complexity of the case and the results achieved. I further understand that, in the event the Court awards fees on the basis of a multiplier, the Court has the discretion to fix the base fee and the appropriate multiplier.[2] By signing this Retainer Agreement, I agree to provide evidence to the court, if necessary, confirming that I was explained and understand the fee arrangements pursuant to this Retainer Agreement, and that in my opinion they are reasonable.

12. If I terminate, at my initiative, this Retainer Agreement and/or retain a different solicitor in this class proceeding, I hereby acknowledge that TGF will then render an account for hours worked to date plus all disbursements and HST (which will also include any costs that may have been paid by TGF pursuant to its adverse cost indemnity) and that such account will be paid forthwith by me, or alternatively, will be the subject of protection of my new counsel, said protection to be satisfactory to TGF. In the event the account is not paid forthwith and is instead protected by my new counsel, it shall be a first charge on any judgment or settlement funds pursuant to s. 32(3) of the *Class Proceedings Act, 1992* and shall rank ahead of any fees and disbursements chargeable by my new counsel. Any adverse cost awards that have been paid to date by TGF will be included under this charge. I will not be personally liable to pay any account rendered by TGF in the event that I retain new counsel; however, as a term of the retainer of such new counsel, my new counsel will:

a) protect TGF 's account as a first charge on any proceeds of this litigation; and

b) vigorously pursue the matter to judgment or settlement.

---

2 The following hourly rates used in any fee multiplier calculation are for the 2019 year and may increase annually without notice to individual class members: \$950.00 per hour for lawyers with at least 25 years experience; \$750.00 per hour for lawyers with at least 15 years experience but less than 25 years experience; \$550.00 per hour for lawyers with at least 5 years experience but less than 15 years experience; \$350.00 per hour for lawyers with less than 5 years experience and for law clerks; and \$250.00 per hour for law students.

13. I understand and agree that TGF will conduct meaningful consultations with me before accepting any settlement or pursuing an appeal of a trial verdict.

14. In the event of any insolvency proceedings commenced by CannTrust, or in respect of CannTrust, or any other named defendant to a claim that may be brought on behalf of the Class by TGF, I agree that TGF shall be solely authorized to file and pursue any claim in any such insolvency proceeding, in addition to all of TGF's rights to continue the litigation against non-filed defendants.

**Indemnification for Adverse Costs**

15. I understand and agree that TGF will fully indemnify me, as representative plaintiff, against any adverse cost awards that may be awarded by the Court during the course of this litigation.

16. In particular, I and TGF agree and understand that if the Court orders that I pay some portion of the costs that are incurred by the defendants in this litigation during the period when TGF is counsel of record, TGF will fully indemnify me against any such award regardless of when such award is actually made insofar as the costs awarded are costs incurred by the defendants while TGF remains counsel of record; and I will not have to personally satisfy such an award or the portion of it relating to the period when TGF acts as my counsel in this litigation.

17. The indemnity described in paragraphs 15 and 16 shall remain valid and in force regardless of which party may terminate this retainer agreement.

18. I agree that TGF may, on my behalf, obtain an indemnification against any adverse costs and, or funding for disbursements from a third party insurance provider, third party litigation funder, or the Class Proceedings Fund, and that any

of the aforementioned parties may be entitled to a percentage of any recovery obtained on behalf of the Class (which amount will be separate from the legal fees and disbursements payable to TGF, and in any event subject to Court approval). I authorize TGF, in its discretion, to seek such indemnification.

**Termination of Retainer**

19. I further acknowledge and agree that if I terminate, at my initiative, this Retainer Agreement and/or retain different counsel to pursue this action, that TGF shall retain the class members as clients and remain as solicitors of record for the Class and shall have the right to amend the pleadings to replace me as representative plaintiff.

**Conflicts and Confidentiality**

20. TGF undertakes not to disclose or misuse your confidential information subject only to applicable law and lawyer professional/ethical rules.

21. You acknowledge that, after you are no longer a client, TGF may represent other clients whose interests may be adverse to yours, provided we protect your confidential information.

22. While you are a client, TGF will not act for another client whose interests conflict with your interests in this matter, unless you consent. In this regard, provided that (1) the other matter is not the same as or related to any matter in which we are currently representing you, and (2) we protect your confidential information, you agree not to object to our representation of another client in any engagement that is adverse to your interests (including in litigation). Another client's interests will not normally be considered adverse to you merely because the other client is a business competitor of yours or is asserting through us legal positions that are inconsistent with legal positions you are asserting, or is adverse in interest to entities with which you have a relationship through ownership or otherwise.

