CANADA
Province of Ontario

ESTATE NO: 31-2875614
COURT FILE NO.: 31-2875614

**IN THE MATTER OF THE PROPOSAL OF
CANNTRUST HOLDINGS INC.
OF THE CITY OF VAUGHAN
IN THE PROVINCE OF ONTARIO**

REPORT OF TRUSTEE ON PROPOSAL

Bankruptcy and Insolvency Act s. 50 (10)

INTRODUCTION

On the 18th day of October, 2022, CannTrust Holdings Inc. ("**CannTrust**" or the "**Company**") filed with the Official Receiver a Proposal pursuant to Part 3 Division I of the *Bankruptcy and Insolvency Act* (the "**Proposal**") and appointed Ernst & Young Inc. as Trustee (the "**Proposal Trustee**" or "**EYI**").

The purpose of this report (the "**Report**") is to provide information to the creditors of CannTrust to consider the Proposal. This report is based on information provided to the Proposal Trustee by CannTrust and the Proposal Trustee does not provide an opinion with respect to the accuracy or completeness of the information contained herein.

The Proposal has been developed for settlement of CannTrust's obligations to its creditors. The objective of the Proposal is to allow CannTrust to address its remaining liabilities, dispose of its residual assets and dissolve in advance of November 30, 2022, or as soon as realistically possible after that date. CannTrust is proposing to pay the unsecured claims against it in full, other than the claims of Phoena Holdings Inc. ("**Phoena Holdings**") and its subsidiaries, which CannTrust is proposing to satisfy by transferring its residual assets to Phoena Holdings. As part of the Proposal, CannTrust intends to distribute the shares representing its ownership interest in Phoena Holdings to its existing shareholders.

The capitalized terms used in this report, not otherwise defined, are defined in the Proposal and this Report should only be read in conjunction with the Proposal. An overview of the Proposal is outlined in this Report.

A meeting of creditors to consider the Proposal will be held virtually via Microsoft Teams, on the 4th day of November, 2022 at the hour of 10:00 a.m.

The Link to the Meeting is:
Click here to join the meeting
+1 647-749-1785,,41159753#

Details relating to the filing of claims and documents prior to the meeting of creditors are outlined in this Report.

Additional information can be obtained on the Proposal Trustee's website at www.ey.com/ca/canntrust or by contacting the Proposal Trustee at 416-943-2091 and at CannTrust.Proposal@ca.ey.com.

TERMS OF REFERENCE

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

The Proposal Trustee has based its comments in this Report on information it has obtained from the Company but has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the information. Accordingly, the Proposal Trustee expresses no opinion or other form of assurance in respect of any such information contained in this Report.

The Proposal Trustee and its affiliates have had, and in the case of affiliated entities, continues to have, ongoing professional and business relationships with CannTrust. The Proposal Trustee was engaged by CannTrust and its counsel to give privileged and confidential advice in relation to, and in preparation for, the filing of the Proposal by the Company. In addition, EYI continues to be Monitor of CannTrust for which EYI has not yet been discharged as Monitor in proceedings under the *Companies' Creditors Arrangement Act, R.S.C. 1985, c. C*-36 ("**CCAA Proceedings**"). This includes consultation with the Company with respect to the dispute with Canada Revenue Agency ("**CRA**") regarding input tax credits claimed by CannTrust.

BACKGROUND AND CAUSES OF FINANCIAL DIFFICULTY

CannTrust is a holding company that earlier this year settled substantially all of the claims against it at the time pursuant to a plan of arrangement in the CCAA Proceedings described in more detail below. Its remaining assets consist primarily of an approximate 10% equity interest in Phoena Holdings (formerly known as CannTrust Equity Inc.) and some miscellaneous contingent receivables. Although CannTrust is a reporting issuer under the laws of each of the Canadian provinces except for Québec, it remains subject to a cease trade order issued by the Ontario Securities Commission (the "**OSC**") ("**CTO**") and its common shares have been delisted by the Toronto Stock Exchange and the New York Stock Exchange.

On March 31, 2020, CannTrust and certain of its subsidiaries (the "**CannTrust CCAA Companies**") commenced proceedings under the CCAA following a series of adverse events, including the suspension of cannabis licenses necessary to conduct their business and the issuance of a CTO, prohibiting any trading of the CannTrust shares. The CannTrust CCAA Companies commenced the CCAA Proceedings seeking to reinstate their licenses, resume operations, settle several class actions and other litigation brought against them, and explore a range of potential strategic transactions. Details of the CCAA Proceedings can be found on the Monitor's website at www.ey.com/ca/canntrust.

