CRONOS GROUP INC.

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

For the Three and Nine Months Ended September 30, 2023

Notice to reader

This document contains information under the heading “Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operation” which has been excerpted from our Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2023 (the “Quarterly Report”) filed concurrently with this document on the date hereof under the profile of Cronos Group Inc. (“Cronos Group” or the “Company”) on SEDAR+ at www.sedarplus.com and on EDGAR at www.sec.gov. This document should be read in conjunction with our Quarterly Report, including our unaudited interim condensed consolidated financial statements and the related notes to those statements included in Part I, Item 1 of our Quarterly Report, “Controls and Procedures” included in Part I, Item 4 of our Quarterly Report and “Risk Factors” included in Part II, Item 1A of our Quarterly Report and our consolidated financial statements appearing in our Annual Report on Form 10-K for the year ended December 31, 2022 (the “Annual Report”) and “Risk Factors” included in Part I, Item 1A of our Annual Report, and incorporates by reference herein “Risk Factors” included in Part II, Item 1A of our Quarterly Report. The cautionary statements regarding Forward-Looking Statements contained in the Quarterly Report apply equally to this document. Defined terms used herein but otherwise not defined have the meaning ascribed to them in the Quarterly Report.

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

The following discussion and analysis should be read together with other information, including Cronos Group's condensed consolidated interim financial statements and the related notes to those statements, included in Part I, Item 1 of this Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2023 (this "Quarterly Report"), consolidated financial statements appearing in the Company's Annual Report on Form 10-K for the year ended December 31, 2022 (the "Annual Report"), Part I, Item 1A, Risk Factors, of the Annual Report and Part II, Item 1A, Risk Factors, of this Quarterly Report.

Forward-Looking Statements

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

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

- expectations related to the war between Israel and Hamas (the "Israel-Hamas War") and its impact on our operations in Israel, the supply of product in the market and the demand for product among medical patients in Israel;
- expectations related to the German and Australian markets, including our strategic partnerships with Cansativa GmbH ("Cansativa") and Vitura Health Limited ("Vitura"), respectively, and our plans to distribute the PEACE NATURALS® brand in Germany;
- expectations related to our announcement of additional cost-cutting measures, including our decision to wind-down operations at our Winnipeg, Manitoba facility and list the facility for sale, the expected costs and benefits from the wind-down of production activities at the facility, challenges and effects related thereto as well as changes in strategy, metrics, investments, costs, operating expenses, employee turnover and other changes with respect thereto;
- expectations related to the impact of our decision to exit our U.S. hemp-derived cannabinoid product operations, including the costs, expenses and write-offs associated therewith, the impact on our operations and our financial statements and any future plans to re-enter the U.S. market;
- expectations related to our announced realignment (the "Realignment") and any progress, challenges and effects related thereto as well as changes in strategy, metrics, investments, reporting structure, costs, operating expenses, employee turnover and other changes with respect thereto;
- the timing of the change in the nature of operations at our facility in Stayner, Ontario (the "Peace Naturals Campus") and the expected costs and benefits from the wind-down of certain production activities at the Peace Naturals Campus;
- our ability to effectively wind-down certain production activities at the Peace Naturals Campus in an organized fashion and acquire raw materials from other suppliers, including Cronos Growing Company Inc. ("Cronos GrowCo"), and the costs and timing associated therewith;
- expectations regarding the potential success of, and the costs and benefits associated with, our joint ventures, strategic alliances and equity investments, including the strategic partnership (the "Ginkgo Strategic Partnership") with Ginkgo Bioworks Holdings, Inc. ("Ginkgo");
- our ability or plans to identify, develop, commercialize or expand our technology and research and development ("R&D") initiatives in cannabinoids, or the success thereof;
- expectations regarding revenues, expenses, gross margins and capital expenditures;
- expectations regarding our future production and manufacturing strategy and operations, the costs and timing associated therewith and the receipt of applicable production and sale licenses;
- the ongoing impact of the legalization of additional cannabis product types and forms for adult-use in Canada, including federal, provincial, territorial and municipal regulations pertaining thereto, the related timing and impact thereof and our intentions to participate in such markets;

- the legalization of the use of cannabis for medical or adult-use in jurisdictions outside of Canada, including the United States and Germany, the related timing and impact thereof and our intentions to participate in such markets, if and when such use is legalized;
- the grant, renewal, withdrawal, suspension, delay and impact of any license or supplemental license to conduct activities with cannabis or any amendments thereof;
- our ability to successfully create and launch brands and cannabis products;
- expectations related to the differentiation of our products, including through the utilization of rare cannabinoids;
- the benefits, viability, safety, efficacy, dosing and social acceptance of cannabis, including CBD and other cannabinoids;
- laws and regulations and any amendments thereto applicable to our business and the impact thereof, including uncertainty regarding the application of United States ("U.S.") state and federal law and the scope of any regulations by the U.S. Food and Drug Administration (the "FDA"), the U.S. Drug Enforcement Administration (the "DEA"), the U.S. Federal Trade Commission (the "FTC"), the U.S. Patent and Trademark Office (the "PTO") and any state equivalent regulatory agencies;
- the anticipated benefits and impact of Altria Group Inc.'s investment in the Company (the "Altria Investment"), pursuant to a subscription agreement dated December 7, 2018;
- uncertainties as to our ability to exercise our option (the "PharmaCann Option") in PharmaCann Inc. ("PharmaCann"), in the near term or the future, in full or in part, including the uncertainties as to the status and future development of federal legalization of cannabis in the U.S. and our ability to realize the anticipated benefits of the transaction with PharmaCann;
- expectations regarding the implementation and effectiveness of key personnel changes;
- expectations regarding acquisitions and dispositions and the anticipated benefits therefrom;
- our ability to timely and effectively remediate any material weaknesses in our internal control over financial reporting;
- expectations of the amount or frequency of impairment losses, including as a result of the write-down of intangible assets, including goodwill;
- the uncertainties associated with the COVID-19 pandemic, including our ability, and the abilities of our joint ventures and our suppliers and distributors, to effectively deal with the restrictions, limitations and health issues presented by the COVID-19 pandemic, the ability to continue our production, distribution and sale of our products, and demand for and the use of our products by consumers;
- the impact of the ongoing military conflict between Russia and Ukraine (and resulting sanctions) on our business, financial condition and results of operations or cash flows;
- our compliance with the terms of the settlement with the SEC (the "Settlement Order") and the settlement agreement with the Ontario Securities Commission ("Settlement Agreement"), including complying with any recommendations made by the independent consultant appointed pursuant to the Settlement Order and Settlement Agreement; and
- the impact of the loss of our ability to rely on private offering exemptions under Regulation D of the Securities Act of 1933, as amended (the "Securities Act"), and the loss of our status as a well-known seasoned issuer, each as a result of the Settlement Order.

