



Court File No.:

**ONTARIO
SUPERIOR COURT OF JUSTICE**

Electronically issued
Délivré par voie électronique : 03-Jun-2020
Toronto

BADESHA HARPREET

Plaintiff

- and -

**CRONOS GROUP INC., MICHAEL GORENSTEIN, WILLIAM HILSON, JERRY
BARBATO, KEVIN C. CROSTHWAITE JR., BRONWEN EVANS, MURRAY R.
GARNICK, BRUCE A. GATES, JASON ADLER, JAMES RUDYK, JODY BEGLEY,
ALAN FRIEDMAN and MICHAEL COATES**

Defendants

Proceeding under the *Class Proceedings Act, 1992*

STATEMENT OF CLAIM

TO THE DEFENDANTS

A LEGAL PROCEEDING HAS BEEN COMMENCED AGAINST YOU by the plaintiff.
The claim made against you is set out in the following pages.

IF YOU WISH TO DEFEND THIS PROCEEDING, you or an Ontario lawyer acting for you must prepare a statement of defence in Form 18A prescribed by the *Rules of Civil Procedure*, serve it on the plaintiff's lawyer or, where the plaintiff does not have a lawyer, serve it on the plaintiff, and file it, with proof of service, in this court office, WITHIN TWENTY DAYS after this statement of claim is served on you, if you are served in Ontario.

If you are served in another province or territory of Canada or in the United States of America, the period for serving and filing your statement of defence is forty days. If you are served outside Canada and the United States of America, the period is sixty days.

Instead of serving and filing a statement of defence, you may serve and file a notice of intent to defend in Form 18B prescribed by the *Rules of Civil Procedure*. This will entitle you to ten more days within which to serve and file your statement of defence.

IF YOU FAIL TO DEFEND THIS PROCEEDING, JUDGMENT MAY BE GIVEN AGAINST YOU IN YOUR ABSENCE AND WITHOUT FURTHER NOTICE TO YOU. IF YOU WISH TO DEFEND THIS PROCEEDING BUT ARE UNABLE TO PAY LEGAL FEES, LEGAL AID MAY BE AVAILABLE TO YOU BY CONTACTING A LOCAL LEGAL AID OFFICE.

IF YOU PAY THE PLAINTIFF'S CLAIM, and costs, within the time for serving and filing your statement of defence, you may move to have this proceeding dismissed by the court. If you believe the amount claimed for costs is excessive, you may pay the plaintiff's claim and costs and have the costs assessed by the court.

TAKE NOTICE: THIS ACTION WILL AUTOMATICALLY BE DISMISSED if it has not been set down for trial or terminated by any means within five years after the action was commenced unless otherwise ordered by the court.

Date: June 3, 2020

Issued by _____
Local registrar

Address of court office 361 University Ave.
Toronto, ON
M5G 1T3

TO: Cronos Group Inc.
720 King St. W., Suite 320
Toronto, Ontario
M5V 2T3

AND TO: Michael Gorenstein
c/o Cronos Group Inc.
720 King St. W., Suite 320
Toronto, Ontario
M5V 2T3

AND TO: Jerry Barbato
c/o Cronos Group Inc.
720 King St. W., Suite 320
Toronto, Ontario
M5V 2T3

AND TO: Bronwen Evans
c/o Cronos Group Inc.
720 King St. W., Suite 320
Toronto, Ontario
M5V 2T3

AND TO: Murray R. Garnick
c/o Cronos Group Inc.
720 King St. W., Suite 320
Toronto, Ontario
M5V 2T3

AND TO: Bruce A. Gates
c/o Cronos Group Inc.
720 King St. W., Suite 320
Toronto, Ontario
M5V 2T3

AND TO: Jason Adler
c/o Cronos Group Inc.
720 King St. W., Suite 320
Toronto, Ontario
M5V 2T3

AND TO: James Rudyk
c/o Cronos Group Inc.
720 King St. W., Suite 320
Toronto, Ontario
M5V 2T3

AND TO: Jody Begley
c/o Cronos Group Inc.
720 King St. W., Suite 320
Toronto, Ontario
M5V 2T3

AND TO: William Hilson

AND TO: Alan Friedman

AND TO: Michael Coates

AND TO: Kevin C. Crosthwaite Jr.

I. DEFINED TERMS

1. In this Statement of Claim the capitalized terms have the following meanings:

- (a) “**AIF**” means Annual Information Form;
- (b) “**Class**” and “**Class Members**” means all persons and entities who, during the **Class Period**, acquired **Cronos**'s shares in the secondary market other than the **Excluded Persons**;
- (c) “**Class Period**” means the period from August 14, 2018 at 7:00 a.m. ET to March 30, 2020 at 9:43 am ET;
- (d) “**Cronos**” means Cronos Group Inc.;
- (e) “**DC&P**” means disclosure controls and procedures;
- (f) “**Defendants**” means Cronos and the Individual Defendants;
- (g) “**EDGAR**” means Electronic Data Gathering, Analysis, and Retrieval system of the Securities and Exchange Commission;
- (h) “**Excluded Persons**” means **Cronos** and its subsidiaries, affiliates, officers, directors, senior employees, legal representatives, heirs, predecessors, successors and assigns, the **Individual Defendants** and any member of their families and any entity in which any of them has or had during the Class Period any legal or de facto controlling interest;
- (i) “**GAAP**” means generally accepted accounting principles;
- (j) “**IAS**” means International Accounting Standard;
- (k) “**ICFR**” means internal controls over financial reporting;
- (l) “**Individual Defendants**” means Michael Gorenstein, William Hilson, Jerry Barbato, Kevin C. Crothswaite Jr., Bronwen Evans, Murray R. Garnick, Bruce A. Gates, Jason Adler, James Rudyk, Jody Begley, Alan Friedman and Michael Coates;
- (m) “**Misleading Documents**” means **Cronos**'s
 - (i) MD&A for the three months ended June 30, 2018 filed with SEDAR on August 14, 2018;
 - (ii) Form 52-109F2 Certification of Interim Filings (CEO) for the interim period ended June 30, 2018 filed with SEDAR on August 14, 2018;
 - (iii) Form 52-109F2 Certification of Interim Filings (CFO) for the interim period ended June 30, 2018 filed with SEDAR on August 14, 2018;

- (iv) MD&A for the three months ended September 30, 2018 filed with SEDAR on November 13, 2018;
- (v) Form 52-109F2 Certification of Interim Filings (CEO) for the interim period ended September 30, 2018 filed with SEDAR on November 13, 2018;
- (vi) Form 52-109F2 Certification of Interim Filings (CFO) for the interim period ended September 30, 2018 filed with SEDAR on November 13, 2018;
- (vii) MD&A for the year ended December 31, 2018 filed on SEDAR on March 26, 2019;
- (viii) AIF for the year ended December 31, 2018, filed on SEDAR on March 26, 2019;
- (ix) Form 52-109F1 Certification of Annual Filings (CEO) for the year ended December 31, 2018 filed with SEDAR on March 26, 2019;
- (x) Form 52-109F1 Certification of Annual Filings (CFO) for year ended December 31, 2018 filed with SEDAR on March 26, 2019;
- (xi) News Release dated May 9, 2019 filed with SEDAR on May 9, 2019;
- (xii) MD&A for the three months ended March 31, 2019 filed with SEDAR on May 9, 2019;
- (xiii) Interim Financial Statements for the three months ended March 31, 2019 filed with SEDAR on May 9, 2019;
- (xiv) Form 52-109F2 Certification of Interim Filings (CEO) for the interim period ended March 31, 2019 filed with SEDAR on May 9, 2019;
- (xv) Form 52-109F2 Certification of Interim Filings (CFO) for the interim period ended March 31, 2019 filed with SEDAR on May 9, 2019;
- (xvi) News Release dated May 14, 2019 filed with SEDAR on May 14, 2019;
- (xvii) Management Information Circular dated as of May 8, 2019 filed with SEDAR on May 28, 2019;
- (xviii) News Release dated August 8, 2019 filed with SEDAR on August 8, 2019;
- (xix) MD&A for the three months ended June 30, 2019 filed with SEDAR on August 8, 2019;
- (xx) Interim Financial Statements for the three months ended June 30, 2019 filed with SEDAR on August 8, 2019;
- (xxi) Form 52-109F2 Certification of Interim Filings (CEO) for the interim period ended June 30, 2019 filed with SEDAR on August 8, 2019;

- (xxii) Form 52-109F2 Certification of Interim Filings (CFO) for the interim period ended June 30, 2019 filed with SEDAR on August 8, 2019;
- (xxiii) News Release dated November 12, 2019 filed with SEDAR on November 12, 2019;
- (xxiv) MD&A for the three months ended September 30, 2019 filed with SEDAR on November 12, 2019, 2019;
- (xxv) Interim Financial Statements for the three months ended September 30, 2019 filed with SEDAR on November 12, 2019;
- (xxvi) Form 52-109F2 Certification of Interim Filings (CEO) for the interim period ended September 30, 2019 filed with SEDAR on November 12, 2019; and
- (xxvii) Form 52-109F2 Certification of Interim Filings (CFO) for the interim period ended September 30, 2019 filed with SEDAR on November 12, 2019;

in each case, where applicable, including all documents incorporated by reference therein;

- (n) “**MD&A**” means Management's Discussion and Analysis;
- (o) “**OBCA**” means the Ontario *Business Corporations Act*;
- (p) “**OSA**” means the Ontario *Securities Act*, R.S.O. 1990, c. S.5, as amended;
- (q) “**Securities Legislation**” means, collectively, the *Securities Act*, RSA 2000, c S-4, as amended; the *Securities Act*, RSBC 1996, c 418, as amended; the *Securities Act*, CCSM c S50, as amended; the *Securities Act*, SNB 2004, c S-5.5, as amended; the *Securities Act*, RSNL 1990, c S-13, as amended; the *Securities Act*, SNWT 2008, c 10, as amended; the *Securities Act*, RSNS 1989, c 418, as amended; the *Securities Act*, S Nu 2008, c 12, as amended; the *Securities Act*, RSPEI 1988, c S-3.1, as amended; the *Securities Act*, RSQ c V-1.1, as amended; the *Securities Act*, 1988, SS 1988-89, c S-42.2, as amended; and the *Securities Act*, SY 2007, c 16, as amended; and
- (r) “**SEDAR**” means the System for Electronic Document Analysis and Retrieval which is a filing system developed for the Canadian Securities Administration.

II. THE CLAIM

2. The Plaintiff claims:

- (a) an order pursuant to the *Class Proceedings Act*, 1992, S.O. 1992, c. 6 certifying this action as a class proceeding and appointing the Plaintiff as the representative Plaintiff for the Class;

- (b) an order granting leave to proceed with the statutory claim for misrepresentation under Part XXIII.1 of the *OSA*, or, if necessary, the corresponding provisions of the Securities Legislation;
- (c) a declaration that the Misleading Documents contained misrepresentations within the meaning of the *OSA*, the other Securities Legislation, and the common law;
- (d) a declaration that the Individual Defendants authorized, permitted or acquiesced in the making of the misrepresentations while knowing them to be misrepresentations;
- (e) a declaration that the Defendants owed the Plaintiff and Class Members a duty of care in the preparation and dissemination of the Misleading Documents and that they breached that duty of care;
- (f) a declaration that
 - (i) the acts or omissions of Cronos or its affiliates have effected a result;
 - (ii) the business and affairs of Cronos or its affiliates have been carried on or conducted in a manner; and
 - (iii) the powers of the directors of Cronos or its affiliates, or one or more of them, have been exercised in a manner, that is or has been oppressive or unfairly prejudicial to or that unfairly disregards or disregarded the interests of the Plaintiff and Class, pursuant to s. 248 of the *OBCA*;
- (g) a declaration that each of the misrepresentations stated in paragraph 53 gives rise to separate liability limits for each of the Defendants pursuant to Part XXIII.1 of the *OSA* and the corresponding provisions of the other Securities Legislation, such that there is no basis to grant the Defendants relief under s. 138.3(6) of the *OSA* and the corresponding provisions of the other Securities Legislation to treat the misrepresentations as a single misrepresentation;
- (h) a declaration that the Defendants are liable in damages to the Class Members for the misrepresentations in Cronos's public disclosure alleged herein pursuant to Part XXIII.1 of the *OSA*, the corresponding provisions of the other Securities Legislation, and the common law;
- (i) compensation for oppression and damages for negligent misrepresentation and pursuant to Part XXIII.1 of the *OSA* and, if necessary, the corresponding provisions of the Securities Legislation in an amount that this Court find appropriate;
- (j) punitive damages against Cronos and the Individual Defendants in an amount that this Court find appropriate;
- (k) a declaration that Cronos is vicariously liable for the acts and omissions of its officers, directors and employees;

- (l) an order directing a reference or giving such other directions as may be necessary to determine issues not determined in the trial of the common issues;
- (m) prejudgment interest and postjudgment interest, pursuant to ss. 128 and 129 of the *Courts of Justice Act*, R.S.O 1990, c. C.43;
- (n) costs of this action, plus pursuant to s. 26(9) of the *Class Proceedings Act, 1992*, S.O. 1992, c. 6, the costs of notices and of administering the plan of distribution of the recovery in this action; and
- (o) such further and other relief as to this Honourable Court seems just.

III. OVERVIEW

3. Cronos describes itself as a “global cannabinoid company”. It cultivates, manufactures and markets cannabis and cannabis-derived products for the medical and adult-use markets, and generates revenue through the sale of dried cannabis and cannabis oils to clients.

4. During the Class Period, public issuers in the cannabis sector were under mounting pressure to deliver strong financial results to satisfy the market’s pent-up demand for revenue and to show sustainable growth following Canada’s legalization of recreational cannabis.

5. Through each of its first three quarters of 2019, Cronos posted increasing revenue, signalling to shareholders bright future prospects as it fought with competitors for a share of the nascent cannabis market.

6. Unknown to its shareholders, however, Cronos had orchestrated a scheme to inflate its reported revenue figures. To do so, Cronos entered into simultaneous transactions with third parties to both sell to them cannabis dry flower and to purchase back cannabis resin and tincture, transactions that were concluded in contemplation of one another.

7. Instead of properly accounting for these transactions at the carrying value of inventory transferred by Cronos, Cronos booked these sales as revenue, thereby inflating its balance sheet

and its bottom line and signalling to shareholders quarter by quarter that Cronos was a growing company.

8. These improper transactions represented 35% of Cronos's reported revenue for Q1 2019 and 38% of its revenue for Q3 2019.

9. Cronos's scheme to improperly inflate its revenue reportedly came to light for the first time when a whistleblower reported the transactions internally. The truth was revealed to the public through a series of disclosures by Cronos in February and March 2020. When it came time for Cronos to produce audited financial statements for the year ended 2019, it had no choice but to disclose the impropriety of this revenue recognition scheme and to restate its financial statements for Q1, Q2 and Q3 2019, while at the same time revealing serious deficiencies in its previously certified internal controls over financial reporting and its disclosure controls and procedures that had plagued Cronos for years.

10. When this news came out, the price of Cronos shares declined precipitously. In this action, the Plaintiff seeks to recover those losses on behalf of the Class Members from those responsible.

IV. THE PARTIES

A. The Plaintiff

11. The Plaintiff, Badesha Harpreet, resides in Surrey, British Columbia. Harpreet purchased 885 Cronos shares on the TSX during the Class Period and continued to own these shares at the end of the Class Period.

B. The Defendants

i. Cronos Group Inc.

12. Cronos is a corporation formed under the *OBCA*, with its principal executive office in Toronto, Ontario. Cronos describes itself as a global cannabinoid company with international production.

13. During the Class Period, Cronos was a reporting issuer in all Canadian provinces except Québec, and its shares were publicly listed for trading on the TSX and Nasdaq Global Market under the trading symbol “CRON” and on other trading venues elsewhere. Cronos published the documents identified below on, among other places, SEDAR and EDGAR.

14. During the Class Period, Cronos regularly reported to the Ontario Securities Commission in accordance with the requirements of the *OSA* and its subsidiary instruments and regulations.

15. Cronos is also a registrant with the United States Securities and Exchange Commission, and files its disclosure documents on EDGAR.

16. Cronos controlled the contents of its MD&As, financial statements, press releases, and the other Misleading Documents, and the misrepresentations made therein were made by Cronos.

ii. The Individual Defendants

17. Each of the Individual Defendants were, during the Class Period, Directors and/or Officers of Cronos within the meaning of the *OSA* and the Securities Legislation, and were involved in Cronos’s business, operations, financial reporting and the making of its disclosures.

(a) Michael Gorenstein, CEO, Chairman, President, Director

18. Gorenstein is an individual residing in New York, New York. At all material times during the Class Period, he was the CEO, Chairman, President and a Director of Cronos.

