

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

Form 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2022

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to .
Commission File No. 001-38403

CRONOS GROUP INC.

(Exact name of registrant as specified in its charter)

British Columbia, Canada
(State or other jurisdiction of
incorporation or organization)

N/A
(I.R.S. Employer
Identification No.)

111 Peter St. Suite 300
Toronto, Ontario
(Address of principal executive offices)

M5V 2H1
(Zip Code)

416-504-0004

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Shares, no par value	CRON	The Nasdaq Stock Market LLC

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or Section 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (\$232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of May 9, 2022, there were 375,579,171 common shares of the registrant issued and outstanding.

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Unless otherwise noted or the context indicates otherwise, references in this Quarterly Report on Form 10-Q (this “Quarterly Report”) to the “Company”, “Cronos Group”, “we”, “us” and “our” refer to Cronos Group Inc., its direct and indirect wholly owned subsidiaries and, if applicable, its joint ventures and investments accounted for by the equity method; the term “cannabis” means the plant of any species or subspecies of genus *Cannabis* and any part of that plant, including all derivatives, extracts, cannabinoids, isomers, acids, salts, and salts of isomers; the term “U.S. hemp” has the meaning given to term “hemp” in the U.S. Agricultural Improvement Act of 2018 (the “2018 Farm Bill”), including hemp-derived cannabidiol (“CBD”); and the term “U.S. Schedule I cannabis” means cannabis excluding U.S. hemp.

This Quarterly Report contains references to our trademarks and trade names and to trademarks and trade names belonging to other entities. Solely for convenience, trademarks and trade names referred to in this Quarterly Report may appear without the ® or ™ symbols, but such references are not intended to indicate, in any way, that their respective owners will not assert, to the fullest extent under applicable law, their rights thereto. We do not intend our use or display of other companies’ trademarks or trade names to imply a relationship with, or endorsement or sponsorship of us or our business by, any other companies. In addition, this Quarterly Report includes website addresses. These website addresses are intended to provide inactive, textual references only. The information on or referred to on these websites is not part of or incorporated into this Quarterly Report.

All currency amounts in this Quarterly Report are stated in U.S. dollars, which is our reporting currency, unless otherwise noted. All references to “dollars” or “\$” are to U.S. dollars; all references to “C\$” are to Canadian dollars; all references to “A\$” are to Australian dollars; and all references to “ILS” are to New Israeli Shekels.

(Exchange rates are shown as C\$ per \$)

	As of		
	March 31, 2022	March 31, 2021	December 31, 2021
Average rate	1.2665	1.2665	N/A
Spot rate	1.2507	1.2563	1.2746

All summaries of agreements described herein are qualified by the full text of such agreements (certain of which have been filed as exhibits with the U.S. Securities and Exchange Commission).

PART I
FINANCIAL INFORMATION

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Item 1. Financial Statements

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	As of March 31, 2022	As of December 31, 2021
	<i>(Unaudited)</i>	<i>(Audited)</i>
Assets		
Current assets		
Cash and cash equivalents	\$ 861,535	\$ 886,973
Short-term investments	119,933	117,684
Accounts receivable, net	25,814	22,067
Other receivables	3,297	5,765
Current portion of loans receivable, net	6,235	5,460
Inventory, net	37,054	32,802
Prepays and other current assets	9,537	8,967
Total current assets	1,063,405	1,079,718
Investments in equity accounted investees, net	17,084	16,764
Other investments	111,761	118,392
Non-current portion of loans receivable, net	81,529	80,635
Property, plant and equipment, net	71,828	74,070
Right-of-use assets	6,325	8,882
Goodwill	1,119	1,098
Intangible assets, net	17,880	18,079
Other assets	70	100
Total assets	\$ 1,371,001	\$ 1,397,738
Liabilities		
Current liabilities		
Accounts payable	\$ 10,904	\$ 11,218
Accrued liabilities	23,076	26,069
Current portion of lease obligation	2,173	2,711
Derivative liabilities	4,099	14,375
Total current liabilities	40,252	54,373
Due to non-controlling interests	1,888	1,913
Non-current portion of lease obligation	7,094	7,095
Deferred income tax liability	396	81
Total liabilities	49,630	63,462
Shareholders' equity		
Share capital (authorized for issue as of March 31, 2022 and December 31, 2021: unlimited; shares outstanding as of March 31, 2022 and December 31, 2021: 375,299,980 and 374,952,693, respectively)	596,368	595,497
Additional paid-in capital	35,365	32,465
Retained earnings	626,778	659,416
Accumulated other comprehensive income	66,088	49,865
Total equity attributable to shareholders of Cronos Group	1,324,599	1,337,243
Non-controlling interests	(3,228)	(2,967)
Total shareholders' equity	1,321,371	1,334,276
Total liabilities and shareholders' equity	\$ 1,371,001	\$ 1,397,738

See notes to condensed consolidated interim financial statements.

Cronos Group Inc.
Condensed Consolidated Statements of Net Income (Loss) and Comprehensive Income (Loss)
(In thousands of U.S dollars, except share and per share amounts, unaudited)

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	Three months ended March 31,	
	2022	2021
Net revenue, before excise taxes	\$ 29,406	\$ 14,654
Excise taxes	(4,373)	(2,043)
Net revenue	25,033	12,611
Cost of sales	18,107	15,574
Gross profit	6,926	(2,963)
Operating expenses		
Sales and marketing	5,012	10,254
Research and development	4,039	5,102
General and administrative	22,368	21,906
Restructuring costs	3,084	—
Share-based compensation	3,686	2,499
Depreciation and amortization	1,293	735
Impairment loss on long-lived assets	3,493	1,741
Total operating expenses	42,975	42,237
Operating loss	(36,049)	(45,200)
Other income (expense)		
Interest income, net	2,046	2,329
Gain (loss) on revaluation of derivative liabilities	10,419	(116,874)
Share of loss from equity accounted investments	—	(1,643)
Gain (loss) on revaluation of financial instruments	4,268	(200)
Impairment loss on other investments	(11,238)	—
Foreign currency transaction loss	(1,872)	—
Other, net	135	(16)
Total other income (expense)	3,758	(116,404)
Loss before income taxes	(32,291)	(161,604)
Income tax expense	362	—
Loss from continuing operations	(32,653)	(161,604)
Loss from discontinued operations	—	(21)
Net loss	(32,653)	(161,625)
Net loss attributable to non-controlling interest	(15)	(313)
Net loss attributable to Cronos Group	\$ (32,638)	\$ (161,312)
Comprehensive loss		
Net loss	\$ (32,653)	\$ (161,625)
Other comprehensive income		
Foreign exchange gain on translation	15,977	16,284
Comprehensive loss	(16,676)	(145,341)
Comprehensive income (loss) attributable to non-controlling interests	(261)	826
Comprehensive loss attributable to Cronos Group	\$ (16,415)	\$ (146,167)
Net loss from continuing operations per share		
Basic - continuing operations	\$ (0.09)	\$ (0.44)
Diluted - continuing operations	(0.09)	(0.44)

See notes to condensed consolidated interim financial statements.

Cronos Group Inc.
Condensed Consolidated Statements of Changes in Equity
For the three months ended March 31, 2022 and 2021
(In thousands of U.S. dollars, except share amounts, unaudited)

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	Number of shares	Share capital	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income	Non-controlling interests	Total shareholders' equity
Balance as of January 1, 2022	374,952,693	\$ 595,497	\$ 32,465	\$ 659,416	\$ 49,865	\$ (2,967)	\$ 1,334,276
Activities relating to share-based compensation	347,287	871	2,900	—	—	—	3,771
Net loss	—	—	—	(32,638)	—	(15)	(32,653)
Foreign exchange gain (loss) on translation	—	—	—	—	16,223	(246)	15,977
Balance as of March 31, 2022	<u>375,299,980</u>	<u>\$ 596,368</u>	<u>\$ 35,365</u>	<u>\$ 626,778</u>	<u>\$ 66,088</u>	<u>\$ (3,228)</u>	<u>\$ 1,321,371</u>

	Number of shares	Share capital	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Non-controlling interests	Total shareholders' equity
Balance as of January 1, 2021	360,253,332	\$ 569,260	\$ 34,596	\$ 1,064,509	\$ 42,999	\$ (3,196)	\$ 1,708,168
Activities relating to share-based compensation	11,403,258	15,652	(2,506)	(7,694)	—	—	5,452
Net loss	—	—	—	(161,312)	—	(313)	(161,625)
Foreign exchange gain on translation	—	—	—	—	15,145	1,139	16,284
Balance as of March 31, 2021	<u>371,656,590</u>	<u>\$ 584,912</u>	<u>\$ 32,090</u>	<u>\$ 895,503</u>	<u>\$ 58,144</u>	<u>\$ (2,370)</u>	<u>\$ 1,568,279</u>

See notes to condensed consolidated interim financial statements.

Cronos Group Inc.
Condensed Consolidated Statements of Cash Flows
(In thousands of U.S. dollars, except share amounts, unaudited)

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	Three months ended March 31,	
	2022	2021
Operating activities		
Net loss	\$ (32,653)	\$ (161,625)
Adjustments to reconcile net loss to cash used in operating activities:		
Share-based compensation	3,686	2,499
Depreciation and amortization	2,824	1,880
Impairment loss on long-lived assets	3,493	1,741
Impairment loss on other investments	11,238	—
Share of loss from investments in equity accounted investees	—	1,643
Gain (loss) on revaluation of derivative liabilities	(10,419)	116,874
Expected credit losses on long-term financial assets	—	416
Foreign currency transaction loss	1,872	—
Other non-cash operating activities, net	(4,467)	106
Changes in operating assets and liabilities:		
Accounts receivable, net	(3,530)	1,931
Other receivables	2,435	5,687
Prepays and other current assets	(1,195)	(3,737)
Inventory	(3,867)	(742)
Accounts payable	(178)	(3,119)
Accrued liabilities	(3,150)	(10,169)
Cash flows used in operating activities	(33,911)	(46,615)
Investing activities		
Proceeds from dissolution of joint venture	44	—
Proceeds from repayment of loans receivable	790	—
Purchase of property, plant and equipment	(711)	(6,680)
Purchase of intangible assets	(23)	(392)
Advances on loans receivable	—	(2,645)
Cash flows provided by (used in) investing activities	100	(9,717)
Financing activities		
Withholding taxes paid on share-based awards	(534)	(8,673)
Other financing activities, net	70	10
Cash flows used in financing activities	(464)	(8,663)
Effect of foreign currency translation on cash and cash equivalents	8,837	11,422
Net change in cash and cash equivalents	(25,438)	(53,573)
Cash and cash equivalents, beginning of period	886,973	1,078,023
Cash and cash equivalents, end of period	<u>\$ 861,535</u>	<u>\$ 1,024,450</u>
Supplemental cash flow information		
Interest received	822	1,157
Income taxes paid	66	624

See notes to condensed consolidated interim financial statements.

1. Background, Basis of Presentation and Accounting Policies

(a) Background

Cronos Group Inc. (“Cronos Group” or the “Company”) is incorporated in the province of British Columbia and under the *Business Corporations Act* (British Columbia) with principal executive offices at 111 Peter St., Suite 300, Toronto, Ontario, M5V 2H1. The Company’s common shares are currently listed on the Toronto Stock Exchange (“TSX”) and Nasdaq Global Market (“Nasdaq”) under the ticker symbol “CRON.”

Cronos Group is an innovative global cannabinoid company committed to building disruptive intellectual property by advancing cannabis research, technology and product development and is seeking to build an iconic brand portfolio. Cronos Group’s diverse international brand portfolio includes Spinach[®], PEACE NATURALS[®], Lord Jones[®], Happy Dance[®] and PEACE+[™].

(b) Basis of presentation

The interim condensed consolidated financial statements of Cronos Group are unaudited. They have been prepared in accordance with Generally Accepted Accounting Principles in the United States (“U.S. GAAP”) for interim financial information and with applicable rules and regulations of the U.S. Securities and Exchange Commission relating to interim financial statements. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2022 are not necessarily indicative of the results that may be expected for any other reporting period.

These condensed consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements and related notes included in its Annual Report on Form 10-K for the year ended December 31, 2021 (the “Annual Report”).

Certain prior year amounts have been reclassified to conform to the current year presentation of our condensed consolidated financial statements. These reclassifications had no effect on the reported results of operations and ending shareholders’ equity.

(c) Concentration of risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company is exposed to credit risk from its operating activities, primarily accounts receivable and other receivables, and its investing activities, including cash held with banks and financial institutions, short-term investments, loans receivable, and advances to joint ventures. The Company’s maximum exposure to this risk is equal to the carrying amount of these financial assets, which amounted to \$1,098,413 and \$1,118,684 as of March 31, 2022 and December 31, 2021, respectively.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on the days past due for groupings of various customer segments with similar loss patterns. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Accounts receivable are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan and a failure to make contractual payments for a period of greater than 120 days past due. As of March 31, 2022 and December 31, 2021, the Company had \$9 and \$8, respectively, in expected credit losses that have been recognized on receivables from contracts with customers in the Rest of World (“ROW”) segment. As of March 31, 2022 and December 31, 2021, the Company had \$138 and \$104, respectively, in expected credit losses that have been recognized on receivables from contracts with customers in the United States (“U.S.”) segment.

As of March 31, 2022, the Company assessed that there is a concentration of credit risk, as 72% of the Company’s accounts receivable were due from three customers with an established credit history with the Company. As of December 31, 2021, 88% of the Company’s accounts receivable were due from four customers with an established credit history with the Company.

The Company sells products to a limited number of major customers. Major customers are defined as customers that each individually accounted for greater than 10% of the Company’s revenue. During the three months ended March 31, 2022, the Company earned a total net revenue before excise taxes of \$9,833 from two major customers in the ROW segment, together accounting for 33% of the Company’s total net revenue before excise taxes. During the three months ended March 31, 2021, the Rest of World segment earned a total net revenue before excise taxes of \$8,963 from four major customers, together accounting for 61% of the Company’s total net revenues before excise taxes. During the three months ended March 31, 2022 and 2021, the U.S. segment had no major customers.

(d) Segment information

Segment reporting is prepared on the same basis that the Company’s chief operating decision makers (the “CODMs”) manage the business, make operating decisions and assess the Company’s performance. The Company determined that it has the following two reportable segments: U.S. (the “U.S. segment”) and ROW (the “ROW segment”). The U.S. operating segment consists of the manufacture and distribution of U.S. hemp-derived cannabinoid infused products. The ROW operating segment is involved in the cultivation, manufacture, and marketing of cannabis and cannabis-derived products for the medical and adult-use markets. These two segments represent the geographic regions in which the Company operates and the different product offerings within each geographic region. The results of each segment are regularly reviewed by the CODMs to assess the performance of the segment and make decisions regarding the allocation of resources using Adjusted EBITDA (as defined below) as the measure of segment profit or loss. Adjusted EBITDA is defined as earnings before interest, tax, depreciation, non-cash items and items that do not reflect management’s assessment of ongoing business performance.

(e) Adoption of new accounting pronouncements

On January 1, 2022, the Company adopted ASU No. 2020-06, Debt –Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity’s Own Equity (Subtopic 815-40) (“ASU No. 2020-06”). ASU No. 2020-06 simplifies the accounting for certain financial instruments with characteristics of liabilities and equity, including convertible instruments and contracts on an entity’s own equity. ASU No. 2020-06 is part of the FASB’s simplification initiative, which aims to reduce unnecessary complexity in U.S. GAAP. The adoption of ASU No. 2020-06 did not have an impact on the Company’s interim condensed consolidated financial statements.

(f) New accounting pronouncements not yet adopted

In March 2022, the FASB issued ASU 2022-02, Financial Instruments – Credit Losses (Topic 326) (“ASU No. 2022-02”). ASU No. 2022-02 eliminates the existing troubled debt restructuring recognition and measurement guidance, and instead aligns the accounting treatment to that of other loan modifications. The amendments enhance existing disclosure requirements and introduce new requirements related to certain modifications of receivables made to borrowers experiencing financial difficulty. ASU No. 2022-02 also requires that entities disclose current-period gross write-offs by year of origination for financing receivables and net investments in leases. ASU No. 2022-02 is effective for fiscal years beginning after December 15, 2022, and interim periods within those fiscal years, and is to be adopted prospectively. The Company does not expect the adoption of ASU No. 2022-02 to have a material impact on its condensed consolidated financial statements.

2. Inventory, net

Inventory, net is comprised of the following items:

	As of March 31, 2022	As of December 31, 2021
Raw materials	\$ 8,523	\$ 9,211
Work-in-progress	12,353	12,405
Finished goods	15,587	10,778
Supplies and consumables	591	408
Total	<u>\$ 37,054</u>	<u>\$ 32,802</u>

3. Investments

(a) Variable interest entities and investments in equity accounted investees, net

A reconciliation of the carrying amount of the investments in equity method investees, net is as follows:

	Ownership interest	As of March 31, 2022	As of December 31, 2021
Cronos Growing Company Inc. (“Cronos GrowCo”)	50%	\$ 17,084	\$ 16,764
NatuEra S.à.r.l. (“Natuera”)	50%	—	—
		<u>\$ 17,084</u>	<u>\$ 16,764</u>

The following is a summary of the Company's share of net losses from equity investments accounted for under the equity method of accounting:

	For the three months ended March 31,	
	2022	2021
Cronos GrowCo	\$ —	\$ (299)
Natuera	—	(1,344)
	\$ —	\$ (1,643)

(b) Other investments

Other investments consist of investments in common shares and options of two companies in the cannabis industry.

PharmaCann, Inc.

In 2021, the Company purchased an option (the "PharmaCann Option") to acquire 473,787 shares of Class A Common Stock of PharmaCann Inc. ("PharmaCann"), a vertically integrated cannabis company in the United States, which represented an ownership interest of approximately 10.5% as of December 31, 2021. The PharmaCann Option is classified as an equity security without a readily determinable fair value. The Company has elected to measure the fair value of the PharmaCann Option at cost less impairment, if any, and subsequently adjusted for observable price changes in orderly transactions for the identical or a similar investment of the same issuer. On February 28, 2022, PharmaCann closed the previously announced transaction with LivWell Holdings, Inc. ("LivWell") pursuant to which PharmaCann acquired LivWell (the "LivWell Transaction"). LivWell is a multi-state cannabis cultivation and retail leader based in Colorado. As a result of the LivWell Transaction, the Company's ownership percentage in PharmaCann on a fully-diluted basis decreased to approximately 6.4%. The decrease in ownership percentage does not materially affect the Company's rights under the PharmaCann Option.

During the three months ended March 31, 2022, the Company identified indicators of impairment related to the PharmaCann Option and conducted an analysis comparing the PharmaCann Option's carrying amount to its estimated fair value. The fair value was estimated using a combination of the market and income approaches. Under the income approach, significant inputs used in the discounted cash flow method include discount rate, growth rates, and cash flow projections. As a result of this analysis, the Company recorded a non-cash impairment charge of \$11,238, as the difference between the carrying amount of the PharmaCann Option and its estimated fair value in the condensed consolidated statements of net income (loss) and comprehensive income (loss).

Cronos Australia Limited

The Company owns approximately 10% of the outstanding common shares of Cronos Australia Limited ("Cronos Australia"). The investment is considered an equity security with a readily determinable fair value. Changes in the fair value of the investment are recorded as gain (loss) on revaluation of financial instruments on the condensed consolidated statements of net income (loss) and comprehensive income (loss).

The following table summarizes the Company's other investments activity:

	As of December 31, 2021	Unrealized gain	Impairment charges	Foreign exchange effect	As of March 31, 2022
PharmaCann	\$ 110,392	\$ —	\$ (11,238)	\$ —	\$ 99,154
Cronos Australia	8,000	4,196	—	411	12,607
	\$ 118,392	\$ 4,196	\$ (11,238)	\$ 411	\$ 111,761

During the three months ended March 31, 2021, the Company had no gain or loss on revaluation of other investments. As of March 31, 2022 and December 31, 2021, the Company did not hold any additional other investments.

