



CRONOS GROUP INC.

Management's Discussion and Analysis of Financial Condition and Results of Operations

For the Three and Nine Months Ended September 30, 2024

Notice to reader

This document contains information under the heading “Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations” which has been excerpted from our Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2024 (the “Quarterly Report”) filed concurrently with this document on the date hereof under the profile of Cronos Group Inc. (“Cronos Group” or the “Company”) on SEDAR+ at www.sedarplus.com and on EDGAR at www.sec.gov. This document should be read in conjunction with our Quarterly Report, including our unaudited interim condensed consolidated financial statements and the related notes to those statements included in Part I, Item 1 of our Quarterly Report, “Controls and Procedures” included in Part I, Item 4 of our Quarterly Report and “Risk Factors” included in Part II, Item 1A of our Quarterly Report and our consolidated financial statements appearing in our Annual Report on Form 10-K for the year ended December 31, 2023 (the “Annual Report”) and “Risk Factors” included in Part I, Item 1A of our Annual Report, and incorporates by reference herein “Risk Factors” included in Part II, Item 1A of our Quarterly Report. The cautionary statements regarding Forward-Looking Statements contained in the Quarterly Report apply equally to this document. Defined terms used herein but otherwise not defined have the meaning ascribed to them in the Quarterly Report.

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 interim 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 September 30, 2024 (this "Quarterly Report"), consolidated financial statements appearing in the Company's Annual Report on Form 10-K for the year ended December 31, 2023 (the "Annual Report"), Part I, Item 1A, Risk Factors, of the Annual Report and Part II, Item 1A, Risk Factors, of this Quarterly Report.

Forward-Looking Statements

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

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

- the ongoing impact of the public investigation into Canadian licensed producers of alleged dumping of medical cannabis imports from Canada into Israel by the Israel Trade Levies Commissioner of the Israel Ministry of Economy and Industry (the "Anti-Dumping Investigation");
- expectations related to the conflict involving Israel, Hamas, Iran and other stakeholders in the region (the "Middle East Conflict") and its impact on our operations in Israel, the supply of product in the market and the demand for product by medical patients in Israel, as well as any regional or global escalations and their impact to global commerce and stability;
- expectations related to the German, Australian and United Kingdom ("UK") markets, including our strategic partnerships with Cansativa GmbH ("Cansativa"), Vitura Health Limited ("Vitura") and GROW[®] Pharma, respectively, and our ability to successfully distribute the PEACE NATURALS[®] brand in Germany and the UK;
- expectations related to our announcement of cost-cutting measures, including our decision to wind-down operations at our Winnipeg, Manitoba facility and list the facility for sale, the expected costs and benefits from the wind-down of production activities at the facility, challenges and effects related thereto as well as changes in strategy, metrics, investments, costs, operating expenses, employee turnover and other changes with respect thereto;
- expectations related to the impact of our decision to exit our U.S. hemp-derived cannabinoid product operations, including the costs, expenses and write-offs associated therewith, the impact on our operations and our financial statements and any future plans to re-enter the U.S. market;
- expectations related to our announced realignment (the "Realignment") and any progress, challenges and effects related thereto as well as changes in strategy, metrics, investments, reporting structure, costs, operating expenses, employee turnover and other changes with respect thereto;
- our expectations as to the use of our facility in Stayner, Ontario (the "Peace Naturals Campus");
- our ability to acquire raw materials from suppliers, including Cronos GrowCo, and the costs and timing associated therewith;
- expectations regarding the potential success of, and the costs and benefits associated with, our joint ventures, strategic alliances and equity investments;
- expectations related to the expansion of Cronos GrowCo's purpose-built cannabis facility;
- expectations related to the Cronos GrowCo Transaction and the expansion of its cultivation and processing facilities;
- our ability or plans to identify, develop, commercialize or expand our technology research and development ("R&D") initiatives in cannabinoids, or the success thereof;
- expectations regarding revenues, expenses, gross margins and capital expenditures;
- expectations regarding our future production and manufacturing strategy and operations, the costs and timing associated therewith and the receipt of applicable production and sale licenses;

- 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 legalization of the use of cannabis for medical or adult-use in jurisdictions outside of Canada, including the U.S. and Germany, the related timing and impact thereof and our intentions to participate in such markets, if and when such use is legalized;
- the grant, renewal, withdrawal, suspension, delay and impact of any license or supplemental license to conduct activities with cannabis or any amendments thereof;
- our ability to successfully create and launch brands and cannabis products;
- expectations related to the differentiation of our products, including through the utilization of rare cannabinoids;
- the benefits, viability, safety, efficacy, dosing and social acceptance of cannabis, including CBD and other cannabinoids;
- laws and regulations and any amendments thereto applicable to our business and the impact thereof, including uncertainty regarding the application of U.S. state and federal law to cannabis and U.S. hemp (including CBD and other U.S. hemp-derived cannabinoids) products and the scope of any regulations by the U.S. Food and Drug Administration, the U.S. Drug Enforcement Administration, the U.S. Federal Trade Commission, the U.S. Patent and Trademark Office and any state equivalent regulatory agencies over cannabis and U.S. hemp (including CBD and other U.S. hemp-derived cannabinoids) products, including the possibility marijuana is moved from Schedule I to Schedule III under the U.S. Controlled Substances Act;
- the anticipated benefits and impact of Altria Group Inc.'s investment in the Company (the "Altria Investment"), pursuant to a subscription agreement dated December 7, 2018;
- uncertainties as to our ability to exercise our option (the "PharmaCann Option") in PharmaCann Inc. ("PharmaCann"), in the near term or the future, in full or in part, including the uncertainties as to the status and future development of federal legalization of cannabis in the U.S. and our ability to realize the anticipated benefits of the transaction with PharmaCann;
- expectations regarding the implementation and effectiveness of key personnel changes;
- expectations regarding business combinations and dispositions and the anticipated benefits therefrom;
- expectations of the amount or frequency of impairment losses, including as a result of the write-down of intangible assets, including goodwill;
- the impact of the ongoing military conflict between Russia and Ukraine (and resulting sanctions) on our business, financial condition and results of operations or cash flows;
- our compliance with the terms of the settlement (the "Settlement Order") with the Securities and Exchange Commission (the "SEC") and the settlement agreement (the "Settlement Agreement") with the Ontario Securities Commission (the "OSC"); and
- the impact of the loss of our ability to rely on private offering exemptions under Regulation D of the Securities Act of 1933, as amended (the "Securities Act"), and the loss of our status as a well-known seasoned issuer, each as a result of the Settlement Order.

