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

FORM 40-F

Registration statement pursuant to Section 12 of the Securities Exchange Act of 1934

or

Annual report pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended

Commission File Number

CRONOS GROUP INC.

(Exact name of registrant as specified in its charter)

Ontario, Canada
(Province or Other Jurisdiction
of
Incorporation or Organization)

2833
(Primary Standard Industrial
Classification Code)

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

**720 King Street W., Suite 320
Toronto, Ontario
M5V 2T3**

(Address and telephone number of registrant's principal executive offices)

**CT Corporation
111 Eighth Avenue
New York, New York 10011
(212) 590-9070**

(Name, address (including zip code) and telephone number (including area code) of agent for service in the United States)

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

Title of Each Class:
Common Shares, no par value

Name of Each Exchange On Which Registered:
The Nasdaq Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: **None**

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: **None**

For annual reports, indicate by check mark the information filed with this form:

Annual Information Form

Audited Annual Financial Statements

Indicate the number of outstanding shares of each of the registrant's classes of capital or common stock as of the close of the period covered by the annual report: **N/A**

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act 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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files).

Yes No

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 12b-2 of the Exchange Act.

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, 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.

FORWARD-LOOKING INFORMATION

This Registration Statement on Form 40-F, including the exhibits hereto (collectively, the "Registration Statement"), contains certain information that may constitute forward-looking statements within the meaning of applicable securities laws. The forward-looking statements in this Registration Statement are based upon the Registrant's current internal expectations, estimates, projections, assumptions and beliefs. Such statements can be identified by the use of forward-looking terminology such as "expect," "likely," "may," "will," "should," "intend," or "anticipate," "potential", "proposed", "estimate" and other similar words, including negative and grammatical variations thereof, or statements that certain events or conditions "may" or "will" happen, or by discussions of strategy. forward-looking statements include estimates, plans, expectations, opinions, forecasts, projections, targets, guidance, or other statements that are not statements of fact. forward-looking statements in this Registration Statement include, but are not limited to, statements with respect to: the performance of the Registrant's business and operations; the Registrant's expectations regarding revenues, expenses and anticipated cash needs; the intended expansion of the Registrant's facilities; receipt of approval from Health Canada to increase the maximum production limits and sales from the expanded facilities; the expected growth in the number of patients using medical cannabis; the expected growth in the Registrant's growing and production capacities; the expected methods to be used by the Registrant to distribute cannabis; the competitive conditions of the industry; the legalization of cannabis for recreational use in Canada, including the timing and content of federal and provincial regulations, and the Registrant's intentions to participate in such market; the legalization of the use of cannabis for medical and/or recreational use in jurisdictions outside of Canada and the Registrant's intentions to participate in such markets outside of Canada if and when such use is legalized; laws and regulations and any amendments thereto applicable to the business; the competitive advantages and business strategies of the Registrant; the grant, renewal and impact of any license or supplemental license to conduct activities with cannabis or any amendments thereof; the medical benefits, viability, safety, efficacy, dosing and social acceptance of cannabis.

With respect to the forward-looking statements contained in this Registration Statement, the Registrant has made assumptions regarding, among other things: its ability to generate cash flow from operations and obtain necessary financing on acceptable terms; general economic, financial market, regulatory and political conditions in which the Registrant operates; the yield from the Registrant's growing operations; consumer interest in the Registrant's products; competition; anticipated and unanticipated costs; government regulation of the Registrant's activities and products and in the areas of taxation and environmental protection; the timely receipt of any required regulatory approvals; the Registrant's ability to obtain qualified staff, equipment and services in a timely and cost efficient manner; the Registrant's ability to conduct operations in a safe, efficient and effective manner; and the Registrant's construction plans and timeframe for completion of such plans.

Forward-looking statements are based on the beliefs, estimates, expectations and opinions of management on the date such forward-looking statements are made. Known and unknown risks, many of which are beyond the control of the Registrant, could cause actual results to differ materially from the forward-looking statements in this Registration Statement. Such factors include, without limitation, those discussed under the heading "Risk Factors" in the Registrant's Annual Information Form for the year ended December 31, 2016, included as Exhibit 99.1 to this Registration Statement, and those discussed under the heading "Risks and Uncertainties" in the Registrant's management's discussion and analysis for the nine months ended September 30, 2017 and management's discussion and analysis for the year ended December 31, 2016, included as Exhibits 99.10 and 99.4, respectively, to this Registration Statement. The Registrant undertakes 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, except as required by applicable law.

DIFFERENCES IN UNITED STATES AND CANADIAN REPORTING PRACTICES

The Registrant is permitted, under a multijurisdictional disclosure system adopted by the United States, to prepare this report in accordance with Canadian disclosure requirements, which are different from those of the United States. The Registrant prepares its financial statements, which are filed with this Registration Statement accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and the audit is subject to Canadian auditing and auditor independence standards.

DOCUMENTS FILED PURSUANT TO GENERAL INSTRUCTIONS

In accordance with General Instruction B.(l) of Form 40-F, the Registrant hereby incorporates by reference Exhibit 99.1 through Exhibit 99.30, as set forth in the Exhibit Index attached hereto.

DESCRIPTION OF THE SECURITIES

The disclosure provided under "Capital Structure" on page 42 of Exhibit 99.1, Annual Information Form for the Fiscal Year Ended December 31, 2016, is incorporated by reference herein.

OFF-BALANCE SHEET TRANSACTIONS

The Registrant does not have any off-balance sheet transactions that have or are reasonably likely to have a current or future effect on the Registrant's financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors.

TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

As at December 31, 2017, the Registrant is contractually committed to the following:

(in Canadian dollars)	Within 1 year	Between 1 to 3 years	Between 3 to 5 years	After 5 years	Total
Long-Term Debt Obligations	\$ Nil	\$ 6,304,494	\$ Nil	\$Nil	\$ 6,304,494
Capital (Finance) Lease Obligations	52,500	157,500	13,125	Nil	223,125
Operating Lease Obligations	189,372	536,896	186,312	Nil	912,580
Purchase Obligations	1,383,154	Nil	Nil	Nil	13,831,542
Other Long-Term Liabilities	Nil	Nil	Nil	Nil	Nil
Total	\$ 14,073,415	\$ 6,998,890	\$ 199,437	\$Nil	\$ 21,271,741

UNDERTAKINGS

The Registrant undertakes to make available, in person or by telephone, representatives to respond to inquiries made by the Commission staff, and to furnish promptly, when requested to do so by the Commission staff, information relating to: the securities registered pursuant to this Form 40-F; the securities in relation to which the obligation to file an annual report on Form 40-F arises; or transactions in said securities.

CONSENT TO SERVICE OF PROCESS

Concurrently with the filing of the Registration Statement on Form 40-F, the Registrant will file with the Commission a written irrevocable consent and power of attorney on Form F-X. Any change to the name or address of the Registrant's agent for service shall be communicated promptly to the Commission by amendment to the Form F-X referencing the file number of the Registrant.

EXHIBIT INDEX

The following documents are being filed with the Commission as exhibits to this registration statement on Form 40-F.

<u>Exhibits</u>	<u>Documents</u>
99.1	<u>Annual Information Form for the fiscal year ended December 31, 2016</u>
99.2	<u>Amended and Restated Annual Information Form for the year ended December 31, 2015</u>
99.3	<u>Audited Consolidated Financial Statements for the years ended December 31, 2016 and December 31, 2015</u>
99.4	<u>Management's Discussion and Analysis for the year ended December 31, 2016</u>
99.5	<u>Unaudited Interim Condensed Financial Statements for the three month periods ended March 31, 2017 and March 31, 2016</u>
99.6	<u>Management's Discussion and Analysis for the three month periods ended March 31, 2017 and March 31, 2016</u>
99.7	<u>Unaudited Condensed Financial Statements for the three and six month periods ended June 30, 2017 and June 30, 2016</u>
99.8	<u>Management's Discussion and Analysis for the three and six month periods ended June 30, 2017 and June 30, 2016</u>
99.9	<u>Unaudited Condensed Interim Consolidated Financial Statements for the three and nine month periods ended September 30, 2017 and September 30, 2016</u>
99.10	<u>Management's Discussion and Analysis for the three and nine month periods ended September 30, 2017</u>
99.11	<u>Management Information Circular dated May 26, 2017 prepared in connection with the annual and special meeting of shareholders held on June 28, 2017</u>
99.12	<u>Management Information Circular dated January 23, 2017 prepared in connection with the special meeting of shareholders held on February 24, 2017</u>
99.13	<u>Material Change Report dated February 17, 2017</u>
99.14	<u>Material Change Report dated February 27, 2017</u>
99.15	<u>Material Change Report dated March 17, 2017</u>
99.16	<u>Material Change Report dated September 1, 2017</u>
99.17	<u>Material Change Report dated September 29, 2017</u>
99.18	<u>Material Change Report dated October 23, 2017</u>
99.19	<u>Material Change Report dated October 23, 2017</u>
99.20	<u>Material Change Report dated November 10, 2017</u>
99.21	<u>Material Change Report dated January 8, 2018</u>
99.22	<u>Health Canada Producer's License issued to Peace Naturals Project Inc., effective as of November 1, 2016</u>
99.23	<u>Health Canada Producer's License issued to In the Zone, effective as of February 28, 2017</u>
99.24	<u>Health Canada Producer's License issued to Original BC Ltd., effective date October 20, 2017</u>

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- 99.25 [Distribution Agreement dated as of October 12, 2017 between G. Pohl-Boskamp GmbH & Co. KG and Peace Naturals Project Inc.](#)
- 99.26 [Construction Financing Agreement dated as of August 22, 2017 among Peace Naturals Project Inc. \(the "Borrower"\), the Registrant, Hortican Inc, In the Zone Produce Ltd. \("In the Zone"\) and each responsible person in charge and senior person in charge of the Borrower and In the Zone and Romspen Investment Corporation, as trustee](#)
- 99.27 [Whistler Medical Marijuana Corporation Amended and Restated Shareholders' Agreement dated as of March 22, 2017](#)
- 99.28 [First Mortgage Financing Agreement dated as of May 8, 2015 among Peace Naturals Project, PharmaCan Capital Corp., The Barnes Family Trust, Mark Gobuty, Ann Barnes and Hortican Inc., and Romspen Investment Corporation, as trustee](#)
- 99.29 [Undertaking to the TSX Venture Exchange regarding the conduct of business of PharmaCan Capital Corp., dated as of November 24, 2014](#)
- 99.30 [Consent of MNP LLP](#)
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SIGNATURES

Pursuant to the requirements of the Exchange Act, the Registrant certifies that it meets all of the requirements for filing on Form 40-F and has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized.

CRONOS GROUP INC.

/s/ MICHAEL GORENSTEIN

Name: Michael Gorenstein
Title: *President and Chief Executive Officer*

Date: February 22, 2018

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CRONOS GROUP INC.



ANNUAL INFORMATION FORM

For the year ended December 31, 2016

DATED: October 25, 2017

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ANNUAL INFORMATION FORM

In this Annual Information Form ("AIF"), unless otherwise noted or the context indicates otherwise, the "Company", "we", "us" and "our" refer to Cronos Group Inc. and its subsidiaries, The Peace Naturals Project, Inc. and Original BC Ltd.; "Cronos Group" refers to Cronos Group Inc. on a stand-alone basis; "Peace Naturals" refers to Cronos Group's wholly-owned subsidiary The Peace Naturals Project, Inc.; "OGBC" refers to Cronos Group's wholly-owned subsidiary Original BC Ltd.

All financial information in this AIF is prepared in Canadian dollars and using International Financial Reporting Standards as issued by the International Accounting Standards Board. The information contained herein is dated as of October 25, 2017, unless otherwise stated.

FORWARD LOOKING STATEMENTS

This AIF contains certain information that may constitute forward-looking information and forward-looking statements (collectively, “**Forward-Looking Statements**”) which are based upon the Company’s current internal expectations, estimates, projections, assumptions and beliefs. Such statements can be identified by the use of forward-looking terminology such as “expect,” “likely,” “may,” “will,” “should,” “intend,” or “anticipate,” “potential,” “proposed,” “estimate” and other similar words, including negative and grammatical variations thereof, or statements that certain events or conditions “may” or “will” happen, or by discussions of strategy. Forward-Looking Statements include estimates, plans, expectations, opinions, forecasts, projections, targets, guidance, or other statements that are not statements of fact. The Forward-Looking Statements included in this AIF are made only as of the date of this AIF. Forward-Looking Statements in this AIF include, but are not limited to, statements with respect to:

- the performance of the Company’s business and operations;
- the Company’s expectations regarding revenues, expenses and anticipated cash needs;
- the intended expansion of the Company’s facilities, including the construction of Building 4 and the Greenhouse (as defined herein) and the respective costs and timing associated therewith and receipt of approval from Health Canada to increase maximum production limits and sales from the expanded facilities;
- the expected growth in the number of patients using the Company’s medical cannabis;
- the expected growth in the Company’s growing and production capacities;
- expectations with respect to future production costs;
- the expected methods to be used by the Company to distribute medical cannabis;
- the competitive conditions of the industry;
- the legalization of cannabis for recreational use in Canada, including federal and provincial regulations pertaining thereto and the timing related thereof and the Company’s intentions to participate in such market, if and when legalized;

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- the legalization of the use of cannabis for medical and / or recreational use in jurisdictions outside of Canada and the timing related thereof and the Company’s intentions to participate in such markets outside of Canada, if and when legalized;
 - laws and regulations and any amendments thereto applicable to the business;
 - the competitive advantages and business strategies of the Company;
 - the grant, renewal and impact of any license or supplemental license to conduct activities with cannabis or any amendments thereof;
 - the medical benefits, viability, safety, efficacy, dosing and social acceptance of cannabis;
 - the Company’s future product offerings; and
 - the anticipated future gross margins of the Company’s operations.

Certain of the Forward-Looking Statements contained herein concerning the medical cannabis industry and the general expectations of Cronos Group concerning the medical cannabis industry are based on estimates prepared by Cronos Group using data from publicly available governmental sources as well as from market research and industry analysis and on assumptions based on data and knowledge of this industry which Cronos Group believes to be reasonable. However, although generally indicative of relative market positions, market shares and performance characteristics, such data is inherently imprecise. While Cronos Group is not aware of any misstatement regarding any industry or government data presented herein, the medical cannabis industry involves risks and uncertainties that are subject to change based on various factors.

Although the Company believes that the expectations reflected in such Forward-Looking Statements are reasonable, it can give no assurance that such expectations will prove to have been correct. The Company’s Forward-Looking Statements are expressly qualified in their entirety by this cautionary statement. In particular, but without limiting the foregoing, disclosure in this AIF under “*Description of the Business*” as well as statements regarding the Company’s objectives, plans and goals, including future operating results, economic performance and patient acquisition efforts may make reference to or involve Forward-Looking Statements. The purpose of Forward-Looking Statements is to provide the reader with a description of management’s expectations, and such Forward-Looking Statements may not be appropriate for any other purpose. You should not place undue reliance on Forward-Looking Statements contained in this AIF. We undertake no obligation to update or revise any Forward-Looking Statements, whether as a result of new information, future events or otherwise, except as required by applicable law.

With respect to the forward-looking statements contained in this AIF, we have made assumptions regarding, among other things: (i) our ability to generate cash flow from operations and obtain necessary financing on acceptable terms; (ii) general economic, financial market, regulatory and political conditions in which we operate; (iii) the yield from the growing operations of Peace Naturals and OGBC; (iv) consumer interest in our products; (v) competition; (vi) anticipated and unanticipated costs; (vii) government regulation of our activities and products and in the areas of taxation and environmental protection; (viii) the timely receipt of any required regulatory approvals; (ix) our ability to obtain qualified staff, equipment and services in a timely and cost efficient manner; (x) our ability to conduct operations in a safe, efficient and effective manner; and (xi) our construction plans and timeframe for completion of such plans.

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A number of factors could cause actual events, performance or results to differ materially from what is projected in the Forward-Looking Statements. Some of the risks and other factors which could cause actual results to differ materially from those expressed in the Forward-Looking Statements contained in this AIF include, but are not limited to the factors included under “*Risk Factors*” in this AIF. Readers are cautioned not to place undue reliance on Forward-Looking Statements. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable law.

GLOSSARY OF CERTAIN TERMS

The following terms are used in this document:

“**ACMPR**” means the Access to Cannabis for Medical Purposes Regulations in Canada;

“**cannabis**” has the meaning given to such term in the ACMPR;

“**cannabis oil**” means an oil, in liquid form, that contains cannabis or dried marijuana;

“client” has the meaning given to such term in the ACMPR;

“Commercial Licenses” means the Peace Naturals Commercial License and the OGBC Commercial License;

“Common Shares” means the common shares in the share capital of the Company;

“dried marihuana” has the meaning given to such term in the ACMPR;

“Licensed Producer” has the meaning given to such term in the ACMPR;

“marijuana” has the meaning given to the term “marihuana” in the ACMPR;

“Minister” means the Federal Minister of Health;

“OGBC Commercial License” means the OGBC First License and the OGBC Supplemental License;

“Peace Naturals Commercial License” means the Peace Naturals First License and the Peace Naturals Supplemental License; and

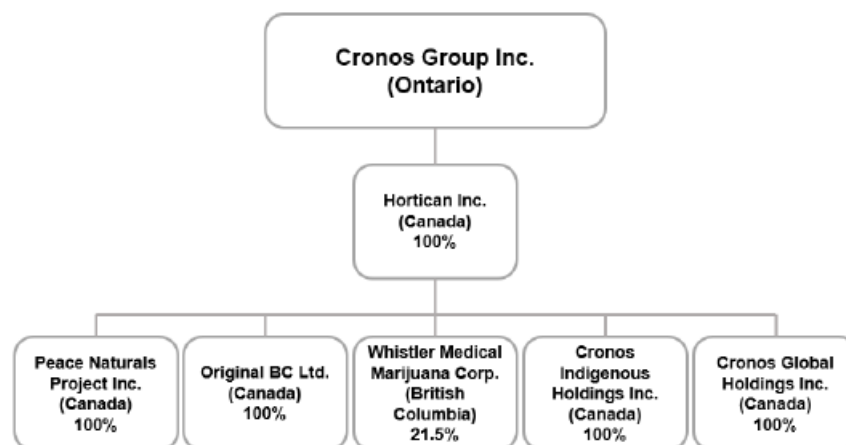
“Section 56 Exemption” means the exemption from sections 4, 5, and 7 of the CDSA, subsection 8(1) of the NCR, and relevant provisions of the MMPR authorized by Health Canada that allows Licensed Producers to conduct activities with cannabis and cannabis oil.

CORPORATE STRUCTURE

Cronos Group was incorporated on August 21, 2012 under the *Business Corporations Act* (Ontario) as 2339498 Ontario Inc. On October 18, 2012 the Company changed its name to Searchtech Ventures Inc. (“**Searchtech**”). Prior to completing its qualifying transaction, the Company was classified as a Capital Pool Company pursuant to Policy 2.4 of the TSX Venture Exchange (the “**TSX-V**”). On December 10, 2014, the Company completed its qualifying transaction with Hortican Inc. (“**Hortican**”). Immediately prior to the completion of the transaction, the Company changed its name to PharmaCan Capital Corp. and consolidated its shares on a one for seven (1:7) basis. Following these changes, Hortican amalgamated with 8996741 Canada Inc., a wholly owned subsidiary of the Company formed solely for the purpose of facilitating the transaction. Pursuant to the amalgamation, the Company indirectly acquired all of the issued and outstanding shares of Hortican and issued post-consolidation shares of the Company on the basis of approximately 2.1339 post-consolidation shares for each one of Hortican’s shares. Hortican warrants, stock options, and convertible debentures were also exchangeable at the same conversion ratio, and the exercise price for such securities were divided by the conversion ratio. On October 6, 2016 PharmaCan Capital Corp. announced it would thereafter conduct business under the name Cronos Group. Cronos Group is a publicly traded corporation, and its common shares are listed on TSX-V under the trading symbol “MJN”. Cronos Group obtained shareholder approval for the name change at a special shareholder meeting held February 27, 2017 and obtained approval from the TSX-V for the name on March 1, 2017.

Cronos Group, is a geographically diversified and vertically integrated cannabis company that operates two wholly-owned Licensed Producers regulated within Health Canada’s Access to Cannabis for Medical Purposes Regulations (the “**ACMPR**”) namely, Peace Naturals Project Inc. (“**Peace Naturals**”), with production facilities near Barrie, Ontario, and Original BC Ltd. (“**OGBC**”), with a production facility near Kelowna, British Columbia. Prior to the acquisition of OGBC in November of 2014, the Company was exclusively in the business of investing in companies either licensed, or actively seeking a license, to produce medical cannabis to the ACMPR (collectively, the “**Minority Interests**”). As evidenced by the chart below, in addition to its wholly-owned subsidiaries Peace Naturals and OGBC, the Company currently holds four (4) Minority Interests with active ACMPR licenses.

The following chart illustrates, as of the date of this AIF, the Company’s subsidiaries, including their respective jurisdictions of incorporation and percentage of voting securities of each that are beneficially owned, controlled or directed by Cronos Group, either directly or indirectly. The Company does not beneficially own, control or direct, directly or indirectly, any restricted securities in any of its subsidiaries.



The Company’s corporate and registered office is located at 76 Stafford Street, Suite 302, Toronto, Ontario M6J 2S1. The Company’s telephone number is +1.416.504.0004, and the Company’s website is www.TheCronosGroup.com. The information contained on the Company’s website is not incorporated by reference into this AIF.

GENERAL DEVELOPMENT OF THE BUSINESS

Cronos Group Inc.

Cronos Group was incorporated on August 21, 2012 under the *Business Corporations Act* (Ontario) as 2339498 Ontario Inc. On October 18, 2012 the Company changed its name to Searchtech Ventures Inc. Prior to completing its qualifying transaction, the Company was classified as a Capital Pool Company pursuant to Policy 2.4 of the TSX-V. Cronos Group was incorporated with the intention of developing a business based on capitalizing companies that were applying to Health Canada to become a Licensed Producer of

medical cannabis. Cronos Group is a publicly traded corporation, with its head office located at 76 Stafford Street, Suite 302, Toronto, Ontario M6J 2S1. The Company's common shares are listed on TSX-V under the trading symbol "MJN".

On December 10, 2014, Cronos Group closed its qualifying transaction (the "**Transaction**") with Hortican, a company whose business model was to invest in medical cannabis companies in Canada, pursuant to which the shareholders of Hortican completed a reverse takeover of the Company. Immediately prior to the completion of the Transaction, the Company changed its name to PharmaCan Capital Corp. and consolidated its shares on a one for seven (1:7) basis. Following these changes, Hortican amalgamated with 8996741 Canada Inc., a wholly owned subsidiary of the Company formed solely for the purpose of facilitating the Transaction. Pursuant to the amalgamation, the Company indirectly acquired all of the issued and outstanding shares of Hortican and issued post-consolidation shares of the Company on the basis of approximately 2.1339 post-consolidation shares for each one of Hortican's shares. Hortican warrants, stock options, and convertible debentures are also exchangeable at the same conversion ratio, and the exercise price for such securities were divided by the conversion ratio. On October 6, 2016 PharmaCan Capital Corp. announced it would thereafter conduct business under the name Cronos Group. Cronos Group obtained shareholder approval for the name change at a special shareholder meeting held February 27, 2017 and obtained approval from the TSX-V for the name on March 1, 2017.

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Minority Interests

Prior to the acquisition of OGBC in November of 2014 (as described below), the Company was exclusively in the business of investing in companies either licensed, or actively seeking a license, to produce medical cannabis to the ACMPR. In addition to its wholly-owned subsidiaries, Peace Naturals and OGBC, the Company currently holds four (4) Minority Interests with active ACMPR licenses. As of the date of this AIF the Company beneficially owned controlled or directed the following percentages of voting securities in its Minority Interests:

- Whistler Medical Marijuana Corp. (21.5%)
- Evergreen Medicinal Supply Inc. (up to 30%)
- Abcann Medicinals Inc. (3.1%)
- Canopy Growth Corp. (0.2%)

Acquisition of OGBC and Peace Naturals

On November 5, 2014, Hortican acquired 100% of the issued and outstanding shares of OGBC, a company headquartered in Armstrong, British Columbia and incorporated, on March 15, 2013, under the *Business Corporations Act* (British Columbia). OGBC is a Licensed Producer of medical cannabis pursuant to the provisions of the ACMPR and the *Controlled Drugs and Substances Act* and its *Regulations*. The purchase price for the acquisition was \$1,811,730 of which \$1,321,730 was payable in cash at closing and the balance of the purchase price was paid by the issuance, out of treasury, of Hortican common shares.

On June 25, 2013, Hortican acquired 20% of the issued and outstanding shares of Peace Naturals, a corporation headquartered in Stayner, Ontario is incorporated under the *Canada Business Corporations Act*. Peace Naturals is a Licensed Producer of medical cannabis pursuant to the provisions of the ACMPR and the *Controlled Drugs and Substances Act* and its *Regulations*. Later in 2013, the Company exercised options to acquire additional equity in Peace Naturals, for a total of 27.3% of the issued and outstanding shares.

On September 2, 2016, Hortican acquired the remaining issued and outstanding shares of Peace Naturals. The purchase price payable for the acquisition of the shares not already held by Hortican was approximately \$11.8 million of which (i) \$2.9 million was payable at closing, by the issuance, out of treasury, of PharmaCan Capital Corp. common shares, (ii) approximately \$6.2 million was payable in cash at closing and (iii) the balance of the purchase price is held back for a period of up to twelve (12) months following closing. The purchase price was based on a Peace Naturals enterprise value of approximately \$22 million. On September 25, 2017, the final holdback payments of the balance of the purchase price were completed in connection with the closing of a loan facility with Romspen Investment Corporation ("**Romspen**"). See "*Recent Business and Legal Developments — Financing Activities*".

On October 21, 2016, the Company acquired approximately 17 acres of land adjacent to the 14 acre OGBC production campus in the Okanagan Valley of British Columbia (the "**Property**"). The Property was acquired for total consideration of \$600,000 cash payable at closing.

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Recent Business and Legal Developments

Good Manufacturing Practice Certification

On May 2, 2017 the Company announced that, following a comprehensive audit performed by German regulators, Peace Naturals was issued a Good Manufacturing Practice ("**GMP**") certification in accordance with the rules governing pharmaceutical production in the European Union. This GMP certification requires adherence to quality standards that extend well beyond current Health Canada requirements. The certification enables Peace Naturals to distribute medical cannabis across the European Union, which only permits importation of medicinal products produced by GMP-certified manufacturers.

Indigenous Roots Strategic Joint Venture

On December 6, 2016, the Company launched a joint venture ("**Indigenous Roots**") led by Phil Fontaine, former National Chief of the Assembly of First Nations. Indigenous Roots is a medical cannabis company that will work cooperatively with Canadian First Nations towards building and operating licensed facilities and providing medical cannabis to First Nations. The Company will own a 49.9% stake in Indigenous Roots. The Company believes that Indigenous Roots will provide the Company with optionality for non-traditional distribution channels, incremental production capacity without dilution, and a strong brand for its portfolio. Indigenous Roots has commanded significant interest, having met with over 100 indigenous communities and leaders across Canada. Indigenous Roots is in the process of finalizing its capital raise. Once completed, Indigenous Roots will commence construction of a 30,000 sq. ft. production facility at the premises of OGBC.

Build-out of growing and production capacity at Peace Naturals

On May 23, 2017 Cronos Group announced breaking ground on a 315,000 sq. ft. expansion project at the Peace Naturals Ontario premises. The Company is building a 286,000 square foot facility ("**Building 4**"). In addition to large scale cultivation of premium dried flower, Building 4 will include: (a) designated areas for proprietary genetic breeding, (b) pharmaceutical laboratory for cannabinoid and terpene extraction, identification, and formulation, (c) R&D space for analyzing metabolite enhancement and new lighting technologies, (d) tissue culture laboratory, (e) industrial-grade kitchen and (f) processing infrastructure capable of supporting output from other Cronos facilities. Construction is progressing on schedule and the superstructure is expected to be completed in November 2017. Production from Building 4 is expected to be fully operational in the third quarter of 2018. The Company is also building a 28,000 square foot hybrid greenhouse (the "**Greenhouse**"). The Greenhouse will provide low-cost flower for extraction in a 1,200

square foot pharmaceutical-grade extraction lab that will be connected to the Greenhouse. Construction of the Greenhouse is progressing on schedule and the Company expects the Greenhouse to be operational in the fourth quarter of 2017.

In addition, the Company has undertaken significant improvements to the existing facilities at Peace Naturals. The original facility (“**Building 1**”) has been retrofitted to increase production capacity. A new two-tier hydroponic methodology will be employed using LED lighting. The Company expects to resume growing late in the third quarter of 2017 or early in the fourth quarter of 2017. The Company completed its new extraction laboratory in Building 1, including a state-of-the-art supercritical and subcritical CO₂ and commercial oil production methodology (“**New Oil Program**”) approved in late third quarter of 2017. The Company had Health Canada inspection in mid-September and expects to significantly ramp up oil production and sales. In anticipation of the New Oil Program, the Company has saved a significant

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amount of extract grade inventory, which it expects to convert to oil and sell to patients in the fourth quarter of 2017. The planned renovations and improvements to the first 15,000 sq. foot purpose built production facility (“**Building 2**”) have been completed. Building 2 is now fully operational and harvests have been completed in all flower rooms. Substantial renovations and improvements to the second 15,000 sq. foot purpose built production facility (“**Building 3**”) have been completed and there are ongoing improvements being made. The Company completed its first harvest in Building 3 in August 2017 and expects Building 3 to be fully operational during the third and fourth quarters of 2017.

Peace Naturals Voluntary Recall

On May 18, 2017, Peace Naturals announced a voluntary recall with the support of Health Canada for products sold between November 26, 2015 to March 13, 2017. Peace Naturals was notified by Health Canada that upon testing a random cannabis leaf sample, trace levels of Piperonyl Butoxide (PBO) were discovered at 0.78 parts per million (ppm). PBO is an organic compound known as a synergist. Roots cause analysis concluded by Peace Naturals concluded that this was the result of cross-contamination from a sanitation protocol that is no longer practiced at Peace Naturals. The source of the PBO was a PMRA approved product that was used to sanitize empty rooms between harvests. The sanitation protocol has not been practiced since new management implemented an improved production methodology after taking control of Peace Naturals.

Rebranding of In the Zone Produce Ltd.

On January 11, 2017 the Company announced OGBC had received approval from Health Canada to sell medicinal cannabis pursuant to the ACMPR. The new OGBC sales license supplements the prior cultivation license and validates the operational quality assurance undertakings of the Company.

On October 4, 2017, the Company announced the rebranding of In the Zone Produce Ltd. to Original BC Ltd. As part of this rebranding, OGBC’s legal name change became effective on October 16, 2017 and it was continued under the *Business Corporations Act* (Canada). The OGBC Commercial License was amended to reflect the name change on October 20, 2017.

Nasdaq International Designation

On September 12, 2017 the Company announced that it is the first cannabis company to be admitted into the Nasdaq International Designation program under the symbol OTC — Nasdaq International Designation: PRMCF. This is an over-the-counter platform designed for non-U.S. companies. The program provides member companies with Nasdaq’s visibility offering, allowing for greater access to U.S.-based investors. Member companies of the Nasdaq International Designation are not listed or traded on The Nasdaq Stock Market, LLC. and are not subject to the same listing or qualification standards applicable to securities listed or traded on an exchange. The Company’s Nasdaq International Designation profile page can be found on:

<http://business.nasdaq.com/list/International-Designation/cronos-group.html>.

Developments Related to Minority Interests

Whistler Medical Marijuana Corporation (“**Whistler**”) (21.5%). Whistler is a corporation incorporated under the laws of British Columbia, and is a licensed producer and seller of medical cannabis with operations in Whistler, British Columbia. In the second quarter of 2017, Company invested an additional \$1,075,800 in WMMC in order to maintain its 21.5% equity position.

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Evergreen Medicinal Supply Inc. (“**Evergreen**”) (up to 30%). Evergreen is a corporation incorporated under the laws of British Columbia, with facility and operations in Victoria, British Columbia and a license to cultivate medical cannabis. In the first quarter of 2017, the Company completed its subscription for a second tranche of shares of Evergreen for \$100,000 and exercised its option to acquire an additional 5% of the equity for \$500,000, for a total additional investment of \$600,000. However, the Company filed a claim in the Supreme Court of British Columbia against Evergreen and its directors, seeking, among other things, declarations that the Company holds equity of Evergreen and that the agreement between the parties in respect of its equity is a valid and binding contract.

AbCann Global Corporation (“**AbCann**”) (3.1%). AbCann is a corporation incorporated under the laws of Ontario, and is a licensed producer and seller of medical cannabis. During the second quarter of 2017, AbCann entered into a reverse takeover and is now listed on the TSX-V under the trading symbol “ABCN”. The Company subscribed for additional shares of AbCann of \$1,016,000 during the second quarter of 2017. Subsequently, the Company sold approximately 4.8 million of its shares of AbCann for proceeds of \$1,682,548.

Canopy Growth Corp. (“**Canopy**”) (0.2%). Canopy is a corporation incorporated under the laws of Canada, and is the parent company of licensed producers and sellers of medical cannabis. Canopy’s common shares are listed on the TSX, under the trading symbol “WEED”. The Company acquired shares of Canopy as part of its disposition of its previous equity stake in ACMPR-applicant Vert/Green Medical Inc. During the first half of 2017, the Company sold 7,374 of its shares of Canopy for proceeds of \$87,653. The remaining shares of Canopy are held in escrow and may be released upon certain conditions related to Vert Medical.

The Hydrothecary Corporation (“**Hydrothecary**”) (0%). Hydrothecary is a publicly traded corporation incorporated under the laws of Canada and a licensed producer and seller of medical cannabis. During the first quarter of 2017, BFK Capital Corp. acquired all of the outstanding shares of Hydrothecary Corporation, and began trading as Hydrothecary Corporation on the TSX-V, under the trading symbol “THCX”. As a result of this transaction, Hydrothecary Corporation executed a 6:1 stock split. Over the second and third quarter of 2017, the Company exited its equity position in Hydrothecary.

CannMart Inc. (“**CannMart**”) (0%) is a privately-held corporation incorporated under the laws of Ontario which is a license applicant under the ACMPR. In the second quarter of 2017, the Company announced it no longer intended to retain its investment in CannMart. CannMart has since returned the \$25,000 previously paid by the Company in respect of its equity investment.

International Expansion and Activities

The ACMPR permits Licensed Producers to export their intellectual property and genetics to other jurisdictions (subject to all applicable import and export permits and requirements). The Company is focused on developing international alliances and expansion. Leveraging the Company’s operational, manufacturing and educational outreach

expertise, quality assurance capabilities, experience in submitting regulatory licensing applications, management believes that the Company is well-positioned to effectively penetrate international markets.

The Company has received several inquiries concerning strategic business opportunities from third-parties in several international jurisdictions. The Company believes there is an opportunity to leverage its expertise and its business model in other legal cannabis markets around the world. Subject to TSX-V and

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regulatory approvals, strategic international business opportunities pursued by the Company could include:

- Ownership of cannabis cultivation and sales operations in countries outside of Canada (which have passed legislation to legalize the cultivation, distribution and possession of cannabis at all relevant levels of government); and
- The export of medical cannabis to third-parties in countries outside of Canada (which permit the import of medical cannabis).

The Company will only conduct business in jurisdictions where it is federally legal to do so and legislation permitting the cultivation, distribution or possession of cannabis has been adopted at all relevant levels of government. The Company believes that operating and investing in markets where such activity is federally illegal breaches the Company's legal and regulatory obligations, puts the company at risk of government regulatory actions or investigations, risks of governmental penalties, fines and sanctions, increases exposure to reputational risk, limits its ability to operate freely, and potentially could jeopardize its listing on major exchanges now and in the future, limits its access to capital. In addition, the Company remains committed to conducting business in jurisdictions outside of Canada where such operations remain compliant with the Company's Canadian listing obligations with the TSX-V. *No activities related to the cultivation, distribution or possession of cannabis in the United States*

While a number of states in the United States ("U.S.") have legalized the cultivation, distribution or possession of cannabis in some form to various degrees and subject to various requirements or conditions, cannabis continues to be categorized as a controlled substance under the *Controlled Substances Act* in the U.S. As such, cultivation, distribution and possession are in violation of federal law in the U.S. unless a U.S. federal agency (e.g. the Drug Enforcement Agency) licenses for a specific use, such as research with cannabis.

The Company currently does not engage in any activities related to the cultivation, distribution or possession of cannabis in the U.S. The Company does not have any direct or indirect ownership of, or investment in, entities that engage in such activities in the U.S.

Increased International Distribution Channels

Germany

On October 10, 2016 the Company announced Peace Naturals' first wholesale shipment of medical cannabis to Germany through German-based pharmaceutical wholesale distributor, Pedanios GmbH ("**Pedanios**"). On December 28, 2016, the Company further announced the execution of an exclusive supply agreement with Pedanios for the distribution of medical cannabis products in European. This supply agreement will be terminated in connection with entering an exclusive supply agreement with an alternative distributor in Germany (as described below).

On September 1, 2017, the Company announced the execution of a supply agreement between Peace Naturals and German-based pharmaceutical wholesale distributor Cannamedical Pharma GmbH. This supply agreement has been terminated in connection with entering an exclusive supply agreement with an alternative distributor in Germany (as described below).

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On October 12, 2017 the Company announced the execution of the of an exclusive supply agreement with German-based Pohl-Boskamp GmbH & Co. KG ("**Pohl-Bosckamp**"). Founded in 1835, Pohl Boskamp is an international pharmaceutical manufacturer and supplier, distributing its products to over 12,000 pharmacies in Germany alone. Under the five-year exclusive distribution agreement, Cronos' global subsidiaries will supply Peace Naturals branded cannabis products to Pohl-Boskamp for distribution within Germany.

Cayman Islands

On August 29, 2017 the Company announced its first wholesale shipment of medical cannabis oils to the Cayman Islands through Cayman Islands-based pharmaceutical distributor, Caribbean Medical Distributors Ltd. The sale was brokered by a Canadian laboratory holding a dealer's license to trade in and export narcotics under the *Narcotic Control Regulations* (Canada).

Cronos Israel Strategic Joint Venture

On September 6, 2017, the Company announced a strategic joint venture in Israel ("**Cronos Israel**") with an Israeli agricultural collective settlement Kibbutz Gan Shmuel ("**Gan Shmuel**") for the production, manufacture and distribution of medical cannabis. Medical cannabis has been legalized under Israeli national law since 2011 and is regulated by the Medical Cannabis Unit (the "**Yakar**") of the Israeli Ministry of Health. The Company will contribute intellectual property, management expertise, access to its current and future distribution channels, and capital to Cronos Israel. Gan Shmuel will contribute the preliminary licenses (codes) it has received from the Yakar relating to nursery, cultivation, manufacturing and distribution of medical cannabis, agricultural and industrial expertise, land, capital and access to the skilled Gan Shmuel labor force.

The Company will hold a 70% stake in each of the nursery and cultivation operations and a 90% stake in each of the manufacturing and distribution operations.

The implementation and launch of operations of Cronos Israel are subject to obtaining various final approvals, including approval of the TSX-V. Upon receipt of the remaining necessary approvals, Cronos intends to deploy capital to Cronos Israel to begin construction. Phase I of Cronos Israel involves the construction of a 45,000 sq. ft. greenhouse that is expected to produce up to 5,000 kg annually. This will be paired with a separate 11,000 sq. ft., extraction laboratory that will be utilized for analytics, formulation development, and research. In Phase II, Cronos Israel plans to increase production capacity to 24,000 kg annually. Gan Shmuel is situated on 4,939 acres of mixed-use agricultural/industrial land, which gives Cronos Israel the ability to expand production capacity well beyond 100,000 kg annually with its anticipated future build-outs. Construction is anticipated to be completed sometime in the third quarter of 2018 and cultivation and production anticipated to begin shortly thereafter after the necessary inspections of the facilities are conducted by the Yakar and final cannabis licenses issued.

The Company believes that the advantageous Israeli climate, combined with Gan Shmuel's existing manufacturing infrastructure and skilled labor force, will enable Cronos Israel to produce high quality medical cannabis at an expected cost of between \$0.40 and \$0.50 per gram.

Finance Activities

On March 9, 2017, the Company announced the closing of a short form prospectus offering, on a bought deal basis, including the full exercise of the over-allotment option. A total of 7,705,000 common shares of

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the Company were sold at a price of \$2.25 per Share for aggregate gross proceeds of approximately \$17,300,000 million. The Offering was underwritten by a syndicate led by Eight Capital and which included PI Financial Corp., Beacon Securities Limited, GMP Securities L.P., Cormark Securities Inc. and Mackie Research Capital Corp.

On August 24, 2017, the Company announced that Peace Naturals had entered a commitment letter with Romspen for the provision of a \$40,000,000 senior secured debt facility (the “**Loan**”). The Loan is secured by a first ranking charge on the real estate of each of Peace Naturals and OGBC. OGBC, Hortican, and Cronos Group are also guarantors of the Loan. Under the Loan, Peace Naturals, OGBC, Hortican and Cronos Group retain the ability to enter into equipment financing arrangements and Cronos Group retains the ability to raise capital by issuing Common Shares at the holding company level. The Loan will be made available in multiple advances. Each advance will be subject to ongoing conditions, including among other things, Romspen’s approval of construction progress. Each advance will bear interest at a rate of 12% per annum and interest will only accrue once the advance is made. The Loan has a maturity of two (2) years with a one-year extension option and is pre-payable on one-month’s notice. The Loan closed on September 21, 2017 and a \$5,000,000 advance for working capital purposes was drawn simultaneously on the date of closing. See “*Material Contracts*” for more information.

On October 12, 2017, the Company announced that it had received TSX-V final acceptance for the non-brokered private placement of 6,671,112 common shares at a price of \$2.25 per share, for total gross proceeds of \$15,010,002, which closed on September 25, 2017.

On October 19, 2017, the Company announced it has entered into a letter of engagement with PI Financial Corp. (“**PI**”) as sole lead underwriter. PI has agreed to purchase for resale 4,761,905 common shares of the Company, on a bought deal basis pursuant to the filing of a short form prospectus, subject to all required regulatory approvals, at a price per share of \$3.15, for total gross proceeds of \$15,000,000.75. The Company will grant PI an option to increase the size of the offering by up to 15% of the initial offering size or 714,285 additional Shares (the “**Over-Allotment Option**”) unless the offering size is increased in which case the Over-Allotment Option will be 15% of the increased offering.

DESCRIPTION OF THE BUSINESS

Regulatory Overview

Medical Cannabis

In 2001, Canada became the second country in the world to recognize the medicinal benefits of cannabis and to implement a government-run program for medical cannabis access. Health Canada replaced the prior regulatory framework and issued the *Marijuana for Medical Purposes Regulations* (the “**MMPR**”) in June 2013. The MMPR was intended to replace government supply and home-grown medical cannabis under the *Medical Marijuana Access Regulations* (the “**MMAR**”) with secure and regulated commercial operations capable of producing consistent, quality medicine. The MMPR issued in June 2013 covered only the production and sale of dried cannabis flowers. Under the MMPR, patients were required to obtain medical approval from their healthcare practitioner and provide a medical document to a Licensed Producer from which they wish to purchase cannabis.

On July 8, 2015 Health Canada issued certain exemptions under the *Controlled Drugs and Substances Act* (Canada) which included a Section 56 Exemption for Licensed Producers under the MMPR to conduct activities with cannabis, permitting Licensed Producers to apply for a supplemental license to

produce and sell cannabis oil and fresh cannabis buds and leaves, in addition to dried cannabis (this did not permit Licensed Producers to sell plant material that can be used to propagate cannabis).

On February 24, 2016, the Federal Court of Canada released its decision in the case of *Allard et al v. Canada* (“**Allard**”). This case began as a result of the government’s decision to repeal the MMAR and enact the MMPR. The plaintiffs in *Allard* argued that the MMPR violated their Charter rights, and, in a lengthy and detailed judgment, agreeing with the plaintiffs, the court found the entire MMPR to be unconstitutional and of no force and effect, but suspended its declaration of invalidity for six months in order to give the government time to respond and, if thought appropriate, craft a Charter-compliant medical cannabis regime. Additionally, the Federal Court of Canada ruled that a previous injunction should be upheld, allowing patients with an existing personal production license under the prior legislation to continue to produce their own medical cannabis, subject to certain conditions.

On August 11, 2016, Health Canada announced the new ACMPR which came into force on August 24, 2016, replacing the MMPR as the regulations governing Canada’s medical cannabis program. The ACMPR was implemented as a result of *Allard*. In *Allard* the Federal Court found the MMPR to be unconstitutional and of no force and effect, but suspended its declaration of invalidity for six months in order to give the government time to respond. In response to *Allard*, ACMPR allows Canadians who have been authorized by their health care practitioner, and who are registered with Health Canada, to produce a limited amount of medical cannabis for their own medical purposes, or to designate someone who is registered with Health Canada to produce it for them. Starting materials such as plants or seeds are to be obtained from Licensed Producers only. See “*Risk Factors*”.

The ACMPR allows for competition among Licensed Producers on a host of factors including product quality, customer service, price, variety and brand awareness, allowing well-positioned and capitalized producers to leverage their position in the marketplace. Health Canada estimates that as of September 30, 2016 approximately 98,000 patients were registered to use medical cannabis under the ACMPR. By 2024, Health Canada estimates that the number of patients using medical cannabis will grow to 450,000.

Expected Legalization of Recreational Cannabis in Canada

In 2015, the Government of Canada announced a platform advocating for the legalization of recreational cannabis in order to regulate the illegal market and restrict access by under-aged individuals. On April 20, 2016, the Government of Canada announced its intention to introduce, by the spring of 2017, legislation to legalize the recreational use of cannabis in Canada. On April 13, 2017 the Government of Canada introduced the Cannabis Act.

The Cannabis Act provides a licensing and permitting scheme for the production, testing, packaging, labelling, sending, delivery, transportation, sale, possession and disposal of cannabis, to be implemented by regulations made under the Cannabis Act. It is proposed that provincial legislation will implement measures authorizing the sale of cannabis that has been produced by a person authorized under the Cannabis Act to produce cannabis for commercial purposes. The licensing, permitting and authorization regime will be implemented by regulations made under the Cannabis Act. Draft regulations have not yet been disclosed. The Cannabis Act contains some details of the application requirements for licenses and permits, which are similar in nature to the requirements of the ACMPR (i.e., they include requirements for financial information, security information and security clearances).

The Cannabis Act proposes to maintain separate access to cannabis for medical purposes, including providing that import and export licenses and permits will only be issued in respect of cannabis for medical or scientific purposes.

The transitional provisions of the Cannabis Act provide that every license issued under section 35 of the ACMPR that is in force immediately before the day on which the Cannabis Act comes into force is deemed to be a license issued under the Cannabis Act, and that such license will continue in force until it is revoked or expires.

The Government of Canada has provided guidance that, subject to Parliamentary approval and Royal Assent, the Government of Canada intends to provide regulated and restricted access to cannabis no later than July 2018, however there is no assurance that the enactment of the Cannabis Act and the legalization of recreational cannabis use will occur as anticipated or at all. Further, if implemented, the impact of any such new legislative regime on the medical cannabis industry and the Company's business plans and operations is uncertain. See "*Risk Factors*".

Cronos Group intends to participate in the Canadian recreational market, if and when the recreational use of cannabis is legalized in Canada, and only in compliance with all applicable federal and provincial laws and regulations concerning the Canadian recreational cannabis market. As it has done in the Canadian medical cannabis market, the Company's customer acquisition strategy for the Canadian recreational cannabis market will be to focus on leveraging its analytical and consumer insight capabilities in order to identify profitable market segments, understand the unique needs of each segment, design brands and products to address market demand, and collect and analyze customer and sales data to improve the customer experience.

No assurance can be provided that the Company will be able to participate in the Canadian recreational cannabis market, if or when such market is created through the legalization of recreational cannabis use, or that the Company will, or will be able to, design products and service the market segments in which it may compete, or that the Company will be able to maintain profitability. See "*Risk Factors*".

International Regulatory Developments

Medical cannabis opportunities are developing in various G20 countries as these jurisdictions move towards establishing new or improved medical cannabis regulatory frameworks. As Canada has developed an early regulatory model, companies acting within that framework have expertise, knowledge and potentially product to share with the global community. The Company is actively pursuing opportunities in a number of jurisdictions where medical cannabis is legally allowed by all levels of government presently, or where the government is actively moving towards such a legal framework.

No assurance can be provided that the Company will be able to participate in the legal cannabis markets (medical or recreational) in jurisdictions outside of Canada, if or when such international markets are created through the legalization of cultivation, distribution of possession of cannabis for medical or recreational purposes, or that the Company will, or will be able to, design products and service such non-Canadian markets in which it may compete, or that the Company will be able to maintain profitability. See "*Risk Factors*".

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Cayman Islands Medical Cannabis Regulations

In November 2016, Cayman Island Governor Helen Kilpatrick approved a bill amending the Misuse of Drugs Bill 2016 (the "**Amendment**"), allowing cannabis oil to be imported and sold for medicinal purposes. The Amendment provides for the lawful use of cannabis extracts and tinctures of cannabis for medical or therapeutic purposes, where prescribed by a duly licensed medical doctor. In anticipation of the Amendment, the Pharmacy (Poisons and Restricted Pharmaceuticals) Regulations were also amended to include "cannabis extracts and tinctures of cannabis" in the schedule of Restricted Pharmaceuticals. Cannabis extracts and tinctures, thereby, fall squarely into the same regulatory framework as any prescription drug in the Cayman Islands.

Germany Medical Cannabis Regulations

In 2005, a constitutional challenge to cannabis prohibition resulted in a doctor-supervised self-therapy program for cannabis. This "special access scheme" was administered by Germany's Federal Institute for Drugs and Medical Devices (the "**BfArM**") that was required to individually approve each patient seeking treatment with cannabis. Cannabis was classified as an Appendix I substance under Germany's Narcotic Act (no clinical approval study assumed), making cannabis a non-tradable and non-negotiable (non-prescribable) narcotic.

In April 2016, another successful constitutional challenge, premised on insufficient access, prompted the expansion of the program and reclassification of cannabis. The new program came into effect March 10, 2017 and significantly widened access to medical cannabis. Cannabis has now been moved to Appendix III of the German Narcotics Act and is now classified as a tradable narcotic. This places cannabis on a similar regulatory footing as other prescribable pharmaceuticals. The legislation opens use to over 50 medical indications, including a wide range of physical disorders and mental illness. Cannabis will be prescribed so long as the patient and doctor agree on the positive medicinal impact it will have, similar to the way that other pharmaceuticals are prescribed. Pharmacies will not require a special exemption permit to distribute cannabis products. Whereas, the previous program was limited to dried flower, the new legislation contemplates cannabis extracts, which offer greater consistency in dosing, titration and non-carcinogenic delivery.

Israel Medical Cannabis Regulations

In Israel, the cultivation, production, manufacturing, distribution and use of cannabis and cannabis derivatives are legal for medical purposes under federal law. The Israeli Dangerous Drugs Ordinance (New Version) 1973 and its associated regulations (the "**Ordinance**") define cannabis as a "dangerous drug" such that sale and use of cannabis is prohibited unless a permit has been granted by the Israeli Ministry of Health. The Israeli Ministry of Health created the Medical Cannabis Unit (the "**Yakar**") in 2011 as the sole government agency with the authority to grant permits for patient use of cannabis for medical purposes, as well as for cultivation, production, and of cannabis for medical purposes.

In June 2016, the Israeli government passed Government Resolution No. 1587. Government Resolution No. 1587 establishes a new regulatory framework for the "medicalization" of cannabis, i.e. to introduce pharmaceutical standards and requirements and to regulate each link in the supply chain of cannabis products (growing, production, packaging, review and distribution). As of the date of this AIF, substantial portions of the new regulatory framework remains to be finalized. The Israeli Ministry of Health has promulgated directives governing the cultivation, production, manufacturing and supply of medical cannabis, relating to (i) security of the supply chain, (ii) Good Agricultural Practices in respect of medical

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cannabis, (iii) Good Manufacturing Practices in respect of medical cannabis products, (iv) storage and delivery of medical cannabis products, and (v) guidance for medical practitioners prescribing medical cannabis.

Currently, patients in Israel access cannabis for medical purposes by applying for authorization from the Medical Cannabis Unit and obtaining supply directly from a licensed producer in much the same way patients in Canada currently do. Upon enactment of the new regulatory design, patients will obtain medical cannabis from a pharmacy where prescribed by a duly licensed medical doctor who has completed a state-mandated training on medical cannabis. The Israeli Ministry of Health anticipates that this will significantly increase access to medical cannabis.

See "*Recent Business and Legal Developments — International Expansion and Activities*" for more details on the Company's recent international expansions and activities.

Company Overview

Cronos Group Inc.

Cronos Group Inc. is a publically traded company, incorporated in under the *Business Corporations Act* (Ontario) on August 21, 2012, with its head office at 76 Stafford Street, Toronto, Ontario. The Company's Common Shares are listed on the TSX-V, under the trading symbol "MJN". Through its wholly-owned subsidiaries, Peace Naturals and OGBC, Cronos Group is currently in the business of producing and selling legal cannabis in the Canadian medical market. Cronos Group is also positioning itself to produce and sell cannabis in the recreational market in Canada, if and when it should be legalized in the future. Furthermore, Cronos Group is participating in the cultivation and distribution of cannabis and cannabis products in non-Canadian jurisdictions where such jurisdictions legalize the cultivation, distribution and possession of cannabis at all applicable levels of government.

Peace Naturals Project Inc.

Peace Naturals was incorporated under the *Business Corporations Act* (Ontario) on November 21, 2012. Peace Naturals is a Licensed Producer of medical cannabis pursuant to the provisions of the ACMPR and the *Controlled Drugs and Substances Act* and its *Regulations*. On October 31, 2013 Health Canada issued to Peace Naturals a first license (the "**Peace Naturals First License**") for activities related to the production and sale of dried cannabis flower. On December 7, 2015, Health Canada issued to Peace Naturals a supplemental license (the "**Peace Naturals Supplemental License**") for activities related to the production and sale of cannabis oils. Peace Naturals was acquired by Hortican on September 6, 2016.

Original BC Ltd.

OGBC was incorporated as In the Zone Produce Ltd. under the *Business Corporations Act* (British Columbia) on March 15, 2013. OGBC is a Licensed Producer of medical cannabis pursuant to the provisions of the ACMPR and the *Controlled Drugs and Substances Act* and its *Regulations*. Health Canada issued license to OGBC on February 26, 2014 (the "**OGBC First License**"). OGBC was acquired by Hortican on November 5, 2014. On January 11, 2017 the Company announced that OGBC has been approved by Health Canada to sell medicinal cannabis pursuant to the ACMPR (the "**OGBC Supplemental License**"). The new OGBC sales license supplements the prior cultivation license and validates the operational quality assurance undertakings of the Company. OGBC has since completed

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several inter-Company bulk transfers of dried cannabis to Peace Naturals to be sold under the Peace Naturals brand. On October 4, 2017, the Company announced the rebranding of In the Zone Produce Ltd. to Original BC Ltd. As part of this rebranding, OGBC's legal name change became effective on October 16, 2017 and it was continued under the *Business Corporations Act* (Canada). The OGBC Commercial License was amended to reflect the name change on October 20, 2017.

Cronos Indigenous Holdings Inc.

Cronos Indigenous Holdings Inc. ("**CIHI**") was incorporated under the Business Corporations Act (Canada) on March 16, 2017 to hold the Company's interest in the Indigenous Roots strategic joint venture. See "Recent Business and Legal Developments — Indigenous Roots". The Company intends that CIHI will have a 49.9% limited partnership interest in Indigenous Roots Limited Partnership and a 49% interest in Indigenous Roots Inc., the general partner of Indigenous Roots Limited Partnership.

Cronos Global Holdings Inc.

Cronos Global Holdings Inc. ("**CGHI**") was incorporated under the Business Corporations Act (Canada) on March 25, 2017 to hold the Company's investments in contemplated international strategic joint ventures as they are entered into by the Company. The Company intends that CGHI will hold the Company's equity interests in the entities to be formed in relation to Cronos Israel. See "Recent Business and Legal Developments — International Expansion and Activities".

Cronos Group's Licenses

Peace Naturals and OGBC Licenses

Pursuant to the Peace Naturals Commercial License and the OGBC Commercial License, Peace Naturals and OGBC may:

- (a) possess, produce, sell, transport, deliver and destroy cannabis, including live plants, clippings and seeds;
- (b) possess, produce, sell, transport, deliver and destroy dried cannabis;
- (c) possess, transport, deliver and destroy CBD (defined herein); and
- (d) possess, transport, deliver and destroy THC (defined herein).

Peace Naturals and OGBC may sell or provide:

- (a) cannabis and dried cannabis to:
 - (i) another Licensed Producer;
 - (ii) a licensed dealer (as defined in the ACMPR);
 - (iii) the Minister; or
 - (iv) a person to whom an exemption relating to the substance has been granted under section 56 of the CDSA.

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- (b) dried cannabis to:
 - (i) a client or an individual who is responsible for the client;
 - (ii) a hospital employee, if the possession of the dried cannabis is for the purposes of and in connection with their employment; or
 - (iii) a person to whom an exemption relating to the dried cannabis has been granted under section 56 of the CDSA.

Peace Naturals may:

- (a) possess, produce, sell, ship, transport, deliver, and destroy cannabis oil and cannabis resin.

Permitted activities related to cannabis oils includes strict terms and conditions that a Licensed Producer must comply with, including:

- the marihuana must be shipped in secure, child resistant packaging;
- Licensed Producers must include the same health warning messages that apply to dried marihuana;
- Licensed Producers must not sell or provide any cannabis oil with a concentration of delta-9-tetrahydrocannabinol (THC) exceeding 30 mg per ml of oil;
- Licensed Producers must ensure that the label specifies the amount (in milligrams) of THC and cannabidiol;
- Licensed Producers must ensure that the quantity of the fresh marihuana buds or leaves or cannabis oil is also labeled, in terms of equivalency to one gram of dried marihuana. Information on the conversion method must be published on the producer's website;
- Licensed Producers must not make therapeutic claims in relation to the marihuana, unless they are otherwise approved under the *Food and Drugs Act* (Canada);
- Licensed Producers must continue to comply with the record-keeping requirements for all transactions involving non-dried marihuana, including sales and destruction records; and
- Licensed Producers must notify Health Canada of any adverse reactions related to fresh cannabis buds and leaves or cannabis oil of which they become aware.

Peace Naturals and OGBC may also (i) ship dried cannabis to a health care practitioner (as defined in the ACMPR) in the case referred to in subparagraph 108(1)(f)(iii) of the ACMPR; (ii) import cannabis if done in accordance with an import permit issued under section 75 of the ACMPR; and (iii) possess cannabis for the purpose of export and export cannabis if done in accordance with an export permit issued under section 83 of the ACMPR.

Principal Products

Medical cannabis can be ingested in a variety of ways, including smoking, vaporizing, consumption in the form of oil, or edibles. Unlike the pharmaceutical options, individual elements within medical cannabis have not been isolated, concentrated and synthetically manipulated to deliver a specific therapeutic effect. Instead, medical cannabis addresses ailments holistically through the synergistic action of naturally occurring phytochemicals.

Sativa and Indica are the two main types of cannabis plants, and hybrids can be created when the genetics of each of the two plants are crossed. Within these different types of cannabis plants there are many different varieties. Within each variety of medical cannabis there are many different cannabinoids, with the most common being delta-9-tetrahydrocannabinol (“**THC**”) the psychoactive ingredient and cannabidiol (“**CBD**”) which is responsible for many of the non-psychoactive effects from medical cannabis. Peace Naturals has access to many strain varieties and will continue to establish a variety of strains to best suit patient needs. OGBC has access to a smaller number of strains at this time, however, strain sharing between Peace Naturals and OGBC allows OGBC access to particular stains on an as needed basis.

Peace Naturals currently produces and sells numerous strain varieties of cannabis in two main product lines: dried cannabis and cannabis oil. OGBC current produces and sells (bulk intercompany) numerous strain varieties of dried cannabis. The Company intends to produce new formats for its cannabis-based products if and when authorized by Health Canada.

Cannabis oil, as opposed to dried cannabis, is preferred by some patients for a variety of reasons, including a general preference to not smoke or “vape” their medication, a desire to consume cannabis-based pharmaceutical products with food, or because its effects tend to last longer than if dried cannabis is consumed by smoking or “vaping”.

Management believes that Peace Natural's cannabis oil extraction process results in cannabis oil products which are superior to those manufactured using conventional extraction processes, including those using solvents such as butane or ethanol. Peace Natural's extraction process uses proprietary know-how featuring unique equipment design and specifications, as well as food-grade carbon dioxide, which protects the cannabinoids from in-process oxidation and protects the terpenes from the negative effects of decarboxylation (which occurs when co-solvents are used in conventional extraction processes).

Principal Markets Currently, the Company acquires domestic medical clients through physician and clinic referrals or by word-of-mouth recommendations from existing clients. The Company strives to identify patient segments with high lifetime value. These are patient segments that the Company believes will have the highest expected lifetime dollar value in purchasing products from the Company's subsidiaries, accounting for cost of acquisition and expected turn over. Peace Naturals will continue to strive to become a leader in the domestic medical market. In addition, if and when recreational usage of cannabis products is legalized in Canada, the Company plans to position OGBC to take advantage of such market opportunities by entering the recreational market. The Company believes that by maintaining separate medical and recreational brands, it can more successfully address consumer needs and preferences and better penetrate the aggregate cannabis market. Moreover, as strategic joint venture Indigenous Roots begins operations, it will allow the Company to address traditionally underserved indigenous communities in Canada.

Furthermore, the Company currently addresses international medical cannabis markets in Germany and the Cayman Islands by exporting cannabis products produced by Peace Naturals to wholesalers in these markets. The Company also intends to address the Israeli medical cannabis market as operations develop at Cronos Israel. The Company continues to seek new international distribution channels in jurisdictions with federally legal medical cannabis regulatory frameworks.

Distribution

Peace Naturals

Medical cannabis patients order from Peace Naturals primarily through the Peace Naturals' online store or through the phone. Medical cannabis is and will continue to be delivered by secured courier or other methods permitted by the ACMPR or future regulation. Peace Naturals' prices vary based on growth time, strain yield and market prices. Peace Naturals may from time to time offer volume discount or promotional pricing.

The Peace Naturals is also authorized for wholesale shipping of medical cannabis plant cuttings, dried bud and cannabis oil to other Licensed Producers. Peace Naturals has already completed several sales through its wholesale strategy and based on current costs, management expects the wholesale shipment strategy to continue. This sales channel requires minimal selling, general and administrative costs over and above the cost to produce plant cuttings and dried bud.

As a result of the Section 56 Exemption, Peace Naturals is also allowed to produce and sell certain derivative products such as cannabis oil.

OGBC has recently received a license to sell medical cannabis to registered patients and other licensed producers. Currently, cannabis produced at OGBC is transferred to Peace Naturals for sale to medical cannabis patients. The Company will conduct distribution from OGBC for the recreational market in accordance with the finalized regulatory framework in relation to cannabis for recreational purposes in Canada. It is further expected that OGBC's prices may vary based on growth time, strain yield and market prices and that OGBC may from time to time offer volume discount or promotional pricing.

Production

As of the date of this AIF, Cronos Group's business is conducted entirely through its various subsidiaries and equity accounted for investment, in addition we hold non-strategic investments accounted for on an available for sale basis. Substantially all of the Company's revenue is derived from the sale of medical cannabis by Peace Naturals. Peace Naturals grows cannabis indoors for the purposes of sale and distribution of finished product in accordance with the ACMPR. Peace Naturals has plants at various stages of growth. Peace Naturals began production in 2012 and made its first shipment on November 13, 2013. Substantially all of Peace Naturals' revenue is derived from the sale of dried cannabis flower and cannabis plant material to registered patients. Peace Naturals is currently operating at approximately 50% of its annual 4,200 kg anticipated peak capacity of the currently constructed and licensed buildings at the facility. Peace Naturals is currently undergoing a major production expansion project which when complete will increase its anticipated peak capacity to 40,000 kg annually.

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OGBC began production in 2014 and sells bulk finished product to Peace Naturals. OGBC received its sales license approval from Health Canada and was effective beginning on February 28, 2017 and commenced shipments to Peace Naturals in March 2017.

The facilities and equipment required to manage production at the Peace Naturals and OGBC facilities include the following:

- 1) walk-in vault to comply with the Health Canada Security Directives for Controlled Substances;
- 2) building security, including access control, video surveillance and motion detectors;
- 3) shipping bay for client shipments;
- 4) growing equipment, including trays, containers, specialized lighting and associated controls, circulating fans and watering systems;
- 5) HVAC systems, primarily exhaust and cooling, to maintain an optimal growing environment;
- 6) odor control systems;
- 7) enhanced electrical distribution primarily for the high intensity lighting systems; and
- 8) laboratory equipment or outsourcing arrangements to monitor and test product quality for compliance with the Food and Drugs Act, Pest Control Products Act and product labelling standards under the ACMPR.

Health Canada conducts unscheduled site inspections of Licensed Producers. Peace Naturals and OGBC have experienced these inspections multiple times at their respective locations. While Health Canada may identify aspects of the operations for improvement, Peace Naturals and OGBC respond to and comply with all requests from Health Canada within the time frames indicated in such requests and there are no outstanding inspection issues with Health Canada beyond the day-to-day adjustments that may occur in order to ensure ongoing compliance.

Storage & Security

The ACMPR require production sites to be located indoors, and not in a private dwelling. Division 5 of the ACMPR set out physical security requirements that are necessary to secure sites where Licensed Producers conduct activities with medical cannabis other than storage. Pursuant to the security requirements of the ACMPR the Company's facilities meet the following requirements:

- 1) each site is designed in a manner that prevents unauthorized access to the site itself and, once inside the site, to any area within the site where cannabis is present (the "**Key Areas**");
- 2) the perimeter of each site and the Key Areas are each visually monitored at all times by recording devices that will detect any actual or attempted unauthorized access or illicit conduct;

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- 3) there is an intrusion detection system which detects actual or attempted unauthorized access to the site or, once inside the site, to the Key Areas which intrusion detection system be monitored by such personnel as can take appropriate steps in response to any such unauthorized access and make a record on any such unauthorized access;
- 4) access to the Key Areas is restricted only to those employees whose work duties require them to enter such Key Areas;
- 5) while any other person is in a Key Area, either a person designated as the "Responsible Person in Charge" (as defined in the ACMPR) or a person designated as an "Alternate Responsible Person in Charge" (as defined in the ACMPR) must also be present in the Key Area;
- 6) records are kept of every person entering and exiting the Key Areas;
- 7) there are physical barriers preventing unauthorized access to Key Areas; and
- 8) the Key Areas are equipped with an air filtration system that prevents the escape of odors and pollen.

Health Canada regulations stipulate that the value of finished goods that can be held in inventory cannot exceed the licensed limitations tied to the security level of the facility. The facility's security level, as outlined in the Health Canada Directive on *Physical Security Requirements for Controlled Substances*, is established through a mix of perimeter, restricted area and storage vault physical and monitoring requirements as well as proximity to urban areas of the facility.

As per Health Canada's regulations, Peace Naturals' and OGBC's facilities each contain vaults that meet all required regulations. The vaults are equipped with security cameras, motion sensors, code locked doors and seismic sensors that set alarms off when vibrations are detected. These security measures ensure Peace Naturals and OGBC are compliant

with all of Health Canada's necessary security requirements. The vault can only be accessed by a Responsible Person in Charge (an "RPiC") and at least one RPiC must be present in the vault at all times if the doors are opened.

Specialized Knowledge, Skills, Resources & Equipment

Knowledge with respect to cultivating and growing medical cannabis is important in the medical cannabis industry. The nature of growing cannabis is not substantially different from the nature of growing other agricultural products. Variables such as temperature, humidity, lighting, air flow, watering and feeding cycles are meticulously defined and controlled to produce consistent product and to avoid contamination. The product is cut, sorted and dried under defined conditions that are established to protect the activity and purity of the product. Once processing is complete, each and every processing batch is subject to full testing against stringent quality specifications set for activity and purity.

Staff with sufficient suitable horticultural skill is generally available on the market. The Company also requires client care staff, which will grow as its business grows. Customer care staff is a skillset that is also generally available in the market.

Differentiation in the strains of medical cannabis is primarily achieved through the procurement of seeds. Obtaining seeds for growing medical cannabis must be done in accordance with the ACMPR. Seeds must be obtained from a legal source, which includes seeds acquired from Health Canada, seeds imported

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from a jurisdiction allowed to export seeds or seeds acquired from another Licensed Producer. An authorization from Health Canada may be required to conduct such a transaction depending on its nature.

Equipment used is specialized, but is readily available and not specific to the cultivation of medical cannabis. Subject to available funding, the Company does not anticipate any difficulty in obtaining equipment as needed.

The Company anticipates an increased demand for skilled manpower, energy resources and equipment in connection with the build-outs of the new facilities at Peace Naturals, Building 4 and the Greenhouse.

Competitive Conditions

According to Health Canada, as of May 25, 2017, 1,665 applications had been received by Health Canada, of which 428 applications were in process. To the knowledge of the Company, only a limited number of licenses are issued by Health Canada on a monthly basis, if any. Further, as Health Canada licenses are limited to individual properties, if a Licensed Producer reaches production capacity at its licensed site, it must apply to Health Canada for a new license in order to expand production to another site. More information on the current list of Licensed Producers can be found on Health Canada's website.

The Company believes that, due to the extensive regulatory restrictions and significant capital required for facilities and operations, the number of Licensed Producers will remain relatively small in the short term, however Health Canada may accelerate its processing of applications which may result in acceleration in the rate at which applicants become Licensed Producers. As the demand for medical cannabis increases and the application backlog with Health Canada is processed, the Company believes that new competitors will enter the market. The principal competitive factors on which the Company competes with other Licensed Producers are the price and quality of its cannabis-based pharmaceutical products (and associated goodwill and brand recognition), physician familiarity and willingness to prescribe the Company's cannabis-based pharmaceutical products, and the Company's patient services. While the Company prices its cannabis products according to the Company's perception of market demand, given its relatively low cost of production (based on management's assessment of the Company's own financial information against that of all publicly-traded Licensed Producers), it is expected that the Company will be able to enjoy pricing flexibility while maintaining its margins.

Protection of Intangible Assets

The proprietary nature of, and protection for, the Company's products, technologies, processes, and know-how are a key aspect of the Company's business. To establish and protect the Company's intellectual property in Canada, the Company has made various trademark applications. The Company relies on a combination of patents, trademarks and contractual restrictions to establish and protect our intellectual property. The Company has established and continues to build proprietary positions in all key aspects of our business. The Company continually seeks out new opportunities for enhancing its intellectual property portfolio.

Employees

As of the date of this AIF Cronos Group employs five (5) people and has four (4) contractors, Peace Naturals employs 65 employees, and OGBC employs nine (9) employees.

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RISK FACTORS

Investing in the Common Shares involves a significant amount of risk. Potential investors should carefully consider the risk factors described below, together with all of the other information in the Company's publicly filed documents, before making an investment decision. The following risk factors could materially adversely affect the Company. Some of the following factors are interrelated and, consequently, investors should treat such risk factors as a whole. These risks and uncertainties are not the only ones that could affect the Company or the Company's securities and additional risks and uncertainties not currently known to the Company, or that it currently deems to be immaterial, may also impair the business, financial condition and results of operations of the Company and/or the value of the Common Shares. If any of the following risks or other risks occur, they could have a material adverse effect on the Company's business, financial condition and results of operations and/or the value of the Common Shares. There is no assurance that any risk management steps taken by the Company will avoid future loss due to the occurrence of the risks described below or other unforeseen risks.

Risks related to the Industry and the Company's Business

The Company is reliant on its licenses for its ability to grow, store and sell medical cannabis and other products derived therefrom and such licenses are subject to ongoing compliance, reporting and renewal requirements.

The Company's ability to grow, store and sell medical cannabis in Canada is dependent on its licenses from Health Canada, and in particular the OGBC Commercial License and the Peace Naturals Commercial License. Failure to comply with the requirements of the licenses or any failure to maintain the licenses would have a material adverse impact on the business, financial condition and operating results of the Company. The Peace Naturals Commercial License was renewed October 31, 2016 and expires October 31, 2018. OGBC Commercial License was renewed and is effective beginning on February 28, 2017 and expires February 28, 2018. Although Peace Naturals and OGBC believe they will meet the requirements of the ACMPR annually for extension of their Commercial Licenses, there can be no guarantee that Health Canada will extend or renew the Commercial Licenses or, if they are extended or renewed, that they will be extended or renewed on the same or similar terms or that Health Canada will not revoke the licenses. Should the Company fail to comply with requirements of the licenses or should Health Canada not extend or renew the licenses, or should it renew the licenses on different terms or not allow for anticipated capacity increases, or should it revoke the licenses, the business, financial condition and results of the operations of the Company will be materially adversely affected.

Additional government licenses are currently, and in the future, may be, required in connection with the Company's operations, in addition to other unknown permit and approvals which may be required, including with respect to the Company's anticipated operations in jurisdictions outside of Canada. To the extent such permits and approvals are required and not obtained, the Company may be prevented from operating and / or expanding its business, which could have a material adverse effect on the Company's business, financial condition and results of operations.

The Company may not always succeed in fully complying with the regulatory requirements for Licensed Producers as set out under the ACMPR and Health Canada.

Achievement of the Company's business objectives is contingent, in part, upon compliance with regulatory requirements enacted by governmental authorities and obtaining all regulatory approvals, where necessary, for the sale of its products. The commercial medical cannabis industry is still a new

industry in Canada and the ACMPR is a new regime and has no close precedent in Canadian law. The effect of Health Canada's administration, application and enforcement of the regime established under the ACMPR on the Company and its business, any and delays in obtaining, or failure to obtain, applicable regulatory approvals which may be required, may significantly delay or impact the development of markets, products and sales initiatives and could have a material adverse effect on the Company's business, financial condition and results of operations.

Health Canada routinely assesses the Company's facilities and operations against applicable regulatory requirements and provides follow-up audit reports of any observed deficiencies. Accordingly, the Company incurs ongoing costs and obligations related to regulatory compliance. While the Company endeavors to comply with all relevant laws, regulations and guidelines and, to the Company's knowledge, it is in compliance or in the process of being assessed for compliance all such laws, regulations and guidelines, any failure to comply with applicable regulatory requirements may result in additional costs for corrective measures, penalties or in restrictions on the Company's operations. In addition, changes in regulations, more vigorous enforcement thereof or other unanticipated events could require extensive changes to the Company's operations, increased compliance costs or give rise to material liabilities or a revocation of the Company's licenses and other permits, which could have a material adverse effect on the business, results of operations and financial condition of the Company. In addition, Health Canada may change its administration, application or enforcement procedures at any time, which may adversely impact the Company's ongoing costs relating to regulatory compliance.

The laws, regulations and guidelines generally applicable to the medical cannabis industry domestically and internationally may change in ways currently unforeseen by the Company.

The Company's operations are subject to the ACMPR and various other laws, regulations and guidelines relating to the marketing, acquisition, manufacture, packaging / labelling, management, transportation, storage, sale and disposal of medical cannabis but also including laws and regulations relating to health and safety, the conduct of operations and the protection of the environment. To the knowledge of the Company's management, other than routine corrections that may be required by Health Canada from time to time, it is currently in material compliance with all existing applicable laws, regulations and guidelines. If any changes to such laws, regulations and guidelines occur, which are matters beyond the control of the Company, the Company may incur significant costs in complying with such changes or it may be unable to comply therewith, which in turn result in a material adverse effect on the Company's business, financial condition and results of operation.

There can be no assurance that the legalization of recreational cannabis by the Government of Canada will occur and the legislative framework pertaining to the Canadian recreational cannabis market is uncertain.

The Liberal Party of Canada, which has formed the current federal Government of Canada, has made electoral commitments to legalize, regulate and tax recreational cannabis use in Canada. On April 13, 2017, the Government of Canada introduced the Cannabis Act. The Government of Canada has provided guidance that, subject to Parliamentary approval and Royal Assent, it intends to provide regulated and restricted access to cannabis no later than July 2018, however there is no assurance that the legalization of cannabis by the Government of Canada will occur as anticipated or at all.

Furthermore, the legislative framework pertaining to the Canadian recreational cannabis market will be subject to significant provincial and territorial regulation, which may vary across provinces and territories and result in an asymmetric regulatory and market environment, different competitive pressures and

significant additional compliance and other costs and/or limitations on the Company's ability to participate in such market. While the impact of any new legislative framework for the regulation of the Canadian recreational cannabis market is uncertain, any of the foregoing could result in a material adverse effect on the Company's business, financial condition and operating results.

Future clinical research studies on the effects of medical cannabis may lead to conclusions that dispute or conflict with the Company's understanding and belief regarding the medical benefits, viability, safety, efficacy, dosing and social acceptance of cannabis.

Research in Canada, the U.S. and internationally regarding the medical benefits, viability, safety, efficacy, dosing and social acceptance of cannabis or isolated cannabinoids (such as CBD and THC) remains in early stages. There have been relatively few clinical trials on the benefits of cannabis or isolated cannabinoids (such as CBD and THC). The statements made in this Annual Information Form concerning the potential medical benefits of cannabinoids are based on published articles and reports. As a result, the statements made in this AIF are subject to the experimental parameters, qualifications and limitations in the studies that have been completed.

Although the Company believes that the articles, reports and studies support its beliefs regarding the medical benefits, viability, safety, efficacy, dosing and social acceptance of cannabis as set out in this Annual Information Form, future research and clinical trials may prove such statements to be incorrect, or could raise concerns regarding, and perceptions relating to, cannabis. Given these risks, uncertainties and assumptions, undue reliance should not be placed on such articles and reports.

Future research studies and clinical trials may draw opposing conclusions to those stated in this AIF or reach negative conclusions regarding the medical benefits, viability, safety, efficacy, dosing, social acceptance or other facts and perceptions related to medical cannabis, which could have a material adverse effect on the demand for the Company's products with the potential to lead to a material adverse effect on the Company's business, financial condition and results of operations.

The Company's expansion into jurisdictions outside of Canada is subject to risks.

In addition, in jurisdictions outside of Canada, there can be no assurance that any market for the Company's products will develop in any such foreign jurisdiction. The Company may face new or unexpected risks or significantly increase its exposure to one or more existing risk factors, including economic instability, changes in laws and regulations and the effects of competition. These factors may limit the Company's capability to successfully expand its operations into such jurisdictions and may have a material adverse effect on the Company's business, financial condition and results of operations.

There can be no assurance that the Company's current and future strategic alliances or expansions of scope of existing relationships will have a beneficial impact on its business, financial condition and results of operations.

The Company currently has, and may in the future enter into further, strategic alliances with third parties that the Company believes will complement or augment its existing business. The Company's ability to complete strategic alliances is dependent upon, and may be limited by, the availability of suitable candidates and capital. In addition, strategic

alliances could present unforeseen integration obstacles or costs, may not enhance the Company's business, and may involve risks that could adversely affect the Company, including significant amounts of management time that may be diverted from operations in order to pursue and complete such transactions or maintain such strategic alliances. Future strategic

alliances could result in the incurrence of additional debt, costs and contingent liabilities, and there can be no assurance that future strategic alliances will achieve, or that the Company's existing strategic alliances will continue to achieve, the expected benefits to the Company's business or that the Company will be able to consummate future strategic alliances on satisfactory terms, or at all. Any of the foregoing could have a material adverse effect on the Company's business, financial condition and results of operations.

The Company and certain of its subsidiaries have limited operating history and therefore the Company is subject to many of the risks common to early-stage enterprises.

The Company began carrying on business in 2013; Peace Naturals began operations in 2012 and generated its first revenues in 2013; OGBC began operations in 2014 and generated its first revenue in 2017 (inter-Company bulk transfer). The Company is therefore subject to many of the risks common to early-stage enterprises, including under-capitalization, cash shortages, limitations with respect to personnel, financial, and other resources and lack of revenues. There is no assurance that the Company will be successful in achieving a return on shareholders' investment and the likelihood of success must be considered in light of the early stage of operations.

The Company's existing two facilities are integral to the Company's operations and any adverse changes or developments affecting either facility may impact the Company's business, financial condition and results of operations.

The Company's activities and resources are focused on the Peace Naturals Stayner, Ontario facility, which includes three operational cultivation buildings, and the OGBC Armstrong, British Columbia facility, which includes one operational cultivation building. The Peace Naturals Commercial License and the OGBC Commercial License are specific to those facilities. Adverse changes or developments affecting either facility, including but not limited to a breach of security or a force majeure event, could have a material and adverse effect on the Company's business, financial condition and prospects. Any breach of the security measures and other facility requirements, including any failure to comply with recommendations or requirements arising from inspections by Health Canada, could also have an impact on the Company's ability to continue operating under its licenses or the prospect of renewing its licenses or could result in a revocation of the Company's licenses.

The Company owns both of its facilities and bears the responsibility for all of the costs of maintenance and upkeep. The Company's operations and financial performance may be adversely affected if either Peace Naturals or OGBC are unable to keep up with maintenance requirements.

The Company may not complete the build-out of Building 4 or the Greenhouse and may not successfully execute its production capacity expansion strategy.

The Company may not complete the expansions in its currently proposed form, if at all, or in a timely fashion. Construction delays or cost over-runs in respect of the build-out of New Facility and / or Greenhouse, howsoever caused, could have a material adverse effect on the Company's business, financial condition and results of operations.

In addition, no assurance can be given that Health Canada will approve any amendment to the Peace Naturals Commercial License to increase production volumes or permit sales of cannabis-based medical products under such license. If the Company is unable to secure a commercial production license in respect of the New Facility or the Greenhouse, the expectations of management with respect to the

increased future cultivation and growing capacity may not be borne out, which could have a material adverse effect on the Company's business, financial condition and results of operations.

The medical cannabis industry and markets are relatively new in Canada and in other jurisdictions, and this industry and market may not continue to exist or grow as anticipated or the Company may ultimately be unable to succeed in this industry and market.

The Company is operating its business in a relatively new medical cannabis industry and market. In addition to being subject to general business risks, a business involving an agricultural product and a regulated consumer product, the Company needs to continue to build brand awareness in this industry and market through significant investments in its strategy, its production capacity, quality assurance, and compliance with regulations. These activities may not promote the Company's brand and products as effectively as intended, or at all. Competitive conditions, consumer tastes, patient requirements and spending patterns in this new industry and market are relatively unknown and may have unique circumstances that differ from existing industries and markets.

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

The Company is dependent on its senior management.

The success of the Company is dependent upon the ability, expertise, judgment, discretion and good faith of its senior management (collectively, "Key Persons"). While employment agreements are customarily used as a primary method of retaining the services of key employees, these agreements cannot assure the continued services of such Key Persons. Qualified individuals are in high demand, and the Company may incur significant costs to attract and retain them. In addition, the Company's lean management structure may be strained as the Company pursues growth opportunities in the future. The loss of the services of a Key Person, or an inability to attract other suitably qualified persons when needed, could have a material adverse effect on the Company's ability to execute on its business plan and strategy, and the Company may be unable to find adequate replacements on a timely basis, or at all. The Company does not currently maintain key-person insurance on the lives of any of its Key Persons.

The Company may be subject to product liability claims.

As a manufacturer and distributor of products designed to be ingested by humans, the Company faces an inherent risk of exposure to product liability claims, regulatory action and litigation if its products are alleged to have caused significant loss or injury. In addition, the manufacture and sale of cannabis products involve the risk of injury to consumers due to tampering by unauthorized third parties or product contamination. Previously unknown adverse reactions resulting from human consumption of cannabis products alone or in combination with other medications or substances could occur. The Company may be subject to various product liability claims, including, among others, that the products produced by Peace Naturals and OGBC caused injury or illness, include inadequate instructions for use or include inadequate warnings concerning possible side effects or interactions with other substances. A product liability claims or regulatory action against the Company could result in increased costs, could adversely affect the Company's reputation with its clients and consumers generally, and could have a material adverse effect on the Company's business, financial condition and results of.

There can be no assurances that the Company will be able to obtain or maintain product liability insurance on acceptable terms or with adequate coverage against potential liabilities. Such insurance is expensive and may not be available in the future on acceptable terms, or at all. The inability to obtain sufficient insurance coverage on reasonable

terms or to otherwise protect against potential product liability claims could prevent or inhibit the commercialization of products.

The Company's cannabis-based medical products may be subject to recalls.

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

The Company may be unable to attract or retain skilled labor and personnel with experience in the medical cannabis sector, and may be unable to attract, develop and retain additional employees required for the Company's operations and future developments.

The Company may be unable to attract or retain employees with sufficient experience in the medical cannabis industry, and may prove unable to attract, develop, and retain additional employees required for the Company's development and future success

The success of the Company is currently largely dependent on the performance of its skilled employees. The Company's future success depends on its continuing ability to attract, develop, motivate and retain highly qualified and skilled employees. Qualified individuals are in high demand, and the Company may incur significant costs to attract and retain them.

Further, certain employees are subject to a security clearance by Health Canada. Under the ACMPR a security clearance cannot be valid for more than five years and must be renewed before the expiry of a current security clearance. There is no assurance that any of the Company's existing personnel who presently or may in the future require a security clearance will be able to obtain or renew such clearances or that new personnel who require a security clearance will be able to obtain one. A failure by an employee to maintain or renew his or her security clearance, would result in a material adverse effect on

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the Company's business, financial condition and results of operations. In addition, if an employee with security clearance leaves the Company and the Company is unable to find a suitable replacement that has a security clearance required by the ACMPR in a timely manner, or at all, there could occur a material adverse effect on the Company's business, financial condition and results of operations.

The Company, or the medical cannabis industry more generally, may receive unfavorable publicity or become subject to negative consumer perception

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

The Company may not be able to successfully develop new products or find a market for their sale.

The medical cannabis industry is in its early stages of development and it is likely that the Company, and its competitors, will seek to introduce new products in the future. In attempting to keep pace with any new market developments, the Company may need to expend significant amounts of capital in order to successfully develop and generate revenues from new products introduced by the Company. As well, the Company may be required to obtain additional regulatory approvals from Health Canada and any other applicable regulatory authority, which may take significant amounts of time. The Company may not be successful in developing effective and safe new products, bringing such products to market in time to be effectively commercialized, or obtaining any required regulatory approvals, which, together with any capital expenditures made in the course of such product development and regulatory approval processes, may have a material adverse effect on the Company's business, financial condition and results of operations.

The Company may fail to retain existing patients as clients or acquire new patients as clients.

The Company's success depends on its ability to attract and retain clients. There are many factors which could impact the Company's ability to attract and retain clients, including but not limited to the Company's ability to continually produce desirable and effective product, the successful implementation of the Company's client-acquisition plan and the continued growth in the aggregate number of patients selecting

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medical cannabis as a treatment option. The Company's failure to acquire and retain patients as clients would have a material adverse effect on the Company's business, financial condition and results of operations.

The Company may not be able to achieve or maintain profitability and may continue to incur losses in the future.

The Company has incurred losses in recent periods. The Company may not be able to achieve or maintain profitability and may continue to incur significant losses in the future. In addition, the Company expects to continue to increase operating expenses as it implements initiatives to continue to grow its business. If the Company's revenues do not increase to offset these expected increases in costs and operating expenses, the Company will not be profitable. There is no assurance that future revenues will be sufficient to generate the funds required to continue operations without external funding.

The Company may not be able to secure adequate or reliable sources of funding required to operate its business.

There is no guarantee that the Company will be able to achieve its business objectives. The continued development of the Company may require additional financing. The failure to raise such capital could result in the delay or indefinite postponement of current business objectives or the Company going out of business. There can be no assurance that additional capital or other types of financing will be available if needed or that, if available, the terms of such financing will be favorable to the Company. If additional funds are raised through issuances of equity or convertible debt securities, existing shareholders could suffer significant dilution, and any new equity securities issued could have rights, preferences and privileges superior to those of holders of Common Shares. In addition, from time to time, the Company may enter into transactions to acquire assets or the shares of other corporations. These transactions may be financed wholly or partially with debt, which may temporarily increase the Company's debt levels above industry standards. Any debt financing secured in the future could involve restrictive covenants relating to capital raising activities and other financial and operational matters, which may make it more difficult for the Company to obtain additional capital and to pursue business opportunities, including potential acquisitions or other strategic joint venture opportunities.

The Company had negative operating cash flow for the fiscal years ending December 31, 2016, December 31, 2015, December 31, 2014 and December 31, 2013. If the Company continues to have negative cash flow into the future, additional financing proceeds may need to be allocated to funding this negative cash flow in addition to the Company's operational expenses. The Company may require additional financing to fund its operations to the point where it is generating positive cash flows. Continued negative cash flow may restrict the Company's ability to pursue its business objectives.

The Company must rely largely on its own market research to forecast sales and market demand which may not materialize.

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

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The Company may experience breaches of security at its facilities or in respect of electronic documents and data storage and may face risks related to breaches of applicable privacy laws

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

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

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

If the Company is not able to comply with all safety, health and environmental regulations applicable to its operations and industry, it may be held liable for any breaches thereof.

The Company's operations are subject to environmental and safety laws and regulations concerning, among other things, emissions and discharges to water, air and land, the handling and disposal of hazardous and non-hazardous materials and wastes, and employee health and safety. The Company will incur ongoing costs and obligations related to compliance with environmental and employee health and safety matters. Failure to comply with environmental and safety laws and regulations may result in additional costs for corrective measures, penalties or in restrictions on our manufacturing operations. In addition, changes in environmental, employee health and safety or other laws, more vigorous enforcement thereof or other unanticipated events could require extensive changes to Company's operations or give rise to material liabilities, which could have a material adverse effect on the business, financial condition and results of operations of the Company.

The Company could be subject to litigation in the ordinary course of business.

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

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determined against the Company such a decision could adversely affect the Company's ability to continue operating and the market price for the Common Shares and could use significant resources. Even if the Company is involved in litigation and wins, litigation can redirect significant Company resources. Litigation may also create a negative perception of the Company's brand. See "*Legal Proceedings and Regulatory Actions*".

The Company may not be able to successfully manage its growth.

The Company is currently in an early development stage and may be subject to growth-related risks, including capacity constraints and pressure on its internal systems and controls, which may place significant strain on its operational and managerial resources. The ability of the Company to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. There can be no assurances that the Company will be able to manage growth successfully. Any inability of the Company to manage growth successfully could have a material adverse effect on the Company's business, financial condition and results of operations.

The Company may compete for market share with other companies, both domestically and internationally, which may have longer operating histories and more financial resources, manufacturing and marketing experience than the Company.

The Company does and expects to continue to face intense competition from other and companies, some of which can be expected to have longer operating histories and more financial resources, manufacturing and marketing experience than the Company. In addition, there is potential that the medical cannabis industry will undergo consolidation, creating larger companies with financial resources, manufacturing and marketing capabilities, and product offerings that are greater than those of the Company. As a result of this competition, the Company may be unable to maintain its operations or develop them as currently proposed on terms it considers acceptable or at all. Increased competition by larger, better-financed competitors with geographic advantages could materially and adversely affect the Company's business, financial condition and results of operations.

On a domestic front, the number of licenses granted and the number of Licensed Producers ultimately authorized by Health Canada could also have an impact on the operations of the Company. The Company expects to face additional competition from new market entrants that are granted licenses under the ACMPR or existing license holders which are not yet active in the industry. If a significant number of new licenses are granted by Health Canada in the near term, the Company may experience increased competition for market share and may experience downward price pressure on its products as new entrants increase production. The Company also faces competition from illegal dispensaries and the black market that are unlicensed and unregulated, and that are selling cannabis and cannabis products, including products with higher concentrations of active ingredients, and using delivery methods, including edibles and extract vaporizers, that the Company is prohibited from offering to individuals as they are not currently permitted by the ACMPR. Any inability or unwillingness of law enforcement authorities to enforce existing laws prohibiting the unlicensed cultivation and sale of cannabis and cannabis-based products could result in the perpetuation of the black market for cannabis and / or have a material adverse effect on the perception of cannabis use. Any or all of these events could have a material adverse effect on the Company's business, financial condition and results of operations.

If the number of users of cannabis for medical purposes in Canada increases, the demand for products will increase and the Company expects that competition will become more intense, as current and future

competitors begin to offer an increasing number of diversified products. To remain competitive, the Company will require a continued high level of investment in R&D, sales and patient support. The Company may not have sufficient resources to maintain R&D, sales and patient support efforts on a competitive basis which could have a material adverse effect on the Company's business, financial condition and results of operations.

Furthermore, several recommendations of the Task Force on Cannabis Legalization and Regulation including, but not limited to, permitting home cultivation and potentially easing barriers to entry into a Canadian recreational cannabis market, could materially and adversely affect the business, financial condition and results of operations of the Company. There is potential that the Company will face intense competition from other companies, some of which can be expected to have longer operating histories and more financial resources, manufacturing and marketing experience than the Company. Increased competition by larger and better financed competitors could materially and adversely affect the business, financial condition and results of operations of the Company.

On an international front, the legal landscape for medical and recreational cannabis is changing internationally. More countries have passed laws that allow for the production and distribution of cannabis for medical purposes in some form or another. The Company has some international strategic alliances in place, which may be affected if more countries legalize medical cannabis. Increased international competition and limitations placed on the Company by Canadian regulations might lower the demand for the Company's products on a global scale. The Company also faces competition in each international jurisdiction that it has international strategic alliances from foreign companies that have more experience, more in-depth knowledge of local markets or applicable laws, regulations and guidelines or longer operating histories in such jurisdictions.

Third parties with whom the Company does business may perceive themselves as being exposed to reputational risk as a result of their relationship with the Company.

The parties with which the Company does business may perceive that they are exposed to reputational risk as a result of the Company's medical cannabis business activities. For example, the Company received a notification from its prior principal banker advising it that they would no longer continue its banking relationship with the Company or any others in the medical cannabis industry. While the Company has other banking relationships and believes that the services can be procured from other institutions, the Company may in the future have difficulty establishing or maintaining bank accounts or other business relationships. Failure to establish or maintain business relationships could have a material adverse effect on the Company's business, financial condition and results of operations.

The Company's cannabis cultivation operations are subject to risks inherent in an agricultural business.

The Company's business involves the growing of medical cannabis, an agricultural product. As such, the business is subject to the risks inherent in the agricultural business, such as insects, plant diseases and similar agricultural risks that may create crop failures and supply interruptions for the Company's customers. Although Peace Naturals and OGBC grow products indoors under climate controlled conditions and carefully monitors the growing conditions with trained personnel, there can be no assurance that natural elements will not have a material adverse effect on the production of its products.

The Company's cannabis cultivation operations are vulnerable to rising energy costs.

Peace Naturals and OGBC's medical cannabis cultivation operations consume considerable energy, making the Company vulnerable to rising energy costs. Rising or volatile energy costs may have a material adverse effect on the Company's business, financial condition and results of operations.

The Company is vulnerable to third party transportation risks.

Due to its direct to client shipping model, the Company will depend on fast and efficient courier services to distribute its product. Any prolonged disruption of this courier service may have a material adverse effect on the Company's business, financial condition and results of operations. Rising costs associated with the courier services used by the Company to ship its products may also have a material adverse effect on the Company's business, financial condition and results of operations.

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

The Company will seek to maintain adequate insurance coverage in respect of the risks faced by it, however, insurance premiums for such insurance may not continue to be commercially justifiable and there may be coverage limitations and other exclusions which may not be sufficient to cover potential liabilities faced by the Company.

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

The Loan imposes limitations on the type of transactions or financial arrangements in which the Company may engage.

The Loan contains certain restrictive covenants including, subject to certain exceptions, restrictions on the Company's subsidiaries' ability to incur indebtedness, grant liens, make corporate changes, dispose of assets, and the Company's and its subsidiaries' ability to pay dividends. Events beyond the Company's control, including changes in general economic and business conditions, may affect the Company's ability to observe or satisfy these covenants, which could result in a default under the Loan. If an event of default

under the Loan occurs, the lender could elect to declare all principal amounts outstanding under the Loan at such time, together with accrued interest, to be immediately due. In such an event, the Company may not have sufficient funds to repay amounts owing under the Loan.

The Company is subject to certain restrictions of the TSX-V which may constrain its ability to expand its business internationally.

The TSX-V requires that, as a condition to listing, the Company deliver an undertaking (the "Undertaking") confirming that, while listed on the TSX-V, the Company will only conduct the business of production, acquisition, sale and distribution of medical cannabis in Canada as permitted under the Commercial Licenses with Health Canada. This undertaking could have an adverse effect on the Company's ability to export cannabis from Canada and on its ability to expand its business into other areas including the provision of non-medical cannabis in the event that the laws were to change to permit such sales, the Company is still listed on the TSX-V and still subject to such undertaking at the time. This undertaking may prevent the Company from expanding into new areas of business when the Company's competitors have no such restrictions. All such restrictions could have an adverse effect on the Company's business, financial condition and results of operations.

The Company may be subject to risks related to the protection and enforcement of its intellectual property rights, and may become subject to allegations that the Company is in violation of intellectual property rights of third parties.

The ownership and protection of our intellectual property rights is a significant aspect of the Company's future success. Currently the Company relies on trade secrets, technical know-how and proprietary information that are not protected by patents to maintain its competitive position. The Company tries to protect such intellectual property by entering into confidentiality agreements with parties that have access to it, such as its partners, collaborators, employees and consultants. Any of these parties may breach these agreements and the Company may not have adequate remedies for any specific breach. In addition, the Company's trade secrets and technical know-how, which are not protected by patents, may otherwise become known to or be independently developed by competitors, which may have a material adverse effect on the Company's business, financial condition and results of operations.

Unauthorized parties may attempt to replicate or otherwise obtain and use the Company's products, trade secrets, technical know-how and proprietary information. Policing the unauthorized use of the Company's current or future intellectual property rights could be difficult, expensive, time-consuming and unpredictable, as may be enforcing these rights against unauthorized use by others. Identifying unauthorized use of intellectual property rights is difficult as the Company may be unable to effectively monitor and evaluate the products being distributed by its competitors, including parties such as unlicensed dispensaries, and the processes used to produce such products. In addition, in any infringement proceeding, some or all of the Company's current or future trademarks, patents or other intellectual property rights or other proprietary know-how, or arrangements or agreements seeking to protect the same for the benefit of the Company, may be found invalid, unenforceable, anti-competitive or not infringed. An adverse result in any litigation or defense proceedings could put one or more of the Company's current or future trademarks, patents or other intellectual property rights at risk of being invalidated or interpreted narrowly and could put existing intellectual property applications at risk of not being issued. Any or all of these events could materially and adversely affect the Company's business, financial condition and results of operations.

In addition, other parties may claim that the Company's products infringe on their proprietary and perhaps patent protected rights. Such claims, whether or not meritorious, may result in the expenditure of significant financial and managerial resources, legal fees, result in injunctions, temporary restraining orders and/or require the payment of damages. In addition, the Company may need to obtain licenses from third parties who allege that the Company has infringed on their lawful rights. However, such

licenses may not be available on terms acceptable to the Company or at all. In addition, the Company may not be able to obtain or utilize on terms that are favorable to it, or at all, licenses or other rights with respect to intellectual property that it does not own.

There may be inherent risks in the acquired subsidiaries Peace Naturals and OGBC.

While the Company conducted substantial due diligence in connection with the acquisition of the Peace Naturals and OGBC, there are risks inherent in any acquisition. Specifically, there could be unknown or undisclosed risks or liabilities of such companies for which the Company is not sufficiently indemnified. Any such unknown or undisclosed risks or liabilities could materially and adversely affect the Company's financial performance and results of operations. The Company currently anticipates that its acquisition of the Peace Naturals and OGBC will be accretive; however, this expectation may materially change. The Company could encounter additional transaction and integration related costs or other factors such as the failure to realize all of the benefits from the acquisition. All of these factors could cause dilution to the Company's earnings per share or decrease or delay the anticipated accretive effect of the acquisition and cause a decrease in the market price of the Common Shares.

The Company may fail to successfully integrate the acquired subsidiaries Peace Naturals and OGBC.

The success of the acquisition of the Peace Naturals and OGBC will depend, in part, on the ability of the Company to realize the anticipated benefits and synergies from integrating those companies into the businesses of the Company.

The Company may not be able to successfully integrate and combine the operations, personnel and technology infrastructure of the Peace Naturals and OGBC with its existing operations. If integration is not managed successfully by the Company's management, the Company may experience interruptions in its business activities, deterioration in its employee and customer relationships, increased costs of integration and harm to its reputation, all of which could have a material adverse effect on the Company's business, financial condition and results of operations. The Company may experience difficulties in combining corporate cultures, maintaining employee morale and retaining key employees. The integration of the Peace Naturals and OGBC may also impose substantial demands on the Company's management. There is no assurance that these acquisitions will be successfully integrated in a timely manner. The challenges involved in the Company's integration of the Peace Naturals and OGBC may include, among other things, the following:

- the necessity of coordinating both geographically disparate and geographically overlapping organizations;
- retaining key personnel, including addressing the uncertainties of key employees regarding their future;
- integrating the Peace Naturals and OGBC into the Company's accounting system and adjusting the Company's internal control environment to cover the operations of the Peace Naturals and OGBC;
- integration of information technology systems and resources;

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- performance shortfalls relative to expectations at one or both of the businesses as a result of the diversion of management's attention to the integration of the Peace Naturals and OGBC; and

- unplanned costs required to integrate the Peace Naturals and OGBC with the Company's existing business.

Conflicts of interest may arise between the Company and its directors and officers.

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

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

Tax and accounting requirements may change in ways that are unforeseen to the Company and the Company may face difficulty or be unable to implement and/or comply with any such changes.

The Company is subject to numerous tax and accounting requirements, and changes in existing accounting or taxation rules or practices, or varying interpretations of current rules or practices, could have a significant adverse effect on the Company's financial results, the manner in which it conducts its business or the marketability of any of its products. In the future, the geographic scope of the Company's business may expand, and such expansion will require the Company to comply with the tax laws and regulations of multiple jurisdictions. Requirements as to taxation vary substantially among jurisdictions. Complying with the tax laws of these jurisdictions can be time consuming and expensive and could potentially subject the Company to penalties and fees in the future if the Company were to inadvertently fail to comply. In the event the Company was to inadvertently fail to comply with applicable tax laws, this could have a material adverse effect on the Company's business, financial condition and results of operations.

Risks Related to the Ownership of Common Shares

The price of Common Shares in public markets may experience significant fluctuations.

The market price of Common Shares may be subject to wide fluctuations in response to many factors, including variations in the operating results of the Company, divergence in financial results from analysts' expectations, changes in earnings estimates by stock market analysts, changes in the business prospects for the Company, general economic conditions, legislative changes, and other events and factors outside of the Company's control. In addition, stock markets have from time to time experienced extreme price and volume fluctuations, which, as well as general economic and political conditions, could adversely affect the market price for Common Shares.

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

- actual or anticipated fluctuations in the Company's quarterly results of operations;
- recommendations by securities research analysts;
- changes in the economic performance or market valuations of companies in the industry in which the Company operates;
- addition or departure of the Company's executive officers and other key personnel;
- release or expiration of transfer restrictions on outstanding Common Shares;
- sales or perceived sales of additional Common Shares;
- operating and financial performance that vary from the expectations of management, securities analysts and investors;
- regulatory changes affecting the Company's industry generally and its business and operations;
- announcements of developments and other material events by the Company or its competitors;
- fluctuations to the costs of vital production materials and services;
- changes in global financial markets and global economies and general market conditions, such as interest rates and pharmaceutical product price volatility;
- significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving the Company or its competitors;
- operating and share price performance of other companies that investors deem comparable to the Company or from a lack of market comparable companies; and

- news reports relating to trends, concerns, technological or competitive developments, regulatory changes and other related issues in the Company's industry or target markets.

Financial markets have recently experienced significant price and volume fluctuations that have particularly affected the market prices of equity securities of companies and that have often been unrelated to the operating performance, underlying asset values or prospects of such companies. Accordingly, the market price of the Common Shares may decline even if the Company's operating results, underlying asset values or prospects have not changed. Additionally, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses. There can be no assurance that continuing fluctuations in price and volume will not occur. If such increased levels of volatility and market turmoil continue, the Company's operations could be adversely impacted and the trading price of the Common Shares may be materially adversely affected.

It is not anticipated that any dividend will be paid to holders of Common Shares for the foreseeable future.

No dividends on the Common Shares have been paid to date. Any decision to declare and pay dividends in the future will be made at the discretion of the Company's board of directors and will depend on, among other things, financial results, cash requirements, contractual restrictions and other factors that the Company's board of directors may deem relevant. As a result, investors may not receive any return on an investment in the Common Shares unless they sell their shares of the Company for a price greater than that which such investors paid for them.

There is a limited market for the Common Shares.

The Common Shares are listed on the TSX-V, however, there can be no assurance that an active and liquid market for Common Shares will be maintained and an investor may find it difficult to resell any securities of the Company.

Holders of Common Shares may be subject to dilution resulting from future offerings of Common Shares by the Company.

The Company may raise additional funds in the future by issuing equity securities. Holders of Common Shares will have no pre-emptive rights in connection with such further issues. The board of directors has the discretion to determine if an issuance of Common Shares is warranted, the price at which such issuance is effected and the other terms of issue of Common Shares. Such additional equity issuances could, depending on the price at which such securities are issued, substantially dilute the interests of the holders of Common Shares.

A significant number of Common Shares are owned by a limited number of existing shareholders.

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

DIVIDENDS

As of the date of this AIF, the Company has declared no dividends or made any distributions. Furthermore, the Company has no current intention to declare dividends on its Common Shares in the foreseeable future. Any decision to pay dividends on its Common Shares in the future will be at the discretion of the Company's board of directors and will depend on, among other things, the Company's results of operations, current and anticipated cash requirements and surplus, financial condition, any future contractual restrictions and financing agreement covenants, solvency tests imposed by corporate law and other factors that the board of directors may deem relevant.

CAPITAL STRUCTURE

The Company is authorized to issue an unlimited number of Common Shares. As of the date of this AIF, there are 143,774,477 Common Shares issued and outstanding. The holders of the Common Shares are entitled to one vote per share at all meetings of the shareholders of the Company. The holders of Common Shares are also entitled to dividends, if and when declared by the directors of the Company and the distribution of the residual assets of the Company in the event of a liquidation, dissolution or winding up of the Company.

The Company is authorized to issue an unlimited number of special shares, issuable in series. The special shares may be issued in one or more series and the directors are authorized to fix the number of shares in each series and to determine the designation, right, privileges, restrictions and conditions attached to the shares in each series. No special shares have been issued since the Company's inception.

The stock option plan (the "Option Plan") of the Company is administered by the board of directors, which is responsible for establishing the exercise price (at not less than the Discounted Market Price as defined in the policies of the TSX-V) and the vesting and expiry provisions. Pursuant to the Option Plan the Company may issue up to 10% of the total number of Common Shares issued and outstanding at the date of any grant. This is a "rolling" plan ceiling as the number of options which may be granted pursuant to the Option Plan will increase as the number of Common Shares which are issued and outstanding increases. As of the date of this AIF, options granted under the Option Plan to purchase up to an aggregate of 11,497,084 Common Shares are issued and outstanding.

MARKET FOR SECURITIES

Common Shares are listed and traded on the TSX-V under the trading symbol "MJN". The following table sets forth the price range per share and trading volume for the Common Shares on the TSX-V for the period between January 1, 2016 and September 30, 2017:

Period	High Trading Price	Low Trading Price	Volume
September 2017	\$ 2.67	\$ 2.20	4,279,996
August 2017	\$ 2.47	\$ 2.01	2,749,993
July 2017	\$ 2.37	\$ 1.70	3,897,077
June 2017	\$ 2.26	\$ 1.58	5,983,393
May 2017	\$ 2.83	\$ 2.15	6,037,153
April 2017	\$ 3.25	\$ 2.45	12,145,459
March 2017	\$ 3.46	\$ 2.39	13,240,286
February 2017	\$ 3.43	\$ 1.76	19,980,431
January 2017	\$ 1.92	\$ 1.49	6,844,170
December 2016	\$ 1.74	\$ 1.35	6,745,733
November 2016	\$ 1.92	\$ 0.92	17,367,547
October 2016	\$ 1.35	\$ 0.81	14,610,416
September 2016	\$ 0.95	\$ 0.46	8,576,800
August 2016	\$ 0.56	\$ 0.39	2,619,200
July 2016	\$ 0.42	\$ 0.18	2,972,000
June 2016	\$ 0.21	\$ 0.19	389,800
May 2016	\$ 0.28	\$ 0.14	710,700
April 2016	\$ 0.28	\$ 0.19	245,800
March 2016	\$ 0.29	\$ 0.19	298,400
February 2016	\$ 0.29	\$ 0.17	451,500
January 2016	\$ 0.35	\$ 0.26	622,400

PRIOR SALES

The following table summarizes details of the following securities that are not listed or quoted on a marketplace issued by the Company during the period between January 1, 2016 and September 30, 2017:

Date of Issuance	Security	Issuance/Exercise Price Per Security	Number of Securities
May 13, 2016	Warrants	\$ 0.245	10,810,812
May 17, 2016	Options	\$ 0.285	78,925
May 27, 2016	Warrants	\$ 0.245	21,621,613
May 27, 2016	Options	\$ 0.285	78,925
August 10, 2016	Options	\$ 0.500	1,225,000
October 5, 2016	Options	\$ 1.230	3,618,500
November 16, 2016	Options	\$ 1.500	300,000
November 21, 2016	Options	\$ 1.840	182,000
April 12, 2017	Options	\$ 3.140	3,299,000
August 23, 2017	Options	\$ 2.420	2,903,000

ESCROWED SECURITIES AND SECURITIES SUBJECT TO RESTRICTION ON TRANSFER

The following table summarizes details of the Company's securities of each class held, to the Company's knowledge, in escrow or that are subject to a contractual restriction on transfer as of the date of this AIF:

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Designation of Class	Number of Securities held in escrow or that are subject to a contractual restriction on transfer	Percentage of Class ⁽¹⁾
Common Shares	1,928,984 ⁽²⁾⁽³⁾⁽⁴⁾	1.58%

Notes:

- (1) Based on 121,725,324 Common Shares issued and outstanding as December 31, 2016.
- (2) In connection with the Company's initial public offering, 88,685 Common Shares remain, as of the date of this AIF, deposited in escrow with TSX Trust Company (formerly Equity Financial Trust Company) pursuant to a CPC Escrow Agreement dated June 19, 2014 ("CPC Escrow Agreement"). All Common Shares remaining in escrow under the CPC Escrow Agreement are expected to be released from escrow on December 16, 2017.
- (3) In connection with the Company's Qualifying Transaction, 841,940 Common Shares remain, as of the date of this AIF, deposited in escrow with TSX Trust Company (formerly Equity Financial Trust Company) pursuant to a 5D Value Escrow Agreement dated December 10, 2014 ("5D Value Escrow Agreement"). All Common Shares remaining in escrow under the 5D Value Escrow Agreement are expected to be released from escrow on December 16, 2017.
- (4) In connection with the Company's Qualifying Transaction, 998,359 Common Shares remain, as of the date of this AIF, deposited in escrow with TSX Trust Company (formerly Equity Financial Trust Company) pursuant to a 5D Surplus Escrow Agreement dated December 10, 2014 ("5D Surplus Escrow Agreement"). All Common Shares remaining in escrow under the 5D Surplus Escrow Agreement are expected to be released from escrow on December 16, 2017.

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DIRECTORS AND OFFICERS

Name, Occupation and Security Holding

Below are the names, province or state and country of residence, principle occupation and periods of service of the directors and executive officers of the Company.

Name and Municipality Residence	Principle Occupation for Last Five Years	Director of Cronos Group Since	Position Held with Cronos Group	Number of Common Shares Beneficially Owned, Controlled or Directed, Directly or Indirectly
Michael Gorenstein ⁽¹⁾ New York, NY, USA	May 2016 to Present — CEO of Cronos Group June 2017 to Present — Member of Gotham Green Partners GP June 2015 to June 2017 — Partner at Alphabet Ventures, LLC January 2015 to June 2015 — Principal & General Counsel at Saiers Capital, LLC (f/k/a Alphabet Management, LLC) October 2011 to December 2015 — Associate at Sullivan & Cromwell, LLP	November 6, 2015 to Present	Chairman, Chief Executive Officer, President	1,539,915 (1.07%)

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<u>Name and Municipality Residence</u>	<u>Principle Occupation for Last Five Years</u>	<u>Director of Cronos Group Since</u>	<u>Position Held with Cronos Group</u>	<u>Number of Common Shares Beneficially Owned, Controlled or Directed, Directly or Indirectly</u>
Michael Krestell Thornhill, Ontario, Canada	March 2013 to June 2016 — President at M Partners, Inc. October 2009 to March 2013 — Managing Director of Equity Research at M Partners, Inc.	December 10, 2014 to Present	Director	389,566 (0.27%)
Jason Adler New York, NY, USA	June 2017 to Present — Managing Member of Gotham Green Partners GP June 2015 to June 2017 — Managing Partner of Alphabet Ventures, LLC October 2007 to June 2015 — Managing Member/CEO of Saiers Capital, LLC (f/k/a Alphabet Management, LLC)	July 12, 2016 to Present	Director	6,929,557 (4.82%)

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<u>Name and Municipality Residence</u>	<u>Principle Occupation for Last Five Years</u>	<u>Director of Cronos Group Since</u>	<u>Position Held with Cronos Group</u>	<u>Number of Common Shares Beneficially Owned, Controlled or Directed, Directly or Indirectly</u>
Alan Friedman ⁽²⁾ Toronto, ON, Canada	November 2014 to Present — Managing Director at Tembo Financial Inc. September 2006 to Present — President & CEO of Rivonia Capital Inc. December 2011 to Present — Executive Vice-President and Director of Eco (Atlantic) Oil & Gas Ltd.	August 21, 2012 to Present	Director	259,165 (0.18%)
William Hilson Toronto, ON, Canada	October 2015 to October 2016 — President at Hillhurst Management March 2015 to October 2015 — President at Hillhurst Capital June 2013 to March 2014 — CFO at TravelEdge June 2003 to June 2013 — CFO at EMD Inc.	N/A	Chief Financial Officer	956,510 (0.67%)

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<u>Name and Municipality Residence</u>	<u>Principle Occupation for Last Five Years</u>	<u>Director of Cronos Group Since</u>	<u>Position Held with Cronos Group</u>	<u>Number of Common Shares Beneficially Owned, Controlled or Directed, Directly or Indirectly</u>
Paul Rosen Toronto, ON, Canada	November 2013 to May 2016 — CEO of Cronos Group October 1999 to January 2014 — CEO of Skypad, Inc.	January 18, 2013 to May 13, 2016	Former — Director, President, Chief Executive Officer	1,613,273 ⁽³⁾ (1.12%)
Lorne Gernter Toronto, ON, Canada	January 2006 to Present — CEO of Tokyo Smoke, Inc	January 18, 2013 to May 19, 2016	Former — Chairman	1,088,689 ⁽⁴⁾ (0.76%)

Steven Isenberg Toronto, ON, Canada	January 2005 to Present — CEO of M Partners	December 10 2014 to January 15, 2016	Former — Director	118,100 ⁽⁵⁾ (0.08%)
Glen A. Huber Toronto, ON, Canada	February 2008 to Present — President of Brett Management Inc.	December 10, 2014 to January 15, 2016	Former — Director, Chief Financial Officer	0 (0%)

Notes:

- (1) Member of the Compensation Committee
- (2) Member of the Compensation Committee
- (3) 96,982 of these Common Shares are held by Skypad, Inc., a corporation that is controlled by Mr. Rosen; this information is based on Mr. Rosen's last public filing; the Company was unable to verify Mr. Rosen's current holdings as of the date of this AIF.
- (4) This information is based on Mr. Gertner's last public filing; the Company was unable to verify Mr. Gertner's current holdings as of the date of this AIF.
- (5) This information is based on Mr. Isenberg's last public filing; the Company was unable to verify Mr. Isenberg's current holdings as of the date of this AIF.

As of the date of the date of this AIF, in aggregate, the directors and officers beneficially own, directly or indirectly, 12,894,775, or 8.97% of the issued and outstanding common shares of the Company.

The term of each director of the Company will expire on the date of the next annual meeting of the shareholders of the Company.

The following is a summary biography of each of the directors and executive officers of the Company:

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Michael Gorenstein
Chairman, CEO, President

Mr. Michael Gorenstein is the Chief Executive Officer, President and Chairman of the Company. Michael is also a Member of Gotham Green Partners GP, the general partner to Gotham Green Fund 1, LP, a private equity firm focused primarily on early-stage investing in companies in the cannabis industry. Before joining the Company, Michael was a partner at Alphabet Ventures LLC, a multi-strategy investment management firm located in New York City. Prior to Alphabet Ventures, Michael was the VP and General Counsel of Saiers Capital LLC and a corporate attorney at Sullivan & Cromwell where he focused on Mergers and Acquisitions and Capital Market transactions. Michael graduated from the University of Pennsylvania Law School with a JD, the Wharton School at University of Pennsylvania with a certificate in BEPP and the Kelley School of Business at Indiana University with a BSB in Finance.

Michael Krestell
Director

Mr. Michael Krestell was President of M Partners Inc., a Canadian investment dealer, from 2013 to 2017. Prior thereto, Michael was MD Research at M Partners Inc. from 2007 and an analyst at M Partners Inc. covering the merchandising and consumer products sector from 2005 to 2007. In 2009, Michael received a Starmine award by being the number four (4) ranked stock picker in Canada. Michael received an MBA with distinction from the Schulich School of Business specializing in Finance and Strategic Management and he is a CFA charterholder.

Alan Friedman
Director

Mr. Alan Friedman has been the President and Chief Executive Officer of Rivonia Capital Inc., a Canadian corporation providing market, structuring, and capital advising services to private and public companies, since September 2006. Alan has also been Executive Vice-President and a director of Adira Energy Ltd. since August 2009 and Executive Vice-President and a director of Eco (Atlantic) Oil & Gas Ltd. since December 2011. Alan is also a director of Aim1 Ventures Inc. and Tova Ventures II Inc., Capital Pool Corporations listed on the TSXV. Alan is an attorney and has played an integral role in the acquisition of various assets, financings and go-public transactions onto the Toronto Stock Exchange. He was a co-founder and previous director of Aurix Gold Corp., a Toronto Stock Exchange listed Namibian gold exploration company, before it was sold to Building 2Gold Corp. for approximately \$160 million in 2011.

Jason Adler
Director

Mr. Jason Adler is the Founder and Managing Partner of Gotham Green Partners GP ("**Gotham Green**"), the General Partner of Gotham Green Fund 1, LP, a private equity firm focused primarily on early-stage investing in companies in the cannabis industry. Prior to founding Gotham Green, Jason was the co-founder and CEO of Alphabet Management, LLC, a New York based volatility fund, that focused on identifying mispriced assets across various industries, asset classes and geographies. Jason also founded Geronimo, LLC, an AMEX member broker dealer that made markets in equity options, and he began his career as a market maker at G&D Trading, an AMEX member market maker. Mr. Adler received his B.A. from the University of Rhode Island.

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William Hilson
Chief Financial Officer

Mr. William Hilson is a Certified Public Accountant (CPA) and has spent over 15 years as regional CFO of two publicly listed multinational pharmaceutical companies — Merck KGaA and Serono S.A. His experience includes financial operations, strategy, performance management, sales & marketing, clinical trial management, international tax and debt and equity financing. Prior to joining Cronos Group, William was also involved in a number of mergers and acquisitions and licensing deals in the pharmaceutical sector.

Cease Trade Orders, Bankruptcies, Penalties or Sanctions

Except as disclosed below, to the knowledge of the directors and officers of the Company, no director or officer of the Company, or a shareholder holding a sufficient number of securities of the Company to affect materially the control of the Company:

- (a) is, as at the date of the AIF or has been, within the 10 years before the date of the AIF, a director or executive officer of any company that while that person was acting in that capacity,
- (i) was the subject of a cease trade or similar order or an order that denied the relevant companies access to any exemption under securities legislation, for a period of more than 30 consecutive days; or
 - (ii) was subject to an event that resulted, after the director or executive officer ceased to be a director or executive officer, in the company being the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days; or
 - (iii) within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or
- (b) has, within the 10 years before the date of the AIF, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold its assets.

Except as disclosed below, to the knowledge of the directors and officers of the Company, no director or executive officer of the Company (i) has been subject to any penalties or sanctions imposed by a court relating to Canadian securities legislation or by a Canadian securities regulatory authority or has entered into a settlement agreement with a Canadian securities regulatory authority, or (ii) has been subject to any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

While Glen A. Huber was a director of OutdoorPartner Media Corporation, a temporary cease trade order was issued against OutdoorPartner Media Corporation by the Ontario Securities Commission on July 20,

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2011 due to the fact that it failed to file its interim and audited financial statements during the year ended February 28, 2011, accompanying management's discussion and analysis, annual information form and related CEO and CFO certifications. OutdoorPartner Media Corporation subsequently filed the outstanding statements and disclosures and the cease trading order was revoked October 15, 2012.

Steven Isenberg was a director of Urbanfund Corp., a reporting issuer with shares listed on the TSX-V. On May 7, 2007, the Ontario Securities Commission issued a Management Cease Trade Order in respect of the securities of Urbanfund Corp. for failure to file financials statements and management's discussion and analysis. The cease trade order was allowed to lapse/expire as of July 30, 2007, as the default had been remedied.

No director or executive officer of the Company or, to the knowledge of the Company, shareholder holding a sufficient number of securities of the Company to affect materially the control of the Company, has been subject to: (a) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or (b) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

Conflicts of Interest

The Company may from time to time become involved in transactions which conflict with the interests of our directors and the officers. The interests of these persons could conflict with those of the Company. Conflicts of interest, if any, will be subject to the procedures and remedies provided under applicable laws. In particular, in the event that such a conflict of interest arises at a meeting of our directors, a director who has such a conflict will abstain from voting for or against the approval of such participation or such terms. In accordance with applicable laws, the directors of the Company are required to act honestly, in good faith and in the best interests of the Company.

PROMOTERS

Alan Friedman, a director of the Company, is a promoter of the Company. As of the date of this AIF, Mr. Friedman beneficially owns, controls, or directs, directly or indirectly, 259,165. Common Shares, comprising 0.18% of the issued and outstanding Common Shares. Mr. Friedman has served as a Director of the Company since August 21, 2012.

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

Other than those disclosed below, we are not aware of: (a) any legal proceedings to which we are a party, or by which any of our property is subject, which would be material to us and are not aware of any such proceedings being contemplated, (b) any penalties or sanctions imposed by a court relating to securities legislation, or other penalties or sanctions imposed by a court or regulatory body against us that would likely be considered important to a reasonable investor making an investment decision and (c) any settlement agreements that we have entered into before a court relating to securities legislation or with a securities regulatory authority.

