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

Form 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2020

or

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

For the transition period from to .

Commission File No. 001-38403

CRONOS GROUP INC.

(Exact name of registrant as specified in its charter)

British Columbia, Canada	**N/A**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
111 Peter St. Suite 300	
Toronto, Ontario	**M5V 2G9**
(Address of principal executive offices)	**(Zip Code)**

416-504-0004
(Registrant's telephone number, including area code)

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

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

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

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

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

Large accelerated filer	x	Accelerated filer	☐
Non-accelerated filer	o	Smaller reporting company	☐
		Emerging growth company	☐

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

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

As of August 5, 2020, there were 349,886,402 common shares of the registrant issued and outstanding.

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

This Quarterly Report contains references to our trademarks and trade names and to trademarks and trade names belonging to other entities. Solely for convenience, trademarks and trade names referred to in this report may appear without the ® or ™ symbols, but such references are not intended to indicate, in any way, that their respective owners will not assert, to the fullest extent under applicable law, their rights thereto. We do not intend our use or display of other companies' trademarks or trade names to imply a relationship with, or endorsement or sponsorship of us or our business by, any other companies.

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

PART IFINANCIAL INFORMATION

Item 1. Financial statements (Unaudited)

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Cronos Group Inc.

Condensed Consolidated Balance Sheets

As of June 30, 2020 and December 31, 2019

(In thousands of U.S. dollars, except share amounts, unaudited)

	As of	
	June 30, 2020	**December 31, 2019**
Assets		
Current assets		
Cash and cash equivalents	$ 1,109,700	$ 1,199,693
Short-term investments	213,614	306,347
Accounts receivable[1]	3,477	4,638
Other receivables	9,568	7,232
Current portion of loans receivable	4,458	4,664
Prepaids and other assets	7,827	9,395
Inventory	53,216	38,043
Total current assets	1,401,860	1,570,012
Investments in equity accounted investees	933	557
Advances to joint ventures	18,598	19,437
Loan receivable, net	65,371	44,967
Property, plant and equipment	164,290	161,809
Right-of-use assets	10,100	6,546
Intangible assets	69,399	72,320
Goodwill	179,736	214,794
Total assets	$ 1,910,287	$ 2,090,442
Liabilities		
Current liabilities		
Accounts payable and other liabilities	$ 28,316	$ 35,301
Current portion of lease obligation	1,206	427
Derivative liabilities	205,714	297,160
Total current liabilities	235,236	332,888
Due to non-controlling interests	3,048	1,844
Lease obligation	8,958	6,680
Total liabilities	$ 247,242	$ 341,412
Commitments and contingencies[2]		
Shareholders' equity		
Share capital[3,4]	$ 565,211	$ 561,165
Additional paid-in capital	27,046	23,234
Retained earnings	1,106,709	1,137,646
Accumulated other comprehensive income (loss)	(33,970)	27,838
Total equity attributable to shareholders of Cronos Group	1,664,996	1,749,883
Non-controlling interests	(1,951)	(853)
Total shareholders' equity	1,663,045	1,749,030
Total liabilities and shareholders' equity	$ 1,910,287	$ 2,090,442

[1] Net of current expected credit loss allowance of $80 as of June 30, 2020 (December 31, 2019 – $136)
[2] Refer to Note 19 and Note 20 in the notes to condensed consolidated financial statements.
[3] Authorized for issuance as of June 30, 2020: unlimited (December 31, 2019 – unlimited).
[4] Shares issued as of June 30, 2020: 349,886,402 (as of December 31, 2019: 348,817,472)

See notes to condensed consolidated financial statements.

Cronos Group Inc.

Condensed Consolidated Statements of Net Income (Loss) and Comprehensive Income (Loss)

For the three and six months ended June 30, 2020 and 2019

(In thousands of U.S dollars, except share and per share amounts)

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Net revenue, before excise taxes	$ 11,432	$ 8,064	$ 20,776	$ 11,455
Excise taxes	(1,549)	(411)	(2,461)	(798)
Net revenue	9,883	7,653	18,315	10,657
Cost of sales	9,774	3,560	16,720	5,009
Inventory write-down	3,062	—	11,024	—
Gross profit (loss)	(2,953)	4,093	(9,429)	5,648
Operating expenses				
Sales and marketing	6,504	4,005	13,616	5,133
Research and development (“R&D”)	3,631	2,300	8,221	3,471
General and administrative	18,437	11,488	42,196	18,781
Share-based payments	2,546	2,647	4,982	4,418
Depreciation and amortization	684	408	1,371	726
Total operating expenses	31,802	20,848	70,386	32,529
Operating loss	(34,755)	(16,755)	(79,815)	(26,881)
Other income (expense)				
Interest income, net	3,734	9,442	11,485	11,528
Share of loss from investments in equity accounted investees	(794)	(741)	(1,966)	(939)
Gain (loss) on revaluation of derivative liabilities	(35,880)	197,310	77,488	525,526
Impairment loss on goodwill and intangible assets	(40,000)	—	(40,000)	—
Financing and transaction costs	—	(3,368)	—	(25,601)
Other income (loss)	(8)	—	786	16,243
Total other income (loss)	(72,948)	202,643	47,793	526,757
Income (loss) before income taxes	(107,703)	185,888	(32,022)	499,876
Income tax expense	—	—	—	—
Net income (loss)	$ (107,703)	$ 185,888	$ (32,022)	$ 499,876
Net income (loss) attributable to:				
Cronos Group	$ (106,977)	$ 185,999	$ (30,937)	$ 500,090
Non-controlling interests	(726)	(111)	(1,085)	(214)
	$ (107,703)	$ 185,888	$ (32,022)	$ 499,876
Other comprehensive income (loss)				
Foreign exchange gain (loss) on translation	$ 51,871	$ 17,947	$ (61,821)	$ 21,845
Total other comprehensive income (loss)	51,871	17,947	(61,821)	21,845
Comprehensive income (loss)	$ (55,832)	$ 203,835	$ (93,843)	$ 521,721
Comprehensive income (loss) attributable to:				
Cronos Group	$ (55,070)	$ 203,947	$ (92,745)	$ 521,932
Non-controlling interests	(762)	(112)	(1,098)	(211)
	$ (55,832)	$ 203,835	$ (93,843)	$ 521,721
Net income (loss) per share				
Basic	$ (0.31)	$ 0.56	$ (0.09)	$ 1.57
Diluted	$ (0.31)	$ 0.16	$ (0.09)	$ 0.41
Weighted average number of outstanding shares				
Basic	349,075,408	334,665,873	348,946,439	317,940,749
Diluted[(1)]	349,075,408	374,676,595	348,946,439	364,872,093

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

See notes to condensed consolidated financial statements.

Cronos Group Inc.

Condensed Consolidated Statements of Changes in Equity (Deficit)

For the three months ended June 30, 2020 and 2019

(In thousands of U.S. dollars, except share amounts)

	Number of shares	Share capital	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Non-controlling interests	Total shareholders' equity (deficit)
Balance at March 31, 2020	348,817,472	$ 563,165	$ 25,483	$ 1,213,686	$ (85,877)	$ (1,189)	$ 1,715,268
Vesting of options	—	—	1,770	—	—	—	1,770
Options exercised	1,068,930	1,329	(1,328)	—	—	—	1
Top-up rights exercised	—	717	—	—	—	—	717
Vesting of restricted share units	—	—	776	—	—	—	776
Vesting of common shares issued in connection with the use of certain publicity rights in brand development	—	—	345	—	—	—	345
Net income (loss)	—	—	—	(106,977)	—	(726)	(107,703)
Other comprehensive income (loss)	—	—	—	—	51,907	(36)	51,871
Balance at June 30, 2020	349,886,402	$ 565,211	$ 27,046	$ 1,106,709	$ (33,970)	$ (1,951)	$ 1,663,045

	Number of shares	Share capital	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Non-controlling interests	Total shareholders' equity (deficit)
Balance at March 31, 2019	333,020,377	$ 421,340	$ 12,244	$ 285,736	$ (5,975)	$ —	$ 713,345
Share issuance costs	—	(76)	—	—	—	—	(76)
Warrants exercised	3,000,000	617	(67)	—	—	—	550
Vesting of options	—	—	2,647	—	—	—	2,647
Options exercised	73,228	56	(45)	(425)	—	—	(414)
Top-up rights exercised	50,938	1,171	—	—	—	—	1,171
Net income (loss)	—	—	—	185,999	—	(111)	185,888
Other comprehensive loss	—	—	—	—	17,948	(1)	17,947
Balance at June 30, 2019	336,144,543	$ 423,108	$ 14,779	$ 471,310	$ 11,973	$ (112)	$ 921,058

See notes to condensed consolidated financial statements.

Cronos Group Inc.

Condensed Consolidated Statements of Changes in Equity (Deficit)

For the six months ended June 30, 2020 and 2019

(In thousands of U.S. dollars, except share amounts, unaudited)

	Number of shares	Share capital	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Non-controlling interests	Total shareholders' equity (deficit)
Balance as of January 1, 2020	348,817,472	$ 561,165	$ 23,234	$ 1,137,646	$ 27,838	$ (853)	$ 1,749,030
Vesting of options	—	—	3,500	—	—	—	3,500
Options exercised	1,068,930	1,329	(1,328)	—	—	—	1
Vesting of restricted share units	—	—	1,482	—	—	—	1,482
Top-up rights exercised	—	717	—	—	—	—	717
Vesting of common shares issued in connection with the use of certain publicity rights in brand development	—	2,000	158	—	—	—	2,158
Net income (loss)	—	—	—	(30,937)	—	(1,085)	(32,022)
Other comprehensive income (loss)	—	—	—	—	(61,808)	(13)	(61,821)
Balance at June 30, 2020	349,886,402	$ 565,211	$ 27,046	$ 1,106,709	$ (33,970)	$ (1,951)	$ 1,663,045

	Number of shares	Share capital	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Non-controlling interests	Total shareholders' equity (deficit)
Balance as of January 1, 2019	178,720,022	$ 175,001	$ 11,263	$ (27,945)	$ (9,870)	$ 100	$ 148,549
Shares issued	149,831,154	248,302	—	—	—	—	248,302
Share issuance costs	—	(3,718)	—	—	—	—	(3,718)
Warrants exercised	7,390,961	2,034	(596)	—	—	—	1,438
Vesting of options	—	—	4,418	—	—	—	4,418
Options exercised	151,468	318	(306)	(835)	—	—	(823)
Top-up rights exercised	50,938	1,171	—	—	—	—	1,171
Net income (loss)	—	—	—	500,090	—	(214)	499,876
Other comprehensive income (loss)	—	—	—	—	21,843	2	21,845
Balance at June 30, 2019	336,144,543	$ 423,108	$ 14,779	$ 471,310	$ 11,973	$ (112)	$ 921,058

See notes to condensed consolidated financial statements.

Cronos Group Inc.

Condensed Consolidated Statements of Cash Flows

For the six months ended June 30, 2020 and 2019

(In thousands of U.S. dollars, except share amounts, unaudited)

	Six months ended June 30,	
	2020	**2019**
Operating activities		
Net (loss) income	$ (32,022)	$ 499,876
Items not affecting cash:		
Inventory write-down	11,024	—
Share-based payments	4,982	4,418
Depreciation and amortization	2,879	1,174
Share of loss from investments in equity accounted investees	1,966	939
Gain on revaluation of derivative liabilities	(77,488)	(525,526)
Gain on disposal of other investments	(769)	(15,498)
Impairment loss on goodwill and intangible assets	40,000	—
Loss (gain) on unrealized foreign exchange	(1,097)	184
Provision for doubtful accounts	1,437	—
Non-cash sales and marketing	2,158	—
Other, net	307	(745)
Net changes in non-cash working capital	(30,570)	(21,591)
Cash flows used in operating activities	(77,193)	(56,769)
Investing activities		
Purchase of short-term investments	(124,576)	(556,876)
Proceeds from disposal of short-term investments	203,678	—
Investments in equity accounted investees	—	(1,658)
Proceeds from sale of other investments	769	19,614
Advances to joint ventures	—	(15,990)
Purchase of property, plant and equipment	(13,344)	(20,918)
Payment of accrued interest on construction loan payable	—	(89)
Purchase of intangible assets	(2,754)	(470)
Advances on loans receivable	(23,974)	(12,222)
Cash flows provided (used) in investing activities	39,799	(588,609)
Financing activities		
Advance from non-controlling interests	—	85
Repayment of lease obligations	(1,184)	(160)
Proceeds from Altria Investment	—	1,809,556
Proceeds from exercise of Top-up Rights	—	619
Proceeds from exercise of warrants and options	1	1,450
Withholding taxes paid on options	—	(836)
Share issuance costs	—	(3,718)
Advance of loans payable	—	48,715
Repayment of loans payable	—	(48,309)
Transaction costs paid on construction loan payable	—	(15,971)
Cash flows provided (used) in financing activities	(1,183)	1,791,431
Effect of foreign currency translation on cash and cash equivalents	(51,416)	36,079
Increase (decrease) in cash and cash equivalents	(89,993)	1,182,132
Cash and cash equivalents, beginning of period	1,199,693	23,927
Cash and cash equivalents, end of period	$ 1,109,700	$ 1,206,059
Supplemental cash flow information		
Interest paid	90	589
Interest received	11,575	7,871

See notes to condensed consolidated financial statements.

(In thousands of U.S. dollars, except for gram and share amounts, unaudited)

1. Background

Cronos Group Inc. ("Cronos Group" or the "Company") was incorporated on August 21, 2012 under the Business Corporations Act (Ontario). Effective July 9, 2020, the Company's legal existence was continued to the Province of British Columbia and under the British Columbia Business Corporations Act. The Company's common shares are currently listed on the Toronto Stock Exchange ("TSX") and Nasdaq Global Market ("Nasdaq") under the ticker symbol "CRON."

Cronos Group is an innovative global cannabinoid company, with international production and distribution across five continents. The Company is committed to building disruptive intellectual property by advancing cannabis research, technology and product development and is building an iconic brand portfolio. Cronos Group's brand portfolio includes PEACE NATURALS™, a global wellness platform; two adult-use brands, COVE™ and Spinach™; and two U.S. hemp-derived consumer products brands, Lord Jones™ and PEACE+™.

Cronos Group has established four strategic joint ventures in Canada, Israel, and Colombia. One of these strategic joint ventures, Cronos Israel (as defined herein) is consolidated for financial reporting purposes. The Company also holds approximately 31% of the issued capital of Cronos Australia Limited ("Cronos Australia") and accounts for its investment in Cronos Australia under the equity method of accounting. For additional discussion regarding the joint ventures and strategic investment, see Note 6.

2. Summary of Significant Accounting Policies

(a) Basis of Presentation

The interim condensed consolidated financial statements of Cronos Group are unaudited. They have been prepared in accordance with Generally Accepted Accounting Principles in the United States ("U.S. GAAP") for interim financial information and with applicable rules and regulations of the U.S. Securities and Exchange Commission relating to interim financial statements. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six months ended June 30, 2020 are not necessarily indicative of the results that may be expected for any other reporting period.

These condensed consolidated financial statements should be read in conjunction with the Company's consolidated financial statements and related notes included in its Annual Report on Form 10-K/A for the year ended December 31, 2019 (the "Annual Financial Statements").

(b) Basis of Consolidation

The accompanying condensed consolidated financial statements include the accounts of the Company, and all entities in which the Company has a controlling voting interest and/or is the primary beneficiary of a variable interest as of and for the period presented. The Company consolidates the financial results of the following entities, which the Company controls:

Subsidiaries	Jurisdiction of Incorporation	Incorporation Date	Ownership Interest [ii]
Cronos Israel G.S. Cultivations Ltd. [i]	Israel	February 4, 2018	70%
Cronos Israel G.S. Manufacturing Ltd. [i]	Israel	September 4, 2018	90%
Cronos Israel G.S. Store Ltd. [i]	Israel	June 28, 2018	90%
Cronos Israel G.S. Pharmacies Ltd. [i]	Israel	February 15, 2018	90%

[i] These Israeli entities are collectively referred to as "Cronos Israel."
[ii] "Ownership interest" is defined as the proportionate share of net income to which the Company is entitled; equity interest may differ from ownership interest.

In the condensed consolidated statements of net income (loss) and comprehensive income (loss), the net income (loss) and comprehensive income (loss) are attributed to the equity holders of the Company and to the non-controlling interests. Non-controlling interests in the equity of Cronos Israel are presented separately in the shareholders' equity (deficit) section of the condensed consolidated balance sheets and condensed consolidated statements of changes in equity (deficit). All intercompany transactions and balances are eliminated upon consolidation.

(c) Goodwill and indefinite life intangible assets

Goodwill and indefinite life intangible assets are reviewed for impairment annually or more frequently when events or changes in circumstances indicate that fair value of the reporting unit has been reduced to less than its carrying value. The Company performs an impairment test annually in the fourth quarter, by comparing the fair value of the reporting unit with its carrying amount, including goodwill. If the fair value of the reporting unit exceeds its carrying amount, goodwill is not considered to be impaired. An impairment charge would be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value. The Company determined that it has two reporting units: the U.S. reporting unit and the Rest of World reporting unit.

During the three months ended June 30, 2020, the Company concluded that the projected impact of the COVID-19 pandemic on its sales and revenues in the near term, together with the volatility in the market conditions during the quarter represented potential indicators of impairment for the U.S. reporting unit. Accordingly, the Company performed an interim impairment analysis during the second quarter of 2020. See Note 13 for more information regarding intangibles assets and goodwill.

3. New Accounting Pronouncements

(a) Adoption of new accounting pronouncements

On January 1, 2020, the Company adopted ASU No. 2018-13, Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement (Topic 820) ("ASU No. 2018-13"). ASU No. 2018-13 adds, modifies, and removes certain fair value measurement disclosure requirements. The adoption of this standard was applied prospectively and did not have a material impact on the Company's condensed consolidated financial statements.

On January 1, 2020, the Company adopted ASU No. 2018-15, Intangibles – Goodwill and Other Internal-use-software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract ("ASU No. 2018-15"). ASU No. 2018-15 amends current guidance to align the accounting for costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing costs associated with developing or obtaining internal-use software. The guidance in ASU No. 2018-15 is effective for annual and interim periods beginning after December 15, 2019, with early adoption permitted. The adoption of this standard was applied prospectively and did not have a material impact on the Company's condensed consolidated financial statements.

On January 1, 2020, the Company adopted ASU No. 2017-04, Intangibles – Goodwill and Other (Topic 350) – Simplifying the Test for Goodwill Impairment ("ASU No. 2017-04"). ASU No. 2017-04 eliminates step 2 from the goodwill impairment test and instead requires an entity to measure the impairment of goodwill assigned to a reporting unit if the carrying value of assets and liabilities assigned to the reporting unit, including goodwill, exceeds the reporting unit's fair value. The guidance in ASU No. 2017-04 is effective for annual and interim goodwill tests completed by the Company beginning on January 1, 2020. The adoption of this standard was applied prospectively and the Company follows a one-step model for goodwill impairment.

(b) New accounting pronouncements not yet adopted

In January 2020, the Financial Accounting Standards Board ("FASB") issued ASU No. 2020-01, Investments-Equity Securities (Topic 321), Investments-Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815) ("ASU No. 2020-01"). ASU No. 2020-01 clarifies the interaction of accounting for the transition into and out of the equity method. The new standard also clarifies the accounting for measuring certain purchased options and forward contracts to acquire investments. The guidance in ASU No. 2020-01 is effective for annual and interim periods beginning after December 15, 2020, with early adoption permitted. The Company is currently evaluating the effect of the adoption of ASU No. 2020-01, but anticipates that the adoption will not have a material impact on its condensed consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes ("ASU No. 2019-12"). ASU No. 2019-12 eliminates certain exceptions and simplifies the application of U.S. GAAP-related changes in enacted tax laws or rates and employee stock option plans. ASU No. 2019-12 is effective for annual and interim periods beginning after December 15, 2020. Early adoption is permitted. The Company is currently evaluating the effect of the adoption of ASU No. 2019-12, but anticipates that the adoption will not have a material impact on its condensed consolidated financial statements.

(In thousands of U.S. dollars, except for gram and share amounts, unaudited)

4. Revenues from Contracts with Customers

Cronos Group disaggregates net revenues based on product type. For further discussion, see Note 18. Receivables were $3,477 as of June 30, 2020 (December 31, 2019 – $4,638). The Company recorded a current expected credit loss allowance on receivables of $80 as of June 30, 2020 (December 31, 2019 – $136).

The Company offers discounts to customers for prompt payment and calculates cash discounts as a percentage of the list price based on historical experience and agreed-upon payment terms. The Company records an allowance for cash discounts, which is included as a contra-asset against receivables on the Company's condensed consolidated balance sheets.

Revenue is measured net of returns. As a result, the Company is required to estimate the amount of returns based on the historical data by customer and product type, adjusted for forward-looking information. This is recorded as a provision against accounts receivable on the Company's consolidated balance sheets. The Company estimates sales returns based principally on historical volume and return rates, as a reduction to revenues. The difference between actual sales and estimated sales returns is recorded in the period in which the actual amounts become known. These differences, if any, have not had a material impact on the Company's condensed consolidated financial statements.

Upon return, products can be extracted from dried cannabis, resold, or destroyed depending on the nature of the product. The Company has assessed that the amount recoverable from returned products for the six months ended June 30, 2020 is not material.

5. Inventory

Inventory is comprised of the following items:

	As of	
	June 30, 2020	**December 31, 2019**
Raw materials	$ 5,488	$ 2,469
Work-in-progress – dry cannabis	21,772	11,538
Work-in-progress – cannabis extracts	19,210	17,975
Finished goods – dry cannabis	4,505	1,798
Finished goods – cannabis extracts	1,716	2,624
Supplies and consumables	525	1,639
Total	$ 53,216	$ 38,043

Inventory is written down for any obsolescence such as slow-moving or non-marketable products, or when the net realizable value of inventory is less than the carrying value. For the three and six months ended June 30, 2020, the Company recorded write-downs related to inventory of $3,062 and $11,024, respectively.

There were no inventory write-downs for the six months ended June 30, 2019.

6. Investments and Advances to Joint Ventures

Variable Interest Entities

The Company holds variable interests in Cronos Growing Company Inc. ("Cronos GrowCo"), Natuera S.à.r.l ("Natuera"), MedMen Canada Inc. ("MedMen Canada") and Cannasoul Lab Services Ltd. ("CLS").

Cronos GrowCo is a joint venture incorporated under the Canada Business Corporations Act ("CBCA") on June 14, 2018 with the objective of building a cannabis production greenhouse, applying for cannabis licenses under the Cannabis Act (Canada), and growing, cultivating, extracting, producing and selling cannabis in accordance with such licenses. Cronos Group holds variable interests in Cronos GrowCo through its ownership of 50% of Cronos GrowCo's common shares and senior secured debt in Cronos GrowCo. The Company has also agreed to purchase a minimum amount of Cronos GrowCo's cannabis product annually, subject to Cronos GrowCo's receipt of all applicable licenses and permits. Cronos GrowCo's economic performance is driven by the quantity and strains of cannabis grown. The joint venture partners mutually determine the quantity and strains of cannabis grown.

Natuera is a joint venture registered in Luxembourg with the objective of cultivating and commercializing medical cannabis to serve the export market. Cronos holds variable interests in Natuera through its ownership of 50% of Natuera's common shares and other debt in the entity. Natuera's economic performance is driven by the quantity and strains of cannabis to be grown. The joint venture partners mutually determine the quantity and strains of cannabis grown.

MedMen Canada is a joint venture incorporated under the CBCA on March 13, 2018, with the objective of the retail sale and marketing of cannabis products in Canada. MedMen Canada holds the exclusive license to the MedMen brand in Canada for a minimum term of 20 years. Cronos holds variable interests in MedMen Canada through its ownership of 50% of MedMen Canada's common shares and other subordinated debt in the entity. MedMen Canada's economic performance is driven by the quantity and strains of cannabis sold. Subject to applicable law, the joint venture partners mutually determine the quantity and strains of cannabis to be sold in MedMen Canada's retail stores, if and when stores are opened.

The Company's investments in Cronos GrowCo, Natuera and MedMen Canada are exposed to economic variability from each entity's performance, however the Company does not consolidate the entities as it does not have the power to direct the activities that most significantly impact the joint ventures' economic performance. Thus, Cronos Group is not considered the primary beneficiary of the entity. These investments are accounted for as equity method investments classified as "Investments in equity accounted investees" in the consolidated balance sheets.

CLS is a wholly owned subsidiary of Cannasoul Analytics Ltd., incorporated with the purpose of establishing a commercial cannabis analytical testing laboratory located on the premises of Cronos Israel (the "Cannasoul Collaboration"). Cronos Israel will advance ILS 8,297 (approximately $2,446) by a non-recourse loan to CLS over a period of two years from April 1, 2020 for the capital and operating expenditures of the laboratory. The loan will bear interest at 3.5% annually. Cronos Israel will receive 70% of the profits of the laboratory until such time as it has recovered 150% of the amounts advanced to CLS, after which time it will receive 50% of the laboratory profits. As a result, the Company is exposed to economic variability from CLS's performance. The Company does not consolidate CLS as it does not have the power to direct the activities that most significantly impact the entity's economic performance; thus, the Company is not considered the primary beneficiary of the entity. The carrying amount of the non-recourse loan is recorded under loans receivable and the full loan amount, ILS 8,297, represents the Company's maximum potential exposure to losses through the Cannasoul Collaboration. See Note 10 for further information regarding loans receivable.

(In thousands of U.S. dollars, except for gram and share amounts, unaudited)

(a) Net investment in equity accounted investees

A reconciliation of the carrying amount of the investments in associates and joint ventures is as follows:

		Carrying Amount	
	Ownership %	June 30, 2020	December 31, 2019
Cronos Australia[(i)]	31%	$ —	$ (346)
Cronos GrowCo	50%	933	1,501
MedMen Canada	50%	—	—
Natuera	50%	—	(598)
		$ 933	$ 557

[(i)] On October 25, 2019, Cronos Australia issued 40 million new shares in an initial public offering at an offering price of A$0.50 per share. The Company's ownership in Cronos Australia decreased from 50% to 31% on November 7, 2019 when Cronos Australia began trading on the Australian Securities Exchange. This resulted in a reconsideration event, which required the reassessment of the Company's VIE conclusion. Upon reconsideration, the Company determined that the entity was no longer a VIE as of December 31, 2019 and is now reported under the equity method.

The Company's share of net earnings (losses) from equity investments accounted for under the equity method of accounting:

	For the three months ended June 30,		For the six months ended June 30,	
	2020	2019	2020	2019
Whistler Medicinal Marijuana Company ("Whistler")	$ —	$ —	$ —	$ 29
Cronos Australia[(i)]	(235)	(397)	(235)	(641)
Cronos GrowCo	(190)	(38)	(501)	(27)
MedMen Canada	—	(2)	—	4
Natuera[(ii)]	(369)	(304)	(1,230)	(304)
	$ (794)	$ (741)	$ (1,966)	$ (939)

[(i)] The Company's share of accumulated net losses in excess of its equity investment and advances in Cronos Australia was $512 for the six months ended June 30, 2020 (June 30, 2019 – $nil).
[(ii)] The Company's share of accumulated net losses in excess of its equity investment in Natuera has been applied as a loss allowance on the loan receivable. See Note 6(b) and Note 10.

(In thousands of U.S. dollars, except for gram and share amounts, unaudited)

(b) Advances to Joint Venture

	MedMen Canada[i]	Cronos GrowCo	Cronos Australia [ii]	Natuera	Total
As of January 1, 2020	$ 471	$ 18,966	$ —	$ —	$ 19,437
Credit loss allowance [iii]	—	—	—	—	—
Effect from foreign exchange	(20)	(819)	—	—	(839)
As of June 30, 2020	$ 451	$ 18,147	$ —	$ —	$ 18,598
As of January 1, 2019	$ 1,244	$ 2,970	$ 475	$ —	$ 4,689
Advances (repayment)	(852)	15,494	274	219	15,135
Advances to joint ventures recovered from (applied to) carrying amount of investments	35	22	(779)	(224)	(946)
Effect from foreign exchange	44	480	30	5	559
As of December 31, 2019	$ 471	$ 18,966	$ —	$ —	$ 19,437

[i] Advance is unsecured, non-interest bearing, and there are no terms of repayment.
[ii] A$1,500 is governed by an unsecured loan bearing interest at a rate of 12% per annum, calculated and compounded daily, in arrears, on the amounts advanced from the date of each advance. The loan is due on January 1, 2022. If the loan is overdue, the outstanding amount bears interest at an additional 2% per annum.
[iii] For the three months ended June 30, 2020, a reversal of $917 related to the credit loss allowance for Cronos GrowCo was recorded as the Company assessed its recoverability. As of June 30, 2020, total credit losses were $nil.

7. Other Investments

Other investments consist of investments in common shares and warrants of several companies in the cannabis industry. As of June 30, 2020, the Company did not hold any other investments.

During the six months ended June 30, 2020, in connection with the achievement of a milestone related to the Whistler transaction described below, the Company received 578,101 shares of Aurora Cannabis Inc. (“Aurora”). The Company sold all of the Aurora shares on March 6, 2020 for gross proceeds of $769 recorded as an other item in other income (expenses). The Company expects to further receive Aurora common shares upon the satisfaction of one milestone remaining, which has not been recognized in these condensed consolidated financial statements. The exact number of Aurora common shares to be issued to the Company following the satisfaction of such milestone will be determined in reference to the five-day volume weighted average price of Aurora common shares immediately prior to the achievement of the applicable milestone. No transactions occurred during the three months ended June 30, 2020.

On March 4, 2019, the Company sold all 2,563 shares of Whistler, representing approximately 19.0% of Whistler’s issued and outstanding common shares, to Aurora, in connection with Aurora's acquisition of Whistler (the “Whistler Transaction”). As a result of the closing of the Whistler Transaction, the Company received 2,524,341 Aurora common shares. During the six months ended June 30, 2019, the Company sold all 2,524,341 common shares of Aurora, for gross proceeds of $19,259 recorded as an other item in other income (expenses). No transactions occurred during the three months ended June 30, 2019.

During the six months ended June 30, 2019, the Company sold all remaining 11,062 common shares of Canopy Growth Corporation (“Canopy”) for gross proceeds of $355. The gains and losses on the Canopy investment were classified as fair value through net income. No transactions occurred during the three months ended June 30, 2019.

(In thousands of U.S. dollars, except for gram and share amounts, unaudited)

8. Accumulated Other Comprehensive Income (Loss)

The following are continuity schedules of accumulated other comprehensive income (loss):

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Net unrealized gain (loss) on revaluation and disposal of other investments				
Balance beginning of period	5	5	5	5
Cumulative effect from adoption of ASU 2016-01	—	—	—	—
Balance as of June 30	5	5	5	5
Net foreign exchange gain (loss) on translation				
Balance beginning of period	(85,882)	(5,980)	27,833	(9,875)
Net unrealized (loss) gain	51,907	17,948	(61,808)	21,843
Balance as of June 30	(33,975)	11,968	(33,975)	11,968
Total accumulated other comprehensive income (loss)	$ (33,970)	$ 11,973	$ (33,970)	$ 11,973

9. Leases

The Company has entered into leases primarily for land-use rights, office premises and equipment used in the production of cannabis and related products. The Company's leases have terms which range from three years to six years, excluding land use rights, which generally extend to 15 years. These leases often include options to extend the term of the lease for up to 10 years. When it is reasonably certain that the option will be exercised, the impact of the option is included in the lease term for purposes of determining total future lease payments.

Operating leases greater than one year are included in right-of-use assets and operating lease liabilities. Finance leases are included in property, plant and equipment on the Company's consolidated balance sheet.

During the six months ended June 30, 2020, the Company recognized two new operating leases for office premises which are included within the lease obligation and right-of-use lines in the condensed consolidated balance sheet.

In June 2020, the Company terminated an operating lease for office premises. The lease was removed from the lease obligation and right-of-use balances in the condensed consolidated balance sheet.

The Company's finance leases were not material as of June 30, 2020 and December 31, 2019.

(In thousands of U.S. dollars, except for gram and share amounts, unaudited)

10. Loans Receivable, net

	As of	
	June 30, 2020	December 31, 2019
Current portion		
Natuera Series A loan [(i)]	$ 2,984	$ 4,575
Cronos GrowCo Credit Facility [(ii)]	1,474	—
Add: Accrued interest	—	89
Total current portion of loans receivable	4,458	4,664
Long term portion		
Cronos GrowCo Credit Facility [(ii)]	50,582	31,678
2645485 Ontario Inc. (**"**Mucci**"**) Promissory Note [(iii)]	11,793	12,587
Cannasoul Collaboration Loan [(iv)]	1,174	—
Add: Accrued interest	1,822	702
Total long-term portion of loans receivable	65,371	44,967
Total loans receivable	$ 69,829	$ 49,631

(i) On September 27, 2019, the Company entered into a master loan agreement (the "Series A Loan") for $4,575 with Natuera with effect as of August 29, 2019. The total aggregate principal amount of the Series A Loan is $9,150, of which the Company has committed to fund 50% and its joint venture partner has committed to fund the remaining 50%. Outstanding principal amounts bear interest at a fixed annual rate of 5.67% with a maturity date of August 29, 2020. As of June 30, 2020, accrued interest is recorded in other receivables. Subsequent to June 30, 2020, an amendement to the agreement was executed. Refer to Note 25.

For the six months ended June 30, 2020, a loss allowance of $1,591 was recorded against the Natuera Series A Loan related to the Company's share of net loss from Natuera in excess of the carrying value of the equity method investment. Refer to Note 6.

(ii) On August 23, 2019, the Company entered into a credit agreement with Cronos GrowCo in respect of a C$100,000 ($73,660) secured non-revolving term loan credit facility (the "GrowCo Credit Facility"). The GrowCo Credit Facility will mature on March 31, 2031 and will bear interest at varying rates based on the Canadian prime rate as announced by the Bank of Montreal. Interest began to accrue as of the closing date of the GrowCo Credit Facility and is payable on a quarterly basis until maturity, except that any interest accrued prior to March 31, 2021 will be payable no later than December 31, 2021. Repayment of principal will be made on a quarterly basis commencing on March 31, 2021. The credit facility is secured by substantially all present and after acquired property of Cronos GrowCo and its subsidiaries. Mucci, the other 50% shareholder of Cronos GrowCo, has provided a limited recourse guarantee in favor of Cronos GrowCo, secured by Mucci's shares in Cronos GrowCo. As of June 30, 2020, Cronos GrowCo had drawn C$72,150 ($53,145) from the Cronos GrowCo Credit Facility.

For the six months ended June 30, 2020, a current expected credit loss allowance of $1,089 was recorded against the GrowCo Facility.

(iii) On June 28, 2019, the Company entered into a promissory note receivable agreement (the "Mucci Promissory Note") for C$16,350 ($12,043) with Mucci. The outstanding principal amount of the Mucci Promissory Note bears interest at 3.95% annually and is due within 90 days of demand. The Company does not intend to demand the loan within 12 months. Interest accrued under the Mucci Promissory Note until July 1, 2021 is payable by way of capitalization on the principal amount and interest thereafter must be paid in cash on a quarterly basis. The Mucci Promissory Note is secured by a general security agreement covering all the assets of Mucci.

For the six months ended June 30, 2020, a current expected credit loss allowance of $250 has been recorded against the Mucci loan.

(iv) On April 1, 2020, Cronos Israel entered into the Cannasoul Collaboration. Cronos Israel has agreed to advance approximately ILS 8,297 (approximately $2,446) by a non-recourse loan to CLS over a period of two years for the capital and operating expenditures of the laboratory. The outstanding principal on the loan bears interest at 3.5% annually and will be repaid through the profits generated from the Cannasoul Collaboration. As of June 30, 2020, CLS has received the first installment of ILS 4,149 (approximately $1,198).

For the six months ended June 30, 2020, a current expected credit loss allowance of $24 has been recorded against the Cannasoul Collaboration loan.

11. Derivative Liabilities

On March 8, 2019, the Company closed the previously announced investment in the Company (the "Altria Investment") by Altria Group, Inc. ("Altria"), pursuant to a subscription agreement dated December 7, 2018. As of the closing date of the Altria Investment, the Altria Investment consisted of 149,831,154 common shares of the Company as of the closing date, issued to a wholly owned subsidiary of Altria and one warrant of the Company (the "Altria Warrant"), refer to Note 15(a), issued to a wholly owned subsidiary of Altria. As of the closing date of the Altria Investment, Altria beneficially held an approximately 45% ownership interest in the Company (calculated on a non-diluted basis). As summarized in this note, if exercised in full on such date, the exercise of the Altria Warrant would have resulted in Altria holding a total ownership interest in the Company of approximately 55% (calculated on a non-diluted basis). Pursuant to the investor rights agreement between the Company and Altria, entered into in connection with the closing of the Altria Investment (the "Investor Rights Agreement"), the Company granted Altria certain rights, among others, summarized in this note.

