MANAGEMENT'S DISCUSSION AND ANALYSIS

This management's discussion and analysis of financial condition as at December 31, 2016 and 2015 and results of operations for the years December 31, 2016, 2015 and 2014, and for the three month periods ended March 31, 2017 and 2016 (the "MD&A") should be read in conjunction with the Financial Statements included in this prospectus. This MD&A is presented as of the date of this prospectus and is current to that date unless otherwise stated. The financial information presented in this MD&A is derived from the Financial Statements. This MD&A contains forward looking statements 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 statements. See "Forward-Looking and Other Statements" and "Risk Factors".

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 our financial information reported under IFRS. We use EBITDA, a non-IFRS financial measure, as a supplemental measure of our operating performance and thus highlight trends in our core business that may not otherwise be apparent when relying solely on IFRS financial measures. We believe that securities analysts, investors and other interested parties frequently use non-IFRS financial measures in the evaluation of issuers. Our management also uses this non-IFRS financial measure to facilitate operating performance comparisons from period to period, prepare annual operating budgets and assess our ability to meet our capital expenditure and working capital requirements. See "Selected Annual Information" and "Non-IFRS Financial Measure Reconciliation in this MD&A".

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).

Overview

CannTrust Opco is a Licensed Producer and distributor of medical cannabis pursuant to the provisions of the 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 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.

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 CCTPC to launch BrewBudz™ in the United States and globally. BrewBudz™ is a U.S. patented unit dose pod formulation allowing the administration of cannabis using single-serve brewing pods for use in Keurig, Nespresso, and Tassimo type brewers. The CCTPC United States Patent provides patent protection for the unit dose pod formulation. Through CCTPC, the Company will receive royalty income from the licensing agreement with Lighthouse currently covering six states: Washington, Oregon, California, Nevada, Arizona and Colorado. The Company is not required to contribute any capital or cannabis product toward these sales. The licensee, Lighthouse, is expected to commence initial sales in Nevada in the next few months. Based on the performance in Nevada, plans will be developed for the other states. In order to become a licensee or sub-licensor, the licensee entity must provide the Company and its joint venture partner with the licenses it has been granted by the state regulatory authorities which permit it to carry on the sale of cannabis products. On a go-forward basis, the licensee entity is also required to maintain the licenses in good standing or CCTPC shall have the right to cancel the licensing arrangement.

CCTPC has also submitted patent applications in the European Union, Australia and China which are similar to the CCTPC Patents. The Company does not have any immediate plans for investments in the cannabis industry in the United States beyond its interest in the CCTPC US Patent and related licensing arrangements.

In 2017, the Company entered into an exclusive joint venture with Apotex Inc., a leading generic pharmaceutical manufacturer, to develop novel dosage formats and products for sale, when permitted, into more than 85 countries where Apotex currently already has market share.

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 (see note 10(iii) to the Annual Financial Statements).

2016 Highlights

• Record annual revenues with triple digit growth in the fourth quarter compared to the same period in 2015
• Approximately 10,000 active clients
• Sold 619,885 g of medical cannabis at an average gross selling price of $7.50 per gram
• Established the capability to produce concentrated cannabis oils
•Introduced and commenced sales of pharmaceutically standardized concentrated cannabis oils
• Sold 299,360 ml of pharmaceutically standardized concentrated cannabis oils at an average gross selling price of $90.00 per 40 ml bottle
• Expanded product portfolio with an excellent selection of strains of dried cannabis bud and oils
• Obtained a U.S. Patent for CCTPC's Brew Pods compostable, single serve K Cup unit dose
• Executed royalty License Agreement with respect to six U.S. States for the production and sale of CCTPC's BrewBudz™ K Cup brand Cannabis infused coffee, tea and hot chocolate drinks
• Completed a $4.4 million equity financing at price of $1.30 per Common Share
• Strengthened our Board of Directors and Management Team

Results of Operations for the 2016, 2015 and 2014 fiscal years

The results presented and referred to below include the results of the Company's operating subsidiary CannTrust Opco.
### Selected Annual Information

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

**Year ended December 31**

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Financial Data</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue</td>
<td>$4,382</td>
<td>$609</td>
<td>$(2)</td>
</tr>
<tr>
<td>Cost of sales (recovery), net of unrealized gain from changes in fair value of biological assets&lt;sup&gt;(1)&lt;/sup&gt;</td>
<td>$1,601</td>
<td>$(122)</td>
<td>$(314)</td>
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<tr>
<td>Gross margin, including unrealized gain from changes in fair market value of biological assets</td>
<td>$2,781</td>
<td>$731</td>
<td>$314</td>
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<tr>
<td>Net loss</td>
<td>$(13,620)</td>
<td>$(6,820)</td>
<td>$(12,753)</td>
</tr>
<tr>
<td>Adjusted EBITDA (Loss)&lt;sup&gt;(5)&lt;/sup&gt;</td>
<td>$(86)</td>
<td>$(3,557)</td>
<td>$(2,713)</td>
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<tr>
<td>Loss per share (basic and diluted) ($ per share)</td>
<td>$(0.30)</td>
<td>$(0.17)</td>
<td>$(0.37)</td>
</tr>
<tr>
<td>Cash used in operations</td>
<td>$(1,997)</td>
<td>$(4,625)</td>
<td>$(2,781)</td>
</tr>
<tr>
<td>Total assets</td>
<td>$16,879</td>
<td>$11,365</td>
<td>$10,383</td>
</tr>
<tr>
<td>Total non-current financial liabilities</td>
<td>$2,839</td>
<td>$18,641</td>
<td>$15,837</td>
</tr>
<tr>
<td><strong>Operating Statistics</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dried marijuana sold (g)</td>
<td>619,885</td>
<td>129,205</td>
<td>n/a&lt;sup&gt;(2)&lt;/sup&gt;</td>
</tr>
<tr>
<td>Revenue per gram (net)</td>
<td>$5.72</td>
<td>$4.29</td>
<td>n/a&lt;sup&gt;(2)&lt;/sup&gt;</td>
</tr>
<tr>
<td>Sales of oils (ml)</td>
<td>299,360</td>
<td>nil</td>
<td>nil</td>
</tr>
<tr>
<td>Average selling price per ml (net)</td>
<td>$1.96</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Total dried marijuana equivalent sold from oil (g)</td>
<td>91,155</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Revenue per gram of marijuana equivalent from oil sales (net)</td>
<td>$6.43</td>
<td>n/a</td>
<td>n/a</td>
</tr>
</tbody>
</table>

**Notes:**

<sup>(1)</sup> Medical cannabis plants that are in pre-harvest are considered biological assets and are capitalized on the Company's Statement of Financial Position at fair market value. As the biological assets continue to grow through the pre-harvest stages, a corresponding unrealized gain on
Review of the Results of Operations for the Year ended December 31, 2016 vs Year ended December 31, 2015

Revenue

Revenue was $4,382,088 for the year ended December 31, 2016 compared to $608,768 for the year ended December 31, 2015. The quantity of medical cannabis sold to patients during the year ended December 31, 2016 increased 450% from the prior year to 711 kg. In addition during the year ended December 31, 2016 CannTrust Opco sold 299,360 ml of cannabis oils. There were no sales of cannabis oils in the year ended December 31, 2015. Sales for the year ended December 31, 2015 include sales from March 2015 when CannTrust Opco first began selling its medical cannabis products directly to patients.