23. By signing this retainer letter, you also expressly consent to TGF sending you commercial electronic messages, from time to time, in accordance with Canada's anti-spam legislation. If you do not want to receive commercial electronic messages from us, please send an email to info@tgf.ca.

24. This retainer agreement replaces any previous Retainer Agreement which I may have executed with respect to this matter.

Dated at THORNHILL, Ontario, this 15th day of July 2019.

Witness: Paul Guy

STEPHEN ROSEN

Dated at TORONTO, Ontario, this 15th day of July, 2019.

Witness: Marie Criscione

THORNTON GROUT FINNIGAN LLP
Per: Paul Guy, Partner.

## SCHEDULE A – SAMPLE CONTINGENCY FEE CALCULATIONS
## (Fees exclusive of HST)

**Scenario #1 - $90 million settlement achieved before the filing of a Notice of Motion on Certification and or Leave motions**

| | |
|---|---|
| **Base Fee calculation per para 4(a):** | 20% x 90 million = $18 million |
| **Limitation on Base Fee calculated pursuant to para 6:** | |
| 30% x first 50 million = | 15.0 million |
| 25% x on amounts above $50 million ($40 million) | 10.0 million |
| TOTAL | $25.0 million |

**Fee Scenario 1: $18 million or 20% of $90 million settlement**

**Scenario #2 – $90 million settlement achieved after filing of Notice of Motion on Leave and, or Certification motions and before the commencement of examination for discovery**

| | |
|---|---|
| **Base Fee calculation per para 4(b):** | 25% x 90 million = 22.5 million |
| **Limitation on Base Fee calculated pursuant to para 6:** | |
| 30% x first 50 million = | 15.0 million |
| 25% x on amounts above $50 million ($40 million) | 10.0 million |
| TOTAL | $25.0 million |

**Fee Scenario 2: $22.5 million or 25% of $90 million settlement**

**Scenario #3 – $90 million settlement achieved after commencement of examinations for discovery and before the filing of a Trial Record**

| | |
|---|---|
| **Base Fee calculation per para 4(c):** | 27.5% x 90 million = 24.75 million |
| **Limitation on Base Fee calculated pursuant to para 6:** | |
| 30% x first 50 million = | 15.0 million |
| 25% x on amounts above $50 million ($40 million) | 10.0 million |
| TOTAL | $25.0 million |

**Fee Scenario 3: $24.75 million or 27.5% of $90 million settlement**

**Scenario #4 – $90 million settlement achieved after the filing of a Trial Record**

| | |
|---|---|
| **Base Fee calculation per para 4(d):** | 30% x 90 million = 27 million |
| **Limitation on Base Fee calculated pursuant to para 6:** | |
| 30% x first 50 million = | 15.0 million |
| 25% x on amounts above $50 million ($40 million) | 10.0 million |
| TOTAL | $25.0 million |

**Fee Scenario 4: $25 million or 27.78% of $90 million settlement**

| | |
|---|---|
| **Scenario #5 - $230 million settlement achieved before the filing of a Notice of Motion on Certification and, or Leave motions** | |
| **Base Fee calculation per para 4(a):** | 20% x 230 million = 46 million |
| **Limitation on Base Fee calculated pursuant to para 6:** | |
| 30% x first 50 million = | 15.0 million |
| 25% x second 50 million = | 12.5 million |
| 22.5% on amounts above $100 million ($130 million) | 29.25 million |
| TOTAL | $56.75 million |
| **Fee Scenario 5: $46 million or 20% of $230 million settlement** | |
| **Scenario #6 - $230 million settlement achieved after filing of Notice of Motion on Leave and, or Certification motions and before the commencement of examinations for discovery** | |
| **Base Fee calculation per para 4(b):** | 25% x 230 million = 57.5 million |
| **Limitation on Base Fee calculated pursuant to para 6:** | |
| 30% x first 50 million = | 15.0 million |
| 25% x second 50 million = | 12.5 million |
| 22.5% on amounts above $100 million ($130 million) | 29.25 million |
| TOTAL | $56.75 million |
| **Fee Scenario 6: $56.75 million or 24.6% of $230 million settlement** | |
| **Scenario #7 – $230 million settlement achieved after commencement of examinations for discovery and before the filing of a Trial Record** | |
| **Base Fee calculation per para 4(c):** | 27.5% x 230 million = 63.25 million |
| **Limitation on Base Fee calculated pursuant to para 6:** | |
| 30% x first 50 million = | 15.0 million |
| 25% x second 50 million = | 12.5 million |
| 22.5% on amounts above $100 million ($130 million) | 29.25 million |
| TOTAL | $56.75 million |
| **Fee Scenario 7: $56.75 million or 24.6% of $230 million settlement** | |
| **Scenario #8 – $230 million settlement achieved after the filing of a Trial Record** | |
| **Base Fee calculation per para 4(d):** | 30% x 230 million = 69 million |
| **Limitation on Base Fee calculated pursuant to para 6:** | |
| 30% x first 50 million = | 15.0 million |
| 25% x second 50 million = | 12.5 million |
| 22.5% on amounts above $100 million ($130 million) | 29.25 million |
| TOTAL | $56.75 million |
| **Fee Scenario 8: $56.75 million or 24.6% of $230 million settlement or judgment** | |

