CannTrust®

2017 ANNUAL REPORT

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TO THE SHAREHOLDERS

We are pleased to report on your Company's results for the year ended December 31, 2017.

Revenues for the period under review were $20,697,764 yielding net income of $6,885,430 and a net income per share of $0.09. This compares to revenues of $4,382,088, a net loss of $(13,619,943) and a net loss per shares of $(0.32) in the comparable 2016 period. During our most recent quarter a number of regular grow rooms at our Langstaff Facility were used to harvest Mother Plants for Phase 1 of the Niagara Greenhouse Facility. As a result, during the quarter the Company used third party product purchases as a harvest replacement and bridge to meet the demand for the Company's products. The higher cost of these third party purchases negatively impacted earnings for the three months ended December 31, 2017 by approximately $1.8 million.

We continue to experience dynamic growth in all areas of the Company as we execute our business plan aimed at being a market leader and innovator in the development of products and services to better serve our patients and physicians and to position us for the pending legislation to legalize the adult consumer recreational use of cannabis. We have successfully introduced a number of new market leading initiatives, including the launch of the Trust Delivery Service, a new way to provide superior service to our growing patient base.

Our 250,000 square foot Phase 1 redevelopment of our 430,000 square foot Niagara Greenhouse Facility has received both its Health Canada Cultivation and Sales License and we have already had multiple harvests from this facility. Phase 1 was completed both on budget and on time. The Phase 2 expansion at the Niagara Greenhouse Facility, which is currently underway, is anticipated to be completed and in cultivation towards the middle of 2018. As a result, we fully expect to meet our 40,000 kilograms of annual growing capacity from this facility. This is all perfectly timed in order for us to supply the international orders we have recently received and to position us for the anticipated adult consumer recreational use of cannabis, which will provide us with further major opportunities. In addition, the Company is planning a further 600,000 square foot expansion utilizing a portion of the 36 acres of vacant land at the Niagara Greenhouse Facility.

During the period we successfully completed our Special Warrant Financing and a subsequent Private Placement, for collective gross proceeds of $45 million. In addition, we recently closed a $15 million mortgage financing on our Niagara Greenhouse Facility.

Our standardized, pesticide-free products and our physician education programs continue to position us as one of the premier providers of cannabis resulting in exceptional new patient growth with sales in cannabis extracts representing over 64% of sales. Our shipments to Australia and our Joint Venture with Stenocare in Denmark are just the beginning of what we believe will be a Global market opportunity for us. Other countries that we anticipate shipping to shortly are Germany and Mexico.

Our recent graduation to the Toronto Stock Exchange ("TSX") reflects the amazing progress we have made since listing on the Canadian Securities Exchange ("CSE") in August last year. This new listing on the TSX will allow a whole new category of investors to participate in the CannTrust story.

We have assembled an amazing team of varying talents and expertise in our operations, all of whom have helped us build a business designed to meet the highest standards and which will allow us to reach our full potential.

We thank all of our Shareholders for their ongoing interest and support and we invite you to visit our investor relations page at:
www.canntrust.ca/investor-relations

On behalf of the Board,

Eric Paul, Chief Executive Officer

RSM Canada LLP

11 King St W
Suite 700, Box 27
Toronto, ON M5H 4C7

T +1 416 480 0160
F +1 416 480 2646

www.rsmcanada.com

INDEPENDENT AUDITORS' REPORT

To the Shareholders of CannTrust Holdings Inc.

We have audited the accompanying consolidated financial statements of CannTrust Holdings Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2017 and December 31, 2016 and the consolidated statements of income (loss) and comprehensive income (loss), changes in shareholders' equity and cash flows for the years then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion these consolidated financial statements present fairly, in all material respects, the financial position of CannTrust Holdings Inc. as at December 31, 2017 and December 31, 2016, and its financial performance and its cash flows for the years ended December 31, 2017 and December 31, 2016 in accordance with International Financial Reporting Standards.

RSM Canada LLP

Chartered Professional Accountants
Licensed Public Accountants
March 29, 2018
Toronto, Ontario

CannTrust Holdings Inc.

Consolidated Statements of Financial Position
As at December 31
(in Canadian dollars)

		2017		2016
Assets				
Current				
Cash	**$**	**17,961,043**	$	4,895,145
Short term investments (Note 6)		**201,538**		-
Harmonized sales tax recoverable		**2,636,710**		96,992
Inventory (Note 7)		**10,959,022**		3,674,635
Biological assets (Note 7)		**9,843,690**		2,320,093
Accounts receivable		**160,383**		140,015
Prepaids		**2,465,506**		497,975
Total current assets		**44,227,892**		11,624,855
Investment (Note 15)		**156,073**		19,313
Restricted cash (Note 6)		**100,765**		25,000
Property and equipment (Note 8)		**33,963,685**		5,209,440
Total Assets		**78,448,415**		16,878,608
Liabilities				
Current				
Accounts payable and accrued liabilities		**6,579,997**		2,570,965
Current portion of promissory note (Note 5)		**200,000**		-
Convertible debt due on demand (Note 9)		**-**		1,000,000
Total current liabilities		**6,779,997**		3,570,965
Promissory note (Note 5)		**800,000**		-
Convertible debt (Note 9)		**-**		1,463,947
Derivative liability (Note 9)		**-**		1,375,447
Total Liabilities		**7,579,997**		6,410,359
Shareholders' Equity				
Share capital (Note 10)		**104,824,215**		53,916,169
Share-based payment reserve (Note 11)		**2,272,302**		-
Warrants reserve (Note 12)		**3,361,789**		3,027,398
Deficit		**(39,589,888)**		(46,475,318)
Total Shareholders' Equity		**70,868,418**		10,468,249
Total Liabilities and Shareholders' Equity	**$**	**78,448,415**	$	16,878,608

Nature of Operations (Note 1)
Basis of Presentation (Note 2)
Commitments (Note 13)
Subsequent Events (Note 20)

The accompanying notes are an integral part of the consolidated financial statements.

_______________ Director
Eric Paul

_______________ Director
Mark Litwin

CannTrust Holdings Inc.

Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)
For the Years Ended December 31
(in Canadian dollars)

	2017	2016
Revenue	**$ 20,697,764**	$ 4,382,088
Cost of goods sold	**9,017,787**	2,499,851
Amortization expensed to cost of sales (Note 8)	**1,252,985**	854,142
Gross profit, before the unrealized gain on changes in fair value of biological assets	**10,426,992**	1,028,095
Fair value changes in biological assets included in inventory sold	**11,302,969**	4,339,530
Unrealized gain on changes in fair value of biological assets (Note 7)	**(24,856,050)**	(6,838,140)
Gross profit	**23,980,073**	3,526,705
Expenses		
Amortization (Note 8)	**964,396**	379,750
General and administrative	**1,610,312**	756,999
Loss on disposal of property and equipment (Note 8)	**-**	32,816
Loss on Equity Accounted Investment (Note 15)	**147,056**	147,442
Management fees (Note 14)	**378,674**	590,000
Marketing and promotion	**198,858**	329,866
Professional fees	**1,136,488**	355,768
Rent and facilities	**511,334**	83,870
Salaries and benefits	**3,853,314**	1,589,308
Selling and shipping costs	**3,803,056**	745,831
Share based compensation (Note 11)	**2,310,678**	72,000
Expenses before Financing Activities and Transaction Costs	**14,914,166**	5,083,650
Income (Loss) from Operations before Financing Activities and Transaction Costs	**9,065,907**	(1,556,945)
Interest expense	**(260,203)**	(473,961)
Accretion expense (Note 9)	**(233,716)**	(276,413)
Distributions on preference shares	**-**	(1,355,022)
Transaction costs (Note 5)	**(204,282)**	(396,377)
Other income	**143,060**	-
(Loss) Gain on revaluation of derivative liability (Note 9)	**(1,625,336)**	245,657
Loss on revaluation of redeemable shares (Note 19)	**-**	(9,806,882)
Net Income (Loss) and Comprehensive Income (Loss)	**$ 6,885,430**	$ (13,619,943)
Net Income (Loss) and Comprehensive Income (Loss) Attributable to:		
Equity shareholders of the Company	**$ 6,885,430**	$ (12,815,159)
Non-controlling interest	**-**	(804,784)
	$ 6,885,430	$ (13,619,943)
Weighted average number of common shares - basic	**76,876,971**	42,597,871
Weighted average number of common shares - diluted	**80,526,105**	42,597,871
Earnings (loss) per share - basic and diluted (Note 10)	**$ 0.09**	$ (0.32)

The accompanying notes are an integral part of the consolidated financial statements.

CannTrust Holdings Inc.

Consolidated Statements of Changes in Shareholders' Equity
For the Years Ended December 31
(in Canadian dollars)

	Share Capital: Number of common shares	Share Capital: Amount - Common shares	Share-based payment reserve	Warrants	Deficit	Equity before Non-Controlling Interest	Non-Controlling Interest	Total
Balance, December 31, 2015	**29,595,848**	**$ 6,684,903**	**$ -**	**$ 1,949,501**	**$ (18,041,464)**	**$ (9,407,060)**	**$ (405,580)**	**$ (9,812,640)**
February 2016 Pre-emptive Rights Issuance (Note 10)	35,646	32,081	-	-	-	32,081	-	32,081
February 2016 warrants issued with convertible debt	-	-	-	15,922	-	15,922	-	15,922
February 2016 Share issuance to Employees (Note 10)	50,000	45,000	-	-	-	45,000	-	45,000
August 2016 Share issuance as partial consideration for Bridge Financing (Note 10)	200,000	180,000	-	-	-	180,000	-	180,000
September 2016 Share issuance as partial consideration for Bridge Financing (Note 10)	200,000	180,000	-	-	-	180,000	-	180,000
September 2016 Share issuance to Employee (Note 10)	30,000	27,000	-	-	-	27,000	-	27,000
October 2016 Shares issued in exchange for Class A Preferred Shares of CannTrust Inc. (Note 10)	9,039,317	8,135,386	-	-	(8,262,438)	(127,052)	-	(127,052)
Net loss and comprehensive loss before non-controlling interest settlement	-	-	-	-	(11,516,088)	(11,516,088)	(804,784)	(12,320,872)
November 2016 Shares issued to non-controlling interest of CannTrust Inc. in exchange for Shares of CannTrust Holdings Inc. (Note 10)	2,759,909	2,483,918	-	-	(3,694,282)	(1,210,364)	1,210,364	-
December 2016 Private Placement (Note 10)	3,416,208	4,441,070	-	-	-	4,441,070	-	4,441,070
December 2016 Share issuance in lieu of services (Note 10)	403,846	525,000	-	-	-	525,000	-	525,000
December 2016 Share issuance in consideration of surrender of Put Option and reclassification of Redeemable Shares (Note 10)	22,265,145	31,420,729	-	1,061,975	(3,661,975)	28,820,729	-	28,820,729
Share issuance costs	-	(238,918)	-	-	-	(238,918)	-	(238,918)
Net loss and comprehensive loss after non-controlling interest settlement	-	-	-	-	(1,299,071)	(1,299,071)		(1,299,071)
Balance, December 31, 2016	**67,995,919**	**$ 53,916,169**	**$ -**	**$ 3,027,398**	**$ (46,475,318)**	**$ 10,468,249**	**$ -**	**$ 10,468,249**
February 2017 Private Placement (Note 12)	510,000	1,020,000	-	25,168,200	-	26,188,200	-	26,188,200
February 2017 Warrants issued as partial consideration for Private Placement (Note 12)	-	-	-	499,169	-	499,169	-	499,169
Warrant issuance costs (Note 12)	-	-	-	(2,068,245)	-	(2,068,245)	-	(2,068,245)
March 2017 Share issuance on exercise of convertible debt (Note 9 and 10)	644,264	877,497	-	-	-	877,497	-	877,497
March 2017 Exercise of warrants (Note 10 and 12)	1,000,000	1,845,919	-	(545,919)	-	1,300,000	-	1,300,000
March 2017 Share issuance on exercise of convertible debt due on demand (Note 9 and 10)	1,068,161	1,068,161	-	-	-	1,068,161	-	1,068,161
March 2017 Share issuance as partial consideration for Warrant Financing (Note 10)	75,000	150,000	-	-	-	150,000	-	150,000
April 2017 Share issuance in lieu of services (Note 10)	100,000	200,000	-	-	-	200,000	-	200,000
August 2017 Share issuance on automatic conversion of convertible debt (Note 9 and 10)	2,885,354	4,062,606	-	-	-	4,062,606	-	4,062,606
August 2017 Share issuance on automatic conversion of Special Warrants (Note 10 and 12)	12,584,100	23,099,955	-	(23,099,955)	-	-	-	-
September 2017 Exercise of warrants (Note 10 and 12)	4,963	9,716	-	(4,257)	-	5,459	-	5,459
November 27, 2017 Exercise of stock options (Note 10 and 11)	25,000	88,376	(38,376)	-	-	50,000	-	50,000
November 30, 2017 Private Placement (Note 10)	4,000,000	18,447,465	-	-	-	18,447,465	-	18,447,465
November 2017 Warrants issued as partial consideration for Private Placement (Note 12)	-	-	-	396,741	-	396,741	-	396,741
Exercise of broker warrants (Note 10 and 12)	13,504	38,351	-	(11,343)	-	27,008	-	27,008
Share-based compensation (Note 11)	-	-	2,310,678	-	-	2,310,678	-	2,310,678
Net income and comprehensive income	-	-	-	-	6,885,430	6,885,430	-	6,885,430
Balance, December 31, 2017	**90,906,265**	**$ 104,824,215**	**$ 2,272,302**	**$ 3,361,789**	**$ (39,589,888)**	**$ 70,868,418**	**$ -**	**$ 70,868,418**

The accompanying notes are an integral part of the consolidated financial statements.

CannTrust Holdings Inc.

Consolidated Statements of Cash Flows
For the Years Ended December 31
(in Canadian dollars)

	2017	2016
Operating Activities		
Net income (loss)	$ **6,885,430**	$ (13,619,943)
Items not effecting cash		
Amortization (Note 8)	**2,217,381**	1,233,892
Accretion expense	**233,716**	276,413
Biological assets expensed to cost of sales	**11,302,969**	4,339,530
Unrealized gain on changes in fair value of biological assets	**(24,856,050)**	(6,838,140)
Loss on disposal of property and equipment	**-**	32,816
Loss on Equity Accounted Investment	**147,056**	147,442
Loss (gain) on revaluation of derivative liability	**1,625,336**	(245,657)
Loss on revaluation of redeemable shares	**-**	9,806,882
Non-cash transaction costs for convertible debt	**-**	6,513
Interest expense, net of interest income	**205,664**	473,961
Expenses settled with inventory	**70,280**	-
Expenses settled with issuance of common shares	**135,000**	957,000
Share-based compensation	**2,310,678**	72,000
	277,460	(3,357,291)
Changes in non-cash working capital		
Harmonized sales tax recoverable	**(2,539,718)**	(42,964)
Inventory and biological assets	**(939,233)**	(610,941)
Accounts receivable	**(77,210)**	(82,185)
Prepaids	**(1,967,531)**	(414,726)
Accounts payable and accrued liabilities	**4,744,686**	1,156,520
Distribution payable on preference shares	**-**	1,355,022
Cash flows used in operating activities	**(501,546)**	(1,996,565)
Investing Activities		
Purchase of property and equipment (Note 8)	**(23,993,811)**	(1,207,840)
Disposal of property and equipment (Note 8)	**136,235**	-
Acquisition of Greenhouse and related assets (Note 5)	**(6,500,000)**	-
Interest received	**54,539**	-
Advances to/investment in Joint Venture (Note 15)	**(283,816)**	(166,755)
Issuance of short term investments (Note 6)	**(900,000)**	-
Redemption of short term investments (Note 6)	**700,000**	300,000
Cash flows used in investing activities	**(30,786,853)**	(1,074,595)
Financing Activities		
Proceeds from private placement, net of share issue costs	**43,613,330**	4,234,233
Proceeds from issuance of convertible debt, net of transaction costs	**-**	1,040,918
Proceeds from exercise of warrants	**1,332,467**	-
Proceeds from exercise of stock options	**50,000**	-
Interest paid	**(566,500)**	-
Restricted cash held as collateral on credit card financing	**(75,000)**	-
Cash flows provided by financing activities	**44,354,297**	5,275,151
Net increase in cash	**13,065,898**	2,203,991
Cash, at beginning of period	**4,895,145**	2,691,154
Cash, at end of period	$ **17,961,043**	$ 4,895,145

See notes 5, 9, 10 and 12 for non-cash financing.
The accompanying notes are an integral part of the consolidated financial statements.

1. NATURE OF OPERATIONS

Nature of Operations

CannTrust Holdings Inc. ("CannTrust" or the "Company") is a Canadian company incorporated in Ontario on March 16, 2015. The Company is the parent company of CannTrust Inc., a Canadian company incorporated in Ontario on August 16, 2013 and Elmcliffe Investments Inc., a Canadian company incorporated in Ontario on October 31, 2013. The Company holds 50% of the outstanding shares of Cannabis Coffee & Tea Pod Company Ltd, a Canadian company incorporated in Ontario on May 4, 2015. On April 30, 2015, CannTrust Inc. and the Company completed a share reorganization, whereby the Company became the parent company of CannTrust Inc. The Company's common shares are listed on the Toronto Stock Exchange ("TSX"), under the trading symbol "TRST". Refer to Subsequent Events Note 20 (i).

The Company is a licensed producer and distributor of medical cannabis in Canada pursuant to the provisions of the Access to Cannabis for Medical Purposes Regulations ("ACMPR") and the Controlled Drugs and Substances Act and its Regulations. The Company began production of medicinal cannabis at its hydroponic facility located in Vaughan, Ontario in Canada and received its license from Health Canada to sell on February 9, 2015. The Company commenced sale of medicinal cannabis under the Marihuana for Medical Purposes Regulations ("MMPR") in February 2015.

On January 13, 2017, the Company, through its wholly owned subsidiary Elmcliffe Investments Inc. executed a Purchase and Sale Agreement to acquire various Greenhouse and related assets located in the regional municipality of Niagara, Ontario.

The registered head office of the Company is in 3280 Langstaff Road, Building 1, Unit 1, Vaughan, Ontario, L4K 5B6.

2. BASIS OF PRESENTATION

Basis of Preparation

These consolidated financial statements have been prepared on the going concern basis, under the historical cost convention, except for certain financial assets and liabilities which are presented at fair value, as explained in the accounting policies set out in Note 3.

Statement of Compliance

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and the interpretations of the IFRS Interpretations Committee ("IFRIC"). These consolidated financial statements were authorized for issue by the Board of Directors on March 28, 2018.

Basis of Consolidation

These consolidated financial statements include the accounts of the Company and its controlled subsidiaries. All intercompany transactions and balances have been eliminated.

2. BASIS OF PRESENTATION (continued)

Functional Currency Translation

All figures presented in these consolidated financial statements and notes thereto are reflected in Canadian dollars, which is the functional currency of the Company and its subsidiaries.