Cost of Sales

Plants that are in pre-harvest are considered biological assets and are capitalized on the balance sheet 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 income through cost of sales, reflecting the changes in fair value of the biological assets. At harvest, the biological assets are transferred to inventory at their fair value which becomes the deemed cost of inventory. Inventory is later expensed to cost of sales when sold and offsets against the gain on biological assets. In addition, the cost of production is expensed through cost of sales and represents overheads and other production costs of growing and selling the plants. Together the gain from changes in the fair value of biological assets, inventory expensed and the cost of production comprise cost of sales. Costs of sales 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.

Cost of sales (recovery), net of unrealized gain on changes in fair value of biological assets, in the year ended December 31, 2016 was $1,601,214 compared to ($121,783) in the prior year.

Cost of sales in 2016 includes a net unrealized gain from changes in fair value of biological assets of $6,838,140 compared to $1,902,673 in the preceding year. In order to ensure the standardization of the cannabis product produced, as part of the regular growth cycle only the healthiest plants are selected by the Company for placement in the grow rooms with the remaining plants being culled. This standardized growth cycle process, also includes only retaining the most vigorous plants that
are placed in the grow rooms with the balance being culled. As a result, during the year ended December 31, 2016 biological assets of approximately $2.2 million were netted against the unrealized gain from changes in fair value of biological assets (2015 - $464,000). During the 2016 year, the Company pared down the number of strains being produced with the associated plants being culled. This resulted in a one-time adjustment of $350,000 of biological assets being netted against the unrealized gain from changes in fair value of biological assets.

During the year ended December 31, 2016, due mainly to Health Canada Vault quantity constraints, inventory valued at $1,103,121 was destroyed. Production costs during the year ended December 31, 2016 increased compared to the 2015 period due to increases in the staff compliment and facility costs required to meet the increase in demand for the Company's products and the related increases in production.

**Gross Margin**

The gross margin was $2,780,874 for the year ended December 31, 2016 compared to $730,551 in the prior year. Gross margin includes the unrealized gains on changes in the fair value of biological assets. The gross margin was favourably impacted by 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.

**Administrative and General Expenses**

Expenses for the year ended December 31, 2016 were $3,886,069 compared to $4,288,169 in the prior year. The decrease in administrative and general expenses in 2016 was due to a 2016 increase in the percentage of salaries, rent and facility expenses allocated to production costs compared to 2015.

**Amortization**

Amortization for the year ended December 31, 2016 was $1,470,952 ($854,142 of which is included in production costs) compared to $1,152,503 in the prior year. The increase in expenses in 2016 was due to an increase in amortization on equipment purchases and an increase in amortization associated with computer software. The balance of amortization in the years ended December 31, 2016 and 2015 related to leasehold improvements, furniture and fixtures and computer hardware.

**Share-based compensation**

For the year ended December 31, 2016, stock-based compensation expense was $72,000 compared to $0 for the corresponding 2015 period. The 2016 stock-based compensation was attributable to the issuance of 80,000 Common Shares to employees of the Company.

**Finance Costs**

Finance costs include bank charges, interest expense and distributions on CannTrust Opco's Class A preference shares. For the year ended December 31, 2016, finance costs were $1,828,983
compared to $1,095,942 in the prior year. This includes accrued distributions on the CannTrust Opco Class A preference shares of $1,355,022 compared to $861,000 in the prior year. The increase in accrued distributions on the Class A preference shares in 2016 was due to the associated increase in the cumulative coupon on these shares during the current period. Interest expense for the year ended December 31, 2016 was $473,961 compared to $234,942 in the prior year. The increase in interest expenses in 2016 was due to the increase in interest cost on the Company's convertible debt which was outstanding for the full year. As the convertible debt was only issued in the later part of 2015, the prior year's expense was for only part of the year. Accretion expense for the year ended December 31, 2016, being the difference in the actual cost on the Company's debt compared to the imputed interest rate, was $276,413 compared to $60,766 in the 2015 period. In October 2016 all of the holders of the CannTrust Opco Class A preference shares, including the 4,000,000 classified as redeemable shares, exchanged their Class A preference shares, including all accrued and unpaid distributions thereon, for 9,039,317 Common Shares and 11,365,055 redeemable shares of the Company.

Transaction costs of $396,377 in the year ended December 31, 2016 represent the cost of the issuance of Common Shares as part of the Company's bridge financing arrangements. Transaction costs in the year ended December 31, 2015, being the value attributable to the Shares and Warrants issued by the Company in consideration of securing the $600,000 bridge loans and $3,600,000 of convertible debt, were $1,038,265. The gain on revaluation of the derivative liability, being the change in value attributable to the conversion feature on the Company's convertible debt, was $245,657 for the year ended December 31, 2016 compared to $112,884 in the comparable 2015 period.

### Loss on revaluation of Redeemable Shares

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 compared to a loss of $27,760 in the comparable 2015 period. In December 2016, Cannamed Financial Corp. surrendered its put rights in return for 2,000,000 Common Shares and a warrant to acquire 1,000,000 Common Shares at $1.30 per Common Share and all of the redeemable shares owned by Cannamed Financial Corp. were reclassified as Common Shares.