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

The Forward-Looking Statements contained herein are based upon certain material assumptions that were applied in drawing a conclusion or making a forecast or projection, including: (i) our ability to effectively navigate developments related to the Anti-Dumping Investigation and its impact on our operations in Israel; (ii) our ability to effectively navigate developments related to the Middle East Conflict and its impact on our employees and operations in Israel, the supply of product in the market and demand for product by medical patients in Israel; (iii) our ability to efficiently and effectively distribute our PEACE NATURALS® brand in Germany with our strategic partner Cansativa and in the UK with our strategic partner GROW® Pharma and our ability to efficiently and effectively distribute products in Australia with our strategic partner Vitura; (iv) our ability to realize the expected cost-savings and other benefits related to the wind-down of our operations at our Winnipeg, Manitoba facility, (v) expectations related to the impact of our decision to exit our U.S. hemp-derived cannabinoid product operations; (vi) our ability to realize the expected cost-savings, efficiencies and other benefits of our Realignment and other announced cost-cutting measures and employee turnover related thereto; (vii) our ability to efficiently and effectively change the nature of our operations at our Peace Naturals Campus and receive the benefits thereof and acquire raw materials on a timely and cost-effective basis from third parties or Cronos GrowCo; (viii) the timely completion of the expansion of Cronos GrowCo's purpose-built cannabis facility and the ability of Cronos GrowCo to repay the credit facility provided by Cronos; (ix) our ability to realize anticipated benefits, synergies or generate revenue, profits or value from our business combinations and strategic investments; (x) the production and manufacturing capabilities and output from our facilities and our joint ventures, strategic alliances and equity investments; (xi) government regulation of our activities and products including, but not limited to, the areas of cannabis taxation and environmental protection; (xii) the timely receipt of any required regulatory authorizations, approvals, consents, permits and/or licenses; (xiii) consumer interest in our products; (xiv) our ability to differentiate our products, including through the utilization of rare cannabinoids; (xv) competition; (xvi) anticipated and unanticipated costs; (xvii) our ability to generate cash flow from operations; (xviii) our ability to conduct operations in a safe, efficient and effective manner; (xix) our ability to hire and retain qualified staff, and acquire equipment and services in a timely and cost-efficient manner; (xx) our ability to exercise the PharmaCann Option and realize the anticipated benefits of the transaction with PharmaCann; (xxi) our ability to complete planned dispositions, and, if completed, obtain our anticipated sales price; (xxii) general economic, financial market, regulatory and political conditions in which we operate; (xxiii) management's perceptions of historical trends, current conditions and expected future developments; and (xxiv) 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, negative impacts on our business and operations in Israel due to the Anti-Dumping Investigation, including that we may not be able to produce, import or sell our products in Israel as a result thereof; negative impacts on our employees, business and operations in Israel due to the Middle East Conflict, including that we may not be able to produce, import or sell our products or protect our people or facilities in Israel during the Middle East Conflict, the supply of product in the market and the demand for product by medical patients in Israel; that we may not be able to successfully continue to distribute our products in Germany, Australia and the UK or generate material revenue from sales in those markets; that we may not be able to achieve the anticipated benefits of the wind-down of our operations at our Winnipeg, Manitoba facility; that we may be unable to further streamline our operations and reduce expenses; that we may not be able to effectively and efficiently re-enter the U.S. market in the future; that we may not be able to access raw materials on a timely and cost-effective basis from third-parties or Cronos GrowCo; that Cronos GrowCo may not be able to complete the expansion of its purpose-built cannabis facility within a reasonable time or repay its borrowings under the Cronos GrowCo Credit Facility; the military conflict between Russia and Ukraine may disrupt our operations and those of our suppliers and distribution channels and negatively impact the demand for and use of our products; the risk that cost savings and any other synergies from the Altria Investment may not be fully realized or may take longer to realize than expected; failure to execute key personnel changes; the risks that our Realignment, the change in the nature of our operations at the Peace Naturals Campus and our further leveraging of our strategic partnerships will not result in the expected cost-savings, efficiencies and other benefits or will result in greater than anticipated turnover in personnel; lower levels of revenues; the lack of consumer demand for our products; our inability to manage disruptions in credit markets; unanticipated future levels of capital, environmental or maintenance expenditures, general and administrative and other expenses; growth opportunities not turning out as expected; the lack of cash flow necessary to execute our business plan (either within the expected timeframe or at all); difficulty raising capital; the potential adverse effects of judicial, regulatory or other proceedings, or threatened litigation or proceedings, on our business, financial condition, results of operations and cash flows; volatility in and/or degradation of general economic, market, industry or business conditions; compliance with applicable environmental, economic, health and safety, energy and other policies and regulations and in particular health concerns with respect to vaping and the use of cannabis and U.S. hemp products in vaping devices; the unexpected effects of actions of third parties such as competitors, activist investors or federal (including U.S. federal), state, provincial, territorial or local regulatory authorities or self-regulatory organizations; adverse changes in regulatory requirements in relation to our business and products; legal or regulatory obstacles that could prevent us from being able to exercise the PharmaCann Option and thereby realize the anticipated benefits of the transaction with PharmaCann; dilution of our fully diluted ownership of PharmaCann and the loss of our rights as a result of that dilution; our failure to improve our internal control environment and our systems, processes and procedures; and the factors discussed under Part I, Item 1A “Risk Factors” of the Annual Report on Form 10-K for the year ended December 31, 2023 and under Part II, Item 1A “Risk Factors” in our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2024 and June 30, 2024. Readers are cautioned to consider these and other factors, uncertainties and potential events carefully and not to put undue reliance on Forward-Looking Statements.

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

Foreign currency exchange rates

All currency amounts in this Quarterly Report are stated in U.S. dollars, which is our reporting currency, unless otherwise noted. All references to “dollars” or “\$” are to U.S. dollars. The assets and liabilities of our foreign operations are translated into dollars at the exchange rate in effect as of September 30, 2024, September 30, 2023, and December 31, 2023. Transactions affecting the shareholders’ equity (deficit) are translated at historical foreign exchange rates. The condensed consolidated statements of net income (loss) and comprehensive income (loss) and condensed consolidated statements of cash flows of our foreign operations are translated into dollars by applying the average foreign exchange rate in effect for the reporting period as reported on Bloomberg.

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

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

	As of		
	September 30, 2024	September 30, 2023	December 31, 2023
Spot rate	1.3525	1.3577	1.3243
Year-to-date average rate	1.3601	1.3455	N/A

The exchange rates used to translate from New Israeli Shekels (“ILS”) to dollars is shown below:

(Exchange rates are shown as ILS per \$)

	As of		
	September 30, 2024	September 30, 2023	December 31, 2023
Spot rate	3.7269	3.8138	3.6163
Year-to-date average rate	3.6994	3.6385	N/A

Business Overview

Cronos is an innovative global cannabinoid company committed to building disruptive intellectual property by advancing cannabis research, technology and product development. With a passion to responsibly elevate the consumer experience, Cronos is building an iconic brand portfolio. Cronos’ diverse international brand portfolio includes Spinach[®], PEACE NATURALS[®] and Lord Jones[®].

Strategy

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

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

Discontinued Operations

In the second quarter of 2023, Cronos exited its U.S. hemp-derived cannabinoid product operations. The exit of the U.S. operations represented a strategic shift that has a major effect on Cronos’ operations and financial results, and as such, qualifies for reporting as discontinued operations in our condensed consolidated statements of net income (loss) and comprehensive income (loss). Prior period amounts have been reclassified to reflect the discontinued operations classification of the U.S. operations. For further detail on the discontinuation of the U.S. operations, see Note 3 “Discontinued Operations” to the condensed consolidated interim financial statements under Item 1 of this Quarterly Report.

Business Segments

Beginning in the second quarter of 2023, following the exit of our U.S. operations, Cronos is reporting through one consolidated segment, which includes operations in both Canada and Israel. In Canada, Cronos operates one wholly owned license holder under the Cannabis Act (Canada) (the “Cannabis Act”), Peace Naturals Project Inc. (“Peace Naturals”), which has production facilities near Stayner, Ontario. In Israel, the Company operates under the IMC-GAP, IMC-GMP and IMC-GDP certifications required for the cultivation, production and marketing of dried flower, pre-rolls and oils in the Israeli medical market.