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

The Forward-Looking Statements contained herein are based upon certain material assumptions that were applied in drawing a conclusion or making a forecast or projection, including: (i) our ability to effectively navigate developments in the Israel-Hamas War and its impact on our employees and operations in Israel, the supply of product in the market and demand for product among medical patients in Israel; (ii) our ability to efficiently and effectively distribute our PEACE NATURALS® brand in Germany with our strategic partner Cansativa and our ability to efficiently and effectively distribute products in Australia with our strategic partner Vitura; (iii) our ability to efficiently and effectively wind-down our operations at our Winnipeg, Manitoba facility and realize the expected cost-savings and other benefits related thereto, (iv) our ability to efficiently and effectively wind-down our operations in the U.S. and realize the expected cost-savings and other benefits related thereto, (v) our ability to realize the expected cost-savings, efficiencies and other benefits of our Realignment and other announced cost-cutting measures and employee turnover related thereto; (vi) our ability to efficiently and effectively wind-down certain production activities at the Peace Naturals Campus, receive the benefits of the change in the nature of our operations at our Peace Naturals Campus and acquire raw materials on a timely and cost-effective basis from third parties, including Cronos GrowCo; (vii) our ability to realize anticipated benefits, synergies or generate revenue, profits or value from our acquisitions and strategic investments; (viii) the production and manufacturing capabilities and output from our facilities and our joint ventures, strategic alliances and equity investments; (ix) government regulation of our activities and products including, but not limited to, the areas of cannabis taxation and environmental protection; (x) the timely receipt of any required regulatory authorizations, approvals, consents, permits and/or licenses; (xi) consumer interest in our products; (xii) our ability to differentiate our products, including through the utilization of rare cannabinoids; (xiii) competition; (xiv) anticipated and unanticipated costs; (xv) our ability to generate cash flow from operations; (xvi) our ability to conduct operations in a safe, efficient and effective manner; (xvii) our ability to hire and retain qualified staff, and acquire equipment and services in a timely and cost-efficient manner; (xviii) our ability to exercise the PharmaCann Option and realize the anticipated benefits of the transaction with PharmaCann; (xix) our ability to complete planned dispositions, and, if completed, obtain our anticipated sales price; (xx) our ability, and the abilities of our joint ventures and our suppliers and distributors, to effectively deal with the restrictions, limitations and health issues presented by the COVID-19 pandemic and the ability to continue our production, distribution and sale of our products and customer demand for and use of our products; (xxi) general economic, financial market, regulatory and political conditions in which we operate; (xxii) management's perceptions of historical trends, current conditions and expected future developments; and (xxiii) other considerations that management believes to be appropriate in the circumstances. While our management considers these assumptions to be reasonable based on information currently available to management, there is no assurance that such expectations will prove to be correct.

By their nature, Forward-Looking Statements are subject to inherent risks and uncertainties that may be general or specific and which give rise to the possibility that expectations, forecasts, predictions, projections or conclusions will not prove to be accurate, that assumptions may not be correct, and that objectives, strategic goals and priorities will not be achieved. A variety of factors, including known and unknown risks, many of which are beyond our control, could cause actual results to differ materially from the Forward-Looking Statements in this Quarterly Report and other reports we file with, or furnish to, the SEC and other regulatory agencies and made by our directors, officers, other employees and other persons authorized to speak on our behalf. Such factors include, without limitation, negative impacts on our employees, business and operations in Israel due to the Israel-Hamas War, including that we may not be able to produce, import or sell our products or protect our people or facilities in Israel during the Israel-Hamas War, the supply of product in the market and the demand for product among medical patients in Israel; that we may not be able to successfully continue to distribute our products in Germany and Australia or generate material revenue from sales in those markets; that we may not be able to wind-down our operations at our Winnipeg, Manitoba facility in a disciplined and cost-effective manner or achieve the anticipated benefits thereof or be able to access raw materials on a timely and cost-effective basis from third-parties; that we may be unable to further streamline our operations and reduce expenses; that we may not be able to wind-down our U.S. operations in a disciplined and cost-effective manner or achieve the anticipated benefits thereof or be able to effectively and efficiently re-enter the U.S. market in the future; that we may not able to wind-down certain production activities at the Peace Naturals Campus in a disciplined manner or achieve the anticipated benefits of the change in the nature of our operations or be able to access raw materials on a timely and cost-effective basis from third-parties, including Cronos GrowCo; the risk that the COVID-19 pandemic and the military conflict between Russia and Ukraine may disrupt our operations and those of our suppliers and distribution channels and negatively impact the demand for and use of our products; the risk that cost savings and any other synergies from the Altria Investment may not be fully realized or may take longer to realize than expected; failure to execute key personnel changes; the risks that our Realignment, the change in the nature of our operations at the Peace Naturals Campus and our further leveraging of our strategic partnerships will not result in the expected cost-savings, efficiencies and other benefits or will result in greater than anticipated turnover in personnel; lower levels of revenues; the lack of consumer demand for our cannabis products; our inability to reduce expenses at the level needed to meet our projected net change in cash and cash equivalents; our inability to manage disruptions in credit markets or changes to our credit ratings; unanticipated future levels of capital, environmental or maintenance expenditures, general and administrative and other expenses; growth opportunities not turning out as expected; the lack of cash flow necessary to execute our business plan (either within the expected timeframe or at all); difficulty raising capital; the potential adverse effects of judicial, regulatory or other proceedings, or threatened litigation or proceedings, on our business, financial condition, results of operations and cash flows; volatility in and/or degradation of general economic, market, industry or business conditions; compliance with applicable environmental, economic, health and safety, energy and other policies and regulations and in particular health concerns with respect to vaping and the use of cannabis in vaping devices; the unexpected effects of actions of third parties such as competitors, activist investors or federal (including U.S. federal), state, provincial, territorial or local regulatory authorities or self-regulatory organizations; adverse changes in regulatory requirements in relation to our business and products; legal or regulatory obstacles that could prevent us from being able to exercise the PharmaCann Option and thereby realizing the anticipated benefits of the transaction with PharmaCann; dilution of our fully diluted ownership of PharmaCann and the loss of our rights as a result of that dilution; a delay in our remediation of a material weakness in our internal control over financial reporting and the improvement of our control environment and our systems, processes and procedures; and the factors discussed under Part I, Item 1A “Risk Factors” of the Annual Report and under Part II, Item 1A “Risk Factors” in our Quarterly Reports. Readers are cautioned to consider these and other factors, uncertainties and potential events carefully and not to put undue reliance on Forward-Looking Statements.

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

Foreign currency exchange rates

All currency amounts in this Quarterly Report are stated in U.S. dollars, which is our reporting currency, unless otherwise noted. All references to “dollars” or “$” are to U.S. dollars. The assets and liabilities of our foreign operations are translated into dollars at the exchange rate in effect as of September 30, 2023, September 30, 2022, and December 31, 2022. Transactions affecting the shareholders’ equity (deficit) are translated at historical foreign exchange rates. The condensed consolidated statements of net loss and comprehensive loss and condensed consolidated statements of cash flows of our foreign operations are translated into dollars by applying the average foreign exchange rate in effect for the reporting period as reported on Bloomberg.

