

CANADA

PROVINCE OF QUEBEC  
DISTRICT OF MONTREAL

SUPERIOR COURT  
(CLASS ACTION)

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500-06-001011-192

**DIRAN AVEDIAN**, residing and domiciled [REDACTED]  
[REDACTED] in the city of Montreal,  
Province of Quebec. [REDACTED]

*Applicant*

-vs-

**CANNTRUST HOLDINGS INC.**, a legal person,  
incorporated under the laws of Ontario and having  
its registered office at 1 - 3280 Langstaff Road,  
Vaughan, Ontario, L4K 4Z8

-and-

**PETER ACETO**, former Chief Executive Officer  
of CANNTRUST HOLDINGS INC., whose  
address for service is 7300 Keele Street, Vaughan,  
Ontario, L4K 1Z9

-and-

**ERIC PAUL**, former Chairman and Director of  
CANNTRUST HOLDINGS INC., whose address  
for service is 7300 Keele Street, Vaughan, Ontario,  
L4K 1Z9

-and-

**MARK LITWIN**, Director of CANNTRUST  
HODLINGS INC., whose address for service is 106  
Avenue Road, Toronto, Ontario, M5R 2H3

-and-

**GREGORY GUYATT**, Chief Financial Officer of  
CANNTRUST HOLDINGS INC., whose address  
for service is 7 Godfrey's Lane, Mississauga,  
Ontario, L5H 2T1

-and-

*(continued)*

IAN ABRAMOWITZ, Senior Vice-President of  
Global Investments and Partnerships, whose  
address for service is 106 Avenue Road, Toronto,  
Ontario, M5R 2H3

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**APPLICATION FOR AUTHORIZATION TO INSTITUTE A CLASS ACTION  
AND TO APPOINT THE APPLICANT AS THE REPRESENTATIVE PLAINTIFF  
AND FOR AUTHORIZATION TO INSTITUTE AN ACTION PURSUANT TO  
TITLE VIII, CHAPTER II, DIVISION II OF THE *SECURITIES ACT***

(Art. 574 C.C.P. and following; *Securities Act*, CQLR c V-1.1, ss. 225.4 and following)

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**TO ONE OF THE HONOURABLE JUSTICES OF THE SUPERIOR COURT OF  
QUEBEC, SITTING IN AND FOR THE DISTRICT OF MONTREAL, THE  
APPLICANT STATES THE FOLLOWING:**

**I. THE CLASS**

1. The Applicant wishes to institute a class action on behalf of the following Class, of which the Applicant is a member, namely:

All persons or entities in Québec who purchased through the secondary market securities of CannTrust Holdings Inc. (TSX: TRST) between March 29, 2018 and July 12, 2019 inclusively (the “**Class Period**”), excluding CannTrust Holdings Inc. or its subsidiaries, affiliates, officers, directors, senior employees, legal representatives, heirs, predecessors, successors and assigns, the Individual Defendants and any member of their families and any entity in which any of them has or had during the Class Period any legal or de facto controlling interest (“**Excluded Persons**”)

(the “**Class**”)

## II. THE DEFENDANTS

2. CannTrust Holdings Inc. (“**CannTrust**”) is a corporation organized pursuant to Ontario’s *Business Corporations Act*, as it appears in the extract from the Ontario corporate registry communicated herewith as **Exhibit P-1**. Its registered office is located at 3280 Langstaff Road, Unit 1, Vaughan, Ontario, L4K 4Z8.
3. CannTrust produces and distributes recreational and medicinal cannabis products in Ontario and across Canada. CannTrust’s products include dried flower, capsules, oil tinctures, and topicals, along with products for the pet and coffee markets.
4. Shares of CannTrust have, since March 5, 2018, been traded on the Toronto Stock Exchange under the ticker symbol “TRST”.
5. Peter Aceto (“**Aceto**”) was, between October 1, 2018 and July 22, 2019, Chief Executive Officer of CannTrust. According to CannTrust’s corporate profile report (Exhibit P-1), Aceto may be notified of court documents at 7300 Keele Street, Vaughan, Ontario, L4K 1Z9.
6. As described in the October 1, 2018 CannTrust press release communicated herewith as **Exhibit P-2**, Eric Paul (“**Paul**”) was the co-founder and Chief Executive Officer of CannTrust and remained in that role until October 1, 2018 when he became Chairman of the Board and assumed a role as a Special Advisor to CannTrust’s management team. According to CannTrust’s corporate profile report (Exhibit P-1), Paul may be notified of court documents at 7300 Keele Street, Vaughan, Ontario, L4K 1Z9.
7. Mark Litwin (“**Litwin**”) is and has at all material times been a Director of CannTrust. According to CannTrust’s corporate profile report (Exhibit P-1), Litwin may be notified of court documents at 106 Avenue Road, Toronto, Ontario, M5R 2H3.

8. As described in the February 13, 2019 CannTrust press release communicated herewith as **Exhibit P-3**, Gregory Guyatt (“**Guyatt**”) assumed the role of Chief Financial Officer of CannTrust on February 19, 2019. According to CannTrust’s corporate profile report (Exhibit P-1), Guyatt may be notified of court documents at 7 Godfrey’s Lane, Mississauga, Ontario, L5H 2T1.
9. As described in Exhibit P-3, Ian Abramowitz (“**Abramowitz**”) is the Senior Vice-President of Global Investments and Partnerships but, prior to February 19, 2019, was the Chief Financial Officer of CannTrust. According to CannTrust’s corporate profile report (Exhibit P-1), Abramowitz may be notified of court documents at 106 Avenue Road, Toronto, Ontario, M5R 2H3.<sup>1</sup>
10. Aceto, Paul, Litwin, Guyatt, and Abramowitz will be referred to herein as the “**Individual Defendants**”.
11. Each of the Individual Defendants was either:
  - (a) directly involved in the management of CannTrust;
  - (b) directly involved in the day-to-day operations of CannTrust at the highest levels;
  - (c) privy to confidential proprietary information concerning CannTrust and its business and operations;
  - (d) directly or indirectly involved in drafting, producing, reviewing and/or disseminating the false and misleading statements and information alleged herein;
  - (e) directly or indirectly involved in the oversight or implementation of CannTrust’s internal controls;
  - (f) aware of or recklessly disregarded the fact that the false and misleading statements were being issued concerning CannTrust; or

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<sup>1</sup> The Ontario corporate registry profile lists Abramowitz as “Stan Abramowitz” rather than “Ian Ambramowitz”. This appears, given the consistency of all other reporting and records, to be a typographical error in the corporate registry.