The following is a brief summary of certain ongoing litigation matters that the Company is aware of:

On July 31, 2015, 8437718 Canada Inc., 8437726 Canada Inc., Michael Blaine Dowdle, Rade Kovacevic, Kevin Furet and 9388036 Canada Inc. ("**938**") (collectively, the "**Plaintiffs**") commenced a claim against Peace Naturals and a number of other parties, before the Ontario Superior Court of Justice, for

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\$15,000,000 in damages. The plaintiffs allege that Peace Naturals breached its obligations to them by terminating a share purchase transaction for the acquisition of the Plaintiffs' company, Medicann Access. As of the date of filing, the defendant has delivered a statement of defense. The Company's litigation counsel cannot assess the value of this claim at this stage.

On November 26, 2015, Tweed Inc. ("**Tweed**") and 938 commenced a claim against Peace Naturals (the "**Plants Claim**"), before the Ontario Superior Court of Justice, for \$12,000,000 in damages in relation to the destruction of twelve mother plants. Peace Naturals defended the action. In November 2016, settlement was reached whereby, in exchange for an opportunity to collect sample genetics from the Peace Naturals production facility, Tweed would release the claim. However, Tweed and 938 have since refused to release the settlement documents from escrow. On December 15, 2016, Peace brought an application before the Ontario Superior Court of Justice to have the settlement documents related to the Plants Claim released from escrow. Tweed and 938 have since brought a parallel motion within the proceeding to set aside the settlement agreement. Recently, Tweed and 938 indicated their intention to abandon their motion and to provide authorization to counsel for the release of the settlement documents held in escrow. The Company is awaiting such authorization. The Company's litigation counsel cannot assess the value of this claim at this stage.

During the six months ended June 30, 2017, the Cronos Group filed a claim in the Supreme Court of British Columbia against Evergreen and its directors, seeking, among other things, declarations that the Company holds equity of Evergreen and that the agreement between the parties in respect of its equity is a valid and binding contract.

Pursuant to a letter dated March 25, 2014, signed by Mark Gobuty as founder and CEO of the Peace Naturals, Jeffrey Gobuty (brother to Mark Gobuty) was purportedly offered \$125,000 at a 20% pre-IPO valuation. Warrants were exercisable for 3 years from the issue date, and all shares exercised were required to accompany a voting trust to Mark Gobuty / The Barnes Family Trust. These amounts are disputed by Peace Naturals and are subject to a claim made by Jeffrey Gobuty. The complainant has not actively pursued this claim in over a year.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

The Company considers its related parties to consist of key members or former members of its Board of Directors and senior officers, including their close family members, and companies controlled or significantly influences by such individuals; and reporting shareholders and their affiliates that may exert significant influence over the Company's activities (each, "**Related Parties**"). During the three (3) most recently completed financial years of the Company or during the current financial year of the Company, no Related Parties have had a material interest in any transaction that has had a material effect on the Company or is reasonably expected to materially affect the Company.

TRANSFER AGENT AND REGISTRAR

The Transfer Agent and Registrar for the Company's Common Shares is TSX Trust Company at 100 Adelaide Street West, Suite 301, Toronto, Ontario M5H 4H1.

MATERIAL CONTRACTS

The Company has entered into the following material contracts, the particulars of which may also be described elsewhere in this AIF:

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- 1) Underwriting agreement by and between the Company and a syndicate of underwriters led by Eight Capital and which included PI Financial Corp., Beacon Securities Limited, GMP Securities L.P., Cormark Securities Inc. and Mackie Research Capital Corp, dated February 21, 2017.
- 2) Distribution Agreement dated October 12, 2017, by and between Peace Naturals and G.Pohl-Boskam GmbH & Co. KG. Under the five year exclusive distribution agreement, the Company's global subsidiaries will supply Peace Naturals branded cannabis products for distribution within Germany.
- 3) Commitment Letter, dated August 22, 2017, by and between Peace Naturals (the "**Borrower**") and Romspen (the "**Lender**") and each of Cronos Group Inc., Hortican Inc., OGBC and each Responsible Person in Charge and Senior Person in Charge of the Borrower and OGBC as Covenantors in relation to the Loan, and all loan and security agreements contemplated thereby. Under the terms of the Loan, the Lender shall provide a \$40,000,000 senior secured debt facility. The Loan is secured by, among other things: first ranking senior mortgages over each of the properties owned by Peace Naturals and OGBC, a pledge of the shares of Peace Naturals and OGBC owned by Hortican and the shares of Hortican owned by Cronos Group. The Loan and loan and security agreements contemplated thereby contain customary covenants and undertakings such as ability to incur indebtedness, grant liens, make corporate changes, dispose of assets and ability to pay dividends. Under the Loan, Peace Naturals, OGBC, Hortican and Cronos Group retain the ability to enter into equipment financing arrangements and Cronos Group retains the ability to raise capital by issuing Common Shares at the holding company level. The Loan will be made available in multiple advances. Each advance will be subject to ongoing conditions, including among other things, Romspen's approval of construction progress. Each advance will bear interest at a rate of 12% per annum and interest will only accrue once the advance is made. The Loan has a maturity of two (2) years with a one-year extension option and is pre-payable on one-month's notice. The Loan closed on September 21, 2017 and a \$5,000,000 advance for working capital purposes was drawn simultaneously on the date of closing.
- 4) Producer's Licence granted to OGBC dated February 28, 2017 and expiring on February 28, 2018. See "*Cronos Group's License*" for more information.
- 5) Producer's License granted to Peace Naturals dated November 1, 2016 and expiring on April 30, 2018. See "*Cronos Group's License*" for more information.
- 6) Shareholders Agreement made as of the 6th day of August, 2014, by and between Hortican and Whistler Medical Marijuana Corporation, amongst others. This agreement sets forth the rights and obligations of the shareholders and Whistler with respect to the shares of Whistler.
- 7) CPC Escrow Agreement dated June 19, 2014.
- 8) 5D Value Escrow Agreement dated December 10, 2014.
- 9) 5D Surplus Escrow Agreement dated December 10, 2014.

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- 10) Undertaking by the Company to TSX-V, dated November 28, 2014, to make investments only in companies with operations wholly within Canada unless granted permission from the TSX-V.

Copies of these material contracts are available under our profile on the SEDAR website at www.sedar.com. The above summaries are qualified in their entirety by reference to the terms of the material contract.

AUDIT COMMITTEE INFORMATION

The Audit Committee's charter is attached hereto as Schedule "A"

As of date of this AIF, the Audit Committee of the Company was composed of three (3) members. The members of the Audit Committee are Michael Krestell, Alan Friedman and Michael Gorenstein. The Board of Directors believes that the composition of the Audit Committee reflects financial literacy and expertise. Currently, the three members have been determined by the Board to be "independent" and "financially literate" as such terms are defined under *National Instrument 52-110 — Audit Committees ("NI 52-110")*. The Board has made these determinations based on the education as well as breadth and depth of experience of each member of the Committee. The following is a brief summary of the education and experience of each member of the Committee that is relevant to the performance of his or her responsibilities as an Audit Committee member:

Mr. Krestell was President of M Partners Inc., a Canadian investment dealer, from 2013 to 2017. Prior thereto, Michael was MD Research at M Partners Inc. from 2007 and an analyst at M Partners Inc. covering the merchandising and consumer products sector from 2005 to 2007. In 2009, Michael received a Starmine award by being the number four (4) ranked stock picker in Canada. Michael received an MBA with distinction from the Schulich School of Business specializing in Finance and Strategic Management and he is a CFA charterholder.

Mr. Friedman has been the President and Chief Executive Officer of Rivonia Capital Inc., a Canadian corporation providing market, structuring, and capital advising services to private and public companies, since September 2006. Alan has also been Executive Vice-President and a director of Adira Energy Ltd. since August 2009 and Executive Vice-President and a director of Eco (Atlantic) Oil & Gas Ltd. since December 2011. Alan is also a director of Aim1 Ventures Inc. and Tova Ventures II Inc., Capital Pool Corporations listed on the TSXV. Alan is an attorney and has played an integral role in the acquisition of various assets, financings and go-public transactions onto the Toronto Stock

Exchange. He was a co-founder and previous director of Auryx Gold Corp., a Toronto Stock Exchange listed Namibian gold exploration company, before it was sold to Building 2Gold Corp. for approximately \$160 million in 2011.

Mr. Gorenstein is the Chief Executive Officer, President and Chairman of the Company. Mr. Gorenstein is also a Member of Gotham Green Partners GP, the general partner to Gotham Green Fund 1, LP, a private equity firm focused primarily on early-stage investing in companies in the cannabis industry. Before joining the Company, Mr. Gorenstein was a partner at Alphabet Ventures LLC, a multi-strategy investment management firm located in New York City. Prior to Alphabet Ventures, Michael was the VP and General Counsel of Sayers Capital LLC and a corporate attorney at Sullivan & Cromwell where he focused on Mergers and Acquisitions and Capital Market transactions. Michael graduated from the University of Pennsylvania Law School with a JD, the Wharton School at University of Pennsylvania with a certificate in BEPP and the Kelley School of Business at Indiana University with a BSB in Finance.

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Subject to the requirements of NI 52-110, the engagement of non-audit services is considered by the Audit Committee and, where applicable, the Company's Board, on a case-by-case basis.

The following table provides detail in respect of audit, audit related, tax and other fees billed by the Company to the external auditors for professional services provided to the Company and its subsidiaries:

	2016		2015	
Audit fees	\$	136,900	\$	141,850
Tax fees	\$	6,627	\$	11,500
Other fees	\$	4,595	\$	6,825
Total	\$	148,122	\$	160,175

The Company is relying on the exemption from the requirements of Part 3 (Composition of the Audit Committee) and Part 5 (Reporting Obligations) as set out in section 6.1 of NI 52-110.

INTERESTS OF EXPERTS

MNP LLP is the independent auditor of the Company and is independent within the meaning of the Rules of Professional Conduct of the Chartered Professional Accountants of Ontario.

ADDITIONAL INFORMATION

Additional information regarding the Company can be found on SEDAR at www.sedar.com.

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of our securities and the securities authorized for issuance under Company's equity compensation plan, if applicable, is contained in the Company's management information circular for our annual meeting of shareholders, relating to the year ended December 31, 2015 that involves the election of our directors. Additional financial information is provided in our comparative financial statements and management's discussion and analysis for the most recent completed financial year.

The foregoing documents may be obtained by contacting our Chief Financial Officer at our head office located at 76 Stafford Street, Suite 302, Toronto, Ontario M6J 2S1.

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SCHEDULE "A"

PHARMACAN CAPITAL CORP. AUDIT COMMITTEE CHARTER

I PURPOSE

The Audit Committee (the "**Committee**") is appointed by the Board of Directors (the "**Board**") of PharmaCan Capital Corp. (the "**Company**") to assist the Board in fulfilling its oversight responsibilities relating to financial accounting and reporting process and internal controls for the Company. The Committee's primary duties and responsibilities are to:

conduct such reviews and discussions with management and the external auditors relating to the audit and financial reporting as are deemed appropriate by the Committee;

assess the integrity of internal controls and financial reporting procedures of the Company and ensure implementation of such controls and procedures;

ensure that there is an appropriate standard of corporate conduct including, if necessary, adopting a corporate code of ethics for senior financial personnel;

review the quarterly and annual financial statements and management's discussion and analysis of the Company's financial position and operating results and report thereon to the Board for approval of same;

select and monitor the independence and performance of the Company's external auditors, including attending at private meetings with the external auditors and reviewing and approving all renewals or dismissals of the external auditors and their remuneration; and

provide oversight to related party transactions entered into by the Company.

The Committee has the authority to conduct any investigation appropriate to its responsibilities, and it may request the external auditors as well as any officer of the Company, or outside counsel for the Company, to attend a meeting of the Committee or to meet with any members of, or advisors to, the Committee. The Committee shall have unrestricted access to the books and records of the Company and has the authority to retain, at the expense of the Company, special legal, accounting, or other consultants or experts to assist in the performance of the Committee's duties.

The Committee shall review and assess the adequacy of this Charter annually and submit any proposed revisions to the Board for approval.

In fulfilling its responsibilities, the Committee will carry out the specific duties set out in Part N of this Charter.

II AUTHORITY OF THE AUDIT COMMITTEE

The Committee shall have the authority to:

- (a) engage independent counsel and other advisors as it determines necessary to carry out its duties;

- (b) set and pay the compensation for advisors employed by the Committee; and
- (c) communicate directly with the internal and external auditors.

III COMPOSITION AND MEETINGS

1. The Committee and its membership shall meet all applicable legal, regulatory and listing requirements, including, without limitation, those of the Ontario Securities Commission (“OSC”), the TSX Venture Exchange, the *Business Corporations Act* (Ontario) (the “Act”) and all applicable securities regulatory authorities.
2. The Committee shall be composed of three or more directors as shall be designated by the Board from time to time. The members of the Committee shall appoint from among themselves a member who shall serve as Chair.
3. A majority of the members of the Committee shall not be officers or employees of the Company or any of its affiliates.
4. The Committee shall meet at least quarterly, at the discretion of the Chair or a majority of its members, as circumstances dictate or as may be required by applicable legal or listing requirements. A minimum of two and at least 50% of the members of the Committee present either in person or by telephone shall constitute a quorum.
5. If within one hour of the time appointed for a meeting of the Committee, a quorum is not present, the meeting shall stand adjourned to the same hour on the next business day following the date of such meeting at the same place. If at the adjourned meeting a quorum as hereinbefore specified is not present within one hour of the time appointed for such adjourned meeting, such meeting shall stand adjourned to the same hour on the second business day following the date of such meeting at the same place. If at the second adjourned meeting a quorum as hereinbefore specified is not present, the quorum for the adjourned meeting shall consist of the members then present.
6. If and whenever a vacancy shall exist, the remaining members of the Committee may exercise all of its powers and responsibilities so long as a quorum remains in office.
7. The time and place at which meetings of the Committee shall be held, and procedures at such meetings, shall be determined from time to time by the Committee. A meeting of the Committee may be called by letter, telephone, facsimile, email or other communication equipment, by giving at least 48 hours’ notice, provided that no notice of a meeting shall be necessary if all of the members are present either in person or by means of conference telephone or if those absent have waived notice or otherwise signified their consent to the holding of such meeting.
8. Any member of the Committee may participate in the meeting of the Committee by means of conference telephone or other communication equipment, and the member participating in a meeting pursuant to this paragraph shall be deemed, for purposes hereof, to be present in person at the meeting.
9. The Committee shall keep minutes of its meetings which shall be submitted to the Board. The Committee may, from time to time, appoint any person who need not be a member, to act as a secretary at any meeting.

10. The Committee may invite such officers, directors and employees of the Company and its subsidiaries as the Committee may see fit, from time to time, to attend at meetings of the Committee.
11. Any matters to be determined by the Committee shall be decided by a majority of votes cast at a meeting of the Committee called for such purpose. Actions of the Committee may be taken by an instrument or instruments in writing signed by all of the members of the Committee, and such actions shall be effective as though they had been decided by a majority of votes cast at a meeting of the Committee called for such purpose. All decisions or recommendations of the Committee shall require the approval of the Board prior to implementation.

The Committee members will be appointed annually at the first meeting of the Board following the annual general meeting of shareholders.

IV RESPONSIBILITIES

A Financial Accounting and Reporting Process and Internal Controls

1. The Committee shall review the annual audited financial statements to satisfy itself that they are presented in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) on a historical cost basis and report thereon to the Board and recommend to the Board whether or not same should be approved prior to their being filed with the appropriate regulatory authorities. The Committee shall also review the interim financial statements. With respect to the annual audited financial statements, the Committee shall discuss significant issues regarding accounting principles, practices, and judgments of management with management and the external auditors as and when the Committee deems it appropriate to do so. The Committee shall satisfy itself that the information contained in the annual audited financial statements is not significantly erroneous, misleading or incomplete and that the audit function has been effectively carried out.
2. The Committee shall review any internal control reports prepared by management and the evaluation of such report by the external auditors, together with management’s response.
3. The Committee shall be satisfied that adequate procedures are in place for the review of the Company’s public disclosure of financial information extracted or derived from the Company’s financial statements, management’s discussion and analysis and interim earnings press releases, and periodically assess the adequacy of these procedures.
4. The Committee shall review management’s discussion and analysis relating to annual and interim financial statements and any other public disclosure documents, including interim earnings press releases, that are required to be reviewed by the Committee under any applicable laws before the Company publicly discloses this information.
5. The Committee shall meet no less frequently than annually with the external auditors and the Chief Financial Officer or, in the absence of a Chief Financial Officer, with the officer of the Company in charge of financial matters, to review accounting practices, internal controls and such other matters as the Committee, Chief Financial Officer or, in the absence of a Chief Financial Officer, the officer of the Company in charge of financial matters, deem appropriate.

6. The Committee shall inquire of management and the external auditors about significant risks or exposures, both internal and external, to which the Company may be subject, and assess the steps management has taken to minimize such risks.
7. The Committee shall review the post-audit or management letter containing the recommendations of the external auditors and management's response and subsequent follow-up to any identified weaknesses.
8. The Committee shall ensure that there is an appropriate standard of corporate conduct including, if necessary, adopting a corporate code of ethics for senior financial personnel.
9. The Committee shall establish procedures for:
 - (a) the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters; and
 - (b) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.
10. The Committee shall provide oversight to related party transactions entered into by the Company.

B. Independent Auditors

1. The Committee shall recommend to the Board the external auditors to be nominated, shall set the compensation for the external auditors, provide oversight of the external auditors and shall ensure that the external auditors report directly to the Committee.
 2. The Committee shall be directly responsible for overseeing the work of the external auditors, including the resolution of disagreements between management and the external auditors regarding financial reporting.
 3. The Committee shall pre-approve all audit and non-audit services not prohibited by law to be provided by the external auditors in accordance with the terms of this charter.
 4. The Committee shall monitor and assess the relationship between management and the external auditors and monitor, support and assure the independence and objectivity of the external auditors.
 5. The Committee shall review the external auditors' audit plan, including the scope, procedures and timing of the audit.
 6. The Committee shall review the results of the annual audit with the external auditors, including matters related to the conduct of the audit.
 7. The Committee shall obtain timely reports from the external auditors describing critical accounting policies and practices, alternative treatments of information within IFRS that were discussed with management, their ramifications, and the external auditors' preferred treatment and material written communications between the Company and the external auditors.
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8. The Committee shall review fees paid by the Company to the external auditors and other professionals in respect of audit and non-audit services on an annual basis.
9. The Committee shall review and approve the Company's hiring policies regarding partners, employees and former partners and employees of the present and former auditors of the Company.
10. The Committee shall monitor and assess the relationship between management and the external auditors and monitor and support the independence and objectivity of the external auditors.

C Other Responsibilities

The Committee shall perform any other activities consistent with this Charter and governing law, as the Committee or the Board deems necessary or appropriate.

PHARMACAN CAPITAL, CORP. d/b/a CRONOS GROUP
AMENDED AND RESTATED ANNUAL INFORMATION FORM

For the year ended December 31, 2015

DATED: February 10, 2017

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AMENDED AND RESTATED ANNUAL INFORMATION FORM

In this Amended and Restated Annual Information Form ("AIF"), unless otherwise noted or the context indicates otherwise, the "Company", "we", "us" and "our" refer to PharmaCan Capital Corp. d/b/a Cronos Group and its subsidiaries, The Peace Naturals Project, Inc. and In The Zone Produce, Ltd.; "Cronos Group" refers to PharmaCan Capital Corp. d/b/a/ Cronos Group on a stand-alone basis; "Peace Naturals" refers to Cronos Group's wholly-owned subsidiary The Peace Naturals Project, Inc.; "ITZ" refers to Cronos Group's wholly-owned subsidiary In the Zone Produce, Ltd.

All financial information in this AIF is prepared in Canadian dollars and using International Financial Reporting Standards as issued by the International Accounting Standards Board. The information contained herein is dated as of February 10, 2017, unless otherwise stated.

FORWARD LOOKING STATEMENTS

This AIF contains certain information that may constitute forward-looking information and forward-looking statements (collectively, "Forward-Looking Statements") which are based upon the Company's current internal expectations, estimates, projections, assumptions and beliefs. Such statements can be identified by the use of forward-looking terminology such as "expect," "likely," "may," "will," "should," "intend," or "anticipate", "potential", "proposed", "estimate" and other similar words, including negative and grammatical variations thereof, or statements that certain events or conditions "may" or "will" happen, or by discussions of strategy. Forward-Looking Statements include estimates, plans, expectations, opinions, forecasts, projections, targets, guidance, or other statements that are not statements of fact. The Forward-Looking Statements included in this AIF are made only as of the date of this AIF. Forward-Looking Statements in this AIF include, but are not limited to, statements with respect to:

- the intended expansion of the Company's facilities, its costs and receipt of approval from Health Canada to complete such expansion;
- the expected growth in the number of patients using the Company's medical marijuana;
- the expected growth in the Company's growing capacity;
- expectations with respect to future production costs;
- the number of grams of medical marijuana to be used by each patient;
- the expected methods to be used by the Company to deliver medical marijuana;
- the competitive conditions of the industry;
- the legalization of marijuana and the timing related thereto;
- changes in applicable laws and regulations;
- the competitive and business strategies of the Company;
- the grant, renewal and impact of any license or supplemental license to conduct activities with cannabis or any amendments thereof; and
- the anticipated future gross margins of the Company's operations.

Certain of the Forward-Looking Statements contained herein concerning the medical marijuana industry and the general expectations of Cronos Group concerning the medical marijuana industry are based on

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estimates prepared by Cronos Group using data from publicly available governmental sources as well as from market research and industry analysis and on assumptions based on data and knowledge of this industry which Cronos Group believes to be reasonable. However, although generally indicative of relative market positions, market shares and

performance characteristics, such data is inherently imprecise. While Cronos Group is not aware of any misstatement regarding any industry or government data presented herein, the medical marijuana industry involves risks and uncertainties that are subject to change based on various factors.

Although the Company believes that the expectations reflected in such Forward-Looking Statements are reasonable, it can give no assurance that such expectations will prove to have been correct. The Company's Forward-Looking Statements are expressly qualified in their entirety by this cautionary statement. In particular, but without limiting the foregoing, disclosure in this AIF under "Description of the Business" as well as statements regarding the Company's objectives, plans and goals, including future operating results, economic performance and patient acquisition efforts may make reference to or involve Forward-Looking Statements. The purpose of Forward-Looking Statements is to provide the reader with a description of management's expectations, and such Forward-Looking Statements may not be appropriate for any other purpose. You should not place undue reliance on Forward-Looking Statements contained in this AIF. We undertake no obligation to update or revise any Forward-Looking Statements, whether as a result of new information, future events or otherwise, except as required by applicable law.

With respect to the forward-looking statements contained in this AIF, we have made assumptions regarding, among other things: (i) our ability to generate cash flow from operations and obtain necessary financing on acceptable terms; (ii) general economic, financial market, regulatory and political conditions in which we operate; (iii) the yield from the growing operations of Peace Naturals and ITZ; (iv) consumer interest in our products; (v) competition; (vi) anticipated and unanticipated costs; (vii) government regulation of our activities and products and in the areas of taxation and environmental protection; (viii) the timely receipt of any required regulatory approvals; (ix) our ability to obtain qualified staff, equipment and services in a timely and cost efficient manner; (x) our ability to conduct operations in a safe, efficient and effective manner; and (xi) our construction plans and timeframe for completion of such plans.

A number of factors could cause actual events, performance or results to differ materially from what is projected in the Forward-Looking Statements. Some of the risks and other factors which could cause actual results to differ materially from those expressed in the Forward-Looking Statements contained in this AIF include, but are not limited to the factors included under "Risk Factors" in this AIF. Readers are cautioned not to place undue reliance on Forward-Looking Statements. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable law.

GLOSSARY OF CERTAIN TERMS

The following terms are used in this document:

"cannabis" has the meaning given to such term in the ACMPR;

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"cannabis oil" means an oil, in liquid form, that contains cannabis or dried marijuana;

"client" has the meaning given to such term in the ACMPR;

"Commercial Licenses" means the Peace Naturals Commercial License and the ITZ Commercial License;

"Common Shares" means the common shares in the share capital of the Company;

"dried marijuana" has the meaning given to such term in the ACMPR;

"ITZ Commercial License" means the ITZ First License and the ITZ Supplemental License;

"Licensed Producer" has the meaning given to such term in the ACMPR;

"marijuana" has the meaning given to the term "marijuana" in the ACMPR;

"Minister" means the Federal Minister of Health;

"Peace Naturals Commercial License" means the Peace Naturals First License and the Peace Naturals Supplemental License;

"Section 56 Exemption" means the exemption from sections 4, 5, and 7 of the CDSA, subsection 8(1) of the NCR, and relevant provisions of the MMPR authorized by Health Canada that allows Licensed Producers to conduct activities with cannabis and cannabis oil.

CORPORATE STRUCTURE

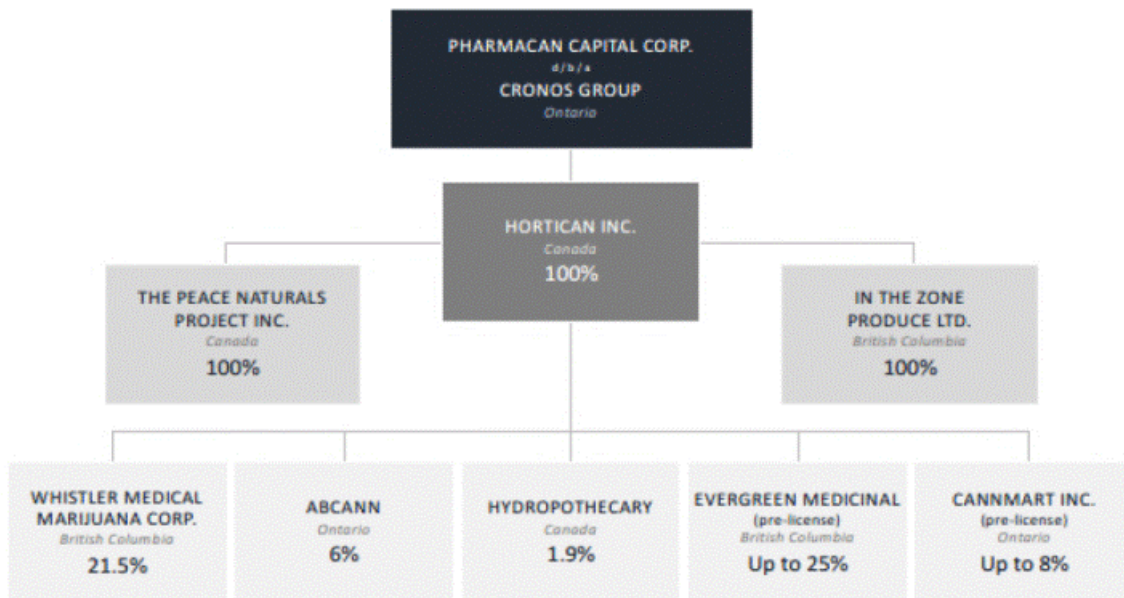
Cronos Group was incorporated on August 21, 2012 under the *Business Corporations Act* (Ontario) as 2339498 Ontario Inc. On October 18, 2012 the Company changed its name to Searchtech Ventures Inc. ("**Searchtech**"). Prior to completing its qualifying transaction the Company was classified as a Capital Pool Company pursuant to Policy 2.4 of the TSX Venture Exchange (the "**TSX-V**"). On December 10, 2014, the Company completed its qualifying transaction with Hortican Inc. ("**Hortican**"). Immediately prior to the completion of the transaction, the Company changed its name to PharmaCan Capital Corp. and consolidated its shares on a one for seven (1:7) basis. Following these changes, Hortican amalgamated with 8996741 Canada Inc., a wholly owned subsidiary of the Company formed solely for the purpose of facilitating the transaction. Pursuant to the amalgamation, the Company indirectly acquired all of the issued and outstanding shares of Hortican and issued post-consolidation shares of the Company on the basis of approximately 2.1339 post-consolidation shares for each one of Hortican's shares. Hortican warrants, stock options, and convertible debentures were also exchangeable at the same conversion ratio, and the exercise price for such securities were to be divided by the conversion ratio. On October 6, 2016 PharmaCan Capital Corp. announced it would thereafter conduct business under the name Cronos Group. Cronos Group is a publicly traded corporation, and its common shares are listed on TSX-V under the trading symbol "MJN".

Cronos Group, is a geographically diversified and vertically integrated cannabis company that operates two wholly-owned Licensed Producers regulated within Health Canada's *Access to Cannabis for Medical Purposes Regulations* (the "**ACMPR**") namely, Peace Naturals Project Inc. ("**Peace**

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Naturals"), with production facilities near Barrie, Ontario, and In The Zone Produce Ltd. ("**ITZ**"), with a production facility near Kelowna, British Columbia. Prior to the acquisition of ITZ in November of 2014, the Company was exclusively in the business of investing in companies either licensed, or actively seeking a license, to produce medical marijuana to the ACMPR (collectively, the "**Investees**"). As evidenced by the chart below, in addition to its wholly-owned subsidiaries Peace Naturals and ITZ, the Company currently has interests in three (3) Investees with active ACMPR licenses and two (2) Investees actively seeking ACMPR licenses.

The following chart illustrates, as of the date of this AIF, the Company's subsidiaries, including their respective jurisdictions of incorporation and percentage of voting securities of each that are beneficially owned, controlled or directed by Cronos Group, either directly or indirectly. The Company does not beneficially own, control or direct, directly or indirectly, any restricted securities in any of its subsidiaries.



The Company's corporate and registered office is located at 76 Stafford Street, Suite 302, Toronto, Ontario M6J 2S1. The Company's telephone number is +1.416.504.0004, and the Company's website is www.TheCronosGroup.com. The information contained on the Company's website is not incorporated by reference into this AIF.

GENERAL DEVELOPMENT OF THE BUSINESS

PharmaCan Capital Corp. (d.b.a. Cronos Group)

Cronos Group was incorporated on August 21, 2012 under the *Business Corporations Act* (Ontario) as 2339498 Ontario Inc. On October 18, 2012 the Company changed its name to Searchtech Ventures Inc.

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Prior to completing its qualifying transaction the Company was classified as a Capital Pool Company pursuant to Policy 2.4 of the TSX-V. Cronos Group was incorporated with the intention of developing a business based on capitalizing companies that were applying to Health Canada to become a Licensed Producer of medical cannabis. Cronos Group is a publicly traded corporation, with its head office located at 76 Stafford Street, Suite 302, Toronto, Ontario M6J 2S1. The Company's common shares are listed on TSX-V under the trading symbol "MJN".

On December 10, 2014, Cronos Group closed its qualifying transaction (the "**Transaction**") with Hortican, a company whose business model was to invest in medical marijuana companies in Canada, pursuant to which the shareholders of Hortican completed a reverse takeover of the Company. Immediately prior to the completion of the Transaction, the Company changed its name to PharmaCan Capital Corp. and consolidated its shares on a one for seven (1:7) basis. Following these changes, Hortican amalgamated with 8996741 Canada Inc., a wholly owned subsidiary of the Company formed solely for the purpose of facilitating the Transaction. Pursuant to the amalgamation, the Company indirectly acquired all of the issued and outstanding shares of Hortican and issued post-consolidation shares of the Company on the basis of approximately 2.1339 post-consolidation shares for each one of Hortican's shares. Hortican warrants, stock options, and convertible debentures are also exchangeable at the same conversion ratio, and the exercise price for such securities will be divided by the conversion ratio. On October 6, 2016 PharmaCan Capital Corp. announced it would thereafter conduct business under the name Cronos Group.

Investees

Prior to the acquisition of ITZ in November of 2014 (as described below), the Company was exclusively in the business of investing in companies either licensed, or actively seeking a license, to produce medical marijuana to the ACMPR. In addition to its wholly-owned subsidiaries, Peace Naturals and ITZ, the Company currently has minority interests in three (3) Investees with active ACMPR licenses and two (2) Investees actively seeking ACMPR licenses.

Expansion and Acquisition

On November 5, 2014, Hortican acquired 100% of the issued and outstanding shares of ITZ, a company headquartered in Armstrong, British Columbia and incorporated, on March 15, 2013, under the *Business Corporations Act* (British Columbia). ITZ is a Licensed Producer of medical cannabis pursuant to the provisions of the ACMPR and the *Controlled Drugs and Substances Act* and its *Regulations*. The purchase price for the acquisition was \$1,811,730 of which \$1,321,730 was payable in cash at closing and the balance of the purchase price was paid by the issuance, out of treasury, of Hortican common shares.

On June 25, 2013, Hortican acquired 20% of the issued and outstanding shares of Peace Naturals, a corporation headquartered in Stayner, Ontario is incorporated under the *Canada Business Corporations Act*. Peace Naturals is a Licensed Producer of medical cannabis pursuant to the provisions of the ACMPR and the *Controlled Drugs and Substances Act* and its *Regulations*. Later in 2013, the Company exercised options to acquire additional equity in Peace Naturals, for a total of 27.3% of the issued and outstanding shares.

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On September 2, 2016, Hortican acquired the remaining issued and outstanding shares of Peace Naturals. The purchase price payable for the acquisition of the shares not already held by Hortican was approximately \$11.8 million of which (i) \$2.9 million was payable at closing, by the issuance, out of treasury, of PharmaCan common shares, (ii) approximately \$6.2 million was payable in cash at closing and (iii) the balance of the purchase price is held back for a period of up to twelve (12) months following closing. The purchase price was based on a Peace Naturals enterprise value of approximately \$22 million.

On October 21, 2016, the Company acquired approximately 17 acres of land adjacent to the 14 acre ITZ production campus in the Okanagan Valley of British Columbia (the "**Property**"). The Property was acquired for total consideration of \$600,000 cash payable at closing.

Recent Business and Legal Developments

On October 31, 2016 the Company divested its approximately 12% equity interest in Vert/Green Medical Inc. (“**Vert**”). Vert was acquired by Canopy Growth Corporation (“**Canopy**”) in a share-for-share transaction. As a result of the transaction, the Company acquired 7,374 shares of Canopy and may acquire up to 29,498 additional shares of Canopy subject to escrow conditions relating to certain licensing milestones for Vert.

The Company has received inquiries concerning strategic business opportunities from third-parties in several international jurisdictions. The Company believes there is an opportunity to leverage its expertise and its business model in other legal marijuana markets around the world. Subject to exchange and regulatory approval, strategic international business opportunities pursued by the Company could include:

- Ownership of cannabis cultivation and sales operations in countries outside of Canada; and
- The export of medical cannabis to third-parties in countries outside of Canada.

On October 10, 2016 the Company announced its first wholesale shipment of medical marijuana to Germany through German-based pharmaceutical wholesale distributor, Pedanios GmbH (“**Pedanios**”). On December 28, 2016, the Company further announced the execution of an exclusive supply agreement with Pedanios for the distribution of medical cannabis products in European markets with an initial term of three (3) years.

On December 6, 2016, the Company announced the formation of Indigenous Roots Inc. (“**Indigenous Roots**”), a joint venture with a corporation led by a former National Chief of the Assembly of First Nations. Indigenous Roots will be a producer of medicinal cannabis to be constructed on the ITZ production campus, licensed under ITZ’s ACMPR license, and will provide medical cannabis to First Nations patients.

On January 11, 2017 the Company announced ITZ had received approval from Health Canada to sell medicinal cannabis pursuant to the ACMPR. The new ITZ sales license supplements the prior cultivation license and validates the operational quality assurance undertakings of the Company.

On January 23, 2017, the Company announced it is seeking its shareholder approval to formally change its name to “Cronos Group Inc.” following the corporate rebranding announced on October 6, 2016. The

Company’s board of directors has unanimously approved the name change and recommends that shareholders vote in favor of the name change at the special meeting of shareholders scheduled for February 24, 2017.

DESCRIPTION OF THE BUSINESS

Regulatory Overview

Medical Marijuana

In 2001, Canada became the second country in the world to recognize the medicinal benefits of marijuana and to implement a government-run program for medical marijuana access. Health Canada replaced the prior regulatory framework and issued the *Marijuana for Medical Purposes Regulations* (the “**MMPR**”) in June 2013. The MMPR was intended to replace government supply and home-grown medical marijuana under the *Medical Marijuana Access Regulations* (the “**MMAR**”) with secure and regulated commercial operations capable of producing consistent, quality medicine. The MMPR issued in June 2013 covered only the production and sale of dried cannabis flowers. Under the MMPR, patients were required to obtain medical approval from their healthcare practitioner and provide a medical document to a Licensed Producer from which they wish to purchase marijuana.

On July 8, 2015 Health Canada issued certain exemptions under the *Controlled Drugs and Substances Act* (Canada) which included a Section 56 Exemption for Licensed Producers under the MMPR to conduct activities with cannabis, permitting Licensed Producers to apply for a supplemental license to produce and sell cannabis oil and fresh marijuana buds and leaves, in addition to dried marijuana (this did not permit Licensed Producers to sell plant material that can be used to propagate marijuana).

On February 24, 2016, the Federal Court of Canada released its decision in the case of *Allard et al v. Canada* (“**Allard**”). This case began as a result of the government’s decision to repeal the MMAR and enact the MMPR. The plaintiffs in *Allard* argued that the MMPR violated their Charter rights, and, in a lengthy and detailed judgment, agreeing with the plaintiffs, the court found the entire MMPR to be unconstitutional and of no force and effect, but suspended its declaration of invalidity for six months in order to give the government time to respond and, if thought appropriate, craft a Charter-compliant medical marijuana regime. Additionally, the Federal Court of Canada ruled that a previous injunction should be upheld, allowing patients with an existing personal production license under the prior legislation to continue to produce their own medical marijuana, subject to certain conditions.

On August 11, 2016, Health Canada announced the new ACMPR which came into force on August 24, 2016, replacing the MMPR as the regulations governing Canada’s medical cannabis program. The ACMPR was implemented as a result of *Allard*. In *Allard* the Federal Court found the MMPR to be unconstitutional and of no force and effect, but suspended its declaration of invalidity for six months in order to give the government time to respond. In response to *Allard*, ACMPR allows Canadians who have been authorized by their health care practitioner, and who are registered with Health Canada, to produce a limited amount of medical marijuana for their own medical purposes, or to designate someone who is registered with Health Canada to produce it for them. Starting materials such as plants or seeds are to be obtained from Licensed Producers only. See “*Risk Factors - Change in Laws, Regulations and Guidelines*”.

The ACMPR allows for competition among Licensed Producers on a host of factors including product quality, customer service, price, variety and brand awareness, allowing well-positioned and capitalized producers to leverage their position in the marketplace. Health Canada estimates that as of September 30, 2016 approximately 98,000 patients were registered to use medical marijuana under the ACMPR. By 2024, Health Canada estimates that the number of patients using medical marijuana will grow to 450,000.

Recreational Marijuana

On April 20, 2016, the Canadian Federal Government announced its intention to introduce, by the Spring of calendar year 2017, legislation to legalize the recreational use of marijuana in Canada. At this time, the form that this legislation will take is not known. CIBC World Markets estimates that the potential value of the recreational marijuana market in Canada will range from \$5 billion to \$10 billion per year. The lower market value of \$5 billion per year translates into yearly consumption of 770,000 kilograms of marijuana.

Company Overview

Cronos Group

PharmaCan Capital Corp. d/b/a Cronos Group is a publically traded company, incorporated in under the *Business Corporations Act* (Ontario) on August 21, 2012, with its head office at 76 Stafford Street, Toronto, Ontario. The Company’s Common Shares are listed on the TSX-V, under the trading symbol “MJN”. Through its wholly-owned subsidiaries, Peace Naturals and ITZ, Cronos Group is currently in the business of producing and selling legal marijuana in the Canadian medical market. Cronos Group is also positioning itself to produce and sell marijuana in the recreational market in Canada, if and when it should be legalized in the future.

Peace Naturals was incorporated under the *Business Corporations Act* (Ontario) on November 21, 2012. Peace Naturals is a Licensed Producer of medical marijuana pursuant to the provisions of the ACMPR and the *Controlled Drugs and Substances Act* and its *Regulations*. On October 31, 2013 Health Canada issued to Peace Naturals a first license (the “**Peace Naturals First License**”) for activities related to the production and sale of dried cannabis flower. On December 7, 2015, Health Canada issued to Peace Naturals a supplemental license (the “**Peace Naturals Supplemental License**”) for activities related to the production and sale of cannabis oils. Peace Naturals was acquired by Hortican on September 6, 2016.

In the Zone Produce Ltd.

ITZ was incorporated under the *Business Corporations Act* (British Columbia) on March 15, 2013. ITZ is a Licensed Producer of medical cannabis pursuant to the provisions of the ACMPR and the *Controlled Drugs and Substances Act* and its *Regulations*. Health Canada issued license to ITZ on February 26, 2014 (the “**ITZ First License**”). ITZ was acquired by Hortican on November 5, 2014. On January 11, 2017 the Company announced that ITZ has been approved by Health Canada to sell medicinal cannabis pursuant to the ACMPR (the “**ITZ Supplemental License**”). The new ITZ sales license supplements

the prior cultivation license and validates the operational quality assurance undertakings of the Company.

Cronos Groups Licenses

Peace Naturals and ITZ Licenses

Pursuant to the Peace Naturals Commercial License and the ITZ Commercial License, Peace Naturals and ITZ may:

- (a) possess, produce, sell, transport, deliver and destroy marijuana, including live plants, clippings and seeds;
- (b) possess, produce, sell, transport, deliver and destroy dried marijuana;
- (c) possess, transport, deliver and destroy CBD (defined herein); and
- (d) possess, transport, deliver and destroy THC (defined herein).

Peace Naturals and ITZ may sell or provide:

- (a) marijuana and dried marijuana to:
 - (i) another Licensed Producer;
 - (ii) a licensed dealer (as defined in the ACMPR);
 - (iii) the Minister; or
 - (iv) a person to whom an exemption relating to the substance has been granted under section 56 of the CDSA.
- (b) dried marijuana to:
 - (i) a client or an individual who is responsible for the client;
 - (ii) a hospital employee, if the possession of the dried marijuana is for the purposes of and in connection with their employment; or
 - (iii) a person to whom an exemption relating to the dried marijuana has been granted under section 56 of the CDSA.

Peace Naturals may:

- (a) possess, produce, sell, ship, transport, deliver, and destroy cannabis oil and cannabis resin.

Permitted activities related to cannabis oils includes strict terms and conditions that a Licensed Producer must comply with, including:

- the marihuana must be shipped in secure, child resistant packaging;
- Licensed Producers must include the same health warning messages that apply to dried marihuana;

- Licensed Producers must not sell or provide any cannabis oil with a concentration of delta-9-tetrahydrocannabinol (THC) exceeding 30 mg per ml of oil;
- Licensed Producers must ensure that the label specifies the amount (in milligrams) of THC and cannabidiol;
- Licensed Producers must ensure that the quantity of the fresh marihuana buds or leaves or cannabis oil is also labeled, in terms of equivalency to one gram of dried marihuana. Information on the conversion method must be published on the producer’s website;
- Licensed Producers must not make therapeutic claims in relation to the marihuana, unless they are otherwise approved under the *Food and Drugs Act* (Canada);
- Licensed Producers must continue to comply with the record-keeping requirements for all transactions involving non-dried marihuana, including sales and destruction records; and
- Licensed Producers must notify Health Canada of any adverse reactions related to fresh marijuana buds and leaves or cannabis oil of which they become aware.

Peace Naturals and ITZ may also (i) ship dried marijuana to a health care practitioner (as defined in the ACMPR) in the case referred to in subparagraph 108(1)(f)(iii) of the ACMPR; (ii) import marijuana if done in accordance with an import permit issued under section 75 of the ACMPR; and (iii) possess marijuana for the purpose of export and export marijuana if done in accordance with an export permit issued under section 83 of the ACMPR.

Principle Products

Medical marijuana can be ingested in a variety of ways, including smoking, vaporizing, consumption in the form of oil, or edibles. Unlike the pharmaceutical options, individual elements within medical marijuana have not been isolated, concentrated and synthetically manipulated to deliver a specific therapeutic effect. Instead, medical marijuana addresses ailments holistically through the synergistic action of naturally occurring phytochemicals.

Sativa and Indica are the two main types of cannabis plants, and hybrids can be created when the genetics of each of the two plants are crossed. Within these different types of cannabis plants there are many different varieties. Within each variety of medical cannabis there are many different cannabinoids, with the most common being delta-9-tetrahydrocannabinol (“THC”) the psychoactive ingredient and cannabidiol (“CBD”) which is responsible for many of the non-psychoactive effects from medical marijuana. Peace Naturals has access to many strain varieties and will continue to establish a variety of strains to best suit patient needs. ITZ has access to a limited number of strains at this time, however, strain sharing between Peace Naturals and ITZ is expected in the near future.

Distribution

Peace Naturals Project

Medical marijuana patients order from Peace Naturals primarily through the Peace Naturals’ online store or through the phone. Medical marijuana is and will continue to be delivered by secured courier or other methods permitted by the ACMPR or future regulation. Peace Naturals’ prices vary based on growth time, strain yield and market prices. Peace Naturals may from time to time offer volume discount or promotional pricing.

The Peace Naturals is also authorized for wholesale shipping of medical marijuana plant cuttings and dried bud to other Licensed Producers. Peace Naturals has already completed several sales through its wholesale strategy and based on current costs, management expects the wholesale shipment strategy to continue. This sales channel requires minimal selling, general and administrative costs over and above the cost to produce plant cuttings and dried bud.

As a result of the Section 56 Exemption, Peace Naturals is also allowed to produce and sell certain derivative products such as cannabis oil.

In The Zone Produce

ITZ has recently received a license to sell medical marijuana to registered patients, and it is expected that medical marijuana patients will order from ITZ primarily through the ITZ online store or through the phone. It is also expected that medical marijuana will be delivered by secured courier or other methods permitted by the ACMPR or future regulation. It is further expected that ITZ’s prices may vary based on growth time, strain yield and market prices and that ITZ may from time to time offer volume discount or promotional pricing.

Operations

As of the date of this AIF, Cronos Group’s business is conducted entirely through its various subsidiaries and equity accounted for investments. Substantially all of the Company’s revenue is derived from the sale of medical marijuana by Peace Naturals. Peace Naturals grows marijuana indoors for the purposes of sale and distribution of finished product in accordance with the ACMPR. Peace Naturals has plants at various stages of growth. Peace Naturals began production in 2012 and made its first shipment on November 13, 2013. Substantially all of Peace Naturals’ revenue is derived from the sale of dried marijuana flower to registered patients. Peace Naturals is currently operating at less than 20% of its annual 4,200 kg anticipated peak capacity of the currently constructed buildings at the facility. Peace Naturals’ current licensed capacity of 2,500 kg will need to be amended upward by Health Canada once the currently constructed buildings are put into production.

ITZ began production in 2014 and has yet to make its first shipment of marijuana. ITZ is currently licensed to produce 100 kg of marijuana per year. ITZ received its sales approval from Health Canada and is effective beginning on February 28, 2017 and is expected to begin shipments to patients in the near future.

The facilities and equipment required to manage production at the Peace Naturals and ITZ facilities include the following:

- 1) walk-in vault to comply with the Health Canada Security Directives for Controlled Substances;
- 2) building security, including access control, video surveillance and motion detectors;

- 3) shipping bay for client shipments;
- 4) growing equipment, including trays, containers, specialized lighting and associated controls, circulating fans and watering systems;
- 5) HVAC systems, primarily exhaust and cooling, to maintain an optimal growing environment;
- 6) odour control systems;
- 7) enhanced electrical distribution primarily for the high intensity lighting systems; and
- 8) laboratory equipment or outsourcing arrangements to monitor and test product quality for compliance with the Food and Drugs Act, Pest Control Products Act and product labelling standards under the ACMPR.

Health Canada conducts unscheduled site inspections of Licensed Producers. Peace Naturals and ITZ have experienced these inspections multiple times at their respective locations. While Health Canada routinely identifies aspects of the operations for improvement, Peace Naturals and ITZ respond to and comply with all requests from Health Canada within the time frames indicated in such requests and there are no outstanding inspection issues with Health Canada beyond the day-to-day adjustments that may occur in order to ensure ongoing compliance.

Storage & Security

The ACMPR require production sites to be located indoors, and not in a private dwelling. Division 5 of the ACMPR set out physical security requirements that are necessary to secure sites where Licensed Producers conduct activities with medical marijuana other than storage. Pursuant to the security requirements of the ACMPR the Company’s facilities

meet the following requirements:

- 1) each site is designed in a manner that prevents unauthorized access to the site itself and, once inside the site, to any area within the site where cannabis is present (the “Key Areas”);
- 2) the perimeter of each site and the Key Areas are each visually monitored at all times by recording devices that will detect any actual or attempted unauthorized access or illicit conduct;
- 3) there is an intrusion detection system which detects actual or attempted unauthorized access to the site or, once inside the site, to the Key Areas which intrusion detection system be monitored by such personnel as can take appropriate steps in response to any such unauthorized access and make a record on any such unauthorized access;
- 4) access to the Key Areas is restricted only to those employees whose work duties require them to enter such Key Areas;
- 5) while any other person is in a Key Area, either a person designated as the “Responsible Person in Charge” (as defined in the ACMPR) or a person designated as an “Alternate Responsible Person in Charge” (as defined in the ACMPR) must also be present in the Key Area;
- 6) records are kept of every person entering and exiting the Key Areas;
- 7) there are physical barriers preventing unauthorized access to Key Areas; and

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- 8) the Key Areas are equipped with an air filtration system that prevents the escape of odours and pollen.

Health Canada regulations stipulate that the value of finished goods that can be held in inventory cannot exceed the licensed limitations tied to the security level of the facility. The facility’s security level, as outlined in the Health Canada Directive on *Physical Security Requirements for Controlled Substances*, is established through a mix of perimeter, restricted area and storage vault physical and monitoring requirements as well as proximity to urban areas of the facility.

As per Health Canada’s regulations, Peace Naturals’ and ITZ’s facilities each contain vaults that meet all required regulations. The vaults are equipped with security cameras, motion sensors, code locked doors and seismic sensors that set alarms off when vibrations are detected. These security measures ensure Peace Naturals and ITZ are compliant with all of Health Canada’s necessary security requirements. The vault can only be accessed by a Responsible Person in Charge (an “RPiC”) and at least one RPiC must be present in the vault at all times if the doors are opened.

Specialized Knowledge, Skills, Resources & Equipment

Knowledge with respect to cultivating and growing medical marijuana is important to the medical marijuana industry. The nature of growing marijuana is not substantially different from the nature of growing other agricultural products. Variables such as temperature, humidity, lighting, air flow, watering and feeding cycles are meticulously defined and controlled to produce consistent product and to avoid contamination. The product is cut, sorted and dried under defined conditions that are established to protect the activity and purity of the product. Once processing is complete, each and every processing batch is subjected to full testing against stringent quality specifications set for activity and purity.

A primary specialized skill unique to the medical marijuana industry is with respect to the growing of product. While a background in the growing of marijuana specifically may be helpful, the nature of growing marijuana does not differ substantially from the nature of growing any other greenhouse product. The Company also requires client care staff, which will grow as its business grows. Customer care staff is a skillset that is also generally available in the market.

Differentiation in the strains of medical marijuana is primarily achieved through the procurement of seeds. Obtaining seeds for growing medical marijuana must be done in accordance with the ACMPR. Seeds must be obtained from a legal source, which includes seeds acquired from Health Canada, seeds imported from a jurisdiction allowed to export seeds or seeds acquired from another Licensed Producer. An authorization from Health Canada may be required to conduct such a transaction depending on its nature.

Equipment used is specialized, but is readily available and not specific to the cultivation of medical marijuana. Subject to available funding, the Company does not anticipate any difficulty in obtaining equipment as needed.

Competitive Conditions

As of the date of this AIF, Health Canada has a total of 38 licenses on its list of Licensed Producers. Of these Licensed Producers, 29 (including Peace Naturals and ITZ) are fully authorized to sell finished

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product to registered customers. As well, Health Canada includes a total of 22 licenses on its list of Licensed Producers under the Section 56 Exemption. Of those Licensed Producers, 19 (including Peace Naturals) are able to sell finished product to registered customers and three (3) have a license restricted to the production of fresh marijuana and cannabis oil. There are also a number of existing growers of medical marijuana operating under the prior regulatory regime who have or will seek to obtain Licensed Producer status under the ACMPR. The Company believes that the stringent application and compliance requirements of the ACMPR may prove too onerous for some of those existing producers. In addition, under the ACMPR home growers of medical marijuana may continue to produce medical marijuana pursuant to a license. The Company believes that its leadership team, brand strategy, commitment to high quality competitively priced strains, outstanding client service and a properly capitalized operation will enable the Company to establish and retain a leadership position in the market. See below under the heading “Risk Factors — Competition” for further information. The Company competes aggressively in terms of product quality, variety and price to differentiate its products; and maintains a focus on client services to retain a solid and sustainable position in the market.

Protection of Intangible Assets

The proprietary nature of, and protection for, the Company’s products, technologies, processes, and know-how are a key aspect of the Company’s business. To establish and protect the Company’s intellectual property in Canada, the Company has made various trademark applications. The Company relies on a combination of patents, trademarks and contractual restrictions to establish and protect our intellectual property. The Company has established and continues to build proprietary positions in all key aspects of our business. The Company continually seeks out new opportunities for enhancing its intellectual property portfolio.

Employees

As of the date of this AIF Cronos Group employs two (2) people and has four (4) contractors, Peace Naturals employs 39 employees, and ITZ employs three (3) employees.

RISK FACTORS

Investing in the Company's securities involves a significant amount of risk. Potential investors should carefully consider the risks described below, together with all of the other information in the Cronos Group's publicly filed documents, before making an investment decision. If any of the following risks actually occurs, Cronos Group's business, financial condition or results of operations and financial condition could be adversely affected, in any such case, the trading price of the Common Shares could decline, and investors could lose all or part of their investment.

Regulatory Risks

Achievement of the Company's business objectives is contingent, in part, upon compliance with regulatory requirements enacted by governmental authorities and obtaining all regulatory approvals, where necessary, for the sale of its products. The Company cannot predict the impact of the compliance regime Health Canada is implementing for the Canadian medical marijuana industry. Similarly, the

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Company cannot predict the time required to secure all appropriate regulatory approvals for its products, or the extent of testing and documentation that may be required by governmental authorities. The impact of Health Canada's compliance regime, any delays in obtaining, or failure to obtain regulatory approvals may significantly delay or impact the development of markets, products and sales initiatives and could have a material adverse effect on the business, results of operations and financial condition of the Company.

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

Change in Law, Regulations and Guidelines

The Company's operations are subject to a variety of laws, regulations and guidelines relating to the marketing, acquisition, manufacture, management, transportation, storage, sale and disposal of medical marijuana but also including laws and regulations relating to health and safety, the conduct of operations and the protection of the environment. While to the knowledge of the Company's management, it is currently in compliance with all such laws, changes to such laws, regulations and guidelines due to matters beyond the control of the Company may cause adverse effects to its operations.

On August 11, 2016, Health Canada announced the new ACMPR which came into force on August 24, 2016, replacing the MMPR as the regulations governing Canada's medical cannabis program. The ACMPR was implemented as a result of a February 2016 Federal Court case *Allard*. In *Allard* the Federal Court found the MMPR to be unconstitutional and of no force and effect, but suspended its declaration of invalidity for six months in order to give the government time to respond. In response to *Allard*, ACMPR allows Canadians who have been authorized by their health care practitioner, and who are registered with Health Canada, to produce a limited amount of medical marijuana for their own medical purposes, or to designate someone who is registered with Health Canada to produce it for them. Starting materials such as plants or seeds are to be obtained from Licensed Producers only.

Limited Operating History

The Company began carrying on business in 2013; Peace Naturals began operations in 2012 and generated its first revenues in 2013; ITZ began operations in 2014 and, as of the date of this AIF, has yet to generate revenue from sales; and the Company's Investees are in various early stages of operation or, as of the date of this AIF, have yet to be granted a license. The Company is therefore subject to many of the risks common to early-stage enterprises, including under-capitalization, cash shortages, limitations with respect to personnel, financial, and other resources and lack of revenues. There is no assurance that the Company will be successful in achieving a return on shareholders' investment and the likelihood of success must be considered in light of the early stage of operations.

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Reliance on Licenses

The Company's ability to grow, store and sell medical marijuana in Canada is dependent on the license from Health Canada. Failure to comply with the requirements of the license or any failure to maintain this license would have a material adverse impact on the business, financial condition and operating results of the Company. Peace Naturals Commercial License was renewed October 31, 2016 and expires October 31, 2018. ITZ Commercial License was renewed and is effective beginning on February 28, 2017 and expires February 28, 2018. Although Peace Naturals and ITZ believe they will meet the requirements of the ACMPR annually for extension of their Commercial Licenses, there can be no guarantee that Health Canada will extend or renew the Commercial Licenses or, if they are extended or renewed, that they will be extended or renewed on the same or similar terms. Should Health Canada not extend or renew the licenses, or should it renew the licenses on different terms or not allow for anticipated capacity increases, the business, financial condition and results of the operations of the Company will be materially adversely affected.

Reliance on Two Facilities

The Company's activities and resources are focused on the Peace Naturals Stayner, Ontario facility, which includes two operational cultivation buildings and one pre-operational cultivation building, and the ITZ Armstrong, British Columbia facility, which includes one operational cultivation building. The licenses held by Peace Naturals and ITZ are specific to those facilities. Adverse changes or developments affecting either facility, including but not limited to a breach of security, could have a material and adverse effect on the Company's business, financial condition and prospects. Any breach of the security measures and other facility requirements, including any failure to comply with recommendations or requirements arising from inspections by Health Canada, could also have an impact on the Company's ability to continue operating under its licenses or the prospect of renewing its licenses.

The Company owns both of its facilities and bears the responsibility for all of the costs of maintenance and upkeep. The Company's operations and financial performance may be adversely affected if either Peace Naturals or ITZ are unable to keep up with maintenance requirements.

Certain contemplated capital expenditures, including the build out of additional cultivation and production space, as well as the construction of additional facilities, will require Health Canada approval. There is no guarantee that Health Canada will approve the contemplated expansion and/or renovation, which could adversely affect the business, financial condition and results of operations of the Company.

Reliance on Management

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

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Certain of the Company's officers and directors are officers and directors of other Company's, and conflicts of interest may arise between their duties as officers and directors of the Company and as officers and directors of such other companies.

Reliance on Key Inputs

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

Dependence on Suppliers and Skilled Labour

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

Risks Inherent in Agricultural Business

The Company's business involves the growing of medical marijuana, an agricultural product. As such, the business is subject to the risks inherent in the agricultural business, such as insects, plant diseases and similar agricultural risks that may create crop failures and supply interruptions for the Company's customers. Although Peace Naturals and ITZ grow products indoors under climate controlled conditions and carefully monitors the growing conditions with trained personnel, there can be no assurance that natural elements will not have a material adverse effect on the production of its products.

Vulnerability to Rising Energy Costs

Peace Naturals and ITZ's medical marijuana growing operations consume considerable energy, making the Company vulnerable to rising energy costs. Rising or volatile energy costs may adversely impact the business of the Company and its ability to operate profitably.

Third Party Transportation Risks

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

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

Sufficiency of Insurance Coverage

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

Environmental and Employee Health & Safety Regulations

The Company's operations are subject to environmental and safety laws and regulations concerning, among other things, emissions and discharges to water, air and land, the handling and disposal of hazardous and non-hazardous materials and wastes, and employee health and safety. The Company will incur ongoing costs and obligations related to compliance with environmental and employee health and safety matters. Failure to comply with environmental and safety laws and regulations may result in additional costs for corrective measures, penalties or in restrictions on our manufacturing operations. In addition, changes in environmental, employee health and safety or other laws, more vigorous enforcement thereof or other unanticipated events could require extensive changes to Company's operations or give rise to material liabilities, which could have a material adverse effect on the business, results of operations and financial condition of the Company.

Product Liability

As a manufacturer and distributor of products designed to be ingested by humans, the Company faces an inherent risk of exposure to product liability claims, regulatory action and litigation if its products are alleged to have caused significant loss or injury. In addition, the manufacture and sale of marijuana products involve the risk of injury to consumers due to tampering by unauthorized third parties or product contamination. Previously unknown adverse reactions resulting from human consumption of marijuana products alone or in combination with other medications or substances could occur. The Company may be subject to various product liability claims, including, among others, that the products produced by Peace Naturals and ITZ caused injury or illness, include inadequate instructions for use or include inadequate warnings concerning possible side effects or interactions with other substances. A product liability claims or regulatory action against the Company could result in increased costs, could

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adversely affect the Company's reputation with its clients and consumers generally, and could have a material adverse effect on our results of operations and financial condition of the Company.

There can be no assurances that the Company will be able to obtain or maintain product liability insurance on acceptable terms or with adequate coverage against potential liabilities. Such insurance is expensive and may not be available in the future on acceptable terms, or at all. The inability to obtain sufficient insurance coverage on reasonable terms or to otherwise protect against potential product liability claims could prevent or inhibit the commercialization of products.

Product Recalls

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

On May 9, 2014, Peace Naturals announced a voluntary recall with the support of Health Canada. The lots recalled were purchased from a third party cannabis producer. During a routine testing the recalled product was found to contain microbial traces outside of Peace Naturals' quality assurance standards. No adverse or negative reactions were reported by clients. Peace Naturals has implemented pre-screening protocols for all foreign plant matter to enter the Peace Naturals facility. Health Canada remains satisfied with Peace Naturals' transfer/import protocols and policies, and >90% of the affected clients remain active clients and continue to order product from Peace Naturals.

On February 9, 2015, Peace Naturals announced a voluntary recall with the support of Health Canada. During a routine testing the recalled product was found to contain THC levels up to 4% higher than indicated on the product label when sold, outside of Peace Naturals' +/-2% variance margin. No adverse or negative reactions were reported by clients. Peace Naturals' implemented new protocols related internal testing methodology to ensure accurate results. Health Canada remains satisfied with Peace Naturals' internal methodologies and validation protocols.

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Unfavorable Publicity or Consumer Perception

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

Client Acquisitions

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

Management of Growth

The Company is currently in an early development stage and may be subject to growth-related risks, including capacity constraints and pressure on its internal systems and controls, which may place significant strain on its operational and managerial resources. The ability of the Company to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. There can be no assurances that the Company will be able to manage growth successfully. Any inability of the Company to manage growth successfully could have a material adverse effect on the Company's business, financial condition and operational results.

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Historical and Potential Losses

The Company has incurred losses in recent periods. The Company may not be able to achieve or maintain profitability and may continue to incur significant losses in the future. In addition, the Company expects to continue to increase operating expenses as it implements initiatives to continue to grow its business. If the Company's revenues do not increase to offset these expected increases in costs and operating expenses, the Company will not be profitable. There is no assurance that future revenues will be sufficient to generate the funds required to continue operations without external funding.

Additional Financing

There is no guarantee that the Company will be able to achieve its business objectives. The continued development of the Company may require additional financing. The failure to raise such capital could result in the delay or indefinite postponement of current business objectives or the Company going out of business. There can be no assurance that additional capital or other types of financing will be available if needed or that, if available, the terms of such financing will be favourable to the Company. If additional funds are raised through issuances of equity or convertible debt securities, existing shareholders could suffer significant dilution, and any new equity securities issued could have rights, preferences and privileges superior to those of holders of Common Shares. In addition, from time to time, the Company may enter into transactions to acquire assets or the shares of other corporations. These transactions may be financed wholly or partially with debt, which may temporarily increase the Company's debt levels above industry standards. Any debt financing secured in the future could involve restrictive covenants relating to capital raising activities and other financial and operational matters, which may make it more difficult for the Company to obtain additional capital and to pursue business opportunities, including potential acquisitions.

The Company had negative operating cash flow for the fiscal years ending December 31, 2015, December 31, 2014 and December 31, 2013. If the Company continues to have negative cash flow into the future, additional financing proceeds may need to be allocated to funding this negative cash flow in addition to the Company's operational expenses. The Company may require additional financing to fund its operations to the point where it is generating positive cash flows. Continued negative cash flow may restrict the Company's ability to pursue its business objectives.

Difficulty to Forecast

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

Conflicts of Interest

The Company may be subject to various potential conflicts of interest because of the fact that some of its officers and directors may be engaged in a range of business activities. In addition, the Company's executive officers and directors may devote time to their outside business interests, so long as such activities do not materially or adversely interfere with their duties to the Company. In some cases, the Company's executive officers and directors may have fiduciary obligations associated with these

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business interests that interfere with their ability to devote time to the Company's business and affairs and that could adversely affect the Company's operations. These business interests could require significant time and attention of the Company's executive officers and directors.

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

Litigation

The Company may become party to litigation from time to time in the ordinary course of business which could adversely affect its business. Should any litigation in which the Company becomes involved be determined against the Company such a decision could adversely affect the Company's ability to continue operating and the market price for the Common Shares and could use significant resources. Even if the Company is involved in litigation and wins, litigation can redirect significant Company resources. Litigation may also create a negative perception of the Company's brand.

The following is a brief summary of certain ongoing litigation matters that the Company is aware of:

On February 18, 2016, 2073056 Ontario Inc. ("**207**") commenced a claim against Hortican, before the Ontario Superior Court of Justice, for \$50,000,000 in damages. 207 alleges that PharmaCan unlawfully interfered in a share purchase transaction between 207 and two then-shareholders of Peace Naturals. As of the date of filing, the defendant has delivered a statement of defence. The Company's litigation counsel cannot assess the value of this claim at this stage.

On July 31, 2015, 8437718 Canada Inc., 8437726 Canada Inc., Michael Blaine Dowdle, Rade Kovacevic, Kevin Furet and 9388036 Canada Inc. ("**938**") (collectively, the "**plaintiffs**") commenced a claim against Peace Naturals and a number of other parties, before the Ontario Superior Court of Justice, for \$15,000,000 in damages. The plaintiffs allege that Peace Naturals breached its obligations to them by terminating a share purchase transaction. As of the date of filing, the defendant has delivered a statement of defence. The Company's litigation counsel cannot assess the value of this claim at this stage.

On November 26, 2015, Tweed Inc. ("**Tweed**") and 938 commenced a claim against Peace Naturals (the "**Plants Claim**"), before the Ontario Superior Court of Justice, for \$12,000,000 in damages in relation to the destruction of twelve mother plants. Peace Naturals defended the action and, on December 15, 2016, brought an application before the Ontario Superior Court of Justice to have settlement documents related to the Plants Claim released from escrow. As of the date of filing, Tweed and 938 have not yet served a notice of appearance. The Company's litigation counsel cannot assess the value of this claim at this stage.

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Competition

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

The government has only issued to date a limited number of licenses under the ACMPR to produce and sell medical marijuana. According to Health Canada there are currently 38 Licensed Producers. There are, however, several hundred applicants for licenses. The number of licenses granted could have an impact on the operations of the Company. Because of early stage of the industry in which the Company operates, the Company expects to face additional competition from new entrants.

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

In addition, there is a high probability that recreational use of marijuana will become legalized in the near future. According to Health Minister Jane Philpott, new marijuana legislation will be coming in spring 2017. While no details have been provided on what the landscape of a legalization regime will look like, it is expected that this may have an impact on the operations of the Company. The number of Licensed Producers may increase or Licensed Producers may cease to exist as they do currently. Without knowledge of what the future of marijuana will look like in Canada, there is an increased risk to the Company that it could negatively impact our market share and demand for products.

The Company also faces competition from illegal marijuana dispensaries that are selling marijuana to individuals despite not having a valid license under the ACMPR. As well, the legal landscape for medical and recreational marijuana is changing internationally. More countries have passed laws that allow for the production and distribution of medical marijuana in some form or another. The Company has some international partnerships in place, which may be effected if more countries legalize medical marijuana. Increased international competition might lower the demand for the Company's products on a global scale.

Reputational Risks to Third Parties

The parties with which the Company does business may perceive that they are exposed to reputational risk as a result of the Company's medical marijuana business activities. For example, the Company received a notification from its prior principal banker advising it that they would no longer continue its banking relationship with the Company or any others in the medical marijuana industry. While the Company has other banking relationships and believes that the services can be procured from other institutions, the Company may in the future have difficulty establishing or maintaining bank accounts or

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other business relationships. Failure to establish or maintain business relationships could have a material adverse effect on the Company.

TSX-V Restrictions on Business

The TSX-V required that, as a condition to listing, the Company deliver an undertaking (the “**Undertaking**”) confirming that, while listed on the TSX-V, the Company will only conduct the business of production, acquisition, sale and distribution of medical marijuana in Canada as permitted under the Commercial Licenses with Health Canada. This undertaking could have an adverse effect on the Company’s ability to export marijuana from Canada and on its ability to expand its business into other areas including the provision of non-medical marijuana in the event that the laws were to change to permit such sales, the Company is still listed on the TSX-V and still subject to such undertaking at the time. This undertaking may prevent the Company from expanding into new areas of business when the Company’s competitors have no such restrictions. All such restrictions could materially and adversely affect the growth, business, financial condition and results of operations of the Company.

Market Price Fluctuation

The market price of Common Shares may be subject to wide fluctuations in response to many factors, including variations in the operating results of the Company, divergence in financial results from analysts’ expectations, changes in earnings estimates by stock market analysts, changes in the business prospects for the Company, general economic conditions, legislative changes, and other events and factors outside of the Company’s control. In addition, stock markets have from time to time experienced extreme price and volume fluctuations, which, as well as general economic and political conditions, could adversely affect the market price for Common Shares.

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

- actual or anticipated fluctuations in the Company’s quarterly results of operations;
- recommendations by securities research analysts;
- changes in the economic performance or market valuations of companies in the industry in which the Company operates;
- addition or departure of the Company’s executive officers and other key personnel;
- release or expiration of transfer restrictions on outstanding Common Shares;
- sales or perceived sales of additional Common Shares;
- operating and financial performance that vary from the expectations of management, securities analysts and investors;
- regulatory changes affecting the Company’s industry generally and its business and operations;
- announcements of developments and other material events by the Company or its competitors;
- fluctuations to the costs of vital production materials and services;
- changes in global financial markets and global economies and general market conditions, such as interest rates and pharmaceutical product price volatility;

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- significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving the Company or its competitors;
 - operating and share price performance of other companies that investors deem comparable to the Company or from a lack of market comparable companies; and
 - news reports relating to trends, concerns, technological or competitive developments, regulatory changes and other related issues in the Company’s industry or target markets.

Financial markets have recently experienced significant price and volume fluctuations that have particularly affected the market prices of equity securities of companies and that have often been unrelated to the operating performance, underlying asset values or prospects of such companies. Accordingly, the market price of the Common Shares may decline even if the Company’s operating results, underlying asset values or prospects have not changed. Additionally, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses. There can be no assurance that continuing fluctuations in price and volume will not occur. If such increased levels of volatility and market turmoil continue, the Company’s operations could be adversely impacted and the trading price of the Common Shares may be materially adversely affected.

Dividends

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

Holding Company

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

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Limited Market for Securities

The Company’s common shares are listed on the TSX-V, however, there can be no assurance that an active and liquid market for the common shares will be maintained and an investor may find it difficult to resell any securities of the Company.

Risk Inherent in the Acquired Companies

While the Company conducted substantial due diligence in connection with the acquisition of the Peace Naturals and ITZ, there are risks inherent in any acquisition. Specifically, there could be unknown or undisclosed risks or liabilities of such companies for which the Company is not sufficiently indemnified. Any such unknown or undisclosed risks or liabilities could materially and adversely affect the Company’s financial performance and results of operations. The Company currently anticipates that its acquisition of the Peace Naturals and ITZ will be accretive; however, this expectation may materially change. The Company could encounter additional transaction and integration related costs or other factors such as the failure to realize all of the benefits from the acquisition. All of these factors could cause dilution to the Company’s earnings per share or decrease or delay the anticipated accretive effect of the acquisition and cause a decrease in the market price of the Common Shares.

Failure to Effectively Integrate Acquired Companies

The success of the acquisition of the Peace Naturals and ITZ will depend, in part, on the ability of the Company to realize the anticipated benefits and synergies from integrating those companies into the businesses of the Company.

The Company may not be able to successfully integrate and combine the operations, personnel and technology infrastructure of the Peace Naturals and ITZ with its existing operations. If integration is not managed successfully by the Company's management, the Company may experience interruptions in its business activities, deterioration in its employee and customer relationships, increased costs of integration and harm to its reputation, all of which could have a material adverse effect on the Company's business, financial condition and results of operations. The Company may experience difficulties in combining corporate cultures, maintaining employee morale and retaining key employees. The integration of the Peace Naturals and ITZ may also impose substantial demands on the Company's management. There is no assurance that these acquisitions will be successfully integrated in a timely manner. The challenges involved in the Company's integration of the Peace Naturals and ITZ may include, among other things, the following:

- the necessity of coordinating both geographically disparate and geographically overlapping organizations;
- retaining key personnel, including addressing the uncertainties of key employees regarding their future;
- integrating the Peace Naturals and ITZ into the Company's accounting system and adjusting the Company's internal control environment to cover the operations of the Peace Naturals and ITZ;
- integration of information technology systems and resources;

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- performance shortfalls relative to expectations at one or both of the businesses as a result of the diversion of management's attention to the integration of the Peace Naturals and ITZ; and
- unplanned costs required to integrate the Peace Naturals and ITZ with the Company's existing business.

Sales of Substantial Amounts of the Common Shares May Have an Adverse Effect on the Market Price of the Common Shares

Sales of substantial amounts of the Common Shares, or the availability of such securities for sale, could adversely affect the prevailing market prices for the Common Shares. A decline in the market prices of the Common Shares could impair the Company's ability to raise additional capital through the sale of securities should it desire to do so.

A Significant Number of Common Shares Are Owned by a Limited Number of Existing Shareholders

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

DIVIDENDS

As of the date of this AIF, Cronos Group has no current intention to declare dividends on its Common Shares in the foreseeable future. Any decision to pay dividends on its Common Shares in the future will be at the discretion of the Company's board of directors and will depend on, among other things, the Company's results of operations, current and anticipated cash requirements and surplus, financial condition, any future contractual restrictions and financing agreement covenants, solvency tests imposed by corporate law and other factors that the board of directors may deem relevant.

CAPITAL STRUCTURE

The Company is authorized to issue an unlimited number of Common Shares. As of the date of this AIF, there are 122,680,133 Common Shares issued and outstanding. The holders of the Common Shares are entitled to one vote per share at all meetings of the shareholders of the Company. The holders of Common Shares are also entitled to dividends, if and when declared by the directors of the Company and the distribution of the residual assets of the Company in the event of a liquidation, dissolution or winding up of the Company.

The Company is authorized to issue an unlimited number of special shares, issuable in series. The special shares may be issued in one or more series and the directors are authorized to fix the number of shares in each series and to determine the designation, right, privileges, restrictions and conditions attached to the shares in each series. No special shares have been issued since the Company's inception.

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The stock option plan (the "**Option Plan**") of the Company is administered by the board of directors, which is responsible for establishing the exercise price (at not less than the Discounted Market Price as defined in the policies of the TSX-V) and the vesting and expiry provisions. Pursuant to the Option Plan the Company may issue up to 10% of the total number of Common Shares issued and outstanding at the date of any grant. This is a "rolling" plan ceiling as the number of options which may be granted pursuant to the Option Plan will increase as the number of Common Shares which are issued and outstanding increases. As of the date of this AIF, options granted under the Option Plan to purchase up to an aggregate of 5,414,586 Common Shares are issued and outstanding.

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MARKET FOR SECURITIES

Common Shares are listed and traded on the TSX-V under the trading symbol "MJN". The following table sets forth the price range per share and trading volume for the Common Shares on the TSX-V for the period between January 1, 2015 and December 31, 2016:

Period	High Trading Price	Low Trading Price	Volume
December 2016	\$ 1.74	\$ 1.35	6,745,733
November 2016	\$ 1.92	\$ 0.92	17,367,547
October 2016	\$ 1.35	\$ 0.81	14,610,416
September 2016	\$ 0.95	\$ 0.46	8,576,800
August 2016	\$ 0.56	\$ 0.39	2,619,200
July 2016	\$ 0.42	\$ 0.18	2,972,000
June 2016	\$ 0.21	\$ 0.19	389,800
May 2016	\$ 0.28	\$ 0.14	710,700
April 2016	\$ 0.28	\$ 0.19	245,800

March 2016	\$	0.29	\$	0.19	298,400
February 2016	\$	0.29	\$	0.17	451,500
January 2016	\$	0.35	\$	0.26	622,400
December 2015	\$	0.35	\$	0.26	51,000
November 2015	\$	0.57	\$	0.32	1,577,300
October 2015	\$	0.35	\$	0.20	544,400
September 2015	\$	0.40	\$	0.24	185,885
August 2015	\$	0.425	\$	0.31	241,881
July 2015	\$	0.47	\$	0.375	200,885
June 2015	\$	0.50	\$	0.45	383,714
May 2015	\$	0.57	\$	0.42	432,595
April 2015	\$	0.61	\$	0.50	259,132
March 2015	\$	0.63	\$	0.54	334,265
February 2015	\$	0.67	\$	0.48	804,552
January 2015	\$	0.80	\$	0.62	790,215

PRIOR SALES

The following table summarizes details of the following securities that are not listed or quoted on a marketplace issued by the Company during the period between January 1, 2015 and December 31, 2016:

Date of Issuance	Security	Issuance/Exercise Price Per Security	Number of Securities
October 8, 2015	Warrants	\$ 0.31	5,263,158
October 29, 2015	Warrants	\$ 0.31	2,629,296
May 13, 2016	Warrants	\$ 0.245	10,810,812
May 17, 2016	Options	\$ 0.285	78,925

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Date of Issuance	Security	Issuance/Exercise Price Per Security	Number of Securities
May 27, 2016	Warrants	\$ 0.245	21,621,613
May 27, 2016	Options	\$ 0.285	78,925
August 10, 2016	Options	\$ 0.500	1,225,000
October 5, 2016	Options	\$ 1.230	2,887,500
November 16, 2016	Options	\$ 1.500	300,000
November 21, 2016	Options	\$ 1.840	182,000

ESCROWED SECURITIES AND SECURITIES SUBJECT TO RESTRICTION ON TRANSFER

The following table summarizes details of the Company's securities of each class held, to the Company's knowledge, in escrow or that are subject to a contractual restriction on transfer as of the date of this AIF:

Designation of Class	Number of Securities held in escrow or that are subject to a contractual restriction on transfer	Percentage of Class ⁽¹⁾
Common Shares	3,233,992 ⁽²⁾⁽³⁾⁽⁴⁾	7.52%

Note:

- (1) Based on 42,960,395 Common Shares issued and outstanding as of December 31, 2015
- (2) In connection with the Company's initial public offering, 177,369 Common Shares remain, as of November 28, 2016, deposited in escrow with TSX Trust Company (formerly Equity Financial Trust Company) pursuant to a CPC Escrow Agreement dated June 19, 2014 ("CPC Escrow Agreement"). Of the 177,369 Common Shares remaining in escrow under the CPC Escrow Agreement, half are expected to be released from escrow on June 16, 2017 and the other half on December 16, 2017.
- (3) In connection with the Company's Qualifying Transaction, 1,683,880 Common Shares remain, as of November 28, 2016, deposited in escrow with TSX Trust Company (formerly Equity Financial Trust Company) pursuant to a 5D Value Escrow Agreement dated December 10, 2014 ("5D Value Escrow Agreement"). Of the 1,683,880 Common Shares remaining in escrow under the 5D Value Escrow Agreement, half are expected to be released from escrow on June 16, 2017 and the other half on December 16, 2017.
- (4) In connection with the Company's Qualifying Transaction, 1,372,743 Common Shares remain, as of November 28, 2016, deposited in escrow with TSX Trust Company (formerly Equity Financial Trust Company) pursuant to a 5D Surplus Escrow Agreement dated December 10, 2014 ("5D Surplus Escrow Agreement"). Of the 1,372,743 Common Shares remaining in escrow under the 5D Surplus Escrow Agreement, half are expected to be released from escrow on June 16, 2017 and the other half on December 16, 2017.

DIRECTORS AND OFFICERS

Name, Occupation and Security Holding

Below are the names, province or state and country of residence, principle occupation and periods of service of the directors and executive officers of the Company.

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Name and Municipality Residence	Principle Occupation for Last Five Years	Director of Cronos Group Since	Position Held with Cronos Group	Number of Common Shares Beneficially Owned, Controlled or Directed, Directly or Indirectly
Michael Gorenstein ⁽¹⁾ New York, NY, USA	May 2016 to Present — CEO of Cronos Group June 2015 to Present — Partner at Alphabet Ventures, LLC	November 6, 2015 to Present	Chairman, Chief Executive Officer, President	1,284,450 (1.05%)

January 2015 to June 2015 —
Principal & General Counsel at
Saiers Capital, LLC (n/k/a
Alphabet Management, LLC)

October 2011 to
December 2015 — Associate at
Sullivan & Cromwell, LLP

Michael Krestell
Thornhill, Ontario, Canada March 2013 to Present —
President at M Partners, Inc. December 10, 2014 to Present Director 42,260 (0.01%)

October 2009 to March 2013 —
Managing Director of Equity
Research at M Partners, Inc.

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Name and Municipality Residence	Principle Occupation for Last Five Years	Director of Cronos Group Since	Position Held with Cronos Group	Number of Common Shares Beneficially Owned, Controlled or Directed, Directly or Indirectly
Jason Adler New York, NY, USA	June 2015 to Present — Managing Partner of Alphabet Ventures, LLC	July 12, 2016 to Present	Director	6,594,092 (5.38%)
	October 2007 to June 2015 — Managing Member/CEO of Saiers Capital, LLC (n/k/a Alphabet Management, LLC)			

Alan Friedman ⁽²⁾ Toronto, ON, Canada	November 2014 to Present — Managing Director at Tembo Financial Inc.	August 21, 2012 to Present	Director	213,689 (0.18%)
	September 2006 to Present — President & CEO of Rivonia Capital Inc.			

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Name and Municipality Residence	Principle Occupation for Last Five Years	Director of Cronos Group Since	Position Held with Cronos Group	Number of Common Shares Beneficially Owned, Controlled or Directed, Directly or Indirectly
William Hilson Toronto, ON, Canada	October 2015 to October 2016 — President at Hillhurst Management	N/A	Chief Financial Officer	777,642 (0.63%)
	March 2015 to October 2015 — President at Hillhurst Capital			
	June 2013 to March 2014 — CFO at TravelEdge			
	June 2003 to June 2013 — CFO at EMD Inc.			

Paul Rosen Toronto, ON, Canada	November 2013 to May 2016 — CEO of Cronos Group	January 18, 2013 to May 13, 2016	Former — Director, President, Chief Executive Officer	1,613,273 ⁽³⁾ (1.32%)
	October 1999 to January 2014 — CEO of Skypad, Inc.			

Lorne Gernter Toronto, ON, Canada	January 2006 to Present — CEO of Tokyo Smoke, Inc.	January 18, 2013 to May 19, 2016	Former — Chairman	1,088,689 ⁽⁴⁾ (0.89%)
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Steven Isenberg Toronto, ON, Canada	January 2005 to Present — CEO of M Partners	December 10 2014 to January 15, 2016	Former — Director	118,100 ⁽⁵⁾ (0.10%)
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Glen A. Huber Toronto, ON, Canada	February 2008 to Present — President of Brett Management Inc.	December 10, 2014 to January 15, 2016	Former — Director, Chief Financial Officer	0 (0%)
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Notes:

- (1) Member of the Compensation Committee
- (2) Member of the Compensation Committee
- (3) 96,982 of these Common Shares are held by Skypad, Inc., a corporation that is controlled by Mr. Rosen; this information is based on Mr. Rosen's last public filing; the Company was unable to verify Mr. Rosen's current holdings as of the date of this AIF.
- (4) This information is based on Mr. Gertner's last public filing; the Company was unable to verify Mr. Gertner's current holdings as of the date of this AIF.
- (5) This information is based on Mr. Isenberg's last public filing; the Company was unable to verify Mr. Isenberg's current holdings as of the date of this AIF.

The term of each director of the Company will expire on the date of the next annual meeting of the shareholders of the Company.

The following is a summary biography of each of the directors and executive officers of the Company:

Michael Gorenstein
Chairman, CEO, President

Mr. Gorenstein is the Chief Executive Officer, President and Chairman of the Company. Before joining the Company, Mr. Gorenstein was a partner at Alphabet Ventures LLC, a multi-strategy investment management firm located in New York City. Prior to Alphabet Ventures, Michael was the VP and General Counsel of Saiers Capital LLC and a corporate attorney at Sullivan & Cromwell where he focused on Mergers and Acquisitions and Capital Market transactions. Michael graduated from the University of Pennsylvania Law School with a JD, the Wharton School at University of Pennsylvania with a certificate in BEPP and the Kelley School of Business at Indiana University with a BSB in Finance.

Michael Krestell
Director

Mr. Krestell is President of M Partners Inc., a Canadian investment dealer, since 2013. Prior thereto, Michael was MD Research at M Partners Inc. from 2007 and an analyst at M Partners Inc. covering the merchandising and consumer products sector from 2005 to 2007. In 2009, Michael received a Starmine award by being the number four (4) ranked stock picker in Canada. Michael received an MBA with distinction from the Schulich School of Business specializing in Finance and Strategic Management and he is a CFA charterholder.

Alan Friedman
Director

Mr. Friedman has been a director of Adira Energy Ltd. since August 2009 and Eco (Atlantic) Oil & Gas Ltd. since December 2011. Alan is an attorney and has played an integral role in the acquisition of various resource assets, financings and go-public transactions onto the Toronto Stock Exchange. He was a co-founder and previous director of Auryx Gold Corp., a Toronto Stock Exchange listed Namibian gold exploration company, before it was sold to B2Gold Corp. for approximately \$160 million in 2011. Since September 2006, Alan has also been the President and CEO of Rivonia Capital Inc. a Canadian corporation providing market structuring, capital planning and administrative management services to private and public resource companies.

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Jason Adler
Director

Mr. Adler is Managing Member of Alphabet Ventures, LLC, a captive investment vehicle operating in a wide range of domains including growth equity, established companies with growth perspective and creative debt vehicles. Prior to Alphabet Ventures, Jason was the co-founder and CEO of Alphabet Management, LLC, a volatility focused fund manager. Prior to Alphabet, Jason founded Geronimo, LLC in 2000, an AMEX member broker dealer that made markets in equity options. He began his career as a market maker at G&D Trading, an AMEX member market maker. Jason graduated with a B.A. from the University of Rhode Island.

William Hilson
Chief Financial Officer

Mr. Hilson is a Certified Public Accountant (CPA) and has spent over 15 years as regional CFO of two publicly listed multinational pharmaceutical companies — Merck KGaA and Serono S.A. His experience includes financial operations, strategy, performance management, sales & marketing, clinical trial management, international tax and debt and equity financing. Prior to joining Cronos Group, William was also involved in a number of mergers and acquisitions and licensing deals in the pharmaceutical sector.

Cease Trade Orders, Bankruptcies, Penalties or Sanctions

Except as disclosed below, to the knowledge of the directors and officers of the Company, no director or officer of the Company, or a shareholder holding a sufficient number of securities of the Company to affect materially the control of the Company:

- a) is, as at the date of the AIF or has been, within the 10 years before the date of the AIF, a director or executive officer of any company that while that person was acting in that capacity,
 - i) was the subject of a cease trade or similar order or an order that denied the relevant companies access to any exemption under securities legislation, for a period of more than 30 consecutive days; or
 - ii) was subject to an event that resulted, after the director or executive officer ceased to be a director or executive officer, in the company being the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days; or
 - iii) within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or
- b) has, within the 10 years before the date of the AIF, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold its assets.

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Except as disclosed below, to the knowledge of the directors and officers of the Company, no director or executive officer of the Company (i) has been subject to any penalties or sanctions imposed by a court relating to Canadian securities legislation or by a Canadian securities regulatory authority or has entered into a settlement agreement with a Canadian securities regulatory authority, or (ii) has been subject to any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

While Glen A. Huber was a director of OutdoorPartner Media Corporation, a temporary cease trade order was issued against OutdoorPartner Media Corporation by the Ontario Securities Commission on July 20, 2011 due to the fact that it failed to file its interim and audited financial statements during the year ended February 28, 2011, accompanying management's discussion and analysis, annual information form and related CEO and CFO certifications. OutdoorPartner Media Corporation subsequently filed the outstanding statements and disclosures and the cease trading order was revoked October 15, 2012.

Steven Isenberg was a director of Urbanfund Corp., a reporting issuer with shares listed on the TSX-V. On May 7, 2007, the Ontario Securities Commission issued a Management Cease Trade Order in respect of the securities of Urbanfund Corp. for failure to file financials statements and management's discussion and analysis. The cease trade order was allowed to lapse/expire as of July 30, 2007, as the default had been remedied.

No director or executive officer of the Company or, to the knowledge of the Company, shareholder holding a sufficient number of securities of the Company to affect materially the control of the Company, has been subject to: (a) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or (b) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

Conflicts of Interest

The Company may from time to time become involved in transactions which conflict with the interests of our directors and the officers. The interests of these persons could conflict with those of the Company. Conflicts of interest, if any, will be subject to the procedures and remedies provided under applicable laws. In particular, in the event that such a conflict of interest arises at a meeting of our directors, a director who has such a conflict will abstain from voting for or against the approval of such participation or such terms. In accordance with applicable laws, the directors of the Company are required to act honestly, in good faith and in the best interests of the Company.

PROMOTERS

Alan Friedman, a director of the Company, is a promoter of the Company. As of the date of this AIF, Mr. Friedman beneficially owns, controls, or directs, directly or indirectly, 213,689 Common Shares, comprising 0.18% of the issued and outstanding Common Shares. Mr. Friedman has served as a Director of the Company since August 21, 2012.

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Alan Rootenberg has been within the last three (3) years immediately preceding the date of this AIF, a promoter of the Company. To the knowledge of the Company, Mr. Rootenberg owns controls or directs, directly or indirectly, 316,666 Common Shares, comprising 0.26% of the issued and outstanding Common Shares.⁽¹⁾ Mr. Rootenberg served as the Company's Chief Executive Officer and Chief Financial Officer during the period between August 21, 2012 and December 10, 2014, and served as the Company's Secretary during the period between August 21, 2012 and February 25, 2014.

Matthew Lerner has been within the last three (3) years immediately preceding the date of this AIF, a promoter of the Company. To the knowledge of the Company, Mr. Lerner owns controls or directs, directly or indirectly, 142,857 Common Shares, comprising 0.12% of the issued and outstanding Common Shares.⁽²⁾ Mr. Lerner served as a Director of the Company during the period between August 21, 2012 and December 10, 2014.

Ryan Roebuck has been within the last three (3) years immediately preceding the date of this AIF, a promoter of the Company. To the knowledge of the Company, Mr. Roebuck owns controls or directs, directly or indirectly, 85,415 Common Shares, comprising 0.07% of the issued and outstanding Common Shares. Mr. Roebuck served as a Director of the Company during the period between April 10, 2014 and November 6, 2015. Mr. Roebuck served as the Company's Secretary during the period between February 25, 2014 and December 10, 2014.

Notes:

- (1) This information is based on Mr. Rootenberg's last public filings; the Company was unable to confirm Mr. Rootenberg's current holdings as of the date of this AIF.
- (2) This information is based on Mr. Lerner's last public filings; the Company was unable to confirm Mr. Lerner's current holdings as of the date of this AIF.

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

Other than those previously disclosed in this document, we are not aware of: (a) any legal proceedings to which we are a party, or by which any of our property is subject, which would be material to us and are not aware of any such proceedings being contemplated, (b) any penalties or sanctions imposed by a court relating to securities legislation, or other penalties or sanctions imposed by a court or regulatory body against us that would likely be considered important to a reasonable investor making an investment decision and (c) any settlement agreements that we have entered into before a court relating to securities legislation or with a securities regulatory authority. See above under the heading "Risk Factors - Litigation" for further information.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

The Company considers its related parties to consist of key members or former members of its Board of Directors and senior officers, including their close family members, and companies controlled or significantly influences by such individuals; and reporting shareholders and their affiliates that may exert significant influence over the Company's activities (each, "Related Parties"). During the three (3) most recently completed financial years of the Company or during the current financial year of the Company, no Related Parties have had a material interest in any transaction that has had a material effect on the Company or is reasonably expected to materially affect the Company.

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TRANSFER AGENT AND REGISTRAR

The Transfer Agent and Registrar for the Company's Common Shares is \TSX Trust Company at 200 University Avenue, Suite 300, Toronto, Ontario M5H 4H1.

MATERIAL CONTRACTS

The Company has entered into the following material contracts, the particulars of which may also be described elsewhere in this AIF:

1. Share Purchase Agreement made as of the 14th day of July, 2016, by and between PharmaCan, Hortican, The Barnes Family Trust, Ann Barnes and Peace Naturals.
2. Loan Agreement made as of May 8, 2015 by and between Peace Naturals and Romspen Investment Corporation (the "Lender"), whereby the Lender has agreed to lend Peace Naturals, as borrower, \$4,000,000, funded in multiple tranches, the whole as set forth in the Loan Agreement. The interest for the loan is 12% per annum and the term of the loan is two (2) years. The loan is secured by the property set forth in the Loan Agreement. PharmaCan, The Barnes Family Trust, Mark Gobuty, Ann Barnes

and Hortican (collectively the “Covenantors”) jointly and severally with Peace Naturals, covenant and agree to satisfy all terms, conditions and requirements contained in the Loan Agreement. The obligations of the Covenantors, except for the obligations set out in Section 17, will become effective upon their execution of the applicable Security.

3. Shareholders Agreement made as of the 6th day of August, 2014, by and between Hortican and Whistler Medical Marijuana Corporation, amongst others. This agreement sets forth the rights and obligations of the shareholders and Whistler with respect to the shares of Whistler.
4. CPC Escrow Agreement dated June 19, 2014.
5. 5D Value Escrow Agreement dated December 10, 2014.
6. 5D Surplus Escrow Agreement dated December 10, 2014.

Copies of these material contracts are available under our profile on the SEDAR website at www.sedar.com. The above summaries are qualified in their entirety by reference to the terms of the material contract.

AUDIT COMMITTEE INFORMATION

The Audit Committee’s charter is attached hereto as Schedule “A”

As of date of this AIF, the Audit Committee of the Company was composed of three (3) members. The members of the Audit Committee are Michael Krestell, Alan Friedman and Michael Gorenstein. The Board of Directors believes that the composition of the Audit Committee reflects financial literacy and expertise. Currently, the three members have been determined by the Board to be “independent” and “financially literate” as such terms are defined under *National Instrument 52-110 — Audit Committees (“NI 52-110”)*. The Board has made these determinations based on the education as well as breadth and depth of experience of each member of the Committee. The following is a brief summary of the

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education and experience of each member of the Committee that is relevant to the performance of his or her responsibilities as an Audit Committee member:

Mr. Krestell is President of M Partners Inc., a Canadian investment dealer, since 2013. Prior thereto, Michael was MD Research at M Partners Inc. from 2007 and an analyst at M Partners Inc. covering the merchandising and consumer products sector from 2005 to 2007. In 2009, Michael received a Starmine award by being the number four (4) ranked stock picker in Canada. Michael received an MBA with distinction from the Schulich School of Business specializing in Finance and Strategic Management and he is a CFA charterholder.

Mr. Friedman has been a director of Adira Energy Ltd. since August 2009 and Eco (Atlantic) Oil & Gas Ltd. since December 2011. Alan is an attorney and has played an integral role in the acquisition of various resource assets, financings and go-public transactions onto the Toronto Stock Exchange. He was a co-founder and previous director of Aurx Gold Corp., a Toronto Stock Exchange listed Namibian gold exploration company, before it was sold to B2Gold Corp. for approximately \$160 million in 2011. Since September 2006, Alan has also been the President and CEO of Rivonia Capital Inc. a Canadian corporation providing market structuring, capital planning and administrative management services to private and public resource companies.

Mr. Gorenstein is the Chief Executive Officer, President and Chairman of the Company. Before joining the Company, Mr. Gorenstein was a partner at Alphabet Ventures LLC, a multi-strategy investment management firm located in New York City. Prior to Alphabet Ventures, Michael was the VP and General Counsel of Saiers Capital LLC and a corporate attorney at Sullivan & Cromwell where he focused on Mergers and Acquisitions and Capital Market transactions. Michael graduated from the University of Pennsylvania Law School with a JD, the Wharton School at University of Pennsylvania with a certificate in BEPP and the Kelley School of Business at Indiana University with a BSB in Finance.

Subject to the requirements of NI 52-110, the engagement of non-audit services is considered by the Audit Committee and, where applicable, the Company’s Board, on a case-by-case basis.

The following table provides detail in respect of audit, audit related, tax and other fees billed by the Company to the external auditors for professional services provided to the Company and its subsidiaries:

	2016	2015
Audit fees	\$ 136,900	\$ 141,850
Tax fees	\$ 6,627	\$ 11,500
Other fees	\$ 4,595	\$ 6,825
Total	\$ 148,122	\$ 160,175

The Company is relying on the exemption from the requirements of Part 3 (Composition of the Audit Committee) and Part 5 (Reporting Obligations) as set out in section 6.1 of NI 52-110.

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INTERESTS OF EXPERTS

MNP LLP is the independent auditor of the Company and is independent within the meaning of the Rules of Professional Conduct of the Chartered Professional Accountants of Ontario.

ADDITIONAL INFORMATION

Additional information regarding the Company can be found on SEDAR at www.sedar.com.

Additional information, including directors’ and officers’ remuneration and indebtedness, principal holders of our securities and the securities authorized for issuance under Company’s equity compensation plan, if applicable, is contained in the Company’s management information circular for our annual meeting of shareholders, relating to the year ended December 31, 2015 that involves the election of our directors. Additional financial information is provided in our comparative financial statements and management’s discussion and analysis for the most recent completed financial year.

The foregoing documents may be obtained by contacting our Chief Financial Officer at our head office located at 76 Stafford Street, Suite 302, Toronto, Ontario M6J 2S1.

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SCHEDULE “A”

**PHARMACAN CAPITAL CORP.
AUDIT COMMITTEE CHARTER**

I PURPOSE

The Audit Committee (the “**Committee**”) is appointed by the Board of Directors (the “**Board**”) of PharmaCan Capital Corp. (the “**Company**”) to assist the Board in fulfilling its oversight responsibilities relating to financial accounting and reporting process and internal controls for the Company. The Committee’s primary duties and responsibilities are to:

- conduct such reviews and discussions with management and the external auditors relating to the audit and financial reporting as are deemed appropriate by the Committee;
- assess the integrity of internal controls and financial reporting procedures of the Company and ensure implementation of such controls and procedures;
- ensure that there is an appropriate standard of corporate conduct including, if necessary, adopting a corporate code of ethics for senior financial personnel;
- review the quarterly and annual financial statements and management’s discussion and analysis of the Company’s financial position and operating results and report thereon to the Board for approval of same;
- select and monitor the independence and performance of the Company’s external auditors, including attending at private meetings with the external auditors and reviewing and approving all renewals or dismissals of the external auditors and their remuneration; and
- provide oversight to related party transactions entered into by the Company.

The Committee has the authority to conduct any investigation appropriate to its responsibilities, and it may request the external auditors as well as any officer of the Company, or outside counsel for the Company, to attend a meeting of the Committee or to meet with any members of, or advisors to, the Committee. The Committee shall have unrestricted access to the books and records of the Company and has the authority to retain, at the expense of the Company, special legal, accounting, or other consultants or experts to assist in the performance of the Committee’s duties.

The Committee shall review and assess the adequacy of this Charter annually and submit any proposed revisions to the Board for approval.

In fulfilling its responsibilities, the Committee will carry out the specific duties set out in Part IV of this Charter.

II AUTHORITY OF THE AUDIT COMMITTEE

The Committee shall have the authority to:

- (a) engage independent counsel and other advisors as it determines necessary to carry out its duties;
- (b) set and pay the compensation for advisors employed by the Committee; and
- (c) communicate directly with the internal and external auditors.

III COMPOSITION AND MEETINGS

1. The Committee and its membership shall meet all applicable legal, regulatory and listing requirements, including, without limitation, those of the Ontario Securities Commission (“**OSC**”), the TSX Venture Exchange, the *Business Corporations Act* (Ontario) (the “**Act**”) and all applicable securities regulatory authorities.
 2. The Committee shall be composed of three or more directors as shall be designated by the Board from time to time. The members of the Committee shall appoint from among themselves a member who shall serve as Chair.
 3. A majority of the members of the Committee shall not be officers or employees of the Company or any of its affiliates.
 4. The Committee shall meet at least quarterly, at the discretion of the Chair or a majority of its members, as circumstances dictate or as may be required by applicable legal or listing requirements. A minimum of two and at least 50% of the members of the Committee present either in person or by telephone shall constitute a quorum.
 5. If within one hour of the time appointed for a meeting of the Committee, a quorum is not present, the meeting shall stand adjourned to the same hour on the next business day following the date of such meeting at the same place. If at the adjourned meeting a quorum as hereinbefore specified is not present within one hour of the time appointed for such adjourned meeting, such meeting shall stand adjourned to the same hour on the second business day following the date of such meeting at the same place. If at the second adjourned meeting a quorum as hereinbefore specified is not present, the quorum for the adjourned meeting shall consist of the members then present.
 6. If and whenever a vacancy shall exist, the remaining members of the Committee may exercise all of its powers and responsibilities so long as a quorum remains in office.
 7. The time and place at which meetings of the Committee shall be held, and procedures at such meetings, shall be determined from time to time by the Committee. A meeting of the Committee may be called by letter, telephone, facsimile, email or other communication equipment, by giving at least 48 hours notice, provided that no notice of a meeting shall be necessary if all of the members are present either in person or by means of conference telephone or if those absent have waived notice or otherwise signified their consent to the holding of such meeting.
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8. Any member of the Committee may participate in the meeting of the Committee by means of conference telephone or other communication equipment, and the member participating in a meeting pursuant to this paragraph shall be deemed, for purposes hereof, to be present in person at the meeting.

9. The Committee shall keep minutes of its meetings which shall be submitted to the Board. The Committee may, from time to time, appoint any person who need not be a member, to act as a secretary at any meeting.
10. The Committee may invite such officers, directors and employees of the Company and its subsidiaries as the Committee may see fit, from time to time, to attend at meetings of the Committee.
11. Any matters to be determined by the Committee shall be decided by a majority of votes cast at a meeting of the Committee called for such purpose. Actions of the Committee may be taken by an instrument or instruments in writing signed by all of the members of the Committee, and such actions shall be effective as though they had been decided by a majority of votes cast at a meeting of the Committee called for such purpose. All decisions or recommendations of the Committee shall require the approval of the Board prior to implementation.

The Committee members will be appointed annually at the first meeting of the Board following the annual general meeting of shareholders.

IV RESPONSIBILITIES

A Financial Accounting and Reporting Process and Internal Controls

1. The Committee shall review the annual audited financial statements to satisfy itself that they are presented in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) on a historical cost basis and report thereon to the Board and recommend to the Board whether or not same should be approved prior to their being filed with the appropriate regulatory authorities. The Committee shall also review the interim financial statements. With respect to the annual audited financial statements, the Committee shall discuss significant issues regarding accounting principles, practices, and judgments of management with management and the external auditors as and when the Committee deems it appropriate to do so. The Committee shall satisfy itself that the information contained in the annual audited financial statements is not significantly erroneous, misleading or incomplete and that the audit function has been effectively carried out.
2. The Committee shall review any internal control reports prepared by management and the evaluation of such report by the external auditors, together with management’s response.
3. The Committee shall be satisfied that adequate procedures are in place for the review of the Company’s public disclosure of financial information extracted or derived from the Company’s financial statements, management’s discussion and analysis and interim earnings press releases, and periodically assess the adequacy of these procedures.

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4. The Committee shall review management’s discussion and analysis relating to annual and interim financial statements and any other public disclosure documents, including interim earnings press releases, that are required to be reviewed by the Committee under any applicable laws before the Company publicly discloses this information.
 5. The Committee shall meet no less frequently than annually with the external auditors and the Chief Financial Officer or, in the absence of a Chief Financial Officer, with the officer of the Company in charge of financial matters, to review accounting practices, internal controls and such other matters as the Committee, Chief Financial Officer or, in the absence of a Chief Financial Officer, the officer of the Company in charge of financial matters, deem appropriate.
 6. The Committee shall inquire of management and the external auditors about significant risks or exposures, both internal and external, to which the Company may be subject, and assess the steps management has taken to minimize such risks.
 7. The Committee shall review the post-audit or management letter containing the recommendations of the external auditors and management’s response and subsequent follow-up to any identified weaknesses.
 8. The Committee shall ensure that there is an appropriate standard of corporate conduct including, if necessary, adopting a corporate code of ethics for senior financial personnel.
 9. The Committee shall establish procedures for:
 - (a) the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters; and
 - (b) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.
 10. The Committee shall provide oversight to related party transactions entered into by the Company.

B Independent Auditors

1. The Committee shall recommend to the Board the external auditors to be nominated, shall set the compensation for the external auditors, provide oversight of the external auditors and shall ensure that the external auditors report directly to the Committee.
2. The Committee shall be directly responsible for overseeing the work of the external auditors, including the resolution of disagreements between management and the external auditors regarding financial reporting.
3. The Committee shall pre-approve all audit and non-audit services not prohibited by law to be provided by the external auditors in accordance with the terms of this charter.
4. The Committee shall monitor and assess the relationship between management and the external auditors and monitor, support and assure the independence and objectivity of the external auditors.

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5. The Committee shall review the external auditors’ audit plan, including the scope, procedures and timing of the audit.
 6. The Committee shall review the results of the annual audit with the external auditors, including matters related to the conduct of the audit.
 7. The Committee shall obtain timely reports from the external auditors describing critical accounting policies and practices, alternative treatments of information within IFRS that were discussed with management, their ramifications, and the external auditors’ preferred treatment and material written communications between the Company and the external auditors.

8. The Committee shall review fees paid by the Company to the external auditors and other professionals in respect of audit and non-audit services on an annual basis.
9. The Committee shall review and approve the Company's hiring policies regarding partners, employees and former partners and employees of the present and former auditors of the Company.
10. The Committee shall monitor and assess the relationship between management and the external auditors and monitor and support the independence and objectivity of the external auditors.

C Other Responsibilities

The Committee shall perform any other activities consistent with this Charter and governing law, as the Committee or the Board deems necessary or appropriate.

Cronos Group Inc. (formerly PharmaCan Capital Corp.)
Consolidated Financial Statements
Years ended December 31, 2016 and December 31, 2015

Cronos Group Inc. (formerly PharmaCan Capital Corp.)
Consolidated Financial Statements
Years ended December 31, 2016 and December 31, 2015

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Independent Auditors' Report

To the Shareholders of Cronos Group Inc. (formerly PharmaCan Capital Corp.):

We have audited the accompanying consolidated financial statements of Cronos Group Inc. (formerly PharmaCan Capital Corp.) which comprise the consolidated statements of financial position as at December 31, 2016 and 2015, and the consolidated statements of operations and comprehensive loss, changes in equity, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Cronos Group Inc. (formerly PharmaCan Capital Corp.) as at December 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 2(b) to the consolidated financial statements which highlights the existence of a material uncertainty relating to conditions that cast significant doubt on Cronos Group Inc.'s (formerly PharmaCan Capital Corp.) ability to continue as a going concern.

/s/ MNP LLP

Mississauga, Ontario
 April 30, 2017

Chartered Professional Accountants
 Licensed Public Accountants

MNP

Consolidated Statements of Financial Position
As at December 31, 2016 and December 31, 2015

	Notes	2016	2015
Assets			
Current			
Cash		\$ 3,464,208	\$ 1,127,340
Accounts receivable		107,166	—
Prepays and other receivables		503,155	97,745
Biological assets	7	1,794,740	—
Inventory	7	1,908,486	—
Loans receivable	8	308,833	—
		<u>8,086,588</u>	<u>1,225,085</u>
Equity investment	9	2,565,412	2,404,615
Other investments	10	5,127,258	6,391,034
Property, plant and equipment	11	14,122,288	2,699,886
Goodwill	6	1,792,000	392,000
Other intangible assets	6	11,207,050	1,611,226
		<u>\$ 42,900,596</u>	<u>\$ 14,723,846</u>
Liabilities			
Current			
Trade payables and other liabilities	18	\$ 1,175,600	\$ 1,061,991
Purchase price liability	5	2,590,367	—
Promissory note payable	12	—	950,000
Convertible loans payable	13	—	115,000
Deposit payable	14	—	200,000
Mortgage payable	15(b)	4,000,000	—
		<u>7,765,967</u>	<u>2,326,991</u>
Mortgage payable	15(a)	—	500,000
Deferred income tax liability	21	1,457,000	195,000
		<u>9,222,967</u>	<u>3,021,991</u>
Shareholders' Equity			
Share capital	16(a)	33,590,324	14,799,821
Warrants	16(b)	3,982,895	1,328,882
Contributed surplus	17	735,489	598,650
Accumulated deficit		(6,215,569)	(5,025,498)
Accumulated other comprehensive income		1,584,490	—
		<u>33,677,629</u>	<u>11,701,855</u>
		<u>\$ 42,900,596</u>	<u>\$ 14,723,846</u>
Going concern	2(b)		
Commitments and contingencies	19		
Subsequent events	26		

The accompanying notes are an integral part of these consolidated financial statements

Approved on behalf of the Board of Directors:

“Michael Gorenstein”
Director

“Michael Krestell”
Director

Cronos Group Inc. (formerly PharmaCan Capital Corp.)
Consolidated Statements of Operations and Comprehensive Loss
Years ended December 31, 2016 and December 31, 2015

	Notes	2016	2015
Product sales		\$ 554,203	\$ —
Cost of revenue			
Inventory expensed to cost of sales		383,626	—
Production costs		356,417	181,190
Loss (gain) on revaluation of biological assets	7	(2,178,810)	20,000
		<u>(1,438,767)</u>	<u>201,190</u>
Gross margin, net of revaluation of biological assets		<u>1,992,970</u>	<u>(201,190)</u>
Investment income			
Share of income (loss) from equity accounted investment	9	162,951	(477,107)
Interest income from loans receivable	8	6,617	41,589
Recovery of (impairment loss on) loans receivable	8	725,150	(698,292)
Impairment loss on available-for-sale investments	10	—	(750,000)
Gain (loss) on revaluation of other investments	10	(310,276)	4,590,321
Income from non-refundable deposits	14	—	185,000
Other income		27,212	—
		<u>611,654</u>	<u>2,891,511</u>
Expenses			
Salary and benefits		826,053	335,783
Stock-based compensation	17(c)	306,817	—
General and administration		2,608,804	1,609,578
Financing fees	12	—	325,170
Interest expense	15	238,275	91,303
Depreciation		382,746	113,321
		<u>4,362,695</u>	<u>2,475,155</u>
Income (loss) before income taxes		<u>(1,758,071)</u>	<u>215,166</u>
Income tax recovery	21	(568,000)	(171,000)

Net income (loss)		\$	(1,190,071)	\$	386,166
Gain on revaluation of other investments, net of taxes	10, 21		1,584,490		—
Total comprehensive income		\$	394,419	\$	386,166
Weighted average number of outstanding shares, basic			78,248,192		36,411,626
Basic earnings (loss) per share		\$	(0.02)	\$	0.01
Weighted average number of outstanding shares, diluted	20		78,248,192		43,694,412
Diluted earnings (loss) per share	20	\$	(0.02)	\$	0.01

The accompanying notes are an integral part of these consolidated financial statements

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Cronos Group Inc. (formerly PharmaCan Capital Corp.)
Consolidated Statements of Changes in Equity
Years ended December 31, 2016 and December 31, 2015

	Notes	Number of shares	Share capital	Warrants	Contributed surplus	Accumulated deficit	Accumulated other comprehensive income	Total
Balance at January 1, 2015		34,786,562	\$ 13,586,129	\$ 368,650	\$ 728,650	\$ (5,411,664)	\$ —	\$ 9,271,765
Shares issued	12	200,000	100,000	—	—	—	—	100,000
Shares repurchased	16(a)	(426,780)	(170,000)	—	(130,000)	—	—	(300,000)
Warrants exercised	16(b)	53,345	29,340	(16,537)	—	—	—	12,803
Shares issued via private placement	16(a)	7,892,454	1,219,107	1,011,920	—	—	—	2,231,027
Warrants exercised - November 16, 2015		113,390	62,365	(35,151)	—	—	—	27,214
Share issuance costs		—	(27,120)	—	—	—	—	(27,120)
Net income		—	—	—	—	386,166	—	386,166
Balance at December 31, 2015		42,618,971	\$ 14,799,821	\$ 1,328,882	\$ 598,650	\$ (5,025,498)	\$ —	\$ 11,701,855
Shares issued	16(a,b)	75,289,565	18,096,364	2,832,029	—	—	—	20,928,393
Options issued	17(a)	—	—	—	178,391	—	—	178,391
Options exercised	17(a)	402,788	145,304	—	(41,552)	—	—	103,752
Warrants exercised	16(b)	2,264,424	595,548	(178,016)	—	—	—	417,532
Conversion of convertible loans payable	13	1,150,000	115,000	—	—	—	—	115,000
Share issuance costs		—	(161,713)	—	—	—	—	(161,713)
Net loss		—	—	—	—	(1,190,071)	—	(1,190,071)
Other comprehensive income		—	—	—	—	—	1,584,490	1,584,490
Balance at December 31, 2016		121,725,748	\$ 33,590,324	\$ 3,982,895	\$ 735,489	\$ (6,215,569)	\$ 1,584,490	\$ 33,677,629

The accompanying notes are an integral part of these consolidated financial statements

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Cronos Group Inc. (formerly PharmaCan Capital Corp.)
Statements of Cash Flows
Years ended December 31, 2016 and December 31, 2015

	Notes	2016	2015
Operating activities			
Net income (loss)		\$ (1,190,071)	\$ 386,166
Items not affecting cash:			
Impairment loss on (recovery of) loans receivable		(725,150)	698,292
Share of loss (income) from equity accounted investment	9	(162,951)	477,107
Impairment loss on available-for-sale investments		—	750,000
Deferred financing fees	12	—	325,170
Depreciation		382,746	113,321
Other		—	25,001
Deferred income tax recovery	21	(568,000)	(171,000)
Loss (gain) on revaluation of other investments	10	310,276	(4,590,321)
Stock-based compensation	17(c)	306,817	—
		(1,646,333)	(1,986,264)
Net changes in non-cash working capital:			
Increase in prepaids and other receivables		(376,410)	(51,511)
Increase in inventory		(714,069)	—
Decrease (increase) in biological assets		(929,198)	20,000
Increase in accrued interest receivable		(6,617)	(32,005)
Decrease in accounts receivable		(56,519)	—
Increase (decrease) in accounts payable and accrued expenses		(2,746,463)	472,296
Increase in deposit payable		—	200,000
Cash flows used in operating activities		(6,475,609)	(1,377,484)
Investing activities			
Cash acquired from Peace	5	109,443	—
Advances of loans receivable to Peace prior to acquisition		(771,898)	(40,000)
Receipts of loans receivable	8	422,934	90,000
Purchase of property, plant and equipment	11	(1,523,213)	(1,509,460)
Acquisition of Peace Natural Projects	5	(6,247,543)	—
Dividends received from equity accounted investment	9	2,154	—
Cash flows used in investing activities		(8,008,123)	(1,459,460)
Financing activities			
Proceeds from (repayment of) mortgage payable	15	(500,000)	500,000

Proceeds from exercise of warrants	16(b)	417,532	40,017
Proceeds from issuance of warrants	16(b)	2,832,029	—
Proceeds from exercise of options	17(a)	103,752	—
Share repurchase	16(a)	—	(300,000)
Repayment of deposit payable	14	(200,000)	—
Proceeds from (repayment of) promissory note payable	12	(950,000)	750,000
Repayments of loans and interest		(2,688,938)	—
Debt issuance cost		—	(25,170)
Proceeds from share issuance	16(a)	17,967,938	2,231,027
Share issuance costs		(161,713)	(27,120)
Cash flows provided by financing activities		16,820,600	3,168,754
Net change in cash		2,336,868	331,810
Cash - beginning of year		1,127,340	795,530
Cash - end of year		\$ 3,464,208	\$ 1,127,340
Supplemental cash flow information			
Interest received		\$ 47,934	\$ —
Interest paid		\$ 294,401	\$ 37,500

The accompanying notes are an integral part of these consolidated financial statements

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Cronos Group Inc. (formerly PharmaCan Capital Corp.)
Notes to Consolidated Financial Statements
Years ended December 31, 2016 and December 31, 2015

1. Nature of business

Cronos Group Inc., formerly PharmaCan Capital Corp. (“Cronos” or the “Company”), was incorporated as 2339498 Ontario Inc. under the Business Corporations Act (Ontario) on August 21, 2012, changed its name on October 18, 2012 to Searchtech Ventures Inc. (“Searchtech”) and was classified as a Capital Pool Company as defined pursuant to Policy 2.4 of the TSX Venture Exchange (“TSX-V”). Cronos is a publicly traded corporation, with its head office located at 76 Stafford Street, Suite 302, Toronto, Ontario, M6J 2S1. The Company’s common shares are listed on TSX-V under the trading symbol “MJN”.

On December 10, 2014, the Company closed its Qualifying Transaction (the “Transaction”) with Hortican Inc. (“Hortican”), a company whose business model is to invest in medical marijuana companies in Canada, pursuant to which the shareholders of Hortican completed a reverse takeover of the Company. Immediately prior to the completion of the Transaction, the Company changed its name to PharmaCan Capital Corp. and consolidated its shares on a one for seven (1:7) basis. Following these changes, Hortican amalgamated with 8996741 Canada Inc., a wholly owned subsidiary of the Company formed solely for the purpose of facilitating the Transaction. Pursuant to the amalgamation, the Company indirectly acquired all of the issued and outstanding shares of Hortican and issued post-consolidation shares of the Company on the basis of approximately 2.1339 post-consolidation shares for each one of Hortican’s shares. Hortican warrants, stock options, and convertible debentures are also exchangeable at the same conversion ratio, and the exercise price for such securities is divided by the conversion ratio.

Effective upon the closing of the Transaction, the financial year end of the Company was changed from March 31 of each year to December 31 of each year to align the financial years of the Company to that of Hortican.

For the purposes of accounting for the Transaction, Hortican is considered the acquirer and the Company, the acquiree. Accordingly, the consolidated financial statements are in the name of Cronos Group Inc. (formerly PharmaCan Capital Corp.), however they are a continuation of the financial statements of Hortican, which was incorporated under the Business Corporations Act (Ontario) on January 17, 2013. The Company began rebranding itself as Cronos Group Inc. on October 6, 2016. Subsequent to year-end, the Company finalized its name change to Cronos Group Inc. on February 27, 2017.

In the Zone Produce Ltd. (“In the Zone”) was incorporated under the Business Corporations Act (British Columbia) on March 15, 2013. In the Zone is a licensed producer of medical cannabis pursuant to the provisions of the Access to Cannabis for Medical Purposes Regulation and the Controlled Drugs and Substances Act and its Regulations. Health Canada issued the license to In the Zone on February 26, 2014. In the Zone was acquired by Hortican on November 5, 2014.

Peace Natural Projects Inc. (“Peace”) was incorporated under the Business Corporations Act on November 21, 2012. Peace is a licensed producer and seller of medical cannabis pursuant to the provisions of the Access to Cannabis for Medical Purposes Regulation and the Controlled Drugs and Substances Act and its Regulations. Health Canada issued the license to Peace on October 31, 2013. Peace was acquired by Hortican on September 6, 2016. Additional information on the transaction is disclosed in Note 5.

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Cronos Group Inc. (formerly PharmaCan Capital Corp.)
Notes to Consolidated Financial Statements
Years ended December 31, 2016 and December 31, 2015

2. Basis of presentation

(a) Basis of consolidation

These consolidated financial statements include the accounts of Cronos Group Inc. (formerly Pharmacan Capital Corp.), and its wholly owned subsidiaries, Hortican Inc., In the Zone Produce Ltd., and Peace Naturals Project Inc. All intercompany transactions, balances, revenues and expenses have been eliminated. The Company applies the acquisition method to account for business combinations in accordance with IFRS 3. Acquisition related costs are expensed as incurred.

(b) Going concern

These consolidated financial statements have been prepared with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. The Company’s ability to continue in the normal course of operations is dependent on its ability to raise equity financing or through the sale of its investments at amounts favourable to the Company, and on the ability of its subsidiaries to successfully renew their licenses to produce and sell medical cannabis. There are no assurances that the Company will be successful in achieving these goals. These circumstances cast significant doubt on the Company’s ability to continue as going concern and ultimately on the appropriateness of the use of the accounting principles applicable to a going concern. These consolidated financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations.

(c) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

These consolidated financial statements were approved by the Board of Directors on April 30, 2017.

(d) Basis of measurement

Apart from certain assets and liabilities measured at fair value as required under certain IFRSs, the consolidated financial statements have been presented and prepared on the basis of historical cost.

(e) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the functional currency of the Company and all subsidiaries.

(f) Estimates and critical judgments by management

The preparation of these consolidated financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the current period. These estimates are reviewed periodically and adjustments are made to income as appropriate in the year they become known. Items for which actual results may differ materially from these estimates are described in the following section.

Cronos Group Inc. (formerly PharmaCan Capital Corp.)
Notes to Consolidated Financial Statements
Years ended December 31, 2016 and December 31, 2015

2. Basis of presentation (continued)

(f) Estimates and critical judgments by management (continued)

(i) Warrants and options

Warrants and options are initially recognized at fair value, based on the application of the Black-Scholes option pricing model. This pricing model requires management to make various assumptions and estimates which are susceptible to uncertainty, including the volatility of the share price, expected dividend yield and expected risk-free interest rate.

(ii) Useful lives of property, plant and equipment

Depreciation of property, plant and equipment is dependent upon estimates of useful lives, which are determined through the exercise of judgement. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of the assets.

(iii) Impairment of cash-generating units and goodwill

The impairment test for cash generating units (“CGUs”) to which goodwill is allocated is based on the value in use of the CGU, determined in accordance with the expected cash flow approach. The calculation is based primarily on assumptions used to estimate future cash flows, the cash flow growth rate and the discount rate used.

(iv) Impairment of long-lived assets

Long-lived assets, including equipment and intangible assets are reviewed for impairment at each statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or group of assets (CGU). The recoverable amount of an asset or a CGU is the higher of its fair value, less costs to sell, and its value in use. If the carrying amount of an asset exceeds its recoverable amount, an impairment charge is recognized immediately in profit or loss by the amount by which the carrying amount of the asset exceeds the recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount, and the carrying amount that would have been recorded had no impairment loss been recognized previously.

(v) Fair value of financial assets available-for-sale

Financial assets available for sale consist of privately and publicly held investments. Determination of the fair values of privately held investments requires the Company to make various assumptions about the future prospects of the investees, the economic, legal, and political environment in which the investees operate, and the ability of the investees to obtain financing to support their operations. As a result, any value estimated may not be realized or realizable, and the values may differ from values that would be realized if a ready market existed.