On January 5, 2022, CannTrust implemented the CCAA Plan. Pursuant to the CCAA Plan and the related approving court order, CannTrust compromised and was released from substantially all of the claims against it as of March 31, 2020.

The CannTrust CCAA Companies then continued to seek a strategic transaction to secure new financing to enable the continuation of the cannabis operations conducted by its wholly-owned subsidiary, at the time CannTrust Inc.(currently, Phoena Inc.) ("**Opco**").

On March 11, 2022, the CannTrust CCAA Companies implemented a strategic transaction that resulted in a group of investors investing $11.2 million to acquire a 90% equity interest in Phoena Holdings (at a subscription price of approximately one cent ($0.01) per Phoena Holdings share), and providing a $5.5 million loan (which is subordinated in payment to a pre-existing loan from Cortland Credit Lending Corporation), with CannTrust retaining a 10% equity interest in Phoena Holdings.

The CannTrust CCAA Companies emerged from the CCAA Proceedings on March 15, 2022. During the CCAA Proceeding, CannTrust obtained a Court order that permitted it to defer holding an annual general meeting (the "**AGM**") until 120 days after its exit, to give it time to prepare the necessary financial statements and other materials (i.e., July 13, 2022). CannTrust worked towards the preparation for the AGM, however, it required additional time and sought an extension from the Court. On July 7, 2022, CannTrust received an order extending the AGM deadline to November 30, 2022.

CannTrust had hoped that, after emerging from the CCAA Proceeding, it would be able to complete the steps necessary to either (i) hold an AGM and apply to the OSC to have the CTO revoked, or (ii) work with Phoena Holdings to obtain a stock exchange listing for the Phoena Holdings shares and then distribute its Phoena shares to CannTrust shareholders pursuant to a plan of arrangement effected under the *Business Corporations Act* (Ontario) ("**OBCA**"). To be eligible to apply for a plan of arrangement under the OBCA, CannTrust would either need to (i) restate some of its historical annual financial statements and prepare other annual and interim financial statements, or (ii) prepare annual and interim financial statements in respect of Phoena Holdings.

CannTrust determined that it is not feasible in the remaining time before November 30, 2022 to hold its AGM and, in any event, CannTrust is insolvent and cannot afford to complete the audit and other work necessary to do so, or to seek the revocation of the CTO. Furthermore, Phoena Holdings is not currently in a position to become a "reporting issuer" under applicable securities laws by obtaining a stock exchange listing for the Phoena Holdings shares.

In the present circumstances, CannTrust believes it is in the best interests of its stakeholders to make a proposal to its creditors under the *Bankruptcy and Insolvency Act* (the "**Act**") to allow the Company to address its remaining liabilities, dispose of its residual assets, and dissolve in advance of November 30, 2022 (or as soon as possible thereafter).

Assets and Liabilities

As a holding company, CannTrust does not have any operating revenues and requires funding from Phoena Holdings or Opco in order to pay for its costs. Most of its costs relate to the professional fees associated with the HST tax recovery process and costs related to its administration. The following table summarizes CannTrust's assets and liabilities based on book values from its financial records as at October 14, 2022:

CannTrust Holdings Inc.		
Unaudited Statement of Financial Position		
As at October 16, 2022		
Assets		**Note**
Cash	$ 3,195	1
Harmonized sales tax recoverable	1,370,274	2
Prepaid and other receivables	146,336	3
Receivable from Phoena Inc.	3,000,000	4
Note Receivable from Phoena Inc.	40,000	5
Receivable from Elmcliffe Investments Inc.	4,718,616	6
Receivable from Elmcliffe Investments [No 2] Inc.	50,002	7
Investment in Shares of Phoena Holdings Inc.	4,789,433	8
Restricted cash	5,667,698	9
Total assets	**19,785,554**	
Liabilities		
Accounts payable and accrued liabilities	52,810	
Payable to Phoena Holdings Inc.	20,911,889	
Payable to CTI Holdings (Osoyoos) Inc.	4,648,777	
Total liabilities	**$ 25,613,476**	

Notes:

1. Cash – is based upon the balance as of October 16, 2022.
2. HST Recoverable –. – CannTrust has claimed input tax credits which are currently being denied by the CRA. CannTrust is currently disputing the CRA's position. Approximately $800,000 is held by the Monitor as a disputed claim in the CCAA Proceedings.
3. Prepaid and Other Receivables – Prepaid and Other Receivables consist of: i) pre-paid legal retainers; and ii) accrued interest income on the CannTrust D&O Trust (defined below).
4. Phoena Inc. Receivable – consists of an unsecured loan from CannTrust to Phoena Inc.
5. Phoena Inc. Note Receivable – consists of an unsecured receivable from Phoena Inc.
6. Elmcliffe Investments Inc. Receivable – consists of an unsecured loan to Elmcliffe Investments Inc.
7. Elmcliffe Investments [No 2] Inc. Receivable – consists of an unsecured loan to Elmcliffe Investments [No 2] Inc.