4. Loans Receivable, net

Loans receivable, net consists of the following:

	As of March 31, 2022	As of December 31, 2021
GrowCo Facility ⁽ⁱ⁾	\$ 3,198	\$ 3,138
Add: Current portion of accrued interest	3,037	2,322
Total current portion of loans receivable	6,235	5,460
GrowCo Facility ⁽ⁱ⁾	64,801	64,367
Mucci Promissory Note	14,414	14,019
Cannasoul Collaboration Loan ⁽ⁱⁱ⁾	2,192	2,249
Add: Long-term portion of accrued interest	122	—
Total long-term portion of loans receivable	81,529	80,635
Total loans receivable, net	\$ 87,764	\$ 86,095

⁽ⁱ⁾ On August 23, 2019, the Company, as lender, and Cronos GrowCo, as borrower, entered into a senior secured credit agreement for an aggregate principal amount of C\$100,000 (the "GrowCo Facility"). In August 2021, the GrowCo Facility was amended to increase the aggregate principal amount available to C\$105,000. As of March 31, 2022 and December 31, 2021, Cronos GrowCo had outstanding borrowings of C\$103,000 (\$82,354) and C\$104,000 (\$81,598), respectively, from the GrowCo Facility. As of March 31, 2022, Cronos GrowCo had repaid C\$1,000 (\$800) under the terms of the GrowCo Facility. The available borrowing capacity under the GrowCo Facility was C\$1,000 (\$800) at March 31, 2022 and December 31, 2021.

⁽ⁱⁱ⁾ As of March 31, 2022 and December 31, 2021, CLS has received ILS 8,297 (\$2,600) and ILS 8,297 (\$2,664), respectively, from the Cannasoul Collaboration Loan.

Expected credit loss allowances on the Company's long-term financial assets was comprised of the following items:

	As of January 1, 2022	Increase (decrease) ⁽ⁱ⁾	Foreign exchange effect	As of March 31, 2022
GrowCo Facility	\$ 14,089	\$ (4)	\$ 269	\$ 14,354
Mucci Promissory Note	90	1	2	93
Cannasoul Collaboration Loan	415	3	(9)	409
	<u>\$ 14,594</u>	<u>\$ —</u>	<u>\$ 262</u>	<u>\$ 14,856</u>

	As of January 1, 2021	Increase (decrease) ⁽ⁱ⁾	Foreign exchange effect	As of March 31, 2021
GrowCo Facility	\$ 1,546	\$ —	\$ 23	\$ 1,569
Natuera Series A Loan ⁽ⁱⁱ⁾	721	416	14	1,151
Mucci Promissory Note	270	—	4	274
Cannasoul Collaboration Loan	26	—	—	26
	<u>\$ 2,563</u>	<u>\$ 416</u>	<u>\$ 41</u>	<u>\$ 3,020</u>

⁽ⁱ⁾ During the three months ended March 31, 2022 and 2021, \$nil and \$416, respectively, were recorded to general and administrative expenses on the condensed consolidated statements of net income (loss) and comprehensive income (loss) as a result of adjustments to our expected credit losses.

⁽ⁱⁱ⁾ As of March 31, 2022 and December 31, 2021, loans receivable, net for the Natuera Series A Loan was \$nil.

5. Derivative Liabilities

As of March 31, 2022, Altria Group Inc. ("Altria") beneficially held 156,573,537 of the Company's common shares, an approximate 42% ownership interest in the Company (calculated on a non-diluted basis) and one warrant of the Company (the "Altria Warrant"). As summarized in this note, if exercised in full on such date, the exercise of the Altria Warrant would have resulted in Altria holding a total ownership interest in the Company of approximately 52% (calculated on a non-diluted basis). Pursuant to the investor rights agreement between the Company and Altria (the "Investor Rights Agreement"), entered into in connection with the closing of Altria's investment in the Company (the "Altria Investment") pursuant to a subscription agreement dated December 7, 2018, the Company granted Altria certain rights, among others, summarized in this note.

The summaries below are qualified entirely by the terms and conditions fully set out in the Investor Rights Agreement and the Altria Warrant, as applicable.

- a. The Altria Warrant entitles the holder, subject to certain qualifications and limitations, to subscribe for and purchase up to an additional 10% of the common shares of Cronos (83,399,995 common shares as of March 31, 2022) at a per share exercise price of C\$19.00, which expires on March 8, 2023.
- b. The Company granted to Altria, subject to certain qualifications and limitations, upon the occurrence of certain issuances of common shares of the Company executed by the Company (including issuances pursuant to the research and development (“R&D”) partnership (the “Ginkgo Strategic Partnership”) with Ginkgo Bioworks Holdings, Inc. (“Ginkgo”)), the right to purchase up to such number of common shares of the Company in order to maintain their ownership percentage of issued and outstanding common shares of the Company immediately preceding any issuance of shares by the Company (“Pre-emptive Rights”), at the same price per common share of the Company at which the common shares are sold in the relevant issuance; provided that if the consideration paid in connection with any such issuance is non-cash, the price per common share of the Company that would have been received had such common shares been issued for cash consideration will be determined by an independent committee (acting reasonably and in good faith); provided further that the price per common share of the Company to be paid by Altria pursuant to its exercise of its Pre-emptive Rights related to the Ginkgo Strategic Partnership will be C\$16.25 per common share. These rights may not be exercised if Altria’s ownership percentage of the issued and outstanding shares of the Company falls below 20%.
- c. In addition to (and without duplication of) the Pre-emptive Rights, the Company granted to Altria, subject to certain qualifications and limitations, the right to subscribe for common shares of the Company issuable in connection with the exercise, conversion or exchange of convertible securities of the Company issued prior to March 8, 2019 or thereafter (excluding any convertible securities of the Company owned by Altria or any of its subsidiaries), a share incentive plan of the Company, the exercise of any right granted by the Company pro rata to all shareholders of the Company to purchase additional common shares and/or securities of the Company, bona fide bank debt, equipment financing or non-equity interim financing transactions that contemplate an equity component or bona fide acquisitions (including acquisitions of assets or rights under a license or otherwise), mergers or similar business combination transactions or joint ventures involving the Company in order to maintain their ownership percentage of issued and outstanding common shares of the Company immediately preceding any such transactions (“Top-up Rights”).

Reconciliation of the Company’s derivative liabilities activity are as follows:

	As of January 1, 2022	Revaluation gain	Exercise of rights	Foreign exchange effect	As of March 31, 2022
(a) Altria Warrant	\$ 13,720	\$ (10,011)	\$ —	\$ 136	\$ 3,845
(b) Pre-emptive Rights	180	(115)	—	2	67
(c) Top-up Rights	475	(293)	—	5	187
	<u>\$ 14,375</u>	<u>\$ (10,419)</u>	<u>\$ —</u>	<u>\$ 143</u>	<u>\$ 4,099</u>
	As of January 1, 2021	Revaluation loss	Exercise of rights	Foreign exchange effect	As of March 31, 2021
(a) Altria Warrant	\$ 138,858	\$ 92,964	\$ —	\$ 2,834	\$ 234,656
(b) Pre-emptive Rights	12,095	7,833	—	245	20,173
(c) Top-up Rights	12,457	16,077	(11,278)	215	17,471
	<u>\$ 163,410</u>	<u>\$ 116,874</u>	<u>\$ (11,278)</u>	<u>\$ 3,294</u>	<u>\$ 272,300</u>

Fluctuations in the Company’s share price are a primary driver for the changes in the derivative valuations during each reporting period. As the share price decreases for each of the related derivative instruments, the liability of the instrument generally decreases. Share price is one of the significant observable inputs used in the fair value measurement of each of the Company’s derivative instruments.

The fair values of the derivative liabilities were determined using the Black-Scholes pricing model using the following inputs:

	As of March 31, 2022		
	Altria Warrant	Pre-emptive Rights	Top-up Rights
Share price at valuation date (per share in C\$)	\$4.85	\$4.85	\$4.85
Subscription price (per share in C\$)	\$19	\$16.25	\$16.25
Weighted-average risk-free interest rate ⁽ⁱ⁾	1.84%	1.31%	1.38%
Weighted-average expected life (in years) ⁽ⁱⁱ⁾	0.94	0.50	0.75
Expected annualized volatility ⁽ⁱⁱⁱ⁾	71%	71%	71%
Expected dividend yield	—%	—%	—%

	As of December 31, 2021		
	Altria Warrant	Pre-emptive Rights	Top-up Rights
Share price at valuation date (per share in C\$)	\$4.98	\$4.98	\$4.98
Subscription price (per share in C\$)	\$19.00	\$16.25	\$16.25
Weighted-average risk-free interest rate ⁽ⁱ⁾	0.79%	0.39%	0.50%
Weighted-average expected life (in years) ⁽ⁱⁱ⁾	1.18	0.50	0.80
Expected annualized volatility ⁽ⁱⁱⁱ⁾	80%	80%	80%
Expected dividend yield	—%	—%	—%

⁽ⁱ⁾ The risk-free interest rate was based on Bank of Canada government treasury bills and bonds with a remaining term equal to the expected life of the derivative liabilities. As of March 31, 2022 and December 31, 2021, the risk-free interest rate uses a range of approximately 0.60% to 2.28% and 0.16% to 1.10%, respectively, for the Pre-emptive Rights and Top-up Rights.

⁽ⁱⁱ⁾ The expected life represents the period of time, in years, that the derivative liabilities are expected to be outstanding. The expected life of the Pre-emptive Rights and Top-up Rights is determined based on the expected term of the underlying options, warrants, and shares, to which the Pre-emptive Rights and Top-up Rights are linked. As of March 31, 2022 and December 31, 2021, the expected life uses a range of approximately 0.25 years to 3.50 years and 0.25 years to 3.75 years, respectively, for the Pre-emptive Rights and Top-up Rights.

⁽ⁱⁱⁱ⁾ Volatility was based on an equally weighted blended historical and implied volatility level of the underlying equity securities of the Company.

The following table quantifies each of the significant inputs described above and provides a sensitivity analysis of the impact on the reported values of the derivative liabilities. The sensitivity analysis for each significant input is performed by assuming a 10% decrease in the input while other significant inputs remain constant at management's best estimate as of the respective dates. While a decrease in the inputs noted below would cause a decrease in the carrying amount of the derivative liability, there would also be an equal and opposite impact on net income (loss).

	10% decrease as of March 31, 2022		
	Altria Warrant	Pre-emptive Rights	Top-up Rights
Share price	\$ 1,445	\$ 34	\$ 53
Weighted-average expected life	1,114	65	60
Expected annualized volatility	1,930	41	67

	10% decrease as of December 31, 2021		
	Altria Warrant	Pre-emptive Rights	Top-up Rights
Share price	\$ 3,970	\$ 80	\$ 123
Weighted-average expected life	2,971	171	133
Expected annualized volatility	5,402	96	155

These inputs are classified as Level 3 on the fair value hierarchy and are subject to volatility and several factors outside the Company's control, which could significantly affect the fair value of these derivative liabilities in future periods.

6. Restructuring

In the first quarter of 2022, the Company initiated a strategic plan to realign the business around its brands, centralize functions and evaluate the Company's supply chain (the "Realignment"). As part of the Realignment, on February 28, 2022, the Board approved plans to leverage the Company's strategic partnerships to improve supply chain efficiencies and reduce manufacturing overhead by exiting its production facility in Stayner, Ontario, Canada (the "Stayner Facility"). The organizational and cost reduction initiatives being undertaken are intended to position the Company to drive profitable and sustainable growth over time.

The Company expects to spend approximately \$5,800 in connection with the Realignment and the planned exit of the Stayner Facility, of which \$3,084 has been incurred as of March 31, 2022. Estimated charges related to the exit of the Stayner Facility include employee-related costs such as severance, relocation and other termination benefits, as well as contract termination and other related costs. The Company expects to incur approximately \$2,700 in additional charges related to the planned exit of the Stayner Facility, primarily in the second half of 2022.

In addition, the Company anticipates capital expenditures of approximately \$2,500 to modernize information technology systems and build distribution capabilities. These anticipated charges and capital expenditures are subject to a number of assumptions, including product costs, the timing of certain events, market factors and others. As a result of these assumptions, actual results may differ materially.

The Company incurred the following restructuring costs by reportable segment:

	Three months ended March 31,	
	2022	2021
Rest of World	\$ 2,031	\$ —
United States	1,053	—
Total	\$ 3,084	\$ —

The following table summarizes the Company's restructuring activity for the three months ended March 31, 2022:

	Accrual as of December 31, 2021	Year-to-date expense	Payments	Accrual as of March 31, 2022
Employee termination benefits	\$ —	\$ 2,503	\$ (1,249)	\$ 1,254
Other restructuring costs	—	581	(437)	144
Total	\$ —	\$ 3,084	\$ (1,686)	\$ 1,398

7. Share-based Compensation

(a) Share-based award plans

The Company has granted stock options, restricted share units ("RSUs") and deferred share units ("DSUs") to employees and non-employee directors under the Stock Option Plan dated May 26, 2015 (the "2015 Stock Option Plan"), the 2018 Stock Option Plan dated June 28, 2018 (the "2018 Stock Option Plan" and, together with the 2015 Stock Option Plan, the "Prior Option Plans"), the Employment Inducement Award Plan #1 (the "Employment Inducement Award Plan"), the 2020 Omnibus Equity Incentive Plan dated March 29, 2020 (the "2020 Omnibus Plan") and the DSU Plan dated August 10, 2019 (the "DSU Plan"). The Company can no longer make grants under the Prior Option Plans or the Employment Inducement Award Plan.

The following table summarizes the total share-based compensation expense associated with the Company's stock options and RSUs:

	Three months ended March 31,	
	2022	2021
Stock options	\$ 1,729	\$ 2,064
RSUs	1,957	435
Total share-based compensation	\$ 3,686	\$ 2,499

During the three months ended March 31, 2022, the Company recognized \$1,583 of share-based compensation expense related to the severance of certain executives.

(b) Stock options

Vesting conditions for grants of options are determined by the Compensation Committee of the Company's Board of Directors. The typical vesting for stock option grants made under the 2020 Omnibus Plan is annual vesting over three to five years with a maximum term of ten years. The typical vesting for stock option grants made under the Prior Option Plans is quarterly vesting over three to five with a maximum term of seven years. The Prior Option Plans did not, and the 2020 Omnibus Plan does not, authorize grants of options with an exercise price below fair market value.

The following is a summary of the changes in stock options:

	Weighted-average exercise price (C\$) ⁽ⁱ⁾	Number of options	Weighted-average remaining contractual term (years)
Balance as of January 1, 2022	\$ 7.75	8,939,330	2.70
Exercise of options	3.14	(1,356,875)	
Cancellation, forfeiture and expiry of options	12.46	(55,791)	
Balance as of March 31, 2022	\$ 8.55	7,526,664	1.72
Exercisable as of March 31, 2022	\$ 7.96	4,654,574	1.14
	Weighted-average exercise price (C\$) ⁽ⁱ⁾	Number of options	Weighted-average remaining contractual term (years)
Balance as of January 1, 2021	\$ 5.40	13,755,148	2.30
Exercise of options	2.13	(5,230,550)	
Cancellation, forfeiture and expiry of options	14.71	(25,771)	
Balance as of March 31, 2021	\$ 7.38	8,498,827	2.82
Exercisable as of March 31, 2021	\$ 5.75	4,896,820	1.46

⁽ⁱ⁾ The weighted-average exercise price reflects the conversion of foreign currency-denominated stock options translated into C\$ using the average foreign exchange rate as of the date of issuance.

The following table summarizes stock options outstanding:

	As of March 31, 2022	As of December 31, 2021
2020 Omnibus Plan	2,900,000	2,900,000
2018 Stock Option Plan	1,523,449	1,550,074
2015 Stock Option Plan	3,103,215	4,489,256
Total stock options outstanding	7,526,664	8,939,330

(c) Restricted share units

The following is a summary of the changes in RSUs:

	Weighted-average grant date fair value (C\$) ⁽ⁱ⁾	Number of RSUs
Balance as of January 1, 2022	\$ 9.22	1,225,870
Granted ⁽ⁱ⁾	3.52	3,950,334
Vested and issued	10.81	(78,631)
Cancellation and forfeitures	7.92	(55,479)
Balance as of March 31, 2022	\$ 4.74	5,042,094
	Weighted-average grant date fair value (C\$) ⁽ⁱⁱ⁾	Number of RSUs
Balance as of January 1, 2021	\$ 7.66	948,357
Granted ⁽ⁱ⁾	13.27	265,904
Balance as of March 31, 2021	\$ 8.89	1,214,261

⁽ⁱ⁾ RSUs granted in the period vest annually in equal installments over a three-year period from the grant date or vest after a three or five year “cliff-period.” All RSUs are subject to such holder’s continued employment through each vesting date. The vesting of such RSUs is not subject to the achievement of any performance criteria.

⁽ⁱⁱ⁾ The weighted-average grant date fair value reflects the conversion of foreign currency-denominated RSUs translated into C\$ using the foreign exchange rate as of the date of issuance.

(d) Deferred share units

The following is a summary of the changes in DSUs:

	Financial liability	Number of DSUs
Balance as of January 1, 2022	\$ 408	104,442
Gain on revaluation	(66)	—
Balance as of March 31, 2022	\$ 342	104,442
	Financial liability	Number of DSUs
Balance as of January 1, 2021	\$ 577	83,293
Loss on revaluation	211	—
Balance as of March 31, 2021	\$ 788	83,293

(e) Warrants

The following is a summary of the changes in warrants:

	Weighted-average exercise price (C\$)	Number of warrants
Balance as of January 1, 2021	\$ 0.25	7,987,349
Exercise of warrants	0.25	(7,977,349)
Balance as of March 31, 2021	\$ 0.25	10,000

As of March 31, 2022, there are no warrants outstanding other than the Altria Warrant. See Note 5 “*Derivative Liabilities*” for further description of the Altria Warrant.

8. Earnings (Loss) per Share

Basic and diluted earnings (loss) per share from continuing and discontinued operations are calculated as follows (in thousands, except share and per share amounts):

	Three months ended March 31,	
	2022	2021
Basic and diluted loss per share computation		
Net loss from continuing operations attributable to the shareholders of Cronos Group	\$ (32,638)	\$ (161,291)
Weighted-average number of common shares outstanding for computation for basic and diluted earnings per share ⁽ⁱ⁾	375,022,724	363,012,740
Basic loss from continuing operations per share	\$ (0.09)	\$ (0.44)
Diluted loss from continuing operations per share	\$ (0.09)	\$ (0.44)
Loss from discontinued operations attributable to the shareholders of Cronos Group		
Loss from discontinued operations attributable to the shareholders of Cronos Group	\$ —	\$ (21)
Weighted-average number of common shares outstanding from computation for basic and diluted earnings per share	375,022,724	363,012,740
Basic loss from discontinued operations per share	\$ 0.00	\$ 0.00
Diluted loss from discontinued operations per share	\$ 0.00	\$ 0.00

⁽ⁱ⁾ In computing diluted earnings per share, incremental common shares are not considered in periods in which a net loss is reported as the inclusion of the common share equivalents would be anti-dilutive.

Total securities of 118,224,080 and 136,945,023 were not included in the computation of diluted shares outstanding for the three months ended March 31, 2022 and, 2021, respectively, because the effect would be anti-dilutive.