- (g) approved or ratified these statements in violation of the Québec and other provincial securities laws.

12. As such, each of the Individual Defendants had a significant and material role in the activities of CannTrust or its public reporting and disclosures and each is liable for damages pursuant to, without limitation, ss. 225.8, 225.9, 225.10 and/or 225.11 of the *Securities Act*, CQLR c V-1.1 (the “*Securities Act*”).

### **III. GENERAL FACTS**

#### **(a) CannTrust’s Operating Context**

13. As a publicly traded corporation and reporting issuer, CannTrust was required throughout the Class Period to issue and file through the Canadian Securities Administrators’ System for Electronic Document Analysis and Retrieval (“**SEDAR**”), without limitation:

- (a) within 45 days of the end of each quarter, quarterly interim financial statements;
- (b) within 90 days of the end of the fiscal year, annual financial statements;
- (c) contemporaneously with each of the above, a Management Discussion & Analysis report (“**MD&A**”) explaining how the company performed during the period covered by the financial statements, and of the company’s financial condition and future prospects;
- (d) within 90 days of the end of the fiscal year, an Annual Information Form (“**AIF**”), including material information about the company and its business at a point in time in the context of its historical and possible future development. AIFs are an annual disclosure document intended to provide material information about the company and its business at a point in time in the context of its historical and future development. The AIF must describe the company,

its operations and prospects, risks and other external factors that impact the company specifically; and

- (e) Material Change Reports (“MCRs”) when any new information becomes available which may be material to the company’s operations.
14. The aforementioned financial statements, MD&A reports, AIFs, and MCRs were all required to be signed and/or certificated as true and correct by directors or officers of CannTrust, including the various Individual Defendants.
  15. In addition to the financial regulatory regime, CannTrust operates under a multi-layered cannabis legal framework in Canada, with different regulatory schemes applying depending on whether the cannabis was intended for medicinal or recreational use and within or outside of Canada.

*(1) Medicinal Cannabis (in Canada)*

16. The Canadian market for medicinal products is primarily regulated at the federal level. CannTrust is a “Licensed Producer” of medicinal cannabis under Canada's *Access to Cannabis for Medical Purposes Regulations* (“ACMPR”). This designation subjects CannTrust to certain regulations (e.g., requiring security for facilities) and reporting requirements, as well as to unscheduled site inspections by Health Canada, the agency primarily responsible for regulating the cultivation and marketing of cannabis products in Canada.
17. The ACMPR also requires CannTrust to obtain facility- and room-specific licenses for each location in which it cultivates, processes, and stores its products.
18. According to CannTrust, it has sought and received its ACMPR Licenses for two facilities: one located in Pelham, Ontario (which CannTrust refers to as the “**Pelham**

**Facility” or “Niagara Facility”)** and the other in Vaughan, Ontario which the Company refers to as its “**Vaughan Facility**”.

19. At the start of the Class Period, Health Canada had licensed these facilities for certain activities, such as the indoor cultivation of cannabis, but not for other activities, such as outdoor cultivation. In addition, not all rooms within each facility were licensed for certain activities, such as cultivation.

*(2) Recreational Cannabis (in Canada)*

20. On October 17, 2018, Canada legalized the distribution of recreational cannabis. In doing so, the federal government required companies to be federally licensed, but largely delegated other regulatory matters to the Canadian provinces, including responsibility for regulating sale and distribution, minimum age requirements, places where cannabis can be consumed, and other matters.

*(3) Medicinal Cannabis (Internationally)*

21. CannTrust has repeatedly, in its public statements and other documents, declared its intention to expand internationally, especially after Canada and other countries loosened regulation of recreational cannabis products.
22. Health Canada requires companies to apply for licenses to export such products. On or about November 6, 2017, CannTrust received Health Canada approval to export medical marijuana internationally to countries where medical marijuana is legalized, and the Company began shipping to Australia.
23. On March 13, 2018, the Company announced it had entered into a joint venture with a company in Denmark to distribute its products.

24. As discussed below, during the Class Period the Company announced its intention to begin exporting to the United States, beginning with the state of California.
25. CannTrust's expansion plans were fuelled in significant measure by the desire to seize the market opportunity created by the legalization of recreational cannabis in Canada and in other countries (as well as states within the United States).

**(b) CannTrust's Misrepresentations: 2018 Canadian Documentation**

26. On March 29, 2018, CannTrust released its AIF for the financial year ended December 31, 2017 (the "**2017 AIF**"), which is communicated herewith as **Exhibit P-5**.
27. On March 29, 2018, CannTrust released its annual financial statements for the year ended December 31, 2017 (the "**2017 Financials**"), which are communicated herewith as **Exhibit P-6**. The 2017 Financials were signed by Eric Paul and Mark Litwin in their capacities as Directors of CannTrust.
28. On March 29, 2018, CannTrust released its MD&A report for the year ended December 31, 2017 (the "**March 29, 2018 MD&A**"), which is communicated herewith as **Exhibit P-7**.
29. The 2017 AIF, 2017 Financials, and March 29, 2018 MD&A were accompanied by Form 52-109FV1 (Certification of Annual Filings) certificates endorsed by:
  - (a) Eric Paul, then President and Chief Executive Officer of CannTrust, which is communicated herewith as **Exhibit P-8**; and
  - (b) Ian Abramowitz, then Chief Financial Officer of CannTrust, which is communicated herewith as **Exhibit P-9**.



30. The 2017 AIF represented, in its pertinent parts:

- (a) That the product being provided by CannTrust would meet or exceed Health Canada's quality requirements:

Under the ACMPR, CannTrust Opco sells dried cannabis and oil extractions to the client based on the medication document provided by his or her health care practitioner. There is no limit imposed by the ACMPR on the strains that may be produced nor does the ACMPR set out specific requirements for pricing.