8. Shares of Phoena Holdings – the shares of Phoena Holdings represent 10% equity interest in Phoena Holdings.
9. Restricted Cash – consists of funds held in trust, by a third party, for the directors and officers of the Company, to respond to certain claims against them (the "**CannTrust D&O Trust**"). The CannTrust D&O Trust is subject to claims by beneficiaries and incurs trustee expenses.

CONDUCT AND FUNDING DURING THE PROPOSAL PERIOD

Pursuant to Section 50(10) of the BIA, the Proposal Trustee is required to monitor the affairs of the Company until the Proposal is approved by the Court. There will be no operating activities during the Proposal period.

During the Proposal period, CannTrust will be required to pay the professional fees of the Proposal Trustee and CannTrust's counsel. Without sufficient cash in the CannTrust entity and no direct operations, CannTrust will require funding from its affiliates. As provided in the Cash Flow Forecast, the estimated cost for professional fees incurred during the Proposal period is $310,750. The funding for these professional fees is being provided as a loan by Phoena Holdings.

PROPOSAL

This is an overview of the terms of the Proposal. This Report is not a substitute for reading the Proposal and creditors entitled to vote are strongly encouraged to review the Proposal in its entirety prior to voting on the Proposal.

Overview of Proposal

The purpose of the filing of the Proposal is to allow CannTrust to address its remaining liabilities, dispose of its residual assets and dissolve CannTrust in advance of November 30, 2022, as soon as realistically possible after that date. The Proposal Funds (as defined in the Proposal) will be funded by Phoena Holdings.

The Proposal is summarized as follows:

- Preferred Claims (if any) will be paid in full from the Proposal Funds in priority to all other Unsecured Claims in accordance with the scheme of distribution set forth in the BIA;
- Unsecured Claims, other than the Phoena Claims (as defined below), will be paid from the Proposal Funds in full, in priority to the Phoena Claims; and
- Phoena Claims will be satisfied in full by the transfer of the Residual Assets (as defined below) to Phoena Holdings. "**Phoena Claims**" means claims of Phoena Holdings and its direct and indirect subsidiaries, including Opco and CTI Holdings (Osoyoos) Inc.

"Residual Assets" include:

- a potential HST refund of up to approximately $1.4 million;

- the potential residual value from CannTrust D&O Trust, but which has incurred trustee expenses and is subject to claims by beneficiaries that, if determined to be "eligible claims," will exhaust the trust funds;
- the right to receive a payment from the securities claimants with whom CannTrust settled as part of the CCAA Plan, if the claimants' total recoveries exceed $250 million (which CannTrust views as unlikely);
- a $3 million unsecured promissory note owing by Opco to CannTrust;
- other unsecured indebtedness of approximately $40,000 owing by Opco to CannTrust;
- unsecured indebtedness of approximately $4,718,616 owing by Elmcliffe Investments Inc. to CannTrust; and
- unsecured indebtedness of $50,002 owing by Elmcliffe Investments [No. 2] Inc. to CannTrust.

The Proposal provides for the payment of any unpaid Administrative Fees and Expenses, Crown claims and Preferred Claims, if any, and the Superintendent's Levy (all as defined in the Proposal).

After the above settlement of claims, CannTrust will have no other assets except the shares it holds in Phoena Holdings. CannTrust intends to distribute these Phoena Holdings shares to CannTrust shareholders in the manner described in the Proposal.

Affected and Unaffected Creditors

The Proposal will have one class of creditors to consider and vote on the Proposal.

The Proposal does not affect the Secured Claims of the Secured Lenders.

