



CannTrust: BrokenTrust & The Exit Door

With the new CEO Peter Aceto taking the reigns from the co-founder of CannTrust Eric Paul. Changes were undoubtedly a loof. CannTrust recently suffered an embarrassing milestone in being completely sold out of its medical products. It sure wouldn't be that bad if the company didn't implement one of the best patient acquisition models across Canada with the company claiming they have 45,000 active patients as of June 30. They claim their patient base increased from 20,718 on June 30, 2017 to 45,000 within a one year period. Leaving these 45,000+ briefly out in the cold in favour of recreation customers causing the newly minted CEO to distribute an apology email to all its patients. It's as if its medical supply stream of cannabis stopped on a dime with recreational cannabis coming online across Canada. Despite the apology underline issue still remains in CannTrust as it has a dangerous supply and/or supply chain issue that needs to be addressed.

Dear Valued Patient,

My name is Peter Aceto, and on October 1, 2018, I joined CannTrust as its new CEO.

In four short weeks I have fallen in love with this company, whose success and roots come from our medical clients.

I have heard many stories from our patients about how they rely on us to deliver standardized medicinal cannabis in a reliable consistent way.

Unfortunately, we have recently fallen short of our promise.

With the recreational volumes we have encountered, as well as the impact that legalization has had on some of our third-party testing labs (who we rely on to ensure our product exceeds our quality standards), our inventory has become very low, and we have been temporarily out of stock in several popular product lines.

This is a very serious matter, and we are pushing very hard to fix it urgently. We expect to have our standardized oils and capsules back in stock by this weekend, along with two strains of dried flower.

We promise to keep you updated on all product and strain releases in the upcoming weeks.

As a small gesture, I will see to it that we apply a discount of 10% on your next order. Visit our shop for details.

Please feel free to respond to us if you wish, and please accept my personal apology for letting you down.

We will get this fixed and will take every step to make sure that we never let you down again.

Sincerely,

Peter Aceto

CEO CannTrust

If the companies newly minted CEO first task is apologizing to its medical stakeholders, then one can expect some changes are afoot. That's the foundation of your company's revenue since its existence. Without their support there is no CannTrust. Any disregard for these people becomes inherently detrimental to the bottom line. It's more than just a simple problem that needs fixing and it can't be fixed overnight. Signalling that changes may be coming may be brought about with the imminent resignation of both President of CannTrust Brad Rogers and SVP of



Production & Biotechnology Dr. Micheal Ravensdale. Putting the market on notice that the company is going in a different direction that of Brad Rogers, in favour of that of current CEO Peter Aceto.

In the last 6 months, CannTrust began articulating its plans for the future. Essentially CannTrust was to shy away from production expansion and was to start looking to source “high quality & lower cost” cannabis elsewhere than that the company could cultivate themselves. Going as far as shutting down it’s cultivation at its Vaughan, Ontario site, in favour of turning it into a manufacturing Facility. The 50,000 square foot facility in question was to be the basis of their high quality pharmaceutical grade cannabis. In which was said to be the only pesticide free cannabis the company offered.

Rogers continues putting further emphasis on retail and distribution than pharmaceutical cultivation. Those hopes were nipped at the bud with the ‘one cultivation licence one retail store’ rule brought forward by Doug Ford’s government in Ontario; given that CannTrust has not applied for any retail application to my knowledge in any other province. This undersupply has put them in a serious bind domestically and internationally. In light that they has not achieved GMP certification to date. Despite CannTrust being incepted in 2014 as a Licensed Cannabis Company. These two key issues brought about by lack of execution are limiting its global outlook.

The current CEO is kindly laying blame on the unexpected recreational sales, but someone has to be left to blame and it’s never the paying customer. He or She is always right. Shareholders aren’t impressed. So someone has to take the fall. A ‘fall guy’ that can fall back on his riches already made. It’s not going to be the CEO they just hired. Taking a quick look at CannTrust introducing three ‘Dynamic Brands’ of recreational cannabis that was to build on its established reputation as the first pharmacist owner/operated producer of medical cannabis in Canada.