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

(Exchange rates are shown as C$ per $)	As of		
	September 30, 2023	September 30, 2022	December 31, 2022
Spot rate	1.3577	1.3829	1.3554
Year-to-date average rate	1.3455	1.2829	N/A

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

(Exchange rates are shown as ILS per $)	As of		
	September 30, 2023	September 30, 2022	December 31, 2022
Spot rate	3.8138	3.5660	3.5178
Year-to-date average rate	3.6385	3.3107	N/A

Business Overview

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

Strategy

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

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

Discontinued Operations

In the second quarter of 2023, Cronos exited its U.S. hemp-derived cannabinoid product operations. The exit of the U.S. operations represented a strategic shift that has a major effect on Cronos' operations and financial results, and as such, qualifies for reporting as discontinued operations in our condensed consolidated statements of net loss and comprehensive loss. Prior period amounts have been reclassified to reflect the discontinued operations classification of the U.S. operations. For further detail on the discontinuation of the U.S. operations, see Note 2 "Discontinued Operations" to the condensed consolidated interim financial statements under Item 1 of this Quarterly Report.

Business segments

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

Recent Developments

Israel-Hamas War

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

New Israeli Shekel Weakening

In October 2023, with the onset of the aforementioned Israel-Hamas war, the New Israeli Shekel has significantly weakened against the U.S. dollar and Canadian dollar. As of October 30, 2023, the New Israeli Shekel has weakened to a position of 4.019 per U.S. dollar and a position of 2.906 per Canadian dollar, representing decreases of 5% and 3.5%, respectively, from the rates as of

September 30, 2023. We cannot predict when or if the currency will recover against the U.S. dollar and Canadian dollar and we have, as a result, experienced an adverse impact on our results of operations.

Brand and Product Portfolio

In the third quarter of 2023, the Company launched two new THCV-infused products under the Spinach FEELZ™ brand, the Full Tilt THC+THCV vape and gummy.

In November 2023, the Company launched Lord Jones® Hash Fusions, a line-up of premium ice water hash infused pre-rolls, in the Canadian adult-use market. The Company intends to launch additional products under the Lord Jones® brand, including live resin vapes and a differentiated chocolate offering.

In Israel, Cronos launched four new flower offerings under the PEACE NATURALS® brand, Sticky Ape, Raphael Gems, Purple Punch and Tangerine Twist. Driven by our best-in-class genetics program and high-quality cultivation capabilities we seek to meet the market demands as consumers continue to look for strain variety.

Global Supply Chain

In September 2023, Cronos successfully completed its first shipment of cannabis to Germany through a strategic partnership with Cansativa GmbH, a leading German cannabis company. We believe that re-establishing Cronos and its PEACE NATURALS® brand in the German market will position us to capitalize on this growing market, with additional growth potential from future legislative changes.

In the coming weeks, we plan to ship cannabis to Vitura Health Limited for sale in the Australian medical market. Cronos owns approximately 10% of the common shares of Vitura. Vitura has stated that it is the market-leading prescriber, patient, pharmacy and supplier online platform, focused on creating medicinal cannabis products and digital health solutions that connect and strengthen the cannabis ecosystem in the Australian medical cannabis market.

Consolidated Results of Operations

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

(in thousands of USD)	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Net revenue, before excise taxes	$ 33,912	$ 26,070	$ 86,264	$ 80,243
Excise taxes	(9,102)	(5,661)	(22,938)	(15,527)
Net revenue	24,810	20,409	63,326	64,716
Cost of sales	20,124	17,265	52,614	50,540
Inventory write-down	716	—	716	—
Gross profit	3,970	3,144	9,996	14,176
Operating expenses				
Sales and marketing	5,296	5,247	16,334	12,442
Research and development	1,246	2,541	4,392	10,656
General and administrative	14,366	16,354	39,673	53,771
Restructuring costs	1,423	387	1,423	3,396
Share-based compensation	1,957	4,247	6,823	10,446
Depreciation and amortization	1,457	1,702	4,515	4,368
Impairment loss on long-lived assets	—	—	—	3,493
Total operating expenses	25,745	30,478	73,160	98,572
Operating loss	(21,775)	(27,334)	(63,164)	(84,396)
Other income (expense)	18,931	(3,653)	35,006	7,571
Income tax (expense) benefit	1,254	(2,118)	2,870	(2,172)
Loss from discontinued operations	(182)	(3,781)	(4,238)	(10,880)
Net loss	(1,772)	(36,886)	(29,526)	(89,877)
Net income (loss) attributable to non-controlling interest	(128)	105	(353)	(27)
Net loss attributable to Cronos Group	$ (1,644)	$ (36,991)	$ (29,173)	$ (89,850)

Summary of select financial results

(in thousands of USD)	Three months ended September 30,		Change		Nine months ended September 30,		Change	
	2023	2022	$	%	2023	2022	$	%
Net revenue	$ 24,810	$ 20,409	$ 4,401	22 %	$ 63,326	$ 64,716	$ (1,390)	(2) %
Cost of sales	20,124	17,265	2,859	17 %	52,614	50,540	2,074	4 %
Inventory write-down	716	—	716	N/A	716	—	716	N/A
Gross profit	3,970	3,144	826	26 %	9,996	14,176	(4,180)	(29) %
Gross margin[(i)]	16 %	15 %	N/A	1 pp	16 %	22 %	N/A	(6)pp

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

Net revenue

For the three months ended September 30, 2023, we reported consolidated net revenue of $24.8 million, representing an increase of $4.4 million from the three months ended September 30, 2022. For the nine months ended September 30, 2023, we reported consolidated net revenue of $63.3 million, representing a decrease of $1.4 million from the nine months ended September 30, 2022. For the three month comparative period, the increase was primarily due to higher cannabis flower and extract sales in the Canadian adult-use market, partially offset by lower cannabis flower sales in Israel driven by pricing pressure as a result of competitive activity, the slowdown in patient permit authorizations and geopolitical unrest, and an adverse price/mix in the Canadian cannabis flower category driving increased excise tax payments as a percentage of revenue. Furthermore, the weakened Canadian dollar and New Israeli Shekel against the U.S. dollar during the period adversely impacted results. For the nine month comparative period, the decrease was primarily due to lower cannabis flower sales in Israel driven by pricing pressure as a result of competitive activity, the slowdown in patient permit authorizations and geopolitical unrest, and an adverse price/mix in the Canadian cannabis flower category driving increased excise tax payments as a percentage of revenue, partially offset by higher cannabis flower and extract sales in the Canadian adult-use market. Furthermore, the weakened Canadian dollar and New Israeli Shekel against the U.S. dollar during the period adversely impacted results.