9. Segment Information

The tables below set forth our condensed consolidated results of operations by segment. The Company's condensed consolidated financial results for these periods are not necessarily indicative of the consolidated financial results that the Company will achieve in future periods. Segment data was as follows for the three months ended March 31, 2022 and 2021:

	Three months ended March 31, 2022			
	United States	Rest of World	Corporate	Total
Cannabis flower	\$ —	\$ 18,625	\$ —	\$ 18,625
Cannabis extracts	2,328	3,988	—	6,316
Other	—	92	—	92
Net revenue	\$ 2,328	\$ 22,705	\$ —	\$ 25,033
Total assets	\$ 441,064	\$ 283,182	\$ 646,755	\$ 1,371,001
Depreciation and amortization	96	1,197	—	1,293
Adjusted EBITDA	(7,086)	(3,425)	(8,389)	(18,900)
Purchase of property, plant and equipment, net	—	711	—	711

	Three months ended March 31, 2021			
	United States	Rest of World	Corporate	Total
Cannabis flower	\$ —	\$ 9,434	\$ —	\$ 9,434
Cannabis extracts	2,441	703	—	3,144
Other	—	33	—	33
Net revenue	<u>\$ 2,441</u>	<u>\$ 10,170</u>	<u>\$ —</u>	<u>\$ 12,611</u>
Share of loss from equity accounted investees	\$ —	\$ 1,643	\$ —	\$ 1,643
Total assets	\$ 252,449	\$ 394,442	\$ 1,234,391	\$ 1,881,282
Depreciation and amortization	71	664	—	735
Loss from discontinued operations	—	21	—	21
Adjusted EBITDA	(9,510)	(22,184)	(4,880)	(36,574)
Purchase of property, plant and equipment, net	80	6,600	—	6,680

The following tables set forth a reconciliation of net income (loss) as determined in accordance with U.S. GAAP to Adjusted EBITDA for the periods indicated:

	Three months ended March 31, 2022			
	United States	Rest of World	Corporate	Total
Net income (loss)	\$ (22,216)	\$ 2,014	\$ (12,451)	\$ (32,653)
Interest income, net	(29)	(2,017)	—	(2,046)
Income tax expense	—	362	—	362
Impairment loss on long-lived assets ⁽ⁱ⁾	—	3,493	—	3,493
Gain on revaluation of derivative liabilities ⁽ⁱⁱ⁾	—	(10,419)	—	(10,419)
Gain on revaluation of financial instruments ^(iv)	—	(4,268)	—	(4,268)
Impairment loss on other investment ^(v)	11,238	—	—	11,238
Foreign currency transaction loss	—	1,872	—	1,872
Other, net ^(vi)	—	(135)	—	(135)
Restructuring costs ^(viii)	1,053	2,031	—	3,084
Share-based compensation ^(ix)	2,436	1,250	—	3,686
Financial statement review costs ^(x)	—	—	4,062	4,062
Depreciation and amortization	432	2,392	—	2,824
Adjusted EBITDA	<u>\$ (7,086)</u>	<u>\$ (3,425)</u>	<u>\$ (8,389)</u>	<u>\$ (18,900)</u>

	Three months ended March 31, 2021			
	United States	Rest of World	Corporate	Total
Net loss	\$ (12,092)	\$ (142,147)	\$ (7,386)	\$ (161,625)
Interest income, net	(3)	(2,326)	—	(2,329)
Share of loss from equity accounted investments	—	1,643	—	1,643
Impairment loss on long-lived assets ⁽ⁱ⁾	1,741	—	—	1,741
Loss on revaluation of derivative liabilities ⁽ⁱⁱ⁾	—	116,874	—	116,874
Transaction costs ⁽ⁱⁱⁱ⁾	—	—	501	501
Loss on revaluation of financial instruments ^(iv)	—	200	—	200
Other, net ^(vi)	—	16	—	16
Loss from discontinued operations ^(vii)	—	21	—	21
Share-based compensation ^(ix)	745	1,754	—	2,499
Financial statement review costs ^(x)	—	—	2,005	2,005
Depreciation and amortization	99	1,781	—	1,880
Adjusted EBITDA	\$ (9,510)	\$ (22,184)	\$ (4,880)	\$ (36,574)

- (i) For the three months ended March 31, 2022, impairment loss on long-lived assets related to the Company's decision to seek a sublease for leased office space located in Toronto, Ontario, Canada. For the three months ended March 31, 2021, impairment loss on long-lived assets related to an impairment on leased premises in the U.S. segment. See Note 12 "Impairment Loss on Long-lived Assets."
- (ii) For the three months ended March 31, 2022 and 2021, (gain) loss on revaluation of derivative liabilities represents the fair value changes on the derivative liabilities. See Note 5 "Derivative Liabilities."
- (iii) For the three months ended March 31, 2021, transaction costs represent legal, financial and other advisory fees and expenses incurred in connection with various strategic investments. These costs are included in general and administrative expenses on the condensed consolidated statements of net income (loss) and comprehensive income (loss).
- (iv) For the three months ended March 31, 2022, gain on revaluation of financial instruments related primarily to the Company's equity securities in Cronos Australia. For the three months ended March 31, 2021, loss on revaluation of financial instruments related primarily to revaluations of financial liabilities resulting from DSUs.
- (v) For the three months ended March 31, 2022, impairment loss on other investments related to the PharmaCann Option for the difference between its fair value and carrying amount. See Note 3 "Investments."
- (vi) For the three months ended March 31, 2022 and 2021, other, net is primarily related to (gain) loss on reclassification of held-for-sale assets and (gain) loss on disposal of assets.
- (vii) For the three months ended March 31, 2021, loss from discontinued operations related to the discontinuance of Original B.C. Ltd. ("OGBC").
- (viii) For the three months ended March 31, 2022, restructuring costs related to the employee-related severance costs and other restructuring costs associated with the Realignment and the exit of the Stayner Facility. See Note 6 "Restructuring."
- (ix) For the three months ended March 31, 2022 and 2021, share-based compensation related to the vesting expenses of share-based compensation awarded to employees under the Company's share-based award plans as described in Note 7 "Share-based Compensation."
- (x) For the three months ended March 31, 2022 and 2021, financial statement review costs include costs related to the restatements of the Company's 2019 and second quarter 2021 interim financial statements, costs related to the Company's responses to requests for information from various regulatory authorities relating to such restatement and legal costs defending shareholder class action complaints brought against the Company as a result of the 2019 restatement.

Net revenue attributed to a geographic region based on the location of the customer were as follows:

	Three months ended March 31,	
	2022	2021
Canada	\$ 13,576	\$ 7,582
Israel	9,128	2,518
United States	2,329	2,441
Other countries	—	70
Net revenue	\$ 25,033	\$ 12,611

Property, plant and equipment, net were physically located in the following geographic regions:

	As of March 31, 2022	As of December 31, 2021
Canada	\$ 47,717	\$ 49,117
Israel	23,823	24,473
United States	288	480
Total	<u>\$ 71,828</u>	<u>\$ 74,070</u>

10. Commitments and Contingencies

(a) Commitments

There have been no material changes in the information regarding commitments as disclosed in the Company's Annual Report.

(b) Contingencies

The Company is subject to various legal proceedings in the ordinary course of its business and in connection with its marketing, distribution and sale of its products. Many of these legal proceedings are in the early stages of litigation and seek damages that are unspecified or not quantified. Although the outcome of these matters cannot be predicted with certainty, the Company does not believe these legal proceedings, individually or in the aggregate, will have a material adverse effect on its financial condition but could be material to its results of operations for a quarterly period depending, in part, on its results for that quarter.

(i) Class action complaints relating to restatement of 2019 interim financial statements

On March 11 and 12, 2020, two alleged shareholders of the Company separately filed two putative class action complaints in the U.S. District Court for the Eastern District of New York against the Company and its Chief Executive Officer and now former Chief Financial Officer. The court has consolidated the cases, and the consolidated amended complaint alleges violations of Section 10(b) of the Securities Exchange Act of 1934 (the "Exchange Act") and Rule 10b-5 promulgated thereunder against all defendants, and Section 20(a) of the Exchange Act against the individual defendants. The consolidated amended complaint generally alleges that certain of the Company's prior public statements about revenues and internal control were incorrect based on the Company's disclosures relating to the Audit Committee of the Board of Directors' (the "Board") review of the appropriateness of revenue recognized in connection with certain bulk resin purchases and sales of products through the wholesale channel. The consolidated amended complaint does not quantify a damage request. Defendants moved to dismiss on February 8, 2021.

On June 3, 2020, an alleged shareholder filed a Statement of Claim, as amended on August 12, 2020, in the Ontario Superior Court of Justice in Toronto, Ontario, Canada, seeking, among other things, an order certifying the action as a class action on behalf of a putative class of shareholders and damages of an unspecified amount. The Amended Statement of Claim names (i) the Company, (ii) its Chief Executive Officer, (iii) now former Chief Financial Officer, (iv) former Chief Financial Officer and Chief Commercial Officer, and (v) current and former members of the Board as defendants and alleges breaches of the Ontario Securities Act, oppression under the Ontario Business Corporations Act and common law misrepresentation. The Amended Statement of Claim generally alleges that certain of the Company's prior public statements about revenues and internal control were misrepresentations based on the Company's March 2, 2020 disclosure that the Audit Committee of the Board was conducting a review of the appropriateness of revenue recognized in connection with certain bulk resin purchases and sales of products through the wholesale channel, and the Company's subsequent restatement. The Amended Statement of Claim does not quantify a damage request. On June 28, 2021, the Court dismissed motions brought by the plaintiff for leave to commence a claim for misrepresentation under the Ontario Securities Act and for certification of the action as a class action. The plaintiff has appealed the Court's dismissal of the motions only with respect to the Company, the Chief Executive Officer, and the now former Chief Financial Officer; the remaining defendants were dismissed from the matter with prejudice, and the Company and all individual defendants agreed not to seek costs from plaintiff in connection with the dismissal of the motions.

(ii) Regulatory reviews relating to restatements

The Company has been responding to requests for information from various regulatory authorities relating to its previously disclosed restatement of its financial statements for the first three quarters of 2019 as well as the previously disclosed restatement of the second quarter of 2021 interim financial statements. The Company is responding to all such requests for information and cooperating with all regulatory authorities. The Company cannot predict the outcome of any such regulatory review or investigation and it is possible that additional investigations or one or more formal proceedings may be commenced against the Company and its current and former officers and directors in connection with these regulatory reviews and investigations.

(iii) Litigation relating to marketing, distribution and sale of products

On June 16, 2020, an alleged consumer filed a Statement of Claim on behalf of a class in the Court of Queen’s Bench of Alberta in Alberta, Canada, against the Company and other Canadian cannabis manufacturers and/or distributors. On December 4, 2020, a Third Amended Statement of Claim was filed, which added a second alleged consumer. The Third Amended Statement of Claim alleges claims related to the defendants’ advertised content of cannabinoids in cannabis products for medicinal use on or after June 16, 2010 and cannabis products for adult use on or after October 17, 2018. The Third Amended Statement of Claim seeks a total of C\$500 million for breach of contract, compensatory damages, and unjust enrichment or such other amount as may be proven in trial and C\$5 million in punitive damages against each defendant, including the Company. The Third Amended Statement of Claim also seeks interest and costs associated with the action. The Company has not responded to the Third Amended Statement of Claim. On January 31, 2022, upon consent of the Company and the plaintiffs, the court dismissed the case in its entirety as to the Company.

A number of claims, including purported class actions, have been brought in the U.S. against companies engaged in the U.S. hemp business alleging, among other things, violations of state consumer protection, health and advertising laws. On April 8, 2020, a putative class action complaint was filed in the U.S. District Court for the Central District of California against Redwood Holding Group, LLC (“Redwood”), alleging violations of California’s Unfair Competition Law, False Advertising Law, Consumers Legal Remedies Act, and breaches of the California Commercial Code for breach of express warranties and implied warranty of merchantability with respect to Redwood’s marketing and sale of U.S. hemp products. The complaint did not quantify a damage request. On April 10, 2020, the class action complaint was dismissed for certain pleading deficiencies and the plaintiff was granted leave until April 24, 2020 to amend the complaint to establish federal subject matter jurisdiction. On April 28, 2020, the action was dismissed without prejudice for failure to prosecute and for failure to comply with a court order. As of the date of this Quarterly Report, the plaintiff has not refiled the complaint.

The Company expects litigation and regulatory proceedings relating to the marketing, distribution and sale of its products to increase.

11. Fair Value Measurements

The Company complies with ASC 820 *Fair Value Measurements* for its financial assets and liabilities that are re-measured and reported at fair value at each reporting period, and non-financial assets and liabilities that are re-measured and reported at fair value at least annually. In general, fair values are determined by:

- Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 inputs utilize data points that are observable such as quoted prices, interest rates and yield curves.
- Level 3 inputs are unobservable data points for the asset or liability, and includes situations where there is little, if any, market activity for the asset or liability.

The following tables present information about the Company’s assets and liabilities that are measured at fair value on a recurring basis:

	March 31, 2022			Total
	Level 1	Level 2	Level 3	
Cash and cash equivalents	\$ 861,535	\$ —	\$ —	\$ 861,535
Short-term investments	119,933	—	—	119,933
Other investments ⁽ⁱ⁾	12,607	—	—	12,607
Derivative liabilities	—	—	4,099	4,099

	December 31, 2021			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 886,973	\$ —	\$ —	\$ 886,973
Short-term investments	117,684	—	—	117,684
Other investments ⁽ⁱ⁾	8,000	—	—	8,000
Derivative liabilities	—	—	14,375	14,375

⁽ⁱ⁾ As of March 31, 2022 and December 31, 2021, the Company's influence on Cronos Australia is deemed non-significant and the investment is considered an equity security with a readily determinable fair value. See Note 3 "Investments" for additional information.

There were no transfers between fair value categories during the periods presented.

12. Impairment Loss on Long-lived Assets

(a) Right-of-use assets and property, plant, and equipment, net

During the three months ended March 31, 2022, the Company recognized an impairment charge of \$1,986 related to the right-of-use lease asset associated with the Company's corporate headquarters, encompassing approximately 29,000 square feet, in Toronto, Ontario, Canada, for which the Company determined it would seek a sublease. In addition, the Company recognized an impairment charge of \$1,507 during the three months ended March 31, 2022 related to leasehold improvements and other office equipment that it plans to include in any potential sublease agreement. The determination to seek a sublease of the property and include leasehold improvements and other office equipment in any potential sublease agreement triggered the impairment charges. Both of the impairment charges are recognized as impairment loss on long-lived assets on the condensed consolidated statements of net income (loss) and comprehensive income (loss).

During the three months ended March 31, 2021, the Company recognized an impairment charge of \$1,039 related to leasehold improvements located within leased premises, encompassing approximately 6,000 square feet, in Los Angeles, California, which the Company determined it no longer had plans to use. The significant change in the extent and manner in which the leasehold improvements are being used and the expectation that, more likely than not, the leasehold improvements will be disposed of before the end of their useful life triggered an impairment. The right-of-use lease asset associated with the leasehold improvements was also written down as a result of the Company's decision to no longer use the leased premise. The Company recognized an impairment charge on the de-recognition of the right-of use asset of \$702 during the three months ended March 31, 2021. Both the impairment charges are recognized as impairment loss on long-lived assets on the condensed consolidated statements of net income (loss) and comprehensive income (loss).

13. Related Party Transactions

(a) Altria

On March 8, 2019, in connection with the Altria Investment, Altria, through certain of its wholly owned subsidiaries, purchased a 45% equity interest in the Company. As of March 31, 2022, Altria beneficially held an approximately 42% ownership interest in the Company (calculated on a non-diluted basis).

The Company incurred the following expenses for consulting services from Altria Pinnacle LLC, a subsidiary of Altria ("Altria Pinnacle"):

	Three months ended March 31,	
	2022	2021
Altria Pinnacle - expense	\$ 28	\$ 8

As of March 31, 2022 and December 31, 2021, the Company had payables outstanding to Altria Pinnacle of \$13 and \$nil, respectively.

(b) Cronos GrowCo

The Company holds a variable interest in Cronos GrowCo through its ownership of 50% of Cronos GrowCo's common shares and senior secured debt in Cronos GrowCo. See Note 3 "Investments" for additional information.

The Company made the following purchases of cannabis products from Cronos GrowCo:

	Three months ended March 31,	
	2022	2021
Cronos GrowCo - purchases	\$ 3,218	\$ —

There were \$nil and \$82 amounts payable to Cronos GrowCo as of March 31, 2022 and December 31, 2021, respectively.

Additionally, on August 23, 2019, the Company, as lender, and Cronos GrowCo, as borrower, entered into the GrowCo Facility. See Note 4 "Loans Receivable, net" for additional information.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis should be read together with other information, including Cronos Group’s condensed consolidated financial statements and the related notes to those statements, included in Part I, Item 1 of this Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2022 (this “Quarterly Report”), consolidated financial statements appearing in the Company’s Annual Report on Form 10-K for the year ended December 31, 2021 (the “Annual Report”), Part I, Item 1A, Risk Factors, of the Annual Report and Part II, Item 1A, Risk Factors, of this Quarterly Report.

Forward-Looking Statements

This Quarterly Report, the documents incorporated into this Quarterly Report by reference, other reports we file with, or furnish to, the U.S. Securities and Exchange Commission (“SEC”) and other regulatory agencies, and statements by our directors, officers, other employees and other persons authorized to speak on our behalf contain information that may constitute forward-looking information and forward-looking statements within the meaning of applicable securities laws (collectively, “Forward-Looking Statements”), which are based upon our current internal expectations, estimates, projections, assumptions and beliefs. All information that is not clearly historical in nature may constitute Forward-Looking Statements. In some cases, Forward-Looking Statements can be identified by the use of forward-looking terminology, such as “expect”, “likely”, “may”, “will”, “should”, “intend”, “anticipate”, “potential”, “proposed”, “estimate” and other similar words, expressions and phrases, including negative and grammatical variations thereof, or statements that certain events or conditions “may” or “will” happen, or by discussion of strategy. Forward-Looking Statements include estimates, plans, expectations, opinions, forecasts, projections, targets, guidance or other statements that are not statements of historical fact.

Forward-Looking Statements include, but are not limited to, statements with respect to:

- the impact of the ongoing military conflict between Russia and Ukraine (and resulting sanctions) on our business, financial condition and results of operations or cash flows;
- the uncertainties associated with the COVID-19 pandemic, including our ability, and the abilities of our joint ventures and our suppliers and distributors, to effectively deal with the restrictions, limitations and health issues presented by the COVID-19 pandemic, the ability to continue our production, distribution and sale of our products, and demand for and the use of our products by consumers;
- laws and regulations and any amendments thereto applicable to our business and the impact thereof, including uncertainty regarding the application of United States (“U.S.”) state and federal law to U.S. hemp (including CBD and other U.S. hemp-derived cannabinoids) products and the scope of any regulations by the U.S. Food and Drug Administration (the “FDA”), the U.S. Drug Enforcement Administration (the “DEA”), the U.S. Federal Trade Commission (the “FTC”), the U.S. Patent and Trademark Office (the “PTO”) and any state equivalent regulatory agencies over U.S. hemp (including CBD and other U.S. hemp-derived cannabinoids) products;
- the laws and regulations and any amendments thereto relating to the U.S. hemp industry in the U.S., including the promulgation of regulations for the U.S. hemp industry by the U.S. Department of Agriculture (the “USDA”) and relevant state regulatory authorities;
- expectations related to our announced realignment (the “Realignment”) and any progress, challenges and effects related thereto as well as changes in strategy, metrics, investments, reporting structure, costs, operating expenses, employee turnover and other changes with respect thereto;
- the timing of our exit from our facility in Stayner, Ontario (the “Stayner Facility”) and the expected costs and benefits from the wind-down of the Stayner Facility;
- our ability to effectively wind-down the Stayner Facility in an organized fashion and acquire raw materials from other suppliers, including Cronos Growing Company Inc. (“Cronos GrowCo”) and the costs and timing associated therewith;
- the grant, renewal and impact of any license or supplemental license to conduct activities with cannabis or any amendments thereof;
- our international activities and joint venture interests, including required regulatory approvals and licensing, anticipated costs and timing, and expected impact;
- our ability to successfully create and launch brands and further create, launch and scale U.S. hemp-derived cannabinoid consumer products and cannabis products;
- the benefits, viability, safety, efficacy, dosing and social acceptance of cannabis, including CBD and other cannabinoids;
- expectations regarding the implementation and effectiveness of key personnel changes;
- the anticipated benefits and impact of Altria Group Inc.’s investment in the Company (the “Altria Investment”), pursuant to a subscription agreement dated December 7, 2018;
- the potential exercise of one warrant of the Company included as part of the Altria Investment (the “Altria Warrant”), pre-emptive rights and/or top-up rights in connection with the Altria Investment, including proceeds to us that may result therefrom;

- expectations regarding the use of proceeds of equity financings, including the proceeds from the Altria Investment;
- the legalization of the use of cannabis for medical or adult-use in jurisdictions outside of Canada, the related timing and impact thereof and our intentions to participate in such markets, if and when such use is legalized;
- expectations regarding the potential success of, and the costs and benefits associated with, our joint ventures, strategic alliances and equity investments, including the strategic partnership (the “Ginkgo Strategic Partnership”) with Ginkgo Bioworks Holdings, Inc. (“Ginkgo”);
- our ability to execute on our strategy and the anticipated benefits of such strategy;
- expectations of the amount or frequency of impairment losses, including as a result of the write-down of intangible assets, including goodwill;
- the ongoing impact of the legalization of additional cannabis product types and forms for adult-use in Canada, including federal, provincial, territorial and municipal regulations pertaining thereto, the related timing and impact thereof and our intentions to participate in such markets;
- the future performance of our business and operations;
- our competitive advantages and business strategies;
- the competitive conditions of the industry;
- the expected growth in the number of customers using our products;
- our ability or plans to identify, develop, commercialize or expand our technology and research and development (“R&D”) initiatives in cannabinoids, or the success thereof;
- expectations regarding acquisitions and dispositions and the anticipated benefits therefrom;
- uncertainties as to our ability to exercise our option (the “PharmaCann Option”) in PharmaCann Inc. (“PharmaCann”), in the near term or the future, in full or in part, including the uncertainties as to the status and future development of federal legalization of cannabis in the U.S. and our ability to realize the anticipated benefits of the transaction with PharmaCann;
- expectations regarding revenues, expenses and anticipated cash needs;
- expectations regarding cash flow, liquidity and sources of funding;
- expectations regarding capital expenditures;
- expectations regarding our future production and manufacturing strategy and operations, the costs and timing associated therewith and the receipt of applicable production and sale licenses;
- expectations regarding our growing, production and supply chain capacities;
- expectations regarding the resolution of litigation and other legal and regulatory proceedings, reviews and investigations;
- expectations with respect to future production costs;
- expectations with respect to future sales and distribution channels and networks;
- the expected methods to be used to distribute and sell our products;
- the anticipated future gross margins of our operations;
- accounting standards and estimates;
- our ability to timely and effectively remediate any material weaknesses in our internal control over financial reporting; and
- expectations regarding the costs and benefits associated with our contracts and agreements with third parties, including under our third party supply and manufacturing agreements.

