

CRONOS

A U S T R A L I A



Prospectus

CRONOS AUSTRALIA LIMITED

ACN 629 071 594

**FOR THE ISSUE OF 40,000,000
SHARES AT AN ISSUE PRICE OF
\$0.50 TO RAISE \$20 MILLION.**

This document is important. Carefully read this Prospectus in full and consult your licensed financial adviser, accountant, stockbroker, lawyer or other professional adviser if you are in any doubt as to what to do.

LEAD MANAGER
AND UNDERWRITER

BELL POTTER

AFS LICENCE 243480

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IMPORTANT INFORMATION

This Prospectus is issued by Cronos Australia Limited ACN 629 071 594 (**Cronos Australia**). The Offer contained in this Prospectus is an initial public offering to acquire fully paid ordinary shares (**Shares**) in Cronos Australia. This Prospectus is an important document. You should read it carefully. It is important that you consider the risk factors (see Section 6) before deciding on your course of action as these could affect Cronos Australia's financial performance.

LODGEMENT

This Prospectus is dated 15 October 2019 and was lodged with ASIC on that date. It is a replacement prospectus which replaces the prospectus dated 4 October 2019 that was lodged with ASIC on that date (**Original Prospectus**).

The key differences between the Original Prospectus and this Prospectus are to clarify the period covered by the use of proceeds tables on pages 31 and 131 and to include updated captions to the photographs on pages 35 and 173.

APPLICATION FOR LISTING

Within 7 days after the date of this Prospectus, Cronos Australia will lodge an application with the ASX for admission to the official list of the ASX and quotation of all Shares (including New Shares issued pursuant to this Prospectus) on the ASX.

Neither ASX nor ASIC takes any responsibility for the contents of this Prospectus. The fact that the ASX may admit Cronos Australia to its official list is not to be taken in any way as an indication of the merits of Cronos Australia or the Shares offered under this Prospectus.

EXPIRY DATE

No New Shares will be issued on the basis of this Prospectus later than 13 months after the date of issue of this Prospectus. New Shares offered pursuant to this Prospectus will be issued on the terms and conditions set out in this Prospectus.

EXPOSURE PERIOD

The Corporations Act prohibits Cronos Australia from processing the Applications received until after the Exposure Period. The Exposure Period is the 7-day period from the date of this Prospectus and may be extended by ASIC by up to a further 7 days (i.e. up to a total of 14 days). The purpose of the Exposure Period is to enable this Prospectus to be examined by market participants. That examination may result in the identification of deficiencies in this Prospectus, in which case any Application received may need to be dealt with in accordance with section 724 of the Corporations Act. Applications received during the Exposure Period will not be processed until after the expiry of the Exposure Period.

FOREIGN JURISDICTIONS – RESTRICTIONS ON DISTRIBUTION

This Prospectus does not constitute an offer or invitation to subscribe for New Shares in any jurisdiction in which, or to any person to whom, it would not be lawful to make such an offer or invitation or issue under this Prospectus. For further information see Section 8.13 of this Prospectus entitled "Foreign selling restrictions."

No action has been taken to register or qualify this Prospectus, the New Shares or the Offer or otherwise to permit a public offering of the New Shares in any jurisdiction outside Australia. In particular, the New Shares have not been, and will not be, registered under the US Securities Act of 1933, as amended (the **US Securities Act**), or the securities laws of any state or other jurisdiction of the United States and may not be offered or sold, directly or indirectly, in the United States, except in transactions exempt from, or not subject to, the registration requirements of the US Securities Act and applicable US state securities laws.

This Prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of the securities offered hereby within the United States. This Prospectus may not be distributed in the United States or Canada unless it is attached to, or constitutes part of, an Offering Circular for distribution to institutional and professional investors in accordance with the laws of those jurisdictions.

REPRESENTATIONS

No person is authorised to give any information or make any representations in connection with the Offer other than as contained in this Prospectus. Any information or representation in connection with the Offer not contained in this Prospectus is not, and may not be relied on as having been, authorised by Cronos Australia (or any of its officers or Directors).

FORWARD LOOKING STATEMENTS

Certain statements in this Prospectus are about the future. These are identified by words such as "believes", "considers", "could", "estimates", "expects", "intends", "may" and other similar words that involve risks and uncertainties. There are risks (both known and unknown), uncertainties, assumptions and other important factors that could cause the actual conduct, results, performance or achievements of Cronos Australia to be materially different from the future conduct, results, performance or achievements expressed or implied by such statements or that could cause the future conduct to be materially different from historical conduct. Such forward looking statements are not guarantees of future performance. Deviations as to future conduct, results, performance and achievements are both normal and to be expected. Cronos Australia cannot and does not give any assurance that the results, performance or achievements expressed or implied by the forward looking statements contained in this Prospectus will actually occur and investors are cautioned not to place undue reliance on these forward looking statements.

DISCLAIMER

The information contained in this Prospectus is not financial product advice. This Prospectus contains general information only, and does not take into account the individual investment objectives, financial situation or particular needs of any person. Nothing in this Prospectus should be construed as a recommendation by Cronos Australia or any other person concerning an investment in Cronos Australia. You should read the entire Prospectus carefully and, in particular, in considering the prospects for Cronos Australia, you should consider the risk factors that could affect the financial performance of Cronos Australia. You should carefully

consider these factors in light of your personal circumstances (including financial and taxation issues), and you should seek professional advice from a licensed financial adviser, accountant, stockbroker, lawyer or other professional adviser in relation to the Offer and the transactions contemplated in this Prospectus.

Except as required by law, no person named in this Prospectus, nor any other person, warrants or guarantees the performance of Cronos Australia or any payment of a return on investment made pursuant to this Prospectus.

ELECTRONIC PROSPECTUS

This Prospectus may be viewed online at www.cronosaustralia.com. The website and its contents do not form part of this Prospectus and are not to be interpreted as part of, nor incorporated into, this Prospectus. Persons who receive the electronic version of this Prospectus should ensure that they download and read the entire Prospectus.

The Offer to which the electronic Prospectus relates is only available to persons receiving the electronic Prospectus in Australia. Persons having received a copy of this Prospectus in its electronic form in Australia may obtain a paper copy of the Prospectus (including any supplementary document and the Application Form) (free of charge) during the life of this Prospectus by contacting the Cronos Australia Limited Offer Information Line on 1800 176 125 (within Australia) or +61 1800 176 125 (outside Australia) from 8.30am to 5.30pm (AEDT), Monday to Friday (excluding public holidays).

DEFINED TERMS AND GLOSSARY

Capitalised words and expressions used in this Prospectus are defined in the Glossary at Section 11.

FINANCIAL AMOUNTS

Financial amounts in this Prospectus are expressed in Australian dollars unless otherwise stated. Any discrepancies between totals and sums of components in tables contained in this Prospectus are due to rounding.

INDEPENDENT LIMITED ASSURANCE REPORT ON FINANCIAL INFORMATION AND FINANCIAL SERVICES GUIDE

The provider of the Independent Limited Assurance Report on the Financial Information is required to provide Australian retail investors with a financial services guide in relation to its independent limited review under the Corporations Act. The Independent Limited Assurance Report and accompanying financial services guide are provided in Section 5 of this Prospectus.

PHOTOGRAPHS, 3D RENDERS AND DIAGRAMS

Photographs and 3D renders used in this Prospectus which do not have descriptions are for illustration purposes only and should not be interpreted to mean that any person shown endorses this Prospectus or its contents or that the assets shown in them are owned by Cronos Australia. Diagrams used in this Prospectus are illustrative only and may not be drawn to scale.

PRIVACY

Cronos Australia collects information about each Applicant provided on an Application for the purposes of processing the Application and, if the Application is successful, to administer the Applicant's security holding in Cronos Australia.

By submitting an Application, each Applicant agrees that Cronos Australia may use the information provided by that Applicant on that Application for the purposes set out in this privacy disclosure statement and may disclose it for those purposes to the Share Registry, Cronos Australia's related bodies corporate, agents, contractors and third party service providers, including mailing houses and professional advisers, and to ASX, ASIC and other regulatory authorities.

If an Applicant becomes a security holder of Cronos Australia, the Corporations Act requires Cronos Australia to include information about the security holder (name, address and details of the securities held) in its public register. This information must remain in the register even if that person ceases to be a security holder of Cronos Australia. Information contained in Cronos Australia's register is also used to facilitate

distribution payments and corporate communications (including Cronos Australia's financial results, annual reports and other information that Cronos Australia may wish to communicate to its security holders) and compliance by Cronos Australia with legal and regulatory requirements.

If you do not provide the information required on the Application, Cronos Australia may not be able to accept or process your Application.

An Applicant has a right to gain access to the information that Cronos Australia and the Share Registry holds about that person subject to certain exemptions under law. Access requests must be made in writing to Cronos Australia.

SPECULATIVE INVESTMENT

An investment in the New Shares offered under this Prospectus should be considered highly speculative. Refer to Section 6 for details of the key risks applicable to an investment in Cronos Australia. Persons wishing to apply for New Shares offered under this Prospectus should read this Prospectus in its entirety in order to make an informed assessment of the assets and liabilities, financial position and performance, profits and losses and prospects of Cronos Australia and the rights and liabilities attaching to the New Shares offered pursuant to this Prospectus.

This Prospectus does not take into account the investment objectives, financial or taxation or particular needs of any Applicant. Before making an investment in Cronos Australia, each Applicant should consider whether such an investment is appropriate to their particular needs and considering their individual risk profile for speculative investments, investment objectives and individual financial circumstances. If persons who are considering applying for New Shares offered pursuant to this Prospectus have any questions, they should consult their accountant, stockbroker, lawyer, or other professional adviser.

There is no guarantee that the New Shares offered under this Prospectus will make a return on capital invested, that dividends will be paid on the New Shares or that there will be an increase in the value of the New Shares in the future.

KEY OFFER STATISTICS AND IMPORTANT DATES

KEY DATES:

Lodgement of Prospectus with ASIC	15 October 2019
Opening Date of Offer	16 October 2019
Closing Date of Offer	25 October 2019
Allotment of New Shares – under the Institutional Offer, Chairman's List Offer and Broker Firm Offer	7 November 2019
Expected commencement of trading on ASX on a deferred settlement basis	7 November 2019
Expected dispatch of Shareholder holding statements	8 November 2019
Shares expected to commence trading on ASX on a normal settlement basis	11 November 2019

Dates may change

The above dates are subject to change and are indicative only. Cronos Australia reserves the right to vary the dates and times of the Offer, including to close the Offer early, extend the Offer or accept late Applications, without notifying any recipient of this Prospectus or any Applicants, subject to the Corporations Act, the ASX Listing Rules and other applicable laws. Applicants are encouraged to submit their Applications as early as possible after the Offer opens.

KEY OFFER STATISTICS:

Offer Price for each New Share	\$0.50
Number of existing Shares on issue as at the date of this Prospectus	80,000,000
Number of New Shares to be issued under the Offer	40,000,000
Total number of Shares on issue at completion of the Offer ¹	128,750,000
Indicative market capitalisation at completion of the Offer ²	\$64,375,000
Total proceeds from the Offer	\$20,000,000, before expenses

NOTES:

1. This figure includes a total of 8,750,000 Shares that are to be issued upon conversion of tranches one and two of the convertible loans pursuant to the Convertible Loan Agreements and excludes any Shares which may be issued upon exercise of the Broker Options.
2. Calculated by multiplying the total number of Shares on issue after completion of the Offer by the Offer Price.

HOW TO INVEST:

Applications for New Shares can only be made by completing and lodging an Application Form. Instructions on how to apply for Shares are set out in Sections 8.2.2 and 8.3.2 and on the back of the Application Form. Applications can also be made online at www.cronosaustralia.com.

QUESTIONS:

Please contact the Cronos Australia Limited Offer Information Line, on 1800 176 125 (if calling within Australia) or +61 1800 176 125 (if calling from outside of Australia) from 8.30am to 5.30pm (AEDT) Monday to Friday, if you have any questions about the Application Form.

If you are in any doubt as to what to do in relation to the Offer, you should seek professional advice from a licensed financial adviser, accountant, stockbroker, lawyer or other professional adviser before deciding whether to invest in Cronos Australia.

CHAIRMAN'S LETTER

15 October 2019

DEAR INVESTOR

On behalf of the Directors, I am pleased to invite you to become a Shareholder of Cronos Australia Limited (**Cronos Australia**).

Cronos Australia is a medicinal cannabis company that plans to enter the medicinal cannabis market in Australia with both THC and CBD products, and has secured all the necessary Australian licences to operate – including import and export licences. In addition to distributing the in-market brand PEACE NATURALS™, which is sold in Canada and Germany, Cronos Australia proposes to outsource the manufacturing and distribution of its own brand of medicinal cannabis products for Australia and target export markets (subject to legislative reform in those markets and Cronos Australia obtaining any required approvals and licences).

Cronos Australia was established as a 50/50 joint venture between a global cannabinoid company, Cronos Group Inc (dual listed – NASDAQ:CRON, TSX:CRON – with a market capitalisation of A\$4.53bn¹) and a Melbourne-based private equity firm controlled by the two Executive Directors of Cronos Australia.

Cronos Australia's business has the following key attributes that position it well to accelerate its growth strategy:

- **Licences** have been received from the relevant Australian authorities that are needed for Cronos Australia to import, export, cultivate, manufacture and research cannabis.
- **Access to Cronos Group Inc's intellectual property**, via sole, territorial licences granted by Cronos Group Inc, including a selection of cultivars from Cronos Group Inc's genetic bank of approximately 140 cannabis cultivars, as well as licences in respect of trademarks, processes and designs. Additionally, Cronos Australia can access know-how from Cronos Group Inc relating to marketing, licensing, design, production and manufacturing.
- **Reduced execution risk through utilising elements of the Cronos Group Inc business model**, including the marketing of cannabis products, use of customer and stakeholder engagement frameworks, and the in-person assistance of Cronos Group Inc personnel.
- **Route to early revenue** through the proposed importation and sale of medicinal cannabis products sourced under supply agreements while Australian THC and CBD medicinal cannabis products are developed by Cronos Australia for launch.
- **'Asset light' model**, that leverages an outsourced cultivation and manufacturing model, giving Cronos Australia the flexibility and agility in a rapidly evolving market to focus on products, brands, distribution and IP.
- **A focus on development of brands and products, particularly CBD Products**, in partnership with appropriate creative and design agencies, which is aligned with demand for CBD Products in global markets.
- **Supply, manufacture and research agreements in place with:**
 - > Mile High Labs for the potential supply of CBD Products under the brands that Cronos Australia plans to create.
 - > MediPharm Labs Australia for the potential manufacture and supply of medicinal cannabis products under the brands that Cronos Australia plans to create.
 - > Peace Naturals Project for the potential supply of PEACE NATURALS™ branded products.
 - > Victorian Government's AVS for research in relation to genetic material of cannabis. It is intended that this will lead to Cronos Australia being able to commercialise any such genetics (including via outsourced manufacture).
- **Commercial, execution-focused Board and management team** capable of delivering on Cronos Australia's phased growth strategy. Cronos Australia's leadership team has experience in the global cannabis industry, as well as in high growth enterprises, marketing and regulation.
- **Business development function established** in Hong Kong to undertake business development activities in Asian markets as the laws in relation to medicinal cannabis products in those markets continue to evolve.

1. NASDAQ: market capitalisation of US\$3.06bn as at 1 October 2019. Exchange rate: A\$1.00 = US\$0.6753.

To fund our growth plan, Cronos Australia is seeking to raise \$20 million through the issue of 40,000,000 New Shares at a price of \$0.50 per New Share pursuant to the Offer. The Offer comprises the Broker Firm Offer, which is open to investors with a registered address in Australia who have received a firm allocation from their Broker, the Chairman's List Offer, which is open to investors in Australia nominated by Cronos Australia and the Institutional Offer, which is open to Institutional Investors. The Offer is an important next step in the evolution of our company and the Board believes it is integral to supporting our long-term growth strategy. The Offer provides an opportunity for you to share in our exciting future.

This Prospectus contains detailed information about the Offer, financial position, operations, management team and future plans of Cronos Australia. **Section 6 includes a description of the key risks associated with an investment in Cronos Australia and this should be read in detail.** An investment in Cronos Australia is subject to a range of risks, including the failure to maintain or obtain required licences and permits, risks associated with changes in laws and regulations, reliance on third party suppliers, risks associated with products and other business specific risks. I encourage you to read the Prospectus carefully and in its entirety before making your investment decision and if required consult with your accountant, broker, lawyer, or other independent professional adviser.

On behalf of the Directors, I invite you to consider this opportunity to invest in Cronos Australia and look forward to welcoming you as a Shareholder.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Shane Tanner', with a stylized, flowing script.

Shane Tanner
Chairman
Cronos Australia Limited



01.

INVESTMENT OVERVIEW

Cronos Group Inc subsidiary,
Peace Naturals Project Inc.,
dried cannabis product.

01. INVESTMENT OVERVIEW

The information in this Section 1 is a summary only. It should be read in conjunction with the information set out in the remainder of this Prospectus.

■ 1.1 INTRODUCTION

TOPIC	SUMMARY	MORE INFO
What is Cronos Australia?	<p>Cronos Australia is a medicinal cannabis company that plans to enter the medicinal cannabis market in Australia with both THC and CBD products, and has secured all the necessary Australian licences to operate – including import and export licences. In addition to distributing the in-market brand PEACE NATURALS™, which is sold in Canada and Germany, Cronos Australia intends to also engage in innovative product and brand development, outsourced manufacturing and distribution for Australia and target export markets (subject to legislative reform in those markets and Cronos Australia obtaining any required approvals and licences).</p> <p>Cronos Australia was established as a 50/50 joint venture between a global cannabinoid company, Cronos Group Inc (dual listed – NASDAQ:CRON, TSX:CRON – with a market capitalisation of A\$4.53bn) and a Melbourne-based private equity firm controlled by the two Executive Directors of Cronos Australia.</p>	Sections 3 and 9.1
Which industry does Cronos Australia operate in?	<p>Cronos Australia operates in the medicinal cannabis industry in Australia.</p> <p>Medicinal cannabis is a term that covers a broad range of products derived from the cannabis plant or the chemical compounds it produces, such as cannabinoids, that are obtained through prescriptions from a medical practitioner. THC and CBD are the most abundant cannabinoids.</p>	Section 2
What are 'CBD Products'?	<p>The term "CBD Products" refers to products (medicinal or otherwise) that incorporate low levels of THC. CBD-dominant strains are widely used by those who do not wish to consume THC. CBD Products are also available in some jurisdictions (such as the United States, Canada, and the United Kingdom) for non-medicinal use, and can be purchased in these jurisdictions 'over-the-counter'. As the law in Australia does not make a distinction between cannabis plants that contain less than 0.3% THC (from which CBD is typically derived) and other cannabis plants, CBD Products are only available in Australia for medicinal use and can therefore only be obtained through the Special Access Schemes or Authorised Prescribers Scheme (see Section 2.4.7).</p>	Section 2
What is the regulatory status of the medicinal cannabis industry in Australia?	<p>Australia is an emerging market for medicinal cannabis.</p> <p>The regulatory framework in Australia is complex and comprises legislation at the Federal and State levels as well as regulatory oversight from multiple government agencies. This extends along the entire medicinal cannabis value chain from research to cultivation, processing, manufacturing, importing and exporting.</p>	Section 2.4

01. INVESTMENT OVERVIEW cont.

TOPIC	SUMMARY	MORE INFO
What are Cronos Australia's current and proposed business activities?	<p>Cronos Australia was formed to take advantage of opportunities relating to the emerging cannabis industry both domestically and internationally.</p> <p>The vision of Cronos Australia is to become a leading health and wellness company in the Asia Pacific region through the distribution of premium THC and CBD cannabis products.</p> <p>To achieve this, the business model is based on a number of strategic pillars that define the growth strategy of Cronos Australia, including:</p> <ul style="list-style-type: none"> • Brands – Develop a range of Australian brands and products, including CBD Products, to address the evolving domestic and target export markets, and import and distribute PEACE NATURALS™ branded medicinal cannabis products. • Access to supply and manufacture – Develop the capacity appropriate to supply THC and CBD medicinal cannabis products to domestic and target export markets. • Distribution – Develop distribution channels for medicinal cannabis products in Australia. As legislation evolves, target distribution channels in New Zealand and parts of Asia. • Intellectual property – Leverage the IP of Cronos Group Inc to accelerate market entry and reduce execution risk, and focus on the development of Cronos Australia's own IP including through its partnership with AVS. <p>Investors should consider the licensing, product and other risks associated with the business model as summarised in Section 1.3 and described in more detail in Section 6.</p>	Section 3.6

TOPIC	SUMMARY	MORE INFO												
Does Cronos Australia hold the required licences and permits for its current and proposed business activities?	<p>Licences issued by the Office of Drug Control (ODC) pursuant to the <i>Narcotic Drugs Act 1967</i> (Cth) (ND Act) serve to determine who may legally conduct an activity (such as importation), while permits issued by the ODC specifically control the activity (such as the type, quantity and timing of products that may be imported).</p> <p>To date, five Federal Government licences have been granted to a subsidiary of Cronos Australia by the ODC. A summary of the licences and expiration dates is provided in the table below. Cronos Australia's subsidiary is also the holder of Federal Government issued import and export permits. A summary of these permits is also described below:</p> <table> <tr> <th>Licence</th><th>Issuer</th><th>Status</th></tr> <tr> <td> Medicinal Cannabis Licence (Cultivation and Production) Authorises the cultivation (the growing of cannabis plants) or production (the separation of cannabis and cannabis resin), or both. </td><td>ODC</td><td> Issued 31 January 2018 Valid until 30 January 2020 and renewable thereafter </td></tr> <tr> <td> Cannabis Research Licence A cannabis research licence authorises the cultivation and/or production of cannabis for research related to the medicinal use of cannabis. </td><td>ODC</td><td> Issued 31 January 2018 Valid until 30 January 2020 and renewable thereafter </td></tr> <tr> <td> Medicinal Cannabis Licence (Manufacturing) A manufacturing licence authorises the manufacture of narcotic drugs involving cannabis. </td><td>ODC</td><td> Issued 13 June 2018 Valid until 13 September 2022 and renewable thereafter </td></tr> </table>	Licence	Issuer	Status	Medicinal Cannabis Licence (Cultivation and Production) Authorises the cultivation (the growing of cannabis plants) or production (the separation of cannabis and cannabis resin), or both.	ODC	Issued 31 January 2018 Valid until 30 January 2020 and renewable thereafter	Cannabis Research Licence A cannabis research licence authorises the cultivation and/or production of cannabis for research related to the medicinal use of cannabis.	ODC	Issued 31 January 2018 Valid until 30 January 2020 and renewable thereafter	Medicinal Cannabis Licence (Manufacturing) A manufacturing licence authorises the manufacture of narcotic drugs involving cannabis.	ODC	Issued 13 June 2018 Valid until 13 September 2022 and renewable thereafter	Section 3.3
Licence	Issuer	Status												
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01. INVESTMENT OVERVIEW cont.