Foreign currency transactions are translated using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at the foreign exchange rate applicable at the statement of financial position date. Realized and unrealized exchange gains and losses are recognized through profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical costs in a foreign currency are translated used the exchange rate at the date of the transaction.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Cash

Cash includes cash on deposit at banking institutions and cash held in trust.

b. Short-term investments

Short-term investments are comprised of GIC's with terms to maturity of between three and twelve months or can be redeemed without penalty within 12 months from issuance.

c. Property and Equipment

Property and equipment are measured at historical cost, which is the purchase price as well as any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, less accumulated amortization and impairment losses if applicable. Amortization is provided using the following methods and terms:

Greenhouse and Improvements	Straight-line	20 years
Buildings	Straight-line	20 years
Leasehold improvements	Straight-line	10 years
Production Equipment	Straight-line	5 years
Furniture and fixtures	Straight-line	5 years
Vehicles	Straight-line	5 years
Computer equipment	Straight-line	3 years
Computer software	Straight-line	1 year

Property and equipment's estimated residual value, useful life and amortization method are reviewed at the end of each reporting period and adjusted if necessary. When parts of an item of property and equipment have different useful lives, they are accounted for as separate components of property and equipment.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c. Property and Equipment (continued)

Gains or losses on the disposal of an item of property and equipment are determined by comparing the proceeds from the disposal with the carrying amount of the asset and are recognized in profit or loss.

Mother plants, or bearer plants, are plants grown for the purpose of taking cuttings in order to grow more quantity of the same plant. Bearer plants are critical to the success of the business and are measured at directly attributable costs, which are not material for accounting purposes.

d. Impairment of Property and Equipment

Property and equipment are reviewed for impairment at the end of each reporting period and tested for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable.

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount of property and equipment is the greater of fair value less costs to sell and value in use. In assessing value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses are recognized through profit or loss. Impairment losses may be reversed in a subsequent period where the impairment no longer exists or has decreased. The carrying amount after a reversal must not exceed the carrying amount (net of amortization) that would have been determined had no impairment loss been recognized. A reversal of impairment loss is recognized through profit and loss.

e. Investment in Joint Venture

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Investments in a joint venture are accounted for using the equity method and are initially recognized at cost. The entire carrying amount of the investment is tested for impairment annually.

Under the equity method, the investment is initially recognized at cost and adjusted thereafter for the post-acquisition change in the investor’s share of comprehensive income of the joint venture.

The Company’s share of its joint venture’s post-acquisition profits or losses is recognized in the statement of profit or loss, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Distributions received from an investee reduce the carrying amount of the investment.

If the Company’s share of losses of a joint venture equals or exceeds its interest in the joint venture, the Company does not provide for additional losses, unless it has incurred obligations or made payments on behalf of the joint venture.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

f. Business Combinations

Judgment is used in determining whether an acquisition is a business combination or an asset acquisition. In a business combination, all identifiable assets, liabilities and contingent liabilities acquired are recorded at their fair values. One of the most significant estimates relates to the determination of the fair value of these assets and liabilities. The contingent consideration is measured at its acquisition date fair value and included as part of the consideration transferred in a business combination. Contingent consideration that is classified as equity is not re-measured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is re-measured at subsequent reporting dates in accordance with IAS 39, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognized in profit or loss. For any intangible asset identified, depending on the type of intangible asset and the complexity of determining its fair value, an independent valuation expert or management may develop the fair value, using appropriate valuation techniques, which are generally based on a forecast of the total expected future net cash flows. The evaluations are linked closely to the assumptions made by management regarding the future performance of the assets concerned and any changes in the discount rate applied. Certain fair values may be estimated at the acquisition date pending confirmation or completion of the valuation process. When provisional values are used in accounting for a business combination, they may be adjusted retrospectively in subsequent periods. However, the measurement period may not exceed one year from the acquisition date.

g. Leases

Leases are classified as an operating lease whenever the terms of the lease do not transfer substantially all of the risks and rewards of ownership to the lessee. Lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which the economic benefits are consumed.

h. Revenue Recognition

Revenue is recognized at the fair value of consideration received or receivable. Revenue from the sale of goods is generally recognized when shipped, which is generally when all the following conditions have been satisfied:

- The Company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- The Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- The amounts of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the entity;
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

i. Convertible Debt

When convertible debt is issued, the proceeds (net of issue costs) are split to separately identify a liability component (equal to the net present value of their scheduled future cash flows applying interest rates at the date of issue of similar debt that does not have a conversion option). The remainder of the debt proceeds is deemed to relate to the conversion option and is credited to an equity reserve. The liability component is carried at amortized cost until extinguished on conversion of the option or maturity of the debt. The equity component is not subsequently re-measured.

j. Embedded Derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value through profit or loss (“FVTPL”).

k. Biological Assets

The Company measures biological assets consisting of medical cannabis plants at fair value less costs to sell up to the point of harvest, which becomes the initial basis for the cost of finished goods inventories after harvest. Seeds are measured at fair market value. Unrealized gains or losses arising from changes in fair value less cost to sell during the year are included in the gross margin in the statement of income and comprehensive income.

l. Inventory

Inventories of work-in-process dried cannabis, harvested finished goods, oil and packing materials are valued at the lower of cost and net realizable value. Inventories of harvested cannabis are transferred from biological assets at their fair value less costs to sell at harvest, which becomes deemed cost. Any subsequent post-harvest costs are capitalized to inventory to the extent that cost is less than net realizable value. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Cost is determined using the average cost basis. Products for resale and supplies are valued at cost.

m. Share Capital

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of issue costs. For unit offerings, the Company has adopted the relative fair value method with respect to measurement of shares and warrants issued as equity units. The relative fair value method requires an allocation of the net proceeds received based on the pro rata relative fair values of the components. The fair value of the warrants is estimated using the Black-Scholes option valuation model.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

n. Share Issuance Costs

Costs incurred in connection with the issuance of share capital are netted against the proceeds received, net of tax. Costs related to the issuance of share capital and incurred prior to issuance are recorded as deferred share issuance costs and subsequently netted against proceeds when they are received.

o. Research and Development

Research costs are expensed as incurred and are included in general and administrative expenses in the statement of income and comprehensive income. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development to use or sell the asset. Other development expenditures are recognized through profit and loss as incurred. To date no development costs have been capitalized.

p. Income Taxes

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at year end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is provided using the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for future tax consequences attributable to temporary differences between the financial statement carrying value and tax basis of assets and liabilities and the benefit of tax losses available to be carried forward for tax purposes.

Deferred tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred income tax assets are recorded in the consolidated financial statements if realization is considered probable. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the year that the rate changes.

q. Share-based Payments

In situations where equity instruments are issued to non-employees, shares issued are recognized at the fair value of services or goods received by the entity. In situations where some or all of the goods or services received by the entity as consideration cannot be estimated reliably, they are measured at the fair value of the equity instrument granted. The fair value of the share-based payments is recognized together with a corresponding increase in equity over a period that services are provided or goods are received.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

r. Share-based Compensation - Employees

The Company has an employee stock option plan ("ESOP") in place. The Company measures equity settled share-based payments based on their fair value at the grant date and recognizes compensation expense over the vesting period based on the Company's estimate of equity instruments that will eventually vest. Fair value is measured using the Black-Scholes option pricing model. Expected forfeitures are estimated at the date of grant and subsequently adjusted if further information indicates actual forfeitures may vary from the original estimate. Any revisions are recognized in the consolidated statements of income and comprehensive income such that the cumulative expense reflects the revised estimate.

s. Earnings/Loss per Share

The Company presents basic and diluted earnings per share for its common shares. Basic earnings per share is calculated by dividing the profit or loss attributable to common shareholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share is calculated by adjusting the weighted average number of common shares outstanding to assume conversion of all diluted potential common shares. When the effect of all outstanding warrants or options are anti-dilutive during a year when the Company incurs a loss, diluted loss per share does not differ from basic loss per share.

t. Financial Instruments

Financial Assets

All financial assets are recognized initially on the date at which the Company becomes a party to the contractual provisions of the instrument. The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows of the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

The Company classifies its financial assets as FVTPL, loans and receivables, held to maturity or available for sale. A financial asset is classified at FVTPL if it is classified as held for trading or is designated as such upon initial recognition. Financial assets classified as FVTPL are measured at fair value with any resultant gain or loss recognized in profit or loss. Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest rate method, less any impairment losses. As at December 31, 2017 and December 31, 2016, the Company has not classified any financial assets as held to maturity or available for sale.

Transaction costs associated with FVTPL financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

t. Financial Instruments (continued)

Financial Liabilities

All financial liabilities are recognized initially on the date at which the Company becomes a party to the contractual provisions of the instrument. The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

The Company classifies its financial liabilities as either FVTPL or other liabilities. Financial liabilities classified as FVTPL are measured at fair value with any resultant gain or loss recognized in profit or loss. Transaction costs associated with FVTPL financial liabilities are expensed as incurred. Financial liabilities classified as other financial liabilities are initially measured at fair value less directly attributable transaction costs, and are subsequently measured at amortized cost using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability.

Classification of Financial Instruments

The Company has classified its financial instruments as follows:

Cash	FVTPL
Accounts receivable	Loans and receivables
Restricted cash	FVTPL
Short-term investments	Loans and receivables
Accounts payable and accrued liabilities	Other financial liabilities
Convertible debt	Other financial liabilities
Promissory note	Other financial liabilities
Derivative liability	FVTPL

Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

The Company categorizes its assets and liabilities measured at fair value into one of three different levels depending on the observability of the inputs used in the measurement.

Level 1: This level includes assets and liabilities measured at fair value based on unadjusted quoted prices for identical assets and liabilities in active markets that are accessible at the measurement date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

t. Financial Instruments (continued)

Level 2: This level includes valuations determined using directly or indirectly observable inputs other than quoted prices included within Level 1. Derivative instruments in this category are valued using models or other standard valuation techniques derived from observable market inputs.

Level 3: This level includes valuations based on inputs which are less observable, unavailable or where the observable data does not support a significant portion of the instruments' fair value.

The Company designated its cash and restricted cash as fair value through profit and loss, which are measured at fair value and classified as level 1.

Derivative liabilities are classified as level 2 which are valued using Black-Scholes model.

Biological assets are classified as level 3.

The carrying values of the Company's accounts receivables, accounts payable and accrued liabilities approximate their fair value due to the relatively short periods to maturity of these instruments. The fair value of promissory notes are not materially different from carrying value. There were no transfers of amounts between levels during the year.

u. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties. Related party transactions are measured at the amounts agreed to by the parties.

v. Segment Reporting

A segment is a component of the Company that i) engages in business activities from which it may earn revenue and incur expenses, ii) whose operating results are reviewed by the board of directors and iii) for which discrete financial information is available. Throughout the years ended December 31, 2017 and December 31, 2016, the Company operated in one segment, the production and sale of medicinal cannabis in Canada.

w. Selling costs

Expenses are recognized when the corresponding service has been incurred. For selling costs that require a prepayment, the prepayment is expensed evenly throughout the agreed upon term.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

x. New Standards Adopted in Current Year

- IAS 7 'Disclosures', required entities to provide disclosures in their financial statements about changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The adoption of this amendment did not have a material impact on the Company's consolidated financial statements.

- IAS 12 'Income taxes – Deferred Tax' clarifies the recognition of deferred tax assets for unrealized losses. It was amended to specify (i) the requirement for recognizing deferred tax assets or unrealized losses; (ii) deferred tax where an asset is measured at a fair value below the asset's tax base; and (iii) certain other aspects of accounting for deferred tax assets. The adoption of this amendment did not have a material impact on the Company's consolidated financial statements.

y. New Accounting Standards to be Adopted in the Future

At the date of authorization of these consolidated financial statements, the IASB and IFRIC has issued the following new and revised Standards and Interpretations which are not yet effective for the relevant reporting periods and which the Company has not early adopted. The Company is currently assessing and still evaluating what impact the application of these standards or amendments will have on the consolidated financial statements of the Company.

- IFRS 2 'Share-based Payment' was issued by the IASB in June 2016. These amendments provide clarification on how to account for certain types of share-based transaction. The amendments are effective for the annual period beginning on or after January 1, 2018.

- IFRS 9 'Financial Instruments: Classification and Measurement', introduces new requirements for the classification and measurement of financial instruments, a single forward-looking expected loss impairment model and a substantially reformed approach to hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018.

- IFRS 15 'Revenue from Contracts with Customers' was issued by the IASB in June 2014. The objective of IFRS 15 is to provide a single, comprehensive revenue recognition model for all contracts with customers. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. It also contains new disclosure requirements. IFRS 15 will be effective for the Company on January 1, 2018.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

z. New Accounting Standards to be Adopted in the Future

- IFRS 16 'Leases' was issued by the IASB in January 2016 and specifies the requirements to recognize, measure, present and disclose leases. IFRS 16 is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of these consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions based on management's best knowledge of current events and actions that the Company may undertake in the future. Actual results could differ from those estimates. The impacts of such estimates are pervasive throughout the consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and the revision affects both current and future periods.

Significant judgments include the following:

(i) Assessing whether material uncertainties exist which would cause doubt about the Company's ability to continue as a going concern.

(ii) Assessing whether a joint arrangement is a joint operation or a joint venture. Refer to Note 15.

(iii) The valuation and recoverability of deferred taxes. The Company has determined that the realization of certain assets related to income tax losses carried forward is not yet probable due to uncertainty of future taxable income and has not recorded a deferred income tax asset relating to those losses. Refer to Note 16.

Significant estimates include the following:

(i) Valuation of net assets acquired in acquisition. Refer to Note 5.

(ii) The valuation of inventory at the lower of cost and net realizable value. Refer to Note 7.

(iii) The valuation of biological assets, including estimating the stage of growth up to the point of harvest, harvesting costs, selling costs, sales price, wastage and expected yields per plant. Refer to Note 7.

(iv) The estimated useful lives and residual values of Property and Equipment and related amortization included in profit and loss, as well as impairment on property and equipment. Refer to Note 8.

(v) Inputs to Black Scholes model used for valuation of warrants and options. Refer to Note 11 and 12.

(in Canadian dollars)

5. ACQUISITION

On March 6, 2017, the Company, through its wholly owned subsidiary Elmcliffe Investments Inc., executed a Purchase and Sale Agreement to acquire various Greenhouse assets located in the regional municipality of Niagara, Ontario. The aggregate purchase price for the Greenhouse assets was $7,500,000. On execution of the Purchase and Sale Agreement, the operating business and all related intangible assets and intellectual property was assigned to a related party. Upon closing of the transaction, the existing operations ceased and the Company began a site conversion project in order to convert the facility into a Health Canada Approved Marijuana growth facility. With this purchase, the Company expects to enhance its ability to serve the medicinal Marijuana market in Canada. The Company received its Health Canada Sales License for the completed Greenhouse Phase 1 conversion on February 12, 2018.

The Company has allocated the purchase price as follows:

Assets	**Allocation**
Land	$ 484,507
Residential Buildings	571,000
Greenhouses and Equipment	4,215,192
Plant and Equipment	2,115,301
Vehicles	114,000
Total of assets at fair value	**$ 7,500,000**

Consideration of the acquisition is comprised of:

Cash consideration	$ 6,500,000
Promissory note (a)	1,000,000
Total	**$ 7,500,000**

a. As part of the consideration for the acquisition, a non-interest bearing promissory note was issued in the amount of $1,000,000 payable over 5 years in 5 consecutive annual payments of $200,000.

The following table reflects a continuity of the Company's promissory note:

Carrying amount, December 31, 2016	**$ -**
Issuance of promissory note	**1,000,000**
Carrying amount, December 31, 2017	**$ 1,000,000**

Costs incurred related to the acquisition totaled $204,282 which are included in transaction costs expense. No receivables, payables or inventory were acquired through the acquisition. There was no goodwill that arose from this transaction. Revenue was not impacted by the acquisition for the year ended December 31, 2017. Subsequent to the acquisition there were $559,268 of expenses relating to the Greenhouse acquisition impacting net income for the year ended December 31, 2017. These expenses related to amortization of the acquired assets.

(in Canadian dollars)

6. RESTRICTED CASH AND SHORT-TERM INVESTMENTS

		2017		2016
Short-term investment - GIC (i)	$	**201,538**	$	-
Restricted cash - GIC held as collateral (ii)		**100,765**		25,000
Total restricted cash and short-term investments	$	**302,303**	$	25,000

(i) The GIC, redeemable without penalty on the 15th of each month was issued on January 4, 2017 and matures on January 4, 2020. The investment is a three-year GIC held with a large Canadian financial institution at a fixed interest rate of 0.75% in year 1, 0.8% in year 2 and 0.85% in year 3.

(ii) The $100,000 GIC at an interest rate of 1.53% is held by the bank as collateral against credit cards issued to management of the Company. The credit cards have a combined credit limit of $100,000.

The Company has a letter of credit with a large Canadian financial institution for up to $200,000. The letter of credit has a one-year expiry from the date of issue, and an automatic annual extension with 30 days' notice. The letter of credit is required as a covenant to the building lease agreement in the event of a default in lease payments. No funds have been drawn from the credit facility as at December 31, 2017 or December 31, 2016.

7. INVENTORY AND BIOLOGICAL ASSETS

The Company's biological assets consist of seeds and medical cannabis plants. The continuity of the Company's biological assets for the years ended December 31 is as follows:

		2017		2016
Carrying amount, January 1	$	**2,320,093**	$	137,790
Seeds used		**(979)**		(1,611)
Changes in fair value less costs to sell due to biological transformation		**24,856,050**		6,838,140
Transferred to inventory upon harvest		**(17,331,474)**		(4,654,226)
Carrying amount, December 31	$	**9,843,690**	$	2,320,093

As at December 31, 2017, included in the carrying amount of biological assets is $25,316 of seeds (December 31, 2016 - $26,295) and $9,818,374 of live plants (December 31, 2016 - $2,293,798).

(in Canadian dollars)

7. INVENTORY AND BIOLOGICAL ASSETS (continued)

Biological assets are classified as level 3 in the fair value hierarchy. There have been no transfers between levels. The significant assumptions used in determining the fair value of medical cannabis plants are as follows:

- wastage of plants based on their various stages;
- yield by plant;
- price per gram of yield;
- percentage of costs incurred to date compared to the costs to be incurred are used to estimate fair value of an in-process plant; and
- percentage of costs incurred for each stage of plant growth was estimated.

All of the plants are to be harvested as agricultural produce and all of the plants, on average, were 52% from harvest as at December 31, 2017 (2016 – 33%).

The Company estimates the harvest yields for the plants at various stages of growth. As at December 31, 2017, it is expected that the Company's biological assets will yield approximately 1,911,972 grams (2016 - 450,000 grams) of biological produce, with selling prices ranging from $7.00 to $12.00 per gram, before discounts.

The Company's estimates are, by nature, subject to change. Changes in the anticipated yield will be reflected in future changes in the gain or loss on biological assets. The Company performed a sensitivity analysis on the fair value of biological assets and noted that a 10% decrease in selling prices would result in a $1,261,124 (2016 - $331,915) decrease in the fair value of the biological assets.

Inventories on hand consist of harvested finished goods, harvested cannabis in process, extracts, accessories and packaging supplies. Inventory is valued at the lower of cost and net realizable value. As at December 31, 2017, the Company held 626,935 grams of dry cannabis (2016 - 321,517 grams) and 977,186 grams of extracts (2016 - 226,744 grams).