19. Gorenstein:

- (a) in his capacity as CEO, certified each of the Misleading Documents that were quarterly and annual disclosures of Cronos; and
- (b) on behalf of the Board of Directors, approved and signed each of Cronos's financial statements issued during the Class Period.

20. In doing so, he adopted as his own the false statements made in those documents.

21. At all relevant times, Gorenstein was a Director and an Officer of Cronos within the meaning of the *OSA* and the Securities Legislation. As a Director and Officer, Gorenstein caused Cronos to make the misrepresentations particularized below.

(b) William Hilson, CCO

22. Hilson is an individual residing in Toronto, Ontario. He was Cronos's CFO from the beginning of the Class Period until April 15, 2019, at which point he assumed the role of Cronos's Chief Commercial Officer, a position he held until December 31, 2019. During that time, Hilson was an officer of Cronos within the meaning of the *OSA* and the Securities Legislation.

23. In his capacity as CFO, Hilson certified each of the Misleading Documents that were quarterly and annual disclosures of Cronos while he was CFO. In doing so, he adopted as his own the false statements made in those documents. As an officer, Hilson caused Cronos to make the misrepresentations particularized below, and adopted as his own the false statements in Cronos's public disclosure when such statements were signed on his behalf.

(c) Jerry Barbato, CFO

24. Barbato is an individual residing in Richmond, Virginia. Barbato became Cronos's CFO on April 15, 2019, a position he held until the end of the Class Period. During this time, Barbato was an officer of Cronos within the meaning of the *OSA* and the Securities Legislation.

25. In his capacity as CFO, Barbato certified each of the Misleading Documents that were quarterly disclosures of Cronos while he was CFO. In doing so, he adopted as his own the false statements made in those documents. As an officer, Barbato caused Cronos to make the misrepresentations particularized below, and adopted as his own the false statements in Cronos's public disclosure when such statements were signed on his behalf.

(d) Kevin C. Crosthwaite Jr., Director

26. Crosthwaite is an individual residing in Richmond, Virginia. He became a Director of Cronos on March 8, 2019, a position he held until September 30, 2019. During this time, Crosthwaite was a Director within the meaning of the *OSA* and the Securities Legislation. As a Director, Crosthwaite caused Cronos to make the misrepresentations particularized below, and adopted as his own the false statements in Cronos's public disclosure when such statements were approved and signed on his behalf.

(e) Bronwen Evans, Director

27. Evans is an individual residing in Toronto, Ontario. She became a Director of Cronos on March 8, 2019, a position she held until the end of the Class Period. On her appointment, Evans also became a member of Cronos's Audit Committee, a position she held until the end of the Class Period. During this time, Evans was a Director within the meaning of the *OSA* and the Securities Legislation. As a Director, Evans caused Cronos to make the misrepresentations particularized

below, and adopted as her own the false statements in Cronos's public disclosure when such statements were approved and signed on her behalf.

(f) Murray R. Garnick, Director

28. Garnick is an individual residing in Richmond, Virginia. He became a Director of Cronos on March 8, 2019, a position he held until the end of the Class Period. During this time, Garnick was a Director within the meaning of the *OSA* and the Securities Legislation. As a Director, Garnick caused Cronos to make the misrepresentations particularized below, and adopted as his own the false statements in Cronos's public disclosure when such statements were approved and signed on his behalf.

(g) Bruce A. Gates, Director

29. Gates is an individual residing in Alexandria, Virginia. He became a Director of Cronos on March 8, 2019, a position he held until the end of the Class Period. During this time, Gates was a Director within the meaning of the *OSA* and the Securities Legislation. As a Director, Gates caused Cronos to make the misrepresentations particularized below, and adopted as his own the false statements in Cronos's public disclosure when such statements were approved and signed on his behalf.

(h) Jason Adler, Director, Member of the Audit Committee

30. Adler is an individual residing in Pacific Palisades, California. During the Class Period, he was a Director of Cronos. During this time, Adler was a Director within the meaning of the *OSA* and the Securities Legislation. During the Class Period, Adler was also a member of Cronos's Audit Committee. As a Director, Adler caused Cronos to make the misrepresentations

particularized below, and adopted as his own the false statements in Cronos's public disclosure when such statements were approved and signed on his behalf.

(i) James Rudyk, Lead Director, Chair of the Audit Committee

31. Rudyk is an individual residing in Oakville, Ontario. At all material times during the Class Period, he was a Director of Cronos. On his appointment, Rudyk became the chair of Cronos's Audit Committee. During this time, Rudyk was a Director within the meaning of the *OSA* and the Securities Legislation. Rudyk, on behalf of the Board of Directors, approved and signed each of Cronos's financial statements issued during the Class Period and in doing so adopted as his own the false statements made in those documents. As a Director, Rudyk caused Cronos to make the misrepresentations particularized below, and adopted as his own the false statements in Cronos's public disclosure when such statements were signed on his behalf.

(m) Jody Begley, Director

32. Begley is an individual residing in Midlothian, Virginia. From September 30, 2019 until the end of the Class Period, he was a Director of Cronos. During this time, Begley was a Director within the meaning of the *OSA* and the Securities Legislation. As a Director, Begley caused Cronos to make the misrepresentations particularized below, and adopted as his own the false statements in Cronos's public disclosure when such statements were approved and signed on his behalf.

(n) Alan Friedman, Director, Member of the Audit Committee

33. Friedman is an individual residing in Toronto, Ontario. From the beginning of the Class Period until March 8, 2019, he was a Director of Cronos and sat on Cronos's Audit Committee. During this time, Friedman was a Director within the meaning of the *OSA* and the Securities Legislation. As a Director, Friedman caused Cronos to make the misrepresentations particularized

below, and adopted as his own the false statements in Cronos's public disclosure when such statements were signed on his behalf.

(l) Michael Coates, Director

34. Coates is an individual residing in Ottawa, Ontario. From the beginning of the Class Period until March 8, 2019, he was a Director of Cronos. During this time, Coates was a Director within the meaning of the *OSA* and the Securities Legislation. As a Director, Coates caused Cronos to make the misrepresentations particularized below, and adopted as his own the false statements in Cronos's public disclosure when such statements were signed on his behalf.

C. Duties of Cronos's Audit Committee

35. As members of Cronos's Audit Committee, Adler, Rudyk, Friedman, and Evans were responsible for, among other things:

- (a) assisting Cronos's Board of Directors by reviewing:
 - (i) the financial reports prepared by Cronos's management for filing with securities regulatory authorities;
 - (ii) Cronos's financial statements, MD&As and annual and interim profit or loss press releases before Cronos disclosed that information to the public;
 - (iii) Cronos's internal financial and accounting controls established by management;
- (b) overseeing the work performed by Cronos's external audit firm;
- (c) overseeing Cronos's accounting and financial reporting processes as established by Cronos's management and the audits of the financial statements of Cronos conducted by its external audit firm;
- (d) reviewing the adequacy of Cronos's ICFR and DC&P and considering the effectiveness of, or weaknesses or deficiencies in, the design and operation of Cronos's internal controls, the overall control environment for managing business risks, and accounting, financial and disclosure controls, non-financial controls, and legal and regulatory controls, and the impact of any identified weaknesses in internal controls on management's conclusions;

- (e) Cronos's fraud prevention and detection program, including deficiencies in internal controls that may impact the integrity of financial information, or may have exposed Cronos to other significant internal or external fraud losses and the extent of those losses, and any disciplinary action in respect of fraud taken against management or other senior employees who have a significant role in financial reporting;
- (f) Cronos's accounting policies and accounting estimates resulting from the application of these policies;
- (g) Reviewing with management, matters that may have had a material effect on the financial statements; and
- (h) recommending, establishing and monitoring procedures, including without limitation those relating to financial reporting risk management and those designed to improve the quality and reliability of the disclosure of Cronos's financial condition and results of operations.

36. At all material times during the Class Period, the members of the Audit Committee failed in these duties.

IV. THE DEFENDANTS' DISCLOSURE OBLIGATIONS

A. Cronos's Disclosure Obligations

37. As a reporting issuer in Ontario and other provinces, Cronos was subject to the continuous disclosure obligations prescribed by National Instrument 51-102 to prepare and file on SEDAR certain disclosure documents prepared on regular basis, including:

- (a) interim financial statements, which provide information about Cronos's business and financial positions;
- (b) annual and interim MD&As (filed together with the financial statements) which provide material information about Cronos's business, management and operational and financial status during the period covered by the financial statements; and
- (c) an AIF (filed on an annual basis) which provides material information about CannTrust and its business at a point in time in the context of its historical and possible future development.

39. An MD&A is a narrative explanation, through the eyes of management, of how the company performed during the period covered by the financial statements, and of its financial conditions and future prospects. Among other things, the MD&A is required to

- (a) discuss material information that may not be fully reflected in the financial statements;
- (b) discuss important trends and risks that have affected the financial statements, and trends and risks that are reasonably likely to affect them in the future; and
- (c) provide information about the quality and potential variability, of the company's profit, loss or cash flow, to assist investors in determining if past performance is indicative of future performance.

40. In particular, item 1.4(g) of Form 51-102F1 (which prescribes the content of MD&As as required under National Instrument 51-102) required Cronos to disclose in each annual and interim MD&A any commitments, events, risks or uncertainties that it reasonably believed would materially affect Cronos's future performance, total revenue and income or loss.

41. An AIF describes the company, its operations and prospects, risks and other external factors that may impact the reporting issuer specifically.

42. In fulfilling its continuous disclosure obligations, Cronos was prohibited from making a statement that it knew or reasonably ought to have known:

- (a) in a material respect and at the time and in the light of the circumstances under which it was made, was misleading or untrue or did not state a fact that was required to be stated or that was necessary to make the statement not misleading; and
- (b) would reasonably be expected to have a significant effect on the market price or value of its securities.

43. Contemporaneously with the filing of the financial statements and MD&As, Cronos was required to file certifications signed by the CEO and CFO certifying their review of the required documents and certain other matters.

44. The Plaintiff pleads and relies on:

- (a) the *OSA*, in particular s. 126.2, and the concordant provisions of the Securities Legislation;
- (b) National Policy 51-201, in particular, s. 4.1 to 4.5; and
- (c) the TSX Company Manual, in particular, s. 406 to 410.

45. Cronos and the Individual Defendants controlled the contents of its MD&As, financial statements, and the other Misleading Documents particularized herein and the misrepresentations made therein were made by Cronos and the Individual Defendants.

B. Individual Defendants' Roles in Disclosure

46. Each of the Individual Defendants knew that Cronos was a reporting issuer and that in his or her role as a Director and/or Officer of Cronos, he or she would have direct responsibility for ensuring the accuracy and completeness of Cronos's disclosure documents.

47. The *OSA*, Securities Legislation, and certain National Instruments and Companion Policies promulgated thereunder imposed specific obligations on the Individual Defendants in the preparation of Cronos's continuous disclosure documents.

48. Sections 77 and 78 of the *OSA*, and the concordant provisions of the Securities Legislation, informed by National Instrument 52-109, required Gorenstein as CEO, and Barbato and Hilson as CFO to review, approve and certify the accuracy of Cronos's interim and annual financial statements and MD&As released during the Class Period.

49. National Instrument 51-102 requires the board of directors of a reporting issuer to approve each interim and annual financial statement and MD&A released by an issuer prior to the release of those documents.

50. Each of the Individual Defendants was aware of and accepted these obligations in assuming his or her position as a director and/or officer of Cronos. The Individual Defendants authorized, permitted and/or acquiesced in the release or making of, and adopted as their own, the false statements particularized below.

V. EVENTS DURING THE CLASS PERIOD

51. During the Class Period, Cronos and others publicly reported that Cronos had entered into agreements with third parties to sell cannabis dry flower, as well as agreements to purchase from third parties cannabis resin, extract and tincture. For example:

- (a) on May 14, 2019, Cronos issued a press release announcing that it had entered into multi-year supply agreements with MediPharm Labs Corp. as follows:
 - (i) under the terms of a two-year bulk resin supply agreement, Peace Naturals Project Inc., Cronos's wholly-owned subsidiary, will purchase between \$30 and \$60 million of cannabis concentrate from MediPharm Labs Inc., a wholly-owned subsidiary of MediPharm Labs Corp., over the course of 18 months; and
 - (ii) under the terms of a two-year tolling agreement, Peace Naturals will supply bulk quantities of dried cannabis to MediPharm for processing on a fee for service basis into bulk resin or other cannabis oil or derivative products;
- (b) on July 25, 2019, Heritage Cannabis Holdings Corp. issued a press release announcing that it had entered into a contract manufacturing agreement with Cronos:
 - (i) Heritage provided extract, fill and package vaporizer devices for Cronos's Spinach and Peace Naturals brands utilizing formulations provided by Cronos;

- (ii) the agreement had a two-year term with an option to extend upon agreement by both parties, at an annual potential contract value of \$35 million;
 - (iii) Heritage was responsible for the costs of supply of cannabis biomass for the production, estimated to be approximately \$12 million, as well as administrative and associated expenses for manufacture of the vaporizer devices;
- (c) on February 28, 2020, Heritage released its MD&A for the year ended October 31, 2019 in which it disclosed that revenues from its contract with Cronos amounted to approximately \$3 million of the total \$3.56 million revenues reporting in the current year;
- (d) on September 19, 2019, MediPharm issued a press release announcing that it had entered into a two-year contract manufacturing agreement with Cronos through its wholly owned subsidiary Peace Naturals, under which it would provide filling, labelling and packaging services for branded vaporizer products for Peace Naturals to distribute under its own licence.

52. However, unbeknownst to the public and as described below, during the Class Period, Cronos improperly accounted for bulk resin purchases and sales of products through the wholesale channel as part of a scheme to report artificially inflated revenue figures.

VI. THE DEFENDANTS' MISREPRESENTATIONS

53. During the Class Period, Cronos and the Individual Defendants made the following categories of misrepresentations:

- (a) misrepresentations regarding revenue and consequential misstatements of its financial results ("**Revenue Representations**");
- (b) misrepresentations that Cronos's financial statements were compiled in accordance with IAS and IFRS ("**IAS Representation**");
- (c) misrepresentations in the disclosures of risk encountered by Cronos ("**Risk Representations**");
- (d) misrepresentations regarding Cronos's compliance with its Code of Conduct ("**Conduct Representations**");
- (e) misrepresentations regarding the effectiveness of Cronos's DC&P and ICFR ("**Controls Representations**"); and

- (f) omissions regarding the nature of Cronos's agreements with third parties ("**Third Party Agreement Representations**").

A. Misrepresentations Regarding Revenue Recognition and Consequential Misrepresentations

54. During the Class Period, Cronos and the Individual Defendants reported inaccurate financial results and figures.

55. Each of the Q1, Q2, and Q3 2019 financial statements, MD&A, and associated press releases, reported financial results and figures which, in contravention of applicable accounting standards, improperly recognized revenue from certain bulk transactions causing Cronos's reported revenue figures to be materially overstated and other reported financial results to be materially misleading.

i. Simultaneous Bulk Transactions in Q1 and Q3 2019

56. During Q1 and Q3 2019, Cronos improperly recognized revenue from the exchange of cannabis dry flower for cannabis resin with third parties in simultaneous transactions that were entered into in contemplation of one another.

57. Cronos's improper revenue recognition arose from, at least, the following transactions.

1. Q1 2019 Transactions

58. On March 28, 2019, during Q1 2019, Cronos entered into two transactions to simultaneously purchase and sell inventory to a third party. Cronos purchased cannabis resin and in turn sold cannabis dry flower to the third party, in simultaneous transactions entered into in contemplation of one another.

59. In accordance with applicable accounting standards, this was a non-monetary transaction that ought to have been valued at the carrying value of the inventory exchanged. Instead, however, Cronos improperly overstated recorded revenue in the amount of approximately \$2.5 million, and cost of goods sold in the amount of approximately \$2.4 million on Cronos's Q1 2019 Consolidated Statements of Operations and Comprehensive Income (Loss).

60. This improper revenue recognition inflated Cronos's revenue by 35%.

2. Q3 2019 Transactions

61. During Q3 2019, Cronos entered into additional transactions to simultaneously purchase and sell inventory to a third party.

62. First, in September 2019, Cronos entered three simultaneous transactions to purchase and sell inventory to a third party. Pursuant to these transactions, Cronos sold cannabis dry flower, and purchased cannabis resin and cannabis tincture oil. These three transactions were entered into in contemplation of one another.