TOPIC	SUMMARY	MORE INFO															
Does Cronos Australia hold the required licences and permits for its current and proposed business activities? continued	<table><tr><th>Licence</th><th>Issuer</th><th>Status</th></tr><tr><td>Import Licence and Permits These licences and permits (together with the licence described immediately below) authorise the importation of finished PEACE NATURALS™ products. See Section 3.6.3.2 for further information.</td><td>ODC</td><td>Import Licence issued 10 December 2018 with effect from 1 January 2019 to 31 December 2019 and is renewable thereafter Cronos Australia has received permits to import PEACE NATURALS™ products which are valid until 31 December 2019</td></tr><tr><td>Export Licence This licence authorises the export of certain medicinal cannabis products. Export permits will also need to be granted by the ODC in relation to each shipment of products to be exported.</td><td>ODC</td><td>Export Licence issued 10 December 2018 with effect from 1 January 2019 to 31 December 2019 and is renewable thereafter</td></tr><tr><td>Licence to sell or supply by wholesale This licence (together with the above import licence and associated permits) authorises the sale and/or supply of finished PEACE NATURALS™ products. See Section 3.6.3.2 for further information.</td><td>Victorian Government (Department of Health and Human Services)</td><td>Issued 7 December 2018 Renewable on or prior to 1 January 2020</td></tr><tr><td>Instrument of Approval to wholesale medicinal cannabis This licence (together with the above import licence and associated permits) authorises the sale and/or supply of finished PEACE NATURALS™ products. See Section 3.6.3.2 for further information.</td><td>Queensland Government (Department of Health)</td><td>Issued 4 March 2019 Valid to 3 March 2021</td></tr></table>	Licence	Issuer	Status	Import Licence and Permits These licences and permits (together with the licence described immediately below) authorise the importation of finished PEACE NATURALS™ products. See Section 3.6.3.2 for further information.	ODC	Import Licence issued 10 December 2018 with effect from 1 January 2019 to 31 December 2019 and is renewable thereafter Cronos Australia has received permits to import PEACE NATURALS™ products which are valid until 31 December 2019	Export Licence This licence authorises the export of certain medicinal cannabis products. Export permits will also need to be granted by the ODC in relation to each shipment of products to be exported.	ODC	Export Licence issued 10 December 2018 with effect from 1 January 2019 to 31 December 2019 and is renewable thereafter	Licence to sell or supply by wholesale This licence (together with the above import licence and associated permits) authorises the sale and/or supply of finished PEACE NATURALS™ products. See Section 3.6.3.2 for further information.	Victorian Government (Department of Health and Human Services)	Issued 7 December 2018 Renewable on or prior to 1 January 2020	Instrument of Approval to wholesale medicinal cannabis This licence (together with the above import licence and associated permits) authorises the sale and/or supply of finished PEACE NATURALS™ products. See Section 3.6.3.2 for further information.	Queensland Government (Department of Health)	Issued 4 March 2019 Valid to 3 March 2021	Section 3.3
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When considering whether to renew a licence, the ODC takes into account the same matters that were considered at the time of granting the licence.																	
If Cronos Australia wishes to import or export any cannabis products, it will need to be granted an import or export permit in relation to each shipment of products.																	

TOPIC	SUMMARY	MORE INFO
What is Cronos Australia's growth strategy?	<p>Cronos Australia has a three-phase growth strategy:</p> <p>Phase 1 (Current – 2020): First imports, revenues and customer acquisition</p> <p>Creation and manufacture of Australian branded THC and CBD products</p> <ul style="list-style-type: none"> Procure the supply and/or manufacture of an Australian branded range of THC and CBD products through working with partners including Mile High Labs (subject to Cronos Australia's import licence being renewed, import permits being granted and Mile High Labs being granted corresponding export permits) and MediPharm Labs Australia (subject to GMP certification) using cannabis biomass sourced from either of those parties or other parties including Cronos Group Inc or its affiliates and/or a local ODC-licensed cultivator. <p>PEACE NATURALS™</p> <ul style="list-style-type: none"> Import PEACE NATURALS™ branded medicinal cannabis products to build distribution and revenue (subject to Cronos Australia's import licence being renewed, import permits being granted and Peace Naturals Project being granted corresponding export permits and the terms of the PEACE NATURALS™ Supply Agreement). Commence patient and medical practitioner acquisition activities. <p>Development and launch of brands and products</p> <ul style="list-style-type: none"> Develop IP and marketing collateral for an Australian branded range of products with a CBD focus. <p>Research and development</p> <ul style="list-style-type: none"> Commence sponsored and collaborative research with AVS with a view to developing a suite of genetics that can be commercialised by Cronos Australia. <p>Target market expansion</p> <ul style="list-style-type: none"> Explore opportunities in New Zealand as the regulatory framework in that target export market becomes clearer. Explore future opportunities in parts of Asia through an established business development function based in Hong Kong (although noting that even if suitable opportunities are identified it is not anticipated that Cronos Australia will export to Asia until Phase 3). <p>Phase 2 (2020-2021): Domestic growth and exploration of new markets</p> <p>Domestic market growth</p> <ul style="list-style-type: none"> Continue to expand patient and medical practitioner acquisition. Develop New Zealand target export market, subject to a suitable regulatory framework being introduced and the acquisition of any licences or approvals required in New Zealand. Further develop product range and supply and/or manufacture CBD Products with partners including Mile High Labs and MediPharm Labs Australia. <p>Exploration of new markets</p> <ul style="list-style-type: none"> Continue to explore future business development opportunities in parts of Asia with a view to preparing for potential export to those markets in Phase 3 (subject to legislative developments allowing this and Cronos Australia obtaining all necessary licences and permits). Potential sale of PEACE NATURALS™ branded products into Germany and Poland via Cronos Group Inc's existing distribution agreements. 	Section 3.5

01. INVESTMENT OVERVIEW cont.

TOPIC	SUMMARY	MORE INFO
What is Cronos Australia's growth strategy? continued	<p>Phase 3 (2021+): Scale up – new markets and products</p> <ul style="list-style-type: none"> • Exploit opportunities in domestic and international markets and product categories as legislation and regulation continues to evolve. • Scale up operations to meet domestic demand and continue to increase patient and medical practitioner acquisition in domestic and international markets. • Complete research and development with AVS and commence commercialisation of genetics. <p>The timeframes outlined for each phase are indicative and may change.</p>	Section 3.5
What are Cronos Australia's key relationships?	<p>Cronos Australia has seven key relationships:</p> <ul style="list-style-type: none"> • Cronos Group Inc: The relationship with Cronos Group Inc brings with it the weight of a leader in the global cannabis industry with access to valuable intellectual property including medicinal cannabis brands, genetics and technical expertise. Cronos Global Holdings Inc (an indirect, wholly-owned subsidiary of Cronos Group Inc) is a major shareholder in Cronos Australia and Cronos Australia has entered into the IP Licence with Cronos Group Inc and the PEACE NATURALS Supply Agreement with Peace Naturals Project (another indirect, wholly-owned subsidiary of Cronos Group Inc). • Mile High Labs: Mile High Labs is a CBD ingredient manufacturing business. Its head office is located in the United States and it has an Asia-Pacific office in New Zealand. Mile High Labs supplies CBD and CBD infused products to companies across the United States and Europe. Cronos Australia – Operations Pty Ltd and Mile High Labs have executed the Mile High Labs Supply Agreement pursuant to which Mile High Labs may supply CBD Products to Cronos Australia. • MediPharm: MediPharm Labs Corp., a company domiciled in Canada, is a global leader in scaled, research-driven cannabis extraction, distillation, purification and cannabinoid isolation, and is listed on the Toronto Stock Exchange. The company's Australian venture, MediPharm Labs Australia, began in January 2017 following changes to Australia's federal legislation allowing companies to produce medicinal cannabis products in Australia. Cronos Australia – Operations Pty Ltd has entered into the MediPharm Supply Agreement with MediPharm Labs Australia pursuant to which MediPharm Labs Australia may supply cannabis goods to Cronos Australia – Operations Pty Ltd on the terms outlined therein. Cronos Australia – Operations Pty Ltd and MediPharm Labs Australia have also entered into the MediPharm Manufacture Agreement pursuant to which MediPharm Labs Australia may manufacture certain cannabis products for Cronos Australia. • AVS: AVS is one of Australia's leading biosciences facilities. Cronos Australia – Operations Pty Ltd has entered into the Technical Services Agreement for a number of key research and development services including the importation and propagation of cannabis genetic material. 	Sections 3.7 and 9.5

TOPIC	SUMMARY	MORE INFO
<p>What are Cronos Australia's key relationships? continued</p>	<ul style="list-style-type: none"> • DHL: Cronos Australia – Operations Pty Ltd has entered into an agreement with DHL Supply Chain for transportation, logistics and warehousing services and also has a trading account in place with DHL Global Forwarding to handle international freight and customs clearance services on behalf of Cronos Australia. These arrangements are required to provide the logistical support to enable Cronos Australia to import medicinal cannabis products into Australia for distribution (in addition to the import and export licences and permits referred to in Section 3.3). • Sigma: Sigma is an Australian full-line wholesale and distribution business to branded and independent community pharmacies and to hospital pharmacies. Sigma pharmacy brands include Amcal, Discount Drug Stores (DDS), Guardian, Pharmasave and Chemist King. Cronos Australia – Operations Pty Ltd has entered into the Sigma MOU regarding the potential for Sigma to distribute Cronos Australia products, and provide services to Cronos Australia, on terms which (if agreeable to the parties) will be documented in a formal distribution agreement. • Medicinal Cannabis Industry Australia (MCIA): MCIA is an Australian medicinal cannabis industry body. Cronos Australia was a founding member of the MCIA with Cann Group Limited (ASX:CAN), AusCann Group Holdings Limited (ASX:AC8), THC Global Group Limited (ASX:THC) and MedReleaf Australia, and through this forum Cronos Australia intends to play a key role in raising awareness of, and promoting, the medicinal cannabis industry in Australia. 	<p>Sections 3.7 and 9.5</p>
<p>What are Cronos Australia's material contracts?</p>	<p>Cronos Australia has the following material contracts in place:</p> <ul style="list-style-type: none"> • IP Licence with Cronos Group Inc: Cronos Australia – Operations Pty Ltd has entered into an intellectual property license deed with Cronos Group Inc under which Cronos Group Inc has granted a sole licence in certain intellectual property rights to the licensee and provide access to certain know-how relating to medicinal cannabis. Among other matters, the licences include a sole licence to use the trademarks "CRONOS GROUP™" and "PEACE NATURALS™" in Australia, New Zealand and certain countries in South East Asia. • Mile High Labs Sales Agreement: Mile High Labs (as supplier) and Cronos Australia – Operations Pty Ltd (as purchaser) have entered into a sales agreement pursuant to which the supplier has agreed to supply products for the purchaser on the terms outlined therein. The products that may be sold under the Mile High Labs Sales Agreement include finished goods (tinctures, vape liquids and topicals) and bulk products (tinctures, vapes, distillates and isolates), each of different CBD strengths, which are sourced by Mile High Labs. • MediPharm Supply Agreement: MediPharm Labs Australia (as supplier) and Cronos Australia – Operations Pty Ltd (as purchaser) have entered into a supply agreement pursuant to which MediPharm Labs Australia may supply products to the purchaser on the terms outlined therein. The products that may be sold under the MediPharm Supply Agreement include cannabis resin, tinctures, distillate and capsules, each of different strengths. These products are manufactured by the supplier or its affiliates using cannabis biomass sourced by the supplier or its affiliates. 	<p>Section 9.5</p>

01. INVESTMENT OVERVIEW cont.

TOPIC	SUMMARY	MORE INFO
What are Cronos Australia's material contracts? continued	<ul style="list-style-type: none"> • MediPharm Manufacture Agreement: MediPharm Labs Australia (as manufacturer) and Cronos Australia – Operations Pty Ltd (as supplier) have entered into a manufacture agreement pursuant to which MediPharm Labs Australia may manufacture products for the supplier on the terms outlined therein. The products that may be sold under the MediPharm Manufacture Agreement include jars of cannabis resin and distillate, formulation and filled tincture bottles of varying total capacity, and capsules. Unlike the MediPharm Supply Agreement where biomass is sourced or provided by MediPharm Labs Australia, in the MediPharm Manufacture Agreement the supplier must provide the cannabis flower and trim required to manufacture the products. The supplier intends to source this material from Cronos Group Inc or its affiliates, a local ODC-licensed cultivator or the manufacturer itself, although Cronos Australia has not yet entered into any arrangements for the purchase of such material from these potential sources. The manufacturer may also source and deliver all primary packaging required by the supplier in respect of the products. • PEACE NATURALS Supply Agreement: Peace Naturals Project (as supplier), and Cronos Australia – Operations Pty Ltd (as purchaser) have entered into a supply agreement pursuant to which the supplier has agreed to supply goods for the purchaser on the terms outlined therein. The goods that may be sold under the PEACE NATURALS Supply Agreement include a range of dried cannabis flower products and a range of cannabis oils (each with varying THC:CBD ratios). The supplier has the discretion to reject a purchase order submitted by the purchaser under the agreement. • Agreements with AVS: Cronos Australia – Operations Pty Ltd has entered into: <ul style="list-style-type: none"> > the AVS MOU regarding possible research projects and sharing of resources; > the Technical Services Agreement, pursuant to which AVS will provide services in relation to the importation and propagation of genetic material, extraction and training and compliance support; and > the Material Transfer and Confidentiality Agreement to facilitate the transfer of certain genetic cannabis material. • DHL Agreements: Cronos Australia – Operations Pty Ltd has entered into a services agreement with DHL Supply Chain for transportation, logistics and warehousing services and has a trading account with DHL Global Forwarding to handle international freight and customs clearance services. • Underwriting Agreement: Cronos Australia has entered into an underwriting agreement with the Lead Manager pursuant to which the Lead Manager has agreed to arrange and manage, and act as the underwriter for, the Offer. 	Section 9.5

TOPIC	SUMMARY	MORE INFO
<p>What are Cronos Australia's material contracts? continued</p>	<ul style="list-style-type: none"> Convertible Loan Agreements with Pre-IPO Investors: Cronos Australia (as borrower) has entered into a convertible loan agreement with each Pre-IPO Investor (each a lender) pursuant to which each Pre-IPO Investor has agreed to make available a loan to the borrower. The Convertible Loan Agreements are on identical terms. The collective loan amount made available by the Pre-IPO Investors is \$3,500,000, comprising two separate tranches of \$3,000,000 and \$500,000, respectively, to be applied towards working capital purposes, asset acquisitions, costs associated with the Offer and the proposed listing of Cronos Australia on the ASX. The full amounts of each loan were received after 30 June 2019. The loans will convert into Shares issued under this Prospectus at a rate determined by dividing the value of the loan by an amount equal to 80% of the Offer Price for each Share (i.e. a discount of 20%). No interest is payable on the loans. Loan Agreement with Cronos Group Inc: Cronos Australia – Operations Pty Ltd (as borrower) and Cronos Group Inc (as lender) have entered into a loan agreement pursuant to which Cronos Group Inc agreed to make available a facility of up to \$1,500,000 to be applied towards costs associated with the Offer and the proposed listing of Cronos Australia on the ASX. The full amount of the facility has been drawn down. The loan (plus all accrued interest) is due for repayment on the repayment date which is 1 January 2022, but may be repaid earlier at the option of the borrower. Agreement for Lease: Cronos Australia – Operations Pty Ltd, a wholly-owned subsidiary of Cronos Australia, has entered into an agreement for lease over a 120-acre site in the Daylesford area of central Victoria, which provides Cronos Australia with optionality for constructing a future cultivation, research and/or manufacture facility (noting that Cronos Australia would need to raise additional funds in order to build a facility on the site for cultivation and manufacturing purposes). Referral MOU: Cronos Australia – Operations Pty Ltd has entered into a memorandum of understanding with Cronos Group Inc which relates to exclusive distribution agreements between Peace Naturals Project and pharmacy suppliers Pohl-Boskamp and Delfarma (in Germany and Poland respectively). Cronos Group Inc has agreed that in the event the demand for PEACE NATURALS™ branded products from Pohl-Boskamp or Delfarma exceeds allocated supply, Cronos Group Inc may refer supply opportunities to Cronos Australia – Operations Pty Ltd or another affiliate, who may have the opportunity to supply PEACE NATURALS™ branded products if Pohl-Boskamp or Delfarma agree to such distribution relationships and upon entering into distribution agreements on terms acceptable to Pohl-Boskamp or Delfarma (and subject to meeting local regulatory requirements, Pohl-Boskamp's/Delfarma's product requirements, including as to quality testing and GMP certification, and subject to obtaining relevant regulatory approvals such as export licences/permits). 	<p>Section 9.5</p>

01. INVESTMENT OVERVIEW cont.

TOPIC	SUMMARY	MORE INFO
What are Cronos Australia's material contracts? continued	<ul style="list-style-type: none"> • Sigma MOU: Cronos Australia – Operations Pty Ltd has entered into a memorandum of understanding with Sigma pursuant to which the parties agree to continue to work, in good faith, towards entry into distribution arrangements with respect to the distribution of Cronos Australia products by Sigma. In the MOU, it is intended that the terms of the distribution arrangements, once agreed, will be documented in a long-form distribution agreement. The distribution agreement will cover terms and conditions with respect to: scope of exclusivity, minimum volume levels, purchase orders and forecasts, payment, transportation, product specifications, quality assurance, and warranties. • Consultancy Agreement: Cronos Australia has entered into a consultancy agreement with Delphic Ltd (Delphic) pursuant to which Delphic will procure that Nicholas Mulcahy (a director of Delphic) provides services to Cronos Australia. The services to be provided include exploring CBD Product opportunities in Asia. 	Section 9.5
Who are Cronos Australia's competitors?	<p>The ODC lists 18 Medicinal Cannabis Licence holders and 8 Cannabis Research Licence holders as at 25 July 2019. These licences have been issued to a combination of listed and private companies, some of which are headquartered in Victoria. The ODC also lists, as at 5 September 2019, 22 suppliers in Australia that are licensed to import medicinal cannabis products and 18 entities that are licensed to manufacture medicinal cannabis products in Australia. An undisclosed number of ODC licence holders are not included in these figures as they have elected to remain anonymous.</p> <p>The medicinal cannabis industry in Australia was legalised in 2016 and there is no single company that currently leads the market. Cronos Australia anticipates the competitive landscape will continue to evolve. If Cronos Australia is unable to import raw cannabis product, it may look to source this from one of the other licensed cultivation and production companies in Australia.</p> <p>There are some barriers to entry in the medicinal cannabis market relevant to new companies establishing competing businesses. These barriers include obtaining the necessary licences and permits, access to plant genetics and intellectual property, as well as obtaining the required capital and expertise to effectively operate a medicinal cannabis business.</p>	Section 2.6
How does Cronos Australia expect to fund its operations?	<p>To fund its growth plan, Cronos Australia is seeking to raise \$20 million from this Offer. Cronos Australia proposes to use the proceeds of the Offer to fulfil the activities outlined in its growth plan.</p> <p>Cronos Australia's business plan is at an early stage and there are a number of associated risks that may affect the budget and impact the ability of Cronos Australia to fulfil the outlined activities within the budget specified.</p>	Section 8.1.3