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

a. The Altria Warrant entitles the holder, subject to certain qualifications and limitations, to subscribe for and purchase up to an additional 10% of the common shares of Cronos (approximately 77.8 million common shares at June 30, 2020) at a per share exercise price of C$19.00 which expires on March 8, 2023.

b. The Company granted to Altria, subject to certain qualifications and limitations, upon the occurrence of certain issuances of common shares of the Company executed by the Company (including issuances pursuant to the R&D partnership with Ginkgo Bioworks Inc. ("Ginkgo") (the "Ginkgo Strategic Partnership"), which is discussed in Note 19(a)(i) below, the right to purchase up to such number of common shares of the Company in order to maintain their ownership percentage of issued and outstanding common shares of the Company immediately preceding any issuance of shares by the Company ("Pre-emptive Rights"), at the same price per common share of the Company at which the common shares are sold in the relevant issuance. The price per common share of the Company to be paid by Altria pursuant to its exercise of its Pre-emptive Rights related to the Ginkgo Strategic Partnership will be C$16.25 per common share. These rights may not be exercised if Altria's ownership percentage of the issued and outstanding shares of the Company falls below 20%.

c. In addition to (and without duplication of) the Pre-emptive Rights, the Company granted to Altria, subject to certain qualifications and limitations, the right to subscribe for common shares of the Company issuable in connection with the exercise, conversion or exchange of convertible securities of the Company issued prior to March 8, 2019 or thereafter (excluding any convertible securities of the Company owned by Altria or any of its subsidiaries), a share incentive plan of the Company, the exercise of any right granted by the Company pro rata to all shareholders of the Company to purchase additional common shares and/or securities of the Company, bona fide bank debt, equipment financing or non-equity interim financing transactions that contemplate an equity component or bona fide acquisitions (including acquisitions of assets or rights under a license or otherwise), mergers or similar business combination transactions or joint ventures involving the Company in order to maintain their ownership percentage of issued and outstanding common shares of the Company immediately preceding any such transactions ("Top-up Rights").

The price per common share to be paid by Altria pursuant to the exercise of its Top-up Rights will be, subject to certain limited exceptions, the 10-day volume-weighted average price of the common shares of the Company on the TSX for the ten full days preceding such exercise by Altria, provided that the price per common share of the Company to be paid by Altria pursuant to the exercise of its Top-up Rights in connection with the issuance of common shares of the Company pursuant to the exercise of options or warrants that were outstanding as of March 8, 2019 will be C$16.25 per common share without any set off, counterclaim, deduction, or withholding. These rights may not be exercised if Altria's ownership percentage of the issued and outstanding shares of the Company falls below 20%. The Altria Warrant, Pre-emptive Rights, and fixed price Top-up Rights have been classified as derivative liabilities; related transaction costs of $22,355 were expensed as financing costs during the year ended December 31, 2019.

(In thousands of U.S. dollars, except for gram and share amounts, unaudited)

A reconciliation of the carrying amounts of the derivative liability is presented below:

	April 1, 2020	(Gain) / Loss on revaluation	Exercise of Rights	Effect from foreign exchange	As of June 30, 2020
(a) Altria Warrant	$ 132,366	$ 30,052	$ —	$ 3,540	$ 165,958
(b) Pre-emptive Rights	13,070	2,610	—	500	16,180
(c) Top-up Rights	20,740	3,218	(727)	1,072	23,576
	$ 166,176	$ 35,880	$ (727)	$ 5,112	$ 205,714

	January 1, 2020	(Gain) / Loss on revaluation	Exercise of Rights	Effect from foreign exchange	As of June 30, 2020
(a) Altria Warrant	$ 234,428	$ (58,052)	$ —	$ (10,418)	$ 165,958
(b) Pre-emptive Rights	12,787	3,925	—	(532)	16,180
(c) Top-up Rights	49,945	(23,361)	(727)	(2,281)	23,576
	$ 297,160	$ (77,488)	$ (727)	$ (13,231)	$ 205,714

Fluctuations in the Company's share price are a primary driver for the changes in the derivative valuations during each reporting period. As the share price decreases for each of the related derivative instruments, the liability of the instrument generally decreases. Share price is one of the significant observable inputs used in the fair value measurement of each of the Company's derivative instruments. During the six months ended June 30, 2020, the Company's share price decreased from December 31, 2019 resulting in a gain on revaluation of $77,488.

The fair values of the derivative liabilities were determined using the Black-Scholes pricing model as of June 30, 2020 and December 31, 2019 applying the following inputs:

	As of June 30, 2020			As of December 31, 2019		
	Altria Warrant	Pre-emptive Rights	Top-up Rights	Altria Warrant	Pre-emptive Rights	Top-up Rights
Share price at valuation date (per share in C$)	$8.18	$8.18	$8.18	$9.97	$9.97	$9.97
Subscription price (per share in C$)	$19.00	$16.25	$16.25	$19.00	$16.25	$16.25
Weighted average risk-free interest rate [(i)]	0.30%	0.29%	0.26%	1.69%	1.73%	1.71%
Weighted average expected life (in years) [(ii)]	2.68	2.00	1.11	3.18	1.25	1.66
Expected annualized volatility [(iii)]	91%	91%	91%	82%	82%	82%
Expected dividend yield	—%	—%	—%	—%	—%	—%

(i) The risk-free interest rate was based on Bank of Canada government treasury bills and bonds with a remaining term equal to the expected life of the derivative liabilities. The risk-free interest rate uses a range of approximately 0.21% to 0.61% as of June 30, 2020 (December 31, 2019 – 1.66% to 1.73%) for the Pre-emptive rights and Top-up rights.

(ii) The expected life in years represents the period of time that the derivative liabilities are expected to be outstanding. The expected life of the Pre-emptive Rights and Top-up Rights is determined based on the expected term of the underlying options, warrants, and shares, to which the Pre-emptive Rights and Top-up Rights are linked. The expected life uses a range of approximately 0.25 year to 5.5 years as of June 30, 2020 (December 31, 2019 – 0.25 year to 6 years).

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

(In thousands of U.S. dollars, except for gram and share amounts, unaudited)

The following table quantifies each of the significant inputs described above and provides a sensitivity analysis of the impact on the reported values of the derivative liabilities. The sensitivity analysis for each significant input is performed by assuming a 10% decrease in the input while other significant inputs remain constant at management's best estimate as of the respective dates. A decrease in the inputs noted below would cause a decrease in derivative liability and as of June 30, 2020, there would be an equal but opposite impact on net income (loss).

	Decrease as of June 30, 2020			Decrease as of December 31, 2019		
	Altria Warrant	Pre-emptive Rights	Top-up Rights	Altria Warrant	Pre-emptive Rights	Top-up Rights
Share price	$ 26,300	$ 2,779	$ 4,939	$ 36,436	$ 2,743	$ 9,577
Weighted average expected life	14,249	1,744	1,272	17,471	2,366	2,178
Expected annualized volatility	27,711	2,652	4,769	33,343	2,180	7,714

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

12. Property, Plant and Equipment

Property, plant and equipment, net consisted of the following:

	As of	
	June 30, 2020	December 31, 2019
Cost		
Land	$ 3,618	$ 3,727
Building	146,685	150,324
Furniture and equipment	11,394	10,156
Computer equipment	651	687
Leasehold improvements	3,116	2,789
Construction in progress	12,492	3,569
Less: accumulated depreciation	(13,666)	(9,443)
Total	$ 164,290	$ 161,809

Depreciation expense included in cost of sales relating to manufacturing equipment and production facilities for the six months ended June 30, 2020 was $759 (June 30, 2019 – $448). Depreciation expense included in operating expenses related to general office space and equipment for six months ended June 30, 2020 was $1,025 (June 30, 2019 – $425). The remaining depreciation is included in inventory.

For the six months ended June 30, 2020, there is $nil (June 30, 2019 – $367) of capitalized interest included in construction in progress.

(In thousands of U.S. dollars, except for gram and share amounts, unaudited)

13. Intangible Assets and Goodwill

The ongoing restrictions and closures experienced by retail stores in the U.S. as a result of the COVID-19 pandemic have negatively impacted sales and demand which has resulted in slower than expected revenue growth in the U.S. reporting unit for the three months ended June 30, 2020. The Company expects the revenue growth and operating results in the U.S. reporting unit to continue to be negatively impacted as the decrease in customer demand and retail closures are expected to continue as a result of the pandemic. The Company performed an interim impairment test during the three months ended June 30, 2020 on the U.S. reporting unit, which holds the Redwood goodwill, as well as the indefinite-lived intangible asset (Lord Jones™ brand) to determine whether the carrying amount of the reporting unit and intangible asset exceeded their respective fair values. The Company reassessed its estimates and forecasts during the second quarter to determine the fair values of the reporting unit and intangible asset. The fair values were determined using a discounted cash flow method on the reporting unit and the relief-from-royalty method on the Lord Jones™ brand. Based on these valuations, the carrying value exceeded the fair value resulting in an impairment on both the reporting unit as well as the Lord Jones™ brand. The Company does not believe the declines in fair values are temporary. The Company recorded $35.0 million of impairment charges on the U.S. reporting unit and $5.0 million on the Lord Jones™ brand for the three and six months ended June 30, 2020.

No impairment loss was recorded for either goodwill or intangible assets during the three and six months ended June 30, 2019.

(a) Intangible Assets

Intangible assets are comprised of the following items:

	Weighted Average Amortization Period (in years)	As of June 30, 2020			
		Cost	Accumulated Amortization	Impairment charges	Net
Software [(i)]	N/A	$ 612	$ (298)	$ —	$ 314
Enterprise Resource Planning (“ERP”) system [(ii)]	5	2,570	—	—	2,570
Health Canada licenses	17	8,255	(1,167)	—	7,088
Lord Jones™ brand	N/A	64,000	—	(5,000)	59,000
Trademarks	N/A	140	—	—	140
Israeli Codes [(iii)]	25	297	(10)	—	287
		$ 75,874	$ (1,475)	$ (5,000)	$ 69,399

(i) Software amortizes using a double declining method.
(ii) During the six months ended June 30, 2020, the Company capitalized costs for the ERP system. As of June 30, 2020, the system is not yet available for use, resulting in no amortization being recorded against the asset.
(iii) The preliminary licenses granted to Kibbutz Gan Shmuel (the Cronos Israel joint venture partner) by the Medical Cannabis Unit of the Israeli Ministry of Health in early 2017 (the “Israeli Codes”) were transferred by non-controlling interests to Cronos Israel in exchange for their equity interests in the Cronos Israel entities specified above.

	Weighted Average Amortization Period (in years)	As of December 31, 2019		
		Cost	Accumulated Amortization	Net
Software [(i)]	N/A	$ 541	$ (202)	$ 339
Health Canada licenses	17	8,627	(976)	7,651
Lord Jones™ brand	N/A	64,000	—	64,000
Trademarks	N/A	36	—	36
Israeli Codes [(ii)]	25	298	(4)	294
		$ 73,502	$ (1,182)	$ 72,320

(i) Software amortizes using a double declining method.
(ii) The Israeli Codes were transferred by non-controlling interests to Cronos Israel in exchange for their equity interests in the Cronos Israel entities specified above.

The aggregate amortization for the six months ended June 30, 2020 was $346 (June 30, 2019 – $301). Intangible asset additions in 2020 included the ERP system for $2,570. There was $37 related to disposals of software during the six months ended June 30, 2020.

The amortization expense for the next five years on intangible assets in use is estimated to be as follows: 2021 – $565; 2022 – $553; 2023: $536; 2024 – $520; 2025 – $506.

(In thousands of U.S. dollars, except for gram and share amounts, unaudited)

(b) Goodwill

	As of December 31, 2019	Additions	Impairment charges	Effect of foreign exchange	As of June 30, 2020
OGBC	$ 302	$ —	$ —	$ (13)	$ 289
Peace Naturals	1,078	—	—	(45)	1,033
Redwood	213,414	—	(35,000)	—	178,414
	$ 214,794	$ —	$ (35,000)	$ (58)	$ 179,736

14. General and Administrative Expenses

General and administrative expense are comprised of the following items:

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Salaries and wages	$ 6,337	$ 3,354	$ 13,803	$ 5,348
Professional and consulting	3,263	5,051	8,849	7,254
Office and general	3,545	2,622	6,620	5,523
Review costs related to restatement of 2019 interim financial statements [(i)]	3,459	—	7,866	—
Other	1,833	461	5,058	656
Total	$ 18,437	$ 11,488	$ 42,196	$ 18,781

[(i)] These financial statement review costs include costs related to the restatement of the Company's 2019 interim financial statements and costs related to the Company's responses to request for information from various regulatory authorities relating to such restatement.

15. Share-based Payments

(a) Warrants

The following is a summary of the changes in warrants during the six months ended June 30, 2020 and 2019:

	Weighted average exercise price (C$)	Number of warrants
Balance as of January 1, 2020	$ 0.26	$ 18,066,662
Balance as of June 30, 2020	$ 0.26	$ 18,066,662
Balance as of January 1, 2019	$ 0.26	$ 25,457,623
Exercise of warrants	0.36	(7,390,961)
Balance as of June 30, 2019	$ 0.22	$ 18,066,662

As of June 30, 2020, the Company had outstanding warrants as follows. For a description of the Altria Warrant, see Note 11.

Grant Date	Expiry date	Weighted average exercise price (C$)	Number of warrants
October 8 – 28, 2015	October 8 – 28, 2020	$ 0.31	$ 2,976,610
May 13 – 27, 2016	May 13 – 27, 2021	0.25	15,090,052
As of June 30, 2020		$ 0.26	$ 18,066,662

(In thousands of U.S. dollars, except for gram and share amounts, unaudited)

(b) Stock options

(i) Stock option plans

The Company adopted an amended and restated stock option plan dated May 26, 2015 (the "2015 Stock Option Plan") which was approved by shareholders of the Company at the annual general meeting of shareholders held on June 28, 2017. The 2015 Stock Option Plan allowed the Company's Board of Directors (the "Board") to award options to purchase shares to directors, officers, key employees and service providers of the Company. As of June 28, 2018, no further awards will be granted under the 2015 Stock Option Plan; however, shares may be purchased via option exercise by the holders of any outstanding options previously issued under the 2015 Stock Option Plan. As of June 30, 2020, options to purchase 10,486,569 Company common shares were outstanding under the 2015 Stock Option Plan.

On June 28, 2018, the shareholders of the Company approved a stock option plan (the "2018 Stock Option Plan"), which replaced the 2015 Stock Option Plan. As of June 25, 2020, the date on which the 2020 Omnibus Plan (as defined below) was approved by the shareholders of the Company, no further awards will be granted under the 2018 Stock Option Plan; however, shares may be purchased via option exercise by the holders of any outstanding options previously issued under the 2018 Stock Option Plan. As of June 30, 2020, options to purchase 1,727,979 Company common shares were outstanding under the 2018 Stock Option Plan.

On March 29, 2020, the Board adopted a new omnibus equity incentive plan (the "2020 Omnibus Plan"), which was approved by the shareholders of the Company at the annual and special meeting of shareholders held on June 25, 2020. The 2020 Omnibus Plan provides for grants of stock options, share appreciation rights, restricted shares, restricted share units and other share-based or cash-based awards, which are subject to terms as determined by the Compensation Committee of the Board, and awards may be granted to eligible employees, non-employee directors and consultants. As of June 30, 2020, no grants of options have been made under the 2020 Omnibus Plan.

For the three and six months ended June 30, 2020, the total stock-based compensation expense associated with the stock option plans was $1,770 (June 30, 2019 – $2,647) and $3,500 (June 30, 2019 – $4,418), respectively.

(ii) Summary of changes

The following is a summary of the changes during the six months ended June 30, 2020 and 2019:

	Weighted average exercise price (C$)	Number of options	Weighted average remaining contractual term (years)
Balance as of January 1, 2020	$ 4.84	14,149,502	2.56
Exercise of options	2.05	(1,807,909)	
Cancellation, forfeiture and expiry of options	15.78	(127,045)	
Balance as of June 30, 2020	$ 5.13	12,214,548	2.05
Exercisable at June 30, 2020	3.42	8,688,645	1.78
Balance as of January 1, 2019	$ 2.99	12,902,995	3.35
Issuance of options	20.81	1,315,787	
Exercise of options	3.76	(227,342)	
Cancellation, forfeiture and expiry of options	1.63	(2,895)	
Balance as of June 30, 2019	$ 4.66	13,988,545	3.04
Exercisable as of June 30, 2019	2.40	6,580,238	2.69

(In thousands of U.S. dollars, except for gram and share amounts, unaudited)

(iii) Fair value of options issued

The fair value of the options issued was determined using the Black-Scholes option pricing model, using the following inputs:

	For the six months ended June 30, 2019
Share price at grant date (per share)	C$20.65 - C$24.75
Exercise price (per option)	C$20.65 - C$24.75
Risk-free interest rate	1.51% - 1.62%
Expected life of options (in years)	5
Expected annualized volatility	80%
Expected dividend yield	—%
Weighted average Black-Scholes value at grant date (per option)	C$13.29 - C$15.91
Forfeiture rate	—%

No stock options were granted under the 2018 Stock Option Plan or the 2020 Omnibus Plan during the six months ended June 30, 2020. During the six months ended June 30, 2019, the weighted average fair value per share at grant date of options was C$13.35.

The expected life of the awards represents the period of time stock options are expected to be outstanding and is estimated considering vesting terms and employees' and non-employees' historical exercise and post-vesting employment termination behavior. Volatility was estimated by using the historical volatility of the Company, adjusted for the Company's expectation of volatility going forward. The risk-free interest rate was based on the Bank of Canada government bonds with a remaining term equal to the expected life of the options at the grant date.

(c) Restricted share units

On May 11, 2020, the Company issued an aggregate of 279,277 restricted stock units ("RSUs") to certain employees in connection with the 2020 Omnibus Plan. Each RSU entitles the holder to receive upon vesting one common share of the Company. The fair value of these RSUs has been determined based on the quoted market price of the applicable exchange on the date of issuance of C$7.52 per share on TSX or $5.42 per share on NASDAQ. The RSUs vest annually in equal installments over a three-year period following the grant date and have no performance requirements.

On September 5, 2019, the Company issued an aggregate of 732,972 RSUs to certain employees in connection with the acquisition of four Redwood Holding Group, LLC subsidiaries (collectively, "Redwood") and pursuant to Employment Inducement Award Plan. Each RSU entitles the holder to receive upon vesting one common share of the Company. The fair value of these RSUs has been determined based on the quoted market price on the date of issuance of C$15.34 per share. Under the terms of the corresponding RSU agreement, the RSUs vest on the third anniversary following the grant date and have no performance requirements.

On July 20, 2020, the Company entered into separation agreements with Robert Rosenheck and another Redwood Wellness, LLC ("Redwood") employee pursuant to which they resigned from their employment with Redwood. In connection with such separation agreements, the 732972 outstanding and unvested RSUs as of July 20, 2020 to which they were entitled were accelerated and vested as of July 20, 2020. Refer to Note 25 for further information.

For the three and six months ended June 30, 2020, the Company recorded $776 and $1,482 (June 30, 2019 – $nil) in share-based compensation expense related to these RSUs, respectively.

The following is a summary of the changes in RSUs from January 1, 2020 to June 30, 2020:

	Number of RSUs	Share-based reserve
Balance as of January 1, 2020	732,972	$ 889
Issuance of RSUs	279,277	—
Vesting of issued RSUs	—	1,482
Balance as of June 30, 2020	1,012,249	$ 2,371

No RSUs were granted or outstanding during the six months ended June 30, 2019.

(In thousands of U.S. dollars, except for gram and share amounts, unaudited)

(d) Deferred share units

On August 10, 2019, the Company established a cash-settled deferred share unit plan ("DSU Plan") pursuant to which its non-executive directors receive deferred share units ("DSUs"). The DSU Plan is designed to promote a greater alignment of long-term interests between non-executive directors and shareholders. The number of DSUs granted under the DSU Plan (including fractional DSUs) is determined by dividing the amount of remuneration payable by the closing price as reported by the TSX on the trading day immediately preceding the day of grant. DSUs are payable at the time a non-executive director ceases to hold the office of director for any reason and are settled by a lump-sum cash payment, in accordance with the terms of the DSU Plan, based on the fair value of the DSUs at such time. The fair value of the cash payout is determined by multiplying the number of DSUs vested at the payout date by the closing price as reported by the TSX on the trading day immediately preceding the payout date. The fair value of the cash payout is determined at each reporting date based on the fair value of the Company's common shares at the reporting date and is recorded within other liabilities.

The following is a summary of the changes in DSUs from January 1, 2020 to June 30, 2020:

	Number of DSUs	Financial liability
Balance as of January 1, 2020	33,397	$ 255
Liabilities settled	(8,484)	(46)
Loss (gain) on revaluation	—	(56)
Balance as of June 30, 2020	24,913	$ 153

No DSUs were granted or outstanding during the six months ended June 30, 2019.

16. Earnings (loss) Per Share

Basic and diluted earnings (loss) per share are calculated using the following numerators and denominators:

	For the three months ended June 30,		For the six months ended June 30,	
	2020	2019	2020	2019
Basic earnings per share computation				
Net income (loss) attributable to common shareholders of Cronos Group	$ (106,977)	$ 185,999	$ (30,937)	$ 500,090
Weighted average number of common shares outstanding	349,075,408	334,665,873	348,946,439	317,940,749
Basic earnings per share	$ (0.31)	$ 0.56	$ (0.09)	$ 1.57
Diluted earnings per share computation[(i)]				
Net income (loss) used in the computation of basic earnings per share	$ (106,977)	$ 185,999	$ (30,937)	$ 500,090
Adjustment for gain (loss) on revaluation of derivative liabilities	(729)	(126,032)	(729)	(350,758)
Net income (loss) used in the computation of diluted income per share	$ (107,706)	$ 59,967	$ (31,666)	$ 149,332
Weighted average number of common shares outstanding used in the computation of basic earnings per share	349,075,408	334,665,873	348,946,439	317,940,749
Dilutive effect of warrants [(i)]	—	19,287,262	—	21,239,056
Dilutive effect of stock options [(i)]	—	10,992,464	—	11,291,914
Dilutive effect of restricted share units [(i)]	—	—	—	—
Dilutive effect of Altria Warrant [(i)]	—	9,100,465	—	13,633,605
Dilutive effect of Top-up Rights – exercised and exercisable fixed price [(i)]	—	630,531	—	766,769
Weighted average number of common shares for computation of diluted income (loss) per share	349,075,408	374,676,595	348,946.439	364,872,093
Diluted earnings per share	$ (0.31)	$ 0.16	$ (0.09)	$ 0.41

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

(In thousands of U.S. dollars, except for gram and share amounts, unaudited)

The following securities were not included in the computation of diluted shares outstanding because the effect would be anti-dilutive or because conditions for contingently issuable shares were not satisfied at the end of the reporting periods.

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Ginkgo Equity Milestones	14,674,904	14,674,904	14,674,904	14,674,904
Pre-emptive Rights	12,006,740	12,006,740	12,006,740	12,006,740
Top-up Rights – fixed price	26,686,413	—	26,686,413	—
Top-up Rights – market price	1,941,349	25,150,434	1,941,349	25,150,434
Altria Warrant	77,752,533	1,076,553	77,752,533	1,076,553
Stock options	10,495,235	51,830	10,547,256	51,830
Warrants	17,536,558	—	17,521,903	—
Restricted share units	1,012,249	—	1,012,249	—
Total anti-dilutive securities	162,091,326	52,960,461	162,158,002	52,960,461

17. Related Party Transactions and Balances

On March 8, 2019, in connection with the Altria Investment, Altria, through certain of its wholly owned subsidiaries, purchased a 45% equity interest in the Company. During the three and six months ended June 30, 2020, the Company incurred $281 and $953 respectively, for consulting services from Altria Pinnacle LLC, a subsidiary of Altria (“Altria Pinnacle”). As of June 30, 2020, the accrual for these consulting services was $281 (December 31, 2019 – $1,152). No consulting services were provided by Altria Pinnacle for the three and six months ended June 30, 2019.

During 2019, the Company purchased machinery and equipment amounting to $1,258 from a subsidiary of Altria. Refer to Note 19 for additional information.

Refer to Note 11 for further information on the derivative liabilities related to the Altria Investment.

There were no other material related party transactions for the six months ended June 30, 2020 or June 30, 2019.

18. Segment Information

Segment reporting is prepared on the same basis that the Company’s chief operating decision makers (the “CODMs”) manage the business, make operating decisions and assess the Company’s performance. The Company determined that it has the following two reportable segments: United States and Rest of World. The United States operating segment consists of the manufacture and distribution of hemp-derived CBD infused products. The Rest of World operating segment is involved in the cultivation, manufacture, and marketing of cannabis and cannabis-derived products for the medical and adult-use markets. These two segments represent the geographic regions in which the Company operates and the different product offerings within each geographic region. The results of each segment are regularly reviewed by the CODMs to assess the performance of the segment and make decisions regarding the allocation of resources. The CODMs review operating income (loss) as the measure of segment profit or loss to evaluate performance of and allocate resources for its reportable segments. Operating income (loss) is defined as net revenue less cost of sales and operating expenses.

Reporting by operating segments 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 internal reporting prepared for the CODMs. Intersegment transactions are recorded at the stated values as agreed to by the segments.

(In thousands of U.S. dollars, except for gram and share amounts, unaudited)

Segment data was as follows for the three months ended June 30, 2020:

	Three months ended June 30, 2020			
	United States	**Rest of World**	**Corporate**	**Total**
Consolidated statements of net income (loss) and comprehensive income (loss)				
Net revenue				
Cannabis flower	$ —	$ 5,674	$ —	$ 5,674
Cannabis extracts	2,174	1,917	—	4,091
Other	—	118	—	118
Net revenue	$ 2,174	$ 7,709	$ —	$ 9,883
Share of loss from investments in equity accounted investees	$ —	$ 794	$ —	$ 794
Interest income	8	3,811	(2)	3,817
Interest expense	—	(83)	—	(83)
Interest income, net	$ 8	$ 3,728	$ (2)	$ 3,734
Impairment loss on goodwill and intangible assets	40,000	$ —	$ —	$ 40,000
Depreciation and amortization	36	654	(6)	684
Income tax expense	—	—	—	—
Net income (loss)	(47,762)	(52,899)	(7,042)	(107,703)

(In thousands of U.S. dollars, except for gram and share amounts, unaudited)

Segment data was as follows for the six months ended June 30, 2020:

	Six months ended June 30, 2020			
	United States	Rest of World	Corporate	Total
Consolidated statements of net income (loss) and comprehensive income (loss)				
Net revenue				
Cannabis flower	$ —	$ 8,415	$ —	$ 8,415
Cannabis extracts	4,350	5,317	—	9,667
Other	—	233	—	233
Net revenue	$ 4,350	$ 13,965	$ —	$ 18,315
Share of loss from investments in equity accounted investees	$ —	$ 1,966	$ —	$ 1,966
Interest income	13	11,562	—	11,575
Interest expense	—	(90)	—	(90)
Interest income, net	$ 13	$ 11,472	$ —	$ 11,485
Impairment loss on goodwill and intangible assets	40,000	$ —	$ —	$ 40,000
Depreciation and amortization	69	1,302	—	1,371
Income tax expense	—	—	—	—
Net income (loss)	(57,567)	39,257	(13,712)	(32,022)
Consolidated balance sheets				
Total assets	$ 250,470	$ 348,569	$ 1,311,248	$ 1,910,287
Investments in equity accounted investees	—	933	—	933
Goodwill	178,414	1,322	—	179,736
Purchase of property, plant and equipment, net	219	13,125	—	13,344

Sources of net revenue for the three and six months ended June 30, 2020 and 2019 were as follows:

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Cannabis flower	5,674	6,096	$ 8,415	$ 7,921
Cannabis extracts	4,091	1,535	9,667	2,638
Other	118	22	233	98
Net revenue	$ 9,883	$ 7,653	$ 18,315	$ 10,657

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

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Canada	7,416	7,340	$ 13,507	$ 10,323
United States	2,174	—	4,350	—
Other countries	293	313	458	334
Total	$ 9,883	$ 7,653	$ 18,315	$ 10,657

(In thousands of U.S. dollars, except for gram and share amounts, unaudited)

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

	As of June 30, 2020	As of December 31, 2019
Canada	$ 140,357	$ 141,021
United States	2,253	2,103
Other countries	21,680	18,685
Total	$ 164,290	$ 161,809

The Company sells products through a limited number of major customers. Major customers are defined as customers that each individually accounted for greater than 10% of the Company's revenues and greater than 10% of accounts receivable.

United States

During the three and six months ended June 30, 2020, the U.S. segment had no major customers.

As of June 30, 2020, $46 (December 31, 2019 – $12) in expected credit losses has been recognized on receivables from contracts with customers.

Rest of World

During the three months ended, June 30, 2020, the Rest of World segment earned a total net revenue before excise taxes of $7,040 from four major customers, BC Liquor Distribution Branch, Alberta Gaming, Liquor and Cannabis Commission, Ontario Cannabis Retail Corporation, and Société Québécoise du Cannabis accounting for 26%, 19%, 16% and 12% of the Company's total revenues, respectively (three months ended June 30, 2019 – $4,118 from one major customer accounting for 54% of the Company's total revenues).

During the six months ended, June 30, 2020, the Rest of World segment earned a total net revenue before excise taxes of $11,819 from the same four major customers as mentioned above, representing 19%, 22%, 13%, and 13% of the Company's total revenues, respectively (six months ended June 30, 2019 – $5,800 from two major customers, together accounting for 54% of the Company's total revenues).

As of June 30, 2020, $34 (December 31, 2019 – $124) in expected credit losses has been recognized on receivables from contracts with customers.

19. Commitments

(a) R&D Commitments

(i) *Ginkgo.* On September 4, 2018, the Company announced an R&D partnership with Ginkgo to develop scalable and consistent production of eight target cannabinoids, including THC, CBD and a variety of other lesser known and rarer cannabinoids. As part of this partnership, Cronos Group has agreed to issue up to 14,674,903 common shares of the Company (aggregate value of approximately $100,000 as of July 17, 2018 assuming all milestones are met) (collectively the "Ginkgo Equity Milestones") in tranches and $22,000 in cash subject to Ginkgo's achievement of certain milestones and to fund certain R&D expenses, including foundry access fees.

(ii) *Technion.* On October 15, 2018, the Company entered into a sponsored research agreement with the Technion Research and Development Foundation of the Technion – Israel Institute of Technology ("Technion"). Research will be focused on the use of cannabinoids and their role in regulating skin health and skin disorders. The Company has committed to $1,784 of research funding over a period of three years. An additional $4,900 of cash payments will be paid to Technion upon the achievement of certain milestones.

(b) Altria Consulting Services

On February 18, 2019, the Company entered into an agreement with a wholly owned subsidiary of Altria (which agreement was subsequently amended and restated to substitute Altria Pinnacle as a party thereto), to receive strategic advisory and project management services from Altria Pinnacle (the "Services Agreement"). Pursuant to the Services Agreement, the Company will pay Altria Pinnacle a monthly fee equal to the product of one hundred and five percent (105%) and the sum of: (i) all costs directly associated with the services incurred during the monthly period, and (ii) a reasonable and appropriate allocation of indirect costs incurred during the monthly period. The Company will also pay all third-party direct charges incurred during the monthly period in connection with the services, including any reasonable and documented costs, fees and expenses associated with obtaining any consent, license or permit. The Services Agreement will remain in effect until terminated by either party.

(c) Use of Publicity Rights in Brand Development

On December 23, 2019, the Company issued 856,017 restricted common shares to an accredited investor in a private placement ("Private Placement – 2019") in reliance on Section 4(a)(2) of the Securities Act of 1933 in connection with the use of certain publicity rights in brand development. One-third of such common shares vested on January 31, 2020 with the remaining shares vesting in two equal installments on June 23, 2021, and December 23, 2022. The issuance did not involve a public offering and was made without general solicitation or advertising. The total fair value of the consideration paid for the issuance of such common shares was approximately $6,000. The fair value of the shares was calculated using the ten-day volume weighted average price per share of the Company's common shares on Nasdaq.

Additional restricted common shares are issued when certain performance milestones are achieved:

(i) First Performance Issuance: if, prior to December 23, 2022, the product line generates at least $50,000 in net revenue, additional common shares with an aggregate value of $1,000 will be issued.

(ii) Second Performance Issuance: if, prior to December 23, 2022, the product line generates at least $100,000 in net revenue, additional common shares with an aggregate value of $1,000 will be issued (together with the First Performance Issuance noted above).

The number of common shares that would be issued upon achieving the foregoing milestones will be determined based on the ten-day volume weighted average price per share of the Company's common shares on Nasdaq as of the trading day immediately prior to the date of filing with the SEC of the Company's audited year-end financial statements for the first fiscal year during which such milestones are achieved.

(d) Take or Pay Supply Agreement

In January 2020, the Company entered into a take or pay supply agreement with a supplier of dried cannabis flower. The Company agreed to purchase a minimum of approximately C$1,734 ($1,290) of dried cannabis flower over 6 months from the date of the agreement and, subject to the supplier's satisfaction of certain conditions and the availability of additional product, potentially up to a maximum of approximately C$4,284 ($3,188) over 6 months from the date of the agreement. As at June 30, 2020, the Company is committed to purchase approximately C$1,230 ($906) of dried cannabis flower remaining under this agreement which, due to delays in deliveries from the supplier, are expected to be made during the remainder of 2020.

20. Contingencies

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

(a) Class Action Complaints Relating to Restatements

On March 11 and 12, 2020, two alleged shareholders of the Company separately filed two putative class action complaints in the U.S. District Court for the Eastern District of New York against the Company and its Chief Executive Officer and Chief Financial Officer alleging violations of Section 10(b) of the Securities Exchange Act of 1934 (the "Exchange Act") and Rule 10b-5 promulgated thereunder against all defendants, and Section 20(a) of the Exchange Act against the individual defendants. The complaints generally allege that certain of the Company's prior public statements about revenues and internal controls were incorrect based on the Company's March 2, 2020, disclosure that the Audit Committee of its Board of Directors was conducting a review of the appropriateness of revenue recognized in connection with certain bulk resin purchases and sales of products through the wholesale channel. The complaints do not quantify a damage request. Defendants have not yet responded to the complaints.

On June 3, 2020, an alleged shareholder filed a Statement of Claim in the Ontario Superior Court of Justice in Toronto, Ontario, Canada, seeking, among other things, an order certifying the action as a class action on behalf of a putative class of shareholders and damages of an unspecified amount. The Statement of Claim names the Company, its Chief Executive Officer, Chief Financial Officer, former Chief Financial Officer and Chief Commercial Officer, and current and former members of its Board of Directors as defendants and alleges breaches of the Ontario Securities Act, oppression under the Ontario Business Corporations Act and common law misrepresentation. The Statement of Claim generally alleges that certain of the Company's prior public statements about revenues and internal controls were misrepresentations based on the Company's March 2, 2020 disclosure that the Audit Committee of its Board of Directors was conducting a review of the appropriateness of revenue recognized in connection with certain bulk resin purchases and sales of products through the wholesale channel, and the Company's subsequent restatements. The Statement of Claim does not quantify its damage request. The Company and the other named defendants have not yet filed a response to the Statement of Claim.

(b) Regulatory Reviews Relating to Restatements

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

(c) Litigation Relating to Marketing, Distribution and Sale of Products

On June 16, 2020, an alleged consumer filed a Statement of Claim on behalf of a class in the Court of Queen's Bench of Alberta in Alberta, Canada, against the Company and other Canadian cannabis manufacturers and/or distributors. The Statement of Claim alleges claims related to the defendants' advertised content of cannabinoids in cannabis products for medicinal use on or after June 16, 2010 and cannabis products for adult use on or after October 17, 2018. The Statement of Claim seeks a total of C$500 million for breach of contract, compensatory damages, and unjust enrichment or such other amount as may be proven in trial and C$5 million in punitive damages against each defendant, including the Company. The Statement of Claim also seeks interest and costs associated with the action. The Company has not responded to the Statement of the Claim.

A number of claims, including purported class actions, have been brought in the U.S. against companies engaged in the U.S. hemp business alleging, among other things, violations of state consumer protection, health and advertising laws. On April 8, 2020, a putative class action complaint was filed in the U.S. District Court for the Central District of California against Redwood, alleging violations of California's Unfair Competition Law, False Advertising Law, Consumers Legal Remedies Act, and breaches of the California Commercial Code for breach of express warranties and implied warranty of merchantability with respect to Redwood's marketing and sale of U.S. hemp products. The complaint does not quantify a damage request. On April 14, 2020, the class action complaint was dismissed for certain pleading deficiencies and the plaintiff was granted leave until April 24, 2020 to amend the complaint to establish federal subject matter jurisdiction. As of the date of this Quarterly Report, the plaintiff has not refiled the complaint and the complaint has been dismissed without prejudice

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

21. Financial Instruments

The Company's activities expose it to a variety of financial risks, including credit risk, liquidity risk, and market risk (including interest rate risk) and foreign currency risk.