63. In accordance with applicable accounting standards, this was a non-monetary transaction that ought to have been valued at the carrying value of the inventory exchanged. Instead, however, Cronos improperly overstated revenue in the amount of approximately \$2.1 million, cost of goods sold of approximately \$3.4 million, and realized fair value adjustment on inventory of approximately \$2.3 million on Cronos's Q3 2019 Consolidated Statements of Operations and Comprehensive Income (Loss).

64. Second, in September 2019, Cronos entered into another wholesale transaction for a sale of dried cannabis to a third party. In accordance with applicable accounting standards, the revenue

recognized by Cronos pursuant to this transaction ought to have been accounted for as a consignment sale. Cronos did not do this, which resulted in Cronos overstating revenue of approximately \$3.0 million, cost of sales of approximately \$1.7 million and realized fair value adjustment on inventory of approximately \$3.3 million on the Q3 2019 Consolidated Statements of Operations and Comprehensive Income (Loss).

65. This improper revenue recognition inflated Cronos's revenue by 38%.

ii. Misrepresentations in Core Documents

66. Cronos's improper revenue recognition arising from these transactions resulted in accounting misstatements in Cronos's Q1, Q2 and Q3 2019 Interim Financial Statements and MD&As announcing these results, including, among other things, assets, liabilities, gross and net revenue, inventory, earnings, income tax, cash flow.

67. A comprehensive list of misrepresentations arising from Cronos's improper revenue recognition for Q1, Q2 and Q3 2019 is set out at **Schedule "A"**. While the great majority of Cronos's misrepresentations in its Q1, Q2 and Q3 2019 interim financial statements, MD&As and press releases arise from and are consequential to its improper revenue recognition, others are unrelated, including but not limited to Cronos's:

- (g) disclosure in its Q2 2019 Interim Financial Statements of foreign exchange loss (gain) for the six months ended June 30, 2019; and
- (h) disclosure in Q2 2019 Interim Financial Statements of non-cash changes, capitalization of depreciation expense.

68. These representations were false and misleading statements of material fact.

iii. Misrepresentations in Press Releases and Earnings Calls

1. Press Releases

69. During the Class Period, Cronos issued press releases announcing quarterly results for Q1, Q2 and Q3 2019. Each of these press releases contained misrepresentations arising from Cronos's improper revenue recognition, including reported net revenue, net revenue increase, kilograms sold, increase in kilograms sold, and cost of sales before fair value adjustments per gram sold, among others.

70. These statements in Cronos's press releases announcing quarterly results for Q1, Q2 and Q3 2019 were materially false and misleading.

2. Public Oral Statements

71. On Cronos's Q1 earnings call, Barbato reported Cronos's net revenue for the first quarter of 2019 as \$6.5 million, a 15% increase from the prior quarter. He further touted Cronos's expected quarter over quarter revenue growth in the coming year.

72. These statements were false and misleading because Cronos's revenue and revenue growth were materially overstated.

73. On Cronos's Q3 2019 earnings call on November 12, 2019, Barbato repeatedly touted Cronos's revenue growth, reporting a 24% increase from the second quarter. Barbato described that revenue in the quarter was driven primarily by, among other things, opportunistic sales into the wholesale channel. Barbato stated that Cronos "saw an opportunity to sell products that would not be used for our own commercial use into the wholesale channel before prices compress further."

74. Similarly, Barbato described Cronos's 98% increase in kilograms of cannabis sold in Q3 2019, primarily due to wholesale shipments. Finally, Barbato reported that his focus was on continuing to develop a "robust and flexible" financial reporting process.

75. These statements were misrepresentations, and were materially false and misleading because:

- (a) Cronos's revenue growth had not increased by 24% from the second quarter;
- (b) purported revenue growth was driven by improper revenue inflating transactions rather than opportunistic sales into the wholesale channel;
- (c) products sold through the wholesale channel were used for Cronos's own commercial use;
- (d) Cronos did not have a 98% increase in kilograms of cannabis sold in Q3 2019; and
- (e) Cronos's financial reporting process was by no means robust.

76. On the call, Gorenstein and Barbato were repeatedly asked for more information about Cronos's sales through the wholesale channel, including in respect to the magnitude of the sales through that channel, but in response, little clarity was provided.

B. Cronos's Misrepresentations relating to IAS and IFRS

77. During the Class Period, Cronos and the Individual Defendants falsely represented that Cronos's financial statements were compiled in accordance with IAS 34, Interim Financial Reporting as issued by the International Accounting Standards Board. Such representations were made in each of Cronos's Q1, Q2 and Q3 interim financial statements and MD&As issued during the Class Period.

78. These representations were untrue and misleading. Cronos's improper revenue recognition described above caused its financial statements to be materially noncompliant with IAS 34 and other standards incorporated therein, including, among others:

- (a) IAS 1 – *Presentation of Financial Statements*; and
- (b) IFRS 15 – *Revenue from Contracts with Customers*.

i. Cronos's Q1 2019 Interim Financial Statements

79. Cronos's Q1 2019 Interim Financial Statements recognized revenue from the transactions described herein at paragraphs 58 – 59. These transactions did not meet the criteria for revenue recognition in accordance with IFRS 15 or IAS. The revenue recognized by Cronos pursuant to this transaction ought to have been accounted for as a non-monetary transaction valued at the carrying value of the inventory exchanged which equaled the value of the cannabis resin received. This was not done.

80. Accordingly, the recognition of revenue in Cronos's Q1 2019 Interim Financial Statements was a violation of IAS 34, and Cronos's Q1 2019 Interim Financial Statements were not prepared in accordance with IAS 34 or IFRS.

ii. Cronos's Q2 2019 Interim Financial Statements

81. Cronos's Q2 Interim Financial Statements incorporated the revenue improperly recognized from Cronos's Q1 2019 transactions. Accordingly, Cronos's Q2 2019 Interim Financial Statements were not prepared in accordance with IAS 34 or IFRS.

iii. Cronos's Q3 2019 Interim Financial Statements

82. Cronos's Q3 2019 Interim Financial Statements recognized revenue from the transactions described herein at paragraphs 62 – 63. These transactions did not meet the criteria for revenue recognition in accordance with IFRS 15 due to lack of commercial substance. They also did not meet the criteria for revenue recognition in accordance with IAS. The revenue recognized by Cronos pursuant to these transactions ought to have been accounted for as a non-monetary transaction valued at the carrying value of the inventory transferred. This was not done.

83. Cronos's Q3 2019 Interim Financial Statements recognized revenue from the transactions described herein at paragraph 64. These transactions did not meet the criteria for revenue recognition in accordance with IFRS 15. They also did not meet the criteria for revenue recognition in accordance with IAS. The revenue recognized by Cronos pursuant to these transactions ought to have been accounted for as a consignment sale. This was not done.

84. Accordingly, the recognition of revenue in Cronos's Q3 2019 Interim Financial Statements was a violation of IAS 34, and Cronos's Q3 2019 Interim Financial Statements were not prepared in accordance with IAS 34 or IFRS.

C. Misrepresentations Regarding Cronos's Risk Disclosures

85. During the Class Period, Cronos and the Individual Defendants made misrepresentations regarding the risks encountered by Cronos's business. Such misrepresentations were made in each of the Misleading Document that was an MD&A and AIF.

86. Cronos and the Individual Defendants had an obligation to disclose all material risk factors relating to Cronos's business, including any matter that would be most likely to influence an

investor's decision to purchase Cronos's securities. Cronos and the Individual Defendants purported to disclose such risk factors in its MD&As and AIF issued during the Class Period yet failed to do so.

87. Cronos's materially defective ICFR and DC&P, together with its relationships with its cannabis dry flower wholesale customers and its bulk resin and tincture suppliers and the improper conduct of its business exposed Cronos's business and operations to the following specific and identifiable risks that Cronos was required, but failed to, disclose during the Class Period:

- (a) that separate transactions involving the sale of cannabis dry flower through the wholesale channel as well as the purchase of bulk resin and tincture would be classified as one transaction;
- (b) that revenue from wholesale cannabis sales would not meet the criteria for revenue recognition or would otherwise be deemed to be a consignment sale;
- (c) that Cronos's reported revenue generation and revenue increases, and consequential line items, were overstated or understated, as the case may be; and
- (d) that the public disclosure of these events, transactions and circumstances could give rise to regulatory inquiries and investigations.

D. Misrepresentations regarding Cronos's Code of Conduct

88. During the Class Period, Cronos and the Individual Defendants made misrepresentations that they complied with a written Code of Conduct applicable to its directors, officers and employees.

89. Cronos's Management Information Circular dated as of May 8, 2019 filed on SEDAR on May 28, 2019 stated that Cronos and its directors, officers and employees complied with these policies:

Ethical Business Conduct

Code of Business Conduct and Ethics

The Board has adopted a Code of Business Conduct and Ethics (the “Code”), a written code of business conduct and ethics for the Company’s directors, officers and employees. The Code sets out the Board’s expectations for the conduct of such persons in their dealings on behalf of the Company. The Company’s contractors, suppliers and third-party vendors are also expected to meet the standards contained in the Code.

The Board has delegated responsibility for monitoring compliance with the Code and for investigating and enforcing matters related to the Code to management, who will report breaches of the Code to the Company’s legal department or for matters regarding accounting, internal accounting controls and other auditing matters to the Audit Committee or for matters involving the Chief Executive Officer or any other senior executive or financial officer of the Company to any member of the Board of Directors. The Company’s legal department or Audit Committee, as applicable, will promptly address all allegations of non-compliance with the Code and recommend corrective actions to local or head office management, as appropriate. The Company’s General Counsel is responsible for allegations relating to the most serious violations of the Code. The Company’s General Counsel reports regularly to the Board and the Audit Committee regarding serious suspected and confirmed Code violations. Any waivers of the Code can only be granted by the General Counsel or the Chief Executive Officer and any such waivers are reported to the Audit Committee. Waivers of the Code for executive officers and senior management may only be granted by the Board or the Audit Committee and will be disclosed to shareholders as required under applicable law.

Directors and executive officers are required by applicable law and the Code to promptly disclose any potential conflict of interest that may arise. If a director or executive officer has a material interest in an agreement or transaction, applicable law, the Code and principles of sound corporate governance require them to declare the interest in writing or request to have such interest entered in the minutes of meetings of directors and, where required by applicable law, abstain from voting with respect to the agreement or transaction. The Code requires the prior approval of the other members of the Board prior to any director accepting an appointment as a director or officer of a competitor or competing business, or becoming otherwise professionally engaged with a competitor or competing business.

90. The foregoing misrepresentations were false and misleading.
91. Among other things, Cronos’s Code of Conduct required as follows:
 - (a) “The Board of Cronos Group has adopted this Code of Business Conduct and Ethics (this “Code”) which embodies the Company’s commitment to conduct its business in accordance with all applicable laws, rules and regulations and the highest ethical standards.”

- (b) “Being a responsible company means upholding the highest ethical standards and complying with all applicable laws and regulations, industry practices and international norms, as well as this Code and all other Cronos Group policies or requirements.”
- (c) “As employees, we have a duty to understand and follow the Code and all laws, regulations and company policies that apply to our jobs. We are all expected to conduct business according to the highest ethical standards, and report issues and concerns that we may have.”
- (d) “We are committed to providing timely, factual and accurate disclosure of material information about the company to our shareholders, the financial community and the public at large, including in filings with government authorities.”
- (e) “It is vital that we maintain accurate financial records and a system of financial controls.”
- (f) “Employees with control over company assets and transactions must establish and/or maintain a system of internal controls in their area of responsibility that is designed to (a) prevent unauthorized, unrecorded or inaccurately recorded transactions; and (b) permit the preparation of financial statements according to generally accepted accounting principles or the International Financial Reporting Standards, as appropriate.”
- (g) “It is vital that we respect the legal institutions in every jurisdiction where we do business and follow all applicable laws, rules, and regulations. This is something that applies to all of us, including every director, officer, employee and contractor. It is important that we all understand the laws, rules and regulations that govern our work.”
- (h) “Operating responsibly means reporting potential violations of the law and this Code and being open to hearing and addressing the complaints and concerns of internal and external partners. We all have a responsibility to prevent a violation of this Code, to identify and raise potential issues before they lead to problems, and to seek additional guidance when necessary.”
- (i) “As general guidance, if you do have any concern that the Code may have been violated, it should be reported promptly to local management.”

92. Cronos’s directors, officers and employees violated the above policies by the conduct described herein, including

- (a) improperly negotiating and entering the bulk resin contracts;
- (b) failing to disclose material information regarding the circumstances of Cronos’s bulk resin contracts as required by the OSA and the Securities Legislation;

- (c) failing to maintain accurate financial records and system of controls to: (i) prevent unauthorized, unrecorded or inaccurately recorded transactions; and (ii) permit the preparation of financial statements according to generally accepted accounting principles or the International Financial Reporting Standards

93. Accordingly, Cronos's representations in paragraph 89 were false and misleading.

E. Misrepresentations Regarding Cronos's Internal Controls

94. During the Class Period, Cronos and the Individual Defendants falsely represented that Cronos's internal controls, including ICFR and DC&P, were effective except as disclosed in its interim and annual MD&As. Such representations were made in each of the MD&As issued during the Class Period.

95. All such statements were untrue and misleading because, during the Class Period, Cronos's DC&P and ICFR suffered from materially weaknesses, as described below.

96. Cronos's improper revenue recognition, and the resultant accounting errors and financial statement misstatements were enabled by Cronos's materially weak and defective internal controls. As further particularized below, at all material times during the Class Period, Cronos also failed to design or operate proper financial and other controls.

97. In Cronos's Class Period MD&As, Cronos represented that:

- (a) management is responsible for establishing and maintaining DC&P and ICFR;
- (b) Cronos's DC&P are designed to provide reasonable assurance that:
 - (i) material information relating to Cronos is made known to senior management, including the CEO and CFO;
 - (ii) information required to be disclosed by Cronos is recorded, processed, summarized and reported within the time periods specified in securities legislation;

- (c) ICFR is designed, under the supervision of the CEO and CFO, to provide reasonable assurance regarding the reliability of Cronos's financial reporting and the preparation of its financial statements in accordance with IFRS;
- (d) Cronos's ICFR and DC&P were adequate and provided such reasonable assurances; and
- (e) Cronos reviews its ICFR system and make changes to its applications and processed to improve such controls and increase efficiency, while ensuring that Cronos maintains an adequate internal control environment.

98. These statements, included in Cronos's public disclosures, were false and misleading.

99. At all material times, Cronos's internal controls, including ICFR and DC&P, were ineffective or defective:

- (a) Cronos's ICFR suffered from material weaknesses;
- (b) Cronos's DC&P were not effective to:
 - (i) provide reasonable assurance that the information required to be disclosed by Cronos in reports that it filed or submitted under the Exchange Act were recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission; and
 - (ii) ensure that the information required to be disclosed by Cronos in reports that it filed or submitted under the Exchange Act, were accumulated and communicated to Cronos's management, including the principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure;
- (c) Cronos's ICFR did not meet the criteria set forth in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework);
- (d) Cronos's ICFR was not effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with GAAP, due to the material weaknesses;
- (e) Cronos did not appropriately design controls to monitor and respond to changes in its business in relation to its transactions in the wholesale market;
- (f) Cronos did not maintain adequately designed controls on segregation of purchase and sale responsibilities to ensure accurate recognition of revenue in accordance with GAAP;

- (g) Cronos'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; and
- (h) because of these control deficiencies, Cronos overstated revenue, cost of sales and inventory related to non-routine, wholesale sale transactions.

100. In addition, Cronos's internal controls were overridden by the Individual Defendants and Cronos's management generally, rendering them ineffective or defective.

101. Furthermore, that Cronos's internal controls were overridden by the Individual Defendants and Cronos's management generally, constituted a material fact that the Defendants ought to have but failed to disclose.

F. The Individual Defendants' False Certifications

102. Pursuant to National Instrument 52-109, Gorenstein, Barbato and Hilson, as applicable, certified and signed the Misleading Documents that were financial statements and MD&As. Gorenstein, Barbato and Hilson, as applicable, certified, at the relevant times, that:

- (a) such documents did not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that was necessary to make a statement not misleading in light of the circumstances under which it was made;
- (b) such documents fairly present in all material respects the financial condition, financial performance and cash flows of the issuer, as of their date and for the periods presented;
- (c) they have:
 - (i) designed DC&P, or caused it to be designed under their supervision, to provide reasonable assurance that:
 - (A) material information relating to Cronos was made known to them by others, particularly during the period in which the interim filings are being prepared; and
 - (B) information required to be disclosed by Cronos in its annual filings, interim filings or other reports filed or submitted by it under securities legislation was recorded, processed, summarized

and reported within the time periods specified in securities legislation; and

- (ii) designed ICFR, or caused it to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP;
- (d) the control framework they used to design the issuer's ICFR is Internal Control – Integrated Framework (2013) (“COSO Framework”) published by the Committee of Sponsoring Organizations of the Treadway Commission;
- (e) there were no material weaknesses related to design of the ICFR; and
- (f) there were no limitations on the scope of the design of ICFR.