TOPIC	SUMMARY	MORE INFO
Does Cronos Australia currently have any debt facilities?	<p>Cronos Australia (as borrower) and each Pre-IPO Investor (each a lender) have entered into a convertible loan agreement pursuant to which each Pre-IPO Investor has agreed to make available a loan to the borrower. The Convertible Loan Agreements are on identical terms. The collective loan amount made available by the Pre-IPO Investors is \$3,500,000, comprising two separate tranches of \$3,000,000 and \$500,000, respectively, to be applied towards working capital purposes, asset acquisitions, costs associated with the Offer and the proposed listing of Cronos Australia on the ASX. The full amount of the loans were received after 30 June 2019. The loans will convert to Shares issued under this Prospectus at a rate determined by dividing the value of the loan by an amount equal to 80% of the Offer Price for each Share (i.e. a discount of 20%). No interest is payable on the loans.</p> <p>Cronos Australia – Operations Pty Ltd (as borrower) and Cronos Group Inc (as lender) have entered into a loan agreement pursuant to which Cronos Group Inc agreed to make available a facility of up to \$1,500,000 to be applied towards costs associated with the Offer and the proposed listing of Cronos Australia on the ASX. The full amount of the facility has been drawn down. The loan (plus all accrued interest) is prepayable at the option of the borrower, but is otherwise due for repayment on the repayment date which is 1 January 2022.</p> <p>Other than the above and a fixed security loan agreement between Cronos Australia Group Pty Ltd (as borrower) and Toyota Finance (as lender) in respect of two vehicles owned by the borrower, Cronos Australia has no debt facilities.</p>	Sections 9.5.7 and 9.5.13

1.2 KEY ATTRIBUTES OF CRONOS AUSTRALIA BUSINESS

TOPIC	SUMMARY	MORE INFO
Licences	Cronos Australia has in place the necessary federal and state licences required for the cultivation, research, manufacture, importation, exportation and supply of medicinal cannabis. Permits required to import PEACE NATURALS™ products have been obtained and are valid until 31 December 2019. Permits required to import products from Mile High Labs must be applied for and obtained prior to Cronos Australia being able to import Mile High Labs products.	Sections 3.3 and 3.4
Access to Cronos Group Inc's intellectual property	<p>Via sole, territorial licences granted by Cronos Group Inc including a selection of cultivars from Cronos Group Inc's genetic bank of approximately 140 cannabis cultivars, as well as licences in respect of trademarks, processes and designs. Additionally, Cronos Australia can access know-how from Cronos Group Inc relating to marketing, licensing, design, production and manufacturing.</p> <p>Cronos Australia will also seek to invest in research and development to develop its own intellectual property, which can potentially be used by it and/or licensed to third parties.</p>	Sections 3.2, 3.4 and 9.5.1
Reduced execution risk	Cronos Australia, through its relationship with Cronos Group Inc, anticipates leveraging elements of the Cronos Group Inc business model, including the marketing of cannabis products, customer and stakeholder engagement frameworks, and the support of Cronos Group Inc personnel.	Sections 3.2 and 3.4

01. INVESTMENT OVERVIEW cont.

TOPIC	SUMMARY	MORE INFO
Route to revenue	Cronos Australia proposes to initially generate its revenue through the importation and sale of medicinal cannabis products under its Material Supply Agreements and the PEACE NATURALS Supply Agreement while Australian CBD Products are developed by Cronos Australia for launch in selected markets. The importation of PEACE NATURALS™ products is subject to Peace Naturals Project accepting any purchase orders placed by Cronos Australia and Cronos Australia accepting the price set by Peace Naturals Project for the relevant products. Importation also depends on Cronos Australia's import licence being renewed (for importation after 31 December 2019), import permits being valid at the time of import and Peace Naturals Project and Mile High Labs being granted corresponding export permits.	Sections 3.4 and 3.6
Development of branding and products – particularly with a CBD focus	Focus on development of brands and products, particularly CBD Products in partnership with appropriate creative and design agencies and manufacturing and supply partners (including Mile High Labs and MediPharm Labs Australia).	Sections 3.4 and 3.6
Supply, manufacture and research agreements in place	<p>Executed agreements that enable Cronos Australia to move to manufacture and distribute THC and CBD products are in place with:</p> <ul style="list-style-type: none"> • Mile High Labs for the potential supply of domestically branded CBD Products; • MediPharm Labs Australia for the potential supply of domestically branded cannabis goods; • MediPharm Labs Australia for the potential manufacture of domestically branded medicinal cannabis products; • Peace Naturals Project for the potential supply of PEACE NATURALS™ branded products; and • Victorian Government's AVS, under a memorandum of understanding, allowing for research of cannabis genetic material. It is intended that this will lead to Cronos Australia being able to commercialise any such genetics (including via outsourced manufacture). 	Sections 3.4, 3.6 and 9.5
"Asset Light" Model	"Asset light" model, that leverages an outsourced cultivation and manufacturing model, giving Cronos Australia the flexibility and agility in a rapidly evolving market to focus on products, brands, distribution and IP.	Sections 3.4 and 3.6
Commercial, execution-focused Board and management team	The Board and management of Cronos Australia is positioned to execute on the phased growth strategy. The leadership team has deep experience in the global cannabis industry, as well as in high growth enterprises, marketing and regulation.	Sections 3.4 and 7
Asia business development operation	Business development function established in Hong Kong to undertake business development activities in Asian markets as legislation, regulation, licensing and demand for medicinal cannabis products continue to evolve.	Sections 3.4 and 3.6

■ 1.3 SUMMARY OF KEY RISKS

There are a number of risks associated with an investment in Cronos Australia which may affect its financial performance, financial position, cash flows, distributions, growth prospects and share price. The following table is a summary of the specific key risks that Cronos Australia is exposed to. Further details about these and other general risks associated with an investment in Cronos Australia are set out in Section 6.

TOPIC	SUMMARY	MORE INFO
Failure to maintain required licences and permits	<p>Cronos Australia's operations rely on it maintaining the medicinal cannabis licences that have been granted by the ODC, and maintaining the additional licences and permits described in Section 3.3. In particular, the import licence expires on 31 December 2019 and will need to be renewed. If this licence is not renewed, or is not renewed on conditions acceptable to Cronos Australia, the importation of products will not be possible. If Cronos Australia is unable to import products from Peace Naturals Project or Mile High Labs, Cronos Australia will be dependent on MediPharm Labs Australia for the supply of products. In such a scenario, Cronos Australia would also seek to develop additional local supply partners.</p> <p>The import licence, together with import permits, is also required to enable Cronos Australia to import cannabis biomass for the purpose of the MediPharm Manufacture Agreement. If Cronos Australia is unable to import cannabis biomass, it may look to source this from one of the other licensed cultivation and production companies in Australia or from MediPharm Labs Australia directly.</p> <p>Cronos Australia's operations also rely on additional permits being granted. Any such permits would be granted in addition to the medicinal cannabis licences that have already been granted. Import permits have been obtained in order to import PEACE NATURALS™ branded products, and will need to be obtained in respect of any CBD Products imported from Mile High Labs. Similarly, export permits from the country of export are likely to be required by the suppliers of those products.</p> <p>Similarly, any export of products by Cronos Australia requires an export permit to be issued for each shipment of products that Cronos Australia proposes to export. Any such permits would be granted in connection with the export licence that has already been granted.</p> <p>In addition, the ODC may revoke one or more of the licences or permits that have been granted if the conditions attaching to the licence or permit are not met or if the ODC determines that a person who has the ability to substantially influence the conduct of the licensee does not meet the "fit and proper person" test. Details of each of the Directors have been provided to the ODC and while Cronos Australia does not anticipate any issues, there is a risk that the ODC will determine that one or more of the Directors does not meet the "fit and proper person" test. Similarly, the election of a new person or persons to the Board, including as a result of a takeover bid, could result in the ODC determining that such person has substantial influence over the activities of Cronos Australia and is not a "fit and proper person". If a required licence or permit is not granted or renewed or is otherwise revoked, Cronos Australia will not be able to conduct the activities to which the licence or permit relates.</p>	Sections 6.1.1 to 6.1.3 (inclusive)

01. INVESTMENT OVERVIEW cont.

TOPIC	SUMMARY	MORE INFO
Failure to maintain required licences and permits continued	<p>Cronos Australia's cultivation, manufacture and research licences issued by the ODC are linked to Cronos Australia's interest in the site in central Victoria that is the subject of the Agreement for Lease. If the Agreement for Lease is terminated and Cronos Australia is unable to obtain a freehold or leasehold interest in another site (which must be acceptable to the ODC) the relevant ODC-issued licences will terminate.</p> <p>Counterparties (such as MediPharm Labs Australia) who may manufacture medicinal cannabis products for Cronos Australia must also be appropriately licensed. Failure of key relationship partners of Cronos Australia to maintain appropriate licences may have an adverse impact on Cronos Australia's business.</p>	Sections 6.1.1 to 6.1.3 (inclusive)
Medicinal cannabis industry in Australia	<p>Any investment in an industry which is in the early stages of development, such as the medicinal cannabis industry in Australia, should be considered highly speculative and involves several significant risks. These risks include obstacles or delays in the implementation of business plans and uncertainties associated with the ability to continue to generate revenue.</p> <p>There are also uncertainties associated with the medicinal cannabis legislative regime in Australia. The amendments to the ND Act in relation to medicinal cannabis came into full effect in Australia in October 2016. While the ODC has published regulations and a series of guidelines in relation to the application of the reforms, there is limited market guidance available. Given the continuing developments in the relevant laws and regulations, there is a risk that a regulatory body could, in the future, change the application of these laws which may adversely impact Cronos Australia.</p>	Section 6.1.5
Changes in laws or regulations	<p>Cronos Australia's operations are subject to various laws, regulations and guidelines in Australia and worldwide, and given the evolving nature of the medicinal cannabis industry it is likely that governmental authorities will continue to amend legislation and regulations that are relevant to Cronos Australia's operations. Such changes could have an adverse impact on the prospects, assets, operations and financial performance of Cronos Australia.</p> <p>Cronos Australia's ability to achieve elements of its growth strategy is dependent on legislative changes in other countries to enable the export of products to such countries by Cronos Australia. There is no guarantee that any such changes will occur.</p>	Section 6.1.6
Growth prospects	<p>Cronos Australia's growth prospects are dependent upon a number of factors including product take up. There is a risk that the volume of medicinal cannabis products available in Australia will outstrip the demand for those products, which may result in lower product prices. This would have an adverse effect on the financial performance of Cronos Australia.</p> <p>The ability of Cronos Australia to fulfil the export elements of its growth strategy is also dependent on changes in the laws relating to the sale of cannabis products in other countries.</p>	Section 6.1.7

TOPIC	SUMMARY	MORE INFO
Supply chain interruption	<p>Cronos Australia plans to meet near term demand for medicinal cannabis through the importation of finished PEACE NATURALS™ products from Cronos Group Inc and CBD Products from Mile High Labs and/or MediPharm Labs Australia. Supply of products from these suppliers is not guaranteed. Unforeseen supply chain interruptions may have a material adverse effect on part, or all, of this strategy.</p> <p>In order to manufacture products for Cronos Australia under the MediPharm Manufacture Agreement, MediPharm Labs Australia requires that Cronos Australia supply it with cannabis flower and trim. Cronos Australia intends to source this material from Cronos Group Inc or its affiliates, a local ODC-licensed cultivator or from MediPharm Labs Australia itself. Cronos Australia has not yet entered into any arrangements for the purchase of such material from these potential suppliers. Cronos Australia understands that an inability to source this material will result in MediPharm Labs Australia being unable to manufacture domestic Australian branded products. In such a circumstance, Cronos Australia may seek to obtain the white label manufacture of products from another manufacturer who does not require Cronos Australia to supply it with the required cannabis biomass.</p>	Section 6.1.8
Access to intellectual property	<p>A subsidiary of Cronos Australia has entered into the IP Licence with Cronos Group Inc. Under that agreement, Cronos Group Inc has agreed to grant a sole, territorial licence in certain intellectual property rights to the licensee and to provide access to certain know-how relating to medicinal cannabis.</p> <p>The licensee must pay two royalty fees of \$10,000 Canadian dollars per annum to Cronos Group Inc, and Cronos Group Inc has the right to reasonably update these royalty fees from time to time during the term.</p> <p>The IP Licence has an initial term of 10 years and will automatically extend for further one-year periods unless terminated by either party no later than one year before the end of the relevant term.</p> <p>The licences granted to the licensee under the IP Licence are “sole” licences. “Sole” as it relates to the licence, means that the licensor (in this case Cronos Group Inc), the licensor’s affiliates (being any other person directly or indirectly controlling, controlled by, or under common control with the licensor), and the licensee are permitted to exploit the subject matter of the licence. This means that Cronos Group Inc, and/or its affiliates, are permitted to exploit the subject matter of the relevant licence (including the trademarks “CRONOS GROUP™” and “PEACE NATURALS™”) in the territory. As a consequence, there is a risk that Cronos Group Inc (and/or its affiliates) may compete with Cronos Australia in the market in which Cronos Australia operates.</p> <p>Cronos Group Inc can terminate the IP Licence in the circumstances described in Section 9.5.1, including where Cronos Australia undergoes a change in control where a competitor of Cronos Group Inc or Cronos Australia is the acquirer (or one of the acquirers).</p> <p>On termination, the licensee will have one year to cease all uses of the intellectual property. This will include ceasing to use the trademark “CRONOS GROUP” and any trademark that is similar to the “CRONOS GROUP” trademark”, which will require Cronos Australia to change its company name.</p>	Sections 6.1.9, 6.1.10 and 9.5.1

01. INVESTMENT OVERVIEW cont.

TOPIC	SUMMARY	MORE INFO
Access to intellectual property continued	<p>Where Cronos Group Inc ceases to hold (directly or indirectly) at least 20% of the total voting shares in Cronos Australia, Cronos Group Inc can terminate that part of the IP Licence relating to Cronos Group Inc trademarks and marketing material (collectively, Trademark Licences). On termination in this instance, the licensee will have 180 days to cease all uses of the Trademark Licences. This will require that Cronos Australia ceases to use the trademark “CRONOS GROUP” and any trademark that is similar to the “CRONOS GROUP” trademark”, which will require Cronos Australia to change its company name.</p> <p>Immediately post-Offer, Cronos Global Holdings Inc (an indirect wholly-owned subsidiary of Cronos Group Inc) will hold approximately 31.07% of the Shares in Cronos Australia. Subject to the escrow arrangements described in Section 9.11, Cronos Global Holdings Inc will be entitled to divest its Shares at any time. Similarly, Cronos Australia cannot prevent a change in control event from occurring.</p> <p>As noted in Section 9.11, Cronos Australia expects that all of the Shares held by Cronos Global Holdings Inc will be considered by the ASX to be restricted securities and will be subject to ASX-imposed escrow for 24 months from the date of quotation of Shares on the ASX.</p> <p>Cronos Australia’s ability to carry out its proposed activities and operations will, at least initially, be dependent upon Cronos Group Inc complying with its obligations under the IP Licence. If the IP Licence is terminated before Cronos Australia has developed its own intellectual property, the termination of the IP Licence could have a material adverse impact on the operations and prospects of Cronos Australia.</p> <p>As with any medicinal or pharmaceutical product, the loss of use of a trademark can have a material and adverse impact on sales of the relevant product to which the trademarks relate having regard to prescriber, patient and market awareness and loyalty to established brands. For Cronos Australia, the termination of the IP Licence could have a material adverse impact on sales and, accordingly the financial performance and prospects of Cronos Australia.</p> <p>To help avoid the loss of the IP Licence and/or the Trademark Licences having a material adverse impact, Cronos Australia aims to continue to build and strengthen its relationship with Cronos Group Inc. Cronos Australia also intends to undertake research activities, including with AVS, in order to develop a range of cannabis strains and products that do not incorporate any intellectual property of Cronos Group Inc and to develop a unique Australian branded range of products, which may include forging relationships with other suppliers and partners such as Mile High Labs and MediPharm Labs Australia.</p>	Sections 6.1.9, 6.1.10 and 9.5.1

TOPIC	SUMMARY	MORE INFO
Uncertainty of future revenue and profitability	<p>Cronos Australia has not yet generated any revenue. Future sales of medicinal cannabis by Cronos Australia and Cronos Australia's future profitability is contingent on, amongst other things, Cronos Australia's ability to obtain and maintain the required licences and permits, entry into appropriate distribution, import and export arrangements, being able to maintain anticipated prices for products being acquired as well as certainty of supply, being able to set favourable prices for products being sold, patient demand for products being sold, general economic conditions, the results of further medical research and clinical trials in relation to medicinal cannabis.</p> <p>Consequently, the level of any future sales by Cronos Australia of medicinal cannabis cannot be accurately determined and Cronos Australia cannot provide any guarantee that future sales will be achieved. Even if future sales are achieved, they may not result in Cronos Australia being profitable.</p>	Section 6.1.11
Reliance on key relationships	<p>In addition to relying on Cronos Group Inc in relation to the IP Licence, Cronos Australia is also reliant on the goodwill of Cronos Group Inc and its subsidiary Peace Naturals Project to ensure compliance with the terms of the PEACE NATURALS™ Supply Agreement, and the referral of distribution opportunities to Cronos Australia as contemplated by the Referral MOU described in Section 9.5.6.</p> <p>Under the PEACE NATURALS™ Supply Agreement, Peace Naturals Project has the ability, at its discretion, to reject a purchase order for goods submitted by the purchaser (thereby preventing the sale of any PEACE NATURALS™ goods to the purchaser). Further, Peace Naturals Project has the unilateral ability to amend the prices of goods made available for sale under the agreement at any time. If Peace Naturals Project increases the prices of goods to an amount that makes the purchase of these goods uncommercial (or if it otherwise rejects a purchase order submitted by the purchaser for any reason), Cronos Australia will not be able to source PEACE NATURALS™ products. Further, the PEACE NATURALS Supply Agreement requires the parties to adopt quality and product recall procedures. If such procedures cannot be agreed by the parties then Peace Naturals Project may refuse to supply PEACE NATURALS™ products to Cronos Australia.</p> <p>Cronos Australia will also be reliant on the services to be provided by DHL Global Forwarding and DHL Supply Chain in relation to the importation of finished PEACE NATURALS™ products and CBD Products from Mile High Labs.</p> <p>Cronos Australia's ability to develop and distribute medicinal cannabis products is reliant on MediPharm Labs Australia complying with its commitments under the terms of the MediPharm Manufacture Agreement. Changes to the business, assets or operations of MediPharm Labs Australia could impact on the willingness or ability of MediPharm Labs Australia to meet its obligations to Cronos Australia.</p>	Sections 6.1.12 and 9.5

