



Court File No.: CV-19- 1554

ONTARIO
SUPERIOR COURT OF JUSTICE

BETWEEN:

JEFFREY WEBB

Plaintiff

– and –

**CANNTRUST HOLDINGS INC., ERIC PAUL, PETER ACETO, MITCHELL
SANDERS, IAN ABRAMOWITZ and GREGORY J. GUYATT**

Defendants

Proceeding under the *Class Proceedings Act, 1992*

STATEMENT OF CLAIM

TO THE DEFENDANTS:

A LEGAL PROCEEDING HAS BEEN COMMENCED AGAINST YOU by the plaintiff. The claim made against you is set out in the following pages.

IF YOU WISH TO DEFEND THIS PROCEEDING, you or an Ontario lawyer acting for you must prepare a statement of defence in Form 18A prescribed by the Rules of Civil Procedure, serve it on the plaintiff's lawyers 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.

IF YOU PAY THE PLAINTIFF'S CLAIM, and \$5,000.00 for costs, within the time for serving and filing your statement of defence you may move to have this proceeding dismissed by the court. If you believe the amount claimed for costs is excessive, you may pay the plaintiff's claim and \$400.00 for costs and have the costs assessed by the court.

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:

AUG 07 2019

Issued by:


Local Registrar

Address of Court Office:

TO: **CANNTRUST HOLDINGS INC.**
7300 Keele Street,
Vaughan, Ontario
L4K 1Z9

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

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

AND TO: **MITCHELL SANDERS**
7300 Keele Street,
Vaughan, Ontario
L4K 1Z9

AND TO: **IAN ABRAMOWITZ**
7300 Keele Street,
Vaughan, Ontario
L4K 1Z9

AND TO: **GREGORY J. GUYATT**
7300 Keele Street,
Vaughan, Ontario
L4K 1Z9

DEFINED TERMS

1. In addition to the terms defined in ss. 1(1) and 138.1 of the *Securities Act*, R.S.O. 1990, c. S. 5, and elsewhere herein, the following capitalized terms used throughout this statement of claim have the meanings indicated below:

- (a) “**CannTrust**” means CannTrust Holdings Inc.;
- (b) “**Class**” means all persons, other than Excluded Persons, who acquired CannTrust’s common shares listed on the TSX and FSE, and all Canadian-resident investors that purchased CannTrust’s common shares listed on the NYSE, on or after November 14, 2018, and who held some or all of those common shares until after the release of at least one of the Corrective Disclosures on July 8, 11, 24, and/or 25, 2019;
- (c) “**Class Period**” means November 14, 2018 through July 25, 2019;
- (d) “**Company**” means CannTrust;
- (e) “**Corrective Disclosure(s)**” means the material facts released to the market on July 8, 11, 24, and 25, 2019, concerning CannTrust admitting that it manufactured approximately 13,000kg of dried cannabis in unlicensed rooms resulting in regulatory investigations, product holds, shipment disruptions, delayed revenues, and in its board of directors terminating with cause Individual Defendant Aceto as CEO and demanding the resignation of Individual Defendant Paul;

- (f) **“Equivalent Securities Act”** means, collectively, the *Securities Act*, R.S.A. 2000, c. S-4, as amended; the *Securities Act*, R.S.B.C. 1996, c 418, as amended; *The Securities Act*, C.C.S.M. c. S50, as amended; the *Securities Act*, S.N.B. 2004, c. S-5.5, as amended; the *Securities Act*, R.S.N.L. 1990, c S-13, as amended; the *Securities Act*, S.N.W.T. 2008, c. 10, as amended; the *Securities Act*, R.S.N.S. 1989, c. 418, as amended; the *Securities Act*, S Nu 2008, c. 12, as amended; the *Securities Act*, R.S.P.E.I. 1988, c S-3.1, as amended; the *Securities Act*, R.S.Q. c V-1.1, as amended; *The Securities Act, 1988*, S.S. 1988-89, c. S-42.2, as amended; and the *Securities Act*, S.Y. 2007, c. 16, as amended;
- (g) **“Excluded Persons”** means the Individual Defendants’ immediate families, any entity in which the Individual Defendants or their immediate families had a controlling interest, and any other shareholder that was aware that CannTrust was non-compliant with applicable regulations and was growing cannabis in unlicensed rooms;
- (h) **“FSE”** means Frankfurt Stock Exchange;
- (i) **“Impugned Statements”** means CannTrusts’ documents released on November 14, 2018, March 18, 2019, March 28, 2019, May 3, 2019 and May 14, 2019, concerning the Defendants’ representations that CannTrust was operating all of its operations in a manner that was compliant with Health Canada’s regulations;