The sales licenses issued by Health Canada to CannTrust Opco for the Vaughan Facility and the Niagara Facility (collectively, the "ACMPR Licenses") are effective until the expected renewal dates of March 13, 2020 and October 6, 2020, respectively. The ACMPR Licenses allow for the production, sale or provision, possession, shipping, transportation, delivery and destruction of dried cannabis and cannabis plants or seeds. It allows the Vaughan Facility and the Niagara Facility to produce dried cannabis and cannabis extracts up to such amounts as permitted by CannTrust Opco's storage capacity (See "Storage and Security"). Health Canada requires that medical documents be written to include the amount of dried cannabis in grams per day a patient may consume. This requirement applies equally to oils. To assist patients with determining how much oil they should be consuming per day, licensed producers are required to provide an equivalency factor outlining how much oil is equivalent to one gram of dried cannabis

...

Health Canada, pursuant to the ACMPR, sets the standard required for production and sale of medical cannabis. **CannTrust Opco's Quality Assurance team is led by a group of experienced operators and scientists and is focused on generating the highest quality and most consistent product that meets or exceeds Health Canada expectations.**

The combination of the Company's experienced growing team **along with its goal of exceeding Health Canada's ACMPR quality assurance guidelines are essential to consistently**

**providing high quality medical cannabis products** that are safe for doctor prescribed medical cannabis clients.

(Exhibit P-5, p. 7 - emphasis added)

- (b) That CannTrust was operating entirely within the confines of the applicable laws and regulations:

The Company's operations are subject to various laws, regulations and guidelines relating to the manufacture, management, transportation, storage and disposal of medical cannabis as well as laws and regulations relating to health and safety, the conduct of operations and the protection of the environment. **To the knowledge of management, other than the requirement that the Company make routine corrections that may be required by Health Canada from time to time, the Company is currently in compliance with all such laws.** If any changes to such laws, regulations or guidelines occur, which are matters beyond the control of the Company, the Company may incur significant costs in complying with such changes or it may be unable to comply therewith, which in turn may result in a material adverse effect on the Company's business, financial condition and results of operations.

(Exhibit P-5, p. 22 - emphasis added)

- (c) More particularly, that CannTrust possessed all of the necessary licenses for the operation of its facilities:

**The Company has sought and received its ACMPR Licenses for the Vaughan Facility and Niagara Facility** which each provide for (a) the production and sale of dried cannabis; (b) the production and sale of cannabis oil © the production and sale of cannabis in its natural form: cannabis resin; (d) the production and sale of cannabis plants; and (e) the production and sale of

cannabis seeds. See "Description of the Business – Principal Products" above for more information.

(Exhibit P-5, p. 21 - emphasis added)

- (d) That CannTrust's operations are subject to ongoing and continuous regulatory oversight, including site inspections:

**Health Canada inspectors routinely assess the Vaughan Facility and the Niagara Facility against ACMPR regulations and provide the Company with follow up reports noting observed deficiencies. The Company is continuously reviewing and enhancing its operational procedures at the Vaughan Facility and the Niagara Facility both proactively and in response to routine inspections. The Company follows all regulatory requirements in response to inspections in a timely manner.**

(Exhibit P-5, p. 23 - emphasis added)

31. The aforementioned statements in the 2017 AIF were materially misleading in that, *inter alia*:
- (a) the ACMPR Licenses held by CannTrust were not for the entirety of the Niagara and Vaughan Facilities but were only for a subset of the space in those locations;
  - (b) they implied that Health Canada had the capacity to, and did in fact, directly monitor CannTrust's operations, without disclosing that CannTrust was taking steps to hide, obscure, or otherwise mislead Health Canada about its activities.

**(c) CannTrust's Misrepresentations: 2019 U.S. Documentation**

32. On January 8, 2019, CannTrust filed a Registration Statement (Form 40-F) with the United States' Securities and Exchange Commission ("SEC") in order to register its common shares for trading on the New York Stock Exchange ("NYSE"). A copy of Form 40-F (without its attached exhibits), as retrieved from the SEC database, is communicated herewith as Exhibit P-10.
33. The Form 40-F incorporated a number of documents by reference, including the 2017 AIF (Form 40-F Exhibit 99.57), 2017 Financials (Form 40-F Exhibit 99.55), March 29, 2018 MD&A (Form 40-F Exhibit 99.58), and the Paul and Abramowitz certificates (Form 40-F Exhibits 99.60 and 99.59 respectively), reinforcing to the market the statements contained in those disclosures. To the extent that those documents contained misrepresentations, they were repeated by virtue of the U.S. registration.

**(d) CannTrust's Misrepresentations: 2019 Canadian Documentation**

34. On March 28, 2019, CannTrust released its AIF for the financial year ended December 31, 2018 (the "**2018 AIF**"), which is communicated herewith as **Exhibit P-11**.
35. On March 28, 2019, CannTrust released its annual financial statements for the year ended December 31, 2018 (the "**2018 Financials**"), which are communicated herewith as **Exhibit P-12**. The 2018 Financials were signed by Eric Paul and Mark Litwin in their capacities as Directors of CannTrust.
36. On March 28, 2019, CannTrust released its MD&A report for the year ended December 31, 2018 (the "**March 28, 2019 MD&A**"), which is communicated herewith as **Exhibit P-13**.

37. The 2018 AIF, 2018 Financials, and March 28, 2019 MD&A were accompanied by Form 52-109FV1 (Certification of Annual Filings) certificates endorsed by:
- (a) Peter Aceto, then President and Chief Executive Officer of CannTrust, which is communicated herewith as **Exhibit P-14**; and
  - (b) Gregory Guyatt, Chief Financial Officer of CannTrust, which is communicated herewith as **Exhibit P-15**.

38. The 2018 AIF represented, in its pertinent parts:

- (a) That the product being provided by CannTrust would meet or exceed Health Canada's quality requirements:

Health Canada, pursuant to the Cannabis Act and the Cannabis Regulations, sets the standard required for production and sale of cannabis. **CannTrust Opco's Quality Assurance team is led by a group of experienced operators and scientists and is focused on generating the highest quality and most consistent product that meets or exceeds Health Canada expectations**

...

The combination of the Company's experienced growing team **along with its goal of exceeding Health Canada's quality assurance guidelines** are essential to consistently providing high quality medical cannabis products that are safe for doctor prescribed medical cannabis clients

(Exhibit P-11, p. 10-11 - emphasis added)

- (b) That CannTrust was subject to various laws:

The Company's operations are subject to various laws, regulations and guidelines relating to the manufacture, management, transportation, storage and disposal of cannabis as well as laws and regulations relating to health and safety, the conduct of operations and the protection of the environment. If any changes to such laws, regulations or guidelines occur, which are matters beyond the control of the Company, the Company may incur significant costs in complying with such changes or it may be unable to comply therewith, which in turn may result in

a material adverse effect on the Company's business, financial condition and results of operations.