01. INVESTMENT OVERVIEW cont.

TOPIC	SUMMARY	MORE INFO
Reliance on key relationships continued	<p>Cronos Australia's ability to develop and distribute its own range of CBD Products is reliant on Mile High Labs complying with its commitments under the terms of the Mile High Labs Sales Agreement and MediPharm Labs Australia complying with its commitments under the MediPharm Supply Agreement and MediPharm Manufacture Agreement. Changes to the business, assets or operations of Mile High Labs or MediPharm Labs Australia could impact on the willingness or ability of those supply partners to meet their obligations to Cronos Australia.</p> <p>Both Material Suppliers under their respective Material Supply Agreements have the ability to amend the prices of goods made available for sale under those documents at regular intervals (without the consent of the purchaser). If either Material Supplier increases the prices of goods made available for sale under those agreements to an amount that makes purchase of the goods uncommercial, Cronos Australia will not be able to source products from that supplier.</p>	Sections 6.1.12 and 9.5
Reputation and product testing and trials	<p>The success of Cronos Australia is dependent on maintaining a positive reputation. Unforeseen issues, accidents or events involving Cronos Australia or the industry in which it operates could place the reputation of Cronos Australia at risk and may impact on future earnings and growth prospects.</p> <p>In addition, if any medicinal cannabis products cause serious (or unexpected) side effects, or are misused, abused or diverted, Cronos Australia may be exposed to increased compliance costs to carry out trials or testing or regulatory authorities may revoke approvals that have been granted to Cronos Australia, impose more onerous facility standards or product labelling requirements or require Cronos Australia to conduct a product recall. In these circumstances, Cronos Australia could also be subject to regulatory action or be sued and held liable for any harm caused. This could have a material adverse effect on Cronos Australia's business, results of operations, financial condition and reputation.</p> <p>Further, any adverse findings from recognised clinical trials in relation to medicinal cannabis generally or in relation to specific products may have an adverse effect on Cronos Australia's business, results of operations, financial condition and reputation.</p>	Sections 6.1.16 and 6.1.17
Funding	<p>While Cronos Australia believes it will have sufficient funds after completion of the Offer to carry out its stated objectives (refer to Section 8.1.3 for information on the anticipated costs of Cronos Australia's business strategy and working capital requirements), Cronos Australia may seek to exploit opportunities of a kind that will require it to raise additional capital from equity or debt sources. There can be no assurance that Cronos Australia will be able to raise such capital on favourable terms or at all. If Cronos Australia is unable to obtain such additional capital, it may be required to reduce the scope of its future activities, which could adversely affect its business, financial condition and operating results.</p>	Section 6.1.20

TOPIC	SUMMARY	MORE INFO
Early stage risk	<p>Investing in an early stage enterprise such as Cronos Australia should be considered highly speculative and involves several significant risks including under capitalisation and obstacles or delays in the implementation of the business plan or revenue generation coupled with existing and future legislative and regulatory risks.</p> <p>Cronos Australia cannot be sure that any of its research and development activities will be successful, that its internal development milestones will be achieved, or that products will be developed that are commercially exploitable.</p> <p>There are many risks inherent in the development of biotechnology products particularly where the products are in very early stages of development. Projects can be delayed or fail to demonstrate any benefit, or research may cease to be viable for a range of scientific and commercial reasons.</p>	Section 6.1.21
Concentration of shareholding	<p>Following completion of the Offer, Cronos Global Holdings Inc (an indirect wholly-owned subsidiary of Cronos Group Inc), NewSouthern Investment Holdings 1 Pty Ltd and NewSouthern Investment Holdings A Pty Ltd will, in aggregate hold approximately 62.13% of the Shares and, accordingly, may separately or together be in a position to influence the election of the Directors, the appointment of new management and the potential outcome of matters submitted to a vote of the Shareholders.</p> <p>In addition, a significant sale of Shares by any of those entities could adversely affect the market price of the Shares.</p>	Section 6.1.23
Other risks	A number of other key risks that relate to an investment in Cronos Australia are set out in Section 6.	Section 6

■ 1.4 DIRECTORS AND KEY EMPLOYEES

TOPIC	SUMMARY	MORE INFO
Who are the Directors of Cronos Australia?	<p>Cronos Australia has a highly experienced Board with significant commercial acumen:</p> <ul style="list-style-type: none"> • Shane Tanner, Independent Non-Executive Chairman • Rodney Cocks, Executive Director and Chief Executive Officer • Peter Righetti, Executive Director and Chief Operating Officer • Anna Burke AO, Independent Non-Executive Director • Daniel Abrahams, Independent Non-Executive Director • Michael Gorenstein, Non-Executive Director • Jason Adler, Non-Executive Director <p>The profiles of each Director outlining their experience can be found in Section 7.1.</p> <p>The Directors are supported by Key Management Personnel (KMP):</p> <ul style="list-style-type: none"> • Lior Harel, General Counsel and Company Secretary • Thomas Howitt, Chief Financial Officer <p>The profiles of KMP outlining their experience can be found in Section 7.2.</p>	Sections 7.1 and 7.2

01. INVESTMENT OVERVIEW cont.

1.5 INTERESTS AND BENEFITS OF KEY PEOPLE AND RELATED PARTY TRANSACTIONS

TOPIC	SUMMARY	MORE INFO																								
What are the Director shareholdings?	<p>The following Directors are expected to hold a direct or indirect interest in Cronos Australia on completion of the Offer:</p> <table> <tr> <th>Director (incl. associates)</th><th>Shares</th><th>% Shareholding</th></tr> <tr> <td>Rodney Cocks</td><td>20,000,000</td><td>15.53%</td></tr> <tr> <td>Peter Righetti</td><td>20,000,000</td><td>15.53%</td></tr> </table>	Director (incl. associates)	Shares	% Shareholding	Rodney Cocks	20,000,000	15.53%	Peter Righetti	20,000,000	15.53%	Section 7.3.1															
Director (incl. associates)	Shares	% Shareholding																								
Rodney Cocks	20,000,000	15.53%																								
Peter Righetti	20,000,000	15.53%																								
Will the Directors receive any remuneration including shares or options as part of this transaction?	<p>The remuneration and securities the Directors (whether directly or through their nominees) will receive as part of this transaction are set out in the table below:</p> <table> <tr> <th>Director (incl. associates)</th><th>Remuneration (incl. super-annuation) p.a.</th><th>Securities</th></tr> <tr> <td>Shane Tanner</td><td>\$120,000</td><td>Nil*</td></tr> <tr> <td>Rodney Cocks</td><td>\$328,500</td><td>Nil</td></tr> <tr> <td>Peter Righetti</td><td>\$268,500</td><td>Nil</td></tr> <tr> <td>Anna Burke AO</td><td>\$50,000</td><td>Nil*</td></tr> <tr> <td>Daniel Abrahams</td><td>\$50,000</td><td>Nil*</td></tr> <tr> <td>Michael Gorenstein</td><td>\$50,000</td><td>Nil</td></tr> <tr> <td>Jason Adler</td><td>\$50,000</td><td>Nil</td></tr> </table> <p>* Cronos Australia will invite Shane Tanner, Anna Burke AO and Daniel Abrahams to participate in the NED Plan. See Section 9.10 for further information.</p>	Director (incl. associates)	Remuneration (incl. super-annuation) p.a.	Securities	Shane Tanner	\$120,000	Nil*	Rodney Cocks	\$328,500	Nil	Peter Righetti	\$268,500	Nil	Anna Burke AO	\$50,000	Nil*	Daniel Abrahams	\$50,000	Nil*	Michael Gorenstein	\$50,000	Nil	Jason Adler	\$50,000	Nil	Sections 7.3.1 to 7.3.3 (inclusive)
Director (incl. associates)	Remuneration (incl. super-annuation) p.a.	Securities																								
Shane Tanner	\$120,000	Nil*																								
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Michael Gorenstein	\$50,000	Nil																								
Jason Adler	\$50,000	Nil																								
Who are the existing Shareholders and what will be their interests at completion of the Offer?	<table> <tr> <th>Shareholder</th><th>Shares held on completion of the Offer</th><th>%</th></tr> <tr> <td>Cronos Global Holdings Inc¹</td><td>40,000,000</td><td>31.07%</td></tr> <tr> <td>NewSouthern Investment Holdings 1 Pty Ltd²</td><td>20,000,000</td><td>15.53%</td></tr> <tr> <td>NewSouthern Investment Holdings A Pty Ltd³</td><td>20,000,000</td><td>15.53%</td></tr> </table> <p>1. Hortican Inc and Cronos Group Inc will have a relevant interest in the Shares held by Cronos Global Holdings Inc</p> <p>2. Rodney Cocks will have a relevant interest in the Shares held by NewSouthern Investment Holdings 1 Pty Ltd</p> <p>3. Peter Righetti will have a relevant interest in the Shares held by NewSouthern Investment Holdings A Pty Ltd</p>	Shareholder	Shares held on completion of the Offer	%	Cronos Global Holdings Inc ¹	40,000,000	31.07%	NewSouthern Investment Holdings 1 Pty Ltd ²	20,000,000	15.53%	NewSouthern Investment Holdings A Pty Ltd ³	20,000,000	15.53%	Section 9.2												
Shareholder	Shares held on completion of the Offer	%																								
Cronos Global Holdings Inc ¹	40,000,000	31.07%																								
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NewSouthern Investment Holdings A Pty Ltd ³	20,000,000	15.53%																								

TOPIC	SUMMARY	MORE INFO
Have there been any related party transactions prior to the Offering?	<p>Cronos Australia – Operations Pty Ltd, a wholly-owned subsidiary of Cronos Australia, has entered into the Agreement for Lease in relation to a site near Daylesford in central Victoria. The key terms of the Agreement for Lease, including amounts payable, are outlined in Section 9.5.10.</p> <p>The owner of the site is a company controlled by a party related to one of the Cronos Australia Executive Directors (Peter Righetti) and therefore the Agreement for Lease is regarded as a related party transaction for the purposes of Chapter 2E of the Corporations Act.</p> <p>The Board has determined that the Agreement for Lease is on arm's length terms (see Section 9.5.10). As such, member approval has not been sought or obtained for the Agreement for Lease.</p> <p>Please see Section 6.1.25 for an overview of the risks associated with the Agreement for Lease and Section 7.5.4 for an overview of Cronos Australia's processes in relation to related party transactions.</p>	Sections 7.5.4 and 9.5.10
What escrow arrangements will be in place as at completion of the Offer?	<p>Cronos Australia understands that 80,000,000 Shares held by promoters will be subject to ASX imposed mandatory escrow for a period of 24 months from the date of quotation of the Shares on ASX. In addition, Cronos Australia understands that the Broker Options described in Section 9.6 and any Shares issued on exercise of the Broker Options will be subject to ASX imposed mandatory escrow for a period of 24 months from the date of quotation of Shares on ASX in connection with the Offer.</p> <p>Cronos Australia will enter into escrow agreements with persons who are subject to mandatory escrow as set out above in accordance with Chapter 9 of the ASX Listing Rules.</p> <p>Except as noted above, none of the Shares offered under this Prospectus will be treated as restricted securities and will be freely transferable from their date of allotment.</p>	Section 9.11
What corporate governance policies does Cronos Australia have in place?	A summary of the corporate governance policies adopted by Cronos Australia is set out in Section 7.5.	Section 7.5

01. INVESTMENT OVERVIEW cont.

1.6 FINANCIALS AND DIVIDEND POLICY

TOPIC	SUMMARY	MORE INFO
What is the historical financial performance of Cronos Australia?	<p>The historical and pro forma historical income statements of Cronos Australia for the years ended 30 June 2017, 30 June 2018 and 30 June 2019 are set out in Section 4.</p> <p>Cronos Australia has a 30 June year end date.</p>	Section 4
What is Cronos Australia's dividend policy?	<p>The policy of Cronos Australia will be to invest all cash flows into the business in order to maximise its growth. Accordingly, no dividends are expected to be payable for a period of at least two years following Cronos Australia's listing on the ASX.</p> <p>The Directors can give no assurance as to the amount, timing, franking or payment of any future dividends that may be paid by Cronos Australia. The capacity to pay dividends will depend on a number of factors including future earnings, capital expenditure requirements and the financial position of Cronos Australia.</p>	Section 9.12

1.7 SUMMARY OF THE OFFER

TOPIC	SUMMARY	MORE INFO
Who is the issuer of this Prospectus?	Cronos Australia Limited ACN 629 071 594.	Section 8.1
What is the Offer?	<p>Cronos Australia is undertaking an initial public offering to issue up to 40,000,000 Shares at an issue price of \$0.50 to raise \$20 million (before expenses).</p> <p>The following offers are also made pursuant to this Prospectus:</p> <ul style="list-style-type: none"> the offer of the Broker Options to the Lead Manager; and the offer of Shares to the Pre-IPO Investors in connection with the Convertible Loan Agreements. <p>These offers are being made under this Prospectus to facilitate the secondary trading of any Shares issued on exercise of the Broker Options and the Shares to be issued in connection with the Convertible Loan Agreements. The terms of the Broker Options are set out in Section 9.6 and the terms of the Convertible Loan Agreements are summarised in Section 9.5.13.</p>	Section 8
How is the Offer structured?	<p>The Offer comprises:</p> <ul style="list-style-type: none"> the Broker Firm Offer, which is open only to investors who have a registered address in Australia who are not Institutional Investors and who have received an invitation from their Broker to participate; the Chairman's List Offer, which is open to selected investors in Australia who have received an invitation under the Chairman's List Offer; and the Institutional Offer, which consists of an invitation to apply for Shares made to Institutional Investors in Australia and a number of other eligible jurisdictions. <p>No general public offer of Shares will be made under the Offer.</p>	Section 8.1.2

TOPIC	SUMMARY	MORE INFO																																							
How will the proceeds of the Offer be used?	<p>The use of proceeds under the Offer are as follows:</p> <table> <tr> <th>Use of proceeds*</th><th>Estimated spend</th><th>% of funds raised</th></tr> <tr> <td>Product development</td><td>\$2,575,000</td><td>12.87%</td></tr> <tr> <td>Business development</td><td>\$2,390,000</td><td>11.95%</td></tr> <tr> <td>Patient acquisition and practitioner engagement</td><td>\$2,355,000</td><td>11.78%</td></tr> <tr> <td>Brand creation, development and launch</td><td>\$2,080,000</td><td>10.40%</td></tr> <tr> <td>Contract manufacturing management</td><td>\$1,200,000</td><td>6.00%</td></tr> <tr> <td>Research and development activities</td><td>\$1,190,000</td><td>5.95%</td></tr> <tr> <td>Licensing and regulatory costs</td><td>\$755,000</td><td>3.78%</td></tr> <tr> <td>Directors' remuneration</td><td>\$750,000</td><td>3.75%</td></tr> <tr> <td>Inventory of finished products</td><td>\$585,000</td><td>2.92%</td></tr> <tr> <td>Working capital and administrative costs**</td><td>\$3,950,000</td><td>19.75%</td></tr> <tr> <td>Outstanding cash costs of the Offer^</td><td>\$2,170,000</td><td>10.85%</td></tr> <tr> <td>Total funds raised</td><td>\$20,000,000</td><td>100%</td></tr> </table> <p>Notes:</p> <p>* Amounts included in the use of proceeds table above exclude inflows from potential revenues (and the associated cost of goods and distribution costs), interest earned and other credits.</p> <p>** Working capital includes corporate operations and corporate governance costs, as well as a contingency pool. The repayment of the loan described in Section 9.5.7 is not included in the above table as such loan is not due for repayment until 1 January 2022.</p> <p>^ The total costs of the Offer (excluding GST) are estimated to be approximately \$3.34 million, comprising amongst other things, legal expenses, accounting, audit and tax advisory fees, lead manager and underwriter fees (including a non-cash amount of \$350,000 relating to the granting of the Broker Options), ASIC and ASX fees and prospectus design and printing costs. Please refer to Section 9.17 for a detailed breakdown of the total costs of the Offer.</p> <p>The estimated spend in the above table covers the period to 31 December 2021, being the expected duration of phases 1 and 2 of the growth strategy (see Section 3.5).</p> <p>The above table is a statement of current intentions as at the date of this Prospectus. Investors should note that, as with any budget, the allocation of funds set out in the above table may change depending on a number of factors, including the outcome of sales success, operational and development activities, regulatory developments, and market and general economic conditions. In light of this, the Board reserves its right to alter the way the funds raised are applied.</p>	Use of proceeds*	Estimated spend	% of funds raised	Product development	\$2,575,000	12.87%	Business development	\$2,390,000	11.95%	Patient acquisition and practitioner engagement	\$2,355,000	11.78%	Brand creation, development and launch	\$2,080,000	10.40%	Contract manufacturing management	\$1,200,000	6.00%	Research and development activities	\$1,190,000	5.95%	Licensing and regulatory costs	\$755,000	3.78%	Directors' remuneration	\$750,000	3.75%	Inventory of finished products	\$585,000	2.92%	Working capital and administrative costs**	\$3,950,000	19.75%	Outstanding cash costs of the Offer^	\$2,170,000	10.85%	Total funds raised	\$20,000,000	100%	Section 8.1.3
Use of proceeds*	Estimated spend	% of funds raised																																							
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Total funds raised	\$20,000,000	100%																																							
Will Cronos Australia be adequately funded after completion of the Offer?	<p>The Directors are satisfied that on completion of the Offer, Cronos Australia will have sufficient working capital to carry out its stated objectives (refer Section 3.5).</p> <p>The use of further equity funding or share placements will be considered by the Board where it is appropriate to accelerate a specific project, transaction or expansion.</p>	Section 8.1.3																																							

01. INVESTMENT OVERVIEW cont.

TOPIC	SUMMARY	MORE INFO																																			
What are the expected benefits of the Offer?	<p>The Offer is expected to generate future opportunities for the development of Cronos Australia, including:</p> <ul style="list-style-type: none">the importation of THC and CBD medicinal cannabis products;development of a medicinal cannabis distribution network across Australia;development of THC and CBD medicinal cannabis IP, brands and products;exploration of export market opportunities in New Zealand (although noting that even if suitable opportunities are identified it is not anticipated that Cronos Australia will export to Asia until Phase 3); andfunding working capital to accelerate growth. <p>Some of these benefits may be generated quickly while others may be achieved over a longer time span.</p>	Section 8.1.4																																			
Will the Shares be quoted on the ASX?	Cronos Australia will apply to the ASX no later than 7 days from the date of this Prospectus for official quotation of all Shares on the ASX under the code CAU.	Section 8.6																																			
What will be the capital structure of Cronos Australia on quotation of its Shares on the ASX?	<table><tr><th>Holders</th><th>Shares</th><th>%</th><th>Broker Options^</th><th>%</th></tr><tr><td>Existing holders</td><td>80,000,000</td><td>62.13%</td><td>–</td><td>–</td></tr><tr><td>Investors under the Offer</td><td>40,000,000</td><td>31.07%</td><td>–</td><td>–</td></tr><tr><td>Pre-IPO Investors – Tranche One</td><td>7,500,000</td><td>5.83%</td><td>–</td><td>–</td></tr><tr><td>Pre-IPO Investors – Tranche Two</td><td>1,250,000</td><td>0.97%</td><td>–</td><td>–</td></tr><tr><td>Lead Manager</td><td>–</td><td>–</td><td>2,000,000*</td><td>100%</td></tr><tr><td>Total</td><td>128,750,000</td><td>100%</td><td>2,000,000^</td><td>100%</td></tr></table> <p>NOTES:</p> <p>* The Broker Options will be unlisted.</p> <p>^ Cronos Australia also intends to grant EIP Options and Performance Rights immediately following completion of the Offer.</p> <p>Following completion of the Offer, Cronos Australia's free float will not be less than 20%.</p>	Holders	Shares	%	Broker Options^	%	Existing holders	80,000,000	62.13%	–	–	Investors under the Offer	40,000,000	31.07%	–	–	Pre-IPO Investors – Tranche One	7,500,000	5.83%	–	–	Pre-IPO Investors – Tranche Two	1,250,000	0.97%	–	–	Lead Manager	–	–	2,000,000*	100%	Total	128,750,000	100%	2,000,000^	100%	Key Offer Statistics Page
Holders	Shares	%	Broker Options^	%																																	
Existing holders	80,000,000	62.13%	–	–																																	
Investors under the Offer	40,000,000	31.07%	–	–																																	
Pre-IPO Investors – Tranche One	7,500,000	5.83%	–	–																																	
Pre-IPO Investors – Tranche Two	1,250,000	0.97%	–	–																																	
Lead Manager	–	–	2,000,000*	100%																																	
Total	128,750,000	100%	2,000,000^	100%																																	
What rights and liabilities attach to the Shares being offered?	All New Shares issued under the Offer will rank equally in all respects with existing Shares on issue. The rights attaching to New Shares are described in Section 9.4.	Section 9.4																																			
Is the Offer underwritten?	Yes. The Offer is fully underwritten by the Lead Manager.	Section 9.5.11																																			

TOPIC	SUMMARY	MORE INFO
Who is the Lead Manager?	The Lead Manager is Bell Potter Securities Limited.	
What is the allocation policy applicable to the Offer?	<p>The allocation of Shares between the Broker Firm Offer, the Chairman's List Offer, and the Institutional Offer was determined by the Lead Manager in consultation with Cronos Australia.</p> <p>For the Broker Firm Offer, the Lead Manager and the Brokers to the Offer determined how Brokers allocate Shares among their clients.</p> <p>For the Chairman's List Offer, Cronos Australia in consultation with the Lead Manager determined the allocation of Shares among Applicants.</p> <p>Institutional Offer allocations were determined by Cronos Australia in consultation with the Lead Manager.</p>	Sections 8.2 to 8.4 (inclusive)
What is the minimum Application under the Offer?	The minimum Application under the Offer is \$2,000 (equivalent to 4,000 Shares at the Offer Price), and in multiples of \$1,000 (equivalent to 2,000 Shares at the Offer Price) thereafter.	Section 8.1.5
When will I know if an Application has been successful?	A holding statement confirming the investor's allocation under the Offer will be sent to the investor if the Application is successful.	Section 8.1.5
Is there any brokerage, commission or stamp duty payable by Applicants?	No brokerage, commission or stamp duty is payable by Applicants on acquisition of Shares under the Offer.	Section 8.1.5
What are the tax implications of investing in the Shares?	The taxation implications of the Offer will vary depending upon your particular circumstances. The precise implications of ownership or disposal will depend upon each investor's specific circumstances. Investors should seek their own independent professional advice on the taxation implications of holding or disposing of the New Shares, taking into account their specific circumstances.	Section 8.12
How do I apply for New Shares?	<p>Broker Firm Applicants</p> <p>Broker Firm Applicants may apply for Shares by completing a valid Broker Firm Application Form attached to or accompanying this Prospectus and lodging it with the Broker who invited them to participate in the Broker Firm Offer.</p> <p>Chairman's List Offer Applicants</p> <p>Applicants under the Chairman's List Offer must apply in accordance with the instructions provided in their invitation to participate in the Chairman's List Offer.</p> <p>Institutional Offer Applicants</p> <p>The Lead Manager has separately advised Institutional Investors of the Application procedure under the Institutional Offer.</p> <p>To the extent permitted by law, an Application under the Offer is irrevocable.</p>	Sections 8.2 to 8.4 (inclusive)

01. INVESTMENT OVERVIEW cont.

TOPIC	SUMMARY	MORE INFO
Can the Offer be withdrawn?	<p>Cronos Australia reserves the right not to proceed with the Offer at any time before the issue and transfer of Shares to successful Applicants.</p> <p>If the Offer does not proceed, Application monies will be refunded. No interest will be paid on any Application monies refunded as a result of the withdrawal of the Offer.</p>	Section 8.16
Is the Offer conditional?	<p>Yes. The contracts formed on acceptance of Applications and confirmations of allocations of Shares will be conditional on the ASX agreeing to admit Cronos Australia to the official list and to quote the Shares on the ASX.</p>	Section 8.6
When are the Shares expected to commence trading?	<p>It is expected that trading of the Shares on the ASX will commence on 11 November 2019 on a normal settlement basis.</p> <p>It is the responsibility of each Applicant to confirm their holding before trading in Shares. Applicants who sell Shares before they receive an initial holding statement do so at their own risk.</p>	Section 8.1.5
Where can I find more information?	<p>Questions relating to Applications for Shares can be directed to the Cronos Australia Limited Offer Information Line, on 1800 176 125 (if calling within Australia) or +61 1800 176 125 (if calling from outside of Australia).</p>	Section 8.1.5

You should read this Prospectus carefully and in its entirety, including Section 6, before deciding whether to apply for New Shares. If you are in doubt as to the course you should follow, you should consult your licensed financial adviser, accountant, stockbroker, lawyer or other professional adviser.