Certain of the Forward-Looking Statements contained herein concerning the industries in which we conduct our business are based on estimates prepared by us using data from publicly available governmental sources, market research, industry analysis and on assumptions based on data and knowledge of these industries, which we believe to be reasonable. However, although generally indicative of relative market positions, market shares and performance characteristics, such data is inherently imprecise. The industries in which we conduct our business involve risks and uncertainties that are subject to change based on various factors, which are described further below.

The Forward-Looking Statements contained herein are based upon certain material assumptions that were applied in drawing a conclusion or making a forecast or projection, including: (i) our ability to efficiently and effectively exit the Stayner Facility, receive the benefits of the Stayner Facility wind down and acquire raw materials on a timely and cost-effective basis from third parties, including Cronos GrowCo; (ii) our ability, and the abilities of our joint ventures and our suppliers and distributors, to effectively deal with the restrictions, limitations and health issues presented by the COVID-19 pandemic and the ability to continue our production, distribution and sale of our products and customer demand for and use of our products; (iii) management's perceptions of historical trends, current conditions and expected future developments; (iv) our ability to generate cash flow from operations; (v) general economic, financial market, regulatory and political conditions in which we operate; (vi) the production and manufacturing capabilities and output from our facilities and our joint ventures, strategic alliances and equity investments; (vii) consumer interest in our products; (viii) competition; (ix) anticipated and unanticipated costs; (x) government regulation of our activities and products including, but not limited to, the areas of taxation and environmental protection; (xi) the timely receipt of any required regulatory authorizations, approvals, consents, permits and/or licenses; (xii) our ability to obtain qualified staff, equipment and services in a timely and cost-efficient manner; (xiii) our ability to conduct operations in a safe, efficient and effective manner; (xiv) our ability to realize anticipated benefits, synergies or generate revenue, profits or value from our recent acquisitions into our existing operations; (xv) our ability to realize the expected cost-savings, efficiencies and other benefits of our Realignment and employee turnover related thereto; (xvi) our ability to complete planned dispositions, and, if completed, obtain our anticipated sales price; (xvii) our ability to exercise the PharmaCann Option and realize the anticipated benefits of the transaction with PharmaCann; and (xviii) other considerations that management believes to be appropriate in the circumstances. While our management considers these assumptions to be reasonable based on information currently available to management, there is no assurance that such expectations will prove to be correct.

By their nature, Forward-Looking Statements are subject to inherent risks and uncertainties that may be general or specific and which give rise to the possibility that expectations, forecasts, predictions, projections or conclusions will not prove to be accurate, that assumptions may not be correct and that objectives, strategic goals and priorities will not be achieved. A variety of factors, including known and unknown risks, many of which are beyond our control, could cause actual results to differ materially from the Forward-Looking Statements in this Quarterly Report and other reports we file with, or furnish to, the SEC and other regulatory agencies and made by our directors, officers, other employees and other persons authorized to speak on our behalf. Such factors include, without limitation, that we may not be able to exit the Stayner Facility in an organized fashion or achieve the anticipated benefits of the exit or be able to access raw materials on a timely and cost-effective basis from third parties, including Cronos GrowCo; the risk that the COVID-19 pandemic and the military conflict between Russia and Ukraine may disrupt our operations and those of our suppliers and distribution channels and negatively impact the demand for and use of our products; the risk that cost savings and any other synergies from the Altria Investment may not be fully realized or may take longer to realize than expected; the risk that we will not complete planned dispositions, or, if completed, obtain our anticipated sales price; the implementation and effectiveness of key personnel changes; the risks that our Realignment, the closure of the Stayner Facility and our further leveraging of our strategic partnerships will not result in the expected cost-savings, efficiencies and other benefits or will result in greater than anticipated turnover in personnel; future levels of revenues; consumer demand for cannabis and U.S. hemp products; our ability to manage disruptions in credit markets or changes to our credit ratings; future levels of capital, environmental or maintenance expenditures, general and administrative and other expenses; the success or timing of completion of ongoing or anticipated capital or maintenance projects; business strategies, growth opportunities and expected investment; the adequacy of our capital resources and liquidity, including but not limited to, availability of sufficient cash flow to execute our business plan (either within the expected timeframe or at all); the potential effects of judicial, regulatory or other proceedings, or threatened litigation or proceedings, on our business, financial condition, results of operations and cash flows; volatility in and/or degradation of general economic, market, industry or business conditions; compliance with applicable environmental, economic, health and safety, energy and other policies and regulations and in particular health concerns with respect to vaping and the use of cannabis and U.S. hemp products in vaping devices; the anticipated effects of actions of third parties such as competitors, activist investors or federal (including U.S. federal), state, provincial, territorial or local regulatory authorities or self-regulatory organizations; changes in regulatory requirements in relation to our business and products; legal or regulatory obstacles that could prevent us from being able to exercise the PharmaCann Option and thereby realizing the anticipated benefits of the transaction with PharmaCann; dilution of our fully-diluted ownership of PharmaCann and the loss of our rights as a result of that dilution; our remediation of material weaknesses in our internal control over financial reporting and the improvement of our control environment and our systems, processes and procedures; and the factors discussed under Part I, Item 1A "Risk Factors" of the Annual Report. Readers are cautioned to consider these and other factors, uncertainties and potential events carefully and not to put undue reliance on Forward-Looking Statements.

Forward-Looking Statements are provided for the purposes of assisting the reader in understanding our financial performance, financial position and cash flows as of and for periods ended on certain dates and to present information about management's current expectations and plans relating to the future, and the reader is cautioned not to place undue reliance on these Forward-Looking Statements because of their inherent uncertainty and to appreciate the limited purposes for which they are being used by management. While we believe that the assumptions and expectations reflected in the Forward-Looking Statements are reasonable based on information currently available to management, there is no assurance that such assumptions and expectations will prove to have been correct. Forward-Looking Statements are made as of the date they are made and are based on the beliefs, estimates, expectations and opinions of management on that date. We undertake no obligation to update or revise any Forward-Looking Statements, whether as a

result of new information, estimates or opinions, future events or results or otherwise or to explain any material difference between subsequent actual events and such Forward-Looking Statements. The Forward-Looking Statements contained in this Quarterly Report and other reports we file with, or furnish to, the SEC and other regulatory agencies and made by our directors, officers, other employees and other persons authorized to speak on our behalf are expressly qualified in their entirety by these cautionary statements.

Foreign currency exchange rates

All currency amounts in this Quarterly Report are stated in U.S. dollars, which is our reporting currency, unless otherwise noted. All references to “dollars” or “\$” are to U.S. dollars. The assets and liabilities of our foreign operations are translated into dollars at the exchange rate in effect as of March 31, 2022, March 31, 2021 and December 31, 2021. Transactions affecting the shareholders’ equity (deficit) are translated at historical foreign exchange rates. The condensed consolidated statements of net income (loss) and comprehensive income (loss) and condensed consolidated statements of cash flows of our foreign operations are translated into dollars by applying the average foreign exchange rate in effect for the reporting period as reported on Bloomberg.

The exchange rates used to translate from Canadian dollars (“C\$”) to dollars is shown below:

(Exchange rates are shown as C\$ per \$)

	As of		
	March 31, 2022	March 31, 2021	December 31, 2021
Average rate	1.2665	1.2665	N/A
Spot rate	1.2507	1.2563	1.2746

Business Overview

Cronos Group is an innovative global cannabinoid company committed to building disruptive intellectual property by advancing cannabis research, technology and product development and are seeking to build an iconic brand portfolio. Cronos Group’s diverse international brand portfolio includes Spinach[®], PEACE NATURALS[®], Lord Jones[®], Happy Dance[®] and PEACE+[™].

Strategy

Cronos Group seeks to create value for shareholders by focusing on four core strategic priorities:

- growing a portfolio of iconic brands that responsibly elevate the consumer experience;
- developing a diversified global sales and distribution network;
- establishing an efficient global supply chain; and
- creating and monetizing disruptive intellectual property.

Business segments

We report through two segments: “United States” (the “U.S. segment”) and “Rest of World” (the “ROW segment”). These two segments represent the geographic regions in which we operate and the different product offerings within each geographic region.

The U.S. segment manufactures, markets and distributes U.S. hemp-derived supplements and cosmetic products through e-commerce, retail and hospitality partner channels in the United States under the brands Lord Jones[®], Happy Dance[®] and PEACE+[™].

The ROW segment is involved in the cultivation, manufacture, and marketing of cannabis and cannabis-derived products for the medical and adult-use markets. In Canada, Cronos Group operates two wholly owned license holders under the Cannabis Act (Canada) (the “Cannabis Act”), Peace Naturals Project Inc. (“Peace Naturals”), which has production facilities near Stayner, Ontario (the “Stayner Facility”), and Thanos Holdings Ltd., known as Cronos Fermentation (“Cronos Fermentation”), which has a production facility in Winnipeg, Manitoba. In Israel, the Company operates under the IMC-GAP, IMC-GMP and IMC-GDP certifications required for the cultivation, production and marketing of dried flower, pre-rolls and cannabis oils in the Israeli medical market. Cronos Group has established three strategic joint ventures in Canada, Israel and Colombia. Additionally, as of March 31, 2022, Cronos Group held approximately 10% of the issued capital of Cronos Australia Limited (“Cronos Australia”), which is listed on the Australian Securities Exchange under the trading symbol “CAU.” Cronos Group currently exports cannabis products to two of the countries that permit the import of such products: Germany and Israel.

Recent Developments

COVID-19 update

In December 2019, an outbreak of a novel strain of coronavirus, COVID-19, was identified in Wuhan, China. Since then, COVID-19 has spread across the globe, including the U.S., Canada and Israel, and other countries in which Cronos Group or its affiliates operate (including Australia and Colombia) and was recognized as a pandemic by the World Health Organization. The COVID-19 pandemic resulted in a sharp contraction in many areas of the global economy and increased volatility and uncertainty in the capital markets. In response to the pandemic, the governments of many countries, provinces, states, municipalities, and other geographic regions took preventative or protective actions, including closures of certain businesses, mandatory quarantines, limits on individuals' time outside of their homes, travel restrictions and social distancing or other preventative measures. Such measures were eased or lifted in varying degrees by different governments of various countries, states and municipalities throughout 2020 and 2021, but the continued spread of COVID-19 and increased infection rates has caused, and may continue to cause, some jurisdictions to roll back reopening plans that had been underway and re-impose quarantines, border closures, closure of certain businesses and stay-at-home orders.

The COVID-19 pandemic continues to impact the global economy and, specifically, the U.S., Canada, Israel, and the other countries in which Cronos Group or its affiliates operate (including Australia and Colombia). We continue to closely monitor and respond, where possible, to the ongoing COVID-19 pandemic. As the global situation continues to change rapidly, ensuring the health and safety of our employees remains one of our top priorities.

In the U.S., numerous states have continued to remove their COVID-19 related restrictions. This has resulted in the re-opening of, and increased occupancy capacities in, retail outlets, including those that sell our products. Any reinstatement of restrictions on the operations of retail outlets could negatively impact our short-term results of operations in the U.S. Recently in the U.S., there have been a number of supply chain challenges, such as container ships facing delays due to congestion in ports, impacting many industries, including the industries in which we operate. Although we have not yet seen a significant impact from supply chain disruptions, we continue to monitor our supply chain closely.

In Canada, COVID-19 restrictions began gradually easing at the end of June 2021 as the vaccination rate increased. The lockdown measures taken in the first six months of 2021 to slow infection rates negatively impacted our short-term revenue growth in Canada in 2021. The increase in cases related to the Omicron variant of COVID-19 beginning in December 2021 caused the reinstatement of some restrictions on non-essential retail stores in some provinces, including Quebec, in early 2022; however, those restrictions have eased in most other provinces. Each province is responsible for implementing re-opening plans and certain provinces, including Ontario, are progressing through phases of re-opening which may permit continued increases to the allowance of in-person shopping, typically in the form of percentage of store capacity. All provinces have some form of cannabis retail open to consumers, whether it be restricted in-person shopping, curbside pickup or delivery. Most provinces have lifted the requirement that retail shoppers show proof of vaccination before entering retail stores. The potential for recurring retail restrictions is ongoing, which could negatively impact our results of operations.

In Israel, most COVID-19 restrictions have been removed as vaccination rates have increased. Occupancy limitations in retail outlets have been removed, including those that sell our products. We do not expect the remaining COVID-19 restrictions to have a material impact on our short-term revenue growth in Israel.

Collectively, the effects of the COVID-19 pandemic have adversely affected our results of operations and, if the effects continue unabated, could continue to do so as long as measures to combat the COVID-19 pandemic remain in effect or supply chains continue to be challenged. At this time, neither the duration nor scope of the disruption can be predicted; therefore, the ultimate impact to our business cannot be reasonably estimated, but such impact could materially adversely affect our business, financial condition and results of operations.

Despite the impacts of the COVID-19 pandemic, we believe that our significant cash on hand and short-term investments will be adequate to meet liquidity and capital requirements for at least the next twelve months. The impact of reduced interest rates has inhibited our ability to generate interest income, but this has not had, and is not expected to have, a material impact on our liquidity or capital resources.

Strategic and Organizational Update

In the first quarter of 2022, the Company initiated a strategic plan to realign the business around its brands, centralize functions and evaluate the Company's supply chain (the "Realignment"). The organizational and cost reduction initiatives being undertaken are intended to position Cronos Group to drive profitable and sustainable growth over time. The program consists of the following:

1. Centralizing functions under common leadership to increase efficient distribution of resources, improve strategic alignment and eliminate duplicative roles and costs;
2. Evaluating the Company's global supply chain and reducing complexity and fixed expenses, which resulted in the announcement of the planned exit of the Stayner Facility in Stayner, Ontario, and the Company's ongoing review of product, pricing and distribution optimization; and

- Implementing an operating expense target to optimize cash deployment for activities such as margin accretive innovation and U.S. adult-use market entry.

Brand and Product Portfolio

In April 2022, the Company expanded its SOURZ by Spinach™ gummy portfolio with a new flavor, Cherry Lime, in a five piece per pack format with 2mg of THC per piece. The Company now has five SKUs in the gummy category across its SOURZ by Spinach™ and Spinach FEELZ™ sub-brands.

Global Supply Chain

In the first quarter of 2022, the Company began to leverage Cronos GrowCo's capabilities as part of the Realignment. These activities include, among others, the transfer of certain manufacturing equipment to Cronos GrowCo from the Stayner Facility. In April 2022, the Company began building dedicated space within Cronos GrowCo for various manufacturing and R&D activities.

Appointments

In March 2022, the Board of Directors appointed Cronos Group's founder, Mike Gorenstein, as Chairman, President and Chief Executive Officer, in connection with Kurt Schmidt's retirement. Mr. Gorenstein previously served as Chairman, President and Chief Executive Officer of Cronos until September 2020, when he transitioned to the Executive Chairman role.

In April 2022, the Company appointed Terry Doucet as Senior Vice President, Legal, Regulatory Affairs and Corporate Secretary, after serving in an interim capacity since December 2021. Mr. Doucet has been with Cronos since 2018 and has guided Cronos through significant growth over the last few years, including the build-out of the Company's Legal and Regulatory Affairs teams, the Altria Investment, the Ginkgo Strategic Partnership, the PharmaCann Option and various product commercialization initiatives.

Consolidated Results of Operations

The tables below sets forth our condensed consolidated results of operations, expressed in thousands of U.S. dollars for the periods presented. Our condensed consolidated financial results for these periods are not necessarily indicative of the consolidated financial results that we will achieve in future periods.

	Three months ended March 31,	
	2022	2021
Net revenue before excise taxes	\$ 29,406	\$ 14,654
Excise taxes	(4,373)	(2,043)
Net revenue	25,033	12,611
Cost of sales	18,107	15,574
Gross profit	6,926	(2,963)
Operating expenses:		
Sales and marketing	5,012	10,254
Research and development	4,039	5,102
General and administrative	22,368	21,906
Restructuring costs	3,084	—
Share-based compensation	3,686	2,499
Depreciation and amortization	1,293	735
Impairment loss on long-lived assets	3,493	1,741
Total operating expenses	42,975	42,237
Operating loss	(36,049)	(45,200)
Other income (expense)	3,758	(116,404)
Income tax expense	(362)	—
Loss from discontinued operations	—	(21)
Net loss	(32,653)	(161,625)
Net loss attributable to non-controlling interest	(15)	(313)
Net loss attributable to Cronos Group	\$ (32,638)	\$ (161,312)

Summary of select financial results

	Three months ended March 31,		Change	
	2022	2021	\$	%
Net revenue	\$ 25,033	\$ 12,611	\$ 12,422	99 %
Cost of sales	18,107	15,574	2,533	16 %
Gross profit	6,926	(2,963)	9,889	334 %
Gross margin ⁽ⁱ⁾	28 %	(23)%	N/A	51 pp

⁽ⁱ⁾ Gross margin is defined as gross profit divided by net revenue.

Net revenue

For the three months ended March 31, 2022, we reported consolidated net revenue of \$25.0 million, representing an increase of \$12.4 million from the three months ended March 31, 2021. The increase was primarily due to an increase in net revenue in the ROW segment driven by growth in the Israeli medical market and the Canadian adult-use market.

Cost of sales

For the three months ended March 31, 2022, we reported consolidated cost of sales of \$18.1 million, representing an increase of approximately \$2.5 million from the three months ended March 31, 2021. The increase was primarily due to higher sales volumes in the ROW segment, partially offset by lower inventory valuation adjustments, lower depreciation expense as a result of the lower fair value of the Stayner Facility in connection with the impairment taken in the three months ended December 31, 2021, and lower cannabis biomass costs as we began to further leverage our joint venture with Cronos GrowCo.

