calculated using the formulas set out in the chart below (from paragraph 10 of the A&DS) and with reference to the Share Inflation figures at Table A (from paragraph 11 of the A&DS):

Date of Sale of Shares acquired during the Class Period	**Recognized Loss Amount per Share**
June 1, 2018 – July 7, 2019	$0
July 8, 2019 – September 16, 2019	The lesser of: (i) the Share Inflation on the date of purchase minus the Share Inflation on the date of sale; or (ii) the Purchase Price minus the Sale Price.
September 17, 2019 – September 30, 2019	The lesser of: (i) the Share Inflation on the date of purchase; or (ii) the Purchase Price minus the Sale Price.
October 1, 2019 – March 5, 2021	The lesser of (i) the Share Inflation on the date of purchase; (ii) the Purchase Price minus CAD$1.70; or (iii) the Purchase Price minus the Sale Price.
Held as of the closing on March 5, 2021	The lesser of (i) the Share Inflation on date of purchase; or (ii) the Purchase Price minus CAD$1.70.

TABLE A – SHARE INFLATION	
Purchase/Acquisition or Sale Date Range	**Artificial Inflation Per Share**
June 1, 2018 – September 30, 2018	CAD$1.29
October 1, 2018 – July 7, 2019	CAD$5.02
July 8, 2019 – July 9, 2019	CAD$3.57
July 10, 2019 – July 11, 2019	CAD$3.05

TABLE A – SHARE INFLATION	
July 12, 2019 – July 15, 2019	CAD$2.57
July 16, 2019 – July 23, 2019	CAD$2.09
July 24, 2019 – August 11, 2019	CAD$1.41
August 12, 2019 – September 16, 2019	CAD$0.24
September 17, 2019 before 3:13 p.m. ET[3]	CAD$0.24
September 17, 2019 at or after 3:13 p.m. ET and thereafter	CAD$0.00

101. As explained further below, the date ranges and figures in Table A are based on Dr. Surana's analyses of the artificial inflation of CannTrust Holdings' share prices during different periods of time.

Step 2: Risk Adjusted Loss

102. The Recognized Loss Amounts for Offering Shares and Secondary Shares are multiplied by the risk adjustment in the following chart to obtain the "Risk Adjusted Loss":

Type of Share	Risk Adjustment
Offering Share	1
Secondary Share	0.8

103. As explained below, the risk adjustment factors are based on CCAA Representative Counsel's view of the strength of the Prospectus Claims as compared to the Secondary Market Claims.

[3] Trading at prices at or below CAD$1.85 will be deemed to have occurred after 3:13 p.m. ET.

Step 3: Recognized Claim

104. The claims administrator will determine each claimant's Recognized Claim by calculating the sum of the Risk Adjusted Loss for each of the claimants' Offering Shares and Secondary Shares.

Step 4: Pro Rata Allocation

105. After the claims administrator has calculated each claimant's Recognized Claim, the net settlement fund will be distributed on a pro-rata basis to eligible claimants based on their Recognized Claim.

106. Claimants whose *pro rata* entitlement is less than CAD $50.00 will not be paid out. Instead, such amounts will be allocated *pro rata* to other eligible claimants with *pro rata entitlements* equal to or greater than CAD$50.00

Step 5: Payments to Claimants

107. The claims administrator will make payments to claimants by either bank transfer or by cheque.

Step 6: Remaining Amounts

108. If a claimant does not cash a cheque within six (6) months after the date of the cheque, the claimant will forfeit the right to compensation. Any funds remaining in the Class Compensation Fund six (6) months after the initial distribution of such funds will be redistributed to claimants

that have cashed their initial distributions and would receive at least $50.00 on such additional redistribution in a manner consistent with the A&DS. Any funds remaining after the redistribution will be reallocated amongst eligible claimants in the manner set out above, if feasible. If CCAA Representative Counsel determine that further redistribution is not feasible, then the remaining amounts may be donated to charity.

B. Calculating Damages under the OSA and PSLRA

109. The A&DS reflects elements of the damages calculation rules under the OSA and the Private Securities Litigation Reform Act of 1995 ("**PSLRA**").