103. These certifications were false and were misrepresentations, including for the reasons identified in paragraph 99.

104. The Individual Defendants oversaw the preparation and reporting of Cronos's disclosures to the market and knew or should have known of the foregoing misrepresentations.

105. The Individual Defendants authorized, permitted or acquiesced to the release of the Misleading Documents, which contained the foregoing misrepresentations.

G. Misrepresentations in Press Releases Announcing Agreement with MediPharm

106. On May 14, 2019, Cronos issued a press release announcing that it had entered into simultaneous agreements with MediPharm Labs Corp. to purchase cannabis resin concentrate from MediPharm Labs Inc., a subsidiary of MediPharm Labs Corp., and to supply bulk quantities of dried cannabis to MediPharm on a fee for service basis to process it into bulk resin or other cannabis oils or derivative products.

107. This press release contained a misrepresentation because it failed to state that Cronos was engaged in a scheme to inflate its revenues by purchasing resin and tinctures from MediPharm

while simultaneously selling bulk quantities of dried cannabis to MediPharm, transactions concluded in contemplation of one another, and that Cronos was improperly recognizing revenue from these transactions. This was a material fact that was required to be stated and that was necessary to make the press release not misleading in light of the circumstances in which it was made. Accordingly, this press release was materially false and misleading.

108. On July 25 and September 19, 2019, press releases were issued by Heritage Cannabis Holdings Corp. and MediPharm Labs Corp., respectively, announcing contract manufacturing agreements with Cronos. In each of these press releases, Gorenstein was quoted as saying, among other things, that Cronos was “committed to continuing to lead the industry responsibly as derivative products are introduced to the expanding Canadian marketplaces.”

109. These statements were misrepresentations because Gorenstein failed to state that Cronos was improperly recognizing revenue from these transactions. This was a material fact that was required to be stated and that was necessary to make the press release not misleading in light of the circumstances in which it was made. Accordingly, Gorenstein’s public oral statements as contained in those press releases were materially false and misleading.

VII. THE CORRECTIVE DISCLOSURES

A. February 24, 2020 Press Release Delaying Earnings

110. On February 24, 2020 at 9:43 a.m. ET, Cronos issued a press release announcing that it would delay its 2019 fourth quarter and full-year earnings release and conference call, previously scheduled for February 27, 2020. Cronos also announced that it was delayed in completing its financial statements and would make a further announcement in a subsequent press release to schedule the date and time of the earnings conference call.

111. On this news, the price of Cronos shares decreased from \$7.15 on February 21, 2020, the day before the press release, to \$6.03 on February 25, 2020, on heavy volume, and continued to drop thereafter.

112. Cronos's press release dated February 24, 2020 was a public correction within the meaning of the *OSA* and the Securities Legislation.

B. March 2, 2020 Notification of Late Filing, Disclosure of Revenue Recognition Issue

113. On March 2, 2020, Cronos issued a press release announcing that it had filed a Form 12b-25 Notification of Late Filing with the United States Securities and Exchange Commission, providing a 15-day extension for the due date of its Annual Report on Form 10-K for the year ended December 31, 2019. The press release stated that the delay was due to Cronos's inability to complete its financial statements for fiscal 2019 due to a continuing review of the appropriateness of the recognition of revenue from certain bulk resin purchases and sale of products through the wholesale channel.

114. The Form 12b-25, filed on SEDAR, further disclosed that:

- (a) Cronos had filed its Annual Report on Form 10-K for the year ended December 31, 2019 with the SEC, which was not complete;
- (b) Cronos was unable to file the complete Form 10-K at that time without unreasonable effort or expense because of delays in finalizing its audited financial statements;
- (c) Cronos was unable to complete its financial statements for fiscal 2019 due to a continuing review by the Audit Committee of its Board of Directors, with the assistance of outside counsel and forensic accountants, of several bulk resin purchases and sales of products through the wholesale channel and the appropriateness of the recognition of revenue from these transactions;
- (d) accordingly, certain portions of the Form 10-K were omitted;

- (e) Cronos intended to file a complete version of the 10-K with the SEC as soon as practicable and currently expected to do so within the fifteen-day extension period afforded by Rule 12b-25 under the Securities Exchange Act of 1934, as amended;
- (f) Cronos expected to report for fiscal 2019:
 - (i) an increase in net revenue;
 - (ii) a material inventory write-down;
 - (iii) a material decrease in gross profit;
 - (iv) a material increase in operating loss;
 - (v) a material gain on revaluation of financial liabilities;
 - (vi) restructuring charges; and
 - (vii) a material increase in net income.

115. On this news, the price of Cronos shares decreased from \$6.02 on March 2, 2020 to \$5.32 on March 3, 2020, on heavy volume.

116. The information contained in Cronos's press release dated March 2, 2020 and the Form 12b-25 of SEDAR was a public correction within the meaning of the *OSA* and the Securities Legislation.

C. SEC Inquiry and Announcement of Restatement

117. On March 17, 2020, Cronos issued a press release announcing that its interim financial statements for the first three quarters of 2019 would be reissued and restated and should no longer be relied upon. Further to the Audit Committee's review of bulk resin purchases and sales of products through the wholesale channel, the restatements were being made to eliminate certain of these transactions through the wholesale channel. Cronos further announced that it would reduce revenue for the three months ended March 31, 2019 by \$2.5 million and the three months ended September 3, 2019 by \$5.1 million.

118. On March 19, 2020, in article titled, “Exclusive: Pot company Cronos receives SEC inquiry”, Marketwatch reported that the US Securities and Exchange Commission’s Enforcement Division asked Cronos to preserve records related to how it recognizes revenue from the bulk purchase of resin and wholesale sales of biomass or other products. In particular, Cronos was asked to preserve records related to specific transactions, negotiations and other dealings with MediPharm Labs Corp., a Canadian extraction business; TerrAscend Corp., which operates dispensaries in California and elsewhere; and Canadian licensed producers Heritage Cannabis Holdings Corp. and 48North Cannabis Corp. NRTN, , along with subsidiaries of the companies.

119. On this news, the price of Cronos shares decreased from \$8.56 on March 19, 2020 to \$7.84 on March 20, 2020, on heavy volume.

120. The information contained in the March 19, 2020 Marketwatch article was a public correction within the meaning of the *OSA* and the Securities Legislation.

121. On March 30, 2020, Cronos released:

- (a) a press release;
- (b) restated MD&A for Q1, Q2 and Q3 2019;
- (c) restated Interim Financial Statements for Q1, Q2 and Q3 2019;
- (d) certifications of refiled interim filing from its CEO and CFO for Q1, Q2 2019;
- (e) Annual Report for the year ended December 31, 2019;
- (f) Audited Annual Financial Statements for the year ended December 31, 2019;
- (g) MD&A for the year ended December 31, 2019; and
- (h) certifications from its CEO and CFO of its Annual Report.

122. Cronos's press release dated March 30, 2020 stated that Cronos's Audit Committee of its Board of Directors had completed its review of certain bulk resin purchases and sales of products through the wholesale channel. Following completion of the review, and on the recommendation of the Audit Committee and advice from KMPG LLP, the Board determined that Cronos would restate its unaudited interim financial statements for the first, second and third quarters of 2019. In so doing, Cronos reduced revenue for the three months ended March 31, 2019 by \$2.5 million and the three months ended September 30, 2019 by \$5.1 million.

123. Cronos's Audited Annual Financial Statements for the year ended December 31, 2019 released on March 30, 2020 contained a report from Cronos's auditor KPMG LLP.

124. KPMG LLP's report stated that it had audited Cronos's internal controls over financial reporting as of December 31, 2019 based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. KPMG LLP concluded that, because of the effect of material weaknesses in Cronos's internal controls over financial reporting, Cronos has not maintained effective internal control over financial reporting as of December 31, 2019.

125. KPMG LLP explained that a material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis.

126. KPMG LLP identified material weaknesses in Cronos's internal controls over financial reporting related to the following:

- (a) Risk Assessment: Cronos did not appropriately design controls to monitor and respond to changes in its business in relation to our transactions in the wholesale market;
- (b) Segregation of Duties: Cronos did not maintain adequately designed controls on segregation of purchase and sale responsibilities to ensure accurate recognition of revenue in accordance with GAAP;
- (c) Non-Routine Transactions: Cronos'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.

127. Cronos's Annual Report released on March 30, 2020 stated that Cronos's CEO and CFO performed an evaluation of Cronos's DC&P as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act. Based on this evaluation, Cronos's CEO and CFO concluded that as of December 31, 2019, due to the existence of the material weaknesses in Cronos's ICFR, its DC&P were not effective to:

- (a) provide reasonable assurance that the information required to be disclosed by Cronos in reports it filed or submitted under the Exchange Act were recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC; and
- (b) ensure that the information required to be disclosed by Cronos in reports that it filed or submitted under the Exchange Act, was accumulated and communicated to its management, including the principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

128. The Annual Report then listed the material weaknesses in its internal controls and procedures identified by KPMG in paragraph 126.

129. Cronos further disclosed that:

- (a) because of these control deficiencies, it had overstated revenue, cost of sales and inventory related to non-routine, wholesale sale transactions as a result of these control deficiencies;

- (b) this resulted in the restatement of the interim financial statements for the three months ended March 31, 2019, six months ended June 30, 2019 and three and nine months ended September 30, 2019;
- (c) the risk assessment deficiency was a contributing factor in the other material weaknesses described above;
- (d) because of the segregation of duties and non-routine transaction deficiencies, Cronos restated one transaction for the three months ended March 31, 2019 and six months ended June 30, 2019, and two transactions for the three months ended September 30, 2019 to correct misstatements;
- (e) these deficiencies created a reasonable possibility that a material misstatement to the consolidated financial statements will not be prevented or detected on a timely basis.

130. Cronos described the efforts it would make to remediate these material weaknesses:

- (a) Risk Assessment: Cronos will enhance its process to evaluate on a quarterly basis its risk assessment model and risk control matrices related to any significant changes in its business environment;
- (b) Segregation of Duties: Cronos identified and will be implementing controls and procedures to ensure segregation of duties over sales transactions and purchase transactions to include:
 - (i) updating its delegation of authority policy to ensure only individuals in its sales department approve sales to customers, only individuals in its procurement and supply chain departments approve purchases and prevent all other departments from authorizing these transactions;
 - (ii) building and establishing Know Your Customer and Know Your Vendor databases to ensure a higher level of scrutiny for any entity that is both a customer and a vendor; and
 - (iii) building and delivering a training and education program of revenue recognition principles inclusive of nonmonetary transactions to all applicable stakeholders.
- (c) Non-routine Transactions: Cronos have identified and will be implementing controls and procedures to ensure adequate review and disclosure of non-routine transactions, specifically targeting wholesale sales and purchases to include:
 - (i) requiring the preparation of accounting memorandums from the Finance Department on all non-routine transactions which must include all key elements of the transaction and review and approval of either the CEO or CFO prior to any non-routine transactions being executed;

- (ii) requiring the preparation of business cases for all wholesale sales and purchases to ensure they have legitimate business purposes; and
- (iii) enhancing its existing sub-certification process, to include all relevant employees to increase vigilance in identifying and understanding non-routine transactions and their impact prior to issuing financial statements.

131. Finally, Cronos released Amended and Restated Financial Statements and MD&A for Q1, Q2 and Q3, 2019. These disclosures corrected a number of misrepresentations in the prior versions of these documents. These corrections are identified herein at **Schedule “B”**.

132. In its Amended and Restated MD&A for Q1 2019, Cronos disclosed that for this quarter, the misrepresentations were due to one wholesale transaction that was inappropriately accounted for as revenue.

133. In its Amended and Restated Financial Statements for Q1 2019, Cronos disclosed that on March 28, 2019, it entered into two transactions to simultaneously purchase and sell inventory to a third party. Cronos purchased cannabis resin 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 Cronos 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 Amended and Restated Unaudited Consolidated Statements of Operations and Comprehensive Income (Loss).

134. Cronos further disclosed that:

- (a) the accounting errors in its Q1 2019 Interim Financial Statements were due to a wholesale transaction that was inappropriately accounted for as revenue, described herein at paragraph 132;
- (b) the transaction involved the exchange of cannabis dry flower for cannabis resin, with a third party, in two simultaneous transactions entered into in contemplation of one another.

- (c) subsequent to the original issuance of the interim financial statements, this transaction was not deemed to meet the criteria for revenue recognition in accordance with IFRS 15 and was subsequently accounted for as a non-monetary transaction valued at the carrying value of the inventory exchanged;
- (d) this resulted in revenue being overstated by approximately \$2.5 million and cost of goods sold being overstated by approximately \$2.4 million on the Consolidated Statements of Operations and Comprehensive Income (Loss), in each case in the interim financial statements for the three months ended March 31, 2019.

135. Cronos's Amended and Restated MD&A and Financial Statements for Q2 and Q3 2019 reiterated the disclosures identified herein at paragraph 134.

136. Cronos's Amended and Restated Financial Statements for Q3 2019 further disclosed that:

- (a) in three months ended September 30, 2019, there was a wholesale transaction where cannabis dry flower was exchanged for cannabis extracts in three simultaneous transactions which were entered into in contemplation of one another;
 - (i) subsequent to the original issuance of the interim financial statements, this transaction was not deemed to meet the criteria for revenue recognition in accordance with IFRS 15 due to lack of commercial substance and was subsequently accounted for as a non-monetary transaction valued at the carrying value of the inventory exchanged;
 - (ii) this resulted in revenue being overstated by approximately \$2.1 million, cost of goods sold being overstated by approximately \$3.4 million and realized fair value adjustment on inventory was overstated by approximately \$2.3 million on the Consolidated Statements of Operations and Comprehensive Income (Loss), in the interim financial statements for the three and nine months ended September 30, 2019;
- (b) during the three months ended September 30, 2019, there was another wholesale transaction for a sale of dried cannabis to a third party;
 - (i) this transaction was deemed to be a consignment sale under the guidance of IFRS 15 Revenue from contracts with customers; and
 - (ii) as a result, revenue recognized was overstated by approximately \$3.0 million, cost of sales was overstated by approximately \$1.7 million and realized fair value adjustment on inventory was overstated by approximately \$3.3 million on the Consolidated Statements of Operations and Comprehensive Income (Loss), in each case in the interim financial statements for the three and nine months ended September 30, 2019.

137. On this news, the price of Cronos shares decreased from \$9.02 on March 30, 2020 to \$7.99 on April 1, 2020, on heavy volume, and continued to drop thereafter.

138. Finally, on March 30, 2020, Cronos hosted its earnings call during which Gorenstein reiterated these disclosures. Gorenstein further disclosed that Cronos became aware of the transactions giving rise to Cronos's restatement as a result of its internal reporting processes and channels for individuals to raising concerns.

139. The documents identified at paragraph 121 constituted a public correction within the meaning of the *OSA* and the Securities Legislation.

VIII. RIGHTS OF ACTION

A. Negligent Misrepresentation

140. As against Cronos and the Individual Defendants, and on behalf of the Class, the Plaintiff pleads negligent misrepresentation:

- (a) in the Q1, Q2, and Q3 2019 financial statements and MD&A in respect of the IAS Representation;
- (b) in the Q1, Q2, and Q3 2019 financial statements, MD&A and associated press releases and Q1 and Q3 earnings calls in respect of the Revenue Representations;
- (c) in the Q1, Q2 and Q3 2019 MD&A and the 2019 AIF in respect of the Risk Representations;
- (d) in all MD&As, Form 52-109F2 Certification of Interim Filings, and Form 52-109F1 Certification of Annual Filings issued during the Class Period in respect of the Controls Representations;
- (e) in Cronos's May 14, 2019 press release, Heritage Cannabis Holdings Corp.'s July 25, 2019 press release and MediPharm Labs Corp's September 19, 2019 press release in respect of the Third Party Agreement Representations; and
- (f) in the Management Information Circular dated May 8, 2019 in respect of the Conduct Representations.

141. Each of these misrepresentations was untrue for the reasons particularized herein.

142. The Misleading Documents were prepared for the purpose of attracting investment and inducing members of the investing public to purchase Cronos shares. The Defendants undertook to provide the Misleading Documents to those current and prospective securities holders (*i.e.*, the Class Members) for the purpose of allowing them to make informed decisions as to whether to acquire the shares.

143. The Defendants knew and intended at all material times that those documents had been prepared for that purpose, and that the Class Members would reasonably rely to their detriment upon such documents in making their decision to purchase Cronos shares.