**Scenario #9 - $500 million settlement achieved before the filing of a Notice of Motion on Certification Motion or Leave motions**

| | |
|---|---|
| **Base Fee calculation per para 4(a):** | 20% x 500 million = 100 million |
| **Limitation on Base Fee calculated pursuant to para 6:** | |
| 30% x first 50 million = | 15.0 million |
| 25% x second 50 million = | 12.5 million |
| 22.5% on amounts above $100 million ($400 million) | 90 million |
| TOTAL | $117.5 million |

**Fee Scenario 9: $100 million or 20% of $500 million settlement**

**Scenario #10 - $500 million settlement achieved after filing of Notice of Motion on Leave and, or Certification motions and before the commencement of examination for discovery**

| | |
|---|---|
| **Base Fee calculation per para 4(b):** | 25% x 500 million = 125 million |
| **Limitation on Base Fee calculated pursuant to para 6:** | |
| 30% x first 50 million = | 15.0 million |
| 25% x second 50 million = | 12.5 million |
| 22.5% on amounts above $100 million ($400 million) | 90 million |
| TOTAL | $117.5 million |

**Fee Scenario 10: $117.5 million or 23.5% of 500 million settlement**

**Scenario #11 – $500 million settlement achieved after commencement of examinations for discovery and before the filing of a Trial Record**

| | |
|---|---|
| **Base Fee calculation per para 4(c):** | 27.5% x 500 million = 137.5 million |
| **Limitation on Base Fee calculated pursuant to para 6:** | |
| 30% x first 50 million = | 15.0 million |
| 25% x second 50 million = | 12.5 million |
| 22.5% on amounts above $100 million ($400 million) | 90 million |
| TOTAL | $117.5 million |

**Fee Scenario 10: $117.5 million or 23.5% of 500 million settlement**

**Scenario #12 – $500 million settlement achieved after the filing of a Trial Record**

| | |
|---|---|
| **Base fee calculation per para 4(d):** | 30% x 500 million = 150 million |
| **Limitation on Base Fee calculated pursuant to para 6:** | |
| 30% x first 50 million = | 15.0 million |
| 25% x second 50 million = | 12.5 million |
| 22.5% on amounts above $100 million ($400 million) | 90 million |
| TOTAL | $117.5 million |

**Fee Scenario 10: $117.5 million or 23.5 % of 500 million settlement**

# TAB 2-D

This is Exhibit “D” referred to in the Affidavit

of Serge Kalloghlian, sworn before me this

day of December 6th, 2021

A Commissioner, etc

**CITATION:** Earle v. CannTrust Holdings Inc., 2020 ONSC 579
**COURT FILE NO.:** CV-19-000625181-00CP
**COURT FILE NO.:** CV-19-00625351-00CP
**DATE:** 2020/01/28