Gross profit

For the three months ended March 31, 2022, we reported gross profit of \$6.9 million, representing an increase in gross profit of \$9.9 million compared to the three months ended March 31, 2021. For the three month comparative period, the change was primarily due to increased cannabis flower revenue in the ROW segment, the introduction of additional cannabis extract products in the ROW segment that carry a higher gross profit and gross margin than other product categories, lower inventory valuation adjustments, lower depreciation expense as a result of the lower fair value of the Stayner Facility in connection with the impairment taken in the three months ended December 31, 2021, and lower cannabis biomass costs as we began to further leverage our joint venture with Cronos GrowCo.

Operating expenses

	Three months ended March 31,		Change	
	2022	2021	\$	%
Sales and marketing	\$ 5,012	\$ 10,254	\$ (5,242)	(51)%
Research and development	4,039	5,102	(1,063)	(21)%
General and administrative	22,368	21,906	462	2 %
Restructuring costs	3,084	—	3,084	N/A
Share-based compensation	3,686	2,499	1,187	47 %
Depreciation and amortization	1,293	735	558	76 %
Impairment loss on long-lived assets	3,493	1,741	1,752	101 %
Total operating expenses	\$ 42,975	\$ 42,237	\$ 738	2 %

Sales and marketing

For the three months ended March 31, 2022, sales and marketing expenses were \$5.0 million, representing a decrease of \$5.2 million from the three months ended March 31, 2021. The decrease was primarily due to the implementation of the Realignment operating expense targets driving more focused investment towards the highest return spend.

Research and development

For the three months ended March 31, 2022, research and development expenses were \$4.0 million, representing a decrease of \$1.1 million from the three months ended March 31, 2021. The decrease was primarily due to the implementation of the Realignment, which includes operating expense targets driving more focused investment towards margin accretive innovation.

General and administrative

For the three months ended March 31, 2022, general and administrative expenses were \$22.4 million, representing an increase of \$0.5 million from the three months ended March 31, 2021. The increase was primarily due to higher professional fees related to financial statement review costs and employee-related costs.

Restructuring costs

For the three months ended March 31, 2022, restructuring costs were \$3.1 million, related to the Realignment, including the planned exit of the Stayner Facility.

Share-based compensation

For the three months ended March 31, 2022, share-based compensation expenses were \$3.7 million, representing an increase of \$1.2 million from the three months ended March 31, 2021. The increase was primarily due to the acceleration of equity grants to certain executive employees in connection with their separation from the Company.

Depreciation and amortization

For the three months ended March 31, 2022, depreciation and amortization expenses were \$1.3 million, representing an increase of \$0.6 million from the three months ended March 31, 2021. The change was primarily due to assets placed into service during the latter part of the year ended December 31, 2021.

Impairment loss on long-lived assets

For the three months ended March 31, 2022, impairment loss on long-lived assets was \$3.5 million, representing an increase of \$1.8 million from the three months ended March 31, 2021. For the three months ended March 31, 2022, \$2.0 million was related to a right-of-use lease asset and \$1.5 million related to leasehold improvements as a result of our decision to seek a sublease for the Company's corporate headquarters in Toronto, Canada. During the three months ended March 31, 2021, we recognized impairment charges of \$0.7 million related to a right-of-use lease asset and \$1.0 million related to leasehold improvements as a result of our decision to no longer use certain leased premises located in Los Angeles, California. See Note 12 "Impairment Loss on Long-lived Assets" to the condensed consolidated financial statements under Item 1 of this Quarterly Report.

Other income (loss), income tax expense and discontinued operations

	Three months ended March 31,		Change ⁽¹⁾	
	2022	2021	\$	%
Interest income, net	\$ 2,046	\$ 2,329	\$ (283)	(12)%
Gain (loss) on revaluation of derivative liabilities	10,419	(116,874)	127,293	109 %
Share of loss from equity accounted investments	—	(1,643)	1,643	100 %
Gain (loss) on revaluation of financial instruments	4,268	(200)	4,468	N/M
Impairment loss on other investments	(11,238)	—	(11,238)	N/A
Foreign currency transaction loss	(1,872)	—	(1,872)	N/A
Other, net	135	(16)	151	N/M
Total other income (loss)	3,758	(116,404)	120,162	103 %
Income tax expense	(362)	—	(362)	N/A
Loss from discontinued operations	—	(21)	21	100 %
Net loss	\$ (32,653)	\$ (161,625)	\$ 128,972	80 %

⁽ⁱ⁾ “N/M” is defined as not meaningful.

Interest income, net

For the three months ended March 31, 2022, interest income, net was \$2.0 million, representing a decrease of \$0.3 million from the three months ended March 31, 2021. The decrease in net interest income was primarily due to lower invested balances during the comparative periods.

Gain (loss) on revaluation of derivative liabilities

For the three months ended March 31, 2022, the gain on revaluation of derivative liabilities was \$10.4 million, representing an increase of \$127.3 million from the three months ended March 31, 2021. We expect continued changes in derivative valuations as our share price fluctuates period to period. For further information, see Note 5 “*Derivative Liabilities*” to the condensed consolidated financial statements under Item 1 “*Financial Statements*” of this Quarterly Report.

Share of loss from equity accounted investments

For the three months ended March 31, 2022, share of loss from equity accounted investments was \$nil, representing a decrease in losses of \$1.6 million from the three months ended March 31, 2021. The change was due to a decrease in losses in equity accounted investments during the three months ended March 31, 2022.

Gain (loss) on revaluation of financial instruments

For the three months ended March 31, 2022 and 2021, the gain (loss) on revaluation of financial instruments was \$4.3 million, representing an increase of \$4.5 million from the three months ended March 31, 2021. The increase primarily related to the change in fair value of our investment in Cronos Australia during the quarter since becoming an equity security with a readily determinable fair value in connection with its merger with CDA Health Pty Ltd, an Australian medicinal cannabis company, in December 2021. Prior to the merger, Cronos Australia was accounted for under the equity method of accounting.

Impairment loss on other investments

For the three months ended March 31, 2022, the impairment loss on other investments of \$11.2 million was driven by an impairment of the PharmaCann Option for the difference between its estimated fair value and the carrying amount of the PharmaCann Option. Refer to Note 3 “*Investments*” in our condensed consolidated financial statements under Item 1 of this Quarterly Report.

Foreign currency transaction loss

For the three months ended March 31, 2022, the foreign currency transaction loss was \$1.9 million, which related to certain foreign currency-denominated intercompany loans anticipated to be settled in the foreseeable future.

Other, net

For the three months ended March 31, 2022, other, net was \$0.1 million, representing an increase of \$0.2 million from the three months ended March 31, 2021.

Results of Operations by Business Segment:

The tables below set forth our condensed consolidated results of operations by our two business segments: the ROW segment and the U.S. segment, expressed in U.S. dollars and in thousands for the periods presented. Our condensed consolidated financial results for these periods are not necessarily indicative of the consolidated financial results that we will achieve in future periods. Certain totals in the tables below will not sum to exactly 100% due to rounding.

Summary of select financial results – ROW

	Three months ended March 31,		Change	
	2022	2021	\$	%
Net revenue	\$ 22,705	\$ 10,170	\$ 12,535	123 %
Cost of sales	15,995	14,309	1,686	12 %
Gross profit	6,710	(4,139)	10,849	262 %
Gross margin	30 %	(41)%	N/A	71 pp

Net revenue – ROW

	Three months ended March 31,		Change	
	2022	2021	\$	%
Cannabis flower	\$ 18,625	\$ 9,434	\$ 9,191	97 %
Cannabis extracts	3,988	703	3,285	467 %
Other	92	33	59	179 %
Net revenue	\$ 22,705	\$ 10,170	\$ 12,535	123 %

For the three months ended March 31, 2022, the ROW segment reported net revenue of \$22.7 million, representing an increase of \$12.5 million from the three months ended March 31, 2021. The change was primarily due to an increase in net revenue in the Israeli medical market largely attributable to the cannabis flower category and the Canadian adult-use market driven primarily by cannabis extracts used in edibles and vaporizers.

Cost of sales – ROW

For the three months ended March 31, 2022, the ROW segment reported cost of sales of \$16.0 million, representing an increase of \$1.7 million from the three months ended March 31, 2021. The increase was primarily due to higher sales volumes, partially offset by lower inventory valuation adjustments, lower depreciation expense as a result of the lower fair value of the Stayner Facility in connection with the impairment taken in the three months ended December 31, 2021, and lower cannabis biomass costs as we began to further leverage our joint venture with Cronos GrowCo.

Gross profit – ROW

For the three months ended March 31, 2022, the ROW segment reported gross profit of \$6.7 million, representing an increase in gross profit of \$10.8 million from the three months ended March 31, 2021. For the three month comparative period, the change was primarily due to increased cannabis flower revenue, the introduction of additional cannabis extract products that carry a higher gross profit and gross margin than other product categories, lower inventory valuation adjustments, lower depreciation expense as a result of the lower fair value of the Stayner Facility in connection with the impairment taken in the three months ended December 31, 2021, and lower cannabis biomass costs as we began to further leverage our joint venture with Cronos GrowCo.

Summary of select financial results – U.S.

	Three months ended March 31,		Change	
	2022	2021	\$	%
Net revenue	\$ 2,328	\$ 2,441	\$ (113)	(5) %
Cost of sales	2,112	1,265	847	67 %
Gross profit	216	1,176	(960)	(82) %
Gross margin	9 %	48 %	N/A	(39)pp

Net revenue – U.S.

For the three months ended March 31, 2022, the U.S. segment reported net revenue of \$2.3 million, representing a decrease of \$0.1 million from the three months ended March 31, 2021. The decrease was primarily driven by a reduction in sales as a result of a decrease in promotional spend as the Company works through its review of the U.S. business as part of the Realignment.

Cost of sales – U.S.

For the three months ended March 31, 2022, the U.S. segment reported cost of sales of \$2.1 million, representing an increase of \$0.8 million from the three months ended March 31, 2021. The increase was primarily due to increased inventory valuation adjustments, higher shipping costs and unfavorable sales mix.

Gross profit – U.S.

For the three months ended March 31, 2022, the U.S. segment reported gross profit of \$0.2 million, representing a decrease of \$1.0 million from the three months ended March 31, 2021. For the three months ended March 31, 2022, gross profit was negatively impacted by higher cost of sales.

Non-GAAP Measures

Cronos Group reports its financial results in accordance with Generally Accepted Accounting Principles in the United States (“U.S. GAAP”). This Quarterly Report refers to measures not recognized under U.S. GAAP (“non-GAAP measures”). These non-GAAP measures do not have a standardized meaning prescribed by U.S. GAAP and are therefore unlikely to be comparable to similar measures presented by other companies. Rather, these non-GAAP measures are provided as a supplement to corresponding U.S. GAAP measures to provide additional information regarding the results of operations from management’s perspective. Accordingly, non-GAAP measures should not be considered a substitute for, or superior to, the financial information prepared and presented in accordance with U.S. GAAP. All non-GAAP measures presented in this Quarterly Report are reconciled to their closest reported U.S. GAAP measure. Reconciliations of historical adjusted financial measures to corresponding U.S. GAAP measures are provided below.

Adjusted EBITDA

Management reviews Adjusted EBITDA, a non-GAAP measure, which excludes non-cash items and items that do not reflect management’s assessment of ongoing business performance of our operating segments. Management defines Adjusted EBITDA as net income (loss) before interest, tax expense, depreciation and amortization adjusted for: share of loss from equity accounted investments; impairment loss on goodwill and intangible assets; impairment loss on long-lived assets; (gain) loss on revaluation of derivative liabilities; (gain) loss on revaluation of financial instruments; transaction costs related to strategic projects; impairment loss on other investments; foreign currency transaction loss; other, net; loss from discontinued operations; restructuring costs; share-based compensation; and review costs related to the restatements of our 2019 and 2021 interim financial statements, including the costs related to our responses to the reviews of such interim financial statements by various regulatory authorities and legal costs defending shareholder class action complaints brought against us as a result of the 2019 restatement (see Part II, Item 1 “Legal Proceedings” of this Quarterly Report for a discussion of the regulatory reviews and shareholder class action complaints relating to the restatement of the 2019 interim financial statements and the regulatory reviews relating to the restatements of the second quarter 2021 interim financial statements). Impairment loss on other investments has been included as an adjustment to Adjusted EBITDA due to the PharmaCann Option impairment analysis. Foreign currency transaction loss has been included as an adjustment to Adjusted EBITDA for the anticipated settlement of intercompany loans denominated in foreign currencies. Additionally, restructuring costs have been included as an adjustment to Adjusted EBITDA in light of the Realignment and the exit from the Stayner Facility.

Management believes that Adjusted EBITDA provides the most useful insight into underlying business trends and results and provides a more meaningful comparison of period-over-period results. Management uses Adjusted EBITDA for planning, forecasting and evaluating business and financial performance, including allocating resources and evaluating results relative to employee compensation targets.

Adjusted EBITDA is reconciled to net income (loss) as follows:

(In thousands of U.S. dollars)

	Three months ended March 31, 2022			
	United States	Rest of World	Corporate	Total
Net income (loss)	\$ (22,216)	\$ 2,014	\$ (12,451)	\$ (32,653)
Interest income, net	(29)	(2,017)	—	(2,046)
Income tax expense	—	362	—	362
Impairment loss on long-lived assets ⁽ⁱ⁾	—	3,493	—	3,493
Gain on revaluation of derivative liabilities ⁽ⁱⁱ⁾	—	(10,419)	—	(10,419)
Gain on revaluation of financial instruments ^(iv)	—	(4,268)	—	(4,268)
Impairment loss on other investment ^(v)	11,238	—	—	11,238
Foreign currency transaction loss	—	1,872	—	1,872
Other, net ^(vi)	—	(135)	—	(135)
Restructuring costs ^(viii)	1,053	2,031	—	3,084
Share-based compensation ^(ix)	2,436	1,250	—	3,686
Financial statement review costs ^(x)	—	—	4,062	4,062
Depreciation and amortization	432	2,392	—	2,824
Adjusted EBITDA	\$ (7,086)	\$ (3,425)	\$ (8,389)	\$ (18,900)

(In thousands of U.S. dollars)

	Three months ended March 31, 2021			
	United States	Rest of World	Corporate	Total
Net loss	\$ (12,092)	\$ (142,147)	\$ (7,386)	\$ (161,625)
Interest income, net	(3)	(2,326)	—	(2,329)
Share of loss from equity accounted investments	—	1,643	—	1,643
Impairment loss on long-lived assets ⁽ⁱ⁾	1,741	—	—	1,741
Loss on revaluation of derivative liabilities ⁽ⁱⁱ⁾	—	116,874	—	116,874
Transaction costs ⁽ⁱⁱⁱ⁾	—	—	501	501
Loss on revaluation of financial instruments ^(iv)	—	200	—	200
Other, net ^(vi)	—	16	—	16
Loss from discontinued operations ^(vii)	—	21	—	21
Share-based compensation ^(ix)	745	1,754	—	2,499
Financial statement review costs ^(x)	—	—	2,005	2,005
Depreciation and amortization	99	1,781	—	1,880
Adjusted EBITDA	\$ (9,510)	\$ (22,184)	\$ (4,880)	\$ (36,574)

⁽ⁱ⁾ For the three months ended March 31, 2022, impairment loss on long-lived assets related to the Company's decision to seek a sublease for leased office space located in Toronto, Ontario, Canada. For the three months ended March 31, 2021, impairment loss on long-lived assets related to an impairment on leased premises in the U.S. segment. See Note 12 "Impairment Loss on Long-lived Assets" to the condensed consolidated financial statements under Item 1 of this Quarterly Report.

⁽ⁱⁱ⁾ For the three months ended March 31, 2022 and 2021, the (gain) loss on revaluation of derivative liabilities represents the fair value changes on the derivative liabilities. See Note 5 "Derivative Liabilities" to the condensed consolidated financial statements under Item 1 of this Quarterly Report.

⁽ⁱⁱⁱ⁾ For the three months ended March 31, 2021, transaction costs represent legal, financial and other advisory fees and expenses incurred in connection with various strategic investments. These costs are included in general and administrative expenses on the condensed consolidated statements of net income (loss) and comprehensive income (loss).

^(iv) For the three months ended March 31, 2022, gain on revaluation of financial instruments related primarily to the Company's equity securities in Cronos Australia. See Note 3 "Investments" to the condensed consolidated financial statements under Item 1 of this Quarterly Report. For the three months ended March 31, 2021, loss on revaluation of financial instruments related primarily to revaluations of financial liabilities resulting from DSUs.

^(v) For the three months ended March 31, 2022, impairment loss on other investments related to the PharmaCann Option for the difference between its fair value and carrying amount. See Note 3 "Investments" to the condensed consolidated financial statements under Item 1 of this Quarterly Report.

^(vi) For the three months ended March 31, 2022 and 2021, other, net is primarily related to (gain) loss on reclassification of held-for-sale assets and (gain) loss on disposal of assets.

^(vii) For the three months ended March 31, 2021, loss from discontinued operations related to the discontinuance of OGBC.

^(viii) For the three months ended March 31, 2022, restructuring costs related to the employee-related severance costs and other restructuring costs associated with the Realignment and the exit of the Stayner Facility. See Note 6 "Restructuring" to the condensed consolidated financial statements under Item 1 of this Quarterly Report.

^(ix) For the three months ended March 31, 2022 and 2021, share-based compensation related to the vesting expenses of share-based compensation awarded to employees under the Company's share-based award plans as described in Note 7 "Share-based Compensation" to the condensed consolidated financial statements under Item 1 of this Quarterly Report.

⁽⁸⁾ For the three months ended March 31, 2022 and 2021, financial statement review costs include costs related to the restatements of the Company's 2019 and second quarter 2021 interim financial statements, costs related to the Company's responses to requests for information from various regulatory authorities relating to such restatement and legal costs defending shareholder class action complaints brought against the Company as a result of the 2019 restatement.

Liquidity and Capital Resources

As of March 31, 2022, we had \$861.5 million in cash and cash equivalents and \$119.9 million in short-term investments, which comprise the majority of the Company's cash position. We believe that the existing cash and cash equivalents and the short-term investments will be sufficient to fund the business operations and capital expenditures over the next twelve months. The following table summarizes the cash flows from operating, investing and financing activities:

(In thousands of U.S. dollars)

	Three months ended March 31,	
	2022	2021
Cash flows used in operating activities	\$ (33,911)	\$ (46,615)
Cash provided by (used in) investing activities	100	(9,717)
Cash used in financing activities	(464)	(8,663)
Effect of foreign currency translation on cash and cash equivalents	8,837	11,422
Net change in cash	\$ (25,438)	\$ (53,573)

Comparison of cash flows between the three months ended March 31, 2022 and the three months ended March 31, 2021

Operating activities

During the three months ended March 31, 2022, we used \$33.9 million of cash in operating activities as compared to cash used of \$46.6 million in the three months ended March 31, 2021, representing decrease in cash used of \$12.7 million. This change is primarily driven by a \$12.0 million increase in net income after adjusting for non-cash items during the three months ended March 31, 2022 compared to the three months ended March 31, 2021.

Investing activities

During the three months ended March 31, 2022, we generated \$0.1 million of cash in investing activities, compared to \$9.7 million of cash used in investing activities during the three months ended March 31, 2021, representing a decrease of \$9.8 million in cash used by investing activities. This change is primarily driven by lower purchases of property, plant and equipment and a decrease in disbursements related to loans receivable with related parties for the three months ended March 31, 2022 compared to the three months ended March 31, 2021.

Financing activities

During the three months ended March 31, 2022, cash used in financing activities was \$0.5 million, compared to \$8.7 million of cash used in financing activities during the three months ended March 31, 2021, representing a decrease of \$8.2 million in cash used in financing activities. This change is primarily driven by a decrease of \$8.1 million in withholding taxes paid on share-based awards during the three months ended March 31, 2022 compared to the three months ended March 31, 2021.

Cash Requirements

The Company's cash requirements have not changed significantly since the filing of the Annual Report.