144. The Defendants had a duty at common law to exercise care and diligence to ensure that the Misleading Documents were free from material misstatement. Those Defendants breached that duty by making the misrepresentations as particularized above.

145. The Plaintiff and other Class Members directly or indirectly relied on the misrepresentations in making decisions to purchase Cronos's shares and suffered damages when the falsity of the information was revealed.

146. Alternatively, the Plaintiff and other Class Members relied upon the misrepresentations by the act of acquiring Cronos shares in an efficient market that promptly incorporated into the price of those shares all publicly available information regarding Cronos, including the misrepresentations, which were false. As a result, the repeated publication of these Misrepresentations caused the price of Cronos's shares to trade at inflated prices during the Class Period, thus directly resulting in damages to the Plaintiff and Class Members.

B. Part XXIII.1 of the OSA

147. On behalf of the Class, the Plaintiff pleads the right of action in Part XXIII.1 of the *OSA* and, if necessary, the equivalent provisions of the Securities Legislation against the Defendants for the misrepresentations in the Misleading Documents.

148. Cronos is a responsible issuer within the meaning of the *OSA* and Securities Legislation.

Misrepresentations in Documents – OSA s. 138.3(1)

149. Each of the Misleading Documents is a document under s. 138.1 of the *OSA* and corresponding provisions of the Securities Legislation.

150. The Misleading Documents that are financial statements, MD&As, AIF and information circulars are core documents under s. 138.1 of the *OSA* and corresponding provisions of the Securities Legislation.

151. Cronos was a responsible issuer at the time that each of the Misleading Documents was released by it.

152. The Individual Defendants were officers and/or directors of Cronos at the time that each of the Misleading Documents was released, and each of them authorized, permitted and/or acquiesced in the release of such documents.

153. The Defendants knew, at the time the Misleading Documents were released, that the documents contained misrepresentations, or, in the alternative, deliberately avoided acquiring such knowledge or, in the alternative, were guilty of gross misconduct in connection with the making of the misrepresentations.

154. Accordingly, the Defendants are, pursuant to *OSA* ss. 138.3(1), liable in respect of the misrepresentations made by them that are contained in the Misleading Documents as particularized above.

Misrepresentations in Public Oral Statements – OSA s. 138.3(2)

155. Cronos and the Individual Defendants either made the public oral statements particularized above, or authorized, permitted, or acquiesced in the making of the public oral statements.

156. Each of Cronos and the Individual Defendants knew such public oral statements contained misrepresentations, or, in the alternative, deliberately avoided acquiring such knowledge or, in the alternative, were guilty of gross misconduct in connection with the making of the public oral statements.

157. Accordingly, the Defendants are, pursuant to *OSA* ss. 138.3(2), liable in respect of the misrepresentations contained in the public oral statements as particularized above.

C. Oppression

158. On behalf of the Class, the Plaintiff seeks relief from oppression against the Defendants.

159. The Plaintiff and Class Members are complainants within the meaning of section 245 and 248(1) of the *OBCA*.

160. At all material times, the Individual Defendants' compensation from Cronos depended, in whole or in part, on: (a) the price of Cronos's shares; and (ii) Cronos's operational performance, including revenue.

161. The Plaintiff and Class Members had reasonable expectations about how the business and affairs of Cronos would be conducted. Those reasonable expectations included that:

- (a) the Individual Defendants would act honestly and in good faith with a view to the best interests of Cronos, and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances;
- (b) Cronos's public disclosure documents would disclose all material facts and be free from misrepresentations;
- (c) Cronos's reported revenue and other financial results would be accurate and prepared in accordance with applicable accounting standards;
- (d) the Individual Defendants would implement adequate corporate governance procedures and internal controls to ensure that Cronos disclosed all material facts in its public disclosures; and
- (e) Cronos and the Individual Defendants would not act in a manner that would cause the trading price of Cronos's securities to be artificially inflated.

162. The Defendants acted contrary to those reasonable expectations by:

- (a) entering into a scheme to inflate Cronos's revenues by improperly accounting for bulk resin purchases and sales of products through the wholesale channel;
- (b) failing to establish appropriate corporate governance and internal controls to ensure such accounting misstatements did not occur;
- (c) engaging in the above and other conduct, which caused Cronos shares to trade or be sold at artificially inflated prices during the Class Period.

163. This conduct had the effect of oppressing and unfairly disregarding and unfairly prejudicing the interests of the Plaintiff and Class Members and caused damage to them.

164. Cronos and the Individual Defendants knew of the impact their conduct could be expected to have on the investments made by the Class Members, and their disregard for the reasonable expectations of the Class Members was oppressive or unfairly prejudicial to or unfairly disregarded the interests of the Class Members.

165. The appropriate remedy for the oppressive conduct is an award of compensation, pursuant to section 248(3)(j) of the *OBCA*.

XII. RELATIONSHIP BETWEEN THE MISREPRESENTATIONS AND THE PRICE OF CRONOS'S SECURITIES

166. The price of Cronos's securities was directly affected during the Class Period by the release of the documents containing the misrepresentations as particularized herein. The Defendants were aware at all material times of the effect of Cronos's disclosure documents upon the price of Cronos's securities.

167. The Misleading Documents were filed, among other places, with SEDAR and EDGAR, and thereby became immediately available to, and were reproduced for inspection by, the Class Members, other members of the investing public, financial analysts and the financial press.

168. Cronos routinely transmitted the Misleading Documents to the financial press, financial analysts and certain prospective and actual holders of Cronos's securities. Cronos provided either copies of the Misleading Documents or links thereto on its website.

169. Cronos regularly communicated with investors and financial analysts via established market communication mechanisms, including through regular disseminations of their disclosure documents, including on newswire services in Canada, the United States and elsewhere. When Cronos communicated that new material information about Cronos's business, and operations and its financial results to the public, the price of Cronos's securities was directly affected.

170. Cronos was the subject of analysts' reports that incorporated certain of the information contained in the Misleading Documents, with the effect that any recommendations to buy, hold or

sell Cronos's securities in such reports during the Class Period were based, in whole or in part, upon that information.

171. Cronos's securities were and are traded, among other places, on the TSX, which is an efficient and automated market. The price at which Cronos's securities traded promptly incorporated material information from Cronos's disclosure documents about Cronos's business and affairs, including the misrepresentations alleged herein, which were disseminated to the public through the Misleading Documents distributed by Cronos, as well as by other means.

XIII. DAMAGES

172. The Class Members suffered damages as a result of the Defendants' breach of their duties, and the misrepresentations. The Plaintiff and the other Class Members suffered damages equivalent to the inflation in the price of the Cronos shares they acquired during the Class Period which was related to the misrepresentations alleged herein. If the Defendants had not breached their duties and made the misrepresentations described above, Cronos's shares would not have traded or been sold at artificially high levels that Class Members paid for them, and the Class Members would not have suffered losses as alleged herein.

173. The Defendants' conduct was high-handed, outrageous, reckless, wanton, entirely without care, deliberate, callous, motivated by economic considerations, and amounted to an abuse of the capital markets. Such conduct renders the Defendants liable to pay punitive damages.

XIV. VICARIOUS LIABILITY

174. Cronos is vicariously liable for the acts and omissions of the Individual Defendants particularized in this claim.

175. The acts or omissions alleged herein to have been done by Cronos were authorized, ordered and done by the Individual Defendants and other agents, employees and representatives of Cronos, while engaged in the management, direction, control and transaction of the business and affairs of Cronos. Such acts and omissions are, therefore, not only the acts and omissions of the Individual Defendants, but are also the acts and omissions of Cronos.

176. At all material times, the Individual Defendants were Officers and/or Directors of Cronos. As their acts and omissions are independently tortious, they are personally liable for same to the Plaintiff and the other Class Members.

XV. REAL AND SUBSTANTIAL CONNECTION WITH ONTARIO

177. This action has a real and substantial connection with Ontario because, among other things:

- (a) Cronos is a reporting issuer in Ontario;
- (b) Cronos's shares trade on the TSX which is located in Toronto, Ontario;
- (c) Cronos carries on business in Ontario;
- (d) Cronos's registered and head office is in Toronto, Ontario;
- (e) the Cronos disclosure documents referred to herein were disseminated in and from Ontario;
- (f) some or all of the Individual Defendants reside in Ontario;
- (g) a substantial portion of Class Members reside in Ontario; and
- (h) a substantial portion of the damages sustained by the Class were sustained by person and entities domiciled in Ontario.

XVI. LEGISLATION

178. The Plaintiff pleads and relies upon the *Courts of Justice Act*, RSO 1990, c C43, the *Class Proceedings Act*, 1992, the *OSA*, and the Securities Legislation, all as amended.

XVII. SERVICE OUTSIDE ONTARIO AND PLACE OF TRIAL

179. The Plaintiff pleads and relies on Rules 17.02(a), (g), (n), and (p) of the *Rules of Civil Procedure* to serve this statement of claim outside Ontario without leave.

180. The Plaintiff proposes that this action be tried in the City of Toronto, in the Province of Ontario.

June 3, 2020

Kalloghlian Myers LLP
250 University Avenue, Suite 200
Toronto, ON M5H 3E5

Serge Kalloghlian (LSO#: 55557F)
serge@kalloghlianmyers.com
Tel: (647) 812-5615
Fax: (647) 243-6620

Garth Myers (LSO#: 62307G)
garth@kalloghlianmyers.com
Tel: (647) 969-4472
Fax: (647) 243-6620

Paul Bates (LSO#22619D)
pbates@batesbarristers.com
Tel: (416) 869-9898 x 101
c/o Kalloghlian Myers

**A Dimitri Lascaris Law
Professional Corporation**
G101-360 Rue Saint-Jacques
Montreal, QC H2Y 1P5

A Dimitri Lascaris (LSO #50074A)
alexander.lascaris@gmail.com
Tel: (514) 941-5991
Fax: (519) 660-7845

Lawyers for the Plaintiff

SCHEDULE “A”

	<u>Q1 2019 Interim Financial Statements</u>	<u>Q2 2019 Interim Financial Statements</u>		<u>Q3 2019 Interim Financial Statements</u>	
	As at March 31, 2019	As at June 30, 2019		As at September 30, 2019	
Accounts receivable	\$ 5,559	\$ 11,960		\$ 12,655	
Sales taxes receivable	\$ 5,594	\$ 7,936		\$ 4,624	
Inventory	\$ 25,150	\$ 41,667		\$ 52,865	
Total current assets	\$ 2,474,308	\$ 2,408,592		\$ 2,086,422	
Total assets	\$ 2,698,037	\$ 2,667,519		\$ 2,762,768	
Accounts payable and other liabilities	\$ 45,016	\$ 30,747		\$ 57,722	
Total current liabilities	\$ 1,719,642	\$ 1,433,662		\$ 604,394	
Deferred income tax liability	\$ 4,371	\$ 4,036		\$ 77	
Total liabilities	\$ 1,728,087	\$ 1,443,056		\$ 614,593	
Retained earnings (accumulated deficit)	\$ 404,499	\$ 655,047		\$ 1,443,382	
Total shareholder equity	\$ 969,950	\$ 1,224,463		\$ 2,148,175	
Total equity attributable to shareholders of Cronos Group	\$ 969,954	\$ 1,224,614		\$ 2,148,712	
Total liabilities and shareholders' equity	\$ 2,698,037	\$ 2,667,519		\$ 2,762,768	
	Three months ended March 31, 2019	Six months ended June 30, 2019		Three months ended September 30, 2019	Nine Months ended September 30, 2019
Gross revenue	\$ 6,985	\$ 17,772		\$ 13,339	\$ 31,111
Net revenue	\$ 6,470	\$ 16,707		\$ 12,700	\$ 29,407
Cost of sales before fair value adjustments	\$ 2,984	\$ 7,746		\$ 7,432	\$ 15,178
Gross profit before fair value adjustments	\$ 3,486	\$ 8,961		\$ 5,268	\$ 14,229
Realized fair value adjustments on inventory sold in the period	\$ 3,722	\$ 7,279		\$ 14,617	\$ 21,896

	<u>Q1 2019 Interim Financial Statements</u>	<u>Q2 2019 Interim Financial Statements</u>	<u>Q3 2019 Interim Financial Statements</u>
Total fair value adjustments	-\$ 9,831	-\$ 10,298	\$ 24,632
Gross profit	\$ 13,317	\$ 19,259	-\$ 19,364
Operating loss	-\$ 588	-\$ 20,903	-\$ 54,162
Income (loss) before income tax	\$ 430,250	\$ 680,883	\$ 784,037
Deferred income tax expense (recovery)	\$ 2,557	\$ 2,222	-\$ 1,737
Net Income (Loss)	\$ 427,693	\$ 678,661	\$ 787,996
Comprehensive Income (Loss)	\$ 427,812	\$ 678,677	\$ 786,941
Net income (loss) attributable to Cronos Group	\$ 427,829	\$ 678,946	\$ 788,368
Basic earnings (loss) per share	\$ 1.95		\$ 2.33
	Three months ended March 31, 2019	Six months ended June 30, 2019	Three months ended September 30, 2019
Foreign exchange loss (gain)		\$ 92	
Net change in non-cash working capital	\$ 17,320	-\$ 30,541	-\$ 6,996
Total cost of sales	\$ 2,984		
Net change in non-cash working capital: inventory	\$ 17,201	-\$ 37,151	-\$ 25,779
Net effect of accounting policy changes on cash flows used in operating activities	\$ 15,337		
Inventory	As at March 31, 2019	As at June 30, 2019	As at September 30, 2019
Dry cannabis, work-in-process	\$ 16,222	\$ 18,853	\$ 17,121
Dry cannabis, total	\$ 17,236	\$ 20,982	\$ 18,588
Cannabis oils, work-in-process	\$ 5,372	\$ 16,121	\$ 24,219
Cannabis oils, total	\$ 6,426	\$ 18,393	\$ 27,648
Total inventory	\$ 25,150	\$ 41,667	\$ 52,865

	<u>Q1 2019 Interim Financial Statements</u>	<u>Q2 2019 Interim Financial Statements</u>	<u>Q3 2019 Interim Financial Statements</u>		
Revenue from contracts with customers	Three months ended March 31, 2019	Six months ended June 30, 2019		Three months ended September 30, 2019	Nine months ended September 30, 2019
Canadian, dry cannabis	\$ 5,327	\$ 13,541		\$ 11,441	\$ 24,982
Canadian, total	\$ 6,957	\$ 17,326		\$ 12,657	\$ 29,983
Total gross revenue from contracts with customers	\$ 6,985	\$ 17,772		\$ 13,339	\$ 31,111
Earnings (loss per share):	Three months ended March 31, 2019	Six months ended June 30, 2019		Three months ended September 30, 2019	Nine months ended September 30, 2019
Net income (loss) used in the computation of basic earnings (loss) per share	\$ 427,829	\$ 678,946		\$ 788,368	\$ 1,467,314
Net income (loss) used in the computation of diluted (loss) per share	\$ 129,043	\$ 211,566		\$ 196,809	\$ 408,375
Income Tax	Three months ended March 31, 2019	Three months ended June 30, 2019	Six months ended June 30, 2019	Three months ended September 30, 2019	Nine months ended September 30, 2019
Balance - beginning of period		\$ 4,371		\$ 4,036	
Expense (recovery) recognized in net income (loss)					-\$ 1,737
Recognized in net income (loss)	\$ 2,557		\$ 2,222		
Balance – end of period	\$ 4,371	\$ 4,036	\$ 4,036	\$ 77	\$ 77
Supplemental cash flow information, net change in non-cash working capital items	Three months ended March 31, 2019	Six months ended June 30, 2019		Three months ended September 30, 2019	Nine months ended September 30, 2019
Accounts receivable	-\$ 1,396	-\$ 7,797		-\$ 695	-\$ 8,492
Sales taxed receivable	-\$ 2,175	-\$ 4,517		\$ 3,312	-\$ 1,205
Biological assets		\$ 18,609		-\$ 1,297	\$ 17,312
Inventory	-\$ 17,201	-\$ 37,151		-\$ 25,779	-\$ 62,930