**ONTARIO**
**SUPERIOR COURT OF JUSTICE**

| | |
|---|---|
| **BETWEEN:** | |
| **WENDY EARLE, ATIQUR SARKER, DHARAMBIR SINGH, and RON REID** | *David Wingfield* and *Dimitri Lascaris* for the Plaintiffs |
| Plaintiffs | |
| - and - | |
| **CANNTRUST HOLDINGS INC., ERIC PAUL, PETER ACETO, GREG GUYATT, IAN ABRAMOWITZ, MARK DAWBER, JOHN KADEN, MARK IAN LITWIN, ROBERT MARCOVITCH, MITCHELL J. SANDERS, STAN ABRAMOWITZ, BRAD ROGERS, MICHAEL RAVENSDALE, SHAWNA PAGE, ILLANA PLATT, GRAHAM LEE, KPMG LLC, MERRILL LYNCH CANADA INC., CITIGROUP GLOBAL MARKETS CANADA INC., CREDIT SUISSE SECURITIES (CANADA) INC., RBC DOMINION SECURITIES INC., JEFFERIES SECURITIES, INC., CANACCORD GENUITY CORP., CANNAMED FINANCIAL CORP., and CAJUN CAPITAL CORPORATION** | |
| Defendants | |
| **AND BETWEEN:** | |
| **STEPHEN ROSEN** | *John Finnigan, Peter Jervis, Douglas Worndl,* and *Paul Guy* for the Plaintiff |
| Plaintiff | |
| - and – | |
| **CANNTRUST HOLDINGS INC., PETER ACETO, ERIC PAUL, GREG GUYATT,** | |

| | | |
|---|---|---|
| **IAN ABRAMOWITZ, MARK LITWIN and KPMG LLP** | ) | |
| | ) | |
| Defendants | ) | |
| | ) | |
| | ) | |
| Proceedings under the *Class Proceedings Act, 1992* | ) | **HEARD**: December 3, 2019 |
| | ) | |

**HAINEY, J.**

## ENDORSEMENT

## BACKGROUND

[1] This is a carriage motion pursuant to the *Class Proceedings Act*, 1992 S.O. 1992, c.6, ("CPA") in which I must determine which of two highly experienced teams of legal counsel should represent the interests of proposed class members in a securities misrepresentation class proceeding brought against CannTrust Holdings Inc. ("CannTrust") and other defendants relating to losses suffered by the proposed class members as a result of their investments in CannTrust.

[2] The two competing teams of legal counsel are the following:

(a) The "Consortium" comprised of Henein Hutchison LLP ("Henein"), Strosberg Sasso Sutts LLP ("Strosberg"), A Dimitri Lascaris Law Professional Corporation ("Lascaris PC"), and Kalloghlian Professional Corporation ("Kalloghlian PC") who represent the proposed representative plaintiffs, Patrick Hrusa and Dharambir Singh ("Hrusa/Singh Action") and

(b) The "TGF/RG Team" comprised of Thorton Grout Finnigan LLP ("TGF") and Rochon Genova LLP ("RG") who represent the representative plaintiff, Stephen Rosen ("Rosen Action").

## FACTS

[3] CannTrust is in the business of producing and selling cannabis products. Its shares are publicly listed for trading on the Toronto Stock Exchange ("TSX"), the New York Stock Exchange ("NYSE") and other trading venues. As a federally regulated licensed cannabis producer, it operates in a strictly regulated environment governed by various laws, regulations and standards administered in part by Health Canada. Failure to comply with these rules and regulations exposes CannTrust to sanctions and penalties, ranging from fines to the suspension or revocation of its licenses.

[4] Between June 1, 2018 and September 17, 2019, CannTrust, its directors and officers issued securities filings and made public statements representing that it had obtained all the necessary licenses at the facilities it owned, and that it would apply for additional licenses as necessary in the future. It also represented to investors that it met all standards for security, quality assurance, standard operating procedures, and document retention.

[5] These representations were included in a prospectus dated May 1, 2019 ("May Prospectus") pursuant to which US$230 million worth of CannTrust shares were sold to investors.

[6] It is alleged that these representations and statements were false. Unbeknownst to investors, starting on June 1, 2018, CannTrust breached Health Canada regulations by storing cannabis in its manufacturing facility in Vaughan, Ontario ("Vaughan Facility") without the required approval from Health Canada. The Vaughan Facility also failed to meet the required standards for security, quality assurance, standard operating procedures and document retention.

[7] On or around October 1, 2018, CannTrust, with the knowledge and approval of executive management, began producing and selling cannabis made in rooms in its facility in Niagara ("Niagara Facility") that did not have the required licenses. CannTrust employees deceived Health Canada inspectors, going so far as to install fake walls to hide the cannabis being illegally grown in the unlicensed rooms. In addition, CannTrust produced and sold cannabis grown from seeds that were illegally obtained through the black market.