(a) Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company is exposed to credit risk from its operating activities, primarily accounts receivable and other receivables, and its investing activities, including cash held with banks and financial institutions, short-term investments, loan receivable, and advances to joint ventures. The Company's maximum exposure to this risk is equal to the carrying amount of these financial assets, which amounted to $1,424,786 as of June 30, 2020 (December 31, 2019 – $1,586,978).

(i) Accounts receivable

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on the days past due for groupings of various customer segments with similar loss patterns. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Accounts receivable are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, among others, the failure of a debtor to engage in a repayment plan, and a failure to make contractual payments for a period of greater than 120 days past due. For the three months ended June 30, 2020, the Company recorded a current expected credit loss allowance of $80 (December 31, 2019 – $136). The Company has assessed that there is a concentration of credit risk, as 78% of the Company's accounts receivable were due from four customers as of June 30, 2020 (December 31, 2019 – 56% due from two customers) with an established credit history with the Company.

(ii) Cash and cash equivalents, short-term investments, and other receivables

The Company held cash and cash equivalents of $1,109,700 as of June 30, 2020 (December 31, 2019 – $1,199,693). The short-term investments and related interest receivable of $213,614 as of June 30, 2020 (December 31, 2019 – $306,347) represents short-term investments with a maturity of less than a year and accrued interest as of period end. The cash and cash equivalents and short-term investments, including guaranteed investment certificates and bankers' acceptances, are held with central banks and financial institutions that are highly rated. In addition to interest receivable, other receivables include sales taxes receivable from the government. As such, the Company has assessed an insignificant loss allowance on these financial instruments.

(iii) Advances to joint ventures

The Company has assessed the credit risk of advances to joint ventures based on the financial position of the borrowers, and the regulatory and economic environment of the borrowers. Based on historical information, and adjusted for forward-looking expectations, the Company has assessed an expected credit loss allowance on these advances as of June 30, 2020 of $nil (December 31, 2019 – $nil).

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due and arises principally from the Company's accounts payable and other liabilities. 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 primarily provided in the form of capital raised through the issuance of common shares and warrants. As of June 30, 2020, 14% of the Company's payables were due to one vendor (December 31, 2019 – 42% due to three vendors).

(c) Market risk

Market 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 financial instruments can be affected by changes in interest rates, market and economic conditions, and equity and commodity prices. The Company is exposed to market risk in divesting its investments, such that, unfavorable market conditions could result in dispositions of investments at less than their carrying values. Further, the revaluation of securities classified as fair value through net income, could result in significant write-downs of the Company's investments, which would have an adverse impact on the Company's financial position, unless these would flow through other comprehensive income.

The Company manages market risk by having a portfolio of securities from multiple issuers so that the Company is not materially exposed to any one issuer.

(d) Interest rate risk

Interest rate risk is the risk that the value or yield of fixed-income investments may decline if interest rates change. Fluctuations in interest rates may impact the level of income and expense recorded on the cash equivalents and short-term investments, and the market value of all interest-earning assets, other than those which possess a short-term to maturity. A 10% change in the interest rate in effect on June 30, 2020 and December 31, 2019, would not have a material effect on (i) fair value of the cash equivalents and short-term investments as the majority of the portfolio has a maturity date of three months or less, or (ii) interest income. Management continues to monitor external interest rates and revise the Company's investment strategy as a result.

During the six months ended June 30, 2020, the Company had net interest income of $11,485 (June 30, 2019 – $11,528). During the three and six months ended June 30, 2020, the Company's average variable interest rate fell 0.73% and 1.45%, respectively. Had the interest rates been consistent, net interest income would have increased by $2,090 and $7,292, respectively for the three and six months ended June 30, 2020.

(e) Currency rate risk

Currency rate 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 foreign exchange rates. The Company is exposed to this risk on advances to joint ventures denominated in A$ and C$. The Company is further exposed to this risk through subsidiaries operating in Israel and the U.S. as the Company's functional currency is in Canadian dollars. The Company does not currently use foreign exchange contracts to hedge its exposure to currency rate risk. As such, the Company's financial position and financial results may be adversely affected by the unfavorable fluctuations in currency exchange rates.

As of June 30, 2020, the Company had foreign currency gain (loss) on translation of $(61,821) (June 30, 2019 – $21,845). A 10% change in the exchange rates for the U.S. dollar would affect the carrying value of net assets by approximately $166,395 as of June 30, 2020 (December 31, 2019 – $174,902).

(In thousands of U.S. dollars, except for gram and share amounts, unaudited)

22. Fair Value Measurement

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

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

The following tables present information about the Company's assets that are measured at fair value on a recurring basis as of June 30, 2020 and December 31 2019, and indicates the fair value hierarchy of the valuation techniques the Company utilized to determine such fair value.

June 30, 2020	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 1,109,700	$ —	$ —	$ 1,109,700
Short-term investments	213,614	—	—	213,614
Derivative liabilities	—	—	205,714	205,714

December 31, 2019	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 1,199,693	$ —	$ —	$ 1,199,693
Short-term investments	306,347	—	—	306,347
Derivative liabilities	—	—	297,160	297,160

There were no transfers between categories during the periods presented.

23. Supplementary Cash Flow Information

The net changes in non-cash working capital items are as follows:

	For the six months ended June 30,	
	2020	2019
Accounts receivable	$ 1,161	$ (3,986)
Other receivables	(2,336)	(7,681)
Prepaids and other assets	1,568	(2,564)
Inventory	(23,913)	(15,105)
Accounts payable and other liabilities	(6,985)	9,877
Cumulative effect from foreign exchange	(65)	(2,132)
Total	$ (30,570)	$ (21,591)

24. Non-monetary Transactions

During the six months ended June 30, 2020, the Company had no non-monetary transactions.

On March 28, 2019, the Company entered into two transactions to simultaneously purchase and sell inventory to a third party. The Company purchased cannabis resin from the third party and in turn sold cannabis dry flower to the third party. The transactions involved the exchange of work in progress inventory and were accounted for at the carrying value of inventory transferred by the Company, which equaled the value of the cannabis resin received. No revenue was recognized as a result of this transaction and no gain or loss was recognized in the condensed consolidated statements of operations and comprehensive income (loss).

25. Subsequent Events

(a) On July 24, 2020, the Company entered into an amendment to the Series A Loan with Natuera to increase the principal amount of the Series A Loan by $6,350, to an aggregate principal amount of $15,500, of which the Company has committed to fund 50% and its joint venture partner has committed to fund the remaining 50%. Outstanding principal amounts continue to bear interest at a fixed annual rate of 5.67% and the maturity date of the Series A Loan has been extended to March 1, 2021. As of June 30, 2020, the Company has a loan receivable (net of credit allowance) of $2,984 from Natuera. Refer to Note 10 for details.

(b) On July 20, 2020, the Company entered into separation agreements with Robert Rosenheck and another Redwood employee pursuant to which they resigned from their employment with Redwood Wellness, LLC. In connection with such separation agreements, the 732,972 outstanding and unvested RSUs as of July 20, 2020 to which they were entitled were accelerated and vested as of July 20, 2020. A total of $6.2 million of share-based compensation costs will be recognized in the third quarter of 2020.

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

The following discussion and analysis should be read together with other information, including Cronos Group's condensed consolidated financial statements and the related notes to those statements, included in Part I, Item 1 of this Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2020 (this "Quarterly Report"), consolidated financial statements appearing in the Company's Annual Report on Form 10-K/A for the year ended December 31, 2019 (as amended, the "Annual Report"), Part I, Item 1A, Risk Factors, of the Annual Report and Part 2, Item 1A, Risk Factors, of this Quarterly Report.

Forward-Looking Statements

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

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

- the uncertainties associated with the COVID-19 pandemic, including our ability, and the abilities of our joint ventures and our suppliers and distributors, to effectively deal with the restrictions, limitations and health issues presented by the COVID-19 pandemic, the ability to continue our production, distribution and sale of our products, and demand for and the use of our products by consumers;
- laws and regulations and any amendments thereto applicable to our business and the impact thereof, including uncertainty regarding the application of United States ("U.S.") state and federal law to U.S. hemp (including CBD) products and the scope of any regulations by the U.S. Federal Drug Administration (the "FDA"), the U.S. Federal Trade Commission (the "FTC"), the U.S. Patent and Trademark Office (the "PTO") and any state equivalent regulatory agencies over U.S. hemp (including CBD) products;
- expectations regarding the regulation of the U.S. hemp industry in the U.S., including the promulgation of regulations for the U.S. hemp industry by the U.S. Department of Agriculture (the "USDA");
- the grant, renewal and impact of any license or supplemental license to conduct activities with cannabis or any amendments thereof;
- our international activities and joint venture interests, including required regulatory approvals and licensing, anticipated costs and timing, and expected impact;
- the ability to successfully create and launch brands and further create, launch and scale U.S. hemp-derived consumer products, including through the Redwood Acquisition (as defined herein), and cannabis products in jurisdictions where such products are legal and that we currently operate in;
- the benefits, viability, safety, efficacy, dosing and social acceptance of cannabis, including CBD and other cannabinoids;
- the anticipated benefits and impact of the Altria Investment (as defined herein);
- the potential exercise of the Altria Warrant (as defined herein), pre-emptive rights and/or top-up rights in connection with the Altria Investment, including proceeds to us that may result therefrom;
- expectations regarding the use of proceeds of equity financings, including the proceeds from the Altria Investment;
- the legalization of the use of cannabis for medical or adult-use in jurisdictions outside of Canada, the related timing and impact thereof and our intentions to participate in such markets, if and when such use is legalized;
- expectations regarding the potential success of, and the costs and benefits associated with, our joint ventures, strategic alliances and equity investments, including the strategic partnership (the "Ginkgo Strategic Partnership") with Ginkgo Bioworks, Inc. ("Ginkgo");
- our ability to execute on our strategy and the anticipated benefits of such strategy;
- expectations of the amount or frequency of impairment losses, including as a result of the write-down of intangible assets, including goodwill;

- the ongoing impact of the legalization of additional cannabis product types and forms for adult-use in Canada, including federal, provincial, territorial and municipal regulations pertaining thereto, the related timing and impact thereof and our intentions to participate in such markets;
- the future performance of our business and operations;
- our competitive advantages and business strategies;
- the competitive conditions of the industry;
- the expected growth in the number of customers using our products;
- our ability or plans to identify, develop, commercialize or expand our technology and R&D initiatives in cannabinoids, or the success thereof;
- expectations regarding acquisitions and the anticipated benefits therefrom, including the Redwood Acquisition and the acquisition of certain assets from Apotex Fermentation Inc., including a GMP-compliant fermentation and manufacturing facility in Winnipeg, Manitoba (operating as "Cronos Fermentation");
- expectations regarding revenues, expenses and anticipated cash needs;
- expectations regarding cash flow, liquidity and sources of funding;
- expectations regarding capital expenditures;
- the expansion of our production and manufacturing, the costs and timing associated therewith and the receipt of applicable production and sale licenses;
- the expected growth in our growing, production and supply chain capacities;
- expectations regarding the resolution of litigation and other legal and regulatory proceedings, reviews and investigations;
- expectations with respect to future production costs;
- expectations with respect to future sales and distribution channels;
- the expected methods to be used to distribute and sell our products;
- our future product offerings;
- the anticipated future gross margins of our operations;
- accounting standards and estimates;
- our ability to timely and effectively remediate material weaknesses in our internal control over financial reporting;
- expectations regarding our distribution network; and
- expectations regarding the costs and benefits associated with our contracts and agreements with third parties, including under our third-party supply and manufacturing agreements.

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

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

By their nature, Forward-Looking Statements are subject to inherent risks and uncertainties that may be general or specific and which give rise to the possibility that expectations, forecasts, predictions, projections or conclusions will not prove to be accurate, that assumptions may not be correct and that objectives, strategic goals and priorities will not be achieved. A variety of factors, including known and unknown risks, many of which are beyond our control, could cause actual results to differ materially from the Forward-Looking Statements in this Quarterly Report and other reports we file with, or furnish to, the SEC and other regulatory agencies and made by our directors, officers, other employees and other persons authorized to speak on our behalf. Such factors include, without limitation, the risk that the COVID-19 pandemic may disrupt our operations and those of our suppliers and distribution channels and negatively impact the demand for and use of our products; the risk that cost savings and any other synergies from the Altria Investment may not be fully realized or may take longer to realize than expected; disruption of production, distribution and sales as a result of the COVID-19 pandemic and any adverse effects the COVID-19 pandemic has on the demand for and use of our products; disruption from the Altria Investment making it more difficult to maintain relationships with customers, employees or suppliers; future levels of revenues; consumer demand for cannabis and U.S. hemp products; our ability to manage disruptions in credit markets or changes to our credit rating; future levels of capital, environmental or maintenance expenditures, general and administrative and other expenses; the success or timing of completion of ongoing or anticipated capital or maintenance projects; business strategies, growth opportunities and expected investment; the adequacy of our capital resources and liquidity, including but not limited to, availability of sufficient cash flow to execute our business plan (either within the expected timeframe or at all); the potential effects of judicial, regulatory or other proceedings on our business, financial condition, results of operations and cash flows; volatility in and/or degradation of general economic, market, industry or business conditions; compliance with applicable environmental, economic, health and safety, energy and other policies and regulations and in particular health concerns with respect to vaping and the use of cannabis and U.S. hemp products in vaping devices; the anticipated effects of actions of third parties such as competitors, activist investors or federal (including U.S. federal), state, provincial, territorial or local regulatory authorities, self-regulatory organizations, plaintiffs in litigation or persons threatening litigation; changes in regulatory requirements in relation to our business and products; and the factors discussed under Part I, Item 1A, Risk Factors, of the Annual Report and Item 1A, Risk Factors in Part II of this Quarterly Report. Readers are cautioned to consider these and other factors, uncertainties and potential events carefully and not to put undue reliance on Forward-Looking Statements.

Forward-Looking Statements are provided for the purposes of assisting the reader in understanding our financial performance, financial position and cash flows as of and for periods ended on certain dates and to present information about management's current expectations and plans relating to the future, and the reader is cautioned that the Forward-Looking Statements may not be appropriate for any other purpose. While we believe that the assumptions and expectations reflected in the Forward-Looking Statements are reasonable based on information currently available to management, there is no assurance that such assumptions and expectations will prove to have been correct. Forward-Looking Statements are made as of the date they are made and are based on the beliefs, estimates, expectations and opinions of management on that date. We undertake no obligation to update or revise any Forward-Looking Statements, whether as a result of new information, estimates or opinions, future events or results or otherwise or to explain any material difference between subsequent actual events and such Forward-Looking Statements. The Forward-Looking Statements contained in this Quarterly Report and other reports we file with, or furnish to, the SEC and other regulatory agencies and made by our directors, officers, other employees and other persons authorized to speak on our behalf are expressly qualified in their entirety by these cautionary statements.

Foreign currency exchange rates

All currency amounts in this Quarterly Report are stated in U.S. dollars, which is the Company's reporting currency, unless otherwise noted. All references to "dollars" or "$" are to U.S. dollars. The assets and liabilities of the Company's foreign operations are translated into dollars at the exchange rate in effect as of June 30, 2020 and December 31, 2019. Transactions affecting the shareholders' equity (deficit) are translated at historical foreign exchange rates. The consolidated statements of net income (loss) and comprehensive income (loss) and consolidated statements of cash flows of the Company's foreign operations are translated into dollars by applying the average foreign exchange rate in effect for the reporting period using Bloomberg.

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

(Exchange rates are shown as C$ per $)	As of		
	June 30, 2020	**March 31, 2020**	**December 31, 2019**
Average rate[(i)]	1.3856	1.3437	1.3268
Spot rate	1.3576	1.4062	1.2990

[(i)] Average rates are three months ended. The year-to-date average rates used for the six months ended June 30, 2020 was 1.3646.

(Exchange rates are shown as C$ per $)	As of		
	June 30, 2019	**March 31, 2019**	**December 31, 2018**
Average rate[(i)]	1.3377	1.3296	1.2955
Spot rate	1.3095	1.3349	1.3639

[(i)] Average rates are three months ended. The year-to-date average rates used for the six months ended June 30, 2019 was 1.3337.

Business Overview

We are an innovative global cannabinoid company with international production and distribution across five continents. We are committed to building disruptive intellectual property by advancing cannabis research, technology and product development and are building an iconic brand portfolio. Cronos Group's brand portfolio includes PEACE NATURALS™, a global wellness platform; two adult-use brands, COVE™ and Spinach™; and two U.S. hemp-derived consumer products brands, Lord Jones™ and PEACE+™. Cronos Group reports through two primary business segments: "United States" and "Rest of World."

Strategy

We seek to create value for shareholders by focusing on four core strategic priorities:

- growing a portfolio of iconic brands that resonate with consumers;
- developing a diversified global sales and distribution network;
- establishing an efficient global supply chain; and
- creating and monetizing disruptive intellectual property in the industries in which we operate.

Business Segments

Cronos Group reports through two primary business segments: "United States" and "Rest of World." These two segments represent the geographic regions in which the Company operates and the different product offerings within each geographic region. On September 5, 2019, as a result of the acquisition (the "Redwood Acquisition") of four Redwood Holding Group, LLC subsidiaries (collectively, "Redwood"), the Company established the United States business segment, which includes only the results of Redwood since the date of acquisition. Redwood manufactures, markets and distributes U.S. hemp-derived supplements and cosmetic products through e-commerce, retail and hospitality partner channels in the United States under the brand Lord Jones™.

The Rest of World operating segment is involved in the cultivation, manufacture, and marketing of cannabis and cannabis-derived products for the medical and adult-use markets. In Canada, Cronos Group operates a wholly owned license holder under the Cannabis Act (Canada) - Peace Naturals Project Inc. ("Peace Naturals"), which has production facilities near Stayner, Ontario ("Peace Naturals Campus"). Cronos Group has established four strategic joint ventures in Canada, Israel and Colombia. Cronos Group additionally holds approximately 31% of the issued capital of Cronos Australia Limited, which is listed on the Australian Securities Exchange under the trading symbol "CAU." Cronos Group currently exports cannabis products to countries that permit the import of such products, such as Germany, Israel and Australia.

Recent Developments

COVID-19 Pandemic

In December 2019, an outbreak of a novel strain of coronavirus, COVID-19, was identified in Wuhan, China. Since then, COVID-19 has spread across the globe, including the U.S., Canada, and other countries in which the Company or its affiliates operate (including Australia, Colombia, and Israel) and has subsequently been recognized as a pandemic by the World Health Organization. The COVID-19 pandemic has resulted in a sharp contraction in many areas of the global economy and increased volatility and uncertainty in the capital markets. In response to the pandemic, in the first half of 2020, the governments of many countries, states, cities, and other geographic regions took preventative or protective actions, including closures of certain businesses, mandatory quarantines, limits on individuals' time outside of their homes, travel restrictions and social distancing or other preventative measures. In recent weeks, such measures have been eased or lifted in varying degrees by different governments of various countries, states and cities depending on the status of infection rates; however, the continued spread of COVID-19 has caused, and may continue to cause, some jurisdictions to roll back reopening plans that had been underway. There can be no guarantee that governments will continue to ease such restrictions, and jurisdictions may pause plans to permit businesses to reopen or roll back the reopening of businesses. Governments in certain countries such as the U.S., Canada, and those in Europe have responded to the acute economic and market consequences with certain monetary and fiscal policy actions.

Impact on Operating Results

During the three months ended June 30, 2020, the effects of the COVID-19 pandemic on retail stores and increase of costs in production and sales in the U.S. had a material impact on the rate of growth of revenue in the U.S. segment, with revenue for the segment remaining flat from the three months ended March 31, 2020. In the U.S., a significant number of the Company's retail customers have experienced temporary retail store closures in connection with the COVID-19 pandemic, which has negatively impacted sales and demand in the segment. Gross margins have compressed in the U.S. segment during the three months ended June 30, 2020 as the Company implemented pay increases to the Company's production workers as a result of the pandemic and implemented various discounts and initiatives (such as free shipping) and promotional events. These measures increased the cost of sales and had a material negative impact on the gross margin in the U.S. segment. The Company expects revenue growth and operating results in the U.S. segment to continue to be negatively impacted as the decrease in customer demand and retail closures are expected to continue as a result of the pandemic. The Company does not expect the negative impact to be temporary in nature. As a result of these impacts and expectation of future impacts, for the three months ended June 30, 2020, the Company recorded $35 million of impairment charges on its U.S. reporting unit and $5 million on the Lord Jones™ brand (refer to Note 13 to the Company's condensed consolidated financial statements for more information regarding intangibles assets and goodwill).

Revenue and the growth in revenue in the Rest of World segment was not materially impacted by the effects of COVID-19 during the three and six months ended June 30, 2020. In both segments there was no material increase in the current expected credit loss as of June 30, 2020 in connection with COVID-19. The Company will continue to closely monitor the effects of COVID-19 on its operating results.

Production and Supply Chain

The Company's global production facilities currently remain operational. To comply with governmental orders or other health and safety requirements, the Company has: (i) reduced the number of personnel working on-site at its production facilities to only the roles that are necessary to be performed on site, (ii) implemented work-from-home policies for other employees whose work can be performed off-site, and (iii) implemented other additional health and safety measures such as, among other things, enhanced hygiene and sanitation procedures, modified work schedules and social distancing protocols at its production facilities. The Company will continue to act in accordance with guidance from local, federal, and international health and governmental authorities, such as any government-mandated requirements for people to wear facemasks in all indoor communal spaces or at businesses, and is prepared to make additional operational adjustments, as necessary. Although the Company's production facilities currently remain operational, governmental requirements, guidance and health and safety requirements continue to evolve as governmental and health authorities respond to the spread of the virus, reopening plans in certain jurisdictions may be suspended, delayed or quarantines re-imposed and production facilities may experience temporary closures or quarantines if governmental or health authorities make changes to the businesses and workforces allowed to remain operational, which would result in reduced production or suspension of production if such closures are mandated. In addition, if the Company's employees contract the disease and test positive for COVID-19, depending on the employee's job duties and access to facilities, this may impact the Company's ability to keep production and manufacturing facilities open for health and safety reasons.

The impacts of certain closures of the facilities of suppliers and other vendors or these preventative and protective measures in the Company's supply chain remain uncertain. Earlier closures at manufacturers in China have resulted in delays of deliveries of batteries and cartridges for cannabis vaporizers and personal protective equipment such as masks and gowns used in Cronos Group's manufacturing facilities certified in accordance with Good Manufacturing Practices ("GMP"), from such manufacturers in China. Most delays have been ameliorated as manufacturers are now operational in China but other vendors or suppliers along the Company's supply chain could be potentially impacted. Closures or other restrictions on the conduct of business operations on third-party manufacturers, suppliers or vendors may cause disruption in Cronos Group's supply chain. The Company has experienced some minor delays in shipping and expects that the increased global demand on shipping and transport services, in addition to customs and border control policies put in place in response to the COVID-19 pandemic that require that shipments to undergo a quarantine period may cause the Company to experience further delays in the future which could impact the Company's ability to obtain materials or deliver products in a timely manner. In addition, work-from-home policies for certain employees and the effects of the Company's work-from-home policies may negatively impact productivity, disrupt access to books and records and disrupt the Company's business. Even if the Company's production facilities continue to remain open, mandatory or voluntary self-quarantines and travel restrictions may limit the Company's employees' ability to access facilities, and this, together with impacts on the Company's supply chain and the uncertainty produced by the rapidly evolving nature of the COVID-19 pandemic, may result in reduced or suspended production.

Customers

Retailers in the U.S. and Canada have been required to close at times or have curtailed their operations (such as reduced opening hours, reduced staff and reduced traffic in stores) due to the implementation of health and safety measures. The slowdown or disruption faced by retailers, in addition to quarantine measures and travel restrictions, impacts the ability of customers to be able to access Cronos Group's products. These restrictions on retail stores are mandated by, and differ from, each state or province and continue to change and evolve, which creates uncertainty in forecasting customer demand and sales velocity. In the U.S., while online sales have continued, certain beauty and other retailers have temporarily closed physical boutiques. In Canada, retailers have implemented a combination of measures from closing stores, offering curbside delivery (to the extent permitted by a province) and online sales only, reduced store opening hours and reduced number of customers in stores in light of social distancing measures. Recent suspensions of the ability of private retailers to offer click-and-collect or curbside delivery in certain provinces in Canada may further impact customer demand for products. Provincial purchasers have also similarly, among other things, reduced staff on-site leading to a decrease in delivery time slots for producers to deliver products or reduced frequency or size of their purchase orders. In addition, while various provinces in Canada have continued to increase the number of retail stores during the COVID-19 pandemic, we expect that the expansion of retail stores in various provinces in Canada will be delayed or slowed down in the current circumstances. We anticipate that uncertainty created by these measures on forecasting customer demand and sales will continue as long as such measures are in place. Demand for the Company's products could also be negatively impacted should the effects of COVID-19 lead to changes in consumer behavior, including as a result of a potential decline in the level of demand for vaporizer products or in discretionary spending as result of a general economic slowdown.

Macroeconomic Impacts

The impacts of these current restrictions and measures on certain strategic projects continue to be uncertain. Existing R&D initiatives continue to proceed, with reduced activity at Ginkgo during the three months ended June, 30, 2020, although the Company still anticipates being able to meet its previously disclosed expected timing for the successful completion of the equity milestones set out in the Ginkgo Strategic Partnership. Other facility design and expansion projects are currently expected to proceed as planned. However, requirements and restrictions on the operation of businesses and workforces continue to evolve as governmental and health authorities respond to the spread of the virus and changes may result in delays or suspensions if authorities require such activities to be suspended.

In addition, a recession or market correction resulting from the spread of COVID-19 would likely materially affect the Company's business and the value of its common shares. Collectively, effects of the COVID-19 pandemic have adversely affected the Company's results of operations and, if the effects continue unabated, could continue to do so as long as these measures to combat the COVID-19 pandemic stay in effect. At this time, neither the duration nor scope of the disruption can be predicted, therefore, the ultimate impact to the Company's business cannot be reasonably estimated but such impact could materially adversely affect the Company's business and financial results.

Liquidity and Capital Resource Impact

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

Brand Portfolio

During the second quarter of 2020, we continued to expand distribution of cannabis vaporizer devices in the Canadian adult-use market under the COVE™ and Spinach™ brands, and for the direct-to-consumer market in Canada under the PEACE NATURALS™ brand.

Global Sales and Distribution

In June 2020, following the successful export of bulk dried flower from Cronos Group to Cronos Israel in April 2020, Cronos Israel commenced sales of PEACE NATURALS™ branded cannabis to the Israeli medical market. Cronos Israel will continue to build distribution capabilities for dried flower while it awaits final licensing for the sale of oils and pre-rolls, which is currently expected to be received later in 2020. Cronos Israel will continue to build its distribution network and brand presence in this rapidly growing medical market.

Global Supply Chain

During the second quarter of 2020, Natuera, the Company's contract manufacturing joint venture in Latin America, a fully licensed operation in Colombia for hemp- and cannabis-derived bulk, consumer, and medicinal cannabinoid products, continued to achieve significant operational milestones. At the end of April 2020, Natuera completed its first harvest of a non-psychoactive (hemp) cultivar registered with the Colombian Agricultural Institute. Between May 2020 and July 2020, Natuera successfully completed three test exports of hemp-derived CBD extract to the U.S. for business development and R&D purposes.

With its extraction facility coming online in the first quarter of 2020, Natuera is currently focused on accessing new markets and product development, including developing additional bulk offerings of hemp-derived CBD distillate and water-soluble hemp-derived CBD solutions.

During the second quarter of 2020, the Company amended its previously announced bulk resin supply agreement with MediPharm Labs Inc. Pursuant to the amendment, the Company's aggregate remaining purchase commitment for the remainder of the term of the agreement was reduced to approximately C$3.0 million ($2.2 million) from C$8.1 million ($6.0 million). The Company received the remaining committed bulk resin supply during the second quarter of 2020.

Enterprise Initiatives

Subsequent to the second quarter of 2020, the Company successfully implemented a new ERP system across the Canadian business. Cronos Group has also commenced work to broaden the reach of the ERP system to the U.S. business, which is currently expected to be launched in the first half of 2021. The new ERP system will be a meaningful component of the Company's internal control over financial reporting and is expected to enable the Company to realize efficiencies throughout the finance, supply chain and operations processes.

Appointment

Cronos Group continues to build and fortify a seasoned management team. Subsequent to the second quarter, following the resignation of Robert Rosenheck on July 20, 2020, Summer Frein was named General Manager of the U.S. hemp-derived CBD business, with oversight of sales, marketing, and operations. Ms. Frein joined Cronos Group in January of this year; however, she worked with Cronos Group in various capacities since 2018. Previously Ms. Frein was employed with Altria, where she led the Strategy and Business Development team's due diligence in the cannabis space which culminated in Cronos Group's strategic investment from Altria. Most recently, she was responsible for leading our U.S. sales efforts, including managing brand and retail partnerships for Lord Jones™. Under Ms. Frien's leadership, the Company plans to further expand its U.S. hemp-derived business including introducing new product formats under Lord Jones™ and launching new brands that will target different retail channels and consumers.

Consolidated Results of Operations: Q2 2020 compared with Q2 2019

Summary of financial results – consolidated

(In thousands of U.S. dollars)	For the three months ended June 30,		Change		For the six months ended June 30,		Change	
	2020	2019	$	%	2020	2019	$	%
Net revenue	$ 9,883	$ 7,653	$ 2,230	29 %	$ 18,315	$ 10,657	$ 7,658	72 %
Gross profit (loss)	(2,953)	4,093	(7,046)	(172) %	(9,429)	5,648	(15,077)	(267) %
Gross margin	(30)%	53 %	N/A	(83) pp	(51)%	53 %	N/A	(104) pp
Reported operating loss	$ (34,755)	$ (16,755)	$ (18,000)	107 %	$ (79,815)	$ (26,881)	$ (52,934)	197 %
Adjusted operating loss [(i)]	(31,296)	(16,755)	(14,541)	87 %	(71,949)	(26,881)	(45,068)	168 %

[(i)] See "Non-GAAP Measures" for information related to Non-GAAP Measures.

Net revenue – consolidated

(In thousands of U.S. dollars)	For the three months ended June 30,		Change		For the six months ended June 30,		Change	
	2020	2019	$	%	2020	2019	$	%
Net revenue, before excise taxes [(i)]	$ 11,432	$ 8,064	$ 3,368	42 %	$ 20,776	$ 11,455	$ 9,321	81 %
Excise taxes	(1,549)	(411)	(1,138)	277 %	(2,461)	(798)	(1,663)	208 %
Net revenue	$ 9,883	$ 7,653	$ 2,230	29 %	$ 18,315	$ 10,657	$ 7,658	72 %

[(i)] Net revenue, before excise taxes, is calculated net of sales returns and discounts as described under Note 4 to the condensed consolidated financial statements.

For the three months ended June 30, 2020 ("Q2 2020"), we reported net revenues of $9.9 million, representing an increase of $2.2 million from the three months ended June 30, 2019 ("Q2 2019"). This change was primarily due to:

- The Redwood Acquisition in the third quarter of 2019, which resulted in an increase in net revenue of $2.2 million in Q2 2020.
- An increase in sales in the Rest of World segment in Q2 2020 compared to Q2 2019 due to the continued growth of the adult-use market in Canada and the launch of cannabis vaporizer devices in December 2019, partially offset by non-recurring wholesale revenue in the Canadian market in Q2 2019.

For the six months ended June 30, 2020 ("YTD 2020"), we reported net revenues of $18.3 million, representing an increase of $7.7 million from the six months ended June 30, 2019 ("YTD 2019"). This change was primarily due to:

- The Redwood Acquisition in the third quarter of 2019, which resulted in an increase in net revenue of $4.4 million in YTD 2020.
- An increase in sales in the Rest of World segment in YTD 2020 compared to YTD 2019 due to the continued growth of the adult-use market in Canada and the launch of cannabis vaporizer devices in December 2019, partially offset by non-recurring wholesale revenue in the Canadian market in Q2 2019.

Cost of sales and gross profit (loss) - consolidated

(In thousands of U.S. dollars)	For the three months ended June 30,		Change		For the six months ended June 30,		Change	
	2020	2019	$	%	2020	2019	$	%
Cost of sales	$ 9,774	$ 3,560	$ 6,214	175 %	$ 16,720	$ 5,009	$ 11,711	234 %
Inventory write-down	3,062	—	3,062	N/A	11,024	—	11,024	N/A
Gross profit (loss)	$ (2,953)	$ 4,093	$ (7,046)	(172) %	$ (9,429)	$ 5,648	$ (15,077)	(267) %
Gross margin	(30) %	53 %	N/A	(83) pp	(51) %	53 %	N/A	(104) pp

For Q2 2020, we reported gross profit (loss) of $(3.0) million, representing a decrease of $7.0 million from Q2 2019. This change was primarily due to:

- An increase in cost of sales primarily driven by a higher volume of adult-use sales and a decline in wholesale sales.
- An inventory write-down of $3.1 million on dried cannabis and cannabis extracts, primarily driven by cannabis product price compression in the Canadian market. If not for the inventory write-down, gross profit (loss) would have been $0.1 million, representing a gross margin of 1%. We anticipate further inventory write-downs due to pricing pressures in the marketplace, as well as increased marginal production costs at the Peace Naturals Campus.
- The offsetting impact of the Redwood Acquisition in the third quarter of 2019, which contributed $0.6 million of gross profit.

For YTD 2020, we reported gross profit (loss) of $(9.4) million, representing a decrease of $15.1 million from YTD 2019. This change was primarily due to:

- An inventory write-down of $11.0 million on dried cannabis and cannabis extracts, primarily driven by fixed-price supply contracts negotiated prior to cannabis product price compression due to broader trends of oversupply in the Canadian market and the impact of the Company's operational repurposing of the Peace Naturals Campus. If not for the inventory write-down, gross profit (loss) would have been $1.6 million, representing a gross margin of 9%. We anticipate further inventory write-downs in the short-term due to pricing pressures in the marketplace.
- An increase in cost of sales primarily driven by a higher volume of adult-use sales and a decline in wholesale sales.
- The offsetting impact of the Redwood Acquisition in the third quarter of 2019, which contributed $1.7 million of gross profit.

Operating loss – consolidated

(In thousands of U.S. dollars)	For the three months ended June 30,		Change		For the six months ended June 30,		Change	
	2020	2019	$	%	2020	2019	$	%
Sales and marketing	$ 6,504	$ 4,005	$ 2,499	62 %	$ 13,616	$ 5,133	$ 8,483	165 %
Research and development	3,631	2,300	1,331	58 %	8,221	3,471	4,750	137 %
General and administrative	18,437	11,488	6,949	60 %	42,196	18,781	23,415	125 %
Share-based payments	2,546	2,647	(101)	(4)%	4,982	4,418	564	13 %
Depreciation and amortization	684	408	276	68 %	1,371	726	645	89 %
Operating expenses	31,802	20,848	10,954	53 %	70,386	32,529	37,857	116 %
Reported operating loss	$ (34,755)	$ (16,755)	$ (18,000)	107 %	$ (79,815)	$ (26,881)	$ (52,934)	197 %
Adjusted operating loss [(i)]	(31,296)	(16,755)	(14,541)	87 %	(71,949)	(26,881)	(45,068)	168 %

[(i)] *See "Non-GAAP Measures" for information related to Non-GAAP Measures.*

For Q2 2020, we reported an operating loss of $34.8 million, representing an increase in losses of $18.0 million from Q2 2019. This change was primarily due to:

- A decrease in gross profit (loss) from Q2 2019, as described above.
- An increase in general and administrative costs driven by review costs and costs related to the Company's responses to requests for information from various regulatory authorities related to the previously disclosed restatement of the Company's 2019 interim financial statements of $3.5 million and an increase in salaries and wages as a result of increased headcount to support the Company's growth strategy.
- An increase in sales and marketing costs, primarily related to building and developing brands.
- An increase in R&D costs of $1.3 million primarily related to increased spending at the Cronos Device Labs R&D center.
- The Redwood Acquisition in the third quarter of 2019, which resulted in an increase in operating loss of $5.6 million in Q2 2020, driven by increased investments in sales and marketing and general and administrative expenses.
- Activity at Cronos Fermentation's facilities since the third quarter of 2019, which resulted in an increase in operating loss of $1.2 million in Q2 2020, driven by investments in R&D.

For YTD 2020, we reported an operating loss of $79.8 million, representing an increase in losses of $52.9 million from YTD 2019. This change was primarily due to:

- A decrease in gross profit (loss) from YTD 2019, as described above.
- An increase in general and administrative costs driven primarily by an increase in salaries and wages of $8.5 million as a result of increased headcount in order to support the Company's growth strategy, review costs and costs related to the Company's responses to requests for information from various regulatory authorities related to the previously disclosed restatement of the Company's 2019 interim financial statements of $7.9 million.
- An increase in sales and marketing costs, primarily related to building and developing brands.
- An increase in R&D costs of $4.8 million primarily related to the Ginkgo Strategic Partnership and increased spending at the Cronos Device Labs R&D center.
- The Redwood Acquisition in the third quarter of 2019, which resulted in an increase in operating loss of $12.1 million in YTD 2020, driven by increased investments in sales and marketing and general and administrative expenses.
- Activity at Cronos Fermentation's facilities since the third quarter of 2019, which resulted in an increase in operating loss of $2.3 million in YTD 2020, driven by investments in R&D.