Inventory is comprised of the following items:

		2017		2016
Accessories	**$**	**116,974**	$	17,002
Finished Goods		**3,406,124**		956,227
Work-in-Progress		**7,298,424**		2,628,509
Packaging and supplies		**137,500**		72,897
Total Inventory	**$**	**10,959,022**	$	3,674,635

As at December 31, 2017, included in the carrying amount of finished goods is $1,279,339 of dry cannabis (2016 - $700,543) and $2,126,785 of finished extracts (2016 - $255,684). As at December 31, 2017, included in the carrying amount of work-in-process is $3,355,635 of dry cannabis (2016 - $1,503,700) and $3,942,789 of extracts (2016 - $1,124,809).

(in Canadian dollars)

8. PROPERTY AND EQUIPMENT

	Land	Leasehold Improvements	Buildings, Greenhouse and Improvements	Equipment	Other	Total
Balance at December 31, 2015	**$ -**	**$ 2,620,079**	**$ -**	**$ 4,031,998**	**$ 461,702**	**$ 7,113,779**
Additions	-	176,277	-	843,155	188,407	1,207,839
Disposals	-		-	(59,666)	-	(59,666)
Balance at December 31, 2016	**$ -**	**$ 2,796,356**	**$ -**	**$ 4,815,487**	**$ 650,109**	**$ 8,261,952**
Additions	-	170,568	11,741,952	11,735,935	345,356	23,993,811
Acquisition of Greenhouse (Note 5)	484,507	-	4,786,192	2,229,301	-	7,500,000
Disposals	-	-	(90,000)	(46,235)	-	(136,235)
Balance at December 31, 2017	**$ 484,507**	**$ 2,966,924**	**$ 16,438,144**	**$ 18,734,488**	**$ 995,465**	**$ 39,619,528**
Accumulated Amortization						
Balance at December 31, 2015	**$ -**	**$ (339,456)**	**$ -**	**$ (1,084,011)**	**$ (184,943)**	**$ (1,608,410)**
Amortization	-	(272,985)	-	(911,341)	(286,626)	(1,470,952)
Disposals	-	-	-	26,850	-	26,850
Balance at December 31, 2016	**$ -**	**$ (612,441)**	**$ -**	**$ (1,968,502)**	**$ (471,569)**	**$ (3,052,512)**
Amortization	-	(290,359)	(293,922)	(1,833,009)	(186,041)	(2,603,331)
Balance at December 31, 2017	**$ -**	**$ (902,800)**	**$ (293,922)**	**$ (3,801,511)**	**$ (657,610)**	**$ (5,655,843)**
Carrying Amounts						
Balance at December 31, 2016	$ -	$ 2,183,915	$ -	$ 2,846,985	$ 178,540	$ 5,209,440
Balance at December 31, 2017	**$ 484,507**	**$ 2,064,124**	**$ 16,144,222**	**$ 14,932,977**	**$ 337,855**	**$ 33,963,685**

As at December 31, 2017, $385,950 (December 31, 2016 - $237,060) of amortization was capitalized to ending inventory.

9. CONVERTIBLE DEBT

The following table reflects a continuity of the Company's long term convertible debt:

	2017	2016
Carrying amount, January 1	**$ 1,463,947**	$ 1,175,908
Exercise of convertible debt (i)	**(256,256)**	-
Automatic conversion of convertible debt (iv)	**(1,441,407)**	-
Issuance of convertible debt	**-**	11,626
Accretion	**233,716**	276,413
Carrying amount, December 31	**$ -**	$ 1,463,947

In connection with the Company's listing on the Canadian Securities Exchange on August 17, 2017, all remaining convertible debt was converted into common shares.

(in Canadian dollars)

9. CONVERTIBLE DEBT (continued)

The following table reflects a continuity of the Company's derivative liability:

		2017		2016
Carrying amount, January 1	**$**	**1,375,447**	$	1,601,345
Settlement of derivative liability on conversion of debt (i)		**(512,551)**		-
Automatic conversion of derivative liability (iv)		**(2,488,232)**		-
Issuance of derivative liability		**-**		19,759
Loss (Gain) on revaluation of derivative liability		**1,625,336**		(245,657)
Carrying amount, December 31	**$**	**-**	$	1,375,447

The following table reflects a continuity of the Company's convertible debt due on demand:

		2017		2016
Carrying amount, January 1	**$**	**1,000,000**	$	-
Exercise of convertible debt due on demand (ii and iii)		**(1,000,000)**		-
Issuance of convertible debt due on demand (ii and iii)		**-**		1,000,000
Carrying amount, December 31	**$**	**-**	$	1,000,000

(i) On March 6, 2017, $600,000 of convertible debt and $108,690 in accrued interest were converted into common shares at $1.10 per share resulting in the issuance of 644,264 common shares. The carrying value of the associated convertible debt was $256,256. The derivative liability on the convertible debt was valued at $226,665 at December 31, 2016 and was valued at $512,551 at March 6, 2017, prior to conversion.

(ii) On March 15, 2017, the $500,000 convertible debt due on demand and $35,978 in accrued interest due to a related party were converted into common shares at $1 per share resulting in the issuance of 535,978 common shares with a carrying value of $535,978.

(iii) On March 15, 2017, the $500,000 convertible debt due on demand and $32,183 in accrued interest due to a related party were converted into common shares at $1 per share resulting in the issuance of 532,182 common shares with a carrying value of $532,182.

(iv) On August 17, 2017, in connection with the Company's listing on the Canadian Securities Exchange, $3,040,919 of convertible debt and $132,967 in accrued interest were automatically converted into common shares at $1.10 per share resulting in the issuance of 2,885,354 common shares. The carrying value of the associated convertible debt was $1,441,407. The derivative liability on the convertible debt was valued at $1,148,782 at December 31, 2016 and was valued at $2,488,232, prior to the automatic conversion.

(in Canadian dollars)

10. SHARE CAPITAL

The authorized capital stock of the Company consists of an unlimited number of common shares and unlimited number of Class A preference shares.

	Share Capital	
	Number of common shares	Amount - Common shares
Balance, December 31, 2015	**29,595,848**	**$ 6,684,903**
February 2016 Pre-emptive Rights Issuance (i)	35,646	32,081
February 2016 Share issuance to Employees (ii)	50,000	45,000
August 2016 Share issuance as partial consideration for Bridge Financing (iii)	200,000	180,000
September 2016 Share issuance as partial consideration for Bridge Financing (iv)	200,000	180,000
September 2016 Share issuance to Employee (v)	30,000	27,000
October 2016 Shares issued in exchange for Class A Preferred Shares of CannTrust Inc. (vi)	9,039,317	8,135,386
November 2016 Shares issued to non-controlling interest of CannTrust Inc. in exchange for Shares of CannTrust Holdings Inc. (vii)	2,759,909	2,483,918
December 2016 Private Placement (viii)	3,416,208	4,441,070
December 2016 Share issuance in lieu of services (ix)	403,846	525,000
December 2016 Share issuance in consideration of surrender of Put Option and reclassification of Redeemable Shares (x)	22,265,145	31,420,729
Share issuance costs	-	(238,918)
Balance, December 31, 2016	**67,995,919**	**$ 53,916,169**
February 2017 Private Placement (xi)	510,000	1,020,000
March 2017 Share issuance on exercise of convertible debt (xii)	644,264	877,497
March 2017 Exercise of warrants (xiii)	1,000,000	1,845,919
March 2017 Share issuance on exercise of convertible debt due on demand (xiv)	1,068,161	1,068,161
March 2017 Share issuance as partial consideration for Warrant Financing (xv)	75,000	150,000
April 2017 Share issuance in lieu of services (xvi)	100,000	200,000
August 2017 Share issuance on automatic conversion of convertible debt (xvii)	2,885,354	4,062,606
August 2017 Share issuance on automatic conversion of Special Warrants (xviii)	12,584,100	23,099,955
September 2017 Exercise of warrants (xix)	4,963	9,716
November 27, 2017 Exercise of stock options (xx)	25,000	88,376
November 30, 2017 Private Placement (xxi)	4,000,000	18,447,465
Exercise of broker warrants (xxii)	13,504	38,351
Balance, December 31, 2017	**90,906,265**	**$ 104,824,215**

(i) As part of their pre-emptive rights under CannTrust Holdings Inc. Shareholders Agreement, on February 28, 2016 shareholders of the Company were issued 35,646 common shares at $0.90 per share for total proceeds of $32,081.

(ii) On February 29, 2016, 50,000 common shares were issued to employees of the Company. The value of the shares issued was measured by reference to the fair value of the common shares of the Company at the grant date. The fair value at the grant date was $0.90 per share.

(iii) On August 9, 2016 as part of a bridge financing agreement, a $500,000 convertible promissory note was issued to a related party. As partial consideration for the funds advanced, the note holder was issued 200,000 common shares of the Company. The value of the transaction costs could not be estimated reliably, thus the value of the shares issued was measured by reference to the fair value of the common shares of the Company at the grant date. The fair value at the grant date was $0.90 per share.

10. SHARE CAPITAL (continued)

(iv) On September 1, 2016 as part of a second tranche to the bridge financing agreement, a $500,000 convertible promissory note was issued to a related party. As partial consideration for the funds advanced, the note holder was issued 200,000 common shares of the Company. The value of the transaction costs could not be estimated reliably, thus the value of the shares issued was measured by reference to the fair value of the common shares of the Company at the grant date. The fair value at the grant date was $0.90 per share.

(v) On September 28, 2016, 30,000 common shares were issued to an employee of the Company. The value of the shares issued was measured by reference to the fair value of the common shares of the Company at the grant date. The fair value at the grant date was $0.90 per share.

(vi) On October 30, 2016 the Company entered into separate agreements with all of the Class A Preference Shareholders of CannTrust Inc. to issue to them an aggregate number of 9,039,317 common shares with a fair value of $8,135,386 and 11,356,055 redeemable shares with a fair value of $10,220,450 of the Company in exchange for the transfer by them to the Company of an aggregate number of 7,175,001 Class A Preference shares of CannTrust Inc. with a carrying value of $7,175,001 and settlement of $3,027,403 of distributions payable. A loss on settlement of $8,262,438 was recognized in the accumulated deficit.

(vii) On November 23, 2016 the Non-Controlling Shareholders of CannTrust Inc. exchanged their 2,759,909 common shares of CannTrust Inc. with a carrying value of $1,337,168 for 2,759,909 common shares of CannTrust Holding Inc. with a fair value of $2,483,918. A loss on settlement of $3,694,282 was recognized in the accumulated deficit.

(viii) On December 23, 2016 3,416,208 common shares were issued for gross proceeds of $1.30 per share.

(ix) On December 23, 2016 403,846 common shares were issued as consideration for unpaid management fees to related parties. The shares were valued at $1.30 per share, as determined by the value of services received and invoiced.

(x) On December 23, 2016 2,000,000 common shares with a fair value of $2,600,000 and a warrant to acquire 1,000,000 common shares at $1.30 per common share with a fair value of $1,061,975 were issued to Cannamed Financial Corp. in consideration for the surrender by Cannamed of its Put Rights under the Unanimous Shareholders Agreement. Upon settlement, 20,265,145 redeemable shares at a carrying value of $28,820,729 were reclassified as common shares, and a loss on settlement of $3,661,975 was recognized in the accumulated deficit.

(xi) On February 17, 2017, the Company issued, on a private placement basis, 510,000 common shares at a price of $2.00 per share for gross proceeds of $1,020,000. No broker fees were paid in respect of the 510,000 common shares issued.

(xii) On March 6, 2017, $600,000 of convertible debt and related derivative liability with a total carrying value of $768,807 and $108,690 in accrued interest were converted into common shares at $1.10 per share resulting in the issuance of 644,264 common shares.

(xiii) On March 9, 2017, 2 warrants were exercised to purchase 1,000,000 common shares at $1.30 per share for gross proceeds of $1,300,000. The carrying value of the warrants were $545,919.

(xiv) On March 15, 2017, $1,000,000 of due on demand convertible debt and $68,161 in accrued interest were converted into common shares at $1.00 per share resulting in the issuance of 1,068,161 common shares.

10. SHARE CAPITAL (continued)

(xv) On March 16, 2017, as consideration for the special warrant subscription (see Note 12(iii)), the Company issued 75,000 common shares to the Agent. The value of the shares was measured by reference to the fair value of the common shares of the Company at the grant date. The fair value at the grant date was $2.00 per share.

(xvi) On April 28, 2017, 100,000 common shares were issued as consideration for management fees to related parties. The shares were valued at $2.00 per share, as determined by the value of services received.

(xvii) On August 17, 2017, in connection with the Company's listing on the Canadian Securities Exchange, $3,040,919 of convertible debt and related derivative liability with a total carrying value of $3,929,639 and $132,967 in accrued interest were converted into common shares at $1.10 per share resulting in the issuance of 2,885,354 common shares.

(xviii) On August 17, 2017, in connection with the Company's listing on the Canadian Securities Exchange, 12,584,100 Special Warrants were automatically converted into 12,584,100 common shares at $2.00 per share at a carrying value of $23,099,955. There were no proceeds from the conversion of Special Warrants to common shares.

(xix) On September 19, 2017, 4,963 warrants were exercised to purchase 4,963 common shares at $1.10 per share for gross proceeds of $5,459. The carrying value of the warrants was $4,257.

(xx) On November 27, 2017, 25,000 stock options were exercised at $2.00 per share for gross proceeds of $50,000.

(xxi) On November 30, 2017, the Company issued, on a private placement basis, 4,000,000 common shares at $5.00 per share for gross proceeds of $20,000,000. The Company's Agent for the private placement was paid an Agent's Fee of $1,100,000 and was issued Broker Warrants equaling 5.5% of the number of common shares issued as part of the private placement. Total transaction costs for the private placement were $1,552,535.

(xxii) During the year 13,504 broker warrants were exercised to purchase 13,504 common shares at $2.00 per share for gross proceeds $27,008. The carrying value of the warrants was $11,343.

(in Canadian dollars)

10. SHARE CAPITAL (continued)

Earnings per share have been calculated using the weighted average number of shares outstanding during the year on a total outstanding and fully dilutive basis. The potential conversion of warrants and stock options into common shares have a dilutive effect on earnings per share.

The calculation of diluted loss per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive. The weighted average number of basic and diluted shares and their respective earnings per share amounts are presented in the table below:

		2017		2016
Numerator - basic and diluted earnings per share:				
Net income (loss) and comprehensive income (loss)	**$**	**6,885,430**	$	(13,619,943)
Denominator - basic earnings per share:				
Weighted average number of shares - basic		**76,876,971**		42,597,871
Denominator - diluted earnings per share:				
Stock Options		**1,218,015**		-
Warrants		**2,431,119**		-
Weighted average number of shares - diluted		**80,526,105**		42,597,871
Earnings (loss) per share - basic	**$**	**0.09**	$	(0.32)
Earnings (loss) per share - diluted	**$**	**0.09**	$	(0.32)

11. EMPLOYEE STOCK OPTION PLAN

The Company has an Employee Stock Option Plan ("ESOP") that is administered by the Board of Directors of the Company. The Board of Directors establishes expiry dates and exercise prices (at not less than market price as determined by recent transactions) at the date of grant. Options under the Plan are exercisable in increments of 1/3 on each of the first, second and third anniversaries from the date of grant, except as otherwise approved by the Board of Directors. The maximum number of common shares reserved for issuance for options that may be granted under the Plan is equal to 10% of the issued and outstanding common shares.

The following is a summary of the changes in the Company's ESOP options outstanding:

	Options issued		**Weighted Average exercise price**
December 31, 2015 and 2016	**-**	**$**	**-**
Options granted	3,670,500		3.40
Options forfeited	(119,500)		2.11
Options exercised	(25,000)		2.00
December 31, 2017	**3,526,000**	**$**	**3.45**

The weighted average share price for the options exercised had a fair value of $7.75 at the time of exercise.

(in Canadian dollars)

11. EMPLOYEE STOCK OPTION PLAN (continued)

The following is a summary of the outstanding stock options as at December 31, 2017.

Options Outstanding				Options Exercisable		
Number Outstanding	Weighted Average Remaining Contractual Life (years)	Exercise Price per share		Number Exercisable	Exercise Price per share	
1,772,500	9.1	$	2.00	375,000	$	2.00
60,000	9.1		2.20	-		-
30,000	9.1		2.28	-		-
900,000	9.1		3.00	-		-
20,000	9.1		3.50	-		-
4,000	9.1		4.58	-		-
30,000	9.1		4.65	-		-
94,500	9.1		5.20	-		-
90,000	9.1		6.21	-		-
195,000	9.1		7.85	-		-
7,000	9.1		8.10	-		-
73,000	9.1		8.35	-		-
250,000	9.1		9.00	-		-
3,526,000	9.1	$	3.45	375,000	$	2.00

For the year ended December 31, 2017, the Company recorded $2,310,678 (December 31, 2016 – Nil) in share-based compensation expense related to options which are measured at fair value at the date of grant and expensed over the option's vesting period. For the year ended December 31, 2016, the Company recorded $72,000 in share-based compensation related to shares issued to employees.

In determining the amount of share-based compensation the Company used the Black-Scholes option pricing model applying the following assumptions to establish the fair value of options granted during the year:

Risk-free interest rate	1.7% - 2.1%
Expected life of options (years)	9.1 - 10
Expected annualized volatility	73.1% - 175.7%
Expected dividend yield	Nil
Exercise price (per share)	$2.00 - $9.00

Volatility was estimated by using the historical volatility of other companies having trading and volatility history that the Company considers comparable. Comparable companies with lower volatilities have been used for options granted by the Company after it was listed publicly. The expected life in years represents the period of time that options granted are expected to be outstanding. The risk-free rate was based on the zero-coupon Government of Canada bonds with a remaining term equal to the expected life of the options.

(in Canadian dollars)

12. RESERVE FOR WARRANTS

The following table reflects the continuity of warrants:

	Number of Warrants	Number of common shares to be issued on exercise of warrants	Amount	Weighted average exercise price	Weighted average remaining life in years
December 31, 2015	**1,636,202**	**2,636,200**	**$ 1,949,501**	**$ 1.18**	**1.67**
February 2016 Warrants issued with convertible debt (i)	18,598	18,598	15,922	1.10	3.16
December 2016 Warrants issued for the surrender of Put Right (ii)	1	1,000,000	1,061,975	1.30	1.98
December 31, 2016	**1,654,801**	**3,654,798**	**$ 3,027,398**	**$ 1.21**	**1.76**
February 2017 Private Placement (iii)	12,584,100	12,584,100	23,099,955	2.00	
February 2017 Warrants issued as partial consideration for Private Placement (iv)	594,390	594,390	499,169	2.00	1.13
March 2017 Exercise of warrants (v)	(2)	(1,000,000)	(545,919)	1.30	
August 2017 Share issuance on automatic conversion of Special Warrants (iii)	(12,584,100)	(12,584,100)	(23,099,955)	2.00	
September 2017 Exercise of warrants (vi)	(4,963)	(4,963)	(4,257)	1.10	2.64
November 30, 2017 Warrants issued as partial consideration for Private Placement (vii)	220,000	220,000	396,741	5.00	1.92
Exercise of broker warrants (viii)	(13,504)	(13,504)	(11,343)	2.00	1.13
December 31, 2017	**2,450,722**	**3,450,721**	**$ 3,361,789**	**$ 1.56**	**2.17**

(i) In connection with the February 28, 2016 convertible debenture issuance, each debenture holder was granted 4,545 warrants per debenture, exercisable by the holder for a period of 5 years from the closing date, at a price of $1.10 per common share. The warrants were valued at $15,922 at the grant date using an option pricing model with the following assumptions: (i) expected dividend yield of 0%; (ii) average expected volatility of 179%; (iii) average risk-free interest rate of 0.56%; (iv) share price of $0.90; (v) forfeiture rate of 0; and (vi) expected life of five years.