[8] It was not until a series of five key public disclosures issued between July 8 and September 17, 2019, that CannTrust's investors learned the truth about the company's illegal activities. These disclosures are the basis for the allegations in the proposed class proceedings.

(1) On July 8, 2019, CannTrust issued a press release admitting that it had breached Health Canada regulations by growing cannabis in five unlicensed rooms at the Niagara Facility between October 2018 and March 2019.

(2) On July 23, 2019, The Globe and Mail reported that top CannTrust executives, including its chief executive officer, chief financial officer and chairman of the board, knew and directed the illegal growing of cannabis in the unlicensed rooms at the Niagara Facility.

(3) On August 12, 2019, CannTrust issued a press release announcing that Health Canada had discovered noncompliance with Health Canada regulations in another facility in Vaughan dating back to June 2018.

(4) On September 6, 2019, BNN Bloomberg published an article disclosing that senior operating staff working at the Niagara Facility in late 2018 brought cannabis seeds from the black market into production rooms, leading to illicit cannabis flowing into the legal market.

(5) On September 17, 2019, CannTrust issued a press release announcing that it had received a notice of license suspension from Health Canada.

[9] As a result of these disclosures the price of CannTrust's shares dropped 73% from before the July 8$^{th}$ announcement to the September 17$^{th}$ announcement.

[10] The regulatory noncompliance findings had a significant impact on CannTrust's business and operations and its previously-disclosed financial results.

[11] On August 1, 2019, CannTrust announced that it would miss the filing deadline for its Q2 2019 financial statements, because “there was significant uncertainty with respect to the potential impact of pending Health Canada decisions on the valuation of the Company’s inventory and biological assets and revenue recognition”, and that previously-issued financial statements could require restatement.

[12] On October 24, 2019, CannTrust announced that it would be filing restated financial statements for fiscal 2018 and the first quarter of 2019 “within the next 60 days”.

[13] As a result of these developments CannTrust’s investors lost millions of dollars of their investments. The proposed class proceedings are an effort to recover those loses for these investors. The primary defendants in the proposed class proceedings are CannTrust, its officers and directors, its auditor, KPMG, and CannTrust’s underwriters on its public offering.

**LEGAL PRINCIPLES**

[14] The CPA gives the court broad jurisdiction to manage class proceedings. Courts are charged with a broad supervisory role in class proceedings from deciding who will have carriage of the proceedings to the approval of settlements in class proceedings. To fulfill this mandate the court must protect class members and their interests. Determining who should represent prospective class members engages this supervisory role at a very high level.

[15] The jurisprudence establishes that the court should grant carriage to the legal team whose proposed class proceeding is better for the proposed class members and best represents and protects their interests, while being fair to the defendants and promoting the prime objectives of class proceedings, access to justice, behaviour modification and judicial economy.

[16] In *Rogers v. Aphria Inc.*, 2019 ONSC 3698, at para. 17, Perell J. set out the following factors that the court should consider in deciding which action should proceed on a carriage motion:

> [17] Courts generally consider a list of overlapping and non-exhaustive factors in determining which action should proceed; including: (1) the Quality of the Proposed Representative Plaintiffs; (2) Funding; (3) Fee and Consortium Agreements; (4) The Quality of Proposed Class Counsel; (5) Disqualifying Conflicts of Interest; (6) Relative Priority of Commencement of the Action; (7) Preparation and Readiness of the Action; (8) Preparation and Performance on Carriage Motion; 9) Case Theory; (10) Scope of Causes of Action; (11) Selection of Defendants; (12) Correlation of Plaintiffs and Defendants; (13) Class Definition; (14) Class Period; (15) Prospect of Success: (Leave and) Certification; (16) Prospect of Success Against the Defendants; and (17) Interrelationship of Class Actions in more than one Jurisdiction.

[17] Almost all of these factors apply to both the Consortium and the TGF/RG Team. They are excellent and experienced legal teams. They have both developed impressive litigation plans with qualified representative plaintiffs and are ready to proceed with their respective actions.

[18] However, the crucial issue in this case is the Consortium’s submission that the TGF/RG team has a disqualifying conflict of interest because they cannot pursue the class action against

one of the underwriters, RBC Dominion Securities Inc. ("RBC"), because it is a current client of TGF's.