Cost of sales

For the three months ended September 30, 2023, we reported consolidated cost of sales of $20.1 million, representing an increase of $2.9 million from the three months ended September 30, 2022. For the nine months ended September 30, 2023, we reported consolidated cost of sales of $52.6 million, representing an increase of $2.1 million from the nine months ended September 30, 2022. For the three month comparative period, the increase was primarily due to higher cannabis flower and extract sales in the Canadian adult-use market, partially offset by lower biomass costs and the impact of the weakened Canadian dollar and New Israeli Shekel against the U.S. dollar during the period. For the nine month comparative period, the increase was primarily due to higher cannabis flower and extract sales in the Canadian adult-use market, partially offset by lower cannabis flower sales in the Israeli medical market, lower cannabis biomass costs and the impact of the weakened Canadian dollar and New Israeli Shekel against the U.S. dollar during the period.

Inventory write-down

For the three and nine months ended September 30, 2023, we reported inventory write-downs of $0.7 million as a result of the Company's decision to wind down operations at Cronos Fermentation. For further information, see Note 7 "*Restructuring*" to the condensed consolidated interim financial statements under Item 1 of this Quarterly Report.

Gross profit

For the three months ended September 30, 2023, we reported gross profit of $4.0 million, representing an increase of $0.8 million from the three months ended September 30, 2022. For the nine months ended September 30, 2023, we reported gross profit of $10.0 million, representing a decrease of $4.2 million from the nine months ended September 30, 2022. For the three month comparative period, the increase was primarily due to higher cannabis flower and extract sales in the Canadian adult-use market and lower biomass costs, partially offset by lower cannabis flower sales in Israel, an adverse price/mix in the Canadian cannabis flower category driving increased excise tax payments as a percentage of revenue and the inventory write-down recognized as a result of the decision to wind down operations at Cronos Fermentation. For the nine month comparative period, the decrease was primarily due to lower cannabis flower sales in the Israeli medical market, an adverse price/mix on cannabis flower sales in Canada resulting in higher excise taxes as a percentage of revenue and the inventory write-down recognized as a result of the decision to wind down operations at Cronos Fermentation, partially offset by higher cannabis flower and extract sales in the Canadian adult-use market.

Operating expenses

	Three months ended September 30,		Change		Nine months ended September 30,		Change	
	2023	2022	$	%	2023	2022	$	%
Sales and marketing	$ 5,296	$ 5,247	$ 49	1 %	$ 16,334	$ 12,442	$ 3,892	31 %
Research and development	1,246	2,541	(1,295)	(51)%	4,392	10,656	(6,264)	(59)%
General and administrative	14,366	16,354	(1,988)	(12)%	39,673	53,771	(14,098)	(26)%
Restructuring costs	1,423	387	1,036	268 %	1,423	3,396	(1,973)	(58)%
Share-based payments	1,957	4,247	(2,290)	(54)%	6,823	10,446	(3,623)	(35)%
Depreciation and amortization	1,457	1,702	(245)	(14)%	4,515	4,368	147	3 %
Impairment loss on long-lived assets	—	—	—	N/A	—	3,493	(3,493)	N/A
Total operating expenses	$ 25,745	$ 30,478	$ (4,733)	(16)%	$ 73,160	$ 98,572	$ (25,412)	(26)%

Sales and marketing

For the three months ended September 30, 2023, sales and marketing expenses were essentially flat at $5.3 million compared to the three months ended September 30, 2022. For the nine months ended September 30, 2023, sales and marketing expenses were $16.3 million, representing an increase of $3.9 million from the nine months ended September 30, 2022. For the nine month comparative period, the increase was primarily due to higher advertising and marketing spend.

Research and development

For the three months ended September 30, 2023, research and development expenses were $1.2 million, representing a decrease of $1.3 million from the three months ended September 30, 2022. For the nine months ended September 30, 2023, research and development expenses were $4.4 million, representing a decrease of $6.3 million from the nine months ended September 30, 2022. For both the three and nine month comparative periods, the decrease was primarily due to lower costs associated with the achievement of Ginkgo milestones.

General and administrative

For the three months ended September 30, 2023, general and administrative expenses were $14.4 million, representing a decrease of $2.0 million from the three months ended September 30, 2022. For the nine months ended September 30, 2023, general and administrative expenses were $39.7 million, representing a decrease of $14.1 million from the nine months ended September 30, 2022. For both the three and nine month comparative periods, the decrease was primarily due to lower professional fees, largely related to financial statement review costs, and lower bonus, payroll and insurance costs.

Restructuring costs

For both the three and nine months ended September 30, 2023, restructuring costs were $1.4 million, compared to $0.4 million and $3.4 million for the three and nine months ended September 30, 2022, respectively. For further information, see Note 7 "*Restructuring*" to the condensed consolidated interim financial statements under Item 1 of this Quarterly Report.

Share-based compensation

For the three months ended September 30, 2023, share-based compensation expense was $2.0 million, representing a decrease of $2.3 million from the three months ended September 30, 2022. For the nine months ended September 30, 2023, share-based compensation expense was $6.8 million, representing a decrease of $3.6 million from the nine months ended September 30, 2022. For the three month comparative period, the decrease was primarily due to previously held-back equity awards granted to certain executives in the three months ended September 30, 2022. For the nine month comparative period, the decrease was primarily due to the acceleration of expense on equity awards granted to certain executive employees in connection with their separation from the Company, as well as previously held-back equity awards granted to certain executives in the nine months ended September 30, 2022.

Depreciation and amortization

For the three months ended September 30, 2023, depreciation and amortization expenses were $1.5 million, representing a decrease of $0.2 million from the three months ended September 30, 2022. For the nine months ended September 30, 2023, depreciation and amortization expenses were $4.5 million, representing an increase of $0.1 million from the nine months ended September 30, 2022. For the three month comparative period, the decrease was primarily due to the recognition of certain tax credits related to the company's fixed assets. For the nine month comparative period, the increase was primarily due to higher amortization on Ginkgo-related intangible assets, partially offset by the recognition of certain tax credits related to the Company's fixed assets.

Impairment loss on long-lived assets

We recorded no impairment loss on long-lived assets for both the three months ended September 30, 2023 and September 30, 2022. For the nine months ended September 30, 2023, we recorded no impairment loss on long-lived assets, compared to $3.5 million in the nine months ended September 30, 2022. For further information, see Note 12 "Impairment Loss on Long-lived Assets" to the condensed consolidated interim financial statements under Item 1 of this Quarterly Report.