(ii) On December 23, 2016, a warrant to acquire 1,000,000 common shares at $1.30 per common share was issued to Cannamed Financial Corp. as part of the consideration for the surrender by Cannamed of its Put Right (Note 10(x)). The warrant is exercisable by the holder at any time during the three-year period following its issuance. The warrant was valued at $1,061,975 at the grant date using an option pricing model with the following assumptions: (i) expected dividend yield of 0%; (ii) average expected volatility of 189%; (iii) average risk-free interest rate of 1.1%; (iv) share price of $1.30; (v) forfeiture rate of 0; and (vi) expected life of three years.

(iii) On February 16, 2017, the Company issued, on a private placement basis, 12,584,100 Special Warrants at a price of $2.00 per Special Warrant for gross proceeds of $25,168,200. Each Special Warrant was exercisable into one common share of the Company at no additional consideration. The warrants were to be automatically exercised two business days following the earlier of 12 months following the initial closing date and the date the common shares were listed on a recognized stock exchange. The holder had the right to exercise any time prior to the automatic exercise. The Company's Agent for the Special Warrant Financing was paid an Agent's Fee of $1,188,780 equal to 6% of the gross proceeds to the Company from the financing excluding those special warrants subscribed to by Employees of the Company and other persons participating on a non-brokered basis. The Company also issued 75,000 common shares to the Agent at a value of $150,000 and incurred other issuance costs of $230,296 for total costs of $2,068,245 in connection with the issuance of the warrants.

(in Canadian dollars)

12. RESERVE FOR WARRANTS (continued)

On August 17, 2017, in connection with the Company's listing on the Canadian Securities Exchange, 12,584,100 Special Warrants with a carrying value of $23,099,955 were automatically converted into 12,584,100 common shares. There were no proceeds from the conversion of Special Warrants to common shares.

(iv) As additional consideration to the Special Warrants issued on February 17, 2017, the Company's Agent was issued that number of Broker Warrants which is equal to 6% of the number of Special Warrants sold pursuant to the Special Warrant Offering excluding those Special Warrants subscribed to by Employees of the Company and other persons participating on a non-brokered basis. The 594,390 warrants issued to the Company's Agent are exercisable by the Agent for a period of 2 years from the closing date at a price of $2.00 per common share. The warrants were valued at $499,169 at the grant date using an option pricing model with the following assumptions: (i) expected dividend yield of 0%; (ii) average expected volatility of 77%; (iii) average risk-free interest rate of 1.04%; (iv) share price of $2.00; (v) forfeiture rate of 0; and (vi) expected life of two years.

(v) On March 9, 2017, 2 warrants were exercised to purchase 1,000,000 common shares at $1.30 per share for gross proceeds of $1,300,000. The carrying value of the warrants were $545,919.

(vi) On September 19, 2017, 4,963 warrants were exercised to purchase 4,963 common shares at $1.10 per share for gross proceeds of $5,459. The carrying value of the warrants was $4,257.

(vii) On November 30, 2017, the Company issued, on a private placement basis, 4,000,000 common shares at $5.00 per share for gross proceeds of $20,000,000. The Company's Agent was issued Broker Warrants equaling 5.5% of the number of common shares issued as part of the private placement. The 220,000 warrants issued to the Company's Agent are exercisable by the Agent for a period of 2 years from the closing date at a price of $5.00 per common share. The warrants were valued at $396,741 at the grant date using an option pricing model with the following assumptions: (i) expected dividend yield of 0%; (ii) average expected volatility of 64%; (iii) average risk-free interest rate of 1.43%; (iv) share price of $5.00; (v) forfeiture rate of 0; and (vi) expected life of two years.

(viii) On December 4, 2017, 13,504 broker warrants were exercised to purchase 13,504 common shares at $2.00 per share for gross proceeds $27,008. The carrying value of the warrants was $11,343.

The weighted average share price for warrants exercised had a fair value of $2.00 at the time of exercise.

13. COMMITMENTS

The Company's commitments consist of the following:

	Total	2018	2019	2020	2021	2022	Beyond
Lease obligations	$ 3,270,184	$ 527,597	$ 550,269	$ 551,299	$ 562,635	$ 562,635	$ 515,749
Total	**$ 3,270,184**	**$ 527,597**	**$ 550,269**	**$ 551,299**	**$ 562,635**	**$ 562,635**	**$ 515,749**

14. RELATED PARTY TRANSACTIONS

Convertible Debt

On March 15, 2017, a director of the Company converted $1,000,000 of convertible debt due on demand and $68,161 of accrued interest into common shares.

In March 2017, the Company paid all of the accrued and outstanding interest on its convertible debt. Included in this payment was $197,743 to related parties. On August 17, 2017, in connection with the Company's listing on the Canadian Securities Exchange, $1,030,000 of convertible debt and $45,038 in accrued interest belonging to related parties was automatically converted into common shares at $1.10 per share resulting in the issuance of 977,302 common shares. The carrying value of the associated convertible debt was $494,117. The derivative liability on the convertible debt was valued at $389,108 at December 31, 2016 and was valued at $842,798, prior to the automatic conversion.

Key Management Compensation

The compensation of key management of the Company totaled $1,223,773 (2016 - $430,893) and consisted of salaries, bonuses and director fees. There were 2,427,000 (2016 - Nil) stock options valued at $6,620,570 issued to key management and directors during the year ended December 31, 2017. 25,000 of these stock options were exercised in 2017. Director fees of $32,839 were unpaid and included in accounts payable at December 31, 2017. Key management includes those persons having authority and responsibility for planning, directing and controlling the activities, directly or indirectly, of the Company.

Other related party transactions

During the year the Company incurred $378,674 (2016 - $590,000) of management fees to related parties of which $26,667 (2016 - $266,500) was unpaid and included in accounts payable at December 31, 2016. During the year, 100,000 common shares were issued as consideration of management fees valued at $200,000 (2016 - $525,000). The Company incurred legal fees of $549,387 (2016 - $27,501) relating to corporate services provided by a firm at which a director of the Company is a partner.

15. JOINT VENTURE

On July 15, 2015, the Company entered into a joint venture with Club Coffee L.P., in which each entity holds 50% of the outstanding shares of Cannabis Coffee & Tea Pod Company Ltd (the Joint Venture). The Joint Venture will have access to patents and IP developed by CannTrust and Club Coffee and will build a network of licensees who will be licensed to manufacture product using patents and Intellectual Property owned by the Joint Venture. The cost of the investment was nominal. During the year, the Joint Venture had a net loss and comprehensive loss after tax of $294,112 (2016 - $294,884) of which $147,056 (2016 - $147,442) was the Company's share. The Company's interest in the Joint Venture was recorded as an equity accounted investment of $156,073 as at December 31, 2017 (2016 - $19,313). Included in the investment balance is the cumulative net loss of $294,498 (2016 - $147,442) and a net receivable of $450,571 (2016 - $166,755) of which $283,816 was advanced during the year ending December 31, 2017. Refer to Subsequent Events Note 20 (ii).

(in Canadian dollars)

16. INCOME TAXES

The income tax provision recorded differs from the income tax obtained by applying the statutory income tax rate to the income for the year and is reconciled as follows:

		2017		2016
Net income (loss) before income taxes	$	**6,885,430**	$	(13,619,943)
Combined federal and provincial statutory income tax rate		**26.5%**		26.5%
Tax expense (recovery) at statutory rate	$	**1,824,639**	$	(3,609,285)
Non-deductible expenses and other permanent differences		**1,540,457**		1,588,058
Change in deferred tax assets not recognized		**(3,238,475)**		2,021,227
Other		**(126,621)**		-
Deferred income tax expense	$	**-**	$	-

As at December 31, 2017, the Company has not recognized a deferred tax asset in respect of its deductible temporary differences and past losses incurred as it has not been demonstrated that the Company will be able to generate sufficient future taxable income to utilize this tax asset over a reasonable period of time.

Deferred Tax

		2017		2016
Undepreciated Capital Cost in excess of book value	$	**606,812**	$	691,502
Reserves and loss carry-forwards		**4,661,627**		4,152,511
Biological assets and inventory		**(5,180,989)**		(1,494,943)
Share issue costs		**120,817**		97,672
Deferred tax asset not recognized		**(208,267)**		(3,446,741)
	$	**-**	$	-

The expiry of the Company's non-capital losses are as follows:

2033	$	186,270
2034		4,416,211
2035		5,134,335
2036		5,933,035
2037		1,921,193
	$	**17,591,044**

17. FINANCIAL INSTRUMENTS

Financial Risk Management Objectives and Policies

The Company manages its exposure to a number of different financial risks arising from its operations as well as its use of financial instruments including market risks (foreign currency exchange rate and interest rate), credit risk and liquidity risk through its risk management strategy. The objective of the strategy is to support the delivery of the Company's financial targets while protecting its future financial security and flexibility.

Financial risks are primarily managed and monitored through operating and financing activities. The financial risks are evaluated regularly with due consideration to changes in the key economic indicators and up-to-date market information.

A summary of the Company's risk exposures as it relates to financial instruments are reflected below:

Interest Rate Risk

Interest rate risk is the risk that the cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company has no exposure to interest rate risk as all of the Company's convertible debt was converted into common shares in connection with the Company listing on the Canadian Securities Exchange.

As at December 31, 2017, the Company had $200,000 (December 31, 2016 - Nil) in short-term investments held with a large Canadian financial institution. The GIC was issued on January 4, 2017 and matures on January 4, 2020. The Company redeems amounts as required to fund its ongoing working capital requirements. The GIC is redeemable without penalty on the 15th of each month. There is minimal interest rate risk associated with the instrument.

Liquidity Risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. As at December 31, 2017, the Company had accounts payable and accrued liabilities and the current portion of promissory note of $6,779,997 (December 31, 2016 - $3,570,965, which included convertible debt due on demand), and cash, short-term investments, HST recoverable and accounts receivable of $20,959,674 (December 31, 2016 - $5,132,152) to meet its current obligations.

The Company manages its liquidity risk by reviewing on an ongoing basis its capital requirements. During the year ended December 31, 2017, the Company completed two private placements for gross proceeds of $46,188,200.

(in Canadian dollars)

17. FINANCIAL INSTRUMENTS (continued)

In addition to the commitments disclosed in Note 13, the Company is obligated to the following contractual maturities of undiscounted cash flows:

As at December 31, 2017	Carrying amount	Year 1	Year 2-3	Years 4 and after
Accounts payable and accrued liabilities	$ 6,579,997	$ 6,579,997	$ -	$ -
Promissory Note	1,000,000	200,000	400,000	400,000
Total	**$ 7,579,997**	**$ 6,779,997**	**$ 400,000**	**$ 400,000**

Credit Risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company is not exposed to significant credit risk as the Company's sales are typically paid at the time of transaction with an immaterial balance to be collected subsequently.

The carrying amount of cash and cash equivalents, short-term and restricted cash and accounts receivable represents the maximum exposure to credit risk. At December 31, 2017, this amounted to $18,423,729 (December 31, 2016 - $5,060,160). Since the inception of the Company, no losses have been suffered in relation to cash at the Bank.

18. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to:

- Maintain a capital structure that allows it to finance its growth strategy with cash flows from its operations;
- Preserve its ability to meet its financial obligations by funding the capital needs via private and public sources; and
- Optimize the use of capital to provide an appropriate return on investment to its shareholders.

The Company defines its capital as shareholders' equity.

The Company is not subject to externally imposed capital requirements and there has been no change with respect to the capital management strategy during the year ended December 31, 2017.

(in Canadian dollars)

19. REDEEMABLE SHARES

Cannamed Financial Corp. had an option to send a put notice to the Company requiring the Company to purchase all of the shares in the capital of the Company then owned by Cannamed Financial Corp. The purchase price payable to Cannamed Financial Corp. was the fair market value as of the date Cannamed Financial Corp. issued the put notice. Cannamed Financial Corp could exercise its put option at any time from and after the earlier of: (a) January 31, 2019, (b) a period of ten business days immediately following each anniversary after January 31, 2019 and (c) six months following the sale by the Company of all or substantially all of its assets where the Company has not distributed the proceeds of sale to the shareholders.

	Redeemable Shares		
	Number of Shares		**Amount**
December 31, 2015	**8,909,090**	**$**	**8,793,398**
October 2016 preference share exchange (i)	11,365,055		10,220,450
Loss on revaluation of redeemable shares (ii)	-		9,806,882
Settlement of redeemable shares (iii)	(20,265,145)		(28,820,730)
December 31, 2016 and 2017	**-**	**$**	**-**

i) On October 30, 2016, the Company entered into separate agreements with all of the Class A preference shareholders of CannTrust Inc. to issue to them an aggregate of 20,395,372 common shares of the Company, in exchange for the transfer by them to the Company an aggregate number of 7,175,001 Class A preference shares of CannTrust Inc. 11,356,055 of these common shares were issued to Cannamed Financial Corp. and were classified as redeemable shares in accordance with the Unanimous Shareholders' Agreement.

ii) Redeemable Shares are measured at fair value, with any resulting gain or loss recognized in profit or loss. The redeemable shares were revalued at each reporting period until settlement.

iii) On December 23, 2016, 2,000,000 common shares with a fair value of $2,600,000 and a warrant to acquire 1,000,000 common shares at $1.30 per common share for three years with a fair value of $1,061,975, were issued to Cannamed Financial Corp. in consideration for the surrender by Cannamed Financial Corp. of its put rights under the Unanimous Shareholders' Agreement. Upon settlement, 20,265,145 redeemable shares with a fair value of $28,820,730 were reclassified as common shares and a loss on settlement of $3,661,975 was recognized in the accumulated deficit.

20. SUBSEQUENT EVENTS

i) Cannabis Coffee & Tea Pod Company Ltd. ("CCTP"), the corporation through which the Company participates in a Joint Venture (see Note 15), held certain US License Agreements for the use of its intellectual property rights related to US patents.

As a condition of permitting the Company to trade its Common shares on the TSX, the TSX required of the Company that the two license agreements entered into by CCTP with Lighthouse Strategies LLC and Silver State Wellness LLC in respect of certain geographic areas of the United States of America (collectively, the "US License Agreements"), be assigned to an entity in which the Company does not have an economic interest therein.

Accordingly, on January 22, 2018 the Company and the other party to the Joint Venture, Club Coffee, agreed to amend the Shareholder's Agreement in which the parties agreed to assign the US License Agreements to a related party of the Joint Venture in which the Company has no economic interest. In exchange CCTP received the option at the Company's sole decision and after having met certain pre-stipulated conditions, to repurchase the US License Agreements for a nominal amount. These conditions are:

a) marijuana being legalized federally in the United States of America, and/or

b) the TSX revising its rules such that it no longer has a prohibition against its listed companies having an interest in US assets which are involved in the marijuana business, and/or

c) the Common shares of the Company are involuntarily delisted from the TSX, and/or

d) control of the Company is acquired by another entity, provided that the shares of the Company will be delisted from the TSX upon the change of control.

The transaction constitutes a disposal of the US License and IP whereby the Company is no longer entitled to any future economic benefits from the US Licenses and IP until such time that the option to reassign is exercised.

ii) In January 2018, 175,000 stock options were exercised by related parties to purchase 175,000 common shares of the Company at $2.00 per share for gross proceeds of $350,000.

iii) In February 2018, the Company secured $15,000,000 of mortgage financing on the Niagara Greenhouse Facility. On closing $10,000,000 was advanced to the Company with the remaining $5,000,000 to be advanced following the completion of the Greenhouse Phase 2.

iv) On March 2, 2018 the Company delisted from the Canadian Stock Exchange and commenced trading on the Toronto Stock Exchange effective March 5, 2018.

v) On March 7, 2018, the Company executed a long-term agreement with Envest Corp. to provide cogeneration derived heat and power at its 430,000 square foot Greenhouse Facility.

20. SUBSEQUENT EVENTS (continued)

vi) On March 8, 2018, the Company executed a Joint Venture agreement with a Danish Company ("Stenocare"). The Company received a 25% equity stake in Stenocare together with the right to appoint half of its Board of Directors. Stenocare is one of the first Danish companies to receive its license to grow and produce medical cannabis, as well as to import and sell cannabis products in Denmark.

vii) Subsequent to the year end 561,406 broker warrants were exercised to purchase 561,406 common shares of the Company at $2 per share for gross proceeds of $1,122,812 and 847,185 broker warrants were exercised to purchase 847,185 common shares of the Company at $1.10 per share for gross proceeds of $931,904.

CannTrust®

we care

CannTrust's business is focused to meet the growing market demand and to provide maximum value to our customers, partners and shareholders

we care

CannTrust has the broadest product portfolio available to meet consumer needs

Dried Plant

Drops

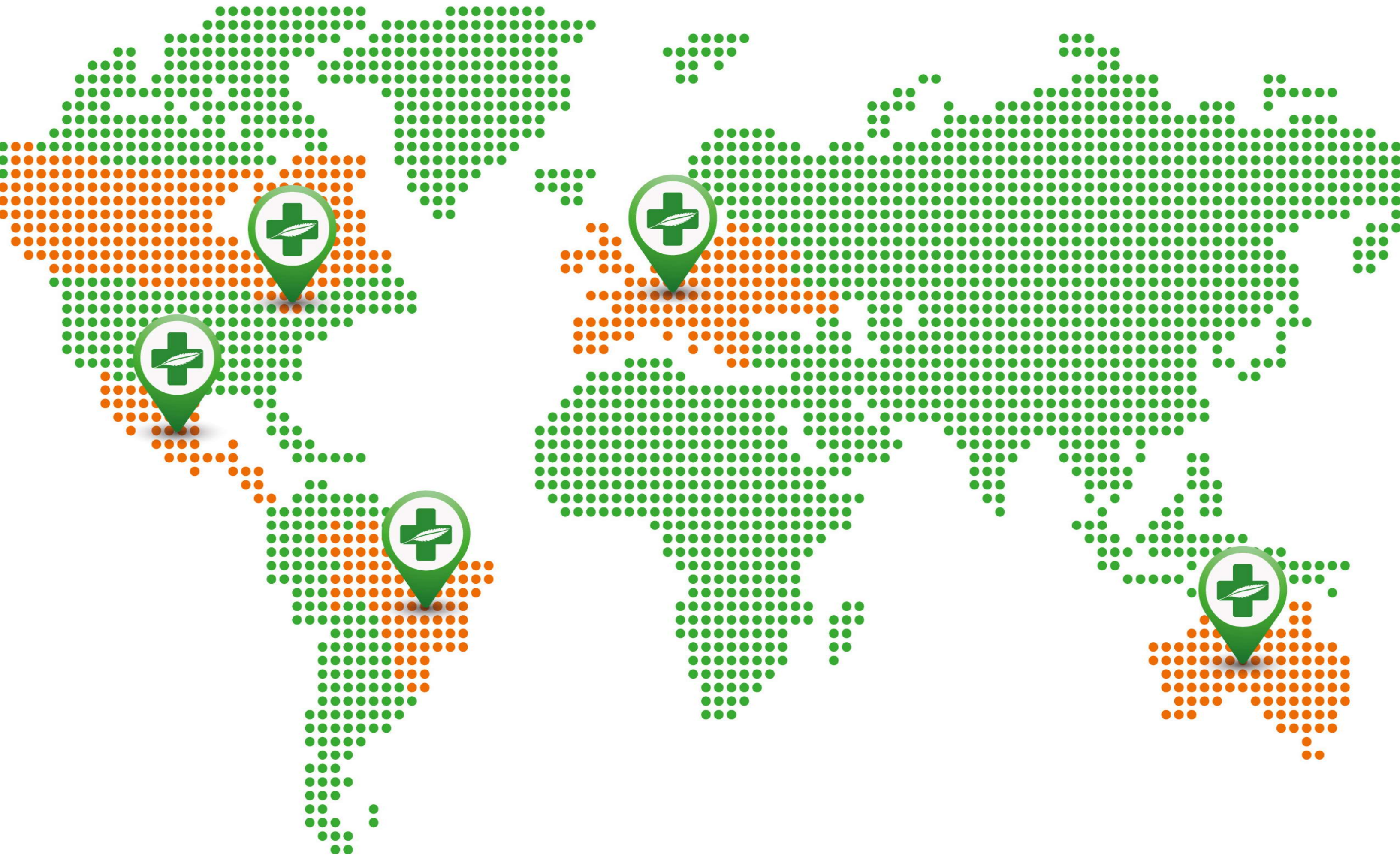
Topi

icals

Brewbudz™

Capsules

Expanding our Global Network to capitalize on the $180B market opportunity



MANAGEMENT'S DISCUSSION AND ANALYSIS

This following Management's Discussion and Analysis provides a review of the financial condition and results of operations for CannTrust Holdings Inc. (the "Company" or "CannTrust") for the year ended December 31, 2017 (the "MD&A"). This MD&A should be read in conjunction with the Company's audited consolidated financial statements and notes thereto for the year ended December 31, 2017 ("Financial Statements"). The financial information presented in this MD&A is derived from the Financial Statements. This MD&A contains forward-looking information that involve risks, uncertainties and assumptions, including statements regarding anticipated developments in future financial periods and our plans and objectives. There can be no assurance that such information will prove to be accurate, and readers are cautioned not to place undue reliance on such forward-looking information. In addition, the Company expressly disclaims any obligation to publicly update or alter its previously issued forward-looking information.