- (j) **“Individual Defendants”** means Eric Paul, Peter Aceto, Mitchell Sanders, Ian Abramowitz and Gregory J. Guyatt;
- (k) **“NI 51-102”** means the CSA’s National Instrument 51-102—*Continuous Disclosure Obligations*, as amended;
- (l) **“NI 52-109”** means the CSA’s National Instrument 52-109—*Certification of Disclosure in Issuers’ Annual and Interim Filings*, as amended;
- (m) **“NYSE”** means the New York Stock Exchange;
- (n) **“OSA”** means the *Securities Act*, R.S.O. 1990 c. S.5, as amended;
- (o) **“Prospectuses”** means the short form base shelf prospectus released March 18, 2019 and the corresponding prospectus supplement released May 3, 2019, pertaining to the Company’s public offering of shares which closed on May 6, 2019;
- (p) **“Q1”, “Q2”, “Q3”, and “Q4”** means the three-month interim period ended March 31, June 30, September 30, and December 31, respectively;
- (q) **“SEDAR”** means the Canadian Securities Administrators’ System for Electronic Document Analysis and Retrieval; and
- (r) **“TSX”** means the Toronto Stock Exchange.

CAUSES OF ACTION

2. The causes of action asserted in this claim are:
 - (a) Section 138.3 of the *OSA* as against all of the Defendants for releasing the Impugned Statements containing misrepresentations;
 - (b) Section 130 of the *OSA* as against Defendants CannTrust, Peter Aceto and Gregory J. Guyatt for releasing the Prospectuses containing misrepresentations; and
 - (c) Section 134 of the *OSA* as against Eric Paul and Mitchell Sanders for, indirectly through companies they own, selling 5,454,545 shares in the May 6, 2019 offering and omitting to disclose the impugned adverse material facts about CannTrust's operations not being in compliance with Health Canada's regulations.

RELIEF CLAIMED

3. The Plaintiff claims on his own behalf and on behalf of the members of the Class:
 - (a) An order pursuant to s. 5 of the *CPA* certifying this action as a class proceeding and appointing the Plaintiff as the representative plaintiff for the Class advancing the causes of action identified herein;
 - (b) An order granting leave to pursue the statutory causes of action set out in Part XXIII.1 of the *OSA* and the comparable provisions in the Equivalent Securities Acts;

- (c) A declaration that the Impugned Statements released by the Defendants contain misrepresentations related to the Company's business, operations and finances because the documents and statements omitted material facts about CannTrust's illegal growing of Cannabis in unlicensed rooms and inaccurate information and pictures provided to Health Canada in order to obtain its license to grow cannabis;
- (d) A declaration that the misrepresentations were publicly corrected on July 8, 11, 24, and 25, 2019;
- (e) A declaration that the Individual Defendants released the aforementioned misrepresentations negligently and, pending discovery, intentionally;
- (f) A declaration that the Defendants, as alleged herein, breached ss. 75, 130(1), 134, and 138.3 of the *OSA* and the comparable provisions in the Equivalent Securities Acts;
- (g) A declaration that CannTrust is vicariously liable for the acts and omissions of the Individual Defendants' conduct, except for Individual Defendants Eric Paul and Mitchell Sanders' breach of s. 134 of the *OSA*;
- (h) Damages in a sum to be determined, or such other sum as this Court finds appropriate at the trial of the common issues or at a reference or references;
- (i) An order directing a reference or giving such other directions as may be necessary to determine issues not determined in the trial of the common issues;