Recent Developments

Middle East Conflict

Cronos continues to monitor the Middle East Conflict and potential impacts the Middle East Conflict could have on the Company’s personnel and business in Israel and the recorded amounts of assets and liabilities related to the Company’s operations in Israel. The extent to which the Middle East Conflict may impact the Company’s personnel, business and activities will depend on future developments which remain highly uncertain and cannot be predicted. It is possible that the recorded amounts of assets and liabilities related to the Company’s operations in Israel could change materially in the near term.

Cronos GrowCo Transaction

On July 1, 2024, the Company obtained majority control of the board of directors of Cronos Growing Company Inc. (“Cronos GrowCo”), a leading cannabis cultivation company, which qualified as a business combination under ASC 805 (the “Cronos GrowCo Transaction”). As a result, the Company now consolidates the results of operations of Cronos GrowCo in our condensed consolidated

financial statements. Prior to this date, our investment in Cronos GrowCo consisted of an investment accounted for under the equity method and loans receivable from Cronos GrowCo.

Key Highlights of the Cronos GrowCo Transaction:

- **Increased Board Representation:** As of July 1, 2024, the Cronos GrowCo board of directors expanded to five members, three of whom are appointed by Cronos.
- **Financial Consolidation:** Cronos now consolidates Cronos GrowCo's results in its financial statements beginning in the third quarter of 2024.
- **Investment in Expansion:** Cronos has provided an approximately \$51 million (\$70 million CAD) secured non-revolving credit facility to Cronos GrowCo to fund the expansion of Cronos GrowCo's cultivation and processing facilities (the "Phase 2 Expansion"), enabling growth opportunities in the markets Cronos operates in today as well as enabling future growth into new markets that open.
- **New Supply Agreement:** Prior to the commencement of sales from the Phase 2 Expansion area, Cronos and its controlled affiliates (other than Cronos GrowCo) will have the right, but not the obligation to purchase up to an aggregate total quantity of 80% of Cronos GrowCo's production. Thereafter, Cronos and its controlled affiliates (other than Cronos GrowCo) will have the right, but not the obligation, to purchase 70% of Cronos GrowCo's forecasted production capacity over a given period and 70% of Cronos GrowCo's actual production in a given month.

Consolidated Results of Operations

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

	Three months ended September 30,		Nine months ended September 30,	
	2024	2023	2024	2023
<i>(in thousands of USD)</i>				
Net revenue, before excise taxes	\$ 46,594	\$ 33,912	\$ 120,639	\$ 86,264
Excise taxes	(12,330)	(9,102)	(33,325)	(22,938)
Net revenue	34,264	24,810	87,314	63,326
Cost of sales	30,341	20,124	72,216	52,614
Inventory write-down	312	716	707	716
Gross profit	3,611	3,970	14,391	9,996
Operating expenses				
Sales and marketing	5,528	5,296	15,190	16,334
Research and development	1,242	1,246	3,201	4,392
General and administrative	12,760	14,366	34,434	39,673
Restructuring costs	—	1,423	630	1,423
Share-based compensation	2,262	1,957	6,513	6,823
Depreciation and amortization	1,098	1,457	3,237	4,515
Impairment loss on long-lived assets	14,376	—	16,350	—
Total operating expenses	37,266	25,745	79,555	73,160
Operating loss	(33,655)	(21,775)	(65,164)	(63,164)
Other income	38,271	18,931	55,805	35,006
Income tax benefit	(2,708)	(1,254)	(5,440)	(2,870)
Loss from discontinued operations	—	(182)	—	(4,238)
Net income (loss)	7,324	(1,772)	(3,919)	(29,526)
Net loss attributable to non-controlling interest	(1,025)	(128)	(1,270)	(353)
Net income (loss) attributable to Cronos Group	\$ 8,349	\$ (1,644)	\$ (2,649)	\$ (29,173)

Summary of select financial results

(in thousands of USD)

	Three months ended September 30,		Change		Nine months ended September 30,		Change	
	2024	2023	\$	%	2024	2023	\$	%
Net revenue	\$ 34,264	\$ 24,810	\$ 9,454	38 %	\$ 87,314	\$ 63,326	\$ 23,988	38 %
Cost of sales	30,341	20,124	10,217	51 %	72,216	52,614	19,602	37 %
Inventory write-down	312	716	(404)	(56) %	707	716	(9)	(1) %
Gross profit	3,611	3,970	(359)	(9) %	14,391	9,996	4,395	44 %
Gross margin ⁽ⁱ⁾	11 %	16 %	N/A	(5)pp	16 %	16 %	N/A	— pp

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

Net revenue

For the three months ended September 30, 2024, we reported consolidated net revenue of \$34.3 million, representing an increase of \$9.5 million from the three months ended September 30, 2023. For the nine months ended September 30, 2024, we reported consolidated net revenue of \$87.3 million, representing an increase of \$24.0 million from the nine months ended September 30, 2023. For both the three and nine month comparative periods, the increase was primarily due to higher cannabis flower and extract sales in the Canadian market, higher cannabis flower sales in Israel and higher cannabis flower sales in other countries, partially offset by an adverse price/mix in the Canadian adult-use cannabis flower category driving increased excise tax payments as a percentage of net revenue. The Cronos GrowCo Transaction contributed \$4.3 million of cannabis flower sales in both the three and nine months ended September 30, 2024. No such sales were recognized for the three and nine months ended September 30, 2023.

Inventory write-down

For the three and nine months ended September 30, 2024, we reported inventory write-downs of \$0.3 million and \$0.7 million, compared to \$0.7 million in both the three and nine months ended September 30, 2023. For both the three and nine month comparative periods, the activity was primarily due to write-downs resulting from unusable inventory that was scrapped in the period.

Cost of sales

For the three months ended September 30, 2024, we reported consolidated cost of sales of \$30.3 million, representing an increase of \$10.2 million from the three months ended September 30, 2023. For the nine months ended September 30, 2024, we reported consolidated cost of sales of \$72.2 million, representing an increase of \$19.6 million from the nine months ended September 30, 2023. For both the three and nine month comparative periods, the increase was primarily due to the impact of the inventory step-up from the Cronos GrowCo Transaction, higher cannabis flower and extract sales in the Canadian market, higher wholesale cannabis flower sales in Canada, higher cannabis flower sales in Israel and higher cannabis flower sales in other countries. For both the three and nine months ended September 30, 2024, we recognized \$7.1 million of inventory step-up from the Cronos GrowCo Transaction into cost of sales. No such costs were recognized for the three and nine months ended September 30, 2023.

Gross profit

For the three months ended September 30, 2024, we reported gross profit of \$3.6 million, representing a decrease of \$0.4 million from the three months ended September 30, 2023. For the nine months ended September 30, 2024, we reported gross profit of \$14.4 million, representing an increase of \$4.4 million from the nine months ended September 30, 2023. For the three month comparative periods, the decrease was primarily due to the impact on cost of sales from the inventory step-up from the Cronos GrowCo Transaction, partially offset by higher cannabis flower and extract sales in the Canadian market, higher cannabis flower sales in Israel and higher cannabis flower sales in other countries. For the nine month comparative periods, the increase was primarily due to higher cannabis flower and extract sales in the Canadian market, higher cannabis flower sales in Israel and higher cannabis flower sales in other countries, partially offset by the impact on cost of sales from the inventory step-up from the Cronos GrowCo Transaction. For both the three and nine months ended September 30, 2024, gross profit was reduced by \$7.1 million as a result of the impact of the inventory step-up from the Cronos GrowCo Transaction that was recorded into cost of sales.