[19] Ronald Podolny, a member of the TGF/RG Team explained in his affidavit, filed in support of the carriage motion, why the TGF/RG Team decided to name CannTrust's underwriters as defendants in the Rosen Action but could not include RBC as a defendant as follows:

> 66. In the current TGF/RG Claim as filed in August 2019, we did not name the underwriters as defendants, but instead named CannTrust, the Individual Defendants and the auditor KPMG.
>
> 67. The decision not to name the underwriters was informed, in part, by the fact that on August 9, 2019, CannTrust announced that it had been advised by KPMG that it was withdrawing the KPMG Report regarding the FY/2018 Annual Financial Statements as well as KPMG's interim report to the CannTrust Audit Committee dated May 13, 2019 in respect of the CannTrust Q1/2019 Interim Financial Statements and that KPMG's reports "should no longer be relied upon."
>
> 68. This was a strong indication of liability on the part of KPMG in respect of the use of its audit report in the Prospectus.
>
> 69. Section 130(8) provides for joint and several liability among section 130(1) defendants. Because we were confident of some finding of liability against KPMG in respect of Prospectus misrepresentation, we considered the addition of the underwriters to be unnecessary.
>
> 70. In addition, we considered the fact that CannTrust appeared to have appropriate licenses in place for all of the Pelham Facility as of April 2019. Therefore, even though there were unlicensed grow rooms in Pelham between October and April, by the time the underwriters did their due diligence in advance of the May 1 Prospectus Offering, the Pelham Facility may have had the appropriate licenses in place.
>
> 71. While this was conjecture, we were comfortable with the decision, given KPMG's exposure to all Prospectus damages and their admission on August 9 that their audit opinion could no longer be relied on. It was a judgment call based on available information.
>
> 72. The available information changed almost immediately when, on August 12, 2019, CannTrust announced that Health Canada rated the Vaughan Facility non-compliant for several regulatory infractions, one of which involved poor record keeping.
>
> 73. In addition, the news about CannTrust's prospects for long-term survival was getting increasingly grim, suggesting that the bulk of the recovery in this case may be coming from "gatekeepers," like KPMG, CannTrust's D&O insurers and, potentially, the underwriters.

74. We consulted with several highly experienced investment bankers/underwriters, who advised that it appeared to them that a good case could be made that the underwriters were not duly diligent in conjunction with the May 1, 2019 Prospectus Offering. We did not obtain a formal opinion from them, however, their reactions to the facts alleged here gave us comfort that the pleading should be amended to include the underwriters as defendants to the section 130(1) claim.

75. An additional issue then presented itself, and that is that TGF was not able to sue one member of the underwriting syndicate, RBC Dominion Securities ("RBC"), because RBC is a current client of TGF.

76. We made an assessment as to whether the failure to name RBC would materially prejudice the Class, and we determined that it did not. Our reasoning was as follows:

(a) While section 130(8) provides that liability among named defendants under section 130(1) is joint and several, section 130(6) provides that no underwriter may be liable for more than the total public offering price represented by the portion of the distribution underwritten by the underwriter.

(b) Therefore, the most that RBC could be found liable for was the portion of the Underwriting underwritten by it. I understand this portion to be approximately 10% of the approximately US$200 million offering.

(c) Therefore, if there was a finding of Prospectus liability under section 130(1), there would be joint and several liability between KPMG, CannTrust, the individual defendants and the underwriters, however the underwriters could be called upon collectively to contribute 90% of the total, because RBC is not named.

(d) In our judgment, it was highly unlikely that the absence of RBC as a defendant would prejudice the Class.

(e) I am advised by Paul Guy that he informed the two proposed representative plaintiffs of the situation, and they instructed him to name the underwriters, without RBC.

[20] For these reasons, RBC is not named as a defendant in the Rosen Action. However, in the Hrusa/Singh Action, the Consortium names as defendants all six financial institutions (including RBC) that served as underwriters in CannTrust's public offering. These underwriters all signed certificates confirming that the May Prospectus contained full, true and plain disclosure of all material facts relating to CannTrust's shares. The underwriters, or their US affiliates, were collectively paid more than US$12.8 million in underwriting commissions for their role in CannTrust's public offering.

[21] The TGF/RG Team acknowledges that they decided to add the underwriters as defendants because the "bulk of the recovery in this case may be coming from 'gatekeepers' like ... the underwriters". However, they have excluded their client, RBC, as a defendant. RBC is a significant source of possible recovery for the class members and, in my view, should be named as a defendant in the class proceeding.