(Exhibit P-11, p. 30)

- (c) More particularly, that CannTrust possessed all of the necessary licenses for the operation of its facilities:

**The licences issued by Health Canada to CannTrust Opco for the Vaughan Facility and the Niagara Facility (collectively, the "Cannabis Licences") are effective until the expected renewal dates of March 13, 2020 and October 6, 2020, respectively. The Cannabis Licences allow for the production, sale or provision, possession, shipping, transportation, delivery and destruction of dried cannabis and cannabis plants or seeds. It allows the Vaughan Facility and the Niagara Facility to produce dried cannabis and cannabis extracts up to such amounts as permitted by CannTrust Opco's storage capacity. See "Description of the Business – Production – Storage and Security".**

(Exhibit P-11, p. 10 - emphasis added)

- (d) That CannTrust's operations are subject to ongoing and continuous regulatory oversight, including site inspections:

**Health Canada conducts ad hoc, unscheduled site inspections of licensed producers.** Health Canada inspectors assess the Vaughan Facility and the Niagara Facility on a monthly basis against Cannabis Regulations and provide the Company with follow up reports noting observed deficiencies **The Company is continuously reviewing and enhancing its operational procedures at the Vaughan Facility and the Niagara Facility both proactively and in response to routine inspections. The Company follows all regulatory requirements in response to inspections in a timely manner. As of the date hereof, there are no outstanding inspection issues with Health Canada** beyond day-to-day adjustments that may occur in order to ensure ongoing compliance.

(Exhibit P-11, p. 16 - emphasis added)

39. The aforementioned statements in the 2018 AIF were materially misleading in that, *inter alia*:
- (a) the Licenses held by CannTrust were not for the entirety of the Niagara and Vaughan Facilities but were only for a subset of the space in those locations;
  - (b) they fail to disclose that notwithstanding that they did not have Licenses to cover the entirety of their facilities, CannTrust was nonetheless producing cannabis in unlicensed areas of the facilities in violation of the applicable laws and regulations;
  - (c) they disclose that CannTrust is subject to various legal and regulatory regimes, but make no statement (as did the 2017 AIF) to confirm that CannTrust was in fact complying with those regimes; and
  - (d) they implied that Health Canada had the capacity to, and did in fact, directly monitor CannTrust's operations, without disclosing that CannTrust was taking steps to hide, obscure, or otherwise mislead Health Canada about its activities.
40. Moreover, the 2018 Financials were misleading in that they impermissibly included, as revenue and assets, proceeds and inventory from illegally grown cannabis plants.

**(e) Effects of CannTrust's Activities and Misrepresentations**

41. Investors (including the Applicant and other members of the Class) have suffered and will continue to suffer significant financial harm by the conduct of CannTrust and the Individual Defendants.
42. CannTrust's growth plan was to significantly expand its production of cannabis. Prior to and during the Class Period, CannTrust laid out to investors a three-phase plan to support this strategy. CannTrust's May 3, 2019 Prospectus, communicated herewith as **Exhibit P-4**, for example, described the phases of their expansion strategy as follows:

We have completed the Phase 1 redevelopment of the Niagara Facility which is approximately 250,000 square feet and the Phase 2 expansion of approximately 200,000 square feet to which Health Canada granted a cultivation and production license. On October 24, 2018, we purchased a 19.4 acre property adjacent to the Niagara Facility and will begin construction of an additional 390,000 square foot Phase 3 expansion on that land. On January 22, 2019, we obtained all necessary permits from the Town of Pelham (where the Niagara Facility is located) for the Phase 3 expansion, which is expected to be completed during 2020. After completion of the Phase 3 expansion, the Company expects the Niagara Facility to have a total production capacity of approximately 100,000 kg per year. The Company expects to have more than 800,000 square feet of production capacity after completion of all phases of the Niagara Facility expansion.

(Exhibit P-4, p. S-73 to S-74)

43. The expansion into trading on the NYSE (commencing February 25, 2019) increased liquidity and demand for CannTrust stock, pushing the price of CannTrust shares to near record highs. Moreover, a secondary offering of 36.36 million common shares in May 2019 at US\$5.50 per share raised almost \$200 million in additional capital for the company.
44. The May 2019 prospectus is communicated herewith as **Exhibit P-17** and included reference to a significant increase in production in the preceding quarter:

In the quarter ended March 31, 2019, we harvested approximately 9,424 kg of cannabis from our Niagara Facility, representing an increase of 96% from the fourth quarter of 2018. In April 2019, our cultivation and processing permit under Health Canada Cannabis Regulations was amended to include the final 20% of our Phase 2 expansion, which is now fully licensed. With the Phase 2 expansion, we expect full production to be achieved by the end of the second quarter of 2019 at an annualized rate of 50,000 kg per year.

(Exhibit P-17, p. S-10)



45. The May 2019 prospectus did not disclose that this increased production was achieved by growing cannabis illicitly and without the appropriate regulatory licenses, which were only acquired in April 2019.

**(f) The truth is revealed**

46. The demand for recreational cannabis significantly outstripped the available supply after it was legalized in October 2018, as described by a January 22, 2019 report by BNN Bloomberg, "*Canada's post shortage could last 5 years amid edibles demand: Expert*", communicated herewith as **Exhibit P-18**;
47. As demand started to outpace supply, unbeknownst to investors, CannTrust had cut corners, lied to regulators, and illegally grew cannabis at its facilities in order to continue to show revenue and sales growth.
48. On July 8, 2019, the Company issued a press release, communicated herewith as **Exhibit P-19**, revealing that Health Canada had discovered during an audit of the Company that it had been growing cannabis in five unlicensed rooms at the Niagara Facility over a six-month period and had provided misleading information to the regulator.
49. The Company also announced that Health Canada had placed a hold on a significant quantity of CannTrust's cannabis inventory, and that CannTrust had placed a voluntary hold on additional inventory as Health Canada investigated just how far CannTrust's wrongdoing extended.