- Liiv: Comprised of specifically selected strains with well-known lineages, this product is designed for the educated and experienced consumer. This Brand speaks to consumers who do not require all the bells and whistles, just quality product. Liiv products will come in dried flower, pre rolled joints, oils and capsules.
- Synr.g: From a dinner party to a night out, or just connecting with friends, these expertly crafted strains are perfect for any social occasion and are targeted to consumers who look forward to breaks from their busy lives. Synr.g products will come in dried flower and pre rolled joints.
- Xscape: Xscape takes the guesswork out of choosing a strain and is designed to give consumers the confidence that they are selecting the product that fits their needs. Xscape will include strains like “Flix n Chill” and “Walk the Dog”. Xscape will come in dried flower and pre rolled joints.
- Peak Leaf: Nurture with nature, Peak Leaf believes a balanced lifestyle starts with wellness. Discover ways to enhance your mind and body by letting the outside in, because the more we connect with nature, the more we can reconnect with ourselves. Peak Leaf’s five strains will be available in dried flower and pre-rolled joints.

Throughout these times there has been one prominent voice behind these forward looking statements promoting recreational outlooks. CannTrust President Brad Rogers - who’s been amazing at hitting the public speaking circuit to drum up investor confidence amongst retail investors. However, he is indeed, clearly to blame for today’s predicament the company finds itself in. As illustrated, Brad Rogers has been the one behind the onerous decisions causing the product shortage and revenue shortfall.

“Based on our in-depth analysis of the targeted recreational market we carefully curated a selection of strains for each of our brands and are confident that we have selected the right product mix to appeal to a broad range of both retailers and consumers” said CannTrust’s President, Brad Rogers.



Outstanding Option-Based Awards

The table below reflects all option-based awards for each Named Executive Officer outstanding as at December 31, 2017. CannTrust does not have any other equity incentive plan other than the Plan.

NEO OPTION-BASED AWARDS OUTSTANDING AS AT DECEMBER 31, 2017				
	Number of Securities Underlying Unexercised Options ⁽¹⁾	Option Exercise Price (\$/Security)	Option Expiration Date ⁽¹⁾	Value of Unexercised In-the-Money Options (\$)
Eric Paul Chief Executive Officer	50,000	\$2.00	February 16, 2027	\$375,500
Ian Abramowitz Chief Financial Officer	150,000 150,000	\$2.00 \$3.00	February 16, 2027 February 16, 2027	\$1,072,500 \$922,500
Brad Rogers President and Chief Operating Officer of CannTrust Inc.	250,000 375,000	\$2.00 \$3.00	February 16, 2027 February 16, 2027	\$1,787,500 \$2,306,250

Notes:

(1) Fair value of the options was determined using the Black-Scholes option-pricing model.

To add insult to injury. Despite loyal medical patients being unable to access product at much higher margins than recreational cannabis sales to the Provinces. CannTrust products ‘Kinky Kush’ ‘Mountain Kush’ ‘Cabaret’ ‘Campfire’ ‘Yin & Yang’ ‘Tailgate’ ‘Alpine’ ‘Buddha’ ‘Walk the Dog’ were available online in B.C. & Ontario for much cheaper than medical patients have been historically paying in the past. That’s even with the offered 10% discount on their next order, per the email. All this while CannTrust President is declaring “We want to be the Monsanto of pot,” in a recent interview with BNN.

 MOUNTAIN KUSH Peak Leaf by CannTrust Inc. THC 20-24% CBD 0-1% from \$6.99 Hybrid	 BUDDHA HAZE Liv by CannTrust Inc. THC 18-20% CBD 0-1% from \$6.99 Sativa-Dominant	 ALPINE BREEZE Peak Leaf by CannTrust Inc. THC 20-22% CBD 0-1% from \$6.99 Indica-Dominant	 PURPLE CHITRAL Woodstock by MedReleaf THC 18-21% CBD 0-0% \$31.99 Indica-Dominant
 YIN & YANG Liv by CannTrust Inc. THC 4-6% CBD 7-9% from \$22.99 Indica-Dominant High	 CABARET AltoVie by MedReleaf THC 16.5-20.3% CBD 0-0% from \$9.99 Sativa-Dominant	 CAMPFIRE AltoVie by MedReleaf THC 3.6-4.6% CBD 5.8-7.3% from \$9.99 Hybrid High CBD	 KINKY KUSH Liv by CannTrust Inc. THC 23-25% CBD 0-1% from \$6.99 Indica-Dominant



With a clear failure to analyze cultivation needs it's an obvious time to take the company in a different direction. In hopes of trying to stop from continual product shortages persisting, CannTrust is one crop failure away from longstanding shortages that could cripple the company in the short term causing patients to suffer from fleet of foot. As the company is finding out the hard way, the value chain doesn't increase from sourcing product from commodity growers currently, as Brad Rogers persisted. It lies within consumer loyalty. CannTrust is seemingly signalling a change of strategy with these two impending resignations. Those steps are being taken to change the landscape of the company.