- (j) Prejudgment and post-judgment interest, compounded, or pursuant to ss. 128 and 129 of the *CJA*;
- (k) Costs of this action on a full indemnity scale, or in an amount that provides substantial indemnity, plus, pursuant to s. 26(9) of the *CPA*, the costs of administering the plan of distribution of the recovery in this action; and
- (l) Such further and other relief that this Honourable Court deems just.

NATURE OF THIS ACTION

4. On October 17, 2018, the *Cannabis Act* and Cannabis Regulations came into force replacing the Access to Cannabis for Medical Purposes Regulations (“ACMPR”) and the *Controlled Drugs and Substances Act* as the governing legislation on the production, sale and distribution of medical cannabis.

5. CannTrust is a licensed producer and distributor of medical and recreational cannabis pursuant to the *Cannabis Act*. CannTrust has a 60,000 square foot extraction, manufacturing and packaging facility in Vaughan, Ontario (the “Vaughan Facility”), and a 450,000 square foot perpetual harvest facility in Pelham, Ontario (the “Pelham Facility” or the “Perpetual Harvest Facility”).

6. As reflected in its core documents released on SEDAR during the Class Period, CannTrust represented itself as being compliant with all government laws and regulations with regards to its business of cultivating, producing and distributing medical and recreational cannabis (i.e., the Impugned Statements).

7. These material facts supported CannTrust's investment thesis and corresponding share price and value.

8. On July 8, 2019, CannTrust published a news release (i.e., one of the "Corrective Disclosures") disclosing that Health Canada had determined that its Pelham Facility was not compliant with regulations because it was growing cannabis in five unlicensed rooms and because it had provided inaccurate information to Health Canada between October 2018 and March 2019. This finding resulted in Health Canada placing a hold on 5,200kg of dried cannabis. Additionally, CannTrust voluntarily placed a hold on an additional 7,500kg of dried cannabis at its Vaughan Facility because it too had been grown in unlicensed rooms.

9. Upon the release of this first Corrective Disclosure, the price of CannTrust's shares on the TSX dropped \$1.46 per share (or 22.6%), going from \$6.46 per share to \$5.00 per share on abnormally-high trading volume.

10. On July 11, 2019 after trading had closed on the TSX for the day, CannTrust released a news release (a "Corrective Disclosure") announcing that it was implementing a voluntary hold on the sale and shipment of all of its cannabis products, including medical sales, as a precaution while Health Canada visited and reviewed its Vaughan Facility. The document stated that CannTrust did not know the impact this would have on the Company's financial results at this time. This Corrective Disclosure further announced that the Company had formed a special committee of the board of directors (the "Special Committee"), comprised of independent members of the board, in order to investigate the aforementioned matters in their entirety.

11. Upon the release of this Corrective Disclosure, the price of CannTrust's shares on the TSX dropped \$0.70 per share (or 17.3%) going from \$4.04 per share to \$3.34 per share in a single day.

12. Then on July 24, 2019, *The Globe and Mail* released a news article (another "Corrective Disclosure") disclosing *inter alia* that it had obtained internal CannTrust emails which showed that at least as early as November 16, 2018, Defendants Paul, Aceto and Abramowitz knew that Cannabis was illegally being grown and stored in unlicensed rooms at the Pelham Facility and were made aware that Health Canada was being intentionally deceived and the illegally grown and stored Cannabis was actively being hidden from Health Canada during the regulator's inspections of the Pelham Facility.