	<u>Q1 2019 Interim Financial Statements</u>	<u>Q2 2019 Interim Financial Statements</u>		<u>Q3 2019 Interim Financial Statements</u>	
Accounts payable and other liabilities	\$ 29,644	\$ 15,375		\$ 27,169	\$ 42,544
Net changes in non-cash working capital	\$ 17,320	\$ 30,541		-\$ 6,996	-\$ 37,537
Supplemental cash flow information, reconciliation of the cash flows from biological assets:	Three months ended March 31, 2019	Six months ended June 30, 2019		Three months ended March 31, 2019	Nine months ended September 30, 2019
Non-cash changes, capitalization of depreciation expense		\$ 2,386			
Net change in non-cash working capital: inventory		\$ 18,609			
Supplemental cash flow information, reconciliation of the cash flows from inventory:	Three months ended March 31, 2019	Three months ended June 30, 2019	Six months ended June 30, 2019	Three months ended September 30, 2019	Nine months ended September 30, 2019
Balance - beginning of period		\$ 25,150		\$ 41,667	
Balance - end of period		\$ 41,667	\$ 41,667	\$ 52,865	\$ 52,865
Changes during the period			-\$ 30,083	-\$ 11,198	-\$ 41,281
Non-cash changes, realized fair value adjustments on inventory sold			-\$ 7,279	-\$ 14,617	-\$ 21,896
Net change in non-cash working capital			-\$ 37,151	-\$ 25,779	-\$ 62,930
Accounts receivable:	As at March 31, 2019	As at June 30, 2019		As at September 30, 2019	
Accounts receivable, less than 30 days past billing date	\$ 5,374			\$ 12,206	
Accounts receivable, 61 to 90 days past billing date		\$2,858			
Total credit risk exposure	\$ 5,559	\$11,960		\$ 12,655	

	<u>Q1 2019 Interim Financial Statements</u>	<u>Q2 2019 Interim Financial Statements</u>		<u>Q3 2019 Interim Financial Statements</u>	
Liquidity risk	As at March 31, 2019	As at June 30, 2019		As at September 30, 2019	
Age of accounts payable, less than 30 days past billing date	\$ 33,739			\$ 10,727	
Age of accounts payable, Over 90 days past billing date		\$ 3,852			
Total accounts payable past billing date	\$ 38,233	\$ 10,638		\$ 20,756	

2019 Q1 MD&A					
Financial Highlights	First quarter 2019	Change from first quarter 2018		Change from fourth quarter 2018	
		\$	%	\$	%
Net revenue	\$ 6,470	\$ 3,525	120%	\$ 866	15%
Gross margin before fair value adjustments	54%				
Adjusted EBITDA	-\$ 8,947	-\$ 7,447	496%	-\$ 1,004	13%
Extract sales (% of net product revenue)	23%				
Kilograms sold	1,111	610	122%	71	7%
Net product revenue / gram sold	\$ 5.73	\$ 0.06	1%	\$ 0.38	7%
Cost of sales before fair value adj. / gram sold	\$ 2.69	-\$ 0.44	-14%	-\$ 0.33	-11%
Selected Financial Results	Three months ended March 31, 2019	Change from first quarter 2018			
		\$	%		
Cost of sales	-\$ 6,847	-\$ 7,864	-773%		
Gross profit	\$ 13,317	\$ 11,389	591%		
Operating loss	-\$ 558	\$ 1,620	-74%		
Income before income tax	\$ 430,250	\$ 432,188	-22301%		
Deferred income tax expense (recovery)	\$ 2,557	\$ 3,445	-388%		
Net income	\$ 427,693	\$ 428,743	-40833%		
Comprehensive income	\$ 427,812	\$ 428,897	-39530%		
Net revenue:	Three months ended March 31, 2019	Change from first quarter 2018			
		\$	%		
Dried cannabis	\$ 4,900	\$ 2,315	90%		
Product revenue	\$ 6,367	\$ 3,527	124%		
Total net revenue	\$ 6,470	\$ 3,525	120%		
Kilograms sold, dried cannabis	906	428	90%		
Total kilograms sold	1,111	610	122%		
Avg. net selling price per gram sold, dried cannabis	\$ 5.41	\$ 0	0%		
Avg. net selling price per gram sold, Product revenue	\$ 5.73	\$ 0.06	1%		
Cost of sales and gross profit	Three months ended March 31, 2019	Change from first quarter 2018			
		\$	%		
Cost of sales before fair value adjustments	\$ 2,984	\$ 1,417	90%		
Gross profit before fair value adjustments	\$ 3,486	\$ 2,108	153%		

2019 Q1 MD&A					
Realized fair value adjustments on inventory sold	\$ 3,722	\$ 1,528	70%		
Total fair value adjustments	-\$ 9,831	-\$ 9,281	1687%		
Gross profit	\$ 13,317	\$ 11,389	591%		
Gross margin before fair value adjustments	54%				
Gross margin	206%				
Cost of sales before fair value adj. / gram sold	\$ 2.69	-\$ 0.44	-14%		
Operating expenses (as a percentage of new revenue):	Three months ended March 31, 2019				
Sales and marketing	23%				
Research and development	24%				
General and administrative	149%				
Share-based payments	11%				
Depreciation and amortization	7%				
Total operating expenses	214%				
Reconciliation of non-IFRS Measures	Three months ended March 31, 2019				
Adjusted EBIT	-\$ 9,652				
Adjusted EBITDA	-\$ 8,947				
Selected quarterly financial information	Three months ended March 31, 2019				
Net income (loss)	\$ 427,693				
Comprehensive income (loss)	\$ 427,812				
Basic earnings per share	\$ 1.95				

2019 Q2 MD&A			
Financial Highlights	Six Months ended June 30, 2019	Change from Six Months Ended June 30, 2018	
		\$	%
Net revenue	\$ 16,707	\$ 10,368	164%
Gross margin before fair value adjustments	54%		
Adjusted EBITDA	-\$ 26,719	-\$ 22,823	586%
Extract sales (% of net product revenue)	21%		
Kilograms sold	2,695	1,717	176%
Net product revenue / gram sold	\$ 6.15	-\$ 0.22	-3%
Cost of sales before fair value adj. / gram sold	\$ 2.87	-\$ 0.01	0%
Selected Financial Results	Six Months ended June 30, 2019	Change from Six Months Ended June 30, 2018	
		\$	%
Cost of sales	-\$ 2,552	-\$ 617	32%
Gross profit	\$ 19,259	\$ 10,985	133%
Operating loss	-\$ 20,903	-\$ 19,215	1138%
Income before income tax	\$ 680,883	\$ 682,365	-46044%
Deferred income tax expense (recovery)	\$ 2,222	\$ 3,377	-292%
Net income (loss)	\$ 678,661	\$ 678,988	-207642%
Comprehensive income	\$ 678,677	\$ 679,000	-210217%
Net revenue	Six Months ended June 30, 2019	Change from Six Months Ended June 30, 2018	
		\$	%
Dried cannabis	\$ 13,054	\$ 7,719	145%
Product revenue	\$ 16,574	\$ 10,348	166%
Total net revenue	\$ 16,707	\$ 10,368	164%
Kilograms sold, dried cannabis	\$ 2,223	\$ 1,329	149%
Total kilograms sold	\$ 2,695	\$ 1,717	176%
Avg. net selling price per gram sold, dried cannabis	\$ 5.87	-\$ 0.10	-2%
Avg. net selling price per gram sold, Product revenue	\$ 6.15	-\$ 0.22	-3%
Cost of sales and gross profit	Six Months ended June 30, 2019	Change from Six Months Ended June 30, 2018	
		\$	%
Cost of sales before fair value adjustments	\$ 7,746	\$ 4,925	175%
Gross profit before fair value adjustments	\$ 8,961	\$ 5,443	155%
Realized fair value adjustments on inventory sold	\$ 7,279	\$ 2,460	51%
Total fair value adjustments	-\$ 10,298	-\$ 5,542	117%
Gross profit	\$ 19,259	\$ 10,985	133%
Gross margin before fair value adjustments	54%		
Gross margin	115%		

2019 Q2 MD&A			
Cost of sales before fair value adj. / gram sold	\$ 2.87	-\$ 0.01	0%
Operating expenses (as a percentage of new revenue):	Six Months ended June 30, 2019		
Sales and marketing	41%		
Research and development	28%		
General and administrative	148%		
Share-based payments	16%		
Depreciation and amortization	7%		
Total operating expenses	240%		
Reconciliation of non-IFRS Measures	First Quarter 2019	Six Months Ended June 30, 2019	
Adjusted EBIT	-\$ 9,652	-\$ 28,462	
Adjusted EBITDA	-\$ 8,947	-\$ 26,719	
Selected quarterly financial information	First Quarter 2019		
Net income (loss)	\$ 427,693		
Comprehensive income (loss)	\$ 427,812		
Basic earnings per share	\$ 1.95		

2019 Q3 MD&A						
Financial Highlights	Three months ended September 30, 2019	Change from Three Months Ended September 30, 2018		Nine Months ended September 30, 2019	Change from Nine Months Ended September 30, 2018	
		\$	%		\$	%
Net revenue	\$ 12,700	\$ 8,940	238%	\$ 29,407	\$ 19,308	191%
Gross margin before fair value adjustments	41%			48%		
Adjusted EBITDA	-\$ 23,932	-\$ 20,731	648%	-\$ 50,651	-\$ 43,554	614%
Canadian Extract sales (% of net product revenue)	9%			16%		
Kilograms sold	3,142	2,628	511%	5,837	4,365	297%
Net product revenue / gram sold	\$ 3.75	-\$ 3.43	-48%	\$ 4.86	-\$ 1.88	-28%
Cost of sales before fair value adj. / gram sold	\$ 2.27	-\$ 1.01	-31%	\$ 2.55	-\$ 0.51	-17%
Selected Financial Results	Three months ended September 30, 2019	Change from Three Months Ended September 30, 2018		Nine Months ended September 30, 2019	Change from Nine Months Ended September 30, 2018	
		\$	%		\$	%
Cost of sales	\$ 32,064	\$ 30,398	1825%	\$ 29,512	\$ 29,781	-11071%
Gross profit	-\$ 19,364	-\$ 21,458	-1025%	-\$ 105	-\$ 10,473	-101%
Operating loss	-\$ 54,162	-\$ 49,285	1011%	-\$ 75,065	-\$ 68,500	1043%
Income (loss) before income tax	\$ 784,037	\$ 788,956	-16039%	\$ 1,464,920	\$ 1,471,321	-22986%
Deferred income tax expense (recovery)	-\$ 3,959	-\$ 6,311	-268%	-\$ 1,737	-\$ 2,934	-245%
Net income (loss)	\$ 787,996	\$ 795,267	-10938%	\$ 1,466,657	\$ 1,474,255	-19403%
Comprehensive income	\$ 786,941	\$ 793,976	-11286%	\$ 1,465,617	\$ 1,472,975	-20019%
Net revenue:	Three months ended September 30, 2019	Change from Three Months Ended September 30, 2018		Nine Months ended September 30, 2019	Change from Nine Months Ended September 30, 2018	
		\$	%		\$	%
Dried cannabis	\$ 10,630	\$ 8,011	306%	\$ 23,685	\$ 15,731	198%
Product revenue	\$ 11,779	\$ 8,087	219%	\$ 28,353	\$ 18,435	186%
Total net revenue	\$ 12,700	\$ 8,940	238%	\$ 29,407	\$ 19,308	191%
Kilograms sold, dried cannabis	2,996	2,599	655%	5,219	3,955	313%
Total kilograms sold	3,142	2,628	511%	5,837	4,365	297%
Avg. net selling price per gram sold, dried cannabis	\$ 3.55	-\$ 3.05	-46%	\$ 4.54	-\$ 1.75	-28%

2019 Q3 MD&A						
Avg. net selling price per gram sold, Product revenue	\$ 3.75	-\$ 3.43	-48%	\$ 4.86	-\$ 1.88	-28%
Cost of sales and gross profit	Three months ended September 30, 2019	Change from Three Months Ended September 30, 2018		Nine Months ended September 30 , 2019	Change from Nine Months Ended September 30, 2018	
		\$	%		\$	%
Cost of sales before fair value adjustments	\$ 7,432	\$ 5,744	340%	\$ 15,178	\$ 10,669	237%
Gross profit before fair value adjustments	\$ 5,268	\$ 3,196	154%	\$ 14,229	\$ 8,639	155%
Realized fair value adjustments on inventory sold	\$ 14,617	\$ 13,106	867%	\$ 21,896	\$ 15,566	246%
Total fair value adjustments	\$ 24,632	\$ 24,654	- 112064%	\$ 14,334	\$ 19,112	-400%
Gross profit	-\$ 19,364	-\$ 21,458	-1025%	-\$ 105	-\$ 10,473	-101%
Gross margin before fair value adjustments	41%			48%		
Gross margin	-152%			0%		
Cost of Sales before Fair Value Adj./Gram Sold for Non-U.S. market	\$ 2.27	-\$ 1.01	-31%	\$ 2.55	-\$ 0.51	-17%
Operating expenses (as a percentage of new revenue):	Three months ended September 30, 2019	Nine Months ended September 30 , 2019				
Sales and marketing	48%	44%				
Research and development	27%	27%				
General and administrative	167%	157%				
Share-based payments	25%	20%				
Depreciation and amortization	7%	7%				
Total operating expenses	274%	255%				
Reconciliation of non-IFRS Measures	Three months ended September 30, 2019	Nine Months ended September 30 , 2019				
Adjusted EBIT	-\$ 26,405	-\$ 54,867				
Adjusted EBITDA	-\$ 23,932	-\$ 50,651				
Selected quarterly	Q1 2019	Q3 2019				

<u>2019 Q3 MD&A</u>						
financial Information						
Net income (loss):	\$ 427,693	\$ 787,996				
Comprehensive income (loss)	\$ 427,812	\$ 786,941				
Basic earnings per share	\$ 1.95	\$ 2.33				

SCHEDULE “B”

	<u>Q1 2019 Interim Financial Statements</u>		<u>Q2 2019 Interim Financial Statements</u>		<u>Q3 2019 Interim Financial Statements</u>			
	As at March 31, 2019		As at June 30, 2019		As at September 30, 2019			
	Figure Appearing in Original Q1 2019 IFS	Restated Figure	Figure Appearing in Original Q2 2019 IFS	Restated Figure	Figure Appearing in Original Q3 2019 IFS	Restated Figure		
Accounts receivable	\$ 5,559	\$ 2,761	\$ 11,960	\$ 9,162	\$ 12,655	\$ 6,935		
Sales taxes receivable	\$ 5,594	\$ 5,240	\$ 7,936	\$ 7,582	\$ 4,624	\$ 3,999		
Inventory	\$ 25,150	\$ 25,082	\$ 41,667	\$ 41,599	\$ 52,865	\$ 54,138		
Total current assets	\$ 2,474,308	\$ 2,471,088	\$ 2,408,592	\$ 2,405,372	\$ 2,086,422	\$ 2,081,350		
Total assets	\$ 2,698,037	\$ 2,694,817	\$ 2,667,519	\$ 2,664,299	\$ 2,762,768	\$ 2,757,696		
Accounts payable and other liabilities	\$ 45,016	\$ 41,896	\$ 30,747	\$ 27,627	\$ 57,722	\$ 54,391		
Total current liabilities	\$ 1,719,642	\$ 1,716,522	\$ 1,433,662	\$ 1,430,542	\$ 604,394	\$ 601,063		
Deferred income tax liability	\$ 4,371	\$ 3,996	\$ 4,036	\$ 3,661	\$ 77	-\$ 298		
Total liabilities	\$ 1,728,087	\$ 1,724,592	\$ 1,443,056	\$ 1,439,561	\$ 614,593	\$ 610,887		
Retained earnings (accumulated deficit)	\$ 404,499	\$ 404,774	\$ 655,047	\$ 655,322	\$ 1,443,382	\$ 1,442,016		
Total shareholder equity	\$ 969,950	\$ 970,225	\$ 1,224,463	\$ 1,224,738	\$ 2,148,175	\$ 2,146,809		
Total equity attributable to shareholders of Cronos Group	\$ 969,954	\$ 970,229	\$ 1,224,614	\$ 1,224,889	\$ 2,148,712	\$ 2,147,346		
Total liabilities and shareholders' equity	\$ 2,698,037	\$ 2,694,817	\$ 2,667,519	\$ 2,664,299	\$ 2,762,768	\$ 2,757,696		
	Three months ended March 31, 2019		Six months ended June 30, 2019		Three months ended September 30, 2019		Nine months ended September 30, 2019	
	Figure Appearing in Original Q1 2019 IFS	Restated Figure	Figure Appearing in Original Q2 2019 IFS	Restated Figure	Figure Appearing in Original Q3 2019 IFS	Restated Figure	Figure Appearing in Original Q3 2019 IFS	Restated Figure
Gross revenue	\$ 6,985	\$ 4,509	\$ 17,772	\$ 15,296	\$ 13,339	\$ 8,277	\$ 31,111	\$ 23,573
Net revenue	\$ 6,470	\$ 3,994	\$ 16,707	\$ 14,231	\$ 12,700	\$ 7,638	\$ 29,407	\$ 21,869
Cost of sales before fair value adjustments	\$ 2,984	\$ 1,927	\$ 7,746	\$ 6,689	\$ 7,432	\$ 4,618	\$ 15,178	\$ 11,307