50. On this news, the price of CannTrust common stock dropped from a close of \$6.46 per share on Friday July 5, 2019 to a close of \$5.00 per share on Monday July 8, 2019, a decline of more than 32%.
51. Two days later, a whistleblower who said he worked at the Niagara Facility alleged that CannTrust had created fake walls to conceal from regulators the fact that the Company was growing cannabis in unlicensed rooms, as discussed in the July 16, 2019 article “*Stock plummets, CEO’s future uncertain, as whistleblower Nick Lalonde lets loose*”, communicated herewith as **Exhibit P-20**.
52. Nick Lalonde, a former CannTrust employee, claimed to have alerted Health Canada to the fact that cannabis was being grown in unlicensed areas of the facility. Lalonde had been asked by supervisors to hang temporary walls to hide large quantities of plants from view, in an effort to mislead Health Canada about the extent of the operation.
53. In response to that tip, on or about June 17, 2019, Health Canada conducted a surprise inspection of the facility and uncovered 5,200 kg of unlicensed cannabis at one of CannTrust’s facilities.
54. CannTrust now faces the possibility of not only fines and criminal charges, but stiffer penalties, up to and including the loss of its licenses to operate, which would pose an existential threat the Company.
55. On July 12, 2019, CannTrust announced in a press release, communicated herewith as **Exhibit P-21**, that it had implemented a voluntary and indefinite hold on all of its products pending an internal review and the results of the investigation by Health Canada.

56. On this news, the price of CannTrust common stock dropped from a close of \$4.04 per share on July 11, 2019 to a close of \$3.34 per share on July 12, 2019, a decline of more than 17%. This represented a greater than 50% decline from the price at which defendants had sold \$200 million worth of CannTrust stock to the investing public only two months before in the May 2019 offering.
57. On July 25, 2019, CannTrust announced in a press release, communicated herewith as **Exhibit P-22**, the termination with cause of CEO Peter Aceto and the compelled resignation of Eric Paul as Chair of the Board.

**(g) Insider trading by Paul and Litwin**

58. Additionally, as described in the July 29, 2019 Globe and Mail article, "*Two CannTrust officials sold \$6-million of stock after the chair was informed of unlicensed cannabis growing,*" communicated herewith as **Exhibit P-25**, some of the Individual Defendants engaged in insider trading transactions.
59. On November 16, 2018, a holding company called Cannamed Financial Corp. ("**Cannamed**"), and which was controlled by defendants Paul and Litwin, sold nearly \$1 million worth of CannTrust shares after receiving an email from an employee which outlined CannTrust's illicit growing operations.
60. The holding company sold a further \$5-million in CannTrust shares over the next 30 days. More specifically, Cannamed sold 110,000 shares on November 6, 2018, for \$8.77 per share for gross proceeds of \$964,854. From November 20 through December 12, 2018, Cannamed sold another 620,000 shares at prices ranging between \$7.00 per shares to \$8.50 per share, thereby grossing \$5.06-million.

#### **IV. CLAIMS**

##### **(a) Civil Claim - Article 1457 CCQ**

61. The Applicant pleads a fault on the basis of art. 1457 CCQ for the breaches by the Defendants of their general private law duty of diligence as owed to the Applicant and the Class.
62. The Defendants failed to abide by the rules of conduct incumbent on them in the circumstances of their relationships with members of the Class as well as the transactions in which they acted, at law and as was reasonably required from them.
63. As a result, the Defendants committed a fault and therefore caused injuries to the members of the Class in terms of causing their significant monetary damages and losses, and are bound to compensate the members of the Class for those losses.

##### **(b) Secondary market misrepresentation - *Securities Act***

64. The Applicant pleads and seeks authorization pursuant to s. 225.4 of the *Securities Act*, CQLR c V-1.1 to pursue a claim for secondary market misrepresentation as found in Title VIII, Chapter II, Division II of the *Securities Act*.
65. During the Class Period, CannTrust released to the public and filed financial statements, information forms, certificates, and other documents which contained misrepresentations as particularized herein.
66. The representations misrepresented the financial condition of CannTrust and failed to disclose material information regarding its license position and legal growing and revenue potentials as particularized above.

67. Per s. 5 of the *Securities Act*, “material information” means “a fact that may reasonably be expected to have a significant effect on the market price or value of securities issued ...”. A “misrepresentation” means “any misleading information on a material fact as well as any pure and simple omission of a material fact.”
68. CannTrust and the Individual Defendants owed a duty to the Applicant and to members of the Class at law and under provisions of the *Securities Act* to disseminate promptly, or to ensure the prompt dissemination of truthful, complete, and accurate statements regarding CannTrust’s business and affairs, and to promptly correct any previously-issued, materially inaccurate information, so that the price of CannTrust’s publicly traded securities was based on complete, accurate, and truthful information.
69. At all material times, the Defendants and each of them knew or ought reasonably to have known that the trading price of CannTrust’s publicly-traded securities was directly influenced by the statements disseminated, authorized, or otherwise disclosed concerning the business and affairs of CannTrust.
70. The Defendants knew or ought reasonably to have known that a failure to ensure that CannTrust’s disclosures were materially accurate and materially complete would cause CannTrust’s securities to become inflated and thus would cause damage to persons who invested in CannTrust’s securities while their price remained inflated by such false statements.
71. Pursuant to s. 225.12 of the *Securities Act*, the Applicant and members of the Class are not required to prove that they relied on any document, public oral statement, or other communication by the Defendants in respect of their decision to acquire or dispose of CannTrust securities.

**(c) Insider Trading - *Securities Act***

72. Paul and Litwin, and their relatives, through Canamed, engaged in insider trading as particularized herein contrary to s. 187 of the *Securities Act*.
73. As a result of this conduct, the Plaintiff and the Class who sold their CannTrust securities have suffered damage.
74. The Applicant pleads and relies on ss. 226 and 227 of the *Securities Act* accordingly.