The determination of fair value of the Company’s privately held investments is subject to inherent limitations. Financial information for private companies may not be available, or may be unreliable. Use of the valuation approach described below involves uncertainties and management judgments, and any value estimated from these techniques may not be realized or realizable.

Cronos Group Inc. (formerly PharmaCan Capital Corp.)
Notes to Consolidated Financial Statements
Years ended December 31, 2016 and December 31, 2015

2. Basis of presentation (continued)

(f) Estimates and critical judgments by management (continued)

(v) Fair value of financial assets available-for-sale (continued)

The Company's management considers specific information about the investee companies, trends in general market conditions, and the share performance of similar publicly traded companies when valuing the Company's privately held investments.

The absence of the occurrence of any of the following events, any significant change in trends in general market conditions, or any significant change in share performance of comparable publicly traded companies generally indicates that the fair value of the privately held investments has not materially changed.

Management considers the following factors to indicate a change in the fair value, or impairment of, a privately held investment, and may adjust the value if:

- a. there has been significant subsequent equity financing provided by outside investors at a value which differs from the current recorded value of the investee company, in which case the fair value of the investment is adjusted to equal the value at which that financing took place;
- b. there have been significant corporate, political, legal, or operating events affecting the investee company such that, management believes they will have a material impact on the investee company's prospects and therefore its fair value. In these circumstances, the adjustment to fair value of the investment will be based on management's judgment;
- c. the investee company is placed into receivership or bankruptcy;
- d. based on financial information received from the investee company, it is evident that the investee company is unlikely to be able to continue as a going concern;
- e. receipt or denial by the investee company of medical marijuana licenses from Health Canada, which allow the investee company to initiate or continue operations; and
- f. management changes by the investee company that the Company's management believes will have an impact on the investee company's ability to achieve its objectives and build value for shareholders.

(vi) Income taxes

Income taxes and tax exposures recognized in the consolidated financial statements reflect management's best estimate of the outcome based on facts known at the reporting date. When the Company anticipates a future income tax payment based on its estimates, it recognizes a liability. The difference between the expected amount and the final tax outcome has an impact on current and deferred taxes when the Company becomes aware of this difference.

In addition, when the Company incurs losses that cannot be associated with current or past profits, it assesses the probability of taxable profits being available in the future based on its budgeted forecasts. These forecasts are adjusted to take account of certain non-taxable income and expenses and specific rules on the use of unused credits and tax losses. When the forecasts indicate the sufficient future taxable income will be available to deduct the temporary differences, a deferred tax asset is recognized for all deductible temporary differences.

Cronos Group Inc. (formerly PharmaCan Capital Corp.)
Notes to Consolidated Financial Statements
Years ended December 31, 2016 and December 31, 2015

2. Basis of presentation (continued)

(v) Fair value of financial assets available for sale (continued)

(vii) Biological assets

Biological assets, consisting of cannabis plants, are measured at fair value less costs to sell. At the point of harvest, the biological assets are transferred to inventory at fair value less costs to sell, as a result, critical estimates related to the valuation of biological assets are also applicable to inventory.

Determining the fair value less costs to sell requires the Company to make assumptions about the expected future yield from the cannabis plants, the value associated with each stage of the plants' growth cycle, estimated selling price, costs to convert harvested cannabis to finished goods, and costs to sell. The Company's estimates, are, by their nature, subject to change. Gains or losses arising from changes in these estimates will be reflected in the fair value less costs to sell, and is included in the results of operations for the year.

3. Significant accounting policies

The principal accounting policies applied to the preparation of these consolidated financial statements are set out below:

(a) Financial instruments

The Company aggregates its financial instruments into classes based on their nature and characteristics. Management determines the classification when the instruments are initially recognized, which is normally the date of the transaction.

All financial assets except those measured at fair value through profit or loss or available-for-sale are subject to review for impairment annually and written down when there is evidence of impairment based on specific criteria.

The Company's accounting policy for each category is as follows:

(i) Fair-value through profit or loss

Financial instruments classified as fair value through profit and loss are reported at fair value at each reporting date, and any change in fair value is recognized in the statement of operations in the period during which the change occurs. In these financial statements, cash and investment in warrants of AbCann Medicinals Inc. (Note 10) have been classified as fair value through profit and loss.

(ii) Available-for-sale

Financial instruments classified as available-for-sale are initially recorded at the fair value at the time of acquisition, represented by the transaction price. Thereafter, at each reporting date, the fair value may be adjusted using one or more of the valuation indicators. Gains and losses as a result of the valuations are recorded in other comprehensive income, unless they are other than temporary, and transaction costs are expensed as incurred. In these financial statements, investments in the shares of AbCann Medicinals Inc., The Hydrothecary Corporation, Vert Medical - Green Medical Inc., Canopy Growth Corporation, and Evergreen Medicinal Supply Inc. (Note 10) have been classified as available-for-sale. Prior to the acquisition of Peace, the Company's investment in Peace was also classified as available-for-sale.

Cronos Group Inc. (formerly PharmaCan Capital Corp.)
Notes to Consolidated Financial Statements
Years ended December 31, 2016 and December 31, 2015

3. Significant accounting policies (continued)

(iii) Held-to-maturity

Financial instruments classified as held-to-maturity are financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are initially recorded at fair value and subsequently carried at amortized cost, using the effective interest method. Transaction costs are included in the amount initially recognized. There are no financial instruments that are classified in this category.

(iv) Loans and receivables and other financial liabilities

Financial instruments classified as loans and receivables and other financial liabilities are carried at amortized cost using the effective interest method. Transaction costs are expensed as incurred. In these financial statements, loans receivable and accounts receivable have been classified as loans and receivables. Trade payables and other liabilities, promissory note payable, deposit payable, convertible loans payable, mortgage payable and purchase price liability have been classified as other financial liabilities.

(b) Equity accounted investments

Investees in which the Company exercises significant influence are accounted for using the equity method. Significant influence is the power to participate in the financial and operating policy decisions of the investee but does not have control over those policies.

Significant influence is presumed if the Company holds between 20% and 50% of the voting rights, unless evidence exists to the contrary. Equity accounting involves the Company recording its share of the investee's net income and equity. The Company's interest in an investee is initially recorded at cost and is subsequently adjusted for the Company's share of changes in net assets of the investee, less any impairment in the value of individual investments. Where the Company transacts with an investee, unrealized profits and losses are eliminated to the extent of the Company's interest in that investee.

(c) Biological assets

The Company measures biological assets, consisting of medical cannabis plants, at fair value less costs to sell. Agricultural produce, consisting of medical cannabis, is measured at fair value less costs to sell at the point of harvest, which becomes the basis for the cost of finished goods inventory after harvest.

Gains and losses arising from changes in fair values less cost to sell during the period are included in the results of operations of the related period.

(d) Inventory

Inventory of finished goods is transferred from biological assets at fair value less costs to sell at the point of harvest, which becomes the deemed cost. Subsequent to the harvest, additional costs incurred to bring the inventory to the point it is available for sale are capitalized to the cost of the inventory to the extent that the cost is below the net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less estimated costs of completion and estimated variable costs to sell. Inventory of raw materials and consumables are measured at cost.

Cronos Group Inc. (formerly PharmaCan Capital Corp.)
Notes to Consolidated Financial Statements
Years ended December 31, 2016 and December 31, 2015

3. Significant accounting policies (continued)

(e) Other intangible assets

The Health Canada licenses purchased through the business acquisition of In the Zone and through the business acquisition of the Peace Naturals Project Inc. (Note 5) are intangible assets which may be renewed indefinitely. As such, these intangible assets have indefinite useful lives and are not amortized, but are systematically tested for impairment annually in the fourth quarter or earlier if there is an indication of impairment. Inability to renew the license, or a lack of production are some of the indicators of impairment monitored by management.

(f) Property, plant and equipment

Property, plant, and equipment are stated at cost less accumulated depreciation. They are depreciated on the basis of their useful lives using the following methods and rates:

	Method	Rate
Building structures	straight-line	15 to 20 years
Furniture and equipment	straight-line	5 years
Computer equipment	straight-line	3 years
Fencing	straight-line	10 years
Security equipment	straight-line	5 years
Road	straight-line	25 years
Production equipment	straight-line	7 years
Leasehold improvements	straight-line	5 to 10 years
Vehicle	double-declining	30%
Software	double-declining	50%

An asset's residual value, useful life and depreciation method are reviewed at each financial year end and adjusted if appropriate. When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components).

Construction in progress at year-end has not been depreciated to date. The asset will be depreciated when the asset is available for use.

(g) Convertible loans payable

The proceeds received on the issue of the Company's convertible debt are allocated into their liability and equity components. The amount initially attributed to the debt component equals the discounted cash flows using a market rate of interest that would be payable on a similar debt instrument that does not include an option to convert. Subsequently, the debt component is accounted as a financial liability measured at amortized cost until extinguished on conversion or maturity of the bond. The remainder of the proceeds is allocated to the conversion option and is recognized in the "Convertible debt option reserve" within the shareholders' equity, net of income tax effects. For convertible debt with a demand feature, the discounted cash flows are assumed to equal the proceeds of the loan.

(h) Provisions

In accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets, provision for risks and expenses are recognized for probable outflows of resources that can be estimated and that result from present obligations resulting from past events. In the case where a potential obligation resulting from past events exists, but where occurrence of the outflow of resources is not probable or the estimate is not reliable, these contingent liabilities are disclosed in off-balance sheet commitments and litigation. The provisions are measured based on management's best estimates of outcomes on the basis of facts known at the reporting date.

Cronos Group Inc. (formerly PharmaCan Capital Corp.)
Notes to Consolidated Financial Statements
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3. Significant accounting policies (continued)

(i) Share capital

Share capital is presented at the value of the shares issued. Costs related to the issuance of shares are reported in equity, net of tax, as deduction of the issuance proceeds.

(j) Revenue recognition

Revenue from the sale of finished goods is recognized when the Company has transferred the risks and rewards of ownership to the buyer and collection is reasonably assured. Risks and rewards of ownership are considered to be transferred upon shipment.

(k) Foreign exchange translation

The financial statements of the Company are presented in Canadian dollars, which is the functional currency. Transactions in foreign currencies are recorded at the exchange rate prevailing at the date of the transaction. At each reporting date, foreign currency denominated monetary assets and liabilities are translated at year-end exchange rates. Exchange differences arising from the transactions are recorded in profit or loss for the period. Exchange differences arising from operating transactions are recorded in operating profit for the period; exchange differences related to financing transactions are recognized in finance income or in equity.

(l) Research and development

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

(m) Income taxes

The Company accounts for its income taxes using the deferred tax assets and liabilities method. Deferred income tax assets and liabilities are determined based on the difference between the carrying amount and the tax basis of the assets and liabilities. Any change in the net amount of deferred income tax assets and liabilities is included in profit or loss or equity. Deferred income tax assets and liabilities are determined based on enacted or substantively enacted tax rates and laws which are expected to apply to taxable profit for the years in which the assets and liabilities will be recovered or settled. Deferred income tax assets are recognized when it is probable they will be realized. Deferred tax assets and liabilities are not discounted.

(n) Share-based compensation

Where equity instruments are granted to employees, the fair value of the options at the date of grant is charged to the statement of operations over the vesting period. Performance vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date. For equity instruments granted to employees which vest immediately, they are recorded at the fair value of the equity instrument at the date granted.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the statement of operations over the remaining vesting period.

Cronos Group Inc. (formerly PharmaCan Capital Corp.)
Notes to Consolidated Financial Statements
Years ended December 31, 2016 and December 31, 2015

3. Significant accounting policies (continued)

(n) Share-based compensation (continued)

Where equity instruments are granted to non-employees, they are recorded at the fair value of the goods or services received in the statement of operations. Options or warrants granted related to the issuance of shares are recorded as a reduction of share capital. When the value of goods or services received in exchange for the share-based payment cannot be reliably estimated, the fair value is measured by use of a valuation model.

All equity-settled share-based payments are reflected in contributed surplus, until exercised. Upon exercise, shares are issued from treasury and the amount reflected in contributed surplus is credited to share capital, adjusted for any consideration paid.

Where a grant of options is cancelled or settled during the vesting period, excluding forfeitures when vesting conditions are not satisfied, the Company immediately accounts for the cancellation as an acceleration of vesting and recognizes the amount that otherwise would have been recognized for services received over the remainder of the vesting period. Any payment made to the employee on the cancellation is accounted for as the repurchase of an equity interest except to the extent the payment exceeds the fair value of the equity instrument granted, measured at the repurchase date. Any such excess is recognized as an expense.

(o) Earnings per share

The Company presents basic and diluted earnings per share data for its common shares. Basic earnings per share is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for the effects of all potentially dilutive common shares, which comprise convertible loans payable, warrants and share options.

4. New and revised standards and interpretations issued but not yet effective

(a) IFRS 9 FINANCIAL INSTRUMENTS

IFRS 9 addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit and loss. IFRS 9 also replaces the models for measuring equity instruments and such instruments are either recognized at fair value through profit and loss or at fair value through other comprehensive income. The effective date of this standard is January 1, 2018. The Company will adopt this new standard as of its effective date. The Company is currently analyzing the possible impact of this Standard on its consolidated financial statements.

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4. New and revised standards and interpretations issued but not yet effective (continued)

(b) IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

IFRS 15 was issued by IASB in May 2014 and specifies how and when revenue should be recognized based on a five-step model, which is applied to all contracts with customers. IFRS 15 becomes effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Company will adopt this new standard as of its effective date. The Company is currently analyzing the possible impact of this Standard on its consolidated financial statements.

(c) AMENDMENTS TO IAS 7

IAS 7 amendments include additional disclosures to enable users of the financial statements to evaluate changes in liabilities arising from financing activities, including changes arising from cash flows and non-cash changes. These amendments become effective for annual periods beginning on or after January 1, 2017. The Company will adopt the amendments as of the effective date. The Company is currently analyzing the possible impact of the amendments on its consolidated financial statements.

(d) IFRS 16 LEASES

IFRS 16 was issued in January 2016 and replaces the previous guidance on leases. This standard provides a single recognition and measurement model to be applied to leases, with required recognition of assets and liabilities for most leases. This standard is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted if the Company is also applying IFRS 15, Revenue from Contracts with Customers. The Company will adopt this new standard as of its effective date. The Company is currently evaluating the impact of the adoption of this new standard on its consolidated financial statements.

(e) AMENDMENTS TO IAS 12

IAS 12 Income Taxes amendments include: (a) unrealized losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use; (b) the carrying amount of an asset does not limit the estimation of probable future taxable profits; (c) estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences; and (d) an entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type. These amendments become effective for annual periods beginning on or after January 1, 2017. The Company will adopt this new standard as of its effective date. The Company is currently analyzing the possible impact of the amendments on its consolidated financial statements.

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5. Acquisition of Peace Naturals Project

On September 6, 2016, the Company acquired all of the remaining issued and outstanding shares of Peace Naturals Project Inc. ("Peace"), a company headquartered in Stayner, Ontario. Consideration for the acquisition included \$6,247,543 in cash and \$2,590,367 (approximately 30%) to be paid, once all conditions of the agreement are settled. The conditions were based on the passage of time to ensure there were no additional liabilities identified (Note 26(n)). As of the acquisition date, the Company owns 100% of the outstanding shares of Peace. As the Company previously held shares of Peace, the acquisition is considered a step acquisition and resulted in a loss due to fair value remeasurement. The preliminary purchase price allocation for this acquisition is shown below:

Fair value of consideration transferred:	
Cash	\$ 6,247,543
Liability	2,590,367
	<u>8,837,910</u>
Fair value of previously held interest:	
Fair value of previously held interest immediately before acquisition	3,314,960
Loss due to fair value remeasurement at acquisition date	(346,970)
	<u>2,967,990</u>
	<u>\$ 11,805,900</u>
Fair value of net assets acquired:	
Cash	\$ 109,443
Accounts receivable	50,647

Prepaid and deposits	29,000
Inventory	1,194,417
Biological assets	865,542
Property and equipment	10,281,935
Goodwill	1,400,000
Other intangible assets (i)	9,595,824
Accounts payable and accrued liabilities	(2,860,072)
Loans payable	(7,460,836)
Deferred tax liability	(1,400,000)
	<u>\$ 11,805,900</u>

(i) Other intangible assets are expected to include a Health Canada license.

The amount of net income and comprehensive income of Peace since the acquisition date included in these consolidated financial statements was \$724,239.

Net loss and comprehensive net loss for the Company would have been lower by approximately \$283,980 if the acquisition had taken place on January 1, 2016.

Due to the complexities in identifying certain intangible assets, such as licenses and intellectual property, and assigning fair values, the Company has yet to finalize its assessment of the purchase price allocation. The allocation of the consideration paid will be adjusted once a valuation of certain intangible assets has been finalized. Management expects to complete the assessment within the next fiscal year.

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6. Intangible assets

	Balance at January 1, 2015	Additions	Balance at December 31, 2015	Additions (Note 5)	As at December 31, 2016
Goodwill					
In the Zone	\$ 392,000	\$ —	\$ 392,000	\$ —	\$ 392,000
Peace (Note 5)	—	—	—	1,400,000	1,400,000
	<u>\$ 392,000</u>	<u>\$ —</u>	<u>\$ 392,000</u>	<u>\$ 1,400,000</u>	<u>\$ 1,792,000</u>
Other intangible assets					
In the Zone Health Canada License	\$ 1,611,226	\$ —	\$ 1,611,226	\$ —	\$ 1,611,226
Peace (Note 5)	—	—	—	9,595,824	9,595,824
	<u>\$ 1,611,226</u>	<u>\$ —</u>	<u>\$ 1,611,226</u>	<u>\$ 9,595,824</u>	<u>\$ 11,207,050</u>

7. Biological assets and inventory

The Company's biological assets consist of medical cannabis plants. The changes in the carrying amount of the biological assets are as follows:

	2016	2015
Carrying amount - beginning of year	\$ —	\$ 20,000
Changes in fair value of biological assets	2,178,810	(20,000)
Increase due to acquisition of Peace (Note 5)	865,542	—
Transferred to inventory upon harvest	(1,249,612)	—
Carrying amount - end of year	<u>\$ 1,794,740</u>	<u>\$ —</u>

The Company estimates the harvest yields for the plants varies at different stages of growth. As of December 31, 2016, it is expected that the Company's biological assets will yield approximately 213 kg of medical cannabis (December 31, 2015 - Nil). As at December 31, 2016, the Company held 236 kg of finished goods and 0.298 kg of seeds in raw material, and has 2,558 plants that are biological assets.

The valuation of the medical cannabis plants was completed using the Company's internal model. Significant assumptions used in determining the fair value of medical cannabis plants include: (a) stage of plant growth, (b) wastage of plants in their various stages, (c) sale price less cost to sell, and (d) harvest yield. Management believes that differences arising from the sensitivity of the inputs are not material.

Cronos Group Inc. (formerly PharmaCan Capital Corp.)
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7. Biological assets and inventory (continued)

Inventory consists of the following:

	2016	2015
Finished goods	\$ 1,502,064	\$ —
Raw materials	193,880	—
Supplies and consumables	212,542	—
	<u>\$ 1,908,486</u>	<u>\$ —</u>

8. Loans receivable

	2016	2015
(a) Loan receivable from Evergreen Medicinal Supply Inc. ("Evergreen")	\$ 264,750	\$ 264,750
(b) Loan receivable from Vert/Green Medical Inc.	375,000	375,000
	639,750	639,750
Add: Accrued interest	92,017	58,542
	731,767	698,292
Less: Impairment loss	—	(698,292)
Less: Principal and interest received	(422,934)	—
Loans receivable	<u>\$ 308,833</u>	<u>\$ —</u>

(a) During the year ended December 31, 2015, the Company recognized an impairment loss on the loan amount of \$264,750 and the accrued interest of approximately \$14,500.

During the year ended December 31, 2016, the Company revised the estimates of the recoverability of the loan due to updated and favourable operational conditions, and wrote up the loan to the initial amount of \$264,750 plus accrued interest of approximately \$37,500. The loan was due on demand, bearing interest at 8% per year, calculated and payable annually in arrears.

(b) During the year ended December 31, 2015, the Company recognized an impairment loss on the loan of \$375,000 and the accrued interest of approximately \$44,000.

During the year ended December 31, 2016, the full amount of the loan plus accrued interest was repaid and the entire amount was recovered. The loan was due on demand, and bore interest at 8% per year, calculated and payable semi-annually in arrears.

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9. Equity investment

	2016	2015
(a) Whistler Medical Marijuana Company	\$ 2,565,412	\$ 2,404,615
(b) Peace Naturals Project Inc. ("Peace")	—	—
	<u>\$ 2,565,412</u>	<u>\$ 2,404,615</u>

(a) As at December 31, 2016, the investment represents approximately 21.5% (December 31, 2015 - 21.5%) ownership in Whistler Medical Marijuana Company, incorporated in Canada. Whistler Medical Marijuana Company is a licensed producer and seller of medical marijuana with operations in British Columbia, Canada. The investment is accounted for using the equity method.

Summarized financial information of Whistler Medical Marijuana Company is as follows:

	2016	2015
Current assets	\$ 2,233,175	\$ 1,458,776
Non-current assets	3,855,394	2,640,886
Current liabilities	1,649,191	1,272,576
Non-current liabilities	865,000	—
Revenue	\$ 2,817,080	\$ 934,118
Income (loss) from continuing operations	756,638	(54,501)

Reconciliation of the carrying amount of the investment is as follows:

	2016	2015
Balance - beginning of year	\$ 2,404,615	\$ 2,416,352
Company's share of dividends paid	(2,154)	—
Company's share of income (loss)	162,951	(11,737)
Balance - end of year	<u>\$ 2,565,412</u>	<u>\$ 2,404,615</u>

(b) As at September 30, 2015, the investment represented 26.1% ownership in Peace and was accounted for using the equity method.

During the fourth quarter of 2015, the Company determined that it was unable to exercise significant influence over this investee, and therefore, only nine months of the Company's share of the investee's income was included in the balance of the investment before the reclassification to available for sale. This investment was included in other investments at December 31, 2015 and was reported at fair value, determined using an exit price of approximately \$7 per share, based on a market participant's proposed sale of its shares of Peace, resulting in an unrealized gain of \$4,590,321 included in net income. In 2016, to the date of acquisition (Note 5), the investment was classified as available-for-sale (Note 10) and changes in fair value were recorded through other comprehensive income.

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9. Equity investment (continued)

Summarized financial information of Peace Naturals Project Inc. is as follows:

	Period from Jan 1 to September 30, 2015
Revenue	\$ 1,120,837
Loss from continuing operations	(1,757,206)

Reconciliation of the carrying amount of the investment is as follows:

	2015
Balance - beginning of year	\$ 515,993
Company's share of loss	(465,370)
Transfer to other investments	(50,623)
Balance - end of year	\$ —

10. Other investments

Other investments consist of investments in common shares of several companies in the medicinal marijuana industry. These shares, with the exception of Canopy Growth Corporation, do not have a quoted price in an active market, do not have a readily available market, and as a result do not have a reliably measurable fair value.

	2016	2015
Available-for-sale investments		
The Hydropharmacy Corporation (i)	\$ 412,502	\$ 250,000
Vert Medical - Green Medical Inc. (ii)	—	—
Canopy Growth Corporation (ii)	337,010	—
AbCann Medicinals Inc. (iii)	3,073,172	1,500,090
Peace Naturals Project Inc. (Note 9(b))	—	4,640,944
Evergreen Medicinal Supply Inc. (iv)	300,000	—
	<u>\$ 4,122,684</u>	<u>\$ 6,391,034</u>
Fair-value through profit and loss investment		
AbCann Medicinals Inc. - share warrants (v)	\$ 1,004,574	\$ 806,000
Less: Deferred gain on acquisition of warrants (v)	—	(806,000)
	<u>\$ 1,004,574</u>	<u>\$ —</u>
	<u>\$ 5,127,258</u>	<u>\$ 6,391,034</u>

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Cronos Group Inc. (formerly PharmaCan Capital Corp.)
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10. Other investments (continued)

(i) During the year ended December 31, 2016, the Company received bonus shares pursuant to the original agreement, for \$Nil consideration. The transaction price is less than the fair value at the date of receipt, and the gain of \$25,000 on initial recognition was initially deferred as the fair value was based on other than level 1 inputs. During the year, the deferred gain was taken into income as factors that market participants would consider when valuing the shares have changed. The fair value of all of the shares held as at December 31, 2016 is estimated to be \$412,502, based on the share price of the financing that took place in December 2016.

(ii) At December 31, 2015, the Company's investment in Vert Medical - Green Medical Inc. ("Vert") of \$450,000 was considered to be impaired. Management's assessment was that it was not probable that Vert would obtain a Health Canada license or additional financing in the foreseeable future, and therefore, the investment was written down to \$Nil.

During the year ended December 31, 2016, Canopy Growth Corporation ("Canopy") acquired all of the outstanding shares of Vert. In exchange for shares in Vert, Canopy issued the former Vert shareholders, shares of Canopy. The fair value of the Canopy shares at the date of the transaction of \$258,104 determined the proceeds on derecognition of the Vert shares. Since the gain was realized, it was recorded as income. The fair value of the Canopy shares at the date of the transaction was also the deemed cost of the Canopy shares, which were then revalued to fair value at December 31, 2016, with the subsequent gain being recorded as other comprehensive income.

(iii) During the year ended December 31, 2016, the Company received bonus shares pursuant to the original agreement, for \$Nil consideration. The transaction price was less than the fair value at the date of receipt, and the gain of \$75,000 on initial recognition was initially deferred as the fair value was based on other than level 1 inputs. During the year, the deferred gain was taken into income as factors that market participants would consider when valuing the shares changed. The fair value of all of the shares held as at December 31, 2016 was estimated to be \$3,073,172, after considering valuation of the investee's peer group.

(iv) At December 31, 2015, the Company's investment in Evergreen of \$300,000 was considered to be impaired. Management's assessment was that it was not probable that Evergreen would obtain a Health Canada license or additional financing in the foreseeable future, and therefore, the investment was written down to \$Nil.

During the year ended December 31, 2016, management revised their estimate of the fair value of the investment back to its original value, based on management's assessment of the likelihood Evergreen would receive a license to produce and sell medical marijuana. The gain on the revaluation of the investment has been recognized as other comprehensive income.

(v) During the year ended December 31, 2016, the Company received bonus warrants pursuant to the original agreement, for \$Nil consideration. The transaction price was less than the fair value at the date of receipt, and the gain of \$24,000 on initial recognition was initially deferred as the fair value was based on other than level 1 inputs. As at December 31, 2015, there was also a deferred gain from the original warrants received in 2014 of \$806,700. During the year ended December 31, 2016, the deferred gain on the bonus warrants and the original warrants was taken into income as factors that market participants would consider when valuing the warrants have changed. As at December 31, 2016, the fair value of the warrants was estimated using the Black-Scholes option pricing model with the following assumptions: risk free rate: 0.60 - 0.73%; volatility: 65%; expected life: 0.70 - 1.7 years; and dividend yield: Nil%. The fair value of all of the warrants as at December 31, 2016 is estimated to be \$1,004,574, after considering valuation of the investee's peer group.

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10. Other investments (continued)

The gains recognized upon the increase in fair value on other investments is as follows:

	2016	2015
Peace Naturals Project Inc.	\$ (1,325,984)	\$ 4,590,321
Peace Naturals Project Inc. - immediately before acquisition (Note 5)	(346,970)	—
The Hydrothecary Corporation (i)	25,000	—
Vert Medical - Green Medical Inc. (ii)	258,104	—
AbCann Medicinals Inc. (iii)	75,000	—
AbCann Medicinals Inc. - share warrants (v)	1,004,574	—
Gain (loss) recognized through profit-and-loss	<u>\$ (310,276)</u>	<u>\$ 4,590,321</u>
	2016	2015
The Hydrothecary Corporation (i)	\$ 137,502	\$ —
Canopy Growth Corporation (ii)	78,906	—
AbCann Medicinals Inc. (iii)	1,498,082	—
Evergreen Medicinal Supply Inc. (iv)	300,000	—
Gain recognized through other comprehensive income	<u>\$ 2,014,490</u>	<u>\$ —</u>

11. Property, plant and equipment

Cost	Balance at January 1, 2016	Additions	Acquisition (Note 5)	As at December 31, 2016
Land	\$ 210,000	\$ 623,177	\$ 725,000	\$ 1,558,177
Building structures	824,127	62,135	1,875,000	2,761,262
Vehicle	—	—	31,430	31,430
Furniture and equipment	26,658	—	5,048	31,706
Computer equipment	28,859	—	18,575	47,434
Software	—	37,939	2,648	40,587
Fencing	3,249	—	—	3,249
Security equipment	179,898	291,478	—	471,376
Production equipment	72,656	408,371	1,624,234	2,105,261
Road	137,376	—	—	137,376
Leasehold improvements	1,363,014	65,951	—	1,428,965
Construction in progress	—	34,162	6,000,000	6,034,162
	<u>\$ 2,845,837</u>	<u>\$ 1,523,213</u>	<u>\$ 10,281,935</u>	<u>\$ 14,650,985</u>

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11. Property, plant and equipment (continued)

Accumulated depreciation	Balance at January 1, 2016	Additions	As at December 31, 2016
Building structures	\$ 62,569	\$ 57,572	\$ 120,141
Vehicle	—	3,929	3,929
Furniture and equipment	7,998	5,720	13,718
Computer equipment	12,111	13,601	25,712
Software	—	10,147	10,147
Fencing	650	325	975
Security equipment	7,915	50,680	58,595
Production equipment	14,455	88,979	103,434
Road	181	5,496	5,677
Leasehold improvements	40,072	146,297	186,369
	<u>\$ 145,951</u>	<u>\$ 382,746</u>	<u>\$ 528,697</u>
Net book value	<u>\$ 2,699,886</u>		<u>\$ 14,122,288</u>

Cost	Balance at January 1, 2015	Additions	As at December 31, 2015
Land	\$ 210,000	\$ —	\$ 210,000
Building structures	823,405	722	824,127
Road	—	137,376	137,376
Furniture and equipment	26,658	—	26,658
Computer equipment	20,359	8,500	28,859
Fencing	2,978	271	3,249
Security equipment	18,945	160,953	179,898
Production equipment	52,504	20,152	72,656
Leasehold improvements	181,528	1,181,486	1,363,014
	<u>\$ 1,336,377</u>	<u>\$ 1,509,460</u>	<u>\$ 2,845,837</u>

Accumulated depreciation	Balance at January 1, 2015	Additions	As at December 31, 2015
Building structures	\$ 20,423	\$ 42,146	\$ 62,569
Road	—	181	181
Furniture and equipment	2,666	5,332	7,998
Computer equipment	2,048	10,063	12,111
Fencing	54	596	650
Security equipment	440	7,475	7,915
Production equipment	867	13,588	14,455
Leasehold improvements	6,132	33,940	40,072
	<u>\$ 32,630</u>	<u>\$ 113,321</u>	<u>\$ 145,951</u>

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12. Promissory note payable

The Company issued a promissory note in the amount of \$750,000 on June 26, 2015, bearing interest at 15% per annum with an interest free period for the first 60 days. Interest was payable monthly from and after the interest free period.

The loan was due on the earliest of: (a) the Company receiving other financing in excess of \$750,000 (b) the date of completion of the sale of shares of In the Zone Produce Ltd., (c) June 26, 2016. Since the Company raised financing through private placements exceeding the \$750,000 during the fiscal year ended December 31, 2015, this promissory note became due on demand as at December 31, 2015.

Upon execution of this note, \$15,000 in cash as well as 200,000 common shares of the Company was paid as an initial structuring fee. The common shares were valued at \$100,000 based on the share price at the issuance date. Additionally, the Company agreed to pay \$200,000 on August 26, 2015 as an additional structuring fee if the principal was not repaid in full within the first 60 days. The Company failed to repay the principal within 60 days and as a result, the structuring fee was added to the principal of the promissory note.

The promissory note payable was repaid in full on May 17, 2016. The payment of \$1,054,762 included principal of \$950,000, and accrued interest.

	2016	2015
Face value of promissory note	\$ —	\$ 750,000
Add: Additional structuring fee	—	200,000
	<u>\$ —</u>	<u>\$ 950,000</u>

The financing fees associated with this transaction are as follows:

	2016	2015
Initial structuring fee	\$ —	\$ 115,000
Additional structuring fee	—	200,000
Legal fees	—	10,170
	<u>\$ —</u>	<u>\$ 325,170</u>

13. Convertible loans payable

	2016	2015
Loan payable to an Officer of the Company	\$ —	\$ 100,000
Loan payable to a related corporation (i)	—	7,500
Loan payable to a Director of the Company	—	7,500
	<u>\$ —</u>	<u>\$ 115,000</u>

(i) The loan was payable to a corporation that is controlled by a former officer of the Company.

The loans were payable to a former officer and a former director of the Company. The loans were non-interest bearing, unsecured and due on demand. The loans were convertible into common shares of the Company at the option of the holder at a price of \$0.07 per share, however due to TSX-V requirements and agreement among the associated parties, the loans may not be converted at a price below \$0.10. As such, the conversion price while listed was \$0.10 per share. The fair market value of these loans was allocated to the debt component.

The convertible loans were converted and accordingly discharged on July 22, 2016, resulting in the issuance of 1,150,000 common shares at a value of \$115,000.

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14. Deposit payable

During 2015, the Company received \$450,000 related to a letter of intent signed by a potential purchaser of In the Zone, of which \$200,000 was refundable. Since the purchaser did not proceed, \$200,000 was refundable, and an additional \$65,000 was repayable as a reimbursement of costs to the purchaser, which was included in accounts payable and accrued liabilities as at December 31, 2015. During 2015, \$185,000 was taken into income, and \$265,000 was refunded during the year ended December 31, 2016.

15. Mortgage payable

(a) On January 15, 2015, the Company obtained a mortgage for \$500,000, secured by the land and building structures used in the production of cannabis, with a carrying amount of \$960,290 as at December 31, 2015. The mortgage terms consisted of interest at 7.5% per annum, with monthly interest-only payments of \$3,125, based on a twenty-five year amortization period. The terms of the mortgage included an original maturity date of January 15, 2020. The full balance of the mortgage and accrued interest, plus an additional \$15,000 early settlement fee, was repaid on June 6, 2016.

(b) On September 6, 2016, the Company obtained a mortgage in connection with the acquisition of Peace (Note 5) with a principal balance of \$4,000,000. The mortgage bears interest at 12% per annum compounded and payable monthly. The mortgage matures on June 1, 2017. The mortgage is secured by a first charge on Peace's property as well as a first ranking security interest charging all the personal property of Peace and each covenantor in the amount of the loan.

16. Share capital and reserves

(a) Share capital

(i) Common Shares

The Company is authorized to issue an unlimited number of common shares.

The holders of the common shares are entitled to receive dividends which may be declared from time to time, and are entitled to one vote per share at meetings of the Company. All shares are ranked equally with regards to the Company's residual assets.

During the year ended December 31, 2015, the Company issued units through a private placement. Each unit was comprised of one common share and one common share purchase warrant. The Company received \$2,231,027 in exchange for 7,892,454 units. The consideration was proportionately allocated on a fair value basis between shares and warrants.

During the year ended December 31, 2015, the Company repurchased 426,780 shares from the original founders of In the Zone, in exchange for \$300,000 in cash. The shares were originally recorded for \$170,000, and therefore, the premium of \$130,000 paid was recorded to contributed capital. Of these shares, 298,746 (2015 - 341,424) remain in escrow, and will be cancelled immediately upon release.

During the year ended December 31, 2016, 75,289,565 common shares were issued in private placements, 32,432,425 of which were issued as units, where the holder received one common share and one common share purchase warrant. Total consideration raised through private placements in 2016 was \$20,928,393, of which \$128,426 was recognized in lieu of compensation (Note 17). The consideration was proportionately allocated on a fair value basis between shares and warrants. The share issuance cost associated with these issuances was \$161,713.

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16. Share capital and reserves (continued)

(a) Share capital (continued)

(i) Common Shares (continued)

As at December 31, 2016, 3,233,992 of the Company's shares are held in escrow (December 31, 2015 - 5,719,214). The release of these shares is subject to regulatory approval.

(ii) Special Shares

The Company is authorized to issue an unlimited number of special shares, issuable in series.

The special shares may be issued in one or more series and the directors are authorized to fix the number of shares in each series and to determine the designation, right, privileges, restrictions and conditions attached to the shares in each series. No special shares have been issued since the Company's inception.

(b) Warrants

The following is a summary of changes in warrants for the periods from January 1, 2015 to December 31, 2015 and from December 31, 2015 to December 31, 2016:

	Number of Warrants	Amount
Balance at January 1, 2015	8,069,703	\$ 368,650
Exercise of warrants - February 27, 2015 (i)	(53,345)	(16,537)
Issuance of warrants - October 2015 (Note 16(a)(i))	7,892,454	1,011,920
Exercise of warrants - November 16, 2015 (ii)	(113,390)	(35,151)
Balance at December 31, 2015	15,795,422	\$ 1,328,882
Issuance of warrants - May 2016 (iii)	32,432,425	2,832,029
Exercise of warrants - July 2016 (iv)	(55,000)	—
Exercise of warrants - August 2016 (v)	(100,000)	(14,527)
Exercise of warrants - October 2016 (vi)	(661,505)	(96,099)
Exercise of warrants - November 2016 (vii and viii)	(883,320)	(59,640)
Exercise of warrants - December 2016 (ix and x)	(564,599)	(7,750)
Expiry of warrants	(78,251)	—
Balance at December 31, 2016	<u>45,885,172</u>	<u>\$ 3,982,895</u>

(i) 53,345 warrants were exercised in exchange for \$12,803 in cash. These warrants were granted on October 1, 2013, and had an exercise price of \$0.24.

(ii) 113,390 warrants were exercised in exchange for \$27,214 in cash. These warrants were granted on October 1, 2013 and had an exercise price of \$0.24.

(iii) 32,432,425 units were issued in two private placements. Each unit consisted of one common share and one common share purchase warrant. These warrants had an exercise price of \$0.245.

(iv) 55,000 warrants were exercised in exchange for \$4,400 in cash. These warrants were granted on January 18, 2013, and had an exercise price of \$0.08.

(v) 100,000 warrants were exercised in exchange for \$24,000 in cash. These warrants were granted on October 1, 2013, and had an exercise price of \$0.24.

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16. Share capital and reserves (continued)

(b) Warrants (continued)

(vi) 661,505 warrants were exercised in exchange for \$158,761 in cash. These warrants were granted on October 1, 2013, and had an exercise price of \$0.24.

(vii) 460,877 warrants were exercised in exchange for \$142,872 in cash. These warrants were granted on October 28, 2015, and had an exercise price of \$0.31.

(viii) 422,443 warrants were exercised in exchange for \$33,796 in cash. These warrants were granted on January 18, 2013, and had an exercise price of \$0.08.

(ix) 53,347 warrants were exercised in exchange for \$12,803 in cash. These warrants were granted on December 18, 2013, and had an exercise price of \$0.24.

(x) 511,252 warrants were exercised in exchange for \$40,900 in cash. These warrants were granted on January 18, 2013, and had an exercise price of \$0.08.

As at December 31, 2016, the Company has outstanding warrants as follows:

Grant date	Number of warrants	Exercise price	Expiry
January 18, 2013	5,626,398	\$ 0.08	18-Jan-18
January 30, 2014	394,772	0.70	30-Jan-17
October 8, 2015	5,242,031	0.31	8-Oct-20
October 23, 2015	1,478,245	0.31	23-Oct-20
October 28, 2015	711,301	0.31	28-Oct-20
May 13, 2016	10,810,812	0.245	13-May-21
May 27, 2016	21,621,613	0.245	27-May-21
	<u>45,885,172</u>	<u>\$ 0.24</u>	

17. Share-based payments

(a) Option Plan Details

The Company has an incentive Stock Option Plan ("the Plan") under which non-transferrable options to purchase common shares of the Company may be granted to directors, officers, or service providers of the Company. The terms of the Plan provide that Directors have the right to grant options to acquire common shares of the Company at not less than the selling price of the shares on the day preceding the grant at varying terms. The maximum number of common shares reserved for issuance for options that may be granted under the Plan is 10% of the common shares outstanding. No amounts are paid or payable by the recipient on receipt of the option, and the options granted are not dependent on any performance-based criteria.

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17. Share-based payments (continued)

(a) Option Plan Details (continued)

The following is a summary of the changes in options for the periods from January 1, 2015 to December 31, 2015 and from December 31, 2015 to December 31, 2016:

	Number of Options	Amount
Balance at January 1, 2015	1,648,574	\$ 598,650
Expiry of options (viii)	(38,571)	—
Balance at January 1, 2016	1,610,003	\$ 598,650
Issuance of options - May 2016 (i)	157,850	5,928
Issuance of options - August 2016 (ii)	1,225,000	29,934
Issuance of options - October 2016 (iii)	3,618,500	114,065
Issuance of options - November 2016 (iv)	482,000	28,464
Exercise of options - August 2016 (v)	(213,390)	(31,000)
Exercise of options - August 2016 (vi)	(157,390)	(5,902)
Exercise of options - October 2016 (vii)	(32,008)	(4,650)
Expiry of options (viii)	(512,971)	—
Balance at December 31, 2016	<u>6,177,594</u>	<u>\$ 735,489</u>

- (i) During the year ended December 31, 2016, 157,850 options were issued to a former consultant and a former director of the Company. These options had an exercise price of \$0.285.
- (ii) During the year ended December 31, 2016, 975,000 options were issued to key management of the Company and 250,000 were issued to various directors of the Company. These options had an exercise price of \$0.50, and vest evenly over a 48 month period.
- (iii) During the year ended December 31, 2016, 1,687,500 options were issued to key management of the Company, 1,366,000 were issued to various directors of the Company, and 565,000 were issued to various employees of the Company. These options had an exercise price of \$1.23, and vest evenly over a 48 month period.
- (iv) During the year ended December 31, 2016, 300,000 and 182,000 options were issued to consultants of the Company. These options had exercise prices of \$1.50 and \$1.84, and vest in May 2017 and evenly over a 48 month period, respectively.
- (v) During the year ended December 31, 2016, 213,390 options were exercised in exchange for \$51,214 in cash. These options were granted on October 1, 2013, and had an exercise price of \$0.24.
- (vi) During the year ended December 31, 2016, 157,390 options were exercised in exchange for \$44,856 in cash. These options were granted on May 17 and 27, 2016, and had an exercise price of \$0.285.
- (vii) During the year ended December 31, 2016, 32,008 options were exercised in exchange for \$7,682 in cash. These options were granted on October 1, 2013, and had an exercise price of \$0.24.

(viii) During the year ended December 31, 2016, 512,971 (2015 - 38,571) options expired, which had a weighted average exercise price of \$0.96 (2015 - \$0.70).

The weighted average share price at the dates of exercise of options during the year ended December 31, 2016 was \$0.52 (2015 - n/a as no options were exercised).

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17. Share-based payments (continued)

As at December 31, 2016, the Company had outstanding and exercisable options as follows:

Grant date	Number of options	Weighted average exercise price	Weighted average remaining contractual life (years)
January 30, 2014	32,009	\$ 0.70	0.08
August 5, 2014	213,390	1.15	0.59
September 19, 2014	106,695	1.15	0.72
December 17, 2014	500,000	1.15	0.96
August 5, 2016	1,225,000	0.50	4.60
October 6, 2016	3,618,500	1.23	4.77
November 16, 2016	300,000	1.50	1.37
November 21, 2016	182,000	1.84	4.88
Outstanding at December 31, 2016	6,177,594	\$ 1.10	4.03
Exercisable at December 31, 2016	1,209,646	\$ 1.09	1.96

As at December 31, 2016, the weighted average exercise price of options outstanding is \$1.10 (2015 - \$0.94). The weighted average exercise price of options exercisable is \$1.09 (2015 - \$0.94).

(b) Fair Value of Options Issued During the Year

The fair value of the options was determined using the Black-Scholes option pricing model. The following inputs were used:

	2016	2015
Share price at grant date	\$0.19 - \$1.77	n/a
Exercise price	\$0.285 - \$1.84	n/a
Risk free interest rate	0.54% - 0.67%	n/a
Expected life of options (years)	0.25 - 5	n/a
Expected annualized volatility	55% - 150%	n/a
Expected dividend yield	0%	n/a
Weighted average Black Scholes value at grant date	\$0.43	n/a

During Q3 2016, management revised their estimate of the Company's future volatility factor to 55%.

(c) Expenses Arising from Share-based Payment Transactions

Total expenses arising from share-based payment transactions recognized during the year as part of stock-based compensation were \$306,817 (2015 - \$Nil), \$128,426 of which was issued in shares to key management (Note 18(a)(i)).

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18. Related party transactions and balances

The following is a summary of the Company's related party transactions during the year:

(a) Key management compensation

Key management personnel are persons responsible for planning, directing and controlling activities of an entity, and include executive and non-executive directors. Compensation provided to key management is as follows:

	2016	2015
Short-term employee benefits, including salaries and fees	\$ 264,029	\$ 238,614
Professional fees	171,097	68,985
Stock-based compensation (i)	207,816	—
	<u>\$ 642,942</u>	<u>\$ 307,599</u>

(i) Stock-based compensation is comprised of \$128,426 of shares issued in lieu of compensation, and \$79,390 in stock options provided to key management of the Company. Refer to Note 17.

(b) Purchase of shares and warrants

(i) On October 28, 2015, members of key management purchased 701,754 units of the Company's private placement. Each unit is comprised of one share and one warrant, entitling the holder to purchase one common share at \$0.31. The members of key management paid \$200,000 for these units, which represented the fair value.

- (ii) On May 27, 2016, a board member purchased 810,810 units of the Company's private placement. Each unit is comprised of one share and one share purchase warrant, entitling the holder to purchase one common share at \$0.245. The board member paid approximately \$150,000 for these units, which represents the fair value.
- (iii) On May 27, 2016, a shareholder with ownership interest exceeding 10%, purchased 4,665,187 units of the Company's private placement. Each unit is comprised of one share and one share purchase warrant, entitling the holder to purchase one common share at \$0.245. The shareholder paid approximately \$863,000 for these units, which represents the fair value.
- (c) Issuance of options
- (i) On August 5, 2016, 250,000 options were issued to directors of the Company. These options had an exercise price of \$0.50. Share-based compensation expense of \$6,109 was recognized for these options. Refer to Note 17.
- (ii) On October 6, 2016, 1,366,000 options were issued to directors of the Company. These options had an exercise price of \$1.23. Share-based compensation expense of \$43,060 was recognized for these options. Refer to Note 17.

As at December 31, 2016, there was a balance payable of \$Nil to directors of the Company (2015 - \$233,000) and a balance payable of \$85,797 to members of key management (2015 - \$Nil).

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19. Commitments and contingencies

(a) The following is a summary of the Company's operating lease obligations due in future fiscal years:

2017	\$	20,400
2018		5,100
	\$	<u>25,500</u>

(b) The Company owns approximately 6.25% of Evergreen Medicinal Supply Inc. (included in Other Investments). The Company subscribed for an additional 18.75% ownership at a cost of \$900,000. The closing of this subscription is conditional and will occur in tranches, beginning no later than the date of confirmation by Health Canada of an inspection to assess the eligibility of Evergreen Medicinal Supply Inc. to obtain a license to produce and sell medical marijuana. (Note 26(g))

(c) The following are related to Peace:

- (i) Peace is subject to a claim for \$12 million for damages related to the death of 12 cannabis plants held in its care, amounting to \$1 million per plant. The Company believes that the allegations contained in the statement of claim are without merit and plans to vigorously defend itself; accordingly, no provision for loss has been recognized.
- (ii) Peace is subject to a claim for \$15 million for the non-closure of a share purchase agreement. The Company believes that the allegations contained in the statement of claim are without merit and plans to vigorously defend itself; accordingly, no provision for loss has been recognized.
- (iii) Peace is subject to a claim for \$125,000 related to warrants of the Company that were not issued as was originally agreed upon. The Company believes that the allegations contained in the statement of claim are without merit and plans to vigorously defend itself; accordingly, no provision for loss has been recognized.
- (iv) Peace was subject to a claim for \$50 million for damages related to unlawful interference with the plaintiff's economic relations. Subsequent to year end, the claim was settled for a nominal amount without admission of liability.

20. Earnings (loss) per share

Basic and diluted earnings (loss) per share are calculated using the following numerators and denominators:

Numerators	2016	2015
Income (loss) attributable to common shareholders	\$ (1,190,071)	\$ 386,166
Income (loss) used in the computation of basic and diluted earnings per share	\$ (1,190,071)	\$ 386,166
Denominators	2016	2015
Weighted average number of common shares for computation of basic	78,248,192	36,411,626
Dilutive effect of convertible loans payable	—	1,642,857
Dilutive effect of warrants	—	5,570,910
Dilutive effect of options	—	69,018
Weighted average number of common shares for computation of diluted earnings per share	<u>78,248,192</u>	<u>43,694,412</u>

Cronos Group Inc. (formerly PharmaCan Capital Corp.)
Notes to Consolidated Financial Statements
Years ended December 31, 2016 and December 31, 2015

20. Earnings (loss) per share (continued)

In 2016, all instruments were anti-dilutive. In 2015, 473,023 warrants with an exercise price of \$0.70, 245,399 options with an exercise price of \$0.70, and 1,119,205 options with an exercise price of \$1.15 were anti-dilutive, and therefore, excluded from the calculation of diluted earnings per share.

21. Income taxes

The components of the tax recovery include:

	2016	2015
Current	\$ —	\$ —
Deferred	(568,000)	(171,000)
	<u>\$ (568,000)</u>	<u>\$ (171,000)</u>

The reconciliation of the combined Canadian federal and provincial statutory income tax rate of 26.5% (2015 - 26.5%) to the effective tax rate is as follows:

	2016	2015
Income (loss) before income taxes	\$ (1,758,071)	\$ 215,166
Combined statutory tax rate	26.5%	26.5%
Theoretical tax expense (recovery)	(466,000)	57,000
Non-deductible expenses:		
Stock-based compensation	81,000	—
Effect of provincial tax rate difference	4,000	4,000
Other adjustments	—	(389,000)
Changes in unrecognized deferred tax assets	(187,000)	157,000
Income tax recovery	<u>\$ (568,000)</u>	<u>\$ (171,000)</u>

The components of deferred tax are summarized below. Deferred tax assets and liabilities have been offset where they relate to income taxes levied by the same taxation authority and the Company has the legal right and intent to offset.

	2016	2015
Deferred tax assets		
Non-capital losses carried forward	\$ 1,243,000	\$ —
Farm losses carried forward	444,000	224,000
SR&ED	28,000	—
Deferred tax liabilities		
Biological assets	(18,000)	—
Inventory	(51,000)	—
Property, plant and equipment	(141,000)	—
License (i)	(2,962,000)	(419,000)
Net deferred tax liability	<u>\$ (1,457,000)</u>	<u>\$ (195,000)</u>

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Cronos Group Inc. (formerly PharmaCan Capital Corp.)
Notes to Consolidated Financial Statements
Years ended December 31, 2016 and December 31, 2015

21. Income taxes (continued)

- (i) During 2015, the Company finalized its purchase price allocation on the acquisition of In the Zone, resulting in an additional deferred tax liability recorded as at the date of acquisition. The deferred tax liability was partially offset by deferred tax assets of In the Zone as at December 31, 2015, resulting in a deferred tax recovery recognized in the statement of operations for the year then ended. During 2016, the Company performed a purchase price allocation on the acquisition of Peace, resulting in an additional deferred tax liability recorded as at the date of acquisition. (Note 5)

Movement in the net deferred tax liability is provided below:

	2016	2015
Balance - beginning of year	\$ 195,000	\$ 366,000
Recognized in income	(568,000)	(171,000)
Recognized in other comprehensive income	430,000	—
Recognized in goodwill	1,400,000	—
Balance - end of year	<u>\$ 1,457,000</u>	<u>\$ 195,000</u>

Deferred taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred tax assets have not been recognized in respect of the following deductible temporary differences because it is not probable that future taxable profit will be available against which the Company can utilize the benefits therefrom.

	2016	2015
Property, plant and equipment	\$ (17,000)	\$ 143,000
Equity accounted investments	24,000	712,000
Share and debt issuance costs (i)	288,000	1,219,000
Losses carried forward (ii)	1,728,000	2,522,000
Other investments	(695,000)	(646,000)
Net deferred tax asset not recognized	<u>\$ 1,328,000</u>	<u>\$ 3,950,000</u>

- (i) Share and debt issuance costs will be fully amortized in 2021. The remaining deductible temporary differences may be carried forward indefinitely.

- (ii) For income tax purposes, the Company has losses carried forward from prior years which can be used to reduce future years' taxable income. These losses expire as follows:

	Non-capital & farm losses
2032	\$ 536,000
2033	1,217,000
2034	4,138,000
2035	3,785,000
2036	3,245,000
	<u>\$ 12,921,000</u>

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Cronos Group Inc. (formerly PharmaCan Capital Corp.)
Notes to Consolidated Financial Statements
Years ended December 31, 2016 and December 31, 2015

22. Operating segment information

The Company is divided into two operating segments corresponding to the two primary business models. The first segment relates to pursuing equity investments into licensed medical marijuana producers in Canada, (“Investing Segment”). This segment derives revenue through increases in the value of the investments and through the Company’s share of income. The second segment relates to production and sale of medical cannabis through the wholly-owned subsidiaries, In the Zone and Peace (Note 5), (“Operating Segment”). Reporting by segment follows the same accounting policies as those used to prepare the consolidated financial statements.

The operating segments are presented in accordance with the same criteria used for the internal reporting prepared for the chief operating decision-makers responsible for allocating resources and assessing performance. Inter-segment transactions are recorded at the stated values as agreed to by the segments.

All of the Company’s assets are located in Canada.

For the year ended December 31, 2016:

	Investing Segment	Operating Segment	Inter-segment Elimination	2016
Statement of Operations				
Product sales	\$ —	\$ 554,203	\$ —	\$ 554,203
Share of income from equity investment	162,951	—	—	162,951
Gain on revaluation of biological assets	—	2,178,810	—	2,178,810
Production costs	—	356,417	—	356,417
Inventory expensed as cost of sales	—	383,626	—	383,626
Recovery of loans receivable	725,150	—	—	725,150
Loss on revaluation of other investments	(310,276)	—	—	(310,276)
Intercompany revenue	436,953	—	(436,953)	—
Stock-based compensation	306,817	—	—	306,817
Interest expense	84,247	349,870	(195,842)	238,275
Depreciation	62,308	322,510	(2,072)	382,746
Net income (loss)	\$ (1,380,549)	\$ (379,077)	\$ 569,555	\$ (1,190,071)
Statement of Financial Position				
Total assets	\$ 59,045,684	\$ 16,428,686	\$ (32,573,774)	\$ 42,900,596
Total liabilities	24,557,988	17,576,687	(32,911,708)	9,222,967
Shareholders’ equity	\$ 34,487,696	\$ (1,148,001)	\$ 337,934	\$ 33,677,629
Other information				
Property, plant and equipment	\$ 1,085,188	\$ 10,871,776	\$ 2,165,324	\$ 14,122,288
Purchase of property, plant, and equipment	—	1,496,220	26,993	1,523,213

Cronos Group Inc. (formerly PharmaCan Capital Corp.)
Notes to Consolidated Financial Statements
Years ended December 31, 2016 and December 31, 2015

22. Operating segment information (continued)

Reconciling items in the statement of operations include intercompany interest (approximately \$187,000), management fees (approximately \$150,000), and land lease costs (approximately \$100,000). Reconciling items in the statement of financial position include the license and goodwill acquired on initial acquisition of In the Zone (approximately \$1,900,000) and initial acquisition of Peace (approximately \$11,000,000), the elimination of the investment in In the Zone (approximately \$1,500,000) and of the investment in Peace (approximately \$12,000,000), and the elimination of the intercompany loan balances (approximately \$33,800,000).

For the year ended December 31, 2015:

	Investing Segment	Operating Segment	Elimination of inter-segment accounts	2015
Statement of Operations				
Share of loss from equity investments	\$ 477,107	\$ —	\$ —	\$ 477,107
Unrealized gain on investment	4,590,321	—	—	4,590,321
Intercompany revenue	304,722	—	(304,722)	—
Interest revenue	41,589	—	—	41,589
Interest expense	90,533	5,970	(5,200)	91,303
Depreciation	56,992	56,467	(138)	113,321
Net income (loss)	\$ 910,121	\$ (487,071)	\$ (36,884)	\$ 386,166
Statement of Financial Position				
Total assets	\$ 16,755,666	\$ 2,041,625	\$ (4,073,445)	\$ 14,723,846
Total liabilities	4,483,355	2,709,986	(4,171,350)	3,021,991
Shareholders’ equity	\$ 12,272,311	\$ (668,361)	\$ 97,905	\$ 11,701,855
Other information				
Property, plant and equipment	\$ 1,147,405	\$ 1,589,365	\$ (36,884)	\$ 2,699,886
Purchase of property, plant, and equipment	153,966	1,392,515	(37,021)	1,509,460

Reconciling items in the consolidated statement of operations include intercompany interest (approximately \$42,000), management fees (approximately \$162,000), and land lease costs (approximately \$100,000). Reconciling items in the consolidated statement of financial position include the license acquired on initial acquisition of In the Zone (approximately \$1,600,000), the elimination of the investment in In the Zone (approximately \$1,500,000), and the elimination of the intercompany loan balances (approximately \$4,200,000).

Cronos Group Inc. (formerly PharmaCan Capital Corp.)
Notes to Consolidated Financial Statements
Years ended December 31, 2016 and December 31, 2015

23. Financial instruments

- (a) Financial risks
 (i) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's policy is to review liquidity resources and ensure that sufficient funds are available to meet financial obligations as they become due. Further, the Company's management is responsible for ensuring funds exist and are readily accessible to support business opportunities as they arise. The Company's funding is provided in the form of capital raised through the issuance of shares, loans, notes, and mortgages payable.

The following represents an analysis of the age of trade payables:

	2016	2015
Current	\$ 146,848	\$ 628,145
Less than 30 days past billing date	149,892	14,832
31 to 60 days past billing date	33,049	301,406
61 to 90 days past billing date	15,992	2,453
Over 90 days past billing date	240,101	—
	<u>\$ 585,882</u>	<u>\$ 946,836</u>

- (ii) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company is exposed to this risk through its loans receivable, and accounts receivable.

As at December 31, 2016, the value of its loans receivable was \$308,833 (December 31, 2015 - \$Nil) and the value of its accounts receivable was \$107,166 (December 31, 2015 - \$Nil). The Company is not significantly exposed to credit risk, as these receivables comprise 0.7% (December 31, 2015 - 0%) of the Company's total assets.

- (iii) Market risk

- (1) Price risk

Price risk is the risk that the fair value of, or future cash flows from, the Company's financial instruments will significantly fluctuate due to changes in market prices. The value of the financial instruments can be affected by changes in interest rates, market and economic conditions, and equity and commodity prices. The Company is exposed to price risk in divesting its investments in private companies and unfavourable market conditions could result in dispositions of investments at less than favourable prices. Further, in the revaluation of securities classified as available-for-sale, this could result in significant write-downs of the Company's investments, which would have an adverse impact on the Company's financial position.

The Company manages price risk by having a portfolio of securities from multiple issuers, such that the Company is not singularly exposed to any one issuer. The Company also has set thresholds on purchases of investments over which the approval of the Board of Directors is required.

Cronos Group Inc. (formerly PharmaCan Capital Corp.)
Notes to Consolidated Financial Statements
Years ended December 31, 2016 and December 31, 2015

23. Financial instruments (continued)

- (iii) Market risk (continued)
 (2) Concentration risk

Concentration risk is the risk that any single investment or group thereof, has the potential to materially affect the operating results of the Company. The Company is exposed to this risk as all of its investments are currently within the medical marijuana industry. As such, the Company's financial results may be adversely affected by the unfavourable performance of those investments or the industry in which they operate.

It is management's opinion that the Company is not subject to significant interest rate risk.

24. Fair value hierarchy

Assets recorded at fair value on the consolidated statement of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets and liabilities;

Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3 - valuation techniques using the inputs for the asset or liability that are not based on observable market data (unobservable inputs).

In these consolidated financial statements, classification of assets measured at fair value is as follows:

Level 1 - cash; other investments (Canopy)

Level 2 - warrants, options;

Level 3 - other investments (AbCann shares and warrants, Hydrothecary, Evergreen), biological assets.

During the year ended December 31, 2016, the Company invested in shares of Canopy (see Note 10), and since these are publicly traded, the valuation is classified as level 1. During the years ended December 31, 2015 and 2016, there were no transfers of amounts between Level 1 and Level 2 and 3.

25. Capital management

The Company considers its capital to be its equity. The Company's objectives when managing its capital are to maintain sufficient capital base in order to meet its short-term obligations and at the same time preserve investors' confidence required to sustain future investments.

Cronos Group Inc. (formerly PharmaCan Capital Corp.) **Notes to Consolidated Financial Statements** **Years ended December 31, 2016 and December 31, 2015**

26. Subsequent events

- (a) Subsequent to year end, the \$50 million claim against the Company was settled for a nominal amount without admission of liability.
- (b) Subsequent to the year end, the Company closed its previously announced bought deal offering pursuant to the filing of a short form prospectus, including the full exercise of the over-allotment option. A total of 7,705,000 common shares of the Company were sold at a price of \$2.25 per Share for aggregate gross proceeds of \$17,336,250.
- (c) The Company holds a 21.5% interest in Whistler Medical Marijuana Corp. ("WMMC"). Subsequent to the year end, the Company has decided to maintain its 21.5% equity position through an additional \$1,075,800 investment to help support WMMC's next phase of growth.
- (d) Subsequent to the year end, BFK Capital Corp. acquired all of the outstanding shares of Hydrothecary Corporation, and began trading as Hydrothecary Corporation, (TSX-V:THCX). As a result of this transaction, Hydrothecary Corporation executed a 6:1 stock split, and the fair value of the investment held by the Company at the date of the transaction was approximately \$1M, based on the opening share price of \$1.82 per share.
- (e) Subsequent to the year end, the Company's wholly owned subsidiary, In the Zone Produce, received its license to sell dried marijuana and its renewal to produce dried marijuana from Health Canada.
- (f) Subsequent to the year end, the Company has granted options to subscribe to 3,299,000 common shares of the Company to certain of the Company's employees and directors, in accordance with the Company's stock option plan. The options are exercisable at a price of \$3.14 per common share and shall expire at the earlier of 180 days of the death, disability or incapacity of the holder or five years after the date of issue.
- (g) Subsequent to the year end, the full amount of the loan plus accrued interest with Evergreen Medicinal Inc. was repaid. In addition, on March 16, 2017, Evergreen received a cultivation license under the Access to Cannabis for Medical Purposes Regulations (the "ACMPR"). As a result, the Company completed its subscription for a second tranche of shares of Evergreen for \$100,000 and exercised its option to acquire an additional 5% of the equity of Evergreen for \$500,000, for a total additional investment of \$600,000. However, Evergreen, through its counsel, has indicated that the Company is not entitled to any interest in Evergreen and has rejected the payment. The Company filed a statement of claim in the Supreme Court of British Columbia and intends to vigorously pursue the enforcement of its rights to acquire equity in
- (h) Subsequent to the year end, 375,565 warrants were exercised at an exercise price of \$0.70 per warrant, and correspondingly, 375,565 common shares were issued.
- (i) Subsequent to the year end, 296,695 options were exercised at an exercise price of \$1.15 per option, and correspondingly, 296,695 common shares were issued.
- (j) Subsequent to the year end, 1,491,228 warrants were exercised at an exercise price of \$0.31 per warrant, and correspondingly, 1,491,228 common shares were issued.
- (k) Subsequent to the year end, 1,042,263 warrants were exercised at an exercise price of \$0.08 per warrant, and correspondingly, 1,042,264 common shares were issued.

Cronos Group Inc. (formerly PharmaCan Capital Corp.) **Notes to Consolidated Financial Statements** **Years ended December 31, 2016 and December 31, 2015**

26. Subsequent events (continued)

- (l) Subsequent to the year end, 32,009 options were exercised at an exercise price of \$0.70 per option, and correspondingly, 32,009 common shares were issued.
- (m) Subsequent to the year end, 30,416 options were exercised at an exercise price of \$1.23 per option, and correspondingly, 30,416 common shares were issued.
- (n) Subsequent to the year end, the conditions associated with the purchase price liability as part of the acquisition of Peace (Note 5) were met. Pursuant to the agreement, 50% of the liability was repaid, with the remaining 50% to be released at a later date.

Cronos Group Inc. (formerly PharmaCan Capital Corp.)**Management's Discussion & Analysis**

For the Year Ended December 31, 2016

Introduction

This Management Discussion and Analysis ("MD&A") provides relevant information on the consolidated results of operations and financial condition of Cronos Group Inc. (formerly PharmaCan Capital Corp.) (the "Company") for the year ended December 31, 2016. This MD&A should be read in conjunction with the audited consolidated financial statements for year ended December 31, 2016 in addition to the audited consolidated financial statements for the year ended December 31, 2015.

This discussion contains forward looking information that is qualified by reference to, and should be read in conjunction with the Caution Regarding Forward Looking Statements below.

This MD&A provides information that the management of the Company believes is important to assess and understand the results of operations and financial condition of the Company. Our objective is to present readers with a view of the Company from management's perspective by interpreting the material trends and activities that affect the operating results, liquidity and financial position of the Company. All monetary amounts herein are expressed in Canadian dollars unless otherwise specified.

This MD&A is current as of April 30, 2017.

The Company's audited consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

Additional information relating to the Company can be found on the SEDAR website at www.sedar.com.

Caution Regarding Forward-Looking Statements

Certain information in this MD&A contains or incorporates comments that constitute "forward-looking" statements within the meaning of applicable securities legislation. Forward-looking statements are not historical facts and involve known and unknown risks, uncertainties, assumptions and other factors that may cause actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, but are not limited to, the factors discussed in the section entitled "**Risk and Uncertainties**".

Generally, these forward-looking statements can be identified by the use of forward-looking terminology such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "continue", "anticipates" or "does not anticipate", or "believes" or variation of such words and phrases or state that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved". All forward looking statements are based on our beliefs and assumptions based on information available at the time the assumption was made. While the Company considers its assumptions to be reasonable and appropriate based on the current information available, there is a risk that they may not be accurate.

All forward-looking information is provided as of the date of this MD&A. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on the forward-looking statements. The Company does not undertake to update any forward-looking statements except as required by applicable securities laws.

1

Business of the CompanyCompany Overview

Cronos Group Inc. (formerly PharmaCan Capital Corp.) was incorporated under the Business Corporations Act (Ontario) on August 21, 2012 as 2339498 Ontario Inc., changed its name on October 18, 2012 to Searchtech Ventures Inc. and was classified as a Capital Pool Company as defined pursuant to Policy 2.4 of the TSX Venture Exchange. During the year ended December 31, 2014, the shareholders of Hortican Inc. ("Hortican") completed a reverse takeover of PharmaCan Capital Corp. (formerly Searchtech Ventures Inc.). For purposes of accounting for the Transaction, Hortican is considered the acquirer, and thus, the consolidated financial statements are a continuation of the financial statements of Hortican. These consolidated financial statements include the accounts of Cronos Group Inc. (formerly PharmaCan Capital Corp.) and its wholly owned subsidiaries, Hortican Inc., In the Zone Produce Ltd. ("In the Zone"), and Peace Naturals Project Inc. ("Peace"). The Company began rebranding itself as Cronos Group Inc. on October 6, 2016. The Company finalized its name change to Cronos Group Inc. on February 27, 2017.

The Company's business has grown into two segments. The first segment is the business of investing in companies either licensed, or actively seeking a license, to produce medical marijuana pursuant to the Access to Cannabis for Medical Purposes Regulations, ("ACMPR"), which replaced the Marijuana for Medical Purposes Regulations ("MMPR"). The second segment is the operation and continued development of entities which are already licensed under the ACMPR.

The Company has made investments in several companies that are either licensed or in the process of seeking a license (collectively including Peace and In The Zone, the "Investees"). In the case of the Investees that have not yet acquired a license or which have only acquired a license to cultivate, additional investment is conditional upon receipt of an ACMPR license being obtained, depending on timing of receipt.

Access to Cannabis for Medical Purposes Regulations

The ACMPR was developed in response to the February 2016 Federal Court of Canada decision in *Allard v. Canada*, which ruled that restricting individuals to obtaining marijuana only from licensed producers violated individual protected rights. The new regulations enable an individual to produce their own marijuana for personal use, or designate someone to produce it for them. The ACMPR adopt the concept, authorized activities, and application requirements for producer's licenses under the MMPR. In addition, the ACMPR enables the production and sale of starting materials, including marijuana seeds and plants.

Health Canada estimates that within a decade, the medical marijuana marketplace will grow to at least 400,000 registered patients, generating annual sales of approximately \$1.3 billion. As of April 30, 2017, forty-three producer's licenses have been issued by Health Canada.

The Government of Canada has introduced Bill C-45, the Cannabis Act, providing for the legalization of recreational cannabis in Canada. The draft Cannabis Act does not amend or repeal the ACMPR. The Cannabis Act is draft legislation and there can be no assurance that it will be enacted in its current form or at all.

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Investments

As at December 31, 2016, the Company has invested in and made loans to:

- (a) *Whistler Medical Marijuana Corporation* (“Whistler”) (\$2,565,412 equity). Whistler is a corporation incorporated under the laws of British Columbia, and is a licensed producer and seller of medical marijuana with operations in Whistler, British Columbia.
- (b) *The Peace Naturals Project Inc.* (“Peace”) (\$Nil equity). Peace is a corporation incorporated under the laws of Canada. Peace is a licensed producer and seller of medical cannabis, fresh marijuana, and cannabis oil with operations in Ontario. During the fourth quarter of 2015, the Company determined that it was unable to exercise significant influence over this investee. As a result, the investment was recorded at fair value. During the year ended December 31, 2016, the Company acquired all of the remaining outstanding shares of Peace, and accounts for the investment on a consolidated basis.
- (c) *Vert/Green Medical Inc.* (“Vert”) (\$Nil equity and \$Nil loan receivable). During the year ended December 31, 2016, Canopy Growth Corporation (“Canopy”) acquired all of the outstanding shares of Vert. In exchange for shares in Vert, Canopy offered former Vert shareholders shares of Canopy. As a result of this transaction, management reversed the prior impairment loss on the loan receivable from Vert, and collected the full amount of principal and interest owing. The proceeds on the derecognition of the Vert shares were equal to the fair value of the Canopy shares obtained (\$258,104), with the resulting gain of \$258,104 being recorded in the statement of operations.
- (d) *Canopy Growth Corp.* (“Canopy”) (\$337,010 equity). Canopy is a corporation incorporated under the laws of Canada, and is the parent company of licensed producers and sellers of medical marijuana. Canopy’s common shares are listed on the TSX, under the trading symbol “WEED”. During 2016, Canopy acquired Vert, in which the Company had previous investment. As a result of this transaction, the Company acquired through Hortican, 36,872 shares of Canopy in exchange for the shares of Vert. The fair value of the Canopy shares at the date of the transaction was \$258,104, which were then revalued to fair value at December 31, 2016, with the subsequent gain being recorded in other comprehensive income.
- (e) *Evergreen Medicinal Supply Inc.* (“Evergreen”) (\$300,000 equity, and \$308,833 loan receivable as of December 31, 2016). Evergreen is a corporation incorporated under the laws of British Columbia, with facility and operations in Victoria, British Columbia. The Company recorded an impairment loss on the full amount of this loan and investment in fiscal 2015 because management had assessed that it was not probable that Evergreen would obtain a Health Canada license or additional financing in the foreseeable future. During the year ended December 31, 2016, management re-assessed the recoverability of the loan and the investment, and reversed the prior impairment loss on the loan receivable and equity. Subsequent to year end, Evergreen was granted a cultivation license by Health Canada to produce medical marijuana at its facility in British Columbia. Also, subsequent to year end, the Company filed a claim in the Supreme Court of British Columbia against Evergreen and its directors, seeking, among other things, declarations that the Company holds equity of Evergreen and that the agreement between the parties in respect of its equity is a valid and binding contract.

- (f) *AbCann Medicinals Inc.* (“AbCann”) (\$3,073,172 equity and \$1,004,574 in warrants). AbCann is a privately-held corporation incorporated under the laws of Ontario which has obtained a license for cultivation and sale of medical cannabis from Health Canada. During the year ended December 31, 2016, the Company received bonus shares pursuant to the original agreement, for \$Nil consideration. The gain of \$75,000 related to the bonus shares was recorded in profit-and-loss. During the year, the Company also received bonus warrants pursuant to the original agreement, for \$Nil consideration. The gain of \$24,000 related to the bonus warrants was recorded in profit-and-loss, in addition to the recognition of previously deferred gain on share warrants.
- (g) *CannMart Inc.* (“CannMart”) (\$25,000 deposit on investment). CannMart is a privately-held corporation incorporated under the laws of Ontario. CannMart has applied for a license to distribute medical cannabis from its facility in Ontario. The Company recorded an impairment loss on the full amount of this deposit in fiscal 2015 because management had assessed that it was not probable that this investee would obtain a Health Canada license or additional financing in the foreseeable future. Subsequent to year end, the Company has entered into a mutual termination agreement with CannMart and will recover the original deposit on investment of \$25,000.
- (h) *The Hydroponthecary Corporation* (“Hydroponthecary”) (\$412,502 equity). Hydroponthecary is a privately-held corporation incorporated under the laws of Canada which has obtained licenses for the cultivation and sale of medical cannabis and the production and sale of fresh marijuana and cannabis oil from Health Canada. During the year ended December 31, 2016, the Company received bonus shares pursuant to the original agreement, for \$Nil consideration. The gain of \$25,000 related to the bonus shares was recorded in profit-and-loss. Management re-assessed the fair value of this investment at December 31, 2016, and recorded a gain of \$137,502 in other comprehensive income. Subsequent to year end, Hydroponthecary executed an initial public offering.

Acquisition of Peace

On September 6, 2016, the Company acquired all issued and outstanding shares of Peace Naturals Project Inc., a company headquartered in Stayner, Ontario and incorporated under the laws of Canada. Peace is a licensed producer and seller of medical cannabis from its facility in Ontario. Consideration for the acquisition includes \$6,247,543 in cash and \$2,590,367 to be paid at a future date. As the Company previously held shares of Peace, the acquisition is considered a step acquisition and resulted in a loss due to fair value re-measurement. The preliminary purchase price allocation for this acquisition is shown below:

Fair value of consideration transferred:

Cash	\$	6,247,543
Liability		2,590,367
		<u>8,837,910</u>

Fair value of previously held interest:

Fair value of interest held immediately before acquisition	3,314,960
Loss due to fair value re-measurement	(346,970)
	<u>2,967,990</u>
	<u>\$ 11,805,900</u>

Fair value of net assets acquired:

Cash	109,443
Accounts receivable	50,647
Prepaid and deposits	29,000
Loans receivable	16,167
Inventory	1,194,417
Biological assets	865,452
Property and equipment	10,281,935
Other intangible assets	9,595,824
Goodwill	1,400,000
Accounts payable	(2,876,239)
Loans payable	(7,460,836)

Due to the complexities in identifying certain intangible assets, such as licenses and intellectual property, and assigning fair values, the Company has yet to finalize its assessment of the purchase price allocation. The allocation of the consideration paid will be adjusted once a valuation of certain intangible assets has been finalized. Management expects to complete the assessment within the next fiscal year.

Overall Performance

The Company's efforts have been focused on operating In the Zone, finalizing the purchase of all of the outstanding shares of Peace Naturals Project Inc. and subsequently operating Peace, establishing international distribution channels, and optimizing production.

The renovation of the existing facilities at In the Zone was completed during fiscal 2015, and Health Canada performed an inspection, enabling In the Zone to produce medicinal marijuana in its upgraded facility. In the Zone continued production in 2016. In the Zone obtained a license to sell medicinal marijuana from Health Canada subsequent to year end.

The Company finalized the purchase of all of the remaining outstanding shares of Peace Naturals Project Inc., providing the Company with 100% of the common shares. The cash consideration paid by the Company was \$6,247,543 plus an additional amount to be paid at a later date of \$2,590,367. Prior to the acquisition, the Company owned 25.1% of Peace (27.3% prior to the exercise of options at the acquisition date). As a result of the acquisition, the Company acquired \$10,281,935 in property and equipment. Since Peace was already operating as a licensed producer and seller, the Company reported \$554,203 in product sales in its 2016 statement of operations, representing Peace's sales from the date of acquisition of September 6 to December 31, 2016. The acquisition of Peace and operations of Peace and In the Zone resulted in biological assets of \$1,794,740, and inventory of \$1,908,486.

During the year ended December 31, 2016, the Company incurred approximately \$1,523,213 (2015 - \$1,509,460) of capital expenditures, the majority of which related to the production facility and hard servicing costs for its real property in British Columbia, used in the production of medical marijuana.

During the year ended December 31, 2016, the Company repaid substantially all of its debt obligations, consisting of the \$200,000 deposit payable owing to the former potential purchaser of In the Zone, the

\$950,000 promissory note payable, and the \$500,000 mortgage payable secured by the property of In the Zone. Funds for these repayments were provided through private placements.

During the year ended December 31, 2016, the convertible loans payable of \$115,000 was converted into 1,150,000 common shares of the Company.

During the year ended December 31, 2016, the Company issued 32,432,425 units in two tranches of a private placement offering. Each unit consisted of one common share of the Company and one common share purchase warrant. Each warrant entitles the holder to purchase one common share at a price of \$0.245 per share for a period of five years following the closing of the offering. The Company further issued 42,857,140 common shares in three tranches of a private placement offering, at \$0.35 per share.

Results of Operations

Select Financial Information

The following table provides a summary of the consolidated results of the Company for the year ended December 31, 2016, and the comparative year ended December 31, 2015:

Statements of Operations and Comprehensive Income	Year ended December 31, 2016	Year ended December 31, 2015	Years ended December 31, 2014
Product sales	\$ 554,203	\$ —	\$ —
Gain (loss) on revaluation of biological assets	2,178,810	(20,000)	—
Inventory expensed to cost of sales	383,626	—	—
Production costs	356,417	181,190	—
Investment income (loss)	611,654	2,891,511	(665,076)
Expenses	4,362,695	2,475,155	4,153,113
Net Income (loss)	(1,190,071)	386,166	(4,818,189)
Gain on revaluation of other investments, net of taxes	1,584,490	—	—
Total comprehensive income (loss)	394,419	386,166	(4,818,189)
Weighted average number of outstanding shares, basic and diluted	78,248,192	36,411,626	32,236,211
Basic earnings (loss) per share	\$ (0.02)	\$ 0.01	\$ (0.15)
Weighted average number of outstanding shares, diluted	78,248,192	43,694,412	32,236,211
Diluted earnings (loss) per share	\$ (0.02)	\$ 0.01	\$ (0.15)

The net income decreased from 2015 to 2016 due to costs associated with the acquisition of Peace and a large revaluation gain in 2015 on the reclassification from equity investment to available-for-sale.

Revenues

Peace has a license to produce and sell medicinal marijuana, and therefore, the Company earned \$554,203 in revenue from product sales made by Peace from the date of acquisition to December 31, 2016. The Company reported a gain on the revaluation of biological assets of \$2,178,810, representing an increase in the fair value of the medicinal marijuana plants of both Peace and In the Zone.

Cost of revenue

The operations of In the Zone and continued operations of Peace caused an increase in production costs of \$175,227. Furthermore, the product sales made by Peace resulted in \$383,626 of inventory expensed to cost of sales during the year ended December 31, 2016.

Investment income (loss)

During the year ended December 31, 2016, the Company earned \$162,951 in income from its equity investment, Whistler, in which the Company owns 21.5%, as Whistler began to generate income from its operations and had a substantial increase in the fair value of its biological assets in the year ended December 31, 2016. During the year ended December 31, 2016, the Company reassessed the recoverability of its loans receivable from Vert and Evergreen, and the investment in the entities. As a result, the impairment loss previously recorded was reversed during the year. During the year, the Company's investment in Peace was revalued to fair value, resulting in a loss of approximately \$1,325,984. As a result of the step acquisition of Peace, the original investment in Peace, previously classified as available-for-sale, was required to be revalued to fair value prior to accounting for the acquisition. As a result, this generated an additional loss of \$346,970. The loss is offset by the recognition of gains on the increase in fair value of AbCann Medicinals share warrants of \$1,004,574, which are recognized through profit-and-loss.

Expenses

Salaries and benefits have increased during the year, which included an increase in stock-based compensation; 5,483,350 options were issued during the year. Shares were also issued as part of stock-based compensation, with a total fair value of \$128,426. Salaries and benefits only relate to the investing segment of the business. Salaries and benefits associated with the operational segment of the business are included in Production costs and General and administration. Production costs have increased during the year, as In the Zone continues to increase production, and for Peace's ongoing production from the date of acquisition to December 31, 2016. Interest expense during the year includes interest on Peace's \$4,000,000 mortgage, which is guaranteed by the Company. The interest expense in 2015 represents interest on the mortgage that was originally payable to Liz and Barry Sky, former owners of In the Zone, and the interest on the promissory note payable. These loans were settled in 2016.

Other comprehensive income

Other comprehensive income have increased during the year due to the revaluation and the subsequent increase in fair value of investments in AbCann, Hydrothecary, Canopy, and Evergreen. As these investments are accounted for as available-for-sale investments, the gains are recorded in other comprehensive income.

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The following table provides a summary of the consolidated financial position of the Company as at December 31, 2016 and as at December 31, 2015:

<u>Statements of Financial Position</u>	<u>As at December 31, 2016</u>	<u>As at December 31, 2015</u>
Total assets	\$ 42,900,596	\$ 14,723,846
Total liabilities	9,222,967	3,021,991
Working capital (deficiency)	320,621	(1,101,906)
Share capital	33,590,324	14,799,821
Accumulated deficit	6,215,569	5,025,498
Accumulated other comprehensive income	\$ 1,584,490	\$ Nil

Total assets

Total assets increased from December 31, 2015 to December 31, 2016 primarily due to the acquisition of Peace and the Company's equity raises. The acquisition of Peace and operations of Peace and In the Zone resulted in biological assets of \$1,794,740, and inventory of \$1,908,486. Further, the acquisition resulted in the preliminary recognition of other intangible assets, which are expected to include Peace's Health Canada license to produce and sell medicinal marijuana. Additionally, Peace has been operating in its current facility and is in the process of building another facility, resulting in the addition of \$10,281,935 in property, plant, and equipment as a result of the acquisition. From December 31, 2015 to December 31, 2016, the Company also generated \$20,799,967 through its private placements, contributing to the increase in cash from \$1,127,340 at December 31, 2015 to \$3,464,208 at December 31, 2016.

Total liabilities

Total liabilities increased from December 31, 2015 to December 31, 2016 primarily due to the acquisition of Peace. As a result of the acquisition, the Company acquired Peace's \$4,000,000 mortgage payable due in June 2017. In addition, as part of the purchase price, the Company has recorded a purchase price liability of \$2,590,367 to be paid to the previous shareholders of Peace once conditions as set in the purchase agreement have been met. Subsequent to year end, 50% of the purchase price liability was paid. Due to the preliminary recognition of other intangible assets as part of the acquisition, this generated a temporary taxable difference, resulting in the recognition of a deferred tax liability of \$1,400,000. The Company expects to finalize its purchase price allocation within the next fiscal year. Offsetting the increase, the Company repaid various debt obligations, including the \$200,000 deposit payable to a potential purchaser of In the Zone, the \$500,000 mortgage payable, and the promissory note payable of \$950,000, and settled the convertible loans payable through a conversion to common shares.

Share capital

Share capital increased from December 31, 2015 to December 31, 2016, as a result of the private placements in May and August, resulting in the issuance of 75,289,565 common shares, increasing share capital by \$18,096,364. In addition, there were various stock options and warrants exercised during the year, increasing share capital by \$145,304 and \$595,548 respectively. In addition, through the conversion of the convertible debt, 1,150,000 common shares were issued and share capital increased by \$115,000.

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Accumulated deficit

Accumulated deficit continues to increase as the Company generated a net loss during the year. There were no dividends declared or paid in the period, and no other transactions with shareholders impacting accumulated deficit.

Accumulated other comprehensive income

This balance includes the fair value increase in the investment in AbCann, Canopy, Evergreen and Hydrothecary based on new information available during the period, which is included in other comprehensive income since the investments are classified as available-for-sale.

Discussion of Operations

In The Zone

During the year, In the Zone continued production of medicinal marijuana. There were minimal improvements to the facility, as most efforts during the year were focused on production, yielding biological assets valued at \$196,950 and inventory of \$69,058. In addition, the Company completed a transaction to acquire approximately 17 acres of land adjacent to the existing In the Zone property. The newly acquired property includes an artesian well that will provide a source of free water for the commercial production

operations. The transaction closed on October 24, 2016 for a total consideration of \$623,177 and the Company is currently in the process of amalgamating the two properties under the existing In the Zone address and updating the license for a total of approximately 31 acres of land under license. Subsequent to year end, the Company obtained a license to sell medicinal marijuana from Health Canada.

Peace Naturals Project Inc.

The share purchase agreement between the Company and Peace closed on September 6, 2016, and the Company acquired all issued and outstanding shares of Peace. As a result, the investment was revalued using fair value as of the date of acquisition, and resulted in a gain recognized on the fair value adjustment of the investment. Subsequently, Peace is accounted for on a consolidated basis. From the date of acquisition to December 31, 2016, Peace continued to produce and sell medicinal marijuana, and generated product sales of \$554,203 from the date of acquisition to December 31, 2016.

Immediately after the acquisition of Peace, the Company completed critical upgrades to the electrical power system on the Peace property. The power upgrade will enable sufficient electricity to supply not only the existing production facilities and two new buildings currently under construction, but will also supply enough power for an additional 3 production facilities currently in the planning phase. Prior to the power upgrade, Peace had a limited supply of electricity which resulted in a rate limiting factor in ramping up production output. Peace's current license size of 2,500 kg per year will be consumed by the anticipated output from the existing production facility and the two newly constructed facilities coming on line by early 2017. Peace will be required to amend the size of its license upon further planned expansion.

Subsequent to the Peace acquisition, the Company has also been focused on patient acquisition and commencing outreach programs with educational and access centers, hosting community based patient supply groups, and onboarding new clients at an accelerated rate. Peace has registered over 4,100 patients since being granted its license.

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During the year ended December 31, 2016, Peace shipped its first export of premium medicinal marijuana to Germany under a license and supply agreement with Pedanios GmbH. This export marks an important milestone in the Company's strategic global expansion. Subsequent to year end, the Company executed an exclusive supply agreement with Pedanios GmbH with an initial term of 3 years.

On December 5, 2016, the Company announced that it is entering into a joint venture with Indigenous Roots, led by Phil Fontaine, the former National Chief of the Assembly of First Nations. Indigenous Roots will be a medicinal cannabis company that will work cooperatively with Canadian First Nations towards building and operating licensed facilities and providing medical cannabis to First Nations patients. The flagship Indigenous Roots facility is expected to be built on land owned by In the Zone Product in British Columbia with the Company's joint venture partners providing the funding.

Summary of Quarterly Results

	Q4 Three month period ended December 31, 2016	Q3 Three month period ended September 30, 2016	Q2 Three month period ended June 30, 2016	Q1 Three month period ended March 31, 2016
Net income (loss)	\$ 1,370,165	\$ (227,607)	\$ (1,842,499)	\$ (490,130)
Total comprehensive income (loss)	\$ 2,736,740	\$ (9,692)	\$ (1,842,499)	\$ (490,130)
Basic earnings (loss) per share	\$ 0.01	\$ (0.00)	\$ (0.04)	\$ (0.01)
Diluted earnings (loss) per share	\$ 0.01	\$ (0.00)	\$ (0.04)	\$ (0.01)

	Q4 Three month period ended December 31, 2015	Q3 Three month period ended September 30, 2015	Q2 Three month period ended June 30, 2015	Q1 Three month period ended March 31, 2015
Net income (loss)	\$ 2,193,844	\$ (493,334)	\$ (556,799)	\$ (757,545)
Basic earnings (loss) per share	\$ 0.06	\$ (0.01)	\$ (0.02)	\$ (0.02)
Diluted earnings (loss) per share	\$ 0.05	\$ (0.01)	\$ (0.02)	\$ (0.02)

Through quarters one through three of fiscal 2015, the net loss and basic and diluted loss per share remained relatively consistent. There were significant changes in Q4, specifically related to the reclassification of Peace from equity-accounted to available-for-sale, which resulted in a gain of \$4,590,321. Further, there was various impairment losses recognized in Q4, \$1,448,292 on Evergreen and Vert. Diluted earnings per share in Q4 was calculated using a weighted average number of shares of 43,694,412. In quarters one through three of 2015, the weighted average number of shares for basic and diluted loss per share remained consistent, because the Company was in a net loss position, and

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therefore all instruments were anti-dilutive. In Q4, the Company was in a net income position, and as a result, there were dilutive instruments included in the calculation.

In Q1 2016, the net loss returned to the consistent position as the three first quarters of 2015, as there were no significant changes in the quarter. In Q2 2016, the loss increased due to the revaluation of Peace, resulting in a \$1,325,984 loss recognized. In Q3, the Company was in a loss position, but the loss is significantly less than in previous quarters due to the reversal of impairment losses of \$725,150, the gain on revaluation of biological assets of \$392,405, and product sales of \$123,647 generated through the acquisition of Peace. In Q4 2016, the quarterly income was due to the product sale of \$430,556 generated during the quarter as well as the large gain on revaluation of biological assets.

Liquidity

The Company may seek to raise additional funds so that it may fund its expansion of operations, which represent the Company's working capital requirements, and fund new investment opportunities. The amount and timing of raising additional funds will depend on variables such as, the state of the capital markets, investor interest in medical cannabis companies, and investment opportunities available.

During the year ended December 31, 2016, the Company raised \$20,799,967 in cash through its private placements.

Based on the current investee group, the Company estimates that its annual expenses are expected to be approximately \$8.2 million (or \$680,000 per month), the major components of which include production costs (\$2,500,000 per year or \$208,000 per month), payroll (\$3,725,000 per year or \$310,000 per month), professional fees (approximately \$1,000,000 per year or \$83,000 per month), and general and administrative costs (\$1,000,000 per year or \$83,000 per month).

The Company has committed to make an equity investment of \$900,000 subject to Investees obtaining licenses to produce and distribute medical marijuana provided it is able to raise capital to support those investments.

The Company divested of its equity interest in Vert/Green Medical Inc. in 2016. As a result of the transaction, the Company acquired through its wholly-owned subsidiary Hortican Inc., 36,872 shares of Canopy Growth Corporation.

The Company must continue to ramp up operations in Peace and In the Zone to generate positive cash from operations, and raise additional debt and/or equity financing or divest non-core investment assets to fund operations and investment opportunities.

Capital Resources

The Company manages its capital with the objective of maximizing shareholder value and ensuring that it has appropriate resources to foster the growth and development of the business.

Prior to purchasing 100% of In the Zone in November 2014, the Company's primary uses for capital were to make investments in companies that had or were seeking to obtain an ACMPR license from Health Canada. From that date through Q2 2016, the primary use of funds has been to renovate and enhance the production capability of In the Zone.

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During Q2 2015 and Q3 2015, the Company received \$450,000 of deposits from a potential purchaser of ITZ. The transaction was terminated during Q3 2015. During Q2 2016, the Company repaid the former potential purchaser \$200,000 plus \$65,000 in reimbursement of costs, settling the liability. During Q2 2015 the Company obtained a one year \$750,000 bridge loan which was to be repaid at the earlier of the closing of the In the Zone transaction, completion of \$750,000 or greater financing, or June 26, 2016. Based on the term of the agreement, the promissory note became payable on demand during the fourth quarter of 2015, due to the issuance of new shares; the Company completed a non-brokered private share offering resulting in the issuance of an additional 7,892,454 units, each unit comprising of one common share and one share purchase warrant, and raised an aggregate funds of approximately \$2.25 million. As of June 30, 2016, the promissory note payable plus accrued interest was repaid in full.

In May 2016, the Company issued 32,432,425 units in two tranches of a private placement offering. Each unit consists of one common share of the Company and one common share purchase warrant. Each warrant entitles the holder to purchase one common share at a price of \$0.245 per share for a period of five years following the closing of the offering.

As of the date of this MD&A, the Company's authorized share capital is an unlimited number of common shares of which 132,698,924¹ are issued and outstanding. The Company also has 9,117,474 stock options², and 42,976,116 warrants outstanding³.

As of December 31, 2016, the Company had committed to an additional equity investment of \$900,000 in Evergreen conditional upon Evergreen reaching certain milestones in the Health Canada licensing process. Subsequent to the year end, Evergreen received a cultivation license under the ACMPR. As a result, the Company completed its subscription for a second tranche of shares of Evergreen for \$100,000 and exercised its option to acquire an additional 5% of the equity of Evergreen for \$500,000, for a total additional investment of \$600,000. However, Evergreen, through its counsel, has indicated that the Company is not entitled to any interest in Evergreen and has rejected the payment. The Company filed a statement of claim in the Supreme Court of British Columbia and intends to vigorously pursue the enforcement of its rights to acquire equity in Evergreen.

The Company has invested an additional \$1,075,800 in WMMC subsequent to year-end in order to maintain its 21.5% equity position. Further, the Company has guaranteed a \$4,000,000 loan made by a lender to Peace. The Company does not anticipate any payment to be required, thus, no amount has been accrued at December 31, 2016.

¹ Subsequent to December 31, 2016, the Company issued 359,120 shares upon the exercise of stock options, and issued 2,909,056 shares upon the exercise of warrants. The Company further issued an additional 7,705,000 shares in a bought deal. As a result of the agreement with ITZ's founders as described in Note 16(a)(i) of the consolidated financial statements for the year ended December 31, 2015, 426,780 shares were effectively repurchased for cancellation during Q3 2015. An aggregate of 298,746 of the shares are held in escrow as of the date of this MD&A and will be cancelled immediately upon release from escrow.

² Subsequent to December 31, 2016, 32,009 options were exercised at an exercise price of \$0.70, 296,695 options at an exercise price of \$1.15, and 30,416 options at an exercise price of \$1.23. 3,299,000 options were granted at an exercise price of \$3.14.

³ Subsequent to December 31, 2016, 375,565 warrants were exercised at an exercise price of \$0.70. 1,491,228 warrants were exercised at an exercise price of \$0.31, and 1,042,263 warrants were exercised at an exercise price of \$0.08.

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Transactions between Related Parties

The Company paid \$264,029 (2015 - \$238,614 expense) in salaries and benefits owing to key management during the year. In addition, there was \$171,097 in professional fees accrued during 2016 (2015 - \$68,985). In addition, 2,741,425 options were granted to members of management of the Company. The share-based compensation was valued at \$207,816. Shares were also granted to members of management of the Company, in lieu of compensation. These shares had a fair value of \$128,426. Key management is compensated for providing planning, directing and controlling activities to the Company.

On August 5, 2016, 250,000 options were issued to directors of the Company. These options had an exercise price of \$0.50, and a fair value of approximately \$6,100. In October 2016, 1,366,000 options were issued to directors of the Company. These options had an exercise price of \$1.23 and a fair market value of approximately \$43,000.

Additional Disclosure for Venture Issuers without Significant Revenue

Administrative Expenses

Statements of Operations and Comprehensive Income	Year ended December 31, 2016	Year ended December 31, 2015
Salary and benefits	\$ 1,132,870	\$ 335,783
Advertising and promotion	119,549	Nil
Consulting fees	419,458	17,708
Professional fees	1,507,474	1,008,126
Office expenses	465,015	325,170
Interest expense	238,275	610,744
Travel	90,888	80,894
Other	389,166	96,730
	\$ 4,362,695	\$ 2,745,155

The year over year increase in salary and benefits in the amount of \$797,087 is mainly due to the stock-based compensation provided during 2016. During the year, 5,483,350 options were issued at an exercise price of \$0.285 – \$1.84, resulting in share-based compensation expense of \$178,391. In addition, \$128,426 of compensation in shares was provided to key management. Due to the acquisition of Peace, the Company incurred approximately \$545,000 in additional payroll.

The year over year increase in professional fees and consulting fees in the amount \$ 901,098 is due to legal fees on the acquisition of Peace during the year.

The year over year increase in advertising and promotion in the amount of \$119,549 is due to management's decision to incur such costs to increase sales in Peace.

The interest expense in 2015 relates to the mortgage payable for In the Zone and the promissory note payable. These loans were settled in early 2016, causing the decrease. The interest expense in 2016 relates primarily to the \$4,000,000 mortgage payable for Peace, which was acquired by the Company at fair value when the acquisition took place.

The year over year increase in other expenses in the amount \$ 292,436 is primarily related to increased depreciation expense of \$269,425 due to the depreciation of additional property, plant, and equipment on the acquisition of Peace and on the completion of the production facility by In the Zone, for which only partial-year depreciation was taken in 2015.

New Accounting Pronouncements

The International Accounting Standards Board has not issued any new standards, amendments to standards, or interpretations that impact the Company during the year ended December 31, 2016. The Company's evaluations of previously issued new standards, amendments to standards, and interpretations are consistent with those disclosed in note 3 of the Company's consolidated financial statements. New accounting pronouncements not yet mandatorily effective have not been applied in preparing these consolidated financial statements.

Estimates and critical judgments by management

The preparation of these consolidated financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the current year. These estimates are reviewed periodically and adjustments are made to income as appropriate in the year they become known. Items for which actual results may differ materially from these estimates are described in the following section.

Warrants and options

In calculating the value of the warrants and options, management is required to make various assumptions and estimates which are susceptible to uncertainty, including the volatility of the share price, expected dividend yield and expected risk-free interest rate.

Useful lives of property and equipment

Depreciation of property and equipment is dependent upon estimates of useful lives, which are determined through exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of the assets.

Biological assets and inventory

Biological assets, consisting of cannabis plants and agricultural produce consisting of cannabis, are measured at fair value less cost to sell up to the point of harvest. Determination of the fair values of the biological assets and the agricultural produce requires the Company to make assumptions about how market participants assign fair values to these assets. These assumptions primarily relate to the level of effort required to bring the cannabis up to the point of harvest, sales price, risk and expected future yields for the cannabis plant.

Inventory of finished goods is transferred from biological assets at fair value less costs to sell at the point of harvest, which becomes the deemed cost. Inventory is subsequently measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less estimated costs of completion and estimated variable costs to sell.

Impairment of cash-generating units and goodwill

The impairment test for cash-generating units ("CGUs") to which goodwill is allocated is based on the value in use of the CGU, determined in accordance with the expected cash flow approach. The calculation is based primarily on assumptions used to estimate future cash flows, the cash flow growth rate and the discount rate used.

Impairment of long-lived assets

The impairment test for long-lived assets, including equipment and intangible assets, are reviewed for impairment at each statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of the asset or CGU is determined based on the higher of its fair value less cost to sell and its value in use. If the carrying amount of an asset exceeds its recoverable amount, an impairment charge is recognized immediately in profit or loss by the amount by which the carrying amount of the asset exceeds the recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount, and the carrying amount that would have been recorded had no impairment loss been recognized previously.

Fair value of financial assets available for sale

Financial assets available for sale consist of privately and publicly held investments. Determination of the fair values of privately held investments requires the Company to make various assumptions about the future prospects of the investees, the economic, legal, and political environment in which the investees operate, and the ability of the investees to obtain financing to support their operations. As a result, any value estimated may not be realized or realizable, and the values may differ from values that would be realized if a ready market existed. The determination of fair value of the Company's privately held investments is subject to inherent limitations. Financial information for private companies may not be available, or may be unreliable. Use of the valuation approach described below involves uncertainties and management judgments, and any value estimated from these techniques may not be realized or realizable.

Income taxes

Income taxes and tax exposures recognized in the consolidated financial statements reflect management's best estimate of the outcome based on facts known at the reporting date. When the Company anticipates a future income tax payment based on its estimates, it recognizes a liability. The difference between the expected amount and the final tax outcome has an impact on current and deferred taxes when the Company becomes aware of this difference.

In addition, when the Company incurs losses that cannot be associated with current or past profits, it assesses the probability of taxable profits being available in the future based on its budgeted forecasts. These forecasts are adjusted to take account of certain non-taxable income and expenses and specific rules on the use of unused credits and tax losses. When the forecasts indicate the sufficient future taxable income will be available to deduct the temporary differences, a deferred tax asset is recognized for all deductible temporary differences.

Risks and Uncertainties

Any investment in the securities of the Company is speculative, due to the nature of its business and its general stage of development. These risk factors could materially affect the Company's future operating results and could cause actual events to differ materially from those described in forward looking statements relating to the Company. In addition to the usual risks associated with investment in a business, investors should carefully consider the following risk factors as well as the risk factors set out in the amended and restated annual information form of the Company dated February 10, 2017:

Strategic Risks

(a) Management of Growth

Any expansion of the Company's business may place a significant strain on its financial, operational and managerial resources. There can be no assurance that the Company will be able to implement and subsequently improve its operations and financial systems successfully and in a timely manner in order to manage any growth it experiences. There can be no assurances that the Company will be able to manage growth successfully. Any inability of the Company to manage growth successfully could have a material adverse effect on the Company's business, financial condition and operational results.

The Company Investees are all currently in early development stages. The Company's growth strategy contemplates outfitting Investee facilities with additional production resources. There is a risk that these additional resources will not be achieved on time, on budget, or at all, as they can be adversely affected by a variety of factors.

(b) Competition

There is potential that the Company and the Company Investees will face intense competition from other companies, some of which can be expected to have longer operating histories and more financial resources and manufacturing and marketing experience than the Investees or the Company.

Industry Risks

(c) Risks Inherent in an Agricultural Business

The business of the Company Investees involves the growing of medical cannabis, an agricultural product. As such, the business is subject to the risks inherent in the agricultural industry.

(d) Political Risks

A change in government could result in meaningful changes to the regulatory regime under which the Company operates, which could negatively impact its operations. The Government of Canada has introduced Bill C-45, the Cannabis Act, providing for the legalization of recreational cannabis. There is no assurance that the legalization of recreational cannabis in Canada, whether via the Cannabis Act or by any other means, will occur as anticipated or at all.

(e) Vulnerability to Rising Energy Costs

The Company Investees' medical cannabis growing operations consume considerable energy, making the Company vulnerable to rising energy costs.

(f) Transportation Disruptions and Costs

Due to the perishable and premium nature of the Company Investee products, fast and efficient courier services will be necessary to distribute product. Any prolonged disruption of this courier service could have an adverse effect on the financial condition and results of operations of the Company Investees.

(g) Product Liability

As a manufacturer and distributor of products designed to be ingested by humans, the Company Investees face an inherent risk of exposure to product liability claims, regulatory action and litigation if its products are alleged to have caused significant loss or injury.

(h) Product Recalls

Manufacturers and distributors of products are sometimes subject to the recall or return of their products for a variety of reasons, including product defects, such as contamination, unintended harmful side effects or interactions with other substances, packaging safety and inadequate or inaccurate labeling disclosure with adverse impact on the Company Investees and the Company.

(i) Unfavourable Publicity or Consumer Perception

The Company believes the medical cannabis industry is highly dependent upon consumer perception regarding the safety, efficacy and quality of the medical cannabis produced. Consumer perception of the Company Investees' products can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity regarding the consumption of medical cannabis products. There can be no assurance that future scientific research, findings, regulatory proceedings, litigation, media attention or other research findings or publicity will be favourable to the medical cannabis market or any particular product, or consistent with earlier publicity.

Operational Risks

(j) Limited Operating History

The Company began carrying on business in 2013 and the Investees are also newly operational. They are therefore subject to many of the risks common to early-stage enterprises.

(k) Reliance on Key Inputs

The Company Investees' businesses are dependent on a number of key inputs and their related costs including raw materials and supplies related to its growing operations, access to skilled labour, equipment, parts, and components, as well as electricity, water and other local utilities.

(l) Compliance with Regulations of ACMPR and Health Canada

The activities of the Company Investees are subject to regulation by governmental authorities, particularly Health Canada. Achievement of the Company's business objectives are contingent, in part, upon Investee compliance with stringent regulatory requirements enacted by these governmental authorities and obtaining all regulatory approvals. Under the ACMPR, any entity applying for a license from Health Canada would need to be an indoor facility equipped with physical barriers which prevent unauthorized entry in to the facility and further physical barriers to all growing areas are required. The cost of security measures will be considerable and the readiness of each facility will factor into any the Company investment decision. Failure to comply with the requirements of the license or any failure to maintain this license could have a material adverse impact on the business, financial condition and operating results of the Company. The framework of the Canadian recreational cannabis market will be significantly influenced by provincial legislation governing, among other things, cannabis distribution and sale. Such legislation, if enacted, could result in different provincial regulatory and market environments, compliance costs and competitive factors.

(m) Environmental and Employee Health and Safety Regulations

The Company Investees' operations are subject to environmental and safety laws and regulations concerning, among other things, emissions and discharges to water, air and land, the handling and disposal of hazardous and non-hazardous materials and wastes, and employee health and safety.

(n) Reliance on Management

Both the success of the Company and the success of the Company Investees are dependent upon the ability, expertise, judgment, discretion and good faith of their respective senior management. Certain of the directors and officers of the Company are also directors and officers of other companies, and conflicts of interest may arise between their duties as officers and directors of the Company and as officers and directors of such other companies.

(o) Operating Risk and Insurance Coverage

The Company has insurance to protect its assets, operations and employees. While the Company believes its insurance coverage addresses all material risks to which it is exposed and is adequate and customary in its current state of operations, such insurance is subject to coverage limits and exclusions and may not be available for the risks and hazards to which the Company is exposed.

Financial Risks

(p) No History of Profits

There is no assurance that the Company will earn profits in the future, or that profitability will be sustained. The success of the Company ultimately depends upon its ability to generate significant revenues to finance operations and its ability to secure additional funding. There is no assurance that future revenues will be sufficient to generate the funds required to continue operations without external funding. If the Company does not have sufficient capital to fund its operations, it may be required to forego certain business opportunities.

(q) Future Capital Requirements

The Company may require additional financing in order to grow and expand its operations. Additional financing could include the incurrence of debt and the issuance of additional equity securities, which could result in substantial dilution to existing shareholders. It is possible that required future financing will not be available, or if available, will not be available on favourable terms. If adequate funds are not available, or are not available on acceptable terms, the Company may not be able to take advantage of opportunities or otherwise respond to competitive pressures and remain in business. There can be no assurances that the Company will be able to raise additional capital if its capital resources are exhausted.

(r) Market Risks

The market price of the Company's shares may be subject to wide fluctuations in response to various factors. There can be no assurance that an active and liquid market for the Company's shares will develop or be maintained and an investor may find it difficult to resell any securities of the Company.

(s) Dividends

The Company has no dividend record to date, and does not anticipate paying any dividends on the common shares in the foreseeable future.

Cronos Group Inc. (formerly PharmaCan Capital Corp.)
Interim Condensed Financial Statements
For the three month periods ended March 31, 2017 and March 31, 2016
(Unaudited - Prepared by Management)

Cronos Group Inc. (formerly PharmaCan Capital Corp.)
Interim Condensed Financial Statements
For the three month periods ended March 31, 2017 and March 31, 2016
(Unaudited - Prepared by Management)

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Cronos Group Inc. (formerly PharmaCan Capital Corp.)
Interim Statements of Financial Position
As at March 31, 2017 and December 31, 2016
(Unaudited - Prepared by Management)

	<u>Notes</u>	<u>As at March 31, 2017</u>	<u>As at December 31, 2016</u>
Assets			
Current			
Cash		\$ 15,206,513	\$ 3,464,208
Accounts receivable		243,121	107,166
Prepays and other receivables		567,968	503,155
Biological assets	6	2,742,252	1,794,740
Inventory	6	2,259,546	1,908,486
Loans receivable	7	314,089	308,833
		<u>21,333,489</u>	<u>8,086,588</u>
Investment in Whistler Medical			
Marijuana Company	8	2,668,884	2,565,412
Other investments	9	5,646,935	5,127,258
Property, plant and equipment	10	15,957,254	14,122,288
Goodwill	5	1,792,000	1,792,000
Other intangible assets	5	11,207,050	11,207,050
		<u>\$ 58,605,612</u>	<u>\$ 42,900,596</u>
Liabilities			
Current			
Trade payables and other liabilities		\$ 1,248,559	\$ 1,175,600
Purchase price liability	4	1,291,496	2,590,367
Mortgage payable	11	4,000,000	4,000,000
		<u>6,540,055</u>	<u>7,765,967</u>
Deferred income tax liability	16	1,458,000	1,457,000
		<u>7,998,055</u>	<u>9,222,967</u>
Shareholders' Equity			
Share capital	12(a)	50,926,945	33,590,324
Warrants	12(b)	3,702,900	3,982,895
Contributed surplus	13(a)	786,488	735,489
Accumulated deficit		(7,060,006)	(6,215,569)
Accumulated other comprehensive income		2,251,230	1,584,490
		<u>50,607,557</u>	<u>33,677,629</u>
		<u>\$ 58,605,612</u>	<u>\$ 42,900,596</u>
Going concern	2(b)		
Contingencies	15		
Subsequent events	20		

The accompanying notes are an integral part of these interim condensed financial statements

Approved on behalf of the Board of Directors:

"Michael Gorenstein"
 Director

"Michael Krestell"
 Director

Cronos Group Inc. (formerly PharmaCan Capital Corp.)
Interim Statements of Operations and Comprehensive Loss
For the three month periods ended March 31, 2017 and March 31, 2016
(Unaudited - Prepared by Management)

	Notes	Three months ended March 31,	
		2017	2016
Product sales		\$ 513,756	\$ —
Cost of sales			
Inventory expensed to cost of sales		1,056,116	—
Production costs		235,235	34,406
Gain on revaluation of biological assets	6	(1,812,967)	—
		(521,616)	34,406
Gross margin, net of revaluation of biological assets		1,035,372	(34,406)
Investment income			
Share of income (loss) from equity accounted investment	8	103,472	(14,814)
Interest income from loans receivable	7	5,256	—
Loss on other investments	9	(59,410)	—
		49,318	(14,814)
Expenses			
Salary and benefits		471,808	64,752
Stock-based compensation	13(b)	192,037	—
General and administration		908,108	307,662
Interest expense	11	155,547	47,246
Depreciation		200,627	63,250
		1,928,127	482,910
Loss before income taxes		(843,437)	(532,130)
Income tax expense (recovery)	16	1,000	(42,000)
Net loss		\$ (844,437)	\$ (490,130)
Gain on revaluation of other investments	9	682,520	—
Total comprehensive loss		\$ (161,917)	\$ (490,130)
Weighted average number of outstanding shares, basic and diluted		125,256,010	42,618,971
Basic and diluted loss per share		\$ (0.01)	\$ (0.01)

The accompanying notes are an integral part of these interim condensed financial statements

Cronos Group Inc. (formerly PharmaCan Capital Corp.)
Interim Statements of Changes in Equity
For the three month periods ended March 31, 2017 and March 31, 2016
(Unaudited - Prepared by Management)

	Notes	Number of shares	Share capital	Warrants	Contributed surplus	Accumulated deficit	Accumulated other comprehensive income	Total
Balance at January 1, 2016		42,618,971	\$ 14,799,821	\$ 1,328,882	\$ 598,650	\$ (5,025,498)	\$ —	\$ 11,701,855
Net loss		—	—	—	—	(490,130)	—	(490,130)
Balance at March 31, 2016		<u>42,618,971</u>	<u>\$ 14,799,821</u>	<u>\$ 1,328,882</u>	<u>\$ 598,650</u>	<u>\$ (5,515,628)</u>	<u>\$ —</u>	<u>\$ 11,211,725</u>
	Notes	Number of shares	Share capital	Warrants	Contributed surplus	Accumulated deficit	Accumulated other comprehensive income	Total
Balance at January 1, 2017		121,725,748	\$ 33,590,324	\$ 3,982,895	\$ 735,489	\$ (6,215,569)	\$ 1,584,490	\$ 33,677,629
Shares issued	12(a)	7,705,000	17,336,250	—	—	—	—	17,336,250
Vesting of options	13(a)	—	—	—	192,037	—	—	192,037
Options exercised	13(a)	235,704	398,013	—	(141,038)	—	—	256,975
Warrants exercised	12(b)	1,813,982	924,000	(279,995)	—	—	—	644,005
Share issuance costs		—	(1,321,642)	—	—	—	—	(1,321,642)
Recycling of unrealized gains to net income	9(ii)	—	—	—	—	—	(15,780)	(15,780)
Net loss		—	—	—	—	(844,437)	—	(844,437)
Other comprehensive income		—	—	—	—	—	682,520	682,520
Balance at March 31, 2017		<u>131,480,434</u>	<u>\$ 50,926,945</u>	<u>\$ 3,702,900</u>	<u>\$ 786,488</u>	<u>\$ (7,060,006)</u>	<u>\$ 2,251,230</u>	<u>\$ 50,607,557</u>

The accompanying notes are an integral part of these interim condensed financial statements

Cronos Group Inc. (formerly PharmaCan Capital Corp.)
Interim Statements of Cash Flows
For the three month periods ended March 31, 2017 and March 31, 2016
(Unaudited - Prepared by Management)

	Notes	Three months ended March 31,	
		2017	2016
Operating activities			
Net loss		\$ (844,437)	\$ (490,130)
Items not affecting cash:			
Share of loss (income) from equity accounted investment	8	(103,472)	14,814
Depreciation		200,627	63,250
Deferred income tax expense (recovery)	16	1,000	(42,000)
Loss on other investments	9	59,410	—
Stock-based compensation	13(b)	192,037	—
		(494,835)	(454,066)
Net changes in non-cash working capital:			
Decrease (increase) in prepaids and other receivables		(64,813)	22,709
Increase in inventory		(351,060)	—
Increase in biological assets		(947,512)	—
Increase in accrued interest receivable		(5,256)	—
Increase in accounts receivable		(135,955)	—
Increase (decrease) in accounts payable and other liabilities		72,959	(318,304)
Cash flows used in operating activities		(1,926,472)	(749,661)
Investing activities			
Purchase of property, plant and equipment	10	(2,035,593)	(59,617)
Repayment of purchase price liability	4	(1,298,871)	—
Proceeds from sale of other investment	9(ii)	87,653	—
Cash flows used in investing activities		(3,246,811)	(59,617)
Financing activities			
Proceeds from exercise of warrants	12(b)	644,005	—
Proceeds from exercise of options	13(a)	256,975	—
Proceeds from share issuance	12(a)	17,336,250	—
Share issuance costs		(1,321,642)	—
Cash flows provided by financing activities		16,915,588	—
Net change in cash		11,742,305	(809,278)
Cash - beginning of year		3,464,208	1,127,340
Cash - end of year		\$ 15,206,513	\$ 318,062
Supplemental cash flow information			
Interest received		\$ —	\$ —
Interest paid		\$ 120,000	\$ —

The accompanying notes are an integral part of these interim condensed financial statements

Cronos Group Inc. (formerly PharmaCan Capital Corp.)
Notes to Interim Condensed Financial Statements
For the three month periods ended March 31, 2017 and March 31, 2016
(Unaudited - Prepared by Management)

1. Nature of business

Cronos Group Inc., formerly PharmaCan Capital Corp. (“Cronos” or the “Company”), was incorporated as 2339498 Ontario Inc. under the Business Corporations Act (Ontario) on August 21, 2012, changed its name on October 18, 2012 to Searchtech Ventures Inc. (“Searchtech”) and was classified as a Capital Pool Company as defined pursuant to Policy 2.4 of the TSX Venture Exchange (“TSX-V”). Cronos is a publicly traded corporation, with its head office located at 76 Stafford Street, Suite 302, Toronto, Ontario, M6J 2S1. The Company’s common shares are listed on TSX-V under the trading symbol “MJN”.

On December 10, 2014, the Company closed its Qualifying Transaction (the “Transaction”) with Hortican Inc. (“Hortican”), a company whose business model is to invest in medical marijuana companies in Canada, pursuant to which the shareholders of Hortican completed a reverse takeover of the Company. Immediately prior to the completion of the Transaction, the Company changed its name to PharmaCan Capital Corp. and consolidated its shares on a one for seven (1:7) basis. Following these changes, Hortican amalgamated with 8996741 Canada Inc., a wholly owned subsidiary of the Company formed solely for the purpose of facilitating the Transaction. Pursuant to the amalgamation, the Company indirectly acquired all of the issued and outstanding shares of Hortican and issued post-consolidation shares of the Company on the basis of approximately 2.1339 post-consolidation shares for each one of Hortican’s shares. Hortican warrants, stock options, and convertible debentures are also exchangeable at the same conversion ratio, and the exercise price for such securities is divided by the conversion ratio.

Effective upon the closing of the Transaction, the financial year end of the Company was changed from March 31 of each year to December 31 of each year to align the financial years of the Company to that of Hortican.

For the purposes of accounting for the Transaction, Hortican is considered the acquirer and the Company, the acquiree. Accordingly, the consolidated financial statements are in the name of Cronos Group Inc. (formerly PharmaCan Capital Corp.), however they are a continuation of the financial statements of Hortican, which was incorporated under the Business Corporations Act (Ontario) on January 17, 2013. The Company began rebranding itself as Cronos Group Inc. on October 6, 2016. The Company finalized its name change to Cronos Group Inc. on February 27, 2017.

In the Zone Produce Ltd. (“In the Zone”) was incorporated under the Business Corporations Act (British Columbia) on March 15, 2013. In the Zone is a licensed producer and seller of medical cannabis pursuant to the provisions of the Access to Cannabis for Medical Purposes Regulation and the Controlled Drugs and Substances Act and its

Regulations. Health Canada issued the license to produce to In the Zone on February 26, 2014, and the license to sell on February 28, 2017. In the Zone was acquired by Hortican on November 5, 2014.

Peace Natural Projects Inc. ("Peace") was incorporated under the Business Corporations Act on November 21, 2012. Peace is a licensed producer and seller of medical cannabis pursuant to the provisions of the Access to Cannabis for Medical Purposes Regulation and the Controlled Drugs and Substances Act and its Regulations. Health Canada issued the license to Peace on October 31, 2013 and renewed on November 1, 2016. Peace was acquired by Hortican on September 6, 2016. Additional information on the transaction is disclosed in Note 4.

Cronos Group Inc. (formerly PharmaCan Capital Corp.)
Notes to Interim Condensed Financial Statements
For the three month periods ended March 31, 2017 and March 31, 2016
(Unaudited - Prepared by Management)

2. Basis of presentation

The interim condensed statements for the three month periods ended March 31, 2017 and March 31, 2016 have been prepared in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting." The same accounting policies and methods of computation as those used in the preparation of the fiscal 2016 Annual Report were followed in the preparation of these interim condensed financial statements.

The interim condensed financial statements do not conform in all respects to the requirements of International Financial Reporting Standards as issued by the International Accounting Standards Board for annual financial statements. Accordingly, these interim condensed financial statements should be read in conjunction with the December 31, 2016 audited consolidated financial statements and notes.

(a) Basis of consolidation

These interim condensed financial statements include the accounts of Cronos Group Inc. (formerly Pharmacan Capital Corp.), and its wholly owned subsidiaries, Hortican Inc., In the Zone Produce Ltd., and Peace Naturals Project Inc. All intercompany transactions, balances, revenues and expenses have been eliminated. The Company applies the acquisition method to account for business combinations in accordance with IFRS 3. Acquisition related costs are expensed as incurred.

(b) Going concern

These interim condensed financial statements have been prepared with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. The Company's ability to continue in the normal course of operations is dependent on its ability to raise equity financing or through the sale of its investments at amounts favourable to the Company, and on the ability of its subsidiaries to successfully renew their licenses to produce and sell medical cannabis. There are no assurances that the Company will be successful in achieving these goals. These circumstances cast significant doubt on the Company's ability to continue as going concern and ultimately on the appropriateness of the use of the accounting principles applicable to a going concern. These interim condensed financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations.

(c) Statement of compliance

These interim condensed financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These interim condensed financial statements were approved by the Board of Directors on May 30, 2017.

(d) Basis of measurement

Apart from certain assets and liabilities measured at fair value as required under certain IFRSs, the interim condensed financial statements have been presented and prepared on the basis of historical cost.

(e) Functional and presentation currency

These interim condensed financial statements are presented in Canadian dollars, which is the functional currency of the Company and all subsidiaries.

Cronos Group Inc. (formerly PharmaCan Capital Corp.)
Notes to Interim Condensed Financial Statements
For the three month periods ended March 31, 2017 and March 31, 2016
(Unaudited - Prepared by Management)

2. Basis of presentation (continued)

(f) Estimates and critical judgments by management

The preparation of these interim condensed financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the current period. These estimates are reviewed periodically and adjustments are made to income as appropriate in the year they become known. Items for which actual results may differ materially from these estimates are described in the following section.

(i) Warrants and options

Warrants and options are initially recognized at fair value, based on the application of the Black-Scholes option pricing model. This pricing model requires management to make various assumptions and estimates which are susceptible to uncertainty, including the volatility of the share price, expected dividend yield and expected risk-free interest rate.

(ii) Useful lives of property, plant and equipment

Depreciation of property, plant and equipment is dependent upon estimates of useful lives, which are determined through the exercise of judgement. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of the assets.

(iii) Impairment of cash-generating units and goodwill

The impairment test for cash generating units (“CGUs”) to which goodwill is allocated is based on the value in use of the CGU, determined in accordance with the expected cash flow approach. The calculation is based primarily on assumptions used to estimate future cash flows, the cash flow growth rate and the discount rate used.

(iv) Impairment of long-lived assets

Long-lived assets, including equipment and intangible assets are reviewed for impairment at each statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or group of assets (CGU). The recoverable amount of an asset or a CGU is the higher of its fair value, less costs to sell, and its value in use. If the carrying amount of an asset exceeds its recoverable amount, an impairment charge is recognized immediately in profit or loss by the amount by which the carrying amount of the asset exceeds the recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount, and the carrying amount that would have been recorded had no impairment loss been recognized previously.

Cronos Group Inc. (formerly PharmaCan Capital Corp.)
Notes to Interim Condensed Financial Statements
For the three month periods ended March 31, 2017 and March 31, 2016
(Unaudited - Prepared by Management)

2. Basis of presentation (continued)

(f) Estimates and critical judgments by management (continued)

(v) Fair value of financial assets available-for-sale

Financial assets available for sale consist of privately and publicly held investments. Determination of the fair values of privately held investments requires the Company to make various assumptions about the future prospects of the investees, the economic, legal, and political environment in which the investees operate, and the ability of the investees to obtain financing to support their operations. As a result, any value estimated may not be realized or realizable, and the values may differ from values that would be realized if a ready market existed.

The determination of fair value of the Company’s privately held investments is subject to inherent limitations. Financial information for private companies may not be available, or may be unreliable. Use of the valuation approach described below involves uncertainties and management judgments, and any value estimated from these techniques may not be realized or realizable.