Operating expenses

	Three months ended September 30,		Change		Nine months ended September 30,		Change	
	2024	2023	\$	%	2024	2023	\$	%
Sales and marketing	\$ 5,528	\$ 5,296	\$ 232	4 %	\$ 15,190	\$ 16,334	\$ (1,144)	(7)%
Research and development	1,242	1,246	(4)	— %	3,201	4,392	(1,191)	(27)%
General and administrative	12,760	14,366	(1,606)	(11)%	34,434	39,673	(5,239)	(13)%
Restructuring costs	—	1,423	(1,423)	N/M	630	1,423	(793)	N/M
Share-based payments	2,262	1,957	305	16 %	6,513	6,823	(310)	(5)%
Depreciation and amortization	1,098	1,457	(359)	(25)%	3,237	4,515	(1,278)	(28)%
Impairment loss on long-lived assets	14,376	—	14,376	N/A	16,350	—	16,350	N/A
Total operating expenses	<u>\$ 37,266</u>	<u>\$ 25,745</u>	<u>\$ 11,521</u>	<u>45 %</u>	<u>\$ 79,555</u>	<u>\$ 73,160</u>	<u>\$ 6,395</u>	<u>9 %</u>

Sales and marketing

For the three months ended September 30, 2024, sales and marketing expenses were \$5.5 million, representing an increase of \$0.2 million compared to the three months ended September 30, 2023. For the nine months ended September 30, 2024, sales and marketing expenses were \$15.2 million, representing a decrease of \$1.1 million compared to the nine months ended September 30, 2023. For the three month comparative periods, the increase was primarily due to higher salaries and benefits. For the nine month comparative periods, the decrease was primarily due to lower salaries and benefits and favorable advertising and marketing spend.

Research and development

For the three months ended September 30, 2024, research and development expenses were \$1.2 million, essentially unchanged from the three months ended September 30, 2023. For the nine months ended September 30, 2024, research and development expenses were \$3.2 million, representing a decrease of \$1.2 million from the nine months ended September 30, 2023. The decrease for the nine months ended September 30, 2024, was primarily due to lower costs associated with the collaboration and license agreement between Ginkgo Bioworks Holdings, Inc. (“Ginkgo”) and the Company.

General and administrative

For the three months ended September 30, 2024, general and administrative expenses were \$12.8 million, representing a decrease of \$1.6 million from the three months ended September 30, 2023. For the nine months ended September 30, 2024, general and administrative expenses were \$34.4 million, representing a decrease of \$5.2 million from the nine months ended September 30, 2023. For the three month comparative periods, the decrease was primarily due to lower professional fees, largely related to financial statement review costs in the prior year period, and lower salaries and benefits, partially offset by the impact of the Cronos GrowCo Transaction, which increased general and administrative expenses by \$1.6 million. For the nine month comparative periods, the decrease was primarily due to lower professional fees, largely related to financial statement review costs, and lower salaries and benefits and insurance costs, partially offset by the impact of the Cronos GrowCo Transaction, which increased general and administrative expenses by \$1.6 million, and \$1.2 million higher expected credit loss allowance on loans receivable related to the increased borrowings by Cronos GrowCo in the second quarter of 2024.

Restructuring costs

For the three months ended September 30, 2024, we did not incur any restructuring costs. For the nine months ended September 30, 2024, restructuring costs were \$0.6 million. For the three and nine months ended September 30, 2023, restructuring costs were \$1.4 million. For further information, see Note 9 “Restructuring” to the condensed consolidated interim financial statements under Item 1 of this Quarterly Report.

Share-based compensation

For the three months ended September 30, 2024, share-based compensation expense was \$2.3 million, representing an increase of \$0.3 million from the three months ended September 30, 2023. For the nine months ended September 30, 2024, share-based compensation expense was \$6.5 million, representing a decrease of \$0.3 million from the nine months ended September 30, 2023. For the three month comparative periods, the increase was primarily due to new awards granted in the current year and higher forfeitures in the prior year period. For the nine month comparative periods, the decrease was primarily due to headcount reductions that occurred in the prior year period.

Depreciation and amortization

For the three months ended September 30, 2024, depreciation and amortization expenses were \$1.1 million, representing a decrease of \$0.4 million from the three months ended September 30, 2023. For the nine months ended September 30, 2024, depreciation and

amortization expenses were \$3.2 million, representing a decrease of \$1.3 million from the nine months ended September 30, 2023. For both the three and nine month comparative periods, the decrease was primarily due to lower depreciation on property, plant and equipment as a result of the reclassification of the Cronos Fermentation Facility to held-for-sale in the first quarter of 2024.

Impairment loss on long-lived assets

For the three months ended September 30, 2024, impairment loss on long-lived assets was \$14.4 million and was primarily due to the impairment of the Ginkgo exclusive licenses. For the nine months ended September 30, 2024, impairment loss on long-lived assets was \$16.4 million and was primarily due to the impairment of the Ginkgo exclusive licenses and the cessation of operations at Cronos Fermentation. There were no such impairment loss on long-lived assets for the three and nine months ended September 30, 2023. For further information, see Note 9 “*Restructuring*” and Note 8 “*Goodwill and Intangible Assets, net*” to the condensed consolidated interim financial statements under Item 1 of this Quarterly Report.

Other income and income tax benefit

	Three months ended September 30,		Change		Nine months ended September 30,		Change	
	2024	2023	\$	%	2024	2023	\$	%
Interest income, net	\$ 12,460	\$ 13,375	\$ (915)	(7)%	\$ 40,156	\$ 37,021	\$ 3,135	8 %
Share of income from equity method investments	—	1,057	(1,057)	(100)%	2,365	831	1,534	185 %
Gain on revaluation of loan receivable	11,804	—	11,804	N/M	11,804	—	11,804	N/M
Gain on revaluation of equity method investment	32,469	—	32,469	N/M	32,469	—	32,469	N/M
Loss on revaluation of financial instruments	(293)	(5,291)	4,998	94 %	(6,550)	(7,856)	1,306	17 %
Impairment loss on other investments	—	—	—	N/M	(25,650)	—	(25,650)	N/M
Foreign currency transaction gain (loss)	(7,432)	8,816	(16,248)	N/M	12,370	3,999	8,371	209 %
Loss on held-for-sale assets	(10,422)	—	(10,422)	N/M	(10,422)	—	(10,422)	N/M
Other, net	(315)	974	(1,289)	N/M	(737)	1,011	(1,748)	N/M
Total other income	38,271	18,931	19,340	102 %	55,805	35,006	20,799	59 %
Income tax benefit	(2,708)	(1,254)	(1,454)	(116)%	(5,440)	(2,870)	(2,570)	(90)%
Income (loss) from continuing operations	7,324	(1,590)	8,914	561 %	(3,919)	(25,288)	21,369	85 %
Loss from discontinued operations	—	(182)	182	N/M	—	(4,238)	4,238	N/M
Net income (loss)	<u>\$ 7,324</u>	<u>\$ (1,772)</u>	<u>\$ 9,096</u>	<u>513 %</u>	<u>\$ (3,919)</u>	<u>\$(29,526)</u>	<u>\$ 25,607</u>	<u>87 %</u>

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

Interest income, net

For the three months ended September 30, 2024, interest income, net was \$12.5 million, representing a decrease of \$0.9 million from the three months ended September 30, 2023. For the nine months ended September 30, 2024, interest income, net was \$40.2 million, representing an increase of \$3.1 million from the nine months ended September 30, 2023. For the three month comparative periods, the decrease in net interest income was primarily due to the absence of income recognized on the Cronos GrowCo loan receivable, which is eliminated in consolidation, effective July 1, 2024 and forward. For the nine month comparative periods, the increase in net interest income was primarily due to higher interest rates in the current period compared to the prior period.