In this document and in the Company's Financial Statements unless otherwise noted, all financial data is prepared in accordance with International Financial Reporting Standards ("IFRS"). All amounts, unless specifically identified as otherwise, both in the Financial Statements, and in the MD&A, are expressed in Canadian dollars. Unless otherwise stated all dollar amounts in the tables in this MD&A are in thousands of Canadian dollars (other than per share amounts and operating statistics).

This MD&A refers to certain non-IFRS financial measures. These measures are not recognized measures under IFRS, do not have a standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement those IFRS measures by providing further understanding of the Company's results of operations from management's perspective. Accordingly, they should not be considered in isolation nor as a substitute for analysis of financial information reported under IFRS. The Company uses Adjusted EBITDA, a non-IFRS financial measure, as a supplemental measure of operating performance and thus highlight trends in core business that may not otherwise be apparent when relying solely on IFRS financial measures. The Company believes that securities analysts, investors and other interested parties frequently use non-IFRS financial measures in the evaluation of issuers. The Company's management also uses this non-IFRS financial measure to facilitate operating performance comparisons from period to period, prepare annual operating budgets and assess the Company's ability to meet capital expenditure and working capital requirements. See "Selected Information" and "Non-IFRS Financial Measure Reconciliation in this MD&A".

The discussion and analysis in this MD&A is based on information available to management as of March 29, 2018.

Overview

The Company is a publicly traded corporation incorporated in Canada with its head office located at 3280 Langstaff Road, Vaughan, Ontario L4K4Z8. The Company is the parent company of CannTrust Inc. ("CannTrust Opco") and Elmcliffe Investments Inc. ("Elmcliffe").

CannTrust Opco is a Licenced Producer and distributor of medical cannabis pursuant to the provisions of the *Access to Cannabis for Medical Purposes Regulations* (Canada) ("ACMPR"). CannTrust Opco received its license from Health Canada on June 12, 2014 and began production of medical cannabis at its state-of-the-art hydroponic indoor facility in Vaughan, Ontario (the “Vaughan Facility”). The Company's primary focus is to produce and deliver the highest quality, standardized, pharmaceutical grade cannabis products and in so doing strengthen its market share in legal cannabis markets in Canada and to establish positions for its products in legal cannabis markets abroad.

Public health concerns and awareness around the dangers of opioids are expected to drive development of alternative approaches to pain management, creating a significant market opportunity for cannabis-based products, and could drive substantial upstream demand for Licensed Producers. The development of pharmaceuticals based on cannabis could significantly expand the addressable market by ensuring consistent, quantifiable dosing, which should help physicians gain comfort in prescribing it.

As part of its growth strategy, the Company has also entered into an exclusive joint venture with Apotex Inc., Canada’s largest and seventh largest generic pharmaceutical manufacturer in the world, to develop novel dosage formats and products for sale, when permitted, into more than 85 countries where Apotex currently already has market share.

The Company is working to diversify its business by developing new and innovative products and dosage forms for controlled and responsible use of medical cannabis. In 2015, the Company together with Club Coffee L.P founded Cannabis Coffee & Tea Pod Company Ltd. ("CCTPC") to launch BrewBudz™ globally. BrewBudz™ is a patented unit dose pod formulation allowing the administration of cannabis using single-serve brewing pods for use in Keurig, Nespresso, and Tassimo type brewers.

In July 2017, further to the Company's Canadian Patent Application, the Canadian Intellectual Property Office issued a Notice of Allowance to CannTrust Opco and Club Coffee L.P. with respect to single-serve containers for use in brewing a cannabis-based beverage. CCTPC has also submitted patent applications in the European Union, Australia and China which are similar to the CCTPC Patents.

In March 2017, through Elmcliffe, the Company acquired the real estate assets and related equipment of a Greenhouse in the Town of Fenwick, Ontario within the Niagara Region (the "Greenhouse Facility"). In October 2017, CannTrust Opco received its Health Canada Cultivation Licence under the ACMPR for its completed 250,000 square foot Phase 1 redevelopment of its 430,000 square foot Greenhouse Facility and began production there. Phase 1 was completed both on budget and on time. The Company received its Health Canada Sales License for Phase 1 in February 2018.

The planned Phase 2 expansion at the Greenhouse Facility is currently underway and is anticipated to be completed and in cultivation towards the middle of 2018. Phase 1 and 2 should conservatively provide the Company with an additional 40,000 kilograms of annual growing capacity. In addition, the 36 acres of unused land at this facility provides the Company with the ability for significant future expansion. On November 6, 2017, CannTrust Opco received Health Canada approval to export medical marijuana internationally to countries where medical marijuana is legalized and the Company began shipping to Australia. Australia is the first of many markets that the Company is expecting to supply. In March 2018, CannTrust expanded internationally through a joint venture in Denmark with Stenocare. Initially Stenocare will sell CannTrust's market leading standardized cannabis products in Denmark while working towards developing a domestic growing facility. CannTrust received a 25% equity stake in Stenocare. Other countries that the Company anticipates shipping to shortly are Germany, Mexico and Brazil. With the completion of all phases of the Niagara expansion, the Company will have the ability to supply a substantial share of the increased demand arising from these new markets.

In February 2017, the Company, on a private placement basis, issued 12,584,100 special warrants at a price of $2.00 per Special Warrant pursuant to prospectus exemptions under applicable securities legislation. The Company subsequently filed its Prospectus with applicable securities commissions in Canada in order to qualify the distribution of 12,584,100 common shares of the Company issuable for no additional consideration upon exercise or deemed exercise of the 12,584,100 special warrants. The Prospectus received a final receipt on August 11, 2017 and on August 17, 2017 all of the Special Warrants were exercised and 12,584,100 common shares of the Company were issued for no additional consideration.

On August 21, 2017, the Company's common shares (the "Common Shares") were listed and began trading on the Canadian Securities Exchange (the "CSE") under the trading symbol "TRST". Upon listing of the Company's Common Shares on the CSE the $3,040,919 principal amount of the Company's convertible debentures together with accrued and unpaid interest were automatically converted into 2,885,354 Common Shares of the Company.

On November 1, 2017, the Company announced that it had reached an agreement with a syndicate of underwriters pursuant to which the Underwriters agreed to purchase on a bought deal basis, 3,500,000 common shares of the Company, at a price of $5.00 per Common Share for aggregate gross proceeds to the Company of $17,500,000. The Company granted the Underwriters an Over-Allotment Option to purchase up to 500,000 additional Common Shares of the Company on the same terms as the Offering. The Underwriters exercised the Over-Allotment Option in full. The bought deal private placement financing closed on November 30, 2017 with the Company issuing 4,000,000 common shares for gross proceeds of $20,000,000. The net proceeds of the Offering are being used to fund the Phase 2 build out of the Company's licensed Greenhouse Facility and for general corporate and working capital purposes.

In February 2018, the Company secured $15,000,000 of mortgage financing on the Greenhouse Facility. On closing $10,000,000 was advanced to the Company with the remaining $5,000,000 to be advanced following the completion of Phase 2.

On March 5, 2018, the Company's common shares commenced trading on the Toronto Stock Exchange (the "TSX") under the trading symbol "TRST". In conjunction with the listing on the TSX, the common shares of the Company were voluntarily delisted from the CSE. As part of its application to list on the TSX, CannTrust agreed to assign its interest in the United States intellectual property and corresponding licensing arrangements held by the joint venture company CCTPC. The assignment was made to an affiliated company of CannTrust's joint venture partner Club Coffee for $1. The parties agreed that the US interests shall be assigned back to CCTPC for $1 in certain circumstances, including (i) marijuana being legalized federally in the United States, and/or (ii) the TSX revising its rules such that it no longer has a prohibition against its listed companies having an interest in US assets which are involved in the marijuana business, and/or (iii) the Common shares of the Company are involuntarily delisted from the TSX, and/or (iv) control of the Company is acquired by another entity, provided that the shares of the Company will be delisted from the TSX upon the change of control.

The Reorganization

CannTrust Opco was incorporated under the OBCA on August 16, 2013. The Company was incorporated under the OBCA on March 16, 2015.

Prior to the reorganization, shareholders of CannTrust Opco held 7,175,001 Class A preference Shares, 4,000,000 of which were classified as redeemable shares, and 38,427,625 common shares, 8,909,090 of which were classified as redeemable shares. On April 30, 2015, the Company and CannTrust Opco completed a corporate reorganization pursuant to which substantially all of the holders of common shares of CannTrust Opco exchanged their holdings of common shares of CannTrust Opco for Common Shares, 8,909,090 of which were classified as redeemable shares. This resulted in CannTrust Opco becoming a subsidiary of the Company.

On October 30, 2016, the Company completed a further corporate reorganization pursuant to which all of the holders of the Class A preference shares of CannTrust Opco, including the 4,000,000 classified as redeemable shares, exchanged their Class A preference shares of CannTrust Opco for 9,039,317 Common Shares and 11,365,055 redeemable shares of the Company. On November 23, 2016 the remaining common shareholders of CannTrust Opco exchanged their common shares of CannTrust Opco for Common Shares resulting in CannTrust Opco becoming a wholly-owned subsidiary of the Company.

In December 2016, all of the redeemable shares were reclassified as Common Shares and included as Equity.

Selected Quarterly Financial Information

(CDN $000's, except per share amounts and unless otherwise noted)

	2017				2016			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	$6,983	$6,141	$4,541	$3,033	$2,096	$ 787	$ 798	$ 701
Net income (loss)	6,253	655	755	(778)	(8,260)	(3,106)	(1,566)	(688)
Income (loss) per share	0.08	0.01	0.01	(0.01)	(0.15)	(0.10)	(0.05)	(0.02)

"Q1" refers to the three months ended March 31; "Q2" refers to the three months ended June 30; "Q3" refers to the three months ended September 30; "Q4" refers to the three months ended December 31; "2017" and "2016" refer to the twelve month fiscal years ended December 31, 2017 and 2016.

2017 Fourth Quarter Highlights

- Record revenues of $7.0M with approximately 37,000 active patients
- Operations for the quarter resulted in positive Net Income
- Sold 296,200 g of dried medical cannabis at an average gross price of $9.18 per gram
- Sold 2,185,040 ml of oils at an average gross selling price of $90 per 40 ml bottle
- Cannabis extracts increased to over 64% of cannabis sales
- Completed the 250,000 square foot Phase 1 redevelopment of the Greenhouse Facility and the Company received its Health Canada Cultivation License in respect thereof
- Completed the first harvest at the Greenhouse Facility
- Received Health Canada's approval to export medical marijuana internationally
- Closed a bought private placement for gross proceeds of $20M
- Secured $15M of mortgage financing on the Greenhouse Facility, which was finalized subsequent to the quarter in February 2018

Results of Operations for the three and twelve months ended December 31, 2017 and 2016

The results presented and referred to below include the results of the Company and its wholly owned subsidiaries CannTrust Opco and Elmcliffe.

Selected Information
(CDN $000's, except per share amounts and unless otherwise noted)

	Three months ended December 31		Twelve months ended December 31	
	2017	**2016**	**2017**	**2016**
	$	$	$	$
Financial Data				
Revenue	6,983	2,096	20,698	4,382
Gross profit before unrealized gain on changes in the Fair Value of Biological Assets	1,635	1,079	10,427	1,028
Net Income (Loss)	6,253	(8,260)	6,885	(13,620)
Earnings (Loss) per share (basic and diluted)	0.08	(0.15)	0.09	(0.32)
Cash inflows (outflows) from operations	924	115	(502)	(1,997)
Adjusted EBITDA (loss) (1)	(1,667)	139	41	(2,750)
Operating Statistics				
Dried marijuana sold (g)	296,200	200,475	1,026,870	619,885
Average Revenue per gram (net)	$8.14	$7.39	$8.31	$5.72
Sales of oils (ml)(2)	2,185,040	273,880	5,594,000	299,360
Average selling price per ml (net)	$1.97	$1.96	$2.02	$1.96
Total dried marijuana equivalent sold from oil (g)(3)	461,469	83,387	1,206,349	91,155
Average Revenue per gram of marijuana equivalent from oil sales (net)	$9.34	$6.43	$9.39	$6.43

Notes:
(1) See description of non-IFRS measure in the "Non-IFRS Financial Measure and Reconciliation" section of this MD&A. The term Adjusted EBITDA does not have any standardized meaning under IFRS and therefore it may not be comparable to similar measures presented by other companies.
(2) Sales of CannTrust Oils began in August 2016.
(3) Dried equivalent of medical marijuana is calculated on the basis of 4.73 ml of oils equivalent to 1 g of dried medical marijuana for the three months ended December 31, 2017 compared to 3.28 ml of oils equivalent to 1 g of dried medical marijuana for the three months ended December 31, 2016. The increase is a result of improvements and refinements to the extraction process.

Review of the Financial Results of Operations for the three and twelve months ended December 31, 2017 and 2016

Revenue

Revenue for the quarter ended December 31, 2017 was $6,982,917 compared to $2,095,993 for the comparable 2016 period. Revenue for the year ended December 31, 2017 totalled $20,697,764 compared to $4,382,088 in the 2016 period. The increase in revenue in the quarter and the year ended December 31, 2017 was attributable to increased sales volumes primarily due to the growth in the Company's patient base from approximately 10,000 at December 31, 2016 to over 37,000 at December 31, 2017.

The total quantity of medical cannabis sold to patients during the year ended December 31, 2017 increased 214% to 2,233 kg from the comparable prior year period. During the year ended December 31, 2017 the Company sold 5,594,000 ml of cannabis oils compared to 299,360 ml in the comparable 2016 period.

Cost of Sales

Cost of goods sold during the three and twelve months ended December 31, 2017 were $4,679,338 and $9,017,787 respectively, compared to $603,628 and $2,499,851 in the comparable prior year periods. Cost of goods sold includes production and processing costs of cannabis and inventory purchased from third parties. Costs of goods sold during the three months and year ended December 31, 2017 increased compared to the comparable 2016 periods due to increases in the staff compliment and facility costs related to increases in production and the one-time start-up costs associated with the Phase 1 Greenhouse Facility. In addition during our most recent quarter a number of regular grow rooms at our Vaughan Facility were used to harvest Mother Plants for Phase 1 of the Greenhouse Facility. As a result cost of goods sold during the three months ended December 31, 2017 were impacted by the increase in product costs associated with one-off third party product purchases. These third party product purchases were used by the Company as a replacement and a bridge to meet the increase in demand for the Company's product. In November 2017 Phase 1 was granted its Health Canada Cultivation Licence and in February 2018 obtained its Sales Licence.

Plants that are in pre-harvest are considered biological assets and are recorded at fair market value less cost to sell at their point of harvest. Costs to sell include trimming, fulfillment, testing, partnership commissions and shipping costs. As they continue to grow through the pre-harvest stages, a corresponding non-cash unrealized gain is recognized in gross profit, reflecting the changes in fair value of the biological assets. At harvest, the biological assets are transferred to inventory at their fair value less cost to sell which becomes the deemed cost of inventory. Biological assets inventory is later expensed as 'Fair Value changes in biological assets included in inventory sold'. Together the gain from changes in the fair value of biological assets, the Fair Value changes in biological assets included in inventory sold and cost of goods sold are included in gross profit. The unrealized gain from changes in the fair value of biological assets will vary from period to period based upon the number of pre-harvest plants, where the plants are in the grow cycle at the end of the period and the strains being grown.

The fair value changes in biological assets included in inventory sold, net of the unrealized gain on changes in fair value of biological assets, in the three and twelve months ended December 31, 2017 was a gain of $9,400,818 and $13,553,081 respectively, compared to a gain of $2,603,050 and $2,498,610 for the comparable 2016 periods. Harvested production quantities during the 2017 year were approximately 187% greater than the quantities harvested in the prior year.

Gross Profit

The gross profit for the three and twelve months ended December 31, 2017 was $11,035,579 and $23,980,073 respectively, compared to a gross profit of $3,681,880 and $3,526,705 in the comparable prior year periods. Gross profit includes the unrealized gains on changes in the fair value of biological assets. The increase in gross profit was principally due to the increase in sales and the relative size of the unrealized gain from changes in the fair value of biological assets. The Company continually refines its production processes in order to increase production yields and gross margins.

Expenses

Expenses include general and administrative, management fees, marketing and promotion, professional fees, rent and facilities, salaries and benefits and selling and shipping costs.

Expenses for the three and twelve months ended December 31, 2017 were $3,925,304 and $11,492,036 respectively, compared to $1,223,967 and $4,484,458 in the prior year comparable periods. The increase in expenses in the 2017 periods was due mainly to increases in general and administrative expenses, selling and shipping costs and salaries and benefits, including staff performance bonuses paid in the fourth quarter, as the Company increased its staff complement to meet the increase in demand for the Company's products. In addition, professional fees increased as a result of the additional legal and accounting work required relating to the Company’s 2017 listing on the CSE.