	<u>Q1 2019 Interim Financial Statements</u>		<u>Q2 2019 Interim Financial Statements</u>		<u>Q3 2019 Interim Financial Statements</u>			
Gross profit before fair value adjustments	\$ 3,486	\$ 2,067	\$ 8,961	\$ 7,542	\$ 5,268	-\$ 1,909	\$ 14,229	\$ 5,633
Realized fair value adjustments on inventory sold in the period	\$ 3,722	\$ 2,403	\$ 7,279	\$ 5,960	\$ 14,617	\$ 9,081	\$ 21,896	\$ 15,041
Total fair value adjustments	-\$ 9,831	-\$ 11,150	-\$ 10,298	-\$ 11,617	\$ 24,632	\$ 19,096	\$ 14,334	\$ 7,479
Gross profit	\$ 13,317	\$ 13,217	\$ 19,259	\$ 19,159	-\$ 19,364	-\$ 21,005	-\$ 105	-\$ 1,846
Operating loss	-\$ 558	-\$ 658	-\$ 20,903	-\$ 21,003	-\$ 54,162	-\$ 55,803	-\$ 75,065	-\$ 76,806
Income (loss) before income tax	\$ 430,250	\$ 430,150	\$ 680,883	\$ 680,783	\$ 784,037	\$ 782,396	\$ 1,464,920	\$ 1,463,179
Deferred income tax expense (recovery)	\$ 2,557	\$ 2,182	\$ 2,222	\$ 1,847			-\$ 1,737	-\$ 2,112
Net Income (Loss)	\$ 427,693	\$ 427,968	\$ 678,661	\$ 678,936	\$ 787,996	\$ 786,355	\$ 1,466,657	\$ 1,465,291
Comprehensive Income (Loss)	\$ 427,812	\$ 428,087	\$ 678,677	\$ 678,951	\$ 786,941	\$ 785,300	\$ 1,465,617	\$ 1,464,251
Net income (loss) attributable to Cronos Group	\$ 427,829	\$ 428,104	\$ 678,946	\$ 679,221	\$ 788,368	\$ 786,727	\$ 1,467,314	\$ 1,465,948
Basic earnings (loss) per share	\$ 1.95	\$ 1.96			\$ 2.33	\$ 2.32		
	Three months ended March 31, 2019		Six months ended June 30, 2019		Three months ended September 30, 2019		Nine months ended September 30, 2019	
	Figure Appearing in Original Q1 2019 IFS	Restated Figure	Figure Appearing in Original Q2 2019 IFS	Restated Figure	Figure Appearing in Original Q3 2019 IFS	Restated Figure	Figure Appearing in Original Q3 2019 IFS	Restated Figure
Foreign exchange loss (gain)			\$ 92	\$ 91				
Net changes in non-cash working capital	\$ 17,320	\$ 18,739	-\$ 30,541	-\$ 29,121	-\$ 6,996	-\$ 4,748	-\$ 37,537	-\$ 33,870
Total cost of sales	\$ 2,984	\$ 1,927						
Net change in non-cash working capital: inventory	-\$ 17,201	-\$ 15,814	-\$ 37,151	-\$ 35,764	-\$ 25,779	-\$ 26,513	-\$ 62,930	-\$ 62,277
Net effect of accounting policy changes on cash flows used in operating activities	-\$ 15,337	-\$ 15,269						

	<u>Q1 2019 Interim Financial Statements</u>		<u>Q2 2019 Interim Financial Statements</u>		<u>Q3 2019 Interim Financial Statements</u>			
Inventory	As at March 31, 2019		As at June 30, 2019		As at September 30, 2019			
	Figure Appearing in Original Q1 2019 IFS	Restated Figure	Figure Appearing in Original Q2 2019 IFS	Restated Figure	Figure Appearing in Original Q3 2019 IFS	Restated Figure		
Dry cannabis, work-in-process	\$ 16,222	\$ 18,878	\$ 18,853	\$ 21,509	\$ 17,121	\$ 28,155		
Dry cannabis, total	\$ 17,236	\$ 19,892	\$ 20,982	\$ 23,638	\$ 18,588	\$ 29,622		
Cannabis oils, work-in-process	\$ 5,372	\$ 2,648	\$ 16,121	\$ 13,397	\$ 24,219	\$ 14,458		
Cannabis oils, total	\$ 6,426	\$ 3,702	\$ 18,393	\$ 15,669	\$ 27,648	\$ 17,887		
Total inventory	\$ 25,150	\$ 25,082	\$ 41,667	\$ 41,599	\$ 52,865	\$ 54,138		
Revenue from contracts with customers	Three months ended March 31, 2019		Six months ended June 30, 2019		Three months ended September 30, 2019		Nine months ended September 30, 2019	
	Figure Appearing in Original Q1 2019 IFS	Restated Figure	Figure Appearing in Original Q2 2019 IFS	Restated Figure	Figure Appearing in Original Q3 2019 IFS	Restated Figure	Figure Appearing in Original Q3 2019 IFS	Restated Figure
Canadian, dry cannabis	\$ 5,327	\$ 2,851	\$ 13,541	\$ 11,065	\$ 11,441	6,379	\$ 24,982	\$ 17,444
Canadian, total	\$ 6,957	\$ 4,481	\$ 17,326	\$ 14,850	\$ 12,657	7,595	\$ 29,983	\$ 22,445
Total gross revenue from contracts with customers	\$ 6,985	\$ 4,509	\$ 17,772	\$ 15,296	\$ 13,339	8,277	\$ 31,111	\$ 23,573
Earnings (loss per share):	Three months ended March 31, 2019		Six months ended June 30, 2019		Three months ended September 30, 2019		Nine months ended September 30, 2019	
	Figure Appearing in Original Q1 2019 IFS	Restated Figure	Figure Appearing in Original Q2 2019 IFS	Restated Figure	Figure Appearing in Original Q3 2019 IFS	Restated Figure	Figure Appearing in Original Q3 2019 IFS	Restated Figure
Net income (loss) used in the computation of basic earnings (loss) per share	\$ 427,829	\$ 428,104	\$ 678,946	\$ 679,221	\$ 788,368	\$ 786,727	\$ 1,467,314	\$ 1,465,948
Net income (loss) used in the computation of diluted (loss) per share	\$ 129,043	\$ 129,318	\$ 211,566	\$ 211,841	\$ 196,809	\$ 195,168	\$ 408,375	\$ 407,009

	<u>Q1 2019 Interim Financial Statements</u>		<u>Q2 2019 Interim Financial Statements</u>		<u>Q3 2019 Interim Financial Statements</u>			
Income Tax	Three months ended March 31, 2019		Three months ended June 30, 2019		Three months ended September 30, 2019		Nine months ended September 30, 2019	
	Figure Appearing in Original Q1 2019 IFS	Restated Figure	Figure Appearing in Original Q2 2019 IFS	Restated Figure	Figure Appearing in Original Q3 2019 IFS	Restated Figure	Figure Appearing in Original Q3 2019 IFS	Restated Figure
Balance - beginning of period			\$ 4,371	\$ 3,996	\$ 4,036	\$ 3,661		
Expense (recovery) recognized in net income (loss)							-\$ 1,737	-\$ 2,112
Recognized in net income (loss)	\$ 2,557	\$ 2,182						
Balance – end of period	\$ 4,371	\$ 3,996	\$ 4,036	\$ 3,661	\$ 77	-\$ 298	\$ 77	-\$ 298
Supplemental cash flow information, net change in non-cash working capital items	Three months ended March 31, 2019		Six months ended June 30, 2019		Three months ended September 30, 2019		Nine months ended September 30, 2019	
	Figure Appearing in Original Q1 2019 IFS	Restated Figure	Figure Appearing in Original Q2 2019 IFS	Restated Figure	Figure Appearing in Original Q3 2019 IFS	Restated Figure	Figure Appearing in Original Q3 2019 IFS	Restated Figure
Accounts receivable	-\$ 1,396	\$ 1,402	-\$ 7,797	-\$ 4,999	-\$ 695	\$ 5,025	-\$ 8,492	\$ 26
Sales taxes receivable	-\$ 2,175	-\$ 1,821	-\$ 4,517	-\$ 4,163	\$ 3,312	\$ 3,583	-\$ 1,205	-\$ 580
Biological assets			\$ 18,609	\$ 18,610				
Inventory	-\$ 17,201	-\$ 15,814	-\$ 37,151	-\$ 35,764	-\$ 25,779	-\$ 26,513	-\$ 62,930	-\$ 62,277
Accounts payable and other liabilities	\$ 29,644	\$ 26,596	\$ 15,375	\$ 12,255	\$ 27,169	\$ 24,160	\$ 42,544	\$ 36,415
Net changes in non-cash working capital	\$ 17,320	\$ 18,739	-\$ 30,541	-\$ 29,121	-\$ 6,996	-\$ 4,748	-\$ 37,537	-\$ 33,870
Supplemental cash flow information, reconciliation of the cash flows from biological assets:	Three months ended March 31, 2019		Six months ended June 30, 2019		Three months ended September 30, 2019		Nine months ended September 30, 2019	
	Figure Appearing in Original Q1 2019 IFS	Restated Figure	Figure Appearing in Original Q2 2019 IFS	Restated Figure	Figure Appearing in Original Q3 2019 IFS	Restated Figure	Figure Appearing in Original Q3 2019 IFS	Restated Figure
Non-cash changes, capitalization of depreciation expense			\$ 2,386	\$ 2,387				
Net change in non-cash working capital: inventory			\$ 18,609	\$ 18,610				

	<u>Q1 2019 Interim Financial Statements</u>		<u>Q2 2019 Interim Financial Statements</u>		<u>Q3 2019 Interim Financial Statements</u>			
Supplemental cash flow information, reconciliation of the cash flows from inventory:	Three months ended March 31, 2019		Three months ended June 30, 2019		Three months ended September 30, 2019		Nine months ended September 30, 2019	
	Figure Appearing in Original Q1 2019 IFS	Restated Figure	Figure Appearing in Original Q2 2019 IFS	Restated Figure	Figure Appearing in Original Q3 2019 IFS	Restated Figure	Figure Appearing in Original Q3 2019 IFS	Restated Figure
Balance - beginning of period			\$ 25,150	\$ 25,082	\$ 41,667	\$ 41,599		
Balance - end of period			\$ 41,667	\$ 41,599	\$ 52,865	\$ 54,138	\$ 52,865	\$ 54,138
Changes during the period					-\$ 11,198	-\$ 12,539	-\$ 41,281	-\$ 42,554
Non-cash changes, realized fair value adjustments on inventory sold					-\$ 14,617	-\$ 9,081	-\$ 21,896	-\$ 15,041
Net change in non-cash working capital					-\$ 25,779	-\$ 26,513	-\$ 62,930	-\$ 62,277
Accounts receivable:	As at March 31, 2019		As at June 30, 2019		As at September 30, 2019			
	Figure Appearing in Original Q1 2019 IFS	Restated Figure	Figure Appearing in Original Q2 2019 IFS	Restated Figure	Figure Appearing in Original Q3 2019 IFS	Restated Figure		
Accounts receivable less than 30 days past billing	\$ 5,374	\$ 2,576			12,206	\$ 6,486		
Accounts receivable, 61 to 90 days past billing date			\$ 2,858	\$ 60				
Total accounts receivable past billing date	\$ 5,559	\$ 2,761	\$ 11,960	\$ 9,162	\$ 12,655	\$ 6,935		
Liquidity risk	As at March 31, 2019		As at June 30, 2019		As at September 30, 2019			
	Figure Appearing in Original Q1 2019 IFS	Restated Figure	Figure Appearing in Original Q2 2019 IFS	Restated Figure	Figure Appearing in Original Q3 2019 IFS	Restated Figure		
Age of accounts payable, less than 30 days past billing date	\$ 33,739	\$ 30,619			\$ 10,727	\$ 8,106		
Age of accounts payable, Over 90 days past billing date			\$ 3,852	\$ 732	\$ 2,641	\$ 2,319		

	<u>Q1 2019 Interim Financial Statements</u>		<u>Q2 2019 Interim Financial Statements</u>		<u>Q3 2019 Interim Financial Statements</u>			
Total accounts payable past billing date	\$ 38,233	\$ 35,113	\$ 10,638	\$ 7,518	\$ 20,756	\$ 17,813		

2019 Q1 MD&A					
Financial Highlights	First quarter 2019	Change from first quarter 2018 (\$)	Change from first quarter 2018 (%)	Change from fourth quarter 2018 (\$)	Change from fourth quarter 2018 (%)
	Restatement (Original Q1 MD&A)	Restatement (Original Q1 MD&A)	Restatement (Original Q1 MD&A)	Restatement (Original Q1 MD&A)	Restatement (Original Q1 MD&A)
Net revenue	\$3,994 (\$6,470)	\$1,049 (\$3,525)	36% (120%)	-\$1,610 (\$866)	-29% (15%)
Gross margin before fair value adjustments	52% (54%)				
Adjusted EBITDA	-\$10,366 (-\$8,947)	-\$8,866 (-\$7,447)	591% (496%)	-\$2,423 (-\$1,004)	31% (13%)
Extract sales (% of net product revenue)	38% (23%)				
Kilograms sold	669 (1,111)	168 (610)	34% (122%)	-371 (71)	-36% (7%)
Net product revenue / gram sold	\$5.82 (\$5.73)	\$0.15 (\$0.06)	3% (1%)	\$0.47 (\$0.38)	9% (7%)
Cost of sales before fair value adj. / gram sold	\$2.88 (\$2.69)	-\$0.25 (-\$0.44)	-8% (-14%)	-\$0.14 (-\$0.33)	-5% (-11%)
Selected Financial Results	Three months ended March 31, 2019	Change from first quarter 2018 (\$)	Change from first quarter 2018 (%)		
	Restatement (Original Q1 MD&A)	Restatement (Original Q1 MD&A)	Restatement (Original Q1 MD&A)		
Cost of sales	-\$9,223 (-\$6,847)	-\$10,240 (-\$7,864)	-1007% (-773%)		
Gross profit	\$13,217 (\$13,317)	\$11,289 (\$11,389)	586% (591%)		
Operating loss	-\$658 (-\$558)	\$1,520 (\$1,620)	-70% (-74%)		
Income (loss) before income tax	\$430,150 (\$430,250)	\$432,088 (\$432,188)	-22296% (-22301%)		
Deferred income tax expense (recovery)	\$2,182 (\$2,557)	\$3,070 (\$3,445)	-346% (-388%)		
Net income	\$427,968 (\$427,693)	\$429,018 (\$428,743)	-40859% (-40833%)		
Comprehensive income	\$428,087 (\$427,812)	\$429,172 (\$428,897)	-39555% (-39530%)		
Net Revenue	Three months ended March 31, 2019	Change from first quarter 2018 (\$)	Change from first quarter 2018 (%)		
	Restatement (Original Q1 MD&A)	Restatement (Original Q1 MD&A)	Restatement (Original Q1 MD&A)		
Net revenue, dried cannabis	\$2,424 (\$4,900)	-\$161 (\$2,315)	-6% (90%)		
Net revenue, product revenue	\$3,891 (\$6,367)	\$1,051 (\$3,527)	37% (124%)		

Total net revenue	\$3,994 (\$6,470)	\$1,049 (\$3,525)	35% (120%)		
Kilograms sold, dried cannabis	464 (906)	-14 (428)	3% (90%)		
Total kilograms sold	669 (1,111)	168 (610)	34% (122%)		
Avg. net selling price per gram sold, dried cannabis	\$5.22 (\$5.41)	-\$0.19 (\$0)	-4% (0%)		
Avg. net selling price per gram sold, product revenue	\$5.82 (\$5.73)	\$0.15 (\$0.06)	3% (1%)		
Cost of Sales and Gross Profit	Three months ended March 31, 2019	Change from first quarter 2018 (\$)	Change from first quarter 2018 (%)		
	Restatement (Original Q1 MD&A)	Restatement (Original MD&A) Q1	Restatement (Original MD&A) Q1		
Cost of sales before fair value adjustments	\$1,927 (\$2,984)	\$360 (\$1,417)	23% (90%)		
Gross profit before fair value adjustments	\$2,067 (\$3,486)	\$689 (\$2,108)	50% (153%)		
Realized fair value adjustments on inventory sold	\$2,403 (\$3,722)	\$209 (\$1,528)	10% (70%)		
Total fair value adjustments	-\$11,150 (-\$9,831)	-\$10,600 (-\$9,281)	1927% (1687%)		
Gross profit	\$13,217 (\$13,317)	\$11,289 (\$11,389)	586% (591%)		
Gross margin before fair value adjustments	52% (54%)				
Gross margin	331% (206%)				
Cost of sales before fair value adj. / gram sold	\$2.88 (\$2.69)	-\$0.25 (-\$0.44)	-8% (-14%)		
Operating Expenses (as a percentage of new revenue)	Three months ended March 31, 2019				
	Restatement (Original Q1 MD&A)				
Sales and marketing	38% (23%)				
Research and development	39% (24%)				
General and administrative	241% (149%)				
Share-based payments	18% (11%)				
Depreciation and amortization	12% (7%)				