Share of income from equity method investments

For the three months ended September 30, 2024, we had no income from equity method investments, compared to \$1.1 million for the three months ended September 30, 2023. For the nine months ended September 30, 2024, our share of income from equity method investments was \$2.4 million, representing an increase of \$1.5 million from the nine months ended September 30, 2023. For the three months ended September 30, 2023 and the nine months ended September 30, 2024 and 2023, the income from equity method investments was due to income pick-ups from our equity method investment in Cronos GrowCo. As a result of the Cronos GrowCo Transaction on July 1, 2024, we now consolidate Cronos GrowCo and no longer account for our investment in Cronos GrowCo as an equity method investment. For further information, see Note 5 “*Investments*” to the condensed consolidated interim financial statements under Item 1 of this Quarterly Report.

Gain on revaluation of loans receivable

For both the three and nine months ended September 30, 2024, we recognized \$11.8 million of gain on revaluation of loans receivable related to the remeasurement of the existing loans receivable under the credit facility as a result of the Cronos GrowCo Transaction. No such gain was recognized for the three and nine months ended September 30, 2023. For further information, see Note 6 “*Loans Receivable*” to the condensed consolidated interim financial statements under Item 1 of this Quarterly Report.

Gain on revaluation of equity method investment

For both the three and nine months ended September 30, 2024, we recognized \$32.5 million of gain on revaluation of equity method investment related to the remeasurement of the existing investment in Cronos GrowCo as a result of the Cronos GrowCo Transaction. No such gain was recognized for the three and nine months ended September 30, 2023. For further information, see Note 5 “*Investments*” to the condensed consolidated interim financial statements under Item 1 of this Quarterly Report.

Loss on revaluation of financial instruments

For the three months ended September 30, 2024, the loss on revaluation of financial instruments was \$0.3 million, representing an improvement of \$5.0 million from the three months ended September 30, 2023. For the nine months ended September 30, 2024, the loss on revaluation of financial instruments was \$6.6 million, representing an improvement of \$1.3 million from the nine months ended September 30, 2023. The change was primarily related to the change in fair value of our investment in Vitura Health Limited (“*Vitura*”). For further information, see Note 5 “*Investments*” to the condensed consolidated interim financial statements under Item 1 of this Quarterly Report.

Impairment loss on other investments

For the nine months ended September 30, 2024, we recognized \$25.7 million of impairment loss on other investments, driven by impairment charges recorded on our PharmaCann Option for the difference between its estimated fair value and its carrying amount. There was no such impairment loss on other investments for the three months ended September 30, 2024 or the three and nine months ended September 30, 2023. For further information, see Note 5 “*Investments*” to the condensed consolidated interim financial statements under Item 1 of this Quarterly Report.

Foreign currency transaction gain (loss)

For the three months ended September 30, 2024, foreign currency transaction loss was \$7.4 million, representing a deterioration of \$16.2 million from the three months ended September 30, 2023. For the nine months ended September 30, 2024, foreign currency transaction gain was \$12.4 million, representing an improvement of \$8.4 million from the nine months ended September 30, 2023. For both the three and nine month comparative periods, the change was primarily due to certain foreign currency-denominated cash equivalents and certain foreign currency-denominated intercompany loans anticipated to be settled in the foreseeable future.

Gain (loss) on held-for-sale assets

For both the three and nine months ended September 30, 2024, we recognized \$10.4 million of loss on held-for-sale assets as a result of the change in the Company’s sales strategy for the Cronos Fermentation assets to market the assets to a broader buyer pool. No such gain was recognized for the three and nine months ended September 30, 2023. For further information, see Note 9 “*Restructuring*” to the condensed consolidated interim financial statements under Item 1 of this Quarterly Report.

Other, net

Other, net primarily includes gains and losses on the disposal of assets.

Income tax benefit

For the three months ended September 30, 2024, income tax benefit was \$2.7 million, compared to \$1.3 million for the three months ended September 30, 2023. For the nine months ended September 30, 2024, income tax benefit was \$5.4 million, compared to \$2.9 million for the nine months ended September 30, 2023. For both the three and nine month comparative periods, the increased benefit was driven by higher current income tax benefits recorded on the losses that will be carried back to recover taxes paid in prior years.

Loss from discontinued operations

There was no activity in discontinued operations for the three and nine months ended September 30, 2024. For the three and nine months ended September 30, 2023, loss from discontinued operations was due to the exit of U.S. operations. For more information, see Note 3 “*Discontinued Operations*” in our condensed consolidated interim financial statements under Item 1 of this Quarterly Report.

Non-GAAP Measures

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

Adjusted EBITDA

Management reviews Adjusted EBITDA, a non-GAAP measure, which excludes non-cash items and items that do not reflect management’s assessment of ongoing business performance. Management defines Adjusted EBITDA as net income (loss) before interest, tax expense (benefit), depreciation and amortization adjusted for: share of (income) loss from equity method investments; impairment loss on goodwill and intangible assets; impairment loss on long-lived assets; (gain) loss on revaluation of derivative liabilities; (gain) loss on revaluation of financial instruments; gain on revaluation of loan receivable; gain on revaluation of equity method investment; transaction costs related to strategic projects; loss on held-for-sale assets; impairment loss on other investments; foreign currency transaction loss; other, net; loss from discontinued operations; restructuring costs; inventory write-downs resulting from restructuring actions; share-based compensation; purchase accounting adjustment-related inventory step-up adjustments recorded through cost of sales; and financial statement review costs and reserves related to the restatements of our 2019 and 2021 interim financial statements (the “Restatements”), including the costs related to the settlement of the SEC and the OSC investigation of the Restatements and legal costs of defending shareholder class action complaints brought against us as a result of the 2019 restatement (see Part II, Item 1 “Legal Proceedings” of this Quarterly Report for a discussion of the shareholder class action complaints relating to the restatement of the 2019 interim financial statements and the settlement of the SEC’s and the OSC’s investigations of the Restatements). Results are reported as total consolidated results, reflecting our reporting structure of one reportable segment.