#### **V. FACTS GIVING RISE TO AN INDIVIDUAL ACTION BY THE APPLICANT**

75. The Applicant, Diran Avedian (“**Avedian**”) is a resident of Montreal, Quebec.
76. As indicated in the transaction records communicated herewith as **Exhibit P-23** and the investment account summary communicated herewith as **Exhibit P-24**, the Applicant acquired 200 shares of CannTrust @ \$13.28 per share (at a total cost of \$2,656) on September 19, 2018. The Applicant acquired an additional 1,000 shares of CannTrust @ \$8.50 per share (at a total cost of \$8,500 plus commissions) on November 12, 2018. 800 shares of CannTrust were sold on September 17, 2018 (for \$8,800 less commissions). The Applicant continues to hold 2,000 CanTrust shares.
77. As a consequence of the misrepresentations alleged herein and the decline in CannTrust share price between July 5, 2019 and July 12, 2019 as the misrepresentations were revealed (\$5.00 to \$3.34, or a 33.2% loss), the Applicant incurred compensable losses of at least \$3,320.
78. The Applicant therefore has suffered, and is justified in claiming, damages which are a direct and proximate result of the Defendants’ conduct.

**VI. FACTS GIVING RISE TO AN INDIVIDUAL ACTION BY EACH OF THE MEMBERS OF THE CLASS**

79. Each member of the Class purchased or otherwise acquired CannTrust securities during the Class Period.
80. Thus, each member of the Class shares common claims that are founded on the same underlying facts as the Applicant's as they pertain to the acts and omissions of the Defendants.
81. Each member of the Class suffered damages directly related to the acts and omissions of the Defendants.

**VII. CONDITIONS REQUIRED TO INSTITUTE AN ACTION**

**(a) The claims of the members of the Class raise identical, similar or related questions of law or fact**

82. During the Class Period, CannTrust and the Individual Defendants had legal obligations of periodic and timely disclosure of material facts and changes under the *Securities Act*. They violated those legal obligations.
83. During the Class Period, CannTrust and the Individual Defendants had legal obligations to disclose and correctly state its financial situation in a forthright, honest, truthful, and complete manner. They violated those legal obligations.
84. Additionally, CannTrust owed its securities holders duties under article 1457 CCQ. These duties were informed by the *Securities Act* and subsidiary instruments thereof

including NI 51-102, NI 52-109, NI 41-101, NI 45-106, NI 52-110, and their related rules and policies.

85. During the Class Period, CannTrust and the Individual Defendants committed a fault in respect of the Class by failing to comply with their duties and responsibilities and by making the false and misleading representations pleaded herein.
86. The Individual Defendants oversaw the preparation and reporting of CannTrust's disclosures to the market including the 2017 and 2018 annual reports and knew or should have known of the misleading statements and the omissions of material facts they contained.
87. The Individual Defendants authorized, permitted or acquiesced to the release of public disclosures during the Class Period by CannTrust containing omissions of material facts and the misrepresentations plead herein.
88. In addition to its direct liability, pursuant to art. 1463 CCQ, CannTrust is vicariously liable for the acts or omissions of the Individual Defendants and its agents and employees because all of the wrongful acts complained of herein were carried out within the scope or guise of their agency or employment.
89. As a result of the Defendants' conduct and their misrepresentations in CannTrust's disclosure documents, CannTrust's securities traded at artificially inflated prices during the Class Period and the Class acquired those securities at prices that were inflated and did not reflect their true value. When the truth began to emerge, the market price or value of CannTrust's securities plummeted, causing significant losses and damages to the Applicant and the Class.



90. In this context, the principle questions of fact and law to be dealt with collectively are the following:

- (a) Did the 2017 or 2018 annual filings (including the financial statements, MD&A, and AIF) contain one or more misrepresentations within the meaning of the *Securities Act*? If so, what documents contained the misrepresentations?
- (b) Are any of the Defendants liable to the Class or any members thereof under Title VIII, Chapter II, Division II of the *Securities Act*? If so, what Defendant is liable and to whom?
- (c) Did any of the Defendants owe a duty of diligence or care to the Class, or any members of the Class, under the general private law of Québec? If so, what Defendant owed a duty of diligence or care and to whom?
- (d) If some or all of the Defendants owed a duty of diligence or care to the Class, or any members of the Class, did any of the Defendants violate such duty of diligence or care and commit a fault under article 1457 of the CCQ? If so, what Defendant committed a fault and with respect to whom?
- (e) What damages are sustained by the Plaintiffs and the other members of the Class:
  - (i) under general principles of Québec civil law; and
  - (ii) pursuant to the damage calculation provisions of the *Securities Act*?
- (f) Are any of the Defendants liable to the Plaintiffs and the Class, or any of them, for damages? If so, what Defendant is liable, to whom and in what amount?

91. Consequently, the Applicant and the members of the Class seek for this Honourable Court to authorize the following conclusions to the proposed proceedings:

**GRANT** this class action on behalf of the Class;

**GRANT** the Plaintiff's action against the Defendants in respect of the rights of action asserted against the Defendants under Title VIII, Chapter II, Division II of the *Securities Act* and article 1457 of the *Civil Code of Québec*;

**CONDEMN** the Defendants to pay to the Plaintiff and the Class compensatory damages for all monetary losses;

**ORDER** collective recovery in accordance with articles 595 to 598 of the *Code of Civil Procedure*;

**THE WHOLE** with interest and additional indemnity provided for in the *Civil Code of Quebec* and with full costs and expenses, including expert fees, notice fees and fees relating to administering the plan of distribution of the recovery in this action.

**(b) The facts alleged appear to justify the conclusions sought**

92. As particularized herein, the Defendants violated their legal obligations and their duties and responsibilities to the Class, and made misrepresentations to the Class in the annual filing documents within the meaning of the *Securities Act*, supporting the Applicant's and the Class' claims.

**(c) The composition of the group makes it difficult or impracticable to apply the rules for mandates to take part in judicial proceedings on behalf of others or for consolidation of proceedings**

93. CannTrust is a large multinational corporation traded on two stock exchanges with many millions of outstanding securities.
94. There are thousands of investors that could be members of the putative Class, scattered throughout Québec.

95. The names, addresses, and other coordinates of the members of the Class are unknown to the Applicant.
96. In addition, given the costs and risks inherent in an action before the Courts, it can be reasonably anticipated that many people will hesitate to institute an individual action against the Defendants. Even if the Class Members themselves could afford such individual litigation, the Court system could not as it would be overloaded. Furthermore, individual litigation of the factual and legal issues raised by the conduct of Defendants would increase delay and expense to all parties and to the Court system.