[22] The Consortium submits as follows at paras. 12 and 13 of its factum:

> [12] Unlike the Consortium, which named all the defendant underwriters to maximize the potential recovery for class members, RG/TGF allowed RBC DS to walk scot-free simply because RBC DS is a client of TGF (a conflict for which RG/TGF should be disqualified). RG/TGF try to explain away this conflict by asserting that the exclusion of RBC DS will not prejudice the potential recovery of class members, but it has articulated no justification whatsoever (other than its desire to remain invested in the litigation) for allowing RBC DS to walk scot-free.
>
> [13] RG/TGF's argument that excluding RBC DS will not reduce access to justice for class members is contingent on a number of assumptions that turn out to be untrue. Specifically, this argument depends on KPMG, CannTrust and the individual defendants being (i) found liable; and (ii) having enough money to satisfy the US$230 million worth of shares sold in the Offering. Neither of these scenarios is inevitable, especially given that RG/TGF's other arguments assume that CannTrust will be insolvent, and the individual defendants will only be able to contribute to the extent of the D&O policy. Moreover, excluding RBC DS would undermine the goal of behaviour modification underpinning the CPA.

[23] I agree with and accept the Consortium's submission. By excluding RBC as a defendant, the TGF/RG Team has chosen to prefer the interests of their client, RBC, over the interests of the class members. They have reduced by 10%, or roughly US$20 million, the maximum recoverable damages against the underwriters. This is not in the proposed class members' best interests.

[24] By preferring the interests of their client, RBC, over the class, the TGF/RG Team has reduced the class members' potential recovery before the litigation has even started. In view of my mandate to protect the interests of the proposed class members on this carriage motion, I must ensure that they have legal representation that is not in any way restricted by class counsel's conflicts of interest.

[25] I am satisfied that RBC is a necessary defendant in these proposed class proceedings. It is a possible source of damages of approximately US$20 million and could also be the subject of behaviour modification, one of the objectives of class proceedings. It should not be excluded as a defendant in the proceedings simply because it is a client of TGF's.

**CONCLUSION**

[26] I have concluded for these reasons that the TGF/RG Team has a disqualifying conflict of interest that makes the team unsuitable to act as class counsel in these proceedings. I therefore grant carriage of these class proceedings to the Consortium.

[27] There shall be no order as to costs.

HAINEY J.

**Date:** January 28, 2020

# TAB 2-E

This is Exhibit “E” referred to in the Affidavit

of Serge Kalloghlian, sworn before me this

day of December 6th, 2021

A Commissioner, etc

**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:**

COURT OF JUSTICE SUPERIOR COUR SUPÉRIEURE DE JUSTICE

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**

**ORDER**
**(Carriage Motion)**

**THIS MOTION,** made by the plaintiffs in the actions styled *Wendy Earle et* al. *v Canntrust Holdings Inc., et* al. (CV-19-000625181-00CP) 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-19-000625181-00CP) 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
Vaughan, Ontario, L4K 1Z9