The Company’s management considers specific information about the investee companies, trends in general market conditions, and the share performance of similar publicly traded companies when valuing the Company’s privately held investments.

The absence of the occurrence of any of the following events, any significant change in trends in general market conditions, or any significant change in share performance of comparable publicly traded companies generally indicates that the fair value of the privately held investments has not materially changed.

Management considers the following factors to indicate a change in the fair value, or impairment of, a privately held investment, and may adjust the value if:

- a. there has been significant subsequent equity financing provided by outside investors at a value which differs from the current recorded value of the investee company, in which case the fair value of the investment is adjusted to equal the value at which that financing took place;
- b. there have been significant corporate, political, legal, or operating events affecting the investee company such that, management believes they will have a material impact on the investee company’s prospects and therefore its fair value. In these circumstances, the adjustment to fair value of the investment will be based on management’s judgment;
- c. the investee company is placed into receivership or bankruptcy;
- d. based on financial information received from the investee company, it is evident that the investee company is unlikely to be able to continue as a going concern;
- e. receipt or denial by the investee company of medical marijuana licenses from Health Canada, which allow the investee company to initiate or continue operations; and
- f. management changes by the investee company that the Company’s management believes will have an impact on the investee company’s ability to achieve its objectives and build value for shareholders.

Cronos Group Inc. (formerly PharmaCan Capital Corp.)
Notes to Interim Condensed Financial Statements
For the three month periods ended March 31, 2017 and March 31, 2016
(Unaudited - Prepared by Management)

2. Basis of presentation (continued)

(vi) Income taxes

Income taxes and tax exposures recognized in the interim condensed financial statements reflect management’s best estimate of the outcome based on facts known at the reporting date. When the Company anticipates a future income tax payment based on its estimates, it recognizes a liability. The difference between the expected amount and the final tax outcome has an impact on current and deferred taxes when the Company becomes aware of this difference.

In addition, when the Company incurs losses that cannot be associated with current or past profits, it assesses the probability of taxable profits being available in the future based on its budgeted forecasts. These forecasts are adjusted to take account of certain non-taxable income and expenses and specific rules on the use of unused credits and tax losses. When the forecasts indicate the sufficient future taxable income will be available to deduct the temporary differences, a deferred tax asset is recognized for all deductible temporary differences.

(vii) Biological assets and inventory

Biological assets, consisting of cannabis plants, are measured at fair value less costs to sell. At the point of harvest, the biological assets are transferred to inventory at fair value less costs to sell, as a result, critical estimates related to the valuation of biological assets are also applicable to inventory.

Determining the fair value less costs to sell requires the Company to make assumptions about the expected future yield from the cannabis plants, the value associated with each stage of the plants' growth cycle, estimated selling price, costs to convert harvested cannabis to finished goods, and costs to sell. The Company's estimates, are, by their nature, subject to change. Gains or losses arising from changes in these estimates will be reflected in the fair value less costs to sell, and is included in the results of operations for the year.

3. New and revised standards and interpretations issued but not yet effective

(a) AMENDMENTS TO IFRS 2 SHARE-BASED PAYMENTS

IFRS 2 clarifies how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, share-based payment transactions with a net settlement feature for withholding tax obligations, and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The effective date of these amendments is January 1, 2018. The Company will adopt the amendments as of its effective date. The Company is currently analyzing the possible impact of these amendments on its interim condensed financial statements.

Cronos Group Inc. (formerly PharmaCan Capital Corp.)
Notes to Interim Condensed Financial Statements
For the three month periods ended March 31, 2017 and March 31, 2016
(Unaudited - Prepared by Management)

3. New and revised standards and interpretations issued but not yet effective (continued)

(b) IFRS 9 FINANCIAL INSTRUMENTS

IFRS 9 addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit and loss. IFRS 9 also replaces the models for measuring equity instruments and such instruments are either recognized at fair value through profit and loss or at fair value through other comprehensive income. The effective date of this standard is January 1, 2018. The Company will adopt this new standard as of its effective date. The Company is currently analyzing the possible impact of this Standard on its interim condensed financial statements.

(c) IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

IFRS 15 was issued by IASB in May 2014 and specifies how and when revenue should be recognized based on a five-step model, which is applied to all contracts with customers. IFRS 15 becomes effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Company will adopt this new standard as of its effective date. The Company is currently analyzing the possible impact of this Standard on its interim condensed financial statements.

(d) IFRS 16 LEASES

IFRS 16 was issued in January 2016 and replaces the previous guidance on leases. This standard provides a single recognition and measurement model to be applied to leases, with required recognition of assets and liabilities for most leases. This standard is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted if the Company is also applying IFRS 15, Revenue from Contracts with Customers. The Company will adopt this new standard as of its effective date. The Company is currently evaluating the impact of the adoption of this new standard on its interim condensed financial statements.

4. Acquisition of Peace Naturals Project

On September 6, 2016, the Company acquired all of the remaining issued and outstanding shares of Peace Naturals Project Inc. ("Peace"), a company headquartered in Stayner, Ontario. Consideration for the acquisition included \$6,247,543 in cash and \$2,590,367 (approximately 30%) to be paid once all conditions of the agreement are settled. The conditions were based on the passage of time to ensure there were no additional liabilities identified. As of the acquisition date, the Company owns 100% of the outstanding shares of Peace. As the Company previously held shares of Peace, the acquisition is considered a step acquisition and resulted in a loss due to fair value remeasurement. The preliminary purchase price allocation for this acquisition is shown below:

Cronos Group Inc. (formerly PharmaCan Capital Corp.)
Notes to Interim Condensed Financial Statements
For the three month periods ended March 31, 2017 and March 31, 2016
(Unaudited - Prepared by Management)

4. Acquisition of Peace Naturals Project (continued)

Fair value of consideration transferred:	
Cash	\$ 6,247,543
Liability	2,590,367
	<u>8,837,910</u>
Fair value of previously held interest:	
Fair value of previously held interest immediately before acquisition	3,314,960
Loss due to fair value remeasurement at acquisition date	(346,970)
	<u>2,967,990</u>

\$ 11,805,900

Fair value of net assets acquired:

Cash	\$ 109,443
Accounts receivable	50,647
Prepaid and deposits	29,000
Inventory	1,194,417
Biological assets	865,542
Property and equipment	10,281,935
Goodwill	1,400,000
Other intangible assets (i)	9,595,824
Accounts payable and accrued liabilities	(2,860,072)
Loans payable	(7,460,836)
Deferred tax liability	(1,400,000)
	<u>\$ 11,805,900</u>

(i) Other intangible assets are expected to include a Health Canada license.

Due to the complexities in identifying certain intangible assets, such as licenses and intellectual property, and assigning fair values thereto, the Company has yet to finalize its assessment of the purchase price allocation. The allocation of the consideration paid will be adjusted once a valuation of certain intangible assets has been finalized. Management expects to complete the assessment by the end of Q3 2017.

During the three months ended March 31, 2017, approximately 50% of the liability has been repaid by the Company, resulting in the remaining balance of \$1,291,496.

5. Intangible assets

Goodwill	Balance at January 1, 2017	Additions	As at March 31, 2017
In the Zone	\$ 392,000	\$ —	\$ 392,000
Peace (Note 4)	1,400,000	—	1,400,000
	<u>\$ 1,792,000</u>	<u>\$ —</u>	<u>\$ 1,792,000</u>

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Cronos Group Inc. (formerly PharmaCan Capital Corp.) Notes to Interim Condensed Financial Statements For the three month periods ended March 31, 2017 and March 31, 2016 (Unaudited - Prepared by Management)

5. Intangible assets (continued)

Other intangible assets	Balance at January 1, 2017	Additions	As at March 31, 2017
In the Zone Health Canada License	\$ 1,611,226	\$ —	\$ 1,611,226
Peace (Note 4)	9,595,824	—	9,595,824
	<u>\$ 11,207,050</u>	<u>\$ —</u>	<u>\$ 11,207,050</u>

6. Biological assets and inventory

The Company's biological assets consist of medical cannabis plants. The changes in the carrying amount of the biological assets are as follows:

	Three months ended March 31,	
	2017	2016
Carrying amount - beginning of period	\$ 1,794,740	\$ —
Changes in fair value of biological assets	1,812,967	—
Transferred to inventory upon harvest	(865,455)	—
Carrying amount - end of period	<u>\$ 2,742,252</u>	<u>\$ —</u>

The Company estimates the harvest yields for the plants varies at different stages of growth. As of March 31, 2017, it is expected that the Company's biological assets will yield approximately 402 kg of medical cannabis (December 31, 2016 - 213 kg). As at March 31, 2017, the Company held 260 kg of finished goods (December 31, 2016 - 236 kg) and 0.298 kg of seeds in raw material (December 31, 2016 - 0.298 kg), and has 4,150 plants that are biological assets (December 31, 2016 - 2,558 plants).

The valuation of the medical cannabis plants was completed using the Company's internal model. Significant assumptions used in determining the fair value of medical cannabis plants include: (a) stage of plant growth, (b) wastage of plants in their various stages, (c) sale price less cost to sell, and (d) harvest yield. Management believes that differences arising from the sensitivity of the inputs are not material.

Inventory consists of the following:

	As at March 31, 2017	As at December 31, 2016
Finished goods	\$ 2,450,191	\$ 1,502,064
Raw materials	193,880	193,880
Supplies and consumables	184,803	212,542
Less: allowance to net realizable value	(569,328)	—
	<u>\$ 2,259,546</u>	<u>\$ 1,908,486</u>

The allowance to net realizable value is included in inventory expensed to cost of sales in the statement of operations.

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7. Loans receivable

	As at March 31, 2017	As at December 31, 2016
(a) Loan receivable from Evergreen Medicinal Supply Inc. ("Evergreen")	\$ 264,750	\$ 264,750
(b) Loan receivable from Vert/Green Medical Inc. ("Vert")	—	375,000
	<u>264,750</u>	<u>639,750</u>
Add: Accrued interest	49,339	92,017
	<u>314,089</u>	<u>731,767</u>
Less: Principal and interest received	—	(422,934)
Loans receivable	<u>\$ 314,089</u>	<u>\$ 308,833</u>

- (a) During the year ended December 31, 2016, the Company revised the estimates of the recoverability of the loan due to updated and favourable operational conditions, and wrote up the loan to the initial amount of \$264,750 plus accrued interest of approximately \$37,500. The loan is due on demand, bearing interest at 8% per year, calculated and payable annually in arrears.
- (b) During the year ended December 31, 2016, the full amount of the loan plus accrued interest was repaid and the entire amount was recovered. The loan was due on demand, and bore interest at 8% per year, calculated and payable semi-annually in arrears.

8. Investment in Whistler Medical Marijuana Company

As at March 31, 2017, the investment represents approximately 21.5% (December 31, 2016 - 21.5%) ownership in Whistler Medical Marijuana Company, incorporated in Canada. Whistler Medical Marijuana Company is a licensed producer and seller of medical marijuana with operations in British Columbia, Canada. The investment is accounted for using the equity method.

Reconciliation of the carrying amount of the investment is as follows:

	Three months ended March 31,	
	2017	2016
Balance - beginning of period	\$ 2,565,412	\$ 2,404,615
Company's share of income (loss)	103,472	(14,814)
Balance - end of period	<u>\$ 2,668,884</u>	<u>\$ 2,389,801</u>

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9. Other investments

Other investments consist of investments in common shares of several companies in the medicinal marijuana industry. These shares, with the exception of Canopy Growth Corporation and The Hydrothecary Corporation, which are publicly traded as at March 31, 2017, do not have a quoted price in an active market, do not have a readily available market, and as a result do not have a reliably measurable fair value.

	As at March 31, 2017	As at December 31, 2016
Available-for-sale investments		
The Hydrothecary Corporation (i)	\$ 1,050,504	\$ 412,502
Canopy Growth Corporation (ii)	314,154	337,010
AbCann Medicinals Inc.	3,073,172	3,073,172
Evergreen Medicinal Supply Inc. (iii)	300,000	300,000
	<u>\$ 4,737,830</u>	<u>\$ 4,122,684</u>
Fair value through profit and loss investment		
AbCann Medicinals Inc. - share warrants (iv)	\$ 909,105	\$ 1,004,574
	<u>\$ 5,646,935</u>	<u>\$ 5,127,258</u>

- (i) During the three month period ended March 31, 2017, BFK Capital Corp. acquired all of the outstanding shares of Hydrothecary Corporation, and began trading as Hydrothecary Corporation, (TSX-V:THCX). As a result of this transaction, Hydrothecary Corporation executed a 6:1 stock split, and the fair value of the investment held by the Company was revalued at the fair market value as of March 31, 2017, with the gain recognized as other comprehensive income.
- (ii) During the three months ended March 31, 2017, the Company sold some of its shares of Canopy for proceeds of \$87,653. The cumulative gain previously recognized as other comprehensive income on these shares was reclassified to income during the period. The remaining shares were revalued at March 31, 2017 based on the fair market value, with the gain recognized as other comprehensive income.
- (iii) On March 16, 2017, Evergreen received a cultivation license under the Access to Cannabis for Medical Purposes Regulations (the "ACMPR"). As a result, the Company completed its subscription for a second tranche of shares of Evergreen for \$100,000 and exercised its option to acquire an additional 5% of the equity of Evergreen for \$500,000, for a total additional investment of \$600,000. However, Evergreen, through its counsel, has indicated that the Company is not entitled to any interest in Evergreen and has rejected the payment. The Company filed a statement of claim in the Supreme Court of British Columbia and intends to vigorously pursue the enforcement of its rights to acquire equity in Evergreen.
- (iv) As at March 31, 2017, the fair value of the warrants was estimated using the Black-Scholes option pricing model with the following assumptions: risk free rate: 0.56 - 0.75% (December 31, 2016 - 0.60 - 0.73%); volatility: 65% (December 31, 2016 - 65%); expected life: 0.40 - 1.50 (December 31, 2016 - 0.7 - 1.7 years); and dividend

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9. Other investments (continued)

	Three months ended March 31,	
	2017	2016
Canopy Growth Corporation (ii)	\$ 36,059	\$ —
AbCann Medicinals Inc. - share warrants (iv)	(95,469)	—
Loss recognized through profit-and-loss	\$ (59,410)	\$ —
	<u>2017</u>	<u>2016</u>
The Hydrothecary Corporation (i)	\$ 638,002	\$ —
Canopy Growth Corporation (ii)	44,518	—
Gain recognized through other comprehensive income	\$ 682,520	\$ —

10. Property, plant and equipment

Cost	Balance at January 1, 2017	Additions	As at March 31, 2017
Land	\$ 1,558,177	\$ —	\$ 1,558,177
Building structures	2,761,262	842,192	3,603,454
Vehicle	31,430	58,528	89,958
Furniture and equipment	31,706	—	31,706
Computer equipment	47,434	—	47,434
Software	40,587	—	40,587
Fencing	3,249	—	3,249
Security equipment	471,376	162,553	633,929
Production equipment	2,105,261	292,785	2,398,046
Road	137,376	—	137,376
Leasehold improvements	1,428,965	—	1,428,965
Construction in progress	6,034,162	679,535	6,713,697
	<u>\$ 14,650,985</u>	<u>\$ 2,035,593</u>	<u>\$ 16,686,578</u>

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10. Property, plant and equipment (continued)

Accumulated depreciation	Balance at January 1, 2017	Additions	As at March 31, 2017
Building structures	\$ 120,141	\$ 39,834	\$ 159,975
Vehicle	3,929	4,257	8,186
Furniture and equipment	13,718	1,585	15,303
Computer equipment	25,712	3,953	29,665
Software	10,147	3,805	13,952
Fencing	975	81	1,056
Security equipment	58,595	27,853	86,448
Production equipment	103,434	80,416	183,850
Road	5,677	1,374	7,051
Leasehold improvements	186,369	37,468	223,837
	<u>\$ 528,697</u>	<u>\$ 200,627</u>	<u>\$ 729,324</u>
Net book value	<u>\$ 14,122,288</u>	<u>\$ —</u>	<u>\$ 15,957,254</u>

Cost	Balance at January 1, 2016	Additions	As at March 31, 2016
Land	\$ 210,000	\$ —	\$ 210,000
Building structures	824,127	—	824,127
Road	137,376	—	137,376
Furniture and equipment	26,658	—	26,658
Computer equipment	28,859	—	28,859
Fencing	3,249	—	3,249
Security equipment	179,898	28,913	208,811
Production equipment	72,656	—	72,656
Leasehold improvements	1,363,014	30,704	1,393,718
	<u>\$ 2,845,837</u>	<u>\$ 59,617</u>	<u>\$ 2,905,454</u>

Accumulated depreciation	Balance at January 1, 2016	Additions	As at March 31, 2016
Building structures	\$ 62,569	\$ 10,356	\$ 72,925

Road	181	1,374	1,555
Furniture and equipment	7,998	1,333	9,331
Computer equipment	12,111	2,405	14,516
Fencing	650	81	731
Security equipment	7,915	9,718	17,633
Production equipment	14,455	2,595	17,050
Leasehold improvements	40,072	35,388	75,460
	<u>\$ 145,951</u>	<u>\$ 63,250</u>	<u>\$ 209,201</u>
Net book value	<u><u>\$ 2,699,886</u></u>	<u><u>\$</u></u>	<u><u>\$ 2,696,253</u></u>

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11. Mortgage payable

On September 6, 2016, the Company obtained a mortgage in connection with the acquisition of Peace (Note 4) with a principal balance of \$4,000,000. The mortgage bears interest at 12% per annum compounded and payable monthly. The mortgage matures on June 1, 2017. The mortgage is secured by a first charge on Peace's property as well as a first ranking security interest charging all the personal property of Peace and each covenantor in the amount of the loan.

12. Share capital and reserves

(a) Share capital

(i) Common Shares

The Company is authorized to issue an unlimited number of common shares.

The holders of the common shares are entitled to receive dividends which may be declared from time to time, and are entitled to one vote per share at meetings of the Company. All shares are ranked equally with regards to the Company's residual assets.

During the three months ended March 31, 2017, the Company closed its previously announced bought deal offering pursuant to the filing of a short form prospectus, including the full exercise of the over-allotment option. A total of 7,705,000 common shares of the Company were sold at a price of \$2.25 per share for aggregate gross proceeds of \$17,336,250.

As at March 31, 2017, 3,233,992 of the Company's shares are held in escrow (December 31, 2016 - 3,233,992). The release of these shares is subject to regulatory approval.

(ii) Special Shares

The Company is authorized to issue an unlimited number of special shares, issuable in series.

The special shares may be issued in one or more series and the directors are authorized to fix the number of shares in each series and to determine the designation, right, privileges, restrictions and conditions attached to the shares in each series. No special shares have been issued since the Company's inception.

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12. Share capital and reserves (continued)

(b) Warrants

The following is a summary of changes in warrants for the periods from January 1, 2016 to March 31, 2016 and from January 1, 2017 to March 31, 2017:

	Number of Warrants	Amount
Balance at January 1, 2016 and March 31, 2016	<u>15,795,422</u>	<u>\$ 1,328,882</u>
Balance at January 1, 2017	45,885,172	\$ 3,982,895
Exercise of warrants - January 2017 (i)	(375,565)	(163,679)
Exercise of warrants - January 2017 (ii)	(298,066)	—
Exercise of warrants - March 2017 (iii)	(1,140,351)	(116,316)
Expiry of warrants	(19,210)	—
Balance at March 31, 2017	<u>44,051,980</u>	<u>\$ 3,702,900</u>

(i) 375,565 warrants were exercised in exchange for \$266,651 in cash. These warrants were granted on January 30, 2014, and had an exercise price of \$0.71.

(ii) 298,066 warrants were exercised in exchange for \$23,845 in cash. These warrants were granted on January 18, 2013, and had an exercise price of \$0.08.

(iii) 1,140,351 warrants were exercised in exchange for \$353,509 in cash. These warrants were granted on October 8, 2015, and had an exercise price of \$0.31.

As at March 31, 2017, the Company has outstanding warrants as follows:

Grant date	Number of warrants	Exercise price	Expiry
January 18, 2013	5,328,329	\$ 0.08	18-Jan-18
October 8, 2015	4,101,680	0.31	8-Oct-20
October 23, 2015	1,478,245	0.31	23-Oct-20
October 28, 2015	711,301	0.31	28-Oct-20
May 13, 2016	10,810,812	0.245	13-May-21
May 27, 2016	21,621,613	0.245	27-May-21
	<u>44,051,980</u>	<u>\$ 0.23</u>	

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13. Share-based payments

(a) Option Plan Details

The Company has an incentive Stock Option Plan ("the Plan") under which non-transferrable options to purchase common shares of the Company may be granted to directors, officers, or service providers of the Company. The terms of the Plan provide that Directors have the right to grant options to acquire common shares of the Company at not less than the selling price of the shares on the day preceding the grant at varying terms. The maximum number of common shares reserved for issuance for options that may be granted under the Plan is 10% of the common shares outstanding. No amounts are paid or payable by the recipient on receipt of the option, and the options granted are not dependent on any performance-based criteria.

The following is a summary of changes in options for the periods from January 1, 2016 to December 31, 2016 and from January 1, 2017 to March 31, 2017:

	Number of Options	Amount
Balance at January 1, 2016 and March 31, 2016	<u>1,610,003</u>	<u>\$ 598,650</u>
Balance at January 1, 2017	6,177,594	\$ 735,489
Exercise of options - January 2017 (i)	(32,009)	(13,956)
Exercise of options - February 2017 (ii)	(32,000)	(22,752)
Exercise of options - March 2017 (iii)	(171,695)	(104,330)
Vesting of issued options (iv)	—	192,037
Balance at March 31, 2017	<u>5,941,890</u>	<u>\$ 786,488</u>

- (i) During the three months ended March 31, 2017, 32,009 options were exercised in exchange for \$22,726 in cash. These options were granted on January 30, 2014, and had an exercise price of \$0.71.
- (ii) During the three months ended March 31, 2017, 32,000 options were exercised in exchange for \$36,800 in cash. These options were granted on August 5, 2014, and had an exercise price of \$1.15.
- (iii) During the three months ended March 31, 2017, 171,695 options were exercised in exchange for \$197,449 in cash. These options were granted on September 19, and December 17, 2014, and had an exercise price of \$1.15.
- (iv) During the three months ended March 31, 2017, a portion of options previously issued in 2016 vested. These options had an exercise price of \$0.50 - \$1.84, and vest in May 2017, or evenly over a 48 month period from the date of issuance.

The weighted average share price at the dates of exercise of options during the period ended March 31, 2017 was \$2.55 (2016 - \$Nil).

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13. Share-based payments (continued)

(a) Option Plan Details (continued)

As at March 31, 2017, the Company had outstanding and exercisable options as follows:

Grant date	Number of options	Weighted average exercise price	Weighted average remaining contractual life (years)
August 5, 2014	181,390	\$ 1.15	0.35
December 17, 2014	435,000	1.15	0.72
August 5, 2016	1,225,000	0.50	4.35
October 6, 2016	3,618,500	1.23	4.52
November 16, 2016	300,000	1.50	1.12
November 21, 2016	182,000	1.84	4.63
Outstanding at March 31, 2017	<u>5,941,890</u>	<u>\$ 1.10</u>	<u>3.91</u>
Exercisable at March 31, 2017	<u>1,288,036</u>	<u>\$ 1.08</u>	<u>2.62</u>

As at March 31, 2017, the weighted average exercise price of options outstanding is \$1.10 (December 31, 2016 - \$1.10). The weighted average exercise price of options exercisable is \$1.08 (December 31, 2016 - \$1.09).

(b) Expenses Arising from Share-based Payment Transactions

Total expenses arising from share-based payment transactions recognized during the three month period ended March 31, 2017 as part of stock-based compensation were \$192,037 (2016 - \$Nil).

14. Related party transactions and balances

The following is a summary of the Company's related party transactions during the year:

(a) Key management compensation

Key management personnel are persons responsible for planning, directing and controlling activities of an entity, and include executive and non-executive directors. Compensation provided to key management is as follows:

	Three months ended March 31,	
	2017	2016
Short-term employee benefits, including salaries and fees	\$ 105,934	\$ 43,837
Professional fees	71,114	56,250
Stock-based compensation	67,490	—
	<u>\$ 244,538</u>	<u>\$ 100,087</u>

As at March 31, 2017, there was a balance payable of \$70,640 to members of key management (December 31, 2016 - \$85,797).

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15. Contingencies

(a) The following are related to Peace:

- (i) Peace is subject to a claim for \$12 million for damages related to the death of 12 cannabis plants held in its care, amounting to \$1 million per plant. The Company believes that the allegations contained in the statement of claim are without merit and plans to vigorously defend itself; accordingly, no provision for loss has been recognized.
- (ii) Peace is subject to a claim for \$15 million for the non-closure of a share purchase agreement. The Company believes that the allegations contained in the statement of claim are without merit and plans to vigorously defend itself; accordingly, no provision for loss has been recognized.
- (iii) Peace is subject to a claim for \$125,000 related to warrants of the Company that were not issued as was originally agreed upon. The Company believes that the allegations contained in the statement of claim are without merit and plans to vigorously defend itself; accordingly, no provision for loss has been recognized.

16. Income taxes

The Company's statutory income tax rate is 26.5% for the three month periods ended March 31, 2017 and March 31, 2016, representing the best estimate of the average annual effective tax rate expected to apply for the full year, applied to the pre-tax income of the three month periods.

Deferred tax liabilities have been offset by deferred tax assets relating to loss carryforwards where they relate to income taxes levied by the same taxation authority and the Company has the legal right and intent to offset.

Movement in the net deferred tax liability is provided below:

	Three months ended March 31,	
	2017	2016
Balance - beginning of period	\$ 1,457,000	\$ 195,000
Recognized in income	1,000	(42,000)
Balance - end of period	<u>\$ 1,458,000</u>	<u>\$ 153,000</u>

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17. Financial instruments

(a) Financial risks

(i) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's policy is to review liquidity resources and ensure that sufficient funds are available to meet financial obligations as they become due. Further, the Company's management is responsible for ensuring funds exist and are readily accessible to support business opportunities as they arise. The Company's funding is provided in the form of capital raised through the issuance of shares, and warrants.

The following represents an analysis of the age of trade payables:

	2017	2016
Current	\$ 175,017	\$ 146,848
Less than 30 days past billing date	182,752	149,892
31 to 60 days past billing date	140,141	33,049
61 to 90 days past billing date	14,063	15,992
Over 90 days past billing date	209,887	240,101
	<u>\$ 721,860</u>	<u>\$ 585,882</u>

(ii) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company is exposed to this risk through its loans receivable, and accounts receivable.

As at March 31, 2017, the value of its loans receivable was \$314,089 (December 31, 2016 - \$308,833) and the value of its accounts receivable was \$243,121 (December 31, 2016 - \$107,166). The Company is not significantly exposed to credit risk, as these receivables comprise 0.9% (December 31, 2016 - 0.7%) of the Company's total assets.

(iii) Market risk

(1) Price risk

Price risk is the risk that the fair value of, or future cash flows from, the Company's financial instruments will significantly fluctuate due to changes in market prices. The value of the financial instruments can be affected by changes in interest rates, market and economic conditions, and equity and commodity prices. The Company is exposed to price risk in divesting its investments in private companies and unfavourable market conditions could result in dispositions of investments at less than favourable prices. Further, in the revaluation of securities classified as available-for-sale, this could result in significant write-downs of the Company's investments, which would have an adverse impact on the Company's financial position.

The Company manages price risk by having a portfolio of securities from multiple issuers, such that the Company is not singularly exposed to any one issuer. The Company also has set thresholds on purchases of investments over which the approval of the Board of Directors is required.

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17. Financial instruments (continued)

(iii) Market risk (continued)

(2) Concentration risk

Concentration risk is the risk that any single investment or group thereof, has the potential to materially affect the operating results of the Company. The Company is exposed to this risk as all of its investments are currently within the medical marijuana industry. As such, the Company's financial results may be adversely affected by the unfavourable performance of those investments or the industry in which they operate.

It is management's opinion that the Company is not subject to significant interest rate risk.

18. Fair value hierarchy

Assets recorded at fair value on the interim condensed statement of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets and liabilities;

Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3 - valuation techniques using the inputs for the asset or liability that are not based on observable market data (unobservable inputs).

In these interim condensed financial statements, classification of assets measured at fair value is as follows:

Level 1 - cash; other investments (Canopy, Hydrothecary)

Level 2 - warrants, options;

Level 3 - other investments (AbCann shares and warrants, Evergreen), biological assets.

The Company's policy for determining when transfers between levels of the fair value hierarchy is deemed to have occurred is based on the date of the event or changes in circumstances that caused the transfer.

During the three months ended March 31, 2017, Hydrothecary became publicly traded. Due to the event, the investment in Hydrothecary was transferred out of Level 3 as the inputs for the valuation of the investment were no longer unobservable. The investment in Hydrothecary was transferred into Level 1 of the fair value hierarchy, as the valuation of the investment is based on quoted prices in an active market.

19. Capital management

The Company considers its capital to be its equity. The Company's objectives when managing its capital are to maintain sufficient capital base in order to meet its short-term obligations and at the same time preserve investors' confidence required to sustain future investments.

20. Subsequent events

- (a) The Company holds a 21.5% interest in Whistler Medical Marijuana Corp. (“WMMC”). Subsequent to the period, the Company has decided to maintain its 21.5% equity position through an additional \$1,075,800 investment to help support WMMC’s next phase of growth.
- (b) Subsequent to the three months ended March 31, 2017, the Company has granted options to subscribe to 3,299,000 common shares of the Company to certain of the Company’s employees and directors, in accordance with the Company’s stock option plan. The options are exercisable at a price of \$3.14 per common share and shall expire at the earlier of 180 days of the death, disability or incapacity of the holder or five years after the date of issue.
- (c) Subsequent to the three months ended March 31, 2017, AbCann Medicinals Inc. (“AbCann”) performed a reverse takeover with Panda Capital Inc. As a result of this transaction, AbCann began trading as AbCann Global Corporation on the TSX-V under the trading symbol “ABCN”. The fair value of the investment held by the Company at the date of the transaction was approximately \$5.8M, based on the opening share price of \$1.50 per share. Furthermore, the Company subscribed for an additional investment in AbCann of \$1,016,000.
- (d) Subsequent to the period, 128,043 options were exercised at an exercise price of \$1.15 per option, and correspondingly, 128,043 common shares were issued.
- (e) Subsequent to the period, 350,877 warrants were exercised at an exercise price of \$0.31 per warrant, and correspondingly, 350,877 common shares were issued.
- (f) Subsequent to the period, 30,416 options were exercised at an exercise price of \$1.23 per option, and correspondingly, 30,416 common shares were issued.
- (g) Subsequent to the period, 909,575 warrants were exercised at an exercise price of \$0.08 per warrant, and correspondingly, 909,575 common shares were issued.

Cronos Group Inc. (formerly PharmaCan Capital Corp.)**Management's Discussion & Analysis**

For the Three Month Periods Ended
March 31, 2017 and March 31, 2016

Introduction

This Management Discussion and Analysis ("MD&A") provides relevant information on the interim condensed results of operations and financial condition of Cronos Group Inc. (formerly PharmaCan Capital Corp.) (the "Company") for the three month periods ended March 31, 2017 and March 31, 2016. This MD&A should be read in conjunction with the interim condensed financial statements for three month period ended March 31, 2017 in addition to the audited consolidated financial statements for the year ended December 31, 2016.

This discussion contains forward looking information that is qualified by reference to, and should be read in conjunction with the Caution Regarding Forward Looking Statements below.

This MD&A provides information that the management of the Company believes is important to assess and understand the results of operations and financial condition of the Company. Our objective is to present readers with a view of the Company from management's perspective by interpreting the material trends and activities that affect the operating results, liquidity and financial position of the Company. All monetary amounts herein are expressed in Canadian dollars unless otherwise specified.

This MD&A is current as of May 30, 2017.

The Company's audited interim condensed financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

Additional information relating to the Company can be found on the SEDAR website at www.sedar.com.

Caution Regarding Forward-Looking Statements

Certain information in this MD&A contains or incorporates comments that constitute "forward-looking" statements within the meaning of applicable securities legislation. Forward-looking statements are not historical facts and involve known and unknown risks, uncertainties, assumptions and other factors that may cause actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, but are not limited to, the factors discussed in the section entitled "**Risk and Uncertainties**".

Generally, these forward-looking statements can be identified by the use of forward-looking terminology such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "continue", "anticipates" or "does not anticipate", or "believes" or variation of such words and phrases or state that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved". All forward looking statements are based on our beliefs and assumptions based on information available at the time the assumption was made. While the Company considers its assumptions to be reasonable and appropriate based on the current information available, there is a risk that they may not be accurate.

All forward-looking information is provided as of the date of this MD&A. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on the forward-looking statements. The Company does not undertake to update any forward-looking statements except as required by applicable securities laws.

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Business of the CompanyCompany Overview

Cronos Group Inc. (formerly PharmaCan Capital Corp.) was incorporated under the Business Corporations Act (Ontario) on August 21, 2012 as 2339498 Ontario Inc., changed its name on October 18, 2012 to Searchtech Ventures Inc. and was classified as a Capital Pool Company as defined pursuant to Policy 2.4 of the TSX Venture Exchange. During the year ended December 31, 2014, the shareholders of Hortican Inc. ("Hortican") completed a reverse takeover of PharmaCan Capital Corp. (formerly Searchtech Ventures Inc.). For purposes of accounting for the Transaction, Hortican is considered the acquirer, and thus, the interim condensed financial statements are a continuation of the financial statements of Hortican. These interim condensed financial statements include the accounts of Cronos Group Inc. (formerly PharmaCan Capital Corp.) and its wholly owned subsidiaries, Hortican Inc., In the Zone Produce Ltd. ("In the Zone"), and Peace Naturals Project Inc. ("Peace"). The Company began rebranding itself as Cronos Group Inc. on October 6, 2016. The Company finalized its name change to Cronos Group Inc. on February 27, 2017.

The Company's business has grown into two segments. The first segment is the business of investing in companies either licensed, or actively seeking a license, to produce medical marijuana pursuant to the Access to Cannabis for Medical Purposes Regulations, ("ACMPR"), which replaced the Marijuana for Medical Purposes Regulations ("MMPR"). The second segment is the operation and continued development of entities which are already licensed under the ACMPR.

Access to Cannabis for Medical Purposes Regulations

The ACMPR was developed in response to the February 2016 Federal Court of Canada decision in *Allard v. Canada*, which ruled that restricting individuals to obtaining marijuana only from licensed producers violated individual protected rights. The new regulations enable an individual to produce their own marijuana for personal use, or designate someone to produce it for them. The ACMPR adopt the concept, authorized activities, and application requirements for producer's licenses under the MMPR. In addition, the ACMPR enables the production and sale of starting materials, including marijuana seeds and plants.

Health Canada estimates that within a decade, the medical marijuana marketplace will grow to at least 400,000 registered patients, generating annual sales of approximately \$1.3 billion. As of May 30, 2017, forty-five producer's licenses have been issued by Health Canada.

The Government of Canada has introduced Bill C-45, the Cannabis Act, providing for the legalization of recreational cannabis in Canada. The draft Cannabis Act does not amend or repeal the ACMPR. The Cannabis Act is draft legislation and there can be no assurance that it will be enacted in its current form or at all.

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Investments

As at March 31, 2017, the Company has invested in and made loans to:

- (a) *Whistler Medical Marijuana Corporation* (“Whistler”) (\$2,668,884 equity). Whistler is a corporation incorporated under the laws of British Columbia, and is a licensed producer and seller of medical marijuana with operations in Whistler, British Columbia.
- (b) *Canopy Growth Corp.* (“Canopy”) (\$314,154 equity). Canopy is a corporation incorporated under the laws of Canada, and is the parent company of licensed producers and sellers of medical marijuana. Canopy’s common shares are listed on the TSX, under the trading symbol “WEED”. During the three months ended March 31, 2017, the Company sold some of its shares of Canopy for proceeds of \$87,653.
- (c) *Evergreen Medicinal Supply Inc.* (“Evergreen”) (\$300,000 equity, and \$314,089 loan receivable). Evergreen is a corporation incorporated under the laws of British Columbia, with facility and operations in Victoria, British Columbia. During the three months ended March 31, 2017, the Company filed a claim in the Supreme Court of British Columbia against Evergreen and its directors, seeking, among other things, declarations that the Company holds equity of Evergreen and that the agreement between the parties in respect of its equity is a valid and binding contract.
- (d) *AbCann Medicinals Inc.* (“AbCann”) (\$3,073,172 equity and \$909,105 in warrants). AbCann is a privately-held corporation incorporated under the laws of Ontario which has obtained a license for cultivation and sale of medical cannabis from Health Canada. AbCann entered into a reverse takeover subsequent to March 31, 2017, and are listed on the TSX-V under the trading symbol “ABCN” on May 4, 2017.
- (e) *CannMart Inc.* (“CannMart”) (\$25,000 deposit on investment). CannMart is a privately-held corporation incorporated under the laws of Ontario. Subsequent to March 31, 2017, the Company recovered the original deposit on investment of \$25,000.
- (f) *The Hydrothecary Corporation* (“Hydrothecary”) (\$1,050,504 equity). Hydrothecary is a publicly traded corporation incorporated under the laws of Canada which has obtained licenses for the cultivation and sale of medical cannabis and the production and sale of fresh marijuana and cannabis oil from Health Canada. During the three months ended March 31, 2017, BFK Capital Corp. acquired all of the outstanding shares of Hydrothecary Corporation, and began trading as Hydrothecary Corporation on the TSX-V, under the trading symbol “THCX”. As a result of this transaction, Hydrothecary Corporation executed a 6:1 stock split.

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Acquisition of Peace

On September 6, 2016, the Company acquired all issued and outstanding shares of Peace Naturals Project Inc., a company headquartered in Stayner, Ontario and incorporated under the laws of Canada. Peace is a licensed producer and seller of medical cannabis from its facility in Ontario. Consideration for the acquisition included \$6,247,543 in cash and \$2,590,367 to be paid at a future date. As the Company previously held shares of Peace, the acquisition is considered a step acquisition and resulted in a loss due to fair value re-measurement. The preliminary purchase price allocation for this acquisition is shown below:

Fair value of consideration transferred:

Cash	\$ 6,247,543
Liability	2,590,367
	<u>8,837,910</u>

Fair value of previously held interest:

Fair value of interest held immediately before acquisition	3,314,960
Loss due to fair value re-measurement	(346,970)
	<u>2,967,990</u>
	<u>\$ 11,805,900</u>

Fair value of net assets acquired:

Cash	109,443
Accounts receivable	50,647
Prepaid and deposits	29,000
Loans receivable	16,167
Inventory	1,194,417
Biological assets	865,452
Property and equipment	10,281,935
Other intangible assets	9,595,824
Goodwill	1,400,000
Accounts payable	(2,876,239)
Loans payable	(7,460,836)
Deferred tax liability	(1,400,000)
	<u>\$ 11,805,900</u>

Due to the complexities in identifying certain intangible assets, such as licenses and intellectual property, and assigning fair values, the Company has yet to finalize its assessment of the purchase price allocation. The allocation of the consideration paid will be adjusted once a valuation of certain intangible assets has been finalized. Management expects to complete the assessment by the end of Q3 2017.

During the three months ended March 31, 2017, approximately 50% of the liability has been repaid by the Company, resulting in a remaining balance of \$1,291,496.

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Overall Performance

The Company’s efforts have been focused on operating In the Zone and Peace Naturals Project Inc. establishing international distribution channels, and optimizing production. In the Zone continued production in 2017. During the three months ended March 31, 2017, In the Zone obtained a license to sell medicinal marijuana from Health Canada.

During the period ended March 31, 2017, the Company incurred approximately \$2,035,593 (three month period ended March 31, 2016 - \$59,617) of capital expenditures, the majority of which related to improvements and construction on the production facility used in the production of medical marijuana at Peace.

During the period ended March 31, 2017, the Company issued 7,705,000 common shares in a bought deal offering, at \$2.25 per share.

Results of Operations

Select Financial Information

The following table provides a summary of the interim condensed results of the Company for the three month period ended March 31, 2017, and the comparative periods ended March 31, 2016 and 2015:

Statements of Operations and Comprehensive Income	Three months ended March 31, 2017	Three months ended March 31, 2016	Three months ended March 31, 2015
Product sales	\$ 513,756	\$ —	\$ —
Gain on revaluation of biological assets	1,812,967	—	—
Inventory expensed to cost of sales	1,056,116	—	—
Production costs	235,235	34,406	48,716
Investment income (loss)	49,318	(14,814)	(171,424)
Expenses	1,928,127	482,910	537,405
Net loss	(844,437)	(490,130)	(757,545)
Gain on revaluation of other investments	682,520	—	—
Total comprehensive loss	(161,917)	(490,130)	(757,545)
Weighted average number of outstanding shares, basic and diluted	125,256,010	42,618,971	34,791,239
Basic and diluted loss per share	\$ (0.01)	\$ (0.01)	\$ (0.02)

The net loss increased during the three months ended March 31, 2017 compared to the three months ended March 31, 2016 due to costs associated with the operation of Peace and additional investment activities.

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Revenues

Peace and In the Zone have a license to produce and sell medicinal marijuana. The Company earned \$513,756 in revenue from product sales made by Peace during the three month period ended March 31, 2017.

Cost of sales

The operations of In the Zone and Peace caused an increase in production costs of \$200,829. Furthermore, the product sales made by Peace resulted in \$486,788 of inventory expensed to cost of sales during the three month period ended March 31, 2017, as well as a write-down in inventory to net realizable value of \$569,328. The Company reported a gain on the revaluation of biological assets of \$1,812,967, representing an increase in the fair value of the medicinal marijuana plants of both Peace and In the Zone.

Investment income (loss)

During the three months ended March 31, 2017, the Company earned \$103,472 in income from its equity investment, Whistler, in which the Company owns 21.5%, as Whistler continued to generate income from its operations. The income is offset by a loss due to the revaluation of AbCann Medicinals Inc. share warrants during the period.

Expenses

Salaries and benefits have increased from Q1 2016 to Q1 2017, which included an increase in stock-based compensation due to vesting of options previously issued. Salaries and benefits only relate to the investing segment of the business. Salaries and benefits associated with the operational segment of the business are included in Production costs. Production costs represent costs incurred on inventory sold during the period, which have increased during Q1 2017, as Peace sold products in Q1 2017. Inventory expensed to cost of sales includes the transfer of net realizable value from inventory to cost of sales for products sold, in addition to production costs capitalized to inventory and subsequently written down as biological assets are transferred to inventory at fair value less costs to sell. Interest expense during the period includes interest on Peace's \$4,000,000 mortgage, which is guaranteed by the Company, which was not incurred in Q1 2016.

Other comprehensive income

Other comprehensive income has increased from Q1 2016 to Q1 2017 due to the increase in fair value of the investments in Hydrophotherapy, and Canopy. As these investments are accounted for as available-for-sale investments, the gains are recorded in other comprehensive income.

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The following table provides a summary of the interim condensed financial position of the Company as at December 31, 2017, as at December 31, 2016 and as at December 31, 2015:

Statements of Financial Position	As at March 31, 2017	As at December 31, 2016	As at December 31, 2015
Total assets	\$ 58,605,612	\$ 42,900,596	\$ 14,723,846
Total liabilities	7,998,055	9,222,967	3,021,991
Working capital (deficiency)	14,793,434	320,621	(1,101,906)
Share capital	50,926,945	33,590,324	14,799,821
Accumulated deficit	7,060,006	6,215,569	5,025,498
Accumulated other comprehensive income	\$ 2,251,230	\$ 1,584,490	\$ Nil

Total assets

Total assets increased from December 31, 2016 to March 31, 2017 primarily due to capital asset additions made in Peace, the increase in fair value of the biological assets, as well as the Company's equity raises. The operations of Peace and In the Zone resulted in biological assets of \$2,742,252, and inventory of \$2,259,546 as at March 31, 2017. Peace has been operating in its current facility and is in the process of building another facility, resulting in the addition of \$2,035,593 in property, plant, and equipment. From December 31, 2016 to March 31, 2017, the Company generated \$17,336,250 through its private placements, contributing to the increase in cash from \$3,464,208 at December 31, 2016 to \$15,206,513 at March 31, 2017.

Total liabilities

Total liabilities decreased from December 31, 2016 to March 31, 2017 due to the partial repayment of the purchase price liability which arose from the acquisition of Peace during 2016.

Share capital

Share capital increased from December 31, 2016 to March 31, 2017, as a result of the bought deal offering in March 2017, resulting in the issuance of 7,705,000 common shares, increasing share capital by \$17,336,250. In addition, there were various stock options and warrants exercised during the three month period ended March 31, 2017, increasing share capital by \$398,013 and \$924,000 respectively.

Accumulated deficit

Accumulated deficit continues to increase as the Company generated a net loss during the three month period ended March 31, 2017. There were no dividends declared or paid in the period, and no other transactions with shareholders impacting accumulated deficit.

Accumulated other comprehensive income

This balance includes the fair value increase in the investment in Canopy, and Hydrothecary based on their publicly traded share prices at March 31, 2017, which is included in other comprehensive income since the investments are classified as available-for-sale.

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Discussion of Operations

In The Zone

During the three month ended March 31, 2017, In the Zone continued production of medicinal marijuana. There were minimal improvements to the facility, as most efforts during the period were focused on production, yielding biological assets valued at \$37,800 and inventory of \$152,888. During the three months ended March 31, 2017, the Company obtained a license to sell medicinal marijuana from Health Canada.

Peace Naturals Project Inc.

During the three months ended March 31, 2017, Peace continued to make improvements on its production facilities. Peace continued to produce and sell medicinal marijuana, and generated product sales of \$513,756 during the period.

The Company has also been focused on patient acquisition and commencing outreach programs with educational and access centers, hosting community based patient supply groups, and onboarding new clients at an accelerated rate. Peace has registered over 4,100 patients since being granted its license.

The upgraded production infrastructure and improved cultivation methods at Peace have already resulted in significant yield increases. As a result, the production capacity for existing facilities is expected to increase to approximately 5,000 kilos per year. Additionally, the Company has significantly upgraded its extraction infrastructure, acquiring a customized CO2 extraction system capable of efficiently producing upwards of 6,000 liters of finished cannabis oil annually. The Company expects material increases to both extract production and sales in the coming quarters. As part of the global strategy, new management has focused on developing and solidifying the Company's international distribution channels. Peace Naturals is now distributing cannabis through 500 pharmacies in Germany.

Summary of Quarterly Results

	Q1 Three month period ended March 31, 2017	Q4 Three month period ended December 31, 2016	Q3 Three month period ended September 30, 2016	Q2 Three month period ended June 30, 2016
Net income (loss)	\$ (844,437)	\$ 1,370,165	\$ (227,607)	\$ (1,842,499)
Total comprehensive income (loss)	\$ (161,917)	\$ 2,736,740	\$ (9,692)	\$ (1,842,499)
Basic earnings (loss) per share	\$ (0.01)	\$ 0.01	\$ (0.00)	\$ (0.04)
Diluted earnings (loss) per share	\$ (0.01)	\$ 0.01	\$ (0.00)	\$ (0.04)

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	Q1 Three month period ended March 31, 2016	Q4 Three month period ended December 31, 2015	Q3 Three month period ended September 30, 2015	Q2 Three month period ended June 30, 2015
Net income (loss)	\$ (490,130)	\$ 2,193,844	\$ (493,334)	\$ (556,799)
Basic earnings (loss) per share	\$ (0.01)	\$ 0.06	\$ (0.01)	\$ (0.02)
Diluted earnings (loss) per share	\$ (0.01)	\$ 0.05	\$ (0.01)	\$ (0.02)

Through quarters two and three of fiscal 2015, the net loss and basic and diluted loss per share remained relatively consistent. There were significant changes in Q4, specifically related to the reclassification of Peace from equity-accounted to available-for-sale, which resulted in a gain of \$4,590,321. Further, there was various impairment losses recognized in Q4, \$1,448,292 on Evergreen and Vert. Diluted earnings per share in Q4 was calculated using a weighted average number of shares of 43,694,412. In quarters two and three of 2015, the weighted average number of shares for basic and diluted loss per share remained consistent, because the Company was in a net loss position, and therefore all instruments were anti-dilutive. In Q4, the Company was in a net income position, and as a result, there were dilutive instruments included in the calculation.

In Q1 2016, the net loss returned to the consistent position as the three first quarters of 2015, as there were no significant changes in the quarter. In Q2 2016, the loss increased due to the revaluation of Peace, resulting in a \$1,325,984 loss recognized. In Q3, the Company was in a loss position, but the loss is significantly less than in previous quarters due to the reversal of impairment losses of \$725,150, the gain on revaluation of biological assets of \$392,405, and product sales of \$123,647 generated through the acquisition of Peace. In Q4 2016, the quarterly income was due to the product sale of \$430,556 generated during the quarter as well as the large gain on revaluation of biological assets.

In Q1 2017, the return to net loss position is due to expenses incurred as the Company is working on its next investment opportunity and increase in salaries as the Company continues to grow. This is offset by the gain on revaluation of other investments which is recorded as other comprehensive income.

Liquidity

The Company may seek to raise additional funds so that it may fund its expansion of operations, which represent the Company's working capital requirements, and fund new investment opportunities. The amount and timing of raising additional funds will depend on variables such as, the state of the capital markets, investor interest in medical cannabis companies, and investment opportunities available.

During the three month period ended March 31, 2017, the Company raised \$17,336,250 in cash through its bought deal offering.

Based on the current investee group, the Company estimates that its annual expenses are expected to be approximately \$8.2 million (or \$680,000 per month), the major components of which

include production costs (\$2,500,000 per year or \$208,000 per month), payroll (\$3,725,000 per year or \$310,000 per month), professional fees (approximately \$1,000,000 per year or \$83,000 per month), and general and administrative costs (\$1,000,000 per year or \$83,000 per month).

The Company divested a portion of its equity interest in Canopy during the three months ended March 31, 2017 for proceeds of \$87,653.

The Company must continue to ramp up operations in Peace and In the Zone to generate positive cash from operations, and raise additional debt and/or equity financing or divest non-core investment assets to fund operations and investment opportunities.

Capital Resources

The Company manages its capital with the objective of maximizing shareholder value and ensuring that it has appropriate resources to foster the growth and development of the business.

As of the date of this MD&A, the Company's authorized share capital is an unlimited number of common shares of which 132,899,345¹ are issued and outstanding. The Company also has 9,082,431 stock options², and 42,791,528 warrants outstanding³.

During the three months ended March 31, 2017, Evergreen received a cultivation license under the ACMPR. As a result, the Company completed its subscription for a second tranche of shares of Evergreen for \$100,000 and exercised its option to acquire an additional 5% of the equity of Evergreen for \$500,000, for a total additional investment of \$600,000. However, Evergreen, through its counsel, has indicated that the Company is not entitled to any interest in Evergreen and has rejected the payment. The Company filed a statement of claim in the Supreme Court of British Columbia and intends to vigorously pursue the enforcement of its rights to acquire equity in Evergreen.

The Company has invested an additional \$1,075,800 in WMMC subsequent to the period end in order to maintain its 21.5% equity position. Further, the Company has guaranteed a \$4,000,000 loan made by a lender to Peace. The Company does not anticipate any payment to be required, thus, no amount has been accrued at March 31, 2017.

The Company has invested an additional \$1,016,000 in AbCann subsequent to the period end, as part of the reverse acquisition performed by AbCann Medicinals Inc. As a result of this transaction, AbCann began trading as AbCann Global Corporation on the TSX-V under the trading symbol "ABCN".

¹ Subsequent to March 31, 2017, the Company issued 158,459 shares upon the exercise of stock options, and issued 1,260,452 shares upon the exercise of warrants. As a result of the agreement with ITZ's founders as described in Note 15(a)(i) of the interim condensed financial statements for the year ended December 31, 2015, 426,780 shares were effectively repurchased for cancellation during Q3 2015. An aggregate of 298,745 of the shares are held in escrow as of the date of this MD&A and will be cancelled immediately upon release from escrow.

² Subsequent to March 31, 2017, 128,043 options were exercised at an exercise price of \$1.15, and 30,416 options at an exercise price of \$1.23. 3,299,000 options were granted at an exercise price of \$3.14.

³ Subsequent to March 31, 2017, 350,877 warrants were exercised at an exercise price of \$0.31, and 909,575 warrants were exercised at an exercise price of \$0.08.

Transactions between Related Parties

The Company paid \$105,934 (2016 - \$43,837 expense) in salaries and benefits owing to key management during the three months ended March 31, 2017. In addition, there was \$71,114 in professional fees accrued during 2016 (2016 - \$56,250). Further, the vesting of options resulted in share-based compensation of \$67,490 (2016 - \$Nil). Key management is compensated for providing planning, directing and controlling activities to the Company.

Additional Disclosure for Venture Issuers without Significant Revenue

Administrative Expenses

Statements of Operations and Comprehensive Income	Three months ended March 31, 2017	Three months ended March 31, 2016
Salary and benefits	\$ 663,845	\$ 64,752
Advertising and promotion	39,205	2,082
Consulting fees	252,915	46,660
Professional fees	416,988	188,230
Office expenses	196,358	50,878
Interest expense	155,547	47,246
Travel	2,719	19,812
Other	200,550	63,250
	<u>\$ 1,928,127</u>	<u>\$ 482,910</u>

The increase in salary and benefits between March 31, 2016 and March 31, 2017 in the amount of \$599,093 is mainly due to the vesting of previously issued options during 2016, as well as compensation for additional employees due to the acquisition of Peace during 2016.

The increase in professional fees and consulting fees in the amount \$ 435,013 is due to additional legal fees associated with the expanded operations of the Company, which includes the operation of the newly acquired subsidiary, Peace.

The year over year increase in advertising and promotion in the amount of \$37,123 is due to management's decision to incur such costs to increase sales in Peace.

The increase in interest expense in 2017 relates primarily to the \$4,000,000 mortgage payable for Peace, which was acquired by the Company at fair value when the acquisition took place in Q3 2016.

The increase in other expenses in the amount of \$137,300 is primarily related to increased depreciation expense due to the depreciation of additional property, plant, and equipment purchases by Peace during the period.

New Accounting Pronouncements

The International Accounting Standards Board has not issued any new standards, amendments to standards, or interpretations that impact the Company during the three months ended March 31, 2017. The Company's evaluations of previously issued new standards, amendments to standards, and interpretations are consistent with those disclosed in note 3 of the Company's interim condensed financial statements. New accounting pronouncements not yet mandatorily effective have not been applied in preparing these interim condensed financial statements.

Estimates and critical judgments by management

The preparation of these interim condensed financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the interim condensed financial statements and the reported amounts of revenues and expenses during the current year. These estimates are reviewed periodically and adjustments are made to income as appropriate in the year they become known. Items for which actual results may differ materially from these estimates are described in the following section.

Warrants and options

In calculating the value of the warrants and options, management is required to make various assumptions and estimates which are susceptible to uncertainty, including the volatility of the share price, expected dividend yield and expected risk-free interest rate.

Useful lives of property, plant and equipment

Depreciation of property, plant and equipment is dependent upon estimates of useful lives, which are determined through exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of the assets.

Biological assets and inventory

Biological assets, consisting of cannabis plants, are measured at fair value less cost to sell up to the point of harvest. Determination of the fair values of the biological assets requires the Company to make assumptions about how market participants assign fair values to these assets. These assumptions primarily relate to the level of effort required to bring the cannabis up to the point of harvest, sales price, risk and expected future yields for the cannabis plant.

Inventory of finished goods is transferred from biological assets at fair value less costs to sell at the point of harvest, which becomes the deemed cost. Inventory is subsequently measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less estimated costs of completion and estimated variable costs to sell.

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Impairment of cash-generating units and goodwill

The impairment test for cash-generating units ("CGUs") to which goodwill is allocated is based on the value in use of the CGU, determined in accordance with the expected cash flow approach. The calculation is based primarily on assumptions used to estimate future cash flows, the cash flow growth rate and the discount rate used.

Impairment of long-lived assets

The impairment test for long-lived assets, including equipment and intangible assets, are reviewed for impairment at each statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of the asset or CGU is determined based on the higher of its fair value less cost to sell and its value in use. If the carrying amount of an asset exceeds its recoverable amount, an impairment charge is recognized immediately in profit or loss by the amount by which the carrying amount of the asset exceeds the recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount, and the carrying amount that would have been recorded had no impairment loss been recognized previously.

Fair value of financial assets available for sale

Financial assets available for sale consist of privately and publicly held investments. Determination of the fair values of privately held investments requires the Company to make various assumptions about the future prospects of the investees, the economic, legal, and political environment in which the investees operate, and the ability of the investees to obtain financing to support their operations. As a result, any value estimated may not be realized or realizable, and the values may differ from values that would be realized if a ready market existed. The determination of fair value of the Company's privately held investments is subject to inherent limitations. Financial information for private companies may not be available, or may be unreliable. Use of the valuation approach described below involves uncertainties and management judgments, and any value estimated from these techniques may not be realized or realizable.

Income taxes

Income taxes and tax exposures recognized in the interim condensed financial statements reflect management's best estimate of the outcome based on facts known at the reporting date. When the Company anticipates a future income tax payment based on its estimates, it recognizes a liability. The difference between the expected amount and the final tax outcome has an impact on current and deferred taxes when the Company becomes aware of this difference.

In addition, when the Company incurs losses that cannot be associated with current or past profits, it assesses the probability of taxable profits being available in the future based on its budgeted forecasts. These forecasts are adjusted to take account of certain non-taxable income and expenses and specific rules on the use of unused credits and tax losses. When the forecasts indicate the sufficient future taxable income will be available to deduct the temporary differences, a deferred tax asset is recognized for all deductible temporary differences.

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Risks and Uncertainties

Any investment in the securities of the Company is speculative, due to the nature of its business and its general stage of development. These risk factors could materially affect the Company's future operating results and could cause actual events to differ materially from those described in forward looking statements relating to the Company. In addition to the usual risks associated with investment in a business, investors should carefully consider the following risk factors as well as the risk factors set out in the amended and restated annual information form of the Company dated February 10, 2017:

Strategic Risks

(a) Management of Growth

Any expansion of the Company's business may place a significant strain on its financial, operational and managerial resources. There can be no assurance that the Company will be able to implement and subsequently improve its operations and financial systems successfully and in a timely manner in order to manage any growth it experiences. There can be no assurances that the Company will be able to manage growth successfully. Any inability of the Company to manage growth successfully could have a material adverse effect on the Company's business, financial condition and operational results.

The Company Investees are all currently in early development stages. The Company's growth strategy contemplates outfitting Investee facilities with additional production resources. There is a risk that these additional resources will not be achieved on time, on budget, or at all, as they can be adversely affected by a variety of factors.

(b) Competition

There is potential that the Company and the Company Investees will face intense competition from other companies, some of which can be expected to have longer operating histories and more financial resources and manufacturing and marketing experience than the Investees or the Company.

Industry Risks

(c) Risks Inherent in an Agricultural Business

The business of the Company Investees involves the growing of medical cannabis, an agricultural product. As such, the business is subject to the risks inherent in the agricultural industry.

(d) Political Risks

A change in government could result in meaningful changes to the regulatory regime under which the Company operates, which could negatively impact its operations. The Government of Canada has introduced Bill C-45, the Cannabis Act, providing for the legalization of recreational cannabis. There is no assurance that the legalization of recreational cannabis in Canada, whether via the Cannabis Act or by any other means, will occur as anticipated or at all.

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(e) Vulnerability to Rising Energy Costs

The Company Investees' medical cannabis growing operations consume considerable energy, making the Company vulnerable to rising energy costs.

(f) Transportation Disruptions and Costs

Due to the perishable and premium nature of the Company Investee products, fast and efficient courier services will be necessary to distribute product. Any prolonged disruption of this courier service could have an adverse effect on the financial condition and results of operations of the Company Investees.

(g) Product Liability

As a manufacturer and distributor of products designed to be ingested by humans, the Company Investees face an inherent risk of exposure to product liability claims, regulatory action and litigation if its products are alleged to have caused significant loss or injury.

(h) Product Recalls

Manufacturers and distributors of products are sometimes subject to the recall or return of their products for a variety of reasons, including product defects, such as contamination, unintended harmful side effects or interactions with other substances, packaging safety and inadequate or inaccurate labeling disclosure with adverse impact on the Company Investees and the Company.

(i) Unfavourable Publicity or Consumer Perception

The Company believes the medical cannabis industry is highly dependent upon consumer perception regarding the safety, efficacy and quality of the medical cannabis produced. Consumer perception of the Company Investees' products can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity regarding the consumption of medical cannabis products. There can be no assurance that future scientific research, findings, regulatory proceedings, litigation, media attention or other research findings or publicity will be favourable to the medical cannabis market or any particular product, or consistent with earlier publicity.

Operational Risks

(j) Limited Operating History

The Company began carrying on business in 2013 and the Investees are also newly operational. They are therefore subject to many of the risks common to early-stage enterprises.

(k) Reliance on Key Inputs

The Company Investees' businesses are dependent on a number of key inputs and their related costs including raw materials and supplies related to its growing operations, access to skilled labour, equipment, parts, and components, as well as electricity, water and other local utilities.

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(l) Compliance with Regulations of ACMPR and Health Canada

The activities of the Company Investees are subject to regulation by governmental authorities, particularly Health Canada. Achievement of the Company's business objectives are contingent, in part, upon Investee compliance with stringent regulatory requirements enacted by these governmental authorities and obtaining all regulatory approvals. Under the ACMPR, any entity applying for a license from Health Canada would need to be an indoor facility equipped with physical barriers which prevent unauthorized entry in to the facility and further physical barriers to all growing areas are required. The cost of security measures will be considerable and the readiness of each facility will factor into any the Company investment decision. Failure to comply with the requirements of the license or any failure to maintain this license could have a material adverse impact on the business, financial condition and operating results of the Company. The framework of the Canadian recreational cannabis market will be significantly influenced by provincial legislation

governing, among other things, cannabis distribution and sale. Such legislation, if enacted, could result in different provincial regulatory and market environments, compliance costs and competitive factors.

(m) Environmental and Employee Health and Safety Regulations

The Company Investees' operations are subject to environmental and safety laws and regulations concerning, among other things, emissions and discharges to water, air and land, the handling and disposal of hazardous and non-hazardous materials and wastes, and employee health and safety.

(n) Reliance on Management

Both the success of the Company and the success of the Company Investees are dependent upon the ability, expertise, judgment, discretion and good faith of their respective senior management. Certain of the directors and officers of the Company are also directors and officers of other companies, and conflicts of interest may arise between their duties as officers and directors of the Company and as officers and directors of such other companies.

(o) Operating Risk and Insurance Coverage

The Company has insurance to protect its assets, operations and employees. While the Company believes its insurance coverage addresses all material risks to which it is exposed and is adequate and customary in its current state of operations, such insurance is subject to coverage limits and exclusions and may not be available for the risks and hazards to which the Company is exposed.

Financial Risks

(p) No History of Profits

There is no assurance that the Company will earn profits in the future, or that profitability will be sustained. The success of the Company ultimately depends upon its ability to generate significant revenues to finance operations and its ability to secure additional funding. There is no assurance that future revenues will be sufficient to generate the funds required to continue operations without external funding. If the Company does not have sufficient capital to fund its operations, it may be required to forego certain business opportunities.

(q) Future Capital Requirements

The Company may require additional financing in order to grow and expand its operations. Additional financing could include the incurrence of debt and the issuance of additional equity securities, which could result in substantial dilution to existing shareholders. It is possible that required future financing will not be available, or if available, will not be available on favourable terms. If adequate funds are not available, or are not available on acceptable terms, the Company may not be able to take advantage of opportunities or otherwise respond to competitive pressures and remain in business. There can be no assurances that the Company will be able to raise additional capital if its capital resources are exhausted.

(r) Market Risks

The market price of the Company's shares may be subject to wide fluctuations in response to various factors. There can be no assurance that an active and liquid market for the Company's shares will develop or be maintained and an investor may find it difficult to resell any securities of the Company.

(s) Dividends

The Company has no dividend record to date, and does not anticipate paying any dividends on the common shares in the foreseeable future.

Cronos Group Inc. (formerly PharmaCan Capital Corp.)
Interim Condensed Financial Statements
For the six month periods ended June 30, 2017 and June 30, 2016
(Unaudited - Prepared by Management)

Cronos Group Inc. (formerly PharmaCan Capital Corp.)
Interim Condensed Financial Statements
For the six month periods ended June 30, 2017 and June 30, 2016
(Unaudited - Prepared by Management)

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Cronos Group Inc. (formerly PharmaCan Capital Corp.)
Interim Statements of Financial Position
As at June 30, 2017 and December 31, 2016
(Unaudited - Prepared by Management)

	Notes	As at June 30, 2017	As at December 31, 2016
Assets			
Current			
Cash		\$ 4,406,271	\$ 3,464,208
Accounts receivable		298,103	107,166
Prepays and other receivables		2,655,361	503,155
Biological assets	6	2,784,791	1,794,740
Inventory	6	2,713,241	1,908,486
Loans receivable	7	314,089	308,833
		<u>13,171,856</u>	<u>8,086,588</u>
Investment in Whistler Medical Marijuana Company	8	4,058,154	2,565,412
Other investments	9	5,646,754	5,127,258
Property, plant and equipment	10	19,222,709	14,122,288
Goodwill	5	1,792,000	1,792,000
Other intangible assets	5	11,207,050	11,207,050
		<u>\$ 55,098,523</u>	<u>\$ 42,900,596</u>
Liabilities			
Current			
Trade payables and other liabilities		\$ 1,384,092	\$ 1,175,600
Purchase price liability	4	1,291,496	2,590,367
Mortgage payable	11	—	4,000,000
		<u>2,675,588</u>	<u>7,765,967</u>
Deferred income tax liability	16	1,435,000	1,457,000
		<u>4,110,588</u>	<u>9,222,967</u>
Shareholders' Equity			
Share capital	12(a)	51,566,126	33,590,324
Warrants	12(b)	3,600,110	3,982,895
Contributed surplus	13(a)	1,119,452	735,489
Accumulated deficit		(6,885,127)	(6,215,569)
Accumulated other comprehensive income		1,587,374	1,584,490
		<u>50,987,935</u>	<u>33,677,629</u>
		<u>\$ 55,098,523</u>	<u>\$ 42,900,596</u>
Going concern	2(b)		
Contingencies	15		
Subsequent events	20		

The accompanying notes are an integral part of these interim condensed financial statements

Approved on behalf of the Board of Directors:

“Michael Gorenstein”
 Director

“Michael Krestell”
 Director

Cronos Group Inc. (formerly PharmaCan Capital Corp.)
Interim Statements of Operations and Comprehensive Income
For the six month periods ended June 30, 2017 and June 30, 2016
(Unaudited - Prepared by Management)

	Notes	Three months ended June 30,		Six months ended June 30,	
		2017	2016	2017	2016
Product sales		\$ 643,701	\$ —	\$ 1,157,457	\$ —
Cost of sales					
Inventory expensed to cost of sales		644,429	—	1,700,545	—
Production costs		175,121	64,053	410,356	98,459
Gain on revaluation of biological assets	6	(1,297,023)	(40,468)	(3,109,990)	(40,468)
		(477,473)	23,585	(999,089)	57,991
Gross margin, net of revaluation of biological assets		1,121,174	(23,585)	2,156,546	(57,991)
Investment income					
Share of income (loss) from investment in Whistler Medicinal Marijuana Company	8	313,390	11,818	416,862	(2,996)
Interest income from loans receivable	7	—	—	5,256	—
Gain (loss) on other investments	9	1,330,223	(1,325,984)	1,270,813	(1,325,984)
		1,643,613	(1,314,166)	1,692,931	(1,328,980)
Expenses					
Salary and benefits		825,622	254,116	1,297,430	318,868
Stock-based compensation	13(b)	439,332	5,928	631,369	5,928
General and administration		1,133,047	199,854	2,041,155	507,516
Interest expense (recovery)	11	(13,400)	37,001	142,147	84,247
Depreciation		228,307	63,849	428,934	127,099
		2,612,908	560,748	4,541,035	1,043,658
Income (loss) before income taxes		151,879	(1,898,499)	(691,558)	(2,430,629)
Income tax recovery	16	(23,000)	(56,000)	(22,000)	(98,000)
Net income (loss)		\$ 174,879	\$ (1,842,499)	\$ (669,558)	\$ (2,332,629)
Gain on revaluation of other investments	9	11,820	—	694,340	—
Total comprehensive income (loss)		\$ 186,699	\$ (1,842,499)	\$ 24,782	\$ (2,332,629)
Weighted average number of outstanding shares, basic		132,647,546	43,168,381	128,824,503	43,168,381
Weighted average number of outstanding shares, diluted		167,787,028	43,168,381	128,824,503	43,168,381
Basic and diluted loss per share		\$ 0.00	\$ (0.04)	\$ (0.01)	\$ (0.05)

The accompanying notes are an integral part of these interim condensed financial statements

Cronos Group Inc. (formerly PharmaCan Capital Corp.)
Interim Statements of Changes in Equity
For the six month periods ended June 30, 2017 and June 30, 2016
(Unaudited - Prepared by Management)

	Notes	Number of shares	Share capital	Warrants	Contributed surplus	Accumulated deficit	Accumulated other comprehensive income	Total
Balance at January 1, 2016		42,618,971	\$14,799,821	\$ 1,328,882	\$ 598,650	\$(5,025,498)	\$ —	\$11,701,855
Shares issued	12(b)(i)	32,432,425	3,146,204	2,832,029	—	—	—	5,978,233
Options issued	13(a)	—	—	—	5,928	—	—	5,928
Share issuance costs		—	(65,062)	—	—	—	—	(65,062)
Net loss		—	—	—	—	(2,332,629)	—	(2,332,629)
Balance at June 30, 2016		<u>75,051,396</u>	<u>\$17,880,963</u>	<u>\$ 4,160,911</u>	<u>\$ 604,578</u>	<u>\$(7,358,127)</u>	<u>\$ —</u>	<u>\$15,288,325</u>
	Notes	Number of shares	Share capital	Warrants	Contributed surplus	Accumulated deficit	Accumulated other comprehensive income	Total
Balance at January 1, 2017		121,725,748	\$33,590,324	\$ 3,982,895	\$ 735,489	\$(6,215,569)	\$ 1,584,490	\$33,677,629
Shares issued	12(a)	7,705,000	17,336,250	—	—	—	—	17,336,250
Options vested	13(a)	—	—	—	631,369	—	—	631,369
Options exercised	13(a)	394,163	689,042	—	(247,406)	—	—	441,636
Warrants exercised	12(b)	3,317,416	1,272,152	(382,785)	—	—	—	889,367
Share issuance costs		—	(1,321,642)	—	—	—	—	(1,321,642)
Recycling of unrealized gains to net income	9(ii, iii)	—	—	—	—	—	(691,456)	(691,456)
Net loss		—	—	—	—	(669,558)	—	(669,558)
Other comprehensive income		—	—	—	—	—	694,340	694,340
Balance at June 30, 2017		<u>133,142,327</u>	<u>\$51,566,126</u>	<u>\$ 3,600,110</u>	<u>\$ 1,119,452</u>	<u>\$(6,885,127)</u>	<u>\$ 1,587,374</u>	<u>\$50,987,935</u>

The accompanying notes are an integral part of these interim condensed financial statements

Cronos Group Inc. (formerly PharmaCan Capital Corp.)
Interim Statements of Cash Flows
For the six month periods ended June 30, 2017 and June 30, 2016
(Unaudited - Prepared by Management)

Notes	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Operating activities				
Net income (loss)	\$ 174,879	\$ (1,842,499)	\$ (669,558)	\$ (2,332,629)
Items not affecting cash:				
Share of loss (income) from investment in Whistler Medical Marijuana Company	8	(313,390)	(11,818)	(416,862)
Depreciation		228,307	63,849	428,934
Deferred income tax recovery	16	(23,000)	(56,000)	(22,000)
Gain (loss) on other investments	9	(1,330,223)	1,325,984	(1,270,813)
Stock-based compensation	13(b)	439,332	5,928	631,369
		(824,095)	(514,556)	(1,318,930)
Net changes in non-cash working capital:				
Decrease (increase) in prepaids and other receivables		(2,087,393)	5,035	(2,152,206)
Increase in inventory		(453,695)	—	(804,755)
Increase in biological assets		(42,539)	(45,968)	(990,051)
Increase in accrued interest receivable		—	—	(5,256)
Increase in accounts receivable		(54,982)	—	(190,937)
Decrease (increase) in trade payable and other liabilities		135,533	(543,371)	208,492
Cash flows used in operating activities		(3,327,171)	(1,098,860)	(5,253,643)
Investing activities				
Purchase of property, plant and equipment	10	(3,493,762)	(9,996)	(5,529,355)
Repayment of purchase price liability	4	—	—	(1,298,871)
Proceeds from sale of other investments	9(ii, iii)	1,682,548	—	1,770,201
Investment in Whistler Medical Marijuana Company	8	(1,075,880)	—	(1,075,880)
Investment in AbCann Global Corporation	9(iii)	(1,016,000)	—	(1,016,000)
Dividends received from Whistler Medical Marijuana Company		—	2,154	—
Cash flows used in investing activities		(3,903,094)	(7,842)	(7,149,905)
Financing activities				
Repayment of mortgage payable	11	(4,000,000)	(500,000)	(4,000,000)
Repayment of deposit payable		—	(200,000)	—
Repayment of promissory note payable		—	(950,000)	—
Proceeds from exercise of warrants	12(b)	245,362	—	889,367
Proceeds from exercise of options	13(a)	184,661	—	441,636
Proceeds from share issuance	12(a)	—	5,978,233	17,336,250
Share issuance costs		—	(65,062)	(1,321,642)
Cash flows provided by financing activities		(3,569,977)	4,263,171	13,345,611
Net change in cash		(10,800,242)	3,156,469	942,063
Cash - beginning of year		15,206,513	318,062	3,464,208
Cash - end of year		\$ 4,406,271	\$ 3,474,531	\$ 4,406,271
Supplemental cash flow information				
Interest received		\$ —	\$ —	\$ —
Interest paid		\$ 80,000	\$ 134,401	\$ 200,000

The accompanying notes are an integral part of these interim condensed financial statements

Cronos Group Inc. (formerly PharmaCan Capital Corp.)
Notes to Interim Condensed Financial Statements
For the six month periods ended June 30, 2017 and June 30, 2016
(Unaudited - Prepared by Management)

1. Nature of business

Cronos Group Inc., formerly PharmaCan Capital Corp. (“Cronos” or the “Company”), was incorporated as 2339498 Ontario Inc. under the Business Corporations Act (Ontario) on August 21, 2012, changed its name on October 18, 2012 to Searchtech Ventures Inc. (“Searchtech”) and was classified as a Capital Pool Company as defined pursuant to Policy 2.4 of the TSX Venture Exchange (“TSX-V”). Cronos is a publicly traded corporation, with its head office located at 76 Stafford Street, Suite 302, Toronto, Ontario, M6J 2S1. The Company’s common shares are listed on TSX-V under the trading symbol “MJN”.

On December 10, 2014, the Company closed its Qualifying Transaction (the “Transaction”) with Hortican Inc. (“Hortican”), a company whose business model is to invest in medical marijuana companies in Canada, pursuant to which the shareholders of Hortican completed a reverse takeover of the Company. Immediately prior to the completion of the Transaction, the Company changed its name to PharmaCan Capital Corp. and consolidated its shares on a one for seven (1:7) basis. Following these changes, Hortican amalgamated with 8996741 Canada Inc., a wholly owned subsidiary of the Company formed solely for the purpose of facilitating the Transaction. Pursuant to the amalgamation, the Company indirectly acquired all of the issued and outstanding shares of Hortican and issued post-consolidation shares of the Company on the basis of approximately 2.1339 post-consolidation shares for each one of Hortican’s shares. Hortican warrants, stock options, and convertible debentures are also exchangeable at the same conversion ratio, and the exercise price for such securities is divided by the conversion ratio.

Effective upon the closing of the Transaction, the financial year end of the Company was changed from March 31 of each year to December 31 of each year to align the financial years of the Company to that of Hortican.

For the purposes of accounting for the Transaction, Hortican is considered the acquirer and the Company, the acquiree. Accordingly, the consolidated financial statements are in the name of Cronos Group Inc. (formerly PharmaCan Capital Corp.), however they are a continuation of the financial statements of Hortican, which was incorporated under the Business Corporations Act (Ontario) on January 17, 2013. The Company began rebranding itself as Cronos Group Inc. on October 6, 2016. The Company finalized its name change to Cronos Group Inc. on February 27, 2017.

In the Zone Produce Ltd. (“In the Zone”) was incorporated under the Business Corporations Act (British Columbia) on March 15, 2013. In the Zone is a licensed producer and seller of medical cannabis pursuant to the provisions of the Access to Cannabis for Medical Purposes Regulation and the Controlled Drugs and Substances Act and its Regulations. Health Canada issued the license to produce to In the Zone on February 26, 2014, and the license to sell on February 28, 2017. In the Zone was acquired by Hortican on November 5, 2014.

Peace Natural Projects Inc. (“Peace”) was incorporated under the Business Corporations Act on November 21, 2012. Peace is a licensed producer and seller of medical cannabis pursuant to the provisions of the Access to Cannabis for Medical Purposes Regulation and the Controlled Drugs and Substances Act and its Regulations. Health Canada issued the license to Peace on October 31, 2013, which was successfully renewed on November 1, 2016. Peace was acquired by Hortican on September 6, 2016. Additional information on the transaction is disclosed in Note 4.

Cronos Group Inc. (formerly PharmaCan Capital Corp.)
Notes to Interim Condensed Financial Statements
For the six month periods ended June 30, 2017 and June 30, 2016
(Unaudited - Prepared by Management)

2. Basis of presentation

The interim condensed statements for the six month periods ended June 30, 2017 and June 30, 2016 have been prepared in accordance with International Accounting Standard (“IAS”) 34, “Interim Financial Reporting.” The same accounting policies and methods of computation as those used in the preparation of the fiscal 2016 Annual Report were followed in the preparation of these interim condensed financial statements.

The interim condensed financial statements do not conform in all respects to the requirements of International Financial Reporting Standards as issued by the International Accounting Standards Board for annual financial statements. Accordingly, these interim condensed financial statements should be read in conjunction with the December 31, 2016 audited consolidated financial statements and notes.

(a) Basis of consolidation

These interim condensed financial statements include the accounts of Cronos Group Inc. (formerly Pharmacan Capital Corp.), and its wholly owned subsidiaries, Hortican Inc., In the Zone Produce Ltd., and Peace Naturals Project Inc. All intercompany transactions, balances, revenues and expenses have been eliminated. The Company applies the acquisition method to account for business combinations in accordance with IFRS 3. Acquisition related costs are expensed as incurred.

(b) Going concern

These interim condensed financial statements have been prepared with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. The Company’s ability to continue in the normal course of operations is dependent on its ability to raise debt and equity financing, generate funds through the sale of its investments at amounts favourable to the Company, and on the ability of its subsidiaries to successfully renew their licenses to produce and sell medical cannabis. There are no assurances that the Company will be successful in achieving these goals. These circumstances cast significant doubt on the Company’s ability to continue as going concern and ultimately on the appropriateness of the use of the accounting principles applicable to a going concern. These interim condensed financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations.

(c) Statement of compliance

These interim condensed financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

These interim condensed financial statements were approved by the Board of Directors on August 28, 2017.

(d) Basis of measurement

Apart from certain assets and liabilities measured at fair value as required under certain IFRSs, the interim condensed financial statements have been presented and prepared on the basis of historical cost.

(e) Functional and presentation currency

These interim condensed financial statements are presented in Canadian dollars, which is the functional currency of the Company and all subsidiaries.

Cronos Group Inc. (formerly PharmaCan Capital Corp.)
Notes to Interim Condensed Financial Statements
For the six month periods ended June 30, 2017 and June 30, 2016
(Unaudited - Prepared by Management)

2. Basis of presentation (continued)

(f) Estimates and critical judgments by management

The preparation of these interim condensed financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the current period. These estimates are reviewed periodically and adjustments are made to income as appropriate in the year they become known. Items for which actual results may differ materially from these estimates are described in the following section.

(i) Warrants and options

Warrants and options are initially recognized at fair value, based on the application of the Black-Scholes option pricing model. This pricing model requires management to make various assumptions and estimates which are susceptible to uncertainty, including the volatility of the share price, expected dividend yield and expected risk-free interest rate.

(ii) Useful lives of property, plant and equipment

Depreciation of property, plant and equipment is dependent upon estimates of useful lives, which are determined through the exercise of judgement. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of the assets.

(iii) Impairment of cash-generating units and goodwill

The impairment test for cash generating units ("CGUs") to which goodwill is allocated is based on the value in use of the CGU, determined in accordance with the expected cash flow approach. The calculation is based primarily on assumptions used to estimate future cash flows, the cash flow growth rate and the discount rate used.

(iv) Impairment of long-lived assets

Long-lived assets, including property, plant and equipment and intangible assets are reviewed for impairment at each statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or group of assets (CGU). The recoverable amount of an asset or a CGU is the higher of its fair value, less costs to sell, and its value in use. If the carrying amount of an asset exceeds its recoverable amount, an impairment charge is recognized immediately in profit or loss by the amount by which the carrying amount of the asset exceeds the recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount, and the carrying amount that would have been recorded had no impairment loss been recognized

Cronos Group Inc. (formerly PharmaCan Capital Corp.)
Notes to Interim Condensed Financial Statements
For the six month periods ended June 30, 2017 and June 30, 2016
(Unaudited - Prepared by Management)

2. Basis of presentation (continued)

(f) Estimates and critical judgments by management (continued)

(v) Fair value of financial assets available-for-sale

Financial assets available for sale consist of privately and publicly held investments. Determination of the fair values of privately held investments requires the Company to make various assumptions about the future prospects of the investees, the economic, legal, and political environment in which the investees operate, and the ability of the investees to obtain financing to support their operations. As a result, any value estimated may not be realized or realizable, and the values may differ from values that would be realized if a ready market existed.

The determination of fair value of the Company's privately held investments is subject to inherent limitations. Financial information for private companies may not be available, or may be unreliable. Use of the valuation approach described below involves uncertainties and management judgments, and any value estimated from these techniques may not be realized or realizable.

The Company's management considers specific information about the investee companies, trends in general market conditions, and the share performance of similar publicly traded companies when valuing the Company's privately held investments.

The absence of the occurrence of any of the following events, any significant change in trends in general market conditions, or any significant change in share performance of comparable publicly traded companies generally indicates that the fair value of the privately held investments has not materially changed.

Management considers the following factors to indicate a change in the fair value, or impairment of, a privately held investment, and may adjust the value if:

- a. there have been significant corporate, political, legal, or operating events affecting the investee company such that, management believes they will have a material impact on the investee company's prospects and therefore its fair value. In these circumstances, the adjustment to fair value of the investment will be based on management's judgment;
- b. the investee company is placed into receivership or bankruptcy;
- c. based on financial information received from the investee company, it is evident that the investee company is unlikely to be able to continue as a going concern;
- d. receipt or denial by the investee company of medical marijuana licenses from Health Canada, which allow the investee company to initiate or continue operations; and
- e. management changes by the investee company that the Company's management believes will have an impact on the investee company's ability to achieve its objectives and build value for shareholders.

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2. Basis of presentation (continued)

(vi) Income taxes

Income taxes and tax exposures recognized in the interim condensed financial statements reflect management's best estimate of the outcome based on facts known at the reporting date. When the Company anticipates a future income tax payment based on its estimates, it recognizes a liability. The difference between the expected amount and the final tax outcome has an impact on current and deferred taxes when the Company becomes aware of this difference.

In addition, when the Company incurs losses that cannot be associated with current or past profits, it assesses the probability of taxable profits being available in the future based on its budgeted forecasts. These forecasts are adjusted to take account of certain non-taxable income and expenses and specific rules on the use of unused credits and tax losses. When the forecasts indicate that sufficient future taxable income will be available to deduct the temporary differences, a deferred tax asset is recognized for all deductible temporary differences.

(vii) Biological assets and inventory

Biological assets, consisting of cannabis plants, are measured at fair value less costs to sell. At the point of harvest, the biological assets are transferred to inventory at fair value less costs to sell, as a result, critical estimates related to the valuation of biological assets are also applicable to inventory.

Determining the fair value less costs to sell requires the Company to make assumptions about the expected future yield from the cannabis plants, the value associated with each stage of the plants' growth cycle, estimated selling price, costs to convert harvested cannabis to finished goods, and costs to sell. The Company's estimates, are, by their nature, subject to change. Gains or losses arising from changes in these estimates will be reflected in the fair value less costs to sell, and included in the results of operations for the year.

3. New and revised standards and interpretations issued but not yet effective

(a) AMENDMENTS TO IFRS 2 SHARE-BASED PAYMENTS

IFRS 2 clarifies how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, share-based payment transactions with a net settlement feature for withholding tax obligations, and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The effective date of these amendments is January 1, 2018. The Company will adopt the amendments as of its effective date. The Company is currently analyzing the possible impact of these amendments on its interim condensed financial statements.

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3. New and revised standards and interpretations issued but not yet effective (continued)

(b) IFRS 9 FINANCIAL INSTRUMENTS

IFRS 9 addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit and loss. IFRS 9 also replaces the models for measuring equity instruments and such instruments are either recognized at fair value through profit and loss or at fair value through other comprehensive income. The effective date of this standard is January 1, 2018. The Company will adopt this new standard as of its effective date. The Company is currently analyzing the possible impact of this Standard on its interim condensed financial statements.

(c) IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

IFRS 15 was issued by IASB in May 2014 and specifies how and when revenue should be recognized based on a five-step model, which is applied to all contracts with customers. IFRS 15 becomes effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Company will adopt this new standard as of its effective date. The Company is currently analyzing the possible impact of this Standard on its interim condensed financial statements.

(d) IFRS 16 LEASES

IFRS 16 was issued in January 2016 and replaces the previous guidance on leases. This standard provides a single recognition and measurement model to be applied to leases, with required recognition of assets and liabilities for most leases. This standard is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted if the Company is also applying IFRS 15, Revenue from Contracts with Customers. The Company will adopt this new standard as of its effective date. The Company is currently evaluating the impact of the adoption of this new standard on its interim condensed financial statements.

4. Acquisition of Peace Naturals Project

On September 6, 2016, the Company acquired all of the remaining issued and outstanding shares of Peace Naturals Project Inc. ("Peace"), a company headquartered in Stayner, Ontario. Consideration for the acquisition included \$6,247,543 in cash and \$2,590,367 (approximately 30%) to be paid once all conditions of the agreement are settled. The conditions were based on the passage of time to ensure there were no additional liabilities identified. As of the acquisition date, the Company owns 100% of the outstanding shares of Peace. As the Company previously held shares of Peace, the acquisition is considered a step acquisition and resulted in a loss due to fair value remeasurement.

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4. Acquisition of Peace Naturals Project (continued)

The preliminary purchase price allocation for this acquisition is shown below:

Fair value of consideration transferred:	
Cash	\$ 6,247,543
Liability	2,590,367
	<u>8,837,910</u>

Fair value of previously held interest:	
Fair value of previously held interest immediately before acquisition	3,314,960
Loss due to fair value remeasurement at acquisition date	(346,970)
	<u>2,967,990</u>
	<u>\$ 11,805,900</u>
Fair value of net assets acquired:	
Cash	\$ 109,443
Accounts receivable	50,647
Prepaid and deposits	29,000
Inventory	1,194,417
Biological assets	865,542
Property and equipment	10,281,935
Goodwill	1,400,000
Other intangible assets (i)	9,595,824
Accounts payable and accrued liabilities	(2,860,072)
Loans payable	(7,460,836)
Deferred tax liability	(1,400,000)
	<u>\$ 11,805,900</u>

Due to the complexities in identifying certain intangible assets, such as licenses and intellectual property, and assigning fair values thereto, the Company has yet to finalize its assessment of the purchase price allocation. The allocation of the consideration paid will be adjusted once a valuation of certain intangible assets has been finalized. Management expects to complete the assessment by the end of Q3 2017.

(i) Other intangible assets are expected to include a Health Canada license.

During the six months ended June 30, 2017, approximately 50% of the liability has been repaid by the Company, resulting in the remaining balance of \$1,291,496.

5. Intangible assets

Goodwill	Balance at January 1, 2017	Additions	As at June 30, 2017
In the Zone	\$ 392,000	\$ —	\$ 392,000
Peace (Note 4)	1,400,000	—	1,400,000
	<u>\$ 1,792,000</u>	<u>\$ —</u>	<u>\$ 1,792,000</u>

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5. Intangible assets (continued)

Other intangible assets	Balance at January 1, 2017	Additions	As at June 30, 2017
In the Zone Health Canada License	\$ 1,611,226	\$ —	\$ 1,611,226
Peace (Note 4)	9,595,824	—	9,595,824
	<u>\$ 11,207,050</u>	<u>\$ —</u>	<u>\$ 11,207,050</u>

6. Biological assets and inventory

The Company's biological assets consist of medical cannabis plants. The changes in the carrying amount of the biological assets are as follows:

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Carrying amount - beginning of period	\$ 2,742,252	\$ —	\$ 1,794,740	\$ —
Purchase of biological assets	—	5,500	—	5,500
Changes in fair value of biological assets	1,297,023	40,468	3,109,990	40,468
Transferred to inventory upon harvest	(1,254,484)	—	(2,119,939)	—
Carrying amount - end of period	<u>\$ 2,784,791</u>	<u>\$ 45,968</u>	<u>\$ 2,784,791</u>	<u>\$ 45,968</u>

The Company estimates the harvest yields for the plants varies at different stages of growth. As of June 30, 2017, it is expected that the Company's biological assets will yield approximately 402 kg of medical cannabis (December 31, 2016 - 213 kg). As at June 30, 2017, the Company held 498 kg of finished goods (December 31, 2016 - 236 kg) and 0.298 kg of seeds in raw material (December 31, 2016 - 0.298 kg), and has 5,221 plants that are biological assets (December 31, 2016 - 2,558 plants).

The valuation of the medical cannabis plants was completed using the Company's internal model. Significant assumptions used in determining the fair value of medical cannabis plants include: (a) stage of plant growth, (b) wastage of plants in their various stages, (c) sale price less cost to sell, and (d) harvest yield. Management believes that differences arising from the sensitivity of the inputs are not material.

Inventory consists of the following:

	As at June 30, 2017	As at December 31, 2016
Finished goods	\$ 3,180,637	\$ 1,502,064
Raw materials	193,880	193,880
Supplies and consumables	189,803	212,542
Less: allowance to net realizable value	(851,079)	—
	<u>\$ 2,713,241</u>	<u>\$ 1,908,486</u>

The allowance to net realizable value is included in inventory expensed to cost of sales in the statement of operations.

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7. Loans receivable

	As at June 30, 2017	As at December 31, 2016
(a) Loan receivable from Evergreen Medicinal Supply Inc. ("Evergreen")	\$ 264,750	\$ 264,750
(b) Loan receivable from Vert/Green Medical Inc. ("Vert")	—	375,000
	264,750	639,750
Add: Accrued interest	49,339	92,017
	314,089	731,767
(b) Less: Principal and interest received	—	(422,934)
Loans receivable	<u>\$ 314,089</u>	<u>\$ 308,833</u>

- (a) During the year ended December 31, 2016, the Company revised the estimates of the recoverability of the loan due to updated and favourable operational conditions, and wrote up the loan to the initial amount of \$264,750 plus accrued interest of approximately \$37,500. The loan is due on demand, bearing interest at 8% per year, calculated and payable annually in arrears.
- (b) During the year ended December 31, 2016, the full amount of the loan plus accrued interest was repaid and the entire amount was recovered. The loan was due on demand, and bore interest at 8% per year, calculated and payable semi-annually in arrears.

8. Investment in Whistler Medical Marijuana Company

As at June 30, 2017, the investment represents approximately 21.5% (December 31, 2016 - 21.5%) ownership in Whistler Medical Marijuana Company, incorporated in Canada. Whistler Medical Marijuana Company is a licensed producer and seller of medical marijuana with operations in British Columbia, Canada. The investment is accounted for using the equity method.

Reconciliation of the carrying amount of the investment is as follows:

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Balance - beginning of period	\$ 2,668,884	\$ 2,389,801	\$ 2,565,412	\$ 2,404,615
Purchase of additional shares	1,075,880	—	1,075,880	—
Company's share of dividends paid	—	(2,154)	—	(2,154)
Company's share of income (loss)	313,390	11,818	416,862	(2,996)
Balance - end of period	<u>\$ 4,058,154</u>	<u>\$ 2,399,465</u>	<u>\$ 4,058,154</u>	<u>\$ 2,399,465</u>

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9. Other investments

Other investments consist of investments in common shares of several companies in the medicinal marijuana industry. These shares, with the exception of Evergreen Medicinal Supply Inc., are traded in an active market, and as a result have a reliably measurable fair value.

	As at June 30, 2017	As at December 31, 2016
Available-for-sale investments		
The Hydrothecary Corporation (i)	\$ 726,003	\$ 412,502
Canopy Growth Corporation (ii)	235,099	337,010
AbCann Global Corp. (iii)	3,184,548	3,073,172
Evergreen Medicinal Supply Inc. (iv)	300,000	300,000
	<u>\$ 4,445,650</u>	<u>\$ 4,122,684</u>
Fair value through profit and loss investment		
AbCann Global Corp. - share warrants (v)	\$ 1,201,104	\$ 1,004,574
	<u>\$ 5,646,754</u>	<u>\$ 5,127,258</u>

- (i) During the six month period ended June 30, 2017, BFK Capital Corp. acquired all of the outstanding shares of Hydrothecary Corporation, and began trading as Hydrothecary Corporation, (TSX-V:THCX). As a result of this transaction, Hydrothecary Corporation executed a 6:1 stock split. The fair value of the investment held by the Company was revalued at the fair market value as of June 30, 2017, with the gain recognized as other comprehensive income.
- (ii) During the six months ended June 30, 2017, the Company sold some of its shares of Canopy for proceeds of \$87,653. The cumulative gain previously recognized as other comprehensive income on these shares was reclassified to income during the period. The remaining shares were revalued at June 30, 2017 based on the fair market value, with the gain recognized as other comprehensive income.
- (iii) During the six months ended June 30, 2017, AbCann Medicinals Inc. ("AbCann") performed a reverse takeover with Panda Capital Inc. As a result of this transaction, AbCann began trading as AbCann Global Corporation (TSX-V:ABCN). Furthermore, the Company subscribed for additional shares of AbCann of \$1,016,000 during the period.

During the six months ended June 30, 2017, the Company sold some of its shares of AbCann for proceeds of \$1,682,548. The cumulative gain previously recognized as other comprehensive income on these shares was reclassified to income during the period. The remaining shares were revalued at June 30, 2017 based on the fair market value, with the gain recognized as other comprehensive income.

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9. Other investments (continued)

- (iv) On March 16, 2017, Evergreen received a cultivation license under the Access to Cannabis for Medical Purposes Regulations (the "ACMPR"). As a result, the Company completed its subscription for a second tranche of shares of Evergreen for \$100,000 and exercised its option to acquire an additional 5% of the equity of Evergreen for \$500,000, for a total additional investment of \$600,000. However, Evergreen, through its counsel, has indicated that the Company is not entitled to any interest in Evergreen and has rejected the payment. The Company filed a statement of claim in the Supreme Court of British Columbia and Evergreen has filed a statement of defence. The Company intends to vigorously pursue the enforcement of its rights to acquire equity in Evergreen.
- (v) As at June 30, 2017, the fair value of the warrants was estimated using the Black-Scholes option pricing model with the following assumptions: risk free rate: 0.71 - 1.10% (December 31, 2016 - 0.60 - 0.73%); volatility: 65% (December 31, 2016 - 65%); expected life: 0.18 - 1.27 (December 31, 2016 - 0.7 - 1.7 years); and dividend yield: Nil% (December 31, 2016 - Nil%).

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Canopy Growth Corporation (ii)	\$ —	\$ —	\$ 36,059	\$ —
AbCann Global Corp. - shares (iii)	1,038,224	—	1,038,224	—
AbCann Global Corp.- share warrants (v)	291,999	—	196,530	—
Peace Naturals Project Inc.	—	(1,325,984)	—	(1,325,984)
Gain (loss) recognized through profit-and-loss	\$ 1,330,223	\$ (1,325,984)	\$ 1,270,813	\$ (1,325,984)

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
The Hydrotheary Corporation (i)	\$ (324,501)	\$ —	\$ 313,501	\$ —
Canopy Growth Corporation (ii)	(79,055)	—	(34,537)	—
AbCann Global Corp. - shares (iii)	415,376	—	415,376	—
Gain recognized through other comprehensive income	\$ 11,820	\$ —	\$ 694,340	\$ —

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10. Property, plant and equipment

Cost	Balance at January 1, 2017	Additions	As at June 30, 2017
Land	\$ 1,558,177	\$ —	\$ 1,558,177
Building structures	2,761,262	1,296,204	4,057,466
Vehicle	31,430	58,528	89,958
Furniture and equipment	31,706	6,125	37,831
Computer equipment	47,434	—	47,434
Software	40,587	14,486	55,073
Fencing	3,249	—	3,249
Security equipment	471,376	189,071	660,447
Production equipment	2,105,261	812,526	2,917,787
Road	137,376	—	137,376
Leasehold improvements	1,428,965	—	1,428,965
Construction in progress	6,034,162	3,152,415	9,186,577
	\$ 14,650,985	\$ 5,529,355	\$ 20,180,340

Accumulated depreciation	Balance at January 1, 2017	Additions	As at June 30, 2017
Building structures	\$ 120,141	\$ 85,343	\$ 205,484
Vehicle	3,929	8,515	12,444
Furniture and equipment	13,718	3,477	17,195
Computer equipment	25,712	7,906	33,618
Software	10,147	9,421	19,568
Fencing	975	162	1,137
Security equipment	58,595	57,032	115,627
Production equipment	103,434	179,394	282,828
Road	5,677	2,748	8,425
Leasehold improvements	186,369	74,936	261,305
	\$ 528,697	\$ 428,934	\$ 957,631
Net book value	\$ 14,122,288		\$ 19,222,709

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10. Property, plant and equipment (continued)

Cost	Balance at January 1, 2016	Additions	As at June 30, 2016
Land	\$ 210,000	\$ —	\$ 210,000
Building structures	824,127	—	824,127
Road	137,376	—	137,376
Furniture and equipment	26,658	—	26,658
Computer equipment	28,859	—	28,859
Fencing	3,249	—	3,249
Security equipment	179,898	1,921	181,819
Production equipment	72,656	8,049	80,705
Leasehold improvements	1,363,014	59,643	1,422,657
	<u>\$ 2,845,837</u>	<u>\$ 69,613</u>	<u>\$ 2,915,450</u>
Accumulated depreciation	Balance at January 1, 2016	Additions	As at June 30, 2016
Building structures	\$ 62,569	\$ 20,712	\$ 83,281
Road	181	2,748	2,929
Furniture and equipment	7,998	2,666	10,664
Computer equipment	12,111	4,810	16,921
Fencing	650	162	812
Security equipment	7,915	18,134	26,049
Production equipment	14,455	5,333	19,788
Leasehold improvements	40,072	72,534	112,606
	<u>\$ 145,951</u>	<u>\$ 127,099</u>	<u>\$ 273,050</u>
Net book value	<u>\$ 2,699,886</u>		<u>\$ 2,642,400</u>

11. Mortgage payable

On September 6, 2016, the Company obtained a mortgage in connection with the acquisition of Peace (Note 4) with a principal balance of \$4,000,000. The mortgage was interest-bearing at 12% per annum compounded and payable monthly. The mortgage was secured by a first charge on Peace's property as well as a first ranking security interest charging all the personal property of Peace and each covenantor in the amount of the loan. The mortgage matured on June 1, 2017 and was fully repaid.

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12. Share capital and reserves

(a) Share capital

(i) Common Shares

The Company is authorized to issue an unlimited number of common shares.

The holders of the common shares are entitled to receive dividends which may be declared from time to time, and are entitled to one vote per share at meetings of the Company. All shares are ranked equally with regards to the Company's residual assets.

During the six months ended June 30, 2017, the Company closed its previously announced bought deal offering pursuant to the filing of a short form prospectus, including the full exercise of the over-allotment option. A total of 7,705,000 common shares of the Company were sold at a price of \$2.25 per share for aggregate gross proceeds of \$17,336,250.

As at June 30, 2017, 1,928,984 of the Company's shares are held in escrow (December 31, 2016 - 3,233,992). The release of these shares is subject to regulatory approval.

(ii) Special Shares

The Company is authorized to issue an unlimited number of special shares, issuable in series.

The special shares may be issued in one or more series and the directors are authorized to fix the number of shares in each series and to determine the designation, right, privileges, restrictions and conditions attached to the shares in each series. No special shares have been issued since the Company's inception.

(b) Warrants

The following is a summary of changes in warrants for the period from January 1, 2016 to June 30, 2016:

	Number of Warrants	Amount
Balance at January 1, 2016	15,795,422	\$ 1,328,882
Issuance of warrants - May 2016 (i)	32,432,425	2,832,029
Balance at June 30, 2016	<u>48,227,847</u>	<u>\$ 4,160,911</u>

- (i) 32,432,425 units were issued in two private placements. Each unit consisted of one common share and one common share purchase warrant, for total consideration of \$5,978,233. Each warrant has an exercise price of \$0.245.

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12. Share capital and reserves (continued)

(b) Warrants (continued)

The following is a summary of changes in warrants for the period from January 1, 2017 to June 30, 2017:

	Number of Warrants	Amount
Balance at January 1, 2017	45,885,172	\$ 3,982,895
Exercise of warrants - January 2017 (i)	(375,565)	(163,679)
Exercise of warrants - January 2017 (ii)	(298,066)	—
Exercise of warrants - March 2017 (iii)	(1,140,351)	(116,316)
Exercise of warrants - April 2017 (iv)	(350,877)	(66,316)
Exercise of warrants - April 2017 (v)	(744,198)	—
Exercise of warrants - May 2017 (vi)	(165,377)	—
Exercise of warrants - May 2017 (vii)	(192,982)	(36,474)
Exercise of warrants - June 2017 (viii)	(50,000)	—
Expiry of warrants	(19,210)	—
Balance at June 30, 2017	42,548,546	\$ 3,600,110

- (i) 375,565 warrants were exercised in exchange for \$266,651 in cash. These warrants were granted on January 30, 2014, and had an exercise price of \$0.71.
- (ii) 298,066 warrants were exercised in exchange for \$23,845 in cash. These warrants were granted on January 18, 2013, and had an exercise price of \$0.08.
- (iii) 1,140,351 warrants were exercised in exchange for \$353,509 in cash. These warrants were granted on October 8, 2015, and had an exercise price of \$0.31.
- (iv) 350,877 warrants were exercised in exchange for \$108,772 in cash. These warrants were granted on October 28, 2015, and had an exercise price of \$0.31.
- (v) 744,198 warrants were exercised in exchange for \$59,536 in cash. These warrants were granted on January 18, 2013, and had an exercise price of \$0.08.
- (vi) 165,377 warrants were exercised in exchange for \$13,230 in cash. These warrants were granted on January 18, 2013, and had an exercise price of \$0.08.
- (vii) 192,982 warrants were exercised in exchange for \$59,824 in cash. These warrants were granted on October 28, 2015, and had an exercise price of \$0.31.
- (viii) 50,000 warrants were exercised in exchange for \$4,000 in cash. These warrants were granted January 18, 2013 and had an exercise price of \$0.08.

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12. Share capital and reserves (continued)

(b) Warrants (continued)

As at June 30, 2017, the Company has outstanding warrants as follows:

Grant date	Number of warrants	Exercise price	Expiry
January 18, 2013	4,368,754	\$ 0.08	18-Jan-18
October 8, 2015	4,101,680	0.31	8-Oct-20
October 23, 2015	1,478,245	0.31	23-Oct-20
October 28, 2015	167,442	0.31	28-Oct-20
May 13, 2016	10,810,812	0.245	13-May-21
May 27, 2016	21,621,613	0.245	27-May-21
	42,548,546	\$ 0.24	

13. Share-based payments

(a) Option Plan Details

The Company has an incentive Stock Option Plan ("the Plan") under which non-transferrable options to purchase common shares of the Company may be granted to directors, officers, or service providers of the Company. The terms of the Plan provide that Directors have the right to grant options to acquire common shares of the Company at not less than the selling price of the shares on the day preceding the grant at varying terms. The maximum number of common shares reserved for issuance for options that may be granted under the Plan is 10% of the common shares outstanding. No amounts are paid or payable by the recipient on receipt of the option, and the options granted are not dependent on any performance-based criteria.

The following is a summary of changes in options for the periods from January 1, 2016 to June 30, 2016 and from January 1, 2017 to June 30, 2017:

	Number of Options	Amount
Balance at January 1, 2016	1,610,003	\$ 598,650
Issuance of options (i)	157,850	5,928
Balance at June 30, 2016	<u>1,610,003</u>	<u>\$ 604,578</u>
Balance at January 1, 2017	6,177,594	\$ 735,489
Exercise of options - January 2017 (ii)	(32,009)	(13,956)
Exercise of options - February 2017 (iii)	(32,000)	(22,752)
Exercise of options - March 2017 (iv)	(171,695)	(104,330)
Exercise of options - April 2017 (v)	(93,000)	(66,114)
Exercise of options - April 2017 (vi)	(30,416)	(15,342)
Exercise of options - May 2017 (vii)	(35,043)	(24,912)
Issuance of options (viii)	3,299,000	—
Vesting of issued options	—	631,369
Balance at June 30, 2017	<u>9,082,431</u>	<u>\$ 1,119,452</u>

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13. Share-based payments (continued)

(a) Option Plan Details (continued)

- (i) During the six months ended June 30, 2016, 157,850 options were issued to a former consultant and a former director of the Company. These options had an exercise price of \$0.285.
- (ii) During the six months ended June 30, 2017, 32,009 options were exercised in exchange for \$22,726 in cash. These options were granted on January 30, 2014, and had an exercise price of \$0.71.
- (iii) During the six months ended June 30, 2017, 32,000 options were exercised in exchange for \$36,800 in cash. These options were granted on August 5, 2014, and had an exercise price of \$1.15.
- (iv) During the six months ended June 30, 2017, 171,695 options were exercised in exchange for \$197,449 in cash. These options were granted on September 19, and December 17, 2014, and had an exercise price of \$1.15.
- (v) During the six months ended June 30, 2017, 93,000 options were exercised in exchange for \$106,950 in cash. These options were granted on August 5, 2014, and had an exercise price of \$1.15.
- (vi) During the six months ended June 30, 2017, 30,416 options were exercised in exchange for \$37,412 in cash. These options were granted on October 6, 2016, and had an exercise price of \$1.23.
- (vii) During the six months ended June 30, 2017, 35,043 options were exercised in exchange for \$40,299 in cash. These options were granted on August 5, 2014, and had an exercise price of \$1.15.
- (viii) During the six months ended June 30, 2017, 2,600,000 options were issued to a member of key management and a director of the Company. An additional 699,000 options were issued to employees and consultants of the Company. The total of 3,299,000 options had an exercise price of \$3.14.

The weighted average share price at the dates of exercise of options during the six months ended June 30, 2017 was \$2.61 (six months ended June 30, 2016 - \$Nil).

As at June 30, 2017, the Company had outstanding and exercisable options as follows:

Grant date	Number of options	Weighted average exercise price	Weighted average remaining contractual life (years)
August 5, 2014 (i)	53,347	\$ 1.15	0.10
December 17, 2014 (i)	435,000	1.15	0.47
August 5, 2016 (ii)	1,225,000	0.50	4.10
October 6, 2016 (ii)	3,588,084	1.23	4.27
November 16, 2016 (iii)	300,000	1.50	0.87
November 21, 2016 (ii)	182,000	1.84	4.38
April 12, 2017 (ii)	3,299,000	3.14	4.79
Outstanding at June 30, 2017	<u>9,082,431</u>	<u>\$ 1.84</u>	<u>4.12</u>
Exercisable at June 30, 2017	<u>1,945,911</u>	<u>\$ 1.32</u>	<u>2.80</u>

- (i) These options vest immediately upon issuance, shall expire at the earlier of 180 days of the death, disability or incapacity of the holder or five years after the date of issue, and can only be settled in equity.

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Cronos Group Inc. (formerly PharmaCan Capital Corp.)
Notes to Interim Condensed Financial Statements
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(Unaudited - Prepared by Management)

13. Share-based payments (continued)

- (ii) These options vest evenly through a 48 month period, shall expire at the earlier of 180 days of the death, disability or incapacity of the holder or five years after the date of issue, and can only be settled in equity.
- (iii) These options vested on May 15, 2017, shall expire at the earlier of 180 days of the death, disability or incapacity of the holder or five years after the date of issue, and can only be settled in equity.

As at June 30, 2017, the weighted average exercise price of options outstanding is \$1.84 (December 31, 2016 - \$1.10). The weighted average exercise price of options exercisable is \$1.32 (December 31, 2016 - \$1.09).

(b) Fair Value of Options Issued During the Period

The fair value of the options was determined using the Black-Scholes option pricing model. The following inputs were used:

	Six months ended June 30,	
	2017	2016
Share price at grant date	\$3.27	\$0.19 - \$0.21
Exercise price	\$3.14	\$0.285
Risk free interest rate	0.96%	0.50%
Expected life of options (years)	5	0.25
Expected annualized volatility	55%	150%
Expected dividend yield	0%	0%
Weighted average Black Scholes value at grant date	\$1.59	\$0.04

(c) Expenses Arising from Share-based Payment Transactions

Total expenses arising from share-based payment transactions recognized during the six month period ended June 30, 2017 as part of stock-based compensation were \$631,369 (2016 - \$5,928).

14. Related party transactions and balances

The following is a summary of the Company's related party transactions during the year:

(a) Key management compensation

Key management personnel are persons responsible for planning, directing and controlling activities of an entity, and include executive and non-executive directors. Compensation provided to key management is as follows:

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Short-term employee benefits, including salaries and fees	\$ 105,768	\$ 91,058	\$ 211,702	\$ 134,895
Professional fees	59,786	21,650	71,114	77,900
Stock-based compensation	160,645	2,370	228,135	2,370
	<u>\$ 326,199</u>	<u>\$ 115,078</u>	<u>\$ 510,951</u>	<u>\$ 215,165</u>

As at June 30, 2017, there was a balance payable of \$Nil to members of key management (December 31, 2016 - \$85,797).

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15. Contingencies

(a) The following are related to Peace:

- (i) Peace is subject to a claim for \$12 million for damages related to the death of 12 cannabis plants held in its care, amounting to \$1 million per plant. The Company believes that the allegations contained in the statement of claim are without merit and plans to vigorously defend itself; accordingly, no provision for loss has been recognized.
- (ii) Peace is subject to a claim for \$15 million for the non-closure of a share purchase agreement. The Company believes that the allegations contained in the statement of claim are without merit and plans to vigorously defend itself; accordingly, no provision for loss has been recognized.
- (iii) Peace is subject to a claim for \$125,000 related to warrants of the Company that were not issued as was originally agreed upon. The Company believes that the allegations contained in the statement of claim are without merit and plans to vigorously defend itself; accordingly, no provision for loss has been recognized.

16. Income taxes

The Company's statutory income tax rate is 26.5% for the six month periods ended June 30, 2017 and June 30, 2016, representing the best estimate of the average annual effective tax rate expected to apply for the full year, applied to the pre-tax income of the six month periods.

Deferred tax liabilities have been offset by deferred tax assets relating to loss carryforwards where they relate to income taxes levied by the same taxation authority and the Company has the legal right and intent to offset.

Movement in the net deferred tax liability is provided below:

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Balance - beginning of period	\$ 1,458,000	\$ 153,000	\$ 1,457,000	\$ 195,000
Recognized in income	(23,000)	(56,000)	(22,000)	(98,000)
Balance - end of period	<u>\$ 1,435,000</u>	<u>\$ 97,000</u>	<u>\$ 1,435,000</u>	<u>\$ 97,000</u>

17. Financial instruments

(a) Financial risks

(i) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's policy is to review liquidity resources and ensure that sufficient funds are available to meet financial obligations as they become due. Further, the Company's management is responsible for ensuring funds exist and are readily accessible to support business opportunities as they arise. The Company's funding is provided in the form of capital raised through the issuance of shares, and warrants.

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17. Financial instruments (continued)

(a) Financial risks (continued)

(i) Liquidity risk (continued)

The following represents an analysis of the age of trade payables:

	As at June 30, 2017	As at December 31, 2016
Current	\$ 770,549	\$ 146,848
Less than 30 days past billing date	235,699	149,892
31 to 60 days past billing date	20,401	33,049
61 to 90 days past billing date	38,416	15,992
Over 90 days past billing date	11,049	240,101
	<u>\$ 1,076,114</u>	<u>\$ 585,882</u>

(ii) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company is exposed to this risk through its loans receivable, and accounts receivable.

As at June 30, 2017, the value of its loans receivable was \$314,089 (December 31, 2016 - \$308,833) and the value of its accounts receivable was \$298,103 (December 31, 2016 - \$107,166). The Company is not significantly exposed to credit risk, as these receivables comprise 1.1% (December 31, 2016 - 0.7%) of the Company's total assets.

(iii) Market risk

(1) Price risk

Price risk is the risk that the fair value of, or future cash flows from, the Company's financial instruments will significantly fluctuate due to changes in market prices. The value of the financial instruments can be affected by changes in interest rates, market and economic conditions, and equity and commodity prices. The Company is exposed to price risk in divesting its investments in private companies and unfavourable market conditions could result in dispositions of investments at less than favourable prices. Further, in the revaluation of securities classified as available-for-sale, this could result in significant write-downs of the Company's investments, which would have an adverse impact on the Company's financial position.

The Company manages price risk by having a portfolio of securities from multiple issuers, such that the Company is not singularly exposed to any one issuer. The Company also has set thresholds on purchases of investments over which the approval of the Board of Directors is required.

(2) Concentration risk

Concentration risk is the risk that any single investment or group thereof, has the potential to materially affect the operating results of the Company. The Company is exposed to this risk as all of its investments are currently within the medical marijuana industry. As such, the Company's financial results may be adversely affected by the unfavourable performance of those investments or the industry in which they operate.

It is management's opinion that the Company is not subject to significant interest rate risk.

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Cronos Group Inc. (formerly PharmaCan Capital Corp.)
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(Unaudited - Prepared by Management)

18. Fair value hierarchy

Assets recorded at fair value on the interim condensed statement of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets and liabilities;

Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3 - valuation techniques using the inputs for the asset or liability that are not based on observable market data (unobservable inputs).

In these interim condensed financial statements, classification of assets measured at fair value is as follows:

Level 1 - cash; other investments (Canopy, Hydrothecary, AbCann shares)

Level 2 - warrants, options;

Level 3 - other investments (Evergreen), biological assets.

The Company's policy for determining when transfers between levels of the fair value hierarchy is deemed to have occurred is based on the date of the event or changes in circumstances that caused the transfer.

During the six months ended June 30, 2017, Hydrothecary and AbCann became publicly traded. Due to the event, the investments in Hydrothecary and AbCann were transferred out of Level 3 as the inputs for the valuation of the investment were no longer unobservable. The investments in Hydrothecary and AbCann were transferred into Level 1 of the fair value hierarchy, as the valuation of the investments is based on quoted prices in an active market.

19. Capital management

The Company considers its capital to be its equity. The Company's objectives when managing its capital are to maintain sufficient capital base in order to meet its short-term obligations and at the same time preserve investors' confidence required to sustain future investments.

20. Subsequent events

- (a) Subsequent to the six months ended June 30, 2017, the Company entered into a commitment letter for \$40 million in debt financing. The loan is secured for a first mortgage on the real estate of each of Peace and In the Zone. In the Zone, Hortican and the Company are also guarantors of the loan. The loan bears interest at a rate of 12% per annum, and has a 2 year term with a one-year extension option, and is repayable on one-month's notice.
- (b) Subsequent to the six months ended June 30, 2017, the Company granted options to subscribe to 2,903,000 common shares of the Company to the Company's employees and directors, in accordance with the Company's stock option plan. The options are exercisable at a price of \$2.42 per common share and shall expire at the earlier of 180 days of the death, disability or incapacity of the holder or five years after the date of issue.
- (c) Subsequent to the period, 248,066 warrants were exercised at an exercise price of \$0.08 per warrant, and correspondingly, 248,066 common shares were issued.

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Cronos Group Inc. (formerly PharmaCan Capital Corp.)
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20. Subsequent events (continued)

- (d) Subsequent to the period, 2,300,000 warrants were exercised at an exercise price of \$0.245 per warrant, and correspondingly, 2,300,000 common shares were issued.
- (e) Subsequent to the period, 157,894 warrants were exercised at an exercise price of \$0.31 per warrant, and correspondingly, 157,894 common shares were issued.
- (f) Subsequent to the period, 83,333 options were exercised at an exercise price of \$0.50 per option, and correspondingly, 83,333 common shares were issued.

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Cronos Group Inc. (formerly PharmaCan Capital Corp.)**Management's Discussion & Analysis**

For the Three and Six Month Periods Ended

June 30, 2017 and June 30, 2016

Introduction

This Management Discussion and Analysis ("MD&A") provides relevant information on the interim condensed results of operations and financial condition of Cronos Group Inc. (formerly PharmaCan Capital Corp.) (the "Company") for the three and six month periods ended June 30, 2017 and June 30, 2016. This MD&A should be read in conjunction with the interim condensed financial statements for the six month periods ended June 30, 2017 in addition to the audited consolidated financial statements for the year ended December 31, 2016.

This discussion contains forward looking information that is qualified by reference to, and should be read in conjunction with the Caution Regarding Forward Looking Statements below.

This MD&A provides information that the management of the Company believes is important to assess and understand the results of operations and financial condition of the Company. Our objective is to present readers with a view of the Company from management's perspective by interpreting the material trends and activities that affect the operating results, liquidity and financial position of the Company. All monetary amounts herein are expressed in Canadian dollars unless otherwise specified.

This MD&A is current as of August 28, 2017.

The Company's audited interim condensed financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

Additional information relating to the Company can be found on the SEDAR website at www.sedar.com.

Caution Regarding Forward-Looking Statements

Certain information in this MD&A contains or incorporates comments that constitute "forward-looking" statements within the meaning of applicable securities legislation. Forward-looking statements are not historical facts and involve known and unknown risks, uncertainties, assumptions and other factors that may cause actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, but are not limited to, the factors discussed in the section entitled "**Risk and Uncertainties**".

Generally, these forward-looking statements can be identified by the use of forward-looking terminology such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "continue", "anticipates" or "does not anticipate", or "believes" or variation of such words and phrases or state that certain actions, events or results "may", "could", "would", "might" or "will be taken", "occur" or "be achieved". All forward looking statements are based on our beliefs and assumptions based on information available at the time the assumption was made. While the Company considers its assumptions to be reasonable and appropriate based on the current information available, there is a risk that they may not be accurate.

All forward-looking information is provided as of the date of this MD&A. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on the forward-looking statements. The Company does not undertake to update any forward-looking statements except as required by applicable securities laws.

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Business of the CompanyCompany Overview

Cronos Group Inc. (formerly PharmaCan Capital Corp.) was incorporated under the Business Corporations Act (Ontario) on August 21, 2012 as 2339498 Ontario Inc., changed its name on October 18, 2012 to Searchtech Ventures Inc. and was classified as a Capital Pool Company as defined pursuant to Policy 2.4 of the TSX Venture Exchange. During the year ended December 31, 2014, the shareholders of Hortican Inc. ("Hortican") completed a reverse takeover of PharmaCan Capital Corp. (formerly Searchtech Ventures Inc.). For purposes of accounting for the Transaction, Hortican is considered the acquirer, and thus, the interim condensed financial statements are a continuation of the financial statements of Hortican. These interim condensed financial statements include the accounts of Cronos Group Inc. (formerly PharmaCan Capital Corp.) and its wholly owned subsidiaries, Hortican Inc., In the Zone Produce Ltd. ("In the Zone"), and Peace Naturals Project Inc. ("Peace"). The Company began rebranding itself as Cronos Group Inc. on October 6, 2016. The Company finalized its name change to Cronos Group Inc. on February 27, 2017.

The Company's business has grown into two segments. The first segment is the business of investing in companies either licensed, or actively seeking a license, to produce medical marijuana pursuant to the Access to Cannabis for Medical Purposes Regulations, ("ACMPR"), which replaced the Marihuana for Medical Purposes Regulations ("MMPR"). The second segment is the operation and continued development of entities which are already licensed under the ACMPR.

Access to Cannabis for Medical Purposes Regulations

The ACMPR was developed in response to the February 2016 Federal Court of Canada decision in *Allard v. Canada*, which ruled that restricting individuals to obtaining marijuana only from licensed producers violated individual protected rights. The new regulations enable an individual to produce their own marijuana for personal use, or designate someone to produce it for them. The ACMPR adopts the concept, authorized activities, and application requirements for producer's licenses under the MMPR. In addition, the ACMPR enables the production and sale of starting materials, including marijuana seeds and plants.

Health Canada estimates that within a decade, the medical marijuana marketplace will grow to at least 400,000 registered patients, generating annual sales of approximately \$1.3 billion. As of August 28, 2017, fifty-six producer's licenses have been issued by Health Canada.

The Government of Canada has introduced Bill C-45, the Cannabis Act, providing for the legalization of recreational cannabis in Canada. The draft Cannabis Act does not amend or repeal the ACMPR. The Cannabis Act is draft legislation and there can be no assurance that it will be enacted in its current form or at all.