Results of Operations by Business Segment: Q2 2020 compared with Q2 2019

Summary of financial results – Rest of World

(In thousands of U.S. dollars)	For the three months ended June 30,		Change		For the six months ended June 30,		Change	
	2020	2019	$	%	2020	2019	$	%
Net revenue	$ 7,709	$ 7,653	$ 56	1 %	$ 13,965	$ 10,657	$ 3,308	31 %
Gross profit (loss)	(3,540)	4,093	(7,633)	(186) %	(11,098)	5,648	(16,746)	(296) %
Gross margin	(46) %	53 %	N/A	(99) pp	(79) %	53 %	N/A	(132) pp
Reported and adjusted operating loss [(i)]	$ (22,138)	$ (16,755)	$ (5,383)	32 %	$ (54,005)	$ (26,881)	$ (27,124)	101 %

[(i)] *See "Non-GAAP Measures" for information related to Non-GAAP Measures.*

Net revenue – Rest of World

(In thousands of U.S. dollars)	For the three months ended June 30,		Change		For the six months ended June 30,		Change	
	2020	2019	$	%	2020	2019	$	%
Cannabis flower	$ 5,674	$ 6,096	$ (422)	(7) %	$ 8,415	$ 7,921	$ 494	6 %
Cannabis extracts	1,917	1,535	382	25 %	5,317	2,638	2,679	102 %
Other	118	22	96	436 %	233	98	135	138 %
Net revenue	$ 7,709	$ 7,653	$ 56	1 %	$ 13,965	$ 10,657	$ 3,308	31 %

For Q2 2020, we reported net revenue of $7.7 million, representing an increase of $0.1 million from Q2 2019. This change was primarily due to:

- An increase in sales due to the continued growth of the adult-use market in Canada and the launch of cannabis vaporizer devices in December 2019, partially offset by non-recurring wholesale revenue in the Canadian market in Q2 2019.

For YTD 2020, we reported net revenue of $14.0 million, representing an increase of $3.3 million from YTD 2019. This change was primarily due to:

- An increase in sales due to the continued growth of the adult-use market in Canada and the launch of cannabis vaporizer devices in December 2019, partially offset by non-recurring wholesale revenue in the Canadian market in Q2 2019.

Cost of sales and gross profit (loss) – Rest of World

(In thousands of U.S. dollars)	For the three months ended June 30,		Change		For the six months ended June 30,		Change	
	2020	2019	$	%	2020	2019	$	%
Cost of sales	$ 8,187	$ 3,560	$ 4,627	130 %	$ 14,039	$ 5,009	$ 9,030	180 %
Inventory write-down	3,062	—	3,062	N/A	11,024	—	11,024	N/A
Gross profit (loss)	(3,540)	4,093	(7,633)	(186) %	(11,098)	5,648	(16,746)	(296) %
Gross margin	(46) %	53 %	N/A	(99) pp	(79) %	53 %	N/A	(132) pp

For Q2 2020, we reported gross profit (loss) of $(3.5) million, representing a decrease of $7.6 million from Q2 2019. This change was primarily due to:

- An increase in cost of sales primarily driven by a higher volume of adult-use sales and a decline in wholesale sales.
- An inventory write-down of $3.1 million on dried cannabis and cannabis extracts, primarily driven by cannabis product price compression in the Canadian market. If not for the inventory write-down, segment gross profit (loss) would have been $(0.5) million, representing a gross margin of (6)%. We anticipate further inventory write-downs due to pricing pressures in the marketplace, as well as increased marginal production costs at the Peace Naturals Campus.

For YTD 2020, we reported gross profit (loss) of $(11.1) million, representing a decrease of $16.7 million from YTD 2019. This change was primarily due to:

- An inventory write-down of $11.0 million on dried cannabis and cannabis extracts, primarily driven by fixed-price supply contracts negotiated prior to cannabis product price compression due to broader trends of oversupply in the Canadian market and the impact of the Company's operational repurposing of the Peace Naturals Campus. If not for the inventory write-down, segment gross profit (loss) would have been $(0.1) million, representing a gross margin of (1)%. We anticipate further inventory write-downs in the short-term due to pricing pressures in the marketplace.
- An increase in cost of sales primarily driven by a higher volume of adult-use sales and a decline in wholesale sales.

Operating loss – Rest of World

(In thousands of U.S. dollars)	For the three months ended June 30,		Change		For the six months ended June 30,		Change	
	2020	2019	$	%	2020	2019	$	%
Reported and adjusted operating loss [(i)]	$ (22,138)	$ (16,755)	$ (5,383)	32 %	$ (54,005)	$ (26,881)	$ (27,124)	101 %

[(i)] *See "Non-GAAP Measures" for information related to Non-GAAP Measures.*

For Q2 2020, we reported an operating loss of $22.1 million representing an increase in losses of $5.4 million from Q2 2019. This change was primarily due to:

- A decrease in gross profit (loss) from Q2 2019, as described above.
- An increase in R&D costs primarily related to increased spending at the Cronos Device Labs R&D center.
- Activity at Cronos Fermentation's facilities since the third quarter of 2019, which resulted in an increase in operating loss in Q2 2020, driven by investments in R&D.
- A partially offsetting decrease in professional and consulting fees from Q2 2019.

For YTD 2020, we reported an operating loss of $54.0 million, representing an increase in losses of $27.1 million from YTD 2019. This change was primarily due to:

- A decrease in gross profit (loss) from YTD 2019, as described above.
- An increase in general and administrative costs from YTD 2019 driven by an increase in salaries and wages as a result of increased headcount to support the Company's growth strategy.
- An increase in sales and marketing costs primarily related to building and developing brands and products for the first full year of sales into the Canadian adult-use market.
- An increase in R&D costs primarily related to the Ginkgo Strategic Partnership and increased spending at the Cronos Device Labs R&D center.
- Activity at Cronos Fermentation's facilities from since third quarter of 2019, which resulted in an increase in operating loss in YTD 2020, driven by investments in R&D.

Summary of financial results – United States

(In thousands of U.S. dollars)	For the three months ended June 30,		Change		For the six months ended June 30,		Change	
	2020	2019	$	%	2020	2019	$	%
Net revenue	$ 2,174	$ —	N/A	N/A	$ 4,350	$ —	N/A	N/A
Gross profit	587	—	N/A	N/A	1,669	—	N/A	N/A
Gross margin	27 %	N/A	N/A	N/A	38 %	N/A	N/A	N/A
Reported and adjusted operating loss [(i)]	$ (5,575)	$ —	N/A	N/A	$ (12,098)	$ —	N/A	N/A

[(i)] See "Non-GAAP Measures" for information related to Non-GAAP Measures.

Net revenue – United States

(In thousands of U.S. dollars)	For the three months ended June 30,		Change		For the six months ended June 30,		Change	
	2020	2019	$	%	2020	2019	$	%
Net revenue	$ 2,174	—	N/A	N/A	$ 4,350	—	N/A	N/A

The U.S. segment reported net revenue of $2.2 million for Q2 2020 and $4.4 million for YTD 2020. These results were primarily due to:

- The temporary closure of a significant number of customers' physical retail stores as a result of preventive measures undertaken in response to the COVID-19 pandemic negatively impacted revenue growth for Q2 2020 despite an increase in product offerings.

(In thousands of U.S. dollars)	For the three months ended June 30,		Change		For the six months ended June 30,		Change	
	2020	2019	$	%	2020	2019	$	%
Cost of sales	$ 1,587	$ —	N/A	N/A	$ 2,681	$ —	N/A	N/A
Gross profit	587	—	N/A	N/A	1,669	—	N/A	N/A
Gross margin	27 %	N/A	N/A	N/A	38 %	N/A	N/A	N/A

The U.S. segment reported gross profits of $0.6 million for Q2 2020 and $1.7 million for YTD 2020, with gross profit margins of 27% and 38%, respectively. The results are primarily due to:

- A decrease in gross margin of 23pp for Q2 2020 compared to the three months ended March 31, 2020 due to an increase in labor costs during the COVID-19 pandemic as well as increased discounts, sales and other promotions in the direct-to-consumer channel to drive online sales growth in an effort to offset the negative impact of retail store closures during the COVID-19 pandemic.

Operating loss – United States

(In thousands of U.S. dollars)	For the three months ended June 30,		Change		For the six months ended June 30,		Change	
	2020	2019	$	%	2020	2019	$	%
Reported and adjusted operating loss [(i)]	$ (5,575)	$ —	N/A	N/A	$ (12,098)	$ —	N/A	N/A

[(i)] *See "Non-GAAP Measures" for information related to Non-GAAP Measures.*

For Q2 2020, the U.S. segment reported operating loss of $5.6 million. These results were primarily due to:

- A decrease in the gross margin for YTD 2020, as described above.
- Sales and marketing costs incurred in relation to the continued roll-out of new U.S. hemp-derived CBD products under the Lord Jones™ brand.
- Increased general and administration costs in Q2 2020 driven by salaries and wages costs incurred to support the Company's growth strategy across a variety of functions.

For YTD 2020, the U.S. segment reported operating loss of $12.1 million. These results were primarily due to:

- A decrease in the gross margin for YTD 2020, as described above.
- Sales and marketing costs incurred in relation to the continued roll-out of new U.S. hemp-derived CBD products under the Lord Jones™ brand.
- Increased general and administration costs in YTD 2020 driven by salaries and wages costs incurred to support the Company's growth strategy across a variety of functions.

Non-GAAP Measures

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

Adjusted operating loss

Management reviews operating loss on an adjusted basis, which excludes certain income and expense items that management believes are not part of underlying operations. These items typically include non-recurring charges such as the financial statement review costs related to the restatement of the 2019 financial statements and the Company's responses to the reviews of such interim financial statement by various regulatory authorities (see Part II, Item 1, *Legal Proceedings*, of this Quarterly Report for a discussion of the regulatory reviews relating to the restatement of the 2019 interim financial statements). Management does not view either of these items to be part of underlying results as they may be highly variable, may be unusual or infrequent, are difficult to predict or can distort underlying business trends and results.

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

(In thousands of U.S. dollars)	For the three months ended June 30,		For the six months ended June 30,	
	2020	2019	2020	2019
Reported operating loss	$ (34,755)	$ (16,755)	$ (79,815)	$ (26,881)
Adjustments				
Review costs related to restatement of 2019 interim financial statements	3,459	—	7,866	—
Adjusted operating loss	$ (31,296)	$ (16,755)	$ (71,949)	$ (26,881)

Adjusted operating loss by business segment

Management reviews operating loss by business segment, which excludes corporate expenses, and adjusted operating loss by business segment, which further excludes certain income and expense items that management believes are not part of the underlying segment's operations. Corporate expenses are expenses that relate to the consolidated business and not to an individual operating segment while the income and expense items typically include non-recurring charges such as the financial statement review costs related to the restatement of the 2019 financial statements and the reviews of such interim financial statement by various regulatory authorities (see Part II, Item 1, *Legal Proceedings*, of this Quarterly Report for a discussion of the regulatory reviews relating to the restatement of the 2019 interim financial statements). Management does not view the income and expense items above to be part of underlying results of the segment as they may be highly variable, may be unusual or infrequent, are difficult to predict and can distort underlying business trends and results.

Management believes that adjusted operating loss by business segment provides useful insight into underlying segment trends and results and will provide a more meaningful comparison of year-over-year results going forward. Management uses adjusted operating loss by business segment for planning, forecasting and evaluating segment performance, including allocating resources and evaluating results relative to employee compensation targets.

(In thousands of U.S. dollars)	For the three months ended June 30, 2020				
	U.S.	Rest of World	Total Segments	Corporate Expenses	Total
Reported operating loss	$ (5,575)	$ (22,138)	$ (27,713)	$ (7,042)	$ (34,755)
Adjustments					
Review costs related to restatement of 2019 interim financial statements	—	—	—	3,459	3,459
Adjusted operating loss	$ (5,575)	$ (22,138)	$ (27,713)	$ (3,583)	$ (31,296)

(In thousands of U.S. dollars)	For the six months ended June 30, 2020				
	U.S.	Rest of World	Total Segments	Corporate Expenses	Total
Reported operating loss	$ (12,098)	$ (54,005)	$ (66,103)	$ (13,712)	$ (79,815)
Adjustments					
Review costs related to restatement of 2019 interim financial statements	—	—	—	7,866	7,866
Adjusted operating loss	$ (12,098)	$ (54,005)	$ (66,103)	$ (5,846)	$ (71,949)

Liquidity and capital resources

As of June 30, 2020, we had $1,109.7 million in cash and cash equivalents and $213.6 million in short-term investments which comprise the majority of the Company's cash position. Cronos Group believes that the existing cash and cash equivalents and the short-term investments will be sufficient to fund the business operations and capital expenditures over the next twelve months.

Summary of cash flows

(In thousands of U.S. dollars)	For the six months ended June 30,	
	2020	2019
Cash provided/(used) in operating activities	$ (77,193)	$ (56,769)
Cash provided/(used) in investing activities	39,799	(588,609)
Cash provided/(used) by financing activities	(1,183)	1,791,431
Effect of foreign currency translation on cash and cash equivalents	(51,416)	36,079
Net change in cash	$ (89,993)	$ 1,182,132

2020 cash flows vs 2019 cash flows

Operating activities

During the six months ended June 30, 2020, we used $77.2 million of cash in operating activities as compared to cash used of $56.8 million in the six months ended June 30, 2019, representing an increase in cash used of $20.4 million. This change is primarily driven by an increase of $37.9 million in operating expenses from the six months ended June 30, 2019.

Investing activities

During the six months ended June 30, 2020, we generated $39.8 million of cash through investing activities, as compared to $588.6 million of cash used in investing activities in the six months ended June 30, 2019, representing an increase of $628.4 million in cash provided. This change is primarily driven by cash received from proceeds from the disposal of short-term investments of $203.7 million (2019 – $nil) partially offset by purchases of short-term investments of $124.6 million (2019 – $556.9 million). Additionally, during the six months ended June 30, 2020, purchases of property, plant and equipment were $13.3 million compared to $20.9 million in the six months ended June 30, 2019.

The increase was partially offset by advances on loans receivable of $24.0 million (2019 – $12.2 million) primarily related to an increase in drawdowns on the GrowCo Credit Facility.

Financing activities

During the six months ended June 30, 2020, cash used by financing activities was $1.2 million, as compared to $1,791.4 million of cash provided by financing activities in the six months ended June 30, 2019, representing a decrease of $1,792.6 million in cash provided. This change is primarily driven by proceeds from the strategic investment from Altria of $1,809.6 million that was partially offset by the transaction costs paid on the construction loan payable of $16.0 million in the six months ended June 30, 2019, which were not present in the six months ended June 30, 2020.

Critical Accounting Policies and Estimates

The Company's critical accounting policies and estimates are discussed in the Annual Report on Form 10-K/A for the year ended December 31, 2019. There have no material changes to these critical accounting policies and estimates.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Interest rate risk

Interest rate risk is the risk that the value or yield of fixed-income investments may decline if interest rates change. Fluctuations in interest rates may impact the level of income and expense recorded on the cash equivalents and short-term investments, and the market value of all interest-earning assets, other than those which possess a short-term to maturity. A 10% change in the interest rate in effect on June 30, 2020 and December 31, 2019, would not have a material effect on (i) fair value of the cash equivalents and short-term investments as the majority of the portfolio has a maturity date of three months or less, or (ii) interest income. Management continues to monitor external interest rates and revise the Company's investment strategy as a result.

During the six months ended June 30, 2020, the Company had net interest income of $11.5 million (June 30, 2019 – $11.5 million). During the three and six months ended June 30, 2020, the Company's average variable interest rate fell 0.73% and 1.45%, respectively. Had the interest rates been consistent, net interest income would have increased by $2.1 million and $7.3 million, respectively for the three and six months ended June 30, 2020.

Foreign currency risk

The Company's consolidated financial statements included in Part I, Item 1 of this Quarterly Report are expressed in U.S. dollars. In addition the Company has net assets, liabilities and revenues denominated in foreign currencies, including Canadian dollars and Israeli new shekels. As a result, we are exposed to foreign currency translation gains and losses. Revenue and expenses of all foreign operations are translated into U.S. dollars at the foreign currency exchange rates that approximate the rates in effect at the dates when such items are recognized. Appreciating foreign currencies relative to the U.S. dollar will adversely impact operating income and net earnings, while depreciating foreign currencies relative to the U.S. dollar will have a positive impact.

A 10% change in the exchange rates for the Canadian dollar would affect the carrying value of net assets by approximately $166.3 million as of June 30, 2020. The same change to exchange rates for the Canadian dollar as of December 31, 2019 would affect the carrying value of net assets by approximately $174.9 million. The corresponding impact would be recorded in accumulated other comprehensive income. We have not historically engaged in hedging transactions and do not currently contemplate engaging in hedging transactions to mitigate foreign exchange risks. As we continue to recognize gains and losses in foreign currency transactions, depending upon changes in future currency rates, such gains or losses could have a significant, and potentially adverse, effect on the results of operations.

Item 4. Controls and Procedures.

(a) Evaluation of Disclosure Controls and Procedures.

The Company's management, with the participation of the Chief Executive Officer and the Chief Financial Officer, performed an evaluation of the disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 (the "Exchange Act"), as of June 30, 2020. Based on that evaluation, management has concluded that, as of June 30, 2020, due to the existence of the material weaknesses in the Company's internal control over financial reporting described below, the disclosure controls and procedures were not effective to provide reasonable assurance that the information required to be disclosed by us in reports we file or submit under the Exchange Act were recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, and to ensure that the information required to be disclosed by us in reports that we file or submit under the Exchange Act, is accumulated and communicated to management, including the principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Material Weaknesses in Internal Controls Over Financial Reporting

A material weakness is a deficiency, or combination of deficiencies in internal controls over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis. As previously disclosed in the Company's Annual Report on Form 10-K/A for the year ended December 31, 2019, we have identified the following material weaknesses in the following areas:

- *Risk Assessment*: The Company did not appropriately design controls to monitor and respond to changes in business in relation to transactions in the wholesale market.
- *Segregation of Duties:* The Company did not maintain adequately designed controls on segregation of purchase and sale responsibilities to ensure accurate recognition of revenue in accordance with GAAP.
- *Non-Routine Transactions:* The Company's controls were not effective to ensure that non-routine transactions, including deviations from contractually established sales terms, were authorized, communicated, identified and evaluated for their potential effect on revenue recognition.

These deficiencies create a reasonable possibility that a material misstatement to the consolidated financial statements will not be prevented or detected on a timely basis.

Remediation Plan and Status

The Company's management, with oversight from the Audit Committee of the Board of Directors, has initiated a plan to remediate the material weaknesses, previously disclosed in the Annual Report on Form 10-K/A for the period ended December 31, 2019. During the first half of 2020, the Company implemented all remediation controls identified in its remediation plan as disclosed in the table below. During the six months ended June 30, 2020, the Company enhanced its quarterly review risk assessment model and its risk control matrices, established a risk committee, which reviews the risk assessment for changes in the business, enhanced its delegation of authority policy, conducted revenue recognition training, created and implemented a non-routine transaction policy, established a review process for and reviewed its vendor and customer transactions to identify potential related transactions, implemented procedures for the preparation of business cases for all non-routine business-to-business unbranded sales and purchases, and enhanced its sub-certification processes to identify non-routine transactions. The Company has completed internal testing on six of the eight controls identified in its remediation plan and expects to complete internal testing on the remaining controls during the third quarter of 2020. However, the Company does not expect full remediation until year end 2020.

The plan and progress to date is described below:

Material Weakness	Control, Control Enhancement or Mitigant	Implementation Status	Management Testing Status	Remediation Status
Risk Assessment	• Enhance quarterly review of risk assessment model and risk control matrices	Implemented	Tested	
	• Establish a risk committee which reviews the risk assessment for changes in the business on a quarterly basis	Implemented	Tested	
Segregation of Duties	• Enhance Delegation of Authority matrix to further limit groups that may authorize sales or purchases of inventory	Implemented	Tested	
	• Establish review process and internal database to identify entities that are both vendors and customers of the Company	Implemented	Testing in Q3	
	• Create and implement revenue recognition training	Implemented	Tested	
Non-Routine Transactions	• Create and implement a Non-Routine Transactions Policy to include: ◦ Definition of Non-Routine Transactions ◦ Accounting memorandum completion ◦ CEO/CFO approval	Implemented	Tested	
	• Formalization of business cases for all non-routine business to business unbranded sales and purchases to be reviewed on a quarterly basis to ensure alignment with the objectives of the business	Implemented	Testing in Q3	
	• Expand the sub-certification process to additional members of management to ensure that non routine transactions are identified	Implemented	Tested	

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

(b) Changes in Internal Control over Financial Reporting

Subsequent to the second quarter of 2020, the Company successfully implemented a new ERP system across the Canadian business. The new ERP system will be a meaningful component of our internal control over financial reporting and is expected to enable us to realize efficiencies throughout our finance, supply chain and operations processes.

Other than the ERP system and those measures described above to remediate the material weaknesses, there were no further changes in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act), that occurred during the quarter ended June 30, 2020, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART IIOTHER INFORMATION

Item 1: Legal Proceedings.

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

Class Action Complaints Relating to Restatements

On March 11 and 12, 2020, two alleged shareholders of the Company separately filed two putative class action complaints in the U.S. District Court for the Eastern District of New York against the Company and its Chief Executive Officer and Chief Financial Officer alleging violations of Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder against all defendants, and Section 20(a) of the Exchange Act against the individual defendants. The complaints generally allege that certain of the Company's prior public statements about revenues and internal controls were incorrect based on the Company's March 2, 2020, disclosure that the Audit Committee of its Board of Directors was conducting a review of the appropriateness of revenue recognized in connection with certain bulk resin purchases and sales of products through the wholesale channel. The complaints do not quantify a damage request. Defendants have not yet responded to the complaints.

On June 3, 2020, an alleged shareholder filed a Statement of Claim in the Ontario Superior Court of Justice in Toronto, Ontario, Canada, seeking, among other things, an order certifying the action as a class action on behalf of a putative class of shareholders and damages of an unspecified amount. The Statement of Claim names the Company, its Chief Executive Officer, Chief Financial Officer, former Chief Financial Officer and Chief Commercial Officer, and current and former members of its Board of Directors as defendants and alleges breaches of the Ontario Securities Act, oppression under the Ontario Business Corporations Act and common law misrepresentation. The Statement of Claim generally alleges that certain of the Company's prior public statements about revenues and internal controls were misrepresentations based on the Company's March 2, 2020 disclosure that the Audit Committee of its Board of Directors was conducting a review of the appropriateness of revenue recognized in connection with certain bulk resin purchases and sales of products through the wholesale channel, and the Company's subsequent restatements. The Statement of Claim does not quantify its damage request. The Company and the other named defendants have not yet filed a response to the Statement of Claim.

Regulatory Reviews Relating to Restatements

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

Litigation Relating to Marketing, Distribution and Sale of Products

On June 16, 2020, an alleged consumer filed a Statement of Claim on behalf of a class in the Court of Queen's Bench of Alberta in Alberta, Canada, against the Company and other Canadian cannabis manufacturers and/or distributors. The Statement of Claim alleges claims related to the defendants' advertised content of cannabinoids in cannabis products for medicinal use on or after June 16, 2010 and cannabis products for adult use on or after October 17, 2018. The Statement of Claim seeks a total of C$500 million for breach of contract, compensatory damages, and unjust enrichment or such other amount as may be proven in trial and C$5 million in punitive damages against each defendant, including the Company. The Statement of Claim also seeks interest and costs associated with the action. The Company has not responded to the Statement of the Claim.

A number of claims, including purported class actions, have been brought in the U.S. against companies engaged in the U.S. hemp business alleging, among other things, violations of state consumer protection, health and advertising laws. On April 8, 2020, a putative class action complaint was filed in the U.S. District Court for the Central District of California against Redwood, alleging violations of California's Unfair Competition Law, False Advertising Law, Consumers Legal Remedies Act, and breaches of the California Commercial Code for breach of express warranties and implied warranty of merchantability with respect to Redwood's marketing and sale of U.S. hemp products. The complaint does not quantify a damage request. On April 14, 2020, the class action complaint was dismissed for certain pleading deficiencies and the plaintiff was granted leave until April 24, 2020 to amend the complaint to establish federal subject matter jurisdiction. As of the date of this Quarterly Report, the plaintiff has not refiled the complaint and the complaint has been dismissed without prejudice.

We expect litigation and regulatory proceedings relating to the marketing, distribution and sale of our products to increase.

Item 1A. Risk Factors.

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

Our business and results of operations have been adversely affected and will likely continue to be materially adversely impacted by the coronavirus pandemic (COVID-19).

The COVID-19 pandemic has severely restricted the level of economic activity around the world and in all countries in which we or our affiliates operate (including the U.S., Canada, Australia, Colombia, and Israel). In response to the COVID-19 pandemic the governments of many countries, states, cities and other geographic regions have taken preventative or protective actions, such as imposing restrictions on travel and business operations and advising or requiring individuals to limit or forego their time outside of their homes. Temporary closures of businesses have been ordered and numerous other businesses have temporarily closed voluntarily. The duration and ultimate impact of the COVID-19 pandemic, including the extent to which the virus may re-emerge following the current outbreak, are highly uncertain.

The effects of the COVID-19 pandemic had a material impact on the growth of revenues and sales during the six months ended June 30, 2020 related to the Company's U.S. segment. With the U.S. currently in an economic contraction and a significant number of temporary closures impacting many of the Company's customers' stores, the U.S. segment is experiencing slower than expected revenue growth. The prolonged closures of retail stores as well as the changes in consumer purchasing during the COVID-19 pandemic have adversely affected our financial results. We anticipate further adverse effects on our financial results so long as the measures implemented to combat the COVID-19 pandemic stay in effect.

The effect of the COVID-19 pandemic could include closures of our facilities or the facilities of our suppliers and other vendors in our supply chain and other preventive and protective measures in our supply chain. For example, as a result of the COVID-19 pandemic, earlier closures of manufacturers in China resulted in delays of deliveries of batteries and cartridges for our cannabis vaporizers and personal protective equipment, such as masks and gowns used in our GMP manufacturing processes, from such manufacturers in China. If the pandemic persists, closures or other restrictions on the conduct of business operations of our third-party manufacturers, suppliers or vendors could disrupt our supply chain. We have experienced minor delays in shipping and the increased global demand on shipping and transport services, in addition to customs and border control policies put in place in response to COVID-19 that require shipments to undergo quarantine periods, may cause us to experience delays or increased costs in the future which could impact our ability to obtain materials or deliver our products in a timely manner, could otherwise disrupt our operations and could have an adverse effect on our business, financial condition and results of operations. In various provinces in Canada, cannabis retailers have been reducing opening hours, staff onsite and reducing the number of customers allowed in-store for cannabis retailers that continue to be open. Further, retailers of our products in the U.S. and Canada have in some cases determined to, and may in other cases be required to close or choose to suspend or significantly curtail their operations due to health and safety concerns for their employees. Even if our production facilities remain open, mandatory or voluntary self-quarantines and travel restrictions may limit our employees' ability to get to our facilities, and this, together with impacts on our supply chain and the uncertainty produced by the rapidly evolving nature of the COVID-19 pandemic, may result in reduced or suspended production. Those type of restrictions could also impact the abilities of customers in the U.S. or certain Canadian provinces to continue to have access to our products. Quarantines, shelter-in-place and similar government orders, or the perception that such orders, shutdowns or other restrictions on the conduct of business operations could occur could impact personnel at third-party manufacturing facilities in the U.S. and Canada and other countries, or the availability or cost of materials, which would disrupt our supply chain, in particular in relation to our supply of masks, gowns and other protective equipment used at our GMP facilities due to the global shortage of such protective equipment and materials. As a result of COVID-19, we have implemented work-from-home policies for certain employees and the effects of our work-from-home policies may negatively impact productivity, disrupt access to books and records, increase cybersecurity risks and disrupt our business. In addition, the effects of the COVID-19 pandemic may delay our R&D programs and our ability to execute on certain of our strategic plans involving construction.

The global impact of the COVID-19 pandemic continues to evolve rapidly, and the extent of its effect on our operational and financial performance will depend on future developments, which are highly uncertain, including the duration, scope and severity of the pandemic, the actions taken to contain or mitigate its impact, and the direct and indirect economic effects of the pandemic and related containment measures, among others. Even after the COVID-19 pandemic subsides, our businesses could also be negatively impacted should the effects of the COVID-19 pandemic lead to changes in consumer behavior, including as a result of a decline in the level of vaping or demand for inhalable products in light of certain recent published articles and studies on the potential increased susceptibility of individuals who smoke or vaporize nicotine or cannabis to COVID-19, in light of changes in consumer behavior such as reduced spending on certain product formats historically used in shared experiences such as pre-rolls or in reductions in discretionary spending. In addition, a severe or prolonged recession resulting from the COVID-19 pandemic would likely materially affect our business and the value of our common shares.

We have been and may in the future be required to write down intangible assets, including goodwill, due to impairment, which could have a material adverse effect on our results of operations or financial position.

The Company has been and may in the future be required to write down intangible assets, including goodwill, due to impairment, which would reduce earnings. We periodically calculate the fair value of our reporting units and intangible assets to test for impairment. This calculation may be affected by several factors, including general economic conditions, regulatory developments, changes in category growth rates as a result of changing adult consumer preferences, success of planned new product introductions, and competitive activity. Certain events can also trigger an immediate review of goodwill and intangible assets. If the carrying value of our reporting unit and other intangible assets exceed their fair value and the loss in value is other than temporary, the goodwill and other intangible assets are considered impaired, which would result in impairment losses and could have a material adverse effect on our consolidated financial position or results of operations. We cannot provide any assurance that the U.S. segment will successfully execute its business plans and strategies.

The ongoing impact of the COVID-19 pandemic on the Company's operating results for the U.S. segment has been difficult, if not impossible to predict. The longer than anticipated closures of retail stores have resulted in slower than anticipated revenue growth. As a result, the Company reassessed its estimates and forecasts using a discounted cash flow during the second quarter to determine the fair value of the goodwill and intangible asset relating to the U.S. segment. Based on the forecast of the U.S. segment at this time, there was an indication that fair value of the goodwill and intangible asset may not exceed carrying value. In the second quarter of 2020, we performed an interim impairment test due to the triggering events noted above. The Company incurred $35 million of impairment charges on the U.S. reporting unit and $5 million on the Lord Jones™ brand.

It is possible that estimates in the Company's financial statements will continue to change in the near-term as a result of the COVID-19 pandemic and the effect of any such changes could be material, which could result in, among other things, further impairment of goodwill and intangible assets.

We have been and may in the future be required to write down inventory due to downward pressure on market prices, which could have a material adverse effect on our results of operations or financial position.

At the end of each reporting period, management performs an assessment of inventory obsolescence to measure inventory at the lower of cost and net realizable value. Net realizable value is defined as the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. We also consider factors such as slow-moving or non-marketable products in our determination of obsolescence. As a result of this assessment, inventory write-downs may occur from period to period. Due to continued pricing pressures in the Canadian marketplace, we may incur further inventory write-downs in the future.We have had a series of inventory write-downs due to price compression in the cannabis market. We expect these write-downs to continue as pricing pressures remain elevated. These inventory write-downs have in the past and may in the future materially adversely affect our results of operations and financial position.

We identified material weaknesses in our internal control over financial reporting. If we are unable to remediate the material weaknesses, or if we experience additional material weaknesses in the future, our business may be harmed.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) and for evaluating and reporting on the effectiveness of our system of internal control. Effective internal controls are necessary for us to provide timely, reliable and accurate financial reports, identify and proactively correct any deficiencies, material weaknesses or fraud and meet our reporting obligations. As disclosed in Part I, Item 4, we have commenced remediation efforts to improve our internal control over financial reporting. Remediation efforts place a significant burden on management and add increased pressure on our financial reporting resources and processes. If we are unable to successfully remediate our existing material weaknesses, or any additional material weaknesses in our internal control over financial reporting are identified, in a timely manner, the accuracy of our financial reporting and our ability to timely file with the SEC may be adversely impacted. In addition, if our remedial efforts are insufficient, or if additional material weaknesses or significant deficiencies in our internal controls occur in the future, we could be required to further restate our financial results, which could materially and adversely affect our business, results of operations and financial condition, restrict our ability to access the capital markets, require us to expend significant resources to correct the material weaknesses or deficiencies, subject us to regulatory investigations and penalties, harm our reputation, cause a decline in investor confidence or otherwise cause a decline in our stock price.

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

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits

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

Exhibit Number	Exhibit Index
3.1*	Certificate of Continuance, Notice of Articles and Articles of Cronos Group Inc.
10.1†*	Cronos Group Inc. 2020 Omnibus Equity Incentive Plan.
10.2†*	Form of Restricted Share Unit Award Agreement to Cronos Group Inc. 2020 Omnibus Equity Incentive Plan.
10.3†*	Form of Restricted Share Unit Award Agreement (Israel) to Cronos Group Inc. 2020 Omnibus Equity Incentive Plan.
10.3†	Separation Agreement, dated as of July 20, 2020, by and among Robert Rosenheck, Redwood Wellness, LLC and Cronos Group, Inc. (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of Cronos Group Inc., filed July 20, 2020).
31.1*	Certification of the Principal Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of the Principal Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of the Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of the Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document.
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document.

† Management contract or compensatory plan or arrangement.

* Filed herewith.

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

SIGNATURES

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

CRONOS GROUP INC.

By: /s/ Michael Gorenstein

Michael Gorenstein
President and Chief Executive Officer

Date: August 6, 2020

Exhibit 3.1

BRITISH COLUMBIA Number: C1256453

CERTIFICATE

OF

CONTINUATION

BUSINESS CORPORATIONS ACT

I Hereby Certify that Cronos Group Inc., has continued into British Columbia from the Jurisdiction of ONTARIO, under the Business Corporations Act, with the name CRONOS GROUP INC. on July 9, 2020 at 01:15 PM Pacific Time.

Issued under my hand at Victoria, British Columbia
On July 9, 2020

CAROL PREST
Registrar of Companies
Province of British Columbia
Canada

ELECTRONIC CERTIFICATE

BC Registry Services

Mailing Address:
PO Box 9431 Stn Prov Govt
Victoria BC V8W 9V3
www.corporateonline.gov.bc.ca

Location:
2nd Floor - 940 Blanshard Street
Victoria BC
1 877 526-1526

CERTIFIED COPY
Of a Document filed with the Province of British Columbia Registrar of Companies

CAROL PREST

Notice of Articles

BUSINESS CORPORATIONS ACT

This Notice of Articles was issued by the Registrar on: July 9, 2020 01:15 PM Pacific Time

Incorporation Number: **C1256453**

Recognition Date and Time: Continued into British Columbia on July 9, 2020 01:15 PM Pacific Time

NOTICE OF ARTICLES

Name of Company:

CRONOS GROUP INC.

REGISTERED OFFICE INFORMATION

Mailing Address:
SUITE 2600, THREE BENTALL CENTRE
595 BURRARD STREET, P.O. BOX 49314
VANCOUVER BC V7X 1L3
CANADA

Delivery Address:
SUITE 2600, THREE BENTALL CENTRE
595 BURRARD STREET, P.O. BOX 49314
VANCOUVER BC V7X 1L3
CANADA

RECORDS OFFICE INFORMATION:

Mailing Address:
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595 BURRARD STREET, P.O. BOX 49314
VANCOUVER BC V7X 1L3
CANADA

Delivery Address:
SUITE 2600, THREE BENTALL CENTRE
595 BURRARD STREET, P.O. BOX 49314
VANCOUVER BC V7X 1L3
CANADA

DIRECTOR INFORMATION:

Last Name, First Name, Middle Name:
Begley, Jody

Mailing Address:
111 PETER STREET, SUITE 300
TORONTO ON M5V 2G9
CANADA

Delivery Address:
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CANADA

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Garnick, Murray

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Last Name, First Name, Middle Name:
Adler, Jason

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Gorenstein, Michael

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Last Name, First Name, Middle Name:
Evans, Bronwen

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TORONTO ON M5V 2G9
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Delivery Address:
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TORONTO ON M5V 2G9
CANADA

Last Name, First Name, Middle Name:
Rudyk, James

Mailing Address:
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TORONTO ON M5V 2G9
CANADA

Delivery Address:
111 PETER STREET, SUITE 300
TORONTO ON M5V 2G9
CANADA

AUTHORIZED SHARE STRUCTURE

1.	No Maximum	Common Shares	Without Par Value Without Special Rights of Restrictions attached

Certificate of Continuation Number C1256453

ARTICLES

OF

Cronos Group Inc.

BUSINESS CORPORATIONS ACT

BRITISH COLUMBIA

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Certificate of Continuation Number C1256453

BUSINESS CORPORATIONS ACT

ARTICLES

of

CRONOS GROUP INC.