### Income Tax

As a result of current and past year losses the Company did not incur any income tax expense in years-ended December 31, 2016 and 2015. The Company has non-capital losses carried forward as at December 31, 2016 of $15,581,000 which will be used to off-set future taxable income.
Net Income/Net Loss

Net loss for the year ended December 31, 2016 was $13,619,943 compared to a net loss of $6,819,970 in the previous year. During the year ended December 31, 2016, $804,784 of this net loss was attributable to CannTrust's Opco's non-controlling interest compared to $405,580 in the 2015 comparable period. In November 2016, all of the non-controlling shareholders of CannTrust Opco exchanged their shares for Common Shares resulting in CannTrust Opco becoming a wholly owned subsidiary of the Company. Loss per share as calculated is based on the weighted number of shares of the Company outstanding during the relevant periods.

Review of the Results of Operations for the Years ended December 31, 2015 vs Year ended December 31, 2014

Revenue

Revenue was $608,768 for the year ended December 31, 2015. CannTrust Opco began selling its medical cannabis products directly to patients in March 2015. Accordingly, there were no sales for the year ended December 31, 2014.

Cost of Sales

Plants that are in pre-harvest are considered biological assets and are capitalized on the balance sheet 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 income through cost of sales, reflecting the changes in fair value of the biological assets. At harvest, the biological assets are transferred to inventory at their fair value which becomes the deemed cost of inventory. Inventory is later expensed to cost of sales when sold and offsets against the gain on biological assets. In addition, the cost of production is expensed through cost of sales and represents overheads and other production costs of growing and selling the plants. Together the gain from changes in the fair value of biological assets, inventory expensed and the cost of production comprise cost of sales. Costs of sales 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.

Recovery of cost of sales, net of unrealized gain on changes in fair value of biological assets, in the year ended December 31, 2015 was $121,783 compared to $314,467 in the prior year. Cost of sales in 2015 includes an unrealized gain from changes in fair value of biological assets of $1,902,673 compared to $917,600 in the 2014 year. As part of the regular growth cycle only the healthiest plants are selected by the Company for placement in the grow rooms with the remaining plants being culled as part of the cycle. In addition plants in the grow rooms were also culled as part of the grow cycle due to poor growth. 2015 was the first full year production cycle and as a result production costs increased compared to 2014.
**Gross Margin**

The gross margin was $730,551 for the year ended December 31, 2015 compared to $314,467 in the prior year. Gross margin includes the unrealized gains on changes in the fair value of biological assets. The gross margin was favourably impacted by the relative size of the unrealized gain from changes in the fair value of biological assets.

**Administrative and General Expense**

Expenses for the year ended December 31, 2015 were $4,288,169 compared to $3,028,435 in the prior year. The increase in expenses for the 2015 year was due to an increase in marketing expenses, professional fees, management expenses and salaries, resulting from an increase in the staff compliment required to increase production and service patients, and a loss on disposal of certain equipment.

**Amortization**

Amortization for the year ended December 31, 2015 was $1,152,503 compared to $474,543 in the prior year. The increase in expenses in 2015 was due to an increase in amortization on additions to leasehold improvements and equipment purchases. The balance of amortization in the years ended December 31, 2015 and 2014 related to furniture and fixtures and computer hardware and software.

**Finance Costs**

Finance costs include bank charges, interest expense and distributions on CannTrust Opco's Class A preference shares. For the year ended December 31, 2015, finance costs were $1,095,942 compared to $799,510 in the prior year. This includes accrued distributions on the CannTrust Opco preference shares of $861,000 in 2015 and $806,663 in the prior year. Interest expense for the year ended December 31, 2015 was $234,942 compared to interest income of $7,153 in the prior year. The increase in interest expenses in 2015 and the $112,884 revaluation of the derivative liability, being the change in value attributable to the conversion feature on the Company's convertible debt, was due to the issuance by the Company of $3,600,000 of convertible debt in the latter part of 2015.

Accretion expense for the year ended December 31, 2015, being the difference in the actual cost on the Company's convertible debt compared to the imputed interest rate, was $60,776. Transaction costs in the year ended December 31, 2015, being the value attributable to the Common Shares and warrants issued by the Company in consideration of securing the $600,000 bridge loans and $3,600,000 of convertible debt, were $1,038,265.

**Loss on revaluation of Redeemable Shares**

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, 2015 was $27,760 compared to a loss of $8,765,636 in the comparable 2014 period.

**Income Tax**

As a result of current and past year losses the Company did not incur any income tax expense in the years ended December 31, 2015 and 2014.

**Net Income/Net Loss**

Net loss for the year ended December 31, 2015 was $6,819,970 compared to a net loss of $12,753,657 in the previous year. In April 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, resulting in CannTrust Opco becoming a subsidiary of the Company. As a result, during the year ended December 31, 2015, $405,580 of the net loss was attributable to CannTrust's Opco's non-controlling interest. Loss per share as calculated is based on the weighted number of Common Shares outstanding of the Company for 2015 and CannTrust Opco for 2014.

**Liquidity and Capital Resources as at December 31, 2016 and December 31, 2015 and for the 2016, 2015 and 2014 fiscal years**

Operating cash flow, equity financings and debt financings are the Company's primary source of liquidity. At December 31, 2016, cash and cash equivalents were $4,895,145 (December 31, 2015 – $2,991,154 and December 31, 2014 – $2,971,493).

Set out below is a schedule of the Company's working capital as at December 31, 2016 and 2015.

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<thead>
<tr>
<th></th>
<th>December 31, 2016</th>
<th>December 31, 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$000s</td>
<td>$000s</td>
</tr>
<tr>
<td>Working Capital</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current Assets</td>
<td>11,625</td>
<td>5,835</td>
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<tr>
<td>Current Liabilities</td>
<td>3,571</td>
<td>2,537</td>
</tr>
<tr>
<td></td>
<td>8,054</td>
<td>3,298</td>
</tr>
<tr>
<td>Ratio of current assets to current liabilities</td>
<td>3.3</td>
<td>2.3</td>
</tr>
</tbody>
</table>

Working capital is primarily represented by cash, inventory and biological assets, offset by accounts payable, distributions payable on the CannTrust Opco preference shares and convertible debt due on demand. The Company's working capital increased by $4,755,660 to $8,053,890 as at
December 31, 2016 compared to $3,298,230 at December 31, 2015 due to increases in cash, inventory and biological assets. Current liabilities increased in 2016 mainly as a result of the issuance during the year by the Company of $1,000,000 of convertible debt due on demand.

Operating Activities

The principal use of operating cash flow is to fund the Company's operating and capital expenditures at its production facility, its general and administrative costs and its debt service payments. During 2016, the Company's cash flows used in operations were $1,996,566 (2015 – cash flows used in operations were $4,624,722). Cash flows used in operations in 2016 are attributable to cash used in operations of $7,993,803 offset by the changes in non-cash working capital items. Cash flows used in operations in 2015 are attributable to cash used in operations of $6,235,239 offset by changes in non-cash working capital items.