13. Upon the release of this Corrective Disclosure, CannTrust's common shares listed on the TSX once again significantly diminished in price, going from \$3.43 per share to \$2.68 per share, a loss of 21.9% on abnormally-high trading volume, that very same day, once again causing further damage to CannTrust's shareholders. The closing price on July 24, 2019 represents a loss of \$3.78 per share, or more than 58.5% from the closing price on July 5, 2019 (the last trading day before the release of the first Corrective Disclosure).

14. On July 25, 2019, CannTrust issued a press release (the last "Corrective Disclosure") announcing immediate senior management changes based on the ongoing investigation being conducted by the Special Committee. Specifically, this Corrective Disclosure stated that the investigation into the Company's non-compliance with Health Canada regulations and ancillary matters had uncovered new information that had resulted in the board of directors deciding to terminate with cause CannTrust's CEO, Peter Aceto,

and demanding the resignation of the Company's chairman of the board, Eric Paul – a request with which he complied.

THE PLAINTIFF

15. Jeffrey Webb is an individual who resides in London, Ontario. Between May 14, 2019 and June 26, 2019, he purchased 1,600 common shares of CannTrust listed on the TSX at a total cost of \$11,915.25, and suffered a loss by holding those securities until after the Corrective Disclosures.

THE DEFENDANTS

16. CannTrust is a company incorporated pursuant to Ontario's *Business Corporations Act*, which maintains its headquarters in Vaughan, Ontario. CannTrust purports to be a federally regulated licensed producer and distributor of medical and recreational cannabis.

17. During and prior to the period of time at issue in this action, CannTrust's common shares, which have a CUSIP identifier number of 137800, were listed under the ticker symbol "TRST" on the TSX, "CTST" on the NYSE, and "C9S" on the FSE.

18. Eric Paul was at all relevant times chairman of CannTrust's board of directors, and up until October 1, 2018 was CannTrust's Chief Executive Officer ("CEO"). He, indirectly through his company, sold millions of dollars' worth of his own shares of CannTrust to investors as part of the Company's May 2019 public offering. He was aware that cannabis was being illegally grown in unlicensed rooms at the Pelham Facility and that Health Canada was being intentionally deceived with regards to the same.

19. Peter Aceto served as CannTrust's CEO at all times relevant to this action. He authorized the release of each impugned statement, and certified and signed all of the annual and interim core documents on Form 52-109F1 and Form 52-109F2 respectively, representing that these core documents did not contain any misrepresentations. He was aware that cannabis was being illegally grown in unlicensed rooms at the Pelham Facility and that Health Canada was being intentionally deceived with regards to the same, and instructed CannTrust employees to continue with these illegal acts.

20. Mitchell Sanders served as a director of CannTrust at all times relevant to this action. He, indirectly through his company, sold 250,000 of his own shares of CannTrust to investors as part of the Company's May 2019 public offering.

21. Ian Abramowitz served as CannTrust's Chief Financial Officer ("CFO") from December 2016 to February 19, 2019. As of February 19, 2019, he became CannTrust's Senior Vice President of Global Investments and Partnerships. He certified and signed the Form 52-109F2 for CannTrust's interim MD&A released on November 14, 2018 for the period ending September 30, 2018, representing that it did not contain any misrepresentations. He was aware that cannabis was being illegally grown in unlicensed rooms at the Pelham Facility and that Health Canada was being intentionally deceived with regards to the same.

22. Gregory J. Guyatt has served as CannTrust's CFO from February 19, 2019 onwards. He certified and signed the Form 52-109F1 for CannTrust's annual 2018 filings released on March 28, 2019, as well as the Form 52-109F2 for CannTrust's interim

MD&A released on May 14, 2019 for the period ended March 31, 2019, representing that these core documents did not contain any misrepresentations.

THE MATERIAL EVENTS

23. On **October 1, 2018**, CannTrust published a news release with a follow-on material change report announcing that it was appointing Aceto as its new CEO; affirming that CannTrust was “one of Canada’s leading *licensed producers* and trusted brands of medical cannabis”, and that it was “*a federally regulated licensed producer*” [emphasis added].