ARTICLE 1INTERPRETATION

1.1 Definitions. In these Articles, unless the context otherwise requires:

"**Applicable Securities Laws**" means the securities legislation in Canada, the United States and any other relevant jurisdiction, as amended from time to time, the rules, regulations and forms made or promulgated under any such statutes and the published national instruments, multilateral instruments, policies, bulletins and notices of the securities commissions and similar regulatory authorities, in each case, applicable to the Company;

"**board**" means the directors or sole director of the Company, as the case may be;

"***Business Corporations Act***" means the *Business Corporations Act* (British Columbia) in force from time to time and all amendments thereto and includes all regulations and amendments thereto made pursuant to that act;

"**Company**" means Cronos Group Inc.;

"***Interpretation Act***" means the *Interpretation Act* (British Columbia) in force from time to time and all amendments thereto and includes all regulations and amendments thereto made pursuant to that act;

"**legal personal representative**" means the personal or other legal representative of the shareholder;

"**meeting of shareholders**" or "**Shareholders Meeting**" means an annual meeting of shareholders and a special meeting of shareholders of the Company;

"**registered address**" of a shareholder means the shareholder's address as recorded in the central securities register;

"***Securities Transfer Act***" means the *Securities Transfer Act* (British Columbia) in force from time to time and all amendments thereto and includes all regulations and amendments thereto made pursuant to that Act.

1.1 **Business Corporations Act and Interpretation Act Definitions Applicable.** The definitions in the *Business Corporations Act* and the definitions and rules of construction in the *Interpretation Act*, with the necessary changes, so far as applicable, and unless the context requires otherwise, apply to these Articles as if they were an enactment. If there is a conflict between a definition in the *Business Corporations Act* and a definition or rule in the *Interpretation Act* relating to a term used in these Articles, the definition in the *Business Corporations Act* will prevail in relation to the use of the term in these Articles. If there is a conflict between these Articles and the *Business Corporations Act*, the *Business Corporations Act* will prevail.

ARTICLE 2SHARES AND SHARE CERTIFICATES

2.1 **Authorized Share Structure.** The authorized share structure of the Company consists of shares of the class or classes and series, if any, described in the Notice of Articles of the Company.

2.2 **Form of Share Certificate.** Each share certificate issued by the Company must comply with, and be signed as required by, the *Business Corporations Act*.

2.3 **Shareholder Entitled to Certificate or Acknowledgement.** Unless the shares of which the shareholder is the registered owner are uncertificated shares within the meaning of the *Business Corporations Act*, each shareholder is entitled, without charge, to (a) one share certificate representing the shares of each class or series of shares registered in the shareholder's name or (b) a non-transferable written acknowledgement of the shareholder's right to obtain such a share certificate, provided that in respect of a share held jointly by several persons, the Company is not bound to issue more than one share certificate or acknowledgement and delivery of a share certificate or an acknowledgement to one of several joint shareholders or to one of the shareholders' duly authorized agents will be sufficient delivery to all.

2.4 **Delivery by Mail.** Any share certificate or non-transferable written acknowledgement of a shareholder's right to obtain a share certificate may be sent to the shareholder by mail at the shareholder's registered address and neither the Company nor any director, officer or agent of the Company is liable for any loss to the shareholder because the share certificate or acknowledgement is lost in the mail or stolen.

2.5 **Replacement of Worn Out or Defaced Certificate or Acknowledgement.** If the board or the secretary of the Company, if any, is satisfied that a share certificate or a non-transferable written acknowledgement of the shareholder's right to obtain a share certificate is worn out or defaced, they must, on production to them of the share certificate or acknowledgement, as the case may be, and on such other terms, if any, as they think fit:

(a) order the share certificate or acknowledgement, as the case may be, to be cancelled; and

(b) issue a replacement share certificate or acknowledgement, as the case may be.

2.6 Replacement of Lost, Stolen or Destroyed Certificate or Acknowledgement. If a share certificate or a non-transferable written acknowledgement of a shareholder's right to obtain a share certificate is lost, stolen or destroyed, a replacement share certificate or acknowledgement, as the case may be, must be issued to the person entitled to that share certificate or acknowledgement, as the case may be, if the board or the secretary, if any, of the Company receives:

(a) proof satisfactory to them (which, if requested, shall include an affidavit) that the share certificate or acknowledgement is lost, stolen or destroyed; and

(b) any indemnity the board considers adequate.

2.7 Splitting Share Certificates. If a shareholder surrenders a share certificate to the Company, or to any transfer agent or other agent duly appointed for such purpose, together with a written request that the Company issue in the shareholder's name two or more share certificates, each representing a specified number of shares and in the aggregate representing the same number of shares as the share certificate so surrendered, the Company, or its agent duly appointed for such purpose, as the case may be, must cancel the surrendered share certificate and issue replacement share certificates in accordance with that request.

2.8 Certificate Fee. There must be paid to the Company, in relation to the issue of any share certificate under Articles 2.5, 2.6, or 2.7, the amount, if any, and which must not exceed the amount prescribed under the *Business Corporations Act*, determined by the board.

2.9 Recognition of Trusts. Except as required by law or statute or these Articles, no person will be recognized by the Company as holding any share upon any trust, and the Company is not bound by or compelled in any way to recognize (even when having notice thereof) any equitable, contingent, future or partial interest in any share or fraction of a share or (except as required by law or statute or these Articles or as ordered by a court of competent jurisdiction) any other rights in respect of any share except an absolute right to the entirety thereof in the shareholder.

2.10 Shares may be Uncertificated. Notwithstanding any other provision of this Article 2, the board may, by resolution, provide that

(a) the shares of any or all of the classes or series of the Company's shares may be uncertificated shares; or

(b) any specified shares may be uncertificated shares.

ARTICLE 3ISSUE OF SHARES

3.1 **Directors Authorized.** Subject to the *Business Corporations Act* and the rights, if any, of the holders of issued shares of the Company, the Company may issue, allot, sell or otherwise dispose of the unissued shares, and issued shares held by the Company, at the times, to the persons, including directors, in the manner, on the terms and conditions and for the issue prices (including any premium at which shares with par value may be issued) that the board may determine. The issue price for a share with par value must be equal to or greater than the par value of the share.

3.2 **Commissions and Discounts.** The Company may at any time pay a reasonable commission or allow a reasonable discount to any person in consideration of that person purchasing or agreeing to purchase shares of the Company from the Company or any other person or procuring or agreeing to procure purchasers for shares of the Company.

3.3 **Brokerage.** The Company may pay such brokerage fee or other consideration as may be lawful for or in connection with the sale or placement of its securities.

3.4 **Conditions of Issue.** Except as provided for by the *Business Corporations Act*, no share may be issued until it is fully paid. A share is fully paid when:

(a) consideration is provided to the Company for the issue of the share by one or more of the following:

(i) past services performed for the Company;

(ii) property; or

(iii) money; and

(b) the value of the consideration received by the Company equals or exceeds the issue price set for the share under Article 3.1.

3.5 **Share Purchase Warrants, Options and Rights.** Subject to the *Business Corporations Act*, the Company may issue share purchase warrants, options and rights upon such terms and conditions as the board determines, which share purchase warrants, options and rights may be issued alone or in conjunction with debentures, debenture stock, bonds, shares or any other securities issued or created by the Company from time to time.

ARTICLE 4SHARE REGISTERS

4.1 **Central Securities Register.** As required by and subject to the *Business Corporations Act*, the Company must maintain a central securities register, which may be kept in electronic form. The board may, subject to the *Business Corporations Act*, appoint an agent to maintain the central securities register. The board may also appoint one or more

agents, including the agent which keeps the central securities register, as transfer agent for its shares or any class or series of its shares, as the case may be, and the same or another agent as registrar for its shares or such class or series of its shares, as the case may be. The board may terminate such appointment of any agent at any time and may appoint another agent in its place.

4.2 Closing Register. The Company must not at any time close its central securities register.

ARTICLE 5SHARE TRANSFERS

5.1 Registering Transfers. A transfer of a share of the Company must not be registered unless:

(a) a duly signed instrument of transfer in respect of the share has been received by the Company;

(b) if a share certificate has been issued by the Company in respect of the share to be transferred, that share certificate has been surrendered to the Company;

(c) if a non-transferable written acknowledgement of the shareholder's right to obtain a share certificate has been issued by the Company in respect of the share to be transferred, that acknowledgement has been surrendered to the Company; and

(d) the satisfaction of any other conditions precedent, in favour of the Company, to which such transfer has validly been made subject (including any conditions precedent required to be satisfied in order to ensure compliance with Applicable Securities Laws).

5.2 Form of Instrument of Transfer. The instrument of transfer in respect of any share of the Company must be either in the form, if any, on the back of the Company's share certificates or in any other form that may be approved by the Company or the transfer agent for the class or series of shares to be transferred.

5.3 Transferor Remains Shareholder. Except to the extent that the *Business Corporations Act* otherwise provides, the transferor of shares is deemed to remain the holder of the shares until the name of the transferee is entered in a central securities register of the Company in respect of the transfer.

5.4 Signing of Instrument of Transfer. If a shareholder, or such shareholder's duly authorized attorney, signs an instrument of transfer in respect of shares registered in the name of the shareholder, the signed instrument of transfer constitutes a complete and sufficient authority to the Company and its directors, officers and agents of the Company to register the number of shares specified in the instrument of transfer or specified in any other manner, or, if no number is specified, all the shares represented by the share

certificates or set out in the written acknowledgements deposited with the instrument of transfer:

(a) in the name of the person named as transferee in that instrument of transfer; or

(b) if no person is named as transferee in that instrument of transfer, in the name of the person on whose behalf the instrument is deposited for the purpose of having the transfer registered.

5.5 Enquiry as to Title Not Required. Neither the Company nor any director, officer or agent of the Company is bound to inquire into the title of the person named in the instrument of transfer as transferee or, if no person is named as transferee in the instrument of transfer, of the person on whose behalf the instrument is deposited for the purpose of having the transfer registered or is liable for any claim related to registering the transfer by the shareholder or by any intermediate owner or holder of the shares, of any interest in the shares, of any share certificate representing such shares or of any written acknowledgement of a right to obtain a share certificate for such shares.

5.6 Transfer Fee. Subject to the applicable rules of any stock exchange on which the securities of the Company may be listed, there must be paid to the Company, in relation to the registration of any transfer, a fee, if any, in the amount, if any, determined by the board.

ARTICLE 6TRANSMISSION OF SHARES

6.1 Legal Personal Representative Recognized on Death. In the case of the death of a shareholder, the legal personal representative of the shareholder, or if the shareholder was a joint holder, the surviving joint holder, will be the only person recognized by the Company as having any title to the shareholder's interest in the shares. Before recognizing a person as a legal personal representative of a shareholder, the board may require proof of appointment by a court of competent jurisdiction, a grant of letters probate, letters of administration or such other evidence or documents as the board, officers or duly authorized agents of the Company consider appropriate.

6.2 Rights of Legal Personal Representative. The legal personal representative of a shareholder has the rights, privileges and obligations that attach to the shares held by the shareholder, including the right to transfer the shares in accordance with these Articles and Applicable Securities Laws, if appropriate evidence of appointment or incumbency within the meaning of the *Securities Transfer Act* has been deposited with the Company. This Article 6.2 does not apply in the case of the death of a shareholder with respect to shares registered in the shareholder's name and the name of another person in joint tenancy.

ARTICLE 7PURCHASE OF SHARES

7.1 **Company Authorized to Purchase Shares.** Subject to Article 7.2, the special rights and restrictions attached to the shares of any class or series and the *Business Corporations Act*, the Company may, if authorized by the board, purchase or otherwise acquire any of its shares at the price and upon the terms determined by the board.

7.2 **No Purchase, Redemption or Other Acquisition When Insolvent.** The Company must not make a payment or provide any other consideration to purchase, redeem or otherwise acquire any of its shares if there are reasonable grounds for believing that:

(a) the Company is insolvent; or

(b) making the payment or providing the consideration would render the Company insolvent.

7.3 **Sale and Voting of Purchased, Redeemed or Otherwise Acquired Shares.** If the Company retains a share redeemed, purchased or otherwise acquired by it, the Company may sell, gift or otherwise dispose of the share, but, while such share is held by the Company, it:

(a) is not entitled to vote the share at a meeting of shareholders;

(b) must not pay a dividend in respect of the share; and

(c) must not make any other distribution in respect of the share.

ARTICLE 8BORROWING POWERS

8.1 **Borrowing Powers.** The Company, if authorized by the board (it being understood, for the avoidance of doubt, that the board may delegate its power to provide such authorization to a committee, under Article 18.1, or to an officer, under Article 19.2), may:

(a) borrow money in the manner and amount, on the security, from the sources and on the terms and conditions that the board considers appropriate;

(b) issue bonds, debentures and other debt obligations either outright or as security for any liability or obligation of the Company or any other person and at such discounts or premiums and on such other terms as the board considers appropriate;

(c) guarantee the repayment of money by any other person or the performance of any obligation of any other person, provided that any director or authorized officer of

the Company may authorize the Company to guarantee the performance of an obligation of a wholly-owned subsidiary of the Company; and

(d) mortgage, charge, whether by way of specific or floating charge, grant a security interest in, or give other security on, the whole or any part of the present and future assets and undertaking of the Company.

ARTICLE 9ALTERATIONS

9.1 Alteration of Authorized Share Structure. Subject to Article 9.2, the special rights or restrictions attached to the shares of any class or series of shares and the *Business Corporations Act*, the Company may by special resolution:

(a) create one or more classes or series of shares or, if none of the shares of a class or series of shares are allotted or issued, eliminate that class or series of shares;

(b) increase, reduce or eliminate the maximum number of shares that the Company is authorized to issue out of any class or series of shares or establish a maximum number of shares that the Company is authorized to issue out of any class or series of shares for which no maximum is established;

(c) subdivide or consolidate all or any of its unissued, or fully paid and issued, shares;

(d) if the Company is authorized to issue shares of a class of shares with par value:

(i) decrease the par value of those shares; or

(ii) if none of the shares of that class of shares are allotted or issued, increase the par value of those shares;

(e) change all or any of its unissued, or fully paid and issued, shares with par value into shares without par value or any of its unissued shares without par value into shares with par value;

(f) alter the identifying name of any of its shares; or

(g) otherwise alter its shares or authorized share structure when required or permitted to do so by the *Business Corporations Act;*

and, if applicable, alter its Notice of Articles and Articles accordingly.

9.2 Special Rights and Restrictions. Subject to the special rights or restrictions attached to the shares of any class or series of shares and the *Business Corporations Act*, the Company may by special resolution:

(a) create special rights or restrictions for, and attach those special rights or restrictions to, the shares of any class or series of shares, whether or not any or all of those shares have been issued; or

(b) vary or delete any special rights or restrictions attached to the shares of any class or series of shares, whether or not any or all of those shares have been issued;

and alter its Notice of Articles and Articles accordingly.

9.3 Change of Name. The Company may by special resolution authorize an alteration of its Notice of Articles in order to change its name.

9.4 Other Alterations. If the *Business Corporations Act* does not specify the type of resolution and these Articles do not specify another type of resolution, the Company may by ordinary resolution alter these Articles.

ARTICLE 10MEETINGS OF SHAREHOLDERS

10.1 Annual General Meetings. Unless an annual general meeting is deferred or waived in accordance with the *Business Corporations Act*, the Company must hold its first annual general meeting within 18 months after the date on which it was incorporated or otherwise recognized, and after that must hold an annual general meeting at least once in each calendar year and not more than 15 months after the last annual reference date at such time and place as may be determined by the board.

10.2 Resolution Instead of Annual General Meeting. If all the shareholders who are entitled to vote at an annual general meeting consent by unanimous resolution under the *Business Corporations Act* to all of the business that is required to be transacted at that annual general meeting, the annual general meeting is deemed to have been held on the date of the unanimous resolution. The shareholders must, in any unanimous resolution passed under this Article 10.2, select as the Company's annual reference date a date that would be appropriate for the holding of the applicable annual general meeting.

10.3 Calling of Meetings of Shareholders. Subject to the *Business Corporations Act*, only the board may, whenever it thinks fit, call a meeting of shareholders.

10.4 Notice for Meetings of Shareholders. The Company must send notice of the date, time and location of any meeting of shareholders, in the manner provided in these Articles, or in such other manner, if any, as may be prescribed by ordinary resolution (whether previous notice of the resolution has been given or not), to each shareholder entitled to attend the meeting, to each director and to the auditor of the Company, unless these Articles otherwise provide, at least the following number of days before the meeting:

(a) if and for so long as the Company is a public company, 21 days, and not more than 60 days;

(b) otherwise, 10 days.

10.5 Record Date for Notice and Voting. The board may set a date as the record date for the purpose of determining shareholders entitled to notice of, and to vote at, any meeting of shareholders. The record date must not precede the date on which the meeting is to be held by more than two months or, in the case of a general meeting requisitioned by shareholders under the *Business Corporations Act*, by more than four months. The record date must not precede the date on which the meeting is held by fewer than:

(a) if and for so long as the Company is a public company, 30 days;

(b) otherwise, 10 days.

If no record date is set, the record date is 5 p.m. on the day immediately preceding the first date on which the notice is sent or, if no notice is sent, the beginning of the meeting.

10.6 Failure to Give Notice and Waiver of Notice. The accidental omission to send notice of any meeting of shareholders to, or the non-receipt of any notice by, any of the persons entitled to notice does not invalidate any proceedings at that meeting. Any person entitled to notice of a meeting of shareholders may, in writing or otherwise, waive that entitlement or agree to reduce the period of that notice. Attendance of a persons at a meeting of shareholders is a waiver of entitlement to the meeting unless that person attends the meeting for the express purpose of objecting to the transaction of any business on the grounds that the meeting is not lawfully called.

10.7 Notice of Special Business at Meetings of Shareholders. If a meeting of shareholders is to consider special business within the meaning of Article 11.1, the notice of meeting must:

(a) state the general nature of the special business; and

(b) if the special business includes considering, approving, ratifying, adopting or authorizing any document or the signing of or giving of effect to any document, have attached to it a copy of the document or state that a copy of the document will be available for inspection by shareholders:

(i) at the Company's records office, or at such other reasonably accessible location in British Columbia as is specified in the notice; and

(ii) during statutory business hours on any one or more specified days before the day set for the holding of the meeting.

10.8 Location of Meetings of Shareholders. Meetings of shareholders may be held anywhere within Canada, the United States, or at such other location that the board, by resolution, may determine. To the extent not prohibited by the *Business Corporations Act*, such other location may include a virtual meeting, which shall be deemed to be held at the registered office of the Company.

ARTICLE 11PROCEEDINGS AT MEETINGS OF SHAREHOLDERS

11.1 Special Business. At a meeting of shareholders, the following business is special business:

(a) at a meeting of shareholders that is not an annual general meeting, all business is special business except business relating to the conduct of or voting at the meeting;

(b) at an annual general meeting, all business is special business except for the following:

(i) business relating to the conduct of or voting at the meeting;

(ii) consideration of any financial statements of the Company presented to the meeting;

(iii) consideration of any reports of the board or auditor;

(iv) the setting or changing of the number of directors;

(v) the election or appointment of directors;

(vi) the appointment of an auditor;

(vii) the setting of the remuneration of an auditor;

(viii) any non-binding advisory vote;

(ix) business arising out of a report of the board not requiring the passing of a special resolution or an exceptional resolution;

(x) any other business which, under these Articles or the *Business Corporations Act*, may be transacted at a meeting of shareholders without prior notice of the business being given to the shareholders.

11.2 Special Majority. The majority of votes required for the Company to pass a special resolution at a meeting of shareholders is two-thirds of the votes cast on the resolution.

11.3 Quorum. Subject to the special rights and restrictions attached to the shares of any class or series of shares, the quorum for the transaction of business at a meeting of shareholders is any persons who are, or who represent by proxy, the holders of at least 33 1/3%, in the aggregate, of the issued shares entitled to be voted at the meeting.

11.4 One Shareholder May Constitute Quorum. If there is only one shareholder entitled to vote at a meeting of shareholders:

(a) the quorum is one person who is, or who represents by proxy, that shareholder; and

(b) that shareholder, present in person or by proxy, may constitute the meeting.

11.5 Persons Entitled to Attend Meeting. In addition to those persons who are entitled to vote at a meeting of shareholders, the only other persons entitled to be present at the meeting are the directors, the officers of the Company, any counsel for the Company, the auditor of the Company and any other persons invited by the board or by the chair of the meeting and any persons entitled or required under the *Business Corporations Act* or these Articles to attend any meeting of shareholders, but if any of those persons does attend a meeting of shareholders, that person is not to be counted in the quorum and is not entitled to vote at the meeting unless that person is a shareholder or proxy holder entitled to vote at the meeting.

11.6 Requirement of Quorum. No business, other than the election of a chair of the meeting and the adjournment of the meeting of shareholders, may be transacted at any meeting of shareholders unless a quorum of shareholders entitled to vote is present at the commencement of the meeting, but such quorum need not be present throughout the meeting.

11.7 Lack of Quorum. If, within one-half hour from the time set for the holding of a meeting of shareholders, a quorum is not present:

(a) in the case of a meeting requisitioned by shareholders, the meeting is dissolved, and

(b) in the case of any other meeting of shareholders, the meeting stands adjourned to the same day in the next week at the same time and place.

11.8 Lack of Quorum at Succeeding Meeting. If, at the meeting to which the meeting referred to in Article 11.7(b) was adjourned, a quorum is not present within one-half hour from the time set for the holding of the meeting, the person or persons present and being, or representing by proxy, one or more shareholders entitled to attend and vote at the meeting constitute a quorum.

11.9 Chair. The following individual is entitled to preside as chair at a meeting of shareholders:

(a) the chair of the board, if any; or

(b) if the chair of the board is absent or unwilling to act as chair of the meeting, the lead director of the board, if any; or

(c) if the lead director of the board is absent or unwilling to act as chair of the meeting, the individual whom the Chief Executive Officer (or, if the Chief

Executive Officer is absent, the Chief Financial Officer) of the Company appoints.

11.10 Selection of Alternate Chair. If, at any meeting of shareholders, the chair of the board, the lead director of the board or the individual whom the Chief Executive Officer (or, if the Chief Executive Officer is absent, the Chief Financial Officer) of the Company appoints, as the case may be, is not present within 15 minutes after the time set for holding the meeting, or if the chair of the board, the lead director of the board or the individual whom the Chief Executive Officer (or, if the Chief Executive Officer is absent, the Chief Financial Officer) of the Company appoints, as the case may be, is unwilling to act as chair of the meeting, or if the chair of the board, the lead director of the board or the individual whom the Chief Executive Officer (or, if the Chief Executive Officer is absent, the Chief Financial Officer) of the Company appoints, as the case may be, has advised the secretary of the Company, if any, or any director present at the meeting, that they will not be present at the meeting, the directors present must choose one of their number to be chair of the meeting or if all of the directors present decline to take the chair or fail to so choose or if no director is present, the shareholders entitled to vote at the meeting who are present in person or by proxy may choose any person present at the meeting to chair the meeting.

11.11 Adjournments. The chair of a meeting of shareholders may, and if so directed by the meeting must, adjourn the meeting from time to time and from place to place, but no business may be transacted at any adjourned meeting other than the business left unfinished at the meeting from which the adjournment took place.

11.12 Notice of Adjourned Meeting. It is not necessary to give any notice of an adjourned meeting of shareholders or of the business to be transacted at an adjourned meeting of shareholders except that, when a meeting is adjourned for 30 days or more, notice of the adjourned meeting must be given in the same manner as the original meeting.

11.13 Decision by Show of Hands or Poll. Subject to the *Business Corporations Act*, every motion put to a vote at a meeting of shareholders will be decided on a show of hands unless a poll, before or on the declaration of the result of the vote by show of hands, is directed by the chair of the meeting or demanded by at least one shareholder entitled to vote who is present in person or by proxy.

11.14 Declaration of Result. The chair of a meeting of shareholders must declare to the meeting the decision on every question in accordance with the result of the show of hands or the poll, as the case may be, and that decision must be entered in the minutes of the meeting. A declaration of the chair of the meeting that a resolution is carried by the necessary majority or is defeated is, unless a poll is directed by the chair of the meeting or demanded under Article 11.13, conclusive evidence without proof of the number or proportion of the votes recorded in favour of or against the resolution.

11.15 Motion Need Not be Seconded. No motion proposed at a meeting of shareholders need be seconded unless the chair of the meeting rules otherwise, and the chair of the meeting is entitled to propose or second a motion.

11.16 Casting Vote. In the case of an equality of votes, the chair of a meeting of shareholders does not, either on a show of hands or on a poll, have a second or casting vote in addition to the vote or votes to which the chair of the meeting may be entitled as a shareholder.

11.17 Manner of Taking Poll. Subject to Article 11.18, if a poll is duly demanded at a meeting of shareholders:

(a) the poll must be taken:

(i) at the meeting, or within seven days after the date of the meeting, as the chair of the meeting directs; and

(ii) in the manner, at the time and at the place that the chair of the meeting directs;

(b) the result of the poll is deemed to be the decision of the meeting at which the poll is demanded; and

(c) the demand for the poll may be withdrawn by the person who demanded it.

11.18 Demand for Poll on Adjournment. A poll demanded at a meeting of shareholders on a question of adjournment must be taken immediately at the meeting.

11.19 Organization. The order of business at a meeting of shareholders shall be determined by the chair of a meeting of shareholders. The chair of a meeting of shareholders shall have the right and authority to prescribe such rules, regulations and procedures and to do all such acts and things as are necessary or desirable for the proper conduct of the meeting of shareholders, including, without limitation, the establishment of procedures for the maintenance of order and safety, limitations on the time allotted to questions or comments on the affairs of the Company, restrictions on entry to such meeting of shareholders after the time prescribed for the commencement thereof and the opening and closing of voting polls for each item on which a vote is to be taken.

11.20 Chair Must Resolve Dispute. In the case of any dispute as to the admission or rejection of a vote given on a poll, the chair of a meeting of shareholders must determine the dispute, and his or her determination made in good faith is final and conclusive.

11.21 Casting of Votes. On a poll, a shareholder entitled to more than one vote need not cast all the votes in the same way.

11.22 No Demand for Poll on Election of Chair. No poll may be demanded in respect of the vote by which a chair of a meeting of shareholders is elected.

11.23 Demand for Poll Not to Prevent Continuance of Meeting. The demand for a poll at a meeting of shareholders does not, unless the chair of the meeting so rules, prevent the continuation of a meeting for the transaction of any business other than the question on which a poll has been demanded.

11.24 Retention of Ballots and Proxies. The Company or its agents must, for at least three months after a meeting of shareholders, keep each ballot cast on a poll and each proxy voted at the meeting, and, during that period, make them available for inspection during normal business hours by any shareholder or proxy holder entitled to vote at the meeting. At the end of such three-month period, the Company or its agents may destroy such ballots and proxies.

11.25 Meeting by Telephone or Other Communications Medium. A shareholder or proxy holder may participate in a meeting of shareholders in person, by telephone or other communications medium if all shareholders or proxy holders participating in the meeting, whether in person, by telephone or other communications medium, are able to communicate with each other. A shareholder or proxy holder who participates in a meeting in a manner contemplated by this Article 11.25 is deemed, for all purposes of the *Business Corporations Act* and these Articles, to be present at the meeting.

ARTICLE 12VOTES OF SHAREHOLDERS

12.1 Number of Votes by Shareholder or by Shares. Subject to any special rights or restrictions attached to any shares and to the restrictions imposed on joint shareholders under Article 12.3:

(a) on a vote by show of hands, every person present who is a shareholder or proxy holder and entitled to vote on the matter has one vote; and

(b) on a poll, every shareholder entitled to vote on the matter has one vote in respect of each share entitled to be voted on the matter and held by that shareholder and may exercise that vote either in person or by proxy.

12.2 Votes of Persons in Representative Capacity. A person who is not a shareholder may vote at a meeting of shareholders, whether on a show of hands or on a poll, and may appoint a proxy holder to act at the meeting, if, before doing so, the person satisfies the chair of the meeting, or the board, that the person is a legal personal representative or a trustee in bankruptcy for a shareholder who is entitled to vote at the meeting.

12.3 Votes by Joint Holders. If there are joint shareholders registered in respect of any share:

(a) any one of the joint shareholders may vote at any meeting of shareholders, either personally or by proxy, in respect of the share as if that joint shareholder were solely entitled to it; or

(b) if more than one of the joint shareholders is present at any meeting of shareholders, personally or by proxy, and more than one of them votes in respect of that share, then only the vote of the joint shareholder present whose name stands first on the central securities register in respect of the share will be counted.

12.4 Legal Personal Representatives as Joint Shareholders. Two or more legal personal representatives of a shareholder in whose sole name any share is registered are, for the purposes of Article 12.3, deemed to be joint shareholders.

12.5 Representative of a Corporate Shareholder. If a corporation that is not a subsidiary of the Company is a shareholder, that corporation may appoint a person to act as its representative at any meeting of shareholders, and:

(a) for that purpose, the instrument appointing a representative must be received:

(i) at the registered office of the Company or at any other place specified in the notice calling the meeting for the receipt of proxies on the date that is at least the number of business days specified in the notice for the receipt of proxies or, if no number of days is specified, two business days, before the day set for the holding of the meeting; or

(ii) at the meeting by the chair of the meeting or to a person designated by the chair of the meeting;

(b) if a representative is appointed under this Article 12.5:

(i) the representative is entitled to exercise in respect of and at that meeting the same rights on behalf of the corporation that the representative represents as that corporation could exercise if it were a shareholder who is an individual, including, without limitation, the right to appoint a proxy holder; and

(ii) the representative, if present at the meeting, is to be counted for the purpose of forming a quorum and is deemed to be a shareholder present in person at the meeting.

Evidence of the appointment of any such representative may be sent to the Company or its transfer agent by written instrument or any other method of transmitting legibly recorded messages.

12.6 When Proxy Provisions Do Not Apply to the Company. If and for so long as the Company is a public company, Articles 12.7 to 12.15 apply only insofar as they are not inconsistent with any Applicable Securities Laws or any rules of any exchange on which the securities of the Company are listed.

12.7 Appointment of Proxy Holders. Every shareholder of the Company, including a corporation that is a shareholder but not a subsidiary of the Company, entitled to vote at a

meeting of shareholders may, by proxy, appoint one or more (but not more than five) proxy holders to attend and act at the meeting in the manner, to the extent and with the powers conferred by the proxy.

12.8 Alternate Proxy Holders. A shareholder may appoint one or more alternate proxy holders to act in the place of an absent proxy holder.

12.9 When Proxy Holder Need Not Be Shareholder. A person must not be appointed as a proxy holder unless the person is a shareholder, although a person who is not a shareholder may be appointed as a proxy holder if:

(a) the person appointing the proxy holder is a corporation or a representative of a corporation appointed under Article 12.5;

(b) the Company has at the time of the meeting of shareholders for which the proxy holder is to be appointed only one shareholder entitled to vote at the meeting;

(c) the shareholders present in person or by proxy at and entitled to vote at the meeting for which the proxy holder is to be appointed, by a resolution on which the proxy holder is not entitled to vote but in respect of which the proxy holder is to be counted in the quorum, permit the proxy holder to attend and vote at the meeting;

(d) the Company is a public company; or

(e) if approved by the board, the person is a director or officer of the Company.

12.10 Deposit of Proxy. A proxy for a meeting of shareholders must:

(a) be received at the registered office of the Company or at any other place specified in the notice calling the meeting for the receipt of proxies on the date that is at least the number of business days specified in the notice, or, if no number of days is specified, two business days, before the day set for the holding of the meeting; or

(b) unless the notice provides otherwise, be provided at the meeting to the chair of the meeting or to a person designated by the chair of the meeting.

12.11 Validity of Proxy Vote. A vote given in accordance with the terms of a proxy is valid notwithstanding the death or incapacity of the shareholder giving the proxy and despite the revocation of the proxy or the revocation of the authority under which the proxy is given, unless notice in writing of that death, incapacity or revocation is received:

(a) at the registered office of the Company at any time up to and including the date that is at least the number of business days specified in the notice calling the meeting of shareholders at which the proxy is to be used, or, if no number of days

is specified, two business days, before the day set for the holding of such meeting; or

(b) by the chair of the meeting, before any vote in respect of which the proxy has been given has been taken.

12.12 Form of Proxy. A proxy, whether for a specified meeting of shareholders or otherwise, must be in such form as is approved by the board or the chair of the meeting.

12.13 Revocation of Proxy. Subject to Article 12.14, every proxy may be revoked by an instrument in writing that is received:

(a) at the registered office of the Company at any time up to and including the date that is at least the number of business days specified in the notice calling the meeting of shareholders at which the proxy is to be used, or, if no number of days is specified, two business days before the day set for the holding of such meeting; or

(b) by the chair of the meeting, before any vote in respect of which the proxy has been given has been taken.

12.14 Revocation of Proxy Must Be Signed. An instrument referred to in Article 12.13 must be signed as follows:

(a) if the shareholder for whom the proxy holder is appointed is an individual, the instrument must be signed by the shareholder or his or her legal personal representative or trustee in bankruptcy;

(b) if the shareholder for whom the proxy holder is appointed is a corporation, the instrument must be signed by the corporation or by a representative appointed for the corporation under Article 12.5.

12.15 Production of Evidence of Authority to Vote. The board or the chair of any meeting of shareholders may, but need not, inquire into the authority of any person to vote at the meeting and may, but need not, demand from that person production of evidence as to the existence of the authority to vote.

ARTICLE 13DIRECTORS

13.1 First Directors; Number of Directors. The first directors are the persons designated as directors of the Company in the Notice of Articles that applies to the Company when it is recognized under the *Business Corporations Act*. The number of directors, excluding additional directors appointed under Article 14.8, is set at:

(a) subject to paragraphs (b) and (c), the number of directors that is equal to the number of the Company's first directors;

(b) if the Company is a public company, the greater of three and the number of directors most recently set either:

(i) by ordinary resolution (whether or not previous notice of the resolution was given); or

(ii) under Article 14.4;

(c) if the Company is not a public company, the number of directors most recently set either:

(i) by ordinary resolution (whether or not previous notice of the resolution was given); or

(ii) under Article 14.4.

13.2 Change in Number of Directors. If the number of directors is set under Articles 13.1(b)(i) or 13.1(c)(i):

(a) the shareholders may elect or appoint the directors needed to fill any vacancies in the board up to that number; or

(b) the board, subject to Article 14.8, may appoint, or the shareholders may elect or appoint, directors to fill those vacancies.

13.3 Directors' Acts Valid Despite Vacancy. An act or proceeding of the board is not invalid merely because fewer than the number of directors set or otherwise required under these Articles is in office.

13.4 Qualifications of Directors. A director is not required to hold a share of the Company as qualification for his or her office but must be qualified as required by the *Business Corporations Act* to become, act or continue to act as a director.

13.5 Remuneration of Directors. The directors are entitled to the remuneration for acting as directors, if any, as the board may from time to time determine. That remuneration may (only to the extent permitted by any applicable policies adopted by the board or any duly authorized committee thereof) be in addition to any salary or other remuneration paid to any officer or employee of the Company as such, who is also a director.

13.6 Reimbursement of Expenses of Directors. The Company may reimburse each director for the reasonable expenses that he or she may incur in and about the business of the Company.

13.7 Special Remuneration for Directors. If any director performs any professional or other services for the Company that in the opinion of the board are outside the ordinary duties of a director, or if any director is otherwise specially occupied in or about the Company's business, he or she may be paid remuneration fixed by the board (but only to the extent

permitted by any applicable policies adopted by the board or any duly authorized committee thereof, including but not limited to any policy of the Company applicable to related party transactions), and such remuneration may be either in addition to, or in substitution for, any other remuneration that he or she may be entitled to receive.

ARTICLE 14ELECTION AND REMOVAL OF DIRECTORS

14.1 Election at Annual General Meeting. Subject to Article 15, at every annual general meeting and in every unanimous resolution contemplated by Article 10.2:

(a) the shareholders entitled to vote at the annual general meeting for the election of directors must elect, or by unanimous resolution appoint, a board consisting of the number of directors that has then been set under these Articles; and

(b) all the directors cease to hold office immediately before the election or appointment of directors under paragraph (a), but are eligible for re-election or re-appointment.

14.2 Consent to be a Director. No election, appointment or designation of an individual as a director is valid unless:

(a) that individual consents to be a director in the manner provided for in the *Business Corporations Act*;

(b) that individual is elected or appointed at a meeting of shareholders at which the individual is present and the individual does not refuse, at the meeting, to be a director; or

(c) with respect to first directors, the designation is otherwise valid under the *Business Corporations Act*.

14.3 Failure to Elect or Appoint Directors. If:

(a) the Company fails to hold an annual general meeting, and all the shareholders who are entitled to vote at an annual general meeting fail to pass the unanimous resolution contemplated by Article 10.2, on or before the date by which the annual general meeting is required to be held under the *Business Corporations Act*; or

(b) the shareholders fail, at the annual general meeting or in the unanimous resolution contemplated by Article 10.2, to elect or appoint any directors;

then each director then in office continues to hold office until the earlier of:

(a) the date on which his or her successor is elected or appointed; and

(b) the date on which he or she otherwise ceases to hold office under the *Business Corporations Act* or these Articles.