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Investments

As at June 30, 2017, the Company has invested in and made loans to:

- (a) *Whistler Medical Marijuana Corporation* (“Whistler”) (\$4,058,154 book equity and 17,200,000 estimated fair value). Whistler is a corporation incorporated under the laws of British Columbia, and is a licensed producer and seller of medical marijuana with operations in Whistler, British Columbia. The Company has invested an additional \$1,075,800 in WMMC during the six month period ended June 30, 2017 in order to maintain its 21.5% equity position. Based on the most recent equity financing, which was done at a post money valuation of \$80,000,000, management believes the market value of its equity position is approximately \$17,200,000.
- (b) *Canopy Growth Corp.* (“Canopy”) (\$235,099 equity). Canopy is a corporation incorporated under the laws of Canada, and is the parent company of licensed producers and sellers of medical marijuana. Canopy’s common shares are listed on the TSX, under the trading symbol “WEED”. During the six months ended June 30, 2017, the Company sold some of its shares of Canopy for proceeds of \$87,653. The remaining shares of Canopy are held in escrow and may be released upon certain conditions related to Vert Medical.
- (c) *Evergreen Medicinal Supply Inc.* (“Evergreen”) (\$300,000 equity, and \$314,089 loan receivable). Evergreen is a corporation incorporated under the laws of British Columbia, with facility and operations in Victoria, British Columbia. During the six months ended June 30, 2017, the Company filed a claim in the Supreme Court of British Columbia against Evergreen and its directors, seeking, among other things, declarations that the Company holds equity of Evergreen and that the agreement between the parties in respect of its equity is a valid and binding contract.
- (d) *AbCann Global Corporation* (“AbCann”) (\$3,184,548 equity and \$1,201,104 in warrants). AbCann is a privately-held corporation incorporated under the laws of Ontario which has obtained a license for cultivation and sale of medical cannabis from Health Canada. AbCann entered into a reverse takeover during the three months ended June 30, 2017 and are listed on the TSX-V under the trading symbol “ABCN”. The Company subscribed for additional shares of AbCann of \$1,016,000 during the period. Furthermore, the Company sold some of its shares of AbCann for proceeds of \$1,682,548.
- (e) *The Hydrothecary Corporation* (“Hydrothecary”) (\$726,003 equity). Hydrothecary is a publicly traded corporation incorporated under the laws of Canada which has obtained licenses for the cultivation and sale of medical cannabis and the production and sale of fresh marijuana and cannabis oil from Health Canada. During the six months ended June 30, 2017, BFK Capital Corp. acquired all of the outstanding shares of Hydrothecary Corporation, and began trading as Hydrothecary Corporation on the TSX-V, under the trading symbol “THCX”. As a result of this transaction, Hydrothecary Corporation executed a 6:1 stock split.

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Acquisition of Peace

On September 6, 2016, the Company acquired all issued and outstanding shares of Peace Naturals Project Inc., a company headquartered in Stayner, Ontario and incorporated under the laws of Canada. Peace is a licensed producer and seller of medical cannabis from its facility in Ontario. Consideration for the acquisition included \$6,247,543 in cash and \$2,590,367 to be paid at a future date. As the Company previously held shares of Peace, the acquisition is considered a step acquisition and resulted in a loss due to fair value re-measurement. The preliminary purchase price allocation for this acquisition is shown below:

Fair value of consideration transferred:

Cash	\$ 6,247,543
Liability	2,590,367
	8,837,910

Fair value of previously held interest:

Fair value of interest held immediately before acquisition	3,314,960
Loss due to fair value re-measurement	(346,970)
	2,967,990
	\$ 11,805,900

Fair value of net assets acquired:

Cash	109,443
Accounts receivable	50,647
Prepaid and deposits	29,000
Loans receivable	16,167
Inventory	1,194,417
Biological assets	865,452
Property and equipment	10,281,935
Other intangible assets	9,595,824
Goodwill	1,400,000
Accounts payable	(2,876,239)
Loans payable	(7,460,836)
Deferred tax liability	(1,400,000)
	\$ 11,805,900

Due to the complexities in identifying certain intangible assets, such as licenses and intellectual property, and assigning fair values, the Company has yet to finalize its assessment of the purchase price allocation. The allocation of the consideration paid will be adjusted once a valuation of certain intangible assets has been finalized. Management expects to complete the assessment by the end of Q3 2017.

During the six months ended June 30, 2017, approximately 50% of the liability has been repaid by the Company, resulting in a remaining balance of \$1,291,496.

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Overall Performance

The Company’s efforts have been focused on operating In the Zone and Peace and establishing international distribution channels, and optimizing production. In the Zone continued production in 2017.

During the six months ended June 30, 2017, In the Zone obtained a license to sell medicinal marijuana from Health Canada. Product produced at In the Zone is sold to Peace at arms-length terms in bulk form and then packaged and sold to patients by Peace. During the six months ended June 30, 2017 In the Zone Produce sold 26 kilograms of medical marijuana to Peace.

During the six month period ended June 30, 2017, the Company incurred approximately \$5,529,355 (six month period ended June 30, 2016 - \$69,613) of capital expenditures. Of which, during the three month period ended June 30, 2017, the Company incurred approximately \$3,493,762 (three month period ended June 30, 2016 - \$9,996) of capital

expenditures. The majority of these expenditures related to improvements and construction on the production facility used in the production of medical marijuana at Peace.

The Company has undertaken significant improvements to the existing facilities at Peace:

- The original facility (“B1”) has been retrofitted to increase production capacity. A new two-tier hydroponic methodology will be employed using LED lighting. The Company expects to resume growing late in Q3F17 or early in Q4F17.
- The Company completed its new extraction laboratory in B1, including a state-of-the-art supercritical and subcritical CO2 and commercial oil production methodology (“New Oil Program”) approved in late Q3F17. The Company has a Health Canada inspection scheduled for mid-September after which it expects to significantly ramp up oil production and sales. In anticipation of the New Oil Program, the Company has saved a significant amount of extract grade inventory, which it expects to convert to oil and sell to patients in Q4F17.
- The planned renovations and improvements to the first 15,000 square foot purpose built production facility (“B2”) have been completed. B2 is now fully operational and harvests have been completed in all flower rooms.
- Substantial renovations and improvements to the second 15,000 square foot purpose built production facility (“B3”) have been completed and there are ongoing improvements being made. The Company completed its first harvest in B3 in August 2017 and expects B3 to be fully operational during Q3F17.

The Company began construction on 315,000 square feet of new production facilities:

- The Company is building a 28,000 square foot hybrid greenhouse (the “Greenhouse”). The Greenhouse will provide low-cost flower for extraction in a 1,200 square foot pharmaceutical-grade extraction lab that will be connected to the Greenhouse. Construction of the Greenhouse is progressing well and the Company expects the Greenhouse to be operational in Q4F17.
- The Company is also building a 286,000 square foot facility (“B4”). In addition to large scale cultivation of premium dried flower, B4 will include: (a) designated areas for proprietary genetic breeding, (b) pharmaceutical laboratory for cannabinoid and terpene extraction, identification, and formulation, (c) R&D space for analyzing metabolite enhancement and new lighting technologies, (d) tissue culture laboratory, (e) industrial-grade kitchen and (f) processing infrastructure capable of supporting output from other Cronos facilities. Construction is progressing well and the superstructure is expected to be completed in November 2017. Production from B4 is expected to be fully operational in Q3F18.

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Update on Indigenous Roots:

- On December 06, 2016, the Company launched a joint venture (“Indigenous Roots”) led by Phil Fontaine, former National Chief of the Assembly of First Nations. Indigenous Roots is a medical cannabis company that will work cooperatively with Canadian First Nations towards building and operating licensed facilities and providing medical cannabis to First Nations. Cronos owns a 49.9% stake in Indigenous Roots.
- The Company believes that Indigenous Roots will provide the Company with optionality for non-traditional distribution channels, incremental production capacity without dilution, and a strong brand for its portfolio.
- Indigenous Roots has commanded significant interest, having met with over 100 indigenous communities/leaders across Canada. Indigenous Roots is in the process of finalizing its capital raise. Once completed, Indigenous Roots will commence construction of a 30,000 square foot production facility at In the Zone.

During the six month period ended June 30, 2017, the Company issued 7,705,000 common shares in a bought deal offering, at \$2.25 per share.

During the three month period ended June 30, 2017, the Company repaid substantially all of its debt obligation, consisting of the \$4,000,000 mortgage payable obtained from the acquisition of Peace.

Results of Operations

Select Financial Information

The following table provides a summary of the interim condensed results of the Company for the three and six month periods ended June 30, 2017, and the comparative periods ended June 30, 2016 and 2015:

Statements of Operations and Comprehensive Income	Three months ended June 30, 2017	Three months ended June 30, 2016	Three months ended June 30, 2015
Product sales	\$ 643,701	\$ —	\$ —
Gain on revaluation of biological assets	1,297,023	40,468	—
Inventory expensed to cost of sales	644,429	—	—
Production costs	175,121	64,053	46,965
Investment income (loss)	1,643,613	(1,314,166)	(81,952)
Expenses	2,612,908	560,748	427,882
Net income (loss)	174,879	(1,842,499)	(556,799)
Gain on revaluation of other investments	11,820	—	—
Total comprehensive income (loss)	186,699	(1,842,499)	(556,799)
Weighted average number of outstanding shares, basic	132,647,546	43,168,381	34,848,698
Weighted average number of outstanding shares, diluted	167,787,028	43,168,381	34,848,698
Basic and diluted income (loss) per share	\$ 0.00	\$ (0.04)	\$ (0.02)

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Statements of Operations and Comprehensive Income	Six months ended June 30, 2017	Six months ended June 30, 2016	Six months ended June 30, 2015
Product sales	\$ 1,157,457	\$ —	\$ —
Gain on revaluation of biological assets	3,109,990	40,468	—
Inventory expensed to cost of sales	1,700,545	—	—
Production costs	410,356	98,459	95,681
Investment income (loss)	1,692,931	(1,328,980)	(253,376)
Expenses	4,541,035	1,043,658	965,287
Net loss	(669,558)	(2,332,629)	(1,314,344)
Gain on revaluation of other investments	694,340	—	—
Total comprehensive income (loss)	24,782	(2,332,629)	(1,314,344)
Weighted average number of outstanding shares, basic and diluted	128,824,503	43,168,381	34,827,233
Basic and diluted loss per share	\$ (0.01)	\$ (0.05)	\$ (0.04)

The net loss decreased and became net income during the three months ended June 30, 2017 compared to the three month period ended June 30, 2016 due to the sale of other investments during the period, as well as the generation of revenue through product sales. Similarly, the net loss decreased during the six months ended June 30, 2017 compared to the six month period ended June 30, 2016.

Revenues

Peace and In the Zone have a license to produce and sell medicinal marijuana. The Company earned \$643,701 in revenue from product sales made by Peace during the three month period ended June 30, 2017, and \$1,157,457 in revenue during the six month period ended June 30, 2017.

Cost of sales

The operations of In the Zone and Peace caused an increase in production costs of \$111,068 when comparing the three month periods ended June 30, 2017 and June 30, 2016. Product costs increased by \$311,897 comparing the six month periods ended June 30, 2017 and June 30, 2016. Furthermore, the product sales made by Peace resulted in \$362,678 of inventory expensed to cost of sales during the three month period ended June 30, 2017 which includes a cost of \$106,856 associated with a goodwill loyalty credit granted to all patients, as well as a write-down in inventory to net realizable value of \$281,751. The Company reported a gain on the revaluation of biological assets of \$1,297,023 during the three month period ended June 30, 2017, and \$3,109,990 during the six month period ended June 30, 2017, representing an increase in the fair value of the medicinal marijuana plants of both Peace and In the Zone.

Investment income (loss)

During the three months ended June 30, 2017, the Company earned \$313,390 in income from its equity investment, Whistler, in which the Company owns 21.5%, as Whistler continued to generate income from its operations. The income is further increased due to the revaluation of AbCann Global Corporation shares and share warrants during the period.

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Expenses

Salaries and benefits have increased from Q2 2016 to Q2 2017, which included an increase in stock-based compensation due to vesting of options previously issued. Salaries and benefits only relate to the investing segment of the business. Salaries and benefits associated with the operational segment of the business are included in Production costs. Production costs represent costs incurred on inventory sold during the period, which have increased during Q2 2017, as Peace sold products in Q2 2017. Inventory expensed to cost of sales includes the transfer of net realizable value from inventory to cost of sales for products sold, in addition to production costs capitalized to inventory and subsequently written down as biological assets are transferred to inventory at fair value less costs to sell. Interest expense during the period includes interest on Peace's \$4,000,000 mortgage, which was repaid during the quarter.

Other comprehensive income

Other comprehensive income has increased from Q2 2016 to Q2 2017 due to the increase in fair value of the investments in AbCann Global Corporation. This gain is offset by the decrease in fair value of Hydrothecary and Canopy. As these investments are accounted for as available-for-sale investments, the gains are recorded in other comprehensive income.

The following table provides a summary of the interim condensed financial position of the Company as at June 30, 2017, as at December 31, 2016 and as at December 31, 2015:

<u>Statements of Financial Position</u>	<u>As at June 30, 2017</u>	<u>As at December 31, 2016</u>	<u>As at December 31, 2015</u>
Total assets	\$ 55,098,523	\$ 42,900,596	\$ 14,723,846
Total liabilities	4,110,588	9,222,967	3,021,991
Working capital (deficiency)	10,496,268	320,621	(1,101,906)
Share capital	51,566,126	33,590,324	14,799,821
Accumulated deficit	6,885,127	6,215,569	5,025,498
Accumulated other comprehensive income	\$ 1,587,374	\$ 1,584,490	\$ Nil

Total assets

Total assets increased from December 31, 2016 to June 30, 2017 primarily due to capital asset additions made in Peace, the increase in fair value of the biological assets, as well as the Company's equity raises. The operations of Peace and In the Zone resulted in biological assets of \$2,784,791, and inventory of \$2,713,241 as at June 30, 2017. Peace has been operating in its current facility and is in the process of building another facility, resulting in the addition of \$5,529,355 in property, plant, and equipment.

Total liabilities

Total liabilities decreased from December 31, 2016 to June 30, 2017 due to the partial repayment of the purchase price liability which arose from the acquisition of Peace during 2016, as well as the full repayment of the mortgage payable of \$4,000,000.

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Share capital

Share capital increased from December 31, 2016 to June 30, 2017, as a result of the bought deal offering in March 2017, resulting in the issuance of 7,705,000 common shares, increasing share capital by \$17,336,250. In addition, there were various stock options and warrants exercised during the six month period ended June 30, 2017, increasing share capital by \$689,042 and \$1,272,152 respectively.

Accumulated deficit

Accumulated deficit continues to increase as the Company generated a net loss during the six month period ended June 30, 2017. However, the accumulated deficit has decreased when comparing June 30, 2017 to March 31, 2017, as a net income was generated during the second quarter. There were no dividends declared or paid in the period, and no other transactions with shareholders impacting accumulated deficit.

Accumulated other comprehensive income

This balance includes the fair value increases and decreases in the investment in Canopy, AbCann, and Hydrothecary based on their publicly traded share prices at June 30, 2017, which is included in other comprehensive income since the investments are classified as available-for-sale.

Discussion of Operations

In The Zone

During the three month ended June 30, 2017, In the Zone continued production of medicinal marijuana. There were minimal improvements to the facility, as most efforts during the period were focused on production, yielding biological assets valued at \$183,690 and inventory of \$152,888. During the six months ended June 30, 2017, the Company obtained a license to sell medicinal marijuana from Health Canada and sold 26 kilograms of medical marijuana to Peace valued at \$196,950.

Peace Naturals Project Inc.

During the three months ended June 30, 2017, Peace continued to make improvements on its production facilities. Peace continued to produce and sell medicinal marijuana, and generated product sales of \$643,701 during the period.

The Company has also been focused on patient acquisition and commencing outreach programs with educational and access centers, hosting community based patient supply groups, and onboarding new clients at an accelerated rate. Peace has registered over 4,750 patients since being granted its license in 2013.

The upgraded production infrastructure and improved cultivation methods at Peace have already resulted in significant yield increases. As a result, the production capacity for existing facilities is expected to increase to approximately 5,000 kilos per year. Additionally, the Company has significantly upgraded its extraction infrastructure, acquiring a customized CO2 extraction system capable of efficiently producing upwards of 6,000 liters of finished cannabis oil annually. The Company expects material increases to both extract production and sales in the coming quarters. As part of the global strategy, management has focused on developing and solidifying the Company's international distribution channels. Peace Naturals is now distributing cannabis through 1,000 pharmacies in Germany.

During the three months ended June 30, 2017, Peace was notified by Health Canada that upon testing a random cannabis leaf sample, trace levels of Piperonyl Butoxide (PBO) were discovered at 0.78 parts per million (ppm). PBO is an organic compound known as a synergist. Peace's root cause analysis concluded that this was the result of cross-contamination from a sanitation protocol that is no longer practiced at Peace. The sanitation protocol has not been practiced since new management implemented

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an improved production methodology after taking control of Peace. The source of the PBO was a PMRA approved product that was used to sanitize empty rooms between harvests. Out of an abundance of caution, Peace assessed which lots were impacted, notified patients, and voluntarily recalled any products that were even potentially implicated. As a goodwill gesture, Peace offered all patients a loyalty discount. During the three months ended June 30, 2017 no recalled product was returned to Peace and goodwill credits were issued in the amount of \$106,856 included as part of cost of goods sold.

Peace is subject to three ongoing claims for damage as disclosed in the notes of the interim condensed financial statements. The Company believes that all three allegations contained in the statement of claims are without merit and plans to vigorously defend itself; accordingly, no provision for loss has been recognized. As the date of the MD&A no further actions or updates have occurred.

Summary of Quarterly Results

	Q2 Three month period ended June 30, 2017	Q1 Three month period ended March 31, 2017	Q4 Three month period ended December 31, 2016	Q3 Three month period ended September 30, 2016
Net income (loss)	\$ 174,879	\$ (844,437)	\$ 1,370,165	\$ (227,607)
Total comprehensive income (loss)	\$ 186,699	\$ (161,917)	\$ 2,736,740	\$ (9,692)
Basic earnings (loss) per share	\$ 0.00	\$ (0.01)	\$ 0.01	\$ (0.00)
Diluted earnings (loss) per share	\$ 0.00	\$ (0.01)	\$ 0.01	\$ (0.00)

	Q2 Three month period ended June 30, 2016	Q1 Three month period ended March 31, 2016	Q4 Three month period ended December 31, 2015	Q3 Three month period ended September 30, 2015
Net income (loss)	\$ (1,842,499)	\$ (490,130)	\$ 2,193,844	\$ (493,334)
Basic earnings (loss) per share	\$ (0.04)	\$ (0.01)	\$ 0.06	\$ (0.01)
Diluted earnings (loss) per share	\$ (0.04)	\$ (0.01)	\$ 0.05	\$ (0.01)

Through quarters two and three of fiscal 2015, the net loss and basic and diluted loss per share remained relatively consistent. There were significant changes in Q4F15, specifically related to the reclassification of Peace from equity-accounted to available-for-sale, which resulted in a gain of \$4,590,321. Further, there was various impairment losses recognized in Q4F15, \$1,448,292 on Evergreen and Vert. Diluted earnings per share in Q4F15 was calculated using a weighted average number of shares of 43,694,412. In quarters two and three of 2015, the weighted average number of shares for basic and diluted loss per share remained consistent, because the Company was in a net

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loss position, and therefore all instruments were anti-dilutive. In Q4F15, the Company was in a net income position, and as a result, there were dilutive instruments included in the calculation.

In Q1F16, the net loss returned to the consistent position as the three first quarters of 2015, as there were no significant changes in the quarter. In Q2F16, the loss increased due to the revaluation of Peace, resulting in a \$1,325,984 loss recognized. In Q3F16, the Company was in a loss position, but the loss is significantly less than in previous quarters due to the reversal of impairment losses of \$725,150, the gain on revaluation of biological assets of \$392,405, and product sales of \$123,647 generated through the acquisition of Peace. In Q4F16, the quarterly income was due to the product sales of \$430,556 generated during the quarter as well as the large gain on revaluation of biological assets.

In Q1F17, the return to net loss position is due to expenses incurred as the Company is working on its next investment opportunity and increase in salaries as the Company continues to grow. This is offset by the gain on revaluation of other investments which is recorded as other comprehensive income.

In Q2F17, the quarterly income is due to the gain on the sale of shares of AbCann Global Corporation, as well as gains due to other investments. Furthermore, the Company continues to generate product sales through its subsidiary Peace, contributing to the positive net income.

Liquidity

The Company may seek to raise additional funds so that it may fund its expansion of operations, which represent the Company's working capital requirements, and fund new investment opportunities. The amount and timing of raising additional funds will depend on variables such as, the state of the capital markets, investor interest in medical cannabis companies, and investment opportunities available.

During the six month period ended June 30, 2017, the Company raised \$17,336,250 in cash through its bought deal offering.

Based on the current investee group, the Company estimates that its annual expenses are expected to be approximately \$8.2 million (or \$680,000 per month), the major components of which include production costs (\$2,500,000 per year or \$208,000 per month), payroll (\$3,725,000 per year or \$310,000 per month), professional fees (approximately \$1,000,000 per year or \$83,000 per month), and general and administrative costs (\$1,000,000 per year or \$83,000 per month).

As part of the acquisition of Peace Naturals the Company will make a final payment of the purchase price to former Peace shareholders in the amount of \$1,291,496 on September 5, 2017.

The Company divested a portion of its equity interest in Canopy during the six months ended June 30, 2017 for proceeds of \$87,653. The Company also divested a portion of its equity interest in AbCann Global Corporation during the three months ended June 30, 2017 for proceeds of \$1,682,548.

On August 24, 2017 the Company announced that it has entered into a commitment letter for \$40 million in debt financing with Romspen Investment Corporation to fund the continued construction of its 315,000 sq. ft. expansion previously announced on May 23, 2017.

The Company must continue to ramp up operations in Peace and In the Zone to generate positive cash from operations, and raise additional debt and/or equity financing or divest non-core investment assets to fund operations including production expansion and investment opportunities.

Capital Resources

The Company manages its capital with the objective of maximizing shareholder value and ensuring that it has appropriate resources to foster the growth and development of the business.

As of the date of this MD&A, the Company's authorized share capital is an unlimited number of common shares of which 135,931,619¹ are issued and outstanding. The Company also has 11,902,098 stock options², and 39,842,586 warrants outstanding³.

During the three months ended June 30, 2017, Evergreen received a cultivation license under the ACMPR. As a result, the Company completed its subscription for a second tranche of shares of Evergreen for \$100,000 and exercised its option to acquire an additional 5% of the equity of Evergreen for \$500,000, for a total additional investment of \$600,000. However, Evergreen, through its counsel, has indicated that the Company is not entitled to any interest in Evergreen and has rejected the payment. The Company filed a statement of claim in the Supreme Court of British Columbia and Evergreen has filed a statement of defence. The Company intends to vigorously pursue the enforcement of its rights to acquire equity in Evergreen.

Subsequent to the period end, the Company entered into a commitment letter for \$40 million in debt financing. The loan is secured for a first mortgage on the real estate of each of Peace and In the Zone. In the Zone, Hortican and the Company are also guarantors of the loan. The loan bears interest at a rate of 12% per annum, and has a 2 year term with a one-year extension option, and is repayable on one-month's notice.

Transactions between Related Parties

The Company paid \$105,768 (2016 - \$91,058 expense) in salaries and benefits owing to key management during the three months ended June 30, 2017. In addition, there was \$59,786 in professional fees paid during the three months ended June 30, 2017 (2016 - \$21,650). Further, the vesting of options resulted in share-based compensation of \$160,645 during the three months ended June 30, 2017 (2016 - \$Nil). Key management is compensated for providing planning, directing and controlling activities to the Company.

¹ Subsequent to June 30, 2017, the Company issued 83,333 shares upon the exercise of stock options, and issued 2,705,960 shares upon the exercise of warrants. As a result of the agreement with ITZ's founders as described in Note 15(a)(i) of the interim condensed financial statements for the year ended December 31, 2015, 426,780 shares were effectively repurchased for cancellation during Q3 2015. An aggregate of 170,712 of the shares are held in escrow as of the date of this MD&A and will be cancelled immediately upon release from escrow.

² Subsequent to June 30, 2017, 83,333 options were exercised at an exercise price of \$0.50.

³ Subsequent to June 30, 2017, 2,300,000 warrants were exercised at an exercise price of \$0.245, 157,894 warrants at an exercise price of \$0.31, and 248,066 warrants at an exercise price of \$0.08.

Additional Disclosure for Venture Issuers without Significant Revenue

Administrative Expenses

Statements of Operations and Comprehensive Income	Three months ended June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
Salary and benefits	\$ 1,264,954	\$ 260,044	\$ 1,928,799	\$ 324,796
Advertising and promotion	62,378	8,653	101,583	10,735
Consulting fees	118,379	26,911	371,294	73,569
Professional fees	671,963	133,580	1,088,951	321,810
Office expenses	259,097	20,982	455,455	71,949
Interest expense	(13,400)	37,001	142,147	84,247
Travel	21,230	9,728	23,949	29,540
Other	228,307	63,849	428,857	127,012
	<u>\$ 2,612,908</u>	<u>\$ 560,748</u>	<u>\$ 4,541,035</u>	<u>\$ 1,043,658</u>

The increase in salary and benefits between June 30, 2016 and June 30, 2017 in the amount of \$1,004,910 is mainly due to the vesting of issued options during 2016 and 2017, as well as compensation for additional employees due to the acquisition of Peace during 2016.

The increase in professional fees and consulting fees in the amount \$ 629,851 is due to additional legal fees associated with the Company's investments, litigation, and the negotiation of the Company's Canadian and international production and distribution joint ventures.

The year over year increase in advertising and promotion in the amount of \$53,725 is due to management's decision to incur such costs to increase sales in Peace.

The decrease in interest expense in 2017 relates primarily to the amortization of the fair value increment associated with the \$4,000,000 mortgage payable as part of the acquisition of Peace, which was acquired by the Company at fair value when the acquisition took place in Q3 2016. The amortization reduced interest expense during the period.

The increase in other expenses in the amount of \$164,459 is primarily related to increased depreciation expense due to the depreciation of additional property, plant, and equipment purchases by Peace during the period.

New Accounting Pronouncements

The International Accounting Standards Board has not issued any new standards, amendments to standards, or interpretations that impact the Company during the three months ended June 30, 2017. The Company's evaluations of previously issued new standards, amendments to standards, and interpretations are consistent with those disclosed in note 3 of the Company's interim condensed financial statements. New accounting pronouncements not yet mandatorily effective have not been applied in preparing these interim condensed financial statements.

Estimates and critical judgments by management

The preparation of these interim condensed financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the interim condensed financial statements and the reported amounts of revenues and expenses during the current year. These estimates are reviewed periodically and adjustments are made to income as appropriate in the year they become known. Items for which actual results may differ materially from these estimates are described in the following section.

Warrants and options

In calculating the value of the warrants and options, management is required to make various assumptions and estimates which are susceptible to uncertainty, including the volatility of the share price, expected dividend yield and expected risk-free interest rate.

Useful lives of property, plant and equipment

Depreciation of property, plant and equipment is dependent upon estimates of useful lives, which are determined through exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of the assets.

Biological assets and inventory

Biological assets, consisting of cannabis plants, are measured at fair value less cost to sell up to the point of harvest. Determination of the fair values of the biological assets requires the Company to make assumptions about how market participants assign fair values to these assets. These assumptions primarily relate to the level of effort required to bring the cannabis up to the point of harvest, sales price, risk and expected future yields for the cannabis plant.

Inventory of finished goods is transferred from biological assets at fair value less costs to sell at the point of harvest, which becomes the deemed cost. Inventory is subsequently measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less estimated costs of completion and estimated variable costs to sell.

Impairment of cash-generating units and goodwill

The impairment test for cash-generating units ("CGUs") to which goodwill is allocated is based on the value in use of the CGU, determined in accordance with the expected cash flow approach. The calculation is based primarily on assumptions used to estimate future cash flows, the cash flow growth rate and the discount rate used.

Impairment of long-lived assets

The impairment test for long-lived assets, including plant, property, and equipment and intangible assets, are reviewed for impairment at each statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of the asset or CGU is determined based on the higher of its fair value less cost to sell and its value in use. If the carrying amount of an asset exceeds its recoverable amount, an impairment charge is recognized immediately in profit or loss by the amount by which the carrying amount of the asset exceeds the recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount, and the carrying amount that would have been recorded had no impairment loss been recognized previously.

Fair value of financial assets available for sale

Financial assets available for sale consist of privately and publicly held investments. Determination of the fair values of privately held investments requires the Company to make various assumptions about the future prospects of the Investees, the economic, legal, and political environment in which the Investees operate, and the ability of the Investees to obtain financing to support their operations. As a result, any value estimated may not be realized or realizable, and the values may differ from values that would be realized if a ready market existed. The determination of fair value of the Company's privately held investments is subject to inherent limitations. Financial information for private companies may not be available, or may be unreliable. Use of the valuation approach described below involves uncertainties and management judgments, and any value estimated from these techniques may not be realized or realizable.

Income taxes

Income taxes and tax exposures recognized in the interim condensed financial statements reflect management's best estimate of the outcome based on facts known at the reporting date. When the Company anticipates a future income tax payment based on its estimates, it recognizes a liability. The difference between the expected amount and the final tax outcome has an impact on current and deferred taxes when the Company becomes aware of this difference.

In addition, when the Company incurs losses that cannot be associated with current or past profits, it assesses the probability of taxable profits being available in the future based on its budgeted forecasts. These forecasts are adjusted to take account of certain non-taxable income and expenses and specific rules on the use of unused credits and tax losses. When the forecasts indicate the sufficient future taxable income will be available to deduct the temporary differences, a deferred tax asset is recognized for all deductible temporary differences.

Risks and Uncertainties

Any investment in the securities of the Company is speculative, due to the nature of its business and its general stage of development. These risk factors could materially affect the Company's future operating results and could cause actual events to differ materially from those described in forward looking statements relating to the Company. In addition to the usual risks associated with investment in a business, investors should carefully consider the following risk factors as well as the risk factors set out in the amended and restated annual information form of the Company dated February 10, 2017:

Strategic Risks

(a) Management of Growth

Any expansion of the Company's business may place a significant strain on its financial, operational and managerial resources. There can be no assurance that the Company will be able to implement and subsequently improve its operations and financial systems successfully and in a timely manner in order to manage any growth it experiences. There can be no assurances that the Company will be able to manage growth successfully. Any inability of the Company to manage growth successfully could have a material adverse effect on the Company's business, financial condition and operational results.

The Company has invested in a number of companies (the "Investees") that are all currently in early development stages. The Company's growth strategy contemplates outfitting Investee facilities with additional production resources. There is a risk that these additional resources will not be achieved on time, on budget, or at all, as they can be adversely affected by a variety of factors.

(b) Competition

There is potential that the Company and the Company Investees will face intense competition from other companies, some of which can be expected to have longer operating histories and more financial resources and manufacturing and marketing experience than the Investees or the Company.

Industry Risks

(c) Risks Inherent in an Agricultural Business

The business of the Company Investees involves the growing of medical cannabis, an agricultural product. As such, the business is subject to the risks inherent in the agricultural industry.

(d) Political Risks

A change in government could result in meaningful changes to the regulatory regime under which the Company operates, which could negatively impact its operations. The Government of Canada has introduced Bill C-45, the Cannabis Act, providing for the legalization of recreational cannabis. There is no assurance that the legalization of recreational cannabis in Canada, whether via the Cannabis Act or by any other means, will occur as anticipated or at all.

(e) Vulnerability to Rising Energy Costs

The Company Investees' medical cannabis growing operations consume considerable energy, making the Company vulnerable to rising energy costs.

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(f) Transportation Disruptions and Costs

Due to the perishable and premium nature of the Company Investee products, fast and efficient courier services will be necessary to distribute product. Any prolonged disruption of this courier service could have an adverse effect on the financial condition and results of operations of the Company Investees.

(g) Product Liability

As a manufacturer and distributor of products designed to be ingested by humans, the Company Investees face an inherent risk of exposure to product liability claims, regulatory action and litigation if its products are alleged to have caused significant loss or injury.

(h) Product Recalls

Manufacturers and distributors of products are sometimes subject to the recall or return of their products for a variety of reasons, including product defects, such as contamination, unintended harmful side effects or interactions with other substances, packaging safety and inadequate or inaccurate labeling disclosure with adverse impact on the Company Investees and the Company.

(i) Unfavourable Publicity or Consumer Perception

The Company believes the medical cannabis industry is highly dependent upon consumer perception regarding the safety, efficacy and quality of the medical cannabis produced. Consumer perception of the Company Investees' products can be significantly influenced by scientific research or findings, regulatory investigations, litigation, media attention and other publicity regarding the consumption of medical cannabis products. There can be no assurance that future scientific research, findings, regulatory proceedings, litigation, media attention or other research findings or publicity will be favourable to the medical cannabis market or any particular product, or consistent with earlier publicity.

Operational Risks

(j) Limited Operating History

The Company began carrying on business in 2013 and the Investees are also newly operational. They are therefore subject to many of the risks common to early-stage enterprises.

(k) Reliance on Key Inputs

The Company Investees' businesses are dependent on a number of key inputs and their related costs including raw materials and supplies related to its growing operations, access to skilled labour, equipment, parts, and components, as well as electricity, water and other local utilities.

(l) Compliance with Regulations of ACMPR and Health Canada

The activities of the Company Investees are subject to regulation by governmental authorities, particularly Health Canada. Achievement of the Company's business objectives are contingent, in part, upon Investee compliance with stringent regulatory requirements enacted by these governmental authorities and obtaining all regulatory approvals. Under the

cost of security measures will be considerable and the readiness of each facility will factor into any the Company investment decision. Failure to comply with the requirements of the license or any failure to maintain this license could have a material adverse impact on the business, financial condition and operating results of the Company. The framework of the Canadian recreational cannabis market will be significantly influenced by provincial legislation governing, among other things, cannabis distribution and sale. Such legislation, if enacted, could result in different provincial regulatory and market environments, compliance costs and competitive factors.

(m) Environmental and Employee Health and Safety Regulations

The Company Investees' operations are subject to environmental and safety laws and regulations concerning, among other things, emissions and discharges to water, air and land, the handling and disposal of hazardous and non-hazardous materials and wastes, and employee health and safety.

(n) Reliance on Management

Both the success of the Company and the success of the Company Investees are dependent upon the ability, expertise, judgment, discretion and good faith of their respective senior management. Certain of the directors and officers of the Company are also directors and officers of other companies, and conflicts of interest may arise between their duties as officers and directors of the Company and as officers and directors of such other companies.

(o) Operating Risk and Insurance Coverage

The Company has insurance to protect its assets, operations and employees. While the Company believes its insurance coverage addresses all material risks to which it is exposed and is adequate and customary in its current state of operations, such insurance is subject to coverage limits and exclusions and may not be available for the risks and hazards to which the Company is exposed.

Financial Risks

(p) No History of Profits

There is no assurance that the Company will earn profits in the future, or that profitability will be sustained. The success of the Company ultimately depends upon its ability to generate significant revenues to finance operations and its ability to secure additional funding. There is no assurance that future revenues will be sufficient to generate the funds required to continue operations without external funding. If the Company does not have sufficient capital to fund its operations, it may be required to forego certain business opportunities.

(q) Future Capital Requirements

The Company may require additional financing in order to grow and expand its operations. Additional financing could include the incurrence of debt and the issuance of additional equity securities, which could result in substantial dilution to existing shareholders. It is possible that required future financing will not be available, or if available, will not be available on favourable terms. If adequate funds are not available, or are not available on acceptable terms, the Company may not be able to take advantage of opportunities or otherwise respond to competitive pressures and remain in business. There can be

no assurances that the Company will be able to raise additional capital if its capital resources are exhausted.

(r) Market Risks

The market price of the Company's shares may be subject to wide fluctuations in response to various factors. There can be no assurance that an active and liquid market for the Company's shares will develop or be maintained and an investor may find it difficult to resell any securities of the Company.

(s) Dividends

The Company has no dividend record to date, and does not anticipate paying any dividends on the common shares in the foreseeable future.

CRONOS GROUP INC.



CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the Three and Nine Month Periods Ended September 30, 2017 and September 30, 2016

(in Canadian dollars)

Cronos Group Inc.
Condensed Interim Consolidated Financial Statements
For the three and nine month periods ended September 30, 2017 and
September 30, 2016
(Unaudited)

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Cronos Group Inc.
Condensed Interim Consolidated Financial Statements
Notice of no auditor review of the condensed interim consolidated financial statements

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the condensed interim consolidated financial statements, they must be accompanied by a notice indicating that the condensed interim consolidated financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim consolidated financial statements of Cronos Group Inc. (the "Company") have been prepared by and are the responsibility of the Company's management and approved by the Board of Directors.

The Company's independent auditor has not performed a review of these condensed interim consolidated financial statements in accordance with the standards established by the Chartered Professional Accountants of Canada, for a review of condensed interim consolidated financial statements by an entity's auditor.

November 28, 2017

Cronos Group Inc.
Condensed Interim Consolidated Statements of Financial Position
As at September 30, 2017 and December 31, 2016
(Unaudited)

	Notes	As at September 30, 2017	As at December 31, 2016
Assets			
Current			
Cash		\$ 16,534,420	\$ 3,464,208
Accounts receivable		399,908	107,166
Prepays and other receivables		2,203,550	503,155
Biological assets	6	2,811,296	1,794,740
Inventory	6	4,798,513	1,908,486
Loans receivable	7	314,089	308,833

Investment in Whistler Medical Marijuana Company	8	27,061,776	8,086,588
Other investments	9	4,004,558	2,565,412
Property, plant and equipment	10	30,538,507	14,122,288
Goodwill	5	1,792,000	1,792,000
Other intangible assets	5	11,207,050	11,207,050
		<u>\$ 79,415,216</u>	<u>\$ 42,900,596</u>
Liabilities			
Current			
Indebtedness	13	\$ 868,507	\$ —
Trade payables and other liabilities		4,645,264	1,175,600
Purchase price liability	4	—	2,590,367
Mortgage payable	11	—	4,000,000
		<u>5,513,771</u>	<u>7,765,967</u>
Construction loan payable	12	5,022,077	—
Deferred income tax liability	19	1,359,000	1,457,000
		<u>11,894,848</u>	<u>9,222,967</u>
Shareholders' Equity			
Share capital	14(a)	67,566,497	33,590,324
Warrants	14(b)	3,364,271	3,982,895
Contributed surplus	15	1,638,202	735,489
Accumulated deficit		(5,787,674)	(6,215,569)
Accumulated other comprehensive income		739,072	1,584,490
		<u>67,520,368</u>	<u>33,677,629</u>
		<u>\$ 79,415,216</u>	<u>\$ 42,900,596</u>
Going concern	2(b)		
Contingencies	18		
Subsequent events	22		

The accompanying notes are an integral part of these condensed interim consolidated financial statements

Approved on behalf of the Board of Directors:

“Michael Gorenstein”

Director

“Michael Krestell”

Director

Cronos Group Inc.
Condensed Interim Consolidated Statements of Operations and Comprehensive Income
For the three and nine month periods ended September 30, 2017 and September 30, 2016
(Unaudited)

	Notes	Three months ended September 30,		Nine months ended September 30,	
		2017	2016	2017	2016
Product sales		<u>\$ 1,314,114</u>	<u>\$ 123,647</u>	<u>\$ 2,471,571</u>	<u>\$ 123,647</u>
Cost of sales					
Inventory expensed to cost of sales		1,788,732	—	3,489,277	—
Production costs		529,245	258,902	939,601	357,361
Gain on revaluation of biological assets	6	(3,008,190)	(392,405)	(6,118,180)	(432,873)
		<u>(690,213)</u>	<u>(133,503)</u>	<u>(1,689,302)</u>	<u>(75,512)</u>
Gross margin, net of revaluation of biological assets		<u>2,004,327</u>	<u>257,150</u>	<u>4,160,873</u>	<u>199,159</u>
Investment income					
Share of income (loss) from investment in Whistler Medicinal Marijuana Company	8	(53,596)	134,638	363,266	131,642
Reversal of impairment loss on loans receivable		—	725,150	—	725,150
Interest income from loans receivable	7	—	2,212	5,256	2,212
Gain (loss) on other investments	9	1,128,025	(346,970)	2,398,838	(1,672,954)
		<u>1,074,429</u>	<u>515,030</u>	<u>2,767,360</u>	<u>(813,950)</u>
Expenses					
Salary and benefits		432,202	23,035	1,729,632	341,903
Stock-based compensation	15	538,840	287,366	1,170,209	293,294
General and administration		809,261	640,077	2,850,416	1,147,593
Interest expense		21,931	24,554	164,078	108,801
Depreciation	10	255,069	87,755	684,003	214,854
		<u>2,057,303</u>	<u>1,062,787</u>	<u>6,598,338</u>	<u>2,106,445</u>
Income (loss) before income taxes		1,021,453	(290,607)	329,895	(2,721,236)
Income tax recovery	19	76,000	63,000	98,000	161,000
Net income (loss)		<u>\$ 1,097,453</u>	<u>\$ (227,607)</u>	<u>\$ 427,895</u>	<u>\$ (2,560,236)</u>
Gain (loss) on revaluation of other investments	9	(2,170)	217,915	692,170	217,915
Total comprehensive income (loss)		<u>\$ 1,095,283</u>	<u>\$ (9,692)</u>	<u>\$ 1,120,065</u>	<u>\$ (2,342,321)</u>
Weighted average number of outstanding shares, basic	16	134,913,931	64,067,295	130,782,161	64,067,295
Weighted average number of outstanding shares, diluted	16	143,592,860	64,067,295	139,461,090	64,067,295

Basic earnings (loss) per share	16	\$	0.01	\$	(0.00)	\$	0.00	\$	(0.04)
Diluted earnings (loss) per share	16	\$	<u>0.01</u>	\$	<u>(0.00)</u>	\$	<u>0.00</u>	\$	<u>(0.04)</u>

The accompanying notes are an integral part of these condensed interim consolidated financial statements

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Cronos Group Inc.
Interim Statements of Changes in Equity
For the nine month periods ended September 30, 2017 and September 30, 2016
(Unaudited)

	Notes	Number of shares	Share capital	Warrants	Contributed surplus	Accumulated deficit	Accumulated other comprehensive income	Total
Balance at January 1, 2016		42,618,971	\$14,799,821	\$ 1,328,882	\$ 598,650	\$ (5,025,498)	\$ —	\$11,701,855
Shares issued	14(b)	32,432,425	3,146,204	2,832,029	—	—	—	5,978,233
Shares issued	14(a)	42,857,140	14,821,734	—	—	—	—	14,821,734
Options issued	15	—	—	—	5,928	—	—	5,928
Options issued	15	—	—	—	287,366	—	—	287,366
Options exercised	15	370,780	132,972	—	(36,902)	—	—	96,070
Warrants exercised	14(b)	155,000	42,927	(14,527)	—	—	—	28,400
Conversion of convertible loans payable	14(a)	1,150,000	115,000	—	—	—	—	115,000
Subscription shares		—	—	—	38,426	—	—	38,426
Share issuance costs		—	(161,713)	—	—	—	—	(161,713)
Net loss		—	—	—	—	(2,560,236)	—	(2,560,236)
Other comprehensive income		—	—	—	—	—	217,915	217,915
Balance at September 30, 2016		<u>119,584,316</u>	<u>\$32,896,945</u>	<u>\$ 4,146,384</u>	<u>\$ 893,468</u>	<u>\$ (7,585,734)</u>	<u>\$ 217,915</u>	<u>\$30,568,978</u>

	Notes	Number of shares	Share capital	Warrants	Contributed surplus	Accumulated deficit	Accumulated other comprehensive income	Total
Balance at January 1, 2017		121,725,748	\$33,590,324	\$ 3,982,895	\$ 735,489	\$ (6,215,569)	\$ 1,584,490	\$33,677,629
Shares issued	14(a)	7,705,000	17,336,250	—	—	—	—	17,336,250
Shares issued	14(a)	6,671,112	15,010,002	—	—	—	—	15,010,002
Options vested	15	—	—	—	1,170,209	—	—	1,170,209
Options exercised	15	478,746	752,425	—	(267,496)	—	—	484,929
Warrants exercised	14(b)	6,072,096	2,228,252	(618,624)	—	—	—	1,609,628
Share issuance costs		—	(1,350,756)	—	—	—	—	(1,350,756)
Recycling of unrealized gains to net income	9	—	—	—	—	—	(1,537,588)	(1,537,588)
Net loss		—	—	—	—	427,895	—	427,895
Other comprehensive income		—	—	—	—	—	692,170	692,170
Balance at September 30, 2017		<u>142,652,702</u>	<u>\$67,566,497</u>	<u>\$ 3,364,271</u>	<u>\$ 1,638,202</u>	<u>\$ (5,787,674)</u>	<u>\$ 739,072</u>	<u>\$67,520,368</u>

The accompanying notes are an integral part of these condensed interim consolidated financial statements

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Cronos Group Inc.
Interim Statements of Cash Flows
For the three and nine month periods ended September 30, 2017 and September 30, 2016
(Unaudited)

	Notes	Three months ended September 30,		Nine months ended September 30,	
		2017	2016	2017	2016
Operating activities					
Net income (loss)		\$ 1,097,453	\$ (227,607)	\$ 427,895	\$ (2,560,236)
Items not affecting cash:					
Share of loss (income) from investment in Whistler Medical Marijuana Company	8	53,596	(134,638)	(363,266)	(131,642)
Depreciation		255,069	87,755	684,003	214,854
Deferred income tax recovery	19	(76,000)	(63,000)	(98,000)	(161,000)
Gain on reversal of impairment losses on loans receivable		—	(725,150)	—	(725,150)
Loss (gain) on other investments	9	(1,128,025)	346,970	(2,398,838)	1,672,954
Stock-based compensation	15	538,840	287,366	1,170,209	293,294
		<u>740,933</u>	<u>(428,304)</u>	<u>(577,997)</u>	<u>(1,396,926)</u>
Net changes in non-cash working capital:					
Increase in prepaids and other receivables		451,811	(91,522)	(1,700,395)	(63,778)
Decrease (increase) in inventory		(2,085,272)	78,727	(2,890,027)	73,227
Increase in biological assets		(26,505)	(392,405)	(1,016,556)	(432,873)
Decrease in loans receivable		—	7,046	—	7,046
Increase in accrued interest receivable		—	—	(5,256)	—
Decrease (increase) in accounts receivable		(101,805)	13,983	(292,742)	13,983
Increase (decrease) in trade payable and other liabilities		3,261,172	(2,059,629)	3,469,664	(2,921,304)
Cash flows used in operating activities		<u>2,240,334</u>	<u>(2,872,104)</u>	<u>(3,013,309)</u>	<u>(4,720,625)</u>
Investing activities					
Cash acquired from Peace		—	109,443	—	109,443
Advances of loans receivable to Peace Naturals prior to acquisition		—	(771,898)	—	(771,898)
Acquisition of Peace Naturals		—	(6,247,543)	—	(6,247,543)
Purchase of property, plant and equipment	10	(11,570,867)	(112,116)	(17,100,222)	(181,729)

Repayment of purchase price liability	4	(1,291,496)	—	(2,590,367)	—
Proceeds from sale of other investments	9	3,383,446	—	5,153,647	—
Investment in Whistler Medical Marijuana Company	8	—	—	(1,075,880)	—
Investment in AbCann Global Corporation	9	—	—	(1,016,000)	—
Exercise of AbCann warrants	9	(2,268,293)	—	(2,268,293)	—
Dividends received from Whistler Medical Marijuana Company		—	—	—	2,154
Cash flows used in investing activities		(11,747,210)	(7,022,114)	(18,897,115)	(7,089,573)
Financing activities					
Increase in indebtedness	13	868,507	—	868,507	—
Repayment of mortgage payable	11	—	—	(4,000,000)	(500,000)
Proceeds from construction loan payable	12	5,022,077	—	5,022,077	—
Repayment of deposit payable		—	—	—	(200,000)
Repayment of promissory note payable		—	—	—	(950,000)
Repayment of loans		—	(2,688,938)	—	(2,688,938)
Proceeds from exercise of warrants	14(b)	720,261	28,400	1,609,628	28,400
Proceeds from issuance of warrants		—	—	—	2,832,029
Proceeds from exercise of options	15	43,293	96,070	484,929	96,070
Proceeds from share subscriptions		—	38,426	—	38,426
Proceeds from share issuance	14(a)	15,010,002	14,821,734	32,346,252	17,967,938
Share issuance costs		(29,114)	(96,651)	(1,350,756)	(161,713)
Cash flows provided by financing activities		21,635,026	12,199,041	34,980,637	16,462,212
Net change in cash		12,128,149	2,304,823	13,070,212	4,652,014
Cash - beginning of period		4,406,271	3,474,531	3,464,208	1,127,340
Cash - end of period		\$ 16,534,420	\$ 5,779,354	\$ 16,534,420	\$ 5,779,354
Supplemental cash flow information					
Interest paid		\$ 22,076	\$ 40,000	\$ 222,076	\$ 174,400

The accompanying notes are an integral part of these condensed interim consolidated financial statements

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Cronos Group Inc.
Notes to Condensed Interim Consolidated Financial Statements
For the three and nine month periods ended September 30, 2017 and September 30, 2016
(Unaudited)

1. Nature of business

Cronos Group Inc. (“**Cronos**” or the “**Company**”), was incorporated as 2339498 Ontario Inc. under the Business Corporations Act (Ontario) on August 21, 2012, changed its name on October 18, 2012 to Searchtech Ventures Inc. (“**Searchtech**”) and was classified as a Capital Pool Company as defined pursuant to Policy 2.4 of the TSX Venture Exchange (“**TSX-V**”). Cronos is a publicly traded corporation, with its head office located at 76 Stafford Street, Suite 302, Toronto, Ontario, M6J 2S1. The Company’s common shares are listed on TSX-V under the trading symbol “MJN”.

On December 10, 2014, the Company closed its Qualifying Transaction (the “**Transaction**”) with Hortican Inc. (“**Hortican**”), a company whose business model is to invest in medical marijuana companies in Canada, pursuant to which the shareholders of Hortican completed a reverse takeover of the Company. Immediately prior to the completion of the Transaction, the Company consolidated its shares on a one for seven (1:7) basis. Following these changes, Hortican amalgamated with 8996741 Canada Inc., a wholly owned subsidiary of the Company formed solely for the purpose of facilitating the Transaction. Pursuant to the amalgamation, the Company indirectly acquired all of the issued and outstanding shares of and issued post-consolidation shares of the Company on the basis of approximately 2.1339 post-consolidation shares for each one of Hortican’s shares. Hortican warrants, stock options, and convertible debentures are also exchangeable at the same conversion ratio, and the exercise price for such securities is divided by the conversion ratio.

Effective upon the closing of the Transaction, the financial year end of the Company was changed from March 31 of each year to December 31 of each year to align the financial years of the Company to that of Hortican.

For the purposes of accounting for the Transaction, Hortican is considered the acquirer and the Company, the acquiree. Accordingly, the consolidated financial statements are in the name of Cronos Group Inc., however they are a continuation of the financial statements of Hortican, which was incorporated under the Business Corporations Act (Ontario) on January 17, 2013. The Company began rebranding itself as Cronos Group Inc. on October 6, 2016. The Company finalized its name change to Cronos Group Inc. on February 27, 2017.

In the Zone Produce Ltd. (“**In the Zone**”) was incorporated under the Business Corporations Act (British Columbia) on March 15, 2013. In the Zone is a licensed producer and seller of medical cannabis pursuant to the provisions of the Access to Cannabis for Medical Purposes Regulation (“**ACMPR**”) and the Controlled Drugs and Substances Act and its Regulations (“**CDS**”). Health Canada issued the license to produce to In the Zone on February 26, 2014, and the license to sell on February 28, 2017. In the Zone was acquired by Hortican on November 5, 2014. On October 4, 2017, the Company announced the rebranding of In the Zone Produce Ltd. to Original BC Ltd. (“**OGBC**”). As part of this rebranding, OGBC’s legal name change became effective on October 16, 2017 and it was continued under the Business Corporations Act (Canada). The OGBC Commercial License was amended to reflect the name change on October 20, 2017.

Peace Natural Projects Inc. (“**Peace Naturals**”) was incorporated under the Business Corporations Act on November 21, 2012. Peace Naturals is a licensed producer and seller of medical cannabis pursuant to the provisions of the ACMPR and the CDS. Health Canada issued the license to Peace Naturals on October 31, 2013, which was successfully renewed on November 1, 2016. Peace Naturals was acquired by Hortican on September 6, 2016. Additional information on the transaction is disclosed in Note 4.

2. Basis of presentation

The condensed interim consolidated financial statements for the three and nine month periods ended September 30, 2017 and September 30, 2016 have been prepared in accordance with International Accounting Standard (“**IAS**”) 34, “Interim Financial Reporting.” The same accounting policies and methods of computation as those used in the preparation of the fiscal 2016 Annual Report were followed in the preparation of these condensed interim consolidated financial statements.

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2. Basis of presentation (continued)

The condensed interim consolidated financial statements do not conform in all respects to the requirements of International Financial Reporting Standards as issued by the International Accounting Standards Board for annual financial statements. Accordingly, these condensed interim consolidated financial statements should be read in conjunction with the December 31, 2016 audited consolidated financial statements and notes.

(a) Basis of consolidation

These condensed interim consolidated financial statements include the accounts of Cronos Group Inc., and its wholly owned subsidiaries, Hortican Inc., In the Zone Produce Ltd., and Peace Naturals Project Inc. All intercompany transactions, balances, revenues and expenses have been eliminated. The Company applies the acquisition method to account for business combinations in accordance with IFRS 3. Acquisition related costs are expensed as incurred.

(b) Going concern

These condensed interim consolidated financial statements have been prepared with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. The Company's ability to continue in the normal course of operations is dependent on its ability to raise debt and equity financing, generate funds through the sale of its investments at amounts favourable to the Company, and on the ability of its subsidiaries to successfully renew their licenses to produce and sell medical cannabis. There are no assurances that the Company will be successful in achieving these goals. These circumstances cast significant doubt on the Company's ability to continue as going concern and ultimately on the appropriateness of the use of the accounting principles applicable to a going concern. These interim condensed financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations.

(c) Statement of compliance

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These condensed interim consolidated financial statements were approved by the Board of Directors on November 27, 2017.

(d) Basis of measurement

Apart from certain assets and liabilities measured at fair value as required under certain IFRSs, the condensed interim consolidated financial statements have been presented and prepared on the basis of historical cost.

(e) Functional and presentation currency

These condensed interim consolidated financial statements are presented in Canadian dollars, which is the functional currency of the Company and all subsidiaries.

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Cronos Group Inc.

Notes to Condensed Interim Consolidated Financial Statements

For the three and nine month periods ended September 30, 2017 and September 30, 2016

(Unaudited)

2. Basis of presentation (continued)

(f) Estimates and critical judgments by management

The preparation of these condensed interim consolidated financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the current period. These estimates are reviewed periodically and adjustments are made to income as appropriate in the year they become known. Items for which actual results may differ materially from these estimates are described in the following section.

(i) Warrants and options

Warrants and options are initially recognized at fair value, based on the application of the Black-Scholes option pricing model. This pricing model requires management to make various assumptions and estimates which are susceptible to uncertainty, including the volatility of the share price, expected dividend yield and expected risk-free interest rate.

(ii) Useful lives of property, plant and equipment

Depreciation of property, plant and equipment is dependent upon estimates of useful lives, which are determined through the exercise of judgement. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of the assets.

(iii) Impairment of cash-generating units and goodwill

The impairment test for cash generating units ("CGUs") to which goodwill is allocated is based on the value in use of the CGU, determined in accordance with the expected cash flow approach. The calculation is based primarily on assumptions used to estimate future cash flows, the cash flow growth rate and the discount rate used.

(iv) Impairment of long-lived assets

Long-lived assets, including property, plant and equipment and intangible assets are reviewed for impairment at each statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or group of assets (CGU). The recoverable amount of an asset or a CGU is the higher of its fair value, less costs to sell, and its value in use. If the carrying amount of an asset exceeds its recoverable amount, an impairment charge is recognized immediately in profit or loss by the amount by which the carrying amount of the asset exceeds the recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount, and the carrying amount that would have been recorded had no impairment loss been recognized previously.

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Cronos Group Inc.
Notes to Condensed Interim Consolidated Financial Statements
For the three and nine month periods ended September 30, 2017 and September 30, 2016
(Unaudited)

2. Basis of presentation (continued)

(f) Estimates and critical judgments by management (continued)

(v) Fair value of financial assets available-for-sale

Financial assets available for sale consist of privately and publicly held investments. Determination of the fair values of privately held investments requires the Company to make various assumptions about the future prospects of the investees, the economic, legal, and political environment in which the investees operate, and the ability of the investees to obtain financing to support their operations. As a result, any value estimated may not be realized or realizable, and the values may differ from values that would be realized if a ready market existed.

The determination of fair value of the Company's privately held investments is subject to inherent limitations. Financial information for private companies may not be available, or may be unreliable. Use of the valuation approach involves uncertainties and management judgments, and any value estimated from the approach may not be realized or realizable.

(vi) Income taxes

Income taxes and tax exposures recognized in the condensed interim consolidated financial statements reflect management's best estimate of the outcome based on facts known at the reporting date. When the Company anticipates a future income tax payment based on its estimates, it recognizes a liability. The difference between the expected amount and the final tax outcome has an impact on current and deferred taxes when the Company becomes aware of this difference.

In addition, when the Company incurs losses that cannot be associated with current or past profits, it assesses the probability of taxable profits being available in the future based on its budgeted forecasts. These forecasts are adjusted to take account of certain non-taxable income and expenses and specific rules on the use of unused credits and tax losses. When the forecasts indicate that sufficient future taxable income will be available to deduct the temporary differences, a deferred tax asset is recognized for all deductible temporary differences.

(vii) Biological assets and inventory

Biological assets, consisting of cannabis plants, are measured at fair value less costs to sell. At the point of harvest, the biological assets are transferred to inventory at fair value less costs to sell, as a result, critical estimates related to the valuation of biological assets are also applicable to inventory.

Determining the fair value less costs to sell requires the Company to make assumptions about the expected future yield from the cannabis plants, the value associated with each stage of the plants' growth cycle, estimated selling price, costs to convert harvested cannabis to finished goods, and costs to sell. The Company's estimates, are, by their nature, subject to change. Gains or losses arising from changes in these estimates will be reflected in the fair value less costs to sell, and included in the results of operations for the period.

Cronos Group Inc.
Notes to Condensed Interim Consolidated Financial Statements
For the three and nine month periods ended September 30, 2017 and September 30, 2016
(Unaudited)

3. New and revised standards and interpretations issued but not yet effective

(a) AMENDMENTS TO IFRS 2 SHARE-BASED PAYMENTS

IFRS 2 clarifies how to account for certain types of share-based payment transactions. The amendments provide

(b) IFRS 9 FINANCIAL INSTRUMENTS

IFRS 9 addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit and loss. IFRS 9 also replaces the models for measuring equity instruments and such instruments are either recognized at fair value through profit and loss or at fair value through other comprehensive income. The effective date of this standard is January 1, 2018. The Company will adopt this new standard as of its effective date. The Company is currently analyzing the possible impact of this Standard on its condensed interim consolidated financial statements.

(c) IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

IFRS 15 was issued by IASB in May 2014 and specifies how and when revenue should be recognized based on a five-step model, which is applied to all contracts with customers. IFRS 15 becomes effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Company will adopt this new standard as of its effective date. The Company is currently analyzing the possible impact of this Standard on its condensed interim consolidated financial statements.

(d) IFRS 16 LEASES

IFRS 16 was issued in January 2016 and replaces the previous guidance on leases. This standard provides a single recognition and measurement model to be applied to leases, with required recognition of assets and liabilities for most leases. This standard is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted if the Company is also applying IFRS 15, Revenue from Contracts with Customers. The Company will adopt this new standard as of its effective date. The Company is currently evaluating the impact of the adoption of this new standard on its condensed interim consolidated financial statements.

4. Acquisition of Peace Naturals

On September 6, 2016, the Company acquired all of the remaining issued and outstanding shares of Peace Naturals, a company headquartered in Stayner, Ontario. Consideration for the acquisition included \$6,247,543 in cash at close and \$2,590,367 (approximately 30%) to be paid once all conditions of the agreement are settled. The conditions were based on the passage of time to ensure there were no additional liabilities identified. During the nine months ended September 30, 2017, the full balance of the purchase price

liability has been repaid by the Company. As of the acquisition date, the Company owns 100% of the outstanding shares of Peace. As the Company previously held shares of Peace, the acquisition is considered a step acquisition and resulted in a loss due to fair value remeasurement.

Cronos Group Inc.
Notes to Condensed Interim Consolidated Financial Statements
For the three and nine month periods ended September 30, 2017 and September 30, 2016
(Unaudited)

4. Acquisition of Peace Naturals (continued)

The purchase price allocation for this acquisition is shown below:

Fair value of consideration transferred:	
Cash	\$ 6,247,543
Liability (i)	2,590,367
	<u>8,837,910</u>
Fair value of previously held interest:	
Fair value of previously held interest immediately before acquisition	3,314,960
Loss due to fair value remeasurement at acquisition date	(346,970)
	<u>2,967,990</u>
	<u>\$ 11,805,900</u>
Fair value of net assets acquired:	
Cash	\$ 109,443
Accounts receivable	50,647
Prepaid and deposits	29,000
Inventory	1,194,417
Biological assets	865,542
Property and equipment	10,281,935
Goodwill	1,400,000
Other intangible assets (ii)	9,595,824
Accounts payable and accrued liabilities	(2,860,072)
Loans payable	(7,460,836)
Deferred tax liability	(1,400,000)
	<u>\$ 11,805,900</u>

The Company finalized its assessment of the purchase price allocation during the three month period ended September 30, 2017. The allocation of the consideration paid remains consistent with the initial valuation.

- (i) During the nine months ended September 30, 2017, the full balance of the liability has been repaid by the Company.
- (ii) Other intangible assets include a Health Canada license.

5. Intangible assets

Goodwill	Balance at January 1, 2017	Additions	As at September 30, 2017
In the Zone	\$ 392,000	\$ —	\$ 392,000
Peace Naturals (Note 4)	1,400,000	—	1,400,000
	<u>\$ 1,792,000</u>	<u>\$ —</u>	<u>\$ 1,792,000</u>

Cronos Group Inc.
Notes to Condensed Interim Consolidated Financial Statements
For the three and nine month periods ended September 30, 2017 and September 30, 2016
(Unaudited)

5. Intangible assets (continued)

Other intangible assets	Balance at January 1, 2017	Additions	As at September 30, 2017
In the Zone Health Canada License	\$ 1,611,226	\$ —	\$ 1,611,226
Peace Naturals (Note 4)	9,595,824	—	9,595,824
	<u>\$ 11,207,050</u>	<u>\$ —</u>	<u>\$ 11,207,050</u>

6. Biological assets and inventory

The Company's biological assets consist of medical cannabis plants. The changes in the carrying amount of the biological assets are as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Carrying amount - beginning of period	\$ 2,784,791	\$ 45,968	\$ 1,794,740	\$ —
Purchase of biological assets	—	—	—	5,500
Changes in fair value of biological assets	3,008,190	392,405	6,118,180	432,873

Increase due to acquisition of Peace Naturals	—	865,542	—	865,542
Transferred to inventory upon harvest	(2,981,685)	(156,641)	(5,101,624)	(156,641)
Carrying amount - end of period	\$ 2,811,296	\$ 1,147,274	\$ 2,811,296	\$ 1,147,274

The Company estimates the harvest yields for the plants varies at different stages of growth. As of September 30, 2017, it is expected that the Company's biological assets will yield approximately 489.3 kg of medical cannabis (December 31, 2016 -213 kg). As at September 30, 2017, the Company held 597.2 kg of finished goods (December 31, 2016 - 236 kg) and 0.298 kg of seeds in raw material (December 31, 2016 - 0.298 kg), and has 4,065 plants that are biological assets (December 31, 2016 - 2,558 plants).

The valuation of the medical cannabis plants was completed using the Company's internal model. Significant assumptions used in determining the fair value of medical cannabis plants include: (a) stage of plant growth, (b) wastage of plants in their various stages, (c) sale price less cost to sell, and (d) harvest yield. Management believes that differences arising from the sensitivity of the inputs are not material.

Inventory consists of the following:

	As at September 30, 2017	As at December 31, 2016
Finished goods	\$ 2,029,485	\$ 1,502,064
Raw materials	2,465,254	193,880
Supplies and consumables	303,773	212,542
	<u>\$ 4,798,513</u>	<u>\$ 1,908,486</u>

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Cronos Group Inc.
Notes to Condensed Interim Consolidated Financial Statements
For the three and nine month periods ended September 30, 2017 and September 30, 2016
(Unaudited)

7. Loans receivable

	As at September 30, 2017	As at December 31, 2016
Loan receivable from Evergreen Medicinal Supply Inc. ("Evergreen") (i)	\$ 264,750	\$ 264,750
Loan receivable from Vert/Green Medical Inc. ("Vert") (ii)	—	375,000
	<u>264,750</u>	<u>639,750</u>
Add: Accrued interest	49,339	92,017
	<u>314,089</u>	<u>731,767</u>
Less: Principal and interest received	—	(422,934)
Loans receivable	<u>\$ 314,089</u>	<u>\$ 308,833</u>

- (i) During the year ended December 31, 2016, the Company revised the estimates of the recoverability of the loan due to updated and favourable operational conditions, and wrote up the loan to the initial amount of \$264,750 plus accrued interest of approximately \$37,500. The loan is due on demand, bearing interest at 8% per year, calculated and payable annually in arrears.
- (ii) During the year ended December 31, 2016, the full amount of the loan plus accrued interest was repaid and the entire amount was recovered. The loan was due on demand, and bore interest at 8% per year, calculated and payable semi-annually in arrears.

8. Investment in Whistler Medical Marijuana Company

As at September 30, 2017, the investment represents approximately 21.5% (December 31, 2016 - 21.5%) ownership in Whistler Medical Marijuana Company, incorporated in Canada. Whistler Medical Marijuana Company is a licensed producer and seller of medical marijuana with operations in British Columbia, Canada. The investment is accounted for using the equity method.

Reconciliation of the carrying amount of the investment is as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Balance - beginning of period	\$ 4,058,154	\$ 2,399,465	\$ 2,565,412	\$ 2,404,615
Purchase of additional shares	—	—	1,075,880	—
Company's share of dividends paid	—	—	—	(2,154)
Company's share of income (loss)	(53,596)	134,638	363,266	131,642
Balance - end of period	<u>\$ 4,004,558</u>	<u>\$ 2,534,103</u>	<u>\$ 4,004,558</u>	<u>\$ 2,534,103</u>

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Cronos Group Inc.
Notes to Condensed Interim Consolidated Financial Statements
For the three and nine month periods ended September 30, 2017 and September 30, 2016
(Unaudited)

9. Other investments

Other investments consist of investments in common shares of several companies in the medicinal marijuana industry. These shares, with the exception of Evergreen Medicinal Supply Inc., are traded in an active market, and as a result have a reliably measurable fair value.

	As at September 30, 2017	As at December 31, 2016
Available-for-sale investments		
The Hydrothecary Corporation ("Hydrothecary") (i)	\$ 340,204	\$ 412,502

Canopy Growth Corporation (“Canopy”) (ii)	316,218	337,010
AbCann Global Corp. (“AbCann”) (iii)	3,780,996	3,073,172
Evergreen Medicinal Supply Inc. (“Evergreen”) (iv)	300,000	300,000
	<u>\$ 4,737,418</u>	<u>\$ 4,122,684</u>
Fair value through profit and loss investment		
AbCann Global Corp. - share warrants (v)	\$ 73,908	\$ 1,004,574
	<u>\$ 4,811,325</u>	<u>\$ 5,127,258</u>

(i) During the nine month period ended September 30, 2017, BFK Capital Corp. acquired all of the outstanding shares of Hydrothecary Corporation, and began trading as Hydrothecary Corporation, (TSX-V:THCX). As a result of this transaction, Hydrothecary Corporation executed a 6:1 stock split.

During the nine months ended September 30, 2017, the Company sold some of its shares of Hydrothecary for proceeds of \$543,482. The cumulative gain previously recognized as other comprehensive income on these shares was reclassified to income during the period. The remaining shares were revalued at September 30, 2017 based on the fair market value, with the gain recognized as other comprehensive income.

(ii) During the nine months ended September 30, 2017, the Company sold some of its shares of Canopy for proceeds of \$87,653. The cumulative gain previously recognized as other comprehensive income on these shares was reclassified to income during the period. The remaining shares were revalued at September 30, 2017 based on the fair market value, with the gain recognized as other comprehensive income.

(iii) During the nine months ended September 30, 2017, AbCann Medicinals Inc. performed a reverse takeover with Panda Capital Inc. As a result of this transaction, AbCann began trading as AbCann Global Corporation (TSX-V:ABCN). Furthermore, the Company subscribed for additional shares of AbCann of \$1,016,000 during the nine month period ended September 30, 2017.

During the nine months ended September 30, 2017, the Company sold some of its shares of AbCann for proceeds of \$4,522,512. The cumulative gain previously recognized as other comprehensive income on these shares was reclassified to income during the period. The remaining shares were revalued at September 30, 2017 based on the fair market value, with the gain recognized as other comprehensive income.

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Cronos Group Inc.
Notes to Condensed Interim Consolidated Financial Statements
For the three and nine month periods ended September 30, 2017 and September 30, 2016
(Unaudited)

9. Other investments (continued)

- (iv) On March 16, 2017, Evergreen received a cultivation license under the ACMPR. As a result, the Company completed its subscription for a second tranche of shares of Evergreen for \$100,000 and exercised its option to acquire an additional 5% of the equity of Evergreen for \$500,000, for a total additional investment of \$600,000. However, Evergreen, through its counsel, has indicated that the Company is not entitled to any interest in Evergreen and has rejected the payment. The Company filed a statement of claim in the Supreme Court of British Columbia and Evergreen has filed a statement of defence. The Company intends to vigorously pursue the enforcement of its rights to acquire equity in Evergreen.
- (v) During the nine months ended September 30, 2017, the Company exercised 3,658,537 warrants for \$2,268,293, for additional shares of AbCann. As at September 30, 2017, the fair value of the remaining warrants was estimated using the Black-Scholes option pricing model with the following assumptions: risk free rate: 0.71 - 1.10% (December 31, 2016 - 0.60 - 0.73%); volatility: 65% (December 31, 2016 - 65%); expected life: 0.01 - 1.27 (December 31, 2016 - 0.7 - 1.7 years); and dividend yield: Nil% (December 31, 2016 - Nil%).

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
The Hydrothecary Corporation (i)	\$ 362,983	\$ —	\$ 362,983	\$ —
Canopy Growth Corporation (ii)	—	—	36,059	—
AbCann Global Corp. - shares (iii)	1,050,673	—	2,088,897	—
AbCann Global Corp. - share warrants (v)	(285,630)	—	(89,100)	—
Peace Naturals Project Inc.	—	(346,970)	—	(1,672,954)
Gain (loss) recognized through profit-and-loss	<u>\$ 1,128,025</u>	<u>\$ (346,970)</u>	<u>\$ 2,398,838</u>	<u>\$ (1,672,954)</u>

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
The Hydrothecary Corporation (i)	\$ (115,049)	\$ 125,003	\$ 198,452	\$ 125,003
Canopy Growth Corporation (ii)	81,119	—	46,582	—
AbCann Global Corp. - shares (iii)	31,760	—	447,136	—
VertMedical Inc. - shares	—	92,912	447,136	92,912
Gain (loss) recognized through other comprehensive income	<u>\$ (2,170)</u>	<u>\$ 217,915</u>	<u>\$ 1,139,306</u>	<u>\$ 217,915</u>

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Cronos Group Inc.
Notes to Condensed Interim Consolidated Financial Statements
For the three and nine month periods ended September 30, 2017 and September 30, 2016
(Unaudited)

10. Property, plant and equipment

Cost	Balance at January 1, 2017	Additions	As at September 30, 2017
Land	\$ 1,558,177	\$ —	\$ 1,558,177
Building structures	2,761,262	3,197,233	5,958,495

Vehicles	31,430	58,528	89,958
Furniture and equipment	31,706	6,125	37,831
Computer equipment	47,434	4,276	51,710
Software	40,587	14,486	55,073
Fencing	3,249	—	3,249
Security equipment	471,376	189,071	660,447
Production equipment	2,105,261	911,022	3,016,283
Road	137,376	—	137,376
Leasehold improvements	1,428,965	—	1,428,965
Construction in progress	6,034,162	12,719,481	18,753,643
	<u>\$ 14,650,985</u>	<u>\$ 17,100,222</u>	<u>\$ 31,751,207</u>

10. Property, plant and equipment (continued)

	Balance at January 1, 2017	Additions	As at September 30, 2017
Accumulated depreciation			
Building structures	\$ 120,141	\$ 163,660	\$ 283,801
Vehicles	3,929	12,772	16,701
Furniture and equipment	13,718	5,215	18,933
Computer equipment	25,712	11,537	37,249
Software	10,147	14,131	24,278
Fencing	975	244	1,219
Security equipment	58,595	85,548	144,143
Production equipment	103,434	274,368	377,802
Road	5,677	4,123	9,800
Leasehold improvements	186,369	112,405	298,774
	<u>\$ 528,697</u>	<u>\$ 684,003</u>	<u>\$ 1,212,700</u>
Net book value	<u>\$ 14,122,288</u>		<u>\$ 30,538,507</u>

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Cronos Group Inc.

Notes to Condensed Interim Consolidated Financial Statements

For the three and nine month periods ended September 30, 2017 and September 30, 2016

(Unaudited)

10. Property, plant and equipment (continued)

Cost	Balance at January 1, 2016	Additions	Acquisitions	As at September 30, 2016
Land	\$ 210,000	\$ —	\$ 725,000	\$ 935,000
Building structures	824,127	—	1,875,000	2,699,127
Vehicles	—	—	31,430	31,430
Furniture and equipment	26,658	—	5,048	31,706
Computer equipment	28,859	—	18,575	47,434
Software	—	—	2,648	2,648
Fencing	3,249	—	—	3,249
Security equipment	179,898	49,166	—	229,064
Production equipment	72,656	72,920	1,624,234	1,769,810
Road	137,376	—	—	137,376
Leasehold improvements	1,363,014	59,643	—	1,422,657
Construction in progress	—	—	6,000,000	6,000,000
	<u>\$ 2,845,837</u>	<u>\$ 181,729</u>	<u>\$ 10,281,935</u>	<u>\$ 13,309,501</u>

	Balance at January 1, 2016	Additions	As at September 30, 2016
Accumulated depreciation			
Building structures	\$ 62,569	\$ 37,232	\$ 99,801
Vehicles	—	620	620
Furniture and equipment	7,998	4,065	12,063
Computer equipment	12,111	7,622	19,733
Software	—	87	87
Fencing	650	244	894
Security equipment	7,915	27,734	35,649
Production equipment	14,455	24,076	38,531
Road	181	4,122	4,303
Leasehold improvements	40,072	109,052	149,124
	<u>\$ 145,951</u>	<u>\$ 214,854</u>	<u>\$ 360,805</u>
Net book value	<u>\$ 2,699,886</u>		<u>\$ 12,948,696</u>

11. Mortgage payable

On September 6, 2016, the Company obtained a mortgage in connection with the acquisition of Peace Naturals (Note 4) with a principal balance of \$4,000,000. The mortgage was interest-bearing at 12% per annum compounded and payable monthly. The mortgage was secured by a first charge on Peace Natural's property as well as a first ranking security interest charging all the personal property of Peace Naturals and each covenantor in the amount of the loan. The mortgage matured on June 1, 2017 and was fully repaid.

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Cronos Group Inc.

Notes to Condensed Interim Consolidated Financial Statements

For the three and nine month periods ended September 30, 2017 and September 30, 2016

(Unaudited)

12. Construction loan payable

	As at September 30, 2017	As at December 31, 2016
First advance	\$ 6,304,494	\$ —
Less: transaction costs	(1,282,418)	—
	<u>\$ 5,022,077</u>	<u>\$ —</u>

On August 23, 2017, Peace Naturals, as borrower, signed a construction loan agreement with Romspen Investment Corporation as lender, to borrow \$40,000,000, to be funded by way of multiple advances. The aggregate advances are limited to \$35,000,000 until the lender receives an appraisal valuing the property in British Columbia at an amount of not less than \$8,000,000. The loan bears interest a rate of 12% per annum, calculated and compounded monthly, in arrears, on the amounts advanced from the date of each advance. The term of the loan is two years, with the borrower's option to extend for another twelve months. The loan is guaranteed by Cronos Group Inc., Hortican Inc., In the Zone, the responsible-person-in-charge and the senior-person-in-charge of In the Zone and Peace Naturals. The loan is secured as follows:

- (a) first-ranking charge on the land owned by In the Zone, Peace Naturals, and Hortican, (the "Property") with a net book value of approximately \$1,558,000 as at September 30, 2017;
- (b) first-ranking general assignment of all present and future leases of each Property;
- (c) general security agreements creating first-ranking security interests charging all the personal property of Peace Naturals and the corporate guarantors including without limitation, goods, chattel, paper, documents, accounts, intangibles, securities, monies, books and records;
- (d) specific assignment of each Property's right, title, and interest in the construction project for which the loan is being used to fund, including licenses, permits, plans and specifications, development approvals and agreements;
- (e) acknowledgement of the status and terms of any contracts affecting or with respect to each Property including without limitation, any pertaining to ownership, insurance, shared facilities, passageway agreements, or similar matters, confirming the good status of such contracts, and the rights of the lender under such contracts;
- (f) the subordination of all other indebtedness of Peace Naturals;
- (g) an unconditional, joint and several covenant by the guarantors as principal debtor for the performance of obligations by Peace Naturals, it being understood that the lender is not obliged to proceed against Peace Naturals or exhaust any security before proceeding against the guarantors;
- (h) assignment, postponement, and subordination by the corporate guarantors in favour of the lender;
- (i) assignment of all insurance policies with respect to each Property and the construction project;
- (j) pledge of the shares of Peace Naturals, In the Zone, and Hortican;
- (k) an environmental indemnity from Peace Naturals and the corporate guarantors; and
- (l) deficiency and completion guarantee from Peace Naturals and the corporate guarantors.

13. Indebtedness

This indebtedness represents amounts owing to a broker for trades made on account.

Cronos Group Inc. Notes to Condensed Interim Consolidated Financial Statements For the three and nine month periods ended September 30, 2017 and September 30, 2016 (Unaudited)

14. Share capital and reserves

- (a) Share capital
 - (i) Common Shares

The Company is authorized to issue an unlimited number of common shares.

The holders of the common shares are entitled to receive dividends which may be declared from time to time, and are entitled to one vote per share at meetings of the Company. All shares are ranked equally with regards to the Company's residual assets.

During the nine months ended September 30, 2016, 42,857,140 common shares were issued in private placements, for total consideration of \$14,821,734.

During the nine months ended September 30, 2016, the Company converted and accordingly discharged the convertible loans at \$0.10 per share, resulting in the issuance of 1,150,000 common shares.

During the nine months ended September 30, 2017, the Company issued 7,705,000 common shares of the Company that were sold at a price of \$2.25 per share for aggregate gross proceeds of \$17,336,250.

During the nine months ended September 30, 2017, 6,671,112 common shares were issued in private placements, for aggregate gross proceeds of \$15,010,002.

As at September 30, 2017, 1,928,984 of the Company's shares were held in escrow (December 31, 2016 - 3,233,992). The release of these shares is subject to regulatory approval.

- (ii) Special Shares

The Company is authorized to issue an unlimited number of special shares, issuable in series.

The special shares may be issued in one or more series and the directors are authorized to fix the number of shares in each series and to determine the designation, right, privileges, restrictions and conditions attached to the shares in each series. No special shares have been issued since the Company's inception.

(b) Warrants

The following is a summary of changes in warrants for the period from January 1, 2016 to September 30, 2016:

	Number of Warrants	Amount
Balance at January 1, 2016	15,795,422	\$ 1,328,882
Issuance of warrants - May 2016 (i)	32,432,425	2,832,029
Exercise of warrants - July 2016 (ii)	(55,000)	—
Exercise of warrants - August 2016 (iii)	(100,000)	(14,527)
Balance at September 30, 2016	<u>48,072,847</u>	<u>\$ 4,146,384</u>

- (i) 32,432,425 units were issued in two private placements. Each unit consisted of one common share and one common share purchase warrant, for total consideration of \$5,978,233. Each warrant has an exercise price of \$0.245.
- (ii) 55,000 warrants were exercised in exchange for \$4,400 in cash. These warrants were granted on January 18, 2013, and had an exercise price of \$0.08.
- (iii) 100,000 warrants were exercised in exchange for \$24,000 in cash. These warrants were granted on October 1, 2013, and had an exercise price of \$0.24.

Cronos Group Inc.
Notes to Condensed Interim Consolidated Financial Statements
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(Unaudited)

14. Share capital and reserves (continued)

(b) Warrants (continued)

The following is a summary of changes in warrants for the period from January 1, 2017 to September 30, 2017:

	Number of Warrants	Amount
Balance at January 1, 2017	45,885,172	\$ 3,982,895
Exercise of warrants - January 2017 (i)	(375,565)	(163,679)
Exercise of warrants - January 2017 (ii)	(298,066)	—
Exercise of warrants - March 2017 (iii)	(1,140,351)	(116,316)
Exercise of warrants - April 2017 (iv)	(350,877)	(66,316)
Exercise of warrants - April 2017 (v)	(744,198)	—
Exercise of warrants - May 2017 (vi)	(165,377)	—
Exercise of warrants - May 2017 (vii)	(192,982)	(36,474)
Exercise of warrants - June 2017 (viii)	(50,000)	—
Exercise of warrants - July 2017 (ix)	(248,066)	—
Exercise of warrants - July 2017 (x)	(157,894)	(29,842)
Exercise of warrants - August 2017 (xi)	(2,300,000)	(201,752)
Exercise of warrants - September 2017 (xii)	(48,720)	(4,245)
Exercise of warrants - September 2017 (xiii)	(951,064)	—
Expiry of warrants	(19,210)	—
Balance at September 30, 2017	<u>38,842,802</u>	<u>\$ 3,364,271</u>

- (i) 375,565 warrants were exercised in exchange for \$266,651 in cash. These warrants were granted on January 30, 2014, and had an exercise price of \$0.71.
- (ii) 298,066 warrants were exercised in exchange for \$23,845 in cash. These warrants were granted on January 18, 2013, and had an exercise price of \$0.08.
- (iii) 1,140,351 warrants were exercised in exchange for \$353,509 in cash. These warrants were granted on October 8, 2015, and had an exercise price of \$0.31.
- (iv) 350,877 warrants were exercised in exchange for \$108,772 in cash. These warrants were granted on October 28, 2015, and had an exercise price of \$0.31.
- (v) 744,198 warrants were exercised in exchange for \$59,536 in cash. These warrants were granted on January 18, 2013, and had an exercise price of \$0.08.
- (vi) 165,377 warrants were exercised in exchange for \$13,230 in cash. These warrants were granted on January 18, 2013, and had an exercise price of \$0.08.
- (vii) 192,982 warrants were exercised in exchange for \$59,824 in cash. These warrants were granted on October 28, 2015, and had an exercise price of \$0.31.
- (viii) 50,000 warrants were exercised in exchange for \$4,000 in cash. These warrants were granted January 18, 2013 and had an exercise price of \$0.08.
- (ix) 248,066 warrants were exercised in exchange for \$19,845 in cash. These warrants were granted on January 18, 2013 and had an exercise price of \$0.08.

Cronos Group Inc.
Notes to Condensed Interim Consolidated Financial Statements
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14. Share capital and reserves (continued)

(b) Warrants (continued)

(x) 157,894 warrants were exercised in exchange for \$48,947 in cash. These warrants were granted on October 28, 2015 and had an exercise price of \$0.31.

(xi) 2,300,000 warrants were exercised in exchange for \$563,500 in cash. These warrants were granted on May 17, 2016 and had an exercise price of \$0.245.

(xii) 48,720 warrants were exercised in exchange for \$11,936 in cash. These warrants were granted on May 27, 2016 and had an exercise price of \$0.245.

(xiii) 951,064 warrants were exercised in exchange for \$76,033 in cash. These warrants were granted on January 18, 2013 and had an exercise price of \$0.08.

As at September 30, 2017, the Company has outstanding warrants as follows:

Grant date	Number of warrants	Exercise price	Expiry
January 18, 2013	3,169,624	\$ 0.08	18-Jan-18
October 8, 2015	4,101,680	0.31	8-Oct-20
October 23, 2015	1,478,245	0.31	23-Oct-20
October 28, 2015	9,548	0.31	28-Oct-20
May 13, 2016	8,510,812	0.245	13-May-21
May 27, 2016	21,572,893	0.245	27-May-21
	<u>38,842,802</u>	<u>\$ 0.241</u>	

15. Share-based payments

(a) Option plan details

The Company has an incentive stock option plan, approved by shareholders on June 28, 2017 under which non-transferrable options to purchase common shares of the Company may be granted to directors, officers, or service providers of the Company. The terms of the plan provide that Directors have the right to grant options to acquire common shares of the Company at not less than the discounted market price (as set out in the plan) with the market price deemed to be closing price on the day preceding the grant at varying terms. The maximum number of common shares reserved for issuance for options that may be granted under the plan is 10% of the common shares outstanding. No amounts are paid or payable by the recipient on receipt of the option, and the options granted are not dependent on any performance-based criteria.

(b) Summary of changes

The following is a summary of changes in options for the periods from January 1, 2016 to September 30, 2016 and from January 1, 2017 to September 30, 2017:

	Number of Options	Amount
Balance at January 1, 2016	1,610,003	\$ 598,650
Issuance of options - May 2016 (i)	157,850	5,928
Issuance of options - August 2016 (ii)	1,225,000	287,366
Exercise of options - August 2016 (iii)	(213,390)	(31,000)
Exercise of options - August 2016 (iv)	(157,390)	(5,902)
Expiry of options (v)	(512,970)	—
Balance at September 30, 2016	<u>1,610,003</u>	<u>\$ 855,042</u>

Cronos Group Inc.

Notes to Condensed Interim Consolidated Financial Statements

For the three and nine month periods ended September 30, 2017 and September 30, 2016
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15. Share-based payments (continued)

(b) Summary of changes (continued)

	Number of Options	Amount
Balance at January 1, 2017	6,177,594	\$ 735,489
Exercise of options - January 2017 (vi)	(32,009)	(13,956)
Exercise of options - February 2017 (vii)	(32,000)	(22,752)
Exercise of options - March 2017 (viii)	(171,695)	(104,330)
Exercise of options - April 2017 (ix)	(93,000)	(66,114)
Exercise of options - April 2017 (x)	(30,416)	(15,342)
Exercise of options - May 2017 (xi)	(35,043)	(24,912)
Exercise of options - July 2017 (xii)	(83,333)	(19,459)
Exercise of options - September 2017 (xiii)	(1,250)	(631)
Expiry of options (v)	(53,347)	—
Issuance of options - April 2017 (xiv)	3,299,000	—
Issuance of options - August 2017 (xv)	2,903,000	—
Vesting of issued options	—	1,170,209
Balance at September 30, 2017	<u>11,847,501</u>	<u>\$ 1,638,202</u>

(i) During the three months ended June 30, 2016, 157,850 options were issued to a former consultant and a former director of the Company. These options had an exercise price of \$0.285.

(ii) During the three months ended September 30, 2016, 487,500 options were issued to key management of the Company and 250,000 options were issued to the various directors of the Company. These options had an exercise price of \$0.50. The remaining options were granted to consultants and other employees of the Company.

(iii) During the three months ended September 30, 2016, 213,390 options were exercised in exchange for \$51,214 in cash. These options were granted on October 1, 2013, and had an exercise price of \$0.24.

- (iv) During the three months ended September 30, 2016, 157,390 options were exercised in exchange for \$44,856 in cash. These options were granted on May 17 and 27, 2016, and had an exercise price of \$0.285.
- (v) During the three months ended September 30, 2017, 53,347 (2016 - 512,970) options expired, which had a weighted average exercise price of \$1.15 (2016 - \$0.96).
- (vi) During the nine months ended September 30, 2017, 32,009 options were exercised in exchange for \$22,726 in cash. These options were granted on January 30, 2014, and had an exercise price of \$0.71.
- (vii) During the nine months ended September 30, 2017, 32,000 options were exercised in exchange for \$36,800 in cash. These options were granted on August 5, 2014, and had an exercise price of \$1.15.
- (viii) During the nine months ended September 30, 2017, 171,695 options were exercised in exchange for \$197,449 in cash. These options were granted on September 19, and December 17, 2014, and had an exercise price of \$1.15.
- (ix) During the nine months ended September 30, 2017, 93,000 options were exercised in exchange for \$106,950 in cash. These options were granted on August 5, 2014, and had an exercise price of \$1.15.
- (x) During the nine months ended September 30, 2017, 30,416 options were exercised in exchange for \$37,412 in cash. These options were granted on October 6, 2016, and had an exercise price of \$1.23.

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Cronos Group Inc.
Notes to Condensed Interim Consolidated Financial Statements
For the three and nine month periods ended September 30, 2017 and September 30, 2016
(Unaudited)

15. Share-based payments (continued)

(b) Summary of changes (continued)

- (xi) During the nine months ended September 30, 2017, 35,043 options were exercised in exchange for \$40,299 in cash. These options were granted on August 5, 2014, and had an exercise price of \$1.15.
- (xii) During the nine months ended September 30, 2017, 83,333 options were exercised in exchange for \$41,667 in cash. These options were granted on August 5, 2016 and had an exercise price of \$0.05.
- (xiii) During the nine months ended September 30, 2017, 1,250 options were exercised in exchange for \$1,626 in cash. These options were granted on October 6, 2016 and had an exercise price of \$1.23.
- (xiv) During the nine months ended September 30, 2017, 2,600,000 options were issued to a member of key management and a director of the Company. An additional 699,000 options were issued to employees and consultants of the Company. The total of 3,299,000 options had an exercise price of \$3.14.
- (xv) During the nine months ended September 30, 2017, 1,775,000 options were issued to three members of key management and a director of the Company. An additional 1,128,000 options were issued to employees and consultants of the Company. The total of 2,903,000 options had an exercise price of \$2.42.

The weighted average share price at the dates of exercise of options during the nine months ended September 30, 2017 was \$2.45 (nine months ended September 30, 2016 - \$Nil).

As at September 30, 2017, the Company had outstanding and exercisable options as follows:

Grant date	Number of options	Weighted average exercise price	Weighted average remaining contractual life (years)
December 17, 2014 (i)	435,000	\$ 1.15	0.21
August 5, 2016 (ii)	1,141,667	0.50	3.85
October 6, 2016 (ii)	3,586,834	1.23	4.02
November 16, 2016 (iii)	300,000	1.50	0.62
November 21, 2016 (ii)	182,000	1.84	4.13
April 12, 2017 (ii)	3,299,000	3.14	4.53
August 23, 2017 (ii)	2,903,000	2.42	4.90
Outstanding at September 30, 2017	11,847,501	\$ 2.00	4.14
Exercisable at September 30, 2017	2,443,083	\$ 1.47	3.01

- (i) These options vest immediately upon issuance, shall expire at the earlier of 180 days of the death, disability or incapacity of the holder or five years after the date of issue, and can only be settled in equity.
- (ii) These options vest evenly over a 48 month period, shall expire at the earlier of 180 days of the death, disability or incapacity of the holder or five years after the date of issue, and can only be settled in equity.
- (iii) These options vested on May 15, 2017, shall expire at the earlier of 180 days of the death, disability or incapacity of the holder or five years after the date of issue, and can only be settled in equity.

As at September 30, 2017, the weighted average exercise price of options outstanding is \$2.00 (December 31, 2016 - \$1.10). The weighted average exercise price of options exercisable is \$1.47 (December 31, 2016 - \$1.09).

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(Unaudited)

15. Share-based payments (continued)

(c) Fair Value of Options Issued During the Period

The fair value of the options was determined using the Black-Scholes option pricing model. The following inputs were used:

	Nine months ended September 30,	
	2017	2016
Share price at grant date	\$1.16 - \$3.27	\$0.19 - \$0.50
Exercise price	\$2.42 - \$3.14	\$0.285 - \$0.50
Risk free interest rate	0.96% - 1.43%	0.54% - 0.57%
Expected life of options (years)	5	0.25 - 5
Expected annualized volatility	55%	55% - 150%
Expected dividend yield	0%	0%
Weighted average Black Scholes value at grant date	\$1.39	\$0.40

(d) Expenses Arising from Share-based Payment Transactions

Total expenses arising from share-based payment transactions recognized during the nine month period ended September 30, 2017 as part of stock-based compensation were \$1,170,209 (2016 - \$293,294).

16. Earnings (loss) per share

Basic and diluted earnings (loss) per share are calculated using the following numerators and denominators:

Numerator	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Income (loss) attributable to common shareholders	\$ 1,097,453	\$ (227,607)	\$ 427,895	\$ (2,560,236)
Income (loss) used in computation of basic and diluted earnings (loss) per share	\$ 1,097,453	\$ (227,607)	\$ 427,895	\$ (2,560,236)

Denominator	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Weighted average number of common shares for computation of basic earnings (loss) per share	134,913,931	64,067,295	130,782,161	64,067,295
Dilutive effect of warrants	3,585,814	—	3,585,814	—
Dilutive effect of options	5,093,115	—	5,093,115	—
Weighted average number of common shares for computation of diluted earnings (loss) per share	143,592,860	64,067,295	139,461,090	64,067,295

During the three month and nine month periods ended September 30, 2016, all instruments were anti-dilutive. As at September 30, 2017, 3,299,000 warrants with an exercise price of \$3.14 were anti-dilutive, and therefore, excluded from the calculation of diluted earnings per share.

Cronos Group Inc.

Notes to Condensed Interim Consolidated Financial Statements

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(Unaudited)

17. Related party transactions and balances

The following is a summary of the Company's related party transactions during the year:

(a) Key management compensation

Key management personnel are persons responsible for planning, directing and controlling activities of an entity, and include executive and non-executive directors. Compensation provided to key management is as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Short-term employee benefits, including salaries and fees	\$ 99,100	\$ (65,045)	\$ 310,802	\$ 60,850
Professional fees	56,015	16,950	127,129	94,850
Stock-based compensation	538,840	114,360	766,975	116,730
	\$ 693,955	\$ 66,265	\$ 1,204,906	\$ 272,430

As at September 30, 2017, there was a balance payable of \$Nil to members of key management (December 31, 2016 -

18. Contingencies

(a) The following are related to Peace Naturals:

- (i) *Plants Claim*. Peace Naturals is subject to a claim for \$12 million for damages related to the death of 12 cannabis plants held in its care, amounting to \$1 million per plant (the "**Plants Claim**"). The Company believes that the allegations are without merit and plans to vigorously defend itself; accordingly, no provision for loss has been recognized.
- (ii) *MedCann Access Acquisition Claim*. Peace Naturals, 8437718 Canada Inc., 8437726 Canada Inc., Michael Blaine Dowdle, Rade Kovacevic, Kevin Furet and 9388036 Canada Inc. (collectively, the "**Plaintiffs**") commenced a claim against Peace Naturals and a number of other parties, for \$15 million in damages as a result of an alleged breach of obligations to them by terminating a share purchase transaction for the acquisition of the Plaintiffs' company, Medicann Access. The Company believes that the allegations contained in the statement of claim are without merit and plans to vigorously defend itself; accordingly, no provision for loss has been recognized.

- (iii) *Warrants Claim.* Jeffrey Gobuty, brother to Mark Gobuty, ex-CEO of Peace Naturals, brought a claim against Peace Naturals for warrants valued at \$250,000 that were purportedly issued by the ex-CEO. Peace Naturals believes that the allegations contained in the statement of claim are without merit and plans to vigorously defend itself; accordingly, no provision for loss has been recognized. The plaintiff has not actively pursued this claim in over a year.

Cronos Group Inc.
Notes to Condensed Interim Consolidated Financial Statements
For the three and nine month periods ended September 30, 2017 and September 30, 2016
(Unaudited)

19. Income taxes

The Company's statutory income tax rate is 26.5% for the nine month periods ended September 30, 2017 and September 30, 2016, representing the best estimate of the average annual effective tax rate expected to apply for the full year, applied to the pre-tax income of the six month periods.

Deferred tax liabilities have been offset by deferred tax assets relating to loss carryforwards where they relate to income taxes levied by the same taxation authority and the Company has the legal right and intent to offset.

Movement in the net deferred tax liability is provided below:

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Balance - beginning of period	\$ 1,435,000	\$ 97,000	\$ 1,457,000	\$ 195,000
Increase due to acquisition of Peace	—	1,400,000	—	1,400,000
Recognized in income	(76,000)	(63,000)	(98,000)	(161,000)
Balance - end of period	\$ 1,359,000	\$ 1,434,000	\$ 1,359,000	\$ 1,434,000

20. Financial instruments

(i) Credit risk

Concentration of credit risk arises when a group of customers have similar characteristics such that their ability to meet their obligations is expected to be affected similarly by changes in economic or other conditions. Management's opinion is that the Company's concentration of credit risk consists principally of accounts receivable and loans receivable. The maximum exposure to credit risk is the carrying value of these financial assets. The Company manages credit risk by establishing reasonable allowances for non-collectible amounts with the allowance netted against the receivable balances on the statement of financial position.

(ii) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's policy is to review liquidity resources and ensure that sufficient funds are available to meet financial obligations as they become due. Further, the Company's management is responsible for ensuring funds exist and are readily accessible to support business opportunities as they arise. The Company's funding is provided in the form of capital raised through the issuance of shares and warrants.

The following represents an analysis of the age of trade payables:

	As at September 30, 2017	As at December 31, 2016
Current	\$ 407,717	\$ 146,848
Less than 30 days past billing date	241,359	149,892
31 to 60 days past billing date	17,324	33,049
61 to 90 days past billing date	16,876	15,992
Over 90 days past billing date	24,077	240,101
	\$ 707,353	\$ 585,882

Cronos Group Inc.
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(Unaudited)

20. Financial instruments (continued)

(iii) Market risk

(1) Price risk

Price risk is the risk that the fair value of, or future cash flows from, the Company's financial instruments will significantly fluctuate due to changes in market prices. The value of the financial instruments can be affected by changes in interest rates, market and economic conditions, and equity and commodity prices. The Company is exposed to price risk in divesting its investments, and unfavourable market conditions could result in dispositions of investments at less than favourable prices. Further, in the revaluation of securities classified as available-for-sale, this could result in significant write-downs of the Company's investments, which would have an adverse impact on the Company's financial position.

The Company manages price risk by having a portfolio of securities from multiple issuers, such that the Company is not singularly exposed to any one issuer. The Company also has set thresholds on purchases of investments over which the approval of the Board of Directors is required.

(2) Concentration risk

Concentration risk is the risk that any single investment or group thereof, has the potential to materially affect the operating results of the Company. The Company is exposed to this risk as all of its investments are currently within the medical marijuana industry. As such, the Company's financial results may be adversely affected by the unfavourable performance of those investments or the industry in which they operate.

It is management's opinion that the Company is not subject to significant interest rate risk.

21. Fair value hierarchy

Assets recorded at fair value on the condensed interim consolidated statements of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets and liabilities;

Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3 - valuation techniques using the inputs for the asset or liability that are not based on observable market data

In these condensed interim consolidated financial statements, classification of assets measured at fair value is as follows:

Level 1 - cash; other investments (Canopy, Hydrothecary, AbCann shares)

Level 2 - AbCann options;

Level 3 - other investments (Evergreen), biological assets.

The Company's policy for determining when transfers between levels of the fair value hierarchy is deemed to have occurred is based on the date of the event or changes in circumstances that caused the transfer.

During the nine months ended September 30, 2017, Hydrothecary and AbCann became publicly traded. Due to these events, the investments in shares of Hydrothecary and AbCann were transferred out of Level 3 as the inputs for the valuation of the investment were no longer unobservable. The investments in Hydrothecary and AbCann were transferred into Level 1 of the fair value hierarchy, as the valuation of the investments is based on quoted prices in an active market.

Cronos Group Inc.

Notes to Condensed Interim Consolidated Financial Statements

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(Unaudited)

22. Subsequent events

- (a) On October 4, 2017, the Company's wholly-owned subsidiary, announced the rebranding of In the Zone Produce Ltd., as Original BC Ltd. ("OGBC"). As part of this rebranding, OGBC's legal name change became effective on October 16, 2017 and it was continued under the Business Corporations Act (Canada). The OGBC license under the ACMPR was amended to reflect the name change on October 20, 2017.
- (b) On November 8, 2017, the Company closed a bought deal public offering, including the full exercise of the over-allotment option. A total of 5,476,190 common shares of the Company were issued at a price of \$3.15 per share for aggregate gross proceeds of \$17,249,998.50. The offering was underwritten by a syndicate led by PI Financial Corp. as sole bookrunner and included Canaccord Genuity Corp.
- (c) Subsequent to September 30, 2017, on November 21, 2017, the plaintiffs (Tweed Inc., the successor in interest of 8437726 Canada Inc., operating as MedCann Access, and 9388036 Canada Inc.) filed a notice with the Ontario Superior Court of Justice to wholly discontinue the Plants Claim against Peace Naturals.
- (d) Subsequent to September 30, 2017, the Company granted options for 200,000 common shares of the Company to certain employees, in accordance with the Company's stock option plan. The options are exercisable at a price of \$3.32 per common share and are subject to the terms of the Company's stock option plan.
- (e) Subsequent to September 30, 2017, the Company disposed of 822,000 shares of AbCann Global Corp.
- (f) Subsequent to September 30, 2017, on November 13, 2017, Peace Naturals, Cronos Group and certain directors were served with a claim for wrongful termination by a former employee of Peace Naturals. Peace Naturals and the Cronos Group believe that the allegations contained in the statement of claim are without merit and plans to vigorously defend itself.

CRONOS GROUP INC.



MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Three and Nine Months Ended September 30, 2017

(in Canadian dollars)

INTRODUCTION

This Management Discussion and Analysis (“**MD&A**”) provides relevant information on the condensed interim results of operations and financial condition of Cronos Group Inc. for the three and nine-month periods ended September 30, 2017. This MD&A should be read in conjunction with the unaudited condensed interim consolidated financial statements for the three and nine-month periods ended September 30, 2017 in addition to the audited consolidated financial statements for the year ended December 31, 2016. Unless otherwise noted or the context indicates otherwise, the “**Company**”, “**we**”, “**us**” and “**our**” refer to Cronos Group Inc. and its subsidiaries, Peace Naturals Project, Inc. and Original BC Ltd.; “**Cronos Group**” refers to Cronos Group Inc. on a stand-alone basis; “**Peace Naturals**” refers to Cronos Group’s wholly-owned subsidiary Peace Naturals Project, Inc.; “**OGBC**” refers to Cronos Group’s wholly-owned subsidiary Original BC Ltd. (formerly known as In The Zone Produce Ltd).

This discussion contains forward-looking information that is qualified by reference to, and should be read in conjunction with, the Forward-Looking Statements (as defined herein) below.

This MD&A provides information that Company management believes is important to assess to understand the results of operations and financial condition of the Company. Our objective is to present readers with a view of the Company from management’s perspective by interpreting the material trends and activities that affect the operating results, liquidity and financial position of the Company. All monetary amounts herein are expressed in Canadian dollars unless otherwise specified.

This MD&A is current as of November 28, 2017.

The Company’s unaudited condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“**IFRS**”) as issued by the International Accounting Standards Board (“**IASB**”).

Additional information relating to the Company can be found on the SEDAR website at www.sedar.com.

FORWARD-LOOKING STATEMENTS

This MD&A contains certain information that may constitute forward-looking information and forward-looking statements (collectively, “Forward-Looking Statements”), which are based upon the Company’s current internal expectations, estimates, projections, assumptions and beliefs. Such 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, including negative and grammatical variations thereof, or statements that certain events or conditions “may” or “will” happen, or by discussions of strategy. Forward-Looking Statements include estimates, plans, expectations, opinions, forecasts, projections, targets, guidance, or other statements that are not statements of fact. The Forward-Looking Statements included in this MD&A are made only as of the date of this MD&A. Forward-Looking Statements in this MD&A include, but are not limited to, statements with respect to: the performance of the Company’s business and operations; the Company’s expectations regarding revenues, expenses and anticipated cash needs; the intended expansion of the Company’s facilities, including the construction of Building 4 (as defined herein) and the Peace Naturals Greenhouse (as defined herein) and the respective costs and timing associated therewith and receipt of approval from Health Canada to increase maximum production limits and sales from the expanded facilities; the expected growth in the number of patients using the Company’s medical cannabis; the expected growth in the Company’s growing and production capacities; expectations with respect to future production costs; the expected methods to be used by the Company to distribute medical cannabis; the competitive conditions of the industry; the legalization of cannabis for recreational use in Canada, including federal and provincial regulations pertaining thereto and the timing related thereof and the Company’s intentions to participate in such market, if and when legalized; the legalization of the use of cannabis for medical and / or recreational use in jurisdictions outside of Canada and the timing related thereof and the Company’s intentions to participate in such markets outside of Canada, if and when legalized; laws and regulations and any amendments thereto applicable to the business; the competitive advantages and business strategies of the Company; the grant, renewal and impact of any license or supplemental license to conduct activities with cannabis or any amendments thereof; the medical benefits,

viability, safety, efficacy, dosing and social acceptance of cannabis; the Company’s future product offerings; and the anticipated future gross margins of the Company’s operations.

Certain of the Forward-Looking Statements contained herein concerning the medical cannabis industry and the general expectations of the Company concerning the medical cannabis industry are based on estimates prepared by the Company using data from publicly-available governmental sources as well as from market research and industry analysis and on assumptions based on data and knowledge of this industry, which the Company believes to be reasonable. However, although generally indicative of relative market positions, market shares and performance characteristics, such data is inherently imprecise. While the Company is not aware of any misstatement regarding any industry or government data presented herein, the medical cannabis industry involves risks and uncertainties that are subject to change based on various factors.

Although the Company believes that the expectations reflected in such Forward-Looking Statements are reasonable, it can give no assurance that such expectations will prove to have been correct. The Company’s Forward-Looking Statements are expressly qualified in their entirety by this cautionary statement. In particular, but without limiting the foregoing, disclosure in this MD&A under “Company Business” as well as statements regarding the Company’s objectives, plans and goals, including future operating results,

economic performance and patient acquisition efforts may make reference to or involve Forward-Looking Statements. The purpose of Forward-Looking Statements is to provide the reader with a description of management’s expectations, and such Forward-Looking Statements may not be appropriate for any other purpose.

With respect to the Forward-Looking Statements contained in this MD&A, we have made assumptions regarding, among other things: (i) our ability to generate cash flow from operations and obtain necessary financing on acceptable terms; (ii) general economic, financial market, regulatory and political conditions in which we operate; (iii) the yield from the growing operations of Peace Naturals and OGBC; (iv) consumer interest in our products; (v) competition; (vi) anticipated and unanticipated costs; (vii) government regulation of our activities and products and in the areas of taxation and environmental protection; (viii) the timely receipt of any required regulatory approvals; (ix) our ability to obtain qualified staff, equipment and services in a timely and cost efficient manner; (x) our ability to conduct operations in a safe, efficient and effective manner; and (xi) our construction plans and timeframe for completion of such plans.

A number of factors could cause actual events, performance or results to differ materially from what is projected in the Forward-Looking Statements. Some of the risks and other factors, which could cause actual results to differ materially from those expressed in the Forward-Looking Statements contained in this MD&A include, but are not limited to the factors included under “Risk and Uncertainties” in this MD&A as well as those discussed under the heading “Risk Factor” in the Company’s Annual Information Form (“AIF”) dated October 25, 2017 in respect of the fiscal year ended December 31, 2016. Readers are cautioned not to place undue reliance on Forward-Looking Statements. We undertake no obligation to update or revise any Forward-Looking Statements, whether as a result of new information, future events or otherwise, except as required by applicable law.

COMPANY BUSINESS

Overview

Cronos Group is a publicly-traded company, incorporated under the *Canada Business Corporations Act* on August 21, 2012, with its head office at 76 Stafford Street, Toronto, Ontario. The Company’s common shares trade under the symbol “MJN” on the Toronto Stock Venture Exchange (“TSX-V”) and are admitted into the Nasdaq International Designation program under the symbol “OTC — Nasdaq International Designation: PRMCF”. The Nasdaq International Designation is an over-the-counter platform designed for non-U.S. companies that provides member companies with Nasdaq’s visibility offering, allowing for greater access to U.S.-based investors. Member companies of the Nasdaq International Designation are not listed or traded on The Nasdaq Stock Market, LLC and are not subject to the same listing or qualification standards applicable to securities listed or traded on an exchange.

Cronos Group is a leading global cannabis company whose principal activities are the production and sale of cannabis in federally legal jurisdictions, including Canada and Germany. Currently, the Company sells dried cannabis and cannabis oils under its medical cannabis brand *Peace Naturals*. The Company operates two wholly-owned licensed producers regulated within Health Canada’s *Access to Cannabis for Medical Purposes Regulations* (the “ACMPR”) namely, Peace Naturals, with production facilities near Barrie, Ontario, and OGBC, with a production facility near Kelowna, British Columbia.

Strategy

The Company has four key strategic priorities:

- Establish a low-cost, global production footprint;
- Develop a diversified revenue base through a global sales and distribution network;
- Create intellectual property to help protect margin durability over the long-run; and
- Grow a portfolio of iconic brands.

Production Facilities

Facility	Location	Grow Type	Square Footage	Estimated Annual Capacity (in kg)
Existing Capacity				
Peace Naturals — Buildings 1, 2, 3	Barrie, ON, Canada	Indoor	40,000	5,000
OGBC	Kelowna, BC, Canada	Indoor	2,500	150
Existing Capacity			42,500	5,150
Capacity in Progress but not yet Completed				
Peace Naturals — Building 4	Barrie, ON, Canada	Indoor	286,000	33,500
Peace Naturals — Greenhouse	Barrie, ON, Canada	Greenhouse	28,000	1,500
Cronos Israel — Phase I	Hadera, Israel	Greenhouse	45,000	5,000
Capacity in Progress but not yet Completed			359,000	40,000
Pro Forma Capacity			401,500	45,150

Peace Naturals

Situated on 95 acres zoned and licensed for cannabis production, Peace Naturals operates three completed production buildings (Building 1, Building 2 and Building 3) and is constructing additional capacity via a 286,000 sq. ft. production facility (“**Building 4**”) and a 28,000 sq. ft. greenhouse (the “**Peace Naturals Greenhouse**”). Peace Naturals’ production processes are Good Manufacturing Practices (“GMP”) certified under relevant European Economic Area GMP directives by the national competent authority of Germany.

Buildings 1, 2 and 3 are engaged in cultivation, processing, extraction, finishing and packaging, shipping and client care operations. These buildings incurred major renovations in the first half of 2017, including upgraded LED lighting, automation equipment, irrigation systems and other environmental control systems to improve yields and lower costs.

In addition to large scale cultivation of premium dried flower, Building 4 will include:

- designated areas for proprietary genetic breeding genomic testing;
- a GMP-grade cannabinoid and terpene extraction, processing and bottling facility;
- a GMP-grade analytical testing laboratory for Canadian, European and other pharmacopeia standards;
- a GMP-grade analytical and chemical laboratory for formulation, delivery system and product development;
- R&D grow and dry areas with compartmentalized chambers to conduct experiments on yield, genetic markers, and metabolite/terpene enhancement techniques;
- a tissue culture laboratory and mass scale micro-propagation production area; and

- a GMP-grade and industrial-grade kitchen.

The Peace Naturals Greenhouse will provide a year-round low-cost supply of flower for extraction in a 1,200 sq. ft. GMP-grade extraction lab. The Peace Naturals Greenhouse is designed as a testing facility for various production technologies. Any tests yielding favorable operational improvements would then be disseminated to the Company's other domestic and international facilities.

OGBC

Situated on 31 acres zoned and licensed for cannabis production, OGBC's facility primarily engages in cultivation and processing operations. OGBC currently produces and sells (bulk intercompany) dried cannabis to Peace Naturals, sold under the *Peace Naturals* brand.

International Activities and Joint Ventures

Cronos Group has entered into two strategic joint ventures to produce and sell cannabis.

- *Israel Joint Venture ("Cronos Israel")*. In September 2017, the Company announced a strategic joint venture in Israel with Israeli agricultural collective settlement Gan Shmuel ("**Gan Shmuel**") for the production, manufacture and distribution of medical cannabis. The Company will hold a 70% stake in each of the nursery and cultivation operations and a 90% stake in each of the manufacturing and distribution operations. See *Quarterly Business Highlights and Recent Development Post Quarter-End* for more information.
- *Indigenous Roots Joint Venture ("Indigenous Roots")*. In December 2016, the Company launched a joint venture led by Phil Fontaine, former National Chief of the Assembly of First Nations. Indigenous Roots is a medical cannabis company that will work cooperatively with Canadian First Nations towards building and operating licensed facilities and providing medical cannabis to First Nations. The Company will own a 49.9% stake in Indigenous Roots. The Company believes that Indigenous Roots will provide the Company with optionality for nontraditional distribution channels, incremental production capacity without dilution, and a strong brand for its portfolio. Indigenous Roots has commanded significant interest, having met with over 100 indigenous communities and leaders across Canada. Indigenous Roots is in the process of finalizing its capital raise. Once completed, Indigenous Roots will commence construction of a 30,000 sq. ft. production facility at the premises of OGBC.

Investments

The Company has invested in and made loans to cannabis-related companies and licensed producers under the ACMPR, including Whistler Medical Marijuana Company ("**Whistler**"), Evergreen Medicinal Supply Inc. ("**Evergreen**"), AbCann Global Corporation ("**AbCann**"), Canopy Growth Corp. ("**Canopy**") and The Hydrophocary Corporation ("**Hydrophocary**"). As at September 30, 2017, Cronos Group retains a 21.5% ownership in Whistler, a privately-held licensed producer and seller of medical cannabis with operations in British Columbia, Canada. See Note 8: Investment in Whistler Medical Marijuana Company and Note 9: Other investments in the Notes to Condensed Interim Consolidated Financial Statements for the periods ended September 30, 2017 and September 30, 2016 for more information.

QUARTERLY BUSINESS HIGHLIGHTS AND RECENT DEVELOPMENTS POST QUARTER-END

Substantial increase in revenue

The Company earned \$1.3 million in revenue from product sales made by Peace Naturals during the three-month period ended September 30, 2017, an increase of 104% quarter-over-quarter, and an increase of 962% year-over-year. The revenue consists of product sales to domestic patients, international sales to Germany, and bulk product sales to other Canadian licensed producers.

Expanding capacity and establishing a low-cost, global production footprint

Cronos Israel

In September 2017, the Company announced a joint venture with Gan Shmuel to produce and distribute medical cannabis in Israel. Gan Shmuel is an Israeli agricultural collective settlement. It is also a partial owner of Gan Shmuel Foods Ltd. (TLV: GSLI), a publicly-traded company that grows and sells citrus fruits for the Israeli beverage and food industry. Established in 1941, the company exports products to 35 countries throughout Europe and Asia.

The Company will contribute intellectual property, management expertise, access to its current and future distribution channels, and capital to Cronos Israel. Gan Shmuel will contribute the preliminary licenses, which the Company expects to convert to final licenses for cannabis after inspections of the facilities, it has received from the Israeli Ministry of Health relating to nursery, cultivation manufacturing and distribution of medical cannabis, agricultural and industrial expertise, land, capital and access to the skilled Gan Shmuel labor force.

Israel has an ideal growing climate for cannabis with abundant sunlight to support year-round greenhouse cultivation without the need for supplemental lighting. Cronos Israel anticipates producing high quality cannabis at significantly lower production costs than production costs in Canada due to Israel's favorable growing climate and Gan Shmuel's skilled labor force, existing manufacturing infrastructure and ample on-site water access. In addition, Gan Shmuel is situated on over 4,900 acres of mixed-use agricultural / industrial land, which allows Cronos Israel to significantly expand production capacity beyond the phase I facility.

Cronos Israel completed the design stage for the GMP-certified greenhouse and commenced site preparation activities. The GMP-certified extraction and manufacturing facility is in final design phase and will allow Cronos Israel to process, extract and manufacture dry flower, oils, capsules, pre-rolls and other pharmaceutical and nutraceutical products. The facility will also house a pharmaceutical grade analytical and chemical lab for product testing and formulations research and development.

On November 9, 2017, the Company announced that it has received approval from the TSX-V for construction of the facilities contemplated by the Cronos Israel strategic joint venture. The Company anticipates commencing construction in Q1 2018 on the greenhouse and in Q2 2018 on the extraction and manufacturing facility.

Peace Naturals Capacity Expansion

Construction of Building 4 is on schedule. The steel superstructure is complete, the building envelope is 70% complete and underground plumbing is 50% complete. Production from Building 4 is expected to commence in the second half of 2018. The Peace Naturals Greenhouse is expected to be operational in Q4 2017 and first harvest is anticipated in the first half of 2018.

With a state-of-the-art oil extraction lab online, increased oil sales and formulation capabilities

In November 2017, Health Canada approved the Company's state-of-the-art extraction laboratory at Peace Naturals that uses supercritical and subcritical CO2 and commercial oil production methodologies. The resulting increased oil production will facilitate introducing new formulations, such as capsules, tinctures and ointments. Subsequent to quarter-end, the Company released a number of new strain-specific cannabis oils that have been received favorably by customers. The new cannabis oils do not require any secondary refinement using harsh solvents like alcohol, which means that the natural balance of the plant is kept intact. This is important because of the "entourage effect," or the concept that all cannabis compounds work together synergistically to yield the desired therapeutic effect.

Augmented global sales and distribution network with additions in Germany

In October 2017, Cronos Group entered into a strategic partnership and five-year exclusive distribution agreement with G. Pohl-Boskamp GmbH & Co. KG (“**Pohl-Boskamp**”) to distribute Peace Naturals branded cannabis products within Germany. With over 82 million people, Germany is one of the largest legal cannabis markets in the world currently and serves as the Company’s gateway to cannabis markets in the European Union. Founded in 1835, Pohl-Boskamp is an international pharmaceutical manufacturer and distributor with commercialized products in more than 45 countries and a German distribution network of over 12,000 pharmacies.

Preparing for the launch of the Canadian recreational market

Cronos Group is preparing for the anticipated legalization of the Canadian recreational market, currently expected to occur in July 2018. In October 2017, the Company rebranded its wholly-owned subsidiary and licensed producer In The Zone Ltd. to Original BC Ltd. OGBC will serve as the Company’s recreational cannabis platform from which it will launch its international recreational brand portfolio. As part of this rebranding, OGBC’s legal name change became effective on October 16, 2017 and it was continued under the Canada Business Corporations Act. The OGBC license under ACMPR was amended to reflect the name change on October 20, 2017.

Additionally, in October 2017, 12 licensed producers, including Cronos Group, created the Canadian Cannabis Cooperative (the “**Co-op**”). The Co-op aims to explore options for vertical integration into recreational retail by considering a strategic investment in one or more provinces.

Cronos Group also joined a collective group of licensed producers to form the Coalition for Responsible Cannabis Branding (the “**Coalition**”), in an effort to collaborate with the federal government in developing responsible, progressive guidelines for the branding and marketing of adult-use cannabis.

Launched marketing upgrades to the medical cannabis platform

The Company redesigned Peace Naturals packaging to better reflect the licensed producer’s identity as a trusted and dependable medical cannabis brand. This transition began in October and is expected to be completed in the first quarter of 2018. Concurrent with this transition, Peace Naturals is updating its patient shopping portal experience.

Update on Production Operations

The Company is now growing cannabis in all of Buildings 2 and 3. Once a full cycle of harvests has been completed, the Company expects significantly more capacity than what has been historically produced (operating out of just Building 2). In addition, the Company has commenced production in newly renovated rooms in Building 1. The new Building 1 production methodology utilizes two-tier hydroponic rolling benches and full spectrum LED lighting. Similar to the operational production facility at OGBC, the Company will use Building 1 to grow cultivars that have non-standard flower cycles which the Company anticipates will fulfil niche market needs.

Final payments related to the acquisition of Peace Naturals completed

On September 6, 2016, the Company acquired all issued and outstanding shares of Peace Naturals. Consideration for the acquisition included \$6.2 million in cash and \$2.6 million to be paid at a future date. As the Company previously held shares of Peace Naturals, the acquisition is considered a step acquisition and resulted in a loss due to fair value re-measurement. During the nine-month period ended September 30, 2017, the full balance of the liability was repaid. In addition, during Q3 2017, the purchase price allocation was finalized.

Strengthened liquidity position while minimizing equity dilution

Since the beginning of Q3 2017, the Company has raised \$72.3 million to fund its operations and capacity expansion plans. Total capital raised includes: (i) a \$40.0mm senior secured credit facility, one of the largest straight debt offerings in the cannabis industry to date, and (ii) several equity raises at increasing share price levels. The capital amounts below are aggregate gross proceeds and do not take into account any commissions, fees or expenses.

Capital Raise Date	Capital Raised ⁽¹⁾	Description of Capital
8/24/17	\$ 40,000,000	Debt — 12.00% senior secured construction loan
9/25/17	15,010,002	Common equity — Non-brokered private placement at \$2.25/share
11/8/17	17,249,999	Common equity — Bought deal public offering at \$3.15/share
	72,260,001	

⁽¹⁾ As of November 28, 2017, \$6.3 million of the \$40.0 million committed debt capital has been drawn down and is outstanding.

RESULTS OF OPERATIONS

Statements of Operations and Comprehensive Income

The following tables provide a summary of the interim condensed results of the Company for the three and nine-month periods ended September 30, 2017, and the comparative periods ended September 30, 2016 and 2015:

	Three Months Ended September 30,	
	2017	2016
Product sales	\$ 1,314,114	\$ 123,647
Gain on revaluation of biological assets	3,008,190	392,405
Inventory expensed to cost of sales	1,788,732	—
Production costs	529,245	258,902
Investment income (loss)	1,074,429	515,030
Expenses	2,057,303	1,062,787
Net income (loss)	1,097,453	(227,607)
Gain on revaluation of other investments	(2,170)	217,915
Total comprehensive income (loss)	1,095,283	(9,692)
Weighted average number of outstanding shares, basic	134,913,931	64,067,295
Weighted average number of outstanding shares, diluted	143,592,860	64,067,295
Basic and diluted income (loss) per share	\$ 0.01	\$ (0.00)

	Nine Months Ended September 30,	
	2017	2016
Product sales	\$ 2,471,571	\$ 123,647
Gain on revaluation of biological assets	6,118,180	432,873
Inventory expensed to cost of sales	3,489,277	—
Production costs	939,601	357,361
Investment income (loss)	2,767,360	(813,950)
Expenses	6,598,338	2,106,445
Net income (loss)	427,895	(2,560,236)
Gain on revaluation of other investments	692,170	217,915
Total comprehensive income (loss)	1,120,065	(2,342,321)
Weighted average number of outstanding shares, basic	130,782,161	64,067,295
Weighted average number of outstanding shares, diluted	139,461,090	64,067,295
Basic and diluted income (loss) per share	\$ 0.00	\$ (0.04)

Revenues

Peace Naturals and OGBC have a license to produce and sell medicinal cannabis. The Company earned \$1,314,114 in revenue from product sales made by Peace Naturals during the three-month period ended September 30, 2017, and \$2,471,571 in revenue during the nine-month period ended September 30, 2017. The increase in product sales resulted from increased patient enrollment, commencement of bulk product sales to other Canadian licensed producers, and an increase in export sales to Germany.

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Product sales to domestic patients of \$471,404 for the three-month period ended September 30, 2017 were flat quarter-over-quarter, while export sales increased 65% over the same period to \$259,200. Bulk product sales for the three-month period ended September 30, 2017 amounted to \$610,510.

Cost of sales

The cost of sales section consists of three components: i) inventory expensed to cost of sales, ii) production costs, and iii) gain on revaluation of biological assets.