Critical Accounting Policies and Estimates

Our critical accounting policies and estimates are discussed in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report. Our critical accounting policies and estimates have not changed significantly since the filing of the Annual Report.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

The Company is exposed to certain market risks, including changes from foreign currency exchange rates related to our international operations. The Company's market risks have not changed significantly from that disclosed in Item 7A, "Quantitative and Qualitative Disclosures About Market Risk" in our Annual Report.

Item 4. Controls and Procedures.*(a) Evaluation of Disclosure Controls and Procedures.*

The Company's management, with the participation of the Chief Executive Officer and the Chief Financial Officer, performed an evaluation of the disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 (the "Exchange Act"), as of March 31, 2022. Based on that evaluation, management has concluded that, as of March 31, 2022, due to the existence of material weaknesses in the Company's internal control over financial reporting described below, the disclosure controls and procedures were not effective to provide reasonable assurance that the information required to be disclosed by us in reports we file or submit under the Exchange Act were recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, and to ensure that the information required to be disclosed by us in reports that we file or submit under the Exchange Act, is accumulated and communicated to management, including the principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Material Weakness in Internal Controls Over Financial Reporting

A material weakness is a deficiency, or combination of deficiencies in internal controls over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. As previously disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2021 (the "Annual Report"), we have identified the following material weakness:

- **Control Environment:**

We did not maintain an effective control environment. Specifically, our control environment (i) did not ensure that senior personnel in our accounting function engaged consistently in appropriate professional conduct and conduct consistent with our Code of Business Conduct and Ethics; and (ii) lacked personnel in our accounting function with appropriate level of knowledge and experience in U.S. GAAP sufficient to properly assess evidence and interpret accounting rules.

None of the personnel in the accounting function that engaged in misconduct were current or former executive officers of the Company. The control environment material weakness contributed to the goodwill and indefinite-lived intangible asset material weakness described below.

- **Goodwill and Indefinite-lived Intangible Asset Impairment Testing:**

We identified the following material weakness with respect to goodwill and indefinite-lived intangible asset impairment testing. We did not design and maintain effective controls to assess goodwill and indefinite-lived intangible assets for potential impairment as changes in the performance of and prospects for our U.S. reporting unit occurred. Specifically, we did not design and maintain effective controls to sufficiently assess the overall financial performance of and expectations for our U.S. reporting unit and certain macroeconomic, industry and market conditions when evaluating goodwill associated with our U.S. reporting unit and our Lord Jones® brand indefinite-lived intangible asset for potential impairment.

The material weakness in the control environment contributed to material misstatements related to the impairment of goodwill and indefinite-lived intangible assets that led to the restatement of the Company's interim condensed consolidated financial statements for the three and six months ended June 30, 2021. The material weaknesses create a reasonable possibility that a material misstatement to the consolidated financial statements would not be prevented or detected on a timely basis. The lack of personnel in our accounting function with appropriate level of knowledge and experience in U.S. GAAP sufficient to properly assess evidence and interpret accounting principles described above resulted in immaterial misstatements related to the accounting for derivatives, share-based compensation, earnings per share, and long-lived asset impairment.

Remediation Plan and Status

As of the filing date, the Company has implemented or is in the process of implementing various initiatives intended to address the identified material weaknesses and strengthen our overall control environment. In this regard, some of our key remedial initiatives include:

Material Weakness	Control, Control Enhancement or Mitigant	Implementation Status	Management Testing Status	Remediation Status
Control Environment	<ul style="list-style-type: none"> The Company's Chief Executive Officer and Chief Financial Officer have reinforced and will continue to reinforce on an ongoing basis the importance of adherence to the Company's policies, procedures and standards of conduct, including identifying misconduct and raising and communicating concerns; 	In Progress	Not Tested	Not Remediated
	<ul style="list-style-type: none"> All accounting personnel that engaged in unprofessional conduct have been terminated or resigned from the Company and are in the process of being replaced with qualified personnel; 	Completed	Not Tested	Not Remediated
	<ul style="list-style-type: none"> We have enhanced our existing sub-certification process to include additional certifications regarding certain complex accounting topics and to include additional employees to increase accountability amongst Company personnel; 	Completed	Not Tested	Not Remediated
	<ul style="list-style-type: none"> We have expanded our compensation claw back provisions to incorporate all personnel who are subject to our enhanced sub-certification process; 	Completed	Not Tested	Not Remediated
	<ul style="list-style-type: none"> We have identified and are in the process of implementing organizational enhancements including (i) evaluating the sufficiency, experience and training of personnel within our accounting function and (ii) hiring accounting personnel with appropriate knowledge and experience in U.S. GAAP; 	In Progress	Not Tested	Not Remediated
	<ul style="list-style-type: none"> We are in the process of developing and implementing a training program for accounting and finance personnel to enhance their knowledge of U.S. GAAP outlined in our accounting policies, which are used in the preparation of the Company's consolidated financial statements; and 	In Progress	Not Tested	Not Remediated
Asset Impairment Testing	<ul style="list-style-type: none"> We have evaluated and will continue to regularly evaluate our policies and procedures relating to certain complex accounting topics and have begun implementing improvements in those policies and procedures. 	In Progress	Not Tested	Not Remediated

The Company will continue to review, optimize, and enhance its financial reporting controls and procedures. As the Company continues to evaluate and work to improve its internal control over financial reporting, the Company may implement additional measures to address the material weaknesses or certain of the remediation measures described above may be enhanced or modified. The material weaknesses will not be considered remediated until the applicable remediated controls operate for a sufficient period of time and management has concluded, through further testing, that these controls are operating effectively.

(b) Changes in Internal Control over Financial Reporting

Other than those material weaknesses identified and measures described above to remediate the material weaknesses identified in the prior year, there were no changes in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act), that occurred during the quarter ended March 31, 2022, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II OTHER INFORMATION

Item 1: Legal Proceedings.

The information set forth under Note 10(b), Contingencies, to the Company's condensed consolidated financial statements included in Part I, Item 1. "Financial Statements" of this Quarterly Report is incorporated herein by reference.

Item 1 A: Risk Factors.

An investment in us involves a number of risks. A detailed discussion of our risk factors appears in Part I, Item 1A. Risk Factors of the Annual Report. Any of the matters highlighted in the risk factors described in the Annual Report and the risk factor below could adversely affect our business, results of operations and financial condition, causing an investor to lose all, or part of, its, his or her investment. The risks and uncertainties described in the Annual Report and below are those we currently believe to be material, but they are not the only ones we face. If any of the risks described in the Annual Report, the following risk factor, or any other risks and uncertainties that we have not yet identified or that we currently consider not to be material, actually occur or become material risks, our business, prospects, financial condition, results of operations and cash flows and consequently the price of our securities could be materially and adversely affected.

Our business, financial condition, results of operations and cash flows could be adversely affected by disruptions in the global economy caused by the ongoing conflict between Russia and Ukraine.

The global economy has been negatively impacted by the military conflict between Russia and Ukraine. Furthermore, governments in the U.S., Canada United Kingdom, and European Union have each imposed export controls on certain products and financial and economic sanctions on certain industry sectors and parties in Russia. Although we do not have any customers or direct supplier relationships in Russia or Ukraine, businesses in the United States and globally have experienced shortages in materials and increased costs for transportation, energy, and raw material due in part to the negative impact of the Russia-Ukraine military conflict on the global economy. Further escalation of geopolitical tensions related to the military conflict, including increased trade barriers or restrictions on global trade, could result in, among other things, cyberattacks, supply disruptions, lower consumer demand, and changes to foreign exchange rates and financial markets, any of which may adversely affect our business, financial condition, results of operations and cash flows.

We are continuing to monitor the situation in Ukraine and globally and assessing its potential impact on our business. Although our business has not been, to the date of this Quarterly Report, materially impacted by the ongoing military conflict in Ukraine, it is impossible to predict the extent to which our operations, or those of our suppliers and vendors, will be impacted in the short and long term, or the ways in which the conflict may impact our business. The extent and duration of the military action, sanctions and resulting market disruptions are impossible to predict, but may be substantial. In addition, the effects of the ongoing conflict could heighten any of our known risks described in our Annual Report.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits

The exhibits listed in the Exhibit Index immediately below are filed as part of this Quarterly Report, which Exhibit Index is corporate by reference herein.

Exhibit Number	Exhibit Index
3.1	Certificate of Continuance, Notice of Articles and Articles of Cronos Group Inc. (incorporated by reference to Exhibit 3.1 to the Quarterly Report on Form 10-Q of Cronos Group Inc., filed August 6, 2020).
10.1†	Amended and Restated Employment Agreement, dated as of March 21, 2022, between Cronos USA Client Services LLC, Cronos Group Inc. and Michael Gorenstein (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of Cronos Group Inc., filed on March 21, 2022).
10.2†	Letter Agreement, dated as of March 21, 2022, between Cronos USA Client Services LLC, Cronos Group Inc. and Kurt Schmidt (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K of Cronos Group Inc., filed on March 21, 2022).
10.3†*	Executive Employment Agreement, dated as of August 16, 2020, among Cronos Israel G.S. Cultivation Ltd., Cronos Group Inc. and Ran Gorelik.
31.1*	Certification of the Principal Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of the Principal Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of the Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of the Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document.
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document.

† Management contract or compensatory plan or arrangement.

* Filed herewith.

** Furnished herewith and not “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CRONOS GROUP INC.

By: /s/ Robert Madore

Robert Madore
Chief Financial Officer

Date: May 10, 2022

EXECUTIVE EMPLOYMENT AGREEMENT
(this "Agreement")

BETWEEN:

CRONOS ISRAEL G.S. CULTIVATION LTD.
(No. 515790988)

(the "Company")

- and -

RAN GORELIK, Israeli ID number 56789472, an individual residing in the City of Shilat, in Israel

(the "Executive")

- and -

solely for the purposes specified herein,

CRONOS GROUP INC.

("Cronos Group")

WHEREAS the Company is an indirectly wholly-owned subsidiary of Cronos Group;

WHEREAS the Company has engaged the services of the Executive in a senior and specialized capacity, and the Executive has extensive access to the customers, vendors, suppliers, distribution processes and other unique and valuable confidential information and trade secrets of the Company;

AND WHEREAS the Company and the Executive desire to enter into a written employment agreement, and the Executive acknowledges that this Agreement and, specifically, the proprietary rights, non-solicitation and non-competition provisions that form part of this Agreement are essential to protect the legitimate business interests of the Company;

NOW THEREFORE in consideration of the above, the mutual covenants and agreements contained in this Agreement, and other good and valuable consideration, including an increase to the Base Salary (as defined below), the sufficiency of which is hereby acknowledged, the Company and the Executive, and solely for the limited purposes specified in Section 5.4, Cronos Group, agree as follows:

1. Position

1.1 The Executive shall continue to be employed in the position of General Manager, Cronos Israel (the "Position").

2. Location

2.1 The Executive shall generally work out of the Company's location in Gan Shmuel, Israel, with business travel as reasonably required to perform the Executive's duties hereunder.

3. Work Authorizations

3.1 The Executive shall be based primarily in the Company's office, and it is a condition of this Agreement and the Executive's employment that the Executive shall be able to work lawfully in Israel. However, it is understood and agreed that the Executive may be required to work abroad, as needed by the Company. In such case, relocation will be discussed and agreed upon by the Company and the Executive. The Company shall provide reasonable assistance in respect of immigration matters. Despite such assistance, the Company cannot guarantee when or whether the Executive's application for a work permit, visa, permanent residence status or other immigration documents will be approved. Should the necessary authorizations that permit the Executive to legally work in any jurisdiction other than Israel not be obtained, the Executive shall continue to be employed in Israel and this Agreement shall continue to be in effect. At any time, should necessary authorizations that permit the Executive to legally work in Israel expire without the possibility of renewal, the Executive's employment shall come to an end and shall be treated by the Company as a termination without justifiable cause.

4. Employment Duties

4.1 The Executive shall perform such duties and exercise such powers as are normally associated with or incidental and ancillary to the Executive's Position and as may be assigned to the Executive from time to time. In fulfilling his duties to the

Company, the Executive shall be instructed by and shall regularly report to Cronos Group's Chief Executive Officer (the "CEO"). The Executive agrees and acknowledges that due to the Executive's senior managerial position in the Company and the special amount of trust involved in the Position in which the Executive shall be employed, the Hours of Work and Rest Law, 1951 (the "**Hours of Work and Rest Law**") does not apply to the Executive's employment. The Executive acknowledges that the set amount of the Base Salary (as defined hereunder) agreed upon reflects the requirements of the position to work additional and irregular hours. Therefore, the Executive shall not be entitled to claim or receive payments or any additional pay for overtime working hours, or work performed on Fridays, Saturdays or Jewish festival holidays. The Executive's duties, hours of work, location of employment and reporting relationships may be adjusted from time to time by the Company to meet changing business and operational needs. Without limiting the foregoing, the Executive shall:

- (a) devote his full working time and attention during normal business hours and such other times as may be reasonably required to the business and affairs of the Company and shall not, without the prior written consent of the CEO, undertake any other business or occupation or public office;
- (b) perform those duties that may be assigned to the Executive diligently, honestly, and faithfully to the best of the Executive's ability and in the best interest of the Company;
- (c) abide by all Company policies and Cronos Group policies, as instituted and amended from time to time including but not limited to, the Cronos Group Code of Business Ethics and Conduct;
- (d) use best efforts to promote the interests and goodwill of the Company and not knowingly do, or permit to be done, anything which may be prejudicial to the Company's interests, it being understood and agreed that the Executive is a fiduciary of the Company and owes fiduciary obligations to the Company that are not extinguished by this Agreement;
- (e) identify and immediately report to the CEO any gross misrepresentations or violations of the Code of Business Ethics and Conduct or applicable law by the Company or its management; and
- (f) comply with the Sexual Harassment Prevention Law, 1998, as well as the with provisions of any regulations enacted by its virtue and with the Cronos Group's Policy for Prevention of Sexual Harassment at the workplace, and undertakes to act in accordance with said laws and policy.

5. Compensation and Benefits

5.1 Base Salary. Effective June 1, 2020, the Company shall pay the Executive a monthly base salary of ILS 75,000 gross ("**Base Salary**"). The Base Salary shall be paid by direct deposit in accordance with the Company's payroll practices, on the date determined by the Company, however, no later than the date determined by law in respect of the previous month.

5.2 Performance Bonus. In addition to the Base Salary, the Executive shall be eligible to participate in the Company's annual cash bonus plan as may be in effect from time to time, and to receive an annual bonus, subject to the terms and conditions of that plan as determined by the Company at its sole discretion. The Executive's annual target bonus opportunity shall initially be 20% of Base Salary, provided that the actual bonus amount, if any, will be determined pursuant to the terms of the applicable annual bonus plan. Nothing in this Agreement guarantees that the Company shall maintain an annual bonus plan, and the Company reserves the right to amend or terminate any annual bonus plan established or adopted at any time, without notice or further obligation (subject only to the minimum requirements of applicable employment standards legislation, if any). The Executive must be actively employed by the Company through the end of the calendar or fiscal year for which it is awarded in order to be eligible for any annual bonus for that year, subject only to the minimum requirements of applicable employment standards legislation. For certainty, if the Executive's employment is terminated by the Company for just cause, or the Executive resigns, the Executive shall be entitled to no annual bonus or any part thereof for the year in which the Executive ceases the Executive's active employment or thereafter, subject only to the minimum requirements of applicable employment standards legislation. There shall be no guarantee of a bonus in any given year.

5.3 Advanced Study Fund - Keren Hishtalmut.

- (a) The Company and the Executive shall open and maintain a Keren Hishtalmut (the "**Fund**"). Use of these funds shall be in accordance with the by-laws of the fund.
- (b) The Company shall contribute to the Fund an amount equal to 7.5% of the Base Salary and the Executive shall contribute to such Fund an amount equal to 2.5% of each Base Salary payment.
- (c) It is hereby clarified that the Executive shall bear any applicable tax deriving from the aforementioned contributions. For the avoidance of any doubt, the Company shall not gross up any tax payable in respect of such contributions.

5.4 Stock Options. The Executive may be eligible to receive grants of equity-based awards over shares in Cronos Group, with an initial target incentive opportunity of US\$200,000. The amount of the grants, if any, shall be determined by the board of directors of Cronos Group (the "**Cronos Board**") at its sole discretion. Any such equity-based grants shall be governed by the terms and conditions of the equity award plan or any other applicable plan of Cronos Group and/or the applicable award agreement. Such plan or plans may be amended from time to time at Cronos Group's sole discretion. In the event of the cessation of the Executive's employment for any reason, the Executive's entitlements in respect of stock options shall be

governed by the terms and conditions of the applicable equity award plan, any other applicable plan and the applicable award agreement. The Executive shall not be eligible for any further grants of equity-based awards following the effective date of termination.

5.5 Pension Insurance

- (a) The Company and the Executive shall obtain and/or continue to maintain Managers Insurance and/or Pension Fund according to the Executive's choice ("**Pension Insurance**"). The contribution to the Pension Insurance shall be as follows: (i) the Company shall contribute an amount equal to 6.5% of the Base Salary payment for premium payments (the "**Company Contribution**") and an additional 8.33% of the Base Salary payment for severance payments; and (ii) the Executive shall contribute 6% of the Base Salary payment toward the premiums payable in respect of a Pension Insurance.
- (b) The Executive hereby instructs the Company to transfer to the Pension Insurance the amounts of the Executive's and the Company's contributions from each Base Salary payment, on account of the Pension Insurance.
- (c) In the event the Executive elects to obtain Managers Insurance, the Company Contribution shall include payments toward a disability insurance which would insure 75% of the Base Salary ("**Disability Insurance**"), which may be included within the Managers Insurance policy, for the exclusive benefit of the Executive, provided that the Company's contribution towards premium payments shall not be less than 5% of the Base Salary. For the removal of any doubt, it is hereby clarified that the Company Contribution together with any payments towards Disability Insurance shall not exceed 7.5% of the Executive's Base Salary.
- (d) It is hereby clearly agreed and understood that the amounts accrued in the Pension Insurance Policy shall be in lieu and in full and final substitution of any severance pay the Executive shall be or become entitled to under any applicable Israeli law. This section is in accordance with Section 14 of the Severance Pay Law, and the General Approval of the Labor Minister, dated June 30, 1998, issued in accordance to the said Section 14, a copy of which is attached hereto as **Exhibit A**.

5.6 Vacation. The Executive shall be entitled accrue, on a pro-rata basis, twenty (20) Business Days paid vacation per year. "**Business Day**" means any day other than a Friday, Saturday or a day observed as a Jewish or National holiday in Israel. The Executive shall take vacation time at such times as are approved in advance by the Company. Vacation time entitlement shall be prorated for the period of the Executive's active employment in the calendar year that the Executive commences and terminates employment, subject to the minimum requirements of applicable employment standards legislation. Vacation may be carried forward until March 31 of the following year after which time it shall be forfeited to the extent it exceeds the minimum vacation entitlement provided for under applicable employment standards legislation.

5.7 Sick Leave. Executive shall be entitled to such number of working days of paid Sick Leave during each year of employment, as provided by Israeli Labor Law.

5.8 Dmey Havra'ah (Recreation Pay). The Executive shall be entitled to "**Dmey Havra'ah**" in accordance with any applicable law.

5.9 Company Car. The Company shall provide the Executive with a vehicle of a make, model and size determined by and available to the Company. Upon the Executive's request and subject to the company's approval, the Company shall provide the Executive a vehicle belonging to a higher class, in which case, the Executive shall bear any additional cost incurred in connection with providing such vehicle (the "**Car**"). The Executive shall bear all taxes imposed on him due to the use of the Car and the Company will deduct from the Base Salary all taxes resulting from the value of the provision of the Car in accordance with law. The Company will bear the cost of the Executive's monthly consumption of gas, based on the Company's policy as will be determined from time to time. The Company shall not bear the costs of any tickets, penalties or fines of any kind. The Executive shall: (i) use the Car in accordance with the Company's policy and shall be in effect from time to time; (ii) take reasonable care of the Car and ensure that the provisions and conditions of any policy of insurance relating thereto are observed (including the provisions with respect to the protection of the Car); (iii) pay any tickets, penalties or fines of any kind that will be imposed as a result of the use of the Car, to the extent imposed as a result of an act or omission of the Executive, or anyone on his behalf, or authorized by him to use the Car, and the Company shall be entitled to deduct said amounts from any payment due from the Company to the Executive, including his Base Salary; and (iv) in the event that the Executive's engagement terminates for whatever reason, he will return the Car to the Company along with the keys to the Car and all licenses and other documentation relating to the Car. The Executive shall not have the right to have any lien on the Car or any document or property relating thereto. It is clarified that the Car covers any travel cost to and from the office, as well as reasonable personal use, and the Executive is not entitled to any additional travel expenses.