Cash flows used in operations in 2014 were $2,781,492. There were no sales in 2014 and the cash flow used in operations resulted from the various expenses incurred by CannTrust Opco in developing its production and sales capabilities to meet future demands.

Investing Activities

Cash used in investing activities during the year ended December 31, 2016 was $1,074,594 compared to $507,810 in 2015 and $5,622,986 in 2014. Expenditures during 2016 included $1,207,840 of additions to property, plant and equipment and the investment of $166,755 in the CCTPC joint venture, offset by a $300,000 redemption of short-term investments. In the 2015 year, $707,810 was invested in additions to property, plant and equipment offset by a $200,000 redemption of short term investments. In 2014, CannTrust Opco began the construction of its production facility and invested $5,631,411 in property, plant and equipment.

Financing Activities

Cash of $5,275,152 was generated by financing activities during the year ended December 31, 2016, compared to $5,352,193 in the previous year and $10,789,882 in 2014. During 2016, the Company received proceeds from the issuance of debt and Common Shares of $1,040,918 and $4,234,233 respectively. During 2015, the Company raised $2,199,999 from the issuance of Common Shares and $3,152,194 of new convertible debt net of shareholder debt repayments. In 2014, CannTrust Opco raised net proceeds from equity financings of $10,789,882.

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, preference shares and shareholders' equity. Set out below is a schedule of the capital structure of the Company as at December 31, 2016 and 2015.

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2016</th>
<th>December 31, 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$000s</td>
<td>$000s</td>
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<tr>
<td>Convertible Debt</td>
<td>3,840</td>
<td>2,777</td>
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<tr>
<td>Preference Shares</td>
<td>-</td>
<td>8,739</td>
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<tr>
<td>Shareholders' equity (Deficit)</td>
<td>10,468</td>
<td>(1,020)</td>
</tr>
<tr>
<td>Debt to equity</td>
<td>37%</td>
<td>-</td>
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</tbody>
</table>

(1) Includes convertible debentures and notes as at December 31, 2016 and convertible debentures as at December 31, 2015.
(2) In October 2016, the holders of the CannTrust Opco Class A Preference Shares exchanged their preference shares, including accrued dividends thereon, into Common Shares.
(3) In December 2016, all of the redeemable shares were reclassified as Common Shares.
(4) Shareholders' equity at December 31, 2015 includes the redeemable shares.

**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 and cash equivalents, accounts payable and accrued liabilities and convertible debentures and debt loans. 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 18 to the Annual Financial Statements discloses risks related to interest rates, credit and liquidity.

**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, all 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 is convertible at the option of the holder into Common Shares at a price equal to $1.10 per Common Share, any time prior to the occurrence of a liquidity event. The debenture and all accrued and unpaid interest will be automatically converted into Common Shares upon the occurrence of a liquidity event at a price per Common Share equal to the lesser of $1.10 or a 25% discount to the price per Common Share upon the occurrence of the liquidity event. A liquidity event has been defined as (a) the completion of a public offering of Common Shares by the
Company and listing on a Canadian or US stock exchange, (b) the sale for cash proceeds of all of the issued and outstanding shares in the capital of the Company or (c) the amalgamation or any other corporate transaction involving the Company with or into another entity pursuant to which the Common Shares of the resulting issuer from such transaction are listed on a Canadian or US stock exchange.

In December 2015, as part of an equity private placement transaction, warrants to purchase 1,000,000 Common Shares for two years at a price of between $1.10 and $1.50 per Common Share were issued.

In August and September 2016, the Company issued $1,000,000 in convertible promissory notes. The notes have an interest rate of 12% per annum and are payable on demand. The notes are convertible by the holder at any time into Common Shares at a conversion rate equal to $1 per Common Share.

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 three years at $1.30 was issued.

In March 2017, at the option of the holders, $600,000 of the Company's senior secured convertible debentures and all of the $1,000,000 of the convertible promissory debt plus accrued interest was converted into 1,712,425 Common Shares.

In March 2017, at the option of the holder, warrants to purchase 1,000,000 Common Shares (500,000 at a price of $1.10 per Common Share and 500,000 at a price of $1.50 per Common Share) were exercised for gross proceeds of $1,300,000.

Statements of Financial Position as at December 31, 2016 and 2015

Select Consolidated Statements of Financial Position Data

<table>
<thead>
<tr>
<th></th>
<th>Years ended December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2016</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>4,895</td>
</tr>
<tr>
<td>Inventory</td>
<td>3,675</td>
</tr>
<tr>
<td>Biological Assets</td>
<td>2,320</td>
</tr>
<tr>
<td>Total Assets</td>
<td>16,879</td>
</tr>
<tr>
<td>Current liabilities</td>
<td>3,571</td>
</tr>
<tr>
<td>Non-current liabilities</td>
<td>2,839</td>
</tr>
</tbody>
</table>
**Assets**

The Company's asset base consists primarily of cash and cash equivalents, inventories, biological assets and property, plant and equipment. The $5,513,492 increase in the asset base resulted largely from increases of cash of $2,203,991 and $3,346,242 in inventory and biological assets.

**Liabilities**

The Company's total current and non-current liabilities were $6,410,359 at December 31, 2016, a decrease of $14,767,397 from December 31, 2015. This decrease was largely attributable to the 2016 exchange by the holders of the CannTrust Opco Class A preference shares and redeemable shares into Common Shares.

**Shareholders' Equity**

The Company's shareholders' equity increased by $20,280,889 to $10,468,249 at December 31, 2016, from a deficit of $9,407,060 at December 31, 2015. This is mainly attributable to the 2016 exchange by the holders of the CannTrust Opco Class A preference shares and the reclassification of the redeemable shares into Common Shares and the issuance by the Company of 3,416,208 Common Shares at an issue price of $1.30 per share for gross proceeds of $4,441,070, offset by the net loss for the year of $13,619,943. The net loss for the year includes a $9,806,882 revaluation of the redeemable shares prior to their reclassification into Common Shares.