Inventory expensed to cost of sales of \$1,788,732 and \$3,489,277 for the three-month and nine-month periods ended September 30, 2017, respectively, includes the transfer of net realizable value from inventory to cost of sales for products sold, in addition to production costs capitalized to inventory and subsequently written down as biological assets that are transferred to inventory at fair value less costs to sell. The increase of inventory expensed to cost of sales is due to the higher number of product units in grams sold during the period.

Production costs of \$529,245 and \$939,601 for the three-month and nine-month periods ended September 30, 2017, respectively, represent costs incurred on inventory sold during the period. The increase of production costs for the three-month and nine-month periods ended September 30, 2017 was a result of the increased number of units sold during the periods and the costs associated with bringing additional flower rooms into production at Peace Naturals. Similarly, the increase of production costs and inventory expensed to cost of sales for the nine-month period ended September 30, 2017 was due to the increased number of units sold in the period.

The gain on revaluation of biologic assets of \$3,008,190 and \$6,118,180 for the three-month and nine-month periods ended September 30, 2017, respectively, increased from the comparable prior year periods due to an increase in the number of plants as well as plants in the later stage of life, resulting in a higher fair value of the plants at both Peace Naturals and OGBC.

Investment income (loss)

During the three months ended September 30, 2017, the investment income of \$1,074,429 increased due to the sale of AbCann shares and Hydrothecary shares. The income is reduced due to the pick-up of the loss generated by Whistler of (\$53,596), in which the Company owns 21.5%. Similarly, for the nine-month period ended September 30, 2017, the increase to investment income is a result of the sales of AbCann and Hydrothecary shares and an income pick up of the gain generated by Whistler of \$363,266.

Expenses

Salaries and benefits have increased for the three-month and nine-month periods ended September 30, 2017 to \$432,202 and \$1,729,632, respectively due to increased headcount, in addition to an increase in stock-based compensation due to vesting of options previously issued. Salaries and benefits only relate to the investing segment of the business. Salaries and benefits associated with the operational segment of the business are included in production costs.

General and administration expenses of \$809,261 and \$2,850,416 for the three-month and nine-month periods ended September 30, 2017 to \$432,202 and \$1,729,632, respectively, have increased due to an increase in consultant fees and legal expenses.

Interest expense for the three-month period ended September 30, 2017 has decreased as a result of the repayment of the mortgage payable.

Net income (loss)

The net loss decreased and became net income during the three months ended September 30, 2017 compared to the three-month period ended September 30, 2016 due to the sale of other investments during the period, as well as the generation of increased revenue through product sales. Similarly, the net loss decreased and became net income during the nine months ended September 30, 2017 compared to the nine-month period ended September 30, 2016.

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Total comprehensive income (loss)

Other comprehensive income has decreased from Q3 2016 to Q3 2017 due to the sale of shares in AbCann and Hydrothecary during the three-month period ended September 30, 2017. The cumulative gain previously recognized as other comprehensive income on these shares was reclassified to income during the period. The remaining shares were revalued at September 30, 2017 based on fair market value, with the loss recognized as other comprehensive income. As these investments are accounted for as available-for-sale investments, the gains are recycled out of accumulated other comprehensive income and into net income upon sale.

Statements of Financial Position

The following table provides a summary of the interim condensed financial position of the Company as at September 30, 2017, as at December 31, 2016 and as at December 31, 2015:

	As at	
	September 30, 2017	December 31, 2016
Total assets	\$ 79,415,216	\$ 42,900,596
Total liabilities	11,894,848	9,222,967
Working capital (deficiency)	21,548,005	320,621
Share capital	67,566,497	33,590,324
Accumulated deficit	5,787,674	6,215,569
Accumulated other comprehensive income	739,072	1,584,490

Total assets

Total assets increased from December 31, 2016 to September 30, 2017 primarily due to capital asset additions made in Peace Naturals, the increase in fair value of the biological assets, as well as the Company's equity raises. The operations of Peace Naturals and OGBC resulted in biological assets of \$2,811,296, and inventory of \$4,798,513 as at September 30, 2017. Peace Naturals has been operating in its current facilities (Building 1, Building 2 and Building 3) and is in the process of building additional facilities consisting of Building 4 and the Peace Naturals Greenhouse, resulting in the addition of \$17,100,222 in property, plant, and equipment for the nine-month period ended September 30, 2017.

Total liabilities

Total liabilities increased from December 31, 2016 to September 30, 2017 due to the indebtedness incurred through trading on account of \$868,507 in addition to the first advance of the new construction loan for Peace Naturals of \$5,022,077. Further, there was an increase in accounts payable as Peace Naturals ramps up the construction work, which is partially offset by the repayment of the holdback liability on the original purchase of \$2,590,367 and the repayment of the original mortgage held by Peace Naturals of \$4,000,000.

Share capital

Share capital increased from December 31, 2016 to September 30, 2017, as a result of the bought deal offering in March 2017, resulting in the issuance of 7,705,000 common shares, increasing share capital by \$17,336,250. 6,671,112 common shares were issued in a private placement at a price of \$2.25 per share, increasing share capital by \$15,010,002. In addition, there were various stock options and warrants exercised during the nine-month period ended September 30, 2017, increasing share capital by \$752,425 and \$2,228,252 respectively.

Accumulated deficit

Accumulated deficit has decreased from December 31, 2016, as the Company has generated net income during the nine-month period ended September 30, 2017 of \$427,895. There were no dividends declared or paid in the period, and no other transactions with shareholders impacting accumulated deficit.

Accumulated other comprehensive income

This balance includes the fair value increases and decreases in the investment in shares of Canopy, AbCann, and

Hydrothecary based on their publicly traded share prices at September 30, 2017, which is included in other comprehensive income since the investments are classified as available-for-sale.

SUMMARY OF QUARTERLY RESULTS

	Q3 September 30, 2017	Q2 June 30, 2017	Q1 March 31, 2017	Q4 December 31, 2016
Product Sales	\$ 1,314,114	\$ 643,701	\$ 513,756	\$ 554,203
Net income (loss)	1,097,453	174,879	(844,437)	1,370,165
Total comprehensive income (loss)	1,095,283	186,699	(161,917)	2,736,740
Basic earnings (loss) per share	\$ 0.01	\$ 0.00	\$ (0.01)	\$ 0.01
Diluted earnings (loss) per share	0.01	0.00	(0.01)	0.01
	Q3 September 30, 2016	Q2 June 30, 2016	Q1 March 31, 2016	Q4 December 31, 2015
Product Sales	\$ 123,647	—	—	—
Net income (loss)	(227,607)	(1,842,499)	(490,130)	2,193,844
Total comprehensive income (loss)	(9,692)	(1,842,499)	(490,130)	2,193,844
Basic earnings (loss) per share	\$ (0.00)	\$ (0.04)	\$ (0.01)	\$ 0.06
Diluted earnings (loss) per share	(0.00)	(0.04)	(0.01)	0.05

There were significant changes in Q4 2015, specifically related to the reclassification of Peace Naturals from equity-accounted to available-for-sale, which resulted in a gain of \$4,590,321. Further, there was various impairment losses recognized in Q4 2015, \$1,448,292 on Evergreen and Vert. Diluted earnings per share in Q4 2015 was calculated using a weighted average number of shares of 43,694,412.

In Q1 2016, there was a net loss as there were no significant changes in the quarter. In Q2 2016, the loss increased due to the revaluation of Peace Naturals, resulting in a \$1,325,984 loss recognized. In Q3 2016, the Company was in a loss position, but the loss was significantly less than in previous quarters due to the reversal of impairment losses of \$725,150, the gain on revaluation of biological assets of \$392,405, and product sales of \$123,647 generated through the acquisition of Peace Naturals. In Q4 2016, the quarterly income was due to the product sales of \$430,556 generated during the quarter as well as the large gain on revaluation of biological assets.

In Q1 2017, the Company returned to a net loss position as a result of expenses relating to changing the business model from a passive holding company to an operator of licensed producers with a focus on the newly-acquired Peace Naturals operations. In Q2 2017, the quarterly income is due to the gain on the sale of shares of AbCann, as well as gains due to other investments. Furthermore, the Company continues to generate product sales through its subsidiary Peace Naturals, contributing to the positive net income. In Q3 2017, the net income is due to the sale of shares of AbCann and Hydrothecary, resulting from previous gains recorded in other comprehensive income flushed through net income, in addition gains on revaluation of biological assets and increase in product sales during the period.

LIQUIDITY

The Company may seek to raise additional funds so that it may fund its expansion of operations, which represent the Company's working capital requirements, and fund new investment opportunities. The amount and timing of raising additional funds will depend on variables such as, the state of the capital markets, investor interest in medical cannabis companies, and investment opportunities available.

During the nine-month period ended September 30, 2017, the Company raised \$17,336,250 in cash through its bought deal public offering that closed on March 9, 2017 and \$15,010,002 through its private placement offering.

Based on the current investee group, the Company estimates that its annual expenses are expected to be approximately \$8.2 million (or \$680,000 per month), the major components of which include production costs (\$2,500,000 per year or \$208,000 per month), payroll (\$3,725,000 per year or \$310,000 per month), professional fees (approximately

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\$1,000,000 per year or \$83,000 per month), and general and administrative costs (\$1,000,000 per year or \$83,000 per month).

As part of the acquisition of Peace Naturals the Company was required to pay \$2,590,367 as part of the consideration to the previous shareholders. \$1,291,496 of this liability was repaid in Q2 2017, with the remaining balance paid in Q3 2017.

The Company divested a portion of its equity interest in Canopy during the nine months ended September 30, 2017 for proceeds of \$87,653. The Company also divested a portion of its equity interest in AbCann during the nine months ended September 30, 2017 for proceeds of \$4,522,512. Further, the Company sold some of its shares in Hydroponics for \$543,482.

On August 23, 2017, Peace Naturals, as borrower, signed a construction loan agreement with Romspen Investment Corporation as lender, to borrow \$40,000,000, to be funded by way of multiple advances. The aggregate advances are limited to \$35,000,000 until the lender receives an appraisal valuing the OGBC property in British Columbia at an amount in excess of \$8,000,000. The loan bears interest at a rate of 12% per annum, calculated and compounded monthly, in arrears, on the amounts advanced from the date of each advance. The term of the loan is two years, with the borrower's option to extend for another twelve months. The loan is guaranteed by Cronos Group Inc., Hortican Inc., OGBC, and the senior-person-in-charge of both OGBC and Peace Naturals (each a credit party to the loan). The loan contains certain customary events of default, which shall cause all outstanding balances to be immediately due and payable, such as, failure to pay any amounts due under the loan, material non-compliance with applicable laws if such non-compliance would have a material adverse effect, the cancellation or revocation of any permit or license that would materially change the business of the borrower or any corporate credit party and any change of effective control of any corporate credit party.

The Company must continue to ramp up operations in Peace Naturals and OGBC to generate positive cash from operations, and raise additional debt and/or equity financing or divest non-core investment assets to fund operations including production expansion and investment opportunities.

The construction loan agreement contains certain restrictive covenants including, subject to certain exceptions (such as lender's prior consent not to be unreasonably withheld), restrictions on Peace Naturals' and OGBC's ability to pay dividends. Intercompany transfers of cash however are permitted.

CAPITAL RESOURCES

The Company manages its capital with the objective of maximizing shareholder value and ensuring that it has appropriate resources to foster the growth and development of the business.

As of the date of this MD&A, the Company's authorized share capital is an unlimited number of common shares of which 149,079,956 are issued and outstanding. The Company also has 12,047,501 stock options, and 38,842,802 warrants outstanding.¹

The Company has raised \$72.3 million to fund its operations and capacity expansion plans during the three-month period ended September 30, 2017 and including up to the date of this MD&A. Total capital raised includes: (i) a \$40.0mm senior secured credit facility, (ii) a \$15 million common equity non-brokered private placement, and (iii) a \$17.3 million common equity bought deal public offering.

The Company anticipates that it will have sufficient funds available to meet financial obligations as they become due. Further, the Company's management is responsible for ensuring adequate and readily-available funds to support business opportunities as they arise. The Company's funding is provided in the form of capital raised through the issuance of shares, as well as cash flows from operations.

¹ Subsequent to September 30, 2017, the company issued 951,064 shares upon the exercise of warrants and 5,476,190 shares through a bought deal public offering and 200,000 options were issued.

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Below is a reconciliation of the manner in which the net proceeds from its bought deal public offering that closed on March 9, 2017 were used by the Company, including a description of any variances on the use of such proceeds compared to the disclosure in the Company's final short form prospectus dated March 2, 2017 (the "**March 2017 Prospectus**").

Disclosure in March 2017 Prospectus	Use of Proceeds by the Company
\$300,000 for retrofitting to Building 1 at Peace Naturals.	The Company invested \$300,000 in retrofitting of Building 1 at Peace Naturals including new lighting solutions, HVAC units, fertigation system and double tier benching.
\$1,650,000 for fixtures and equipment at Building 3 at Peace Naturals.	The Company invested \$2,000,000 for fixtures and equipment at Building 3. Additional proceeds were spent as a result of the Company deciding on implementing a two-tier benching lighting system which cost more but results a higher return on investment. The increase in costs did not materially impact the Company's cash position and was offset by savings on the extraction laboratory (as described below).
\$5,000,000 for ongoing planning, design, development and commencement of construction of Building 4.	The Company has commenced construction of Building 4 and incurred \$5,000,000 in association with securing permits, site preparation, aggregate work, architectural and engineering drawings.
\$850,000 for construction of the Peace Naturals Greenhouse.	The Company invested \$1,055,000 to construct the Peace Naturals Greenhouse. The increase in costs did not materially impact the Company's cash position and was offset by savings on the extraction laboratory (as described below).
\$1,000,000 for expansion of the extraction laboratory and equipment, including the purchase and installation of an additional CO2 extractor and ancillary equipment	The Company purchased, installed and commissioned a critical CO2 extractor including laboratory equipment and ancillary equipment for \$500,000.

Pursuant to its private placement offering which closed on September 25, 2017, the Company has spent \$6,075,000 of the \$15,010,002 aggregate proceeds as follows: (i) \$3,700,000 for construction and mechanical/engineering drawings for Building 4; (ii) \$225,000 for renovations and improvements Building 1 at Peace Naturals and (iii) \$2,150,000 for production equipment deposits.

The Company has not yet used the proceeds from its bought deal public offering which closed on November 8, 2017.

OFF-BALANCE SHEET ARRANGEMENTS

As of the date of this MD&A, the Company has no off-balance sheet arrangements.

TRANSACTIONS BETWEEN RELATED PARTIES

The Company paid \$99,100 (2016 — recovery of \$65,045) in salaries and benefits to key management during the three months ended September 30, 2017. In addition, there was \$ 56,015 in professional fees paid during the three months ended September 30, 2017 (2016 - \$16,950). Further, the vesting of options resulted in stock-based compensation of

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\$538,840 during the three months ended September 30, 2017 (2016 - \$114,360). Key management is compensated for providing planning, directing and controlling activities to the Company.

ADDITIONAL DISCLOSURE FOR VENTURE ISSUERS WITHOUT SIGNIFICANT REVENUE

Administrative Expenses

	Three Months Ended,		Nine Months Ended,	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Salary and benefits	\$ 966,767	\$ 310,401	\$ 2,895,566	\$ 635,197
Advertising and promotion	106,626	3,930	208,209	14,665
Consulting fees	160,902	11,463	532,196	85,032
Professional fees	296,413	538,045	1,385,364	859,855
Office expenses	189,457	72,311	644,835	144,260
Interest expense	21,931	24,554	164,078	108,801
Travel	60,138	14,328	84,087	43,781
Depreciation	255,069	87,755	684,003	214,854
Administrative Expenses	2,057,303	1,062,787	6,598,338	2,106,533

The increase in salary and benefits between the three-month periods ended September 30, 2016 and September 30, 2017 in the amount of \$656,366 is mainly due to the vesting of issued options during 2016 and 2017, as well as compensation for additional employees due to the acquisition of Peace Naturals during 2016.

The decrease in professional fees and consulting fees from the three months ended September 30, 2016 to 2017 in the amount \$241,632 is due to cost-cutting measures implemented by the Company.

The increase in advertising and promotion in the amount of \$102,696 from the three months ended September 30, 2016 to 2017 is due to management's decision to incur such costs to increase sales in Peace Naturals.

The decrease in interest expense in Q3 2017 is primarily due to the repayment of the \$4,000,000 Peace Naturals mortgage. There was a small amount of interest incurred due to the first advance of the construction financing.

The increase in depreciation expense in the amount of \$167,314 from the three-month period ended September 30, 2016 to 2017 is primarily related to the additional capital expenditures made during the period.

LEGAL PROCEEDINGS

As of the date of this MD&A, Peace Naturals is subject to three ongoing claims for damages as disclosed in the notes of the financial statements. See Note 18 (Contingencies) and Note 22 (Subsequent Events) to the condensed interim consolidated financial statements for the periods ended September 30, 2017 and September 30, 2016 for discussions on certain recent developments concerning our legal proceedings. The Company believes that all allegations in each proceeding are without merit and plans to vigorously defend itself; accordingly, no provision for loss has been recognized.

NEW ACCOUNTING PRONOUNCEMENTS

The IASB has not issued any new standards, amendments to standards, or interpretations that impact the Company during the three months ended September 30, 2017. The Company's evaluations of previously issued new standards, amendments to standards, and interpretations are consistent with those disclosed in Note 3 of the Company's condensed interim consolidated financial statements. New accounting pronouncements not yet mandatorily effective have not been applied in preparing these condensed interim consolidated financial statements. New and revised standards and interpretations issued but not yet effective are disclosed in Note 3 of the Company's condensed interim consolidated financial statements, including i) Amendments to IFRS 2 share-based payments, ii) IFRS financial instruments, iii) IFRS 15 revenue from contracts with customers and iv) IFRS 16 leases.

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FINANCIAL INSTRUMENTS

As of the date of this MD&A, the Company has no financial instruments or other instruments such as hedging.

ESTIMATES AND CRITICAL JUDGMENTS BY MANAGEMENT

The preparation of these interim condensed financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the interim condensed financial statements

and the reported amounts of revenues and expenses during the current year. These estimates are reviewed periodically, and adjustments are made to income as appropriate in the year they become known. Items for which actual results may differ materially from these estimates are described in the following section.

Warrants and options

In calculating the value of the warrants and options, management is required to make various assumptions and estimates that are susceptible to uncertainty, including the volatility of the share price, expected dividend yield and expected risk-free interest rate.

Useful lives of property, plant and equipment

Depreciation of property, plant and equipment is dependent upon estimates of useful lives, which are determined through exercise of judgment. The assessment of any impairment of these assets is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions and the useful lives of the assets.

Biological assets and inventory

Biological assets, consisting of cannabis plants, are measured at fair value less cost to sell up to the point of harvest. Determination of the fair values of the biological assets requires the Company to make assumptions about how market participants assign fair values to these assets. These assumptions primarily relate to the level of effort required to bring the cannabis up to the point of harvest, sales price, risk and expected future yields for the cannabis plant. Inventory of finished goods is transferred from biological assets at fair value less costs to sell at the point of harvest, which becomes the deemed cost. Inventory is subsequently measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less estimated costs of completion and estimated variable costs to sell.

Impairment of cash-generating units and goodwill

The impairment test for cash-generating units (“CGUs”) to which goodwill is allocated is based on the value in use of the CGU, determined in accordance with the expected cash flow approach. The calculation is based primarily on assumptions used to estimate future cash flows, the cash flow growth rate and the discount rate used.

Impairment of long-lived assets

The impairment test for long-lived assets, including plant, property, and equipment and intangible assets, are reviewed for impairment at each statement of financial position date or whenever events or changes in circumstances indicate that the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of the asset or CGU is determined based on the higher of its fair value less cost to sell and its value in use. If the carrying amount of an asset exceeds its recoverable amount, an impairment charge is recognized immediately in profit or loss by the amount by which the carrying amount of the asset exceeds the recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount, and the carrying amount that would have been recorded had no impairment loss been recognized previously.

Fair value of financial assets available for sale

Financial assets available for sale consist of privately and publicly held investments. Determination of the fair values of privately held investments requires the Company to make various assumptions about the future prospects of the Investees, the economic, legal, and political environment in which the Investees operate, and the ability of the Investees to obtain financing to support their operations. As a result, any value estimated may not be realized or realizable, and the values may differ from values that would be realized if a ready market existed. The determination of fair value of

the Company’s privately held investments is subject to inherent limitations. Financial information for private companies may not be available, or may be unreliable. Use of the valuation approach involves uncertainties and management judgments, and any value estimated from the approach may not be realized or realizable.

Income taxes

Income taxes and tax exposures recognized in the interim condensed financial statements reflect management’s best estimate of the outcome based on facts known at the reporting date. When the Company anticipates a future income tax payment based on its estimates, it recognizes a liability. The difference between the expected amount and the final tax outcome has an impact on current and deferred taxes when the Company becomes aware of this difference.

In addition, when the Company incurs losses that cannot be associated with current or past profits, it assesses the probability of taxable profits being available in the future based on its budgeted forecasts. These forecasts are adjusted to take account of certain non-taxable income and expenses and specific rules on the use of unused credits and tax losses. When the forecasts indicate the sufficient future taxable income will be available to deduct the temporary differences, a deferred tax asset is recognized for all deductible temporary differences.

RISKS AND UNCERTAINTIES

The Company is subject to various risks that could have a material impact on the Company, its financial performance, condition and outlook. These risks could cause actual results to differ materially from those expressed or implied in Forward-Looking Statements included in this MD&A, the Company’s financial statements and other Company reports and documents. These risks include but are not limited to, the following risks:

- The Company is reliant on its licenses for its ability to grow, store and sell medical cannabis and other products derived therefrom and such licenses are subject to ongoing compliance, reporting and renewal requirements.
- The Company may not always succeed in fully complying with the regulatory requirements for Licensed Producers as set out under the ACMPR and Health Canada.
- The laws, regulations and guidelines generally applicable to the medical cannabis industry domestically and internationally may change in ways currently unforeseen by the Company.
- There can be no assurance that the legalization of recreational cannabis by the Government of Canada will occur and the legislative framework pertaining to the Canadian recreational cannabis market is uncertain.
- Future clinical research studies on the effects of medical cannabis may lead to conclusions that dispute or conflict with the Company’s understanding and belief regarding the medical benefits, viability, safety, efficacy, dosing and social acceptance of cannabis.
- The Company’s expansion into jurisdictions outside of Canada is subject to risks.
- There can be no assurance that the Company’s current and future strategic alliances or expansions of scope of existing relationships will have a beneficial impact on its business, financial condition and results of operations.
- The Company and certain of its subsidiaries have limited operating history and therefore the Company is subject to many of the risks common to early-stage enterprises.
- The Company’s existing two facilities are integral to the Company’s operations and any adverse changes or developments affecting either facility may impact the Company’s business, financial condition and results of operations.
- The Company may not complete the build-out of Building 4 or the Greenhouse and may not successfully execute its production capacity expansion strategy.
- The medical cannabis industry and markets are relatively new in Canada and in other jurisdictions, and this industry and market may not continue to exist or grow as anticipated or the Company may ultimately be unable to succeed in this industry and market.

- The Company is dependent on its senior management.
- The Company may be subject to product liability claims.
- The Company's cannabis-based medical products may be subject to recalls.

- The Company may be unable to attract or retain skilled labor and personnel with experience in the medical cannabis sector, and may be unable to attract, develop and retain additional employees required for the Company's operations and future developments.
- The Company, or the medical cannabis industry more generally, may receive unfavorable publicity or become subject to negative consumer perception.
- The Company may not be able to successfully develop new products or find a market for their sale.
- The Company may fail to retain existing patients as clients or acquire new patients as clients.
- The Company may not be able to achieve or maintain profitability and may continue to incur losses in the future.
- The Company may not be able to secure adequate or reliable sources of funding required to operate its business.
- The Company must rely largely on its own market research to forecast sales and market demand that may not materialize.
- The Company may experience breaches of security at its facilities or in respect of electronic documents and data storage and may face risks related to breaches of applicable privacy laws.
- If the Company is not able to comply with all safety, health and environmental regulations applicable to its operations and industry, it may be held liable for any breaches thereof.
- The Company could be subject to litigation in the ordinary course of business.
- The Company may compete for market share with other companies, both domestically and internationally, who may have longer operating histories and more financial resources, manufacturing and marketing experience than the Company.
- Third parties with whom the Company does business may perceive themselves as being exposed to reputational risk as a result of their relationship with the Company.
- The Company will seek to maintain adequate insurance coverage in respect of the risks faced by it, however, insurance premiums for such insurance may not continue to be commercially justifiable and there may be coverage limitations and other exclusions that may not be sufficient to cover potential liabilities faced by the Company.
- The Company is subject to certain restrictions of the TSX-V that may constrain its ability to expand its business internationally.
- The price of the Company's common shares in public markets may experience significant fluctuations.
- It is not anticipated that any dividend will be paid to holders of Company's common shares for the foreseeable future.
- There is a limited market for the Company's common shares.
- Holders of Company's common shares may be subject to dilution resulting from future offerings of common shares or warrants or grants of stock options by the Company.
- A significant number of Company's common shares are owned by a limited number of existing shareholders.

A more detailed description of the various risks associated with the Company can be found under the heading "Risk Factors" in the AIF. Additional information relating to the Company, including the Company's AIF, is available under the Company's SEDAR profile at www.sedar.com.



NOTICE OF MEETING
AND
MANAGEMENT INFORMATION CIRCULAR
FOR THE
ANNUAL AND SPECIAL MEETING OF SHAREHOLDERS
TO BE HELD ON
JUNE 28, 2017
DATED AS OF MAY 26, 2017

CRONOS GROUP INC.
76 Stafford Street, Suite 302
Toronto, Ontario, M6J 2S1

NOTICE OF ANNUAL AND SPECIAL MEETING OF SHAREHOLDERS

NOTICE IS HEREBY GIVEN THAT the annual and special meeting (the “**Meeting**”) of the holders of common shares (“**Shares**”) of Cronos Group Inc. (formerly PharmaCan Capital Corp.) (the “**Corporation**”) will be held at the registered office of the Corporation located at 76 Stafford Street, Suite 302, Toronto, Ontario, M6J 2S1 at 2:00 p.m. (Toronto time) on Wednesday, June 28, 2017, for the following purposes:

1. to receive the Corporation’s consolidated financial statements for the years ended December 31, 2016 and December 31, 2015, together with the auditors’ report thereon;
2. to elect directors of the Corporation for the following year;
3. to re-appoint MNP LLP as the auditors of the Corporation for the following year and to authorize the board of directors of the Corporation to fix their remuneration;
4. to consider, and if thought advisable to pass, with or without variation, an ordinary resolution re-approving the amended and restated stock option plan of the Corporation, as more fully described in the accompany management information circular; and
5. to transact such further and other business as may properly come before the Meeting or any adjournment or postponement thereof.

The record date for the determination of shareholders entitled to receive notice of and to vote at the Meeting is May 26, 2017. Shareholders of the Corporation whose names have been entered in the register of shareholders at the close of business on that date will be entitled to receive notice of and to vote at the Meeting, provided that, to the extent a shareholder transfers ownership of any Shares after such date and the transferee of those Shares establishes that the transferee owns the Shares and requests, not later than ten days before the Meeting, to be included in the list of shareholders eligible to vote at the Meeting, such transferee will be entitled to vote those Shares at the Meeting.

A registered shareholder may attend the Meeting in person or may be represented by proxy. Shareholders who are unable to attend the Meeting or any adjournment or postponement thereof in person are requested to date, execute and return the enclosed form of proxy for use at the Meeting or any adjournment or postponement thereof. To be effective, the enclosed proxy must be deposited with TSX Trust Company, 200 University Avenue, Suite 300, Toronto, Ontario, M5H 4H1, by 2:00 p.m. on June 26, 2017 or not later than forty-eight (48) hours (excluding Saturdays, Sundays and holidays in the Province of Ontario) preceding the time of the Meeting in the event of any adjournment or postponement thereof.

Shareholders may beneficially own Shares that are registered in the name of a broker, another intermediary or an agent of that broker or intermediary. Without specific instructions, intermediaries are prohibited from voting shares for their clients. If you are a non-registered shareholder and you have received a voting instruction form from the Corporation or its agent or a voting instruction form or form of proxy from your broker, intermediary or its agent, it is vital that the voting instruction form or form of proxy is returned in accordance with the instructions provided sufficiently in advance of the deadline indicated on the form to ensure they are able to provide voting instructions on your behalf.

The persons named in the enclosed form of proxy are officers or directors of the Corporation. Every shareholder has the right to appoint a person or company (who need not be a shareholder) to represent the shareholder at the Meeting other than the persons designated in the enclosed form of proxy. If the shareholder wishes to appoint a person or company other than the persons designated in the form of proxy, they may do so by inserting the name of the shareholder’s chosen proxyholder in the space provided in the form of proxy.

The instrument appointing a proxyholder shall be in writing and shall be executed by the shareholder or the shareholder’s attorney authorized in writing or, if the shareholder is a corporation, by an officer or attorney thereof duly authorized.

DATED in the City of Toronto, in the Province of Ontario, this 26th day of May, 2017.

“Michael Gorenstein”

Michael Gorenstein
Chairman,
President and Chief Executive Officer

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CRONOS GROUP INC.
76 Stafford Street, Suite 302
Toronto, Ontario, M6J 2S1

MANAGEMENT INFORMATION CIRCULAR

FOR THE ANNUAL AND SPECIAL MEETING OF SHAREHOLDERS
TO BE HELD ON JUNE 28, 2017

This management information circular (this “**Circular**”) is being furnished in connection with the solicitation by management of Cronos Group Inc. (formerly PharmaCan Capital Corp.) (the “**Corporation**”) of proxies for the annual and special meeting (the “**Meeting**”) of holders (“**Shareholders**”) of common shares (“**Shares**”) of the Corporation to be held on Wednesday, June 28, 2017 at the registered office of the Corporation located at 76 Stafford Street, Suite 302, Toronto, Ontario, M6J 2S1 at 2:00 p.m. (Toronto time) and at any adjournment or postponement thereof for the purposes set forth in the enclosed notice of meeting (the “**Notice of Meeting**”).

Unless otherwise indicated, the information contained in this Circular is given as of May 26, 2017.

SOLICITATION OF PROXIES

Although, it is expected that management’s solicitation of proxies for the Meeting will be made primarily by mail, proxies may be solicited by directors, officers and employees of the Corporation personally or by telephone, fax, email or other similar means of communication. **The solicitation of proxies for the Meeting is being made by or on behalf of management of the Corporation and the Corporation will bear the costs of the solicitation.**

In accordance with National Instrument 54-101 — *Communication with Beneficial Owners of Securities of a Reporting Issuer* (“**NI 54-101**”), arrangements have been made to deliver copies of these proxy-related materials directly to non-objecting beneficial owners of Shares and the Corporation intends to pay for the delivery of these materials to objecting beneficial owners of Shares.

REGISTERED SHAREHOLDERS VOTING BY PROXY

Enclosed with this Circular is a form of proxy. The persons named in the enclosed form of proxy are officers or directors of the Corporation. **Every Shareholder has the right to appoint a person (who need not be a Shareholder) other than the persons already named in the enclosed form of proxy to represent such Shareholder at the Meeting by striking out the printed names of such persons and inserting the name of such other person in the blank space provided therein for that purpose.** To be effective, the enclosed proxy must be deposited with TSX Trust Company, 200 University Avenue, Suite 300, Toronto, Ontario, M5H 4H1, by 2:00 p.m. on June 26, 2017 or not later than forty-eight (48) hours (excluding Saturdays, Sundays and holidays in the Province of Ontario) preceding the time of the Meeting in the event of any adjournment or postponement thereof.

Shareholders may also elect to vote electronically in respect of any matter to be acted upon at the Meeting. Votes cast electronically are in all respects equivalent to, and will be treated in the exact same manner as, votes cast via a paper proxy. To vote electronically, registered Shareholders are asked to go to the website shown on the form of proxy and follow the instructions on the screen. Please note that each Shareholder exercising the electronic voting option will need to refer to the control number indicated on their form of proxy to identify themselves in the electronic voting system. Shareholders should also refer to the instructions on the form of proxy for information regarding the deadline for voting their Shares

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electronically. If a Shareholder votes electronically he, she or it is asked not to return the paper proxy by mail.

In order to be effective, a form of proxy must be executed by a Shareholder exactly as his, her or its name appears on the register of Shareholders. Additional execution instructions are set out in the notes to the form of proxy. The proxy must also be dated where indicated. If the date is not completed, the proxy will be deemed to be dated on the day on which it was mailed to Shareholders.

The management representatives designated in the enclosed form of proxy will vote the Shares in respect of which they are appointed proxyholder in accordance with the instructions of the Shareholder as indicated on the form of proxy and, if the Shareholder specifies a choice with respect to any matter to be acted upon, the Shares will be voted accordingly. **In the absence of such direction, such Shares will be voted by the management representatives named in such form of proxy in favour of each of the matters referred to in the Notice of Meeting and will be voted by such representatives on all other matters which may come before the Meeting in their discretion.**

The enclosed form of proxy confers discretionary voting authority on those persons designated therein with respect to amendments or variations to the matters identified in the Notice of Meeting and with respect to other matters which may properly come before the Meeting.

As of the date of this Circular, management of the Corporation knows of no such amendment, variation or other matters to come before the Meeting other than the matters referred to in the Notice of Meeting and this Circular. **However, if any matters which are not now known to management of the Corporation should properly come before the Meeting, the Shares represented by proxies in favour of the management representatives named in such form of proxy will be voted on such matters in accordance with the best judgement of such representatives.**

ADVICE TO NON-REGISTERED SHAREHOLDERS

Only registered Shareholders, or the persons they appoint as their proxies, are entitled to attend and vote at the Meeting. However, in many cases, Shares beneficially owned by a person (a “**Non-Registered Shareholder**”) are registered either:

- (a) in the name of an intermediary (an “**Intermediary**”) with whom the Non-Registered Shareholder deals in respect of the Shares (Intermediaries include, among others, banks, trust companies, investment dealers or brokers, trustees or administrators of a self-administered registered retirement savings plan, registered retirement income fund, registered education savings plan and similar plans); or

- (b) in the name of a clearing agency (such as The Canadian Depository for Securities Limited, in Canada, and the Depository Trust Company, in the United States) of which the Intermediary is a participant.

In accordance with the requirements of NI 54-101, the Corporation or its agent has distributed copies of the Notice of Meeting, this Circular and a form of proxy and/or a voting instruction form (collectively, the “**Meeting Materials**”) to the Intermediaries and clearing agencies for onward distribution to certain Non-Registered Shareholders and has mailed Meeting Materials directly to other Non-Registered Shareholders. Intermediaries are required to forward the Meeting Materials to Non-Registered Shareholders unless the Non-Registered Shareholders have waived the right to receive them. Intermediaries may use service companies to forward the Meeting Materials to Non-Registered Shareholders. Generally, Non-Registered Shareholders who have not waived the right to receive the Meeting Materials will either:

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- (a) be given a voting instruction form which must be completed and returned by the Non-Registered Shareholder in accordance with the directions printed on the form (in some cases, the completion of the voting instruction form by telephone, facsimile or over the Internet is permitted); or
- (b) be given a form of proxy which has already been signed by the Intermediary, which is restricted as to the number of Shares beneficially owned by the Non-Registered Shareholder but which is otherwise not completed by the Intermediary. Because the Intermediary has already signed the form of proxy, this form of proxy is not required to be signed by the Non-Registered Shareholder when submitting the proxy. In this case, the Non-Registered Shareholder who wishes to submit a proxy should properly complete the form of proxy and deposit it with TSX Trust Company, 200 University Avenue, Suite 300, Toronto, Ontario, M5H 4H1.

In either case, the purpose of these procedures is to permit Non-Registered Shareholders to direct the voting of the Shares they beneficially own. Should a Non-Registered Shareholder who receives either a voting instruction form or a form of proxy wish to attend the Meeting and vote in person (or have another person attend and vote on behalf of the Non-Registered Shareholder), the Non-Registered Shareholder should strike out the names of the persons named in the form of proxy and insert the Non-Registered Shareholder’s (or such other person’s) name in the blank space provided or, in the case of a voting instruction form, follow the directions indicated on the form. **Non-Registered Shareholders should carefully follow the instructions indicated on the voting instruction form or form of proxy and the instructions of their Intermediaries and their agents, including those regarding when and where the voting instruction form or the proxy is to be delivered.**

If you are a Non-Registered Shareholder, and we or our agent has sent these materials directly to you, your name and address and information about your holdings of securities have been obtained in accordance with applicable securities regulatory requirements from the Intermediary holding on your behalf.

REVOCATION OF PROXIES

A registered Shareholder who has submitted a proxy may revoke it by:

- (a) depositing an instrument in writing signed by the registered Shareholder or by an attorney authorized in writing or, if the registered Shareholder is a corporation, by a duly authorized officer or attorney, either:
- (i) at the registered office of the Corporation, located at 76 Stafford Street, Suite 302, Toronto, Ontario, M6J 2S1, at any time up to and including the last business day preceding the date of the Meeting or any adjournment or postponement thereof; or
- (ii) with the Chairman of the Meeting prior to the commencement of the Meeting on the day of the Meeting or any adjournment or postponement thereof;
- (b) transmitting, by telephonic or electronic means, a revocation that complies with (a)(i) or (ii) above and that is signed by electronic signature, provided that the means of electronic signature permit a reliable determination that the document was created or communicated by or on behalf of the registered Shareholder or the attorney, as the case may be; or
- (c) in any other manner permitted by law.

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A Non-Registered Shareholder who has submitted voting instructions to an Intermediary should contact the Intermediary for information with respect to revoking his, her or its voting instructions.

INTEREST OF CERTAIN PERSONS IN MATTERS TO BE ACTED UPON

No person who has been a director or an executive officer of the Corporation at any time since the beginning of the last completed financial year of the Corporation, each proposed nominee for election as a director of the Corporation, or any associate of any such director, executive officer or proposed nominee, has any material interest, direct or indirect, by way of beneficial ownership of securities or otherwise, in any matter to be acted upon at the Meeting, other than the election of directors or the re-approval of the Option Plan (as defined below).

VOTING SECURITIES AND PRINCIPAL HOLDERS OF VOTING SECURITIES

The Corporation is authorized to issue an unlimited number of Shares. Each Share entitles the holder of record to notice of, and one vote on all matters to come before, the Meeting.

The board of directors of the Corporation (the “**Board**”) has fixed May 26, 2017 as the record date (the “**Record Date**”) for the determination of the Shareholders entitled to receive notice of the Meeting. Shareholders of record as of the Record Date are entitled to vote their Shares at the Meeting, provided that, to the extent a Shareholder transfers ownership of any Shares after such date and the transferee of those Shares establishes that the transferee owns the Shares and requests, not later than ten days before the Meeting, to be included in the list of Shareholders eligible to vote at the Meeting, such transferee will be entitled to vote those Shares at the Meeting.

As of the Record Date, there were 133,198,090 Shares issued and outstanding.

To the knowledge of the directors and executive officers of the Corporation, as of the date of this Circular, no person or company beneficially owns, or controls or directs, directly or indirectly, voting securities of the Corporation carrying ten percent or more of the voting rights attached to any class of voting securities of the Corporation.

PARTICULARS OF MATTERS TO BE ACTED UPON

Consolidated Financial Statements

Copies of the Corporation’s consolidated financial statements for the years ended December 31, 2016 and December 31, 2015, together with the auditors’ report thereon, have been sent to Shareholders who have requested copies thereof and will be submitted to the Meeting. Copies of the financial statements are also available on SEDAR at

Election of Directors

Pursuant to the Corporation's constating documents, the Board may be comprised of a minimum of one director and a maximum of ten directors. The Board currently consists of four directors. Shareholders will be asked to elect four directors at the Meeting. Each director elected will hold office until the close of the next annual meeting of shareholders of the Corporation or until his successor is appointed or elected. The nomination of directors is subject to the Corporation's Advance Notice By-Law (as defined below). See "Corporate Governance — Nomination of Directors".

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The following table sets out the names of each nominee for election as a director of the Corporation as well as their jurisdiction of residence, principal occupation, business or employment, the date they were first elected or appointed a director of the Corporation and the number of voting securities of the Corporation beneficially owned, or controlled or directed, directly or indirectly, by each of them as of the date hereof.

Name, Position and Jurisdiction of Residence	Principal Occupation, Business or Employment	Date First Elected or Appointed	Shares Beneficially Owned or Controlled, Directly or Indirectly⁽¹⁾
Alan Friedman ⁽²⁾⁽³⁾ Director, Toronto, Ontario, Canada	November 2014 to present - Managing Director at Tembo Financial Inc. September 2006 to present - President & Chief Executive Officer of Rivonia Capital Inc.	August 21, 2012	213,689
Michael Krestell ⁽²⁾ Director, Thornhill, Ontario, Canada	March 2013 to present - President of M Partners, Inc. 2007 to March 2013 - Managing Director of Equity Research at M Partners, Inc.	December 10, 2014	207,637
Michael Gorenstein ⁽²⁾⁽³⁾ Chairman, New York City, New York, USA	May 2016 to present - President and Chief Executive Officer of the Corporation June 2015 to present - Partner at Alphabet Ventures, LLC January 2015 to June 2015 - Principal & General Counsel at Saiers Capital, LLC (n/k/a Alphabet Management, LLC) October 2011 to December 2015 - Associate at Sullivan & Cromwell LLP	November 6, 2015	1,284,450
Jason Adler Director, New York City, New York, USA	June 2015 to present - Managing Partner of Alphabet Ventures, LLC October 2007 to June 2015 - Managing Member/Chief Executive Officer of Saiers Capital, LLC (n/k/a Alphabet Management, LLC)	July 12, 2016	6,594,092

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Notes:

- (1) Information as to Shares beneficially owned or controlled has been provided by the respective nominees and does not include Shares that may be acquired upon the exercise of stock options or warrants. See "Statement of Executive Compensation".
- (2) Member of the Audit Committee.
- (3) Member of the Compensation Committee.

The following is a summary biography of each nominee for election as a director of the Corporation.

Alan Friedman

Mr. Friedman has been the President and Chief Executive Officer of Rivonia Capital Inc., a Canadian corporation providing market structuring, capital planning and administrative management services to private and public resource companies, since September 2006. Alan has also been Executive Vice-President and a director of Adira Energy

Ltd. since August 2009 and Executive Vice-President and a director of Eco (Atlantic) Oil & Gas Ltd. since December 2011. Alan is a member of the Audit Committee of Adira Energy Ltd. Alan is an attorney and has played an integral role in the acquisition of various resource assets, financings and go-public transactions onto the Toronto Stock Exchange. He was a co-founder and previous director of Aurix Gold Corp., a Toronto Stock Exchange listed Namibian gold exploration company, before it was sold to B2Gold Corp. for approximately \$160 million in 2011.

Michael Krestell

Mr. Krestell has been President of M Partners Inc., a Canadian investment dealer, since 2013. Prior thereto, Michael was MD Research at M Partners Inc. from 2007 and an analyst at M Partners Inc. covering the merchandising and consumer products sector from 2005 to 2007. In 2009, Michael received a Starmine award by being the number four ranked stock picker in Canada. Michael received an MBA with distinction from the Schulich School of Business specializing in Finance and Strategic Management and he is a CFA charterholder.

Michael Gorenstein

Mr. Gorenstein is the Chairman, President and Chief Executive Officer of the Corporation. Before joining the Corporation, Michael was a partner at Alphabet Ventures, LLC, a captive investment vehicle located in New York City operating in a wide range of domains including growth equity, established companies with growth perspective and creative debt vehicles. Prior to Alphabet Ventures, Michael was the VP and General Counsel of Saiers Capital LLC and a corporate attorney at Sullivan & Cromwell LLP where he focused on Mergers and Acquisitions and Capital Market transactions. Michael graduated from the University of Pennsylvania Law School with a JD, the Wharton School at University of Pennsylvania with a certificate in BEPP and the Kelley School of Business at Indiana University with a BSB in Finance.

Jason Adler

Mr. Adler is Managing Member of Alphabet Ventures, LLC. Prior to Alphabet Ventures, Jason was the co-founder and Chief Executive Officer of Alphabet Management, LLC, a volatility focused fund manager. Prior to Alphabet, Jason founded Geronimo, LLC in 2000, an AMEX member broker dealer that made markets in equity options. He began his career as a market maker at G&D Trading, an AMEX member market maker. Jason graduated with a B.A. from the University of Rhode Island.

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Unless otherwise indicated, proxies received in favour of management will be voted FOR the election of each of the above-named nominees as a director of the Corporation. Management of the Corporation does not currently contemplate that any of the above-named nominees will be unable to serve as a director for the following year. **If a nominee for any reason becomes unable to serve as a director of the Corporation at or prior to the Meeting or any adjournment or postponement thereof, proxies in favour of management will be voted in favour of the remaining nominees and may otherwise be voted in the discretion of the persons named in the enclosed form of proxy.**

To the knowledge of the Corporation no proposed director,

- (a) is, as at the date of this Circular, or has been, within ten years before the date of this Circular, a director, chief executive officer or chief financial officer of any company (including the Corporation) that,
 - (i) was subject to an order that was issued while the proposed director was acting in the capacity as director, chief executive officer or chief financial officer; or
 - (ii) was subject to an order that was issued after the proposed director ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer, or
- (b) is, as at the date of this Circular, or has been, within ten years before the date of this Circular, a director or executive officer of any company (including the Corporation) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or
- (c) has, within ten years before the date of this Circular, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the proposed director.

To the knowledge of the Corporation, no proposed director has been subject to:

- (a) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or
- (b) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable securityholder in deciding whether to vote for a proposed director.

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Re-Appointment of Auditors

Shareholders are being asked to re-appoint MNP LLP to act as auditors of the Corporation until the next annual meeting of shareholders of the Corporation and to authorize the Board to fix their remuneration. **Unless otherwise indicated, proxies received in favour of management will be voted FOR the appointment of MNP LLP as auditors of the Corporation to hold office until the next annual meeting of shareholders of the Corporation and the authorization of the Board to fix their remuneration.**

MNP LLP were first appointed as the auditors of the Corporation on May 5, 2014.

Re-Approval of Option Plan

The Corporation has in place an amended and restated stock option plan (the “**Option Plan**”) which was last approved by the Shareholders on June 28, 2016. A copy of the Option Plan is attached as Schedule A to this Circular. The Option Plan is a “rolling” stock option plan, pursuant to which the number of Shares that may be reserved for issuance upon the exercise of options shall not exceed 10% of the issued and outstanding Shares at the time of any option grant. Pursuant to the rules of the TSX Venture Exchange (the “**Exchange**”), “rolling” stock option plans that reserve a percentage of an issuer’s issued and outstanding shares for grant require annual approval of a majority of the shareholders present in person or represented by proxy at the issuer’s annual meeting of shareholders.

The purpose of the Option Plan is to encourage ownership of Shares by employees, directors, senior officers and consultants of the Corporation and its subsidiaries and to enable the Corporation and its subsidiaries to attract and retain valued employees, directors, senior officers and consultants.

Options to purchase up to 10% of the number of issued and outstanding Shares at the time of any option grant are issuable pursuant to the Option Plan to employees, directors, senior officers and consultants of the Corporation or any of its subsidiaries. The number of options which may be granted pursuant to the Option Plan will increase as the number of Shares which are issued and outstanding increases. If an option expires or is otherwise terminated for any reason, the number of Shares in respect of such option will again be available for the purposes of the Option Plan. Options issued under the Option Plan are non-assignable and non-transferable.

Without disinterested shareholder approval in accordance with the rules of the Exchange: (i) the number of Shares reserved for issuance to directors or senior officers of the Corporation or any of its subsidiaries or any of their associates or permitted assigns (“**Related Persons**”) under the Option Plan and all other share compensation arrangements shall not exceed 10% of the Shares outstanding at the time of the grant (on a non-diluted basis); (ii) the number of Shares which may be issued to Related Persons under the Option Plan within a twelve month period shall not exceed 10% of the Shares outstanding at the time of the grant (on a non-diluted basis); (iii) the number of Shares which may be reserved for issuance to any one Related Person under the Option Plan and all other share compensation arrangements shall not exceed 5% of the Shares outstanding at the time of the grant (on a non-diluted basis); (iv) the number of Shares which may be issued to any one individual under the Option Plan within a twelve month period shall not exceed 5% of the Shares outstanding at the time of the issuance (on a non-diluted basis); and (v) no reduction shall be made in the exercise price of options granted to any individual who is an insider of the Corporation at the time of the proposed reduction.

In addition, (i) the number of Shares which may be reserved for issuance to any one consultant of the Corporation under the Option Plan within a twelve month period and (ii) the aggregate number of Shares which may be issued to all employees and consultants conducting investor relations activities under the

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Option Plan within a twelve month period, in each case shall not exceed 2% of the Shares outstanding at the time of the issuance (on a non-diluted basis).

The Option Plan is administered by the Board. Subject to applicable regulatory approvals, the Option Plan and any options granted under the Option Plan may be amended or terminated by the Board at any time, provided that no such action shall, without the consent of the participant, in any manner adversely affect the participant’s rights under any options.

Options granted under the Option Plan may be exercisable for a period of up to five years from the date of grant. Options granted under the Option Plan will terminate on the earlier of: (i) the expiry date specified in any option agreement or resolution of the Board; (ii) 90 days after the participant ceases to be an eligible person under the Option Plan, other than by reason of retirement, permanent disability or death; (iii) 180 days after the death of the participant, during which period any options exercisable on the date of the participant’s death may be exercised by the participant’s legal representatives or beneficiaries; (iv) 30 days after the participant who is involved in investor relations activities ceases to be employed by the Corporation, other than by reason of retirement, permanent disability or death; or (v) 90 days following the termination of the participant’s employment with the Corporation by reason of permanent disability or retirement, during which period any options exercisable on the date of termination may be exercised by the participant.

The exercise price of options granted under the Option Plan will be fixed by the Board and will not be less than the market price of the Shares on the Exchange as of the date of grant less a discount of up to 25% from the market price, subject to a minimum exercise price allowed by the Exchange. Shares will not be issued on the exercise of options granted under the Option Plan until they have been fully paid for.

Other terms and conditions of options granted under the Option Plan, including vesting, may be determined by the Board and set out in an option agreement between the Corporation and the participant.

At the Meeting, Shareholders will be asked to vote on the following ordinary resolution to re-approve the Option Plan (the “**Option Plan Resolution**”):

“BE IT RESOLVED THAT:

1. The amended and restated stock option plan of Cronos Group Inc. (the “Corporation”) attached as Schedule A to the management information circular of the Corporation dated May 26, 2017 (the “Option Plan”) is hereby approved, ratified and confirmed, subject to applicable regulatory approvals.
2. The form of the Option Plan may be amended in order to satisfy the requirements or requests of any regulatory authorities without requiring further approval of the shareholders of the Corporation.
3. Any one or more of the directors and officers of the Corporation be authorized and directed to perform all such acts, deeds and things and execute all such documents and other instruments, including treasury orders and stock exchange and securities commissions forms, as may be required to give effect to the intent of this resolution.”

Shareholders are being asked to vote for the Option Plan Resolution. To be effective, the Option Plan Resolution must be approved by at least a majority of the votes cast by the Shareholders present in person or represented by proxy at the Meeting. **Unless otherwise indicated, proxies received in favour of management will be voted FOR the Option Plan Resolution.**

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STATEMENT OF EXECUTIVE COMPENSATION

Named Executive Officers

During the financial year ended December 31, 2016, the following individuals acted as named executive officers (“NEOs”), as such term is defined in Form 51-102F6 — *Statement of Executive Compensation*, of the Corporation:

- Michael Gorenstein, Chairman, President and Chief Executive Officer;
- William Hilson, Chief Financial Officer;
- David Hsu, Head of Operations;
- Paul Rosen, President, Chief Executive Officer; and
- Glen A. Huber, Chief Financial Officer.

Paul Rosen resigned as an officer and director of the Corporation on May 13, 2016.

Glen A. Huber resigned a director of the Corporation on January 15, 2016. Mr. Huber was replaced as Chief Financial Officer of the Corporation on October 10, 2016 and continued to provide administrative support services to the Corporation until March 31, 2017.

Compensation Discussion and Analysis

The following disclosure describes the compensation paid, payable, awarded, granted, given or otherwise provided, directly or indirectly, by the Corporation, to each NEO. This section also identifies the objectives and material elements of compensation awarded to the NEOs and the reasons for the compensation. For a complete understanding of the executive compensation program, this disclosure should be read in conjunction with the Summary Compensation Table and other executive compensation-related disclosure included in this Circular.

The Board's assessment of corporate performance is based on a number of qualitative and quantitative factors including execution of on-going projects and transactions, and progress on key growth initiatives.

How the Corporation Determines Compensation

The Compensation Committee is responsible for reviewing and making recommendations to the entire Board concerning the compensation of the directors and executive officers of the Corporation. See "*Particulars of Matters to be Acted Upon — Election of Directors*" for a summary biography of each member of the Compensation Committee which sets out the experience relevant to the performance of his duties as a member of the Compensation Committee. Based on the recommendations of the Compensation Committee, the directors of the Corporation as a whole are responsible for determining the compensation paid to the executive officers and directors of the Corporation.

The philosophy of the Compensation Committee is to determine compensation for the Corporation's executive officers relative to the performance of the Corporation in executing on its objectives. The services of the Corporation's NEOs at the end of the most recently completed financial year were provided to the Corporation pursuant to employment and consulting agreements which provide for the fixed compensation to be paid to the aforementioned NEOs. The NEOs are also eligible to receive performance-based incentive compensation. Other officers may receive both fixed compensation and performance-based variable incentive compensation, which together represents total direct compensation.

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The Compensation Committee's assessment of corporate performance is based on a number of qualitative and quantitative factors including execution of on-going projects and transactions, safety, operational performance and progress on key growth initiatives. The NEOs do not automatically receive any particular award based on the Compensation Committee's determination of the overall performance of the Corporation, but rather the determination establishes the background for the Compensation Committee's subsequent review of the NEOs' individual performance.

The Compensation Committee is currently comprised of Alan Friedman and Michael Gorenstein. Mr. Friedman has been determined by the Board to be "independent" as such term is defined in National Instrument 52-110 — *Audit Committees* ("**NI 52-110**"). Mr. Gorenstein is not considered independent, as he is the Chairman, President and Chief Executive Officer of the Corporation.

Objectives of the Compensation Program

The objectives of the compensation program of the Corporation are:

- to reward individual contributions in light of overall business results;
- to align the interests of the executives with the interests of the shareholders; and
- to attract and retain executives who can help the Corporation achieve its objectives.

Elements of Executive Compensation

The NEOs are paid a fixed salary pursuant to consulting/employment agreements.

Stock options are designed to motivate executives and directors to achieve positive business results and align their interests with those of the shareholders. Participants benefit only if the market value of the Shares at the time of a stock option exercise is greater than the exercise price of the stock options at the time of the relevant grant. Stock options vest in such manner as the Board may determine.

Determination of Compensation

Rather than strictly applying formulas and weightings to forward-looking performance objectives, which may lead to unintended consequences for compensation purposes, the Board exercises its discretion and uses sound judgment in making compensation determinations. For this reason, the Board does not measure performance using any pre-set formulas in determining compensation awards for NEOs.

The Board's comprehensive assessment of the overall business performance of the Corporation, including corporate performance against objectives (both quantitative and qualitative), business circumstances and, where appropriate, relative performance against peers, provides the context for individual executive officer evaluations for all direct compensation awards.

Stock Options

Stock Option Granting Process

Generally, stock option grants are determined on an ad hoc basis. The Chief Executive Officer ("**CEO**") makes recommendations to the Compensation Committee regarding individual stock option awards for all recipients, other than the CEO and the directors of the Corporation. The Compensation Committee makes recommendations to the Board regarding stock options for the CEO and the directors. The Compensation Committee considers relevant market data and other information in order to determine the CEO's stock option grant recommendation to the Board.

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The Compensation Committee reviews the appropriateness of the stock option grant recommendations from the CEO for all eligible employees and accepts or adjusts these recommendations. The Compensation Committee is responsible for approving all individual stock option grants, including grants that are awarded outside the annual compensation deliberation process for such things as promotions or new hires. The Compensation Committee is also responsible for recommending to the Board for its approval any stock option grants for executive officers.

The Compensation Committee approves or recommends compensation awards, including stock option grants, which are not contingent on the number, term or current value of other outstanding compensation previously awarded to the individual.

Other Compensation

Executive officers may receive other benefits that the Corporation believes are reasonable and consistent with its overall executive compensation program. These benefits, which are based on competitive market practices, support the attraction and retention of executive officers. The principal benefit offered is a group health and dental plan.

Financial Instruments

The Corporation does not have a policy which prohibits NEOs and directors of the Corporation from personally purchasing financial instruments, including prepaid variable forward contracts, equity swaps, collars, or units of exchange funds, that are designed to hedge or offset a decrease in market value of equity securities granted as compensation or held, directly or indirectly, by a NEO or director.

Summary Compensation Table

The following table provides a summary of total compensation for each NEO, for services rendered in all capacities to the Corporation for the fiscal year ended December 31, 2016. The Corporation does not have any pension plans, long-term non-equity incentive plans or deferred compensation plans. In addition, the Corporation does not currently have any plans or arrangements in place that provide for share-based awards.

Name and principal position	Year	Salary (\$)	Share-based awards (\$)	Option-based awards (\$)	Non-equity incentive plan compensation (\$)		Pension value (\$)	All other compensation (\$)	Total compensation (\$)
					Annual incentive plans	Long-term incentive plans			
Michael Gorenstein, Chairman, President and Chief Executive Officer ⁽²⁾	2016	174,664 ⁽⁴⁾	Nil	719,639	Nil	Nil	Nil	Nil	894,353
	2015	Nil	Nil	Nil	Nil	Nil	Nil	6,000 ⁽¹⁾	Nil
	2014	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
William Hilson, Chief Financial Officer ⁽²⁾	2016	64,947	Nil	245,895	Nil	Nil	Nil	Nil	310,842
	2015	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
	2014	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil

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Name and principal position	Year	Salary (\$)	Share-based awards (\$)	Option-based awards (\$)	Non-equity incentive plan compensation (\$)		Pension value (\$)	All other compensation (\$)	Total compensation (\$)
					Annual incentive plans	Long-term incentive plans			
David Hsu, Head of Operations ⁽²⁾	2016	147,941 ⁽⁴⁾	Nil	114,360	Nil	Nil	Nil	Nil	262,301
	2015	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
	2014	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Paul Rosen, President, Chief Executive Officer	2016	60,237	Nil	2,370	Nil	Nil	Nil	150,000 ⁽³⁾	212,607
	2015	158,249	Nil	Nil	Nil	Nil	Nil	39,000 ⁽¹⁾	197,249
	2014	237,885	Nil	370,558	Nil	Nil	Nil	30,000 ⁽¹⁾	638,442
Glen A. Huber, Chief Financial Officer	2016	106,150	Nil	Nil	Nil	Nil	Nil	Nil	106,150
	2015	68,985	Nil	Nil	Nil	Nil	Nil	39,000 ⁽¹⁾	107,985
	2014	68,471	Nil	190,776	Nil	Nil	Nil	Nil	259,247

Notes:

- (1) Amounts represent director's fees paid to the NEO.
- (2) Each of the NEOs (other than Paul Rosen and Glen A. Huber) is employed by the Corporation pursuant to an employment or consulting contract which sets out the NEO's base salary and target bonus entitlements.
- (3) Amount represents a severance payment of \$150,000.
- (4) Remitted in U.S. dollars at the prevailing exchange rate at the time of payment.

Incentive Plan Awards — NEOs

Outstanding Option-based and Share-based awards as at December 31, 2016

The following table sets out for each NEO all option-based awards and share-based awards outstanding at the end of the year ended December 31, 2016:

Name	Option-based Awards				Share-based Awards		
	Number of securities underlying unexercised options	Option exercise price (\$)	Option expiration date	Value of unexercised in-the-money options ⁽¹⁾ (\$)	Number of shares or units of shares that have not vested	Market or payout value of share-based awards that have not vested (\$)	Market or payout value of vested share-based awards not paid out or distributed (\$)
Michael Gorenstein	487,500	0.50	August 5, 2021	114,560	Nil	Nil	Nil
William Hilson	1,200,000	1.23	October 6, 2021	605,280	Nil	Nil	Nil
David Hsu	487,500	1.23	October 6, 2021	245,895	Nil	Nil	Nil
Paul Rosen	487,500	0.50	August 5, 2021	114,560	Nil	Nil	Nil
Glen A. Huber	Nil	Nil	N/A	Nil	Nil	Nil	Nil
	65,000	1.15	December 17, 2017	28,471	Nil	Nil	Nil

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Notes:

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

Incentive Plan Awards — Value Vested or Earned During the Year Ended December 31, 2016

The following table sets out for each NEO, the value of option-based awards and share-based awards which vested during the year ended December 31, 2016 and the value of non-equity incentive plan compensation earned during the year ended December 31, 2016:

Option-based awards

Share-based awards

Non-equity incentive plan

Name	— Value vested during the year (\$)	— Value vested during the year (\$)	compensation — Value earned during the year (\$)
Michael Gorenstein	49,742	Nil	Nil
William Hilson	15,368	Nil	Nil
David Hsu	11,912	Nil	Nil
Paul Rosen	2,964 ⁽¹⁾	Nil	Nil
Glen A. Huber	Nil	Nil	Nil

Note:

(1) All options vested immediately upon issue.

Pension Plan Benefits

The Corporation does not have any pension plans that provide for payments or benefits at, following, or in connection with retirement or provide for retirement or deferred compensation plans.

Employment Agreement, Termination and Change of Control Benefits

The Corporation entered into an employment agreement (the “**Gorenstein Agreement**”) dated August 10, 2016 with Michael Gorenstein. Pursuant to the Gorenstein Agreement, Mr. Gorenstein acts in the capacity of President and Chief Executive Officer of the Corporation. The Gorenstein Agreement provided for a salary of USD\$200,000 per year for acting in such capacity plus the reimbursement for all reasonable fees and dues for professional associations or memberships as well as all out of pocket expenses incurred in connection with Mr. Gorenstein’s duties. Mr. Gorenstein will also be eligible to participate in any employee benefit plan, program or arrangement. Mr. Gorenstein may also be eligible to receive an annual bonus as a lump sum cash payment and/or annual options to purchase Shares. Such bonus is at the discretion of the Board and shall be conditional upon Mr. Gorenstein’s performance and such factors as increase in share price, growth in net asset value, growth of the Corporation, balance sheet position, and such other considerations as the Compensation Committee may establish in its sole discretion.

The Corporation’s wholly-owned subsidiary, Peace Naturals Project Inc., entered into a financial advisory services agreement (the “**Hilson Agreement**”) dated October 1, 2015 with Hillhurst Management Inc. Pursuant to the Hilson Agreement and as agreed to by the Corporation, Mr. Hilson provides financial advisory services in the capacity of Chief Financial Officer of the Corporation. Mr. Hilson receives an annual salary of \$150,000 for services provided to the Corporation for acting in such capacity plus the

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reimbursement all reasonable fees and out of pocket expenses incurred in connection with Mr. Hilson’s duties.

The Corporation entered into a management consulting agreement (the “**Hsu Agreement**”) dated October 27, 2016 with D Hsu Ventures LLC (retroactively effective as of June 4, 2016). Pursuant to the Hsu Agreement, Mr. Hsu acts in the capacity of Head of Operations of the Corporation. The term of the Hsu Agreement is for one year and automatically renews for subsequent one year periods in perpetuity. The Hsu Agreement provides for a fee equal to USD\$175,000 per year for acting in such capacity plus the reimbursement for all reasonable fees and out of pocket expenses incurred in connection with Mr. Hsu’s duties.

The Corporation entered into an employment agreement (the “**Rosen Agreement**”) dated August 1, 2014 with Paul Rosen. Pursuant to the Rosen Agreement, Mr. Rosen acted in the capacity of President and Chief Executive Officer of the Corporation. The Rosen Agreement provided for a salary of \$150,000 per year for acting in such capacity, plus the reimbursement for parking, all reasonable fees and dues for professional associations or memberships as well as all out of pocket expenses incurred in connection with Mr. Rosen’s duties. The Rosen Agreement was terminated by mutual agreement on May 13, 2016.

The Corporation entered into an employment termination agreement (the “**Rosen Termination Agreement**”) dated May 13, 2016 with Paul Rosen. Pursuant to the Rosen Termination Agreement Mr. Rosen agreed to resign as President, Chief Executive Officer, Secretary and director of the Corporation with immediate effect, and agreed to enter into the Rosen Consulting Agreement (as defined below). The Rosen Termination Agreement provided for a severance payment of \$150,000 (in accordance with the termination provisions of the Rosen Agreement) and the issuance of 78,924 options.

The Corporation entered into a consulting agreement (the “**Rosen Consulting Agreement**”) dated May 13, 2016 with Paul Rosen. Pursuant to the Rosen Consulting Agreement Mr. Rosen provided administrative services to the Corporation’s wholly-owned subsidiary, In The Zone Produce Ltd. The Rosen Consulting Agreement provided for a fee of \$5,000 per month for providing such services plus the reimbursement for all reasonable fees and out of pocket expenses incurred in connection with Mr. Rosen’s duties. The Rosen Consulting Agreement was terminated by mutual agreement on June 25, 2016.

The Corporation entered into a financial advisory services agreement (the “**Huber Agreement**”) dated September 24, 2014 with Brett Management Inc. Pursuant to the Huber Agreement and as agreed to by the Corporation, Mr. Huber provided financial advisory services in the capacity of Chief Financial Officer of the Corporation. Mr. Huber received a fee equal to the greater of \$5,000 per month or an hourly fee of \$500 for services provided to the Corporation for acting in such capacity, plus the reimbursement for all reasonable fees and out of pocket expenses incurred in connection with Mr. Huber’s duties. Mr. Huber was replaced as Chief Financial Officer of the Corporation on October 10, 2016 and continued to provide administrative support services to the Corporation until March 31, 2017.

Termination Without Cause

If a NEO is terminated without cause (as defined below), the Corporation may be obligated to make payments or provide benefits to the NEO. Actions constituting “cause” include (i) the failure to perform his or her duties in a manner satisfactory to the Board, (ii) engagement in any act that is materially harmful to the Corporation, (iii) engagement in any illegal or dishonest behavior that benefits the NEO to the detriment of the Corporation, (iv) failure to abide by resolutions of the Board, and (v) failure to abide by corporate policies, procedures or codes of conduct.

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Amounts Payable Upon Termination

Gorenstein Agreement

Upon termination without cause, the Corporation would be required to pay Mr. Gorenstein an amount equal to one year’s base salary. Mr. Gorenstein shall remain eligible to participate in any group benefits plan if so established. In the case that Mr. Gorenstein’s employment is terminated either (a) by the Corporation within four months prior to or 12 months following a change of control, or (b) by Mr. Gorenstein within four to 12 months following a change of control, then (i) Mr. Gorenstein shall instead be entitled to two years’ base salary, and (ii) if terminated by the Corporation, any options previously granted that have not yet vested shall immediately vest.

Hsu Agreement

Upon termination without cause, the Corporation would be required to pay Mr. Hsu an amount equal to the balance of the fees otherwise payable on the remaining term. Had Mr. Hsu been terminated on December 31, 2016, the Corporation would have been required to pay Mr. Hsu approximately USD\$145,833.

Rosen Agreement

Upon termination without cause, the Corporation was required to pay Mr. Rosen salary severance in the amount of \$150,000 and issued 78,924 options to Mr. Rosen with a strike price of \$0.285.

Director Compensation

Director Compensation Table

The following table sets forth information concerning the annual and long-term compensation in respect of the directors of the Corporation, other than the NEOs, during the financial year ended December 31, 2016:

Name and principal position	Fees Earned (\$)	Share-based awards (\$)	Option-based awards (\$)	Non-equity incentive plan compensation (\$)	Pension value (\$)	All other compensation (\$)	Total (\$)
Lorne M. Gertner ⁽¹⁾	Nil	Nil	2,370	Nil	Nil	Nil	2,370
Michael Krestell	Nil	Nil	61,414	Nil	Nil	Nil	61,414
Jason Adler	Nil	Nil	624,828	Nil	Nil	Nil	624,828
Steven Isenberg ⁽²⁾	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Alan Friedman	Nil	Nil	61,414	Nil	Nil	Nil	61,414

Notes:

- (1) Lorne M. Gertner resigned as a director of the Corporation on May 19, 2016.
- (2) Steven Isenberg resigned as a director of the Corporation on January 15, 2016.

Material Factors Necessary to Understand Director Compensation

There were no standard or other arrangements under which independent directors of the Corporation were compensated in their capacity solely as directors during the financial year ended December 31, 2016. Certain consultants of the Corporation who were also directors of the Corporation received compensation in their capacity as consultants to the Corporation.

Directors who are executive officers of the Corporation or who are not otherwise “independent” for the purposes of NI 52-110 will not receive any compensation for serving as directors or for serving on any committees of directors other than options.

Directors’ Option-based Awards

All directors are entitled to participate in the Corporation’s stock option plan. During the financial year ended December 31, 2016, 1,694,925 options to purchase Shares were granted to directors (other than NEOs). During such financial year, 403,248 options to purchase Shares were exercised by directors, including NEOs. As at December 31, 2016, the Corporation had outstanding options to purchase an aggregate of 6,177,594 shares, of which 1,708,500 were issued to the directors (other than NEOs).

Outstanding Option-based and Share-based awards as at December 31, 2016

The following table sets out for each director (other than NEOs) all option-based awards and share-based awards outstanding at the end of the year ended December 31, 2016:

Director Name	Option-based Awards				Share-based Awards		
	Number of securities underlying unexercised options	Option exercise price (\$)	Option expiration date	Value of unexercised in-the-money options ⁽¹⁾ (\$)	Number of shares or units of shares that have not vested	Market or payout value of share-based awards that have not vested (\$)	Market or payout value of vested share-based awards not paid out or distributed (\$)
Lorne M. Gertner ⁽²⁾	Nil	Nil	N/A	Nil	Nil	Nil	Nil
Michael Krestell	65,000	1.15	December 17, 2017	28,470	Nil	Nil	Nil
	83,333	0.50	August 5, 2021	19,549			
	83,000	1.23	October 6, 2021	41,865			
Steven Isenberg ⁽³⁾	Nil	Nil	N/A	Nil	Nil	Nil	Nil
Jason Adler	83,334	0.50	August 5, 2021	19,549	Nil	Nil	Nil
	1,200,000	1.23	October 6, 2021	605,280			
Alan Friedman	27,500	1.15	December 17, 2017	12,045	Nil	Nil	Nil
	83,333	0.50	August 5, 2021	19,549			
	83,000	1.23	October 6, 2021	41,865			

Notes:

- (1) Fair value of the options was determined using the Black-Scholes option-pricing model.
- (2) Lorne M. Gertner resigned as a director of the Corporation on May 19, 2016.
- (3) Steve Isenberg resigned as a director of the Corporation on January 15, 2016.

Incentive Plan Awards — Value Vested or Earned During the Year Ended December 31, 2016

The following table sets out for each director (other than NEOs), the value of option-based awards and share-based awards which vested during the year ended December 31, 2016 and the value of non-equity incentive plan compensation earning during the year ended December 31, 2016:

Name	Option-based awards — Value vested during the year (\$)	Share-based awards — Value vested during the year (\$)	Non-equity incentive plan compensation — Value earned during the year (\$)
Lorne M. Gertner ⁽¹⁾	2,370	Nil	Nil
Michael Krestell	4,653	Nil	Nil
Alan Friedman	4,653	Nil	Nil
Steve Isenberg ⁽²⁾	Nil	Nil	Nil
Jason Adler	39,866	Nil	Nil

Notes:

- (1) Lorne M. Gertner resigned as a director of the Corporation on May 19, 2016.
(2) Steve Isenberg resigned as a director of the Corporation on January 15, 2016.

EQUITY COMPENSATION PLAN INFORMATION

The following table provides summary information regarding the Corporation's equity compensation plans as of December 31, 2016.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by securityholders	6,177,594 ⁽¹⁾	\$ 1.10	5,994,980 ⁽²⁾
Equity compensation plans not approved by securityholders	Nil	Nil	Nil
Total	6,177,594	\$ 1.10	5,994,980

Notes:

- (1) Shares to be issued on the exercise of outstanding stock options governed by the Option Plan.
(2) Based on 10% of the 121,725,748 Shares issued and outstanding as of December 31, 2016.

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AUDIT COMMITTEE

The following information is provided in accordance with the requirements applicable to "venture issuers" in NI 52-110. The Corporation is relying on the exemption from the requirements of Part 3 (Composition of the Audit Committee) and Part 5 (Reporting Obligations) in section 6.1 of NI 52-110.

Audit Committee Charter

A copy of the Corporation's Audit Committee Charter is attached as Schedule B to this Circular.

Composition of the Audit Committee

The members of the Audit Committee are Alan Friedman, Michael Krestell and Michael Gorenstein. The Board believes that the composition of the Audit Committee reflects financial literacy and expertise. The three members have been determined by the Board to be "financially literate" as such term is defined in NI 52-110. The Board has made these determinations based on the education as well as the breadth and depth of experience of each member of the Audit Committee. Mr. Friedman and Mr. Krestell have been determined by the Board to be "independent" as such term is defined in NI 52-110. Mr. Gorenstein is not considered independent, as he is the Chairman, President and Chief Executive Officer of the Corporation.

Relevant Education and Experience

See "Particulars of Matters to be Acted Upon — Election of Directors" for a summary biography of each member of the Audit Committee which sets out the education and experience relevant to the performance of his duties as a member of the Audit Committee.

Pre-Approval Policies and Procedures

Subject to the requirements of NI 52-110, the engagement of non-audit services is considered by the Audit Committee and, where applicable, the Board on a case-by-case basis.

External Auditor Service Fees

The following table provides details in respect of audit, audit-related, tax and other fees billed by the Corporation to the external auditors for professional services provided to the Corporation and its subsidiaries in each of the last two fiscal years:

	2016	2015
Audit Fees	\$ 136,900	\$ 141,850
Audit-Related Fees	Nil	Nil
Tax Fees ⁽¹⁾	\$ 6,627	\$ 11,500
All Other Fees ⁽²⁾	\$ 4,595	\$ 6,825

Notes:

- (1) Fees for professional services which include advice relating to tax compliance and tax planning and the preparation and review of tax returns.

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- (2) Fees for professional services which include bookkeeping and accounting advice primarily relating to the preparation of the Corporation's financial statements and management's discussion and analysis, and due diligence.

CORPORATE GOVERNANCE

The following information is provided in accordance with the requirements applicable to “venture issuers” in National Instrument 58-101 — *Disclosure of Corporate Governance Practices*.

Board of Directors

The Board is responsible for the stewardship of the Corporation and for the supervision of management to protect shareholder interests. The Board oversees the development of the Corporation’s strategic plan and the ability of management to continue to deliver on the corporate objectives.

The Board is presently comprised of four directors, of which three are considered to be “independent” as such term is defined in NI 52-110. An independent director is a director who has no direct or indirect material relationship with the issuer. A “material relationship” is defined as a relationship which could, in the view of the issuer’s board of directors, be reasonably expected to interfere with the exercise of the director’s independent judgment. Mr. Gorenstein is not considered to be independent, as he is the Chairman, President and Chief Executive Officer of the Corporation.

The independent judgment of the Board in carrying out its responsibilities is the responsibility of all directors. The Board facilitates independent supervision of management through meetings of the Board and through frequent informal discussions among independent members of the Board and management. In addition, the Board has free access to the Corporation’s external auditors, external legal counsel and to the Corporation’s officers.

Directorships

The following director of the Corporation is also a director of the reporting issuers (or the equivalent) in a jurisdiction or a foreign jurisdiction listed below:

Director	Reporting Issuer
Alan Friedman	Adira Energy Ltd. Eco (Atlantic) Oil & Gas Ltd. RG One Corp.

Orientation and Continuing Education

Each new director is given an outline of the nature of the Corporation’s business, its strategy and present issues with the Corporation. New directors would also be expected to meet with management of the Corporation to discuss and better understand the Corporation’s business and would be advised by the Corporation’s legal counsel of their legal obligations as directors of the Corporation. The orientation and continuing education process is reviewed on an annual basis by the Board and will be revised as necessary.

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Ethical Business Conduct

The entire Board is responsible for encouraging and promoting a culture of ethical business conduct.

The Board has found that the fiduciary duties placed on individual directors by the Corporation’s governing corporate legislation and the common law and the restrictions placed by applicable corporate legislation and the Corporation’s constating documents on an individual director’s participation in decisions of the Board in which the director has an interest have been sufficient to ensure that the Board operates independently of management and in the best interests of the Corporation.

In addition, each nominee for director of the Corporation must disclose to the Corporation all interests and relationships of which the nominee is aware at the time of consideration of their nomination as a director which will or may give rise to a conflict of interest. If such an interest or relationship should arise while the individual is a director, the individual is required to make immediate disclosure of all relevant facts to the Corporation and, where applicable, shall refrain from voting in respect of any related material contract or transaction or proposed material contract or transaction.

Nomination of Directors

The entire Board is responsible for proposing new nominees to the Board. The Board selects individuals with the desired background and qualifications, taking into account the needs of the Board at the time. A majority of directors must agree to any new nominees to encourage an objective nomination process.

In June 2015, the Corporation adopted a by-law (the “**Advance Notice By-Law**”) setting out advance notice requirements for the nomination of directors of the Corporation by Shareholders other than pursuant to a requisition of a meeting or a shareholder proposal made pursuant to applicable law. A copy of the Advance Notice By-Law is available on SEDAR at www.sedar.com. The Advance Notice By-Law provides a mechanism through which Shareholders are able to receive appropriate disclosure with respect to proposed director nominees prior to a meeting. It also provides the Corporation with the opportunity, prior to a meeting, to confirm the eligibility of a proposed director to serve as an independent director and to confirm certain other information about the proposed nominee and the nominating shareholder that could be material to a reasonable shareholder’s understanding of such proposed nominee’s independence, or lack thereof.

The Advance Notice By-Law fixes a deadline by which Shareholders must notify the Corporation of their intention to nominate directors and sets out the information that Shareholders must provide in the notice in order for it to be valid. Under the Advance Notice By-Law, a Shareholder wishing to nominate a director is required to provide notice to the Corporation in the prescribed form within the following time periods:

- (a) in the case of an annual meeting of shareholders, not less than 30 nor more than 65 days prior to the date of the annual meeting of shareholders; provided, however, that in the event that the annual meeting of shareholders is to be held on a date that is less than 50 days after the date on which the first public announcement of the date of the annual meeting was made, notice by the Shareholder may be made not later than the close of business on the tenth day following the day on which the first public announcement of the date of the shareholder meeting was made; and
- (b) in the case of a special meeting (which is not also an annual meeting) of shareholders called for the purpose of electing directors (whether or not called for other purposes), not later than the close of business on the fifteenth day following the day on which the first public announcement of the date of the special meeting of shareholders was made.

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For the purposes of the Advance Notice By-law, “public announcement” means disclosure in a press release reported by a national news service in Canada or in a document publicly filed by the Corporation.

Compensation

The Compensation Committee and the entire Board are responsible for determining the compensation of the directors and executive officers of the Corporation. See “Statement of Executive Compensation — Compensation Discussion and Analysis” and “— Director Compensation” for a discussion of the Corporation’s process of determining the compensation of the Corporation’s directors and executive officers.

Other Board Committees

The Corporation has no standing committees other than the Audit Committee and Compensation Committee.

Assessments

The entire Board is responsible for assessing whether the Board, its committees and its individual directors are performing effectively. Each Board member has considerable experience in the guidance and management of public companies and the Board has found this has been sufficient to meet the current needs of the Corporation.

INDEBTEDNESS OF DIRECTORS AND EXECUTIVE OFFICERS

None of the directors or proposed nominees for election as a director, executive officers, employees, former directors, former executive officers or former employees of the Corporation or any of its subsidiaries, and none of their associates, is or has, at any time since the beginning of the Corporation’s most recently completed financial year, been indebted to the Corporation or any of its subsidiaries, and neither the Corporation nor any of its subsidiaries has provided any guarantee, support agreement, letter of credit or other similar arrangement or understanding in respect of any indebtedness of any such individual to any other entity.

INTEREST OF INFORMED PERSONS IN MATERIAL TRANSACTIONS

Management of the Corporation is not aware of any material interest, direct or indirect, of any informed person of the Corporation, any proposed director of the Corporation, or any associate or affiliate of any informed person or proposed director, in any transaction since the commencement of the Corporation’s most recently completed financial year or in any proposed transaction which has materially affected or would materially affect the Corporation or any of its subsidiaries.

ADDITIONAL INFORMATION

Additional information relating to the Corporation is available on SEDAR at www.sedar.com. Shareholders may request copies of the Corporation’s consolidated financial statements for the financial years ended December 31, 2016 and December 31, 2015 and related management’s discussion and analysis, free of charge by contacting the Corporation’s Chief Financial Officer at the head office of the Corporation located at 76 Stafford Street, Suite 302 Toronto, Ontario, M6J 2S1. Financial information is provided in the Corporation’s consolidated financial statements for the financial years ended December 31, 2016 and December 31, 2015 and related management’s discussion and analysis.

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APPROVAL OF BOARD OF DIRECTORS

The contents of this Circular, and the sending thereof to each director of the Corporation, to the auditors of the Corporation and to the Shareholders has been approved by the Board.

DATED in the City of Toronto, in the Province of Ontario, this 26th day of May, 2017.

“Michael Gorenstein”
Michael Gorenstein
Chairman,
President and Chief Executive Officer

“Michael Krestell”
Michael Krestell
Director

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Schedule A

Stock Option Plan

CRONOS GROUP INC.

AMENDED AND RESTATED STOCK OPTION PLAN

1. **INTERPRETATION:** for the purposes of this Plan, the following terms shall have the following meanings:
 - (a) **“affiliated entity”** means, for the Company, a person or company that controlled by the Company or that is controlled by the same person or company that controls the Company;
 - (b) **“associate”** when used to indicate a relationship with a person or company, means
 - (i) an issuer of which the person or company beneficially owns or controls, directly or indirectly, voting securities entitling the person or company to more than 10% the voting rights attached to outstanding voting securities of the issuer,
 - (ii) any partner of the person or company
 - (iii) any trust or estate in which the person or company has a substantial beneficial interest or in respect of which the person or company serves a trustee or in a similar capacity
 - (iv) in the case of a person, a relative of that person, including
 - (i) a spouse of that person, or
 - (ii) a relative of that person’s spouse if the relative has the same home as that person;
 - (c) **“Board”** means the board of directors of the Company;

- (d) **“Company”** means Cronos Group Inc.;
- (e) **“Consultant”** means, for the Company, a person or company, other than an employee, senior officer, or director of the Company that
- (i) is engaged to provide services to the Company or an affiliated entity of the Company, other than services provided in relation to a distribution,
 - (ii) provides the services under written contract with the Company or an affiliated entity of the Company, and
 - (iii) spends or will spend a significant amount of time and attention on the affairs and business of the Company or an affiliated entity of the Company
- and includes, for an individual consultant, a company of which the individual consultant is an employee or shareholder, and a partnership of which the individual consultant is an employee or partner;

- (f) **“Discounted Market Price”** means, the Market Price less a discount, which shall not exceed the amount set forth below, subject to a minimum price of \$0.05 for share issuances and a minimum exercise price of \$0.10 for Warrants and incentive stock options:

Closing Price	Discount
Up to \$0.50	25%
Up to \$0.51 to \$2.00	20%
Above \$2.00	15%

- (g) **“Eligible Person”** means,
- (i) an employee, senior officer, director or Consultant of the Company or of an affiliated entity of the Company;
- (h) **“Exchange”** means the TSX Venture Exchange;
- (i) **“Insider”** is used in relation to the Company, mean
- (i) a director or senior officer of the Company
 - (ii) every director or senior officer of a company that is itself an insider or subsidiary of the Company,
 - (iii) any person or company who beneficially owns, directly, voting securities of the Company or who exercises control or direction over voting securities of the Company or a combination of both carrying more than 10% of the voting rights attaching to all voting securities to the Company for the time being outstanding other than voting securities held by the person or company as an underwriter in the course of a distribution, or
 - (iv) the Company itself if it holds any of its own securities;
- (j) **“Investor Relations Activities”** means any activities or communications, by or on behalf of the issuer or a security holder of the issuer, that promote or could reasonably be expected to promote the purchase or sale of securities of the issuer, but does not include
- (i) the dissemination of information or preparation of records in the ordinary course of the business of the issuer:
 - (i) to promote the sale of products or services of the issuer, or
 - (ii) to raise public awareness of the issuer
- that cannot reasonably be considered to promote the purchase or sale of securities of the issuer, or

- (ii) activities or communications necessary to comply with the requirements of:
 - (i) securities legislation or securities directions of any jurisdiction of Canada or the securities laws of any foreign jurisdiction governing the issuer, and the policies, notices, instruments and blanket orders in force from time to time that are applicable to an issuer.
 - (ii) any exchange or market on which the issuer’s securities trade, the by-laws, rules or other regulatory instruments of any other self regulatory body or exchange having jurisdiction over the issuer; or
 - (iii) communications by a publisher of, or writer for, a newspaper, a magazine or business or financial publication, that is of general and regular paid circulation, distributed only to subscribers to it for value or to purchase of it, if:
 - (i) the communication is only through the newspaper, magazine, or publication, and
 - (ii) the publisher or writer receives no commission or other consideration other than for acting in the capacity of publisher or writer, or;
 - (iv) activities or communications that may be otherwise specified by the Exchange.
- (k) **“Market Price”** shall have the meaning ascribed to such term in Section 7(a);
- (l) **“Option”** means an option to purchase Shares granted to an Eligible Person pursuant to the terms of the Plan;
- (m) **“Participant”** means Eligible Persons to whom Options have been granted;
- (n) **“Plan”** means this Stock Option Plan of the Company;
- (o) **“Related Person”** for the Company, means:

- (i) a director or senior officer of the Company or of an affiliated entity of the Company,
 - (ii) an associate of a director or senior officer of the Company or of an affiliated entity of the Company,
 - (iii) a permitted assign of a director or senior officer of the Company or of an affiliated entity of the Company;
- (p) **“Resulting Issuer”** means the Company as it may exist upon completion of its Qualifying Transaction and issuance of the Final Exchange Bulletin;

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- (q) **“Securities Laws”** means securities legislation, securities regulation and securities rules, as amended, and the policies, notices, instruments and blanket orders in force from time to time that are applicable to the Company;
- (r) **“Senior officer”** means,
- (i) a chair or vice-chair of the board of directors, the president, a vice president, the secretary, the treasurer or the general manager of a company or any other individual who performs functions for the Company similar to those normally performed by an individual occupying any such office, and
 - (ii) each of the five highest paid employees of the Company, including any individual referred to in clause (i);
- (s) **“Share Compensation Arrangement”** means any stock option, stock option plan, employee stock purchase plan or any other compensation or incentive mechanism involving the issuance or potential issuance of Shares, including a share purchase from treasury which is financially assisted by the Company by way of a loan, guarantee or otherwise;
- (t) **“Shares”** means the common shares of the Company;
- (u) **“Subsidiary”** a company is a subsidiary of another company if,
- (i) it is controlled by,
 - (i) that other, or
 - (ii) that other and one or more companies each of which is controlled by that other, or
 - (iii) two or more companies each of which is controlled by that other, or
 - (ii) it is subsidiary of a company that is that other’s subsidiary;

Words importing the singular number only shall include the plural and vice versa and words importing the masculine shall include the feminine.

This Plan and all matter which reference is made herein shall be governed by and interpreted in accordance with the laws of the Province of Ontario and the laws of Canada applicable therein.

2. **PURPOSE:** The purpose of this Plan is to encourage ownership of the Shares by employees, directors, senior officers and Consultants of the Company and its Subsidiaries, who are primarily responsible for the management and profitable growth of its business and to advance the interests of the Company by providing additional incentive for superior performance by such persons and to enable the Company and its Subsidiaries to attract and retain valued employees, directors, senior officers, and Consultants.

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3. **ADMINISTRATION:** The Plan shall be administered by the Board. Subject to the limitations of the Plan, the Board shall have the authority:

- (a) to grant options to purchase Shares to Eligible Persons;
- (b) to determine the terms, limitations, restrictions and conditions respecting such grants;
- (c) to interpret the Plan and to adopt, amend and rescind such administrative guidelines and other rules and regulations relating to the Plan as it shall from time to time deem advisable, and
- (d) to make all other determinations and to take all other actions in connection with the implementation and administration of the Plan as it may deem necessary or advisable.

The Board’s guidelines, rules, regulations, interpretations and determinations shall be conclusive and binding upon the Company and all other persons.

4. **SHARES SUBJECT TO THE PLAN:** The maximum number of Shares which may be reserved and set aside for issue under this Plan shall not exceed ten percent (10%) of the number of issued and outstanding shares, from time to time, provided that the Board shall have the right, from time to time, to increase such maximum number subject to the approval of the shareholders of the Company.

Any Shares subject to an Option which for any reason is cancelled or terminated without having been exercised shall again be available for grants under the Plan. No fractional Shares shall be issued, and the Board may determine the manner in which fractional share value shall be treated.

5. **PARTICIPATION:** Options shall be granted under the Plan only to Eligible Persons designated from time to time by the Board and shall be subject to the approval of such regulatory authorities as may have jurisdiction.

6. **LIMITS WITH RESPECT TO RELATED PERSONS AND OTHERS:**

- (a) The maximum number of Shares which may be reserved for issuance to Related Persons under the Plan shall not exceed 10% of the Shares outstanding at the time of the grant (on a non-diluted basis) less the aggregate number of Shares reserved for issuance to Related Persons under any other Share Compensation Arrangement, unless the Company obtained the requisite disinterested shareholder approval and Exchange approval.
- (b) The maximum number of Shares which may be issued to Related Persons under the Plan within a twelve month period shall not exceed 10% of the Shares outstanding at the time of the issuance (on a non-diluted basis), unless the Company obtained the requisite disinterested shareholder approval.

- (c) The maximum number of Shares which may be reserved for issuance to any one Related Person under the Plan shall not exceed 5% of the Shares outstanding at the time of the grant

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(on a non-diluted basis) less the aggregate number of Shares reserved for issuance to the Related Person under any other Share Compensation Arrangement, unless the Company obtained the requisite disinterested shareholder approval.

- (d) The maximum number of Shares which may be issued to any one Individual under the Plan within a twelve month period shall not exceed 5% of the Shares outstanding at the time of the issuance (on a non-diluted basis), unless the Company obtained the requisite disinterested shareholder approval.
- (e) The maximum number of Shares which may be issued to any one Consultant under the Plan within a twelve month period shall not exceed 2% of the Shares outstanding at the time of issuance (on a non-diluted basis).
- (f) The aggregate maximum number of Shares which may be issued to all employees and consultants conducting Investors Relations Activities under the Plan within a twelve month period shall not exceed in the aggregate 2% of the Shares outstanding at the time of the issuance (on a non-diluted basis).

7. **TERMS AND CONDITIONS OF OPTIONS:** The terms and conditions of each option granted under the Plan (an "Option") shall include the following, as well as such other provisions, not inconsistent with the Plan, as may be deemed advisable by the Board including those contained in any stock option agreement entered into between the Company and a Participant:

- (a) *Option Price:* The option price of any Shares in respect of which an Option may be granted shall be fixed by the Board but shall be not less than the Discounted Market Price of the Shares at the time the Option is granted. For the purpose of this subparagraph 7(a), "Market Price" shall be deemed to be the closing price as reported by the TSX Venture Exchange upon which the Shares are listed or other published market upon which the Shares are quoted or traded, on the day immediately preceding the day upon which the Option is granted, or if not so traded, the average between the closing bid and asked prices thereof as reported for the day immediately preceding the day upon which the Option is granted. In the resolution allocating any Option, the Board may determine that the date or dates of the vesting of the Option shall be a future date or dates determined in the manner specified in such resolution. The Board may also determine that the option price per share may escalate at a specified rate dependent upon the date on which any Option may be exercised by the Participant.
- (b) *Payment:* The full purchase price of Shares purchased under an Option shall be paid in cash or certified funds upon the exercise thereof, and upon receipt of payment in full, but subject to the terms of the Plan, the number of Shares in respect of which the Option is exercised shall be duly issued as fully paid and non-assessable. A holder of an Option shall have none of the rights of a shareholder until the Shares are issued to him.
- (c) *Term of Option:* Options may be granted under this Plan exercisable over a period not exceeding five (5) years. Each Option shall be subject to earlier termination as provided in subparagraph 7(e).

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- (d) *Exercise of Option:* Subject to the provisions contained in subparagraph 7(e), no Option may be exercised unless the Participant is then an Eligible Person. This Plan shall not confer upon the Participant any right with respect to continuation of employment by the Company. Absence on leave approved by an officer of the Company or of any Subsidiary authorized to give such approval shall not be considered an interruption of employment for any purpose of the Plan. Subject to the provisions of the Plan, an Option may be exercised from time to time by delivery to the transfer agent of the Company at Toronto of written notice of exercise specifying the number of Shares with respect to which the Option is being exercised and accompanied by payment in full of the purchase price of the Shares then being purchased.
- (e) *Termination of Options:* Any Option granted pursuant hereto, to the extent not validly exercised, will terminate on the earlier of the following dates:
- (i) the date of expiration specified in the Option agreement or in the resolution of the Board granting such Option, as the case may be, being not more than five (5) years after the date upon which the Option was granted;
- (ii) ninety (90) days after the Participant ceases to be an Eligible Person, other than by reason of retirement, permanent disability or death. Without limitation, and for greater certainty only, this provision will apply regardless of whether the Participant was dismissed with or without cause and regardless of whether the Participant received compensation in respect of dismissal or was entitled to a period of notice of termination which would otherwise have permitted a greater portion of the Option to vest with the Participant;
- (iii) one hundred and eighty (180) days after the date of the death of the Participant during which period the Option may be exercised by the Participant's legal representative or the person or persons to whom the deceased Participant's rights under the Option shall pass by will or the applicable laws of descent and distribution, and only to the extent the Participant would have been entitled to exercise the Option on the date of death;
- (iv) thirty (30) days after the Participant who is involved in Investor Relations Activities ceases to be employed to provide Investor Relations Activities, other than by reason of retirement, permanent disability or death. Without limitation, and for greater certainty only, this provision will apply regardless of whether the Participant was dismissed with or without cause and regardless of whether the Participant received compensation in respect of dismissal or was entitled to a period of notice of termination which would otherwise have permitted a greater portion of the Option to vest with the Participant;
- (v) ninety (90) days after termination of the Participant's employment by reason of permanent disability or retirement under any retirement plan of the Company or any Subsidiary, during which ninety (90) day period the Participant may exercise the

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Option to the extent he was entitled to exercise it at the time of such termination, provided that if the Participant shall die within such ninety (90) day period, then such right shall be extended to ninety (90) days following the date of death of the Participant and shall be exercisable only by the persons described in clause 7(e)(iii) hereof and only to the extent therein set forth; and

- (vi) notwithstanding clauses 7(e)(ii), (iii), (iv), and (v), in respect of a Participant who is an Eligible Person immediately prior to completion by the Company of its Qualifying Transaction, the later of (i) 12 months after the completion of the Qualifying Transaction; and (ii) the earlier of, the applicable date set out in clauses 7(e)(i), (ii), (iii), (iv) and (v), as the case may be.

- (f) *Nontransferability of Stock Option:* No Option shall be transferable and assignable by the Participant other than by will or the laws of descent and distribution and such Option shall be exercisable during his lifetime only by the Participant.
- (g) *Bona Fide Grant:* The Company shall make all necessary representations to the applicable regulatory authority and to any stock exchanges on which the Shares are listed that, any Options granted under this Plan shall be to a bona fide Eligible Person.
- (h) *Applicable Laws or Regulations:* The Plan, the grant and exercise of Options hereunder and the Company's obligation to sell and deliver Shares upon exercise of Options shall be subject to all applicable federal, provincial and foreign laws, rules and regulations, the rules and regulations of any stock exchange on which the Shares are listed for trading and to such approvals by any regulatory or governmental agency as may, in the opinion of counsel to the Company, be required. The Company shall not be obligated by any provision of the Plan or the granting of any Option hereunder to issue or sell Shares in violation of such laws, rules and regulations or any condition of such approvals. No Option shall be granted and no Shares issued or sold hereunder where such grant, issue or sale would require registration of the Plan or the Shares under the securities laws of any foreign jurisdiction and any purported grant of any Option or issue or sale of Shares hereunder in violation of this provision shall be void. In addition, the Company shall have no obligation to issue any Shares pursuant to the Plan unless such Shares shall have been duly listed, upon official notice of issuance, with all stock exchanges on which the Shares are listed for trading. Shares issued and sold to Participants pursuant to the exercise of Options may be subject to limitations on sale or resale under applicable securities laws.

8. **ADJUSTMENTS IN SHARES SUBJECT TO THE PLAN:**

- (a) *Subdivisions and Redivisions:* In the event of any subdivision or redivision or subdivisions or redivisions of the Shares at any time while any Option is outstanding into a greater number of Shares, the Company shall thereafter deliver at the time of exercise of any Option, in lieu of the number of Shares in respect of which such Option is then being exercised, such greater number of Shares as would result from said subdivision or redivision or subdivisions or redivisions had such Option been exercised before such subdivision or redivision or subdivisions or redivisions without the Participant making any additional

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payment or giving any other consideration therefor.

- (b) *Consolidations:* In the event of any consolidation or consolidations of the Shares at any time while any Option is outstanding into a lesser number of Shares, the Company shall thereafter deliver, and the Participant shall accept, at the time of exercise of any Option, in lieu of the number of Shares in respect of which such Option is then being exercised, such lesser number of Shares as would result from such consolidation or consolidations had such Option been exercised before such consolidation or consolidations.
- (c) *Reclassifications/Changes:* In the event of any reclassification or change or reclassifications or changes of the Shares at any time while any Option is outstanding, the Company shall thereafter deliver at the time of exercise of any Option hereunder the number of securities of the Company of the appropriate class or classes resulting from said reclassification or change or reclassifications or changes as the Participant would have been entitled to receive in respect of the number of Shares in respect of which such Option is then being exercised had such Option been exercised before such reclassification or change or reclassifications or changes.
- (d) *Other Capital Reorganizations:* In the event of any capital reorganization of the Company at any time while any Option is outstanding, not otherwise covered in this section 8 or a consolidation, amalgamation or merger with or into any other entity or the sale of the properties and assets as or substantially as an entirety to any other entity, the Participant if he has not exercised his Option prior to the effective date of such reorganization, consolidation, amalgamation, merger or sale, upon the exercise of such Option thereafter, shall be entitled to receive and shall accept in lieu of the number of Shares then subscribed for by him but for the same aggregate consideration payable therefor, the number of other securities or property or of the entity resulting from such merger, amalgamation or consolidation or to which such sale may be made, as the case may be, that the Participant would have been entitled to receive on such capital reorganization, consolidation, amalgamation, merger or sale if, on the record date or the effective date thereof, he had been the registered holder of the number of Shares so subscribed for.
- (e) *Stock Dividends:* If the Company at any time while any Option is outstanding shall pay any stock dividend or stock dividends upon the Shares, the Company will thereafter deliver at the time of exercise of any Option in addition to the number of Shares in respect of which such Option is then being exercised, such additional number of securities of the appropriate class as would have been payable on the Shares so purchased if such Shares had been outstanding on the record date for the payment of such stock dividend or dividends.
- (f) *No Fractional Shares:* The Company shall not be obligated to issue fractional Shares in satisfaction of its obligations under the Plan or any Option and the Participant will not be entitled to receive any form of compensation in lieu thereof.
- (g) *Rights Offerings:* If at any time the Company grants to its shareholders the right to subscribe for and purchase *pro rata* additional securities or of any other corporation or entity, there shall be no adjustments made to the number of Shares or other securities subject to the

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Options in consequence thereof and the Options shall remain unaffected.

- (h) *Adjustments Cumulative:* The adjustment in the number of Shares issuable pursuant to Options provided for in this section 8 shall be cumulative.
- (i) *Plan Deemed Amended:* On the happening of each and every of the foregoing events, the applicable provisions of the Plan and each of them shall, *ipso facto*, be deemed to be amended accordingly and the Board shall take all necessary action so as to make all necessary adjustments in the number and kind of securities subject to any outstanding Options (and the Plan) and the exercise price thereof.
- (j) No Option granted may be exercised before Completion of the Qualifying Transaction unless the Participant agrees in writing to deposit the Shares acquired into escrow until the issuance of the Final Exchange Bulletin.

9. **AMENDMENT AND TERMINATION OF PLAN AND OPTIONS:** Subject in all cases to the approval of all stock exchanges and regulatory authorities having jurisdiction over the affairs of the Company, the Board may from time to time amend or revise the terms of the Plan (or any Option granted thereunder) or may terminate the Plan (or any Option granted thereunder) at any time provided however that no such action shall, without the consent of the Participant, in any manner adversely affect a Participant's rights under any Option theretofore granted under the Plan. In the event the Shares are listed on the TSX Venture Exchange, the approval of the disinterested shareholders of the Company must be obtained for any reduction in the exercise price of Options granted under the Plan, if the Participant is an Insider of the Company at the time of the proposed amendment.

10. **EFFECTIVE DATE AND DURATION OF PLAN:** The Plan becomes effective on the date of its adoption by the Board and Options may be granted immediately thereafter. The Plan shall remain in full force and effect until such time as the Board shall terminate the Plan, and for so long thereafter as Options remain outstanding in favour of any Participant.

11. **DATES:**

- (a) Date of adoption by the Board: May 26, 2015
- (b) Date of shareholder approval:

Schedule B

Audit Committee Charter

**CRONOS GROUP INC.
AUDIT COMMITTEE CHARTER**

I PURPOSE

The Audit Committee (the “**Committee**”) is appointed by the Board of Directors (the “**Board**”) of Cronos Group Inc. (the “**Company**”) to assist the Board in fulfilling its oversight responsibilities relating to financial accounting and reporting process and internal controls for the Company. The Committee’s primary duties and responsibilities are to:

- conduct such reviews and discussions with management and the external auditors relating to the audit and financial reporting as are deemed appropriate by the Committee;
- assess the integrity of internal controls and financial reporting procedures of the Company and ensure implementation of such controls and procedures;
- ensure that there is an appropriate standard of corporate conduct including, if necessary, adopting a corporate code of ethics for senior financial personnel;
- review the quarterly and annual financial statements and management’s discussion and analysis of the Company’s financial position and operating results and report thereon to the Board for approval of same;
- select and monitor the independence and performance of the Company’s external auditors, including attending at private meetings with the external auditors and reviewing and approving all renewals or dismissals of the external auditors and their remuneration; and
- provide oversight to related party transactions entered into by the Company.

The Committee has the authority to conduct any investigation appropriate to its responsibilities, and it may request the external auditors as well as any officer of the Company, or outside counsel for the Company, to attend a meeting of the Committee or to meet with any members of, or advisors to, the Committee. The Committee shall have unrestricted access to the books and records of the Company and has the authority to retain, at the expense of the Company, special legal, accounting, or other consultants or experts to assist in the performance of the Committee’s duties.

The Committee shall review and assess the adequacy of this Charter annually and submit any proposed revisions to the Board for approval.

In fulfilling its responsibilities, the Committee will carry out the specific duties set out in Part IV of this Charter.

II AUTHORITY OF THE AUDIT COMMITTEE

The Committee shall have the authority to:

- (a) engage independent counsel and other advisors as it determines necessary to carry out its duties;
- (b) set and pay the compensation for advisors employed by the Committee; and

- (c) communicate directly with the internal and external auditors.

III COMPOSITION AND MEETINGS

1. The Committee and its membership shall meet all applicable legal, regulatory and listing requirements, including, without limitation, those of the Ontario Securities Commission (“**OSC**”), the TSX Venture Exchange, the *Business Corporations Act* (Ontario) (the “**Act**”) and all applicable securities regulatory authorities.
2. The Committee shall be composed of three or more directors as shall be designated by the Board from time to time. The members of the Committee shall appoint from among themselves a member who shall serve as Chair.
3. A majority of the members of the Committee shall not be officers or employees of the Company or any of its affiliates.
4. The Committee shall meet at least quarterly, at the discretion of the Chair or a majority of its members, as circumstances dictate or as may be required by applicable legal or listing requirements. A minimum of two and at least 50% of the members of the Committee present either in person or by telephone shall constitute a quorum.
5. If within one hour of the time appointed for a meeting of the Committee, a quorum is not present, the meeting shall stand adjourned to the same hour on the next business day following the date of such meeting at the same place. If at the adjourned meeting a quorum as hereinbefore specified is not present within one hour of the time appointed for such adjourned meeting, such meeting shall stand adjourned to the same hour on the second business day following the date of such meeting at the same place. If at the second adjourned meeting a quorum as hereinbefore specified is not present, the quorum for the adjourned meeting shall consist of the members then present.
6. If and whenever a vacancy shall exist, the remaining members of the Committee may exercise all of its powers and responsibilities so long as a quorum remains in office.
7. The time and place at which meetings of the Committee shall be held, and procedures at such meetings, shall be determined from time to time by the Committee. A meeting of the Committee may be called by letter, telephone, facsimile, email or other communication equipment, by giving at least 48 hours notice, provided that no notice of a meeting shall be necessary if all of the members are present either in person or by means of conference telephone or if those absent have waived notice or otherwise signified their consent to the holding of such meeting.

8. Any member of the Committee may participate in the meeting of the Committee by means of conference telephone or other communication equipment, and the member participating in a meeting pursuant to this paragraph shall be deemed, for purposes hereof, to be present in person at the meeting.
 9. The Committee shall keep minutes of its meetings which shall be submitted to the Board. The Committee may, from time to time, appoint any person who need not be a member, to act as a secretary at any meeting.
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10. The Committee may invite such officers, directors and employees of the Company and its subsidiaries as the Committee may see fit, from time to time, to attend at meetings of the Committee.

11. Any matters to be determined by the Committee shall be decided by a majority of votes cast at a meeting of the Committee called for such purpose. Actions of the Committee may be taken by an instrument or instruments in writing signed by all of the members of the Committee, and such actions shall be effective as though they had been decided by a majority of votes cast at a meeting of the Committee called for such purpose. All decisions or recommendations of the Committee shall require the approval of the Board prior to implementation.

The Committee members will be appointed annually at the first meeting of the Board following the annual general meeting of shareholders.

IV RESPONSIBILITIES

A Financial Accounting and Reporting Process and Internal Controls

1. The Committee shall review the annual audited financial statements to satisfy itself that they are presented in accordance with applicable generally accepted accounting principles (“GAAP”) and report thereon to the Board and recommend to the Board whether or not same should be approved prior to their being filed with the appropriate regulatory authorities. The Committee shall also review the interim financial statements. With respect to the annual audited financial statements, the Committee shall discuss significant issues regarding accounting principles, practices, and judgments of management with management and the external auditors as and when the Committee deems it appropriate to do so. The Committee shall satisfy itself that the information contained in the annual audited financial statements is not significantly erroneous, misleading or incomplete and that the audit function has been effectively carried out.
 2. The Committee shall review any internal control reports prepared by management and the evaluation of such report by the external auditors, together with management’s response.
 3. The Committee shall be satisfied that adequate procedures are in place for the review of the Company’s public disclosure of financial information extracted or derived from the Company’s financial statements, management’s discussion and analysis and interim earnings press releases, and periodically assess the adequacy of these procedures.
 4. The Committee shall review management’s discussion and analysis relating to annual and interim financial statements and any other public disclosure documents, including interim earnings press releases, that are required to be reviewed by the Committee under any applicable laws before the Company publicly discloses this information.
 5. The Committee shall meet no less frequently than annually with the external auditors and the Chief Financial Officer or, in the absence of a Chief Financial Officer, with the officer of the Company in charge of financial matters, to review accounting practices, internal controls and such other matters as the Committee, Chief Financial Officer or, in the absence of a Chief Financial Officer, the officer of the Company in charge of financial matters, deem appropriate.
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6. The Committee shall inquire of management and the external auditors about significant risks or exposures, both internal and external, to which the Company may be subject, and assess the steps management has taken to minimize such risks.
7. The Committee shall review the post-audit or management letter containing the recommendations of the external auditors and management’s response and subsequent follow-up to any identified weaknesses.
8. The Committee shall ensure that there is an appropriate standard of corporate conduct including, if necessary, adopting a corporate code of ethics for senior financial personnel.
9. The Committee shall establish procedures for:
 - (a) the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters; and
 - (b) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.
10. The Committee shall provide oversight to related party transactions entered into by the Company.

B Independent Auditors

1. The Committee shall recommend to the Board the external auditors to be nominated, shall set the compensation for the external auditors, provide oversight of the external auditors and shall ensure that the external auditors report directly to the Committee.
2. The Committee shall be directly responsible for overseeing the work of the external auditors, including the resolution of disagreements between management and the external auditors regarding financial reporting.
3. The Committee shall pre-approve all audit and non-audit services not prohibited by law to be provided by the external auditors in accordance with the terms of this charter.
4. The Committee shall monitor and assess the relationship between management and the external auditors and monitor, support and assure the independence and objectivity of the external auditors.
5. The Committee shall review the external auditors’ audit plan, including the scope, procedures and timing of the audit.
6. The Committee shall review the results of the annual audit with the external auditors, including matters related to the conduct of the audit.
7. The Committee shall obtain timely reports from the external auditors describing critical accounting policies and practices, alternative treatments of information within GAAP that were discussed with management, their ramifications, and the external auditors’ preferred treatment and material written communications between the

Company and the external auditors.

8. The Committee shall review fees paid by the Company to the external auditors and other professionals in respect of audit and non-audit services on an annual basis.
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9. The Committee shall review and approve the Company's hiring policies regarding partners, employees and former partners and employees of the present and former auditors of the Company.

10. The Committee shall monitor and assess the relationship between management and the external auditors and monitor and support the independence and objectivity of the external auditors.

C Other Responsibilities

The Committee shall perform any other activities consistent with this Charter and governing law, as the Committee or the Board deems necessary or appropriate.

PHARMACAN CAPITAL CORP. d/b/a CRONOS GROUP

NOTICE OF MEETING

AND

MANAGEMENT INFORMATION CIRCULAR

FOR THE

SPECIAL MEETING OF SHAREHOLDERS

TO BE HELD ON

FEBRUARY 24, 2017

DATED AS OF JANUARY 23, 2017

PHARMACAN CAPITAL CORP.

76 Stafford Street, Suite 302

Toronto, Ontario, M6J 2S1

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS

NOTICE IS HEREBY GIVEN THAT the special meeting (the "**Meeting**") of the holders of common shares ("**Shares**") of PharmaCan Capital Corp. (the "**Corporation**") will be held at the registered office of the Corporation located at 76 Stafford Street, Suite 302 Toronto, Ontario, M6J 2S1 at 2:00 p.m. (Toronto time) on Friday, February 24, 2017, for the following purposes:

1. to consider and if thought advisable to pass, with or without variation, a special resolution to authorize the board of directors of the Corporation to amend the Corporation's articles to effect the change of name of the Corporation to "Cronos Group Inc.", or such other name as may be accepted by the relevant regulatory authorities and approved by the board, as more fully described in the accompanying management information circular; and
2. to transact such further and other business as may properly come before the Meeting or any adjournment or postponement thereof.

The record date for the determination of shareholders entitled to receive notice of and to vote at the Meeting is January 23, 2017. Shareholders of the Corporation whose names have been entered in the register of shareholders at the close of business on that date will be entitled to receive notice of and to vote at the Meeting, provided that, to the extent a shareholder transfers ownership of any Shares after such date and the transferee of those Shares establishes that the transferee owns the Shares and requests, not later than ten (10) days before the Meeting, to be included in the list of shareholders eligible to vote at the Meeting, such transferee will be entitled to vote those Shares at the Meeting.

A registered shareholder may attend the Meeting in person or may be represented by proxy. Shareholders who are unable to attend the Meeting or any adjournment or postponement thereof in person are requested to date, execute and return the accompanying form of proxy for use at the Meeting or any adjournment or postponement thereof. To be effective, the enclosed proxy must be deposited with TSX Trust Company, 200 University Avenue, Suite 300, Toronto, Ontario, M5H 4H1, by 2:00 p.m. on February 22, 2017 or not later than forty-eight (48) hours (excluding Saturdays, Sundays and holidays in the Province of Ontario) preceding the time of the Meeting in the event of any adjournment or postponement thereof.

Shareholders may beneficially own Shares that are registered in the name of a broker, another intermediary or an agent of that broker or intermediary. Without specific instructions, intermediaries are prohibited from voting shares for their clients. If you are a non-registered shareholder, it is vital that the voting instruction form provided to you by your broker, intermediary or its agent is returned according to their instructions sufficiently in advance of the deadline specified by the broker, intermediary or its agent to ensure they are able to provide voting instructions on your behalf.

The persons named in the enclosed form of proxy are officers or directors of the Corporation. Every shareholder has the right to appoint a person or company (who need not be a shareholder) to represent the shareholder at the Meeting other than the persons designated in the enclosed form of proxy. If the shareholder wishes to appoint a person or company other than the persons designated in the form of proxy, they may do so by inserting the name of the shareholder's chosen proxyholder in the space provided in the form of proxy.

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The instrument appointing a proxy shall be in writing and shall be executed by the shareholder or the shareholder's attorney authorized in writing or, if the shareholder is a corporation, under its corporate seal by an officer or attorney thereof duly authorized.

DATED in the City of Toronto, in the Province of Ontario, this 23rd day of January, 2017.

BY ORDER OF THE BOARD OF DIRECTORS

"Michael Gorenstein"

Michael Gorenstein

President, Chief Executive Officer and Director

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PHARMACAN CAPITAL CORP.

76 Stafford Street, Suite 302

Toronto, Ontario, M6J 2S1

FOR THE SPECIAL MEETING OF SHAREHOLDERS
TO BE HELD ON FEBRUARY 24, 2017

This management information circular (this “**Circular**”) is being furnished in connection with the solicitation by management of PharmaCan Capital Corp. (the “**Corporation**”) of proxies for the special meeting (the “**Meeting**”) of holders (“**Shareholders**”) of common shares (“**Shares**”) of the Corporation to be held on Friday, February 24, 2017 at the registered office of the Corporation located at 76 Stafford Street, Suite 302 Toronto, Ontario, M6J 2S1 at 2:00 p.m. (Toronto time) and at any adjournment or postponement thereof for the purposes set forth in the enclosed notice of meeting (the “**Notice of Meeting**”).

Unless otherwise indicated, the information contained in this Circular is given as at January 23, 2017.

SOLICITATION OF PROXIES

Although, it is expected that management’s solicitation of proxies for the Meeting will be made primarily by mail, proxies may be solicited by directors, officers and employees of the Corporation personally or by telephone, fax, email or other similar means of communication. **The solicitation of proxies for the Meeting is being made by or on behalf of management of the Corporation and the Corporation will bear the costs of the solicitation.**

In accordance with National Instrument 54-101 — *Communication with Beneficial Owners of Securities of a Reporting Issuer* (“**NI 54-101**”), arrangements have been made to deliver copies of these proxy-related materials directly to non-objecting beneficial owners of Shares and the Corporation intends to pay for the delivery of these materials to objecting beneficial owners of Shares.

REGISTERED SHAREHOLDERS VOTING BY PROXY

Enclosed with this Circular is a form of proxy. The persons named in the enclosed form of proxy are officers or directors of the Corporation. **Every Shareholder has the right to appoint a person (who need not be a Shareholder) other than the persons already named in the enclosed form of proxy to represent such Shareholder at the Meeting by striking out the printed names of such persons and inserting the name of such other person in the blank space provided therein for that purpose.** To be effective, the enclosed proxy must be deposited with TSX Trust Company, 200 University Avenue, Suite 300, Toronto, Ontario, M5H 4H1, by 2:00 p.m. on February 22, 2017 or not later than forty-eight (48) hours (excluding Saturdays, Sundays and holidays in the Province of Ontario) preceding the time of the Meeting in the event of any adjournment or postponement thereof.

Shareholders may also elect to vote electronically in respect of any matter to be acted upon at the Meeting. Votes cast electronically are in all respects equivalent to, and will be treated in the exact same manner as, votes cast via a paper form of proxy. To vote electronically, registered Shareholders are asked to go to the website shown on the form of proxy and follow the instructions on the screen. Please note that each Shareholder exercising the electronic voting option will need to refer to the control number indicated on their form of proxy to identify themselves in the electronic voting system. Shareholders should also refer to the instructions on the form of proxy for information regarding the deadline for voting their

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Shares electronically. If a Shareholder votes electronically he, she or it is asked not to return the paper form of proxy by mail.

In order to be effective, a form of proxy must be executed by a Shareholder exactly as his, her or its name appears on the register of Shareholders. Additional execution instructions are set out in the notes to the form of proxy. The proxy must also be dated where indicated. If the date is not completed, the proxy will be deemed to be dated on the day on which it was mailed to Shareholders.

The management representatives designated in the enclosed form of proxy will vote the Shares in respect of which they are appointed proxy in accordance with the instructions of the Shareholder as indicated on the form of proxy and, if the Shareholder specifies a choice with respect to any matter to be acted upon, the Shares will be voted accordingly. **In the absence of such direction, such Shares will be voted by the management representatives named in such form of proxy in favour of each of the matters referred to in the Notice of Meeting and will be voted by such representatives on all other matters which may come before the Meeting in their discretion.**

The enclosed form of proxy, when properly signed, confers discretionary voting authority on those persons designated therein with respect to amendments or variations to the matters identified in the Notice of Meeting and with respect to other matters which may properly come before the Meeting.

As of the date of this Circular, management of the Corporation knows of no such amendment, variation or other matters to come before the Meeting other than the matters referred to in the Notice of Meeting and this Circular. **However, if any matters which are not now known to management of the Corporation should properly come before the Meeting, the Shares represented by proxies in favour of the management representatives named in such form of proxy will be voted on such matters in accordance with the best judgement of such representatives.**

ADVICE TO NON-REGISTERED SHAREHOLDERS

Only registered Shareholders, or the persons they appoint as their proxies, are entitled to attend and vote at the Meeting. However, in many cases, Shares beneficially owned by a person (a “**Non-Registered Shareholder**”) are registered either:

- (a) in the name of an intermediary (an “**Intermediary**”) with whom the Non-Registered Shareholder deals in respect of the Shares (Intermediaries include, among others, banks, trust companies, investment dealers or brokers, trustees or administrators of a self-administered registered retirement savings plan, registered retirement income fund, registered education savings plan and similar plans); or
- (b) in the name of a clearing agency (such as The Canadian Depository for Securities Limited, in Canada, and the Depository Trust Company, in the United States) of which the Intermediary is a participant.

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In accordance with the requirements of NI 54-101, the Corporation has distributed copies of the Notice of Meeting, this Circular and a form of proxy and/or a voting instruction form (collectively, the “**Meeting Materials**”) to the Intermediaries and clearing agencies for onward distribution to Non-Registered Shareholders. Intermediaries are required to forward the Meeting Materials to Non-Registered Shareholders unless the Non-Registered Shareholders have waived the right to receive them. Intermediaries may use service companies to forward the Meeting Materials to Non-Registered Shareholders. Generally, Non-Registered Shareholders who have not waived the right to receive the Meeting Materials will either:

- (a) be given a voting instruction form which must be completed and returned by the Non-Registered Shareholder in accordance with the directions printed on the form (in some cases, the completion of the voting instruction form by telephone, facsimile or over the Internet is permitted); or

- (b) be given a form of proxy which has already been signed by the Intermediary, which is restricted as to the number of Shares beneficially owned by the Non-Registered Shareholder but which is otherwise not completed by the Intermediary. Because the Intermediary has already signed the form of proxy, this form of proxy is not required to be signed by the Non-Registered Shareholder when submitting the proxy. In this case, the Non-Registered Shareholder who wishes to submit a proxy should properly complete the form of proxy and deposit it with TSX Trust Company, 200 University Avenue, Suite 300, Toronto, Ontario, M5H 4H1.

In either case, the purpose of these procedures is to permit Non-Registered Shareholders to direct the voting of the Shares they beneficially own. Should a Non-Registered Shareholder who receives either a voting instruction form or a form of proxy wish to attend the Meeting and vote in person (or have another person attend and vote on behalf of the Non-Registered Shareholder), the Non-Registered Shareholder should strike out the names of the persons named in the form of proxy and insert the Non-Registered Shareholder's (or such other person's) name in the blank space provided or, in the case of a voting instruction form, follow the directions indicated on the form. **Non-Registered Shareholders should carefully follow the instructions of their Intermediaries and their service companies, including those regarding when and where the voting instruction form or the proxy is to be delivered.**

If you are a Non-Registered Shareholder, and we or our agent has sent these materials directly to you, your name and address and information about your holdings of securities have been obtained in accordance with applicable securities regulatory requirements from the Intermediary holding on your behalf.

REVOCATION OF PROXIES

A registered Shareholder who has submitted a proxy may revoke it by:

- (a) depositing an instrument in writing signed by the registered Shareholder or by an attorney authorized in writing or, if the registered Shareholder is a corporation, by a duly authorized officer or attorney, either:
- (i) at the registered office of the Corporation, located at 76 Stafford Street, Suite 302, Toronto, Ontario, M6J 2S1, at any time up to and including the last business day preceding the date of the Meeting or any adjournment or postponement thereof; or

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- (ii) with the Chairman of the Meeting prior to the commencement of the Meeting on the day of the Meeting or any adjournment or postponement thereof;
- (b) transmitting, by telephonic or electronic means, a revocation that complies with (a)(i) or (ii) above and that is signed by electronic signature, provided that the means of electronic signature permit a reliable determination that the document was created or communicated by or on behalf of the registered Shareholder or the attorney, as the case may be; or
- (c) in any other manner permitted by law.

A Non-Registered Shareholder who has submitted voting instructions to an Intermediary should contact the Intermediary for information with respect to revoking his, her or its voting instructions.

INTEREST OF CERTAIN PERSONS IN MATTERS TO BE ACTED UPON

No person who has been a director or an executive officer of the Corporation at any time since the beginning of the last completed financial year of the Corporation, or any associate of any such director or executive officer, has any material interest, direct or indirect, by way of beneficial ownership of securities or otherwise, in any matter to be acted upon at the Meeting.

VOTING SECURITIES AND PRINCIPAL HOLDERS OF VOTING SECURITIES

The Corporation is authorized to issue an unlimited number of Shares. Each Share entitles the holder of record to notice of, and one vote on all matters to come before, the Meeting.

The board of directors of the Corporation (the "**Board**") has fixed January 23, 2017 as the record date (the "**Record Date**") for the determination of the Shareholders entitled to receive notice of the Meeting. Shareholders of record as of the Record Date are entitled to vote their Shares at the Meeting, provided that, to the extent a Shareholder transfers ownership of any Shares after such date and the transferee of those Shares establishes that the transferee owns the Shares and requests, not later than ten (10) days before the Meeting, to be included in the list of Shareholders eligible to vote at the Meeting, such transferee will be entitled to vote those Shares at the Meeting.