Risky in today's times, Brad Rogers has insinuated that CannTrust only cultivates Cannabis, because they have to in order to qualify for a license. As President he'd been quoted on numerous occasions that they want out our cultivation sooner than later but went on to later went on to clarify they are not planning to divest their Niagara Facility. A complete change in leadership signals troubling times ahead in the near future for CannTrust. However, the long term gain may be outweigh any short term pain.

SUMMARY COMPENSATION TABLE							
Name and Principal Position of Named Executive Officer	Twelve Months Ended Dec. 31	Salary (\$)	Option-Based Awards (\$) ⁽⁴⁾	Non-Equity Incentive Plan Compensation		All Other Compensation (\$)	Total Compensation (\$)
				Annual Incentive Plans (\$) ⁽¹⁾	Long-Term Incentive Plans (\$)		
Eric Paul Chief Executive Officer	2017	\$200,000	\$76,753 ⁽³⁾	\$0	\$0	\$0	\$306,753
	2016	\$200,000	\$0	\$0	\$0	\$0	\$200,000
	2015	\$200,000	\$0	\$0	\$0	\$0	\$200,000
Ian Abramowitz ⁽²⁾	2017	\$146,945	\$643,182 ⁽⁶⁾⁽⁷⁾	\$24,391	\$0	\$0	\$814,518
Chief Financial Officer	2016	\$5,000	\$0	\$0	\$0	\$0	\$5,000
Brad Rogers ⁽¹⁾	2017	\$186,539	\$1,359,210 ⁽⁶⁾⁽⁹⁾	\$32,521	\$0	\$0	\$1,578,270
President and Chief Operating	2016	\$103,846	\$0	\$0	\$0	\$0	\$103,846

Prior to joining CannTrust, Rogers gained extensive experience in Medical Cannabis as one of the Founders of Mettrum, one of Canada's largest MMPR (Marihuana for Medical Purposes Regulations) licensed companies. Serving as Mettrum's Chief Operation Officer, he was responsible for stewarding the company through its initial MMPR application through to a go-public transaction on the TSX Venture Exchange. Rogers is also well educated as he received an Executive MBA degree from the Richard Ivey School of Business at Western University in 2011. Rogers has always been tasked with the responsibility for the planning and execution of brand-growth strategies in which he's inherently failing to do. The loss of its President will be unexpected to many shareholders but far from being considered unwarranted.

Dr. Micheal Ravensdale has historically been a cannabis mainstay. Working at Mettrum in March 2014 to July 2016, as the Senior Manager of Quality Assurance & Research. Dr. Ravensdale has a Bachelors degree in Botany/Plant Biology & a Masters degree in Horticultural Science. Later he went on to obtain Doctorate degree in Plant Pathology from the University of Dundee in the United Kingdom. This resignation would represent a loss of the companies most decorated executive in the company. Dr. Ravensdale has been the backbone of CannTrust since October 2016; he is their designated Senior Person In Charge to Health Canada. Unfortunatel, his salary and compensation isn't disclosed as he's supposedly left as part of a compensation dispute. Also of note, he was considered instrumental in the Apotex partnership who is the largest Canadian-owned generic pharmaceutical company. As part of that Apotex partnership, applications were to be made for Drug Identification Number (DIN)



registration for proprietary formulations following completion of clinical trials in which Dr. Ravensdale was an integral part.

Such a drastic change of personnel isn't anything new for emerging markets such as Cannabis. However, the underlining problem caused by past management decisions still persist for CannTrust. They are suffering a chronic undersupply of medical product, while sustaining recreational aspirations. Patients are going elsewhere and Dr. Micheal Ravensdale leaving isn't going to help things in the short term. The current expansion plans at the Niagara Facility with the most optimal production estimates being 4000 kg a month by years end, isn't enough to fuel CannTrust growth on the grand scheme of things. Expect supply problems to persist despite whoever is put in charge of CannTrust for the near future. Any such longterm shortages in the near future could certainly jeopardize their ability to achieve DIN registration that would facilitate the rapid expansion of CannTrust to a global marketplace, including the 85 countries where Apotex currently distributes products.