**AND TO:** **Peter Aceto**
c/o CannTrust Holdings Inc.
7300 Keele Street
Vaughan, Ontario, L4K 1Z9

**AND TO:** **Greg Guyatt**
c/o CannTrust Holdings Inc.
7300 Keele Street
Vaughan, Ontario, L4K 1Z9

**AND TO:** **Ian Abramowitz**
c/o CannTrust Holdings Inc.
7300 Keele Street
Vaughan, Ontario, L4K 1Z9

**AND TO:** **Mark Dawber**
c/o CannTrust Holdings Inc.
7300 Keele Street
Vaughan, Ontario, L4K 1Z9

**AND TO:** **John Kaden**
c/o CannTrust Holdings Inc.
7300 Keele Street
Vaughan, Ontario, L4K 1Z9

**AND TO:** **Mark Ian Litwin**
c/o CannTrust Holdings Inc.
7300 Keele Street
Vaughan, Ontario, L4K 1Z9

**AND TO:** **Robert Marcovitch**
c/o CannTrust Holdings Inc.
7300 Keele Street
Vaughan, Ontario, L4K 1Z9

**AND TO:** **Mitchell J. Sanders**
c/o CannTrust Holdings Inc.
7300 Keele Street
Vaughan, Ontario, L4K 1Z9

**AND TO:** **Stan Abramowitz**
c/o CannTrust Holdings Inc.
7300 Keele Street
Vaughan, Ontario, L4K 1Z9

**AND TO:** **Brad Rogers**
c/o CannTrust Holdings Inc.
7300 Keele Street
Vaughan, Ontario, L4K 1Z9

**AND TO:** **Michael Ravensdale**
c/o CannTrust Holdings Inc.
7300 Keele Street
Vaughan, Ontario, L4K 1Z9

**AND TO:** **Shawna Page**
c/o CannTrust Holdings Inc.
7300 Keele Street
Vaughan, Ontario, L4K 1Z9

| | |
|---|---|
| **AND TO:** | **Illana Platt**<br>c/o CannTrust Holdings Inc.<br>7300 Keele Street<br>Vaughan, Ontario, L4K 1Z9 |
| **AND TO:** | **Graham Lee**<br>c/o CannTrust Holdings Inc.<br>7300 Keele Street<br>Vaughan, Ontario, L4K 1Z9 |
| **AND TO:** | **Brady Green**<br>c/o CannTrust Holdings Inc.<br>7300 Keele Street<br>Vaughan, Ontario, L4K 1Z9 |
| **AND TO:** | **Andrea Kirk**<br>c/o CannTrust Holdings Inc.<br>7300 Keele Street<br>Vaughan, Ontario, L4K 1Z9 |
| **AND TO:** | **Norman Paul**<br>c/o CannTrust Holdings Inc.<br>7300 Keele Street<br>Vaughan, Ontario, L4K 1Z9 |
| **AND TO:** | **KPMG LLP**<br>100 New Park Place, Suite 1400<br>Vaughan, Ontario, L4K 0J3 |
| **AND TO:** | **Merrill Lynch Canada Inc.**<br>181 Bay Street, 4th & 5th Floors<br>Toronto, ON M5J 2V8 |
| **AND TO:** | **Citigroup Global Markets Canada Inc.**<br>123 Front Street West, Suite 1900<br>Toronto, Ontario M5J 2M3 |
| **AND TO:** | **Credit Suisse Securities (Canada), Inc.**<br>1 First Canadian Place<br>Suite 2900, P.O. Box 301<br>Toronto, Ontario M5X 1C9 |
| **AND TO:** | **RBC Dominion Securities Inc.**<br>200 Bay Street, Suite 400,<br>South Tower<br>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]

**KALLOGHLIAN PROFESSIONAL CORPORATION**

Suite 200, 150 King St. W
Toronto, ON M5H 1J9

**Serge Kalloghlian** (LSO#: 55557F)
Tel: (647) 812 5615
Fax: (647) 243 6620
Email: skalloghlian@kalloghlian.ca

**HENEIN HUTCHISON LLP**
235 King Street East, First Floor
Toronto, ON M5A 1J9

**Marie Henein (LSO #33289T)**
mhenein@hhllp.ca

**Scott Hutchison (LSO #29912J)**
shutchison@hhllp.ca

**Mark Strychar-Bodnar (LSO #70764T)**
mstrycharbodnar@hhllp.ca

**Lauren Mills Taylor (LSO #76013F)**
lmillstaylor@hhllp.ca

Tel: (416) 368-5000
Fax: (416) 368-6640

**A DIMITRI LASCARIS LAW PROFESSIONAL CORPORATION**
G101-360 Rue Saint-Jacques
Montreal, QC H2Y 1P5

A Dimitri Lascaris (LSO #50074A)
alexander.lascaris@gmail.com

Tel: (514) 941-5991
Fax: (519) 660-7845

**STROSBERG SASSO SUTTS LLP**

Lawyers
1561 Ouellette Avenue
Windsor, ON N8X 1K5

Jay Strosberg (LSO #47288F)
jay@strosbergco.com

David R. Wingfield (LSO #28710D)
dwingfield@strosbergco.com
Justin Smith (LSO #75275W)
jsmith@strosbergco.com

Tel: (519) 561-6285
Fax: (866) 316-5308

**Schedule "A"**
**Misrepresentations Regarding Compliance with Regulations related to the Niagara Facility**

**<u>Excerpts from the 2017 AIF (incorporated by reference into certain Misleading Documents)</u>**

(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.

**<u>Excerpts from the 2017 Annual Financial Statements (incorporated by reference into certain Misleading Documents)</u>**

(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.

**<u>Excerpts from the Q2 2018 MD&A</u>**

(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.

**<u>Excerpts from the Q2 2018 Financial Statements</u>**

(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

- o (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.

**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 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