**Related Party Transactions for the Years ended December 31, 2016 and December 31, 2015**

During the years ended December 31, 2016 and December 31, 2015, 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 fiscal years ended December 31, 2016 and 2015 are summarized as follows:

As at December 31, 2016, NIL preference shares of CannTrust Inc. (2015 - 4,000,000) were issued and outstanding to Cannamed Financial Corp., NIL (2015 - 250,000) to Cajun Capital Corporation and NIL (2015 - 1) to York Capital Funding Inc. Cannamed Financial Corp. is the voting trustee under the voting trust agreement and its shareholders are The Paul Family Trust, Mar-risa Holdings Inc., Sutton Management Limited, York Capital Funding Inc. and Forum Financial Corporation. Eric Paul, a Director and CEO of the Company, is the sole trustee of The Paul Family Trust. Mar-isa Holdings Inc., Sutton Management Limited and York Capital Funding Inc. are beneficially owned by Mark Litwin and Risa Litwin. Mark Litwin is a Director and Chairman of the Board of Directors of the Company. 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. Cajun Capital Corporation is controlled by Mitchell Sanders, a Director of the Company.

As at December 31, 2016 NIL (2015 – $919,232) of dividends were accrued on the CannTrust Opco preference shares outstanding to Cannamed Financial Corp and NIL (2015 - $57,452) on the preference shares outstanding to Cajun Capital Corporation. On October 30, 2016, Common Shares of the Company were issued to all of the holders of the CannTrust Inc. Class A preference
shares in exchange for the transfer of the Class A preference shares to the Company (see Note 12 (ii) to the Financial Statements). As a result of this exchange, 11,356,055 Common Shares were issued to Cannamed Financial Corp., 709,754 Common Shares to Cajun Capital Corporation and 30 Common Shares to York Capital Funding Inc.

In 2015, bridge loans of $400,000 were obtained from Forum Financial Corporation, $200,000 from The Paul Family Trust and $200,000 from The Norman Paul 2013 Family Trust. The Norman Paul 2013 Family Trust is a significant shareholder of the Company and Norman Paul is one of the founders of the Company. In 2015, $200,000 of the bridge loans owing to Forum Financial Corporation were repaid in cash. The remaining $600,000 in bridge loans was settled in 2015 by the issuance of $200,000 of convertible debt (see Note 9(i) to the Financial Statements) to each of Forum Financial Corporation, The Paul Family Trust and The Norman Paul 2013 Family Trust.

During 2016, the Company obtained $1,000,000 in due on demand convertible promissory notes from Dancap Private Equity Inc. all of which was outstanding at December 31, 2016. As at December 31, 2016, $43,726 of accrued interest was outstanding on the Dancap promissory notes. Dancap Private Equity Inc., a significant shareholder of the Company, is controlled by Aubrey Dan, a director of the Company. During 2016, the Company paid NIL in interest on the Dancap convertible promissory notes.

During 2015, the Company obtained $440,000 of convertible debt from Forum Financial Corporation, $390,000 from The Paul Family Trust and $200,000 from the Norman Paul 2013 Family Trust, all of which was outstanding at December 31, 2016. As at December 31, 2016 $70,474 (2015 - $17,529) of accrued interest was outstanding on the convertible debt owing to Forum Financial Corporation, $63,981 (2015 - $17,053) to The Paul Family Trust and $32,811 (2015 - $8,745) to the Norman Paul 2013 Family Trust. During 2016 and 2015, the Company paid NIL in interest on the convertible debt owing to Forum Financial Corporation, The Paul Family Trust and to the Norman Paul 2013 Family Trust.

During 2016, compensation paid to key management totalling $430,893 was paid to CannTrust Opco's President, the Vice-President of Innovation and Research, the Vice President of Professional Services and the Company's Chief Financial Officer. In 2015, compensation paid to key management, totalling $420,408 was paid to CannTrust Opco's President, the Vice-President of Innovation and Research, the Vice President of Professional Services. The Chief Financial Officer of the Company was only engaged in the latter part of 2016.

During 2016, the Company incurred $200,000 (2015 - $150,000) of management fees to Eric Paul and $390,000 (2015 - $370,000) to Forum Financial Corporation, $266,500 of which was unpaid and included in accounts payable at December 31, 2016. During 2016, $200,000 of management fees due to Eric Paul and $325,000 of management fees due to Forum Financial Corporation were settled with the issuance of a total of 403,846 Common Shares. In 2015, $190,000 of management fees due to Eric Paul and $190,000 of management fees due to Forum Financial Corporation were settled with the issuance of convertible debt.

During 2016, the Company incurred legal fees of $192,247 to Goldman, Spring, Kichler & Sanders LLP. Mitchell Sanders, a director of the Company, is a partner at Goldman, Spring, Kichler & Sanders LLP.
2017 First Quarter Highlights

• Record revenues with approximately 14,000 active clients
• Operations are now Adjusted EBITDA positive
• Sold 221,795 g of dried medical cannabis at an average gross price of $9.17 per gram
• Sold 538,920 ml of oils at an average gross selling price of $90 per 40 ml bottle
• Entered into an exclusive joint venture with Apotex Inc., a leading global generic pharmaceutical manufacturer, to develop novel dosage formats and products for sale into more than 85 countries, when such sales are permitted
• Through its wholly owned subsidiary, Elmcliffe Investments Inc., acquired a 430,000 square foot commercial greenhouse facility in the Niagara region which will provide a significant expansion of our production capacity
• Launched a new e-commerce website
• Completed a $25 million Special Warrant financing with an equivalent price of $2.00 per Common Share and a concurrent Common Share financing of $1 million at $2 per Common Share
• Debenture and debt holders converted $1,600,000 of convertible debt into 1,712,425 Common Shares. In addition, warrants with gross proceeds of $1,300,000 were converted into 1,000,000 Common Shares

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

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

Selected Information

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

<table>
<thead>
<tr>
<th>Three months ended March 31</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>$</td>
<td>$</td>
<td></td>
</tr>
<tr>
<td>Financial Data</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue</td>
<td>3,033</td>
<td>701</td>
</tr>
<tr>
<td>Gross margin, including unrealized gain on changes in fair value of biological assets</td>
<td>3,211</td>
<td>218</td>
</tr>
<tr>
<td>Net loss</td>
<td>778</td>
<td>688</td>
</tr>
</tbody>
</table>
Loss per share (basic and diluted) ($ per share)  
(0.01)  
(0.02)  
Cash used in operations  
(2,334)  
(756)  
Adjusted EBITDA (loss)(1)  
1,696  
(405)  

Operating Statistics  
Dried marijuana sold (g)  
221,795  
141,805  
Revenue per gram (net)  
$8.33  
$4.58  
Sales of oils (ml)(2)  
538,920  
nil  
Average selling price per ml (net)  
$2.02  
n/a  
Total dried marijuana equivalent sold from oil (g)(3)  
110,613  
n/a  
Revenue per gram of marijuana equivalent from oil sales (net)  
$9.85  
n/a  

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 4.87 ml of oils equivalent to 1 g of dried medical marijuana.