Total operating expenses	347% (214%)				
Reconciliation of non-IFRS Measures	Three months ended March 31, 2019				
	Restatement (Original Q1 MD&A)				
Adjusted EBIT	-\$11,071 (-\$9,652)				
Adjusted EBITDA	-\$10,366 (-\$8,947)				
Selected Quarterly Financial Information	Three months ended March 31, 2019				
	Restatement (Original Q1 MD&A)				
Net income (loss)	\$427,968 (\$427,693)				
Comprehensive income (loss)	\$427,087 (\$427,812)				
Basic earnings per share	\$1.96 (\$1.95)				

2019 Q2 MD&A			
Financial Highlights	Six Months ended June 30, 2019	Change from Six Months ended June 30, 2018 (\$)	Change from Six Months ended June 30, 2018 (%)
	Restatement (Original Q2 MD&A)	Restatement (Original Q2 MD&A)	Restatement (Original Q2 MD&A)
Net revenue	\$14,231 (\$16,707)	\$7,892 (\$10,368)	124% (164%)
Gross margin before fair value adjustments	53% (54%)		
Adjusted EBITDA	-\$28,138 (-\$26,719)	-\$24,242 (-\$22,823)	622% (586%)
Extract sales (% of net product revenue)	25% (21%)		
Kilograms sold	2,253 (2,695)	1,275 (1,717)	130% (176%)
Net product revenue / gram sold	\$6.26 (\$6.15)	-\$0.11 (-\$0.22)	-2% (-3%)
Cost of sales before fair value adj. / gram sold	\$2.97 (\$2.87)	-\$0.08 (-\$0.01)	-3% (0%)
Selected Financial Results	Six Months ended June 30, 2019	Change from Six Months ended June 30, 2018 (\$)	Change from Six Months ended June 30, 2018 (%)
	Restatement (Original Q2 MD&A)	Restatement (Original Q2 MD&A)	Restatement (Original Q2 MD&A)
Cost of sales	-\$4,928 (-\$2,552)	-\$2,993 (-\$617)	155% (32%)
Gross profit	\$19,159 (\$19,259)	\$10,885 (\$10,985)	132% (133%)
Operating loss	-\$21,003 (-\$20,903)	-\$19,315 (-\$19,215)	1144% (1138%)
Income (loss) before income tax	\$680,783 (\$680,883)	\$682,265 (\$682,365)	-46037% (-46044%)
Deferred income tax expense (recovery)	\$1,847 (\$2,222)	\$3,002 (\$3,377)	-260% (-292%)
Net income	\$678,936 (\$678,661)	\$679,263 (\$678,988)	-207726% (-207642%)
Comprehensive income	\$678,952 (\$678,677)	\$679,275 (\$679,000)	-210302% (-210217%)
Net Revenue	Six Months ended June 30, 2019	Change from Six Months ended June 30, 2018 (\$)	Change from Six Months ended June 30, 2018 (%)
	Restatement (Original Q2 MD&A)	Restatement (Original Q2 MD&A)	Restatement (Original Q2 MD&A)
Net revenue, dried cannabis	\$10,578 (\$13,054)	\$5,243 (\$7,719)	98% (145%)
Net revenue, product revenue	\$14,098 (\$16,574)	\$7,782 (\$10,348)	126% (166%)
Total net revenue	\$14,231 (\$16,707)	\$7,892 (\$10,368)	124% (164%)
Kilograms sold, dried cannabis	1,781 (2,223)	887 (1,329)	99% (149%)
Total kilograms sold	2,253 (2,695)	1,275 (1,717)	130% (176%)
Avg. net selling price per gram sold, dried cannabis	\$5.94 (\$5.87)	-\$0.03 (-\$0.10)	-1% (-2%)
Avg. net selling price per gram sold, product revenue	\$6.26 (\$6.15)	-\$0.11 (-\$0.22)	-2% (-3%)
Cost of Sales and Gross Profit	Six Months ended June 30, 2019	Change from Six Months ended June 30, 2018 (\$)	Change from Six Months ended June 30, 2018 (%)
	Restatement (Original Q2 MD&A)	Restatement (Original Q2 MD&A)	Restatement (Original Q2 MD&A)

Cost of sales before fair value adjustments	\$6,689 (\$7,746)	\$3,868 (\$4,925)	137% (175%)
Gross profit before fair value adjustments	\$7,542 (\$8,961)	\$4,024 (\$5,443)	114% (155%)
Realized fair value adjustments on inventory sold	\$5,960 (\$7,279)	\$1,141 (\$2,460)	24% (51%)
Total fair value adjustments	-\$11,617 (-\$10,298)	-\$6,861 (-\$5,542)	144% (117%)
Gross profit	\$19,159 (\$19,259)	\$10,885 (\$10,985)	132% (133%)
Gross margin before fair value adjustments	53% (54%)		
Gross margin	135% (115%)		
Cost of sales before fair value adj. / gram sold	\$2.97 (\$2.87)	-\$0.08 (-\$0.01)	-3% (0%)
Operating Expenses (as a percentage of new revenue)	Six Months ended June 30, 2019		
	Restatement (Original Q2 MD&A)		
Sales and marketing	48% (41%)		
Research and development	33% (28%)		
General and administrative	174% (148%)		
Share-based payments	19% (16%)		
Depreciation and amortization	8% (7%)		
Total operating expenses	282% (240%)		
Reconciliation of non-IFRS Measures	First quarter 2019	Six Months ended June 30, 2019	
	Restatement (Original Q2 MD&A)	Restatement (Original Q2 MD&A)	
Adjusted EBIT	-\$11,071 (-\$9,652)	-\$29,881 (-\$28,462)	
Adjusted EBITDA	-\$10,366 (-\$8,947)	-\$28,138 (-\$26,719)	
Selected Quarterly Financial Information	First quarter 2019		
	Restatement (Original Q2 MD&A)		
Net income (loss)	\$427,968 (\$427,693)		
Comprehensive income (loss)	\$428,087 (\$427,812)		
Basic earnings per share	\$1.96 (\$1.95)		

2019 Q3 MD&A						
Financial Highlights	Three months ended September 30, 2019	Change from Three Months Ended September 30, 2018 (\$)	Change from Three Months Ended September 30, 2018 (%)	Nine months ended September 30, 2019	Change from Nine months ended September 30, 2018 (\$)	Change from Nine months ended September 30, 2018 (%)
	Restatement (Original Q3 MD&A)	Restatement (Original Q3 MD&A)	Restatement (Original Q3 MD&A)	Restatement (Original Q3 MD&A)	Restatement (Original Q3 MD&A)	Restatement (Original Q3 MD&A)
Net revenue	\$7,638 (\$12,700)	\$3,878 (\$8,940)	103% (238%)	\$21,869 (\$29,407)	\$11,770 (\$19,308)	117% (191%)
Gross margin before fair value adjustments	-25% (41%)			26% (48%)		
Adjusted EBITDA	-\$31,109 (-\$23,932)	-\$27,908 (-\$20,731)	872% (648%)	-\$59,247 (-\$50,651)	-\$52,150 (-\$43,554)	735% (614%)
Extract sales (% of net product revenue)	15% (9%)			21% (16%)		
Kilograms sold:	1,167 (3,142)	653 (2,628)	127% (511%)	3,420 (5,837)	1,948 (4,365)	132% (297%)
Net product revenue / gram sold	\$5.76 (\$3.75)	-\$1.43 (-\$3.43)	-20% (-48%)	\$6.09 (\$4.86)	-\$0.65 (-\$1.88)	-10% (-28%)
Cost of sales before fair value adj. / gram sold	\$7.92 (\$2.27)	\$4.64 (-\$1.01)	141% (-31%)	\$4.66 (\$2.55)	\$1.60 (-\$0.51)	52% (-17%)
Selected Financial Results	Three months ended September 30, 2019	Change from Three Months Ended September 30, 2018 (\$)	Change from Three Months Ended September 30, 2018 (%)	Nine months ended September 30, 2019	Change from Nine months ended September 30, 2018 (\$)	Change from Nine months ended September 30, 2018 (%)
	Restatement (Original Q3 MD&A)	Restatement (Original Q3 MD&A)	Restatement (Original Q3 MD&A)	Restatement (Original Q3 MD&A)	Restatement (Original Q3 MD&A)	Restatement (Original Q3 MD&A)
Cost of sales	\$28,643 (\$32,064)	\$26,977 (\$30,398)	1619% (1825%)	\$23,715 (\$29,512)	\$23,984 (\$29,781)	-8916% (-11071%)
Gross profit	-\$21,005 (-\$19,364)	-\$23,099 (-\$21,458)	-1103% (-1025%)	-\$1,846 (-\$105)	-\$12,214 (-\$10,473)	-118% (-101%)
Operating loss:	-\$55,803 (-\$54,162)	-\$50,926 (-\$49,285)	1044% (1011%)	-\$76,806 (-\$75,065)	-\$70,241 (-\$68,500)	1070% (1043%)
Income (loss) before income tax	\$782,396 (\$784,037)	\$787,315 (\$788,956)	-16006% (-16039%)	\$1,463,179 (\$1,464,920)	\$1,469,580 (\$1,471,321)	-22959% (-22986%)
Deferred income tax expense (recovery)				-\$2,112 (-\$1,737)	-\$3,309 (-\$2,934)	-276% (-245%)
Net income	\$786,355 (\$787,996)	\$793,626 (\$795,267)	-10915% (-10938%)	\$1,465,291 (\$1,466,657)	\$1,472,889 (\$1,474,255)	-19385% (-19403%)
Comprehensive income	\$785,300 (\$786,941)	\$792,335 (\$793,976)	-11263% (-11286%)	\$1,464,251 (\$1,465,617)	\$1,471,609 (\$1,472,975)	-20000% (-20019%)

Net Revenue	Three months ended September 30, 2019	Change from Three Months Ended September 30, 2018 (\$)	Change from Three Months Ended September 30, 2018 (%)	Nine months ended September 30, 2019	Change from Nine months ended September 30, 2018 (\$)	Change from Nine months ended September 30, 2018 (%)
	Restatement (Original Q3 MD&A)	Restatement (Original Q3 MD&A)	Restatement (Original Q3 MD&A)	Restatement (Original Q3 MD&A)	Restatement (Original Q3 MD&A)	Restatement (Original Q3 MD&A)
Net revenue, dried cannabis	\$5,568 (\$10,630)	\$2,949 (\$8,011)	113% (306%)	\$16,147 (\$23,685)	\$8,193 (\$15,731)	103% (198%)
Net revenue, product revenue	\$6,717 (\$11,779)	\$3,025 (\$8,087)	82% (219%)	\$20,815 (\$28,353)	\$10,897 (\$18,435)	110% (186%)
Total net revenue	\$7,638 (\$12,700)	\$3,878 (\$8,940)	103% (238%)	\$21,869 (\$29,407)	\$11,770 (\$19,308)	117% (191%)
Kilograms sold, dried cannabis	1,021 (2,996)	624 (2,599)	157% (655%)	2,802 (5,219)	1,538 (3,955)	122% (313%)
Total kilograms sold	1,167 (3,142)	653 (2,628)	127% (511%)	3,420 (5,837)	1,948 (4,365)	132% (297%)
Avg. net selling price per gram sold, dried cannabis	\$5.46 (\$3.55)	-\$1.14 (-\$3.05)	-17% (-46%)	\$5.76 (\$4.54)	-\$0.53 (-\$1.75)	-8% (-28%)
Avg. net selling price per gram sold, product revenue	\$5.76 (\$3.75)	-\$1.43 (-\$3.43)	-20% (-48%)	\$6.09 (\$4.86)	-\$0.65 (-\$1.88)	-10% (-28%)
Cost of Sales and Gross Profit	Three months ended September 30, 2019	Change from Three Months Ended September 30, 2018 (\$)	Change from Three Months Ended September 30, 2018 (%)	Nine months ended September 30, 2019	Change from Nine months ended September 30, 2018 (\$)	Change from Nine months ended September 30, 2018 (%)
	Restatement (Original Q3 MD&A)	Restatement (Original Q3 MD&A)	Restatement (Original Q3 MD&A)	Restatement (Original Q3 MD&A)	Restatement (Original Q3 MD&A)	Restatement (Original Q3 MD&A)
Cost of sales before fair value adjustments	\$9,547 (\$7,432)	\$7,859 (\$5,744)	466% (340%)	\$16,236 (\$15,178)	\$11,727 (\$10,669)	260% (237%)
Gross profit before fair value adjustments	-\$1,909 (\$5,268)	-\$3,981 (\$3,196)	-192% (154%)	\$5,633 (\$14,229)	\$43 (\$8,639)	1% (155%)
Realized fair value adjustments on inventory sold	\$9,081 (\$14,617)	\$7,570 (\$13,106)	501% (867%)	\$15,041 (\$21,896)	\$8,711 (\$15,566)	138% (246%)
Total fair value adjustments	\$19,096 (\$24,632)	\$19,118 (\$24,654)	-86900% (-112064%)	\$7,479 (\$14,334)	\$12,257 (\$19,112)	-257% (-400%)
Gross profit	-\$21,005 (-\$19,364)	-\$23,099 (-\$21,458)	-1103% (-1025%)	-\$1,846 (-\$105)	-\$12,214 (-\$10,473)	-118% (-101%)

Gross margin before fair value adjustments	-25% (41%)			26% (48%)		
Gross margin	-275% (-152%)			-8% (0%)		
Cost of sales before fair value adj. / gram sold	\$7.92 (\$2.27)	\$4.64 (-\$1.01)	141% (-31%)	\$4.66 (\$2.55)	\$1.60 (-\$0.51)	52% (-17%)
Operating Expenses (as a percentage of new revenue)	Three months ended September 30, 2019	Nine months ended September 30, 2019				
	Restatement (Original MD&A) Q3	Restatement (Original MD&A) Q3				
Sales and marketing	79% (48%)	59% (44%)				
Research and development	45% (27%)	37% (27%)				
General and administrative	278% (167%)	211% (157%)				
Share-based payments	41% (25%)	27% (20%)				
Depreciation and amortization	12% (7%)	9% (7%)				
Total operating expenses	456% (274%)	343% (255%)				
Reconciliation of non-IFRS Measures	Three months ended September 30, 2019	Nine months ended September 30, 2019				
	Restatement (Original MD&A) Q3	Restatement (Original MD&A) Q3				
Adjusted EBIT	-\$33,582 (-\$26,405)	-\$63,463 (-\$54,867)				
Adjusted EBITDA	-\$31,109 (-\$23,932)	-\$59,247 (-\$50,651)				
Selected Quarterly Financial Information	First quarter 2019	Third quarter 2019				
	Restatement (Original MD&A) Q3	Restatement (Original MD&A) Q3				
Net income (loss)	\$427,968 (\$427,693)	\$786,355 (\$787,996)				
Comprehensive income (loss)	\$428,087 (\$427,812)	\$785,300 (\$786,941)				
Basic earnings per share	\$1.96 (\$1.95)	\$2.32 (\$2.33)				

Badesha Harpreet
Plaintiff and
Cronos Group Inc. et al.
Defendant

Court File No.:

ONTARIO
SUPERIOR COURT OF JUSTICE

Proceeding commenced at Toronto

STATEMENT OF CLAIM

Kalloghlian Myers LLP
250 University Avenue, Suite
200
Toronto, ON M5H 3E5

Paul Bates (LSO#22619D)
pbates@batesbarristers.com
Tel: (416) 869-9898 x 101
c/o Kalloghlian Myers

Serge Kalloghlian (LSO#:
55557F)
serge@kalloghlianmyers.com
Tel: (647) 812-5615
Fax: (647) 243-6620

**A Dimitri Lascaris Law
Professional Corporation**
G101-360 Rue Saint-Jacques
Montreal, QC H2Y 1P5

Garth Myers (LSO#: 62307G)
garth@kalloghlianmyers.com
Tel: (647) 969-4472
Fax: (647) 243-6620

A Dimitri Lascaris (LSO
#50074A)
alexander.lascaris@gmail.com
Tel: (514) 941-5991
Fax: (519) 660-7845

Lawyers for the Plaintiff