Amortization Expense

Amortization expense for the three and twelve months ended December 31, 2017 were $655,491 and $2,217,381 respectively, compared to $157,193 and $1,233,892 in the prior year comparable periods. As at December 31, 2017 $385,950 (December 31, 2016 - $237,060) of amortization was capitalized to ending inventory. The increase in amortization expenses in 2017 was due to an increase in amortization on equipment purchases during the year and the purchase of the Greenhouse Facility and the building enhancements thereto during the latter half of the year. The balance of amortization in the three and twelve months ended December 31, 2017 and 2016 related to leasehold improvements, equipment and other assets at the Vaughan Facility.

Share-based compensation

For the three and twelve month periods ended December 31, 2017 share-based compensation expense was $850,086 and $2,310,678 respectively, compared to Nil and $72,000 for the corresponding 2016 periods. The 2017 share-based compensation was attributable to the 3,670,500 stock options granted to employees and Directors which are measured at fair value at the date of grant and expensed over the option's vesting period. The 2016 share-based compensation was attributable to the issuance by the Company of 80,000 Common Shares to employees of the Company.

Finance Activities and Transaction Costs

For the three and twelve months ended December 31, 2017 interest expense was $39,629 and $260,203 respectively. This compares to interest expense of $155,088 and $473,961 in the comparable prior year periods. Other income consisted of interest income of $64,678 earned during the current quarter and a one-time recovery of $78,382 in the prior quarter.

Accretion expense for the three and twelve month periods months ended December 31, 2017, being the difference in the actual cost on the Company's convertible debt compared to the imputed interest rate, was $Nil and $233,716 respectively, compared to $84,082 and $276,413 in the comparable 2016 periods. In August 2017 all of the outstanding convertible debt was converted into common shares of the Company.

In the three and twelve months ended December 31, 2016 there were accrued distributions on the CannTrust Opco preference shares of $145,669 and $1,355,022 respectively. In October 2016 all of the holders of the Class A preference shares exchanged their Class A preference shares, including all accrued and unpaid distributions thereon, into Common Shares.

Transaction costs of $204,282 for the twelve months ended December 31, 2017 represent the cost associated with the March 2017 purchase of the Greenhouse Facility. Transaction costs in the comparable 2016 period represent the cost of the issuance of Common Shares as part of the Company’s bridge financing arrangements.

The gain (loss) on revaluation of the derivative liability, being the change in value attributable to the conversion feature on the Company's convertible debt, for the three and twelve months ended December 31, 2017 was $Nil and ($1,625,336) respectively, compared to a loss of ($622,757) for the three months ended December 31, 2016 and a gain of $245,657 in the twelve months ended December 31, 2016. The $3,040,919 principal amount of the Company's convertible debentures together with accrued and unpaid interest was automatically converted into 2,885,354 Common Shares of the Company upon the August 2017 listing of the Company's Common Shares on the CSE.

Under the terms of the Company's unanimous shareholders agreement, Cannamed Financial Corp. had an option to send a put notice to the Company requiring the Company to purchase all of the shares in the capital of the Company owned by Cannamed Financial Corp. at a purchase price equal to the fair market value as of the date of the put notice. Accordingly all of the shares owned by Cannamed Financial Corp. were classified as redeemable shares and measured at fair value with any resulting gain or loss recognized in profit and loss. As a result, the Loss on revaluation of redeemable shares for the year ended December 31, 2016 was $9,806,882. On December 23, 2016, 2,000,000 common shares with a fair value of $2,600,000 and a warrant to acquire 1,000,000 common shares at $1.30 per common share for three years with a fair value of $1,061,975, were issued to Cannamed Financial Corp. in consideration for the surrender by Cannamed Financial Corp. of its put rights under the Unanimous Shareholders' Agreement.

Income Tax

The Company's statutory tax rate is 26.5%. As at December 31, 2017 the Company has not recognized any deferred tax and a related deferred tax asset in respect of the tax losses incurred to-date as the Company has not yet demonstrated that it will be able to generate future taxable income. These losses will be available to offset future taxes.

Net Income/Net Loss

Net income for the three and twelve months ended December 31, 2017 was $6,253,161 and $6,885,430 respectively, compared to a net loss of ($8,260,098) and ($13,619,943) in the comparable 2016 periods. During the three and twelve months ended December 31, 2016 ($130,041) and ($804,784) respectively of this net loss was attributable to CannTrust's Opco's non-controlling interest. In November 2016 the non-controlling shareholders of CannTrust Opco exchanged their shares for Common Shares of the Company resulting in CannTrust Opco becoming a wholly-owned subsidiary of the Company. Earnings (loss) per share as calculated is based on the weighted number of shares of the Company outstanding during the relevant periods.

Capital Projects

In March 2017, the Company, through its wholly-owned subsidiary Elmcliffe, completed the acquisition of a 430,000 square foot commercial Greenhouse Facility in the Niagara region for cash consideration of $6,500,000. In addition, an unsecured promissory note in the amount of $1,000,000, payable over five years in five consecutive payments of $200,000, was issued to the Vendor. The Greenhouse Facility will provide the Company with increased production capacity to meet growing market demand. The Greenhouse Facility, once fully converted to cannabis production, will provide the Company with the capacity to produce in excess of 40,000 kg of additional medical cannabis per year. The 250,000 square foot first phase of the conversion to ACMPR standards which commenced in April 2017 was completed in the fall of 2017 on time and on budget. The Company received its Health Canada License under the ACMPR on October 6, 2017 for the Phase 1 redevelopment. The Company has completed multiple harvests at the Greenhouse Facility subsequent to December 31, 2017 and on February 12, 2018 obtained its Health Canada sales license under the ACMPR. Phase 1 provides the Company with the capacity to produce up to 20,000 kilograms of additional medical cannabis per year. The Phase 2 expansion at the Greenhouse Facility, at an estimated cost of $16.5 million, is currently underway and is anticipated to be completed and in cultivation towards the middle of 2018. In addition, the 36 acres of unused land at this facility provides the Company with the ability for significant future expansion. Phase 1 and 2 should conservatively provide the Company with an additional 40,000 kilograms of annual growing capacity as the Company positions itself to capitalize on the increased demand expected to arise as a result of the anticipated 2018 legalization of adult consumer recreational use of cannabis and the export of medical cannabis to countries where it has been legalized.

Liquidity and Capital Resources as at December 31, 2017 and December 31, 2016 and for the periods ended December 31, 2017 and 2016

Operating cash flow and equity and debt financings are the Company's primary source of liquidity. At December 31, 2017 cash and cash equivalents were $18,162,581 compared to $4,895,145 as at December 31, 2016.

Set out below is a schedule of the Company's Working Capital as at December 31, 2017 and December 31, 2016.

	December 31, 2017	**December 31, 2016**
	$000s	*$000s*
Current Assets	44,228	11,625
Current Liabilities	6,780	3,571
Working Capital	37,448	8,054
Ratio of current assets to current liabilities	6.5	3.3

Working capital is primarily represented by cash, short-term investments, accounts receivable, inventory, biological assets, harmonized sales tax recoverable and prepaids, offset by accounts payable and the current portion of the promissory note issued on the Greenhouse Facility acquisition. The Company's working capital increased by $29,394,005 to $37,447,895 as at December 31, 2017 compared to $8,053,890 at December 31, 2016. The increase in working capital in the twelve months ended December 31, 2017 was primarily due to the net increase in cash from the February 2017 Special Warrant and Common Share financing, the November 2017 private placement and the exercise of Warrants, together with an increase in inventory, biological assets and prepaids and the elimination of the convertible debt due on demand, offset by an increase in accounts payable. Approximately $30 million of cash was utilized during the period to purchase the Greenhouse Facility and for equipment purchases, including those associated with the Greenhouse Facility Phase 1 conversion to ACMPR standards.

Operating Activities

The principal use of operating cash flow is to fund the Company's operating expenditures at its production facilities, its general and administrative costs and its debt service payments. During the twelve months ended December 31, 2017 the Company's cash flows used in operating activities were $501,546 compared to cash flows used in operating activities of $1,996,565 in the comparable 2016 period. This positive variance is attributable to the $277,460 of cash flow generated from operations during the 2017 period compared to cash flow used in operations of $3,357,291 in the comparable 2016 period, offset by the changes in non-cash working capital items.

Investing Activities

Cash used in investing activities during the twelve months ended December 31, 2017 was $30,786,853 compared to $1,074,595 in the comparable 2016 period. The 2017 investing activities includes $6,500,000 of cash utilized to purchase the Greenhouse Facility and $23,993,811 of cash utilized primarily for the building improvements and equipment associated with the Phase 1 conversion of the Greenhouse Facility. In the 2016 period $1,207,840 was invested in additions to property and equipment.

Financing Activities

Cash of $44,354,297 was generated by financing activities during the twelve months ended December 31, 2017 compared to $5,275,151 in the comparable 2016 period. The 2017 financing activities includes net proceeds of $24,769,124 from the February Special Warrant and Common Share financing, $18,844,206 in net proceeds from the November private placement and $1,322,467 from the exercise of Warrants, offset by $566,500 in cash used to pay the accrued and outstanding interest owing on the Company's convertible debt as at March 31, 2017. In the comparable 2016 period, the Company raised net proceeds of $4,234,233 from a private placement, $1,000,000 in convertible debt and $40,919 from the issuance of Common Shares and convertible debt to Shareholders as part of their pre-emptive rights under the Shareholders Agreement. The $1,000,000 of convertible debt, including all outstanding interest thereon, was converted into Common Shares in March 2017.

Liquidity

The Company monitors its liquidity on a continuous basis to ensure there is sufficient capital to meet business requirements and to provide adequate returns to shareholders and benefits to other stakeholders. The Company manages the capital structure and adjusts it to take into account changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may, where necessary, control the amount of working capital, pursue financing, manage the timing of it capital expenditures, or sell assets. The Company is not subject to externally imposed capital requirements.

The Company's capital structure is comprised of a combination of debt and shareholders' equity. Set out below is a schedule of the capital structure of the Company as at December 31, 2017 and December 31, 2016.

	December 31, 2017	**December 31, 2016**
	$000s	**$000s**
Promissory note	1,000	-
Convertible Debt(1)(2)(3)	-	3,839

Shareholders' equity)(3)	70,868	10,468
Debt to equity	1.4%	36.7%

(1) Includes convertible debentures and convertible promissory notes as at December 31, 2016.
(2) In March 2017 the $1,000,000 of convertible promissory notes plus accrued interest was converted into Common Shares of the Company.
(3) In August 2017 the convertible debentures together with accrued and unpaid interest were automatically converted into 2,885,354 Common Shares of the Company upon listing of the Company's Common Shares on the CSE.

The Company anticipates that together with the additional sales that are expected in 2018 as a result of the pending legalization of the adult consumer recreational use of cannabis, the Company will require approximately $60 million to meet its expected ongoing costs for the next twelve months. These costs include regular operating expenses, rent, insurance, fees for management and administrative services, audit fees, shareholder costs and interest. In addition the Company anticipates that with the legalization of the adult consumer recreational use of cannabis, the Company will incur capital expenditures of approximately $27 million in the next twelve months. These expenses include capital enhancements at the Vaughan Facility required to serve the adult consumer recreational use of cannabis as well as the expenses required to complete the conversion of Phase 2 of the Greenhouse Facility to ACMPR standards.

The Company expects to fund these expenditures from the revenue generated during the period from the sale of its medical cannabis products and the sale of cannabis to the legalized recreational market, together with the $18.0 million of cash on hand and the proceeds from its recently completed $15 million mortgage financing on the Greenhouse Facility.

Financial Instruments, Financial Risk Management and Other Instruments

The Company does not utilize financial instruments such as hedging instruments to manage financial risks.

The Company's financial instruments consist of cash, accounts receivable, restricted cash, short-term investments, accounts payable and accrued liabilities, convertible debt, promissory note and derivative liability. The Company does not believe that it is exposed to significant currency or credit risk arising from these financial instruments. The fair value of these financial instruments approximates their carrying value due to their short-term nature. Note 17 to the Financial Statements discloses risks related to interest rates, liquidity and credit.

Contractual Obligations

In August 2015, the Company issued $3,000,000 12% senior secured convertible debentures and, in December 2015 and February 2016, issued a further total of $640,000 of 12% unsecured convertible promissory notes, both maturing four years from closing. Each debenture holder and note holder was granted 4,545 warrants per $10,000 of debt, exercisable by the holder for a period of five years from the closing date, at a price of $1.10 per Common Share. The debt and all accrued and unpaid interest was automatically converted into 2,885,354 common shares upon the listing of the Company's common shares on the CSE in August 2017.

In December 2016, as part of the arrangement whereby the holder of the redeemable shares surrendered its put right, a warrant to purchase 1,000,000 Common Shares for 3 years at $1.30 per share was issued.

The Company's commitments as at December 31, 2017 consisted of the following ($000s):

	Total	2018	2019	2020	2021	2022	Beyond
Lease obligations	3,270	528	550	551	563	563	516

In March 2018, as part of the process to stabilize and fix the majority of the Company's energy costs at the Greenhouse Facility on a go forward basis, the Company executed a twenty year tolling agreement for co-generation equipment to be installed as part of the development of the Greenhouse Facility.

Statements of Financial Position as at December 31, 2017 and December 31, 2016

Select Consolidated Statements of Financial Position Data

	December 31, 2017	**December 31, 2016**
	$000s	**$000s**
Cash and cash equivalents	18,163	4,895
Inventory	10,959	3,675
Biological Assets	9,844	2,320
Total assets	78,448	16,879
Current liabilities	6,780	3,571
Non-current liabilities	800	2,839

Assets

The Company's asset base primarily consists of cash and cash equivalents, accounts receivable, inventories, biological assets, harmonized sales tax recoverable, prepaids and property and equipment. The $61,569,807 increase in the asset base resulted largely from increases of cash and cash equivalents of $13,267,436, $14,807,984 in inventory and biological assets and $28,754,245 in property and equipment.

Liabilities

Total current and non-current liabilities were $7,579,997 at December 31, 2017, an increase of $1,169,638 from December 31, 2016. This increase was largely attributable to an increase in accounts payable and the issuance of the promissory note on the purchase of the Greenhouse Facility, offset by debt conversions into Common Shares.

Shareholders' Equity

The Company's shareholders' equity increased by $60,400,169 to $70,868,418 at December 31, 2017 from $10,468,249 at December 31, 2016. This increase is mainly attributable to the net proceeds received from the completion of the February Special Warrant and Common Share financings, the November private placement and the exercise of warrants and conversion of debt into equity.

Related Party Transactions for the twelve months ended December 31, 2017

During the twelve months ended December 31, 2017 the Company entered into transactions and had outstanding balances with various related parties. The transactions with related parties are in the normal course of business.

Related party transactions for the twelve months ended December 31, 2017 are summarized as follows:

Concurrent with the Company's acquisition of the Greenhouse Facility, the Company assigned to a company controlled by Stan Abramowitz, the Secretary of the Company, the assets acquired as part of the acquisition which were not required by the Company, namely the "Balfour Greenhouses" name and customer list. These assets were assigned a value of $1 as part of the acquisition.

In March 2017, the $1,000,000 in due on demand convertible promissory notes from Dancap Private Equity Inc. together with $68,161 of accrued interest thereon was converted into Common Shares of the Company. Dancap Private Equity Inc. a significant shareholder of the Company, is controlled by Aubrey Dan. Aubrey Dan was a director of the Company until January 2018.

In March 2017, the Company paid all of the accrued and outstanding interest on its convertible debentures. Included in this payment was interest of $83,494 owing to Forum Financial Corporation, $75,521 to The Paul Family Trust and $38,728 to the Norman Paul 2013 Family Trust. Forum Financial Corporation, which is owned by Fred Litwin, has the right to appoint the majority of the board of directors of Cannamed Financial Corp., the Company's Voting Trustee. Eric Paul, the Company's CEO and a director, is a Trustee of The Paul Family Trust, a significant shareholder of the Company. Norman Paul, the Company's co-founder and a director, is a Trustee of the Norman Paul 2013 Family Trust, a significant shareholder of the Company.

On August 17, 2017, $1,030,000 of convertible debt and $45,038 in accrued interest belonging to the above related parties was automatically converted into common shares at $1.10 per share, in connection with the Company listing on the Canadian Securities Exchange, resulting in the issuance of 977,302 common shares.

Compensation to key management and directors of the Company totalling $1,223,773 was paid to the Company's Chief Executive Officer, CannTrust Opco's President, the Vice-President of Innovation and Research, the Vice-President of Production and Quality, the Vice-President of Marketing, the Vice-President of Business Development, the Vice-President of Professional

Services, the Vice-President of Operations, the Company's Chief Financial Officer and Directors of the Company. There were 2,427,000 stock options valued at $6,620,570 issued to key management and directors during the twelve month period ended December 31, 2017.

The Company incurred $378,674 of management fees to Forum Financial Corporation, of which $26,667 was unpaid and included in accounts payable at December 31, 2017.

The Company incurred $200,000 of management fees to Forum Financial Corporation for services provided in connection with the special warrant financing and the preparation and filing of the Company's Prospectus, of which $135,000 was expensed during the twelve months ended December 31, 2017. The Company issued Forum 100,000 Common Shares as consideration for payment of these management fees.

The Company incurred legal fees of $549,387 (2016 - $27,501) relating to corporate services provided by a firm at which a director of the Company is a partner.

Share Data

The following table sets forth the Outstanding Share Data for the Company as at March 29, 2018:

	Authorized	**Issued**
Common Shares	Unlimited	92,489,857

Risks and Uncertainties

The Company is subject to a number of broad risks and uncertainties including general economic conditions. In addition to these broad risks and uncertainties, the Company has specific risks that it faces, the most significant of which are outlined below. **The risks and uncertainties discussed herein highlight the more important factors that could significantly affect the Company's operations and profitability. They do not represent and exhaustive list of all the potential issues that could affect the financial results of the Company. Additional risks and uncertainties not presently known to the Company or that the Company believes to be immaterial may also adversely affect the Company's business, operations and profitability.**

Reliance on Licenses

The operations of the Company require it to obtain ACMPR Licences for the transportation, distribution, production and sale of medical cannabis, and in some cases, renewals of existing licences from, and the issuance of permits by certain national authorities in Canada. The Company believes that it currently holds or has applied for all necessary licences and permits to carry on the activities which it is currently conducting under applicable laws and regulations, and also believes that it is complying in all material respects with the terms of such licences and permits.

The failure of the Company to obtain and maintain the applicable licenses and amendments thereto would have a material adverse impact upon the Company.

In addition, the Company will apply for, as the need arises, all necessary licences and permits to carry on the activities it expects to conduct in the future. However, the ability of the Company to obtain, sustain or renew any such licences and permits on acceptable terms is subject to changes in regulations and policies and to the discretion of the applicable authorities or other governmental agencies in foreign jurisdictions. The ACMPR License for the Vaughan Facility expires on March 13, 2020 and the ACMPR License for the Greenhouse Facility expires on October 6, 2020. Any loss of interest in any such required licence or permit, or the failure of any governmental authority to issue or renew such licences or permits upon acceptable terms, would have a material adverse impact upon the Company.

Regulatory Risks

Achievement of the Company's business objectives is contingent, in part, upon compliance with regulatory requirements enacted by governmental authorities and obtaining all regulatory approvals, where necessary, for the sale of its products. The Company cannot predict the impact of the compliance regime Health Canada is implementing for the Canadian medical cannabis industry. Similarly, the Company cannot predict the time required to secure all appropriate regulatory approvals for its products, or the extent of testing and documentation that may be required by governmental authorities. The impact of Health Canada's compliance regime, any delays in obtaining, or failure to obtain regulatory approvals may significantly delay or impact the development of markets, products and sales initiatives and could have a material adverse effect on the business, results of operations and financial condition of the Company.