14.4 Places of Retiring Directors Not Filled. If, at any meeting of shareholders at which there should be an election of directors, the places of any of the retiring directors are not filled by that election, those retiring directors who are not re-elected and who are asked by the newly elected directors to continue in office will, if willing to do so, continue in office to complete the number of directors that has then been set pursuant to these Articles until further new directors are elected at a meeting of shareholders convened for that purpose. If any such election or continuance of directors does not result in the election or continuance of the number of directors that has then been set pursuant to these Articles, the number of directors is deemed to be set at the number of directors actually elected or continued in office.

14.5 Directors May Fill Casual Vacancies. Any casual vacancy occurring in the board may be filled by the board.

14.6 Remaining Directors Power to Act. The board may act notwithstanding any vacancy in the board, but if the Company has fewer directors in office than the number set pursuant to these Articles as the quorum of directors, the board may only act for the purpose of appointing directors up to that number or of summoning a meeting of shareholders for the purpose of filling any vacancies on the board or, subject to the *Business Corporations Act*, for any other purpose.

14.7 Shareholders May Fill Vacancies. Subject to Article 15, if the Company has no directors or fewer directors in office than the number set pursuant to these Articles as the quorum of directors, the shareholders may elect or appoint directors to fill any vacancies on the board.

14.8 Additional Directors. Subject to Article 15 and notwithstanding Articles 13.1 and 13.2, between annual general meetings or unanimous resolutions contemplated by Article 10.2, the board may appoint one or more additional directors, but the number of additional directors appointed under this Article 14.8 must not at any time exceed:

(a) one-third of the number of first directors, if, at the time of the appointments, one or more of the first directors have not yet completed their first term of office; or

(b) in any other case, one-third of the number of the current directors who were elected or appointed as directors other than under this Article 14.8.

Any director so appointed ceases to hold office immediately before the next election or appointment of directors under Article 14.1(a), but is eligible for re-election or re-appointment.

14.9 Ceasing to be a Director. A director ceases to be a director when:

(a) the term of office of the director expires;

(b) the director dies;

(c) the director resigns as a director by notice in writing provided in the manner required by the *Business Corporations Act*; or

(d) the director is removed from office pursuant to Articles 14.10 or 14.11.

14.10 Removal of Director by Shareholders. The Company may remove any director before the expiration of his or her term of office by ordinary resolution. In that event, the shareholders may elect, or appoint by ordinary resolution, a director to fill the resulting vacancy, subject to Article 15. If the shareholders do not elect or appoint a director to fill the resulting vacancy contemporaneously with the removal, then the board may appoint or the shareholders may elect, or appoint by ordinary resolution, a director to fill that vacancy.

14.11 Removal of Director by Directors. The board may remove any director before the expiration of his or her term of office if the director is indicted or convicted in a court of law for, or upon the entering by such director of a plea of guilty or *nolo contendere* to, (x) a felony offense under U.S. state or federal law, an indictable offence under the *Criminal Code* (Canada) or a comparable offence under the law of any other jurisdiction, or (y) any crime involving moral turpitude, fraud, dishonesty, bribery or theft or if the director ceases to be qualified to act as a director of a company in accordance with the *Business Corporations Act* and does not promptly resign, and the board may appoint a director to fill the resulting vacancy.

ARTICLE 15ADVANCE NOTICE FOR NOMINATION OF DIRECTORS

15.1 Limitation on Nominations of Directors. Subject only to the *Business Corporations Act*, only individuals who are nominated in accordance with the procedures set out in this Article 15 and who, at the discretion of the board, satisfy the qualifications of a director as set out in the *Business Corporations Act* shall be eligible for election as directors.

15.2 Nomination Procedures. Nominations of individuals for election to the board may be made at any annual Shareholders Meeting or at any special Shareholders Meeting if one of the purposes for which the special Shareholders Meeting was called was the election of directors. Such nominations may be made in the following manner:

(a) by or at the direction of the board, including pursuant to a notice of meeting, including, for clarity, any nominees of a shareholder who are proposed by the board for election in the notice of meeting, whether pursuant to an agreement with such shareholder or otherwise;

(b) by or at the direction or request of one or more shareholders pursuant to a proposal made in accordance with the provisions of the *Business Corporations Act*, or a requisition of meeting of shareholders made in accordance with the provisions of the *Business Corporations Act*; or

(c) by any person (a "**Nominating Shareholder**"):

(i) who, at the close of business on the date of the giving of the notice provided below in Article 15.3 and on the record date for notice of such meeting, is entered in the central securities register as a holder of one or more shares carrying the right to vote at such meeting or who beneficially owns shares that are entitled to be voted at such meeting; and

i. who complies with the notice procedures set forth below in this Article 15.3.

15.3 Nominations by a Nominating Shareholder.

(a) In addition to any other applicable requirements, for a nomination to be made by a Nominating Shareholder, the Nominating Shareholder must have given timely notice thereof in proper written form to the secretary of the Company at the principal executive offices of the Company. To be timely, a Nominating Shareholder's notice to the secretary of the Company must be made:

i. in the case of an annual Shareholders Meeting, not less than 30 nor more than 65 days prior to the date of the annual Shareholders Meeting; provided, however, that in the event that the annual Shareholders Meeting is to be held on a date that is less than 50 days after the date on which the first public announcement by the Company by press release (the "**Notice Date**") of the date of the annual Shareholders Meeting was made, notice by the Nominating Shareholder may be made not later than the close of business on the 10th day following the Notice Date; and

ii. in the case of a special Shareholders Meeting (which is not also an annual Shareholders Meeting) called for the purpose of electing directors (whether or not called for other purposes), not later than the close of business on the 15th day following the day on which the first public announcement by the Company by press release of the date of the special Shareholders Meeting was made.

(b) In no event shall any adjournment or postponement of a Shareholder Meeting or the announcement thereof commence a new time period for the giving of a Nominating Shareholder's notice as described above.

(c) To be in proper written form, a Nominating Shareholder's notice to the secretary of the Company must set forth:

i. the identity of the Nominating Shareholder and the number of voting securities held by the Nominating Shareholder;

ii. if the Nominating Shareholder is not the beneficial owner of all of those voting securities, the identity of the beneficial owner and the number of voting securities beneficially owned by that beneficial owner;

iii. with respect to the Nominating Shareholder and, if applicable, any beneficial owner, the following:

(A) the class or series and number of any securities in the capital of the Company which are controlled, or over which control or direction is exercised, directly or indirectly, by the Nominating Shareholder or beneficial owner, and each person acting jointly or in concert with any of them (and for each such person any options or other rights to acquire shares in the capital of the Company, any derivatives or other securities, instruments or arrangements for which the price or value or delivery, payment or settlement obligations are derived from, referenced to, or based on any such shares, and any hedging transactions, short positions and borrowing or lending arrangements relating to such shares) as of the record date for the meeting of shareholders (if such date shall then have been made publicly available and shall have occurred) and as of the date of such notice;

(B) any proxy, contract, agreement, arrangement, understanding or relationship pursuant to which the Nominating Shareholder or beneficial owner has a right to vote any shares in the capital of the Company on the election of directors.

(C) in the case of a special Shareholders Meeting called for the purpose of electing directors, a statement as to whether the Nominating Shareholder or beneficial owner intends to send an information circular and form of proxy to any shareholders in connection with the individual's nomination; and

(D) any other information relating to the Nominating Shareholder or beneficial owner that would be required to be disclosed in a dissident's proxy circular or other filings to be made in connection with solicitations of proxies for election of directors pursuant to the *Business Corporations Act* and Applicable Securities Laws; and

(E) as to each individual whom the Nominating Shareholder proposes to nominate for election as a director:

(I) the name, age, business address and residential address of the individual;

(II) confirmation that the individual would consent to serve as a director if elected;

(III) the principal occupation or employment of the individual;

(IV) the class or series and number of securities in the capital of the Company which are beneficially owned, or over which control or direction is exercised, directly or indirectly, by such individual as of the record date for the Shareholders Meeting (if such date shall then have been made publicly available and shall have occurred) and as of the date of such notice; and

(V) any other information relating to the individual that would be required to be disclosed in a dissident's proxy circular or other filings to be made in connection with solicitations of proxies for election of directors pursuant to the *Business Corporations Act* and Applicable Securities Laws.

(d) A Nominating Shareholder's notice to the secretary of the Company must also state:

i. whether, in the opinion of the Nominating Shareholder and the proposed nominee, the proposed nominee would qualify to be an independent director under sections 5605(a)(2), 5605(c)(2) and 5605(d)(2) of the Nasdaq Listing Rules and the commentary relating thereto and Rule 10A-3(b) and Rule 10C-1(b) under the United States Securities Exchange Act of 1934, as amended, as well as any other applicable independence criterion of a stock exchange or regulatory authority that may be applicable to the Company; and

ii. whether, with respect to the Company, the proposed nominee has one or more of the relationships described in sections 5605(a)(2), 5605(c)(2) and 5605(d)(2) of the Nasdaq Listing Rules and the commentary relating thereto and Rule 10A-3(b) and Rule 10C-1(b) under the United States Securities Exchange Act of 1934, as amended, as well as any other applicable independence criterion of a stock exchange or regulatory authority that may be applicable to the Company.

(e) The Company may require any proposed director nominee to furnish such other information as may reasonably be required by the Company to determine the eligibility of such proposed director nominee to serve as an independent director or that could be material to a reasonable shareholder's understanding of the independence, or lack thereof, of such proposed director nominee.

(f) In addition to the provisions of this Article 15, a Nominating Shareholder and any individual nominated by the Nominating Shareholder shall also comply with all of the applicable requirements of the *Business Corporations Act*, Applicable Securities Laws and applicable stock exchange rules regarding the matters set forth herein.

(g) Except as otherwise provided by the special rights or restrictions attached to the shares of any class or series of the Company, no individual shall be eligible for election as a director unless nominated in accordance with the provisions of this Article 15; provided, however, that nothing in this Article 15 shall be deemed to preclude discussion by a shareholder (as distinct from the nomination of directors) at a Shareholders Meeting of any matter in respect of which it would have been entitled to submit a proposal pursuant to the provisions of the *Business Corporations Act*. The chairperson of the meeting shall have the power and duty to determine whether a nomination was made in accordance with the procedures set forth in the foregoing provisions and, if any proposed nomination is not in compliance with such foregoing provisions, to declare that such defective nomination shall be disregarded. A duly appointed proxyholder of a Nominating Shareholder shall be entitled to nominate at a Shareholders Meeting the directors nominated by the Nominating Shareholder, provided that all of the requirements of this Article 15 have been satisfied. If the Nominating Shareholder or its duly appointed proxyholder does not attend at the Shareholders Meeting to present the nomination, the nomination shall be disregarded notwithstanding that proxies in respect of such nomination may have been received by the Company.

(h) In addition to the provisions of this Article 15, a Nominating Shareholder and any individual nominated by the Nominating Shareholder shall also comply with all of the applicable requirements of the *Business Corporations Act*, Applicable Securities Laws and applicable stock exchange rules regarding the matters set forth herein.

(i) Notwithstanding any other provision of this Article 15, notice given to the secretary of the Company may only be given by personal delivery, and shall be deemed to have been given and made only at the time it is served by personal delivery to the secretary of the Company at the address of the principal executive offices of the Company; provided that if such delivery is made on a day which is a not a business day or later than 5:00 p.m. (Toronto time) on a day which is a business day, then such delivery shall be deemed to have been made on the subsequent day that is a business day.

(j) Notwithstanding the foregoing, the board may, in its sole discretion, waive any requirement in this Article 15.

(k) For greater certainty, nothing in this Article 15 shall limit the right of the board to fill a vacancy among the directors in accordance with these Articles.

ARTICLE 16DISCLOSURE OF INTEREST OF DIRECTORS

16.1 **Director Holding Other Office in the Company.** A director may hold any office or place of profit with the Company, other than the office of auditor of the Company, in addition to his or her office of director for the period and on the terms (as to remuneration or otherwise) that the board may determine.

16.2 **No Disqualification.** No director or intended director is disqualified by his or her office from contracting with the Company either with regard to the holding of any office or place of profit the director holds with the Company or as vendor, purchaser or otherwise, and no contract or transaction entered into by or on behalf of the Company in which a director is in any way interested is liable to be voided for that reason, in each case subject to the requirements of Applicable Securities Laws.

16.3 **Professional Services by Director or Officer.** Subject to the *Business Corporations Act* and Applicable Securities Laws, a director or officer of the Company, or any person in which a director or officer has an interest, may act in a professional capacity for the Company, except as auditor of the Company, and subject to the requirements of Applicable Securities Laws, the director or officer or such person is entitled to remuneration for professional services as if that director or officer were not a director or officer.

16.4 **Director or Officer in Other Corporations.** Subject to the requirements of Applicable Securities Laws, a director or officer of the Company may be or become a director, officer or employee of, or otherwise interested in, any person in which the Company may be interested as a shareholder or otherwise, and, subject to the *Business Corporations Act* and Applicable Securities Laws, the director or officer of the Company is not accountable to the Company for any remuneration or other benefits received by him or her as director, officer or employee of, or from his or her interest in, such other person.

ARTICLE 17PROCEEDINGS OF DIRECTORS

17.1 **Meetings of Directors.** The board may meet together for the conduct of business, adjourn and otherwise regulate their meetings as they think fit, and meetings of directors held at regular intervals may be held at the place, at the time and on the notice, if any, as the board may from time to time determine.

17.2 **Voting at Meetings.** Questions arising at any meeting of directors are to be decided by a majority of votes and, in the case of an equality of votes, the chair of the meeting does not have a second or casting vote.

17.3 **Chair of Meetings.** The following individual is entitled to preside as chair at a meeting of directors:

(a) the chair of the board, if any;

(b) the lead director of the board, if any;

(c) any other director chosen by the board if:

i. the chair of the board is not present at the meeting within 15 minutes after the time set for holding the meeting;

ii. the chair of the board is not willing to chair the meeting; or

iii. the chair of the board has advised the secretary of the Company, if any, or any other director, that he or she will not be present at the meeting.

17.4 Meetings by Telephone or Other Communications Medium. A director may participate in a meeting of directors or of any committee of the board in person, by telephone, or by other communications medium if all directors participating in the meeting, whether in person or by telephone or other communications medium, are able to communicate with each other. A director who participates in a meeting in a manner contemplated by this Article 17.4 is deemed for all purposes of the *Business Corporations Act* and these Articles to be present at the meeting and to have agreed to participate in that manner.

17.5 Calling of Meetings. The chair of the board or the lead director of the board may, and the secretary or an assistant secretary of the Company, if any, on the request of such chair of the board or the lead director of the board must, call a meeting of directors at any time.

17.6 Notice of Meetings. Other than for meetings held at regular intervals as determined by the board pursuant to Article 17.1 or as provided in Article 17.7, upon reasonable notice of each meeting of directors specifying the place, day and time of that meeting must be given to each of the directors by any method set out in Article 23.1 or orally or by telephone.

17.7 When Notice Not Required. It is not necessary to give notice of a meeting of directors to a director if:

(a) the meeting is to be held immediately following a meeting of shareholders at which that director was elected or appointed, or is the meeting of directors at which that director is appointed; or

(b) the director has waived notice of the meeting.

17.8 Meeting Valid Despite Failure to Give Notice. The accidental omission to give notice of any meeting of directors to, or the non-receipt of any notice by, any director does not invalidate any proceedings at that meeting.

17.9 Waiver of Notice of Meetings. Any director may send to the Company a document signed by him or her waiving notice of any past, present or future meeting or meetings of directors and may at any time withdraw that waiver with respect to meetings held after that withdrawal. After sending a waiver with respect to all future meetings and until that waiver is withdrawn, no notice of any meeting of directors need be given to such director and all meetings of directors so held are deemed not to be improperly called or constituted by reason of notice not having been given to such director.

Attendance of a director at a meeting of the board is a waiver of notice of the meeting, unless that director attends the meeting for the express purpose of objecting to the transaction of any business on the grounds that the meeting is not lawfully called.

17.10 Quorum. The quorum necessary for the transaction of the business of the board is a majority of the number of directors in office or such greater number as the board may determine from time to time.

17.11 Validity of Acts Where Appointment Defective. Subject to the *Business Corporations Act*, an act of a director or officer of the Company is not invalid merely because of an irregularity in the election or appointment or a defect in the qualification of that director or officer.

17.12 Consent Resolutions in Writing. A resolution of the board or of any committee of the board consented to in writing by all of the directors entitled to vote on it, whether by signed document, fax, email or any other method of transmitting legibly recorded messages, is as valid and effective as if it had been passed at a meeting of directors or of the committee of the board duly called and held. Such resolution may be in two or more counterparts which together are deemed to constitute one resolution in writing. A resolution passed in that manner is effective on the date stated in the resolution or on the latest date stated on any counterpart. A resolution of the board or of any committee of the board passed in accordance with this Article 17.12 is deemed to be a proceeding at a meeting of the board or of the committee of the board and to be as valid and effective as if it had been passed at a meeting of directors or of the committee of the board that satisfies all the requirements of the *Business Corporations Act* and all the requirements of these Articles relating to meetings of directors or of a committee of the board.

ARTICLE 18EXECUTIVE AND OTHER COMMITTEES

18.1 Appointment and Powers of Committees. The board may, by resolution:

(a) appoint one or more committees consisting of the director or directors that they consider appropriate;

(b) delegate to a committee appointed under paragraph (a) any of the board’s powers, except:

i. the power to fill vacancies in the board;

ii. the power to remove a director or appoint additional directors;

iii. the power to change the membership of, or fill vacancies in, any committee of the board; and

iv. the power to appoint or remove officers of the Company appointed by the board; and

(c) make any delegation referred to in paragraph (b) subject to the conditions set out in the resolution or any subsequent directors' resolution.

18.2 Obligations of Committees. Any committee appointed under Article 18.1, in the exercise of the powers delegated to it, must:

(a) conform to any rules that may from time to time be imposed on it by the board; and

(b) report every act or thing done in exercise of those powers at such times as the board may require.

18.3 Powers of Board. The board may, at any time, with respect to a committee appointed under Article 18.1:

(a) revoke or alter the authority given to the committee, or override a decision made by the committee, except as to acts done before such revocation, alteration or overriding;

(b) terminate the appointment of, or change the membership of, the committee; and

(c) fill vacancies in the committee.

18.4 Committee Meetings. Subject to Article 18.2(a) and unless the board otherwise provides in the resolution appointing the committee or in any subsequent resolution, with respect to a committee appointed under Article 18.1:

(a) the committee may meet and adjourn as it thinks proper;

(b) the committee may elect a chair of its meetings but, if no chair of a meeting is elected, or if at a meeting the chair of the meeting is not present within 15 minutes after the time set for holding the meeting, the directors present who are members of the committee may choose one of their number to chair the meeting;

(c) a majority of the members of the committee constitutes a quorum of the committee; and

(d) questions arising at any meeting of the committee are determined by a majority of votes of the members present, and in the case of an equality of votes, the chair of the meeting does not have a second or casting vote.

ARTICLE 19OFFICERS

19.1 Directors May Appoint Officers. The board may, from time to time, appoint such officers, if any, as the board determines and the board may, at any time, terminate any such appointment.

19.2 Functions, Duties and Powers of Officers. The board may for each officer:

(a) determine the functions and duties of the officer;

(b) delegate to the officer any of the powers exercisable by the board on such terms and conditions and with such restrictions as the board thinks fit; and

(c) revoke, withdraw, alter or vary all or any of the functions, duties and powers of the officer.

In the absence of such resolution, the respective officers shall have the powers and shall discharge the duties customarily and usually held and performed by like officers of companies similar in organization and business purposes to the Company, subject to the control of the board.

19.3 Qualifications. No officer may be appointed unless that officer is qualified in accordance with the *Business Corporations Act*. One person may hold more than one position as an officer of the Company. Any person appointed as the chair of the board or as the managing director must be a director. Any other officer need not be a director.

19.4 Remuneration and Terms of Appointment. All appointments of officers are to be made on the terms and conditions and at the remuneration (whether by way of salary, fee, commission, participation in profits or otherwise) that the board thinks fit and are subject to termination at the pleasure of the board, and an officer may in addition to such remuneration be entitled to receive, after he or she ceases to hold such office or leaves the employment of the Company, a pension or gratuity. An appointment as an officer does not create any rights of employment.

19.5 Duties of Officers May be Delegated. In case any officer is absent or for any other reason that the board may deem sufficient, the Chief Executive Officer or the board may delegate for the time being the powers or duties of such officer to any other officer or to any director.

ARTICLE 20INDEMNIFICATION

20.1 Mandatory Indemnification of Directors and Officers. Subject to the *Business Corporations Act*, the Company must indemnify an eligible party (as defined in the *Business Corporations Act*) and his or her heirs and legal personal representatives against all eligible penalties (as defined in the *Business Corporations Act*) to which such person is or may be liable, and the Company must, after the final disposition of an eligible proceeding (as defined in the *Business Corporations Act*), pay the expenses (as defined in the *Business Corporations Act*) actually and reasonably incurred by such person in respect of that proceeding to the fullest extent permitted by the *Business Corporations Act*.

20.2 Further Indemnification of Directors and Officers. In addition to the Company's obligations under Article 20.1, and subject to the *Business Corporations Act*, the Company shall, except as provided in this Article 20.2, indemnify Indemnitees to the full extent permitted by law. Expenses reasonably incurred by an Indemnitee in defending any action, suit, or proceeding, as described in this Article 20.2, shall be paid or reimbursed by the Company promptly upon receipt by it of an undertaking of such Indemnitee to repay such Expenses if it shall ultimately be determined that he or she is not entitled to be indemnified by the Company. Indemnitee's obligation to reimburse the Company shall be unsecured, and no interest shall be charged thereon. The Company shall not indemnify any Indemnitee or advance or reimburse any Indemnitee's Expenses if the action, suit or proceeding alleges (1) claims under Section 16(b) of the United States Securities Exchange Act of 1934, as amended, (2) violations of the Company's Code of Business Conduct and Ethics, Insider Trading Policy or Conflicts of Interest Policy or (3) violations of Canadian, United States or other applicable federal, provincial or state insider trading laws, unless, in each case, such Indemnitee has been successful on the merits, received the written consent to incurring the Expenses or settled the case with the written consent of the Company, in which case the Company shall indemnify and reimburse such Indemnitee.

No claim for indemnification under this Article 20.2 shall be paid by the Company unless the Company has determined that the relevant Indemnitee acted in good faith and in a manner the Indemnitee reasonably believed to be in or not opposed to the best interest of the Company and, with respect to any criminal action or proceeding, had no reasonable cause to believe that his or her conduct was unlawful. Unless ordered by a court, such determinations shall be made by (1) a majority vote of the directors who are not parties to the action, suit or proceeding for which indemnification is sought, even though less than a quorum, or (2) by a committee of such directors designated by a majority vote of directors, even though less than a quorum, or (3) if there are no such directors, or if such directors so direct, by independent legal counsel in a written opinion, or (4) by shareholders. An Indemnitee shall be presumed to have met the relevant standard, and, if the determination is not made by the Company within 30 days of a demand by such

Indemnitee for indemnification, such Indemnitee shall be deemed to have met such standard.

An Indemnitee shall promptly notify the Company in writing upon the sooner of (a) becoming aware of an action, suit or proceeding where indemnification or the advance payment or reimbursement of Expenses may be sought, or (b) being served with any summons, citation, subpoena, complaint, indictment, information or other document relating to any matter which may be subject to indemnification or the advance payment or reimbursement of Expenses covered by this Article 20.2. The failure of an Indemnitee to so notify the Company shall not relieve the Company of any obligation which it may have to such Indemnitee pursuant to this Article 20.2. No claim for indemnification or the advance payment or reimbursement of Expenses shall be made by an Indemnitee or paid by the Company unless the Indemnitee gives notice to the Company in writing of such claim for indemnification within two years after the Indemnitee received notice of the claim, action, suit or proceeding.

As a condition to indemnification or the advance payment or reimbursement of Expenses under this Article 20.2, any demand for payment by an Indemnitee under this Article 20.2 shall be in writing and shall provide reasonable accounting by such Indemnitee's legal counsel for the Expenses to be paid by the Company.

For the purposes of this Article 20.2, the term "**Indemnitee**" shall mean any person made or threatened to be made a party, or otherwise involved in any civil, criminal, administrative or investigative action, suit or proceeding by reason of the fact that such person or such person's testator or intestate is or was a director, officer, employee or agent of the Company or serves or served at the request of the Company any other enterprise as a director or officer; the term "**Company**" shall include any predecessor of the Company and any constituent corporation (including any constituent of a constituent) absorbed by the Company in an arrangement, amalgamation or similar transaction; the term "other enterprise" shall include any corporation, limited liability company, unlimited liability company, public limited company, partnership, limited partnership, joint venture, trust, employee benefit plan, fund or other enterprise; service "**at the request of the Company**" shall include service as a director or officer of the Company which imposes duties on, or involves services by, such director or officer with respect to an employee benefit plan, its participants or beneficiaries, provided, however that such request for service is in writing; and action by a person with respect to an employee benefit plan which such person reasonably believes to be in the interest of the participants and beneficiaries of such plan shall be deemed to be action not opposed to the best interests of the Company; the term "**Expenses**" shall include all reasonable out of pocket fees, costs and expenses, including without limitation, legal counsel fees, retainers, court costs, transcript costs, fees of experts, witness fees, travel expenses, duplicating costs, printing and binding costs, telephone charges, postage, delivery service fees, Employee Retirement Income Security Act of 1974 excise taxes or penalties assessed on an Indemnitee with respect to an employee benefit plan, Canadian or United States federal, provincial, state, local or foreign taxes imposed as a result of the actual or deemed receipt

of any payments under this Article 20.2, penalties and all other disbursements or expenses of the types customarily incurred in connection with defending, preparing to defend, or investigating an actual or threatened action, suit or proceeding (including Indemnitee's counterclaims that directly respond to and negate the affirmative claim made against Indemnitee ("**Permitted Counterclaims**") in such action, suit or proceeding, whether civil, criminal, administrative or investigative) but shall exclude the costs of any of an Indemnitee's counterclaims, other than Permitted Counterclaims; and action, suit or proceeding shall be deemed to include the class action complaint filed in the Eastern District of New York by Donald Finch, individually and on behalf of all others similarly situated against the Company Michael Gorenstein and Jerry F. Barbato, *Finch v. Cronos Group et al.*, 2:20-cv-01324-JMA-ST (E.D.N.Y. Mar. 12, 2020) (Dkt. No. 1), and the class action complaint filed in the Eastern District of New York by Jill Witte, individually and on behalf of all others similarly situated against the Company, Michael Gorenstein and Jerry F. Barbato, *Witte v. Cronos Group et al.*, 1:20-cv-01310-ENV-SIL (E.D.N.Y. Mar. 11, 2020) (Dkt. No. 1) (together, the "**Existing Actions**"), and with respect to the Existing Actions the officers and directors party thereto or subject thereto shall be deemed entitled to advancement of expenses and indemnification in accordance with this Article 20.2.

Any action, suit or proceeding regarding indemnification or advance payment or reimbursement of Expenses arising out of this Article 20.2 must be brought and heard in the Courts of the Province of Ontario. In the event of any payment under this Article 20.2, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of the Indemnitee (under any insurance policy or otherwise), who shall execute all papers required and shall do everything necessary to secure such rights, including the execution of such documents necessary to enable the Company to effectively bring suit to enforce such rights. Except as required by law or as otherwise becomes public (other than as a result of a breach by an Indemnitee of such Indemnitee's confidentiality obligation under this Article 20), any Indemnitee will keep confidential any information that arises in connection with this Article 20, including but not limited to, claims for indemnification or the advance payment or reimbursement of Expenses, amounts paid or payable hereunder and any communications between the parties. No amendment of these Articles shall impair the rights of any Indemnitee arising at any time with respect to events occurring prior to such amendment.

20.3 **Deemed Contract.** Each eligible party (as defined in the *Business Corporations Act*) and each Indemnitee (as defined in Article 20.2) is deemed to have contracted with the Company on the terms of the indemnity contained in this Article 20.

20.4 **Indemnification of Other Persons.** Subject to any restrictions in the *Business Corporations Act*, the Company may indemnify any person to the extent permitted by applicable law.

20.5 **Non-Compliance with Business Corporations Act.** The failure of a director or officer of the Company to comply with the *Business Corporations Act* or these Articles does not invalidate any indemnity to which he or she is entitled under this Article 20.

20.6 **Company May Purchase Insurance.** The Company may purchase and maintain insurance for the benefit of any person (or his or her heirs or legal personal representatives) who:

(a) is or was a director or officer of the Company;

(b) is or was a director or officer of a corporation at a time when the corporation is or was an affiliate of the Company;

(c) at the request of the Company, is or was a director or officer of a corporation or of a partnership, trust, joint venture or other unincorporated entity;

(d) at the request of the Company, holds or held a position equivalent to that of a director or officer of a partnership, trust, joint venture or other unincorporated entity;

against any liability incurred by him or her as such director or officer or person who holds or held such equivalent position.

ARTICLE 21DIVIDENDS

21.1 **Payment of Dividends Subject to Special Rights.** The provisions of this Article 21 are subject to the rights, if any, of shareholders holding shares with special rights as to dividends.

21.2 **Declaration of Dividends.** Subject to the *Business Corporations Act* and the rights of the holders of issued shares of the Company, the board may from time to time declare and authorize payment of such dividends as they may consider appropriate.

21.3 **No Notice Required.** The board need not give notice to any shareholder of any declaration under Article 21.2.

21.4 **Record Date.** The board may set a date as the record date for the purpose of determining shareholders entitled to receive payment of a dividend. The record date must not precede the date on which the dividend is to be paid by more than two months. If no record date is set, the record date is 5 p.m. (Toronto time) on the date on which the board passes the resolution declaring the dividend.

21.5 **Manner of Paying Dividend.** A resolution declaring a dividend may direct payment of the dividend wholly or partly by the distribution of specific assets or of fully paid shares or of bonds, debentures or other securities of the Company, or in any one or more of those ways.

21.6 Settlement of Difficulties. If any difficulty arises in regard to a distribution under Article 21.5, the board may settle the difficulty as they deem advisable, and, in particular, may:

(a) set the value for distribution of specific assets;

(b) determine that cash payments in substitution for all or any part of the specific assets to which any shareholders are entitled may be made to any shareholders on the basis of the value so fixed in order to adjust the rights of all parties; and

(c) vest any such specific assets in trustees for the persons entitled to the dividend.

21.7 When Dividend Payable. Any dividend declared by the board may be made payable on such date as is fixed by the board.

21.8 Dividends to be Paid in Accordance with Number of Shares. All dividends on shares of any class or series of shares must be declared and paid according to the number of such shares held.

21.9 Receipt by Joint Shareholders. If several persons are joint shareholders of any share, any one of them may give an effective receipt for any dividend, bonus or other money payable in respect of the share.

21.10 Dividend Bears No Interest. No dividend bears interest against the Company.

21.11 Fractional Dividends. If a dividend to which a shareholder is entitled includes a fraction of the smallest monetary unit of the currency of the dividend, that fraction may be disregarded in making payment of the dividend and that payment represents full payment of the dividend.

21.12 Payment of Dividends. Any dividend or other distribution payable in money in respect of shares may be paid by cheque, made payable to the order of the person to whom it is sent, and mailed to the registered address of the shareholder, or in the case of joint shareholders, to the registered address of the joint shareholder who is first named on the central securities register, or to the person and to the address the shareholder or joint shareholders may direct in writing or by electronic transfer, if so authorized by the shareholder. The mailing of such cheque or the forwarding by electronic transfer will, to the extent of the sum represented by the cheque (plus the amount of the tax required by law to be deducted), discharge all liability for the dividend unless such cheque is not paid on presentation or the amount of tax so deducted is not paid to the appropriate taxing authority.

21.13 Capitalization of Retained Earnings or Surplus. Notwithstanding anything contained in these Articles, the board may from time to time capitalize any retained earnings or surplus of the Company and may from time to time issue, as fully paid, shares or any

bonds, debentures or other securities of the Company as a dividend representing the retained earnings or surplus or any part thereof.

ARTICLE 22DOCUMENTS, RECORDS AND REPORTS

22.1 Recording of Financial Affairs. The board must cause adequate accounting records to be kept to properly record the financial affairs and condition of the Company and to comply with the *Business Corporations Act*.

ARTICLE 23NOTICES

23.1 Method of Giving Notice. Unless the *Business Corporations Act* or these Articles provide otherwise, a notice, statement, report or other record required or permitted by the *Business Corporations Act* or these Articles to be sent by or to a person may be sent by any one of the following methods:

(a) mail addressed to the person at the applicable address for that person as follows:

i. for a record mailed to a shareholder, the shareholder's registered address;

ii. for a record mailed to a director or officer, the prescribed address for mailing shown for the director or officer in the records kept by the Company or the mailing address provided by the recipient for the sending of that record or records of that class;

iii. in any other case, the mailing address of the intended recipient;

(b) delivery at the applicable address for that person as follows, addressed to the person:

i. for a record delivered to a shareholder, the shareholder's registered address;

ii. for a record delivered to a director or officer, the prescribed address for delivery shown for the director or officer in the records kept by the Company or the delivery address provided by the recipient for the sending of that record or records of that class;

iii. in any other case, the delivery address of the intended recipient;

(c) unless the intended recipient is the Company or the auditor of the Company, sending the record by fax to the fax number provided by the intended recipient for the sending of that record or records of that class;

(d) unless the intended recipient is the auditor of the Company, sending the record by email to the email address provided by the intended recipient for the sending of that record or records of that class;

(e) physical delivery to the intended recipient;

(f) creating and providing a record posted on or made available through an electronic source that is generally accessible by the intended recipient and providing written notice by and of the foregoing methods as to the availability of such record; or

(g) as otherwise permitted by any Applicable Securities Laws.

23.2 Deemed Receipt of Mailing. A notice, statement, report or other record that is:

(a) mailed to a person by ordinary mail to the applicable address for that person referred to in Article 23.1 is deemed to be received by the person to whom it was mailed on the day, Saturdays, Sundays and holidays excepted, following the date of mailing.

(b) faxed to a person to the fax number provided by that person referred to in Article 23.1 is deemed to be received by the person to whom it was faxed on the day it was faxed;

(c) emailed to a person to the email address provided by that person referred to in Article 23.1 is deemed to be received by the person to whom it was emailed on the day it was emailed; and

(d) delivered in accordance with Article 23.1(f), is deemed to be received by the person on the day such written notice is sent.

23.3 Certificate of Sending. A certificate signed by the secretary of the Company, if any, or other officer of the Company or of any other corporation acting in that capacity on behalf of the Company stating that a notice, statement, report or other record was sent in accordance with Article 23.1 is conclusive evidence of that fact.

23.4 Notice to Joint Shareholders. A notice, statement, report or other record may be provided by the Company to the joint shareholders of a share by providing such record to the joint shareholder first named in the central securities register in respect of the share.

23.5 Notice to Legal Personal Representatives Trustees. A notice, statement, report or other record may be provided by the Company to the persons entitled to a share as a consequence of the death, bankruptcy or incapacity of a shareholder by:

(a) mailing the record, addressed to them:

i. by name, by the title of the legal personal representative of the deceased or incapacitated shareholder, by the title of trustee of the bankrupt shareholder or by any similar description; and

ii. at the address, if any, supplied to the Company for that purpose by the persons claiming to be so entitled; or

(b) if an address referred to in paragraph (a)(ii) has not been supplied to the Company, by giving the notice in a manner in which it might have been given if the death, bankruptcy or incapacity had not occurred.

ARTICLE 24EXECUTION OF DOCUMENTS

24.1 Execution of Documents Generally. The board may from time to time by resolution authorize any one or more persons, directors or officers of the Company for the purpose of executing, or delegating authority (with such limitations or restrictions on such authority as he or she deems appropriate) to execute, any instrument or document in the name of and on behalf of the Company (for which no seal need be affixed), and if no such person, director or officer is appointed, then any one officer or director may execute (or so delegate authority to execute) such instrument or document.

ARTICLE 25PROHIBITIONS

25.1 Definitions. In this Article 25:

(a) "**transfer restricted security**" means:

i. a share of the Company;

ii. a security of the Company that is convertible into shares of the Company; or

iii. any other security of the Company which must be subject to restrictions on transfer in order for the Company to satisfy the requirement for restrictions on transfer under the "private issuer" exemption of Canadian securities legislation or under any other exemption from prospectus or registration requirements of Canadian securities legislation similar in scope and purpose to the "private issuer" exemption.

(b) "**security**" has the meaning assigned in the *Securities Act* (British Columbia).

25.2 Application. Article 25.3 does not apply to the Company if and for so long as it is a public company.

25.3 Consent Required for Transfer of Transfer Restricted Securities. No share or other transfer restricted security may be sold, transferred or otherwise disposed of without the consent of the board and the board is not required to give any reason for refusing to consent to any such sale, transfer or other disposition.