Conditions Precedent

The Proposal is subject to the following conditions:

- CannTrust has received the Consent of each of the Secured Lenders and each consent remains in effect in accordance with its terms;
- the Proposal has been accepted by the requisite majorities of the Unsecured Creditors;
- the Proposal Approval Order has been issued and has not be appealed, set aside, varied or stayed;
- the consensual termination of the unanimous shareholders agreement dated March 11, 2022 made between the Strategic Investors, CannTrust and Phoena Holdings, providing for the governance of Phoena Holdings;
- the receipt by CannTrust, on or before the Effective Date, of an opinion from qualified and independent United States securities counsel (which includes Mayer Brown LLP), in form and substance satisfactory to the directors of CannTrust, confirming that the proposed distribution of Phoena Holdings Shares held by CannTrust to CannTrust Shareholders who are U.S. Persons will be exempt from the registration requirements under the United States *Securities and Exchange Act of 1933*; and

- the receipt by CannTrust, on or before the Effective Date, of an opinion from qualified and independent United States securities counsel, in form and substance satisfactory to the directors of CannTrust, confirming that the proposed distribution of Phoena Shares held by CannTrust to any CannTrust Shareholder who is not a Canadian or a U.S. Person will be exempt from any requirement to prepare, file or deliver any registration statement, prospectus, financial statement, offering memorandum or similar disclosure document in connection with such distribution.

The Proposal Trustee is not aware of any transactions that may be preferential. The Proposal will release claims against each Director related to the obligations of CannTrust, including those pursuant to Sections 95-101 of the Act which relate to preferential or reviewable transactions.

ESTIMATED RECOVERY IN BANKRUPTCY

If the Proposal is not accepted by the Creditors, CannTrust will be deemed bankrupt.

The Proposal Trustee, with the assistance of the management of CannTrust, has prepared an illustrative liquidation analysis (the "**Liquidation Analysis**") as of the date of the meeting of creditors, to estimate CannTrust's recovery in a bankruptcy scenario.

The Proposal Trustee has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of CannTrust's information used in the Liquidation Analysis. In addition, as this is an estimate and a forecast, the ultimate recoveries may differ from the amounts presented in the Liquidation Analysis. The below is a statement of the estimated realizations under a bankruptcy scenario:

CannTrust Holdings Inc.
Liquidation Analysis

		HIGH	LOW
	Net Book Value	Estimated Realizable Value	Estimated Realizable Value
Assets	**$19,785,554**	**$11,384,927**	**$3,195**
Unsecured Creditor Claims		**$25,613,476**	**$25,613,476**
Estimated recovery for Unsecured Creditor Claims		**44.45%**	**0.01%**

Additional details of the Liquidation Analysis are provided in Appendix "**A**" attached hereto**.**

The Liquidation Analysis illustrates that in a bankruptcy scenario, the range of estimated realization to the Unsecured Creditors in a "high" recovery scenario would be a recovery of 44.45% on their claims, and less than 1% recovery under a "low" estimated realization scenario.

The Proposal offers 100% recovery for the Unsecured Creditors other than Phoena Holdings and its subsidiaries (who have agreed to support the Proposal). Therefore, the Proposal offers a greater recovery scheme than in a bankruptcy scenario.

PROCEDURE FOR DEALING WITH THE PROPOSAL - MEETING AND VOTING

The primary purpose of the creditors meetings is to permit creditors to consider the acceptance or rejection of the Proposal. There is one class of unsecured creditors under the Proposal. For the Proposal to be accepted, the Act requires that at least two-thirds (66.67%) of the unsecured creditor class by dollar value, and more than 50% of unsecured creditors by number, vote in favour of the Proposal at the meeting either in person, by proxy or by voting letter.

To be eligible to vote on the Proposal, Creditors must have filed with the Proposal Trustee, Ernst & Young Inc., before the meeting, a proof of claim form properly completed and accompanied by a statement of account signed and witnessed as required. Those Creditors who do not intend to have a personal representative at the meeting to be held on November 4, 2022, may complete and submit the voting letter, which is enclosed herein, prior to the meeting indicating their vote for or against the acceptance of the Proposal.

We have enclosed within this package a proof of claim form, voting letter, and a form of proxy should a creditor wish to appoint a proxy to represent them at the meeting.

If the Proposal is not accepted by the requisite majorities of creditors, the Company will automatically be deemed to have immediately made an assignment in bankruptcy.

SUMMARY COMMENTS

As set out in this Report, the Proposal will provide 100% recovery to the Unsecured Creditors other than Phoena Holdings and its subsidiaries. This recovery would not otherwise be available to the Creditors except as a result of the Proposal.

For the reasons set out above, it is the opinion of the Proposal Trustee that the Proposal is in the best interest of the Creditors. If the Proposal is rejected by the Creditors, a bankruptcy will ensue and it is expected that the Creditors will not receive a full payment of their claim, and there would likely be no recovery for equity holders in CannTrust. The Proposal offers an opportunity for recovery to the Creditors, higher than the recovery available in a bankruptcy scenario. The Trustee recommends that the Creditors support the Proposal.