02.

INDUSTRY OVERVIEW

Image is of a cultivation, extraction and manufacturing facility, in Stayner, Ontario, Canada that is owned by Cronos Group Inc's subsidiary, Peace Naturals Project Inc. The facility is not a Cronos Australia facility.



02. INDUSTRY OVERVIEW

■ 2.1 INTRODUCTION TO MEDICINAL CANNABIS

Cronos Australia operates in the medicinal cannabis industry in Australia. Medicinal cannabis is a term that covers a broad range of products derived from the cannabis plant or the chemical compounds it produces, such as cannabinoids, that are obtained through prescriptions from a medical practitioner.

Cannabis contains more than 400 individual compounds, including cannabinoids, terpenes and flavonoids. These compounds may work individually, or work synergistically.

The two most abundant active cannabinoids in cannabis have, at present, been identified as:

- the psychoactive Δ -9-tetrahydrocannabinol (**THC**); and
- the non-psychoactive cannabidiol (**CBD**).

When used in this document, the term “medicinal cannabis” refers to medicinal products that incorporate various ratios of THC and CBD. The term “CBD Products” refers to products (medicinal or otherwise) that incorporate low levels of THC. CBD Products are discussed in more detail later in this Section.

There appears to be momentum for the adoption and further penetration of medicinal cannabis globally as governments increasingly introduce legislation to facilitate the use of medicinal cannabis, as is the case in Australia. The potential benefits of medicinal cannabis are driving greater awareness and support for the development of new products.

■ 2.2 POTENTIAL BENEFITS OF MEDICINAL CANNABIS AND EVIDENCE TO DATE

Governments have recently facilitated the legal use of medicinal cannabis in various countries around the world including Australia. Changing cannabis from a “prohibited substance” to a “controlled substance” has allowed increased research, funding, and clinical studies in medicinal cannabis across a wide range of applications.

While potential uses and applications of cannabis are subject to scientific validation, the US National Center for Biotechnology Information has an archive of more than 18,000 published articles involving cannabis.

The Therapeutic Goods Administration (**TGA**) has issued guidance on how medicinal cannabis can be used in an increasing number of indications such as chronic non-cancer pain relief, to alleviate nausea, for epilepsy and multiple sclerosis patients as well as for palliative care patients.

■ 2.3 CURRENT STATUS OF CANNABIS MEDICINES

2.3.1 Requirements derived from clinical trials

Clinical trials are commonly used for pharmaceutical products to ensure the safety of patients using the product and to help ensure that Australians can access the latest treatments in a timely manner while maintaining high safety standards, and high levels of quality products. Evidence from clinical trials may then be used by a prospective supplier to apply for registration of a product, which could ultimately lead to patient accessibility.

Comparatively few clinical trials have been undertaken on medicinal cannabis to date. Many of those companies recently introduced into the medicinal cannabis industry still lack critical components such as:

- Good Manufacturing Practice (**GMP**) certified production to produce standardised high-grade plant extracts; and
- delivery systems, which ensure sufficiently high bioavailability (absorption).

For example, early research into medicinal cannabis utilised ‘botanical marijuana’ containing many cannabinoids. This caused a number of issues for clinical trial efficacy:

- the precise active ingredient, or combination of active ingredients, with therapeutic benefit could not be identified and isolated;
- the mixture of cannabinoids present in botanical marijuana may vary from crop to crop; and
- production could not be scaled consistently or reliably.

In order to create supportive clinical data, medicinal cannabis is required to be produced to GMP standards. GMP are quality control principles and procedures required to ensure standardisation at all stages of production for every batch produced. GMP is administered by the TGA in Australia and a GMP-compliant manufacturing facility and processes are essential to receiving licences and subsequent permits for medicinal cannabis production in Australia.

2.3.2 Delivery methods

Medicinal cannabis is currently administered in a variety of product forms, including:

- dried cannabis flower (buds, tips); and
- extracts and formulations that are provided in forms that may be readily administered to patients (e.g. oil, tinctures, gels, capsules, creams, etc.).

All forms of medicinal cannabis must be highly quality-controlled in relation to the content and composition of key cannabinoids so that patients may be administered a known quality and quantity.

2.3.3 Current approved medicinal cannabis products in use globally

Medicinal cannabis has been legal in a number of countries for several years. Regulated supply and distribution channels mean the availability of qualified medicinal cannabis products is still limited.

A number of medicinal cannabis products have been approved for distribution in certain territories, as outlined in Figure 1. Due to the requirement to undergo a clinical trial to prove the efficacy of the treatment for a particular condition, those products can only label the approved specific indications.

Figure 1 – Overview of some clinically approved medicinal cannabis products

Brand	Description	Indications	Form	Approved Territories
Sativex (Nabiximols)	Extract of cannabis (oil) with THC and CBD	Multiple sclerosis	Sublingual spray	Canada, EU, Australia and New Zealand
Marinol (Dronabinol)	Synthetic Δ -9-THC	Anorexia associated with AIDS, chemotherapy-induced nausea from cancer treatment	Capsule	US and Canada
Syndros (Dronabinol)	Synthetic Δ -9-THC	Anorexia associated with AIDS, chemotherapy-induced nausea from cancer treatment	Oral solution	US
Epidiolex (Cannabidiol)	Highly purified CBD	Severe epilepsy	Oral solution	US
Cesamet (Nabilone)	Synthetic cannabinoid similar to THC	Chemotherapy-induced nausea from cancer treatment	Capsule	US and Canada

Given the scope of medical studies for medicinal cannabis across many indications, and the limited number of approved products in the market, Cronos Australia believes there is significant potential for more medicinal cannabis products to come to market.

Currently, Nabiximols is the only medicinal cannabis product included on the Australian Register of Therapeutic Goods (**ARTG**). Unregistered products may be made available to patients through various patient access pathways (see Section 2.4.7 for further detail).

2.3.4 Status of accepted medicinal cannabis treatments in Australia

In Australia, medicinal cannabis is typically considered as a therapy if there is an unmet medical need. The TGA has issued guidance to physicians and patients for medicinal cannabis for the treatment and management of:

- nausea and vomiting;
- paediatric epilepsy;
- palliative care indications;
- chronic non-cancer pain; and
- multiple sclerosis.

02. INDUSTRY OVERVIEW cont.

Guidance from the TGA has been made available to assist doctors and their patients who choose to prescribe medicinal cannabis in Australia under current access schemes. Cronos Australia anticipates that medicinal cannabis is likely to be an accepted therapy to more ailments and diseases over time.

In Australia alone, as at 2 September 2019, there are 10 clinical trials for medicinal cannabis at various stages of completion. These include trials where medicinal cannabis is utilised as treatment:

- for seizures in children with severe treatment-resistant epilepsy;
- to improve symptoms in adult palliative care patients with advanced cancer;
- as a therapy in patients with uncontrolled persistent chronic cancer related pain; and
- to treat amyotrophic lateral sclerosis or motor neurone diseases.

Australia represents a small percentage of clinical trial activity for cannabinoids with 850 clinical studies registered globally (as at 2 September 2019).

Figure 2 – Overview of worldwide clinical studies using medicinal cannabis



Source: US National Library of Medicine, 2 September 2019

As more clinical trials are registered worldwide using medicinal cannabis, Cronos Australia expects the demand for pharmaceutical quality medicinal cannabis to increase.

As research into medicinal cannabis becomes more widespread there may be additional demand for further medicinal cannabis varieties, or for specific features of an extract to be optimised, to be tested and studied.

■ 2.4 LEGAL/REGULATORY FRAMEWORK IN AUSTRALIA FOR MEDICINAL CANNABIS

Medicinal cannabis in Australia is subject to a complex legal framework, comprising legislation at both the Federal and State or Territory levels with regulatory oversight from multiple government agencies. This extends along the entire medicinal cannabis value chain.

2.4.1 Legal position of medicinal cannabis in Australia

Australia is a signatory to, and has obligations under, the Single Convention on Narcotic Drugs (1961) (**Single Convention**), an international drug control treaty that aims to prohibit the production, manufacture, export, import, distribution, trade and possession of narcotic drugs (including cannabis), with an exception for specific purposes, such as medical treatment and research.

Under the Single Convention, Australia is obligated to control, supervise and report on the various stages of cannabis cultivation, production and manufacture. The key focus of the Single Convention is to prevent the diversion of cannabis from its legitimate purposes (medical or research use) to illicit activities (illegal drug dealing or trafficking).

To comply with the Single Convention and permit the cultivation of cannabis for medical and scientific purposes, Australia enacted the *Narcotic Drugs Amendment Act 2016* (Cth) (**NDA Act**).

The NDA Act received Royal Assent on 29 February 2016 to allow Australia to develop a safe, legal and sustainable local supply of cannabis for medicinal and scientific purposes. The NDA Act established two main licensing and permit schemes:

- for the cultivation and production of cannabis for medicinal and scientific purposes; and
- for the manufacture of medicinal cannabis.

The following bodies regulate these schemes:

- The **Commonwealth Department of Health**, through the ODC, has overall legislative control and issues licences and permits to those who cultivate, produce and manufacture cannabis and cannabis products for medical and scientific use.
- The **TGA** regulates the manufacture, registration and supply of medicinal cannabis as it does for other therapeutic goods.
- **State and Territory Governments** may introduce their own legislation and licensing requirements to cover manufacture, wholesale supply and patient access to medicinal cannabis products within their respective jurisdictions.

The relevant aspects of the medicinal cannabis regulatory regime impacting Cronos Australia are set out in more detail below.

In December 2018, the Hon Greg Hunt MP, the Minister for Health, appointed Professor John McMillan AO to review and report on the operation of the NDA Act which establishes the regulatory framework for the cultivation, production and manufacture of medicinal cannabis in Australia (McMillan Review). Patient access to medicinal cannabis, which is provided for under the *Therapeutic Goods Act 1989* (Cth) (**TG Act**), was not included as a subject of the review. The final report of the McMillan Review was tabled in Federal Parliament on 5 September 2019. The report contains 26 recommendations to improve the regulatory framework for the cultivation, production and manufacture of medicinal cannabis in Australia. Minister Hunt has accepted all 26 recommendations, which broadly aim to reduce the regulatory burden on industry, and promote and allow greater flexibility in the administration of the legislation to support industry innovation and development. It is not yet clear when the recommendations will be implemented.

02. INDUSTRY OVERVIEW cont.

2.4.2 Licences and permits

The ODC is responsible for the control of cannabis in Australia during all parts of the process. The ODC is responsible for issuing licences and permits to:

- cultivate (grow) cannabis – for research (non-human use) or medicinal purposes;
- produce (harvest) cannabis – for research (non-human use) or medicinal purposes;
- manufacture medicinal cannabis products (which also requires a TGA licence (see Section 2.4.3));
- import medicinal cannabis products; and
- export medicinal cannabis products.

Licences serve to determine who may legally conduct an activity (such as cultivation), while permits specifically control the activity (such as the type, quantity and timing of cannabis that may be cultivated). Both a licence and a permit are required to conduct one of the activities controlled by the ODC.

Licences are typically granted for a 12-month or 24-month period and may be renewed for a further term, subject to the approval of the ODC.

Once a cannabis licence is issued, the holder of the licence can apply for one or more permits which specifies the amount, type and timing of crops grown under a medicinal cannabis licence or cannabis research licence and the limits on product types and quantities that may be manufactured by a holder of a manufacture licence.

At no stage are licence holders permitted to cultivate speculatively. The end-user of the cannabis cultivated, produced or manufactured must be identified. The supply of medicinal cannabis must be controlled to meet demand in order to satisfy obligations under the Single Convention.

The ODC began accepting cannabis licence applications for cultivation, production and manufacturing activities on 30 October 2016. The licence application process undertaken by the ODC involves the submission of information and supporting material that outlines:

- details of the applicant's site plans (including site specifics, build, security);
- operations (including facilities, cultivation information); and
- key personnel (including relevant experience, whether personnel meet the "fit and proper person" test).

As at 25 July 2019, there are 18 known Medicinal Cannabis Licence holders and 8 known Cannabis Research Licence holders. These licences have been issued by the ODC to a combination of listed and private companies, some of which are headquartered in Victoria. The ODC also lists, as at 5 September 2019, 22 suppliers in Australia that are licensed to import medicinal cannabis products and 18 entities that are licensed to manufacture medicinal cannabis products in Australia. An undisclosed number of ODC licence holders are not included in these figures as they have elected to remain anonymous.

MediPharm Labs Australia holds an ODC-issued manufacture licence, and Cronos Australia expects that MediPharm Labs Australia will apply for manufacture permits as required. Cronos Australia understands that MediPharm Labs Australia has applied for GMP certification with the TGA.

2.4.3 Manufacturing quality standards

The TGA is the regulatory authority responsible for ensuring that the therapeutic goods (drugs and devices) available in Australia are of an acceptable standard, and for ensuring that Australian patients have appropriate access to those goods.

Manufacturers of medicinal cannabis products, including those Australian companies (such as MediPharm Labs Australia) that Cronos Australia may contract with to manufacture medicinal cannabis products on its behalf, therefore require:

- a manufacture licence and permit, as issued by the ODC under the NDA Act (see Section 3.3 for details of the manufacture licence held by a subsidiary of Cronos Australia); and
- GMP certification as issued by the TGA and/or the provision of a "TGO 93" declaration, to ensure quality control. To obtain GMP certification, a manufacturer must demonstrate compliance with the relevant code of GMP. This is typically done through an on-site inspection and submission of supporting documentary evidence. A TGO 93 declaration is a declaration made in connection with Therapeutic Goods (Standard for Medicinal Cannabis) (TGO 93) Order 2017 (**TGO 93**), which is a standard that specifies minimum quality requirements for medicinal cannabis. A declaration form in relation to TGO 93 must be completed by medicinal cannabis product manufacturers in order for the relevant product to be accessed via the Special Access Schemes or Authorised Prescriber Schemes or used in clinical trials.

In order to obtain a manufacture permit (which, in addition to a manufacture licence, is required to manufacture a specific medicinal cannabis product), a manufacturer needs to provide the following information to the ODC (amongst other things):

- details of the proposed end use of the manufactured drugs;
- details of the starting materials to be used in the drugs (and their source); and
- the period during which the drugs are to be manufactured.

As at 5 September 2019, at least 18 Medicinal Cannabis Manufacture Licences are known to have been issued by the ODC, with at least two of the licence holders headquartered in Victoria. Subject to those licence holders obtaining appropriate permits, Cronos Australia could seek to engage these manufacturers to manufacture medicinal cannabis products on its behalf.

MediPharm Labs Australia holds an ODC-issued manufacture licence, and Cronos Australia expects that MediPharm Labs Australia will apply for manufacture permits as required. Cronos Australia understands that MediPharm Labs Australia has applied for GMP certification with the TGA.

2.4.4 Logistics

The logistics of distributing medicinal cannabis is governed by the status of cannabis as a "poison". The Poisons Standard is managed by the TGA and classifies different substances (poisons) into different schedules, signifying the degree of control recommended to be exercised over their availability to the public. The Poisons Standard runs from Schedule 1 (poisons requiring the least control) to Schedule 10 (substances of such danger to health as to warrant prohibition of sale, supply and use).

In November 2016, the TGA reclassified products containing cannabis or tetrahydrocannabinols from Schedule 9 (prohibited substances that may only be used for research purposes) to Schedule 8 (controlled substances for human therapeutic use when prescribed by an appropriately authorised medical practitioner).

The non-psychoactive cannabinoid, CBD, can be classified as Schedule 4 which means that approved products can be provided under prescription from a pharmacy.

Therefore, medicinal cannabis can be prescribed provided that the applicable State or Territory permits it. Patients access medicinal cannabis typically through dispensaries and pharmacies. Distribution of medicinal cannabis to these practitioners is governed by state licences. Typically, if other licences and permits are in place from TGA and ODC, distribution is treated as any other pharmaceutical product. The ability to distribute products to dispensaries and pharmacies is dependent on having arrangements with third parties that can provide the logistical support for distribution. Cronos Australia has entered into a services agreement with DHL Supply Chain for transportation, logistics and warehousing services in Australia. Subject to agreeing on distribution terms with Sigma as contemplated under the Sigma MOU, Cronos Australia may also engage Sigma to distribute its medicinal cannabis products to Sigma's network of hospitals and pharmacies.

02. INDUSTRY OVERVIEW cont.

2.4.5 State-based laws

Currently each State has its own legislative framework covering the production and manufacture of, and patient access to, medicinal cannabis. Both State and Federal requirements around medicinal cannabis need to be complied with.

Cronos Australia is based in Victoria but intends to supply products to patients in all states and territories in Australia (subject to obtaining all necessary licences and permits).

In relation to Victoria, the *Access to Medicinal Cannabis Act 2016* (Vic) and *Drugs, Poisons and Controlled Substances Act 1981* (Vic) will need to be complied with. Figure 3 outlines the Victorian legislative framework:

Figure 3 – Victorian State legislative framework governing medicinal cannabis

	VICTORIA
Cultivation	No state licence required. ODC licence required.
Production	No state licence required. ODC licence required.
Manufacturing	No state licence required. ODC licence required.
Distribution	Cronos Australia will not supply directly to patients but is still required to hold a Licence to Sell or Supply by Wholesale under the <i>Drugs, Poisons and Controlled Substances Act 1981</i> (Vic).
Import	Licence to Sell or Supply by Wholesale required and ODC licence required.
Patient need	The <i>Access to Medicinal Cannabis Act 2016</i> (Vic) permits medicinal cannabis products to be prescribed for approved medical conditions.