110. Damages for Part XXIII.1 claims are calculated pursuant to s. 138.5 of the OSA. Section 138.5(1) (essentially) assesses damages following a corrective disclosure as the difference between the acquisition price of the security and the sale price of the security, i.e. the full price decline between the date of purchase and sale. For securities still held 10 days following the correction, the sale price is limited to a floor equal to the 10 day volume weighted average price of the securities following the public correction. However, the decline in price between those dates could be a result of factors other than the disclosure of the misrepresentation. Section 138.5(3) of the OSA therefore limits damages to the amount of the price decline that is attributable to the misrepresentation.

111. I am advised by U.S. CCAA Representative Counsel that while the PSLRA includes a cap on recoverable damages (discussed below), it does not include a specific method of calculating damages in securities fraud actions. However, over the years, the caselaw has established certain standards. Most importantly, damages are limited to declines in the security's price that were

caused by (a) a corrective disclosure, or (b) public materializations of a fraudulently concealed risk.

112. I am also advised by my U.S co-counsel that to determine causation, U.S. courts usually look to the single day price decline following the corrective disclosure or risk materialization following removal of all market and industry effects, as well as all company-specific effects that were not related to the alleged fraud. The foregoing is subject to the PSLRA cap, which prohibits recoveries that exceed the difference between the price paid for the security and the 90-day average trading price following the corrective disclosure or such materialization.

C. Artificial Inflation, Dates, and Risk Adjustment Factors

113. In this section I discuss the rationale and methodology we employed to arrive at date ranges, artificial inflation numbers, and the risk adjustment factors.

Artificial Inflation and Date Ranges

114. Artificial inflation refers to the portion of a share's price that is attributable to one or more misrepresentations.

115. To determine the artificial inflation figures, Dr. Surana conducted an analysis of CannTrust Holdings' share price reaction to various public announcements related to the alleged misrepresentations in the Class Actions. This analysis was based on instructions and assumptions that we provided to her, which were based on the allegations and case theories in the Class Actions, as well as the OSA and PSLRA damages principles described earlier.

116. Dr. Surana's analysis showed that CannTrust Holdings' share price was artificially inflated by different amounts at different periods of time between June 1, 2018 and September 17, 2019. This is because different alleged misrepresentations began at different times, and because the artificial inflation declined, but not completely, after certain "partial corrections" of the misrepresentations.

117. For example, the Ontario Class Action alleges that CannTrust Holdings made separate misrepresentations about compliance at its facility in Vaughan ("**Vaughan Misrepresentation**") and its facility in Niagara ("**Niagara Misrepresentation**"). It alleges that the Vaughan Misrepresentation began on June 1, 2018, and that the Niagara Misrepresentation began on October 1, 2018. Based on Dr. Surana's analysis, the Niagara Misrepresentation caused a higher amount of artificial inflation to CannTrust Holdings' shares than the Vaughan Misrepresentation.

118. Accordingly, the artificial inflation between June 1 and September 30, 2018 (when only the Vaughan Misrepresentation was outstanding) was $1.29. But starting on October 1, 2018 (when the Niagara Misrepresentation began), artificial inflation increased to $5.02. This artificial inflation amount reflects both of the misrepresentations' effect on the share price.

119. The artificial inflation amounts began to decrease on July 8, 2019, as the alleged misrepresentations were partially corrected through a series of public announcements. According to our case theory and Dr. Surana's analysis, the shares had no artificial inflation after September 17, 2019.

120. The Recognized Loss Amount formulas calculate the net amount of artificial inflation that a claimant paid for a share by subtracting the artificial inflation at time of sale from the artificial

inflation at time of purchase ("**Net Inflation**"). For example, a claimant that bought a share on October 2, 2018 paid $5.02 of artificial inflation for that share. But if that share is sold on July 9, the price received for that share will include $3.57 of artificial inflation from which the claimant will benefit. At the end of the transaction, the claimant will be out of pocket $1.45 worth of artificial inflation for that share.

121. Similarly, if a share was acquired on June 5, 2018 with artificial inflation of $1.29, and sold on October 5, 2018 at a price that included $5.02 of artificial inflation, then the claimant would be receiving more by way of artificial inflation at sale than was paid for at purchase. In such an instance, the net artificial inflation would be $0.00 for that share (as paragraph 10 of the A&DS limits the Recognized Loss Amount for any particular disposition of securities to no less than zero).

122. The Recognized Loss Amount is the lesser of the Net Inflation or the actual loss (purchase price – sale price) on the sale for shares disposed of prior to September 30, 2019. For shares held after that date, the sale price "floor" is $1.70, which is the 10-day volume weight average price following the last alleged correction.