The Company will incur ongoing costs and obligations related to regulatory compliance. Failure to comply with regulations may result in additional costs for corrective measures, penalties or restrictions on the Company's operations. In addition, changes in regulations, more vigorous enforcement thereof or other unanticipated events could require extensive changes to the Company's operations, increased compliance costs or give rise to material liabilities, which could have a material adverse effect on the business, results of operations and financial condition of the Company.

Change in Laws, Regulations and Guidelines

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.

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

On June 30, 2016, the Government of Canada established the Task Force on Cannabis Legalization and Regulation (the "Task Force") to seek input on the design of a new system to legalize, strictly regulate and restrict access to adult-use recreational cannabis. On December 13, 2016, the Task Force completed its review and published a report outlining its recommendations. On April 13, 2017, the Government of Canada released the Cannabis Act. If enacted, the Cannabis Act will regulate the production, distribution and sale of cannabis for adult use. The target implementation date of the Cannabis Act will be August or September 2018. However, it is unknown if this regulatory change will be implemented at all.

Several recommendations made by the Task Force reflected in the Cannabis Act could materially and adversely affect the business, financial condition and results of operations of the Company. These recommendations include, but are not limited to, permitting home cultivation, potentially easing barriers to entry into a Canadian recreational cannabis market and restrictions on advertising and branding. The recommendations will be considered by the Government of Canada as a new framework for recreational cannabis is developed and it remains possible that such developments could significantly and adversely affect the business, financial condition and results of operations of the Company.

While the production of cannabis will be under the regulatory oversight of the Government of Canada, the distribution of adult-use recreational cannabis will be the responsibility of the provincial and territorial governments. To date, no provincial legislation has been approved to govern retail sales. However, all of the provinces in Canada have announced that the wholesale distribution of cannabis will fall under the responsibility of their provincial liquor authorities. The legal retail business for adult-use recreational cannabis will initially fall under a framework of new provincially owned and run stand-alone cannabis outlets in Ontario, Quebec, New Brunswick, Nova Scotia and Prince Edward Island. Crown corporation run retail outlets will thus have a monopoly over the legal retailing and distribution of cannabis in these provinces, which represent approximately 67% of the Canadian population. The provinces of Alberta, Saskatchewan, Manitoba and Newfoundland and Labrador have indicated they would allow private retailers to manage the retail sales of cannabis in their provinces, while British Columbia will allow a mix of private and Crown corporation run retail stores.

On October 3, 2017, the Parliamentary Standing Committee on Health proposed amendments to the Cannabis Act, which if approved, would allow for cannabis edibles and concentrates to be available for sale within 12 months of the Cannabis Act coming into force. Health Canada launched a 60-day public consultation on the proposed approach to the regulation of cannabis on November 21, 2017. A few of the provisions under consideration, such as the inclusion of micro-producers and micro-processers and the allowance of outdoor production, could significantly adversely affect the business, financial condition and results of operations of the Company. On March 22, 2018 Bill C-45 passed the second reading of the Senate. It is expected that the Cannabis Act would replace the ACMPR. The impact of any such new legislative system on the medical cannabis industry and the Company's business plan and operations is uncertain.

Competition

The Cannabis Act and the introduction of a recreational model for cannabis production and distribution may impact the medical cannabis market. The impact of this potential development may be negative for the Company, and could result in increased levels of competition in its existing medical market and/or the entry of new competitors in the overall cannabis market in which the Company operates.

There is potential that the Company will face intense competition from other companies, some of which can be expected to have longer operating histories and more financial resources and manufacturing and marketing experience than the Company. Increased competition by larger and better financed competitors could materially and adversely affect the business, financial condition and results of operations of the Company.

The government has only issued to date a limited number of ACMPR Licenses to produce and sell medical cannabis. According to Health Canada, as of March 2018, there are currently 94 licensed producers under the ACMPR. There are, however, several hundred applicants for licenses. The number of licenses granted could have an impact on the operations of the Company. Because of the early stage of the industry in which the Company operates, the Company expects to face additional competition from new entrants. The Company also faces competition from illegal cannabis dispensaries that are selling cannabis to individuals despite not having a valid ACMPR License.

If the number of users of medical cannabis in Canada increases, the demand for products will increase and the Company expects that competition will become more intense, as current and future competitors begin to offer an increasing number of diversified products. To remain competitive, the Company will require a continued high level of investment in research and development, marketing, sales and client support. The Company may not have sufficient resources to maintain research and development, marketing, sales and client support efforts on a competitive basis which could materially and adversely affect the business, financial condition and results of operations of the Company.

As well, the legal landscape for medical and recreational cannabis is changing internationally. More countries have passed laws that allow for the production and distribution of medical cannabis in some form or another. The Company has some international partnerships in place, which may be affected if more countries legalize medical cannabis. Increased international competition might lower the demand for the Company's products on a global scale.

Reliance on Management

The success of the Company is dependent upon the ability, expertise, judgment, discretion and good faith of its senior management. While employment agreements are customarily used as a primary method of retaining the services of key employees, these agreements cannot assure the continued services of such employees. Any loss of the services of such individuals could have a material adverse effect on the Company's business, operating results or financial condition.

Further, as a licensed producer under the ACMPR, certain key employees are subject to a security clearance by Health Canada. Under the ACMPR a security clearance cannot be valid for more than five years and must be renewed before the expiry of a current security clearance. There is no assurance that any of the Company's existing personnel who presently or may in the future require a security clearance will be able to obtain or renew such clearances or that new personnel who require a security clearance will be able to obtain one. A failure by a key employee to maintain or renew his or her security clearance, would result in a material adverse effect on the Company's business, financial condition and results of operations. In addition, if a key employee leaves the Company, and the Company is unable to find a suitable replacement that has a security clearance required by the ACMPR in a timely manner, or at all, there could occur a material adverse effect on the Company's business, financial condition and results of operations.

Clinical Research

Research in Canada, the U.S. and internationally regarding the medical benefits, viability, safety, efficacy, dosing and social acceptance of cannabis or isolated cannabinoids remains in early stages. There have been relatively few clinical trials on the benefits of cannabis or isolated cannabinoids.

Shelf Life of Inventory

We hold finished goods in inventory and our inventory has a shelf life. Finished goods in our inventory include herbal cannabis and cannabis oil products. We have completed shelf life stability testing on our herbal cannabis. This testing concluded that the potency of our herbal cannabis remains static for approximately 20 months. In consultation with Health Canada, we elected to set the shelf life for our herbal cannabis products at 12 months once it is bottled. The Company is currently completing shelf life stability tests for cannabis oils, which it anticipates will have a longer shelf life than herbal cannabis. Typical turnover rate for inventory has been within 4 months of final production, however this turnover rate may change and inventory may reach its expiration and not be sold. Management regularly reviews the amount of inventory on hand, reviews the remaining shelf life and estimates the time required to manufacture and sell such inventory, write-down of inventory may still be required. Any such write-down of inventory could have a material adverse effect on the Company’s business, financial condition, and results of operations.

ACMPR Patient Acquisitions

The Company's success depends on its ability to attract and retain patients. There are many factors which could impact the Company's ability to attract and retain ACMPR Patients, including but not limited to the Company's ability to continually produce desirable and effective products, the successful implementation of the Company's patient-acquisition plan and the continued growth in the aggregate number of ACMPR Patients selecting medical cannabis as a treatment option. The Company's failure to acquire and retain ACMPR Patients would have a material adverse effect on the Company's business, operating results and financial condition.

Marketing Constraints

The development of the Company's business and operating results may be hindered by applicable restrictions on sales and marketing activities imposed by Health Canada. The regulatory environment in Canada limits the Company's ability to compete for market share in a manner similar to other industries. If the Company is unable to effectively market its products and compete for market share, or if the costs of compliance with government legislation and regulation cannot be absorbed through increased selling prices for its products, the Company's sales and operating results could be adversely affected.

Further Funding Requirements

The building and operation of the Company's facilities and business are capital intensive. In order to execute the anticipated growth strategy, the Company may require additional equity and/or debt financing to support on-going operations, to undertake capital expenditures or to undertake acquisitions or other business combination transactions. There can be no assurance that additional financing will be available to the Company when needed or on terms, which are acceptable. The Company's inability to raise financing to support on-going operations or to fund capital expenditures or acquisitions could limit the Company's growth and may have a material adverse effect upon future profitability.

If additional funds are raised through further issuances of equity or convertible debt securities, existing shareholders could suffer significant dilution, and any new equity securities issued could have rights, preferences and privileges superior to those of holders of the Common Shares. Any debt financing secured in the future could involve restrictive covenants relating to capital raising activities and other financial and operational matters, which may make it more difficult for the Company to obtain additional capital and to pursue business opportunities, including potential acquisitions.

Product Liability

As a manufacturer and distributor of products designed to be ingested by humans, the Company faces an inherent risk of exposure to product liability claims, regulatory action and litigation if its products are alleged to have caused significant loss or injury. In addition, the manufacture and sale of cannabis products involve the risk of injury to consumers due to tampering by unauthorized third parties or product contamination. Previously unknown adverse reactions resulting from human consumption of cannabis products alone or in combination with other medications or substances could occur. The Company may be subject to various product liability claims, including, among others, that the products produced by the Company caused injury or illness, include inadequate instructions for use or include inadequate warnings concerning possible side effects or interactions with other substances. A product liability claim or regulatory action against the Company could result in increased costs, could adversely affect the Company's reputation with its clients and consumers generally, and could have a material adverse effect on our results of operations and financial condition of the Company. There can be no assurances that the Company will be able to maintain product liability insurance on acceptable terms or with adequate coverage against potential liabilities. Such insurance is expensive and may not be available in the future on acceptable terms, or at all. The inability to obtain sufficient insurance coverage on reasonable terms or to otherwise protect against potential product liability claims could prevent or inhibit the commercialization of products.

Product Recalls

Manufacturers and distributors of products are sometimes subject to the recall or return of their products for a variety of reasons, including product defects, such as contamination, unintended harmful side effects or interactions with other substances, packaging safety and inadequate or inaccurate labeling disclosure. If any of the Company's products are recalled due to an alleged product defect or for any other reason, the Company could be required to incur the unexpected expense of the recall and any legal proceedings that might arise in connection with the recall. The Company may lose a significant amount of sales and may not be able to replace those sales at an acceptable margin or at all. In addition, a product recall may require significant attention from management. Although the Company has detailed procedures in place for testing its products, there can be no assurance that any quality, potency or contamination problems will be detected in time to avoid unforeseen product recalls, regulatory action or lawsuits. Additionally, if one of the products produced by the Company were subject to recall, the image of that product and the Company could be harmed. A recall for any of the foregoing reasons could lead to decreased demand for the Company's products and could have a material adverse effect on the results of operations and financial condition of the Company. Additionally, product recalls may lead to increased scrutiny of the Company's operations by Health Canada or other regulatory agencies, requiring further management attention and potential legal fees and other expenses.

Operating Risk and Insurance Coverage

The Company has insurance to protect its assets, operations and employees. While the Company believes its insurance coverage addresses all material risks to which it is exposed and is adequate and customary in its current state of operations, such insurance is subject to coverage limits and exclusions and may not be available for the risks and hazards to which the Company is exposed. In addition, no assurance can be given that such insurance will be adequate to cover the Company's liabilities or will be generally available in the future or, if available, that premiums will be commercially justifiable. If the Company were to incur substantial liability and such damages were not covered by insurance or were in excess of policy limits, or if the Company were to incur such liability at a time when it is not able to obtain liability insurance, its business, results of operations and financial condition could be materially adversely affected.

Nascent Status of the Medical Cannabis Industry

As a licensed producer under the ACMPR, the Company is operating its business in a relatively new medical cannabis industry and market. In addition to being subject to general business risks, a business involving an agricultural product and a regulated consumer product, the Company needs to continue to build brand awareness in this industry and market through significant investments in its strategy, its production capacity, quality assurance, and compliance with regulations. These activities may not promote the Company's brand and products as effectively as intended, or at all.

Competitive conditions, consumer tastes, patient requirements and spending patterns in this new industry and market are relatively unknown and may have unique circumstances that differ from existing industries and markets.

In addition, the ACMPR also permits patients to produce a limited amount of cannabis for their own medical purposes or to designate a person to produce a limited amount of cannabis on their behalf. This could potentially significantly reduce the market for the Company's products, which could have a material adverse effect on the Company's business, financial condition and results of operations.

Accordingly, there are no assurances that this industry and market will continue to exist or grow as currently estimated or anticipated, or function and evolve in a manner consistent with management's expectations and assumptions. Any event or circumstance that affects the medical cannabis industry and market could have a material adverse effect on the Company's business, financial condition and results of operations.

Management of Growth

The Company may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. The ability of the Company to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The inability of the Company to deal with this growth may have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

Research and Development and Product Obsolescence

Rapidly changing markets, technology, emerging industry standards and frequent introduction of new products characterize the Company's business. The introduction of new products embodying new technologies, including new manufacturing processes, and the emergence of new industry standards may render the Company's products obsolete, less competitive or less marketable. The process of developing the Company's products is complex and requires significant continuing costs, development efforts and third party commitments. The Company's failure to develop new technologies and products and the obsolescence of existing technologies could adversely affect the business, financial condition and operating results of the Company. The Company may be unable to anticipate changes in its potential customer requirements that could make the Company's existing technology obsolete. The Company's success will depend, in part, on its ability to continue to enhance its existing technologies, develop new technology that addresses the increasing sophistication and varied needs of the market, and respond to technological advances and emerging industry standards and practices on a timely and cost-effective basis. The development of the Company's proprietary technology entails significant technical and business risks. The Company may not be successful in using its new technologies or exploiting its niche markets effectively or adapting its businesses to evolving customer or medical requirements or preferences or emerging industry standards.

Privacy and Cyber Security

Given the nature of the Company's products and the lack of legal availability of such products outside of channels approved by the Government of Canada, as well as the concentration of inventory in its facilities, despite meeting or exceeding Health Canada's security requirements, there remains a risk of shrinkage as well as theft. A security breach at the Company's facilities could expose the Company to additional liability and to potentially costly litigation, increased expenses relating to the resolution and future prevention of these breaches and may deter potential patients from choosing the Company's products.

In addition, the Company collects and stores personal information about its ACMPR Patients and is responsible for protecting that information from privacy breaches. A privacy breach may occur through procedural or process failure, information technology malfunction, or deliberate unauthorized intrusions. Theft of data for competitive purposes is an ongoing risk whether perpetrated via employee collusion or negligence or through deliberate cyber-attack. Any such theft or privacy breach would have a material adverse effect on the Company's business, financial condition and results of operations.

In addition, there are a number of federal and provincial laws protecting the confidentiality of certain patient health information, including patient records, and restricting the use and disclosure of that protected information. In particular, the privacy rules under the *Personal Information Protection and Electronics Documents Act* (Canada) ("PIPEDA"), protect medical records and other personal health information by limiting their use and disclosure of health information to the minimum level reasonably necessary to accomplish the intended purpose. If the Company was found to be in violation of the privacy or security rules under PIPEDA or other laws protecting the confidentiality of ACMPR Patient health information, it could be subject to sanctions and civil or criminal penalties, which could increase its liabilities, harm its reputation and have a material adverse effect on the business, results of operations and financial condition of the Company.

Information Systems Security Threats

The Company has entered into agreements with third parties for hardware, software, telecommunications and other information technology ("IT") services in connection with its operations. The Company's operations depend, in part, on how well the Company and its suppliers protect networks, equipment, IT systems and software against damage from a number of threats, including, but not limited to, cable cuts, damage to physical plants, natural disasters, terrorism, fire, power loss, hacking, computer viruses, vandalism and theft. The Company's operations also depend on the timely maintenance, upgrade and replacement of networks, equipment, IT systems and software, as well as pre-emptive expenses to mitigate the risks of failures. Any of these and other events could result in information system failures, delays and/or increase in capital expenses. The failure of information systems or a component of information systems could, depending on the nature of any such failure, adversely impact the Company's reputation and results of operations.

Cyber incidents can result from deliberate attacks or unintentional events. Cyber attacks could result in any person gaining unauthorized access to digital systems for purposes of misappropriating assets or sensitive information, including personally identifiable information, corrupting data, or causing operational disruption. Cyber attacks could also result in important remediation costs, increased cyber security costs, lost revenues due to a disruption of activities, litigation and reputational harm affecting customer and investor confidence, which could materially adversely affect our business and financial results.

The Company has not experienced any material losses to date relating to cyber-attacks or other information security breaches, but there can be no assurance that the Company will not incur such losses in the future which could be in excess of any available insurance, and could materially adversely affect our business and financial results. The Company's risk and exposure to these matters cannot be fully mitigated because of, among other things, the evolving nature of these threats. As a result, cyber security and the continued development and enhancement of controls, processes and practices designed to protect systems, computers, software, data and networks from attack, damage or unauthorized access is a priority. As cyber threats continue to evolve, the Company may be required to expend additional resources to continue to modify or enhance protective measures or to investigate and remediate any security vulnerabilities.

Reputational Risk to Third Parties

The parties with which the Company does business may perceive that they are exposed to reputational risk as a result of the Company's medical cannabis business activities. Failure to establish or maintain business relationships could have a material adverse effect on the Company.

Holding Company

The Company is a holding company and essentially all of its assets are the capital stock of its subsidiaries, CannTrust Opco and Elmcliffe. As a result, investors in the Company are subject to the risks attributable to its subsidiaries. As a holding company, the Company conducts substantially all of its business through its subsidiaries, which generate substantially all of its revenues. Consequently, the Company's cash flows and ability to complete current or desirable future enhancement opportunities are dependent on the earnings of its subsidiaries and the distribution of those earnings to the Company. The ability of these entities to pay dividends and other distributions will depend on their operating results and will be subject to applicable laws and regulations which require that solvency and capital standards be maintained by such companies and contractual restrictions contained in the instruments governing their debt. In the event of a bankruptcy, liquidation or reorganization of any of the Company's material subsidiaries, holders of indebtedness and trade creditors may be entitled to payment of their claims from the assets of those subsidiaries before the Company.

Lease Risk

The Vaughan Facility is located on property that is not owned by CannTrust Opco. Such property is subject to a long-term lease. Under the terms of a typical lease, the lessee must pay rent for the use of the land and is generally responsible for all costs and expenses associated with the building and improvements. Unless the lease term is extended, the land, together with all improvements made, will revert to the landlord upon the expiration of the lease term. In addition, an event of default by CannTrust Opco under the terms of the lease could also result in a loss of the property should the default not be rectified in a reasonable period of time. The reversion or loss of such property could have a material adverse effect on the Company's operations and results.

Intellectual Property

The Company depends on its ability to protect its proprietary technology. The Company relies on trade secret, patent, copyright and trademark laws, and confidentiality, licensing and other agreements with executives, consultants and third parties, all of which offer only limited protection. If the Company is compelled to spend significant time and money protecting or enforcing the Company's patents, designing around patents held by others or licensing or acquiring, potentially for large fees, patents or other proprietary rights held by others, the Company's business and financial prospects may be harmed. If the Company is unable to effectively protect the intellectual property that the Company owns, other companies may be able to offer for sale the same or similar products as the Company's products, which could materially adversely affect the Company's competitive business position and harm its business prospects. The Company's patents may be challenged, narrowed, invalidated or circumvented, which could limit the Company's ability to stop competitors from marketing the same or similar products or limit the length of term of patent protection that the Company may have for the Company's products. Even if the Company's patents are unchallenged, they may not adequately protect the Company's intellectual property, provide exclusivity for the Company's products or prevent others from designing around the Company's claims. Any of these outcomes could impair the Company's ability to prevent competition from third parties, which may have an adverse impact on the Company's business.