Other income (loss) and income tax benefit (expense)

	Three months ended September 30,		Change		Nine months ended September 30,		Change	
	2023	2022	$	%	2023	2022	$	%
Interest income, net	$ 13,375	$ 7,208	$ 6,167	86 %	$ 37,021	$ 13,028	$ 23,993	184 %
Gain (loss) on revaluation of derivative liabilities	8	375	(367)	(98)%	(14)	14,204	(14,218)	N/M
Share of income (loss) from equity method investments	1,057	(1,119)	2,176	194 %	831	4,078	(3,247)	N/M
Gain (loss) on revaluation of financial instruments	(5,291)	17,049	(22,340)	N/M	(7,856)	19,205	(27,061)	N/M
Impairment loss on other investments	—	(28,972)	28,972	N/M	—	(40,210)	40,210	N/M
Foreign currency transaction gain (loss)	8,816	2,387	6,429	269 %	3,999	(2,337)	6,336	271 %
Other, net	966	(581)	1,547	N/M	1,025	(397)	1,422	N/M
Total other income (loss)	18,931	(3,653)	22,584	618 %	35,006	7,571	27,435	362 %
Income tax benefit (expense)	1,254	(2,118)	3,372	N/M	2,870	(2,172)	5,042	N/M
Loss from continuing operations	(1,590)	(33,105)	31,515	95 %	(25,288)	(78,997)	53,709	68 %
Loss from discontinued operations	(182)	(3,781)	3,599	95 %	(4,238)	(10,880)	6,642	61 %
Net loss	$ (1,772)	$(36,886)	$ 35,114	95 %	$(29,526)	$(89,877)	$ 60,351	67 %

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

Interest income, net

For the three months ended September 30, 2023, interest income, net was $13.4 million, representing an increase of $6.2 million from the three months ended September 30, 2022. For the nine months ended September 30, 2023, interest income, net was $37.0 million, representing an increase of $24.0 million from the nine months ended September 30, 2022. For both the three and nine month comparative periods, the increase in net interest income was primarily due to higher interest rates and higher cash equivalents and short-term investment balances during the 2023 periods.

Gain (loss) on revaluation of derivative liabilities

For the three months ended September 30, 2023, the gain on revaluation of derivative liabilities was $8 thousand, representing a decrease of $0.4 million from the three months ended September 30, 2022. For the nine months ended September 30, 2023, the loss on revaluation of derivative liabilities was $14 thousand, representing a decreased gain of $14.2 million from the nine months ended September 30, 2022. We expect continued changes in derivative valuations as our share price fluctuates period to period and the remaining expected terms of our derivative instruments change over time. For further information, see Note 6 "*Derivative Liabilities*" to the condensed consolidated interim financial statements under Item 1 of this Quarterly Report.

Share of income (loss) from equity method investments

For the three months ended September 30, 2023, our share of income from equity method investments was $1.1 million, representing an increase of $2.2 million from the three months ended September 30, 2022. For the nine months ended September 30, 2023, our share of income from equity method investments was $0.8 million, representing a decrease of $3.2 million from the nine months ended September 30, 2022. For the three month comparative period, the increase was primarily due to higher income pick-ups from our equity method investment in Cronos GrowCo. For the nine month comparative period, the decrease was primarily due to lower income pick-ups from our equity method investment in Cronos GrowCo. Periodic income and loss pickups from our equity method investment in Cronos GrowCo are impacted both by the profitability of Cronos GrowCo and any unsold inventory remaining at Cronos that originated from Cronos GrowCo.

Gain (loss) on revaluation of financial instruments

For the three months ended September 30, 2023, the loss on revaluation of financial instruments was $5.3 million, representing an increased loss of $22.3 million from the three months ended September 30, 2022. For the nine months ended September 30, 2023, the loss on revaluation of financial instruments was $7.9 million, representing an increased loss of $27.1 million from the nine months ended September 30, 2022. For both the three and nine month comparative periods, the change was primarily related to the change in fair value of our investment in Vitura Health Limited ("Vitura"). For further information, see Note 4 "*Investments*" to the condensed consolidated interim financial statements under Item 1 of this Quarterly Report.

Impairment loss on other investments

There were no impairment losses on other investments during the three and nine months ended September 30, 2023. For the three and nine months ended September 30, 2022, impairment loss on other investments were $29.0 million and $40.2 million, respectively, due to impairment charges recorded on our PharmaCann Option for the difference between its estimated fair value and its carrying amount. For more information, see Note 4 "*Investments*" in our condensed consolidated interim financial statements under Item 1 of this Quarterly Report.

Foreign currency transaction gain (loss)

For the three months ended September 30, 2023, foreign currency translation gain was $8.8 million, representing an increased gain of $6.4 million from the three months ended September 30, 2022. For the nine months ended September 30, 2023, foreign currency translation gain was $4.0 million, representing an increased gain of $6.3 million from the nine months ended September 30, 2022. For both the three and nine month comparative periods, the change was primarily due to certain foreign currency-denominated cash equivalents and short-term investments and certain foreign currency-denominated intercompany loans anticipated to be settled in the foreseeable future.

Other, net

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

Loss from discontinued operations

	Three months ended September 30, 2023	Three months ended September 30, 2022	Nine months ended September 30, 2023	Nine months ended September 30, 2022
Net revenue	$ —	$ 514	$ 1,029	$ 4,301
Cost of sales	—	2,501	2,044	6,274
Inventory write-down(i)	—	—	839	—
Gross profit	—	(1,987)	(1,854)	(1,973)
Operating expenses				
Sales and marketing	—	676	518	4,075
Research and development	—	28	20	254
General and administrative	190	813	926	2,769
Restructuring costs	28	137	562	1,482
Share-based compensation	(4)	18	17	121
Depreciation and amortization	—	11	13	49
Impairment loss on long-lived assets(ii)	—	—	205	—
Total operating expenses	214	1,683	2,261	8,750
Interest income	1	1	9	2
Other, net(iii)	31	(112)	(132)	(159)
Total other loss	32	(111)	(123)	(157)
Loss before income taxes	(182)	(3,781)	(4,238)	(10,880)
Income tax expense (benefit)	—	—	—	—
Net loss from discontinued operations	$ (182)	$ (3,781)	$ (4,238)	$ (10,880)

(i) As of September 30, 2023, all inventory associated with our U.S. operations was $nil as a result of the $0.8 million inventory write-down of obsolete product in the second quarter of 2023.

(ii) During the nine months ended September 30, 2023, as a result of the exit of the U.S. operations, the Company recognized an impairment charge of $205 related to the right-of-use lease assets associated with the Company's former U.S. manufacturing facility in Los Angeles, California.

(iii) For the three and nine months ended September 30, 2023 and September 30, 2022, Other, net related to loss on disposal of assets that were part of the U.S. operations.

For the three months ended September 30, 2023, loss from discontinued operations was $0.2 million, representing a decreased loss of $3.6 million from the three months ended September 30, 2022. For the nine months ended September 30, 2023, loss from discontinued operations was $4.2 million, representing a decreased loss of $6.6 million from the nine months ended September 30, 2022. For the comparative three month period, the decreased loss was driven by the decrease in operating expense as a result of the exit of U.S. operations. For the comparative nine month period, the decreased loss was driven by negative gross margins and higher operating expenses in the nine months ended September 30, 2022. For more information, see Note 2 "*Discontinued Operations*" in our condensed consolidated interim financial statements under Item 1 of this Quarterly Report.