Risk Adjustment Factors

123. A claimants' Recognized Loss Amount will be multiplied by the Risk Adjustment Factor to calculate the Recognized Claim. The purpose of the Risk Adjustment Factor is to reflect CCAA Representative Counsel's view that the Prospectus Claims (both under the OSA and U.S. securities laws) have higher prospects of recovery than Secondary Market Claims. Among other things, under the OSA, Prospectus Claims have no liability limit, and are not subject to a preliminary test for leave as are Secondary Claims.

D. The Zola Plaintiffs' Concerns with the A&DS

124. On May 28, 2021, counsel to the Zola Plaintiffs sent me a letter communicating their concerns regarding the A&DS. The letter is attached as **Exhibit** "**N**".

125. The letter explains that the Zola Plaintiffs acquired their shares in the period between September 26-28, 2018, for which the A&DS attributes $1.29 Share Inflation. By contrast, if they had purchased the shares a few days later, on October 1, 2018, their Share Inflation would be $5.02 per share.

126. The letter explains the Zola Plaintiff's view that any decisions, preparations, and ramp-up to the illegal conduct in Niagara (i.e. the Niagara Misrepresentation) must have started no later than mid-September. The letter requested that the current proposed A&DS be modified so that the start point of the $5.02 Share Inflation Period begin on September 15, 2018 instead of October 1, 2018.

127. By way of letter to their counsel dated June 1, 2021, I advised the Zola Plaintiffs that we were not prepared to make their requested modification to the A&DS. That letter is attached and marked as **Exhibit** "**O**".

128. In our view, this is effectively a request to modify the plaintiffs' case theory such that the Niagara Misrepresentation began on September 15, 2018, instead of October 1, 2018. CCAA Representative Counsel chose October 1 as the date the Niagara Misrepresentation began based on CannTrust Holdings' announcement that illegal growing in its Niagara Facility began in October 2018. We are not aware of public information that could provide further specificity of the start date. CannTrust Holdings' press release dated July 8, 2019 stating that the noncompliant activity began in October 2018 is attached as **Exhibit** "**P**".

129. Although it is difficult to estimate with any precision the result that such a modification to the A&DS would have on the Zola Plaintiffs' ultimate entitlement, given the size of their share holdings, we expect that it would be significant. Because there is a fixed pool of money, we expect such an increase in distribution to the Zola Plaintiffs would necessarily mean that other Securities Claimants' distributions would be impacted negatively in a non-trivial way.

130. Based on the information available to CCAA Representative Counsel at this time, the case we have pleaded, publicized to Securities Claimants, and have advanced throughout the Mediation Process is sound and best accords with the evidence. We believe it would be inconsistent with the duties as representative counsel, and as eventual Trustees of the Securities Claimant Trust, to modify the A&DS to the benefit of a particular claimant. For this reason, CCAA Representative Counsel have declined the Zola Plaintiffs' request to change the allocation methodology.

AFFIRMED BEFORE ME over video-teleconference in accordance with Ontario Regulation 431/20, with the affiant located in the City of Toronto, and the commissioner in the Municipality of Lakeshore, each in the Province of Ontario, this 2nd day of June, 2021.	
J Smith	
A Commissioner for taking Affidavits *(or as may be)* LSO 75275W	Serge Kalloghlian

This is Exhibit “A” referred to in the affidavit

of Serge Kalloghlian, sworn before me this 2nd

day of June, 2021

J Smith

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.	393 AVE. UNIVERSITY
6TH FLOOR	6E ÉTAGE
TORONTO, ONTARIO	TORONTO, ONTARIO
M5G 1E6	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

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, 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
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AND TO: **Peter Aceto**
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AND TO: **Greg Guyatt**
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AND TO: **Ian Abramowitz**
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AND TO: **John Kaden**
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AND TO: **Mark Ian Litwin**
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AND TO: **Mitchell J. Sanders**
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AND TO: **Stan Abramowitz**
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AND TO: **Brad Rogers**
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AND TO: **Michael Ravensdale**
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AND TO: **Shawna Page**
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AND TO: **Illana Platt**
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AND TO: **Graham Lee**
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AND TO: **Brady Green**
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AND TO: **Andrea Kirk**
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AND TO: **Norman Paul**
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AND TO: **KPMG LLP**
100 New Park Place, Suite 1400
Vaughan, Ontario, L4K 0J3

AND TO: **Merrill Lynch Canada Inc.**
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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. 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, 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, 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.