Cronos Australia has been issued with a licence for the wholesale sale and supply of medicinal cannabis in Victoria under the *Drugs, Poisons and Controlled Substances Act 1981* (Vic). Some states and territories will allow Cronos Australia, on account of the Victorian licence issued to it, to supply medicinal cannabis to authorised prescribers in those states and territories without requiring any additional regulatory licences. Cronos Australia understands that the relevant regulatory authorities will allow Cronos Australia to rely on its Victorian sale and supply licence to supply medicinal cannabis to authorised prescribers in New South Wales and South Australia. Other states and territories may require Cronos Australia to obtain new licences to supply medicinal cannabis to authorised prescribers in those jurisdictions. Cronos Australia has obtained approval under sections 17 and 27 of the *Public Health (Medicinal Cannabis) Regulation 2017* to wholesale medicinal cannabis to eligible persons in Queensland. Cronos Australia intends to obtain such licences as are necessary for the supply of medicinal cannabis to authorised prescribers in each other state and territory in Australia.

Each State and Territory has its own legislative framework for patient access in addition to the Federal patient access pathways (described in Section 2.4.7). For example, NSW does not limit the conditions for which cannabis products can be prescribed. As with the Federal guidelines, clinical evidence of the effectiveness of cannabis for treating a patient's condition needs to be provided and those patients need to have exhausted all other treatment options in order to be eligible.

2.4.6 Import and export licences

Medicinal cannabis may be exported from Australia provided regulatory requirements are met and domestic supply is not adversely affected. Until the Australian domestic cultivation is further developed, medicinal cannabis products may be imported by those with the required approvals. Both the importation and exportation of medicinal cannabis are subject to international drug conventions under the Single Convention; therefore, any shipment must be pre-approved by both importing and exporting countries.

The importation of medicinal cannabis products to Australia is captured under the *Customs (Prohibited Imports) Regulations 1956*. A licence and permission to import is required prior to importing any product containing cannabis. The ODC lists 20 suppliers in Australia that are licensed to import medicinal cannabis products. Cronos Australia has filed for, and been issued with, its import and export licences.

Medicinal cannabis products are regulated as medicines in Australia. Generally, medicines imported and supplied in Australia must be entered into the ARTG. However, the TG Act provides several mechanisms to allow for use of unregistered medicines in certain circumstances. As medicinal cannabis is treated as a pharmaceutical product its distribution must follow the same protocols as other pharmaceutical drugs.

Cronos Australia operates in Victoria and therefore needs to meet Federal and Victorian State regulations regarding importing and exporting. The importation and storage of medicinal cannabis in Victoria is legislated by the *Drugs, Poisons and Controlled Substances Act 1981* (Vic). Cronos Australia has applied for, and been issued with, a Licence to Sell or Supply by Wholesale Schedule 8 Poisons from the Victorian Government Department of Health and Human Services. See Section 3.3 for further detail.

2.4.7 Patient access

Medicinal cannabis products are classified as therapeutic goods and must be supplied in accordance with the TG Act, which is regulated by the TGA.

Under the TG Act, medicinal cannabis products can be formally approved by the TGA and included on the ARTG. Alternatively, unregistered products may be made available to patients through:

- the Special Access Scheme (**SAS**), which requires TGA approval for each patient prior to the product being supplied to the patient;
- the Authorised Prescribers (**AP**) scheme, where specific doctors are authorised to supply the product to patients in their direct care, without separate TGA approval being required for each patient; and
- by researchers under a clinical trial protocol.

The States and Territories have also implemented their own specific drugs and poisons legislation to control the supply of medicinal cannabis products to patients.

02. INDUSTRY OVERVIEW cont.

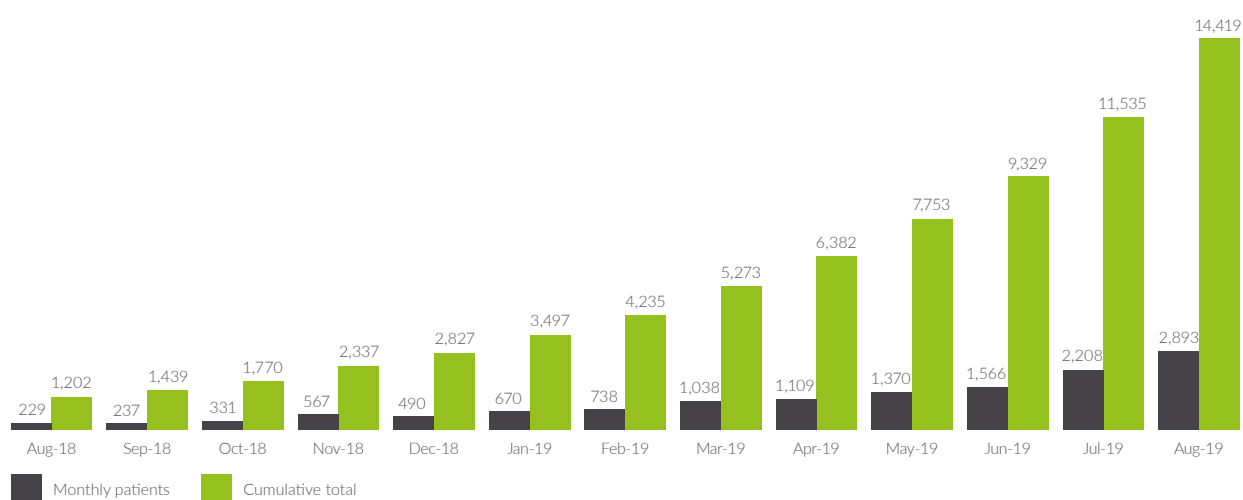
Figure 4 – Medicinal cannabis patient access pathways in Australia

Special Access Schemes	<p>The Special Access Schemes allow individual patients to access unapproved therapeutic goods on a case-by-case basis. There are two different schemes that apply to medicinal cannabis:</p> <ul style="list-style-type: none"> • Category A (SAS-A): which is a notification pathway for patients who are terminally ill and likely to die within a few months. Under SAS-A, a doctor notifies the TGA that a specific patient will use an unapproved therapeutic good. It is then up to the patient (or doctor) to secure supply of that therapeutic good. This requires importing it into Australia (which requires the appropriate importation approvals) as domestically produced product cannot be used under SAS-A. As SAS-A is a notification pathway, it does not require an approval from the TGA. • Category B (SAS-B): which is an application pathway. To use this, patients and their doctors must file an application that is evaluated by the TGA on a case-by-case basis. If this application is approved, the patient can then use the therapeutic good for the specified period of time.
Authorised Prescriber Scheme	<p>Under the Authorised Prescriber Scheme, a medical practitioner may apply and be granted the authority to prescribe a specific unapproved therapeutic good to patients with a specific medical condition.</p> <p>Once a medical practitioner becomes an Authorised Prescriber, they are able to prescribe that specific product for the particular medical condition that has been approved to any patient. They do not need to notify the TGA when they prescribe the unapproved product but do need to report the number of patients they have treated on a six-monthly basis. Doctors may be approved as an Authorised Prescriber of medicines for up to five years.</p>
Clinical trial access	<p>There are two schemes under which clinical trials involving unapproved therapeutic goods may be conducted:</p> <ul style="list-style-type: none"> • the Clinical Trial Notification (CTN) scheme; and • the Clinical Trial Exemption (CTX) scheme. <p>For a clinical trial under CTN or CTX, the trial must have an Australian sponsor. This may be a medical practitioner, an organisation such as a hospital, or a company such as a manufacturer (e.g. Cronos Australia).</p> <p>The TGA deals directly with the Australian sponsor on all matters relating to the trial. The CTN scheme requires all material relating to the proposed trial to be submitted to a registered medical Human Research Ethics Committee (HREC).</p> <p>In Australia, there are more than 200 HRECs that review research proposals, assess the scientific validity of the trial design, the safety and efficacy of the medicine and ethical acceptability of the trial process. The institution or organisation at which the trial will be conducted, referred to as the 'approving authority', gives the final approval for the conduct of the trial at the site, having due regard to advice from the HREC. CTN trials cannot commence until the trial has been notified to the TGA.</p> <p>The CTX scheme is an approval process, where the sponsor of the trial submits an application to the TGA for evaluation and comment. Should the TGA object to the application, trials may not proceed until the objection has been remediated. A sponsor cannot commence a CTX trial until written advice has been received from the TGA regarding the application and approval for the conduct of the trial has been obtained from a registered HREC and the institution at which the trial will be conducted.</p>

Unapproved medicinal cannabis products imported into and supplied/manufactured in Australia must conform with the Therapeutic Goods (Standard for Medicinal Cannabis) (TGO 93) Order 2017 (**TGO 93**), which is a standard that specified minimum quality requirements for medicinal cannabis. A declaration form in relation to TGO 93 must be completed by medicinal cannabis product manufacturers in order for the relevant product to be accessed via the Special Access Schemes or Authorised Prescriber Schemes or used in clinical trials.

Up to 31 August 2019, the TGA has approved more than 14,000 SAS Category B applications for unapproved medicinal cannabis products. There was a significant acceleration of approvals over the period since August 2018, with 229 SAS Category B approvals in August 2018 and 2,893 SAS Category B approvals in August 2019. A breakdown of the number of SAS Category B approvals in recent months is provided below:

Figure 5 – Number of medicinal cannabis SAS Category B approvals



Patients have also been approved through the SAS Category A and clinical trial access but approval numbers have not been disclosed.

2.4.8 Framework in summary

Due to the current Australian legal framework, licences, permits and/or approvals are required by producers, manufacturers, distributors, as well as end-users. Figure 6 presents a summary of these requirements.

Figure 6 – Summary of licences, permits or approvals required as part of medicinal cannabis supply chain

		TGA	ODC	States
Required by Cronos Australia	Cultivation		■	
	Production		■	
	Manufacturing	■	■	■
	Distribution		■	■
	Import		■	■
	Export		■	
Required by patients	Patient Need	■		■
	Medical Authorisation	■		■

An overview of the current status of Cronos Australia licences and permits can be found in Section 3.3.

02. INDUSTRY OVERVIEW cont.

■ 2.5 BUSINESS OPPORTUNITY FOR CRONOS AUSTRALIA

2.5.1 Current trends

In Australia, several market trends are emerging in the medicinal cannabis industry:

- increasing acceptance and recognition of therapeutic efficacy through further medical studies;
- positive experiences in major markets such as Canada, US and Europe;
- State governments moving to support and develop the local industry as medicinal cannabis has the potential to be a new revenue source; and
- moves to harmonise State legislation and streamline patient access to improve medical outcomes.

These trends are anticipated to contribute to greater demand for medicinal cannabis products over time.

In January 2018, the State of Victoria, where Cronos Australia operates, released the *Industry Development Plan: Developing a Medicinal Cannabis Industry in Victoria 2018–2021* (**Industry Development Plan**), pursuant to which the Victorian Government supports the development of a productive medicinal cannabis industry in Victoria. The vision includes Victorian firms producing high-quality medicinal cannabis products for domestic and global patients, and establishing Victoria as an export hub. According to the Industry Development Plan, the Government's aim is for Victoria's industry to supply half of Australia's market for medicinal cannabis. The Industry Development Plan focuses on a number of industry, legislative and access programs such as streamlining regulatory requirements and facilitating medicinal cannabis clinical trials. Cronos Australia is positioned to benefit from this.

2.5.2 Rapidly evolving medicinal cannabis markets

The market for medicinal cannabis in Australia remains at an early stage with limited complex legislation and regulation preventing large scale access. However, it is expected that levels of patient access may increase as legislation at the State level is harmonised. The size and rate of growth of the market for medicinal cannabis will be significantly influenced by the continued development of legislation.

Globally, the medicinal cannabis industry is rapidly evolving as countries and states change their regulations. Canada and the US are two markets that are quickly evolving as legislation, demand, patient access and opportunity combine to create a rapidly growing medicinal cannabis market.

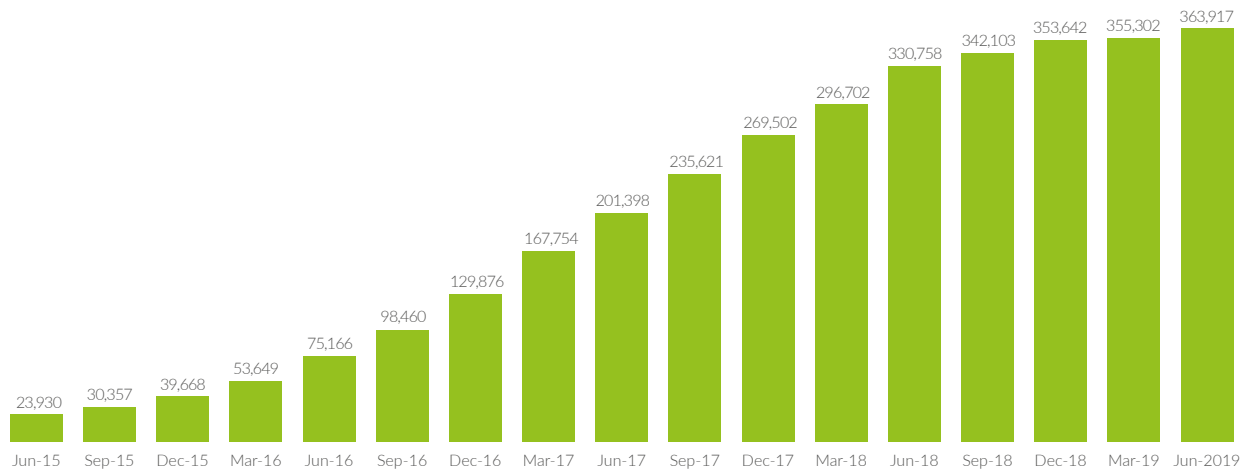
Canada

Canada has undertaken a series of legislative reforms relating to medicinal cannabis commencing in 2001 with the implementation of the *Marihuana Medical Access Regulations* and evolving into the *Cannabis Act*, and the *Cannabis Regulations* promulgated thereunder (collectively, the **Cannabis Act**) which came into force as of 17 October 2018.

The Cannabis Act provides for the sale of cannabis and cannabis products for medicinal purposes and for non-medicinal adult-use. Among other things, the Cannabis Act permits the production and sale of cannabis and cannabis products by licence holders, which must comply with strict safety and quality requirements. In the context of the sale of cannabis or cannabis products for medicinal purposes, the Cannabis Act also sets out the registration requirements for both the patient and the licence holder when a patient seeks a prescription for medicinal cannabis from a health care practitioner.

As of the end of June 2019, Health Canada reported that there were 363,917 patients registered for medicinal cannabis, approximately 15 times more than the 23,930 patients registered at the end of June 2015.

Figure 7 – Number of patients registered for medicinal cannabis in Canada (end of month cumulative total)



As more patients are registered to purchase medicinal cannabis in Canada, aggregate consumption of medicinal cannabis has increased. During the quarter ending 31 March 2019, 14,730 litres of cannabis oil and 5,162 kilograms of dried cannabis products were sold to registered patients.

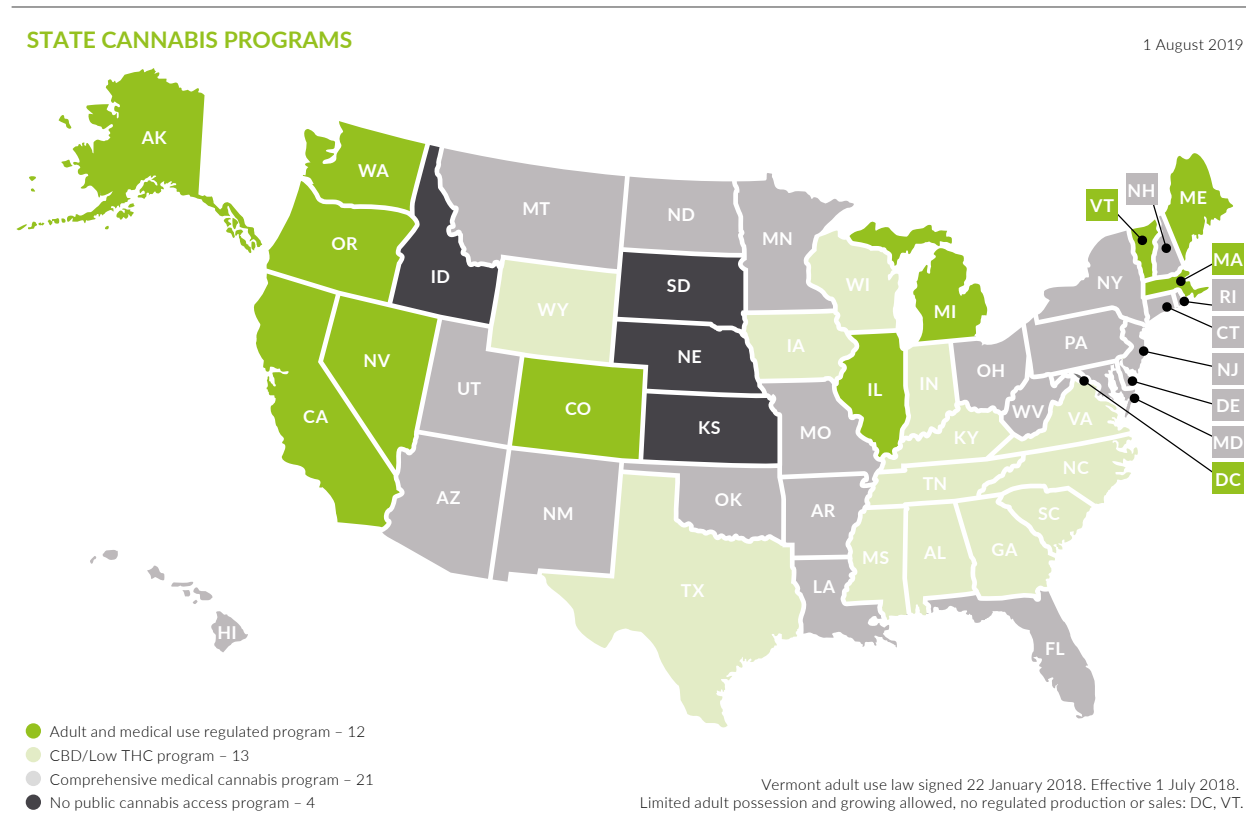
As at the end of September 2018, the most recent date this data has been published, a total of 18,086 health care practitioners had ever prescribed medicinal cannabis and 3,516 health care practitioners prescribed medicinal cannabis in September 2018 alone.

US

A total of 33 states, plus the District of Columbia, Guam, Puerto Rico and US Virgin Islands now allow for comprehensive public medicinal cannabis programs. Figure 8 outlines the status of cannabis programs by state.

02. INDUSTRY OVERVIEW cont.

Figure 8 – Cannabis programs in the US by state



Source: National Conference of State Legislatures, June 2019

2.5.3 Initial target market: Australia

The medicinal cannabis industry is relatively new in Australia, with the introduction of cannabis legislation in 2016. Precedents such as Canada, where the number of patients registered for medicinal cannabis access has grown from under 20,000 in 2014 to more than 354,000 patients by the end of March 2019, demonstrates there is scope for increased demand once patient access improves.

Across the conditions where cannabis has shown some efficacy, there are large patient populations in Australia where their condition is either treated with powerful synthetic drugs or left untreated as there is no adequate treatment. To date, the TGA has approved applications including, but not limited to, the following indications:

- chemotherapy-induced nausea and vomiting;
- refractory paediatric epilepsy;
- palliative care indications;
- cancer pain;
- neuropathic pain;
- spasticity from neurological conditions; and
- anorexia and wasting associated with chronic illness (such as cancer).

This indicates the potential for a substantial population to access medicinal cannabis in Australia by prescription once patient access improves.

Even at low market penetration today, Australia is a net importer of medicinal cannabis with limited cultivation and production facilities. Cronos Australia believes that in the context of more than 28,000 registered active pharmacists in Australia, should medicinal cannabis demand increase significantly, there may be a greater need for consistent medicinal cannabis supply at scale.

The size of the potential market can be considerably larger if legislation changes and cannabis is allowed for recreational use as it is in Canada and at the state level in some states of the US.

2.5.4 Export target markets

Cronos Australia proposes to target Australia in the near term. Cronos Australia also intends to explore opportunities in New Zealand and parts of Asia, with a view to potentially exploiting opportunities in those markets in phase 3 of its growth strategy. Cronos Australia may also export PEACE NATURALS™ branded products to Germany and Poland pursuant to the Referral MOU.

Cronos Australia's ability to export is subject to the target markets allowing the importation and sale of the relevant products and Cronos Australia being granted any approvals, licences and permits required in the target market (together with the required export permits required to export from Australia). A brief overview of the status of each jurisdiction is outlined below.

New Zealand

The Misuse of Drugs (Medicinal Cannabis) Amendment Act came into effect in December 2018. The Act provides:

- for the establishment of a regulator to set standards to be met by products manufactured, imported, and supplied under licence;
- for the launch of a Medicinal Cannabis Scheme no later than one year after the law comes into effect; and
- that the terminally ill who are found to possess cannabis without a licence will not be prosecuted or penalised.