24. On **November 14, 2018**, CannTrust released its MD&A and financial statements for the three and nine-month interim period ended September 30, 2018, the CEO and CFO certifications pertaining to these core documents, and a corresponding earnings release. In the MD&A, the Company described the acquisition of, licensing for, and expansion of the Pelham Facility, reporting in relevant part, that it was then-acting in compliance with the relevant Health Canada regulations.

25. These statements and certifications contained misrepresentations because, at this period of time, CannTrust was growing and storing cannabis in unlicensed rooms in violation of Health Canada regulations.

26. On **March 18, 2019**, CannTrust released a preliminary short form prospectus, certified by Individual Defendants Aceto and Guyatt, which included by reference a number of other core documents released during the Class Period and identified herein. In a section of this prospectus under the heading “Regulatory Framework”, CannTrust summarized all of “the primary Canadian federal and provincial laws and regulations

associated with the production and distribution of legal cannabis and related products”. Importantly, in the very first paragraph of this section, CannTrust unequivocally represented that “[t]he Company believes that, as of the date of this Prospectus, it is in material compliance with all laws and regulations summarized below.”

27. These statements and certifications contained misrepresentations because, at this period of time, CannTrust was growing and storing cannabis in unlicensed rooms.

28. On **March 28, 2019**, CannTrust released its Annual Information Form that highlighted its business operational risks:

- a. The Vaughan Facility and Niagara [Pelham] 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;
- b. The Company's ability to produce and sell its medical products in, and export its medical products to, other jurisdictions outside of Canada is dependent on compliance with additional regulatory and other requirements; and
- c. The Company may become subject to liability arising from any fraudulent or illegal activity by its employees, contractors, consultants and others.

29. Also on **March 28, 2019**, CannTrust released its financial statements and MD&A, for the fiscal year ended December 31, 2018, the CEO and CFO certifications pertaining to these core documents, and a corresponding earnings release, reporting in relevant part that it was then-acting in compliance with the relevant Health Canada regulations.

30. These statements and certifications contained misrepresentations because, at this period of time, CannTrust was growing and storing cannabis in unlicensed rooms.

31. On **May 3, 2019**, CannTrust filed on SEDAR, a prospectus supplement to the short form base shelf prospectus dated March 18, 2019, for an offering that closed on May 6, 2019. In a section of this prospectus supplement with the heading “Risk Factors”, it stated:

The Vaughan Facility and Niagara [Pelham] Facility are integral to our business and adverse changes or developments affecting any of these facilities may have an adverse impact on us.

32. This prospectus supplement contained a misrepresentation because it omitted the material fact that at this period of time, CannTrust was growing and storing cannabis in unlicensed rooms.

33. On **May 6, 2019**, CannTrust along with Individual Defendants Eric Paul and Mitchell Sanders, through their respective companies, conducted a public offering at USD\$5.50 per share, while the underwriters earned \$0.308 per share in underwriting fees from investors:

- a. Individual Defendant Eric Paul’s company sold 5,204,545 shares, but omitted to disclose that CannTrust’s business operations were not in compliance with Health Canada’s regulations concerning growing substantial quantities of cannabis in unlicensed rooms; and
- b. Individual Defendant Mitchell Sanders’ personal investment vehicle sold 250,000 shares, but omitted to disclose that CannTrust’s business operations were not in compliance with Health Canada’s regulations concerning growing substantial quantities of cannabis in unlicensed rooms.

34. On **May 14, 2019**, CannTrust released its Q1 2019 financial statements and MD&A, and corresponding CEO and CFO certifications. Once again, CannTrust reported, in relevant part, that it was then-acting in compliance with the relevant Health Canada regulations.

35. These statements and certifications contained misrepresentations because, at this period of time, CannTrust was growing and storing cannabis in unlicensed rooms.