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

Excerpts from the 2017 AIF (incorporated by reference into certain Misleading Documents)

(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.

<u>Excerpts from the 2017 Annual MD&A (incorporated by reference into certain Misleading Documents)</u>

(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.

Excerpts from Q1 2019 MD&A

(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.: 19-000625181-00CP

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 2nd

day of June, 2021

____

A Commissioner for taking Affidavits

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

In Re: CANNTRUST HOLDINGS INC. SECURITIES LITIGATION	No. 1:19-cv-06396-JPO <u>JURY TRIAL DEMANDED</u> Judge J. Paul Oetken <u>CLASS ACTION</u>

<u>CONSOLIDATED CLASS ACTION COMPLAINT</u>

TABLE OF CONTENTS

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.

[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**.

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[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

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[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

[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**	$ 17,961,043
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
Investments	18	**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		80,526,105
Earnings (loss) per share - basic	13		(0.14)		0.09
Earnings (loss) per share - diluted	13		(0.14)		0.09

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.

[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

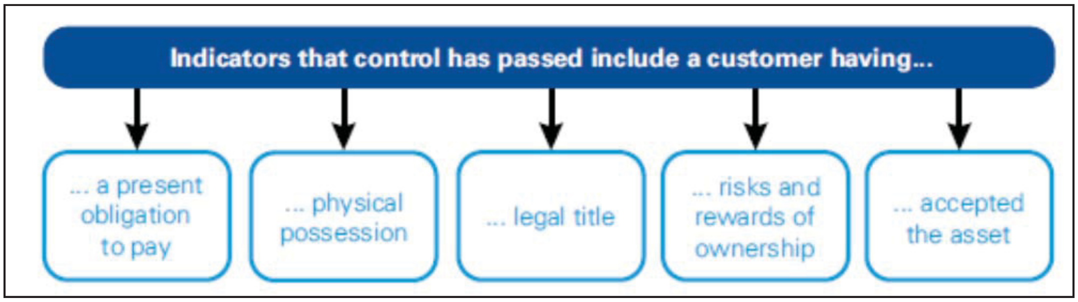
193. In addition to overstating inventory and biological assets, Defendants also overstated its revenue. Indeed, as discussed below, under relevant IFRS standards, CannTrust was permitted to recognize revenue only for products for which the Company **held valid legal title**. And because CannTrust generated 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.

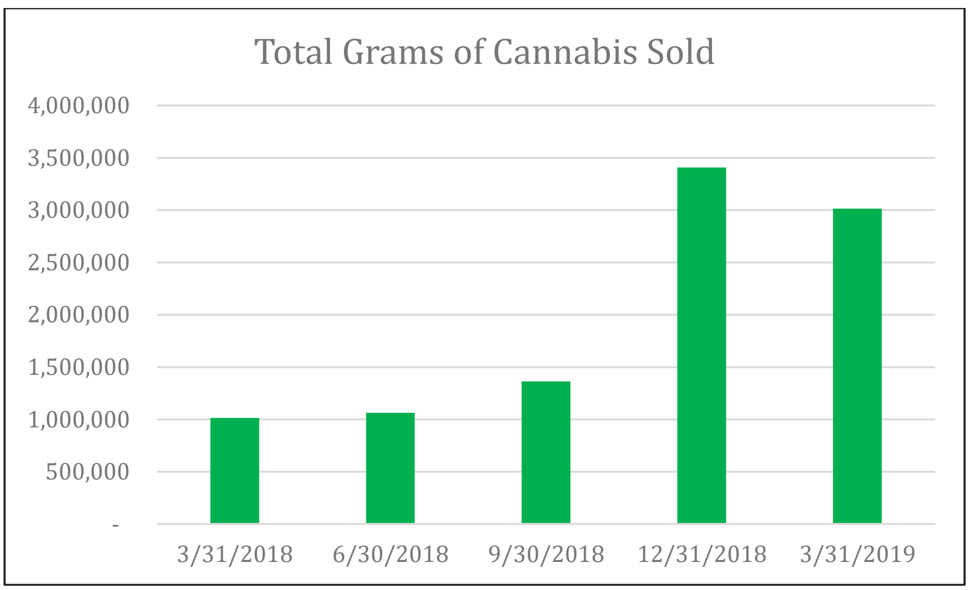
231. As an initial matter, KPMG appears to have failed to perform any required analytical procedures. Analytical procedures are an important part of the audit process that evaluate the correlation or financial relationships between financial and non-financial information. *See* AS 2305, *Analytical Procedures*, 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