Non-GAAP Measures

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

Adjusted EBITDA

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

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

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

	Three months ended September 30, 2023		
	Continuing Operations	Discontinued Operations	Total
Net loss	$ (1,590)	$ (182)	$ (1,772)
Interest income, net	(13,375)	(1)	(13,376)
Income tax expense (benefit)	(1,254)	—	(1,254)
Depreciation and amortization	2,148	—	2,148
EBITDA	(14,071)	(183)	(14,254)
Share of (income) loss from equity method investments	(1,057)	—	(1,057)
(Gain) loss on revaluation of derivative liabilities(ii)	(8)	—	(8)
(Gain) loss on revaluation of financial instruments(iii)	5,291	—	5,291
Foreign currency transaction (gain) loss	(8,816)	—	(8,816)
Other, net(v)	(966)	(31)	(997)
Restructuring costs(vi)	1,423	28	1,451
Share-based compensation(vii)	1,957	(4)	1,953
Financial statement review costs(viii)	344	—	344
Inventory write-down(ix)	716	—	716
Adjusted EBITDA	$ (15,187)	$ (190)	$ (15,377)

	Three months ended September 30, 2022		
	Continuing Operations	Discontinued Operations	Total
Net loss	$ (33,105)	$ (3,781)	$ (36,886)
Interest income, net	(7,208)	(1)	(7,209)
Income tax expense (benefit)	2,118	—	2,118
Depreciation and amortization	3,166	282	3,448
EBITDA	(35,029)	(3,500)	(38,529)
Share of (income) loss from equity method investments	1,119	—	1,119
Impairment loss on long-lived assets(i)	28,972	—	28,972
(Gain) loss on revaluation of derivative liabilities(ii)	(375)	—	(375)
(Gain) loss on revaluation of financial instruments(iii)	(17,049)	—	(17,049)
Foreign currency transaction (gain) loss	(2,387)	—	(2,387)
Other, net(v)	581	112	693
Restructuring costs(vi)	387	137	524
Share-based compensation(vii)	4,247	18	4,265
Financial statement review costs(viii)	1,070	—	1,070
Adjusted EBITDA	$ (18,464)	$ (3,233)	$ (21,697)

	Nine months ended September 30, 2023		
	Continuing Operations	Discontinued Operations	Total
Net loss	$ (25,288)	$ (4,238)	$ (29,526)
Interest income, net	(37,021)	(9)	(37,030)
Income tax expense (benefit)	(2,870)	—	(2,870)
Depreciation and amortization	6,689	244	6,933
EBITDA	(58,490)	(4,003)	(62,493)
Share of (income) loss from equity method investments	(831)	—	(831)
Impairment loss on long-lived assets(i)	—	205	205
(Gain) loss on revaluation of derivative liabilities(ii)	14	—	14
(Gain) loss on revaluation of financial instruments(iii)	7,856	—	7,856
Foreign currency transaction (gain) loss	(3,999)	—	(3,999)
Other, net(v)	(1,025)	132	(893)
Restructuring costs(vi)	1,423	562	1,985
Share-based compensation(vii)	6,823	17	6,840
Financial statement review costs(viii)	739	—	739
Inventory write-down(ix)	716	839	1,555
Adjusted EBITDA	$ (46,774)	$ (2,248)	$ (49,022)

	Nine months ended September 30, 2022		
	Continuing Operations	Discontinued Operations	Total
Net loss	$ (78,997)	$ (10,880)	$ (89,877)
Interest income, net	(13,028)	(2)	(13,030)
Income tax expense (benefit)	2,172	—	2,172
Depreciation and amortization	9,502	997	10,499
EBITDA	(80,351)	(9,885)	(90,236)
Share of (income) loss from equity method investments	(4,078)	—	(4,078)
Impairment loss on long-lived assets(i)	3,493	—	3,493
(Gain) loss on revaluation of derivative liabilities(ii)	(14,204)	—	(14,204)
(Gain) loss on revaluation of financial instruments(iii)	(19,205)	—	(19,205)
Impairment loss on other investments(iv)	40,210	—	40,210
Foreign currency transaction (gain) loss	2,337	—	2,337
Other, net(v)	397	159	556
Restructuring costs(vi)	3,396	1,482	4,878
Share-based compensation(vii)	10,446	121	10,567
Financial statement review costs(viii)	6,286	—	6,286
Adjusted EBITDA	$ (51,273)	$ (8,123)	$ (59,396)

(i) For the nine months ended September 30, 2023, impairment loss on long-lived assets related to certain leased properties associated with the Company's former U.S. operations. For the nine months ended September 30, 2022, impairment loss on long-lived assets related to the Company's decision to seek a sublease for leased office space in Toronto, Ontario, Canada during the first quarter of 2022. See Note 12 "*Impairment Loss on Long-lived Assets.*"

(ii) For the three and nine months ended September 30, 2023 and 2022, (gain) loss on revaluation of derivative liabilities represents the fair value changes on the derivative liabilities. See Note 6 "*Derivative Liabilities.*"

(iii) For the three and nine months ended September 30, 2023 and 2022, (gain) loss on revaluation of financial instruments related primarily to the Company's equity securities in Vitura.

(iv) For the three and nine months ended September 30, 2022, impairment loss on other investments related to the PharmaCann Option for the difference between its fair value and carrying amount. See Note 4 "*Investments.*"

(v) For the three and nine months ended September 30, 2023 and 2022, other, net related to (gain) loss on disposal of assets.

(vi) For the three and nine months ended September 30, 2023, restructuring costs from continuing operations related to employee-related severance costs and other restructuring costs associated with the Realignment, as described in Note 7 "*Restructuring.* For the three and nine months ended September 30, 2023, restructuring costs from discontinued operations related to employee-related severance costs and other restructuring costs associated with the exit of our former U.S. operations, as described in Note 2 "*Discontinued Operations*." For the three and nine months ended September 30, 2022, restructuring costs related to the employee-related severance costs and other restructuring costs associated with the Realignment. See Note 7 "*Restructuring.*"

(vii) For the three and nine months ended September 30, 2023 and 2022, share-based compensation related to the non-cash expenses of share-based compensation awarded to employees under the Company's share-based award plans as described in Note 8 "*Share-based Compensation.*"

(viii) For the three and nine months ended September 30, 2023 and 2022, financial statement review costs include costs and reserves taken related to the Restatements, costs related to the Company's responses to requests for information from various regulatory authorities relating to the Restatements and legal costs incurred defending shareholder class action complaints brought against the Company as a result of the 2019 restatement.