THE CORRECTIVE DISCLOSURES

36. On **July 8, 2019** before trading opened on the TSX, CannTrust announced that it had received a compliance report from Health Canada notifying it that its Pelham Facility was non-compliant with government regulations, based on the regulator observing that it was growing cannabis in unlicensed rooms at the facility from October 2018 to March 2019, as well as because there was inaccurate information provided to Health Canada by CannTrust employees. This first Corrective Disclosure also revealed that approximately 12,700kg of CannTrust's cannabis grown in unlicensed rooms was being put on hold, and that as a result, CannTrust customers and patients would experience product shortages. CannTrust further revealed that it had voluntarily advised Health Canada of issues that may impact compliance at its Vaughan Facility as well. Defendant Aceto was quoted in the Corrective Disclosure as admitting that "[w]e made errors in judgment".

37. The July 8, 2019 Corrective Disclosure made clear that every one of the public disclosure documents referenced above contained misrepresentations, *inter alia*, by omitting the material facts that the Company was illegally growing cannabis in the portion of the Pelham Facility that was yet unlicensed and prohibited from being used to grow cannabis, that as a result, its representations of being federally regulated and licensed were

untrue or at best half-truths, and that its employees, at the direction of management were being told to provide false information and intentionally misleading pictures to Health Canada in connection with the application to obtain licensing for the unlicensed expansion of the Pelham Facility.

38. The Class Period disclosure statements additionally omitted the material fact that as a result of its illegal actions, CannTrust faced far greater risks to its business and operations than it had disclosed. Specifically, the Company faced a significant risk of having its cannabis products placed on hold by Health Canada and being subjected to other regulatory action including the potential revocation of its license, and consequently, CannTrust's consumers would face product shortages and delays and would likely seek products from CannTrust's competitors.

39. The stock market's reaction to this Corrective Disclosure was immediate and pronounced. That very same day, the Company's stock price went from \$6.46 per share to \$5.00 per share on the TSX, equating to a loss of 22.6%.

40. On **July 11, 2019**, CannTrust announced that it had implemented a voluntary hold on the sale and shipment of all cannabis productions, including medical sales, as a precaution while Health Canada visited and reviewed its Vaughan Facility. This Corrective Disclosure disclosed that the impact of these matters on CannTrust's financial results were unknown at that time. The July 11, 2019 Corrective Disclosure also disclosed that Canntrust had formed a Special Committee comprised of independent members of the Company's board of directors for the purpose of investigating the matters outlined above.

41. Once again, the reaction of the market to this Corrective Disclosure was quick and noteworthy. The very next day, the Company's stock price on the TSX went from \$4.04 per share to \$3.34 per share, amounting to a loss of 17.3%. The closing price of \$3.34 per share was a 48.3% loss relative to the closing price on July 5, 2019 (the last trading day before the first Corrective Disclosure).

42. On **July 24, 2019**, *The Globe and Mail* released a news article entitled "CannTrust chairman, CEO were informed in November of unlicensed cannabis growing, e-mails show" which made it abundantly clear that CannTrust's management at the highest levels, including its chairman of the board of directors (Paul), CEO (Aceto), and then-CFO (Abramowitz) were, at least as early as November 2018, aware of and participating in the illegal scheme to grow and store cannabis in the unlicensed grow room in the Pelham Facility and to lie to and provide Health Canada with false information and pictures in order to prevent the regulator from finding out about the illegal acts.