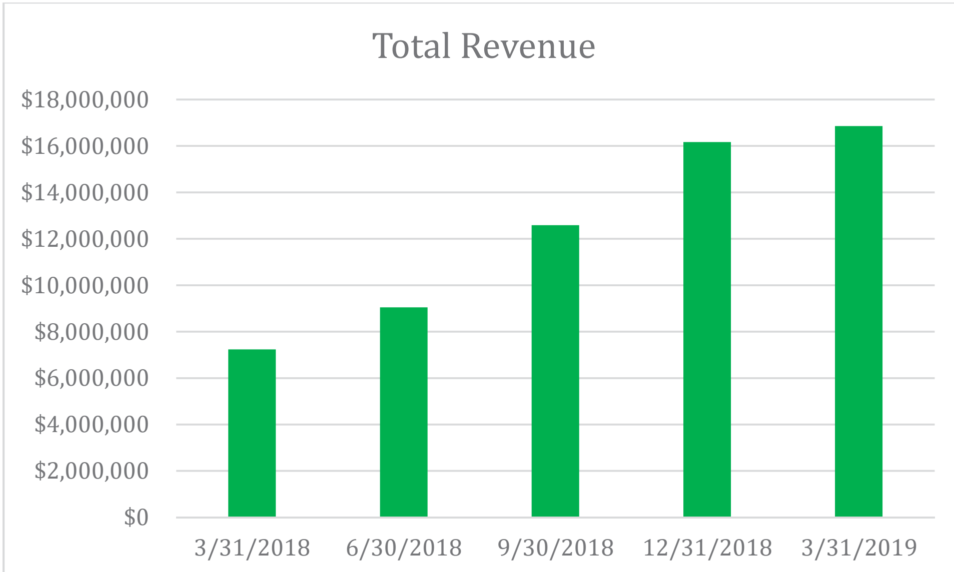
CannTrust's increased cannabis production and financial results. *See* AS 2110.46.a. Such analytical procedures would have enabled KPMG to identify specific risks relevant to the audit, including unusual transactions and events that warrant investigation. AS 2110.46.b. Analytical procedures were particularly 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	9,843,690
Accounts receivable	503,939	160,383
Prepaids	2,048,778	2,465,506
Total current assets	154,195,342	44,227,892
Investments (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	$ 7,574,623
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)	688,338	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	1,649,663
Selling and shipping costs	2,111,169	659,755	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)	(62,947)	(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		$ 5,421,155	$ 17,961,043
Short term investments	7	80,896,438	201,538
Harmonized sales tax recoverable		5,318,765	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		1,755,482	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	53,310,257	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		(27,119,236)	(39,589,888)
Total Shareholders' Equity		187,485,973	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	$ 6,140,224	$ 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	2,534,047	977,723
General and administrative		1,242,415	469,225	3,015,285	1,055,283
Loss on Equity Accounted Investment	18	109,179	26,926	195,353	101,652
Management fees	17	80,000	63,548	240,000	298,548
Marketing and promotion		1,614,789	130,391	2,512,978	353,638
Professional fees		300,094	410,453	1,051,226	830,740
Rent and facilities		172,200	85,356	1,250,841	226,898
Salaries and benefits		2,587,081	929,073	6,035,743	2,376,996
Selling and shipping costs		2,703,428	1,186,089	6,285,314	2,424,629
Share based compensation	14	1,514,268	908,223	6,488,142	1,460,592
Expenses before Financing Activities and Transaction Costs		11,495,252	4,673,329	29,608,929	10,106,699
Income from Operations before Financing Activities, Transaction Costs and Other Income		1,045,379	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		890,054	655,309	16,726,359	632,269
Deferred income tax expense	19	(468,814)	-	(4,758,104)	-
Net Income and Comprehensive Income		$ 421,240	$ 655,309	$ 11,968,255	$ 632,269
Weighted average number of common shares - basic		104,054,171	78,701,498	97,630,021	72,997,008
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**	$ 17,961,043
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
Investments	18	**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		80,526,105
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	6	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		3,430,523	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.

[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.