Yours very truly,
ERNST & YOUNG INC.
In its capacity as Proposal Trustee *re* the Proposal of CannTrust Holdings Inc.
Per:

Alex Morrison CPA, CA, CIRP, LIT
Senior Vice President

Appendix A

CannTrust Holdings Inc.
Liquidation Analysis

Assets:	Net Book Value $	HIGH Estimated Realizable Value $	LOW Estimated Realizable Value $	Note
Cash	3,195	3,195	3,195	1
HST Recoverable	1,370,274	1,070,274	-	2
Prepaid and Other Receivables	146,336	-	-	3
Phoena Inc. Receivable	3,040,000	3,040,000	-	4
Elmcliffe Investments Inc. Receivable	4,718,616	471,862	-	5
Elmcliffe Investments [No 2] Inc. Receivable	50,002	-	-	6
Securities Claimant Trust	-	-	-	7
Shares of Phoena Holdings	4,789,433	1,131,898	-	8
Restricted Cash	5,667,698	5,667,698	-	9
Total Assets:	19,785,554	11,384,927	3,195	
Less: Priority Claims		-	-	10
Amount Available for Unsecured Creditors		**11,384,927**	**3,195**	
Unsecured Creditor Claims		**25,613,476**	**25,613,476**	11
Estimated recovery for Unsecured Creditor Claims		**44.45%**	**0.01%**	

Notes:

1. Cash –Estimated book value as at the date of the meeting of creditors.

2. HST Recoverable – CannTrust has claimed input tax credits which are currently being denied by the CRA. CannTrust is currently disputing the CRA's position. Approximately $800,000 is held by the Monitor as a disputed claim in the CCAA Proceedings. In the high estimated realization, it is assumed the Company will recover these amounts net of the cost of consultants to prepare the materials for this appeal. In the low estimated realization scenario, it is assumed there will be no refund available to CannTrust.

3. Prepaid and Other Receivables – Prepaid and Other Receivables consist of: i) pre-paid legal retainers; and ii) accrued interest income on the CannTrust D&O trust. Under both the high and low estimated realization scenario it is not expected that these funds will be recoverable.

4. Phoena Inc. Receivable – This consists of an unsecured loan from CannTrust to Phoena Inc. Currently Phoena is not in a profitable position. In a high estimated realization scenario, it is assumed that Phoena Inc. will repay the loan to CannTrust. In a low estimated realization scenario, these funds will not be recoverable.

5. Elmcliffe Investments Inc. Receivable – This consists of an unsecured loan to Elmcliffe Investments Inc. Even though there are real estate assets in Elmcliffe Investments Inc., this is subordinated to security of the Secured Creditors. In a high estimated realization scenario, Elmcliffe Investments Inc. will repay approximately 10% of the loan to CannTrust. In a low estimated realization scenario, there will not be sufficient equity above that of the secured loans.

6. Elmcliffe Investments [No 2] Inc. Receivable – This consists of an unsecured loan to Elmcliffe Investments [No 2] Inc. There are minimal assets in Elmcliffe. In both estimated realization scenario, Elmcliffe Investments [No 2] Inc. will not be able to repay the loan to CannTrust.

7. Securities Claimant Trust – Is the right to receive a payment from the securities claimants with whom CannTrust settled as part of the CCAA Plan, if the claimants' total recoveries exceed $250 million. This is a contingent claim which can not be accurately valued in either the high or low scenario, but it is highly unlikely that recoveries of this magnitude will be recovered with any degree of certainty.

8. Shares of Phoena Holdings – The shares of Phoena Holdings represent a 10% equity interest in Phoena Holdings. In a high realization scenario, these shares perhaps could be sold for $0.01 per share to the majority shareholder of Phoena Holdings (the subscription price when 90% if Phoena Holdings was acquired through the CCAA strategic transaction). In a low realization scenario, there may be no value to these shares.

9. Restricted Cash – Restricted Cash consists of funds held in trust, by a third party, for the directors and officers of CannTrust to respond to certain claims against them. The CannTrust D&O Trust is subject to claims by beneficiaries and incurs trustee expenses. If it is determined that there are "eligible claims" this will exhaust the trust funds.

10. Priority claims – There are not anticipated to be any priority claims to be paid as CannTrust does not have any employees.

11. Unsecured Creditor Claims – There are $25.6 million of Unsecured Creditor Claims based on CannTrust's books and records including intercompany claims. This may differ depending on the Claims received up until the meeting of creditors.