Approved cannabis-based pharmaceuticals can be prescribed by a specialist doctor, but requires patients to meet strict criteria. At this stage, only Sativex is approved for use in New Zealand. Unapproved cannabis-based pharmaceuticals and non-pharmaceutical cannabis products can be approved on case-by-case basis by the Minister of Health.

The Misuse of Drugs (Medicinal Cannabis) Amendment Act also provided that CBD Products that contain less than 2% THC can be imported into the country by individuals that have a "reasonable excuse", namely an original letter or an original prescription from a New Zealand authorised prescriber. Cronos Australia could (provided it had the necessary licences and permits in place) export CBD Products and/or PEACE NATURALS products with less than 2% THC to New Zealand individuals with a reasonable excuse. However, it is not anticipated that Cronos Australia will actively pursue export opportunities on this basis.

The New Zealand government intends to hold a referendum coinciding with that country's General Election in 2020 on whether to legalise cannabis for recreational use.

Germany

In May 2016, the Cabinet of Germany approved legislation allowing the use of cannabis for patients that are chronically ill. On 19 January 2017, medicinal cannabis was legalised so that the seriously ill can obtain cannabis with a doctor's prescription, paid for by health insurance. In March 2017, 560 units were prescribed rising to almost 5,000 prescriptions in June 2017.

Germany is currently one of the largest regulated medical markets in Europe and there are more than 64,000 active registered pharmacists in Germany.

Licences for cultivation are issued by the Federal Institute for Drugs and Medical Devices to companies for growing medicinal cannabis. 10 licences were on issue in 2017 for national/international producers. However, Germany is still currently a net importer with limited cultivation and production facilities.

02. INDUSTRY OVERVIEW cont.

Poland

In 2017, Poland's lower house of parliament voted in favour of making medicinal cannabis legal under certain circumstances. The legislation allows doctors to offer prescriptions for any condition that can be treated with cannabis, if supported by research.

Domestic cultivation is illegal, meaning that all cannabis-based medicines are imported. Cannabis from imported plants must be registered with the Office for Registration of Medical Products before processing and dispensing at pharmacies.

Future Territories

Given the proximity of Cronos Australia to markets in Asia, there is potential to export medicinal cannabis products to select territories including those in South East Asia. Until recently, medicinal cannabis usage in South East Asia was uniformly illegal, however in a number of territories there has been a shift in sentiment:

- **Thailand:** in late December 2018 the National Legislative Assembly of Thailand approved an amendment to the Narcotic Act of 1979, that would allow the use of cannabis under medical supervision. Licences for production and sale of the product will be strictly controlled.
- **The Philippines:** in January 2019, the Philippines House of Representatives approved the proposed Philippine Compassionate Medical Cannabis Act. The bill is designed to legalise and regulate the medicinal use of cannabis. If adopted, the bill would oversee the establishment of licensed Medical Cannabis Compassion Centres that would be allowed to dispense cannabis-based medicines to qualified patients or caregivers through a pharmacist. The bill would also allow medical marijuana research.

Given the dynamic status of the industry globally, Cronos Australia plans to be prepared to access markets within South East Asia if and when legislation changes. There can be no assurance that legislation in these countries will change in the future.

2.6 COMPETITIVE LANDSCAPE

As at 25 July 2019, there are 18 known Medicinal Cannabis Licence holders and 8 known Cannabis Research Licence holders. These licences have been issued by the ODC to a combination of listed and private companies, some of which are headquartered in Victoria. The ODC also lists, as at 5 September 2019, 22 suppliers in Australia that are licensed to import medicinal cannabis products and 18 entities that are licensed to manufacture medicinal cannabis products in Australia. An undisclosed number of ODC licence holders are not included in these figures as they have elected to remain anonymous.

Given the relative infancy of the Australian medicinal cannabis industry, Cronos Australia considers the industry to be fragmented, with no single participant having captured sufficient market share to be considered a market leader. In the first calendar quarter of 2019, 54 products were confirmed by FreshLeaf Analytics, a division of Biologics Research Institute Australia Pty Ltd, as being available for doctor prescription². Canada still leads the market in terms of country of origin, but European suppliers are catching up with a range of offerings sourced from pharmaceutical grade facilities in several countries including Switzerland, Netherlands, Slovenia and Germany. Oils were still the primary delivery mechanism for product in the market, comprising 43 of the 54 available. Other delivery mechanisms available include sprays, capsules, flower – raw dried and granulated – and a new option for doctors, crystalline form.

Many companies focus on specialising in one particular aspect of the medicinal cannabis supply chain as outlined in Figure 9.

Figure 9 – Cannabis industry structure



2. Fresh Leaf Analytics, 'Australian Medicinal Cannabis Market: Patient, Product and Pricing Analysis Q1 2019', 2019, p. 4.

■ 2.7 BARRIERS TO ENTRY

The Australian medicinal cannabis industry has some barriers to entry which exist at all stages of the industry value chain. Cronos Australia believes it is well placed to address some of these barriers, as presented in Figure 10. By addressing each of these industry barriers to entry, Cronos Australia seeks to lower its execution risk.

Figure 10 – Barriers to entry to the medicinal cannabis market

BARRIER TO ENTRY TO MEDICINAL CANNABIS MARKET	IMPACT OF BARRIER	CRONOS AUSTRALIA STATUS
Licences and permits to operate	Medicinal cannabis supply in Australia is subject to a complex legal framework that requires a large number of licences and permits to operate that are challenging, costly and time consuming to acquire.	Cronos Australia has the required licences in place and intends to apply for permits as required.
Difficulty acquiring plant genetics	Anecdotal, many current cultivars originate from the black market and contain limited cannabinoids. Suitable plant genetics are required to optimise the bio-availability of active compounds.	Cronos Australia has access to a selection of strains via a sole licence from Cronos Group Inc's genetic bank of approximately 140 cultivars. Moreover, Cronos Australia has access to gene mapping, research and cultivar development services pursuant to its commercial arrangements with AVS.

■ 2.8 CBD PRODUCT MARKET

Cannabidiol (CBD) is a phytocannabinoid discovered in 1940. It is one of more than 100 identified cannabinoids in cannabis plants and accounts for up to 40% of the plant's extract. CBD is the second most prevalent of the active ingredients of cannabis behind THC. While CBD is an essential component of medicinal cannabis products, it is typically derived directly from the hemp plant (which is a form of cannabis plant that contains minimal concentrations of THC) and is non-psychoactive.

■ 2.9 HOW IS CBD EXTRACTED?

There are a number of ways of extracting CBD from the cannabis plant. The most common methods use some type of solvent. This can be a liquid solvent, CO₂, or an oil solvent. If the plant material contains THC as well as CBD, the process to separate CBD from other cannabinoids is more complex. Other extraction methods include:

- cavitation;
- cryogenics;
- lipids; and
- water.

02. INDUSTRY OVERVIEW cont.

■ 2.10 WHAT IS THE LEGAL STATUS OF CBD?

The laws of some countries make a distinction between cannabis plants that contain more than 0.3% THC (which may be prohibited altogether, or otherwise legal only for medicinal use), and legal hemp (from which CBD is often derived). In some countries that have fully legalised strains of cannabis with less than a prescribed amount of THC, CBD derived from those plants can, in addition to being used for medicinal cannabis products, also be used in consumer products such as creams, lotions, food and beverages (collectively, **CBD consumer products**).

Australia

All cannabinoids in Australia, including CBD, are controlled substances and are scheduled under poison and drug laws, meaning they are illegal to use other than for a medicinal purpose. As such, CBD consumer products are only legal in Australia for medicinal use, and can only be obtained through the Special Access Schemes or Authorised Prescriber Scheme (see Section 2.4.7).

Asia

In Thailand, legal hemp is defined as cannabis with less than 1.0% THC. CBD consumer products are legal in Japan. In China, the hemp industry operates in a legal grey area where few localities have regulations. Despite a lack of national guidelines for hemp, two provinces (Yunnan and Heilongjiang) have issued regulations differentiating industrial hemp with negligible THC content from cannabis, thus permitting the former's cultivation, processing, and sale. Notwithstanding a lack of clarity around the legal status of their consumption, it appears that CBD consumer products are available for purchase on e-commerce platforms in China, South Korea and Hong Kong.

United States

In the United States, where Mile High Labs is domiciled, up to 20 December 2018, cannabis was categorised as a Schedule I substance under the Controlled Substances Act. As such, it was illegal at the federal level to cultivate, possess or distribute the cannabis plant. On 12 December 2018, Congress passed the 2018 Farm Bill, which was signed into law by President Trump the following week (**Farm Bill**). The Farm Bill removes hemp and its derivatives from the Controlled Substances Act, paving the way for the legal cultivation, possession, sale and distribution of the hemp plant.

■ 2.11 RECENT CBD TRENDS

CBD has recently seen a rise in popularity, and is now being used in a variety of products by industries as diverse as cosmetics, food and beverage, and pharmaceuticals. It is projected that the collective market for CBD sales in the US alone could approach USD\$16 billion by 2025.³

■ 2.12 BARRIERS TO ENTRY

At present, CBD is only legal in Australia for use in medicinal cannabis products. Cronos Australia intends to import bulk and/or finished CBD Products under the Mile High Labs Sales Agreement (subject to Cronos Australia maintaining its import licence, obtaining the necessary import permits and Mile High Labs obtaining any corresponding export permits that may be required). Such product is intended to be used in connection with Cronos Australia's own range of CBD derived medicinal cannabis products. Cronos Australia, by virtue of its agreements with manufacturers of CBD medicinal products (such as Mile High Labs), is expected to be well placed to enter the CBD consumer product market in the event that the legislative regimes in Australia or other markets were modified to legalise CBD-derived products for consumer use (subject to the regulatory frameworks being suitable and Cronos Australia obtaining any necessary approvals and licences).

3. Cowen Washington Research Group, "Cowen's Collective View of CBD", 25 February 2019, p. 3.



Cronos Australia plans to engage in R&D and IP development with research partners, including AVS.

03.

COMPANY OVERVIEW

03. COMPANY OVERVIEW

3.1 INTRODUCTION

Cronos Australia is a medicinal cannabis company that plans to enter the medicinal cannabis market in Australia with both THC and CBD products, and has secured all the necessary Australian licences to operate – including import and export licences. Cronos Australia intends to engage in innovative product and brand development, outsourced manufacturing and distribution for Australia and target export markets (subject to legislative reform in those markets and Cronos Australia obtaining any required approvals and licences).

Cronos Australia was established as a 50/50 joint venture between a global cannabinoid company, Cronos Group Inc (dual listed – NASDAQ:CRON, TSX:CRON) and NewSouthern Capital, a Melbourne-based private equity firm controlled by the two Executive Directors of Cronos Australia.

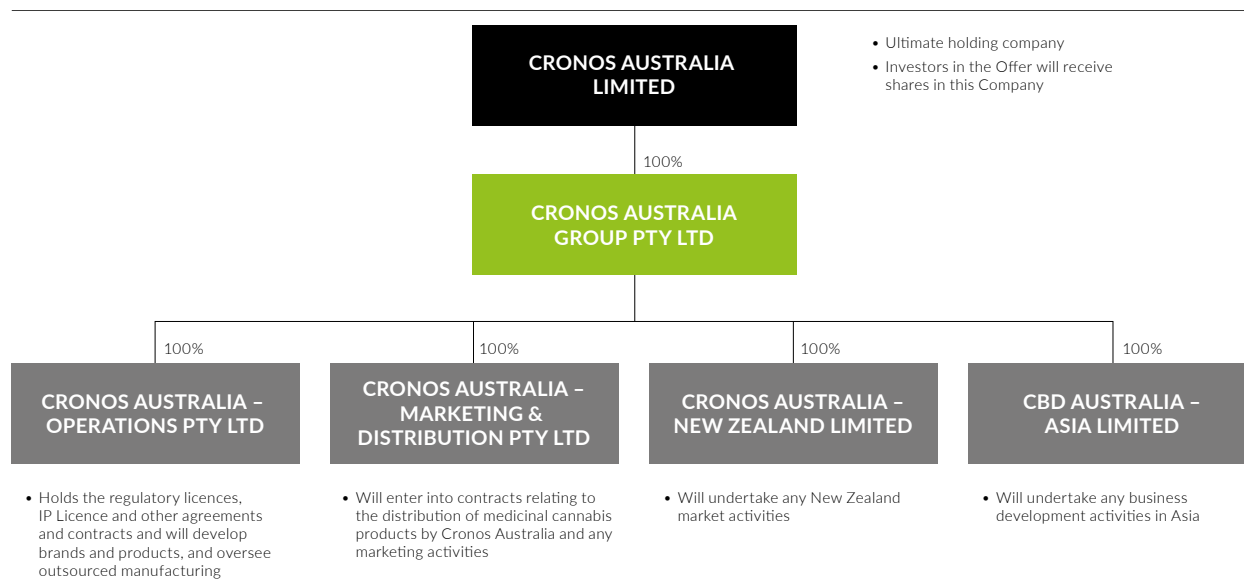
The relationship with Cronos Group Inc, an established global cannabinoid company with a market capitalisation of A\$4.53bn as at 1 October 2019, provides via sole, territorial licences, the intellectual property and trademarks, know-how, plant genetics, in-market brands, and potential access to markets that forms part of Cronos Australia's growth plans (see Section 3.2 for more detail).

Cronos Australia was formed to take advantage of opportunities relating to the emerging cannabis industry both domestically and internationally. The vision of Cronos Australia is to become a leading health and wellness company in the Asia Pacific region with a portfolio of THC and CBD products.

3.1.1 Cronos Australia corporate structure

Cronos Australia is an Australian company, which was incorporated on 27 September 2018. Figure 11 below outlines the Cronos Australia Group structure.

Figure 11 – Cronos Australia corporate structure



A corporate Restructure was undertaken in preparation for this Offer, the details of which are described in Section 9.3.

■ 3.2 RELATIONSHIP WITH CRONOS GROUP INC

Cronos Group Inc is a global cannabinoid company incorporated in Canada, with extensive cultivation and manufacturing capacity, significant IP, and a portfolio of medicinal and adult-use recreational cannabis brands. An overview of its relevant distribution arrangements, assets, strategic investments and joint ventures is presented in Figure 12.

Through its subsidiary Peace Naturals Project, Cronos Group Inc was the first non-incumbent licensed producer of medicinal cannabis under the Access to Cannabis for Medical Purposes Regulations (**ACMPR**).

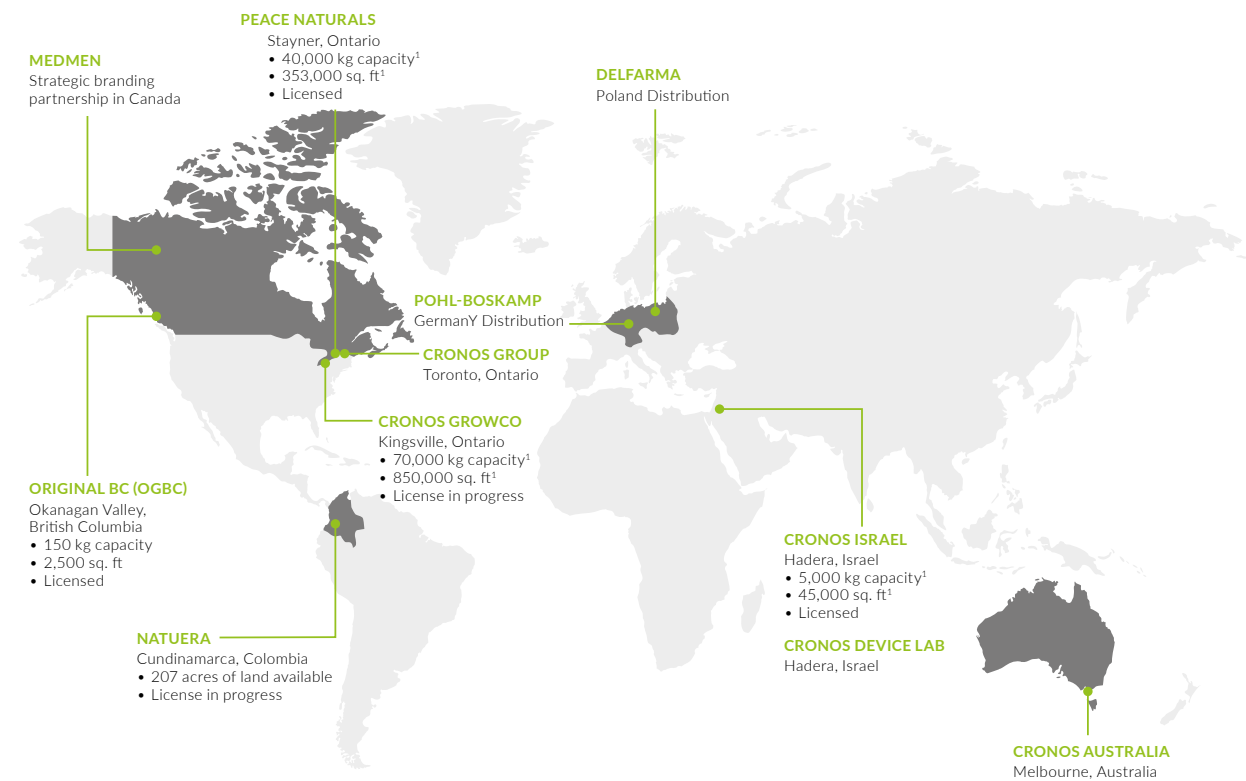
Cronos Group Inc is dual-listed on the NASDAQ and TSX and has, as at 1 October 2019, a market capitalisation of A\$4.53bn. Cronos Group Inc's differentiated strategy is based on developing partnerships with cannabis operators worldwide and leveraging best-in-class intellectual property for operations. On 8 March 2019, Cronos Group Inc announced the closing of a C\$2.4 billion strategic investment by Altria Group, Inc (**Altria**) pursuant to which certain wholly-owned subsidiaries of Altria received common shares in the capital of Cronos Group Inc (**Altria Initial Subscription**). At closing, Altria also received, through a wholly owned subsidiary, one warrant to purchase additional shares of Cronos Group Inc over a four-year period (**Altria Warrant**). The shares issued to Altria under the Altria Initial Subscription resulted in Altria holding an approximate 45% ownership interest in Cronos Group Inc (calculated on a non-diluted basis). If fully exercised, the Altria Warrant would result in a 10% increase to Altria's ownership interest in Cronos Group Inc, for a total ownership position of approximately 55% (calculated on a non-diluted basis), and further proceeds to Cronos Group Inc of approximately C\$1.4 billion. The Altria strategic investment was completed on 8 March 2019.

Cronos Group Inc owns a portfolio of brands including PEACE NATURALS™ (health and wellness brand, currently distributed in Canada and Germany), two adult-use brands, Cove™ and Spinach™ and Lord Jones™. Cronos Australia has executed a supply agreement for the potential supply of PEACE NATURALS™ branded products from Cronos Group Inc. Cronos Group Inc also has a number of joint ventures, partnerships and distributors. Chairman, President and CEO of Cronos Group Inc, Michael Gorenstein, and Cronos Group Inc Director, Jason Adler, are on the Board of Cronos Australia.

At completion of the Offer, Cronos Global Holdings Inc (an indirect wholly-owned subsidiary of Cronos Group Inc) will hold 40,000,000 Shares, comprising approximately 31.07% of the issued capital of Cronos Australia.

03. COMPANY OVERVIEW cont.

Figure 12 – Overview of material Cronos Group Inc distribution arrangements, assets, strategic investments and joint ventures globally



¹ Represents expected capacity. Includes facilities currently under construction.

■ 3.3 AUSTRALIAN MEDICINAL CANNABIS LICENCES

To date, five licences, including import and export licences, have been granted to a subsidiary of Cronos Australia by the ODC pursuant to the ND Act. A further licence to sell and supply by wholesale has also been issued to a subsidiary of Cronos Australia by the Department of Health and Human Services of Victoria.