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

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

	Three months ended September 30, 2024		
	Continuing Operations	Discontinued Operations	Total
Net income	\$ 7,324	\$ —	\$ 7,324
Interest income, net	(12,460)	—	(12,460)
Income tax benefit	(2,708)	—	(2,708)
Depreciation and amortization	3,567	—	3,567
EBITDA	(4,277)	—	(4,277)
Impairment loss on long-lived assets ⁽ⁱ⁾	14,376	—	14,376
Revaluation gain on loan receivable ⁽ⁱⁱ⁾	(11,804)	—	(11,804)
Gain on revaluation of equity method investment ⁽ⁱⁱⁱ⁾	(32,469)	—	(32,469)
Loss on revaluation of financial instruments ^(iv)	293	—	293
Foreign currency transaction loss	7,432	—	7,432
Transaction costs ^(vi)	334	—	334
Loss on held-for-sale assets ^(vii)	10,422	—	10,422
Other, net ^(viii)	315	—	315
Share-based compensation ^(ix)	2,262	—	2,262
Financial statement review costs ^(xi)	(19)	—	(19)
Inventory step-up recorded to cost of sales ^(xiii)	7,116	—	7,116
Adjusted EBITDA	<u>\$ (6,019)</u>	<u>\$ —</u>	<u>\$ (6,019)</u>
	Three months ended September 30, 2023		
	Continuing Operations	Discontinued Operations	Total
Net loss	\$ (1,590)	\$ (182)	\$ (1,772)
Interest income, net	(13,375)	(1)	(13,376)
Income tax benefit	(1,254)	—	(1,254)
Depreciation and amortization	2,148	—	2,148
EBITDA	(14,071)	(183)	(14,254)
Share of income from equity method investments	(1,057)	—	(1,057)
Loss on revaluation of financial instruments ^(iv)	5,291	—	5,291
Foreign currency transaction gain	(8,816)	—	(8,816)
Other, net ^(viii)	(974)	(31)	(1,005)
Restructuring costs ^(ix)	1,423	28	1,451
Share-based compensation ^(x)	1,957	(4)	1,953
Financial statement review costs ^(xi)	344	—	344
Inventory write-down ^(xii)	716	—	716
Adjusted EBITDA	<u>\$ (15,187)</u>	<u>\$ (190)</u>	<u>\$ (15,377)</u>

	Nine months ended September 30, 2024		
	Continuing Operations	Discontinued Operations	Total
Net loss	\$ (3,919)	\$ —	\$ (3,919)
Interest income, net	(40,156)	—	(40,156)
Income tax benefit	(5,440)	—	(5,440)
Depreciation and amortization	6,811	—	6,811
EBITDA	(42,704)	—	(42,704)
Share of income from equity method investments	(2,365)	—	(2,365)
Impairment loss on long-lived assets ⁽ⁱ⁾	16,350	—	16,350
Revaluation gain on loan receivable ⁽ⁱⁱ⁾	(11,804)	—	(11,804)
Gain on revaluation of equity method investment ⁽ⁱⁱⁱ⁾	(32,469)	—	(32,469)
Loss on revaluation of financial instruments ^(iv)	6,550	—	6,550
Impairment loss on other investments ^(v)	25,650	—	25,650
Foreign currency transaction gain	(12,370)	—	(12,370)
Transaction costs ^(vi)	530	—	530
Loss on held-for-sale assets ^(vii)	10,422	—	10,422
Other, net ^(viii)	737	—	737
Restructuring costs ^(ix)	630	—	630
Share-based compensation ^(x)	6,513	—	6,513
Financial statement review costs ^(xi)	(525)	—	(525)
Inventory step-up recorded to cost of sales ^(xiii)	7,116	—	7,116
Adjusted EBITDA	<u>\$ (27,739)</u>	<u>\$ —</u>	<u>\$ (27,739)</u>
	Nine months ended September 30, 2023		
	Continuing Operations	Discontinued Operations	Total
Net loss	\$ (25,288)	\$ (4,238)	\$ (29,526)
Interest income, net	(37,021)	(9)	(37,030)
Income tax benefit	(2,870)	—	(2,870)
Depreciation and amortization	6,689	244	6,933
EBITDA	(58,490)	(4,003)	(62,493)
Share of income from equity method investments	(831)	—	(831)
Impairment loss on long-lived assets ⁽ⁱ⁾	—	205	205
Loss on revaluation of financial instruments ^(iv)	7,856	—	7,856
Foreign currency transaction gain	(3,999)	—	(3,999)
Other, net ^(viii)	(1,011)	132	(879)
Restructuring costs ^(ix)	1,423	562	1,985
Share-based compensation ^(x)	6,823	17	6,840
Financial statement review costs ^(xi)	739	—	739
Inventory write-down ^(xii)	716	839	1,555
Adjusted EBITDA	<u>\$ (46,774)</u>	<u>\$ (2,248)</u>	<u>\$ (49,022)</u>

⁽ⁱ⁾ For the three and nine months ended September 30, 2024, impairment loss on long-lived assets included \$14,258 related to the write-down of our Ginkgo exclusive licenses. For the nine months ended September 30, 2024, impairment loss on long-lived assets included \$1,631 related to the winding down of operations at the Company's Winnipeg, Manitoba facility ("Cronos Fermentation Facility"). For the nine months ended September 30, 2023, impairment loss on long-lived assets related to certain leased properties associated with the Company's U.S. operations.

⁽ⁱⁱ⁾ For the three and nine months ended September 30, 2024, a revaluation gain on loan receivable was recognized as a result of the Cronos GrowCo Transaction on July 1, 2024.

⁽ⁱⁱⁱ⁾ For the three and nine months ended September 30, 2024, the gain on revaluation of equity method investment was recognized as a result of the Cronos GrowCo Transaction on July 1, 2024.

- (iv) For the three and nine months ended September 30, 2024 and 2023, loss on revaluation of financial instruments related primarily to the Company’s equity securities in Vitura.
- (v) For the nine months ended September 30, 2024, impairment loss on other investments represents the fair value change on the PharmaCann Option.
- (vi) For the three and nine months ended September 30, 2024, transaction costs represent professional fees associated with the Cronos GrowCo Transaction.
- (vii) For the three and nine months ended September 30, 2024, a loss on held-for-sale assets was recognized as a result of the change in the Company’s sales strategy for the Cronos Fermentation Facility to market the assets to a broader buyer pool.
- (viii) For the three and nine months ended September 30, 2024 and 2023, other, net related to (gain) loss on disposal of assets and (gain) loss on revaluation of derivative liabilities.
- (ix) For the nine months ended September 30, 2024, restructuring costs from continuing operations related to shutdown costs at the Cronos Fermentation Facility, as well as employee-related severance costs associated with the Realignment, as described in Note 9 “Restructuring.” For the three and nine months ended September 30, 2023, restructuring costs related to employee-related severance costs and other restructuring costs associated with our U.S. operations as described in Note 3 “Discontinued Operations.”
- (x) For the three and nine months ended September 30, 2024 and 2023, share-based compensation related to the non-cash expenses of share-based compensation awarded to employees under the Company’s share-based award plans as described in Note 10 “Share-based Compensation.”
- (xi) For the three and nine months ended September 30, 2024 and 2023, financial statement review costs include costs and reserves taken related to the Restatements, costs related to the Company’s responses to requests for information from various regulatory authorities relating to the Restatements and legal costs incurred defending shareholder class action complaints brought against the Company as a result of the 2019 restatement. For the three and nine months ended September 30, 2024, a credit balance is presented due to an insurance recovery.
- (xii) For the three and nine months ended September 30, 2023, inventory write-downs relate to product destruction and obsolescence associated with the exit of our U.S. operations as described in Note 3 “Discontinued Operations.”
- (xiii) For the three and nine months ended September 30, 2024, inventory step-up recorded to cost of sales represents the portion of the inventory step-up from the Cronos GrowCo Transaction that was recorded through the condensed consolidated statements of income (loss) and comprehensive income (loss) in both periods.

Adjusted Gross Profit and Adjusted Gross Margin

To supplement the consolidated financial statements presented in accordance with U.S. GAAP, we have presented Adjusted Gross Profit and Adjusted Gross Margin, non-GAAP measures that exclude the impacts of inventory-related purchase accounting adjustments from the calculations of gross profit and gross margin, which resulted from the Cronos GrowCo Transaction. Results are reported as total consolidated results, reflecting our reporting structure of one reportable segment.