(ix) For the nine months ended September 30, 2023, inventory write-downs from discontinued operations relate to product destruction and obsolescence associated with the exit of our U.S. operations as described in Note 2 "*Discontinued Operations*." For the three and nine months ended September 30, 2023, inventory write-downs from continuing operations relate to product destruction and obsolescence associated with the planned exit of Cronos Fermentation as described in Note 7 "*Restructuring."*

Constant Currency

To supplement the consolidated financial statements presented in accordance with U.S. GAAP, we have presented constant currency adjusted financial measures for net revenues, gross profit, gross profit margin, operating expenses, net income (loss) and Adjusted EBITDA for the three and nine months ended September 30, 2023, as well as cash and cash equivalents and short-term investment balances as of September 30, 2023 compared to December 31, 2022, which are considered non-GAAP financial measures. We present constant currency information to provide a framework for assessing how our underlying operations performed excluding the effect of foreign currency rate fluctuations. To present this information, current and comparative prior period income statement results in currencies other than U.S. dollars are converted into U.S. dollars using the average exchange rates from the three and nine month comparative periods in 2022 rather than the actual average exchange rates in effect during the respective current periods; constant currency current and prior comparative balance sheet information is translated at the prior year-end spot rate rather than the current period spot rate. All growth comparisons relate to the corresponding period in 2022. We have provided this non-GAAP financial information to aid investors in better understanding the performance of our operations. The non-GAAP financial measures presented in this Quarterly Report should not be considered as a substitute for, or superior to, the measures of financial performance prepared in accordance with U.S. GAAP. See further discussion on foreign currency risk as noted in Item 3 "Quantitative and Qualitative Disclosures About Market Risk."

The table below sets forth certain measures of consolidated results from continuing operations on a constant currency basis for the three and nine months ended September 30, 2023 compared to the three and nine months ended September 30, 2022 as well as cash and cash equivalents and short-term investments as of September 30, 2023 and December 31, 2022, both on an as-reported and constant currency basis (in thousands):

	As Reported				As Adjusted for Constant Currency		
	Three months ended September 30,		As Reported Change		Three months ended September 30,	Constant Currency Change	
	2023	2022	$	%	2023	$	%
Net revenue	$ 24,810	$ 20,409	$ 4,401	22 %	$ 26,005	$ 5,596	27 %
Gross profit	3,970	3,144	826	26 %	4,216	1,072	34 %
Gross margin	16 %	15 %	N/A	1 pp	16 %	N/A	1 pp
Operating expenses	25,745	30,478	(4,733)	(16) %	25,905	(4,573)	(15) %
Net loss from continuing operations	(1,590)	(33,105)	31,515	95 %	(823)	32,282	98 %
Adjusted EBITDA	(15,187)	(18,464)	3,277	18 %	(14,890)	3,574	19 %

	Nine months ended September 30,		As Reported Change		Nine months ended September 30,	Constant Currency Change	
	2023	2022	$	%	2023	$	%
Net revenue	$ 63,326	$ 64,716	$ (1,390)	(2) %	$ 67,228	$ 2,512	4 %
Gross profit	9,996	14,176	(4,180)	(29) %	10,736	(3,440)	(24) %
Gross margin	16 %	22 %	N/A	(6)pp	16 %	N/A	(6)pp
Operating expenses	73,160	98,572	(25,412)	(26) %	76,476	(22,096)	(22) %
Net loss from continuing operations	(25,288)	(78,997)	53,709	68 %	(26,561)	52,436	66 %
Adjusted EBITDA	(46,774)	(51,273)	4,499	9 %	(48,773)	2,500	5 %

	As of September 30,	As of December 31,	As Reported Change		As of September 30,	Constant Currency Change	
	2023	2022	$	%	2023	$	%
Cash and cash equivalents	$ 571,656	$ 764,644	$ (192,988)	(25) %	$ 572,797	$ (191,847)	(25) %
Short-term investments	267,905	113,077	154,828	137 %	268,359	155,282	137 %
Total cash and cash equivalents and short-term investments	$ 839,561	$ 877,721	$ (38,160)	(4) %	$ 841,156	$ (36,565)	(4) %

Net revenue

	As Reported				As Adjusted for Constant Currency		
	Three months ended September 30,		As Reported Change		Three months ended September 30,	Constant Currency Change	
	2023	2022	$	%	2023	$	%
Cannabis flower	$ 17,414	$ 13,674	$ 3,740	27 %	$ 18,362	$ 4,688	34 %
Cannabis extracts	7,268	6,627	641	10 %	7,510	883	13 %
Other	128	108	20	19 %	133	25	23 %
Net revenue	$ 24,810	$ 20,409	$ 4,401	22 %	$ 26,005	$ 5,596	27 %

	As Reported				As Adjusted for Constant Currency		
	Nine months ended September 30,		As Reported Change		Nine months ended September 30,	Constant Currency Change	
	2023	2022	$	%	2023	$	%
Cannabis flower	$ 44,556	$ 48,038	$ (3,482)	(7)%	$ 47,520	$ (518)	(1)%
Cannabis extracts	18,495	16,197	2,298	14 %	19,419	3,222	20 %
Other	275	481	(206)	(43)%	289	(192)	(40)%
Net revenue	$ 63,326	$ 64,716	$ (1,390)	(2)%	$ 67,228	$ 2,512	4 %

	As Reported				As Adjusted for Constant Currency		
	Three months ended September 30,		As Reported Change		Three months ended September 30,	Constant Currency Change	
	2023	2022	$	%	2023	$	%
Canada	$ 18,738	$ 13,370	$ 5,368	40 %	$ 19,348	$ 5,978	45 %
Israel	5,673	7,039	(1,366)	(19)%	6,239	(800)	(11)%
Other countries	399	—	399	100 %	418	418	100 %
Net revenue	$ 24,810	$ 20,409	$ 4,401	22 %	$ 26,005	$ 5,596	27 %

	As Reported				As Adjusted for Constant Currency		
	Nine months ended September 30,		As Reported Change		Nine months ended September 30,	Constant Currency Change	
	2023	2022	$	%	2023	$	%
Canada	$ 46,767	$ 41,335	$ 5,432	13 %	$ 49,049	$ 7,714	19 %
Israel	16,160	23,381	(7,221)	(31)%	17,761	(5,620)	(24)%
Other countries	399	—	399	100 %	418	418	100 %
Net revenue	$ 63,326	$ 64,716	$ (1,390)	(2)%	$ 67,228	$ 2,512	4 %

For the three months ended September 30, 2023, net revenue on a constant currency basis was $26.0 million, representing a 27% increase from the three months ended September 30, 2022. For the nine months ended September 30, 2023, net revenue on a constant currency basis was $67.2 million, representing a 4% increase from the nine months ended September 30, 2022. On a constant currency basis, net revenue increased for both the three and nine months ended September 30, 2023 primarily due to higher cannabis flower and extracts sales in the Canadian adult-use market, partially offset by lower cannabis flower sales in Israel driven by pricing pressure as a result of competitive activity, the slowdown in patient permit authorizations and geopolitical unrest, and an adverse price/mix in Canada in the cannabis flower category driving increased excise tax payments as a percentage of revenue.