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

Revenue

Revenue was $3,033,245 for the three months ended March 31, 2017 compared to $700,777 for the comparable 2016 period. The quantity of medical cannabis sold to patients during the three months ended March 31, 2017 increased 134% to 332 kg from the comparable prior year period. In addition, during the three months ended March 31, 2017, CannTrust Opco sold 538,920 ml of cannabis oils. The increase in revenue was attributable to increased sales volumes which included the first sales of concentrated cannabis oils which began in August 2016. There were no sales of cannabis oils in the comparable 2016 period.

Cost of Sales

Plants that are in pre-harvest are considered biological assets are capitalized on the balance sheet 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 income through cost of sales, reflecting the changes in fair value of the biological assets. At harvest, the biological assets are transferred to inventory at their fair value which becomes the deemed cost of inventory.

Inventory is later expensed to cost of sales when sold and offsets against the gain on biological assets. In addition, the cost of production is expensed through cost of sales and represents
overheads and other production costs of growing and selling the plants. Together the gain from changes in the fair value of biological assets, inventory expensed and the cost of production comprise cost of sales. Costs of sales 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.

Cost of sales (recovery), net of the unrealized gain on changes in fair value of biological assets, in the three months ended March 31, 2017 was ($177,868) compared to $482,724 for the same period in the prior year. Harvested production quantities during the quarter were approximately 296% of the quantities in the same period of the prior year.

Cost of sales in 2017 includes a net unrealized gain from changes in fair value of biological assets of $4,018,206 compared to $948,482 in the comparable 2016 period. In order to ensure the standardization of the cannabis product produced, as part of the regular growth cycle only the healthiest plants are selected by the Company for placement in the grow rooms with the remaining plants being culled. This standardized growth cycle process, also includes only retaining the most vigorous plants that are placed in the grow rooms with the balance being culled. As a result, during the three months ended March 31, 2017 biological assets of approximately $1.3 million were netted against the unrealized gain from changes in fair value of biological assets.

In addition, during the three months ended March 31, 2017, due mainly to Health Canada vault quantity constraints, inventory valued at $87,868 was destroyed. Production costs during the three months ended March 31, 2017 increased compared to the 2016 period due to increases in the staff compliment and facility costs required to meet the increase in demand for the Company's products and the related increases in production.

During the three months ended March 31, 2017, 8.21 grams of dried marijuana was used to produce a 40 ml bottle of oil. This compares to 12.2 grams in the year ended December 31, 2016. The decrease in grams used is due to a combination of the improvement in the extraction equipment process and resulting efficiencies together with an improvement in the quality of marijuana used in the oil extraction process.

Inventory expensed to cost of sales increased by $2,219,357 during the 2017 period to $2,928,922 as a result of higher unit sales compared to the comparable 2016 period.

**Gross Margin**

The gross margin was $3,211,113 for the quarter ended March 31, 2017 compared to $218,053 in the comparable prior year period. Gross margin includes the unrealized gains on changes in the fair value of biological assets. The increase in gross margin was principally due to the relative size of the unrealized gain from changes in the fair value of biological assets and an increase in sales. The Company continually refines its production processes in order to increase production yields and gross margins.
**Administrative and General Expenses**

Expenses for the first quarter ended March 31, 2017 were $1,538,599 compared to $790,695 in the prior year comparable period. The increase in expenses in the 2017 period was due mainly to increases in general and administrative expenses and salaries and benefits, as the Company increased its staff complement to meet the increase in demand for the Company's products, and an increase in professional fees.

**Amortization**

Amortization for the first quarter ended March 31, 2017 was $461,622 compared to $340,655 in the prior year comparable period. The increase in expense in 2017 was due to an increase in amortization on equipment purchases and buildings which included the Balfour Greenhouse Facility acquisition during the quarter. The balance of amortization in the quarters ended March 31, 2017 and 2016 related to leasehold improvements, furniture and fixtures and computer hardware and software.

**Stock-based compensation**

For the year three months ended March 31, 2017, stock-based compensation expense was $196,505 compared to $45,000 for the corresponding 2016 period. The 2017 stock-based compensation was attributable to the issuance by the Company during the period of 1,565,000 stock options to employees which are measured at fair value at the date of grant and expensed over the option's vesting period. The 2016 stock-based compensation was attributable to the issuance by the Company of 50,000 Common Shares to employees of the Company during the comparable 2016 period.

**Finance Costs**

Finance costs for the first quarter of 2017 and 2016 include bank charges and interest expense and, for 2016, distributions on CannTrust Opco's Class A preference shares. For the quarter ended March 31, 2017, finance costs were $95,295 compared to $461,255 in the comparable prior year period. This includes accrued distributions on the CannTrust Opco preference shares of $0 in the three months ended March 31, 2017 and $355,368 in the comparable 2016 period. 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. Interest expense for the three months ended March 31, 2017 was $95,295 compared to $105,887 in the comparable 2016 period. Accretion expense for the three months ended March 31, 2017, being the difference in the actual cost on the Company's debt compared to the imputed interest rate, was $89,448 compared to $55,306 in the 2016 period.

Transaction costs of $204,282 in the three months ended March 31, 2017 represent the cost associated with the purchase of the Greenhouse Facility in March 2017. The loss on revaluation of the derivative liability, being the change in value attributable to the conversion feature on the Company's convertible debt, was $1,683,975 for the three months ended March 31, 2017 compared to a gain of $576,099 in the comparable 2016 period.
**Income Tax**

As a result of the current period and past year losses, the Company did not incur any Income Tax expense in the three month periods ended March 31, 2017 and 2016.

**Net Income/Net Loss**

Net loss for the first quarter ended March 31, 2017 was $777,904 compared to a net loss of $687,913 in the comparable 2016 period. During the quarter ended March 31, 2016 $223,278 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. 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, CannTrust Opco, through its wholly-owned subsidiary Elmcliffe Investments Inc., 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, a 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. This facility will provide the Company with increased production capacity to meet growing market demand. The greenhouse, once fully converted to cannabis production, will provide the Company the capacity to produce up to 25,000 kg of additional medical cannabis per year. The first phase of the conversion to ACMPR standards, at an estimated cost of $18 million, will utilize 200,000 sq. ft. of space and provide the capacity to produce up to 8,000 kg of additional medical cannabis per year. The 48 acre property which is all zoned for cannabis production will facilitate additional future greenhouse construction on the 30 acres not currently utilized.