Conflicts of Interest

The Company may be subject to various potential conflicts of interest because of the fact that some of its officers and directors may be engaged in a range of business activities. In addition, the Company's executive officers and directors may devote time to their outside business interests provided that such activities do not materially or adversely interfere with their duties to the Company. In some cases, the Company's executive officers and directors may have fiduciary obligations associated with these business interests that could interfere with their ability to devote time to the Company's business and affairs and that may adversely affect the Company's operations. These business interests could require significant time and attention of the Company's executive officers and directors to the detriment of the Company.

In addition, the Company may also become involved in other transactions which conflict with the interests of its directors and the officers who may from time to time deal with persons, firms, institutions or corporations with which the Company may be dealing, or which may be seeking investments similar to those desired by it. The interests of these persons could conflict with those of the Company. In addition, from time to time, these persons may be competing with the Company for available investment opportunities. Conflicts of interest, if any, will be subject to the procedures and remedies provided under applicable laws. In particular, in the event that such a conflict of interest arises at a meeting of the Company's directors, a director who has such a conflict will abstain from voting for or against the approval of such participation or such terms. In accordance with applicable laws, the directors of the Company are required to act honestly, in good faith and in the best interests of the Company.

Risks Inherent in an Agricultural Business

The Company's business involves the growing of medical cannabis, an agricultural product. Such business is subject to the risks inherent in the agricultural business, such as insects, plant diseases and similar agricultural risks. Although such growing is completed indoors under climate controlled conditions, and while all growing conditions are carefully monitored with trained personnel, there can be no assurance that natural elements will not have a material adverse effect on the production of its products.

Environmental and Employee Health and Safety Regulations

The Company's operations are subject to environmental and safety laws and regulations concerning, among other things, emissions and discharges to water, air and land, the handling and disposal of hazardous and non-hazardous materials and wastes, and employee health and safety. Changes in environmental, employee health and safety or other laws, more vigorous enforcement thereof or other unanticipated events could require extensive changes to the Company's operations or give rise to material liabilities, which could have a material adverse effect on the business, results of operations and financial condition of the Company.

Unfavourable Publicity or Consumer Perception

The Company believes the medical cannabis industry is highly dependent upon consumer perception regarding the safety, efficacy and quality of the medical cannabis distributed to such consumers. Consumer perception of the Company's products can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity regarding the consumption of medical cannabis products. There can be no assurance that future scientific research, findings, regulatory proceedings, litigation, media attention or other research findings or publicity will be favourable to the medical cannabis market or any particular product, or consistent with earlier publicity. Future research reports, findings, regulatory proceedings, litigation, media attention or other publicity that are perceived as less favourable than, or that question, earlier research reports, findings or publicity could have a material adverse effect on the demand for the Company's products and the business, results of operations, financial condition and cash flows of the Company. The Company's dependence upon consumer perceptions means that adverse scientific research reports, findings, regulatory proceedings, litigation, media attention or other publicity, whether or not accurate or with merit, could have a material adverse effect on the Company, the demand for the Company's products, and the business, results of operations, financial condition and cash flows of the Company. Further, adverse publicity reports or other media attention regarding the safety, efficacy and quality of medical cannabis in general, or the Company's products specifically, or associating the consumption of medical cannabis with illness or other negative effects or events, could have such a material adverse effect. Such adverse publicity reports or other media attention could arise even if the adverse effects associated with such products resulted from consumers' failure to consume such products appropriately or as directed.

Transportation Risks

Due to its direct-to-client shipping model, the Company depends on fast and efficient courier services to distribute its product. Any prolonged disruption of this courier service could have an adverse effect on the financial condition and results of operations of the Company. Rising costs associated with the courier services used by the Company to ship its products may also adversely impact the business of the Company and its ability to operate profitably.

Due to the nature of the Company's products, security of the product during transportation to and from the Company's facilities is of the utmost concern. A breach of security during transport or delivery could have a material and adverse effect on the Company's business, financial condition and prospects. Any breach of the security measures during transport or delivery, including any failure to comply with recommendations or requirements of Health Canada, could also have an impact on the Company's ability to continue operating under the ACMPR Licenses or the prospect of renewing the ACMPR Licenses.

Vulnerability to Rising Energy Costs

The Company's medical cannabis growing operations consume considerable energy, which make the Company vulnerable to rising energy costs. Accordingly, rising or volatile energy costs may adversely impact the business of the Company and its ability to operate profitably.

Reliance on Key Inputs

The Company's business is dependent on a number of key inputs and their related costs including raw materials and supplies related to its growing operations, as well as electricity, water and other local utilities. Any significant interruption or negative change in the availability or economics of the supply chain for key inputs could materially impact the business, financial condition and operating results of the Company. Any inability to secure required supplies and services or to do so on appropriate terms could have a materially adverse impact on the business, financial condition and operating results of the Company.

Dependence on Suppliers and Skilled Labour

The ability of the Company to compete and grow will be dependent on it having access, at a reasonable cost and in a timely manner, to skilled labour, equipment, parts and components. No assurances can be given that the Company will be successful in maintaining its required supply of skilled labour, equipment, parts and components. It is also possible that the final costs of the major equipment contemplated by the Company's capital expenditure program may be significantly greater than anticipated by the Company's management, and may be greater than funds available to the Company, in which circumstance the Company may curtail, or extend the timeframes for completing, its capital expenditure plans. This could have an adverse effect on the financial results of the Company.

International Expansion

The Company has received Health Canada approval to export medical cannabis internationally to countries where medical cannabis is legalized. The Company began shipping its products to Australia and it expects to ship products to Germany, Denmark and Brazil in the near future. There can be no assurance that any market for the Company's products will develop in such foreign jurisdictions. The Company may face new or unexpected risks or significantly increase its exposure to one or more existing risk factors, including economic instability, changes in laws and regulations and the effects of competition. These factors may limit the Company's capability to successfully expand its operations and may have a material adverse effect on the Company's business, financial condition and results of operations.

Expansion of the Greenhouse Facility

Any expansion of the Greenhouse Facility is subject to various potential problems and uncertainties, and may be delayed or adversely affected by a number of factors beyond the Company's control. These uncertainties include the failure to obtain regulatory approvals, permits, delays in the delivery or installation of equipment by suppliers, difficulties in integrating new equipment with existing facilities, shortages in materials or labor, defects in design or construction, diversion of management resources, and insufficient funding or other resource constraints. Additionally, sufficient power will be required to expand the Greenhouse Facility, which the Company may not be able to secure, or secure at economically viable rates. The actual cost of construction may exceed the amount budgeted for expansion. As the result of construction delays, cost overruns, changes in market circumstances or other factors, the Company may not be able to achieve the intended economic benefits from the expansion of operations at existing facilities, which in turn may affect the Company's business, prospects, financial condition and results of operations. In particular, any expansion of the Greenhouse Facility is subject to Health Canada regulatory approvals. The delay or denial of such approvals may have a material adverse impact on the business of the Company and may result in the Company not meeting anticipated or future demand when it arises.

Need to Attract and Retain Qualified Personnel

The Company's success depends to a significant extent on its ability to identify, attract, hire, train and retain qualified personnel. Competition for such personnel may be intense and there can be no assurance that the Company will be successful in identifying, attracting, hiring and retaining such personnel in the future. If the Company is unable to identify, attract, hire and retain qualified personnel in the future, such inability could have a material adverse effect on its business, operating results and financial condition.

Litigation

The Company may become party to litigation from time to time in the ordinary course of business which could adversely affect its business. Should any litigation in which the Company becomes involved be determined against the Company, such a decision could adversely affect the

Company's ability to continue operating and the market price for the Common Shares and could use significant resources. Even if the Company is involved in litigation and wins, litigation can redirect significant resources.

Dividends

Any decision to declare and pay dividends in the future will be made at the discretion of the Company's Board and will depend on, among other things, financial results, cash requirements, contractual restrictions and other factors that the Company's Board may deem relevant. As a result, investors may not receive any return on an investment in the Common Shares unless they sell their Common Shares for a price greater than that which such investors paid for them.

Difficulty to Forecast

The Company must rely largely on its own market research to forecast sales as detailed forecasts are not generally obtainable from other sources at this early stage of the medical cannabis industry in Canada. A failure in the demand for its products to materialize as a result of competition, technological change or other factors could have a material adverse effect on the business, results of operations and financial condition of the Company.

Volatile Market Price for the Common Shares

The market price for the Common Shares may be volatile and subject to wide fluctuations in response to numerous factors, many of which are beyond the Company's control, including the following:

- actual or anticipated fluctuations in the Company's quarterly results of operations;
- recommendations by securities research analysts;
- changes in the economic performance or market valuations of companies in the industry in which the Company operates;
- addition or departure of the Company's executive officers and other key personnel;
- release or expiration of transfer restrictions on outstanding Common Shares;
- sales or perceived sales of additional Common Shares;
- operating and financial performance that vary from the expectations of management, securities analysts and investors;
- regulatory changes affecting the Company's industry generally and its business and operations;

- announcements of developments and other material events by the Company or its competitors;
- fluctuations to the costs of vital production materials and services;
- changes in global financial markets and global economies and general market conditions, such as interest rates and pharmaceutical product price volatility;
- significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving the Company or its competitors;
- operating and share price performance of other companies that investors deem comparable to the Company or from a lack of market comparable companies; and
- news reports relating to trends, concerns, technological or competitive developments, regulatory changes and other related issues in the Company's industry or target markets.

Limited Number of Existing Shareholders

The Company's management, directors and employees own a substantial number of the outstanding Common Shares (on a fully diluted basis). As such, the Company's management, directors and employees, as a group, each are in a position to exercise significant influence over matters requiring shareholder approval, including the election of directors and the determination of significant corporate actions. As well, these shareholders could delay or prevent a change in control of the Company that could otherwise be beneficial to the Company's shareholders.

Accounting Estimates

Certain of the Company's accounting policies set out in Note 3 to the Company's Financial Statements require that management make decisions with respect to the formulation of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. The Company's significant accounting estimates are contained in Note 4 of the Company's Financial Statements. The following is a discussion of the accounting estimates that are critical in determining the Company's financial results.

Acquisitions

In determining the allocation of the purchase price in an acquisition, including any acquisition related contingent consideration, estimates including market based and appraisal values are used. Judgement is used in determining whether an acquisition is a business combination or an asset acquisition.

Valuation of Biological Assets and Inventories

Biological assets, consisting of plants, are measured at fair value less costs to sell up to the point of harvest.

Determination of the fair values of the biological assets requires the Company to make assumptions about how market participants assign fair values to these assets. These assumptions primarily relate to the level of effort required to bring the plants up to the point of harvest, sales price, risk, and expected remaining future yields for the plants. As the valuation of biological assets becomes the basis for the cost of finished goods inventories after harvest, this is also a significant estimate for the valuation of inventories.

The significant assumptions used in determining the fair value of medical cannabis plants are as follows:

- wastage of plants based on their various stages;
- yield by plant;
- price per gram of yield;
- percentage of costs incurred to date compared to the costs to be incurred are used to estimate fair value of an in-process plant; and
- percentage of costs incurred for each stage of plant growth was estimated.

Estimated Useful lives of Property and Amortization of Plant and Equipment and Intangible Assets

Depreciation and amortization of property and equipment and finite-life intangible assets is dependent upon estimates of useful lives, which are determined through the exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that consider factors such as economic and market conditions and the useful lives of assets.

Share-based Compensation and Warrants

In calculating the share-based compensation expense and the value of warrants, key estimates such as the value of the Common Shares, the rate of forfeiture of options granted, the expected life of the option, the volatility of the value of the Common Shares and the risk-free interest rate are used as inputs to the Black Scholes model.

Taxes

Deferred tax assets will be recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgement is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable profits together with tax planning strategies. The Company has not yet recognized a deferred tax asset in respect of its deductible temporary differences and past losses incurred as it has not yet demonstrated that it will generate sufficient taxable income against which to utilize this tax asset.

Accounting Standards Adopted in the Period

IAS 7 Statement of Cash Flows

IAS 7 'Disclosures', required entities to provide disclosures in their financial statements about changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The adoption of this amendment did not have a material impact on the Company's audited consolidated financial statements.

IAS 12 Income Taxes

IAS 12 'Income taxes – Deferred Tax' clarifies the recognition of deferred tax assets for unrealized losses. It was amended to specify (i) the requirement for recognizing deferred tax assets or unrealized losses; (ii) deferred tax where an asset is measured at a fair value below the asset's tax base; and (iii) certain other aspects of accounting for deferred tax assets. The adoption of this amendment did not have a material impact on the Company's audited consolidated financial statements.

Future Accounting Pronouncements

These are the changes that the Company reasonably expects will have an impact on its disclosures, financial position or performance when applied at a future date. The Company intends to adopt these standards, if applicable, when they become effective.

IFRS 15 – Revenue from contracts with customers

In May 2014, IFRS 15 was issued by the IASB which provides a comprehensive framework for recognition, measurement, and disclosure of revenue from contracts with customers, excluding contracts within the scope of the standards on leases, insurance contracts and financial instruments. IFRS 15 is effective for annual periods beginning on or after January 1, 2018, and must be applied retrospectively. The Company is still evaluating the impact of adopting this standard.

IFRS 9 – Financial Instruments

IFRS 9 was issued by IASB in November 2009 and October 2010 and will replace IAS 39. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Two measurement categories continue to exist to account for financial liabilities in IFRS 9, fair value through profit or loss and amortized cost. Financial liabilities held-for-trading are measured at fair value through profit or loss, and all other financial liabilities are measured at amortized cost unless the fair value option is applied. The treatment of embedded derivatives under the new standard is consistent with IAS 39 and is applied to financial liabilities and non-derivative hosts not within the scope of the standard. The effective date of IFRS 9 is January 1, 2018. The Company is still evaluating the impact of adopting this standard.

IFRS 16 – Leases

In January 2016, the IASB issued IFRS 16, which specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. IFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019, and a lessee shall either apply IFRS 16 with full retrospective effect or alternatively not restate comparative information but recognize the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application. Early adoption is permitted if IFRS 16 has also been adopted. The Company is still evaluating the impact of adopting this standard.

IFRS 2 Share-Based Payment

In June 2016, the IASB issued amendments to IFRS 2. These amendments provide clarification on how to account for certain types of share-based payment transactions. The amendments are effective for the annual period beginning on or after January 1, 2018. The Company is still evaluating the impact of adopting this standard.

Non-IFRS Financial Measure and Reconciliation

Adjusted Earnings (Loss) before Interest, Taxes, Depreciation and Amortization ("EBITDA")

The term Adjusted EBITDA does not have any standardized meaning under IFRS. Therefore, it may not be comparable to similar measures presented by other companies.

Management uses Adjusted EBITDA to evaluate the performance of the Company’s business as it reflects its ongoing profitability. The Company believes that certain investors and analysts use Adjusted EBITDA to measure a company's ability to service debt and to meet other payment obligations or as a common measurement to value companies in the biopharmaceutical industry. Adjusted EBITDA has no directly comparable IFRS financial measure. Such information is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS.’

The Company measures Adjusted EBITDA as net income (loss) less unrealized gain on changes in fair value of biological assets plus fair value changes in biological assets included in inventory sold, income taxes, interest expense, accretion expense, distributions on preference shares, transaction costs, other income, (gain) loss on revaluation of derivative liability, share based compensation and depreciation and amortization. The Company believes that this definition is suited to measure the Company's ability to service debt and to meet other payment obligations.

The following table provides a reconciliation of earnings as determined under IFRS to Adjusted EBITDA.

Calculation of Adjusted EBITDA	**Three Months Ended December 31**		**Twelve Months Ended December 31**	
	2017	**2016**	**2017**	**2016**
	$	$	$	$
Net income (loss)	6,253	(8,260)	6,885	(13,620)
Fair value changes in biological assets included in inventory sold	1,463	1,484	11,303	4,340
Unrealized gain on changes in fair value of biological assets	(10,864)	(4,087)	(24,856)	(6,838)
Interest expense	41	155	261	474
Accretion expense	-	84	234	276
Distributions on preference shares	-	146	-	1,355
Transaction costs	-	30	204	396
Other income	(65)	-	(143)	-
Loss (Gain) on revaluation of derivative liability	-	623	1,625	(246)
Loss on revaluation of redeemable shares	-	9,807	-	9,807
Share based compensation	850	-	2,311	72
Depreciation and amortization	655	157	2,217	1,234
Adjusted EBITDA (Loss)	(1,667)	139	41	(2,750)

Disclosure Controls and Internal Controls over Financial Reporting

Internal Control over Financial Reporting

In accordance with National Instrument 52-109 of the Canadian Securities Administrators, management is responsible for establishing and maintaining adequate Disclosure Controls and Procedures ("DCP") and Internal Control over Financial Reporting ("ICFR"). The Company's CEO and CFO are required to file certifications relating to DCP and ICFR for the Company in connection with its interim and annual filings.

Changes in Internal Control over Financial Reporting

During the latter part of the year ended December 31, 2016, the Company engaged a new Chief Financial Officer and in April 2017, to better align its Financial Reporting capabilities with the growth profile of the Company, created a new position and hired a Director of Finance. In addition, the Company has entered into management services agreements (the "Service Agreements") with Forum Financial Corporation ("Forum"). Under the Service Agreements, the Company has appointed Forum to provide services to the Company to assist it with its continuous disclosure and reporting requirements. There have been no other significant changes made to the Company's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Limitations of Controls and Procedures

The Company's management, including the President and Chief Executive Officer and Chief Financial Officer, believes that any disclosure controls and procedures or internal control over financial reporting, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been prevented or detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by unauthorized override of the control. The design of any control system is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

Additional Information

Additional information relating to the Company, including the Company's audited year-end financial results and unaudited quarterly financial results, can be accessed on SEDAR (www.sedar.com). For further information shareholders may also contact the Company by email via investor@canntrust.ca.

NOTES:

NOTES:

DIRECTORS
Mark Litwin
Eric Paul
Mitchell Sanders
Norman Paul
Mark Dawber
Robert Marcovitch
Shawna Page

OFFICERS
Eric Paul – Chief Executive Officer
Ian Abramowitz – Chief Financial Officer
Stan Abramowitz – Secretary

AUDITORS
RSM Canada LLP, Chartered Professional Accountants
Toronto, Canada

REGISTRAR & TRANSFER AGENT
TSX Trust Company
Toronto, Canada

LISTED SECURITIES
Toronto Stock Exchange
Symbol: TRST

we care

CONTACT

Address

CannTrust Holdings Inc.
3280 Langstaff Road, Unit 1
Vaughan, Ontario
L4K 5B6

Phone & Fax

Toll Free: 1-833-688-TRST
1-833-688-8778
Phone: 1-647-872-2300
Fax: 1-844-295-6641

Online

Email:
investor@canntrust.ca
Website:
www.canntrust.ca/investor-relations

CannTrust®