Gross profit

For the three months ended September 30, 2023, gross profit on a constant currency basis was $4.2 million, representing a 34% increase from the three months ended September 30, 2022. For the nine months ended September 30, 2023, gross profit on a constant currency basis was $10.7 million, representing a 24% decrease from the nine months ended September 30, 2022. On a constant currency basis, gross profit increased for the three months ended September 30, 2023 primarily due to higher cannabis flower and extract sales in the Canadian adult-use market and lower biomass costs, partially offset by lower cannabis flower sales in Israel, an adverse price/mix in the Canadian cannabis flower category driving increased excise tax payments as a percentage of revenue and the inventory write-down recognized as a result of the decision to wind down operations at Cronos Fermentation. On a constant currency basis, gross profit decreased for the nine months ended September 30, 2023 primarily due to lower cannabis flower sales in the Israeli medical market, an adverse price/mix on cannabis flower sales in Canada resulting in higher excise taxes as a percentage of revenue and the inventory write-down recognized as a result of the decision to wind down operations at Cronos Fermentation, partially offset by higher cannabis flower and extract sales in the Canadian adult-use market.

Operating expenses

For the three months ended September 30, 2023, operating expenses on a constant currency basis were $25.9 million, representing a 15% decrease from the three months ended September 30, 2022. For the nine months ended September 30, 2023, operating expenses on a constant currency basis were $76.5 million, representing a 22% decrease from the nine months ended September 30, 2022. On a constant currency basis, operating expenses decreased for the three and nine months ended September 30, 2023, primarily due to lower professional fees, largely related to financial statement review costs, lower costs associated with the achievement of Ginkgo milestones, the acceleration of expense on equity awards granted to certain executive employees in connection with their separation from the Company, as well as previously held-back equity awards granted to certain executives in the prior year, impairment loss on long-lived assets recognized in the prior year, lower bonus expense, lower payroll costs and lower insurance costs, partially offset by higher sales and marketing expenses.

Net loss

For the three months ended September 30, 2023, net loss on a constant currency basis was $0.8 million, representing a 98% reduction in net loss from the three months ended September 30, 2022. For the nine months ended September 30, 2023, net loss on a constant currency basis was $26.6 million, representing a 66% reduction in net loss from the nine months ended September 30, 2022.

Adjusted EBITDA

For the three months ended September 30, 2023, Adjusted EBITDA on a constant currency basis was $(14.9) million, representing a 19% improvement from the three months ended September 30, 2022. For the nine months ended September 30, 2023, Adjusted EBITDA on a constant currency basis was $(48.8) million, representing a 5% improvement from the nine months ended September 30, 2022. The increase in Adjusted EBITDA for the three and nine months ended September 30, 2023 on a constant currency basis was primarily driven by higher cannabis flower and extracts sales in the Canadian adult-use market, decreases in general and administrative expenses, lower costs associated with the achievement of Ginkgo milestones, partially offset by lower cannabis flower sales in Israel driven by pricing pressure as a result of competitive activity, the slowdown in patient permit authorizations and geopolitical unrest, an adverse price/mix in Canada in the cannabis flower category driving increased excise tax payments as a percentage of revenue and higher sales and marketing expenses.

Cash and cash equivalents & short-term investments

Cash and cash equivalents and short-term investments on a constant currency basis decreased 4% to $841.2 million as of September 30, 2023 from $877.7 million as of December 31, 2022. The decrease in cash and cash equivalents and short-term investments is primarily due to cash flows used in operating activities in the nine months ended September 30, 2023.

Liquidity and Capital Resources

As of September 30, 2023, we had $571.7 million in cash and cash equivalents and $267.9 million in short-term investments. We believe that the existing cash and cash equivalents and short-term investments will be sufficient to fund the business operations and capital expenditures over the next twelve months. The following table summarizes the cash flows from operating, investing and financing activities:

(In thousands of U.S. dollars)	Nine months ended September 30, 2023	
	2023	**2022**
Cash flows used in operating activities	$ (59,650)	$ (64,576)
Cash flows used in investing activities	(141,392)	(160,300)
Cash flows used in financing activities	(812)	(2,277)
Effect of foreign currency translation on cash and cash equivalents	8,866	(26,524)
Net change in cash	$ (192,988)	$ (253,677)

Comparison of cash flows between the nine months ended September 30, 2023 and the nine months ended September 30, 2022

Operating activities

During the nine months ended September 30, 2023, we used $59.7 million of cash in operating activities as compared to cash used of $64.6 million in the nine months ended September 30, 2022, representing a decrease in cash used of $4.9 million. This change is primarily driven by a $41.5 million increase in net income after adjusting for non-cash items during the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022 and a decrease in accounts receivable, partially offset by a $32.8 million decrease in income taxes payable as a result of a tax payment connected to the previously disclosed relinquishment by Altria of its warrant to purchase additional shares of the Company, an increase in interest receivable and a decrease in accounts payable.

Investing activities

During the nine months ended September 30, 2023, we used $141.4 million of cash in investing activities, compared to $160.3 million of cash used in investing activities during the nine months ended September 30, 2022, representing a decrease of $18.9 million in cash used by investing activities. This change is primarily driven by an $11.9 million increase in proceeds from the repayment of loans receivable in the nine months ended September 30, 2023.

Financing activities

During the nine months ended September 30, 2023, cash used in financing activities was $0.8 million, compared to $2.3 million of cash used in financing activities during nine months ended September 30, 2022, representing a decrease of $1.5 million in cash used in financing activities. This change is primarily driven by a decrease of $1.4 million in withholding taxes paid on share-based awards during nine months ended September 30, 2023 compared to nine months ended September 30, 2022.

Cash Requirements

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

Critical Accounting Policies and Estimates

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

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

Foreign currency risk

The Company's condensed consolidated financial statements included in Part I, Item 1. "Financial Statements" of this Quarterly Report are expressed in U.S. dollars. The Company is exposed to foreign currency risk based on its net assets, liabilities, and revenues denominated in foreign currencies, including Canadian dollars and Israeli new shekels. As a result, we are exposed to foreign currency translation gains and losses. Revenue and expenses of all foreign operations are translated into U.S. dollars at the foreign currency exchange rates that approximate the rates in effect during the period when such items are recognized. Appreciating foreign currencies relative to the U.S. dollar will positively impact operating income and net earnings, while depreciating foreign currencies relative to the U.S. dollar will have an adverse impact.

A 10% change in the exchange rates for the Canadian dollar would have affected the carrying amount of the net assets by approximately $96.7 million and $77.4 million as of September 30, 2023 and December 31, 2022, respectively. The corresponding impact would be recorded in accumulated other comprehensive income. We have not historically engaged in hedging transactions and do not currently contemplate engaging in hedging transactions to mitigate foreign exchange risks. As we continue to recognize gains and losses in foreign currency transactions, depending upon changes in future currency rates, such gains and losses could have a significant, and potentially adverse, effect on the Company's results of operations.

During the three and nine months ended September 30, 2023, the Company had foreign currency gain on translation of $20.1 million and $1.1 million, respectively. During the three and nine months ended September 30, 2022 the Company had foreign currency loss on translation of $60.6 million and $68.8 million, respectively.