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

Operating cash flow and equity and debt financings are the Company's primary source of liquidity. At March 31, 2017, cash and cash equivalents were $21,518,150 compared to $4,895,145 as at December 31, 2016.

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

<table>
<thead>
<tr>
<th></th>
<th>March 31, 2017</th>
<th>December 31, 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Working Capital</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current Assets</td>
<td>31,151</td>
<td>11,625</td>
</tr>
<tr>
<td>Current Liabilities</td>
<td>1,485</td>
<td>3,571</td>
</tr>
<tr>
<td>---------------------</td>
<td>-------</td>
<td>-------</td>
</tr>
<tr>
<td></td>
<td>29,666</td>
<td>8,054</td>
</tr>
<tr>
<td>Ratio of current assets to current liabilities</td>
<td>21.0</td>
<td>3.3</td>
</tr>
</tbody>
</table>

Working capital is primarily represented by cash, short-term investments, inventory and biological assets, offset by accounts payable, the current portion of the promissory note issued on the greenhouse acquisition and convertible debt due on demand. The Company's working capital increased by $21,611,984 to $29,666,874 as at March 31, 2017 compared to $8,053,890 at December 31, 2016. The increase in working capital in the three months ended March 31, 2017 was primarily due to increased cash resulting from the $25 million Special Warrant Financing, the Common Share financing of $1 million and the exercise of Warrants with gross proceeds of $1.3 million, together with an increase in biological assets and a decrease in accounts payable and the elimination of the convertible debt due on demand which was converted into Common Shares.

**Operating Activities**

The principal use of operating cash flow is to fund the Company's operating and capital expenditures at its production facilities, its general and administrative costs and its debt service payments. During the first quarter ended March 31, 2017, the Company's cash flows used in operations were $2,333,530 compared to cash flows used in operations of $756,274 in the comparable 2016 period. This variance is largely attributable to changes in non-cash working capital items.

**Investing Activities**

Cash used in investing activities during the first quarter ended March 31, 2017 was $7,937,589 compared to $397,556 in the comparable 2016 period. The first quarter of 2017 investing activities includes $6,500,000 on the acquisition of the greenhouse, $510,649 on the purchase of equipment and $900,000 in short-term investments. In the comparable 2016 period, $390,983 was invested in additions to property, plant and equipment.

**Financing Activities**

Cash of $25,994,124 was generated by financing activities during the first quarter ended March 31, 2017 compared to $72,999 in the comparable 2016 period. The first quarter of 2017 includes net proceeds of $24,769,124 from the Special Warrant and Common Share financing and $1,300,000 million from the exercise of Warrants. In the comparable 2016 period, $72,999 was raised from the issuance of Common Shares and convertible debt to Shareholders as part of their pre-emptive rights under the Shareholders Agreement.
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 March 31, 2017 and December 31, 2016.

<table>
<thead>
<tr>
<th></th>
<th>March 31, 2017</th>
<th>December 31, 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Promissory note</td>
<td>$1,000</td>
<td>$-</td>
</tr>
<tr>
<td>Convertible Debt(1)(2)</td>
<td>3,844</td>
<td>3,840</td>
</tr>
<tr>
<td>Shareholders' equity</td>
<td>37,902</td>
<td>10,468</td>
</tr>
<tr>
<td>Debt to equity</td>
<td>12.8%</td>
<td>37%</td>
</tr>
</tbody>
</table>

(1) Includes convertible debentures as at March 31, 2017 and convertible debentures and 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.

The Company anticipates that it will require approximately $32,000,000 in order 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, as well as the capital expenditures required at its Vaughan Facility and those required to convert Phase 1 of the Greenhouse Facility, purchased in March 2017, to ACMPR standards required for cannabis production. The Company expects to fund these expenditures from revenue generated from the sale of its medical cannabis products together with cash on hand of approximately $22,000,000. In addition, the Greenhouse Facility is presently mortgage free and it is the intention of the Company to secure first mortgage financing upon this property for up to $10,000,000 in the immediate future. The Company has had extensive discussions with mortgage lenders for such purposes and expects such mortgage financing to be in place in the near future. In addition, the Company expects to secure additional equipment financing for the co-generation equipment to be installed as part of the first phase of the development of the greenhouse.
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 and cash equivalents, accounts payable and accrued liabilities and convertible debentures and debt loans. 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 18 to the Annual Financial Statements discloses risks related to interest rates, credit and liquidity.

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 is convertible at the option of the holder into Common Shares at a price equal to $1.10 per Common Share, any time prior to the occurrence of a liquidity event. The debentures and all accrued and unpaid interest will be automatically converted into Common Shares of the Company upon the occurrence of a liquidity event at a price per common share equal to the lesser of $1.10 or a 25% discount to the price per Common Share upon the occurrence of the liquidity event. A liquidity event has been defined as (a) the completion of a public offering of Common Shares by the Company and listing on a Canadian or US stock exchange, (b) the sale for cash proceeds of all of the issued and outstanding shares in the capital of the Company or (c) the amalgamation or any other corporate transaction involving the Company with or into another entity pursuant to which the Common Shares of the resulting issuer from such transaction are listed on a Canadian or US stock exchange.

In December 2015, as part of an equity private placement transaction, warrants to purchase 1,000,000 Common Shares at a price of between $1.10 and $1.50 per Common Share were issued.

In August and September 2016, the Company issued $1,000,000 in convertible promissory notes. The notes have an interest rate of 12% per annum and are payable on demand. The notes are convertible by the holder at any time into Common Shares at a conversion rate equal to $1 per Common Share.

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 was issued.

In March 2017, at the option of the holders, $600,000 of the Company's senior secured convertible debentures and all of the $1,000,000 of the convertible promissory debt plus accrued interest was converted into 1,712,425 Common Shares.
In March 2017, at the option of the holder, warrants to purchase 1,000,000 Common Shares (500,000 at a price of $1.10 per Common Share and 500,000 at a price of $1.50 per Common Share) were exercised for gross proceeds of $1,300,000.