Management believes that Adjusted Gross Profit and Adjusted Gross Margin provide useful insight into underlying business trends to facilitate comparisons of period-over-period results by removing the impacts of inventory-related purchase accounting adjustments resulting from the Cronos GrowCo Transaction, which reflect a one-time event and do not reflect management’s assessment of ongoing business performance.

The following table sets forth a reconciliation of Gross profit and Gross margin, each as determined in accordance with U.S. GAAP, to Adjusted Gross Profit and Adjusted Gross Margin, respectively, for the periods indicated:

<i>(in thousands of USD)</i>	Three months ended September 30,		Change		Nine months ended September 30,		Change	
	2024	2023	\$	%	2024	2023	\$	%
	Net revenue	\$ 34,264	\$ 24,810	\$ 9,454	38 %	\$ 87,314	\$ 63,326	\$ 23,988
Gross profit	\$ 3,611	\$ 3,970	\$ (359)	(9) %	\$ 14,391	\$ 9,996	\$ 4,395	44 %
Inventory step-up recorded to cost of sales	7,116	—	7,116	N/M	7,116	—	7,116	N/M
Adjusted Gross Profit	\$ 10,727	\$ 3,970	\$ 6,757	170 %	\$ 21,507	\$ 9,996	\$ 11,511	115 %
Gross margin ⁽ⁱ⁾	11 %	16 %	N/A	(5)pp	16 %	16 %	N/A	— pp
Adjusted Gross Margin ⁽ⁱⁱ⁾	31 %	16 %	N/A	15 pp	25 %	16 %	N/A	9 pp

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

⁽ⁱⁱ⁾ Adjusted Gross Margin is defined as Adjusted Gross Profit divided by net revenue.

Constant Currency

To supplement the consolidated financial statements presented in accordance with U.S. GAAP, we have presented constant currency adjusted financial measures for net revenue, gross profit, gross profit margin, operating expenses, net income (loss) and Adjusted EBITDA for the three and nine months ended September 30, 2024, as well as cash and cash equivalents and short-term investment balances as of September 30, 2024 compared to December 31, 2023, which are considered non-GAAP financial measures. We present constant currency information to provide a framework for assessing how our underlying operations performed excluding the effect of foreign currency rate fluctuations. To present this information, current and comparative prior period income statement results in currencies other than U.S. dollars are converted into U.S. dollars using the average exchange rates from the three and nine months comparative periods in 2023 rather than the actual average exchange rates in effect during the respective current periods; constant currency current and prior comparative balance sheet information is translated at the prior year-end spot rate rather than the current period spot rate. All growth comparisons relate to the corresponding period in 2023. We have provided this non-GAAP financial information to aid investors in better understanding the performance of our operations. The non-GAAP financial measures presented in this Quarterly Report should not be considered as a substitute for, or superior to, the measures of financial performance prepared in accordance with U.S. GAAP. See further discussion on foreign currency risk as noted in Item 3 “Quantitative and Qualitative Disclosures About Market Risk.”

The table below sets forth certain measures of consolidated results from continuing operations on a constant currency basis for the three and nine months ended September 30, 2024 compared to the three and nine months ended September 30, 2023 as well as cash and cash equivalents and short-term investments as of September 30, 2024 and December 31, 2023, both on an as-reported and constant currency basis (in thousands):

	As Reported				As Adjusted for Constant Currency		
	Three months ended September 30,		As Reported Change		Three months ended September 30,	Constant Currency Change	
	2024	2023	\$	%	2024	\$	%
Net revenue	\$ 34,264	\$ 24,810	\$ 9,454	38 %	\$ 34,661	\$ 9,851	40 %
Gross profit	3,611	3,970	(359)	(9) %	3,608	(362)	(9) %
Gross margin	11 %	16 %	N/A	(5)pp	10 %	N/A	(6)pp
Operating expenses	37,266	25,745	11,521	45 %	38,079	12,334	48 %
Net income (loss) from continuing operations	7,324	(1,590)	8,914	N/M	8,219	9,809	N/M
Adjusted EBITDA	\$ (6,019)	\$ (15,187)	\$ 9,168	60 %	\$ (6,514)	\$ 8,673	57 %
	As Reported				As Adjusted for Constant Currency		
	Nine months ended September 30,		As Reported Change		Nine months ended September 30,	Constant Currency Change	
	2024	2023	\$	%	2024	\$	%
Net revenue	\$ 87,314	\$ 63,326	\$ 23,988	38 %	\$ 88,456	\$ 25,130	40 %
Gross profit	14,391	9,996	4,395	44 %	14,591	4,595	46 %
Gross margin	16 %	16 %	N/A	— pp	16 %	N/A	— pp
Operating expenses	79,555	73,160	6,395	9 %	80,415	7,255	10 %
Net loss from continuing operations	(3,919)	(25,288)	21,369	85 %	(2,424)	22,864	90 %
Adjusted EBITDA	\$ (27,739)	\$ (46,774)	\$ 19,035	41 %	\$ (28,022)	\$ 18,752	40 %
	As of September 30,	As of December 31,	As Reported Change		As of September 30,	Constant Currency Change	
	2024	2023	\$	%	2024	\$	%
Cash and cash equivalents	\$ 862,034	\$ 669,291	\$ 192,743	29 %	\$ 865,277	\$ 195,986	29 %
Short-term investments	—	192,237	(192,237)	(100) %	—	(192,237)	(100) %
Total cash and cash equivalents and short-term investments	\$ 862,034	\$ 861,528	\$ 506	— %	\$ 865,277	\$ 3,749	— %

Net revenue

	As Reported				As Adjusted for Constant Currency		
	Three months ended September 30,		As Reported Change		Three months ended September 30,	Constant Currency Change	
	2024	2023	\$	%	2024	\$	%
Cannabis flower	\$ 26,328	\$ 17,414	\$ 8,914	51 %	\$ 26,601	\$ 9,187	53 %
Cannabis extracts	7,789	7,268	521	7 %	7,914	646	9 %
Other	147	128	19	15 %	146	18	14 %
Net revenue	\$ 34,264	\$ 24,810	\$ 9,454	38 %	\$ 34,661	\$ 9,851	40 %

	As Reported				As Adjusted for Constant Currency		
	Nine months ended September 30,		As Reported Change		Nine months ended September 30,	Constant Currency Change	
	2024	2023	\$	%	2024	\$	%
Cannabis flower	\$ 64,514	\$ 44,556	\$ 19,958	45 %	\$ 65,413	\$ 20,857	47 %
Cannabis extracts	22,580	18,495	4,085	22 %	22,823	4,328	23 %
Other	220	275	(55)	(20)%	220	(55)	(20)%
Net revenue	\$ 87,314	\$ 63,326	\$ 23,988	38 %	\$ 88,456	\$ 25,130	40 %

	As Reported				As Adjusted for Constant Currency		
	Three months ended September 30,		As Reported Change		Three months ended September 30,	Constant Currency Change	
	2024	2023	\$	%	2024	\$	%
Canada	\$ 24,067	\$ 18,738	\$ 5,329	28 %	\$ 24,509	\$ 5,771	31 %
Israel	7,259	5,673	1,586	28 %	7,201	1,528	27 %
Other countries	2,938	399	2,539	636 %	2,951	2,552	640 %
Net revenue	\$ 34,264	\$ 24,810	\$ 9,454	38 %	\$ 34,661	\$ 9,851	40 %