5.10 Mobile Phone Expenses. The Company shall provide the Executive with a mobile phone (the "**Mobile Phone**"), and shall pay for its as per the Company's applicable policy as amended from time to time. Any use beyond this sum shall be deducted directly from the Executive's Base Salary. The Executive shall bear all tax liability applicable with respect to the use of the Mobile Phone. The Executive will maintain the Mobile Phone in good working condition. The Executive shall not have the right to have any lien on the Mobile Phone or any document or property relating thereto.

5.11 Business Expenses. The Executive shall be reimbursed for all reasonable travel and other out-of-pocket expenses properly incurred by the Executive from time to time in connection with performance of the Executive's duties. The Executive shall

furnish to the Company on a monthly basis and in accordance with any of the Company's policies or procedures for expenses reimbursement all invoices or statements in respect of expenses for which the Executive seeks reimbursement.

5.12 Deductions and Withholdings. The Company shall make such deductions and withholdings from the Executive's remuneration and any other payments or benefits provided to the Executive pursuant to this Agreement as may be required by law.

6. Term and Termination of Employment

6.1 Executive's employment under this Agreement shall remain in term for an indefinite period of time. Notwithstanding, either party may terminate this Agreement and the employment relationship by providing the other party prior written notice of one (1) months (the "**Notice Period**"). The employer-employee relationship shall terminate upon completion of the Notice Period as required by law. Without derogating from the rights of the Company under this Agreement and/or any applicable law, the Company may terminate this Agreement forthwith with immediate effect, at any time, by paying to the Executive the legally required compensation in lieu of the Notice Period.

6.2 Upon termination, the Executive shall be entitled, in addition to the Notice Period as described herein, to receive as acclimation pay (dmev histaglut) his full Base Salary for a period equal to the greater of: (i) one month for each completed year of service with the Company, subject to a maximum of twelve (12) months, and (ii) six (6) months (the "Acclimation Pay"). For the removal of any doubt, the Executive will not be entitled to the Acclimation Pay, or any part thereof, in case the Executive is dismissed for Justifiable Cause or resigns from his employment with the Company and such resignation is not considered a "constructive dismissal".

6.3 During the Notice Period, whether notice has been given by the Executive or by the Company, the Executive shall continue to render his services to the Company unless instructed otherwise by the Company, and shall cooperate with the Company and use his best efforts to assist the integration into the Company organization of the person or persons who will assume the Executive's responsibilities.

6.4 The Company may dismiss the Executive without prior notice and while denying severance pay in the circumstances in which according to the law an employee may be dismissed in such manner while fully or partially being denied severance pay.

6.5 The Executive hereby expressly consent that following an invitation to termination hearing and/or during a notice period, the Company may terminate the Executive's access to Company systems without providing the Executive with any prior notice and without being required to obtain the Executive's further consent.

6.6 Notwithstanding the aforementioned, the Company shall be entitled to terminate this Agreement forthwith with immediate effect, at any time, by providing notice thereof to Executive, where said termination is a termination for Justifiable Cause (as defined below). In such event, without derogating from the rights of the Company under this Agreement and/or any applicable law, Executive shall not be entitled to any Notice Period or any payment in lieu of any Notice Period.

6.7 The following reasons shall be deemed Justifiable Cause:

- (a) the Executive commits a fundamental breach of this Agreement, including a breach of his covenants in Section 7 herein;
- (b) the Executive performs any act that entitles the Company legally to dismiss him without paying him any severance pay in connection with such dismissal;
- (c) the Executive breaches his duty of good faith to the Company, including but not limited to, theft, embezzlement, self-dealing, prohibited disclosure to unauthorized persons or entities of confidential or proprietary information of or relating to the Company, its business, and its subsidiaries, affiliates or associated entities;
- (d) the Executive's intentional gross misconduct in the performance of his obligations under this Agreement in a manner that causes (or is likely to cause) material harm to the Company; or
- (e) conviction of the Executive in a crime or felony involving moral turpitude.

7. Restrictive Covenants

7.1 Non-Disclosure

7.2.1 Nondisclosure; Recognition of Company's Rights. At all times during the Executive's engagement with the Company and thereafter, the Executive shall hold in confidence and will not disclose, use, or publish any of the Company's Confidential Information (as defined below), except as required in connection with the Executive's work for the Company, or unless expressly authorized in writing by the Company. In addition, the Executive shall obtain the Company's written approval before publishing or submitting for publication any material (written, oral, or otherwise) that relates to the Executive's work for the Company. All Confidential Information is and shall be the sole and exclusive property of the Company and its assigns.

If an Executive's entire right, title and interest in the Confidential Information and any modifications thereto, are not transferred to the Company automatically by law, the Executive hereby irrevocably transfers and assigns to the Company any rights he/she has or acquires in any and all Confidential Information. Except as otherwise expressly provided herein, this Agreement does not, and shall not be construed to, grant to the Executive any license or right of any nature with respect to any Confidential Information.

- 7.2.2 **Confidential Information.** The term “**Confidential Information**” means any and all confidential knowledge, data or information (in any form or medium), whether marked as confidential or proprietary or which under the circumstances ought to reasonably be treated as such, that is related, directly or indirectly, to the Company's business as conducted and/or as proposed to be conducted or its actual or demonstrably anticipated research or development, including without limitation: (a) trade secrets, copyrights, trademarks, patents, Intellectual Property (as defined below), Company Inventions (as defined below), Invention Records (as defined below), ideas, processes, computer source and object code, data, formulae, programs, other works of authorship, know-how, improvements, discoveries, developments, designs, and techniques; (b) information regarding products, plans for research and development, marketing and business plans, budgets, financial statements, contracts, prices, suppliers, and customers; (c) information regarding the skills and compensation of the Company's employees, consultants, contractors, and any other service providers of the Company; (d) the existence of any business discussions, negotiations, or agreements between the Company and any third party and any agreements entered into between the Company and such third parties; (e) all memoranda, books, notes, records, email transmissions, charts, specifications, lists and other documents made, reproduced, compiled, received, held or used by the Executive in connection with his/her engagement by the Company with respect to clauses (a)-(d).
- 7.2.3 The Executive shall have no obligation under this Agreement to maintain in confidence any information that (i) is in the public domain at the time of disclosure, (ii) though originally Confidential Information, subsequently enters the public domain other than by breach of the Executive's obligations hereunder or by breach of another person's or entity's confidentiality obligations; or (iii) becomes available to Executive from a source independent of the Company and without confidentiality obligations, other than by breach of the Executive's obligations hereunder or by breach of another person's or entity's confidentiality obligations. To the extent Executive is required to disclose any Confidential Information in order to comply with a court order or other government demand, Executive shall seek the highest level of protection available and, when possible, give the Company enough prior notice to provide a reasonable chance to seek a protective order.
- 7.2.4 **Third Party Information.** The Executive understands that the Company received and may receive in the future from third parties confidential or proprietary information (the “**Third Party Information**”) subject to a duty on the Company's part to maintain the confidentiality of such information and to use it only for certain limited purposes. During the term of the Executive's engagement and thereafter, the Executive shall hold Third Party Information in strict confidence and will not disclose to anyone (other than the Company personnel who need to know such information in connection with their work for the Company) or use, except in connection with the Executive's work for the Company, Third Party Information, unless expressly authorized by an officer of the Company in writing.
- 7.2.5 **No Improper Use of Information of Third Parties.** The Executive represents that his/her engagement by the Company does not and will not breach any obligation to or agreement with any third party (including without limitation former employers), including any non-compete agreement or any agreement to keep in confidence information acquired by him/her in confidence or trust prior to his/her engagement by the Company. The Executive further represents that he/she has not entered into, and will not enter into, any agreement, either written or oral, in conflict herewith. During the Executive's engagement by the Company, he/she will not improperly use or disclose or incorporate into the Company's products, processes, machines and/or Company's Inventions any confidential information, non-public material, trade secrets or any proprietary information of any kind of any former employer or other third party, unless such party consented to such use and only after obtaining Company's consent.
- 7.2.6 **Further obligations.** Executive further agrees: (i) not to make copies of Confidential Information or any portions thereof except as authorized by the Company; (ii) not to alter or remove from any Confidential Information any proprietary, copyright, trademark, or trade secret notices or markings; (iii) to report to the Company of any breach or unusual event relating to Confidential Information; (iv) to adhere to any demands required by the Company (including third parties to whom it has confidentiality obligations) in order to prevent disclosure or use of Confidential Information (including Third Party Information) and/or minimize any damages relating to such use or disclosure; and (v) not to cause damage to the Company's reputation and/or its customer database and/or business in any way whatsoever.

7.2 Intellectual Property

7.2.7 Definitions.

7.2.7.1 The term “**Intellectual Property**” means any and all intellectual property rights and proprietary rights existing in any jurisdiction throughout the world, including any rights in or to:

- (a) patents, patent applications, patent rights, inventions, industrial designs, industrial design applications, industrial design rights, ideas, discoveries and invention disclosures (whether or not patentable), and any divisionals, continuations, continuations-in-part, reissues, renewals, reexaminations and extensions of any of the foregoing;
- (b) trademarks, service marks, trade names, trade dress, logos, packaging designs, slogans, other indicia of source, Internet domain names and URLs, and registrations and applications for registration of any of the foregoing and any divisionals and renewals thereof, together with any goodwill symbolized thereby;

- (c) copyrightable works (including with respect to software and compilations of data), whether published or unpublished, including all copyrights, copyright registrations and applications;
- (d) trade secrets, and confidential or proprietary information, data, know-how, techniques, designs, processes and formulas;
- (e) Germplasm, plant varieties, and applications and registrations for plant varieties issued by or pending before any Governmental Authority, including under the Plant Variety Protection Act (United States) or the Plant Breeders' Rights Act (Canada); and
- (f) circuit topographies, database rights and software.

7.2.7.2 The term "**Germplasm**" means any living or preserved biological tissue or material which may be used for the purpose of plant breeding and/or propagation, including but not limited to plants, cuttings, seeds, clones, cells, tissues, plant materials, and genetic materials (including but not limited to nucleic acids, genes, promoters, reading frames, regulatory sequences, terminators, chromosomes whether artificial or natural, and vectors).

7.2.8 **Ownership of Company Inventions.** The Executive hereby agrees, acknowledges and declares that all Intellectual Property made, developed, conceived, reduced to practice or learned by the Executive, in whole or in part, whether alone or jointly with others, during the period of the Executive's engagement with the Company (including after hours, on weekends or during vacation time, even prior to the commencement of his employment with the Company) that (i) relate in any manner to the actual or demonstrably anticipated business, work, or research and development of the Company, its affiliates or subsidiaries, (ii) are developed in whole or in part on the Company's time or using Company's equipment, supplies, facilities or Confidential Information, or (iii) result from or are suggested by any task assigned to the Executive or any work performed by the Executive for or on behalf of the Company, its affiliates or subsidiaries, or by the scope of the Executive's duties and responsibilities with the Company, its affiliates or subsidiaries (the "**Company Inventions**") are, from their inception, and shall remain at all times the sole and exclusive property of the Company or its assigns.

7.2.9 **Assignment of Company Inventions.** Notwithstanding the forgoing, if an Executive's entire right, title and interest in the Company Inventions are not transferred to the Company automatically by law, the Executive hereby irrevocably assigns and transfers to the Company and agrees to assign and transfer in the future, for no additional consideration or compensation, the Executive's entire right, title and interest in and to all Company Inventions.

7.2.10 **Company Inventions Waiver.** Without derogating from the aforementioned, the Executive hereby explicitly waives any interest, claim or demand that the Executive may have for, or may be entitled to, with respect to any consideration, compensation or royalty in connection with the Company Inventions, including but not limited to, any claims for consideration, compensation or royalty pursuant to Section 134 of the Israeli Patents Law-1967 (the "**Patents Law**"). The Executive further waives the right to bring any claims, demands or allegations to receive compensation, consideration or royalties with respect to the Company Inventions before any competent authority, including without limitation the Committee for Compensation and Royalties under the Patents Law (the "**Committee**"). Notwithstanding the above, in the event that despite the parties' agreement hereunder and the aforementioned waiver it is determined by any competent authority (including but not limited to the Committee) that for any reason whatsoever the Executive is or will be entitled to consideration, compensation or royalties in connection with one or more Company Inventions, the Executive agrees and acknowledges that the Special Consideration will be deemed the sole and final consideration, compensation or royalty payments to which Executive is, and will be, entitled to in connection with such Company Inventions. This agreement is intended to serve as an "agreement" for the purpose of section 134 of the Patents Law.

7.2.11 **Prior Inventions.** The Executive has disclosed in **Exhibit B**, a complete list of all Intellectual Property and/or Germplasm that the Executive has, or has caused to be, alone or jointly with others, conceived, developed, or reduced to practice prior to the commencement of his/her engagement by the Company, in which the Executive has an ownership interest or which he/she has a license to use, and that the Executive wishes to have excluded from the scope of this Agreement (collectively referred to as "**Prior Inventions**"). If no Prior Inventions are listed in **Exhibit B**, the Executive warrants that there are no Prior Inventions. Executive represents and warrant that other than as disclosed under **Exhibit B**, he/she does not possess any Intellectual Property or Germplasm of any third party, including but not limited to any prior employer or competitor of the Company, and he/she shall not acquire and/or use Intellectual Property or Germplasm of any third party in the course of performing duties pursuant to this Agreement. The Executive agrees that he/she will not incorporate, or permit to be incorporated, Prior Inventions, including Germplasm, in any Company Inventions and not to bring any Germplasm of any third party onto Company premises. Notwithstanding the foregoing, if, in the course of the Executive's engagement with the Company, the Executive incorporates a Prior Invention into a Company process, machine, Company Inventions or other work, the Executive shall, as a condition to such incorporation (i) seek the Company's prior written consent to such incorporation of Prior Inventions into such process, machine, Company Invention or other work; and (ii) grant the Company a non-exclusive, perpetual, fully-paid and royalty-free, irrevocable and worldwide license, with rights to sublicense through multiple levels of sub-licensees, to reproduce, make derivative works of, distribute, publicly perform, and publicly display in any form or medium, whether now known or later developed, make, have made, use, sell, import, offer for sale, and exercise any and all present or future rights in, such Prior Invention. The Executive agrees that his/her failure to obtain the Company's prior consent shall not affect the grant of license relating to Prior Inventions as specified under this Section 2.5.

7.2.12 **Waiver of Moral Rights.** The Executive hereby explicitly and irrevocably: (1) waives any interest, claim or demand for any Moral Rights that he/she has or may have in the future, with respect to the Company Inventions in favor of the Company, and its affiliates, heirs, successors, authorized licensees and users, and transferees; and (2) consents not to assert his/her Moral Rights that the Executive may have in relation to the Company Invention(s) against the Company, its affiliates, heirs,

successors, authorized licensees and users and transferees. "Moral Rights" as used herein means the rights of an author under Section 45 of the Israeli Copyright Law, 2007, or any other similar provision under any law of any applicable jurisdiction, including the right of the author to be known as the author of his/her work; to prevent others from being named as the author of his/her work; to prevent others from making deforming changes in his/her work in a manner that reflects negatively on his/her professional standing, his/her goodwill or dignity.

- 7.2.13 **Notice Obligations.** During the period of the Executive's engagement with the Company and for one (1) year thereafter, the Executive shall promptly and fully disclose to the Company in writing (a) all Company Inventions authored, conceived, or reduced to practice by him/her, either alone or with others; and (b) all Intellectual Property made, conceived or reduced to practice by Executive, alone or together with others, whether to Executive's opinion the Inventions fall under the definitions of Company Inventions.
- 7.2.14 **Government or Third Party; Other Obligations.** The Executive also agrees to assign all his/her right, title, and interest in and to any particular Company Invention to a third party as may be directed by the Company. The Executive further acknowledges that the Company from time to time may have agreements with other persons or with government authorities, or agencies thereof, which impose obligations or restrictions on the Company regarding Company Inventions made during the course of work thereunder or regarding the confidential nature of such work. The Executive agrees to be bound by all such obligations and restrictions and to take all action necessary to discharge the obligations of the Company thereunder.
- 7.2.15 **Enforcement of Intellectual Property and Assistance.** During the period of the Executive's engagement and thereafter, the Executive shall assist the Company in every proper way to obtain and enforce United States, Canadian, Israeli and foreign Intellectual Property relating to the Company Inventions in all jurisdictions and he shall execute and deliver such further conveyance instruments and take such further actions as may be necessary or desirable to register such Intellectual Property by the competent authorities and evidence more fully the transfer of ownership of the Company Inventions to the Company and to defend and enforce the Intellectual Property. The Executive therefore agrees that, if necessary, the Executive will: (a) execute, acknowledge, and deliver any affidavits or documents of assignment and conveyance regarding the Company Inventions; (b) serve as witness or consultant as reasonably requested; (c) assert the Executive's Moral Rights against third parties not granted waivers of Moral Rights under Section 7.2.12, and appoint the Company, or its successor in title, as the Executive's representative in enforcing such Moral Rights; and (d) perform any other acts deemed necessary to carry out the intent of this Agreement.

In the event the Company is unable because of Executive's mental or physical incapacity or unavailability, or for any other reason, to secure the Executive's signature on any document needed in connection with such purposes, the Executive hereby irrevocably designates and appoints the Company and its duly authorized officers and agents as his/her agent and attorney-in-fact, which appointment is coupled with an interest, to act on his/her behalf to execute and file any such documents and to do all other lawfully permitted acts to further such purposes with the same legal force and effect as if executed by the Executive.

- 7.2.16 **Germplasm.** In the course of performing duties pursuant to this Agreement, Executive shall only use Germplasm provided by the Company, and Executive agrees that any such Germplasm provided by the Company remains the sole property of the Company and that such Germplasm shall not be removed from Company premises without the prior written consent of the Company.
- 7.2.17 **Records.** The Executive agrees to keep and maintain adequate and current records (in the form of notes, sketches, drawings, flow charts, electronic data or recordings, laboratory notebooks and in any other form that is required by the Company) of all Company Inventions ("**Invention Records**") which records shall be available to, and remain the sole property of, the Company at all times. The Executive agrees not to remove such records from the Company's place of business except as expressly permitted by the Company. Executive agrees to return all such records (including any copies thereof) to the Company at the time of termination of his/her engagement with the Company.
- 7.3 **Non-Competition.** The Executive shall not at any time during the Executive's employment with the Company and for a period of one (1) year following the termination of this Agreement and the Executive's employment with the Company for any reason, either individually or in partnership or jointly or in conjunction with any person as principal, agent, consultant, employee, partner, director, shareholder (other than an investment of less than five (5) per cent of the shares of a company traded on a registered stock exchange or traded in the over the counter market in Canada), or in any other capacity whatsoever:
- (a) engage in employment or enter into a contract to do work related to the research into, development, cultivation, production, supply, sales or marketing of cannabis or cannabis derived products; or the development or provision of any services (including, but not limited to, technical and product support, or consultancy or customer services) which relate to cannabis or cannabis derived products (the "**Business**");
 - (b) have any financial or other interest (including by way of royalty or other compensation arrangements) in or in respect of the business of any person which carries on the Business; or
 - (c) advise, lend money to or guarantee the debts or obligations of any person which carries on the Business;

anywhere within Israel.