As of the Record Date, there were 122,411,263 Shares issued and outstanding.

To the knowledge of the directors and executive officers of the Corporation, as of the date of this Circular, no person or company beneficially owns, or controls or directs, directly or indirectly, voting securities of the Corporation carrying ten percent (10%) or more of the voting rights attached to any class of voting securities of the Corporation.

PARTICULARS OF MATTERS TO BE ACTED UPON

At the Meeting, Shareholders will be asked to consider and if thought advisable to pass, with or without variation, a special resolution (the "**Name Change Resolution**") to authorize the Board to amend the articles of the Corporation to effect the change of name of the Corporation to "Cronos Group Inc.", or such other name as may be accepted by the relevant regulatory authorities and approved by the Board (the "**Name Change**").

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On October 6, 2016, the Corporation announced a corporate rebranding to Cronos Group to reflect the Corporation's new strategic vision as Canada's first bi-coastal licensed cannabis producer with interests in five Licensed Producers and three license applicants. Since the rebranding, the "PharmaCan" name has been the source of some confusion for Shareholders. The Name Change is designed to eliminate any confusion and to better reflect the current operations and strategic vision of the Corporation.

Completion of the Name Change is subject to certain conditions, including shareholder approval and the approval of the TSX-V. The Corporation intends to complete the Name Change as soon as practicable following receipt of the requisite shareholder approval. Following the Name Change, the Corporation will continue to trade under the symbol "MJN" on the TSX-V.

To be effective, the Name Change Resolution must be approved by at least two-thirds of the votes cast by the Shareholders entitled to vote, present in person or represented by proxy, at the Meeting.

The text of the Name Change Resolution is set out below:

“BE IT RESOLVED, as a special resolution of the holders of common shares (the “Shareholders”) of PharmaCan Capital Corp. (the “Corporation”), that:

1. the name of the Corporation be changed to “Cronos Group Inc.”, or such other name as may be accepted by the relevant regulatory authorities and approved by the board of directors of the Corporation, and that the articles of the Corporation be amended to reflect such change;
2. the directors of the Corporation may, in their sole discretion and without further notice to, or approval of, the Shareholders, act upon the foregoing resolution to effect the change of name or, if deemed appropriate, determine not to proceed with the change of name or to otherwise give effect to this special resolution, at any time prior to the change of name becoming effective;
3. any one director or officer of the Corporation be and is hereby authorized and directed, for and in the name of and on behalf of the Corporation, to execute and deliver, or cause to be executed and delivered, and to sign and file, or cause to be signed and filed, as the case may be, all articles, applications, declarations, notices, instruments and other documents, and to do or cause to be done all such other acts and things, as such director or officer may determine to be necessary or desirable to implement this resolution and to give full force and effect to the matters authorized hereby, including, without limitation, the execution and delivery of articles of amendment in the prescribed form, the execution, signing or filing of any such articles, application, declaration, notice, instrument or other document or the doing of any such act or thing being conclusive evidence of such determination; and
4. upon articles of amendment having become effective in accordance with the *Business Corporations Act* (Ontario), the articles of the Corporation are amended accordingly.”

For the reasons indicated above, the Board believes that the Name Change is in the best interests of the Corporation and the Shareholders and, accordingly, the Board recommends that Shareholders vote “**FOR**” the approval of the Name Change Resolution. **Unless otherwise indicated, the persons designated as proxyholders in the accompanying form of proxy will vote the Shares represented by such proxy, properly signed, for the approval of the Name Change Resolution.**

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INTEREST OF INFORMED PERSONS IN MATERIAL TRANSACTIONS

Management of the Corporation is not aware of any material interests, direct or indirect, of any informed person of the Corporation, or any associate or affiliate of any informed person, in any transaction since the commencement of the Corporation’s most recently completed financial year or in any proposed transaction which has materially affected or would materially affect the Corporation or any of its subsidiaries.

INDEBTEDNESS OF DIRECTORS AND OFFICERS

No director or senior officer of the Corporation or any associate of such director or senior officer is, or was at any time during the last completed financial year, indebted to the Corporation or any of its subsidiaries.

ADDITIONAL INFORMATION

Additional information relating to the Corporation is available on SEDAR at www.sedar.com. Shareholders may request copies of the Corporation’s financial statements as at and for the financial year ended December 31, 2015, and management’s discussion and analysis for such financial results, free of charge by contacting the Corporation’s Chief Financial Officer at the head office of the Corporation located at 76 Stafford Street, Suite 302 Toronto, Ontario, M6J 2S1. Financial information is, or will be, provided in the Corporation’s comparative financial statements and management’s discussion and analysis for the financial year ended December 31, 2015 and for the most recently completed financial year ended December 31, 2016, once available.

APPROVAL OF BOARD OF DIRECTORS

The contents of this Circular, and the sending thereof to each director of the Corporation, to the auditor of the Corporation and to the shareholders of the Corporation has been approved by the Board.

DATED in the City of Toronto, in the Province of Ontario, this 23rd day of January, 2017.

“*Michael Gorenstein*”

Michael Gorenstein

President, Chief Executive Officer and Director

“*Michael Krestell*”

Michael Krestell

Director

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**FORM 51-102F3
MATERIAL CHANGE REPORT**

1. Name and Address of Company

PharmaCan Capital Corp.
76 Stafford Street, Suite 302
Toronto, Ontario M6J 2S1

2. Date of Material Change

February 14, 2017

3. News Release

The news releases with respect to the material change referred to in this report, were disseminated on February 14, 2017 through the facilities of Marketwired.

4. Summary of Material Change

PharmaCan Capital Corp. ("**PharmaCan**" or the "**Company**") announced a financing on a "bought deal" basis.

5. Full Description of Material Change

PharmaCan announced that it has entered into a letter of engagement with Eight Capital on behalf of a syndicate of underwriters (together, the "**Underwriters**") under which the Underwriters have agreed to purchase 6,700,000 common shares of the Company (the "**Shares**"), on a "bought deal" basis pursuant to the filing of a short form prospectus, subject to all required regulatory approvals, at a price per Share of \$2.25 (the "**Offering Price**"), for total gross proceeds of \$15,075,000 (the "**Offering**").

The Company has granted the Underwriters an over-allotment option to purchase up to an additional 1,005,000 Shares at the Offering Price, exercisable in whole or in part, at any time on or prior to the date that is 30 days following the closing of the Offering. If this option is exercised in full, an additional \$2,261,250 will be raised pursuant to the Offering and the aggregate proceeds of the Offering will be \$17,336,250.

The Company intends to use the net proceeds of the Offering for working capital and general corporate purposes.

The closing date of the Offering is scheduled to be on or about March 9, 2017 and is subject to certain conditions including, but not limited to, the receipt of all necessary approvals, including the approval of the TSX Venture Exchange and the applicable securities regulatory authorities.

The Shares will be offered by way of a short form prospectus to be filed in all of the provinces of Canada, except Quebec, pursuant to National Instrument 44-101 - Short Form Prospectus Distributions.

6. Reliance on Section 7.1(2) or (3) of Regulation 51-102 respecting continuous disclosure obligations

This Report is not being filed on a confidential basis in reliance on subsection 7.1(2) of National Instrument 51-102.

7. Omitted Information

No information has been omitted on the basis that it is confidential information.

8. Executive Officer

The following executive officer is knowledgeable about the material change and this report:

Michael Gorenstein
Director and Chief Executive Officer

Tel: (416) 504-0004

9. Date of Report

February 17, 2017.

As this Material Change Report was originally filed under the wrong category on February 27, 2017 (SEDAR Project #258803), the Ontario Securities Commission has requested that it be re-filed under the category of Material Change Report.

**FORM 51-102F3
MATERIAL CHANGE REPORT**

Item 1. Name and Address of Company

Cronos Group Inc. (“Cronos”)
76 Stafford Street, Suite 302
Toronto, Ontario M6J 2S1

Item 2. Date of Material Change

February 24, 2017

Item 3. News Release

The news release with respect to the material change described herein was disseminated on February 27, 2017 through the facilities of CNW.

Item 4. Summary of Material Change

Cronos has completed its official name change from “PharmaCan Capital Corp.” to “Cronos Group Inc.”

Item 5. Full Description of Material Change

Cronos is pleased to announce the completion of its official name change from “PharmaCan Capital Corp.” to “Cronos Group Inc.”, effective February 24, 2017. The name change was approved by shareholders at the special meeting of shareholders held on February 24, 2017.

The common shares of Cronos will begin trading under the new name on the TSX-V once all regulatory requirements have been satisfied. Cronos will continue to trade under the symbol “MJN” on the TSX-V.

Item 6. Reliance on subsection 7.1(2) of National Instrument 51-102

Not applicable.

Item 7. Omitted Information

No information has been omitted on the basis that it is confidential information.

Item 8. Executive Officer

Michael Gorenstein
Director and Chief Executive Officer
416.504.0004

Item 9. Date of Report

February 27, 2017

**FORM 51-102F3
MATERIAL CHANGE REPORT**

1. Name and Address of Company

Cronos Group Inc.
76 Stafford Street, Suite 302
Toronto, Ontario M6J 2S1

2. Date of Material Change

March 9, 2017

3. News Release

The news release with respect to the material change referred to in this report was disseminated on March 9, 2017 through the facilities of Marketwired.

4. Summary of Material Change

Cronos Group Inc. (“**Cronos**” or the “**Company**”) has closed its previously announced bought deal offering pursuant to the filing of a short form prospectus.

5. Full Description of Material Change

Cronos has closed its previously announced bought deal offering pursuant to the filing of a short form prospectus, including the full exercise of the over-allotment option. A total of 7,705,000 common shares of the Company (the “**Shares**”) were sold at a price of \$2.25 per Share for aggregate gross proceeds of \$17,336,250 (the “**Offering**”).

The Offering was underwritten by a syndicate led by Eight Capital and which included PI Financial Corp., Beacon Securities Limited, GMP Securities L.P., Cormark Securities Inc. and Mackie Research Capital Corp.

The Shares were offered by way of a short form prospectus filed in all of the provinces of Canada, except Quebec, pursuant to National Instrument 44-101 - Short Form Prospectus Distributions.

6. Reliance on Section 7.1(2) or (3) of Regulation 51-102 respecting continuous disclosure obligations

This Report is not being filed on a confidential basis in reliance on subsection 7.1(2) of National Instrument 51-102.

7. Omitted Information

No information has been omitted on the basis that it is confidential information.

8. Executive Officer

The following executive officer is knowledgeable about the material change and this report:

Michael Gorenstein
Director and Chief Executive Officer

Tel: (416) 504-0004

9. Date of Report

March 17, 2017.

**FORM 51-102F3
MATERIAL CHANGE REPORT**

Item 1. Name and Address of Company

Cronos Group Inc. (“Cronos” or the “Company”)
76 Stafford Street, Suite 302
Toronto, Ontario M6J 2S1

Item 2. Date of Material Change

August 23, 2017

Item 3. News Release

The news release with respect to the material changes described herein, which is attached as Schedule A, was disseminated on August 24, 2017 through the facilities of Marketwired.

Item 4. Summary of Material Change

On August 24, 2017, the Company announced that it had entered into a commitment letter for \$40 million in debt financing with Romspen Investment Corporation (“Romspen”) to fund the continued construction of its 315,000 sq. ft. expansion (the “New Peace Facility”) previously outlined in the Company’s press release dated May 23, 2017.

Item 5. Full Description of Material Change

Under the commitment letter, Romspen has agreed to provide the \$40 million senior secured facility (the “Loan”) to the Company’s wholly-owned licensed producer, Peace Naturals Project Inc. (“Peace”). The Loan is secured by a first mortgage on the real estate of each of Peace and In The Zone Inc. (“ITZ”). ITZ, Hortican Inc. and the Company are also guarantors of the Loan.

For additional details regarding the material changes described herein, please see the news release attached as Schedule A.

Item 6. Reliance on subsection 7.1(2) of National Instrument 51-102

Not applicable.

Item 7. Omitted Information

No significant facts remain confidential in, and no information has been omitted from, this report.

Item 8. Executive Officer

Michael Gorenstein
Director and Chief Executive Officer
416.504.0004

Item 9. Date of Report

September 1, 2017

Schedule A

[See attached.]

**Cronos Group Secures \$40M in Debt for Domestic Capacity Expansion**

TORONTO, Aug. 24, 2017 /CNW/ - Cronos Group Inc. (TSXV:MJN) (OTC: PRMCF) (“Cronos” or the “Company”) is announcing today that it has entered into a commitment letter for \$40 million in debt financing with Romspen Investment Corporation (“Romspen”) to fund the continued construction of its 315,000 sq. ft. expansion (the “New Peace Facility”) previously outlined in the Company’s press release dated May 23, 2017.

Under the commitment letter, Romspen has agreed to provide the \$40 million senior secured facility (the “Loan”) to the Company’s wholly-owned licensed producer, Peace Naturals Project Inc. (“Peace”). The Loan is secured by a first mortgage on the real estate of each of Peace and In The Zone Inc. (“ITZ”). ITZ, Hortican Inc. and the Company are also guarantors of the Loan. Under the Loan, the Company retains its ability to enter into equipment financing arrangements.

The Loan will be made available in multiple advances which are expected to begin in September 2017. Advances will be subject to ongoing conditions, including Romspen's approval of construction progress. The Loan bears interest at a rate of 12% per annum (interest only accrues on advances made), has a 2 year term with a one-year extension option, and is prepayable on one-month's notice.

"Given the speed at which we anticipate payback of investment in the New Peace Facility, we prioritized accessing the debt markets to fund this domestic expansion. We always look for ways to enhance shareholder value and we're pleased to be able to work with Romspen again to deliver that value," said Mike Gorenstein, CEO of Cronos.

Company Grants Options

Additionally, the Company has granted options to subscribe to 2,903,000 common shares of the Company to certain of the Company's employees and directors, the whole in accordance with the Company's stock option plan. The options are exercisable at a price of \$2.42 per common share, which was the closing price of the Company's common shares on the TSX-V on August 23, 2017. The options shall expire at the earlier of 180 days of the death, disability or incapacity of the holder or five years after the date of issue. The grant of options is subject to the Company receiving all necessary and appropriate regulatory consents and approvals, if any, and to the Company's stock option plan.

About Cronos Group

Cronos Group, is a geographically diversified and vertically integrated cannabis company that operates two wholly-owned Licensed Producers ("LPs") regulated within Health Canada's Access to Cannabis for Medical Purposes Regulations (the "ACMPR") and holds a portfolio of minority investments in other Licensed Producers. The Company's flagship LPs, Peace Naturals Project Inc. (Ontario), and In The Zone Produce Ltd. (British Columbia) are collectively situated on over 125 acres of agricultural, licensed land. Cronos Group is focused on building an international iconic brand portfolio, providing patients with compassionate and personalized care, and creating value for our shareholders.

About Romspen

With its origins in the mid-1960's, Romspen manages one of the largest non-bank commercial/industrial mortgage investment entities in Canada, with a portfolio in excess of \$1.7 billion.

Forward-looking statements

This news release may contain "forward-looking information" and "forward-looking statements" within the meaning of applicable Canadian securities legislation. All information contained herein that is not clearly historical in nature may constitute forward-looking information. Forward-looking statements are necessarily based upon a number of estimates and assumptions that, while considered reasonable by management, are inherently subject to significant business, economic and competitive risks, uncertainties and contingencies that may cause actual financial results, performance or achievements to be materially different from the estimated future results, performance or achievements expressed or implied by those forward-looking statements and the forward-looking statements are not guarantees of future performance. Except as required by law, Cronos Group disclaims any obligation to update or revise any forward-looking statements. Readers are cautioned not to put undue reliance on these forward-looking statements. This news release contains information obtained by Cronos Group from third parties. Cronos Group believes such information to be accurate but has not independently verified such information.

Neither the TSX Venture Exchange nor its Regulation Services Provider (as that term is defined in the policies of the TSX Venture Exchange) accepts responsibility for the adequacy or accuracy of this release.

For more information, please visit www.thecronosgroup.com.

SOURCE Cronos Group Inc.

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<http://www.newswire.ca/en/releases/archive/August2017/24/c7284.html>

%SEDAR: 00035844E

For further information: Michael Krestell, Investor & Media Relations, TEL: 647-274-3655, E-mail: michael@thecronosgroup.com

CO: Cronos Group Inc.

CNW 09:23e 24-AUG-17

**FORM 51-102F3
MATERIAL CHANGE REPORT**

Item 1. Name and Address of Company

Cronos Group Inc. (“**Cronos**”)
76 Stafford Street, Suite 302
Toronto, Ontario M6J 2S1

Item 2. Date of Material Change

September 25, 2017.

Item 3. News Release

The news release with respect to the material change referred to in this report, which is attached as Schedule A, was disseminated on September 26, 2017 through the facilities of Marketwired.

Item 4. Summary of Material Change

On September 26, 2017, Cronos announced that it had closed its previously announced non-brokered private placement offering of approximately 6,666,667 common shares at a price of CAD\$2.25 per share for total gross proceeds of approximately CAD\$15,000,000.

Item 5. Full Description of Material Change

Cronos closed its previously announced non-brokered private placement of approximately 6,666,667 common shares at a price of CAD\$2.25 per share (the “**Offered Shares**”) for total gross proceeds of approximately CAD\$15,000,000 (the “**Offering**”). The net proceeds from the Offering will primarily be used for working capital and general corporate purposes and to fund the continued expansion of Cronos’ production capacity.

The Offered Shares are subject to a statutory hold period lasting four months and one day following the closing of the Offering. The Offering is subject to certain conditions including, but not limited to, the receipt of all necessary regulatory and stock exchange approvals, including the approval of the TSX Venture Exchange, and such further restrictions as may apply under foreign securities laws.

William Hilson, CFO of Cronos and an insider as defined in Policy 1.1 of the TSX-V, subscribed for 17,567 common shares (the “**Insider Shares**”) in the Offering. Such subscription constitutes a related party transaction within the meaning of Multilateral Instrument 61-101 — *Protection of Minority Security Holders in Special Transactions* (“**MI 61-101**”) and Policy 5.9 — *Protection of Minority Security Holders in Special Transactions* of the TSX-V (the “**Related Party Transaction**”). In connection with the Related Party Transaction, the Company is relying on the exemptions from the formal valuation and minority approval requirements under MI 61-101. The Company is exempt from the formal valuation requirement of MI 61-101 in reliance on section 5.5(b) of MI 61-101 as no securities of the Company are listed or quoted on the Toronto Stock Exchange, Aequitas NEO Exchange Inc., the New York Stock Exchange, the American Stock Exchange, the NASDAQ Stock Market, or a stock exchange outside of Canada. Additionally, the Company is exempt from the minority

shareholder approval requirement under MI 61-101 in reliance on section 5.7(1)(a) of MI 61-101 as neither the fair market value of the Insider Shares nor the fair market value of the consideration therefor exceeds 25% of the Company’s market capitalization. Members of the Board of Directors of the Company unanimously approved the Offering and the Related Party Transaction. The Company did not file a material change report 21 days prior to closing of the Offering as the details of the participation of insiders of the Company in the Offering had not been confirmed at that time.

For additional details regarding the material change described herein, please see the news release attached as Schedule A.

Item 6. Reliance on Section 7.1(2) or (3) of Regulation 51-102 respecting continuous disclosure obligations

N/A

Item 7. Omitted Information

None.

Item 8. Executive Officer

The following executive officer is knowledgeable about the material change and this report:

Michael Gorenstein
Director and Chief Executive Officer
Tel: (416) 504-0004

Item 9. Date of Report

September 29, 2017.

SCHEDULE A

(see attached)



Cronos Announces Closing of Non-Brokered Private Placement

TORONTO, Sept. 26, 2017 /CNW/ - Cronos Group Inc. (TSX-V: MJN) (OTC — Nasdaq International Designation: PRMCF) (“**Cronos Group**” or the “**Company**”) is pleased to announce the closing of its non-brokered private placement of approximately 6,666,667 common shares at a price of CAD\$2.25 per share, following an upsizing from 4,444,444 common shares after increased investor demand (the “**Offering**”). The issuance by the Company for the Offering results in total gross proceeds of approximately CAD\$15,000,000. The net proceeds from the Offering will primarily be used for working capital and general corporate purposes and to fund the continued expansion of the Company’s production capacity.

“We are extremely fortunate to have investors that share our vision and are focused on the long term. Our strategic capital partners add intangible value that doesn’t show up on the balance sheet,” said Mike Gorenstein, CEO of Cronos.

William Hilson, Chief Financial Officer of the Company and an insider as defined in Policy 1.1 of the TSX-V, subscribed for 17,567 common shares (the “**Insider Shares**”) in the Offering. Such subscription constitutes a related party transaction within the meaning of Multilateral Instrument 61-101 — *Protection of Minority Security Holders in Special Transactions* (“**MI 61-101**”) and Policy 5.9 — *Protection of Minority Security Holders in Special Transactions* of the TSX-V (the “**Related Party Transaction**”). In connection with the Related Party Transaction, the Company is relying on the exemptions from the formal valuation and minority approval requirements under MI 61-101. The Company is exempt from the formal valuation requirement of MI 61-101 in reliance on section 5.5(b) of MI 61-101 as no securities of the Company are listed or quoted on the Toronto Stock Exchange, Aequitas NEO Exchange Inc., the New York Stock Exchange, the American Stock Exchange, the NASDAQ Stock Market, or a stock exchange outside of Canada. Additionally, the Company is exempt from the minority shareholder approval requirement under MI 61-101 in reliance on section 5.7(1)(a) of MI 61-101 as neither the fair market value of the Insider Shares nor the fair market value of the consideration therefor exceeds 25% of the Company’s market capitalization. Members of the Board of Directors of the Company unanimously approved the issuance of the Insider Shares and the Related Party Transaction. The Company did not file a material change report 21 days prior to its completion as the details of the participation of insiders of the Company in the Offering had not been confirmed at that time.

All securities issued in connection with the Offering are subject to a regulatory hold period of four months and a day in accordance with the rules and policies of the TSX Venture Exchange and applicable Canadian securities laws, and such further restrictions as may apply under foreign securities laws. Completion of the financing is subject to final approval of the TSX Venture Exchange.

About Cronos Group

Cronos Group is a geographically diversified and vertically integrated cannabis company that operates two wholly-owned Licensed Producers (“LPs”) regulated within Health Canada’s Access to Cannabis for Medical Purposes Regulations (the “ACMPR”) and holds a portfolio of minority investments in other Licensed Producers. The Company’s flagship LPs, Peace Naturals Project Inc. (Ontario) and In The Zone

Produce Ltd. (British Columbia), are collectively situated on over 125 acres of agricultural, licensed land. Cronos Group is focused on building an international iconic brand portfolio, providing patients with compassionate and personalized care, and creating value for our shareholders.

Forward-looking statements

This news release may contain “forward-looking information” and “forward-looking statements” within the meaning of applicable Canadian securities legislation. All information contained herein that is not clearly historical in nature may constitute forward-looking information. Forward-looking statements are necessarily based upon a number of estimates and assumptions that, while considered reasonable by management, are inherently subject to significant business, economic and competitive risks, uncertainties and contingencies that may cause actual financial results, performance or achievements to be materially different from the estimated future results, performance or achievements expressed or implied by those forward-looking statements and the forward-looking statements are not guarantees of future performance. Except as required by law, Cronos Group disclaims any obligation to update or revise any forward-looking statements. Readers are cautioned not to put undue reliance on these forward-looking statements. This news release contains information obtained by Cronos Group from third parties. Cronos Group believes such information to be accurate but has not independently verified such information.

Neither the TSX Venture Exchange nor its Regulation Services Provider (as that term is defined in the policies of the TSX Venture Exchange) accepts responsibility for the adequacy or accuracy of this release.

For more information, please visit www.thecronosgroup.com.

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<http://www.newswire.ca/en/releases/archive/September2017/26/c1893.html>

%SEDAR: 00035844E

For further information: Michael Krestell, Investor & Media Relations, TEL: 647-274-3655, E-mail: michael@thecronosgroup.com

CO: Cronos Group Inc.

CNW 08:00e 26-SEP-17

**FORM 51-102F3
MATERIAL CHANGE REPORT**

1. Name and Address of Company

Cronos Group Inc.
76 Stafford Street, Suite 302
Toronto, Ontario M6J 2S1

2. Date of Material Change

October 19, 2017

3. News Release

The news releases with respect to the material change referred to in this report, were disseminated on October 19, 2017 through the facilities of Marketwired.

4. Summary of Material Change

Cronos Group Inc. (“**Cronos**” or the “**Company**”) announced a financing on a “bought deal” basis.

5. Full Description of Material Change

Cronos announced that it has entered into a letter of engagement with PI Financial Corp. (“**PI**”) as lead underwriter on behalf of itself and other co-underwriters (the “**Underwriters**”) under which the Underwriters have agreed to purchase for re-sale 4,761,905 common shares of the Company (the “**Shares**”), on a “bought deal” basis pursuant to the filing of a short form prospectus, subject to all required regulatory approvals, at a price per Share of \$3.15 (the “**Offering Price**”), for total gross proceeds of \$15,000,000.75 (the “**Offering**”).

The Company has granted the Underwriters an over-allotment option to purchase up to an additional 714,285 Shares at the Offering Price, exercisable in whole or in part, at any time on or prior to the date that is 30 days following the closing of the Offering.

The Company intends to use the net proceeds of the Offering for general corporate purposes, to fund growth and to provide for possible future acquisitions.

The closing date of the Offering is scheduled to be on or about November 7, 2017 and is subject to certain conditions including, but not limited to, the receipt of all necessary approvals, including the approval of the TSX Venture Exchange and the applicable securities regulatory authorities.

The Shares will be offered by way of a short form prospectus to be filed in all of the provinces of Canada, except Quebec, pursuant to National Instrument 44-101 - Short

Form Prospectus Distributions. PI may choose, in its discretion, to sell the Offering in the United States through its U.S. brokerage affiliate to investors who qualify under U.S. prospectus exemptions, and the Company will assist in this regard as reasonably requested. Any Shares sold in the United States will be to investors in reliance upon applicable registration exemptions (Rule 144A of the United States Securities Act of 1933, as amended and rule 506 of Reg. D).

6. Reliance on Section 7.1(2) or (3) of Regulation 51-102 respecting continuous disclosure obligations

This Report is not being filed on a confidential basis in reliance on subsection 7.1(2) of National Instrument 51-102.

7. Omitted Information

No information has been omitted on the basis that it is confidential information.

8. Executive Officer

The following executive officer is knowledgeable about the material change and this report:

Michael Gorenstein
Director and Chief Executive Officer

Tel: (416) 504-0004

9. Date of Report

October 23, 2017.

**FORM 51-102F3
MATERIAL CHANGE REPORT**

1. Name and Address of Company

Cronos Group Inc.
76 Stafford Street, Suite 302
Toronto, Ontario M6J 2S1

2. Date of Material Change

October 12, 2017

3. News Release

The news release with respect to the material change referred to in this report was disseminated on October 12, 2017 through the facilities of Marketwired, and a copy is attached hereto.

4. Summary of Material Change

Cronos Group Inc. ("Cronos") announced that it has entered into a strategic distribution partnership with G. Pohl-Boskamp GmbH & Co. KG ("Pohl-Boskamp"). Founded in 1835, Pohl-Boskamp is an international pharmaceutical manufacturer and supplier, distributing its products to over 12,000 pharmacies in Germany alone.

5. Full Description of Material Change

Under the five-year exclusive distribution agreement, Cronos' global subsidiaries will supply Peace Naturals branded cannabis products to Pohl-Boskamp for distribution within Germany. Cronos will begin shipping product to Pohl this quarter and will terminate all other existing German supply agreements following the announcement of the partnership.

6. Reliance on Section 7.1(2) or (3) of Regulation 51-102 respecting continuous disclosure obligations

This Report is not being filed on a confidential basis in reliance on subsection 7.1(2) of National Instrument 51-102.

7. Omitted Information

No information has been omitted on the basis that it is confidential information.

8. Executive Officer

The following executive officer is knowledgeable about the material change and this report:

Michael Gorenstein
Director and Chief Executive Officer

Tel: (416) 504-0004

9. Date of Report

October 23, 2017.



Cronos Announces Exclusive Distribution Agreement with Pohl-Boskamp in Germany

TORONTO, Oct. 12, 2017 /CNW/ - Cronos Group Inc. (TSX-V: MJN) (OTC — Nasdaq Int'l Designation: PRMCF) ("Cronos" or the "Company") is pleased to announce that it has entered into a strategic distribution partnership with G. Pohl-Boskamp GmbH & Co. KG ("Pohl-Boskamp"). Founded in 1835, Pohl-Boskamp is an international pharmaceutical manufacturer and supplier, distributing its products to over 12,000 pharmacies in Germany alone.

Under the five-year exclusive distribution agreement, Cronos' global subsidiaries will supply Peace Naturals branded cannabis products to Pohl-Boskamp for distribution within Germany. Leveraging Pohl-Boskamp's extensive distribution network, this partnership provides Cronos with unrivaled access to the German market. Cronos will begin shipping product to Pohl this quarter and will terminate all other existing German supply agreements following this announcement. With over 82 million people and federal insurance coverage for cannabis, Germany is currently the largest legal cannabis market in the world.

"We are ecstatic to partner with Pohl-Boskamp, an established and reputable pharmaceutical leader. This partnership allows us to leverage an existing industry leading pharmaceutical distribution channel to immediately create the world's largest medical cannabis distribution platform," said Mike Gorenstein, CEO of Cronos.

“Pohl has been a reliable partner for pharmacies for many years. Now we are excited to have Cronos as a partner and supplier of cannabis for the German market. With our new partner we are confident that we will provide reliable distribution of cannabis for German patients,” Marianne Boskamp, CEO of Pohl-Boskamp.

Final Acceptance from TSX Venture Exchange for Non-Brokered Private Placement

Cronos is also pleased to announce that it has received the TSX Venture Exchange final acceptance for the non-brokered private placement of 6,671,112 common shares at a price of \$2.25 per share, for total gross proceeds of \$15,010,002, which closed on September 25, 2017.

About Pohl-Boskamp

Pohl-Boskamp is a privately owned business that has been active in the international pharmaceutical market for 182 years with commercialized products in more than 45 countries. Through close collaboration with its partners abroad, Pohl-Boskamp focuses on developing and marketing products that positively impact patients' quality of life. It operates in numerous healthcare sectors including pneumology, urology, parasitology, cardiovascular diseases, gastroenterology, sleep disorders and dermatology. For more information visit <http://www.pohl-boskamp.com/en/>.

About Cronos Group

Cronos Group is a geographically diversified and vertically integrated cannabis company that operates two wholly-owned Licensed Producers (“LPs”) regulated within Health Canada’s Access to Cannabis for Medical Purposes Regulations (the “ACMPR”) and holds a portfolio of minority investments in other Licensed Producers. The Company’s flagship LPs, Peace Naturals Project Inc. (Ontario) and Original BC Ltd. (British Columbia), are collectively situated on over 125 acres of agricultural, licensed land. Cronos

Group is focused on building an international iconic brand portfolio, providing patients with personalized care, and creating value for our shareholders.

Forward-looking Statements

This news release may contain “forward-looking information” and “forward-looking statements” within the meaning of applicable Canadian securities legislation. All information contained herein that is not clearly historical in nature may constitute forward-looking information. Forward-looking statements are necessarily based upon a number of estimates and assumptions that, while considered reasonable by management, are inherently subject to significant business, economic and competitive risks, uncertainties and contingencies that may cause actual financial results, performance or achievements to be materially different from the estimated future results, performance or achievements expressed or implied by those forward-looking statements and the forward-looking statements are not guarantees of future performance. Except as required by law, Cronos Group disclaims any obligation to update or revise any forward-looking statements. Readers are cautioned not to put undue reliance on these forward-looking statements. This news release contains information obtained by Cronos Group from third parties. Cronos Group believes such information to be accurate but has not independently verified such information.

Neither the TSX Venture Exchange nor its Regulation Services Provider (as that term is defined in the policies of the TSX Venture Exchange) accepts responsibility for the adequacy or accuracy of this release.

For more information, please visit www.thecronosgroup.com.

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For further information: Michael Krestell, Investor & Media Relations, TEL: 647-274-3655, E-mail: michael@thecronosgroup.com

CO: Cronos Group Inc.

CNW 08:00e 12-OCT-17

**FORM 51-102F3
MATERIAL CHANGE REPORT**

1. Name and Address of Company

Cronos Group Inc.
76 Stafford Street, Suite 302
Toronto, Ontario M6J 2S1

2. Date of Material Change

November 8, 2017

3. News Release

The news release with respect to the material change referred to in this report was disseminated on November 8, 2017 through the facilities of CNW.

4. Summary of Material Change

Cronos Group Inc. ("**Cronos**" or the "**Company**") has closed its previously announced bought deal offering pursuant to the filing of a short form prospectus.

5. Full Description of Material Change

Cronos has closed its previously announced bought deal offering, including the exercise of the over-allotment option. A total of 5,476,190 common shares of the Company (the "**Shares**") were sold at a price of \$3.15 per Share for aggregate gross proceeds of \$17,249,998.50 (the "**Offering**").

The Offering was underwritten by a syndicate led by PI Financial Corp. as sole bookrunner and which included Canaccord Genuity Corp.

The Shares were offered by way of a short form prospectus filed in all of the provinces of Canada, except Quebec, pursuant to National Instrument 44-101 - *Short Form Prospectus Distributions*. The securities that were sold have not been, nor will they be, registered under the U.S. Securities Act, and were not offered or sold in the United States or to, or for the account or benefit of, U.S. persons absent registration or an applicable exemption from the registration requirements.

6. Reliance on Section 7.1(2) or (3) of Regulation 51-102 respecting continuous disclosure obligations

This Report is not being filed on a confidential basis in reliance on subsection 7.1(2) of National Instrument 51-102.

7. Omitted Information

No information has been omitted on the basis that it is confidential information.

8. Executive Officer

The following executive officer is knowledgeable about the material change and this report:

Michael Gorenstein
Director and Chief Executive Officer

Tel: (416) 504-0004

9. Date of Report

November 10, 2017.

**Form 51-102F3
Material Change Report**

1. Name and Address of Company

Cronos Group Inc.
76 Stafford Street, Suite 302
Toronto, Ontario
M6J 2S1

2. Date of Material Change

January 2, 2018

3. News Release

The news releases with respect to the material change referred to in this report were disseminated on January 2, 2018 through the facilities of CNW Group Ltd.

4. Summary of Material Change

Cronos Group Inc. ("**Cronos**" or the "**Company**") announced a financing on a "bought deal" basis.

5. Full Description of Material Change

On January 2, 2018, Cronos announced that it had entered into a letter of engagement with PI Financial Corp. ("**PI**") as lead underwriter, on behalf of itself and a syndicate of underwriters (together, the "**Underwriters**"), under which the Underwriters agreed to purchase for resale 3,428,572 common shares of the Company ("**Shares**") on a "bought deal" basis pursuant to the filing of a short form prospectus, subject to all required regulatory approvals, at a price of \$8.75 per Share, for total gross proceeds of approximately \$30 million.

On the same day, Cronos announced that it had entered into a revised agreement with the Underwriters to increase the size of the previously announced bought deal financing to approximately \$40 million aggregate gross proceeds (the "**Offering**"), representing 4,571,429 Shares at a price of \$8.75 per Share (the "**Offering Price**").

Pursuant to the revised agreement, the Company has granted the Underwriters an over-allotment option to purchase up to an additional 685,714 Shares at the Offering Price, exercisable in whole or in part at any time on or prior to the date that is 30 days following the closing of the Offering.

The Company intends to use the net proceeds of the Offering for general corporate purposes, to fund growth and for research and development.

The closing date of the Offering is scheduled to be on or about January 26, 2018 and is subject to certain conditions including, but not limited to, the receipt of all necessary approvals, including the approval of the TSX Venture Exchange and the applicable securities regulatory authorities.

The Shares will be offered by way of a short form prospectus to be filed in all of the provinces of Canada, except Quebec, pursuant to National Instrument 44-101 — *Short Form Prospectus Distributions*. PI may choose, in its discretion, to sell the Offering in the United States through its U.S. brokerage affiliate to investors who qualify under U.S. prospectus exemptions, and the Company will assist in this regard as reasonably requested. Any Shares sold in the United States will be to investors in reliance upon applicable registration exemptions (Rule 144A of the United States *Securities Act of 1933*, as amended and rule 506 of Reg. D).

6. Reliance on subsection 7.1(2) of National Instrument 51-102

Not applicable.

7. Omitted Information

Not applicable.

8. Executive Officer

The following executive officer is knowledgeable about the material change and this report:

Michael Gorenstein
Director and Chief Executive Officer

Tel: (416) 504-0004

9. Date of Report

January 8, 2018.



Licence No. - N° de licence
10-MM0017/2016

PRODUCER'S LICENCE

Pursuant to section 35 of the Access to Cannabis for Medical Purposes Regulations this licence is issued to:

LICENCE DE PRODUCTEUR AUTORISÉ

Conformément à l'article 35 du Règlement sur l'accès au cannabis à des fins médicales, la présente licence est délivrée à:

PEACE NATURALS PROJECT INC.
4491 12th Sunnidale Concession
Stayner, ON L0M 1S0, CANADA
Region III

as a licensed producer at the site indicated above, for the conduct of the following activities for the following controlled substances.

à titre de producteur autorisé à l'installation indiquée ci-haut, pour la conduite des opérations suivantes pour les substances contrôlées suivantes.

Maximum quantity of cannabis, expressed as the net weight, to be produced during the period from November 1, 2016 to April 30, 2018:

Quantité maximale de chanvre indien, exprimée en poids net à être produite pendant la période du 1 novembre 2016 au 31 avril 2018:

Substances	Activity/Activité	Maximum Quantity (kg) / Quantité Maximale (/kg)
DRIED MARIHUANA / MARIHUANA SÉCHÉE	<input checked="" type="checkbox"/> Production / Production	2500
CANNABIS OIL / HUILE DE CANNABIS	<input checked="" type="checkbox"/> Production / Production	341
CANNABIS RESIN/ RÉSINE DE CANNABIS	<input checked="" type="checkbox"/> Production / Production	46
FRESH MARIHUANA / MARIHUANA FRAÎCHE	<input type="checkbox"/> Production / Production	N/A

Maximum quantity of cannabis, expressed as the net weight or units, to be sold or provided during the period from 1 November, 2016 to April 30, 2018:

Quantité maximale de chanvre indien, exprimée en poids net ou unités à être produite, vendu ou fourni pendant la période du 1 novembre 2016 au 31 avril 2018:

Substances	Activity/Activité	Maximum Quantity to be sold or provided to parties listed in each subsection of the ACMPR below Quantité Maximale à être vendue ou fournie aux parties énumérées sous les paragraphes du RACFM ci-dessous		
		s. 22(2)	s. 22(4)	s. 22(5)
DRIED MARIHUANA / MARIHUANA SÉCHÉE (KG)	<input checked="" type="checkbox"/> Sale or Provision / Vente ou Fourniture	20	2480	N/A
CANNABIS OIL / HUILE DE CANNABIS (KG)	<input checked="" type="checkbox"/> Sale or Provision / Vente ou Fourniture	46	295	N/A
CANNABIS RESIN/ RÉSINE DE CANNABIS	<input checked="" type="checkbox"/> Sale or Provision / Vente ou Fourniture	46	N/A	N/A
MARIHUANA PLANTS / PLANTS DE MARIHUANA (UNITS/UNITÉS)	<input checked="" type="checkbox"/> Sale or Provision / Vente ou Fourniture	1000	N/A	1000
MARIHUANA SEEDS / GRAINES DE MARIHUANA (KG)	<input checked="" type="checkbox"/> Sale or Provision / Vente ou Fourniture	1	N/A	1

Director, Operations, Office of Medical Cannabis, CLRB, for and on behalf of the Minister of Health
Directeur, Opérations, Bureau de cannabis médical, DGLRC, pour le Ministre de la Santé



Building 1/Bâtiment 1

Areas Where Cannabis is Present / Zones de l'installation où du chanvre indien est présent:
 Laboratory, Finishing and Packaging, Room F, G and Room H, Vault, Cultivation /Production area: Room A, B, C, D, E, and M.
Storage Area / Aire de Stockage: Level 7 (Vault), Level 2 (refrigerator), Level 1 (Bin)

Substances/Substances	Activities/Activités						
	Production / Production	Sale or Provision / Vente ou Fourniture	Possession / Possession	Shipping / Expédition	Transportation / Transport	Delivery / Livraison	Destruction / Destruction
DRIED MARIHUANA / MARIHUANA SÉCHÉE	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
MARIHUANA PLANTS / PLANTS DE MARIHUANA	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
MARIHUANA SEEDS / GRAINES DE MARIHUANA	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
CANNABIS OIL / HUILE DE CANNABIS	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
CANNABIS RESIN/ RÉSINE DE CANNABIS	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
CANNABINOL / CANNABINOL	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
CANNABIDIOL / CANNABIDIOL	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
DELTA-8-TETRAHYDROCANNABINOL / DELTA-8-TÉTRAHYDROCANNABINOL	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
DELTA-9-TETRAHYDROCANNABINOL / DELTA-9-TÉTRAHYDROCANNABINOL	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Building 2/Bâtiment 2

Areas Where Cannabis is Present / Zones de l'installation où du chanvre indien est présent:
 Room 2A, Room 2C, Room 2E
Storage Area / Aire de Stockage: No Security Level

Substances/Substances	Activities/Activités						
	Production / Production	Sale or Provision / Vente ou Fourniture	Possession / Possession	Shipping / Expédition	Transportation / Transport	Delivery / Livraison	Destruction / Destruction
MARIHUANA PLANTS / PLANTS DE MARIHUANA	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
MARIHUANA SEEDS / GRAINES DE MARIHUANA	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>



(Handwritten signature)

Director, Operations, Office of Medical Cannabis, CLRB, for and on behalf of the Minister of Health
 Directeur, Opérations, Bureau de cannabis médical, DGLRC, pour le Ministre de la Santé



Conditions and Remarks / Conditions et Commentaires :

This licence is restricted, in addition to all other applicable conditions, in that the substances inventory (at any given time) cannot exceed a maximum storage capacity value \$ 6,250,000 for the security level 7 vault, \$ 2,500.00 for the security level 2 refrigerator, and \$ 500.00 for the security level 1 bin / Cette licence est restreinte, en plus des autres conditions qui s'appliquent, du fait que l'inventaire des substances (en tout temps) ne peut dépasser une valeur maximale de capacité de stockage de 6 250 000 \$, pour la voûte de niveau de sécurité 7, de 2 500 \$ pour le réfrigérateur de niveau de sécurité 2, et de 500 \$ pour le panier de niveau de sécurité 1.

This licensed producer may transfer or receive bulk shipments of substances authorized for sale under this licence to/from other licenced producers provided that the bulk product has not already been packaged into immediate containers for provision or sale under s.22(4) of the ACMPR and on the condition that the licenced producer has completed the *Licensed Producer Bulk Transfer Transaction Form* and has provided it to Health Canada at a minimum ten business days in advance of each planned shipment. / Ce producteur autorisé peut transférer ou recevoir des expéditions en vrac de substances autorisées à la vente sous cette licence, à ou de la part de, d'autres producteurs autorisés à condition que le produit en vrac n'a pas déjà été emballé dans le contenant immédiat pour la vente ou fourniture sous le paragraphe 22(4) du RACM et à condition que le producteur autorisé ait complété le formulaire de transaction en vrac entre producteurs autorisés et l'ait soumis à Santé Canada au minimum dix jours ouvrables à l'avance de chaque expédition prévu.

For a client or an individual who is responsible for the client, the sale activity of cannabis oil is limited to the sale of the final packaged product: Bottled cannabis oil produced using cannabis cold water extraction and cannabis infusion into carrier oil, as inspected by Health Canada on October 15, 2015. Any changes to the cannabis oil products intended for sale or to the extraction method(s) used to produce them must be submitted to Health Canada for compliance verification prior to sale. / Pour un client ou une personne responsable au nom du client, l'activité de vente de l'huile de cannabis se limite à la vente du produit final emballé : huile de cannabis en bouteille produite par extraction CO₂ dans l'huile de support tel que inspecté par Santé Canada le 15 octobre 2015. Tout changement apporté à un produit à base d'huile de cannabis destiné à la vente ou aux méthodes d'extraction employées pour le fabriquer doit être soumis à Santé Canada avant la vente afin d'en vérifier la conformité.

This licensed producer must notify Health Canada, at a minimum 10 business days in advance, of each planned shipment for all sales or provisions of substances listed on this licence to licensed dealers for purposes other than testing. / Ce producteur autorisé doit aviser Santé Canada, au moins dix jours ouvrables à l'avance de chaque expédition, pour toutes les ventes ou fournitures de substances autorisées sous cette licence aux distributeurs autorisée pour des fins autres que pour les essais.

Cannabis destined for destruction must be stored in a designated storage area with a security level. The destruction method must be conducted as per the destruction procedures inspected on July 27, 2016 and in accordance with the requirements under section 30 of the ACMPR. / Le cannabis destiné à la destruction doit être stocké dans un cadre de sécurité avec un niveau de sécurité. La méthode de destruction doit être effectuée selon la procédure de destruction qui a été inspecté le 27 juillet 2016, et en conformité avec les exigences de l'article 30 du RACM.

The monthly report that must be prepared in accordance with the guidance document entitled *Licensed Producers Reporting Requirements* and submitted on or before the 15th of every month for the previous month/ Veuillez noter que le rapport mensuel qui doit être établi conformément au document d'orientation intitulé. Exigences en matière de production de rapports des producteurs autorisés et qui doit être présenté au plus tard le 15 de chaque mois pour le mois précédent.



Effective date of the licence:
November 1, 2016

This licence expires: April 30, 2018

Date de prise d'effet de la licence:
1 novembre 2016

La présente licence expire: 30 avril 2018

Director, Operations, Office of Medical Cannabis, CLRB, for and on behalf of the Minister of Health
Directeur, Opérations, Bureau de cannabis médical, DGLRC, pour le Ministre de la Santé



Licence No. - N° de licence
10-MM0027/2017

PRODUCER'S LICENCE

Pursuant to section 35 of the *Access to Cannabis for Medical Purposes Regulations* this licence is issued to:

LICENCE DE PRODUCTEUR AUTORISÉ

Conformément à l'article 35 du *Règlement sur l'accès au cannabis à des fins médicales*, la présente licence est délivrée à:

IN THE ZONE PRODUCE LTD.
1897 Otter Lake Cross Road
Armstrong, BC, V0E 1B6, CANADA
Region III

as a licensed producer at the site indicated above, for the conduct of the following activities for the following controlled substances.

à titre de producteur autorisé à l'installation indiquée ci-haut, pour la conduite des opérations suivantes pour les substances contrôlées suivantes.

Maximum quantity of cannabis, expressed as the net weight in kilograms (kg), to be produced during the period from February 28, 2017 to February 28, 2018:

Quantité maximale de cannabis, exprimée en poids net en kilogrammes (kg), à être produite pendant la période du 28 février 2017 au 28 février 2018:

Substances	Activity/Activité	Maximum Quantity in Kilogram (kg) / Quantité Maximale en Kilogramme (kg)
DRIED MARIJUANA / MARIJUANA SÉCHÉE	<input checked="" type="checkbox"/> Production / Production	100

Maximum quantity of cannabis, expressed as the net weight or unit, to be sold or provided during the period from February 28, 2017 to February 28, 2018:

Quantité maximale de cannabis, exprimée en poids net ou unité, à être vendue, vendue, ou fournie pendant la période du 28 février 2017 au 28 février 2018:

Substances	Activity/Activité	Maximum quantity to be sold or provided to parties listed in each subsection of the ACMPR below Quantité maximale à être vendue ou fournie aux parties énumérées sous les paragraphes du RACFM ci-dessous		
		s. 22(2)	s. 22(4)	s. 22(5)
DRIED MARIJUANA / MARIJUANA SÉCHÉE (KG)	<input checked="" type="checkbox"/> Sale or Provision / Vente ou Fourniture	60	40	N/A

Building 1 / Bâtiment 1

Areas where cannabis is present / Zones de l'installation où du cannabis est présent:
Mother/Clone Room, Flowering Room, Trim/Dry Room, Packaging/Shipping Room, VAU-1

Storage Area / Aire de Stockage: Level 7 Vault

Substances/Substances	Activities/Activités						
	Production / Production	Sale or Provision / Vente ou Fourniture	Possession / Possession	Shipping / Expédition	Transportation / Transport	Delivery / Livraison	Destruction / Destruction
DRIED MARIJUANA / MARIJUANA SÉCHÉE	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
MARIJUANA SEEDS / GRAINES DE MARIJUANA	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
MARIJUANA PLANTS / PLANTS DE MARIJUANA	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Director, Operations, Office of Medical Cannabis, CLRB, for and on behalf of the Minister of Health
Directeur, Opérations, Bureau de cannabis médical, DGLRC, pour et de la part du Ministre de la Santé



Conditions and Remarks / Conditions et Commentaires :

This licence is restricted, in addition to all other applicable conditions, in that the substances inventory cannot exceed at any given time a maximum storage capacity value of \$6, 250,000 for the security level 7 vault. / Cette licence est restreinte, en plus des autres conditions qui s'appliquent, du fait que l'inventaire des substances ne peut dépasser (en tout temps) une valeur maximale de capacité de stockage de 6 250 000 \$ pour la voûte de niveau de sécurité 7.

Cannabis waste must be stored in the security level 7 vault. Cannabis waste destruction must be conducted outside and/or in the Dry Room of IN THE ZONE PRODUCE LTD.'s site, and in accordance with the requirements of section 30 of the ACMPR. / Les déchets de cannabis doivent être entreposés dans la voûte de niveau de sécurité 7. La destruction des déchets de cannabis doit avoir lieu à l'extérieur et/ou dans la salle « Dry Room » du site de IN THE ZONE PRODUCE LTD., en conformité avec les exigences de l'article 30 du RACFM.

This licenced producer may transfer or receive bulk shipments of substances authorized for sale under this licence to/from other licenced producers of marihuana for medical purposes, provided that the bulk product has not already been packaged into immediate containers for provision or sale under subsection 22(4) of the ACMPR, and on the condition that the licenced producer has completed the *Licensed Producer Bulk Transfer Transaction Form*, and provided it to Health Canada at a minimum of ten business days in advance of each planned shipment. / Ce producteur autorisé peut transférer ou recevoir des expéditions en vrac de substances autorisées à la vente sous cette licence, à/de la part de, d'autres producteurs autorisés de cannabis à des fins médicales, à condition que le produit en vrac n'a pas déjà été emballé dans le contenant immédiat pour la vente ou fourniture sous le paragraphe 22(4) du RACFM, et à condition que le producteur autorisé ait complété le formulaire de transaction en vrac entre producteurs autorisés, et l'ait soumis à Santé Canada au minimum de dix jours ouvrables à l'avance de chaque expédition prévue.

This licensed producer must notify Health Canada, at a minimum of 10 business days in advance, of each planned shipment for all sales or provisions of substances listed on this licence to licensed dealers for purposes other than testing. / Ce producteur autorisé doit aviser Santé Canada, au moins de dix jours ouvrables à l'avance, de chaque expédition et de toutes les ventes ou fournitures de substances autorisées sous cette licence aux distributeurs autorisés pour des fins autres que pour essais.

Please note that the monthly report must be prepared in accordance with the guidance document entitled *Licensed Producers Reporting Requirements*, and submitted on or before the 15th of every month for the previous month/ Veuillez noter que le rapport mensuel doit être préparé conformément au document d'orientation intitulé *Exigences en matière de production de rapports des producteurs autorisés*, et doit être présenté au plus tard le 15 de chaque mois pour le mois précédent.

Effective date of the licence:
February 28, 2017
This licence expires on February 28, 2018

Date d'entrée en vigueur de la licence:
Le 28 février 2017
La présente licence expire le 28 février 2018

Director, Operations, Office of Medical Cannabis, CLRB, for and on behalf of the Minister of Health
Directeur, Opérations, Bureau de cannabis médical, DGLRC, pour et de la part du Ministre de la Santé



Licence No. - N° de licence
10-MM0027/2017

PRODUCER'S LICENCE

Pursuant to section 35 of the *Access to Cannabis for Medical Purposes Regulations* this licence is issued to:

LICENCE DE PRODUCTEUR AUTORISÉ

Conformément à l'article 35 du *Règlement sur l'accès au cannabis à des fins médicales*, la présente licence est délivrée à:

Original BC Ltd.
1897 Otter Lake Cross Road
Armstrong, BC, V0E 1B6, Canada
Region III

as a licensed producer at the site indicated above, for the conduct of the following activities for the following controlled substances.

à titre de producteur autorisé à l'installation indiquée ci-haut, pour la conduite des opérations suivantes pour les substances contrôlées suivantes.

Cannabis substances authorized for sale or provision during the period from February 28, 2017 to February 28, 2020:

Substances de cannabis autorisées pour la vente ou le fournissement pendant la période du 28 février au 28 février 2020:

Substances	Activity/Activité	Cannabis sold or provided to eligible parties listed in each subsection of the ACMPR below Cannabis vendu ou fourni aux parties énumérées sous les paragraphes du RACFM ci-dessous		
		s. 22(2)	s. 22(4)	s. 22(5)
DRIED MARIJUANA / MARIJUANA SÉCHÉE	Sale or Provision / Vente ou Fourniture	X	X	N/A
MARIJUANA PLANTS / PLANTS DE MARIJUANA	Sale or Provision / Vente ou Fourniture	X	N/A	N/A

Building 1 / Bâtiment 1

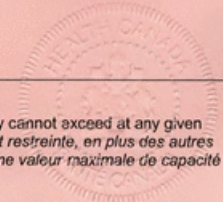
Areas where cannabis is present / Zones de l'installation où du cannabis est présent:

Mother/Clone Room, Flowering Room, Trim/Dry Room, Packaging/Shipping Room, VAU-1, Vault Area

Storage Area / Aire de Stockage: Level 7 Vault

Substances/Substances	Activities/Activités							
	Production / Production	Sale or Provision / Vente ou Fourniture	Possession / Possession	Shipping / Expédition	Transportation / Transport	Delivery / Livraison	Destruction / Destruction	
DRIED MARIJUANA / MARIJUANA SÉCHÉE	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	
MARIJUANA PLANTS/ PLANTS DE MARIJUANA	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	
MARIJUANA SEEDS / GRAINES DE MARIJUANA	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	

Director, Operations, Office of Medical Cannabis, CLRBC, for and on behalf of the Minister of Health
Directeur, Opérations, Bureau du cannabis médical, DGLRC, pour et de la part du Ministre de la Santé



Conditions and Remarks / Conditions et Commentaires:

This licence is restricted, in addition to all other applicable conditions, in that the substances inventory cannot exceed at any given time a maximum storage capacity value of \$6,250,000 for the security level 7 vault. / Cette licence est restreinte, en plus des autres conditions qui s'appliquent, du fait que l'inventaire des substances ne peut dépasser en tout temps une valeur maximale de capacité de stockage de 6 250 000 \$ pour la voûte de niveau de sécurité 7.

Original BC Ltd. must conduct pesticide testing and report results at the request of the Minister of Health, in accordance with applicable mandatory pesticide testing guidance documents. / Original BC Ltd. doit effectuer des tests pour pesticides et rapporter les résultats à la demande du ministre de la Santé, conformément aux documents d'orientation applicables aux pesticides.

If necessary, products targeted for destruction must be stored in a designated Subdivision C Area, and/or in an area with an assigned security level. Cannabis waste destruction must be conducted outside and/or in the Dry Room of Original BC Ltd.'s site, and in accordance with the requirements of section 30 of the ACMPR. / Si nécessaire, les produits destinés à la destruction doivent être entreposés dans une zone désignée comme Subdivision C, et/ou dans une zone ayant un niveau de sécurité approuvé. La destruction des déchets de cannabis doit avoir lieu à l'extérieur et/ou dans la salle « Dry Room » du site de Original BC Ltd., et doit être en conformité avec les exigences de l'article 30 du RACFM.

This licensed producer may receive bulk shipments of substances authorized for possession under this licence, or transfer shipments of substances authorized for sale under this licence to/from other licensed producers of cannabis for medical purposes, provided that the bulk product has not already been packaged into immediate containers for provision or sale under subsection 22(4) of the ACMPR, and on the condition that the licensed producer has completed the Licensed Producer Bulk Transfer Transaction Form, and provided it to Health Canada at a minimum of ten business days in advance of each planned shipment. This licensed producer is excluded from completing and providing a Licensed Producer Bulk Transfer Transaction Form for transfers conducted between Original BC Ltd. (10-MM0027) and Peace Naturals Project Inc. (10-MM0017), provided that the licensed producer keeps detailed records of the date of each shipment, the description of the shipped substance, the quantity included in each shipment, and the receiver of each shipment. / Ce producteur autorisé peut transférer ou recevoir des expéditions en vrac de substances autorisées à la vente sous cette licence, à/de la part d'autres producteurs autorisés de cannabis à des fins médicales, à condition que le produit en vrac n'a pas déjà été emballé dans le contenant immédiat pour la vente ou fourniture sous le paragraphe 22(4) du RACFM, et à condition que le producteur autorisé ait complété le formulaire de transaction en vrac entre producteurs autorisés, et l'ait soumis à Santé Canada au minimum de dix jours ouvrables à l'avance de chaque expédition prévue. Ce producteur autorisé est exempté de compléter le formulaire de transaction en vrac entre producteurs autorisés pour les transferts effectués entre Original BC Ltd. (10-MM0027) et Peace Naturals Project Inc. (10-MM0017), en autant que le producteur autorisé conserve des registres détaillés de la date de chaque expédition, de la description de la substance expédiée, et de la quantité incluse dans chaque expédition.

This licensed producer must notify Health Canada, at a minimum of 10 business days in advance, of each planned shipment for all sales or provisions of substances listed on this licence to licensed dealers for purposes other than testing. / Ce producteur autorisé doit aviser Santé Canada, au moins de dix jours ouvrables à l'avance, de chaque expédition et de toutes les ventes ou fournitures de substances autorisées sous cette licence aux distributeurs autorisés pour fins autres que pour essais.

Please note that the monthly report must be prepared in accordance with the guidance document entitled *Licensed Producers Reporting Requirements*, and submitted on or before the 15th of every month for the previous month. / Veuillez noter que le rapport mensuel doit être préparé conformément au document d'orientation intitulé *Exigences en matière de production de rapports des producteurs autorisés*, et doit être présenté au plus tard le 15 de chaque mois pour le mois précédent.

Effective date of the licence:

October 20, 2017

This licence expires on **February 28, 2020**

Date d'entrée en vigueur de la licence:

20 octobre 2017

La présente licence expire le **28 février 2020**

Director, Operations, Office of Medical Cannabis, CLRB, for and on behalf of the Minister of Health
Directeur, Opérations, Bureau du cannabis médical, DGLRC, pour et de la part du Ministre de la Santé

DISTRIBUTION AGREEMENT

between

G. Pohl-Boskamp GmbH & Co. KG
 Kieler Strasse 11
 25551 Hohenlockstedt
 Federal Republic of Germany
 represented by Marianne Boskamp, CEO

- hereinafter referred to as “**POHL**” -

and

Peace Naturals Project Inc.
 4491 Sunnidale Concession 12
 Stayner, ON L0M 1S0

- hereinafter referred to as “**PEACE**” —.

Preamble

1. PEACE is engaged in the business of developing, growing, manufacturing and supplying of Cannabis products (the Products as defined below). PEACE has appointed POHL as its distributor of the Products for the Territory (as defined below).
2. POHL wishes to become the distributor of the Products in the Territory and to import, market and distribute the Products in the Territory, invoice customers for the Products, contract with customers, and handle all related administrative tasks.
3. In June of 2017 both parties have applied in a consortium for the German tender for Cannabis flowers issued by the German BfArM. In case the consortium wins one or more lots, POHL and PEACE will enter into a separate agreement.
4. PEACE is a wholly-owned subsidiary of Cronos Group Inc. (“CRONOS”). It is the intention of CRONOS that other CRONOS Affiliates (as hereafter defined) that are controlled by CRONOS will also enter into substantially similar agreements with POHL.
5. Now therefore, the parties wish to enter into the following Distribution Agreement (the “**Agreement**”).

§ 1**Object of the Agreement**

- 1.1 PEACE hereby appoints POHL as its exclusive distributor to import, promote, market, distribute and sell the Products (as defined below) in the Territory (as defined below).
- 1.2 POHL agrees to buy the Products which are designated for the distribution in the Territory only from PEACE.

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- 1.3 POHL shall buy and sell the Products in its own name and for its own account and acknowledges that it has no authority to act for or on behalf of PEACE except as otherwise specifically set forth in this Agreement.
- 1.4 PEACE agrees to refer to POHL all inquiries of Products from the Territory received by PEACE with respect to the Products.

§ 2**Products**

The term “**Products**” means all products listed in Annex I as presently manufactured and sold by PEACE. Annex I may be amended in future for additions of Products by mutual consent of PEACE and POHL. Upon mutual consent of PEACE and POHL, such Products will become Products to which the provisions of this Agreement shall apply accordingly.

§ 3**Territory**

The Territory is the geographical area specified in Annex II.

§ 4**Duties of POHL**

- 4.1 POHL shall exert best efforts to sell and distribute the Products in the Territory and shall maintain a continuous in-Territory representation.
- 4.2 POHL further agrees:
 - a) to report monthly with respect to Products its total stock position and all sales. The monthly reports shall reach PEACE the week following the close of the calendar month;

b) to report monthly important news on the pharmaceutical market in the Territory, especially with regard to the Products and competitive products and the price structure in the Territory and any changes thereof. The monthly



Our File: 8617

August 22, 2017

Cronos Group Inc.
 76 Stafford Street
 Suite 203
 Toronto, ON M6J 2S1
 Attention: Michael Gorenstein

Dear Sirs:

**Re: Construction Financing
 4491 Concession Road 12, Clearview Township
 Simcoe County, ON**

We are pleased to inform you that, on the basis of the information and the documents supplied by you, Romspen Investment Corporation, as trustee (the "**Lender**"), hereby submits to you this offer of mortgage financing ("**Commitment**") in connection with the properties more fully described in Section 4 below.

This Commitment must be accepted by the Borrower and received by the Lender no later than 5 days from the date hereof, together with the portion of the Standby Deposit as hereinafter set out, failing which this Commitment shall become null and void without further notice.

1. BORROWER

Peace Naturals Project Inc. (the "**Borrower**").

2. COVENANTORS

Cronos Group Inc. ("**Cronos**"), Hortican Inc. ("**Hortican**"), In the Zone Produce Ltd. ("**In the Zone**") and each Responsible Person in Charge ("**RPIC**") and Senior Person in Charge ("**SPIC**") of the Borrower and In the Zone (the "**Covenantors**", and each, a "**Covenantor**").

The Covenantors, jointly and severally with the Borrower, covenant and agree to satisfy all terms, conditions and requirements herein contained and the Borrowers and Covenantors acknowledge and agree that their obligations hereunder, including, without limitation, the obligations to repay the Loan, shall constitute primary obligations and shall be joint and several. The obligations of the Covenantors, except for the obligations set out in Section 17, will become effective upon their execution of the applicable Security.

The Lender will release each RPIC and SPIC from his/her guarantee upon their termination or replacement, provided the Lender consents to any such termination or replacement, such consent not to be unreasonably withheld or delayed. If the Loan remains outstanding, any replacement

RPIC or SPIC shall provide a replacement guarantee on identical terms as that given by the person being replaced. If the Lender enforces its Security, and provided the SPIC and RPIC fully cooperate with the Lender in their replacement and/or the licencing of any successor owner until such successor owner may operate the business, the Lender will release each SPIC and RPIC from his/her guarantee.

3. APPROVED LOAN AMOUNT

The approved loan amount is \$40,000,000 ("**Loan**"), to be secured as further described in this Commitment. The Loan shall be funded by way of multiple advances (each, an "**Advance**"). Aggregate Advances will be limited to \$[Redacted] until the Lender has received and approved an appraisal of the BC Property showing a value of not less than \$[Redacted].

4. PROPERTIES

Borrower's and Covenantors' obligations in respect of the Loan will be secured by, among other things, mortgages/charges on the real properties set out in Schedule R of this Commitment, together with all improvements located thereon (sometimes referred to as the "**Properties**", and each, a "**Property**"). The Property in Ontario is referred to as the "**Peace Property**" and the 2 parcels in British Columbia are referred to collectively as the "**BC Property**".

5. ADVANCE DATES

The first Advance ("**First Advance**") will take place on or about August 31, 2017 (the "**First Advance Date**"). Advances under subsection 8(b) ("**Construction Advances**") below will take place by way of periodic Advances on a cost-to-complete basis in accordance with the plans and specifications approved by the Lender (the "**Approved Plans**") and the budget approved by the Lender (the "**Project Budget**") for the improvements to be undertaken on the Property owned by the Borrower (the "**Project**"). Construction Advances will not be made more than once per month and may not be for less than \$[Redacted]. The total advanced in respect of Construction Advances may not exceed the cost in place at any time.

6. INTEREST RATE

The interest rate for the Loan is 12% per annum, calculated and compounded monthly, in arrears, on the amounts advanced from time to time from the date of each advance of funds, as well after as before maturity, default or judgment.

7. TERM

The term of the Loan is 2 years commencing from the Interest Adjustment Date (the "**Loan Term**"). The date on which the Loan Term expires is sometimes referred to herein as the "**Loan Maturity Date**".

Provided:

- (a) there has been no Event of Default;
- (b) the Borrower gives the Lender 30 days' written notice; and
- (c) the Lender is paid \$[Redacted] as an extension fee

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the Borrower may extend the Loan Term for a further 12 months.

The Interest Adjustment Date will be either the 1st or the 15th of the month following the First Advance Date (as determined by the Lender).

8. USE OF FUNDS

The proceeds of the Loan will be used to:

- (a) pay the Lender's fees and costs of this transaction (as to approximately \$[Redacted]);
- (b) provide the Borrower with \$[Redacted] of initial working capital for the Project; and
- (c) assist the Borrower in completing the Project, as to the balance.

9. SECURITY

The following security for the Loan shall be granted in favour of the Lender, in form and content satisfactory to the Lender and its legal counsel (hereinafter collectively referred to as the "Security"):

- 9.1 first-ranking mortgage and/or charge of each Property;
- 9.2 first-ranking general assignment of all present and future leases and rents affecting each Property. The Lender may in addition, in its absolute discretion, require attornment or attornment and subordination agreements to be entered into by a tenant under any lease, if any;
- 9.3 general security agreements creating first-ranking security interests charging all the personal property of the Borrower and each Covenantor including, without limitation, goods, chattel paper, documents, accounts, intangibles, securities, monies, books and records and all replacements of, substitutions for and increases, additions and accessories to the foregoing and proceeds thereof, present and future;
- 9.4 specific assignments of the each Property owner's right, title and interest in, to and under all material contracts and agreements affecting or with respect to each Property, the Project or the its business, including licenses, permits, plans and specifications, development approvals and agreements ("Material Contracts"), as required by the Lender, with all necessary consents of the counterparties to the Material Contracts;
- 9.5 acknowledgment of the status and terms of any contracts affecting or with respect to each Property including, without limitation, any pertaining to ownership, insurance, shared facilities, passageway agreements or other similar matters, specifically, but without limitation, confirming the good standing of such contracts and the rights of the Lender under its security;
- 9.6 for any other indebtedness of the Borrower, or if a charge or security interest is to be registered (with the Lender's prior written consent) on title to any Property or against the Borrower or any Covenantor subordinate in priority to the Lender's Security, such creditor, subordinate chargee or secured party shall provide to the Lender a subordination and standstill agreement in a form acceptable to the Lender;

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- 9.7 an unconditional, joint and several covenant by each Covenantor as principal debtor and not as surety for the performance of all obligations of the Borrower with respect to the Loan, it being understood that the Lender shall not be obliged to proceed against the Borrower or to enforce or exhaust any Security before enforcing its rights against any Covenantor.;
- 9.8 assignment of all insurance policies with respect to each Property and the Project and all proceeds and benefits therefrom in favour of the Lender;
- 9.9 assignment, postponement and subordination by the entity Covenantors in favour of the Lender, of any and all loans, indebtedness, distributions of income and/or capital owing or due from time to time from the Borrower;
- 9.10 pledge of the shares (or any securities convertible into shares) of the Borrower, In the Zone and Hortican ;
- 9.11 an environmental indemnity from the Borrower and entity Covenantors;
- 9.12 deficiency and completion guarantee from the Borrower and Covenantors;
- 9.13 such further and other security as legal counsel for the Lender may reasonably require.

10. TRANSACTION FEES AND RELATED COSTS

Administration Fee:	\$	[Redacted]
Advance Fee (per Advance):	\$	[Redacted]
Lender's Fee:	\$	[Redacted]**
Insurance Risk Management Fee (estimated):	\$	[Redacted]*
Lender's Basic Legal Fee (estimated):	\$	[Redacted]*
Lender's Legal Fees (per Advance):	\$	[Redacted]*

* Plus disbursements and taxes, if applicable.

** If the appraisal referred to in Section 3 is for an amount less than \$[Redacted], and as a result the maximum Loan amount is reduced accordingly, the Lender's fee will be reduced pro rata, and returned to Borrower, along with any interest accrued and paid on such amount.

In addition, the Borrower agrees to pay all costs, fees and expenses in connection with the transaction contemplated by this Commitment, including, without limitation:

10.1 engineering, environmental assessment, appraisal, credit information, inspection, architectural, project monitoring, cost consultancy, survey and any and all other professional and advisory costs as may be reasonably incurred by the Lender;

10.2 registration, recording and filing fees, taxes and similar costs with regard to all documents required by the Lender's solicitors to be registered, recorded or filed.

Such fees and costs may, at the option of the Lender, be deducted from any Advance.

11. STANDBY DEPOSIT

In consideration of the issuance of this Commitment and in recognition of the considerable effort that the Lender must immediately undertake in order to make funds available for closing, the

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Borrower has submitted a deposit of \$[Redacted] ("**Standby Deposit**"). The Lender hereby acknowledges receipt of the \$[Redacted] on account of the Standby Deposit.

The Standby Deposit will not bear interest while in the possession of the Lender. Save as otherwise provided for herein, the Standby Deposit will be credited to the Borrower on the First Advance Date.

12. ADVANCES AND CONDITIONS PRECEDENT

12.1 General

- 12.1.1 Subject to the other terms and conditions set forth in this Commitment, the Lender shall disburse the proceeds of the Loan to or on behalf of the Borrower in the amounts and as specified in Section 3 herein.
- 12.1.2 Each Property owner shall be the legal and beneficial owner of a good and marketable freehold title to the applicable Property and all personal property associated therewith. Each Property and the personal property related thereto or used in connection with the operation thereof or which is necessary to the use and operation thereof, shall be free and clear of all security interests, charges, liens, mortgages, claims or other encumbrances, with the exception of the Security provided for in this Commitment and the Permitted Encumbrances (as defined in Schedule R), the whole to the complete satisfaction of legal counsel for the Lender.
- 12.1.3 All taxes, duties, assessments, utility charges and other levies and charges affecting any Property, other than amounts which are not yet due and payable, shall have been paid prior to any Advance, failing which they shall be paid from the proceeds of any advance.
- 12.1.4 each Property owner shall fulfill all obligations under any laws entitling a creditor to exercise rights against its Property. In this respect, it shall provide to the appropriate taxation, municipal utilities and other authorities an authorization by which the Lender or any person authorized by it as its legal counsel, agent or manager, shall be able to obtain, in the name of the Property owner, a confirmation from such authorities that all payments, declarations and other filings are up to date, whether the authorities concerned have issued or will issue a default notice or demand for payment and whether any such notice concerns arrears. This authorization shall remain in effect and will be replaced as required by the Lender from time to time until the Loan has been fully repaid.
- 12.1.5 within 5 business days from acceptance of this Commitment, the following shall be delivered to the Lender's legal counsel (where applicable):
 - 12.1.5.1 copies of all Material Contracts;
 - 12.1.5.2 required insurance policies;
 - 12.1.5.3 evidence that property taxes have been paid;
 - 12.1.5.4 certified copy of a resolution of the Borrower's and entity Covenantors' directors authorizing this transaction;

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- 12.1.5.5 certified copies of the articles of incorporation, certificate of incorporation, of status and/or compliance of the Borrower and entity Covenantors;
- 12.1.5.6 a copy of a survey of the Properties, if available; and trustees; and
- 12.1.5.7 any other documents required hereunder and reasonably requested by legal counsel for the Lender.

12.2 Advance Requirements

Each Advance of the Loan is conditional upon the receipt by the Lender of the following documents, in form and substance satisfactory to the Lender and upon fulfillment by the Borrower and Covenantors, as applicable, of the following conditions precedent as well as those set out in Schedules "A" and "B" hereof or elsewhere herein, to the entire satisfaction of the Lender:

- 12.2.1 the Security and any other documents relating to the Loan that are required or contemplated hereunder or which the Lender and its legal counsel may deem necessary, shall have been received and approved to the complete satisfaction of the Lender and its counsel and duly executed and registered and perfected, as the case may be and all approvals required by the Lender or its counsel shall have been given;
- 12.2.2 a title insurance policy for the Loan in form and content satisfactory to the Lender. the premium for which will be paid by the Borrower, and which includes an acceptable survey endorsement;
- 12.2.3 a favourable opinion of the Borrower's and entity Covenantors' counsel on the due formation, power and authority, the due authorization, execution, delivery, validity and enforceability of this Commitment and the Security and such other matters as the Lender or its counsel may reasonably require;
- 12.2.4 a certificate of the Borrower and Covenantors confirming the truth and survival of the representations and warranties contained herein;
- 12.2.5 receipt of a copy of the purchase and sale agreement and amendments thereto for each Property;

- 12.2.6 evidence that each Property owner has complied with the obligations with respect to insurance requirements as more fully set out in Schedule "L", together with a favourable opinion of the Lender's insurance consultant on the adequacy of all insurance policies and or bonding required to be delivered and/or maintained hereunder;
- 12.2.7 evidence that all taxes, rates, assessments and charges which may be levied or imposed against a Property or a Property owner's business, including all

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utilities charges and all amounts capable of forming a charge against a Property or the a Property owner's interest therein, have been paid in full;

- 12.2.8 evidence that each Property owner has complied with all statutory requirements for deduction at source and remittance to applicable fiscal authorities, including, without limitation, those under the *Income Tax Act* (Canada), the *Excise Tax Act* (Canada), the *Canada Pension Plan Act* (Canada) and the *Employment Insurance Act* (Canada);
- 12.2.9 a site inspection of each Property has been completed on behalf of the Lender and the results of the inspection are satisfactory to the Lender;
- 12.2.10 approval by the Lender and/or its project monitor ("**Project Monitor**") of the Approved Plans;
- 12.2.11 a satisfactory interview with the principals of the Borrower has been conducted by the Lender;
- 12.2.12 verification of the use of each Property and the income generated or to be generated from the operations thereon;
- 12.2.13 receipt of an architect's certificate in the form as set out in Schedule "O" and addressed to the Lender, certifying that the Project complies with all applicable construction, zoning and other governmental requirements
- 12.2.14 verification of the net worth of each entity Covenantor in amounts satisfactory to the Lender;
- 12.2.15 delivery and satisfactory review by Lender and its project monitor ("**Project Monitor**") of the Project schedule;
- 12.2.16 delivery and satisfactory review by Lender and its Project Monitor of the Project Budget, which may not exceed \$[Redacted] (excluding equipment, interest expense and financing fees), including cash flow pro-forma, indicating estimated timing for receipt of revenue, paymentS of expenditures and funding sources (and repayment of same);
- 12.2.17 delivery and satisfactory review by Lender and its Project Monitor of the Project's current cost report indicating costs to date and costs to complete based on the latest Project Budget, including an assessment of and commentary on the adequacy of costs to complete;
- 12.2.18 prior to any capital expenditure Advance, the Project Monitor shall provide a cost consultant's report satisfactory to Lender;
- 12.2.19 each time an Advance is requested, Borrower shall provide in form satisfactory to Lender and the Project Monitor: (i) an up to date summary of the current work in place, (ii) cost to complete, (iii) a detailed budget for both onsite and offsite work and (iv) a schematic showing the work in place to the date that such Advance is being requested. , (v) back-up accounting that

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confirms the work in place (such accounting to include a copy of the general ledger for the Project, bank statements and cancelled checks);

- 12.2.20 evidence, to the Lender's satisfaction, that the Borrower and In the Zone are compliant with all applicable laws and licencing requirements in respect of their operations;
- 12.2.21 evidence, to the Lender's satisfaction, that the total cash equity invested by the Borrower in the Project from its own funds, at the time of the first Construction Advance, is not less than \$[Redacted];
- 12.2.22 approval by the Lender of the terms of major leases for equipment to be operated on the Peace Property;
- 12.2.23 an environmental report prepared, at the expense of the Borrower, by qualified environmental consultants acceptable to the Lender, addressed to the Lender or, alternatively, accompanied by a letter of transmittal from the environmental consultants who prepared the report allowing the Lender to rely upon the same and to use it for mortgage purposes, disclosing no site contamination or hazardous substances and confirming, to the satisfaction of the Lender, that each Property complies with Environmental Laws (as defined in Schedule "B" hereof). Each Property owner hereby agrees to provide all available information with respect to environmental matters and to fully disclose to the Lender any relevant facts about environmental matters promptly as they come to light;
- 12.2.24 an appraisal report of each Property prepared in a form and substance satisfactory to the Lender, at the expense of the Borrower, by a qualified appraiser acceptable to the Lender, addressed to the Lender or, alternatively, accompanied by a letter of transmittal from the appraiser allowing the Lender to rely upon the same and use it for mortgage purposes;
- 12.2.25 copies of all leases affecting each Property, executed by the parties thereto, including, without limitation, those listed in Schedule "G" hereto, or a certified rent roll in a form acceptable to the Lender and reviewed by and found satisfactory to the Lender and its counsel. In addition, an estoppel certificate from each tenant occupying or to occupy 5% or more of the Property's total rentable area or generating 5% or more of total rental revenue from a Property, and attornment and subordination agreements from tenants as required by the Lender, shall have been executed by the required parties and found satisfactory to the Lender;
- 12.2.26 if there are existing structures on a Property, a report from a qualified structural engineer, addressed to the Lender, addressing the structural soundness of those improvements, the contents of which are acceptable to the Lender;
- 12.2.27 no event shall have occurred and be continuing or would result from making an Advance, which constitutes an Event of Default or would constitute an Event of Default under any of the Borrower's or Covenantors' obligations, except when such default is cured by notice or elapsed time or both;

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- 12.2.28 the Lender and its counsel shall have approved all Material Contracts;

- 12.2.29 the Lender and its legal counsel shall have approved the Site Plan for the Project as approved by the governmental authority having jurisdiction and all other plans submitted in connection with the Project;
- 12.2.30 the Lender has approved any project management agreement, co-owners agreement, or trust agreement in effect with respect to any Property;
- 12.2.31 evidence of compliance with *The Proceeds of Crime (Money Laundering) and Terrorist Financing Act* (Canada) and Regulations, including but not limited to:
- (a) each Borrower and Covenantor is to provide, **at least 3 days prior to funding**, with the following:
- (i) Corporation profile report or Certificate of Status confirming such entity has not been dissolved;
- (ii) Executed Certificate of Incumbency setting out the names of all directors and officers, and the office held by each officer;
- (iii) Executed directors' resolution authorizing the transaction;
- (iv) Completed Agent Examination Form for each signing officer (to a maximum of 3);
- (v) Shareholders' register.
- 12.2.32 notwithstanding anything contained herein, no Advance shall be made by the Lender if a material adverse change (as determined by the Lender) has occurred in any Property, the Borrower or Covenantors or in the condition (financial or otherwise), operations, business, properties or prospects of a Property, the Borrower or Covenantors, or any asset or property of the Borrower or a Covenantor has changed in a manner that would impair the value of any security provided to the Lender for the Loan, prevent the timely repayment of the Loan or otherwise prevent the Borrower or any Covenantor from the timely performance of, or their ability to perform, any of their obligations under this Commitment, the Security or any other agreement entered into between the Borrower or any Covenantor and the Lender.
- 12.2.33 notwithstanding anything contained herein, no Advances shall be made by the Lender until such time as the Lender is in receipt of, and has reviewed, all due diligence material referred to in Schedule A of the letter agreement dated August 11, 2017, and not hereinbefore requested; and
- 12.2.34 notwithstanding anything contained herein, no Advance shall be made by the Lender until the Lender is advised by its legal counsel that, having regard to all the circumstances, there are no material legal impediments to such Advance being made.

13. REPRESENTATIONS AND WARRANTIES

The Borrower and each Covenantor, as applicable, represents and warrants to the Lender as follows, which shall be true and correct for each advance of the Loan, and

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acknowledges that the Lender is relying on all such representations and warranties in entering into this Commitment and making Advances hereunder:

- 13.1 The request for and use of proceeds of any Advance by the Borrower will constitute an affirmation or re-affirmation by the Borrower and each Covenantor of the representations and warranties contained herein and in any document related hereto, including, without limitation, any Security delivered pursuant hereto;
- 13.2 The Borrower and each entity Covenantor is an entity duly organized and validly existing and in good standing under the laws of the jurisdiction of formation, and registered to do business in each jurisdiction in which it carries on business;
- 13.3 The Borrower and each entity Covenantor has full power, right and authority to enter into and perform its obligations under each of the documents to which it is a party and has full right, power and authority to own and operate its assets and property and to carry on its business;
- 13.4 The execution and delivery by the Borrower and each entity Covenantor of this Commitment and the applicable Security and the performance of its obligations thereunder do not and will not conflict with or result in a breach of any of the terms, conditions or provisions of their charter documents or bylaws, any agreement, instrument or arrangement to which it is a party or constitute a default thereunder, any judgment or order, writ, injunction or decree of any court, or any applicable law, regulation or regulatory policy;
- 13.5 The execution and delivery by the Borrowers and each entity Covenantor of this Commitment and the applicable Security and the performance of its obligations thereunder have been duly authorized or will, prior to the First Advance Date, have been ratified by all necessary entity action, and no authorization under any applicable law and no registration, qualification, approval, designation, declaration or filing with any government body, agency or authority having jurisdiction over the Borrower or any entity Covenantor is or was necessary therefor, except as contemplated herein;
- 13.6 The Borrower represents and warrants that it possesses all consents, approvals, licenses, permits and authorizations under any applicable law which are necessary in connection with the operation of its businesses. All such consents, approvals, licenses, permits and authorizations are in full force and effect and good standing, and the Borrower is not in default in any respect thereunder which default would have a material adverse effect. The Borrower is conducting its business in compliance in all material respects with all applicable laws, rules and regulations of each jurisdiction in which its business is carried on, and no action exists, is pending or threatened which has as its object the revocation, amendment or qualification of any such consent, approval, license, permit or authorization and all applicable appeal periods in respect of such actions have expired;
- 13.7 Neither the Borrower nor any entity Covenantor is in default in any respect under any material indenture, mortgage, deed of trust, agreement or other instrument to which they are a party or by which they or any of their property may be bound and which default would have a material adverse effect on their property or their prospects;

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- 13.8 Other than has been disclosed to the Lender, there is no litigation or governmental proceedings commenced or pending against or affecting it or its assets, in which an adverse decision would constitute or result in a material adverse change in its business, operations, properties or assets, or in its condition, financial or otherwise;
- 13.9 each Property owner represents and warrants that it is the legal and beneficial owner of the applicable Property, and has good and marketable title and possession thereto, free from all mortgages, charges, liens or other encumbrances whatsoever, except for the Security and any encumbrances permitted by the Lender;

- 13.10 The Borrower and each Covenantor have filed all tax returns which are required to be filed by each of them and has paid or remitted when due all taxes, assessment and government charges imposed upon them which if unpaid could result in any charge or other encumbrance on their properties except such tax, assessment or charge which is being contested in good faith and for which the Borrower or Covenantor has made adequate reserves;
- 13.11 Each Property owner represents and warrants that, with respect to the applicable Property, it has obtained and is in compliance (i) with all terms and conditions of all authorizations which are required under any environmental law, the non-obtaining of which and the lack of compliance with which would have a material adverse effect, and (ii) with all environmental laws, non-compliance with which would have a material adverse effect. It does not generate hazardous materials or transport, treat or dispose of any hazardous materials nor is it aware of any underground storage tanks or surface contaminants located on the applicable Property other than those that have been reported to the Lender. It, to the best of its knowledge, has never caused or permitted (i) a release of any contaminant from or on the applicable Property or (ii) any hazardous materials to be placed, held, located or disposed of on or under the applicable Property the effect of which could reasonably be anticipated to have a material adverse effect. No enforcement action, investigation or outstanding order from any official body in respect of any hazardous materials or release of contaminants is existing, threatened or impending;
- 13.12 The Borrower represents and warrants that the Peace Property is zoned to permit the Project and is in compliance with all relevant zoning and by-laws of the applicable municipality and the Borrower has all permits, certificates, approvals or permissions required for the construction of the Project;
- 13.13 The Borrower has complied and will, at all times during the prosecution of the Project, comply with the requirements of the *Construction Lien Act* (Ontario) and the regulations pursuant thereto (as may be amended from time to time);
- 13.14 Each Property owner represents and warrants that all property taxes, levies, assessments, penalties or other costs payable to a municipality or other local government in respect of the applicable Property have been paid and no such amount is in arrears or is due and unpaid;
- 13.15 All information pertaining to the current and proposed use of each Property and the businesses operated and to be operated by the Borrower and In the Zone, and each Covenantor's and Borrower's financial condition has been fully disclosed to the Lender. There is no legal action instituted, threatened or pending against the Borrower

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or any Covenantor or any Property which has not been disclosed to the Lender in writing in connection with the application for the Loan and the Borrower has no notice of any work orders, deficiency notices or notices of violation pertaining to a Property or the Borrower's or In the Zone's business;

- 13.16 All financial and other information provided by the Borrower and Covenantors to the Lender, including but not limited to financial and other information provided in respect of the values and other matters pertaining to each Property and the Borrower's business is true and accurate and may be relied upon by the Lender in executing this Commitment and making the Loan.

14. GENERAL COVENANTS

Notwithstanding any other provision of this Commitment, the Borrower and each entity Covenantor, as applicable, covenants and agrees as follows:

- 14.1 Upon obtaining (i) knowledge of the occurrence of any default under any agreements to which it is a party, (ii) notice of litigation, arbitration, or proceedings before any official body, or (iii) information respecting the business, operations or financial condition of the Borrower or a Covenantor as the Lender may from time to time reasonably request, promptly to give the Lender details of such occurrence or other matter including copies of relevant documents;
- 14.2 To keep the Lender reasonably informed of the progress of the improvements being constructed with the Construction Advances, and to timely provide the Lender with copies of any material notices received from any public authority or agency, including with respect to any Property or Property owner's business;
- 14.3 To preserve and maintain in full force and effect its qualifications to carry on business including, without limitation, all rights, consents and authorizations relating thereto and not cease to conduct its business as conducted at the date of this Commitment, and to conduct its business in a proper, efficient and businesslike manner and in accordance with good business practices;
- 14.4 To comply with all applicable laws and duly observe in all material respects all consents and authorizations and valid requirements of any governmental body, agency or authority having jurisdiction applicable to it;
- 14.5 To keep proper books of account in accordance with sound accounting practice, and provide the Lender with such financial information in respect of each Property that the Lender may request, and to provide the Lender with access thereto during normal business hours;
- 14.6 To permit the Lender or any representative of the Lender on reasonable notice to visit and inspect any Property and to interview contractors and others involved in the construction of the improvements;
- 14.7 To keep in force insurance in respect of each Property which meets the Lender's requirements herein or in the Security;

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- 14.8 To keep each Property or cause each Property to be kept in good repair, working order and condition consistent with all consents, authorizations, and applicable laws and, from time to time, (i) to make and cause to be made all needful and proper repairs, renewals, replacements, additions and improvements thereto in accordance with prudent management practices, and (ii) not to permit to be terminated or suspended for any period of time any of its right, title or interest in or to any authorization or consent applicable to the completion of the improvements;
- 14.9 To maintain and cause to be maintained and to defend and take all action necessary or advisable at any time and, from time to time, to maintain, defend, exercise, or renew their right, title and interest to their respective properties and assets including, without limitation, each Property;
- 14.10 To make full and timely payment of all obligations hereunder whether now existing or hereafter arising and duly comply with all the terms and covenants contained in this Commitment or in any other agreements entered into pursuant hereto;
- 14.11 To pay and discharge as they become due all payments due and owing under, or with respect to, any previous indebtedness created or security given by them to any person and will observe, perform and carry out all the terms, covenants, provisions and agreements relating thereto;
- 14.12 To notify the Lender promptly upon obtaining knowledge of the institution or anticipated or threatened institution of any proceedings for the expropriation of any part of any Property. If any such property or assets are taken or damaged in or by any such expropriation proceedings or otherwise, the awards of compensation payable to the Borrower as a result of such expropriation shall be and are hereby assigned to the Lender;

- 14.13 At the Borrower's cost and expense, upon request of the Lender, duly execute and deliver, or cause to be duly executed and delivered, such further instruments and do and cause to be done such other acts as may be necessary or proper in the reasonable opinion of the Lender to carry out more effectually the provisions and purposes of this Commitment or any other agreements entered into with the Lender;
- 14.14 If the Borrower or any Covenantor is in default, beyond any applicable cure or notice period, in any covenant to be performed by them hereunder or under the Security, the Lender may perform any covenant capable of being performed by the Lender and if the Lender is put to any costs, charges, expenses or outlays to perform any such covenant, they will indemnify the Lender for such costs, charges, expenses or outlays and such costs, charges, expenses or outlays incurred by the Lender (including solicitors' fees and charges incurred by the Lender on a full indemnity basis) and will be secured by the Security;
- 14.15 That in any judicial proceedings taken to enforce this Commitment and the covenants hereunder or to enforce or redeem the Security or to foreclose the interest of Borrower or any entity Borrower in any property subject thereto, the Lender will be entitled to costs on a full indemnity basis;

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- 14.16 To diligently undertake the Project and perform and do all things and acts that are necessary to complete them in accordance with the Approved Plans and Project Budget;
- 14.17 In respect of the Borrower or entity Covenantors, in the event of cost overruns or other unforeseen developments in prosecuting the improvements, to use their own money as may be required by the Lender from time to time to pay those costs so that, at all times, the unadvanced portion of the Loan will not be less than the Lender's then current estimate of the cost to complete the Project;
- 14.18 To make no changes to the Approved Plans (including, without limitation, water lines, sewer lines, roads, electricity lines, and other such infrastructure) or to the schedule, or any material changes to the Project Budget without the prior written consent of the Lender;
- 14.19 To make all requests for Advances using the form of draw request required by the Lender;
- 14.20 To complete the improvements and to fund from their own resources, all costs overruns, (that is, costs in excess of project budgets approved by the Lender from time to time determined on a cumulative basis), as soon as such overruns arise or are identified by the Lender. The Borrower will not be eligible for further construction Advances until such cost overruns are funded by the Borrower or Covenantors; and
- 14.21 To observe the requirements of the *Construction Lien Act* (Ontario) and the regulations pursuant thereto (as may be amended) (the "CLA"). The Lender may retain from any Advance such amounts as are required by the CLA. The Borrower shall provide additional security, information and documentation as may be required by the Lender to preserve and ensure in all respects the absolute priority of the Security over any rights of any existing or potential lien claimants. The Lender reserves the right to hold back additional amounts due to suppliers or contractors, which may be due under the CLA. Furthermore, the Lender shall have the right to make payments directly to suppliers or contractors for the Borrower's account as if advanced directly to the Borrower, as the Lender may deem necessary.

15. NEGATIVE COVENANTS

Without the consent in writing of the Lender (such consent not to be unreasonably withheld or delayed), each Property owner covenants that it will not:

- 15.1 directly or indirectly, sell, convey, transfer or otherwise dispose of a Property or any of its assets, any part thereof, or any of their respective interest in a Property or enter into an agreement to do any of the foregoing;
- 15.2 make, give or create or attempt to make, give or create any mortgage, charge, lien, security interest or encumbrance upon a Property or any part or parts thereof, or its personal property subject to any of the Security, except as permitted by this Commitment;
- 15.3 declare or pay any dividends on any of its shares;

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- 15.4 make any payments to any person other than in the normal course of its business;
- 15.5 make any payment (whether for principal, interest or otherwise) on account of indebtedness or other amounts owing to, or when initially incurred was owing to, partners, shareholders or directors or related companies or individuals;
- 15.6 make loans or extend credit to any person (including specifically if it is a corporation, any partner, directors, officers or shareholders and any person related by blood or marriage to such persons or any corporation controlled by such person or relative or by the Borrower or a Covenantor) except customers of in the ordinary course of business;
- 15.7 purchase or redeem any of the shares or ownership interests or otherwise reduce its share capital;
- 15.8 except for operating lines of credit maintained in the ordinary course of business, borrow any money from any person other than the Lender, shareholders and trade creditors in the ordinary course of business; or guarantee, indemnify any person for, or endorse for accommodation, the obligations of any other person, directly or indirectly.

16. EVENTS OF DEFAULT

The whole of the outstanding balance of the Loan (including principal, interest, bonus and costs) will immediately become due and payable and the Security will become enforceable in each and every of the following events (each an "Event of Default"):

- 16.1 if the Borrower or any Covenantor (a "Credit Party") fails to observe or perform something required to be done or some covenant or condition required to be observed or performed hereunder or pursuant to the Security, including but not limited to the payment of monies when due hereunder, whether principal, interest, fees, costs or other charges;
- 16.2 if any Credit Party does, or permits to be done, anything which they have herein agreed not to do or permit to be done hereunder or pursuant to the Security or this Commitment;
- 16.3 if any representation or warranty given by any Credit Party (or any director or officer thereof) hereunder or pursuant to the Security is untrue in any material respect;
- 16.4 if any Credit party is not in material compliance with all applicable laws, where such non-compliance would have a material adverse effect;

- 16.5 if any permit, license, certification, authorization, consent or quota is cancelled, revoked or reduced, or any order is enforced, preventing the Borrower's business from being carried on for more than 5 days or materially adversely changing the condition (financial or otherwise) of the a Credit Party's business, including the cessation of any SPIC or RPIC;
- 16.6 if an order is made or a resolution passed for the winding-up of any entity Credit Party, or if a petition is filed for the winding-up of any entity Credit Party, unless the same is being contested actively and diligently in good faith by appropriate and timely proceedings and is dismissed, vacated or permanently stayed within 60 days of institution;

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- 16.7 if any entity Credit Party commits any act of bankruptcy or becomes insolvent or makes an assignment or proposal under the *Bankruptcy and Insolvency Act* (Canada) or a general assignment in favour of its creditors or a bulk sale of its assets, or if a bankruptcy petition is filed or presented against any Credit Party, unless the same is being contested actively and diligently in good faith by appropriate and timely proceedings and is dismissed, vacated or permanently stayed within 60 days of institution;
- 16.8 if any proceedings with respect to any entity Credit Party are commenced under the *Companies Creditors Arrangement Act* (Canada), unless the same is being contested actively and diligently in good faith by appropriate and timely proceedings and is dismissed, vacated or permanently stayed within 60 days of institution;
- 16.9 if any execution, sequestration, extent or any other process of any court become enforceable against any entity Credit Party or if a distress or analogous process is levied against the property of any entity Credit Party or any part thereof, unless the same is being contested actively and diligently in good faith by appropriate and timely proceedings and is dismissed, vacated or permanently stayed within 60 days of institution;
- 16.10 if any entity Credit Party permits any sum which has been admitted as due by it or is not disputed to be due by it and which forms or is capable of being made a charge upon a Property or a its interest therein or other properties and assets subject to the Security, in priority to the Security to remain unpaid after proceedings have been taken to enforce the same as a prior charge, unless the same is being contested actively and diligently in good faith by appropriate and timely proceedings and is dismissed, vacated or permanently stayed within 60 days of institution;
- 16.11 if any entity Credit Party defaults in any material respect in observing or performing any term, covenant or condition of any debt instrument or similar obligation by which it is bound, whether secured or not;
- 16.12 if, without the prior written consent of the Lender, any entity Credit Party sells, agrees to sell all or substantially all, or otherwise disposes or agrees to dispose of, any Property or an interest therein or any part or parts thereof or any interest therein;
- 16.13 if, without the prior written consent of the Lender, any entity Credit Party grants or agrees to grant any further mortgage or charge over any Credit Party's interest in a Property or any part or parts thereof or any interest therein or otherwise permit a Property to be encumbered in any manner other than by encumbrances specifically permitted hereunder;
- 16.14 if, without the prior written consent of the Lender, there is, in the reasonable opinion of the Lender, a change of effective control of any Credit Party which is not otherwise permitted by the terms of this Commitment;
- 16.15 if any entity Credit Party, directly or indirectly, ceases to carry on business;
- 16.16 if, in the opinion of the Lender, an adverse material change occurs in respect of any entity Credit Party's business, any Property or the Security;
- 16.17 if the Lender believes that the ability of the entity Credit Parties (taken as a whole) to repay the Loan or the ability of any Credit Party to perform any of the covenants contained in this Commitment or the Security is materially impaired or is about to be materially impaired or in material jeopardy; or

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- 16.18 if an event of default occurs under any of the Security.

Upon notice of an Event of Default, except for the Events of Default listed in subsections 16.5, 16.6, 16.7, 16.8, or if the Event of Default is not capable of cure, the Credit Parties will have, (a) for monetary Events of Default, 3 days, and (b) for non-monetary Events of Default, 30 days, to cure the condition creating the Event of Default.

The Lender may waive any Event of Default, provided always that no waiver by the Lender or any failure to take any action to enforce its rights or to enforce any security will extend to or be taken in any manner whatsoever to affect any subsequent Event of Default or the rights resulting therefrom.

All remedies stipulated for by the Lender hereunder or in any of the Security will be deemed to be in addition to and not restrictive of the remedies which the Lender might be entitled to at law or in equity and the Lender may realize any of the Security or any part thereof in such order as it may be advised and any such realization by any means will not bar realization of any other security or any part or parts thereof nor will any single or partial exercise of any right or remedy preclude any other or further exercise thereof nor will the failure on the part of the Lender or any delay in exercising any rights under this Commitment or any of the Security operate as a waiver.

If an Event of Default has occurred and is continuing, in addition to and not in limitation of any rights now or hereafter granted under applicable law or the Security, the Lender may without notice to any Credit Party and at any time and from time to time set-off, apply or transfer any or all sums owing from time to time by the Lender to the Borrower towards the satisfaction of the outstanding balance of the Loan (including principal, interest and other amounts owing).

The Borrower and entity Covenantors agree to indemnify and save harmless the Lender and each of its directors, officers, employees and agents from and against all liabilities, claims, losses, damages, costs and expenses in any way caused by or arising directly or indirectly from or in consequence of the occurrence of any Event of Default under this Commitment or the Security. The Borrower and entity Covenantors further agree to indemnify and save harmless the Lender and each of its directors, officers, employees and agents from and against all liabilities, claims, losses, damages, costs and expenses (including investigation costs, clean-up costs, and any other actions necessary pursuant to any applicable environmental laws, and all reasonable legal fees, costs and expenses, on a solicitor and own client basis), asserted against or for the account of the Lender, in any way caused by or arising directly or indirectly from or in consequence of the occurrence of any material non-compliance by any Credit Party or any of their agents or other representatives of applicable environmental laws. The indemnities provided for in this paragraph shall survive the termination of this Commitment and the repayment of the Loan.

17. **TERMINATION**

In the event the Borrower or any Covenantor is in default for any reason whatsoever under the terms of this Commitment, or if it does not fulfill the conditions for disbursement of the Loan in accordance with the terms and conditions contained herein or in any other agreement or document relating to this Commitment, no later than 5 business days prior to the First Advance Date, or if any information or document supplied by any Borrower or Covenantor is found to be incomplete or inaccurate in a material respect or if for any reason the Borrower does not accept all or a part of the proceeds of the Loan when the Lender makes them available, the parties to this Commitment hereby acknowledge that the Lender shall be entitled, at its discretion, to cancel its obligations under

this Commitment and to retain the Standby Deposit as liquidated damages and in such event, this Commitment shall thereafter, subject as hereinafter provided, be null and of no further effect, without any further recourse by either party against the other. In addition, notwithstanding the forfeiture of the Standby Deposit, the Borrower and entity Covenantors shall remain liable and be required to pay and reimburse the Lender all fees, costs and expenses as set out in Section 10 whether or not the Loan is proceeded with. The aforesaid covenants and agreements with respect to the Standby Deposit and the Borrower's and entity Covenantors' obligations to pay and reimburse the abovementioned amounts are enforceable by the Lender notwithstanding the termination of this Commitment, each of such covenants and agreements having an independent existence from this Commitment.

18. OTHER FINANCING TERMS

18.1 Repayment and Monthly Instalments

Interest computed as provided in Section 6 shall be payable monthly in arrears on the same day of each and every month throughout the Loan Term.

During the course of construction of the Project, the Lender will, without any further instruction from the Borrower, apply a portion of the proceeds of any Advance to pay the interest accrued to the date of the Advance, in accordance with the Project Budget. The Project Budget shall contain an allocation for interest in an amount sufficient to pay all interest on the Loan during the Loan Term (the "**Interest Reserve**"). In the event that the Interest Reserve is exhausted prior to the expiry of the Loan Term, or is insufficient to pay any payment due herein, the Lender shall so advise the Borrower, and the Borrower shall make such payments from its own funds. Exhaustion of the Interest Reserve or the inability of the Interest Reserve to fully fund any interest payment shall not release the Borrower from any of Borrower's obligations herein, including but not limited to the obligation to pay interest accruing on the Loan Amount. So long as any Event of Default herein has occurred and is continuing, all interest payments shall be made by the Borrower using its own funds; provided that the Lender, at its option and in its sole discretion, may make disbursements from the Interest Reserve notwithstanding such Event of Default. Upon the occurrence and during the continuance of an Event of Default, the entire balance (if any) of the Interest Reserve may be retained by the Lender and applied by the Lender as it shall determine in its sole discretion to the Borrower's indebtedness under the Loan.

Upon the earlier of: (a) the date the Loan Amount is fully advanced, and (c) the date the Interest Reserve is exhausted, the Borrower will be required to make monthly interest payments from its own funds.

Use of the Interest Reserve shall in no way waive or otherwise modify any of the Borrower's obligations hereunder, including, without limitation, the obligation to make monthly interest payments, and, when applicable, principal payments.

With respect to any advance under the Loan, funds shall be deemed advanced on the earliest of:

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- (i) the date that the funds are removed from the Lender's account and designated to the Borrower's account or as the Borrower may direct, or
- (ii) the date upon which the Borrower or its authorized representative has requested the funds to be advanced; or
- (iii) in the case of the First Advance, the date scheduled for the First Advance as herein set out or as amended pursuant to any written agreement between the Borrower and the Lender.

Upon expiry of the Loan Term, the principal of the Loan, together with interest and all other amounts due and owing by the Borrower to the Lender under the Security (as defined herein) shall become immediately due and payable.

It is hereby agreed that in case default shall be made in payment of any sum to become due for interest at any time appointed for payment thereof as aforesaid, compound interest shall be payable and the sum in arrears for interest from time to time, as well after as before maturity, shall bear interest at the rate aforesaid. If the interest and compound interest are not paid within one (1) month from the time of default, a rest shall be made and interest at the rate aforesaid shall be calculated on the aggregate amount (including all unpaid interest) then due, as well after as before maturity, and so on each month. All such interest and compound interest shall be a charge upon the Property.

18.2 Reserve Fund for Realty Taxes

Each Property owner shall maintain all property tax accounts current. However, the Lender shall have the right to require the establishment of a tax reserve by way of monthly payments representing the Lender's estimate of one twelfth (1/12) of the annual taxes payable in accordance with the Standard Charge Terms set out in Schedule "B" hereto.

The Lender shall not be responsible for the payment of any taxes except as expressly provided for in Schedule "B".

18.3 Method of Payment of Monthly Instalments of Interest

If required by the Lender, the Borrower shall remit payments via an automatic debit service, by submitting the Authorization Form attached hereto as Schedule "D", together with a "void" cheque. If there are any changes to the Borrower's regular payment, the Lender will provide notice at least ten (10) days in advance of the debit. The account information provided in this respect will be kept confidential.

18.4 Condition upon Maturity

In the event that the Borrower fails to repay the principal and interest outstanding on the Loan Maturity Date or any renewal thereof agreed to by the Lender, the Lender may, at its sole discretion, extend the mortgage and the Loan Term for a period of one (1) month from the original Loan Maturity Date or any renewal thereof agreed to by the Lender, at an interest rate equal to the higher between the interest rate for the Loan and the then Royal Bank of Canada Prime Rate per annum plus five percent (5.00%) per annum, calculated and payable monthly. If the Lender does so elect to extend the term for one month but the Loan has not been repaid

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or renewal has not been finalized within this one (1) month period, then there will be no further extensions and the Lender may exercise its remedies under the Security.

The interest rate applicable will be determined by the Lender as of the first (1st) Banking Day of the month in which the Loan matures.

In this Commitment, "Royal Bank of Canada Prime Rate" means the rate of interest, expressed as a percentage per annum, published and quoted by Royal Bank of Canada or its successor at the bank's head office in Toronto, Ontario, as a reference rate then in effect for determining interest rates on commercial loans in Canadian Dollars in Canada and which is commonly known as the prime lending rate for commercial loans in Canadian Dollars.

"Banking Day" for the purposes of this clause, will mean a day on which the said head office in Toronto, Ontario, for the Royal Bank of Canada or its successor is open for business and which is not a Saturday, Sunday, civic or statutory holiday.

All other terms and covenants under the existing Security shall continue to apply after the term of the Loan is so extended.

The Loan may be paid in full at any time during the one (1) month extension period without notice, bonus or penalty, other than payment of the Extension Fee and any applicable discharge fees as hereafter set out.

An extension fee which is the greater of [Redacted] Dollars (\$[Redacted]) or one percent (1.00%) of the outstanding balance shall be added to the principal balance of the Loan if the Lender elects to extend the Loan Term under this clause.

19. COSTS

The Borrower shall be responsible for all of Lender's costs involved in the preparation, settlement, execution and delivery of this Commitment, the Security and all other documentation related to the Loan.

20. PREPAYMENT PRIVILEGE

The Borrower shall, when not in default, have the right to prepay all of the amount outstanding under the Loan prior to the Loan Maturity Date, on any payment date, upon giving the Lender one (1) month's written notice in advance of payment and upon payment of a bonus equal to one (1) month's interest.

21. PARTIAL DISCHARGES

The Borrower shall have no right to obtain a partial discharge(s) of the Security.

22. SURVEY

Reserved.

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23. REFINANCING

Reserved.

24. SPECIAL PROVISIONS

Reserved.

25. CROSS-DEFAULT

The Borrower and Covenantors hereby acknowledge that any default with respect to this Loan will constitute a default with respect to any other debt owing by any of them to the Lender or to an affiliate of the Lender. Vice versa, a default in paying any other debt of the Borrower or a Covenantor owing to the Lender or to an affiliate of the Lender will constitute a default with respect to this Loan. For the purpose of this clause, "affiliate" has the meaning given in the *Business Corporations Act* (Ontario).

26. SIGNAGE

Subject to compliance with applicable municipal by-laws, the Lender shall be entitled to place on the Peace Property signage indicating the Lender's participation in the funding of the Project. The Borrower shall include the Lender on any signage containing an integrated participant listing. The contents and location of such signage shall be approved by the Borrower, acting reasonably.

If a Property is vacant land, or if an improvement thereon is vacant, or if the provisions of any lease so permit, the Lender may post signage upon the Property, to not exceed 4 feet by 8 feet, stating, "Financing by ROMSPEN INVESTMENT CORPORATION", or words to that effect, and its address and phone number, during the term of the loan or any portion thereof.

27. ADVERTISING BY LENDER

The Lender may, in its advertising, describe and/or picture any Property without identifying the Borrower or Property owner. The cost of any such advertising shall be paid by the Lender.

28. APPLICABLE LAW

The terms and conditions of this Commitment as well as all other documents relating to the execution of the transactions provided for by this Commitment shall be governed by and interpreted in accordance with the laws of the Ontario and the parties hereby irrevocably attorn to the jurisdiction of the courts of Ontario.

29. MAXIMUM RATE

If the "interest" (as defined or determined by the statute establishing or defining illegal rates of interest) charged or chargeable ("Interest") under the offer of credit in this Commitment, on the credit advanced pursuant to this Commitment or pursuant to any Security (any of which Interest provision is referred to as the "Interest Provisions") would, except for this paragraph, constitute an illegal rate of interest, then the Interest on the credit so advanced or secured will be reduced such that the total Interest under the Interest Provisions will be that amount or rate which collectively equates to that rate of interest that is 1% per annum less than the minimum rate that would be an illegal rate of interest, calculated according to generally accepted actuarial practices and principles.

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Such reduction will be effected by reducing, or refunding to the Borrower, such of the interest, charges, and expenses (or a combination thereof) constituting Interest payable as may be designated by the Lender in its sole discretion.

30. FURTHER ASSURANCES

The Credit Parties shall with reasonable diligence do all such things and provide all such reasonable assurances as may be required to consummate the transactions contemplated by the Commitment, and shall provide such further documents or instruments required by the Lender as it may deem necessary or desirable to effect the purpose of this Commitment and carry out its provisions.

31. WITHHOLDING TAXES

All payments in respect of interest under this Commitment will be made free and clear without deduction or withholdings for any taxes, duties, fees or other charges, unless those deductions or withholdings are required by law. If the Borrower is required by law to make any such deduction or withholding, it will pay such additional amounts as will result in receipt by the Lender of the full amount which would have been paid had no such deduction or withholding been made. If the Borrower is required by law to make a deduction or withholding, the Borrower shall make that deduction or withholding within the time allowed and in the minimum amount required by law. Within 30 days of making any such deduction or withholding, the Borrower shall deliver to the Lender evidence satisfactory to the Lender that the deduction or withholding has been made and that appropriate payment has been made to the relevant taxing authority.

32. AMENDMENT

The terms or requirements of this Commitment or any Security may not be waived or varied orally, or by any course of conduct of any officer, employee or agent of the Lender. Any amendment to this Commitment must be in writing and signed by a duly authorized officer of the Lender and the Borrower; provided, however, that the Lender may unilaterally extend the date for return of this Commitment or receipt of any documentation upon written notice to the Borrower.

33. ASSIGNMENT BY BENEFICIAL OWNER AND/OR BORROWER

Neither the Borrower nor any Covenantor shall assign its rights or obligations pursuant to the Commitment or the Security, in whole or in part, without the Lender's prior written consent, which consent may be withheld in the Lender's sole and absolute discretion.

34. NO OBLIGATION TO ADVANCE

It is understood that neither the preparation nor the registration of any of the documents contemplated herein shall bind the Lender to advance the Loan or any unadvanced portion thereof, it being agreed that all Advances shall be subject to the terms and conditions of this Commitment.

35. ENUREMENT

This Commitment shall enure to the benefit of the Lender and its successors and assigns and be binding upon the Borrower, the Covenantors and their respective heirs, personal representatives, successors and assigns.

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36. CONFIDENTIALITY

The Borrower and Covenantors acknowledge and agree that the terms and conditions recited herein are confidential between the Borrower, the Covenantors and the Lender. The Borrower and Covenantors agree not to disclose the information contained herein to a third party without the express consent of the Lender.

37. ASSIGNMENT AND SYNDICATION

The Lender shall have the right from time to time, without the consent of any Credit Party, to assign, sell, pledge, convey, syndicate, grant participations or transfer all or any portion of the Loan and the Security, whether directly or by way of securitization, and as part of any such transaction the Lender is hereby authorized to provide to prospective participants in such transactions all information received by the Lender regarding the Credit Parties and the Properties. The Credit Parties agree to cooperate with Lender's efforts to do any of the foregoing and to execute all documents reasonably required by Lender in connection therewith.

38. CREDIT AUTHORIZATION AND CONSENT TO DISCLOSURE

The Lender may collect, retain, release, disclose, exchange, share, transfer and assign from time to time, as it may determine in its sole discretion, all information and materials (including financial statements and information concerning the status of the Loan, such as existing or potential Loan defaults, lease defaults or other facts or circumstances which might affect the performance of the Loan) provided to or obtained by it relating to the Borrower or any Covenantor, any Property or the Loan (both before and after the disbursement of funds and/or default thereunder) without restriction and without notice to or the consent of the Borrower or any Covenantor (and the Borrower and each Covenantor hereby irrevocably consents thereto):

- (a) to any person who has, who acquires, or who proposes to acquire an interest in the Loan;
- (b) to the respective third party advisors and agents (such as lawyers, accountants, auditors, consultants, appraisers and credit verification sources) of such persons;
- (c) to the public or any group in any offering memorandum, prospectus or other disclosure document relating to any sale, syndication or securitization of the Loan (including all initial and continuing disclosure requirements), regardless of format or scope of distribution;
- (d) to the public or other interested persons, directly or indirectly through information service providers or other market participants, for the purpose of providing market information from time to time relating to the status of the Loan or any related securitization or any interest therein, regardless of format or scope of distribution;
- (e) to any governmental authority having jurisdiction over the Lender or over any sale, syndication or securitization of the Loan or any trade of any interest therein;
- (f) to any other person in connection with the sale, syndication or securitization of the Loan, including insurers and rating agencies; and
- (g) to any other person in connection with the collection or enforcement proceedings taken under or in respect of the Loan.

Without limiting the foregoing, the Borrower and each Covenantor hereby consents to the Lender obtaining all information as may be necessary from all available sources as to the creditworthiness of the Borrower or such Covenantor and acknowledges that the Lender may

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collect or come into possession of personal information relating to certain individuals either comprising or otherwise connected with the Borrower or Covenantors which information may include contact information (mailing address, e-mail address, telephone number or fax number), financial information and status (bank account numbers, existing debts, personal net worth or credit history), date of birth, place of employment and social insurance number. The Borrower and each Covenantor acknowledges and agrees that such personal information may be used by Lender in connection with the processing, approving, funding, servicing and administering the Loan and any sale,

syndication or securitization of the Loan, and in so doing the Lender may disclose and otherwise deal with personal information in the same manner and to the same persons as provided in the preceding paragraph without restriction and without notice to or the consent of the Borrower or any Covenantor or any related individual. The Borrower and each Covenantor for itself and on behalf of its directors, officers, shareholders and principals, hereby consents to and authorizes such use and disclosure of all such personal information by the Lender and represents and warrants that it has full power and authority to give such consent and authorization.

39. MATERIAL ADVERSE CHANGES

In the event that at any time either before the First Advance or while any indebtedness remains outstanding pursuant to the Loan, the Lender discovers a discrepancy or inaccuracy in any written information, statements or representations made or furnished to the Lender by or on behalf of the Borrower or any Covenantor or concerning any Property or the financial condition and responsibility of the Borrower or any Covenantor or in the event that the Lender discovers any material adverse change in the value of any Property or the financial status of Borrower or any Covenantor or any lessee on which the Lender relied in making any advances pursuant to the Loan, which material change, discrepancy or inaccuracy cannot be or is not rectified by such Borrower or Covenantor or lessee (as applicable) within 30 days after written notification thereof by the Lender to such Borrower or Covenantor or lessee, the Lender shall be entitled to decline to advance any funds pursuant to the Loan and at its option terminate this Commitment or in the event that any funds have already been advanced, to declare any and all amounts advanced together with interest thereon and any costs incurred by the Lender to such date, to be forthwith due and payable.

40. ENTIRE AGREEMENT

This Commitment, together with its schedules and any agreements, instruments and other documents herein contemplated to be entered into between, by or including the parties hereto constitute the entire agreement between the parties hereto pertaining to the subject matter of this Commitment and supersede all prior agreements, understandings, negotiations and discussions, whether oral or written, with respect thereto. There are no other warranties or representations and no other agreements between the parties hereto in connection with the Loan provided for herein except as specifically set forth in this Commitment and the Borrower's application relating thereto.

41. JOINT AND SEVERAL OBLIGATIONS

If there is more than one Borrower, all payment and performance obligations of the Borrower existing from time to time under this commitment, the Security and all other documents related or entered into pursuant hereto and thereto (collectively, the "**Obligations**"), shall constitute joint and several obligations of the all the Borrowers and each of them. Each Borrower expressly represents and acknowledges that it is part of a common enterprise with the other Borrowers and that any advances of the Loan made by the Lender to one or more persons who is a Borrower

hereunder are and will be of direct and indirect interest, benefit and advantage to each of the Borrowers. Each Borrower acknowledges that any draw request or other notice or request given by one Borrower to the Lender shall bind each Borrower, and that any notice given by the Lender or its agent to any Borrower shall be effective with respect to all Borrowers. Each Borrower acknowledges and agrees that each Borrower shall be liable, on a joint and several basis, for the Loan and all other Obligations, regardless of which Borrower actually may have received the proceeds of the Loan or other extensions of credit or the amount of such loan received or the manner in which the Lender accounts among the Borrowers for the Loan advanced, or other extensions of credit on its books and records, and further acknowledges and agrees that Loan and other extensions of credit to any Borrower inure to the mutual benefit of all the Borrowers and that the Lender is relying on the joint and several liability of the Borrowers in extending the Loan hereunder.

42. SCHEDULES

The following documents marked "X" are attached as schedules to this Commitment and form a part hereof:

- X Schedule B Standard Charge Terms and Conditions
- X Schedule C Certificate of Identification
- X Schedule H Draw Request
- X Schedule I Draw Certificate
- X Schedule L Insurance Requirements
- X Schedule O Form of Architect's Certificate
- X Schedule R Properties

43. DATES OF EXPIRY

- 43.1 The Security documents shall be properly executed and delivered to the Lender's solicitors, where applicable, in registerable form no later than three (3) business days prior to the First Advance Date and the advance of funds must take place no later than the First Advance Date.
- 43.2 If on or before the date specified in Section 43.1 the security documents provided to the Borrower or its solicitors have not been so delivered, the Lender may at any time thereafter, in its sole discretion, terminate its obligations under this Commitment in accordance with its provisions.
- 43.3 The Lender may, at its sole option from time to time, elect to extend the above-mentioned date by which the Security documents are to be executed and delivered

or the date by which the Loan is to be advanced or any of the other time periods contained in this Commitment. Notwithstanding any such extension, time shall remain of the essence of this Commitment and all other terms and conditions shall remain unchanged.

44. WAIVER

The terms and conditions contained in this Commitment are inserted for the exclusive benefit of the Lender and may be waived in whole or in part by the Lender at any time. No advance, either singularly or collectively, shall constitute a waiver of the Borrower's or any Covenantor's obligations nor obligate the Lender to make further advances.

The Lender's failure to insist upon a strict performance of any obligation or covenant of this Commitment by the Borrower or any Covenantor or to exercise any option or right herein shall not be a waiver, or relinquishment for the future of such obligation or covenant, option or right, but the same shall remain in full force and effect and the Lender shall have the right to insist upon the strict performance by the Borrower and Covenantors of any and all of the terms and provisions of this Commitment and the security documentation.

45. **SURVIVAL**

Except as specifically provided herein, the terms, conditions, representations and warranties expressed herein shall continue in effect as long as any part of the Loan remains outstanding and shall bind the personal representatives, heirs, successors and assigns of the Credit Parties, shall enure to the benefit of the successors and assigns of the Lender, and shall not merge on the execution or registration of the Security.

46. **COUNTERPARTS**

This Commitment may be executed in one or more counterparts, each of which so executed will constitute an original and all of which will constitute one and the same agreement. This Commitment may be executed by any party and transmitted to the other party or parties by facsimile or other electronic means and if so executed and transmitted this Commitment will be for all purposes as effective as if the party in question had delivered an executed original.

ROMSPEN INVESTMENT CORPORATION

By: (signed) Wesley Roitman
Name: Wesley Roitman
Title: Director

I have authority to bind the corporation.

ACCEPTANCE

BORROWER

The Borrower accepts the terms and conditions set out in this Commitment and submits the Standby Deposit, on this 23rd day of August, 2017.

PEACE NATURALS PROJECT INC.

Per: (signed) Michael Gorenstein
Name: Michael Gorenstein
Title: Authorized Signatory

I/We have authority to bind the Corporation.

COVENANTORS

We hereby accept the terms and conditions of this Commitment and hereby agree, jointly and severally and unconditionally, to observe and perform all obligations of the Borrower with respect to the Loan.

IN THE ZONE PRODUCE LTD.

Per: (signed) Michael Gorenstein
Name: Michael Gorenstein
Title: Authorized Signatory

CRONOS GROUP INC.

Per: (signed) Michael Gorenstein
Name: Michael Gorenstein
Title: Chief Executive Officer

HORTICAN INC.

Per: (signed) Michael Gorenstein
Name: Michael Gorenstein
Title: Chief Executive Officer

[SCHEDULES REDACTED]

reports shall be delivered to PEACE by the fifteenth day of each following calendar month;

- c) to deliver to PEACE monthly a detailed report on and overview of [REDACTED], which shall be payable under this Agreement. The monthly reports shall be delivered to PEACE by the fifteenth day of each following calendar month;
- d) to make the appropriate advertising and publicity in accordance with Section 10 below;
- e) to sell the Products only with the Trademarks of PEACE or CRONOS (as defined below), as the case may be, together with POHL's labelling and trademarks and/or the business logo and the original packaging and/or presentation of PEACE, unless otherwise agreed by the parties in writing;
- f) not to use any information which POHL will receive or has received under this Agreement to solicit an import license for any commercial purpose except as otherwise provided in this Agreement.

4.3 During the term of this Agreement POHL is not entitled to:

- a) Import, grow, produce, sell, distribute or market in the Territory — neither directly nor indirectly —, products which are in competition with the Products (with THC or CBD as the active ingredient). Notwithstanding the foregoing this provision shall not apply in case of a successful participation of POHL, in partnership with PEACE, at the German tender for Cannabis flowers issued by the German BfArM, including any prior activities regarding the tender process;
- and
- b) actively solicit customers outside the Territory for the Products or to establish and/or maintain branch offices and/or storage depots outside the Territory for the Products.

4.4 Upon termination or expiration of this Agreement, to the extent permitted by applicable laws (and in particular German laws regarding narcotics) and upon request

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of PEACE, POHL shall use its reasonable best efforts to resell any remaining stock of the Products back to PEACE, any Affiliate of PEACE or any third party nominated by PEACE at the Products' relevant Supply Price (as defined below) which the parties applied when the respective Products were acquired by POHL from PEACE.

4.5 Distribution of other Products

Upon execution of this Agreement, POHL does not produce or sell any product which is competitive to the Products.