	As Reported				As Adjusted for Constant Currency		
	Nine months ended September 30,		As Reported Change		Nine months ended September 30,	Constant Currency Change	
	2024	2023	\$	%	2024	\$	%
Canada	\$ 62,781	\$ 46,767	\$ 16,014	34 %	\$ 63,553	\$ 16,786	36 %
Israel	20,565	16,160	4,405	27 %	20,908	4,748	29 %
Other countries	3,968	399	3,569	894 %	3,995	3,596	901 %
Net revenue	\$ 87,314	\$ 63,326	\$ 23,988	38 %	\$ 88,456	\$ 25,130	40 %

For the three months ended September 30, 2024, net revenue on a constant currency basis was \$34.7 million, representing a 40% increase from the three months ended September 30, 2023. For the nine months ended September 30, 2024, net revenue on a constant currency basis was \$88.5 million, representing a 40% increase from the nine months ended September 30, 2023. On a constant currency basis, net revenue increased for the three and nine months ended September 30, 2024, primarily due to higher cannabis flower and extract sales in the Canadian market, higher cannabis flower sales in Israel and higher cannabis flower sales in other countries, partially offset by an adverse price/mix in the Canadian adult-use cannabis flower category driving increased excise tax payments as a percentage of net revenue. On a constant currency basis, the Cronos GrowCo Transaction contributed \$4.3 million of cannabis flower sales in both the three and nine months ended September 30, 2024. No such sales were recognized for the three and nine months ended September 30, 2023.

Gross profit

For the three months ended September 30, 2024, gross profit on a constant currency basis was \$3.6 million, representing a 9% decrease from the three months ended September 30, 2023. For the nine months ended September 30, 2024, gross profit on a constant currency basis was \$14.6 million, representing a 46% increase from the nine months ended September 30, 2023. On a constant currency basis, gross profit decreased for the three month comparative periods primarily due to the impact on cost of sales from the inventory step-up from the Cronos GrowCo Transaction, partially offset by higher cannabis flower and extract sales in the Canadian market, higher cannabis flower sales in Israel and higher cannabis flower sales in other countries. For the nine month comparative periods, the increase was primarily due to higher cannabis flower and extract sales in the Canadian market, higher cannabis flower sales in Israel and higher cannabis flower sales in other countries, partially offset by the impact on cost of sales from the inventory step-up from the Cronos GrowCo Transaction. On a constant currency basis, for both the three and nine months ended September 30, 2024, we recognized \$7.2 million of inventory step-up from the Cronos GrowCo Transaction in cost of sales. No such costs were recognized for the three and nine months ended September 30, 2023.

Operating expenses

For the three months ended September 30, 2024, operating expenses on a constant currency basis were \$38.1 million, representing a 48% increase from the three months ended September 30, 2023. For the nine months ended September 30, 2024, operating expenses on a constant currency basis were \$80.4 million, representing a 10% increase from the nine months ended September 30, 2023. On a constant currency basis, operating expenses increased for the three and nine months ended September 30, 2024, primarily due to the impairment of the Ginkgo exclusive licenses, partially offset by lower salaries and benefits, professional fees and restructuring costs.

Net income (loss) from continuing operations

For the three months ended September 30, 2024, net income from continuing operations on a constant currency basis was \$8.2 million, representing an improvement of \$9.8 million from the three months ended September 30, 2023. For the nine months ended September 30, 2024, net loss from continuing operations on a constant currency basis was \$2.4 million, representing an improvement of \$22.9 million from the nine months ended September 30, 2023.

Adjusted EBITDA

For the three months ended September 30, 2024, Adjusted EBITDA on a constant currency basis was \$(6.5) million, representing a 57% improvement from the three months ended September 30, 2023. For the nine months ended September 30, 2024, Adjusted EBITDA on a constant currency basis was \$(28.0) million, representing a 40% improvement from the nine months ended September 30, 2023. The improvement in Adjusted EBITDA for the three and nine months ended September 30, 2024 on a constant currency basis was driven by higher cannabis flower and extract sales in the Canadian market, higher cannabis flower sales in Israel and decreases in general and administrative expenses, partially offset by an adverse price/mix in Canada in the cannabis flower category driving increased excise tax payments as a percentage of net revenue.

Cash and cash equivalents & short-term investments

Cash and cash equivalents and short-term investments on a constant currency basis was essentially unchanged at \$865.3 million as of September 30, 2024, compared to December 31, 2023.

Liquidity and Capital Resources

As of September 30, 2024, we had \$862 million in cash and cash equivalents and no short-term investments. We believe that the existing cash and cash equivalents and short-term investments will be sufficient to fund the business operations and capital expenditures over the next twelve months. The following table summarizes the cash flows from operating, investing and financing activities:

(In thousands of U.S. dollars)

	Nine months ended September 30, 2024	
	2024	2023
Cash flows provided by (used in) operating activities	\$ 11,123	\$ (59,650)
Cash flows provided by (used in) investing activities	180,181	(141,392)
Cash flows used in financing activities	(918)	(812)
Effect of foreign currency translation on cash and cash equivalents	2,357	8,866
Net change in cash	\$ 192,743	\$ (192,988)

Comparison of cash flows between the nine months ended September 30, 2024 and the nine months ended September 30, 2023***Operating activities***

During the nine months ended September 30, 2024, we generated \$11.1 million of cash from operating activities as compared to cash used of \$59.7 million in the nine months ended September 30, 2023, representing a decrease in cash used of \$70.8 million. This change is primarily driven by a \$32.8 million decrease in income taxes payable in the prior period as a result of a tax payment connected to the previously disclosed relinquishment by Altria of its warrant to purchase additional shares of the Company, a \$33.1 million increase in net income after adjusting for non-cash items during the nine months ended September 30, 2024 compared to the nine months ended September 30, 2023, higher interest received, and higher decreases in inventory, partially offset by an increase in accounts receivable, net.

Investing activities

During the nine months ended September 30, 2024, we generated \$180.2 million of cash from investing activities, compared to \$141.4 million of cash used in investing activities during the nine months ended September 30, 2023, representing a change of \$321.6 million. This change is primarily driven by the maturity of certain short-term investments, which were reinvested as cash equivalents upon maturity, as well as cash obtained from the business combination of Cronos GrowCo, partially offset by higher advances of loans receivable, lower loan repayments, and higher purchases of property, plant and equipment in the nine months ended September 30, 2024.

Financing activities

During the nine months ended September 30, 2024, cash used in financing activities was \$0.9 million, compared to \$0.8 million of cash used in financing activities during the nine months ended September 30, 2023, representing an increase of \$0.1 million. This change is primarily driven by an increase of \$0.1 million in withholding taxes paid on share-based awards during the nine months ended September 30, 2024 compared to nine months ended September 30, 2023.

Cash Requirements

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

Critical Accounting Policies and Estimates

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

Business combinations

We account for business combinations using the acquisition method of accounting whereby the identifiable assets and liabilities of the acquired business, as well as any non-controlling interest in the acquired business, are recorded at their estimated fair values as of the date that we obtain control of the acquired business. Determining the fair value of assets acquired and liabilities assumed requires management's judgment and often involves the use of significant estimates and assumptions, including assumptions with respect to future cash inflows and outflows and discount rates, among other items.

We determine the fair values of intangible assets acquired generally in consultation with third-party valuation advisors. The fair value determination requires a number of judgments, particularly around forecasted revenue and growth rates, obsolescence, royalty rates, tax rates and discount rates.

If actual results are materially different than the assumptions we used to determine the fair value of the assets and liabilities acquired through a business combination, it is possible that adjustments to the carrying values of such assets and liabilities will have an impact on net income.