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

**Select Consolidated Statements of Financial Position Data**

<table>
<thead>
<tr>
<th></th>
<th>March 31, 2017 $000s</th>
<th>December 31, 2016 $000s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>21,518</td>
<td>4,895</td>
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<tr>
<td>Inventory</td>
<td>4,144</td>
<td>3,675</td>
</tr>
<tr>
<td>Biological Assets</td>
<td>3,948</td>
<td>2,320</td>
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<tr>
<td>Total assets</td>
<td>44,030</td>
<td>16,879</td>
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<tr>
<td>Current liabilities</td>
<td>1,485</td>
<td>3,571</td>
</tr>
<tr>
<td>Non-current liabilities</td>
<td>4,644</td>
<td>2,839</td>
</tr>
</tbody>
</table>

**Assets**

The Company's asset base primarily consists of cash and cash equivalents, inventories, biological assets and property, plant and equipment. The $27,151,604 increase in the asset base resulted largely from increases of cash and cash equivalents of $16,623,005, $2,096,924 in inventory and biological assets and $7,549,028 in property and equipment.

**Liabilities**

Total current and non-current liabilities were $6,128,580 at March 31, 2017, a decrease of $281,779 from December 31, 2016. This decrease was largely attributable to a decrease in accounts payable, the conversion into Common Shares of the debt due on demand, offset by the issuance of the promissory note and the increase in the derivative liability.

**Shareholders' Equity**

The Company's shareholders' equity increased by $27,433,383 to $37,901,632 at March 31, 2017 from $10,468,249 at December 31, 2016. This is mainly attributable to the net proceeds from the completion of the recent Special Warrant and Common Share financings, the exercise of warrants and the debt conversion into equity, offset by a net loss for the three months ended March 31, 2017 of $777,904.
Related Party Transactions for the three months ended March 31, 2017

During the three months ended March 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 three months ended March 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.

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, a director of the Company.

On March 31, 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.

Compensation to key management totalling $203,501 was paid to CannTrust Opco's President, the Vice-President of Innovation and Research, the Vice President of Professional Services and the Company's Chief Financial Officer.

The Company incurred $50,000 of management fees to Eric Paul and $50,000 to Forum Financial Corporation. In addition, the Company incurred an additional $100,000 of management fees to Forum Financial Corporation for services provided in connection with the special warrant financing and the preparation of this prospectus. All of the above management fees remain unpaid and are included in accounts payable at March 31, 2017.

The Company incurred legal fees of $313,793 to Goldman, Spring, Kichler & Sanders LLP. Mitchell Sanders, a director of the Company, is a partner at Goldman, Spring, Kichler & Sanders LLP.

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. See "Risk Factors". 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.
Accounting Estimates

Certain of the Company's accounting policies set out in Note 3 to the Annual 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 to the Annual Financial Statements. The following is a discussion of the accounting estimates that are critical in determining the Company's financial results.

Business combinations

In determining the allocation of the purchase price in a business combination, 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.
Stock-based Compensation

In calculating the stock-based compensation expense, 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.

Warrants

In calculating the value of the warrants, key estimates such as the value of the Common Shares and the risk free interest rate are used.

Redeemable Shares

In calculating the fair value of the redeemable shares, key estimates such as the value of the Common Shares are used.

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 profits to utilize this tax asset.

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. Early adoption is permitted. The Company is currently assessing the potential impacts of IFRS 15.

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, with earlier adoption permitted. The Company is currently assessing the potential impact of IFRS 9.

**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 currently assessing the potential impact of IFRS 16.

**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 extent of the impact of the adoption of the amendments has not yet been determined.

**IAS 7 Statement of Cash Flows**

As part of their disclosure initiative, the IASB has issued amendments to IAS 7 Statement of Cash Flows to improve information provided to users of financial statements about an entity's financial activities by making the following changes

- The following changes in liabilities arising from financing activities are disclosed (to the extent necessary): (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes;
- The International Accounting Standards Board ("IASB") defines liabilities arising from financing activities as liabilities "for which cash flows were, or future cash flows will be, classified in the statement of cash flows as cash flows from financing activities". It also stresses that the new disclosure requirements also relate to changes in financial assets if they meet the same definition; and
• Changes in liabilities arising from financing activities must be disclosed separately from changes in other assets and liabilities.

The amendments to IAS 7 are effective for annual periods beginning on or after January 1, 2017.

**IAS 12 Income Taxes**

In January 2016, the IASB issued amendments to IAS 12 to provide clarification on the following aspects relating to the recognition of deferred tax assets for unrealized losses on debt instruments measured at fair value:

• Unrealized losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use;
• The carrying amount of an asset does not limit the estimation of probable future taxable profits;
• Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences; and
• An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.

Adoption of the amendments to IAS 12 is required for the annual period beginning on or after January 1, 2017.

**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 our business as it reflects its ongoing profitability. We believe 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 earnings (loss) plus income taxes, interest expense, accretion expense, distributions on preference shares, transaction costs, (gain) loss on revaluation of derivative liability, (gain) loss on revaluation of redeemable shares and depreciation and amortization.
The following table provides a reconciliation of earnings as determined under IFRS to Adjusted EBITDA.

<table>
<thead>
<tr>
<th>Calculation of Adjusted EBITDA</th>
<th>Three Months Ended March 31</th>
<th>December 31</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net income (loss)</td>
<td>(778)</td>
<td>(688)</td>
</tr>
<tr>
<td>Interest and other expenses</td>
<td>95</td>
<td>106</td>
</tr>
<tr>
<td>Accretion expense</td>
<td>90</td>
<td>55</td>
</tr>
<tr>
<td>Distributions on preference shares</td>
<td>-</td>
<td>356</td>
</tr>
<tr>
<td>Transaction costs</td>
<td>204</td>
<td>6</td>
</tr>
<tr>
<td>(Gain) Loss on revaluation of derivative liability</td>
<td>1,684</td>
<td>(576)</td>
</tr>
<tr>
<td>(Gain) Loss on revaluation of Redeemable Shares</td>
<td>-</td>
<td>(4)</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>401</td>
<td>340</td>
</tr>
<tr>
<td>Adjusted EBITDA (Loss)</td>
<td>1,696</td>
<td>(405)</td>
</tr>
</tbody>
</table>

**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"). If and when the Company becomes a reporting issuer in Canada its CEO and CFO will be required to file certifications relating to DCP and ICFR for the Company in connection with its interim and annual filings, commencing with its first reporting period after becoming a publicly traded company.

*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 also is 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.