§ 5

Purchase and Delivery of Products / Obligations of PEACE

- 5.1 POHL shall provide its purchase orders to PEACE in line with its planned sales figures. POHL's orders shall be made in such a way to enable PEACE the manufacturing and delivery of the Products as specified in Annex I. In case that PEACE is not able to fulfill an order in time totally or only partially, it will notify POHL immediately. The size of orders and the delivery dates are only binding for PEACE after written confirmation by PEACE.
- 5.2 The purchase price for the Products payable by POHL is the price as specified in Annex I (the "**Supply Price**"). The Supply Price includes freight for the delivery and freight insurance of the Products to Germany. The Products shall be delivered by freight plane in Canada to Germany. PEACE shall transfer the Products according to its standard operating procedures for ensuring the quality of the Products being transferred. Title to the Products, as well as any risk of loss, damage or destruction, passes once the Products have been loaded onto carrier by PEACE. PEACE shall be responsible for the export of the Products, including but not limited to the respective permission under the applicable laws, to Germany, whereas POHL shall be responsible for all import obligations under the applicable laws.
- 5.3 Payment of the Supply Price has to be made in Euro currency. Payments become due within thirty (30) days after the date of PEACE's invoices. All amounts due and payable under this Agreement do not include VAT or excise tax of any taxing authority. The amount of such taxes, if any, have to be added to the respective

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payable amounts in effect at the time and shall be reflected in the invoices submitted pursuant to this Agreement.

- 5.4 POHL fixes its sales price for the Products within the Territory at its own discretion. The parties will, however, discuss the appropriate sales price in the Joint Marketing Committee (as defined below) in which PEACE will give a non binding recommendation of the sales price for the Products. POHL and PEACE will take into account that the competitiveness of the Products has to be maintained as far as possible. POHL undertakes to notify PEACE of all changes in prices and in the event of a change shall provide PEACE with corresponding price lists.
- 5.5 Any claim of POHL concerning PEACE's deliveries of Products shall be considered by PEACE only in the event that such claim reaches PEACE by registered mail, telefax, confirmed email or courier service within 30 days calculated from the date of delivery at the first port of the Territory or within 30 days after discovery of any non-obvious defects in the Products.
- 5.6 PEACE warrants to POHL that the Products delivered hereunder (i) shall be manufactured by PEACE, its Affiliate or its third party contractor in accordance with applicable laws and regulations in effect at the time of manufacture, including applicable laws and regulations in the Territory, (ii) shall conform to the Products specifications, and (iii) shall be free from defects in design, manufacture or workmanship under normal use and service.
- 5.7 PEACE shall bear all costs arising due to official requirements regarding the quality of the Products. For the avoidance of doubts batch related laboratory tests carried out in connection to the import of the Products are deductibles costs according to 6.1.b iv .The respective responsibilities regarding quality assurance of the Products are stipulated in Annex III (**Quality Assurance Agreement**).
- 5.8 PEACE shall not provide other parties than POHL with the Products for import, promotion, marketing, distribution and sales in the Territory.

PEACE shall provide commercially reasonable support necessary to aid POHL in the transition of the Products from the previous distribution partners to POHL.

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§ 6

Remuneration

[REDACTED]

§ 7

Drug Safety

- 7.1 POHL shall promptly inform in an appropriate reporting format (e.g. CIOMS) the drug safety officer at PEACE by fax about any adverse events with the Products in the Territory about which POHL becomes aware during and beyond the term of this Agreement as long as the Products sold under this Agreement are in the market of the

Territory. POHL is obliged to fulfil all necessary measures to comply with all local obligations for reporting adverse events or other aspects regarding Products in the Territory. Further details shall be specified in a separate Agreement on Pharmacovigilance Responsibilities to be entered into by the parties.

7.2 POHL shall use best efforts to assist PEACE in connection with PEACE's regulatory and pharmacovigilance responsibilities free of charge.

7.3 In the event that any regulatory authority issues or requests a recall or takes similar action in connection with Products in the Territory, or in the event either party determines that an event, incident or circumstance has occurred that may result in the need for a recall or market withdrawal of Products in the Territory, the party notified of or desiring such recall or similar action shall, within 24 hours, advise the other party thereof by telephone (and confirmed by email or facsimile), email or facsimile. POHL shall, to the extent practicable, endeavor to discuss and agree with PEACE upon whether to recall or withdraw any Product in the Territory; provided, that if such discussion is not practicable or if the parties fail to so agree within an appropriate time period (recognizing the exigencies of the situation), then POHL shall decide whether to recall or withdraw such Product in the Territory. POHL shall be responsible for conducting any such recall or withdrawal, shall use commercially reasonable efforts to minimize the expenses of any such recall or withdrawal and shall keep PEACE fully informed of all actions taken in conducting such recall or withdrawal.

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§ 8

Scientific Use of the Products

8.1 In case that Products are used for scientific studies in the Territory which are or might be intended for publication, it shall be the duty of POHL to get in touch and keep close contact with the respective scientists and to effect coordination with PEACE particularly in stages of protocol planning and of formulating results prior to actual publication. This duty refers to all such studies regardless of whether Products may be involved alone or together with other drugs or placebos or regardless of whether the initiative may have come to the knowledge of POHL through PEACE, the manufacturer and/or a third party.

8.2 POHL undertakes not to start, initiate or allow such studies without the prior written authorization of PEACE. Any such studies which are or may be already in process, unauthorized or not, shall be reported to PEACE immediately when becoming known to POHL and shall be followed up by POHL as specified above.

§ 9

Advertisement/Publicity

9.1 The parties agree to form on the Effective Date and to actively participate in a joint marketing committee (the "**Joint Marketing Committee**"). The Joint Marketing Committee shall consist of two (2) members of each party. The Joint Marketing Committee shall be responsible for the approval of all promotion and marketing measures and all external costs and expenses relating to the Products, including but not limited to the respective Internal Costs as well as the External Costs. No vote shall be taken in the Joint Marketing Committee without the consent of both PEACE and POHL. If the Joint Marketing Committee is unable to agree upon any one or several issues, the CEOs of both PEACE and POHL agree to meet and resolve the issue. If they are unable to resolve the issue, the final decision shall be made by PEACE. None of the Internal Costs and External Costs shall be incurred and shall be reflected in connection with the calculation of the Net Proceeds if not prior approved mutually by both parties in the Joint Marketing Committee. The Joint Marketing Committee shall meet at least once every Quarter with a minimum of two meetings per year in person.

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If necessary the Joint Marketing Committee shall meet more frequently. POHL shall prepare minutes of each meeting of the Joint Marketing Committee to be approved and signed by PEACE. POHL shall circulate invitations for each meeting of the Joint Marketing Committee with an agenda at least fifteen (15) business days prior to a physical meeting and five (5) business days prior to all other meetings.

9.2 POHL shall prepare an annual marketing and business plan and shall present that to PEACE. A draft of such plan shall be presented by POHL in September and finalized in October each year. The marketing and business plan will have to be approved jointly by both parties in the Joint Marketing Committee.

9.3 POHL shall also prepare a report covering all Internal Costs and External Costs incurred as well as such planned costs moving forward prior to each meeting of the Joint Marketing Committee, however in any event no later than within ten (10) days after the end of a Quarter. The report shall be reviewed and discussed during the respective meetings of the Joint Marketing Committee.

9.4 On or about the Effective Date, PEACE agrees to provide POHL with reasonable amounts of prospectuses for the Products, respectively drafts hereof, and reports of scientific tests as far as available in respect of the Products at no charge to POHL.

9.5 POHL undertakes to make continuous publicity for the Products as agreed to by the Joint Marketing Committee. A print proof of all advertising material shall be sent to PEACE immediately after completion and before publishing. POHL shall report on its marketing and promotions efforts and results at the regular meetings of the Joint Marketing Committee.

9.6 POHL undertakes to comply with all relevant legal requirements concerning advertisement/publicity for the Products. In case POHL infringes the above mentioned requirements, POHL shall solely be liable and hold PEACE free and harmless against any claims of third parties.

9.7 Any and all expenses of any advertising and/or publicity shall be borne by [REDACTED].

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§ 10

Intellectual Property

10.1 This Agreement does not confer upon POHL and POHL will not claim any proprietary interest or other rights in any Intellectual Property (including the Trademarks) in the Products or Intellectual Property otherwise owned or controlled by PEACE. POHL acknowledges that all Intellectual Property existing in connection with the Products or arising or resulting from this Agreement are and will be the sole property of PEACE. POHL hereby assigns to PEACE, without further consideration, its entire right, title and interest in each Intellectual Property arising or resulting from this Agreement.

10.2 "**Intellectual Property**" means all of the following relating to the Products: (a) all Patents, (b) all trademarks (including the Trademarks), service marks, trade dress, logos, slogans, trade names, and internet domain names covering or used in connection with the Products, including all goodwill associated therewith, and all

applications, registrations, and renewals in connection therewith, (c) all copyrightable works, all copyrights, and all applications, registrations, and renewals in connection therewith, (d) all trade secrets and confidential business information (including ideas, inventions, research and development, know-how, improvements, formulas, compositions, manufacturing and production processes, standard operating procedures and techniques, technical data, designs, drawings, specifications, customer and supplier lists, pricing and cost information, and business and marketing plans and proposals), and (e) all advertising and promotional materials. “**Patents**” mean those patents and patent applications covering the Products and any and all reissues, renewals, reexaminations, extensions, substitutions, confirmations, registrations, revalidations, additions, continuations, continuations-in-part or divisions of or to any of the aforesaid patents or patent applications.

- 10.3 PEACE shall prosecute, maintain, and enforce all Intellectual Property. POHL shall comment on relevant Products-related Intellectual Property and shall assist PEACE in this context.
- 10.4 If a third party claims the Products are infringing any intellectual property rights owned by a third party in the Territory, PEACE shall have the first right to defend its interests.

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- 10.5 As soon as POHL gets knowledge that a Products presentation or the Trademarks are imitated or illegally used by a third person in the Territory or of infringement of any Intellectual Property of PEACE in the Territory, POHL will inform PEACE immediately. POHL agrees to cooperate with PEACE and to take all necessary steps to protect the Intellectual Property of PEACE at PEACE’s expense upon a respective written request by PEACE.

§ 11

Presentations, Trademarks Usage

- 11.1 Unless otherwise agreed in writing, POHL shall distribute the Products only in the original presentations and packaging prescribed by PEACE and with the trademarks of PEACE (the “**Trademarks**”) as stipulated in Section 4.2.f) above along with POHL’s necessary labelling and trademarks. Modifications of the original presentations are only allowed for important reasons and with the prior written consent of PEACE.
- 11.2 POHL agrees to use the Trademarks only in conjunction with the Product. POHL agrees that it shall not apply for or register in any country, any right, title, or interest in the Trademarks (or any colorable imitations, translations, or transliterations thereof) or participate directly or indirectly in such registration or application. POHL agrees that it shall not file any cancellation proceeding or attack the validity or ownership of the Trademarks worldwide.
- 11.3 The use of the Trademarks in accordance with the following rules is critical to the protection of the Trademarks:
- a) POHL shall not use the Trademarks in a descriptive manner.
 - b) POHL shall not use the Trademarks in the plural or possessive form.
 - c) POHL shall not shorten, abbreviate or create acronyms out of the Trademarks.
 - d) POHL shall not connect the Trademarks to other words, such as by hyphens.
 - e) POHL shall not use the Trademarks as an adjective, as a noun or verb.

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- 11.4 The costs for packaging components which turn unusable due to regulatory requirements in the Territory shall be shared equally between the parties. Costs for packaging components which turn unusable due to revisions required exclusively by one of the parties (e.g. changes in address etc.) shall solely be borne by this party.

§ 12

Confidentiality

- 12.1 Except for the purpose of this Agreement all data, literature, information and know how in any form, not in the public domain, that is provided by PEACE or otherwise to POHL within the scope of this Agreement or which was provided by PEACE to POHL prior to execution of this Agreement (together the “**Confidential Information**”) will be considered as confidential data. POHL undertakes to keep secret all Confidential Information regarding the Products, especially concerning their formulations and the know how of the manufacturing techniques. POHL is not allowed to make use of any such Confidential Information itself, except in the performance of its obligation or exercise of its rights under this Agreement, nor to render them available nor to reveal or transfer such Confidential Information to third parties even after the expiration of this Agreement.
- 12.2 POHL has to return Confidential Information in its possession which was made available to it to PEACE within thirty (30) days after the termination or expiration of this Agreement. In case that POHL receives such documents from third parties — especially from the health authorities — after the 30-day-period, it has to return them to PEACE or a person appointed by PEACE immediately after receipt of such document.
- 12.3 The obligation to maintain confidentiality as stipulated in this Section 13 shall survive the expiration or termination of this Agreement for a period of five (5) years.

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§ 13

Term of the Agreement/Termination

- 13.1 This Agreement shall become effective on the date of the last signature (the “**Effective Date**”) and has a term of five (5) years after the Effective Date. It will be renewed automatically for two-year-periods each unless it is terminated with a six-month-notice by one of the parties before the end of the respective term.
- 13.2 A termination has to be effected by means of courier service.
- 13.3 This Agreement may be terminated for cause without the need for complying with the notice period set forth in Section 14.1 above. A cause shall be given, but not limited to, if:

- a) a petition in bankruptcy or for institution of composition proceedings with respect to one of the contractual parties is filed or opened or if a party is liquidated or if a trustee is appointed;
- b) a party has not cured a breach of this Agreement within a period of at least thirty (30) days after receiving notice in writing by the other party to cure such breach;
- c) unforeseen legislative changes make the export, import and distribution of the Products impossible, in particular regarding the maintainance of the respective permission; The same shall apply, if the distribution of the Products becomes uneconomical due to the beforementioned legislative changes. If a cause is given by a party, such party (the “**Notifying Party**”) may terminate this Agreement either with immediate effect or with any period up to six (6) months.

13.4 Upon termination or expiration of this Agreement, POHL shall immediately cease the distribution of the Products. Following notice of early termination under Section 14.3 or six (6) months prior to the termination or expiration of this Agreement, (i) the parties shall work together to keep POHL’s inventory of the Products in the Territory as low as reasonably possible and (ii) PEACE shall be entitled to terminate confirmed orders and not to accept further deliveries to POHL. During that time PEACE shall also be entitled to conduct by itself or through third parties all such measures which are necessary or advisable to prepare for a distribution of the Products in the Territory

following the termination or expiration of this Agreement to ensure an undisturbed and continued distribution and sale of the Products in the Territory by PEACE, an Affiliate of PEACE (as defined below) or a third party.

§ 14

Force Majeure

The parties hereto shall not be liable for any damage if the performance of all or parts of this Agreement is hindered or prevented by causes beyond the performing party’s reasonable control and without its fault or negligence, including but not limited to acts of God or of public enemy, nuclear incidents, acts, laws, orders or regulations of any government or department or agency thereof acting in either its sovereign or contractual capacity, fires, floods, epidemics, quarantine restrictions, strikes, work stoppages, slowdowns or other job actions, freight embargoes, shortages of fuel or other items, delays in transportation, boycotts, unusually severe weather and riots, insurrections, revolutions, wars or other civil or military disturbances.

§ 15

Written Requirements

15.1 Modifications and changes of this Agreement, including this clause, require a written form.

§ 16

Notices

Unless otherwise provided herein, all notices will be deemed to have been given and delivered when posted by registered mail return receipt, by courier or when receipt of a facsimile has been acknowledged to the following address:

If to POHL: G. Pohl-Boskamp GmbH & Co. KG
Kieler Strasse 11
25551 Hohenlockstedt
Federal Republic of Germany

If to PEACE: Peace Naturals Project Inc.
4491 Sunnidale Concession 12
Stayner, ON L0M 1S0

If notice is personally delivered, the individual accepting such notice, if requested, will sign a duplicate of the notice to evidence receipt thereof.

§ 17

Insurance

17.1 POHL shall maintain a comprehensive product liability insurance, covering the obligations of POHL under this Agreement through the term of this Agreement and as long as the Products sold under this Agreement are in the market of the Territory thereafter, which insurance shall afford limits of not less than for each occurrence for bodily injury liability, personal injury liability, products liability, property damage liability. Upon request of PEACE, POHL will provide PEACE with certificate(s) of insurance evidencing the above and showing the name of the issuing company, the policy number, the effective date, the expiration date and the limits of liability.

17.2 PEACE shall also maintain a comprehensive public and product liability insurance, covering the obligations of PEACE under this Agreement through the term of this Agreement and as long as the Products sold under this Agreement are in the market of the Territory thereafter, which insurance shall afford limits of CAD \$[REDACTED]. Upon request of POHL, PEACE will provide POHL with certificate(s) of insurance evidencing the above and showing the name of the issuing company, the policy number, the effective date, the expiration date and the limits of liability.

§ 18

Indemnification

Each of the parties hereby agrees to indemnify, defend and hold harmless the other party, its Affiliates, directors, officers, employees and agents from and against any and all claims, suits, actions, demands, liabilities, costs, expenses and/or losses (including reasonable legal

expense and attorneys' fees) to which any of the parties may become subject as a result of any claim, demand, action or other proceeding by any third party to the extent such third party claim or Losses arise out of: (i) such party's breach or default of its covenants, agreements or obligations under this Agreement, or (ii) such party's negligence or willful misconduct or omission or any contractor, representative or agent of such party.

§ 19

Partial Invalidity

Should any of the provisions of this Agreement be or become invalid, this shall not prejudice the validity of the remaining provisions of this Agreement. The same shall apply if it turns out that this Agreement contains any gap in its regulations. Any such invalid provision shall be replaced or a gap in the regulations shall be filled by a provision which legally and economically comes closest to the desired purpose and intent of the invalid provision or fills the gap in a way in which the parties would have filled it if they had been aware of the gap. The parties to this Agreement undertake to agree on a relevant amendment or adaptation of this Agreement.

§ 20

No Agency, Assignment

20.1 This Agreement shall not be construed as constituting a partnership, agency, joint venture or any other form of legal association that would impose liability upon one party for the act or failure to act of the other party, or as providing either party with the right, power or authority (express or implied) to create any duty or obligation of the other party. In particular, no party shall be entitled to any potential compensation claim under agency law or comparable provisions which may exist upon termination or expiration of this Agreement.

20.2 POHL is not entitled to entrust third persons with or to sublicense or assign any rights or claims deriving from this Agreement to third persons without the prior written consent of PEACE. Affiliates (as defined below) of POHL shall not be considered as third persons. "Affiliate" shall mean any corporation or other business entity controlled by or under common control with another entity. Control for this purpose

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shall mean the direct or indirect ownership of at least fifty percent of the voting interest in such corporation or entity.

20.3 PEACE is entitled to entrust an Affiliate with or to sublicense or assign any or all rights or claims deriving from this Agreement to an Affiliate.

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§ 21

Applicable Law, Jurisdiction

21.1 This Agreement is construed in accordance with and shall exclusively be governed by the laws of the Federal Republic of Germany without regard to its conflicts of law provisions. The United Nations Convention on the International Sale of Goods shall not apply.

21.2 All disputes arising out of or relating to this Agreement shall be submitted to the exclusive jurisdiction of the courts of Hamburg, Federal Republic of Germany.

Hohenlockstedt, October 12, 2017

Toronto, October 12, 2017

For and on behalf of
G. Pohl-Boskamp GmbH & Co. KG

For and on behalf of
PEACE NATURALS PROJECT INC.

(signed) Marianne Boskamp
Marianne Boskamp, CEO

(signed) Michael Gorenstein
Michael Gorenstein, Authorized Signatory

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[ANNEXES REDACTED]

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WHISTLER MEDICAL MARIJUANA CORPORATION
AMENDED AND RESTATED
SHAREHOLDERS' AGREEMENT

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AMENDED AND RESTATED SHAREHOLDERS' AGREEMENT

THIS AGREEMENT made the 22nd day of March, 2017.

BETWEEN:

[Redacted party name and address]

AND:

[Redacted party name and address]

AND:

[Redacted party name and address]

AND:

[Redacted party name and address]

AND:

[Redacted party name and address]

AND:

[Redacted party name and address]

AND:

[Redacted party name and address]

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[Redacted party name and address]

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[Redacted party name and address]

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[Redacted party name and address]

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[Redacted party name and address]

AND:

[Redacted party name and address]

AND:

[Redacted party name and address]

AND:

[Redacted party name and address]

AND:

[Redacted party name and address]

AND:

[Redacted party name and address]

AND:

WHISTLER MEDICAL MARIJUANA CORPORATION, a British Columbia company having its registered office at Suite 900, 900 Howe Street, Vancouver, British Columbia V6Z 2M4

(the “**Company**”)

WHEREAS:

1. The authorized capital of the Company consists of an unlimited number of Common shares;
2. [Redacted party names] and the Company entered into a shareholders’ agreement dated the 6th day of August, 2014 (the “**2014 Shareholders’ Agreement**”), relating to the rights and obligations of those parties thereto relative to the Company; and

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3. The parties hereto wish to confirm the termination of the 2014 Shareholders’ Agreement and enter into this agreement; and further the parties hereto desire to determine how the affairs of the Company will be conducted and to record their respective rights and obligations with respect to the Shares and the Company.

IN CONSIDERATION of the premises and of the mutual covenants and agreements herein, the parties agree as follows:

1. INTERPRETATION

1.1 Definitions

In this Agreement (including the recitals), except as otherwise expressly provided or as the context otherwise requires:

- (a) “**Acceptance Period**” has the meaning given to it in Section 4.1;
- (b) “**Act**” means the British Columbia *Business Corporations Act*;
- (c) “**Affilco**” has the meaning given to it in Section 5.3;
- (d) “**Affiliate**” means, with respect to any Shareholder, any corporation which is directly or indirectly Controlled by such Shareholder, and if the Shareholder is a corporation means in addition to the foregoing any corporation which Controls such corporate Shareholder;
- (e) “**Associates**” as describing the relationship between two Persons, means that they are “related persons” as defined in the *Income Tax Act* (Canada);
- (f) “**Board**” means the board of directors of the Company;
- (g) “**Business Day**” means a day other than a Saturday, Sunday or statutory holiday in British Columbia;
- (h) “**Control**” means:
 - (1) the right to cast a majority of the votes which may be cast at a general meeting of a corporation or other Person; or
 - (2) the right or ability to elect or appoint, directly or indirectly, a majority of the directors or equivalent governing body of a corporation or other Person who has the right to manage or supervise the management of the affairs and business of the corporation,and the words “Controls”, Controlled” or “Controlling” have corresponding meanings;
- (i) “**Default**” has the meaning given to it in Section 7.1;
- (j) “**Defaulting Shareholder**” has the meaning given to it in Section 7.1;

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- (k) “**Departing Shareholder**” has the meaning given to it in Section 6.1;
- (l) “**Departure Date**” has the meaning given to it in Section 6.1;
- (m) “**Drag Along Offer**” has the meaning given to it in Section 5.9;
- (n) “**Dragged Shares**” has the meaning given to it in Section 5.9;
- (o) “**Holdco**” means any Shareholder that is not a person;
- (p) “**Holdco Principal**” means with respect to any corporate Shareholder, the individual who is the Controlling shareholder of that Holdco and is designated as such by such Shareholder;
- (q) “**Interest**” means all the right, title and interest of a Shareholder in and to any of the Shares, any Loan and any other right or claim a Shareholder may have against the Company as a Shareholder and the Shareholder’s interest in and to this Agreement;
- (r) “**Loan**” means at the relevant time the net amount advanced and outstanding by a Shareholder to the Company, including accrued interest thereon;
- (s) “**New Shares**” has the meaning given to it in Section 4.1;

- (t) “**Non-Defaulting Shareholder**” has the meaning given to it in Section 7.1;
- (u) “**Non-Advancing Shareholder**” has the meaning given to it in Section 3.8;
- (v) “**Offer**” has the meaning given to it in Section 4.1;
- (w) “**Offered Shares**” has the meaning given to it in Section 5.2;
- (x) “**Option**” has the meaning given to it in Section 7.3;
- (y) “**Option Exercise Date**” has the meaning given to it in Section 7.3;
- (z) “**Person**” means any natural person, sole proprietorship, partnership, corporation or trust, joint venture, any Governmental Authority or any incorporated or unincorporated entity or association of any nature;
- (aa) “**Prime**” means the prime lending rate announced from time to time by the Company’s banker as its reference rate then in effect for determining interest rates on Canadian dollar loans made in Canada;
- (bb) “**Purchaser**” has the meaning given to it in Section 7.4;
- (cc) “**Sellers**” has the meaning given to it in Section 5.9;
- (dd) “**Shareholders**” means any person who owns Shares in the Company or their respective heirs, executors, administrators, successors or permitted assigns and “**Shareholder**” means any one of them;

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- (ee) “**Shares**” means at the relevant time the shares in the capital of the Company then issued and outstanding;
 - (ff) “**Share Price**” means, at any particular date, the value of all Shares divided by the number of Shares then issued and outstanding, as determined in accordance with the provisions of Section 6.2;
 - (gg) “**Tag Along Demand**” has the meaning given to it in Section 5.8;
 - (hh) “**Tag Along Offer**” has the meaning given to it in Section 5.8;
 - (ii) “**Tag Along Notice**” has the meaning given to it in Section 5.8;
 - (jj) “**Tagging Shareholder**” has the meaning given to it in Section 5.8;
 - (kk) “**Tagging Shares**” has the meaning given to it in Section 5.8;
 - (ll) “**Third Party**” has the meaning given to it in Section 5.2;
 - (mm) “**Third Party Offer**” has the meaning given to it in Section 5.2;
 - (nn) “**Transferees**” has the meaning given to it in Section 5.2;
 - (oo) “**Transferors**” has the meaning given to it in Section 5.2;
 - (pp) “**Transfer Notice**” has the meaning given to it in Section 5.2; and
 - (qq) “**Vendor**” has the meaning given to it in Section 7.4.

1.2 Construction

The division of this Agreement into Sections, the insertion of headings and the provision of a table of contents are for convenience only, do not form a part of this Agreement and will not be used to affect the construction or interpretation of this Agreement. The word “including” will not be construed as limiting the general term or statement immediately preceding. Unless otherwise specified:

- (a) each reference in this Agreement to “**Section**” and “**Schedule**” is to a Section of, and a Schedule to, this Agreement;
- (b) each reference to a statute is deemed to be a reference to that statute, and to the regulations made under that statute, as amended or re-enacted from time to time;
- (c) words importing the singular include the plural and vice versa and words importing gender include all genders;
- (d) references to time of day or date mean the local time or date in Vancouver, British Columbia;
- (e) all references to amounts of money mean lawful currency of Canada; and

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- (f) an accounting term has the meaning assigned to it, and all accounting matters will be determined, in accordance with generally accepted accounting principles in effect in Canada for private enterprises including the accounting recommendations published in the Handbook of the Canadian Institute of Chartered Accountants.

1.3 Amendment

No amendment, waiver, termination or variation of the terms, conditions, warranties, covenants, agreements and undertakings set out herein will be of any force or effect unless the same is reduced to writing duly executed by all parties hereto in the same manner and with the same formality as this Agreement is executed.

1.4 Waiver

No waiver of any of the provisions of this Agreement will constitute a waiver of any other provision (whether or not similar) and no waiver will constitute a continuing waiver unless otherwise expressly provided.

1.5 Severability

Each provision of this Agreement is severable. If any provision of this Agreement is or becomes illegal, invalid or unenforceable, the illegality, invalidity or unenforceability of that provision will not affect the legality, validity or enforceability of the remaining provisions of this Agreement except that if on the reasonable construction of this Agreement as a whole, the applicability of the other provision presumes the validity and enforceability of the particular provision, the other provision will be deemed also to be invalid or unenforceable.

2. CONDUCT OF THE AFFAIRS OF THE COMPANY

2.1 Constitution of Board of Directors

The Shareholders will vote their Shares so that the Board is comprised of three directors, two of whom are persons nominated by [Redacted party name] and one of which is nominated by [Redacted party name].

2.2 Vacancy

If a position on the Board becomes vacant for any reason whatsoever, the Shareholder whose nominee formerly occupied such position will be entitled to nominate a new director to fill such vacancy. Any time and from time to time, a Shareholder may give notice to remove any director nominated by such Shareholder and to designate a replacement director and, upon receipt of such notice, the Shareholders will remove such director from the Board and to elect the designate person in the place thereof.

2.3 Removal of Directors

If a member of the Board fails to vote and act as a director to carry out the provisions of this Agreement, then the Shareholders will exercise their right as shareholders of the Company in accordance with the Articles of the Company to remove such member from the Board and, subject to Section 2.1, to elect in the place thereof a person who will endeavour to carry out the provisions of this Agreement.

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2.4 Quorum

A quorum required for the transaction of business at a meeting of the Board will be the lesser of: (i) a majority of the directors if the majority includes the [Redacted party name] nominee and (ii) all of the directors. If a quorum is not present at the commencement of a Board meeting, then the directors present may not transact any business and such directors will be deemed to have adjourned such meeting to the same time and place on the same day the following week.

2.5 Articles Govern

Unless otherwise provided herein the conduct of the business of the Company will be governed in accordance with its Articles and the Act.

2.6 Special Approval by Directors

In addition to matters normally requiring Board approval but subject to Section 2.7, the following matters will only be undertaken with the prior approval of the Board:

- (a) unless already approved in the annual consolidated capital expenditure budget for the Company, any single capital expenditure of the Company in excess of \$10,000; and
- (b) unless already approved in the annual consolidated operating budget for the Company, any borrowing by the Company which would result in the aggregate indebtedness for borrowed money of the Company (other than amounts due to Shareholders) being in excess of \$100,000 at any one time.

Annually, at least thirty (30) days prior to the beginning of each new fiscal year, the Company will prepare and circulate to the Board, annual operating plan and budget for the next fiscal year, showing all significant expenditures to be made during the next fiscal year (including annual operating and capital expenditures).

2.7 Special Approval by Voting Shareholders

The following matters will only be undertaken with the approval of Shareholders or their proxies holding in the aggregate at least 66 2/3% of the Shares of the Company:

- (a) unless already approved in the annual consolidated capital expenditure budget for the Company, any single capital expenditure of the Company in excess of \$300,000;
- (b) unless already approved in the annual consolidated operating budget for the Company and except for the loans from [Redacted party names] in connection with the acquisition of three strata lots in Whistler from which the Company operates (the "**Whistler Loan**") and from [Redacted party name] (the "**Pemberton Loan**") with respect to the acquisition of the property that the Company acquired in Pemberton, British Columbia for an expansion project, any borrowing by the Company which would result in the aggregate indebtedness for borrowed money of the Company (other than amounts due to Shareholders) being in excess of \$300,000 at any one time;

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- (c) the sale, lease, transfer, mortgage, pledge or other disposition of the whole or substantially the whole of the undertaking of the Company;
 - (d) any increase or reduction in the authorized capital of the Company;
 - (e) the consolidation, merger or amalgamation of the Company with any other company, association, partnership or legal entity;
 - (f) any loans by the Company to an Affiliate, to any Shareholder, or to an Affiliate of any Shareholder;
 - (g) except for the employment agreement between [Redacted party name] and the Company, any contract between the Company and any Shareholder or an Affiliate of any Shareholder; and

(h) the winding up or dissolution of the Company or a liquidation of substantially all of the Company's assets.

2.8 Financial Reporting

Each Shareholder shall receive and the Company shall prepare and deliver to each Shareholder:

- (a) annual audited financial statements for the Company's fiscal year together with comparative financial statements for the prior fiscal year, within 90 days following the end of the Company's fiscal year; and
- (b) interim financial statements for each of the 3 month, 6 month and 9 month interim periods, both on a year to date basis and for quarter then ended together with comparative financial statements for the corresponding periods in the immediately preceding fiscal year, within 45 days of the end of each quarter.

3. FINANCIAL MATTERS

3.1 Borrowing by Company

The Company will borrow, to the greatest extent possible, sufficient funds to maintain its working capital at a level sufficient to carry on their business.

3.2 Loans

As of the date of this Agreement, there are no Loans.

3.3 Interest

Except as otherwise set out herein, Loans will not bear interest unless unanimously agreed to by the Board.

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3.4 Repayment

Except with the prior agreement of the other Shareholders, no Shareholder will at any time demand repayment of its Loan. If the Company repays the Loans, in whole or in part, it will do so on a pro rata basis in proportion to the amount of the Shareholders respective Loans (at the time of payment).

3.5 Subordination

The Shareholders will subordinate and postpone all Loans to permanent financing or other borrowing by the Company to the extent required by the Board.

3.6 Shareholder Guarantees

Except with the unanimous agreement of the Shareholders, no Shareholder or Holdco Principal will or will be obliged to enter into any agreement of guarantee with respect to the indebtedness of the Company. If any of the Shareholders or Holdco Principals are required to discharge any liabilities of the Company either directly or pursuant to such approved guarantee, then the other Shareholders will, within three (3) days of receiving notice thereof, indemnify the Shareholder or Holdco Principal discharging the liabilities so that in the end result, each of the Shareholders will have contributed pro rata in proportion to their respective shareholdings in the Company (at the time of demand for payment). For greater certainty, if a Shareholder gives a guarantee on behalf of the Company without the prior written consent of the other Shareholders, it will not be entitled to seek contribution from the other Shareholders for any amounts paid by such Shareholder under the guarantee provided.

3.7 Cash Calls on Shareholders

To the extent that the Company is unable to obtain funds to maintain its working capital as provided in Section 3.1 hereof, and if approved in accordance with Section 2.7, the Company may make a written request to all Shareholders for a loan. The Company request for a loan will be made to the Shareholders pro rata to their respective holdings of Shares at the time of the request. Unless specified in the Company request, the loans will not bear interest.

3.8 Failure to Advance

If a Shareholder (the "Non-Advancing Shareholder") fails to advance the amount required to be advanced pursuant to a request made in accordance with Section 3.7 by 5:00 p.m. on the 30th day after receipt of the written request for the loan, then:

- (a) each of the other Shareholders will have the option to advance to the Company all or part of the amount which the Non-Advancing Shareholder failed to advance;
- (b) the Company will pay interest to a Shareholder on all amounts advanced by him pursuant to such request and pursuant to Section (a) at Prime plus three percent (3%); and
- (c) the Company will repay amounts advanced pursuant to such request and pursuant to Section (a), including accrued interest thereon in priority to all other Loans.

For greater certainty, the failure of a Shareholder to advance funds under Section 3.7 will not be considered a Default under Section 7.1 of this Agreement.

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3.9 Distribution of Profit

Except when precluded or otherwise prohibited by the terms of any debt financing and to the extent permitted by law or as required by Section 3.4, the profits of the Company available for distribution, after making such provisions and transfers to reserves as will be required in the opinion of a majority of the Board to meet reasonable expenses or anticipated expenses, will be distributed firstly by way of repayment of Loans and other documented financial obligations, and secondly by way of dividend on a pro rata basis.

4. ISSUANCE OF SHARES

4.1 Pre-emptive Right

The Company will not, and the Shareholders will not permit the Company or the Board to, allot or issue Shares in the capital of the Company (regardless of class) except in accordance with the following:

- (a) subject to Sections 4.1(b) and (c), each allotment by the Company of Shares (an “**Offer**”) will be offered pro rata to the Shareholders;
- (b) an Offer will be made by written notice specifying:
 - (1) the number and class of shares offered (the “**New Shares**”);
 - (2) the price at which the New Shares are being offered;
 - (3) that the applicable Shareholders have seven Business Days (the “**Acceptance Period**”) in which to accept all or a portion of the New Shares; and
 - (4) any other material terms and conditions of the issuance of the New Shares;
- (c) acceptance of an Offer will be in writing to the Company within the Acceptance Period and must specify the number of New Shares that that Shareholder wishes to purchase. By acceptance, a Shareholder to whom an Offer has been made may specify an additional portion of the New Shares that such Shareholder is prepared to purchase in the event that any of the others fail to accept a pro rata portion (in such situation, such Shareholder, (pro rata in accordance with (a) above if more than one) will be entitled to purchase such additional portion of the New Shares as will be so available);
- (d) if the acceptances described in subsection (c) specify in total more than the number of the New Shares, the Company will issue and the accepting Shareholders will purchase the New Shares pro rata to their respective holdings of Shares except that if such pro rata amount for a Shareholder is greater than the maximum number specified in that Shareholder’s acceptance, that Shareholder will purchase such maximum number and the remainder of the accepting Shareholders will purchase the remainder of the Offered Shares pro rata to their respective holdings of Shares;
- (e) if any of the New Shares have not been purchased by the Shareholders in accordance with subsection (c) above, the directors may offer the New Shares that were not taken up by the Shareholders to a Third Party (as defined in Section 5.2), in the manner they think

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most beneficial to the Company, but the Offer to such Third Party will not be at a price less than or on terms and conditions more favourable than the Offer to the Shareholders;

- (f) upon acceptance of the Offer, the closing of the sale and purchase will occur on or before the 10th day following the date of the last acceptance of the Offer or, if that day is a not a Business Day, then on the next Business Day (or such other date as the parties thereto may agree), at which time the appropriate parties will execute and deliver such certified cheques, share certificates and documents as may be reasonably required to effect and complete the sale and purchase;
- (g) the provisions of this Section will not apply to the issue of shares pursuant to a subdivision of shares, an amalgamation agreement or as a result of the declaration and payment of dividends; and
- (h) no issuance under this Section 4.1 to a Person other than a Shareholder will be made unless such Person has entered into an agreement with the Shareholders and the Company by which such Person becomes bound by and entitled to the benefit or the provisions of this Agreement.

4.2 Waiver

Notwithstanding any other provision of Section 4.1, any Shareholder may waive his rights with respect to a particular Offer by notice in writing to the Company.

5. RESTRICTIONS ON TRANSFER

5.1 Restriction

Except as otherwise expressly permitted in this Agreement, no Shareholder may, directly or indirectly, sell, transfer or otherwise dispose of any of his or its Shares.

5.2 Right of First Refusal

If a Shareholder (the “**Transferor**”) has received from a bona fide third party (the “**Third Party**”) a written offer (the “**Third Party Offer**”) to purchase all, not a portion of, the Shares then owned by the Transferor (the “**Offered Shares**”) for cash payable by certified cheque or bank draft upon the transfer of all the Offered Shares, then the Transferor may sell, transfer or otherwise dispose of its Shares in accordance with the following:

- (a) the Transferor must first offer by notice in writing (the “**Transfer Notice**”) to the other Shareholders (the “**Transferees**”), the right to purchase, receive or otherwise acquire all the Offered Shares for a price not more than, and on terms and conditions not less favourable than, those set out in the Third Party Offer;
- (b) the Transfer Notice must have attached thereto a certified true copy of the Third Party Offer, must state that it is made pursuant to Section 5.2 and must set forth the following:
 - (1) an accurate description of the Offered Shares;

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- (2) the name and address of the Transferor;
- (3) the price for the Offered Shares as a price per Share expressed in lawful money of Canada;
- (4) that the offer contained in the Transfer Notice must be accepted in its entirety;
- (5) that the offer contained in the Transfer Notice is open for acceptance by one or more of the Transferees for a period of 60 Business Days after the date of delivery of the Transfer Notice;
- (6) that the price for the Offered Shares is payable in cash on the transfer of all of the Offered Shares;
- (7) that the Transferor will provide such information concerning the Third Party as is reasonably requested by any Transferee, including a resume of the financial capacity, ultimate ownership and other activities of the Third Party; and

- (8) the other terms and conditions of the offer which must be such as to permit acceptance by a reasonable investor in normal circumstances;
- (c) each Transferee may, by notice given to the Transferor and the other Transferees not later than 60 days after the Effective Date accept the Transfer Notice specifying the maximum number of the Offered Shares that such Transferee is prepared to purchase;
- (d) if the acceptances described in Section 5.2(c) specify in total less than the number of the Offered Shares, the Transferor may elect:
 - (1) not to sell any of the Offered Shares to the Transferees; or
 - (2) to sell to each of the Transferees the maximum number of Shares specified in such Transferee's acceptance;
- (e) if the acceptances described in Section 5.2(c) specify in total more than the number of the Offered Shares, the Transferor will sell and the accepting Transferees will purchase the Offered Shares pro rata to their respective holdings of Shares except that if such pro rata amount for an Transferee is greater than the maximum number specified in that Transferee's acceptance, that Transferee will purchase such maximum number and the remainder of the accepting Transferees will purchase the remainder of the Offered Shares pro rata to their respective holdings of Shares;
- (f) the Transferor may, within 90 Business Days after the expiry of the 60 Business Day period referred to in Section 5.2(b)(5), sell, transfer or otherwise dispose of those Offered Shares not purchased by the other Shareholders to the Third Party so long as:
 - (1) the price and other terms and conditions are no more favourable to the Third Party than those set out in the Third Party Offer; and

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- (2) the Third Party has entered into an agreement with the other Shareholders by which the Third Party will be bound by and entitled to the benefit of the provisions of this Agreement (and the others will enter into such an agreement);
- (g) the Transferor may include his Loan in the Transfer Notice and the price payable therefor. If the Transferor does not include his Loan in the Transfer Notice, the Transferor will retain his Loan which will be repaid in accordance with and subject to the provisions of Section 3 hereof.

5.3 Transfer to Affiliate, RRSP, Family Trust or Family Limited Partnership

Notwithstanding any other provision of this Agreement, any Shareholder may sell, transfer or otherwise dispose of the whole or part of his or its Interest to:

- (a) one of his Affiliates (the "Affilco") provided that the Shareholder and the Affilco enter into an agreement with the other Shareholders that:
 - (1) the Affilco will remain an Affiliate of that Shareholder so long as the Affilco holds the Interest;
 - (2) prior to the Affilco ceasing to be an Affiliate of the Shareholder, the Affilco will transfer the Interest back to the Shareholder or to another Affiliate of the Shareholder so long as such other Affiliate enters into an agreement with the other Shareholders as contemplated by this Section 5.3;
 - (3) Affilco identifies and designates a Holdco Principal who will be the Person who Controls Affilco;
 - (4) the Affilco will otherwise be bound by and have the benefit of the provisions of this Agreement;
- (b) a registered retirement savings plan trust for the benefit of the Shareholder or a Holdco Principal or the spouse of that Shareholder or Holdco Principal if the trustee for the trust enters into this Agreement on behalf of the trust and agrees to be bound by this Agreement as a Shareholder;
- (c) a family trust or family limited partnership, for the benefit of the spouse or direct descendants of the Shareholder or Holdco Principal, as the case may be, if the trustee for the trust or the general partner of the limited partnership, as the case may be, enters into this Agreement on behalf of the trust or limited partnership, as the case may be, and agrees to be bound by this Agreement as a Shareholder; and
- (d) in the case of the death of a Shareholder, to a beneficiary under the will of such Shareholder.

Where Shares are already beneficially held by a Shareholder through a registered retirement savings plan, such Shareholder may transfer all or part of such Shares back into his own name or roll them into another registered retirement savings plan provided Section 5.3(a)(3) is complied with. Any sale, transfer

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or other disposition referred to in this Section 5.3 will not release the Shareholder from his obligations hereunder.

5.4 Encumbrances Restricted

Except as specifically provided herein, no Shareholder will mortgage, pledge, charge, hypothecate or otherwise encumber any of his or its Interest without the prior written consent of the other Shareholders, which consent may be arbitrarily withheld.

5.5 Dispositions Restricted - Defaulting Shareholder

Notwithstanding any other provision of this Agreement, no Shareholder will sell, transfer or otherwise dispose of any of his or its Interest if he or it is at such time a Defaulting Shareholder, unless prior to or concurrently with such sale, transfer or other disposition he or it ceases to be a Defaulting Shareholder.

5.6 Dispositions Restricted - Acceleration

Notwithstanding any other provision of this Agreement, no Shareholder will be entitled to sell, transfer or otherwise dispose of any of his Interest without first obtaining:

- (a) the consent of the other Shareholders, if such action would permit any other party to accelerate or demand the payment of any indebtedness of the Company; or
- (b) the consent of any other party, if such is required by agreement of the Company.

5.7 Notation on Share Certificates

Each of the Shareholders will at the request of the Company surrender to the Company and there will be legibly stamped or endorsed upon each certificate representing Shares a statement as follows:

“The shares represented by this certificate are transferable only in compliance with and pursuant to the terms of an amended and restated shareholders’ agreement between all of the shareholders of the Company and the Company dated the 22nd day of March, 2017.”

5.8 Tag Along Rights

If Shareholders agree to sell their Shares under Section 5.2(f) to a Third Party, then those Shareholders (the “**Sellers**”):

- (a) will, not less than 20 Business Days before completing the sale, give written notice to the Transferees (the “**Tag Along Notice**”) stating that the Transferees have the right to receive an offer to purchase their Shares on the same terms and conditions as the Sellers selling and stating:
 - (1) the identity of the Third Party;
 - (2) the price; and
 - (3) other material terms of the transaction;

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- (b) the Transferees may accept the offer constituted by the Tag Along Notice by written notice to the Sellers not later than 14 Business Days after receipt of the Tag Along Notice (a “**Tag Along Demand**”) thereby invoking the provisions of this Section 5.8 (the Shareholder delivering a Tag Along Demand herein called a “**Tagging Shareholder**”);
- (c) a Tag Along Demand will be irrevocable and will bind the Tagging Shareholder to sell all but not less than all of his or its Shares (the “**Tagging Shares**”) in accordance with the provisions of this Section 5.8;
- (d) before completing any sale of Shares referred to in Section 5.2(f), the Sellers will cause the Third Party to deliver to the Tagging Shareholder, if any, an offer in writing (the “**Tag Along Offer**”) to purchase from the Tagging Shareholder the Tagging Shares. The Tag Along Offer will be binding upon the Third Party and will contain only such terms and conditions as are identical to those upon which the Seller propose to sell their Shares to the Third Party.
- (e) The Completion Date and other closing arrangements for the purchase and sale transactions between the Tagging Shareholder, if any, and the Third Party will be specified in the Tag Along Offer and will be the same, *mutatis mutandis*, as those specified between the Third Party and the Sellers.

A Shareholder may transfer shares in the Company to a Third Party on a one-time basis without otherwise complying with the provisions of Section 5.8(a) through (e) provided that the transfer consists of no more than a 5% of the issued and outstanding shares in the Company. A Shareholder shall give written notice of such transfer to all other Shareholders.

5.9 Drag Along Rights

If Shareholders agree to sell their Shares under Section 5.2(f) to a Third Party, then those Sellers may provide written notice to the other Shareholders, not less than 20 Business Days before completing the sale, which includes:

- (a) the details of the proposed sale including:
 - (1) the identity of the Third Party;
 - (2) the price; and
 - (3) other material terms of the transaction;
- (b) an irrevocable offer (the “**Drag Along Offer**”) from the Third Party to the other Shareholders to purchase, all but not less than all, of the Shares (the “**Dragged Shares**”) owned by the other Shareholders, for a consideration that is the same as the consideration per Share at which the Sellers propose to sell their Shares plus \$1.00 for every dollar then owed by the Company to the other Shareholders by way of Loans;
- (c) the delivery by the Third Party of a Drag Along Offer will bind the other Shareholders to sell the Dragged Shares and the Loans in accordance with the Drag Along Offer and on

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other terms and conditions which are the same as Sellers proposes to sell their Shares; and

- (d) the closing date and other closing arrangements for the purchase and sale transactions between the Shareholders and the Third Party will be specified in the Drag Along Offer and will be the same, *mutatis mutandis*, as those specified between the Buyer and the Sellers.

6. SHARE SALE ON DEATH

6.1 Purchase and Sale

If at any time a Shareholder or the Holdco Principal of a Shareholder dies, and if within 120 days of such event, that Shareholder (the “**Departing Shareholder**”) gives notice to the Company that it elects to sell its Shares to the Company, then the Departing Shareholder will sell to the Company, and the Company will purchase from the Departing Shareholder, all the Shares held by the Departing Shareholder as at the date of death of the Shareholder or Holdco Principal (“**Departure Date**”) at a purchase price per share as determined under and upon the terms set forth in Section 6.2 hereof.

6.2 Valuation of Departing Shareholders Interest

Within 30 days of the execution of this Agreement, and thereafter on or before March 1st of each calendar year, the Directors of the Company will determine the fair market value of the Shares, and this value will be used to calculate the value of the Interest held by any Departing Shareholder for the following year, as well as serving as the value, in the case of Section 7.3, at the time of the Option Exercise Date. If the majority of the Board of Directors of the Company are not able to agree on a determination of the fair market value of the Shares of the Company, the Company will, at its sole cost, engage a chartered business valuator to provide, the fair market value of the Interest held by any Departing

Shareholder, whose decision will be final and binding on the parties to this Agreement and their personal representatives. The Company will request that the valuator provide its determination of the fair market value of the Interest as soon as reasonably possible but no later than three months following the Departure Date. The Company will cooperate fully with the conduct of such valuation and will provide to the valuator access to all documents and will make available to the valuator all personnel, accountants, lawyers, experts and other agents during normal business hours as the valuator reasonably requires to determine such fair market value.

6.3 Closing of Purchase and Sale

Within 180 days after the Departure Date, at a time and place to be specified by the Company, the Company and the Departing Shareholder will complete the purchase and sale of the Departing Shareholder's Shares as follows:

- (a) the Departing Shareholder, or in the case of the death of a Shareholder, the Departing Shareholders representatives, will deliver to the Company all releases and acknowledgements of payment of the Loan of the Departing Shareholder, and the certificates for such Shares herein required to be sold to the Company, together with all such legal instruments as may be necessary or required to transfer to the Company all of

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the Shares of the Departing Shareholder including the resignation of the Departing Shareholder or of its Holdco Principal as officers and/or directors of the Company; and

- (b) the Company will pay to the Departing Shareholder the Share Price for the Departing Shareholder's Shares as follows:

- (1) 50% of such amount to be paid on the closing date specified by the Company;
- (2) 25% of such amount to be paid on each of 6 months and 12 months after such closing date; and
- (3) the remainder to be paid 18 months after such closing date.

The amounts owing under (2) above will be evidenced by a promissory note executed by the Company and delivered to the Departing Shareholder, or in the case of the death of a Shareholder, the Departing Shareholders representatives, on the closing date referred to above. Interest will accrue from the closing date on the outstanding amount of the note at a rate equal to Prime and will be payable concurrently with the payments of principal outstanding on the note. The Company will have the right at any time to prepay without penalty.

6.4 Common Disaster/Inability to Finance

Unless the other Shareholders unanimously otherwise agree, no payment of the Share Price instalments will be made pursuant to Section 6.3 if:

- (a) at the closing date or the date the payments are to be made under Section 6.3, the majority of the Board, acting reasonably, determine that the making of the payment would render the Company insolvent, would cause the Company to breach any agreement entered into between the Company and any lender to the Company however, in such event, the Company will make such payment as soon as such condition preventing the making of such payment no longer exists; or
- (b) in the 24 month period before the occurrence of the Departure Date, the Company has been required or has become obligated to purchase the Shares of any other two Shareholders pursuant to Section 6.1. In such event, the Shareholder's right to have his or its Shares purchased by the Company will commence on the date that is twelve months after the last closing date at which the Company was required to purchase under Section 6.1.

6.5 Release on Sale of Interest

Upon the sale by a Departing Shareholder of its Interest, the Company will use reasonable efforts to obtain a release of any guarantees or security granted by such Departing Shareholder of the indebtedness of the Company to any third party. If such release cannot be obtained, the Company will notify such third party that such Departing Shareholder will not be liable under the guarantee or security for any further debts or obligations of the Company and the Company will indemnify and hold harmless the Departing Shareholder against any amounts which such Shareholder may be required to pay under such guarantees or security. Notwithstanding the foregoing, except for reimbursement of legal and

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similar fees incurred by such third party in preparing and filing such releases, the Company will not be required to pay any funds or to have the terms of its agreements or arrangements with such third party altered in any material respect in order to secure such release.

7. DEFAULT

7.1 Events of Default

It is an event of default (a "Default") if a Shareholder or Holdco Principal (the "Defaulting Shareholder") (the other Shareholders being the "Non-Defaulting Shareholders");

- (a) fails to observe, perform or carry out any of his or its material obligations hereunder and such failure continues for 30 days after any of the Non-Defaulting Shareholders has in writing demanded that such failure be cured;
- (b) fails to take reasonable actions to prevent or defend assiduously, any action or proceeding in relation to any of his Interest for seizure, execution or attachment or which claims:
 - (1) possession;
 - (2) sale;
 - (3) foreclosure;
 - (4) forfeiture or termination;

or against, any of the Interest of the Defaulting Shareholder, and such failure continues for 30 days after a Non-Defaulting Shareholder has in writing demanded that the same be taken or the Defaulting Shareholder fails to defend successfully any such action or proceeding;

- (c) becomes a bankrupt or commits an act of bankruptcy or if a receiver or receiver-manager of his assets is appointed or makes an assignment for the benefit of creditors or otherwise; or

- (d) transfers ownership of or causes a change of control in a Holdco such that there is a change of the Holdco Principal of that Holdco.

7.2 Remedies on Default

In the event of a Default, the Non-Defaulting Shareholders may do any one or more of the following:

- (a) pursue any remedy available to them in law or equity, it being acknowledged by each of the Shareholders that specific performance, injunctive relief (mandatory or otherwise) or other equitable relief may be the only adequate remedy for a Default;
- (b) take all actions in their own names or in the name of the Defaulting Shareholder, the Shareholders or the Company as may reasonably be required to cure the Default, in

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which event all payments, costs and expenses incurred therefor will be payable by the Defaulting Shareholder to the Non-Defaulting Shareholders on demand with interest at Prime plus 3%;

- (c) implement the buy-sell procedure as set out in Section 7.3 hereof; or
- (d) waive the Default.

7.3 Buy-Sell on Default

In the event of a Default, should the majority of the Non-Defaulting Shareholders agree, the Non-Defaulting Shareholders will have the option (the “**Option**”) to require the Defaulting Shareholder to sell to the Non-Defaulting Shareholders or the Company all of his or its Interest on the following terms and conditions:

- (a) the Non-Defaulting Shareholders, or any one of them, may within 30 days after becoming aware of a Default give written notice to the Defaulting Shareholder and the Company requiring a determination of the fair market value of the Shares of the Defaulting Shareholder, which determination will be made in accordance with Section 6.2;
- (b) the purchase price payable for the Interest of the Defaulting Shareholder will be the aggregate of:
- (1) the amount of the Loan as of the completion date (set out in Section (d) below); plus
- (2) 90% of the fair market value of his or its Shares;
- at the time the notice requiring a determination of the purchase price as provided in Section (a) above is given (the “**Option Exercise Date**”);
- (c) the Option may be exercised at any time within 60 days after the determination of the purchase price by giving written notice to the other Shareholders;
- (d) After completion of the valuation but by no later than 9 months after the date of the notice in Section (a), at a time and place to be specified by the Company, the Non-Defaulting Shareholders or the Company, as the case may be, who have exercised the Option will complete the purchase and sale of the Defaulting Shareholders Interest as follows:
- (1) the Defaulting Shareholder will deliver to the Company or the Non-Defaulting Shareholders all releases and acknowledgements of payment of the Loan of the Defaulting Shareholder, and the certificates for such Shares herein required to be sold to the Company or the Non-Defaulting Shareholders, together with all such legal instruments as may be necessary or required to transfer to the Company all of the Interest of the Defaulting Shareholder in such Shares and Loan, including the resignation of the Defaulting Shareholder as officers and/or directors of the Company; and

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- (2) the Company will deliver to the Defaulting Shareholder a promissory note duly executed by the Company in an amount equal to 90% of the fair market value of the Defaulting Shareholder’s Shares (as determined pursuant to Section 6.2) and the amount of any Loan of the Defaulting Shareholder. The principal amount outstanding under the note will be payable in the manner set out in Section 6.3(b) and
- (e) the Defaulting Shareholder hereby irrevocably authorizes and directs the Non-Defaulting Shareholders to pay to the Company from the amount payable to the Defaulting Shareholder hereunder all amounts owing to the Company by the Defaulting Shareholder, together with accrued interest thereon (if any).

7.4 Failure to Deliver

If:

- (a) on the completion date of any purchase and sale contemplated by this Agreement a Shareholder who is obliged hereunder to sell his Interest (the “**Vendor**”) neglects or refuses to complete the transaction of purchase and sale; and
- (b) within 30 days after such completion date the party or parties entitled or obliged hereunder to purchase such Interest (the “**Purchaser**”) pays into a special interest-bearing account in the name of the Vendor at any branch of the Company’s bankers the amount which had been required under this Agreement to be paid by the Purchaser to the Vendor on such completion date,

then from and after the date of such deposit the purchase of such Interest will be deemed to have been fully completed and all right, title, benefit and interest, both at law and in equity, in and to such Interest will be conclusively deemed to have been transferred and assigned to and become vested in the Purchaser and all right, title, benefit and interest, both at law and in equity, of the Vendor or of any transferee, assignee or any other person having any interest, legal or equitable, in such Interest will cease. The Company will forthwith cause such transfer and assignment to be recorded in the registers of members and transfers of the Company. Upon delivery to the Company by the Vendor of duly endorsed share certificates and all other instruments necessary to evidence the transfer of the Vendor’s Interest to the Purchaser, the Purchaser and the Company will cause the amount so deposited, with interest, to be paid to the Vendor.

8. GENERAL PROVISIONS

8.1 Termination

This Agreement will terminate:

- (a) if the Company ceases to carry on business, has a receiving order made against it, goes into bankruptcy either voluntarily or involuntarily or makes a proposal to its creditors; or
- (b) if the parties hereto consent in writing to the termination hereof.

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8.2 Precedence Over Company's Memorandum and Articles

The parties hereto agree to do all acts and things reasonably necessary to effect compliance with or waiver of the restrictions on the transfer of Shares contained in the Memorandum and Articles of the Company to give effect to any transfer or intended transfer of Shares required or permitted to be made and recorded as a result of the application of the provisions of this Agreement in order that, notwithstanding such restrictions, the terms and conditions of this Agreement may be carried out.

8.3 Further Assurances

The Shareholders and Holdco Principals will promptly execute and deliver all such further assurances and other documents and instruments and do such further and other things as may be necessary to implement and carry out the intent of this Agreement.

8.4 Confidentiality

Any information provided to a Shareholder by the Company, its directors, officers, agents or representatives prior to or after the date of this Agreement will be considered confidential information. Such confidential information shall be held in strict confidence and trust by each Shareholder, who shall take all necessary precautions against unauthorized disclosure of the confidential information, and each Shareholder shall not directly or indirectly disclose, allow access to, transmit or transfer the confidential information to a third party, other than its representatives, agents, advisors, counsel and accountants, nor shall each Shareholder copy or reproduce the confidential information. Upon request, each Shareholder shall return or destroy the confidential information exchanged hereunder with the understanding that ownership of any of the rights derived from such information shall at all times remain with the Company unless expressly stated otherwise. Such restrictions shall not apply to information which: (i) is required to be disclosed by a Shareholder by applicable law, regulation or court order; (ii) is at the time of disclosure is in the public domain; (iii) after disclosure is published or otherwise becomes part of the public domain through no fault of the receiving Shareholder; (iv) is not subject to any confidentiality obligations, and which the receiving Shareholder can show was in its possession prior to disclosure by the Company, its directors, officers, agents or representatives; or (v) which the receiving Shareholder can show was received after the time of disclosure hereunder from a third party who did not require that it be held in confidence and who did not, to receiving Shareholder's knowledge, acquire it, directly or indirectly, from disclosing party or a third party under an obligation of confidence.

8.5 Entire Agreement

The provisions herein constitute the entire agreement between the Company and the Shareholders and supersede all previous expectations, understandings, communications, representations and agreements whether verbal or written between the Company and the Shareholders with respect to the subject matter hereof.

8.6 Notices

Any notice required to be given hereunder by any party will be deemed to have been well and sufficiently given if mailed by prepaid registered mail, telecopied to, or delivered at, the address of the other party first above mentioned or at such other address as the other party may from time to time direct in writing, and any such notice will be deemed to have been received, if mailed, on the third business day after the

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date of mailing, if telecopied, on the business day after the day it was telecopied, and if delivered, upon the date of delivery. If normal mail or telecopy service is interrupted by strike, slowdown, force majeure or other cause, a notice sent by the impaired means of communication will not be deemed to be received until actually received, and the party sending the notice will utilize any other services which have not been so interrupted or will deliver such notice in order to ensure prompt receipt thereof.

8.7 Time of Essence

Time will be of the essence hereof.

8.8 Governing Law

This Agreement will be governed by and construed in accordance with the laws of the Province of British Columbia and the laws of Canada applicable therein.

8.9 Dispute Resolution

- (a) Any dispute, controversy or claim ("**Dispute**") arising out of this Agreement or between or among the Shareholders shall be resolved as follows:
 - (i) if a Dispute arises the Shareholders agree to act in good faith with a view to discussing and resolving such Dispute in a commercially reasonable business-like manner;
 - (ii) if a Dispute arises then the Shareholder who requires the Dispute to be resolved in accordance with this Section 8.9 must provide the other Shareholder(s) written notice ("**Dispute Notice**") of the Dispute and the intent to resolve in accordance with the terms of this Agreement;
 - (iii) if the Dispute is not resolved within 20 Business Days of the Dispute Notice being given to the Shareholders, then the Shareholders shall submit the Dispute to non-binding mediation and must agree upon an independent mediator and process for mediation. If the parties fail to appoint a mediator within 10 Business Days of agreeing to submit the dispute to non-binding mediation, then any Shareholder may apply to the arbitrator appointed pursuant to Section 8.8(b) to determine such appointment; and
- (b) failing resolution of the Dispute pursuant to mediation in accordance with Section 8.9(a), then the Dispute will be referred to and finally resolved by a single arbitrator in an arbitration administered by the British Columbia International Commercial Arbitration Centre pursuant to its "Rules of Procedure".

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8.10 Enurement

This Agreement will enure to the benefit of and be binding upon the Shareholders and the Company and their respective personal representatives, successors and permitted assigns.

8.11 Assignment Restricted

Except as otherwise expressly provided herein, neither this Agreement nor any of the rights, privileges or advantages granted by this Agreement to any of the parties hereto will be capable of assignment by any party hereto without the prior express written consent of the other parties hereto.

8.12 Counterparts

This Agreement and all documents contemplated by or delivered under or in connection with this Agreement may be executed and delivered in any number of counterparts with the same effect as if all parties had all signed and delivered the same document and all counterparts will be construed together to be an original and will constitute one and the same agreement.

IN WITNESS WHEREOF the parties hereto have executed these presents as of the day and year first above written.

(signed) [Redacted party name]
[Redacted party name]

(signed) [Redacted party name]
[Redacted party name]

(signed) [Redacted party name]
[Redacted party name]

(signed) [Redacted party name]
[Redacted party name]

[Redacted party name]

[Redacted party name]

Per: (signed) [Redacted party name]
Authorized Signatory

Per: (signed) [Redacted party name]
Authorized Signatory

[Redacted party name]

[Redacted party name]

Per: (signed) [Redacted party name]
Authorized Signatory

Per: (signed) [Redacted party name]
Authorized Signatory

[Redacted party name]

[Redacted party name]

Per: (signed) [Redacted party name]
Authorized Signatory

Per: (signed) [Redacted party name]
Authorized Signatory

[Redacted party name]

[Redacted party name]

Per: (signed) [Redacted party name]
Authorized Signatory

Per: (signed) [Redacted party name]
Authorized Signatory

[Redacted party name]

(signed) [Redacted party name]
[Redacted party name]

Per: (signed) [Redacted party name]
Authorized Signatory

(signed) [Redacted party name]
[Redacted party name]

(signed) [Redacted party name]
[Redacted party name]

[Redacted party name]

WHISTLER MEDICAL MARIJUANA CORPORATION

Per: (signed) [Redacted party name]
Authorized Signatory

Per: (signed) [Redacted party name]
Authorized Signatory



Our File: 8434

Effective May 8, 2015

Peace Naturals Project Inc.
 4491 12th Sunnidale Concession
 Stayner, ON L0M 1S0
 Attention: Mark Gobuty

Dear Sirs:

Re: \$4,000,000 First Mortgage Financing
4491 Concession Road 12, Clearview Township
Simcoe County, ON

We are pleased to inform you that, on the basis of the information and the documents supplied by you, Romспен Investment Corporation, as trustee (the "**Lender**"), hereby submits to you this offer of mortgage financing ("**Commitment**") in connection with the properties more fully described in Section 4 below.

This Commitment must be accepted by the Borrower and received by the Lender no later than 5 days from the date hereof, failing which this Commitment shall become null and void without further notice.

1. BORROWER

Peace Naturals Project Inc. (the "**Borrower**").

2. COVENANTORS

PharmaCan Capital Corp. ("**PharmaCan**"), The Barnes Family Trust, Mark Gobuty, Ann Barnes and Hortican Inc. ("**Hortican**") (the "**Covenantors**", and each, a "**Covenantor**").

The Covenantors, jointly and severally with the Borrower, covenant and agree to satisfy all terms, conditions and requirements herein contained and the Borrowers and Covenantors acknowledge and agree that their obligations hereunder, including, without limitation, the obligations to repay the Loan, shall constitute primary obligations and shall be joint and several. The obligations of the Covenantors, except for the obligations set out in Section 17, will become effective upon their execution of the applicable Security.

3. APPROVED LOAN AMOUNT

The approved loan amount is \$4,000,000 ("**Loan**"), to be secured as further described in this Commitment. The Loan shall be funded by way of multiple advances (each, an "**Advance**").

4. PROPERTY

The property set out in Schedule R of this Commitment, together with all improvements located thereon (the "**Property**").

5. ADVANCE DATES

The first Advance ("**First Advance**"), of the amounts set out in subsections 8(a), 8(b), 8(c), 8(e) and 8(f), will take place on or about May 27, 2015 (the "**First Advance Date**"), and will be for the amount specified in the Borrower's draw request and sources and uses of funds approved by the Lender. Advances under subsection 8(d) ("**Construction Advances**") below will take place by way of periodic Advances on a cost-to-complete basis in accordance with the plans and specifications approved by the Lender (the "**Approved Plans**") and the budget approved by the Lender (the "**Project Budget**") in for the improvements to be undertaken on the Property and may include amounts drawn down a part of the First Advance on the First Advance Date. After the First Advance Date, construction Advances will not be made more than once per month and may not be for less than \$200,000. The total advanced in respect of Construction Advances may not exceed the cost in place at any time.

6. INTEREST RATE

The interest rate for the Loan is 12% per annum, calculated and compounded monthly, in arrears, on the amounts advanced from time to time from the date of each advance of funds, as well after as before maturity, default or judgment.

7. TERM

The term of the Loan is 2 years commencing from the Interest Adjustment Date (the "**Loan Term**"). The date on which the Loan Term expires is sometimes referred to herein as the "**Loan Maturity Date**".

The Interest Adjustment Date will be either the 1st or the 15th of the month (following the First Advance Date (as determined by the Lender).

8. USE OF FUNDS

The proceeds of the Loan will be used to:

- (a) pay the Lender's fees and costs of this transaction (as to approximately \$120,000);
- (b) repay amounts owing to holders of liens on the Property (as to approximately \$2,300,000), plus such additional amount, if any, as is necessary to pay any additional liens filed prior to the First Advance Date;

- (c) assist the Borrower in paying a fee owing to a third party in respect of an unrelated aborted transaction (the “**Aborted Transaction**”) (as to approximately \$590,000), such amount to be paid in trust to counsel to the borrower and retained in trust by such counsel for such purpose;
- (d) assist the Borrower in completing certain improvements to the Property to the extent not paid using the proceeds of the First Advance;
- (e) repay, on the First Advance Date, bridge loans of \$500,000 and \$95,000, the proceeds of which bridge loans were used to pay for Property improvements and Borrower’s initial costs of this Loan, including the Standby Deposit (defined below); and

- (f) provide the Borrower with working capital (as to the balance of the Loan amount), the uses of which include payment of Borrower’s outstanding accounts for professional fees and professional fees of the Covenantors in respect of the bridge loan and the Loan.

The Borrower may revise the allocations of the above amounts in a sources and uses of funds, to be approved by the Lender prior to the First Advance.

9. SECURITY

The following security for the Loan shall be granted in favour of the Lender, in form and content satisfactory to the Lender and its legal counsel (hereinafter collectively referred to as the “**Security**”):

- 9.1 first-ranking mortgage and charge of the Property, in the amount of the Loan;
- 9.2 first-ranking general assignment of all present and future leases and rents affecting the Property. The Lender may in addition, in its absolute discretion, require attornment or attornment and subordination agreements to be entered into by a tenant under any lease, if any;
- 9.3 general security agreements creating first-ranking security interests charging all the personal property of the Borrower and each Covenantor including, without limitation, goods, chattel paper, documents, accounts, intangibles, securities, monies, books and records and all replacements of, substitutions for and increases, additions and accessories to the foregoing and proceeds thereof, present and future;
- 9.4 a specific assignment of the Borrower’s right, title and interest in, to and under all material contracts and agreements affecting or with respect to the Property or the Borrower’s business, including licenses, permits, plans and specifications, development approvals and agreements (“**Material Contracts**”), as required by the Lender, with all necessary consents of the counterparts to the Material Contracts;
- 9.5 acknowledgment of the status and terms of any contracts affecting or with respect to the Property including, without limitation, any pertaining to ownership, insurance, shared facilities, passageway agreements or other similar matters, specifically, but without limitation, confirming the good standing of such contracts and the rights of the Lender under its security;
- 9.6 for any other indebtedness of the Borrower, or if a charge or security interest is to be registered (with the Lender’s prior written consent) on title to the Property or against the Borrower or any Covenantor subordinate in priority to the Lender’s Security, such creditor, subordinate chargee or secured party shall provide to the Lender a subordination and standstill agreement in a form acceptable to the Lender;
- 9.7 an unconditional, joint and several covenant by each Covenantor as principal debtor and not as surety for the performance of all obligations of the Borrower with respect to the Loan, it being understood that the Lender shall not be obliged to proceed against the Borrower or to enforce or exhaust any security before enforcing its rights against any Covenantor. Provided that (a) the covenant from Anne Barnes will be delivered in escrow under the terms of an acceptable escrow agreement, to be held by the escrow agent named therein, and

only to be released upon the occurrence of certain release conditions in the escrow agreement, and (b) the covenant from Mark Gobuty (and any related security granted to the Lender) will be released by the Lender upon the termination by the Borrower of his employment, provided that the Lender has consented to such termination, such consent not to be unreasonably withheld or delayed;

- 9.8 assignment of all insurance policies with respect to the Property and all proceeds and benefits therefrom in favour of the Lender;
- 9.9 assignment, postponement and subordination by the Covenantors in favour of the Lender, of any and all loans, indebtedness, distributions of income and/or capital owing or due from time to time from the Borrower;
- 9.10 pledge of the shares (or any securities convertible into shares) of the Borrower beneficially owned by Hortican and The Barnes Family Trust;
- 9.11 an environmental indemnity from the Borrower;
- 9.12 deficiency and completion guarantee from the Borrower;
- 9.13 such further and other security as legal counsel for the Lender may reasonably require.

10. TRANSACTION FEES AND RELATED COSTS

Administration Fee:	\$	1,000
Advance Fee (per Advance):	\$	1,000
Lender’s Fee:	\$	80,000
Insurance Risk Management Fee (estimated):	\$	1,500*
Lender’s Basic Legal Fee (estimated):	\$	30,000*
Lender’s Legal Fees (per Advance):	\$	750*

* Plus disbursements and taxes, if applicable.

In addition, the Borrower agrees to pay all costs, fees and expenses in connection with the transaction contemplated by this Commitment, including, without limitation:

10.1 engineering, environmental assessment, appraisal, credit information, inspection, architectural, project monitoring, cost consultancy, survey and any and all other professional and advisory costs as may be reasonably incurred by the Lender;

10.2 registration, recording and filing fees, taxes and similar costs with regard to all documents required by the Lender's solicitors to be registered, recorded or filed.

Such fees and costs may, at the option of the Lender, be deducted from any Advance.

11. STANDBY DEPOSIT

In consideration of the issuance of this Commitment and in recognition of the considerable effort that the Lender must immediately undertake in order to make funds available for closing, the

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Borrower has submitted a deposit of \$20,000 ("**Standby Deposit**"). The Lender hereby acknowledges receipt of the Standby Deposit from Hortican, on behalf of the Borrower..

The Standby Deposit will not bear interest while in the possession of the Lender. Save as otherwise provided for herein, the Standby Deposit will be credited to the Borrower on the First Advance Date.

12. ADVANCES AND CONDITIONS PRECEDENT

12.1 General

- 12.1.1 Subject to the other terms and conditions set forth in this Commitment, the Lender shall disburse the proceeds of the Loan to or on behalf of the Borrower in the amounts and as specified in Section 3 herein.
- 12.1.2 The Borrower shall be the legal and beneficial owner of a good and marketable freehold title to the Property and all personal property associated therewith. The Property and the personal property related thereto or used in connection with the operation thereof or which is necessary to the use and operation thereof, shall be free and clear of all security interests, charges, liens, mortgages, claims or other encumbrances, with the exception of the Security provided for in this Commitment and the Permitted Encumbrances (as defined in Schedule R), the whole to the complete satisfaction of legal counsel for the Lender.
- 12.1.3 All taxes, duties, assessments, utility charges and other levies and charges affecting the Property, other than amounts which are not yet due and payable, shall have been paid prior to any Advance, failing which they shall be paid from the proceeds of any advance.
- 12.1.4 The Borrower shall fulfill all obligations under any laws entitling a creditor to exercise rights against the Property. In this respect, the Borrower shall provide to the appropriate taxation, municipal utilities and other authorities an authorization by which the Lender or any person authorized by it as its legal counsel, agent or manager, shall be able to obtain, in the name of the Borrower, a confirmation from such authorities that all payments, declarations and other filings are up to date, whether the authorities concerned have issued or will issue a default notice or demand for payment and whether any such notice concerns arrears. This authorization shall remain in effect and will be replaced as required by the Lender from time to time until the Loan has been fully repaid.
- 12.1.5 prior to the First Advance Date, the Borrower shall deliver to the Lender's legal counsel the following documents (where applicable):
 - 12.1.5.1 copies of all Material Contracts;
 - 12.1.5.2 required insurance policies;
 - 12.1.5.3 evidence that property taxes have been paid;

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- 12.1.5.4 certified copy of a resolution of the Borrower's and entity Covenantors' directors or trustees authorizing this transaction;
 - 12.1.5.5 certified copies of the articles of incorporation, certificate of incorporation, of status and/or compliance, and trust declaration of the Borrower and entity Covenantors;
 - 12.1.5.6 a copy of a survey of the Property, if available; and
 - 12.1.5.7 evidence of (a) the appointment or election, or (b) the conditional appointment or election, or (c) the mailing of notice of a meeting of the shareholders of the Borrower called to elect or conditionally elect (together with sufficient irrevocable proxies in favour of PharmaCan management voting in favour of), and amendment of the terms of the Borrower's unanimous shareholder agreement dated June 25, 2013, as amended April 18, 2014, and May 13, 2014, deleting any requirement that the Hortican nominee to the Borrower's board of directors be independent of Hortican (each of the documents in this 12.1.5.7(c) must be on terms agreeable to both PharmaCan and Hortican), of the nominee of PharmaCan and/or Hortican to the Borrower's board of directors;
 - 12.1.5.8 evidence of the addition of Gino Monaco as a required signing authority on all the bank accounts of the Borrower, on all instruments (including but not limited to cheques, wire transfers electronic fund transfers, etc.) and on all funds held in trust on behalf of the Borrower by law firms and other non-financial institution trustees; and
 - 12.1.5.9 any other documents required hereunder and reasonably requested by legal counsel for the Lender.

12.2 Advance Requirements

The Advance of the Loan is conditional upon the receipt by the Lender of the following documents, in form and substance satisfactory to the Lender and upon fulfillment by the Borrower and Covenantors, as applicable, of the following conditions precedent as well as those set out in Schedules "A" and "B" hereof or elsewhere herein, to the entire satisfaction of the Lender:

- 12.2.1 the Security and any other documents relating to the Loan that are required or contemplated hereunder or which the Lender and its legal counsel may deem necessary, shall have been received and approved to the complete satisfaction of the Lender and its counsel and duly executed and registered and perfected, as the case may be and all approvals required by the Lender or its counsel shall have been given;

12.2.2 a title insurance policy for the Loan issued by First Canadian Title and in form and content satisfactory to the Lender the premium for which will be paid by the Borrower, and which includes an acceptable survey endorsement;

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12.2.3 a favourable opinion of the Borrower's and entity Covenantors' counsel on the due formation, power and authority, the due authorization, execution, delivery, validity and enforceability of this Commitment and the Security and such other matters as the Lender or its counsel may reasonably require;

12.2.4 a certificate of the Borrower and Covenantors confirming the truth and survival of the representations and warranties contained herein;

12.2.5 receipt of a copy of the purchase and sale agreement and amendments thereto for the Property;

12.2.6 evidence that the Borrower has complied with the obligations with respect to insurance requirements as more fully set out in Schedule "L", together with a favourable opinion of the Lender's insurance consultant on the adequacy of all insurance policies and or bonding required to be delivered and/or maintained hereunder;

12.2.7 evidence that all taxes, rates, assessments and charges which may be levied or imposed against the Property or the Borrower's business, including all utilities charges and all amounts capable of forming a charge against the Property or the Borrower's interest therein, have been paid in full;

12.2.8 evidence that the Borrower has complied with all statutory requirements for deduction at source and remittance to applicable fiscal authorities, including, without limitation, those under the *Income Tax Act* (Canada), the *Excise Tax Act* (Canada), the *Canada Pension Plan Act* (Canada) and the *Employment Insurance Act* (Canada);

12.2.9 a site inspection of the Property has been completed on behalf of the Lender and the results of the inspection are satisfactory to the Lender [satisfied];

12.2.10 the Lender and/or its project monitor has approved the plans and specifications and the budget for the improvements to the Property being funded with Construction Advances;

12.2.11 a satisfactory interview with the principals of the Borrower has been conducted by the Lender [satisfied];

12.2.12 verification of the use of the Property and the income generated [satisfied];

12.2.13 receipt of an architect's certificate in the form as set out in Schedule "O" and addressed to the Lender, certifying that the improvements to the Property being completed with Construction Advances comply with all applicable construction, zoning and other governmental requirements

12.2.14 verification of the net worth of each Covenantor in amounts satisfactory to the Lender;

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12.2.15 an environmental report prepared, at the expense of the Borrower, by qualified environmental consultants acceptable to the Lender, addressed to the Lender or, alternatively, accompanied by a letter of transmittal from the environmental consultants who prepared the report allowing the Lender to rely upon the same and to use it for mortgage purposes, disclosing no site contamination or hazardous substances and confirming, to the satisfaction of the Lender, that the Property complies with Environmental Laws (as defined in Schedule "B" hereof). The Borrower hereby agrees to provide all available information with respect to environmental matters and to fully disclose to the Lender any relevant facts about environmental matters promptly as they come to light [waived by Lender];

12.2.16 an appraisal report of the Property prepared in a form and substance satisfactory to the Lender, at the expense of the Borrower, by a qualified appraiser acceptable to the Lender, addressed to the Lender or, alternatively, accompanied by a letter of transmittal from the appraiser allowing the Lender to rely upon the same and use it for mortgage purposes [satisfied];

12.2.17 copies of all leases affecting the Property, executed by the parties thereto, including, without limitation, those listed in Schedule "G" hereto, or a certified rent roll in a form acceptable to the Lender and reviewed by and found satisfactory to the Lender and its counsel. In addition, an estoppel certificate from each tenant occupying or to occupy 5% or more of the Property's total rentable area or generating 5% or more of total rental revenue from the Property, and attornment and subordination agreements from tenants as required by the Lender, shall have been executed by the required parties and found satisfactory to the Lender [satisfied];

12.2.18 if there are existing structures on the Property, a report from a qualified structural engineer, addressed to the Lender, addressing the structural soundness of those improvements, the contents of which are acceptable to the Lender [waived];

12.2.19 no event shall have occurred and be continuing or would result from making an Advance, which constitutes an event of default or would constitute an event of default under any of the Borrower's or Covenantors' obligations, except when such default is cured by notice or elapsed time or both;

12.2.20 the Lender and its counsel shall have approved all Material Contracts;

12.2.21 the Lender and its legal counsel shall have approved the Site Plan for the Project as approved by the governmental authority having jurisdiction and all other plans submitted in connection with the Project [waived];

12.2.22 the Lender has received satisfactory details of the Aborted Transaction;

12.2.23 the Lender has received satisfactory details of the liens being vacated with the proceeds of the Loan in subsection 8(b);

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12.2.24 the Lender has approved any project management agreement, co-owners agreement, or trust agreement in effect with respect to the Property [waived]

12.2.25 evidence of compliance with *The Proceeds of Crime (Money Laundering) and Terrorist Financing Act* (Canada) and Regulations, including but not limited to:

(a) each Borrower and Covenantor is to provide, **at least 3 days prior to funding**, with the following:

- (i) Corporation profile report or Certificate of Status confirming such entity has not been dissolved;
- (ii) Executed Certificate of Incumbency setting out the names of all trustees, directors and officers, and the office held by each officer;
- (iii) Executed directors' or trustees' resolution authorizing the transaction;
- (iv) Completed Agent Examination Form for each signing officer (to a maximum of 3);
- (v) Shareholders' register or list of beneficiaries.

12.2.26 notwithstanding anything contained herein, no advance shall be made by the Lender if a material adverse change (as determined by the Lender) has occurred in the Property, the Borrower or Covenantors or in the condition (financial or otherwise), operations, business, properties or prospects of the Property, the Borrower or Covenantors, or any asset or property of the Borrower or a Covenantor has changed in a manner that would impair the value of any security provided to the Lender for the Loan, prevent the timely repayment of the Loan or otherwise prevent the Borrower or any Covenantor from the timely performance of, or their ability to perform, any of their obligations under this Commitment, the Security or any other agreement entered into between the Borrower or any Covenantor and the Lender.

12.2.27 notwithstanding anything contained herein, no advances shall be made by the Lender until such time as the Lender is in receipt of, and has reviewed, all due diligence material referred to in Schedule A of the letter agreement dated April 16, 2015, and not hereinbefore requested; and

12.2.28 notwithstanding anything contained herein, no Advance shall be made by the Lender until the Lender is advised by its legal counsel that, having regard to all the circumstances, there are no material legal impediments to such Advance being made.

13. REPRESENTATIONS AND WARRANTIES

The Borrower and each Covenantor, as applicable, represents and warrants to the Lender as follows, which shall be true and correct for each advance of the Loan, and acknowledges that the Lender is relying on all such representations and warranties in entering into this Commitment and making Advances hereunder:

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- 13.1 The request for and use of proceeds of any advance by the Borrower will constitute an affirmation or re-affirmation by the Borrower and each Covenantor of the representations and warranties contained herein and in any document related hereto, including, without limitation, any Security delivered pursuant hereto;
- 13.2 The Borrower and each entity Covenantor is an entity duly organized and validly existing and in good standing under the laws of the jurisdiction of formation, and registered to do business in each jurisdiction in which it carries on business;
- 13.3 The Borrower and each entity Covenantor has full power, right and authority to enter into and perform its obligations under each of the documents to which it is a party and has full right, power and authority to own and operate its assets and property and to carry on its business;
- 13.4 The execution and delivery by the Borrower and each entity Covenantor of this Commitment and the applicable Security and the performance of its obligations thereunder do not and will not conflict with or result in a breach of any of the terms, conditions or provisions of their charter documents or bylaws, any agreement, instrument or arrangement to which it is a party or constitute a default thereunder, any judgment or order, writ, injunction or decree of any court, or any applicable law, regulation or regulatory policy;
- 13.5 The execution and delivery by the Borrowers and each entity Covenantor of this Commitment and the applicable Security and the performance of its obligations thereunder have been duly authorized or will, prior to the First Advance Date, have been ratified by all necessary entity action, and no authorization under any applicable law and no registration, qualification, approval, designation, declaration or filing with any government body, agency or authority having jurisdiction over the Borrower or any entity Covenantor is or was necessary therefor, except as contemplated herein;
- 13.6 The Borrower represents and warrants that it possesses all consents, approvals, licenses, permits and authorizations under any applicable law which are necessary in connection with the operation of its businesses. All such consents, approvals, licenses, permits and authorizations are in full force and effect and good standing, and the Borrower is not in default in any respect thereunder which default would have a material adverse effect. The Borrower is conducting its business in compliance in all material respects with all applicable laws, rules and regulations of each jurisdiction in which its business is carried on, and no action exists, is pending or threatened which has as its object the revocation, amendment or qualification of any such consent, approval, license, permit or authorization and all applicable appeal periods in respect of such actions have expired;
- 13.7 Neither the Borrower nor any Covenantor is in default in any respect under any material indenture, mortgage, deed of trust, agreement or other instrument to which they are a party or by which they or any of their property may be bound and which default would have a material adverse effect on their property or their prospects;
- 13.8 Other than has been disclosed to the Lender, there is no litigation or governmental proceedings commenced or pending against or affecting it or its assets, in which an

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adverse decision would constitute or result in a material adverse change in its business, operations, properties or assets, or in its condition, financial or otherwise;

- 13.9 The Borrower represents and warrants that it is the legal and beneficial owner of the Property, and has good and marketable title and possession thereto, free from all mortgages, charges, liens or other encumbrances whatsoever, except for the Security and any encumbrances permitted by the Lender;
- 13.10 The Borrower and each Covenantor have filed all tax returns which are required to be filed by each of them and has paid or remitted when due all taxes, assessment and government charges imposed upon them which if unpaid could result in any charge or other encumbrance on their properties except such tax, assessment or charge which is being contested in good faith and for which the Borrower or Covenantor has made adequate reserves;
- 13.11 The Borrower represents and warrants that, with respect to the Property, the Borrower has obtained and is in compliance (i) with all terms and conditions of all authorizations which are required under any environmental law, the non-obtaining of which and the lack of compliance with which would have a material adverse effect, and (ii) with all environmental laws, non-compliance with which would have a material adverse effect. The Borrower does not generate hazardous materials or transports, treats or disposes of any hazardous materials nor is the Borrower aware of any underground storage tanks or surface contaminants located on the Property other than those that have been reported to the Lender. The Borrower, to the best of its knowledge, has never caused or permitted (i) a release of any contaminant from or on the Property or (ii) any hazardous materials to be placed, held, located or disposed of on or under the Property the effect of which could

reasonably be anticipated to have a material adverse effect. No enforcement action, investigation or outstanding order from any official body in respect of any hazardous materials or release of contaminants is existing, threatened or impending;

- 13.12 The Borrower represents and warrants that the Property is zoned to permit the improvements being constructed by the Borrower and is in compliance with all relevant zoning and by-laws of the applicable municipality and the Borrower has all permits, certificates, approvals or permissions required for the construction of the improvements;
- 13.13 The Borrower represents and warrants that all property taxes, levies, assessments, penalties or other costs payable to a municipality or other local government in respect of the Property have been paid and no such amount is in arrears or is due and unpaid;
- 13.14 All information pertaining to the current and proposed use of the Property and the business to be operated by the Borrower, and each Covenantor's and Borrower's financial condition has been fully disclosed to the Lender. There is no legal action instituted, threatened or pending against the Borrower or any Covenantor or the Property which has not been disclosed to the Lender in writing in connection with the application for the Loan and the Borrower has no notice of any work orders, deficiency notices or notices of violation pertaining to the Property or the Borrower's business;

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- 13.15 All financial and other information provided by the Borrower and Covenantors to the Lender, including but not limited to financial and other information provided in respect of the values and other matters pertaining to the Property and the Borrower's business is true and accurate and may be relied upon by the Lender in executing this Commitment and making the Loan.

14. GENERAL COVENANTS

Notwithstanding any other provision of this Commitment, the Borrower and each Covenantor, as applicable, covenants and agrees as follows:

- 14.1 Upon obtaining (i) knowledge of the occurrence of any default under any agreements to which it is a party, (ii) notice of litigation, arbitration, or proceedings before any official body, or (iii) information respecting the business, operations or financial condition of the Borrower or a Covenantor as the Lender may from time to time reasonably request, promptly to give the Lender details of such occurrence or other matter including copies of relevant documents;
- 14.2 To keep the Lender reasonably informed of the progress of the improvements being constructed with the Construction Advances, and to timely provide the Lender with copies of any material notices received from any public authority or agency, including with respect to the Property or the Borrower's business;
- 14.3 To preserve and maintain in full force and effect its qualifications to carry on business including, without limitation, all rights, consents and authorizations relating thereto and not cease to conduct its business as conducted at the date of this Commitment, and to conduct its business in a proper, efficient and businesslike manner and in accordance with good business practices;
- 14.4 To comply with all applicable laws and duly observe in all material respects all consents and authorizations and valid requirements of any governmental body, agency or authority having jurisdiction applicable to it;
- 14.5 To keep proper books of account in accordance with sound accounting practice, and provide the Lender with such financial information in respect of the Property that the Lender may request, and to provide the Lender with access thereto during normal business hours;
- 14.6 To permit the Lender or any representative of the Lender on reasonable notice to visit and inspect the Property and to interview contractors and others involved in the construction of the improvements;
- 14.7 To keep in force insurance in respect of the Property which meets the Lender's requirements herein or in the Security;
- 14.8 To keep the Property or cause the Property to be kept in good repair, working order and condition consistent with all consents, authorizations, and applicable laws and, from time to time, (i) to make and cause to be made all needful and proper repairs, renewals, replacements, additions and improvements thereto in accordance with prudent management practices, and (ii) not to permit to be terminated or suspended

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for any period of time any of its right, title or interest in or to any authorization or consent applicable to the completion of the improvements;

- 14.9 To maintain and cause to be maintained and to defend and take all action necessary or advisable at any time and, from time to time, to maintain, defend, exercise, or renew their right, title and interest to their respective properties and assets including, without limitation, the Property;
- 14.10 To make full and timely payment of all obligations hereunder whether now existing or hereafter arising and duly comply with all the terms and covenants contained in this Commitment or in any other agreements entered into pursuant hereto;
- 14.11 To pay and discharge as they become due all payments due and owing under, or with respect to, any previous indebtedness created or security given by them to any person and will observe, perform and carry out all the terms, covenants, provisions and agreements relating thereto;
- 14.12 To notify the Lender promptly upon obtaining knowledge of the institution or anticipated or threatened institution of any proceedings for the expropriation of any part of the Property. If any such property or assets are taken or damaged in or by any such expropriation proceedings or otherwise, the awards of compensation payable to the Borrower as a result of such expropriation shall be and are hereby assigned to the Lender;
- 14.13 At the Borrower's cost and expense, upon request of the Lender, duly execute and deliver, or cause to be duly executed and delivered, such further instruments and do and cause to be done such other acts as may be necessary or proper in the reasonable opinion of the Lender to carry out more effectually the provisions and purposes of this Commitment or any other agreements entered into with the Lender;
- 14.14 If the Borrower or any Covenantor is in default, beyond any applicable cure or notice period, in any covenant to be performed by them hereunder or under the Security, the Lender may perform any covenant capable of being performed by the Lender and if the Lender is put to any costs, charges, expenses or outlays to perform any such covenant, they will indemnify the Lender for such costs, charges, expenses or outlays and such costs, charges, expenses or outlays incurred by the Lender (including solicitors' fees and charges incurred by the Lender on a full indemnity basis) and will be secured by the Security;
- 14.15 That in any judicial proceedings taken to enforce this Commitment and the covenants hereunder or to enforce or redeem the Security or to foreclose the interest of any Borrower in any property subject thereto, the Lender will be entitled to costs on a full indemnity basis;
- 14.16 To diligently construct the improvements and perform and do all things and acts that are necessary to complete them in accordance with the Approved Plans;

- 14.17 In respect of the Borrower or entity Covenantors, in the event of cost overruns or other unforeseen developments in prosecuting the improvements, to use their own money as may be required by the Lender from time to time to pay those costs so

that, at all times, the unadvanced portion of the Loan will not be less than the Lender's then current estimate of the cost to complete the improvements;

- 14.18 To make no changes to the Approved Plans (including, without limitation, water lines, sewer lines, roads, electricity lines, and other such infrastructure) or to the schedule, or any material changes to the Project Budget without the prior written consent of the Lender;
- 14.19 To make all requests for Advances using the form of draw request required by the Lender;
- 14.20 To complete the improvements and to fund from their own resources, all costs overruns, (that is, costs in excess of project budgets approved by the Lender from time to time determined on a cumulative basis), as soon as such overruns arise or are identified by the Lender. The Borrower will not be eligible for further construction draws until such cost overruns are funded by the Borrower or Covenantors; and
- 14.21 To observe the requirements of the *Construction Lien Act* (Ontario) and the regulations pursuant thereto.

15. NEGATIVE COVENANTS

The Borrower covenants with the Lender that it will not, without the consent in writing of the Lender (such consent not to be unreasonably withheld or delayed):

- 15.1 directly or indirectly, sell, convey, transfer or otherwise dispose of the Property or any of its assets, any part thereof, or any of their respective interest in the Property or enter into an agreement to do any of the foregoing;
- 15.2 make, give or create or attempt to make, give or create any mortgage, charge, lien, security interest or encumbrance upon the Property or any part or parts thereof, or its personal property subject to any of the Security, except as permitted by this Commitment;
- 15.3 declare or pay any dividends on any of its shares;
- 15.4 , make any payments to any person other than in the normal course of its business;
- 15.5 , make any payment (whether for principal, interest or otherwise) on account of indebtedness or other amounts owing to, or when initially incurred was owing to, partners, shareholders or directors or related companies or individuals;
- 15.6 , make loans or extend credit to any person (including specifically if it is a corporation, any partner, directors, officers or shareholders and any person related by blood or marriage to such persons or any corporation controlled by such person or relative or by the Borrower or a Covenantor) except customers of in the ordinary course of business;
- 15.7 purchase or redeem any of the shares or ownership interests or otherwise reduce the its share capital;

- 15.8 , except for operating lines of credit maintained in the ordinary course of business, borrow any money from any person other than the Lender, shareholders and trade creditors in the ordinary course of business; or guarantee, indemnify any person for, or endorse for accommodation, the obligations of any other person, directly or indirectly.

16. EVENTS OF DEFAULT

The whole of the outstanding balance of the Loan (including principal, interest, bonus and costs) will immediately become due and payable and the Security will become enforceable in each and every of the following events (each an "Event of Default"):

- 16.1 if the Borrower or any Covenantor (a "Credit Party") fails to observe or perform in any material respect something required to be done or some covenant or condition required to be observed or performed hereunder or pursuant to the Security, including but not limited to the payment of monies when due hereunder, whether principal, interest, fees, costs or other charges;
- 16.2 if any Credit Party does, or permits to be done, anything which they have herein agreed not to do or permit to be done hereunder or pursuant to the Security or this Commitment;
- 16.3 if any representation or warranty given by any Credit Party (or any director or officer thereof) hereunder or pursuant to the Security is untrue in any material respect;
- 16.4 if any Credit party is not in material compliance with all applicable laws, where such non-compliance would have a material adverse effect;
- 16.5 if any permit, license, certification, authorization, consent or quota is cancelled, revoked or reduced, or any order is enforced, preventing the Borrower's business from being carried on for more than 5 days or materially adversely changing the condition (financial or otherwise) of the Borrower's business, including the cessation of either individual Covenantor as the senior person in charge or the responsible person in charge;
- 16.6 if an order is made or a resolution passed for the winding-up of any entity Credit Party, or if a petition is filed for the winding-up of any entity Credit Party, unless the same is being contested actively and diligently in good faith by appropriate and timely proceedings and is dismissed, vacated or permanently stayed within sixty (60) days of institution;
- 16.7 if any entity Credit Party commits any act of bankruptcy or becomes insolvent or makes an assignment or proposal under the *Bankruptcy and Insolvency Act* (Canada) or a general assignment in favour of its creditors or a bulk sale of its assets, or if a bankruptcy petition is filed or presented against any Credit Party, unless the same is being contested actively and diligently in good faith by appropriate and timely proceedings and is dismissed, vacated or permanently stayed within sixty (60) days of institution;
- 16.8 if any proceedings with respect to any Credit Party are commenced under the *Companies Creditors Arrangement Act* (Canada), unless the same is being contested actively and diligently in good faith by appropriate and timely proceedings and is dismissed, vacated or permanently stayed within sixty (60) days of institution;
- 16.9 if any execution, sequestration, extent or any other process of any court become enforceable against any entity Credit Party or if a distress or analogous process is levied

against the property of any entity Credit Party or any part thereof, unless the same is being contested actively and diligently in good faith by appropriate and timely proceedings and is dismissed, vacated or permanently stayed within sixty (60) days of institution;

- 16.10 if any entity Credit Party permits any sum which has been admitted as due by it or is not disputed to be due by it and which forms or is capable of being made a charge upon a Property or a Borrower's or Covenantor's interest therein or other properties and assets subject to the Security, in priority to the Security to remain unpaid after proceedings have been taken to enforce the same as a prior charge, unless the same is being contested actively and diligently in good faith by appropriate and timely proceedings and is dismissed, vacated or permanently stayed within sixty (60) days of institution;
- 16.11 if any entity Credit Party defaults in any material respect in observing or performing any term, covenant or condition of any debt instrument or similar obligation by which it is bound, whether secured or not;
- 16.12 if, without the prior written consent of the Lender, any Credit Party sells, agrees to sell all or substantially all, or otherwise disposes or agrees to dispose of, the Property or an interest therein or any part or parts thereof or any interest therein;
- 16.13 if, without the prior written consent of the Lender, any Credit Party grants or agree to grant any further mortgage or charge over any Credit Party's interest in the Property or any part or parts thereof or any interest therein or otherwise permit the Property to be encumbered in any manner other than by encumbrances specifically permitted hereunder;
- 16.14 if the Borrower or any Covenantor, either directly or indirectly, ceases to carry on business;
- 16.15 if, in the opinion of the Lender, an adverse material change occurs in respect of any entity Credit Party, the Borrower's business, the Property or the Security;
- 16.16 if the Lender believes that the ability of the entity Credit Parties (taken as a whole) to repay the Loan or the ability of any Credit Party to perform any of the covenants contained in this Commitment or the Security is materially impaired or is about to be materially impaired or in material jeopardy; or
- 16.17 if an event of default occurs under any of the Security.

Upon notice of an Event of Default, except for the Events of Default listed in subsections 16.5, 16.6, 16.7, 16.8, or if the Event of Default is not capable of cure, the Credit Parties will have, (a) for monetary Events of Default, 3 days, and (b) for non-monetary Events of Default, 30 days, to cure the condition creating the Event of Default. If not cured within the applicable period, the Covenantors, or any of them, will, upon notice to the Lender, have the right (the "**Payout Right**"), within 15 days of the expiry of the applicable cure period (the "**Payout Period**") to either (x) repay the outstanding indebtedness under the Loan (which will include all principal, accrued and unpaid interest, fees, costs and charges) ("**Indebtedness**"), or (y) acquire the Loan and the Security from the Lender for a purchase price equal to the Indebtedness. If the Covenantors, or any of them, fail to exercise the Payout Right during the Payout Period, the

Lender will be free to exercise any and all of its rights under the Commitment, the Security, or at law or in equity.

The Lender may waive any Event of Default, provided always that no waiver by the Lender or any failure to take any action to enforce its rights or to enforce any security will extend to or be taken in any manner whatsoever to affect any subsequent Event of Default or the rights resulting therefrom.

All remedies stipulated for by the Lender hereunder or in any of the Security will be deemed to be in addition to and not restrictive of the remedies which the Lender might be entitled to at law or in equity and the Lender may realize any of the Security or any part thereof in such order as it may be advised and any such realization by any means will not bar realization of any other security or any part or parts thereof nor will any single or partial exercise of any right or remedy preclude any other or further exercise thereof nor will the failure on the part of the Lender or any delay in exercising any rights under this Commitment or any of the Security operate as a waiver.

If an Event of Default has occurred and is continuing, in addition to and not in limitation of any rights now or hereafter granted under applicable law or the Security, the Lender may without notice to any Credit Party and at any time and from time to time set-off, apply or transfer any or all sums owing from time to time by the Lender to the Borrower towards the satisfaction of the outstanding balance of the Loan (including principal, interest and other amounts owing).

The Borrower and entity Covenantors agree to indemnify and save harmless the Lender and each of its directors, officers, employees and agents from and against all liabilities, claims, losses, damages, costs and expenses in any way caused by or arising directly or indirectly from or in consequence of the occurrence of any Event of Default under this Commitment or the Security. The Borrower and entity Covenantors further agree to indemnify and save harmless the Lender and each of its directors, officers, employees and agents from and against all liabilities, claims, losses, damages, costs and expenses (including investigation costs, clean up costs, and any other actions necessary pursuant to any applicable environmental laws, and all reasonable legal fees, costs and expenses, on a solicitor and own client basis), asserted against or for the account of the Lender, in any way caused by or arising directly or indirectly from or in consequence of the occurrence of any material non-compliance by any Credit Party or any of their agents or other representatives of applicable environmental laws. The indemnities provided for in this paragraph shall survive the termination of this Commitment and the repayment of the Loan.

17. TERMINATION

In the event the Borrower or any Covenantor is in default for any reason whatsoever under the terms of this Commitment, or if it does not fulfill the conditions for disbursement of the Loan in accordance with the terms and conditions contained herein or in any other agreement or document relating to this Commitment, no later than the First Advance Date, or if any information or document supplied by any Borrower or Covenantor is found to be incomplete or inaccurate in a material respect or if for any reason the Borrower does not accept all or a part of the proceeds of the Loan when the Lender makes them available, the parties to this Commitment hereby acknowledge that the Lender shall be entitled, at its discretion, to cancel its obligations under this Commitment and to retain the Standby Deposit as liquidated damages and in such event, this Commitment shall thereafter, subject as hereinafter provided, be null and of no further effect, without any further recourse by either party against the other. In addition, notwithstanding the forfeiture of the Standby Deposit, the Borrower and entity Covenantors shall remain liable and be

required to pay and reimburse the Lender all fees, costs and expenses as set out in Section 10 whether or not the Loan is proceeded with. The aforesaid covenants and agreements with respect to the Standby Deposit and the Borrower's and entity Covenantors' obligations to pay and reimburse the abovementioned amounts are enforceable by the Lender notwithstanding the termination of this Commitment, each of such covenants and agreements having an independent existence from this Commitment.

18. OTHER FINANCING TERMS

18.1 Repayment and Monthly Instalments

Interest computed as provided in Section 6 shall be payable monthly in arrears on the same day of each and every month throughout the Loan Term.

With respect to any advance under the Loan, funds shall be deemed advanced on the earliest of:

- (i) the date that the funds are removed from the Lender's account and designated to the Borrower's account or as the Borrower may direct, or
- (ii) the date upon which the Borrower or its authorized representative has requested the funds to be advanced; or
- (iii) in the case of the first advance, the date scheduled for the first advance as herein set out or as amended pursuant to any written agreement between the Borrower and the Lender.

Upon expiry of the Loan Term, the principal of the Loan, together with interest and all other amounts due and owing by the Borrower to the Lender under the Security (as defined herein) shall become immediately due and payable.

It is hereby agreed that in case default shall be made in payment of any sum to become due for interest at any time appointed for payment thereof as aforesaid, compound interest shall be payable and the sum in arrears for interest from time to time, as well after as before maturity, shall bear interest at the rate aforesaid. If the interest and compound interest are not paid within one (1) month from the time of default, a rest shall be made and interest at the rate aforesaid shall be calculated on the aggregate amount (including all unpaid interest) then due, as well after as before maturity, and so on each month. All such interest and compound interest shall be a charge upon the Property.

18.2 Reserve Fund for Realty Taxes

The Borrower shall maintain all tax accounts current. However, the Lender shall have the right to require, following an Event of Default, the establishment of a tax reserve by way of monthly payments representing the Lender's estimate of one twelfth (1/12) of the annual taxes payable in accordance with the Standard Charge Terms set out in Schedule "B" hereto.

The Lender shall not be responsible for the payment of any taxes except as expressly provided for in Schedule "B".

18.3 Method of Payment of Monthly Instalments of Interest

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The Borrower shall remit payments via an automatic debit service, by submitting the Authorization Form attached hereto as Schedule "D", together with a "void" cheque. If there are any changes to the Borrower's regular payment, the Lender will provide notice at least ten (10) days in advance of the debit. The account information provided in this respect will be kept confidential.

18.4 Condition upon Maturity

In the event that the Borrower fails to repay the principal and interest outstanding on the Loan Maturity Date or any renewal thereof agreed to by the Lender, the Lender may, at its sole discretion, extend the mortgage and the Loan Term for a period of one (1) month from the original Loan Maturity Date or any renewal thereof agreed to by the Lender, at an interest rate equal to the higher between the interest rate for the Loan and the then Royal Bank of Canada Prime Rate per annum plus five percent (5.00%) per annum, calculated and payable monthly. If the Lender does so elect to extend the term for one month but the Loan has not been repaid or renewal has not been finalized within this one (1) month period, then there will be no further extensions and the Lender may exercise its remedies under the Security.

The interest rate applicable will be determined by the Lender as of the first (1st) Banking Day of the month in which the Loan matures.

In this Commitment, "Royal Bank of Canada Prime Rate" means the rate of interest, expressed as a percentage per annum, published and quoted by Royal Bank of Canada or its successor at the bank's head office in Toronto, Ontario, as a reference rate then in effect for determining interest rates on commercial loans in Canadian Dollars in Canada and which is commonly known as the prime lending rate for commercial loans in Canadian Dollars.

"Banking Day" for the purposes of this clause, will mean a day on which the said head office in Toronto, Ontario, for the Royal Bank of Canada or its successor is open for business and which is not a Saturday, Sunday, civic or statutory holiday.

All other terms and covenants under the existing Security shall continue to apply after the term of the Loan is so extended.

The Loan may be paid in full at any time during the one (1) month extension period without notice, bonus or penalty, other than payment of the Extension Fee and any applicable discharge fees as hereafter set out.

An extension fee which is the greater of Five Thousand Dollars (\$5,000.00) or one percent (1.00%) of the outstanding balance shall be added to the principal balance of the Loan if the Lender elects to extend the Loan Term under this clause.

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19. COSTS

The Borrower shall be responsible for all of Lender's costs involved in the preparation, settlement, execution and delivery of this Commitment, the Security and all other documentation related to the Loan.

20. PREPAYMENT PRIVILEGE

The Borrower shall, when not in default, have the right to prepay all of the amount outstanding under the Loan prior to the Loan Maturity Date, on any payment date, upon giving the Lender one (1) month's written notice in advance of payment and upon payment of a bonus equal to one (1) month's interest.

21. PARTIAL DISCHARGES

The Borrower shall have no right to obtain a partial discharge(s) of the Security.

22. SURVEY

Reserved.

23. **REFINANCING**

Reserved.

24. **SPECIAL PROVISIONS**

Reserved.

25. **CROSS-DEFAULT**

The Borrower and Covenantors hereby acknowledge that any default with respect to this Loan will constitute a default with respect to any other debt owing by any of them to the Lender or to an affiliate of the Lender. Vice versa, a default in paying any other debt of the Borrower or a Covenantor owing to the Lender or to an affiliate of the Lender will constitute a default with respect to this Loan. For the purpose of this clause, "affiliate" has the meaning given in the *Business Corporations Act* (Ontario).

26. **SIGNAGE**

If the Property is vacant land, or if an improvement thereon is vacant, or if the provisions of any lease so permit, the Lender may post signage upon the Property, to not exceed 4 feet by 8 feet, stating, "Financing by ROMSPEN INVESTMENT CORPORATION", or words to that effect, and its address and phone number, during the term of the loan or any portion thereof.

27. **ADVERTISING BY LENDER**

The Lender may, in its advertising, describe and/or picture the Property without identifying the Borrower. The cost of any such advertising shall be paid by the Lender.

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28. **APPLICABLE LAW**

The terms and conditions of this Commitment as well as all other documents relating to the execution of the transactions provided for by this Commitment shall be governed by and interpreted in accordance with the laws of the Ontario and the parties hereby irrevocably attorn to the jurisdiction of the courts of Ontario.

29. **MAXIMUM RATE**

If the "interest" (as defined or determined by the statute establishing or defining illegal rates of interest) charged or chargeable ("Interest") under the offer of credit in this Commitment, on the credit advanced pursuant to this Commitment or pursuant to any Security (any of which Interest provision is referred to as the "**Interest Provisions**") would, except for this paragraph, constitute an illegal rate of interest, then the Interest on the credit so advanced or secured will be reduced such that the total Interest under the Interest Provisions will be that amount or rate which collectively equates to that rate of interest that is 1% per annum less than the minimum rate that would be an illegal rate of interest, calculated according to generally accepted actuarial practices and principles. Such reduction will be effected by reducing, or refunding to the Borrowers, such of the interest, charges, and expenses (or a combination thereof) constituting Interest payable as may be designated by the Lender in its sole discretion.

30. **FURTHER ASSURANCES**

The Credit Parties shall with reasonable diligence do all such things and provide all such reasonable assurances as may be required to consummate the transactions contemplated by the Commitment, and shall provide such further documents or instruments required by the Lender as it may deem necessary or desirable to effect the purpose of this Commitment and carry out its provisions.

31. **WITHHOLDING TAXES**

All payments in respect of interest under this Commitment will be made free and clear without deduction or withholdings for any taxes, duties, fees or other charges, unless those deductions or withholdings are required by law. If the Borrower is required by law to make any such deduction or withholding, it will pay such additional amounts as will result in receipt by the Lender of the full amount which would have been paid had no such deduction or withholding been made. If the Borrower is required by law to make a deduction or withholding, the Borrower shall make that deduction or withholding within the time allowed and in the minimum amount required by law. Within 30 days of making any such deduction or withholding, the Borrower shall deliver to the Lender evidence satisfactory to the Lender that the deduction or withholding has been made and that appropriate payment has been made to the relevant taxing authority.

32. **AMENDMENT**

The terms or requirements of this Commitment or any Security may not be waived or varied orally, or by any course of conduct of any officer, employee or agent of the Lender. Any amendment to this Commitment must be in writing and signed by a duly authorized officer of the Lender and the Borrower; provided, however, that the Lender may unilaterally extend the date for return of this Commitment or receipt of any documentation upon written notice to the Borrower.

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33. **ASSIGNMENT BY BENEFICIAL OWNER AND/OR BORROWER**

Neither the Borrower nor any Covenantor shall assign its rights or obligations pursuant to the Commitment or the Security, in whole or in part, without the Lender's prior written consent, which consent may be withheld in the Lender's sole and absolute discretion.

34. **NO OBLIGATION TO ADVANCE**

It is understood that neither the preparation nor the registration of any of the documents contemplated herein shall bind the Lender to advance the Loan or any unadvanced portion thereof.

35. **ENUREMENT**

This Commitment shall enure to the benefit of the Lender and its successors and assigns and be binding upon the Borrower, the Covenantors and their respective heirs, personal representatives, successors and assigns.

36. **CONFIDENTIALITY**

The Borrower and Covenantors acknowledge and agree that the terms and conditions recited herein are confidential between the Borrower, the Covenantors and the Lender. The Borrower and Covenantors agree not to disclose the information contained herein to a third party without the express consent of the Lender.

37. ASSIGNMENT AND SYNDICATION

The Lender shall have the right from time to time, without the consent of any Credit Party, to assign, sell, pledge, convey, syndicate, grant participations or transfer all or any portion of the Loan and the Security, whether directly or by way of securitization, and as part of any such transaction the Lender is hereby authorized to provide to prospective participants in such transactions all information received by the Lender regarding the Credit Parties and the Properties. The Credit Parties agree to cooperate with Lender's efforts to do any of the foregoing and to execute all documents reasonably required by Lender in connection therewith.

38. CREDIT AUTHORIZATION AND CONSENT TO DISCLOSURE

The Lender may collect, retain, release, disclose, exchange, share, transfer and assign from time to time, as it may determine in its sole discretion, all information and materials (including financial statements and information concerning the status of the Loan, such as existing or potential Loan defaults, lease defaults or other facts or circumstances which might affect the performance of the Loan) provided to or obtained by it relating to the Borrower or any Covenantor, the Property or the Loan (both before and after the disbursement of funds and/or default thereunder) without restriction and without notice to or the consent of the Borrower or any Covenantor (and the Borrower and each Covenantor hereby irrevocably consents thereto):

- (a) to any person who has, who acquires, or who proposes to acquire an interest in the Loan;
- (b) to the respective third party advisors and agents (such as lawyers, accountants, auditors, consultants, appraisers and credit verification sources) of such persons;
- (c) to the public or any group in any offering memorandum, prospectus or other disclosure document relating to any sale, syndication or securitization of the Loan

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(including all initial and continuing disclosure requirements), regardless of format or scope of distribution;

- (d) to the public or other interested persons, directly or indirectly through information service providers or other market participants, for the purpose of providing market information from time to time relating to the status of the Loan or any related securitization or any interest therein, regardless of format or scope of distribution;
- (e) to any governmental authority having jurisdiction over the Lender or over any sale, syndication or securitization of the Loan or any trade of any interest therein;
- (f) to any other person in connection with the sale, syndication or securitization of the Loan, including insurers and rating agencies; and
- (g) to any other person in connection with the collection or enforcement proceedings taken under or in respect of the Loan.

Without limiting the foregoing, the Borrower and each Covenantor hereby consents to the Lender obtaining all information as may be necessary from all available sources as to the creditworthiness of the Borrower or such Covenantor and acknowledges that the Lender may collect or come into possession of personal information relating to certain individuals either comprising or otherwise connected with the Borrower or Covenantors which information may include contact information (mailing address, e-mail address, telephone number or fax number), financial information and status (bank account numbers, existing debts, personal net worth or credit history), date of birth, place of employment and social insurance number. The Borrower and each Covenantor acknowledges and agrees that such personal information may be used by Lender in connection with the processing, approving, funding, servicing and administering the Loan and any sale, syndication or securitization of the Loan, and in so doing the Lender may disclose and otherwise deal with personal information in the same manner and to the same persons as provided in the preceding paragraph without restriction and without notice to or the consent of the Borrower or any Covenantor or any related individual. The Borrower and each Covenantor for itself and on behalf of its directors, officers, shareholders and principals, hereby consents to and authorizes such use and disclosure of all such personal information by the Lender and represents and warrants that it has full power and authority to give such consent and authorization.

39. MATERIAL ADVERSE CHANGES

In the event that at any time either before the First Advance or while any indebtedness remains outstanding pursuant to the Loan, the Lender discovers a discrepancy or inaccuracy in any written information, statements or representations made or furnished to the Lender by or on behalf of the Borrower or any Covenantor or concerning the Property or the financial condition and responsibility of the Borrower or any Covenantor or in the event that the Lender discovers any material adverse change in the value of the Property or the financial status of Borrower or any Covenantor or any lessee on which the Lender relied in making any advances pursuant to the Loan, which material change, discrepancy or inaccuracy cannot be or is not rectified by such Borrower or Covenantor or lessee (as applicable) within 30 days after written notification thereof by the Lender to such Borrower or Covenantor or lessee, the Lender shall be entitled to decline to advance any funds pursuant to the Loan and at its option terminate this Commitment or in the event that any funds have already been advanced, to declare any and all amounts advanced together with interest thereon and any costs incurred by the Lender to such date, to be forthwith due and payable.

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40. ENTIRE AGREEMENT

This Commitment, together with its schedules and any agreements, instruments and other documents herein contemplated to be entered into between, by or including the parties hereto constitute the entire agreement between the parties hereto pertaining to the subject matter of this Commitment and supersede all prior agreements, understandings, negotiations and discussions, whether oral or written, with respect thereto. There are no other warranties or representations and no other agreements between the parties hereto in connection with the Loan provided for herein except as specifically set forth in this Commitment and the Borrower's application relating thereto.

41. JOINT AND SEVERAL OBLIGATIONS

If there is more than one Borrower, all payment and performance obligations of the Borrower existing from time to time under this commitment, the Security and all other documents related or entered into pursuant hereto and thereto (collectively, the "Obligations"), shall constitute joint and several obligations of all the Borrowers and each of them. Each Borrower expressly represents and acknowledges that it is part of a common enterprise with the other Borrowers and that any advances of the Loan made by the Lender to one or more persons who is a Borrower hereunder are and will be of direct and indirect interest, benefit and advantage to each of the Borrowers. Each Borrower acknowledges that any draw request or other notice or request given by one Borrower to the Lender shall bind each Borrower, and that any notice given by the Lender to any Borrower shall be effective with respect to all Borrowers. Each Borrower acknowledges and agrees that each Borrower shall be liable, on a joint and several basis, for the Loan and all other Obligations, regardless of which Borrower actually may have received the proceeds of the Loan or other extensions of credit or the amount of such loan received or the manner in which the Lender accounts among the Borrowers for the Loan advanced, or other extensions of credit on its books and records, and further

acknowledges and agrees that Loan and other extensions of credit to any Borrower inure to the mutual benefit of all the Borrowers and that the Lender is relying on the joint and several liability of the Borrowers in extending the Loan hereunder.

42. SCHEDULES

The following documents marked "X" are attached as schedules to this Commitment and form a part hereof:

- X Schedule B Standard Charge Terms and Conditions
- X Schedule C Certificate of Identification
- X Schedule D Pre-authorized debit form for automatic deduction from bank account of Borrower to which must be attached a specimen cheque
- X Schedule H Draw Request
- X Schedule I Draw Certificate

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- X Schedule L Insurance Requirements
 - X Schedule M Certificate of Independent Legal Advice and/or Representation
 - X Schedule O Form of Architect's Certificate
 - X Schedule R Property

43. DATES OF EXPIRY

- 43.1 The Security documents shall be properly executed and delivered to the Lender's solicitors, where applicable, in registerable form no later than three (3) business days prior to the First Advance Date and the advance of funds must take place no later than the First Advance Date.
- 43.2 If on or before the date specified in Section 43.1 the security documents provided to the Borrower or its solicitors have not been so delivered, the Lender may at any time thereafter, in its sole discretion, terminate its obligations under this Commitment in accordance with its provisions.
- 43.3 The Lender may, at its sole option from time to time, elect to extend the above-mentioned date by which the Security documents are to be executed and delivered or the date by which the Loan is to be advanced or any of the other time periods contained in this Commitment. Notwithstanding any such extension, time shall remain of the essence of this Commitment and all other terms and conditions shall remain unchanged.

44. WAIVER

The terms and conditions contained in this Commitment are inserted for the exclusive benefit of the Lender and may be waived in whole or in part by the Lender at any time. No advance, either singularly or collectively, shall constitute a waiver of the Borrower's or any Covenantor's obligations nor obligate the Lender to make further advances.

The Lender's failure to insist upon a strict performance of any obligation or covenant of this Commitment by the Borrower or any Covenantor or to exercise any option or right herein shall not be a waiver, or relinquishment for the future of such obligation or covenant, option or right, but the same shall remain in full force and effect and the Lender shall have the right to insist upon the strict performance by the Borrower and Covenantors of any and all of the terms and provisions of this Commitment and the security documentation.

45. SURVIVAL

Except as specifically provided herein, the terms, conditions, representations and warranties expressed herein shall continue in effect as long as any part of the Loan remains outstanding and shall bind the personal representatives, heirs, successors and assigns of the Credit Parties, shall enure to the benefit of the successors and assigns of the Lender, and shall not merge on the execution or registration of the Security.

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46. COUNTERPARTS

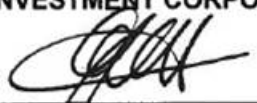
This Commitment may be executed in one or more counterparts, each of which so executed will constitute an original and all of which will constitute one and the same agreement. This Commitment may be executed by any party and transmitted to the other party or parties by facsimile or other electronic means and if so executed and transmitted this Commitment will be for all purposes as effective as if the party in question had delivered an executed original.

ROMSPEN INVESTMENT CORPORATION

By: _____

Name:

Title:


SECRETARY

I have authority to bind the corporation.

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ACCEPTANCE

We hereby accept the terms and conditions set out in this Commitment and submit the Standby Deposit, on this 29th day of May 2015.

BORROWER

PEACE NATURALS PROJECT INC.

Per: [Signature]
Name: Mark Gobuty
Title: CEO

Per: [Signature]
Name: Ann Barnes
Title: Secretary

I/We have authority to bind the Corporation.

COVENANTORS

We hereby accept the terms and conditions of this Commitment and hereby agree, jointly and severally and unconditionally, to observe and perform all obligations of the Borrowers with respect to the Loan.

THE BARNES FAMILY TRUST

Per: [Signature]
Name: Ann Barnes
Title: Trustee

Per: [Signature]
Name: Sherrill Barnes
Title: Trustee

PHARMACAN CAPITAL CORP.

Per: [Signature]
Name: Paul W. ...
Title: CEO

Per: [Signature]
Name: Galen A. Huse
Title: CFO

HORTICAN INC.

Per: [Signature]
Name: Paul W. ...
Title: CEO

Per: [Signature]
Name: Galen A. Huse
Title: CFO

Mark Gobuty [Signature]

Ann Barnes [Signature]

Witness: [Signature]
Witness: [Signature]

UNDERTAKING

TO: TSX VENTURE EXCHANGE (the "Exchange")

RE: CONDUCT OF BUSINESS OF PHARMACAN CAPITAL CORP. ("PharmaCan"), A COMPANY TO BE LISTED ON THE EXCHANGE

THE UNDERSIGNED, hereby undertakes as follows:

1. while listed on the Exchange, it will make investments ("Investments") only in companies whose sole business is or will be the production, sale and distribution of medical marijuana in Canada, as permitted under a Health Canada license;
2. to seek Exchange approval for any Investment which is not an investment in a company whose business is or will be the production, sale and distribution of medical marijuana in Canada, as permitted under a Health Canada license; and
3. to seek Exchange approval for any Investment outside of Canada.

DATED at Toronto, Ontario as of the 28 day of November, 2014

PHARMACAN CAPITAL CORP.

Per: 

Name: Paul Rosen
Title: Director

Per: _____

Name: Lorne Gertner
Title: Director

UNDERTAKING

TO: TSX VENTURE EXCHANGE (the "Exchange")

RE: CONDUCT OF BUSINESS OF PHARMACAN CAPITAL CORP. ("PharmaCan"), A COMPANY TO BE LISTED ON THE EXCHANGE

THE UNDERSIGNED, hereby undertakes as follows:

1. while listed on the Exchange, it will make investments ("Investments") only in companies whose sole business is or will be the production, sale and distribution of medical marijuana in Canada, as permitted under a Health Canada license;
2. to seek Exchange approval for any Investment which is not an investment in a company whose business is or will be the production, sale and distribution of medical marijuana in Canada, as permitted under a Health Canada license; and
3. to seek Exchange approval for any Investment outside of Canada.

DATED at Toronto, Ontario as of the ____ day of _____, 2014

PHARMACAN CAPITAL CORP.

Per:

Name: Paul Rosen
Title: Director

Per:

Name: Lorne Gertner
Title: Director

February 22, 2018

Consent of Independent Registered Public Accounting Firm

We hereby consent to the use in this Registration Statement on Form 40-F of Cronos Group Inc. (the “Company”) of our report dated April 30, 2017 relating to the consolidated financial statements of the Company as at December 31, 2016 and 2015 and for each of the years then ended, which appears in such Registration Statement.

/s/ MNP LLP

Mississauga, Ontario, Canada
Chartered Professional Accountants
Licensed Public Accountants