ARTICLE 26GENERAL PROVISIONS

26.1 Information Available to Shareholders.

(a.) Except as provided by the *Business Corporations Act*, no shareholder shall be entitled to discovery of any information respecting any details or conduct of the Company's business which in the opinion of the board it would be inexpedient in the interests of the Company to communicate to the public.

(b.) The board may from time to time, subject to rights conferred by the *Business Corporations Act*, determine whether and to what extent and at what time and place and under what conditions or regulations the documents, books and registers and accounting records of the Company or any of them shall be open to the inspection of shareholders and no shareholder shall have any right to inspect any document or book or register or accounting record of the Company except as conferred statute or authorized by the board or by a resolution of the shareholders.

[signature page follows]

The Company has as its articles these articles.

Full name and signature of a director	**Date of signing**
(signed) "*Michael Gorenstein*" Director	July 9, 2020

Exhibit 10.1

CRONOS GROUP INC.
2020 OMNIBUS EQUITY INCENTIVE PLAN

ARTICLE I
GENERAL

1.1 Purpose

The purpose of the Cronos Group Inc. 2020 Omnibus Equity Incentive Plan (as amended from time to time, the "**Plan**") is to help Cronos Group Inc., a corporation formed under the Business Corporations Act (Ontario) ("**Cronos**"): (1) attract, retain and motivate key employees (including prospective employees), non-employee directors and consultants; (2) align the interests of such persons with Cronos' shareholders; and (3) promote ownership of Cronos' equity. This Plan shall be effective for Awards granted effective on or after the Effective Date. Beginning on the Effective Date, no new awards shall be granted or awarded under the 2018 Amended and Restated Stock Option Plan or the 2015 Amended and Restated Stock Option Plan (together, the "**Option Plans**") and the Cronos Group Inc. Employment Inducement Award Plan #1 (the "**Employment Inducement Award Plan**"). Awards granted under the Option Plans and the Employment Inducement Award Plan prior to the Effective Date shall remain outstanding under such plans in accordance with their terms and this Plan shall not affect the terms or conditions of any such award.

1.2 Definitions of Certain Terms

For purposes of this Plan, the following terms have the meanings set forth below:

1.2.1 "**Acquisition Awards**" has the meaning set forth in Section 1.6.1.

1.2.2 "**Award**" means an award made pursuant to the Plan.

1.2.3 "**Award Agreement**" means the written document by which each Award is evidenced, and which may, but need not be (as determined by the Committee), executed or acknowledged by a Grantee as a condition to receiving an Award or the benefits under an Award, and which sets forth the terms and provisions applicable to Awards granted under the Plan to such Grantee. Any reference herein to an agreement in writing shall be deemed to include an electronic writing to the extent permitted by applicable law.

1.2.4 "**Board**" means the Board of Directors of Cronos.

1.2.5 "**Certificate**" means a stock certificate or other appropriate document or evidence of ownership representing Common Shares.

1.2.6 "**Change of Control**" means:

(a) the consummation of any transaction or series of transactions, including any reorganization, recapitalization, statutory share exchange, consolidation, amalgamation, arrangement, merger or issue of voting shares in the capital of Cronos, the result of which is that any individual, corporation (including not-for-profit), general or limited partnership, limited liability company, joint venture, association, joint-stock company, estate, trust, organization, governmental authority or other entity of any kind or nature ("**Person**"), or group of Persons acting jointly or in concert for purposes of such transaction or series of transactions, becomes the beneficial owner, directly or indirectly, of more than 50% of the voting securities in the capital of the entity resulting from such transaction or series of transactions or the entity that acquired all or substantially all of the business or assets of Cronos in a transaction or series of transactions described in paragraph (b) below (in each case, the "**Surviving Company**") or the ultimate parent entity that has beneficial ownership of sufficient voting power to elect a majority of the board of directors (or analogous governing body) of the Surviving Company (the "**Parent Company**"), measured by voting power of the outstanding voting securities eligible to elect members of the board of directors (or the analogous governing body) of the Parent Company (or, if there is no Parent Company, the Surviving Company) rather than the number of securities (but shall not include the creation of a holding company or other transaction that does not involve any substantial change in the proportion of direct or indirect beneficial ownership of the voting securities of Cronos prior to the consummation of the transaction or series of transactions); provided that the exercise

by Altria Summit LLC (or any of its affiliates as of the Effective Date) of the Purchased Warrant (as defined in the Subscription Agreement, by and among the Company, Altria Summit LLC and Altria Group, Inc., dated as of December 7, 2018) shall not constitute a Change of Control pursuant to this clause (a); provided further that in the event of a change of control of Altria Summit LLC, the Board has discretion to determine whether such change of control constitutes a Change of Control pursuant to this clause (a);

(b) the direct or indirect sale, transfer or other disposition, in one or a series of transactions, of all or substantially all of the business or assets of Cronos, taken as a whole, to any Person or group of Persons acting jointly or in concert for purposes of such transaction or series of transactions (other than to any affiliates of Cronos); or

(c) Incumbent Directors during any consecutive twelve (12) month period ceasing to constitute a majority of the Board (for the purposes of this paragraph, an "**Incumbent Director**" shall mean any member of the Board who is a member of the Board immediately prior to the occurrence of a contested election of directors of Cronos or any person becoming a director whose election or nomination for election was approved by a vote of at least two thirds of the Incumbent Directors then on the Board (either by a specific vote or by approval of the proxy statement of Cronos in which such person is named as a nominee for director, without written objection to such nomination)).

1.2.7 "**Code**" means the Internal Revenue Code of 1986, as amended from time to time, or any successor thereto, and the applicable rulings and regulations thereunder.

1.2.8 "**Committee**" has the meaning set forth in Section 1.3.1.

1.2.9 "**Common Shares**" means the common shares in the capital of Cronos, no par value per share, and any other securities or property issued in exchange therefor or in lieu thereof pursuant to Section 1.6.3.

1.2.10 "**Company**" means Cronos and any Subsidiary, and any successor entity thereto.

1.2.11 "**Consent**" has the meaning set forth in Section 3.3.2.

1.2.12 "**Consultant**" means any individual (other than a non-employee Director), corporation, partnership, limited liability company or other entity that provides bona fide consulting or advisory services to the Company.

1.2.13 "**Covered Person**" has the meaning set forth in Section 1.3.4.

1.2.14 "**Cronos**" has the meaning set forth in Section 1.1.

1.2.15 "**Director**" means a member of the Board.

1.2.16 "**Disability**" means a physical or mental incapacity of the Grantee that has prevented the Grantee from performing the duties, with any accommodation required by applicable law, customarily assigned to the Grantee for 180 calendar days, whether or not consecutive, out of any twelve (12) consecutive months and that in the opinion of the Company, acting on the basis of advice from a duly qualified medical practitioner, is likely to continue to a similar degree.

1.2.17 "**Effective Date**" has the meaning set forth in Section 3.24.

1.2.18 "**Employee**" means a regular employee of the Company, but does not include a non-employee Director.

1.2.19 "**Employment**" means a Grantee's performance of services for the Company, as determined by the Committee. The terms "employ" and "employed" shall have their correlative meanings. Unless otherwise addressed in a Grantee's employment or similar agreement with the Company, and subject to the requirements of applicable law, the Committee in its sole discretion may determine (a) whether and when a Grantee's leave of absence results in a termination of Employment, (b) whether and when a change in a Grantee's association with the Company results in a termination of Employment and (c) the impact, if any, of any such leave of absence or change in association on outstanding Awards. Unless expressly provided otherwise, any references in the Plan or any Award Agreement to a Grantee's Employment being terminated shall include both voluntary and involuntary terminations, and the involuntary termination of a Grantee's Employment shall occur on the date that the Grantee ceases performing services for the Company on a permanent basis, whether such termination is lawful or otherwise, without regard to any required period of notice, pay in lieu of notice,

severance pay or similar compensation or benefits (and without regard for any claim for damages in respect thereof), except as expressly required by applicable employment or labour standards legislation. Notwithstanding the foregoing, with respect to any Award subject to Section 409A (and not exempt therefrom), a Grantee's termination of Employment means a Grantee's "separation from service" (as such term is defined and used in Section 409A).

1.2.20 "**Employment Inducement Award Plan**" has the meaning set forth in Section 1.1.

1.2.21 "**Exchange**" means the Toronto Stock Exchange, the NASDAQ Global Market or any other stock exchange on which the Common Shares are listed and posted for trading or quoted.

1.2.22 "**Exchange Act**" means the Securities Exchange Act of 1934, as amended from time to time, or any successor thereto, and the applicable rules and regulations thereunder.

1.2.23 "**Fair Market Value**" means, with respect to a particular date, (a) if the Common Shares are traded on one or more Exchanges, the closing price of a Common Share as reported by any one such Exchange (as selected by the Committee in good faith, taking into account applicable legal and tax requirements) on the immediately preceding trading day, and (b) if the Common Shares are not traded on an Exchange, the value of a Common Share as determined by the Committee in good faith, taking into account applicable legal and tax requirements and any valuation performed by a third party valuation expert, in accordance with Section 409A of Code or in the case of Incentive Stock Options Section 422 of the Code, as applicable.

1.2.24 "**Grantee**" means an Employee, Director or Consultant who receives an Award.

1.2.25 "**Incentive Stock Option**" means a Stock Option to purchase Common Shares that is intended to be an "incentive stock option" within the meaning of Sections 421 and 422 of the Code, as now constituted or subsequently amended, or pursuant to a successor provision of the Code, and which is designated as an Incentive Stock Option in the applicable Award Agreement.

1.2.26 "**Incumbent Directors**" has the meaning provided in the definition of Change of Control.

1.2.27 "**Just Cause**" means: (a) with respect to a Grantee employed pursuant to a written employment agreement which agreement includes a definition of "Just Cause" or "Cause", "Just Cause" or "Cause" as defined in that agreement or (b) with respect to any other Grantee, the occurrence of any of the following: (i) any act or omission by such Grantee that constitutes "just cause" or "cause" under applicable law (including applicable common law); (ii) such Grantee's repeated failure or refusal to perform his or her principal duties and responsibilities after notice from his or her manager or other officer of the Company; (iii) misappropriation of the funds or property of the Company; (iv) use of alcohol or drugs in violation of the Company's policies on such use or interfering with his or her obligations to the Company, continuing after a single warning (subject to the Company's obligations under applicable law); (v) the indictment, arrest or conviction in a court of law for, or the entering of a plea of guilty to, a summary or indictable offense or any crime involving moral turpitude, fraud, dishonesty or theft (subject to the Company's obligations under applicable law); (vi) the misuse of Company computers or computer network systems for non-Company business; (vii) engaging in any act (including without restriction, an act of sexual or other harassment as determined by the Company) which is a violation of any law, regulation or Company policy; or (viii) any willful or intentional act which injures or could reasonably be expected to injure the reputation, business or business relationships of the Company.

1.2.28 "**Option Plans**" has the meaning set forth in Section 1.1.

1.2.29 "**Other Stock-Based or Cash-Based Awards**" has the meaning set forth in Section 2.8.

1.2.30 "**Plan**" has the meaning set forth in Section 1.1.

1.2.31 "**Plan Action**" has the meaning set forth in Section 3.3.1.

1.2.32 "**Restricted Shares**" has the meaning set forth in Section 2.5.1.

1.2.33 "**Restricted Share Units**" has the meaning set forth in Section 2.6.

1.2.34 "**Section 409A**" means Section 409A of the Code, including any amendments or successor provisions to that section, and any regulations and other administrative guidance thereunder, in each case as they may be from time to time amended or interpreted through further administrative guidance.

1.2.35 "**Securities Act**" means the Securities Act of 1933, as amended from time to time, or any successor thereto, and the applicable rules and regulations thereunder.

1.2.36 "**Share Appreciation Rights**" has the meaning set forth in Section 2.4.1.

1.2.37 "**Share Limit**" has the meaning set forth in Section 1.6.1.

1.2.38 "**Stock Options**" has the meaning set forth in Section 2.3.1.

1.2.39 "**Subsidiary**" means any corporation, partnership, limited liability company or other legal entity in which Cronos, directly or indirectly, owns shares or other equity interests possessing more than 50% of the total combined voting power of all classes of the then-outstanding shares or other equity interests.

1.2.40 "**Ten Percent Shareholder**" means a person owning shares possessing more than 10% of the total combined voting power of all classes of shares of Cronos and of any Subsidiary or parent corporation of Cronos.

1.2.41 "**Treasury Regulations**" means the regulations promulgated under the Code by the United States Treasury Department, as amended.

1.3 Administration

1.3.1 The Compensation Committee of the Board (as constituted from time to time, and including any successor committee, the "**Committee**") shall administer the Plan, unless a different committee is appointed by the Board. In particular, the Committee shall have the authority, in its sole discretion, to:

(a) exercise all of the powers granted to it under the Plan;

(b) construe, interpret and implement the Plan and all Award Agreements;

(c) prescribe, amend and rescind rules and regulations relating to the Plan, including rules governing the Committee's own operations;

(d) make all determinations necessary or advisable in administering the Plan;

(e) correct any defect, supply any omission and reconcile any inconsistency in the Plan;

(f) amend the Plan to reflect changes in applicable law;

(g) grant, or recommend to the Board for approval to grant, Awards and determine who shall receive Awards, when such Awards shall be granted and the terms of such Awards, including setting forth provisions with regard to the effect of a termination of Employment on such Awards and conditioning the vesting of, or the lapsing of any applicable vesting restrictions or other vesting conditions on, Awards upon the attainment of performance goals and/or upon continued service;

(h) amend any outstanding Award Agreement in any respect, including, without limitation, to

(1) accelerate the time or times at which the Award becomes vested, unrestricted or may be exercised (and, in connection with such acceleration, the Committee may provide that any Common Shares acquired pursuant to such Award shall be Restricted Shares, which are subject to vesting, transfer, forfeiture or repayment provisions similar to those in the Grantee's underlying Award);

(2) accelerate the time or times at which Common Shares are delivered under the Award (and, without limitation on the Committee's rights, in connection with such acceleration, the Committee may provide that any Common Shares delivered pursuant to such Award shall be Restricted Shares, which are subject to vesting, transfer, forfeiture or repayment provisions similar to those in the Grantee's underlying Award);

(3) waive or amend any goals, restrictions, vesting provisions or conditions set forth in such Award Agreement, or impose new goals, restrictions, vesting provisions and conditions, subject to Section 3.1; or

(4) reflect a change in the Grantee's circumstances (*e.g.*, a change to part-time employment status or a change in position, duties or responsibilities); and

(i) determine at any time whether, to what extent and under what circumstances and method or methods, subject to Section 3.14 and except as expressly provided in the applicable Award Agreement,

(1) Awards may be:

(A) settled in cash, Common Shares, other securities, other Awards or other property (in which event, the Committee may specify what other effects such settlement shall have on the Grantee's Award, including the effect on any repayment provisions under the Plan or Award Agreement);

(B) exercised; or

(C) canceled, forfeited or suspended;

(2) delivery of Common Shares, other securities, other Awards or other property and other amounts payable with respect to an Award may be deferred either automatically or at the election of the Grantee thereof or of the Committee; and

(3) the exercise price for any Stock Option (other than an Incentive Stock Option, unless the Committee determines that such a Stock Option shall no longer constitute an Incentive Stock Option) or Share Appreciation Right may be reset.

1.3.2 Actions of the Committee may be taken by the vote of a majority of its members present at a meeting (which may be held telephonically). Any action may be taken by a written instrument signed by a majority of the Committee members, and action so taken shall be as fully effective as if it had been taken by a vote at a meeting. The determination of the Committee on all matters relating to the Plan or any Award Agreement shall be final, binding and conclusive. To the extent permitted by applicable law, the Committee may allocate among its members and delegate to any person who is not a member of the Committee, or to any administrative group within the Company, any of its powers, responsibilities or duties. In delegating its authority, the Committee shall consider the extent to which any delegation may cause Awards to fail to meet the requirements of Rule 16(b)-3(d)(1) or Rule 16(b)-3(e) under the Exchange Act. Except as specifically provided to the contrary, references to the Committee include any administrative group, individual or individuals to whom the Committee has delegated its duties and powers.

1.3.3 Notwithstanding anything to the contrary contained herein, the Board may, in its sole discretion, at any time and from time to time, grant Awards or administer the Plan. In any such case, the Board shall have all of the authority and responsibility granted to the Committee herein.

1.3.4 No member of the Committee or any person to whom the Committee delegates its powers, responsibilities or duties in writing, including by resolution (each such person, a "**Covered Person**"), shall have any liability to any person (including any Grantee) for any action taken or omitted to be taken or any determination made in good faith with respect to the Plan or any Award, except as expressly provided by statute. Each Covered Person shall be indemnified and held harmless by the Company against and from:

(a) any loss, cost, liability or expense (including attorneys' fees) that may be imposed upon or incurred by such Covered Person in connection with or resulting from any action, suit or proceeding to which such Covered Person may be a party or in which such Covered Person may be involved by reason of any action taken or omitted to be taken under the Plan or any Award Agreement, in each case, in good faith; and

(b) any and all amounts paid by such Covered Person, with the Company's approval, in settlement thereof, or paid by such Covered Person in satisfaction of any judgment in any such action, suit or proceeding against such Covered Person, provided that the Company shall have the right, at its own expense, to assume and defend any such action, suit or proceeding and, once the Company gives notice of its intent to assume the defense, the Company shall have sole control over such defense with counsel of the Company's choice.

The foregoing right of indemnification shall not be available to a Covered Person to the extent that a court of competent jurisdiction in a final judgment or other final adjudication, in either case, not subject to further appeal, determines that the acts or omissions of such Covered Person giving rise to the indemnification claim resulted from such Covered Person's bad faith, fraud or willful misconduct. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which Covered Persons may be entitled under Cronos' articles of incorporation or bylaws, as amended from time to time, pursuant to any individual indemnification agreements between such Covered Person and the Company, as a matter of law, or otherwise, or any other power that the Company may have to indemnify such persons or hold them harmless.

1.4 Persons Eligible for Awards

Awards under the Plan may be made to Employees, Directors and Consultants.

1.5 Types of Awards Under the Plan

Awards may be made under the Plan in the form of cash-based or share-based Awards. Share-based Awards may be in the form of any of the following, in each case in respect of Common Shares:

(a) Stock Options;

(b) Share Appreciation Rights;

(c) Restricted Shares;

(d) Restricted Share Units;

(e) Dividend Equivalent Rights; and

(f) Other share-based or cash-based Awards (as further described in Section 2.8) that the Committee determines to be consistent with the purposes of the Plan and the interests of the Company.

1.6 Common Shares Available for Awards

1.6.1 **Common Shares Subject to the Plan**. Subject to the other provisions of this Section 1.6, the total number of Common Shares that may be granted under the Plan shall be (a) 19,999,273 plus (b) the number of Common Shares (not exceeding 14,149,502) underlying any award outstanding under the Option Plans as of the Effective Date which, on or after the Effective Date, expires or is forfeited, terminated or canceled for any reason without having been exercised or settled in full plus (c) the number of Common Shares (not exceeding 732,972) underlying any award outstanding under the Employment Inducement Award Plan as of the Effective Date which, on or after the Effective Date, expires or is forfeited, terminated or canceled for any reason without having been exercised or settled in full (the sum of (a), (b) and (c), the "**Share Limit**"). For the avoidance of doubt, the Share Limit shall not exceed 34,881,747. Common Shares subject to awards that are assumed, converted or substituted under the Plan as a result of the Company's acquisition of another company (including by way of merger, combination or similar transaction) ("**Acquisition Awards**") shall not count against the number of Common Shares that may be granted under the Plan. Available shares under a shareholder-approved plan of an acquired

company (as appropriately adjusted to reflect the transaction) may be used for Awards under the Plan and do not reduce the maximum number of shares available for grant under the Plan, subject to applicable stock exchange requirements.

1.6.2 **Replacement of Shares**. Common Shares subject to an Award that is forfeited (including any Restricted Shares repurchased by the Company at the same price paid by the Grantee so that such Common Shares are returned to the Company) or expires, to the extent of such forfeiture or expiration, shall be available for future grants of Awards under the Plan and shall be added back in the same number of Common Shares as were deducted in respect of the grant of such Award. The payment of Dividend Equivalent Rights in cash in conjunction with any outstanding Awards shall not be counted against the Common Shares available for issuance under the Plan. Common Shares tendered by a Grantee or withheld by the Company in payment of the exercise price of a Stock Option or to satisfy any tax withholding obligation with respect to an Award shall also be available for Awards. With respect to Awards of share-settled Share Appreciation Rights, the Share Limit shall be reduced by the full number of Common Shares underlying the exercised portion of such Award (rather than only the Common Shares actually delivered upon exercise).

1.6.3 **Adjustments**. The Committee shall:

(a) adjust the number of Common Shares authorized pursuant to Section 1.6.1;

(b) adjust the number of Common Shares set forth in Section 2.3.2 that can be issued through Incentive Stock Options; and

(c) adjust the terms of any outstanding Awards (including, without limitation, the number of Common Shares covered by each outstanding Award, the type of property or securities to which the Award relates and the exercise or strike price of any Award);

in such manner as it deems appropriate (including, without limitation, by payment of cash) to prevent the enlargement or dilution of rights, as a result of any increase or decrease in the number of issued Common Shares (or issuance of shares of stock other than Common Shares) resulting from a recapitalization, stock split, reverse stock split, stock dividend, spinoff, split-up, combination, reclassification or exchange of Common Shares, merger, consolidation, arrangement, rights offering, separation, reorganization or liquidation or any other change in the corporate structure or Common Shares, including any extraordinary dividend or extraordinary distribution; provided that no such adjustment may be made if or to the extent that it would cause an outstanding Award to cease to be exempt from, or to fail to comply with, Section 409A.

1.6.4 **Assumption or Substitution of Awards**. The Committee may, without affecting the number of Common Shares available pursuant to Section 1.6.1, authorize the issuance or assumption of benefits under the Plan in connection with any merger, consolidation, acquisition of property or shares, reorganization or similar transaction upon such terms and conditions as it may deem appropriate, subject to compliance with Section 409A and any other applicable provisions of the Code.

1.7 Minimum Vesting

Notwithstanding any other provision of the Plan to the contrary, all Awards, and all portions of Awards, shall be subject to a minimum vesting schedule of at least twelve (12) months following the date of grant of the Award; provided, however, that the foregoing limitations shall not preclude the acceleration of vesting of any such Award upon the death or Disability of the Grantee, as determined by the Committee in its discretion, and shall not apply to Awards that are granted in lieu of earned cash compensation or earned Awards that are otherwise settled in cash. Notwithstanding the foregoing, Awards with respect to 5% of the maximum aggregate number of Common Shares that may be granted under the Plan pursuant to Section 1.6.1 may be granted under the Plan to any one or more Grantees without respect to such minimum vesting provisions.

1.8 Limits on Compensation to Non-Employee Directors

No non-employee Director of Cronos may be granted (in any calendar year) compensation, solely with respect to his or her service as a member of the Board, with a value in excess of $500,000, with the value of any equity based awards based on the accounting grant date value of such award; provided, however, that the foregoing limitation shall be

$1,000,000 for the calendar year in which a non-employee Director is newly appointed as a member of the Board or is designated the Chairman or Lead Director of the Board.

ARTICLE II
AWARDS UNDER THE PLAN

2.1 Agreements Evidencing Awards

Each Award granted under the Plan shall be evidenced by an Award Agreement that shall contain such provisions and conditions as the Committee deems appropriate. Unless otherwise provided herein or in the Award Agreement, the Committee may grant Awards in tandem with or, subject to Section 3.14, in substitution for or satisfaction of any other Award or Awards granted under the Plan or any award granted under any other plan of the Company. By accepting an Award pursuant to the Plan, a Grantee thereby agrees that the Award shall be subject to all of the terms and provisions of the Plan and the applicable Award Agreement.

2.2 No Rights as a Shareholder

No Grantee (or other person having rights pursuant to an Award) shall have any of the rights of a shareholder of Cronos with respect to Common Shares subject to an Award until the delivery of such Common Shares. Except as otherwise provided in Section 1.6.3, no adjustments shall be made for dividends, distributions or other rights (whether ordinary or extraordinary, and whether in cash, Common Shares, other securities or other property) for which the record date is before the date the Certificates for the Common Shares are delivered, or in the event the Committee elects to use another system, such as book entries by the transfer agent, before the date in which such system evidences the Grantee's ownership of such Common Shares.

2.3 Stock Options

2.3.1 **Grant**. Stock options may be granted to eligible recipients in such number and at such times during the term of the Plan as the Committee may determine ("**Stock Options**").

2.3.2 **Incentive Stock Options**. At the time of grant, the Committee shall determine:

(a) whether all or any part of a Stock Option granted to an eligible Employee shall be an Incentive Stock Option and

(b) the number of Common Shares subject to such Incentive Stock Option; provided, however, that

(1) the aggregate Fair Market Value (determined as of the time the Stock Option is granted) of the stock with respect to which Incentive Stock Options are exercisable for the first time by an eligible Employee during any fiscal year (under all such plans of Cronos and of any Subsidiary or parent corporation of Cronos) may not exceed $100,000; and

(2) no Incentive Stock Option (other than an Incentive Stock Option that may be assumed or issued by the Company in connection with a transaction to which Section 424(a) of the Code applies) may be granted to a person who is not eligible to receive an Incentive Stock Option under the Code.

The form of any Stock Option which is entirely or in part an Incentive Stock Option shall clearly indicate that such Stock Option is an Incentive Stock Option or, if applicable, the number of Common Shares subject to the Incentive Stock Option. No more than 5,000,000 Common Shares (as adjusted pursuant to the provisions of Section 1.6.3) that can be delivered under the Plan may be issued through Incentive Stock Options.

2.3.3 **Exercise Price**. The exercise price per share with respect to each Stock Option shall be determined by the Committee but, except as otherwise permitted by Section 1.6.3, may never be less than the Fair Market Value (or, in the case of an Incentive Stock Option granted to a Ten Percent Shareholder, 110% of the Fair Market Value). Unless otherwise noted

in the Award Agreement, the Fair Market Value shall be determined with respect to the date of grant of the Award of Stock Options.

2.3.4 **Term of Stock Option**. In no event shall any Stock Option be exercisable after the expiration of ten (10) years (or, in the case of an Incentive Stock Option granted to a Ten Percent Shareholder, five (5) years) from the date on which the Stock Option is granted.

2.3.5 **Vesting and Exercise of Stock Option and Payment for Common Shares**. A Stock Option may vest and be exercised at such time or times and subject to such terms and conditions as shall be determined by the Committee at the time the Stock Option is granted and set forth in the Award Agreement. Subject to any limitations in the applicable Award Agreement, any Common Shares not acquired pursuant to the exercise of a Stock Option on the applicable vesting date may be acquired thereafter at any time before the final expiration of the Stock Option.

To exercise a Stock Option, the Grantee must give written notice to the Company specifying the number of Common Shares to be acquired and accompanied by payment of the full purchase price therefor in cash or in another form as determined by the Committee, which may, subject to the terms of the applicable Award Agreement, include:

(a) bank transfer;

(b) Common Shares, based on the Fair Market Value as of the exercise date;

(c) any other form of consideration approved by the Company and permitted by applicable law; and

(d) any combination of the foregoing.

The Committee may also make arrangements for the cashless exercise of a Stock Option. Any person exercising a Stock Option shall make such representations and agreements and furnish such information as the Committee may, in its sole discretion, deem necessary or desirable to effect or assure compliance by the Company on terms acceptable to the Company with the provisions of the Securities Act, the Exchange Act and any other applicable legal requirements. The Committee may, in its sole discretion, also take whatever additional actions it deems appropriate to effect such compliance, including, without limitation, placing legends on share certificates and issuing stop-transfer notices to agents and registrars. If a Grantee so requests, Common Shares acquired pursuant to the exercise of a Stock Option may be issued in the name of the Grantee and another jointly with the right of survivorship.

2.3.6 **No Repricing or Reloads**. Except as otherwise permitted by Section 1.6.3, reducing the exercise price of Stock Options issued and outstanding under the Plan, including through amendment, cancellation in exchange for the grant of a substitute Award or repurchase for cash or other consideration (in each case that has the effect of reducing the exercise price), shall require the approval of Cronos' shareholders. The Company shall not grant any Stock Options with automatic reload features.

2.4 Share Appreciation Rights

2.4.1 **Grant**. Share appreciation rights may be granted to eligible recipients in such number and at such times during the term of the Plan as the Committee may determine ("**Share Appreciation Rights**").

2.4.2 **Exercise Price**. The exercise price per share with respect to each Share Appreciation Right shall be determined by the Committee but, except as otherwise permitted by Section 1.6.3, may never be less than the Fair Market Value. Unless otherwise noted in the Award Agreement, the Fair Market Value shall be determined with respect to the date of grant of the Award of Share Appreciation Rights.

2.4.3 **Term of Share Appreciation Right**. In no event shall any Share Appreciation Right be exercisable after the expiration of ten (10) years from the date on which the Share Appreciation Right is granted.

2.4.4 **Vesting and Exercise of Share Appreciation Right and Delivery of Common Shares**. Each Share Appreciation Right may vest and be exercised in such installments as may be determined in the Award Agreement at the time the Share Appreciation Right is granted. Subject to any limitations in the applicable Award Agreement, any Share

Appreciation Right not exercised on the applicable vesting date may be exercised thereafter at any time before the final expiration of the Share Appreciation Right.

To exercise a Share Appreciation Right, the Grantee must give written notice to the Company specifying the number of Share Appreciation Rights to be exercised. Upon exercise of Share Appreciation Rights, Common Shares, cash or other securities or property, or a combination thereof, as specified by the Committee, equal in value to:

(a) the excess of:

(1) the Fair Market Value of the Common Shares on the date of exercise *over*

(2) the exercise price of such Share Appreciation Right

multiplied by

(b) the number of Share Appreciation Rights exercised, shall be delivered to the Grantee.

Any person exercising a Share Appreciation Right shall make such representations and agreements and furnish such information as the Committee may, in its sole discretion, deem necessary or desirable to effect or assure compliance by the Company on terms acceptable to the Company with the provisions of the Securities Act, the Exchange Act and any other applicable legal requirements. If a Grantee so requests, Common Shares acquired pursuant to the exercise of a Share Appreciation Right may be issued in the name of the Grantee and another jointly with the right of survivorship.

2.4.5 **No Repricing or Reloads**. Except as otherwise permitted by Section 1.6.3, reducing the exercise price of Share Appreciation Rights issued and outstanding under the Plan, including through amendment, cancellation in exchange for the grant of a substitute Award or repurchase for cash or other consideration (in each case that has the effect of reducing the exercise price), shall require the approval of Cronos' shareholders. The Company shall not grant any Share Appreciation Rights with automatic reload features.

2.5 Restricted Shares

2.5.1 **Grants**. The Committee may grant or offer for sale restricted shares in such amounts and subject to such terms and conditions as the Committee may determine ("**Restricted Shares**"). Upon the delivery of such Common Shares, the Grantee shall have the rights of a shareholder with respect to the Restricted Shares, subject to any other restrictions and conditions as the Committee may include in the applicable Award Agreement. Each Grantee of an Award of Restricted Shares shall be issued a Certificate in respect of such Restricted Shares, unless the Committee elects to use another system, such as book entries by the transfer agent, as evidencing ownership of such Restricted Shares. In the event that a Certificate is issued in respect of Restricted Shares, such Certificate may be registered in the name of the Grantee, and shall, in addition to such legends required by applicable securities laws, bear an appropriate legend referring to the terms, conditions, and restrictions applicable to such Award, but shall be held by the Company or its designated agent until the time the restrictions lapse.

2.5.2 **Right to Vote and Receive Dividends on Restricted Shares**. Each Grantee of an Award of Restricted Shares shall, during the period of restriction, be the beneficial and record owner of such Restricted Shares and shall have full voting rights with respect thereto. During the period of restriction, all ordinary cash dividends or other ordinary distributions paid upon any Restricted Share shall be retained by the Company and shall be paid to the relevant Grantee (without interest) when the Award of Restricted Shares vests and shall revert back to the Company if for any reason the Restricted Share upon which such dividends or other distributions were paid reverts back to the Company (any extraordinary dividends or other extraordinary distributions shall be treated in accordance with Section 1.6.3).

2.6 Restricted Share Units

The Committee may grant Awards of restricted share units ("**Restricted Share Units**") in such amounts and subject to such terms and conditions as the Committee may determine. A Grantee of a Restricted Share Unit shall have only the rights of a general unsecured creditor of the Company until delivery of Common Shares, cash or other securities or property is made as specified in the applicable Award Agreement. On the delivery date specified in the Award Agreement,

the Grantee of each Restricted Share Unit not previously forfeited or terminated shall receive one share of Common Shares, cash or other securities or property equal in value to a share of Common Shares or a combination thereof, as specified by the Committee unless otherwise prescribed in the Award Agreement.

2.7 Dividend Equivalent Rights

The Committee may include in the Award Agreement with respect to any Award, other than an Award of Stock Options or Share Appreciation Rights, a dividend equivalent right entitling the Grantee to receive amounts equal to all or any portion of the regular cash dividends that would be paid on the Common Shares covered by such Award if such Common Shares had been delivered pursuant to such Award ("**Dividend Equivalent Right**"). The grantee of a Dividend Equivalent Right shall have only the rights of a general unsecured creditor of the Company until payment of such amounts is made as specified in the applicable Award Agreement. In the event such a provision is included in an Award Agreement, the Committee shall determine, and specify in the Award Agreement, whether such payments shall be made in cash, in Common Shares or in another form, the time or times at which they shall be made, and such other terms and conditions as the Committee shall deem appropriate, including whether the amounts subject to a Dividend Equivalent Right may be notionally reinvested in the form of Award to which the Award Agreement relates; provided that in no event may such payments be made unless and until the Award to which they relate vests.

2.8 Performance-Based and Other Share-Based or Cash-Based Awards

The Committee may grant other types of equity-based, equity-related or cash-based Awards (including the grant or offer for sale of unrestricted Common Shares, performance share awards and performance units settled in cash) ("**Other Share-Based or Cash-Based Awards**") in such amounts and subject to such terms and conditions as the Committee may determine. The terms and conditions set forth by the Committee in the applicable Award Agreement may relate to the achievement of performance goals, as determined by the Committee at the time of grant. Such Awards may entail the transfer of actual Common Shares to Award recipients and may include Awards designed to comply with or take advantage of the applicable local laws of jurisdictions other than the United States.

2.9 Repayment If Conditions Not Met

If the Committee determines that all terms and conditions of the Plan and a Grantee's Award Agreement were not satisfied, and that the failure to satisfy such terms and conditions is material, then the Grantee shall be obligated to pay the Company immediately upon demand therefor, (a) with respect to a Stock Option and a Share Appreciation Right, an amount equal to the excess of the Fair Market Value (determined at the time of exercise) of the Common Shares that were delivered in respect of such exercised Stock Option or Share Appreciation Right, as applicable, over the exercise price paid therefor, (b) with respect to Restricted Shares, an amount equal to the Fair Market Value (determined at the time such Common Shares became vested) of such Restricted Shares and (c) with respect to Restricted Share Units, an amount equal to the Fair Market Value (determined at the time of delivery) of the Common Shares delivered with respect to the applicable delivery date, in each case with respect to clauses (a), (b) and (c) of this Section 2.9, after reducing for any amount applied to satisfy withholding tax or other obligations in respect of such Award.

ARTICLE III
MISCELLANEOUS

3.1 Amendment of the Plan

3.1.1 Unless otherwise provided in the Plan or in an Award Agreement, the Board may, at any time and from time to time, suspend, discontinue, revise or amend the Plan in any respect whatsoever, but, subject to Sections 1.3 and 1.6.3, no such amendment may materially adversely impair the rights of a Grantee with respect to any outstanding Award without the Grantee's consent. Subject to Sections 1.3 and 1.6.3, an Award Agreement may not be amended to materially adversely impair the rights of a Grantee without the Grantee's consent.

3.1.2 Unless otherwise determined by the Board, shareholder approval of any suspension, discontinuance, revision or amendment shall be obtained only to the extent necessary to comply with any applicable laws, regulations or rules of a securities exchange or self-regulatory agency; provided, however, if and to the extent the Board determines it is

appropriate for the Plan to comply with the provisions of Section 422 of the Code, no amendment that would require shareholder approval under Section 422 of the Code shall be effective without the approval of Cronos' shareholders.

3.2 Tax Withholding

Grantees shall be solely responsible for any applicable taxes (including, without limitation, income and excise taxes) and penalties, and any interest that accrues thereon, that they incur in connection with the receipt, vesting or exercise of any Award. As a condition to the delivery of any Common Shares, cash or other securities or property pursuant to any Award or the lifting or lapse of restrictions on any Award, or in connection with any other event that gives rise to a federal or other governmental tax or other statutory withholding obligation on the part of the Company relating to an Award (including, without limitation, the Federal Insurance Contributions Act (FICA) tax):

(a) the Company may deduct or withhold (or cause to be deducted or withheld) from any payment or distribution to a Grantee, whether or not pursuant to the Plan (including, subject to the applicable Award Agreement, Common Shares otherwise deliverable);

(b) the Committee shall be entitled to require that the Grantee remit cash to the Company (through payroll deduction or otherwise); or

(c) the Company may enter into any other suitable arrangements;

in each case in the Company's discretion, to withhold (i) the minimum amounts of such taxes required by law to be withheld based on the individual tax rates applicable to Grantee or (ii) if provided in an Award Agreement, the minimum or maximum individual tax rate applicable to the Grantee.