- 7.4 Non-Solicitation of Customers.** The Executive shall not, during the Executive's employment and for the one (1) year period immediately following the termination of the Executive's employment for any reason, whether alone or for or in conjunction with any person or entity, whether as an employee, partner, director, principal, agent, consultant or in any other capacity whatsoever, directly or indirectly solicit or attempt to solicit any Customer or Prospective Customer of the Company, Cronos Group or any of its affiliates (each, a "**Subject Cronos Entity**"), for the purpose of obtaining the business of any Customer or Prospective Customer of the Subject Cronos Entity or persuading any such Customer or Prospective Customer to cease to do business with or reduce the amount of business it would otherwise provide to a Subject Cronos Entity. For the purpose of this Agreement: "**Customer**" means any organization, individual or entity which is a current customer or has been a customer of a Subject Cronos Entity during the term of the Executive's employment with the Company but in the event of the cessation of the Executive's employment and "**Customer**" shall include only those current customers of a Subject Cronos Entity with whom the Executive had direct contact or access to Confidential Information by virtue of the Executive's role as an employee of the Company at any time during the twelve-month period preceding the date of the cessation of the Executive's employment; "**direct contact**" means direct communications with or by the Executive, whether in person or otherwise, for purposes of servicing, selling, or marketing on behalf of the Company, but only if such communications are more than trivial in nature, and in any case excluding bulk or mass marketing communications directed to multiple customers; and, "**Prospective Customer**" means any organization, individual or entity which has been actively contacted and solicited for its business by representatives of a Subject Cronos Entity, in the event of the cessation of the Executive's employment within the twelve-month period immediately preceding the date of the cessation of the Executive's employment, with the involvement and knowledge of the Executive.
- 7.5 Non-Solicitation of Employees.** The Executive shall not (except with the prior written consent of the Board), during the Executive's employment and for one (1) year following the termination of the Executive's employment for any reason, whether alone or for or in conjunction with any person or entity, whether as an employee, partner, director, principal, agent, consultant or in any other capacity whatsoever, directly or indirectly solicit or assist in the solicitation of any employee of a Subject Cronos Entity to leave such employment.
- 7.6 Disclosure.** During the Executive's employment with the Company, the Executive shall promptly disclose to the Board full information concerning any interest, direct or indirect, of the Executive (whether as owner, shareholder, partner, lender or other investor, director, officer, employee, consultant or otherwise) or any member of the Executive's immediate family, in any business which is reasonably known to the Executive to purchase or otherwise obtain services or products from, or to sell or otherwise provide services or products to the Company or to any of their respective suppliers or Customers.
- 7.7 Personal Information.** The Executive grants consent to the Company, its affiliates, and their employees and contractors, wherever they may be located, to utilize and process the Executive's personal information, including data collected by the Company, including information regarding the Executive's salary, social benefits, evaluation, training and other data (the "**Personal Information**") for purposes related to human resources management, audit and compliance, for legal purposes (for example, if the Company is required to disclose such Personal Information by law, regulation or other governmental authority) and/or for other legitimate business purposes (such as running internal operations or business activities) (collectively, the "**Purposes**"). The Executive is aware, understands and hereby consents that the Personal Information which shall be collected, shall be kept in the Company's database, held in Israel and/or abroad, and further consents that Personal Information, may, in whole or in part, be transferred to databases owned by a parent or any other entity affiliated with the Company, or a third party retained by the Company, whether in Israel or abroad, and may be used by such entities for the Purposes. All personnel records included in the Personal Information are considered confidential and access shall be limited and restricted to individuals with a "need to know" access. The Company may share personnel records as needed internally and with third parties as reasonably required in connection with the Purposes. By signing this Agreement, the Executive declares that he/she was given the opportunity to ask and request details regarding the Personal Information transfer and processing, as aforesaid, and the Executive understood and accepted this section. The Executive further acknowledges that he/she was made aware that he/she is entitled to contact the Company with any question or concern with respect to the Personal Information.
- 7.8 Computer Equipment**
- (a) The Executive undertakes to safeguard the equipment and/or the documents in his possession or that are under his supervision; the Executive shall be held liable for the damages caused to the Company's equipment in his possession or under his supervision, arising from his gross negligence, willful, or malicious conduct, and the Company shall be entitled to offset from the Executive's wages and/or charge the Executive for the damage caused to such documents or equipment.
 - (b) The e-mail provided to the Executive by the Company upon the commencement of his employment through the Company is a professional e-mail, designated to be used by the Executive only for the purpose of performing his services for the Company and the Executive is required to use it only for professional purposes.
 - (c) In order to protect the Company's confidential information and prevent impairments, computer viruses and transfer of illegal information and/or software and/or copyright infringement and/or destruction to computer web traffic and/or damages to Company's communication and/or to Company's reputation and/or any other damages to the Company or to Company's business and/or its ongoing business and its customers' relations and in order to verify that the use of Company's computer systems is being use only for the purposes of providing the service and conducted in accordance with the applicable policies of Company, and in order to prevent Company's exposure to any damage due to unauthorized use of its computer network and communication system. It is hereby clarified, that Company monitors any and all information stored in Company computers including professional e-mail and/or any

information transferred through Company's computer and communication networks. Furthermore, Company performs various backups of all information transferred through Company's computer network systems.

- (d) Monitoring shall be performed at all times without prior notice and by various means. Monitoring can be done either by technological means, with regard to traffic volume and content traffic or by human resources, to the extent necessary where it is being suspected that Company's policies were breached and/or where there is a need to locate information for ongoing work purposes, need to attend technical malfunctions and/or any other need required for professional and business needs.
- (e) Company reserves the right to take control of the computer means provided to the Executive in order to perform his work at all times and without prior notice, and to block any access to it, in order to protect Company's rights, attending technical malfunctions and for any other professional and/or business purposes.
- (f) For avoidance of any inconvenience and to assure professional usage Company's computers, including the electronic e-mail systems, the web, Company's communication means and the professional e-mail provided to the Executive in order to perform their services hereunder. The Executive shall refrain from transferring and/or saving any personal information which the Executive does not wish exposed in his professional e-mail and/or in any other computerized means provided to him by Company in order to perform his services.
- (g) The Executive understands and free willingly acknowledges that Company, is an organization which conduct its business via computer means, is thus obligated, in order to guard proper management of its business, to execute all the means outlined under this Section. The Executive undertakes upon himself all the restrictions derived from the means outlined in this this Section and in Company's policies.
- (h) Nothing herein diminishes from the Executive's right to open personal e-mail for himself without using the Company's computer means. Such personal e-mail shall not be subject to Company's monitoring and controlling means compelling all traffic that passes through Company's computers and communication networks.
- (i) The Executive is aware of and agrees that Company is entitled to put the information transferred in its computers and communication networks to any use, for the purpose of protecting its rights, at any and all time, without prior notice.
- (j) The Executive declares that he is aware that the Company uses visible cameras in the Company's premises and that all activities that occur in the Company's premises might be recorded and documented. The Executive declares that he is aware and he agrees that in the future there is a possibility that the Company will install hidden cameras and record telephone conversations that are held in the Company, all subject to applicable law.

7.9 Other Employment. During the Executive's employment with the Company, the Executive shall not, except as a representative of the Company or with the prior written approval of the Executive's manager, whether paid or unpaid, be directly or indirectly engaged, concerned or have any financial interest in any capacity in any other business, trade, professional or occupation (or the setting up of any business, trade, profession or occupation). The foregoing restrictions in this section 7.9 shall not prohibit the Executive from holding securities in any company, which do not exceed 5% of the issued share capital of such company, so long as Executive has no active role in such company as a director, officer, employee, consultant (including as an independent consultant) or otherwise.

7.10 Return of Materials. All files, forms, brochures, books, materials, written correspondence (including email and instant messages), memoranda, documents, manuals, computer disks, software products and lists (including financial and other information and lists of customers, suppliers, products and prices) pertaining to the Company which may come into the Executive's possession or control shall at all times remain the property of the Company. Upon termination of the Executive's employment for any reason, the Executive agrees to immediately deliver to the Company all such property of the Company in the Executive's possession or directly or indirectly under the Executive's control. The Executive agrees not to make, for the Executive's personal or business use or that of any other person, reproductions or copies of any such property or other property of the Company.

8. Approval of the Medial Cannabis Unit

8.1 The Executive is aware that in light of the Company's field of business and pursuant to the Dangerous Drugs Ordinance [New Version] and/or the regulations and/or the applicable law, his position in Cronos Group may require the approval of the Medial Cannabis Unit (the "Yakar"), which includes, inter alia, a background check of the Executive's criminal record, which is conducted with the cooperation of the Israeli police force. It is clarified that the Yakar's approval may be required upon his commencement of employment or at any other time during the course of his employment with the Company.

8.2 The Executive hereby authorizes the Company to transfer any information concerning him, as may be required by the Yakar or by any other related parties with respect to the Yakar's approval and undertakes to execute any requested document in this regard.

8.3 Without derogating from the Company's right to terminate this Agreement in accordance with the applicable law and the provisions of this Agreement, the Executive represents that he acknowledges that in the event the Company shall not be able to receive the Yakar's approval in connection to the Executive, or in case the said approval shall be withdrawn, the Company

shall have the right to withdraw the offer of employment and/or to terminate the Executive's employment with immediate effect. Parties agree that, notwithstanding section 6 above, in such case of immediate termination the Executive shall only be entitled to a notice period according to the applicable law, unless the Yakar approval is not obtained because the Executive has engaged in conduct that amounts to Justifiable Cause, in which case Section 6.6 of this Agreement will apply.

9. **General**

- 9.1 This Agreement constitutes a "Notice" as defined in the Employee and Candidates Notification Law (Terms of Employment and Application Process) – 2002.
- 9.2 This Agreement is personal and shall not invoke the provisions of any collective bargaining agreement ("Heskem Kibutsi"), collective arrangement ("Hesder Kibutsi"), extension orders ("Tzavei Har'hava") or any other custom, except and only to the extent so mandated by law.
- 9.3 The Executive undertakes to keep all his terms of employment (including and not limited to salary and vacation days) confidential.
- 9.4 **Reasonableness of Restrictions and Covenants.** The Executive hereby confirms and agrees that the covenants and restrictions contained in this Agreement, including, without limitation, those contained in Section 7, are reasonable and valid the Executive further acknowledges and agrees that the Company may suffer irreparable injury in the event of any breach by the Executive of the obligations under any such covenant or restriction. Accordingly, the Executive hereby acknowledges and agrees that damages would be an inadequate remedy at law in connection with any such breach and that the Company shall therefore be entitled, in addition to any other right or remedy which it may have at law, in equity or otherwise, to temporary and permanent injunctive relief enjoining and restraining the Executive from any such breach.
- 9.5 **Survival.** Section 7 and this Section survive the termination of this Agreement and the Executive's employment for any reason whatsoever.
- 9.6 **Entire Agreement.** This is the entire agreement between the Company and the Executive on the subject matters addressed herein. There are no representations, warranties or collateral agreements, whether written or oral, outside of this written Agreement. This Agreement and the terms and conditions of employment contained herein supersede and replace any prior understandings or discussions between the Executive and the Company regarding the Executive's employment.
- 9.7 **Amendments.** This Agreement may only be amended by written agreement executed by the Company and the Executive. However, changes to the Executive's position, duties, vacation, benefits and compensation, over time in the normal course, do not affect the validity or enforceability of the Agreement.
- 9.8 **Governing Law.** This Agreement shall be governed by, and construed and enforced in accordance with, the laws of Israel without giving effect to principles of conflicts of law and the courts of Israel, District of Tel Aviv, shall have exclusive jurisdiction over the parties hereto and subject matter hereof.
- 9.9 **Severability.** If any provision in this Agreement is determined to be invalid or unenforceable, such provision shall be severed from this Agreement, and the remaining provisions shall continue in full force and effect.
- 9.10 **Assignment.** The Company may assign this Agreement to an affiliate or subsidiary, and it enures to the benefit of the Company, its successors or assigns.
- 9.11 **Independent Legal Advice.** The Executive acknowledge that the Executive has been encouraged to obtain independent legal advice regarding the execution of this Agreement, and that the Executive has either obtained such advice or voluntarily chosen not to do so, and hereby waives any objections or claims the Executive may make resulting from any failure on the Executive's part to obtain such advice.
- 9.12 **Waiver.** No waiver of any of the provisions of this Agreement shall be effective or binding, unless made in writing and signed by the party purporting to give the same. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provisions, whether or not similar, nor shall such waiver constitute a continuing waiver, unless expressly stated otherwise.
- 9.13 **Conditions.** This Agreement and the Executive's employment hereunder is conditional on the Company's satisfaction (determined in the Company's sole discretion) that the Executive has met the legal requirements to perform the Executive's role, including but not limited to satisfactory results of Health Canada security clearance checks, any applicable security clearance checks mandated under the laws of Israel, and criminal record checks and other reference checks that the Company or Cronos Group performs. The Executive acknowledges and agrees that in signing this Agreement, and providing the Company with the necessary documentation to perform the checks required for the Executive's role and with references, the Executive is providing consent to the Company or its agent, to perform such checks and contact the references the Executive provided to the Company.
- 9.14 **Prior Restrictions.** By signing below, the Executive represents that the Executive is not bound by the terms of any agreement with any person or entity which restricts in any way the Executive's hiring by the Company and the performance of the Executive's expected job duties; the Executive also represents that, during the Executive's employment with the

Company, the Executive shall not disclose or make use of any Confidential Information of any other persons or entities in violation of any of their applicable policies or agreements and/or applicable law.

9.15 Counterparts. This Agreement may be executed in one or more counterparts, each of which when executed shall be deemed to be an original but all of which taken together shall constitute one and the same agreement. Delivery of an executed counterpart of a signature page to this Agreement by electronic transmission, including in portable document format (.pdf), shall be deemed as effective as delivery of an original executed counterpart of this Agreement.

[Signature Page Follows]

IN WITNESS WHEREOF this Agreement has been executed by the Company and the Executive on the dates below.

CRONOS ISRAEL G.S. CULTIVATION LTD.

By: /s/ Oran Scott
Name: Oran Scott
Title: Director & Officer

CRONOS GROUP INC.

By: /s/ Michael Gorenstein
Name: Michael Gorenstein
Title: Chief Executive Officer

SIGNED AND DELIVERED in the presence of

/s/ Adam Wagner

Witness Signature

Adam Wagner, VP Finance Israel

Witness Print Name

/s/ Ran Gorelik

Ran Gorelik

General Manager

August 16, 2020

Date:

EXHIBIT A

SECTION 14 APPROVAL

אישור כללי בדבר תשלומי מעבידים לקרן

פנסיה ולקופת ביטוח במקום פיצויי פיטורים

-לפי חוק פיצויי פיטורים, התשכ"ג 1963

בתוקף סמכותי לפי סעיף 14 לחוק פיצויי פיטורים, התשכ"ג 1963-¹ (להלן: "החוק") אני מאשר כי תשלומים ששילם מעביד החל ביום פרסומו של אישור זה, בעד עובדיו לפנסיה מקיפה בקופת גמל לקצבה שאינה קופת ביטוח כמשמעותה בתקנות מס הכנסה (כללים לאישור ולניהול קופות גמל), התשכ"ד 1964-² (להלן: "קרן פנסיה"), או לביטוח מנהלים הכולל אפשרות לקצבה או שילוב של תשלומים לתוכנית קצבה ולתוכנית שאינה לקצבה בקופת ביטוח כאמור (להלן: "קופת ביטוח"), לרבות תשלומים ששילם תוך שילוב של תשלומים לקרן פנסיה ולקופת ביטוח, בין אם יש בקופת הביטוח תוכנית לקצבה ובין אם לאו (להלן: "תשלומי המעביד"), יבואו במקום פיצויי הפיטורים המגיעים לעובד האמור בגין השכר שממנו שולמו התשלומים האמורים ולתקופה ששולמו (להלן: "השכר המופטר"), ובלבד שנתקיימו כל אלה:

(1) תשלומי מעביד

לקרן פנסיה אינם פחותים מ- % 14 1/3 מן השכר המופטר או 12% מן השכר המופטר אם משלם המעביד בעד עובדו בנוסף לכך גם תשלומים להשלמת פיצויי פיטורים לקופת גמל לפיצויים או לקופת ביטוח על שם העובד בשיעור של % 2 1/3 מן השכר המופטר. לא שילם המעביד בנוסף ל- 12% גם % 2 1/3 כאמור, יבואו תשלומיו במקום 72% מפיצויי הפיטורים של העובד, בלבד;

לקופת ביטוח אינם פחותים מאחד מאלה:

- (1) מן השכר המופטר, אם משלם המעביד בעד עובדו בנוסף לכך גם תשלומים להבטחת הכנסה חודשית במקרה אובדן כושר עבודה, בתכנית 13 1/3 % שאישר הממונה על שוק ההון ביטוח והסכון במשרד האוצר, בשיעור דרוש להבטחת 75% מן השכר המופטר לפחות או בשיעור של % 2 1/2 מן השכר ("המופטר", לפי הנמוך מביניהם) (להלן: "תשלום לביטוח אובדן כושר עבודה");
- (2) מן השכר המופטר, אם שילם המעביד בנוסף גם תשלום לביטוח אובדן כושר עבודה, ובמקרה זה יבואו תשלומי המעביד במקום 72% מפיצויי 11% הפיטורים של העובד, בלבד; שילם המעביד נוסף על אלה גם תשלומים להשלמת פיצויי פיטורים לקופת גמל לפיצויים או לקופת ביטוח על שם העובד בשיעור של % 2 1/3 מן השכר המופטר, יבואו תשלומי המעביד במקום 100% פיצויי הפיטורים של העובד.
- (2) – לא יאוחר משלושה חודשים מתחילת ביצוע תשלומי המעביד נערך חוזה בכתב בין המעביד לבין עובד ובו

הסכמת העובד להסדר לפי אישור זה בנוסח המפרט את תשלומי המעביד ואת קרן הפנסיה וקופת הביטוח, לפי העניין: בחוזה האמור ייכלל גם נוסחו של אישור זה;

ויתור המעביד מראש על כל זכות שיכולה להיות לו להחזר כספים מתוך תשלומיו, אלא אם כן נשללה זכות העובד לפיצויי פיטורים בפסק דין מכוח סעיפים 16 או 17 לחוק ובמידה שנשללה או שהעובד משך כספים מקרן הפנסיה או מקופת הביטוח שלא בשל אירוע מזכה; לעניין זה. "אירוע מזכה" – מוות, נכות או פרישה בגיל ששים או יותר.

- (3) אין באישור זה כדי לגרוע מזכותו של עובד לפיצויי פיטורים לפי החוק, הסכם קיבוצי, צו הרחבה או חוזה עבודה, בגין שכר שמעבר לשכר המופטר.

EXHIBIT B
PRIOR INVENTIONS

1. **Prior Inventions Disclosure.** The following is a complete list of all Prior Inventions:

- None
- See immediately below:

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**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002**

I, Michael Gorenstein, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Cronos Group Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Michael Gorenstein

Michael Gorenstein

President and Chief Executive Officer

(Principal Executive Officer)

Date: May 10, 2022

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002**

I, Robert Madore, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Cronos Group Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Robert Madore

Robert Madore
Chief Financial Officer
(Principal Financial Officer)

Date: May 10, 2022

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q for the period ended March 31, 2022 of Cronos Group Inc. (the "Company") as filed with the U.S. Securities and Exchange Commission (the "SEC") on the date hereof (the "Report"), I, Michael Gorenstein, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Michael Gorenstein

Michael Gorenstein

President and Chief Executive Officer

(Principal Executive Officer)

Date: May 10, 2022

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the SEC or its staff upon request.

This certification accompanies the Form 10-Q to which it relates, is not deemed filed with the SEC and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Form 10-Q), irrespective of any general incorporation language contained in such filing.

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q for the period ended March 31, 2022 of Cronos Group Inc. (the "Company") as filed with the U.S. Securities and Exchange Commission (the "SEC") on the date hereof (the "Report"), I, Robert Madore, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Robert Madore

Robert Madore

Chief Financial Officer

(Principal Financial Officer)

Date: May 10, 2022

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the SEC or its staff upon request.

This certification accompanies the Form 10-Q to which it relates, is not deemed filed with the SEC and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Form 10-Q), irrespective of any general incorporation language contained in such filing.