**(d) The representative plaintiff is in a position to properly represent the class members**

97. The Applicant understands the requirements of time and dedication required of the role as representative plaintiff and is prepared to devote the required resources to carry forward this proposed class action on behalf of the Class.
98. The Applicant is a member of the Class as proposed, having purchased CannTrust securities during the Class Period.
99. The Applicant has sustained damages as a consequence of the misrepresentations and has a direct interest in the outcome of the proceedings.
100. The Applicant has no conflict of interest with other members of the Class.
101. The Applicant is represented by counsel that are experienced at litigating class actions in Québec and across Canada against multinational corporations.

**VIII. PLACE OF TRIAL**

102. The Applicant suggests that this class action be exercised before the Superior Court in the District of Montréal for the following reasons:

- (a) The Applicant resides in Montreal;
- (b) Many Class Members are domiciled in the District of Montréal; and
- (c) The Applicant's counsel has an office in the District of Montréal.

**FOR THESE REASONS, MAY IT PLEASE THE COURT TO:**

**AUTHORIZE** the bringing of a class action in the form of an application to institute proceedings in damages;

**DECLARE** the Class to be:

All persons or entities in Québec who purchased through the secondary market securities of CannTrust Holdings Inc. (TSX: TRST) between March 29, 2018 and July 12, 2019 inclusively (the "**Class Period**"), excluding CannTrust Holdings Inc. or its subsidiaries, affiliates, officers, directors, senior employees, legal representatives, heirs, predecessors, successors and assigns, the Individual Defendants and any member of their families and any entity in which any of them has or had during the Class Period any legal or de facto controlling interest ("**Excluded Persons**")

**APPOINT** Diran Avedian as the representative plaintiff for the Class;

**IDENTIFY** the questions of fact and law to be dealt with collectively to be:

- (a) Did the 2017 or 2018 annual filings (including the financial statements, MD&A, and AIF) contain one or more misrepresentations within the meaning of the *Securities Act*? If so, what documents contained the misrepresentations?

- (b) Are any of the Defendants liable to the Class or any members thereof under Title VIII, Chapter II, Division II of the *Securities Act*? If so, what Defendant is liable and to whom?
- (c) Did any of the Defendants owe a duty of diligence or care to the Class, or any members of the Class, under the general private law of Québec? If so, what Defendant owed a duty of diligence or care and to whom?
- (d) If some or all of the Defendants owed a duty of diligence or care to the Class, or any members of the Class, did any of the Defendants violate such duty of diligence or care and commit a fault under article 1457 of the CCQ? If so, what Defendant committed a fault and with respect to whom?
- (e) What damages are sustained by the Plaintiffs and the other members of the Class:
  - (i) under general principles of Québec civil law; and
  - (ii) pursuant to the damage calculation provisions of the *Securities Act*?
- (f) Are any of the Defendants liable to the Plaintiffs and the Class, or any of them, for damages? If so, what Defendant is liable, to whom and in what amount?

**AUTHORIZE** the class action proceeding to seek the following conclusions:

**GRANT** this class action on behalf of the Class;

**GRANT** the Plaintiffs' action against the Defendants in respect of the rights of action asserted against the Defendants under Title VIII, Chapter II, Division II of the *Securities Act* and article 1457 of the *Civil Code of Québec*;

**CONDEMN** the Defendants to pay to the Plaintiff and the Class compensatory damages for all monetary losses;

**ORDER** collective recovery in accordance with articles 595 to 598 of the *Code of Civil Procedure*;

**THE WHOLE** with interest and additional indemnity provided for in the *Civil Code of Quebec* and with full costs and expenses, including expert fees, notice fees and fees relating to administering the plan of distribution of the recovery in this action.

**AUTHORIZE** these proceedings to include claims arising from secondary market misrepresentations under section 225.4 of the *Securities Act*;

**APPROVE** the form and manner of dissemination of notice to the members of the Class in the form to be submitted to the Court;

**ORDER** the publication of the notice to the members of the Class no later than sixty (60) days after the expiry of all applicable appeal periods flowing from the judgment authorizing the class proceedings;

**ORDER** that the deadline for a member of the Class to exclude themselves from the class action proceedings shall be sixty (60) days from the publication of the notice to the members of the Class;

**THE WHOLE WITH COSTS** including experts' fees.

MONTREAL, this 30<sup>th</sup> day of July, 2019.

  
MERCHANT LAW GROUP LLP  
Attorneys for the Applicant

**SUMMONS**  
**(Articles 145 and following C.C.P.)**

**Filing of a Judicial Application**

Take notice that the Applicant have filed this *Application for Authorization to Institute a Class Action and to Appoint the Applicant as Representative Plaintiff and for Authorization to Institute an Action Pursuant to Title VIII, Chapter II, Division II of the Securities Act* in the office of the Superior Court of Quebec in the judicial district of Montreal.

**Defendants' Answer**

You must answer the application in writing, personally or through a lawyer, at the courthouse of Montreal situated at 1 Rue Notre-Dame Street Est, Montréal, Québec, H2Y 1B6, within 15 days of service of the Application or, if you have no domicile, residence or establishment in Québec, within 30 days. The answer must be notified to the Applicant's lawyer or, if the Applicant is not represented, to the Applicant.

**Failure to Answer**

If you fail to answer within the time limit of 15 or 30 days, as applicable, a default judgement may be rendered against you without further notice and you may, according to the circumstances, be required to pay the legal costs.

**Content of Answer**

In your answer, you must state your intention to:

- negotiate a settlement;
- propose mediation to resolve the dispute;
- defend the application and, in the cases required by the *Code*, cooperate with the Applicant in preparing the case protocol that is to govern the conduct of the proceeding. The protocol must be filed with the court office in the district specified above within 45 days after service of the summons or, in family matters or if you have no domicile, residence or establishment in Québec, within 3 months after service;
- propose a settlement conference.

The answer to the summons must include your contact information and, if you are represented by a lawyer, the lawyer's name and contact information.

### **Change of judicial district**

You may ask the court to refer the originating Application to the district of your domicile or residence, or of your elected domicile or the district designated by an agreement with the Applicant.

If the application pertains to an employment contract, consumer contract or insurance contract, or to the exercise of a hypothecary right on an immovable serving as your main residence, and if you are the employee, consumer, insured person, beneficiary of the insurance contract or hypothecary debtor, you may ask for a referral to the district of your domicile or residence or the district where the immovable is situated or the loss occurred. The request must be filed with the special clerk of the district of territorial jurisdiction after it has been notified to the other parties and to the office of the court already seized of the originating application.