3.3 Required Consents and Legends

3.3.1 If the Committee at any time determines that any Consent (as hereinafter defined) is necessary or desirable as a condition of, or in connection with, the granting of any Award, the delivery of Common Shares or the delivery of any cash, securities or other property under the Plan, or the taking of any other action thereunder (each such action, a "**Plan Action**"), then, subject to Section 3.14, such Plan Action shall not be taken, in whole or in part, unless and until such Consent shall have been effected or obtained to the full satisfaction of the Committee. The Committee may direct that any Certificate evidencing Common Shares delivered pursuant to the Plan shall bear a legend setting forth such restrictions on transferability as the Committee may determine to be necessary or desirable, and may advise the transfer agent to place a stop transfer order against any legended shares.

3.3.2 The term "**Consent**" as used in this Article III with respect to any Plan Action includes:

(a) any and all listings, registrations or qualifications in respect thereof upon any securities exchange or under any federal, state or local law, or law, rule or regulation of a jurisdiction outside the United States;

(b) any and all written agreements and representations by the Grantee with respect to the disposition of Common Shares, or with respect to any other matter, which the Committee may deem necessary or desirable to comply with the terms of any such listing, registration or qualification or to obtain an exemption from the requirement that any such listing, qualification or registration be made;

(c) any and all other consents, clearances and approvals in respect of a Plan Action by any governmental or other regulatory body or any stock exchange or self-regulatory agency;

(d) any and all consents by the Grantee to:

(i) the Company's supplying to any third-party recordkeeper of the Plan such personal information as the Committee deems advisable to administer the Plan;

(ii) the Company's deducting amounts from the Grantee's wages, or another arrangement satisfactory to the Committee, to reimburse the Company for advances made on the Grantee's behalf to satisfy certain withholding and other tax obligations in connection with an Award; and

(iii) the Company's imposing sales and transfer procedures and restrictions and hedging restrictions on Common Shares delivered under the Plan; and

(e) any and all consents or authorizations required to comply with, or required to be obtained under, applicable law or otherwise required by the Committee. Nothing herein shall require the Company to list, register or qualify the Common Shares on any securities exchange.

3.4 Right of Offset

The Company shall have the right to offset against its obligation to deliver Common Shares (or other property or cash) under the Plan or any Award Agreement any outstanding amounts (including, without limitation, travel and entertainment or advance account balances, loans, repayment obligations under any Awards, or amounts repayable to the Company pursuant to tax equalization, housing, automobile or other employee programs) that the Grantee then owes to the Company and any amounts the Committee otherwise deems appropriate pursuant to any tax equalization policy or agreement. Notwithstanding the foregoing, (i) if an Award provides for the deferral of compensation within the meaning of Section 409A, the Committee shall have no right to offset against its obligation to deliver Common Shares (or other property or cash) under the Plan or any Award Agreement if such offset could subject the Grantee to the additional tax imposed under Section 409A in respect of an outstanding Award; and (ii) no such offset shall be applied to Common Shares issuable on the exercise of Stock Options.

3.5 Nonassignability; No Hedging

Unless otherwise provided in an Award Agreement, no Award (or any rights and obligations thereunder) granted to any person under the Plan may be sold, exchanged, transferred, assigned, pledged, hypothecated or otherwise disposed of or hedged, in any manner (including through the use of any cash-settled instrument), whether voluntarily or involuntarily and whether by operation of law or otherwise, other than (a) by will, (b) by the laws of descent and distribution or (c) to any trust established for the benefit of the applicable Grantee or any parent, grandparent, sibling or child (including any adopted sibling or child) of the Grantee, and all such Awards (and any rights thereunder) shall be exercisable during the life of the Grantee only by the Grantee or the Grantee's legal representative or the trustee, as applicable. Notwithstanding the foregoing, the Committee may permit, under such terms and conditions that it deems appropriate in its sole discretion, a Grantee to transfer any Award to any person or entity that the Committee so determines. Any sale, exchange, transfer, assignment, pledge, hypothecation or other disposition in violation of the provisions of this Section 3.5 shall be null and void and any Award which is hedged in any manner shall immediately be forfeited. All of the terms and conditions of the Plan and the Award Agreements shall be binding upon any permitted successors and assigns.

3.6 Change of Control

3.6.1 Unless otherwise provided in the applicable Award Agreement or employment agreement, if a Grantee's Employment is terminated by the Company or any successor entity thereto without Just Cause on or within one (1) year after a Change of Control, (i) each Award granted to such Grantee prior to such Change of Control shall become fully vested (including the lapsing of all restrictions and conditions) and, as applicable, exercisable, and (ii) any Common Shares deliverable pursuant to Restricted Share Units shall be delivered promptly (but no later than fifteen (15) days) following such Grantee's termination of Employment. Notwithstanding the foregoing, if, in connection with a Change of Control, any outstanding Awards are not assumed by, or replaced with comparable awards or rights by, the surviving corporation (or a parent or subsidiary of the surviving corporation), then upon such Change of Control each Award granted to such Grantee prior to such Change of Control shall become fully vested (including the lapsing of all restrictions and conditions) and, as applicable, exercisable. As of the Change of Control date, any outstanding performance-based Awards shall be deemed earned at the actual performance level as of the date of the Change of Control (or target performance if the Committee determines that the actual performance level is unable to be determined) with respect to all open performance periods and shall cease to be subject to any further performance conditions but shall continue to be subject to time-based vesting following the Change of Control in accordance with the original performance period.

3.6.2 Notwithstanding the foregoing, in the event of a Change of Control, a Grantee's Award may be treated, to the extent determined by the Committee to be permitted under Section 409A and subject to the Award Agreement applicable to the Award, in accordance with one or more of the following methods as determined by the Committee in its sole discretion: (i) settle such Awards for an amount of cash or securities equal to their value, where in the case of Stock Options and Share Appreciation Rights, the value of such awards, if any, shall be equal to their in-the-money spread value (if any) of such awards, as determined in the sole discretion of the Committee; (ii) provide for the assumption of or the issuance of substitute awards that shall substantially preserve the otherwise applicable terms of any affected Awards previously granted under the Plan, as determined by the Committee in its sole discretion; or (iii) provide that for a period of at least twenty (20) days prior to the Change of Control, any Stock Options or Share Appreciation Rights that would not otherwise become exercisable prior to the Change of Control shall be exercisable as to all Common Shares subject thereto (but any such exercise shall be contingent upon and subject to the occurrence of the Change of Control, and if the Change of Control does not take place within a specified period after giving such notice for any reason whatsoever, the exercise shall be null and void) and that any Stock Options or Share Appreciation Rights not exercised prior to the consummation of the Change of Control shall terminate and be of no further force and effect as of the consummation of the Change of Control. In the event that the consideration paid in the Change of Control includes contingent value rights, earnout or indemnity payments or similar payments, then the Committee shall determine if Awards settled under clause (i) above are (a) valued at closing taking into account such contingent consideration (with the value determined by the Committee in its sole discretion) or (b) entitled to a share of such contingent consideration. For the avoidance of doubt, in the event of a Change of Control where all Stock Options and Share Appreciation Rights are settled for an amount (as determined in the sole discretion of the Committee) of cash or securities, the Committee may, in its sole discretion, terminate any Stock Option or share appreciation right for which the exercise price is equal to or exceeds the per share value of the consideration to be paid in the Change of Control transaction without payment of consideration therefor. Similar actions to those specified in this Section 3.6.2 may be taken in the event of a merger or other corporate reorganization that does not constitute a Change of Control.

3.7 No Continued Employment or Engagement; Right of Discharge Reserved

Neither the adoption of the Plan nor the grant of any Award (or any provision in the Plan or Award Agreement) shall confer upon any Grantee any right to continued Employment, or other engagement, with the Company, nor shall it interfere in any way with the right of the Company to terminate, or alter the terms and conditions of, such Employment or other engagement at any time.

3.8 Nature of Payments

3.8.1 Any and all grants of Awards and deliveries of Common Shares, cash, securities or other property under the Plan shall be in consideration of services performed or to be performed for the Company by the Grantee. Awards under the Plan may, in the discretion of the Committee, be made in substitution in whole or in part for cash or other compensation otherwise payable to a Grantee. Only whole Common Shares shall be delivered under the Plan. Awards shall, to the extent reasonably practicable, be aggregated in order to eliminate any fractional shares. Fractional shares may, in the discretion of the Committee, be forfeited or be settled in cash or otherwise as the Committee may determine.

3.8.2 All such grants and deliveries of Common Shares, cash, securities or other property under the Plan shall constitute a special discretionary incentive payment to the Grantee, shall not entitle the Grantee to the grant of any future Awards and shall not be required to be taken into account in computing the amount of salary or compensation of the Grantee for the purpose of determining any contributions to or any benefits under any pension, retirement, profit-sharing, bonus, life insurance, severance or other benefit plan of the Company or under any agreement with the Grantee, unless the Company specifically provides otherwise.

3.9 Non-Uniform Determinations

3.9.1 The Committee's determinations under the Plan and Award Agreements need not be uniform, and any such determinations may be made by it selectively among persons who receive, or are eligible to receive, Awards under the Plan (whether or not such persons are similarly situated). Without limiting the generality of the foregoing, the Committee shall be entitled, among other things, to make non-uniform and selective determinations under Award Agreements, and to enter into non-uniform and selective Award Agreements, as to (a) the persons to receive Awards, (b) the terms and provisions of Awards and (c) whether a Grantee's Employment has been terminated for purposes of the Plan.

3.9.2 To the extent the Committee deems it necessary, appropriate or desirable to comply with foreign law or practices and to further the purposes of the Plan, the Committee may, in its sole discretion and without amending the Plan, (a) establish special rules applicable to Awards to Grantees who are foreign nationals, are employed outside the United States or both, and grant Awards (or amend existing Awards) in accordance with those rules, and (b) cause the Company to enter into an agreement with any local Subsidiary pursuant to which such Subsidiary shall reimburse the Company for the cost of such equity incentives.

3.10 Other Payments or Awards

Nothing contained in the Plan shall be deemed in any way to limit or restrict the Company from making any award or payment to any person under any other plan, arrangement or understanding, whether now existing or hereafter in effect.

3.11 Plan Headings

The headings in the Plan are for the purpose of convenience only and are not intended to define or limit the construction of the provisions hereof.

3.12 Termination of the Plan

The Board reserves the right to terminate the Plan at any time; provided, however, that in any case, the Plan shall terminate on the day before the tenth (10^{th}) anniversary of the Effective Date, and provided further, that all Awards made under the Plan before its termination shall remain in effect until such Awards have been satisfied or terminated in accordance with the terms and provisions of the Plan and the applicable Award Agreements.

3.13 Clawback/Recapture Policy

Awards under the Plan shall be subject to any clawback or recapture policy that the Company may adopt from time to time to the extent provided in such policy and, in accordance with such policy, may be subject to the requirement that the Awards be repaid to the Company after they have been distributed to the Grantee.

3.14 Section 409A

3.14.1 Notwithstanding anything to the contrary contained herein, all Awards made under the Plan that are intended to be "deferred compensation" subject to Section 409A shall be interpreted, administered and construed to comply with Section 409A, and all Awards made under the Plan that are intended to be exempt from Section 409A shall be interpreted, administered and construed to comply with and preserve such exemption. The Board and the Committee shall have full authority to give effect to the intent of the foregoing sentence. To the extent necessary to give effect to this intent, in the case of any conflict or potential inconsistency between the Plan and a provision of any Award or Award Agreement with respect to an Award, the Plan shall govern.

3.14.2 Without limiting the generality of Section 3.14.1, with respect to any Award made under the Plan that is intended to be "deferred compensation" subject to Section 409A:

(a) any payment due upon a Grantee's termination of Employment shall be paid only upon such Grantee's separation from service from the Company within the meaning of Section 409A;

(b) any payment due upon a Change of Control of Cronos shall be paid only if such Change of Control constitutes a "change in ownership" or "change in the effective control" within the meaning of Section 409A, and in the event that such Change of Control does not constitute a "change in the ownership" or "change in the effective control" within the meaning of Section 409A, such Award shall be vested and non-forfeitable upon the Change of Control and any payment shall be made at the earliest time permitted under Section 409A;

(c) if the Grantee is a "specified employee" (within the meaning of Section 409A and as determined by the Company), any payment to be made with respect to such Award in connection with the Grantee's separation from service from the Company within the meaning of Section 409A (and any other payment that would be subject to the

limitations in Section 409A(a)(2)(B) of the Code) shall be delayed until six (6) months after the Grantee's separation from service (or earlier death) in accordance with the requirements of Section 409A;

(d) to the extent necessary to comply with Section 409A, any other securities, other Awards or other property that the Company may deliver in lieu of Common Shares in respect of an Award shall not have the effect of deferring delivery or payment beyond the date on which such delivery or payment would occur with respect to the Common Shares that would otherwise have been deliverable (unless the Committee elects a later date for this purpose in accordance with the requirements of Section 409A);

(e) with respect to any required Consent described in Section 3.3 or the applicable Award Agreement, if such Consent has not been effected or obtained as of the latest date provided by such Award Agreement for payment in respect of such Award and further delay of payment is not permitted in accordance with the requirements of Section 409A, such Award or portion thereof, as applicable, shall be forfeited and terminate notwithstanding any prior earning or vesting;

(f) if the Award includes a "series of installment payments" (within the meaning of Section 1.409A-2(b)(2)(iii) of the Treasury Regulations), the Grantee's right to the series of installment payments shall be treated as a right to a series of separate payments and not as a right to a single payment;

(g) if the Award includes "dividend equivalents" (within the meaning of Section 1.409A-3(e) of the Treasury Regulations), the Grantee's right to the dividend equivalents shall be treated separately from the right to other amounts under the Award;

(h) in the event any payments under the Award cannot be made at the time specified under the Award without triggering an excise tax under Section 409A, such payments shall be vested and non-forfeitable upon such event and shall be made at the earliest time permitted under Section 409A; and

(i) for purposes of determining whether the Grantee has experienced a separation from service from the Company within the meaning of Section 409A, "subsidiary" shall mean a corporation or other entity in a chain of corporations or other entities in which each corporation or other entity, starting with the Company, has a controlling interest in another corporation or other entity in the chain, ending with such corporation or other entity. For purposes of the preceding sentence, the term "controlling interest" has the same meaning as provided in Section 1.414(c)-2(b)(2)(i) of the Treasury Regulations, provided that the language "at least 20 percent" is used instead of "at least 80 percent" each place it appears in Section 1.414(c)-2(b)(2)(i) of the Treasury Regulations.

3.15 Governing Law

THE PLAN AND ALL AWARDS MADE AND ACTIONS TAKEN THEREUNDER SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF DELAWARE, WITHOUT REFERENCE TO THE PRINCIPLES OF CONFLICT OF LAWS.

3.16 Disputes; Choice of Forum

3.16.1 The Company and each Grantee, as a condition to such Grantee's participation in the Plan, hereby irrevocably submit to the exclusive jurisdiction the Delaware Court of Chancery, over any suit, action or proceeding arising out of or relating to or concerning the Plan or, to the extent not otherwise specified in any individual agreement between the Company and the Grantee, any aspect of the Grantee's Employment with the Company or the termination of that Employment. The Company and each Grantee, as a condition to such Grantee's participation in the Plan, acknowledge that the forum designated by this Section 3.16.1 has a reasonable relation to the Plan and to the relationship between such Grantee and the Company. Notwithstanding the foregoing, nothing herein shall preclude the Company from bringing any action or proceeding in any other court for the purpose of enforcing the provisions of this Section 3.16.1.

3.16.2 The agreement by the Company and each Grantee as to forum is independent of the law that may be applied in the action, and the Company and each Grantee, as a condition to such Grantee's participation in the Plan, (i) agree to such forum even if the forum may under applicable law choose to apply non-forum law, (ii) hereby waive, to the fullest extent permitted by applicable law, any objection which the Company or such Grantee now or hereafter may have to personal jurisdiction or to the laying of venue of any such suit, action or proceeding in any court referred to in Section 3.16.1, (iii)

undertake not to commence any action arising out of or relating to or concerning the Plan in any forum other than the forum described in this Section 3.16 and (iv) agree that, to the fullest extent permitted by applicable law, a final and non-appealable judgment in any such suit, action or proceeding in any such court shall be conclusive and binding upon the Company and each Grantee.

3.16.3 Each Grantee, as a condition to such Grantee's participation in the Plan, hereby irrevocably appoints the Corporate Secretary, of the Company as such Grantee's agent for service of process in connection with any action, suit or proceeding arising out of or relating to or concerning the Plan, who shall promptly advise such Grantee of any such service of process.

3.16.4 Each Grantee, as a condition to such Grantee's participation in the Plan, agrees to keep confidential the existence of, and any information concerning, a dispute, controversy or claim described in Section 3.18, except that a Grantee may disclose information concerning such dispute, controversy or claim to the court that is considering such dispute, controversy or claim or to such Grantee's legal counsel (provided that such counsel agrees not to disclose any such information other than as necessary to the prosecution or defense of the dispute, controversy or claim).

3.17 Waiver of Jury Trial

EACH GRANTEE WAIVES ANY RIGHT IT MAY HAVE TO TRIAL BY JURY IN RESPECT OF ANY LITIGATION BASED ON, ARISING OUT OF, UNDER OR IN CONNECTION WITH THE PLAN.

3.18 Waiver of Claims

Each Grantee of an Award recognizes and agrees that before being selected by the Committee to receive an Award the Grantee has no right to any benefits under the Plan. Accordingly, in consideration of the Grantee's receipt of any Award hereunder, the Grantee expressly waives any right to contest the amount of any Award, the terms of any Award Agreement, any determination, action or omission hereunder or under any Award Agreement by the Committee, the Company or the Board, or any amendment to the Plan or any Award Agreement (other than an amendment to the Plan or an Award Agreement to which his or her consent is expressly required by the express terms of an Award Agreement). Nothing contained in the Plan, and no action taken pursuant to its provisions, shall create or be construed to create a trust of any kind or a fiduciary relationship between the Company and any Grantee. The Plan is not intended to be subject to the Employee Retirement Income Security Act of 1974 (ERISA), as amended.

3.19 Severability; Entire Agreement

If any of the provisions of the Plan or any Award Agreement is finally held to be invalid, illegal or unenforceable (whether in whole or in part), such provision shall be deemed modified to the extent, but only to the extent, of such invalidity, illegality or unenforceability and the remaining provisions shall not be affected thereby; provided that if any such provision is finally held to be invalid, illegal, or unenforceable because it exceeds the maximum scope determined to be acceptable to permit such provision to be enforceable, such provision shall be deemed to be modified to the minimum extent necessary to modify such scope in order to make such provision enforceable hereunder. The Plan and any Award Agreements contain the entire agreement of the parties with respect to the subject matter thereof and supersede all prior agreements, promises, covenants, arrangements, communications, representations and warranties between them, whether written or oral, with respect to the subject matter thereof.

3.20 No Liability With Respect to Tax Qualification or Adverse Tax Treatment

Notwithstanding anything to the contrary contained herein, in no event shall the Company be liable to a Grantee on account of an Award's failure to (a) qualify for favorable United States, Canadian or other tax treatment or (b) avoid adverse tax treatment under United States, Canadian or other law, including, without limitation, Section 409A.

3.21 No Third-Party Beneficiaries

Except as expressly provided in an Award Agreement, neither the Plan nor any Award Agreement shall confer on any person other than the Company and the Grantee of any Award any rights or remedies thereunder. The

exculpation and indemnification provisions of Section 1.3.4 shall inure to the benefit of a Covered Person's estate and beneficiaries and legatees.

3.22 Successors and Assigns of the Company

The terms of the Plan shall be binding upon and inure to the benefit of the Company and any successor entity, including as contemplated by Section 3.6.

3.23 Date of Adoption and Approval of Shareholders

The Plan was adopted by the Board on March 29, 2020 and was approved by Cronos' shareholders on June 25, 2020 (the "**Effective Date**").

Exhibit 10.2

FORM OF
CRONOS GROUP INC.
RESTRICTED SHARE UNIT AGREEMENT

This Restricted Share Unit Award Agreement (hereinafter referred to as the "**Agreement**") is made and entered into this _____ day of _____, 20__ (the "**Grant Date**") by and between Cronos Group Inc. (hereinafter referred to as "**Cronos**") and **[●]** (hereinafter referred to as the "**Grantee**"), pursuant to the **Cronos Group Inc. 2020 Omnibus Equity Incentive Plan** (hereinafter referred to as the "**Plan**"). All terms and provisions of the Plan are hereby incorporated into and shall govern the Agreement except where general provisions of the Plan are superseded by particular provisions of the Agreement. To the extent the Grantee is party to an employment agreement with the Company and any terms set forth herein conflict or are otherwise inconsistent with any terms or conditions set forth in Grantee's employment agreement with the Company, the terms and conditions set forth in such employment agreement shall govern. All capitalized terms used in the Agreement shall have the same meaning given the terms in the Plan.

1. Grant of Restricted Share Units. Cronos hereby grants the Grantee **[●]** Restricted Share Units (hereinafter referred to as the "**Award**"), which are subject to terms and conditions set forth below.

2. Vesting and Settlement of Restricted Share Units. Subject to the terms and conditions of this Agreement and the Plan:

   (a) the Award shall vest **[**over three (3) years, with one-third (1/3rd) of the Award vesting on the first anniversary of the Grant Date, one-third (1/3rd) of the Award vesting on the second anniversary of the Grant Date, and the remaining one-third (1/3rd) of the Award vesting on the third anniversary of the Grant Date**]** (each, a "**Vesting Date**"), provided, that the Grantee remains employed at the Company through such applicable Vesting Date;

   (b) upon each Vesting Date, the vested portion of the Award shall promptly (but not later than sixty (60) calendar days thereafter) be paid out in Common Shares, cash or a combination of Common Shares or cash, as determined by the Committee; and

   (c) where the Committee decides to settle all or a portion of the Grantee's vested Awards in Common Shares, settlement shall be made by the issuance and delivery of one Common Share for each Restricted Share Unit which the Committee decides to settle in Common Shares. Where the Committee decides to settle all or a portion of the Grantee's vested Awards in cash, a cash payment shall be made to the Grantee equal to the Fair Market Value determined as of the applicable **[**Vesting Date**][**settlement date**]** of the Award multiplied by the number of vested Restricted Share Units that the Committee wishes to settle in cash.

3. Termination of Employment. In the event that prior to the final Vesting Date, the Grantee's Employment terminates because of death, the full Award shall vest and promptly (but not later than sixty (60) calendar days thereafter) be settled in the same manner as provided for in Section 2. In the event that prior to the final Vesting Date, the Grantee's Employment terminates because of Disability, the Award shall remain outstanding and continue to vest and be settled in the same manner as provided for in Section 2. **[**In the event that prior to the final Vesting Date, the Grantee's Employment terminates without Just Cause or for Good Reason (as defined in Grantee's employment agreement with the Company) on or within one (1) year after a Change of Control, the Award will become fully vested and settled in accordance with Section 3.6 of the Plan.**]** Except as set forth in **[**Section 3.6 of the Plan in connection with a Change of Control and**]** this Section 3, in the event that prior to the final Vesting Date, the Grantee's Employment terminates for any reason other than death or Disability, then the unvested portion of the Award shall be forfeited for no consideration. Notwithstanding anything to the contrary, to the extent the Grantee is party to an employment agreement with the Company and any payments or benefits in connection with an applicable termination of employment are contingent on the delivery of an effective release and waiver of claims, any accelerated vesting of the Award upon such termination of employment shall also be contingent on such release and waiver of claims.

4. Employment. Nothing in the Agreement shall interfere with or limit in any way the right of the Company to terminate the Grantee's employment nor confer upon any Grantee any right to continue in the employ of the Company. For greater certainty, a Grantee's termination of Employment will include both voluntary and involuntary terminations, and the involuntary termination of a Grantee's Employment shall occur on the date that the Grantee ceases performing services for the Company on a permanent basis, whether such termination is lawful or otherwise, without regard to any required period of notice, pay in lieu of notice, severance pay or similar compensation or benefits (and without regard for any claim for damages in respect thereof), except as expressly required by applicable employment or labor standards legislation.

5. Non-Transferable. The rights or interests of the Grantee under this Agreement, including, without limitation, the Restricted Share Units, shall not be assignable or transferable, otherwise than in the case of death of the Grantee as set out in the Plan, and such rights or interests shall not be encumbered by any means.

6. Not Shares. The RSUs are not Common Shares, and the RSUs shall not entitle the Grantee to exercise voting rights or any other rights attaching to the ownership of Common Shares, including, without limitation, rights on liquidation

7. Withholding Taxes. The Grantee acknowledges and agrees that the Company has the right to deduct from any payments due to the Grantee any federal, state, provincial or local taxes required by law to be withheld with respect to the Award.

8. **[**Section 409A. Payments under this Agreement are intended to be exempt from or comply with Section 409A of the Internal Revenue Code ("**Section 409A**") to the extent

applicable, and this Agreement shall be administered accordingly. Notwithstanding anything to the contrary contained in this Agreement or any employment agreement the Grantee has entered into with the Company ("**Employment Agreement**"), to the extent that any payment under this Agreement is determined by the Company to constitute "non-qualified deferred compensation" subject to Section 409A and is payable to the Grantee by reason of termination of the Grantee's Employment, then (a) such payment shall be made to the Grantee only upon a "separation from service" as defined for purposes of Section 409A under applicable regulations and (b) if the Grantee is a "specified employee" (within the meaning of Section 409A and as determined by the Company), such payment shall not be made before the date that is six (6) months after the date of the Grantee's separation from service (or the Grantee's earlier death). Each payment under this Agreement shall be treated as a separate payment for purposes of Section 409A.**]**

9. Governing Law. The Plan and this Agreement shall be construed in accordance with and governed by the laws of the State of Delaware.

10. Binding Effect. This Agreement shall be binding upon and inure to the benefit of any successors to the Company and all persons lawfully claiming under Grantee. By accepting the Award on the terms set forth herein, the Grantee acknowledges and agrees to the matters and conditions set forth herein and in the Plan. The Grantee hereby further confirms and acknowledges receipt of a copy of the Plan.

IN WITNESS WHEREOF, this Agreement is executed by Cronos and by Grantee as of this _____ day of _____, 20__.

CRONOS GROUP INC.

_____
By: **[●]**

The Grantee (a) accepts the Award, (b) agrees to be bound by, and comply with, the terms of the Plan and this Agreement, and (c) agrees that all decisions and determinations of the Administrator with respect to the Award shall be final and binding on the Grantee and any other person having or claiming an interest under the Award.

GRANTEE

_____
(Name)

Exhibit 10.3

FORM OF
CRONOS GROUP INC.
RESTRICTED SHARE UNIT AWARD AGREEMENT

(Applicable for Israeli Grantees)

This Restricted Share Unit Award Agreement (hereinafter referred to as the "**Agreement**") is made and entered into this _____ day of _____, 20__ (the "**Grant Date**") by and between Cronos Group Inc. (hereinafter referred to as "**Cronos**") and **[●]** (hereinafter referred to as the "**Grantee**"), pursuant to the **Cronos Group Inc. 2020 Omnibus Equity Incentive Plan** (the "**Plan**") and the **Cronos Group Inc. Israeli Sub Plan** (the "**Sub-Plan**" and, together with the Cronos Group Inc. 2020 Omnibus Equity Incentive Plan, the "**Plans**"). All terms and provisions of the Plan are hereby incorporated into and shall govern the Agreement except where general provisions of the Plan are superseded by particular provisions of the Agreement. All capitalized terms used in the Agreement shall have the same meaning given the terms in the Sub-Plan or, if not defined therein, the Plan. To the extent the Grantee is party to an employment agreement with the Company and any terms set forth herein conflict or are otherwise inconsistent with any terms or conditions set forth in Grantee's employment agreement with the Company, the terms and conditions set forth in such employment agreement shall govern. In the event of a conflict or inconsistency between the terms of this Agreement and the terms of either the Plan or the Sub-Plan, the terms of this Agreement shall control.

1. Grant of Restricted Share Units. Cronos hereby grants the Grantee **[●]** Restricted Share Units (hereinafter referred to as the "**RSUs**" or the "**Award**"), which are subject to terms and conditions set forth below.

2. Tax Track of RSUs. The Award is granted as Capital Gain Award (CGA) under Section 102.

3. Expiration Date. **[_____]**

4. Vesting and Settlement of RSUs. Subject to the terms and conditions of this Agreement and the Plans:

   (a) the Award shall vest on **[**over three (3) years, with one-third ($1/3^{rd}$) of the Award vesting on the first anniversary of the Grant Date, one-third ($1/3^{rd}$) of the Award vesting on the second anniversary of the Grant Date, and the remaining one-third ($1/3^{rd}$) of the Award vesting on the third anniversary of the Grant Date**]** (each, a "**Vesting Date**"), provided, that the Grantee remains employed at the Company through such applicable Vesting Date;

   (b) upon each Vesting Date, the vested portion of the Award shall promptly (but not later than sixty (60) calendar days thereafter) be paid out in Common Shares, provided that Cronos shall have no obligation to issue Shares pursuant to the Agreement unless and until the Grantee has satisfied any applicable tax withholding obligations pursuant to

Section 10 below and such issuance otherwise complies with all applicable law. Cronos shall issue and register the Common Shares in the name of the Trustee for the benefit of the Grantee; and

(c) where the Committee settles the Grantee's vested Awards in Common Shares, settlement shall be made by the issuance and delivery of one Common Share for each RSU.

5. Termination of Employment. In the event that prior to the final Vesting Date, the Grantee's Employment terminates because of death, the full Award shall vest and promptly (but not later than sixty (60) calendar days thereafter) be settled in the same manner as provided for in Section 4. In the event that prior to the final Vesting Date, the Grantee's Employment terminates because of Disability, the Award shall remain outstanding and continue to vest and be settled in the same manner as provided for in Section 4. **[**In the event that prior to the final Vesting Date, the Grantee's Employment terminates without Just Cause or for Good Reason (as defined in Grantee's employment agreement with the Company) on or within one (1) year after a Change of Control, the Award will become fully vested and settled in accordance with Section 3.6 of the Plan.**]** Except as set forth in [Section 3.6 of the Plan in connection with a Change of Control], in the event that prior to the final Vesting Date, the Grantee's Employment terminates for any reason other than death or Disability, then the unvested portion of the Award shall be forfeited for no consideration. Notwithstanding anything to the contrary, to the extent the Grantee is party to an employment agreement with the Company and any payments or benefits in connection with an applicable termination of employment are contingent on the delivery of an effective release and waiver of claims, any accelerated vesting of the Award upon such termination of employment shall also be contingent on such release and waiver of claims.

6. Employment. Nothing in the Agreement shall interfere with or limit in any way the right of the Company to terminate the Grantee's employment nor confer upon any Grantee any right to continue in the employ of the Company. For greater certainty, a Grantee's termination of Employment will include both voluntary and involuntary terminations, and the involuntary termination of a Grantee's Employment shall occur on the date that the Grantee ceases performing services for the Company on a permanent basis, whether such termination is lawful or otherwise, without regard to any required period of notice, pay in lieu of notice, severance pay or similar compensation or benefits (and without regard for any claim for damages in respect thereof), except as expressly required by applicable employment or labour standards legislation.

7. Non-Transferable. The rights or interests of the Grantee under this Agreement, including, without limitation, the RSUs, shall not be assignable or transferable, otherwise than in the case of death of the Grantee as set out in the Plan, and such rights or interests shall not be encumbered by any means.

8. Not Shares. The RSUs are not Common Shares, and the RSUs shall not entitle the Grantee to exercise voting rights or any other rights attaching to the ownership of Common Shares, including, without limitation, rights on liquidation.

9. Section 102 Awards.

Without derogating from the generality of the foregoing, to the extent and with respect to any RSUs that are granted as a Capital Gain Award (CGA), and as required by Section 102, the Grantee acknowledges, undertakes and confirms in writing the following:

(a) the Grantee shall comply with all terms and conditions set forth in Section 102 with regard to Capital Gain Award (CGA) and with the applicable rules and regulations promulgated thereunder, as amended from time to time;

(b) the Grantee is familiar with, and understand the provisions of, Section 102 in general, and the tax arrangement regarding the Capital Gain Award (CGA) in particular, and its tax consequences (including the marginal tax component that may apply pursuant to Section 102(b)(3) of the Ordinance); the Grantee agrees that the RSUs and Common Shares that may be issued upon settlement thereof (or otherwise in relation thereto), will be held by a Trustee for at least the duration of the Holding Period, as defined in Section 102. The Grantee understands that any release of such RSUs or Common Shares from the trust, or any sale of the Common Share prior to the termination of the Holding Period, will result in taxation at marginal tax rate, in addition to deductions of appropriate social security, health tax contributions or other compulsory payments; and

(c) the Grantee agrees to the Trust Agreement signed between Cronos, the relevant Affiliate and the Trustee appointed pursuant to Section 102 and shall sign all documents requested by Cronos, the relevant Affiliate or the Trustee, in accordance with and under the Trust Agreement.

10. Withholding Taxes. The Grantee acknowledges and agrees that Cronos and/or an Affiliate and/or the Trustee has the right to deduct from any payments due to the Grantee any taxes required by law to be withheld with respect to the Award and in accordance with the Plans and Applicable Law. Cronos and/or the Trustee shall not be required to release any Common Share certificate to the Grantee until all required payments have been fully made.

11. Trust. The RSUs and any Common Shares issued upon conversion thereof shall be held or controlled by the Trustee, as required under Section 102 in accordance with the provisions of Section 102, the Plans and this Agreement.

12. Tax Matters and Consultation.

(a) The Grantee is advised to consult with a tax advisor with respect to the tax consequences of receiving or exercising RSUs hereunder. Cronos or the relevant

Affiliate does not assume any responsibility to advise the Grantee on such matters, which shall remain solely the responsibility of the Grantee.

(b) Notwithstanding anything to the contrary herein or in the Plans and notwithstanding anything to the contrary, Cronos or an Affiliate shall be under no duty to ensure, and no representation or commitment is made, that the RSU qualifies or will qualify under any particular tax treatment (such as Section 102, CGA, OIA or any other treatment), nor shall Cronos or an Affiliate be required to take any action for the qualification of any RSU under such tax treatment. If the RSUs do not qualify under any particular tax treatment it could result in adverse tax consequences to the Grantee.

(c) By signing below, the Grantee agrees that Cronos, its Affiliates and their respective employees, directors, officers and shareholders shall not be liable for any tax, penalty, interest or cost incurred by the Grantee as a result of such determination, nor will any of them have any liability of any kind or nature in the event that, for any reason whatsoever, an RSU does not qualify for any particular tax treatment.

13. Governing Law. This Agreement shall be construed in accordance with and governed by the laws of the State of Israel.

14. Binding Effect. This Agreement shall be binding upon and inure to the benefit of any successors to the Company and all persons lawfully claiming under Grantee. By accepting the Award on the terms set forth herein, the Grantee acknowledges and agrees to the matters and conditions set forth herein and in the Plan. The Grantee hereby further confirms and acknowledges receipt of a copy of the Plan.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF, this Agreement is executed by Cronos and by Grantee as of this _____ day of _____, 20__.

CRONOS GROUP INC.

____

By: **[●]**

GRANTEE

____

(Name)

Exhibit 31.1

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

I, Michael Gorenstein, certify that:

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

/s/ Michael Gorenstein

Michael Gorenstein
President and Chief Executive Officer
(Principal Executive Officer)

Date: August 6, 2020

Exhibit 31.2

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

I, Jerry Barbato, certify that:

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

/s/ Jerry Barbato

Jerry Barbato

Chief Financial Officer

(*Principal Financial Officer*)

Date: August 6, 2020

Exhibit 32.1

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

In connection with the Quarterly Report on Form 10-Q for the period ended June 30, 2020 of Cronos Group Inc. (the "Company") as filed with the U.S. Securities and Exchange Commission (the "SEC") on the date hereof (the "Report"), I, Michael Gorenstein, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Michael Gorenstein
Michael Gorenstein
President and Chief Executive Officer
(*Principal Executive Officer*)

Date: August 6, 2020

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

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

Exhibit 32.2

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

In connection with the Quarterly Report on Form 10-Q for the period ended June 30, 2020 of Cronos Group Inc. (the "Company") as filed with the U.S. Securities and Exchange Commission (the "SEC") on the date hereof (the "Report"), I, Jerry Barbato, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Jerry Barbato
Jerry Barbato
Chief Financial Officer
(*Principal Financial Officer*)

Date: August 6, 2020

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

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