43. In this third Corrective Disclosure, it was revealed that *The Globe and Mail* had obtained internal emails from CannTrust's director of quality and compliance, to Aceto, Abramowitz and a VP of innovation and regulatory affairs (and forwarded to Paul that same day), stating:

- (a) A Health Canada inspection had just been completed, which had found several compliance breaches but had not discovered the cannabis being illegally grown that was actively being hidden from Health Canada;
- (b) Regulatory breaches that Health Canada did discover included poor paperwork, missing personnel, and an incorrect protocol for releasing batches of cannabis;
- (c) "[C]urrent risks" to CannTrust included plants growing in unlicensed rooms, the storage of cannabis in unlicensed rooms, and the "large number of lost bottles [of cannabis that] we have not reported";

- (d) “We dodged some bullets ... [Health Canada] did not ask about RG8E/W, which are unlicensed rooms currently full of plants”;
- (e) CannTrust was storing product in unlicensed rooms at its Vaughan Facility in addition to at its Pelham Facility;
- (f) “... if that’s all that happens, we got very lucky here. There are several points of exposure in our business we need to consider. I would not be surprised if HC visits Vaughan in the near future and that could compound HC’s concerns”;
- (g) “I will continue working to eliminate our exposure on all these items, but they remain a liability. Please advise of any actions you would like me to take”.

44. Defendant Paul replied to the email, instructing staff to respond politely that they have been diligent in submitting the applications for each new area, but never expressing surprise or ignorance about the illegal activities nor instructing any of the recipients to disclose the malfeasance to Health Canada or to shareholders.

45. Once again, the market’s reaction to this Corrective Disclosure was swift and significant. The Company immediately lost 21.9% of its share price on the TSX that very day, with an abnormally-high roughly 6.13 million shares traded. The closing price of \$2.68 per share on July 24, 2019 was the lowest in CannTrust’s history, and equated to a drop of nearly 59% from its closing price on July 5, 2019 (the last trading day before the first Corrective Disclosure).

46. On **July 25, 2019**, CannTrust announced that the Special Committee’s ongoing investigation into the Company’s non-compliance with Health Canada regulations and ancillary matters had uncovered new information that had resulted in a determination by the Company’s board of directors to terminate Defendant Aceto with cause as CannTrust’s CEO. This final Corrective Disclosure additionally disclosed that the board

of directors had demanded the resignation of Defendant Paul as chairman of the board of directors, and that Paul had complied with that demand.

REAL AND SUBSTANTIAL CONNECTION WITH ONTARIO

47. The Plaintiff pleads that this action has a real and substantial connection with Ontario for the application of Ontario substantive and procedural laws to this claim on behalf of all Class Members because, among other connecting factors: he resides in London, Ontario; CannTrust is a reporting issuer in Ontario; CannTrust is headquartered in Ontario; CannTrust conducts substantial business in Ontario; and CannTrust's securities are traded on the TSX.

RELEVANT LEGISLATION, PLACE OF TRIAL AND JURY TRIAL

48. The Plaintiff pleads and relies upon the *Courts of Justice Act*, the *Class Proceedings Act, 1992*, the *OSA* and the Equivalent Securities Acts.

49. The Plaintiff proposes that this action be tried in the City of London, in the Province of Ontario, as a proceeding under the *Class Proceedings Act, 1992*.

50. The Plaintiff intends to serve a jury notice.

MORGANTI & CO., P.C.

21 St. Clair Avenue East, Suite 1102
Toronto, ON M4T 1L9
Tel: 647-344-1900

Albert Pelletier (LSO#: 46965R)
apelletier@morgantilegal.com

Hadi Davarinia (LSO#: 70266P)
hdavarinia@morgantilegal.com

Lawyers for the Plaintiff

JEFFREY WEBB
Plaintiff

and

CANNTRUST HOLDINGS INC., et al.
Defendants

Court File No.: CV-19-1554

ONTARIO

SUPERIOR COURT OF JUSTICE

Proceeding Commenced at **London**

STATEMENT OF CLAIM

MORGANTI & CO., P.C.

21 St. Clair Avenue East, Suite 1102

Toronto, ON M4T 1L9

Tel: 647-344-1900

Albert Pelletier (LSO#: 46965R)

apelletier@morgantilegal.com

Hadi Davarinia (LSO#: 70266P)

hdavarinia@morgantilegal.com

Lawyers for the Plaintiff