### **Transfer of Application to Small Claims Division**

If you qualify to act as an Applicant under the rules governing the recovery of small claims, you may also contact the clerk of the court to request that the Application be processed according to those rules. If you make this request, the Applicant's legal costs will not exceed those prescribed for the recovery of small claims.

### **Calling to a case management conference**

Within 20 days after the case protocol mentioned above is filed, the court may call you to a case management conference to ensure the orderly progress of the proceeding. Failing this, the protocol is presumed to be accepted.

### **Exhibits supporting the application**

In support of the *Application for Authorization to Institute a Class Action and to Appoint the Applicant as Representative Plaintiff and for Authorization to Institute an Action Pursuant to Title VIII, Chapter II, Division II of the Securities Act* the Applicant intends to use the following exhibits:

- Exhibit P-1 - CannTrust Holdings Inc. - Ontario Corporate Profile Report
- Exhibit P-2 - October 1, 2018 Press Release - Appointment of Aceto as CEO
- Exhibit P-3 - February 13, 2019 Press Release - Appointment of Guyatt as CFO
- Exhibit P-4 - May 3, 2019 Prospectus Supplement
- Exhibit P-5 - 2017 AIF, dated March 29, 2018
- Exhibit P-6 - 2017 Financials
- Exhibit P-7 - March 29, 2018 MD&A
- Exhibit P-8 - 2017 Annual Filings - Paul Certificate
- Exhibit P-9 - 2017 Annual Filings - Abramowitz Certificate
- Exhibit P-10 - Form 40-F (US Registration)



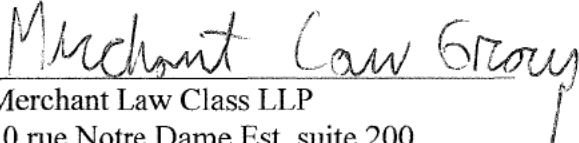
Exhibit P-11 - 2018 AIF, dated March 28, 2019  
Exhibit P-12 - 2018 Financials  
Exhibit P-13 - March 28, 2019 MD&A  
Exhibit P-14 - 2018 Annual Filings - Aceto Certificate  
Exhibit P-15 - 2018 Annual Filings - Guyatt Certificate  
Exhibit P-16 - TSX-TRST Historical Share Values (PDF)  
Exhibit P-17 - May 2019 Prospectus (Secondary Offering)  
Exhibit P-18 - BNN Bloomberg - January 23, 2019  
Exhibit P-19 - July 8, 2019 Press Release - Statement re Health Canada Audit  
Exhibit P-20 - Pelham Voice - July 16, 2019  
Exhibit P-21 - July 11, 2019 Press Release - Hold on Products  
Exhibit P-22 - July 25, 2019 Press Release - Leadership Changes  
Exhibit P-23 - Diran Avedian - CannTrust Transactions  
Exhibit P-24 - Diran Avedian - Account Summary  
Exhibit P-25 - Global and Mail - July 29, 2019

These Exhibits are available upon request.

#### **Notice of presentation of an application**

If the application is an application in the course of a proceeding or an application under Book III, V, excepting an application in family matters mentioned in article 409, or VI of the *Code*, the establishment of a case protocol is not required; however, the application must be accompanied by a notice stating the date and time it is to be presented.

Montreal, July 30<sup>th</sup>, 2019

  
Merchant Law Class LLP  
10 rue Notre Dame Est, suite 200  
Montréal (Québec) H2Y 1B7

Me Erik Lowe  
Phone : 514-248-7777  
Fax : 514-842-6687  
Email: elowe@merchantlaw.com  
Attorneys for the Applicant

**NOTICE OF PRESENTATION  
(Articles 146 and 574 al.2 C.P.C.)**

TO: CANNTRUST HOLDINGS INC.  
1 - 3280 Langstaff Road, Vaughan, Ontario, L4K 4Z8

TO: PETER ACETO  
7300 Keele Street, Vaughan, Ontario, L4K 1Z9

TO: ERIC PAUL  
7300 Keele Street, Vaughan, Ontario, L4K 1Z9

TO: MARK LITWIN  
106 Avenue Road, Toronto, Ontario, M5R 2H3

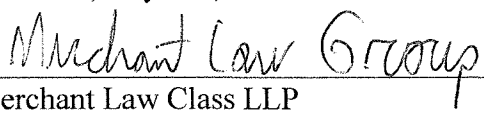
TO: GREGORY GUYATT  
7 Godfrey's Lane, Mississauga, Ontario, L5H 2T1

TO: IAN ABRAMOWITZ  
106 Avenue Road, Toronto, Ontario, M5R 2H3

**TAKE NOTICE** that the present *Application for Authorization to Institute a Class Action and to Appoint the Applicant as Representative Plaintiff and for Authorization to Institute an Action Pursuant to Title VIII, Chapter II, Division II of the Securities Act* will be presented before one of the Honourable Judges of the Superior Court of Québec, at the Montreal courthouse, located at 1, rue Notre-Dame Est, in the city and District of Montréal, on the date set by the coordinator of the class actions chamber.

PLEASE ACT ACCORDINGLY.

Montreal, July 30<sup>th</sup>, 2019

  
Merchant Law Class LLP  
Attorneys for the Applicant

500-06-001011-192

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**SUPERIOR COURT  
(CLASS ACTION)  
DISTRICT OF MONTREAL**

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**DIRAN AVEDIAN**

*Applicant*

- VS -

**CANNTRUST HOLDINGS INC.**

-and-

**PETER ACETO**

-and-

**ERIC PAUL**

-and-

**MARK LITWIN**

-and-

**GREGORY GUYATT**

-and-

**IAN ABRAMOWITZ**

Respondents

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**APPLICATION FOR AUTHORIZATION TO  
INSTITUTE A CLASS ACTION AND TO APPOINT  
THE APPLICANT AS REPRESENTATIVE PLAINTIFF  
AND FOR AUTHORIZATION TO INSTITUTE AN  
ACTION PURSUANT TO TITLE VIII, CHAPTER II,  
DIVISION II OF THE *SECURITIES ACT***

ORIGINAL

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*Me Erik Lowe*

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