Figure 13 – Overview of Cronos Australia Federal licences and permits

License	Issuer	Status
Medicinal Cannabis Licence (Cultivation and Production)	ODC	Issued 31 January 2018 Valid until 30 January 2020 and renewable thereafter
Cannabis Research Licence	ODC	Issued 31 January 2018 Valid until 30 January 2020 and renewable thereafter
Medicinal Cannabis Licence (Manufacturing)	ODC	Issued 13 June 2018 Valid until 13 September 2022 and renewable thereafter
Import Licence and Permits	ODC	Import Licence issued 10 December 2018 with effect from 1 January 2019 to 31 December 2019 Permits to import PEACE NATURALS products have been obtained and are valid until 31 December 2019
Export Licence	ODC	Export Licence issued 10 December 2018 with effect from 1 January 2019 to 31 December 2019

03. COMPANY OVERVIEW cont.

Figure 14 – Overview of Cronos Australia's licence status in Australian States and Territories

State/Territory	Cronos Australia licence status
Victoria	Cronos Australia has a Licence for the Wholesale Sale and Supply of Medicinal Cannabis (Vic Licence). The VIC Licence was issued 7 December 2018 by the Victorian Government (Department of Health and Human Services) and is renewable on or prior to 1 January 2020.
New South Wales	Cronos Australia understands that a separate licence is not required in this State on account of the Vic Licence.
South Australia	Cronos Australia understands that a separate licence is not required in this State on account of the Vic Licence.
Queensland	Cronos Australia has an Instrument of Approval to Wholesale Medicinal Cannabis. The Instrument was issued on 4 March 2019 by Queensland Government (Department of Health) and is renewable on or prior to 3 March 2021.
Tasmania	Cronos Australia intends to apply for a licence in Tasmania.
Western Australia	Cronos Australia intends to apply for a licence in Western Australia.
Northern Territory	Cronos Australia understands that this Territory does not have a licensing regime distinct from the Federal Government. As such, no separate licence is required.
Australian Capital Territory	Cronos Australia understands that this Territory does not have a licensing regime distinct from the Federal Government. As such, no separate licence is required.

Licences generally have terms of one or two years (as the case may be) and may be renewed by the relevant issuer at the renewal date of the relevant licence. When considering whether to renew a licence or permit, the ODC and the Department of Health and Human Services of Victoria take into account the same matters that were considered at the time of granting the original licence or permit. The processing times to renew each of the licences held by Cronos Australia will vary subject to ODC and the Department of Health and Human Services of Victoria's timeliness.

Cronos Australia intends to ensure that renewal applications are submitted well in advance of expiry dates, and intends to liaise closely with the regulatory bodies to ensure ongoing compliance is maintained.

In addition to the licences and permits described above, Cronos Australia will need to apply for, and be granted, a series of permits before any operations commence. For example, any export of products requires an export permit to be issued for each shipment of products that Cronos Australia proposes to export. Any such permits would be granted in connection with the export licence that has already been granted.

Cronos Australia aims to be the beneficiary of import permits to be secured through the Technical Services Agreement as it intends to source and import genetic material in the forms of tissue culture and seed from Cronos Group Inc. An application for a Cannabis Permit has been lodged with the ODC, by AVS, who will host the genetics for intended future research (in accordance with the Technical Services Agreement). The grant of this permit will enable the TGA to issue import permits for the importation of 200 tissue cultures (covering 10 selected strains) and 347 seeds (covering 10 additional strains). An overview of the varieties proposed to be imported as *tissue culture* is provided in Figure 15.

Figure 15 – Material Schedule: Tissue cultures

Classification	THC%	CBD%
50/50 Hybrid	14-18	–
50/50 Hybrid	0.5-1.2	12-16
60/40 Sativa	6-10	6-12
60/40 Sativa	16-20	0.4
Sativa	18-22	0.05
50/50 Hybrid	18-22	0.05
Indica	18-22	–
Indica	16-20	0.4
60/40 Indica	18-22	–
50/50 Hybrid	16-22	0.05

■ 3.4 KEY BUSINESS ATTRIBUTES

Cronos Australia's business has the following key attributes that position it well to accelerate its growth strategy:

- **Licences** have been received from the relevant Australian authorities that are needed for Cronos Australia to import, export, cultivate, manufacture and research cannabis.
- **Access to Cronos Group Inc's intellectual property**, via sole, territorial licences granted by Cronos Group Inc including a selection of cultivars from Cronos Group Inc's genetic bank of approximately 140 cannabis cultivars, as well as licences in respect of certain trademarks, processes and designs. Additionally, Cronos Australia can access certain know-how from Cronos Group Inc relating to marketing, licensing, design, production and manufacturing.
- **Reduced execution risk through utilising elements of the Cronos Group Inc business model**, including the marketing of cannabis products, use of customer and stakeholder engagement frameworks, and the in-person assistance of Cronos Group Inc personnel.
- **Route to early revenue** through the proposed importation and sale of medicinal cannabis products under existing supply agreements while Australian THC and CBD medicinal cannabis products are developed by Cronos Australia for launch.
- **'Asset light' model**, that leverages an outsourced cultivation and manufacturing model, giving Cronos Australia the flexibility and agility in a rapidly evolving market to focus on products, brands, distribution and IP.
- **A focus on development of brands and products, particularly CBD Products**, in partnership with appropriate creative and design agencies, which is aligned with demand for CBD Products in global markets.
- **Supply, manufacture and research agreements in place with:**
 - > Mile High Labs for the potential supply of CBD Products under the brands that Cronos Australia plans to create.
 - > MediPharm Labs Australia for the potential manufacture and supply of medicinal cannabis products under the brands that Cronos Australia plans to create.
 - > Peace Naturals Project for the potential supply of PEACE NATURALS™ branded products.
 - > Victorian Government's AVS, under a memorandum of understanding, allowing for research in relation to genetic material of cannabis. It is intended that this may lead to Cronos Australia being able to commercialise any such genetics.
- **Commercial, execution-focused Board and management team** capable of delivering on Cronos Australia's phased growth strategy. Cronos Australia's leadership team has experience in the global cannabis industry, as well as in high growth enterprises, marketing and regulation.
- **Business development function established** to undertake business development activities in Asian markets as the laws in relation to medicinal cannabis products in those markets continue to evolve.

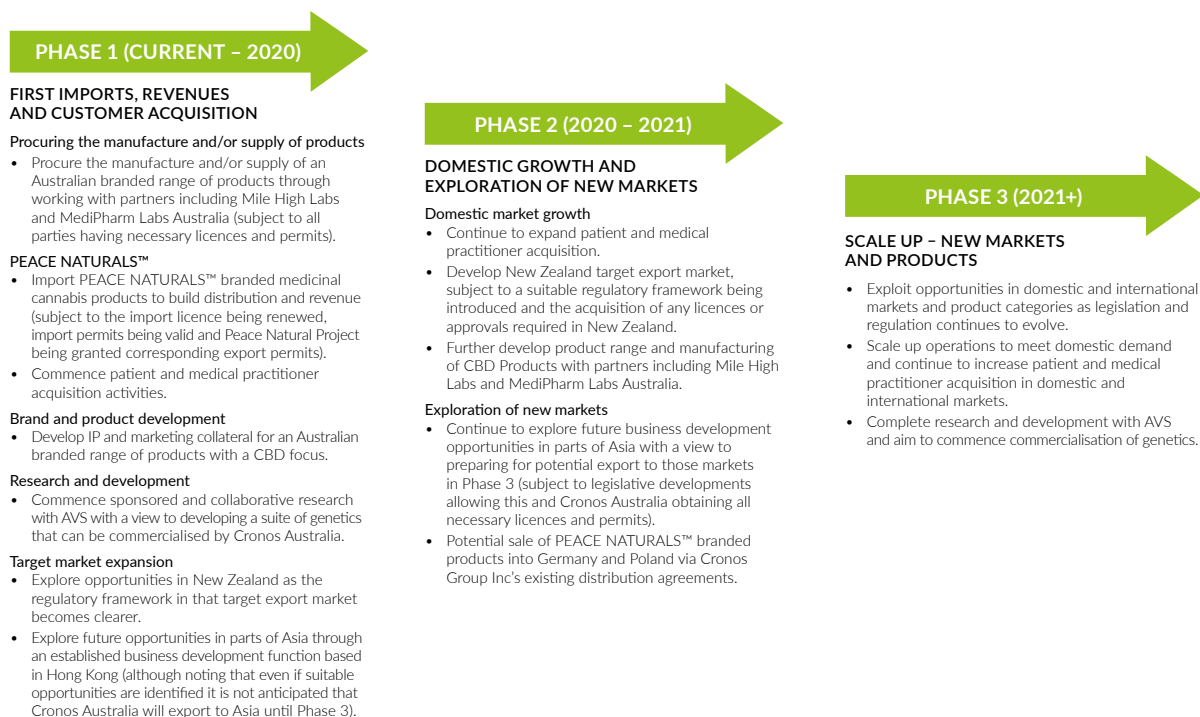
03. COMPANY OVERVIEW cont.

3.5 GROWTH STRATEGY

Cronos Australia has a clear growth strategy in line with the current Australian legislation and potential changes in Australian and international laws (which will need to change before these opportunities can be fully exploited).

Figure 16 – Growth strategy for Cronos Australia

Cronos Australia has a three-phase growth strategy:



Cronos Australia has a three-phase growth strategy:

Phase 1 (Current – 2020): First imports, revenues and customer acquisition

Creation and manufacture of Australian branded products

- Procure the manufacture and/or supply of an Australian branded range of THC and CBD products through working with partners including Mile High Labs and MediPharm Labs Australia (subject to all parties having necessary licences and permits).

PEACE NATURALS™

- Import PEACE NATURALS™ branded medicinal cannabis products to build distribution and revenue (subject to the import licence being renewed, import permits being valid and Peace Naturals Project being granted corresponding export permits).
- Commence patient and medical practitioner acquisition activities.

Development and launch of brands and products

- Develop IP and marketing collateral for an Australian branded range of products with a CBD focus.

Research and development

- Commence sponsored and collaborative research with AVS with a view to developing a suite of genetics that can be commercialised by Cronos Australia.

Target market expansion

- Explore opportunities in New Zealand as the regulatory framework in that target export market becomes clearer.
- Explore future opportunities in parts of Asia through an established business development function based in Hong Kong (although noting that even if suitable opportunities are identified it is not anticipated that Cronos Australia will export to Asia until Phase 3).

Phase 2 (2020-2021): Domestic growth and exploration of new markets

Domestic market growth

- Continue to expand patient and medical practitioner acquisition.
- Develop New Zealand target export market, subject to a suitable regulatory framework being introduced and the acquisition of any licences or approvals required in New Zealand.
- Further develop product range and supply and/or manufacture CBD Products with partners including Mile High Labs and MediPharm Labs Australia.

Exploration of new markets

- Continue to explore future business development opportunities in parts of Asia with a view to preparing for potential export to those markets in Phase 3 (subject to legislative developments allowing this and Cronos Australia obtaining all necessary licences and permits).
- Potential sale of PEACE NATURALS™ branded products into Germany and Poland via Cronos Group Inc's existing distribution agreements.

Phase 3 (2021+): Scale up – new markets and products

- Exploit opportunities in domestic and international markets and product categories as legislation and regulation continues to evolve.
- Scale up operations to meet domestic demand and continue to increase patient and medical practitioner acquisition in domestic and international markets.
- Complete research and development with AVS and aim to commence commercialisation of genetics.

The timeframes outlined for each phase are indicative and may change. Given the medicinal cannabis industry, and the cannabis industry generally, is highly regulated, the growth strategy and timeline outlined in Figure 16 is subject to the timely issuance of required licences and permits in addition to any legislative changes. Regulatory delays can impact the timing of the above plan.

The timeframes outlined for each phase are indicative and may change. Given the medicinal cannabis industry, and the cannabis industry generally, is highly regulated, the growth strategy and timeline outlined in Figure 16 is subject to the timely issuance of required licences and permits in addition to any legislative changes. Regulatory delays can impact the timing of the above plan.

3.5.1 Phase 1 (Current – 2020): First imports, revenues and customer acquisition

Cronos Australia plans to import finished PEACE NATURALS™ products and procure the manufacture and/or supply of medicinal cannabis products from the Material Suppliers. The importation of PEACE NATURALS™ products and the procurement of medicinal cannabis products from the Material Suppliers is intended to be used to develop distribution channels in Australia, build brand equity, provide a platform for the education of medical professionals and support patient acquisition. Cronos Australia has filed for both Federal and State government licences and permits, which have been granted subject to standard terms and conditions. Canadian export permits are required by Peace Naturals Project to export PEACE NATURALS™ products to Cronos Australia and Cronos Australia understands that Peace Naturals Project will seek to obtain these prior to export. See Sections 3.3 and 3.6.3 for more detail. Cronos Australia will require import permits in respect of products imported from Mile High Labs, and Cronos Australia understands that Mile High Labs will seek to obtain New Zealand export permits to export its products to Cronos Australia.

03. COMPANY OVERVIEW cont.

Pursuant to the current regulations on patient access to medicinal cannabis, Cronos Australia intends to seek to make medicinal cannabis available through the Special Access Scheme and the Authorised Prescriber Scheme and to clinical trial participants in Australia. Cronos Australia intends to engage with key influencers and educators in the medical profession to aid in their understanding of patient access and the benefits of branded medicinal cannabis products. These engagements are intended to include a dedicated sales force, 1:1 doctor engagement, education sessions, technology solutions and engagement at industry events and conferences. These engagements are intended to have national coverage.

Concurrently, Cronos Australia proposes to commence domestic product and brand development. It is intended that Cronos Australia will engage creative and design experts to develop a range of brands, with a focus on CBD Products. Cronos Australia intends to leverage experts in the creation of brand, products and marketing engagement in the development of these products. It is proposed that such branded products will be manufactured by companies such as MediPharm Labs Australia (for THC and CBD products). It is intended that these products will be initially sold in Australia.

Cronos Australia's relationship with AVS continues through Phase 1, with the commencement of sponsored and collaborative research that is intended to yield, but not be limited to, improved genetics. Once research is complete, any such genetics are intended to be commercialised by Cronos Australia. This commercialisation may take the form of out-licensing to third parties or contract grow arrangements.

To complement its domestic activities, Cronos Australia has established a New Zealand subsidiary, in preparation for a first target export market. Though medicinal cannabis has now been legalised by the New Zealand Government, the licensing regime and establishment of standards for the importation of cannabis products is yet to occur, though must occur before December 2019 in line with new legislation. Subject to a suitable regulatory framework being introduced, Cronos Australia intends to explore opportunities to export medicinal cannabis products to New Zealand. If Cronos Australia identifies suitable opportunities, it will need to apply for, and be granted, Australian export permits and any required New Zealand approvals and licences.

Cronos Australia intends to commence exploring opportunities in parts of Asia via its business development function based in Hong Kong. This function is intended to identify opportunities and demand in Asian markets that are potentially addressable for medicinal cannabis products (subject to legislation, regulation, licensing and demand), although even if suitable opportunities are identified it is not anticipated that Cronos Australia will export to Asia until Phase 3.

3.5.2 Phase 2 (2020-2021): Domestic growth and exploration of new markets

Domestic market growth is intended to continue via the sale of PEACE NATURALS™ branded products in Australia (including potentially through the Sigma network of pharmacies and hospitals) to maintain product and brand consistency. Cronos Australia intends to, via its contracts with the Material Suppliers, also continue to develop its own products and brands for use in the Australian market – with a particular focus on CBD Products.

If a suitable regulatory framework has been introduced in New Zealand, Cronos Australia intends to acquire any licences or approvals required in New Zealand and also intends to develop New Zealand as a target export market.

Cronos Australia intends to also continue to explore future opportunities in parts of Asia, although it is not anticipated that Cronos Australia will undertake any export activity in Asia until Phase 3. Further, via the Referral MOU, Cronos Australia may be referred opportunities to supply PEACE NATURALS™ branded products to Pohl-Boskamp or Delfarma if those entities agree to such distribution relationships (subject to obtaining relevant regulatory approvals such as export licences/permits).

3.5.3 Phase 3 (2021+): Scale up operations to meet domestic and international demand

It is the intention of Cronos Australia to scale up operations to meet market demand both in Australia and export markets (subject to legislation changes in the target export markets and Cronos Australia being granted Australian export permits and any required approvals and licences in the target markets). The strategic approach in Phase 3 is, where possible, to take advantage of any new opportunities that are created by changes in Australian and international legislation, which will open up new markets domestically and internationally for new and innovative cannabis products.

If the genetic research undertaken in conjunction with AVS is completed and results in the development of improved genetics, Cronos Australia intends to explore commercialisation opportunities in respect of those genetics. This commercialisation may take the form of licensing to third parties or 'contract grow' arrangements. In the event that Cronos Australia believes that demand for such genetics warrants the establishment of a purpose built facility (supported by compelling commercial and operational metrics), Cronos Australia may, by virtue of its Agreement for Lease (see Section 9.5.10) consider the construction of its own facility (subject to regulatory approval, planning and funding) to exploit such genetics.

While Cronos Australia is not presently pursuing a large scale cultivation strategy, Cronos Australia will maintain optionality over a 120-acre site via the Agreement for Lease. The agreement has a sunset date of 30 June 2022 and may be terminated by the landlord if Cronos Australia has not elected to commence the lease prior to the sunset date. If the future domestic and international markets and demand justify the development of a medicinal cannabis facility, that strategy will be considered by the board of Cronos Australia together with a range of commercial and operational factors. Additional funds would need to be raised by Cronos Australia in order to build a cultivation and manufacturing facility at the site.

■ 3.6 CRONOS AUSTRALIA BUSINESS MODEL

Cronos Australia's business model is focused on the creation of shareholder value through a number of interdependent strategic priorities as detailed in Figure 17 below.

Figure 17 – Cronos Australia business model overview



3.6.1 Access to supply and manufacture – PEACE NATURALS™ and brands and products developed by Cronos Australia

Cronos Australia has developed a capacity strategy that sets out a plan to meet near term demand for medicinal cannabis through the importation of the in-market PEACE NATURALS™ brand, and the procurement of finished and/or manufactured goods from the Material Suppliers.

Cronos Australia proposes to build supply security over the longer term through product and segmented brand development, and the establishment of local and offshore manufacturing and supply partnerships, including Mile High Labs and MediPharm Labs Australia. The manufacturing relationship with Mile High Labs is expected to focus on the importation of CBD Products, while the MediPharm Labs Australia supply and manufacturing relationship is expected to focus on THC and CBD products. It is anticipated that, as Cronos Australia develops distribution channels domestically and internationally, capacity can increase in order to meet demand through both manufacturers.

This product development strategy will be underpinned by the research Cronos Australia is intending to undertake with AVS to develop cannabis genetics and related research as the market continues to evolve.

Cronos Australia believes that this asset light approach will enable Cronos Australia to focus on product development, distribution, patient acquisition, sales and marketing.

03. COMPANY OVERVIEW cont.

Capacity Source	Description	Status
Importation of finished PEACE NATURALS™ product	<p>Under the terms of the PEACE NATURALS Supply Agreement, Cronos Australia intends to import finished PEACE NATURALS™ products into Australia. Cronos Australia has received the required permits to allow the import of PEACE NATURALS™ products.</p> <p>The import of PEACE NATURALS™ products will serve to develop distribution channels in Australia, build brand equity and support patient acquisition.</p>	Cronos Australia intends to import an initial shipment of PEACE NATURALS™ products once Peace Naturals Project obtains all the necessary export permits and once the parties have agreed on acceptable terms of supply.
Development of Cronos Australia brands, products via outsourced supply and manufacturing relationships with partners including Mile High Labs and MediPharm Labs Australia	Cronos Australia has partnered with manufacturers and suppliers, including Mile High Labs and MediPharm Labs Australia, in order to bring THC and CBD products to market. This approach, which assumes that either the manufacturer or Cronos Australia is able to procure enough cannabis biomass to manufacture the relevant product, will enable Cronos Australia to diversify its product range, and to focus on its own branded products for domestic and target export markets.	Supply agreements with Mile High Labs and MediPharm Labs Australia have been executed.

Under the MediPharm Manufacture Agreement, Cronos Australia must supply cannabis biomass for extraction and processing by MediPharm Labs Australia. Cronos Australia believes that this biomass could be sourced, following negotiation and agreement (and subject to availability and prevailing legislation, regulation and licensing) from:

- within the Cronos Group Inc network;
- 'contract grow' arrangements with Australian licensed cultivators, noting that as at 21 June 2019, the ODC has issued 27 Medicinal Cannabis Licences for cultivation and production;
- 'contract grow' arrangements with Australian licensed cultivators using AVS-developed genetics on licence; or
- MediPharm Labs Australia, which sources cannabis biomass in order to manufacture the medicinal cannabis products that can be purchased by Cronos Australia under the MediPharm Supply Agreement.

3.6.2 Distribution

Cronos Australia plans to supply medicinal cannabis within Australia. Initially, this is anticipated to comprise the sale of imported finished PEACE NATURALS™ products and CBD Products developed in conjunction with partners including Mile High Labs and MediPharm Labs Australia.

Cronos Australia has entered into the Sigma MOU under which Cronos Australia and Sigma intend to enter into a distribution agreement which will see Sigma distribute Cronos Australia products (including finished PEACE NATURALS™ products) through the Sigma network of pharmacies and hospitals. In the event that Cronos Australia is unable to finalise a distribution agreement with Sigma, and/or the Sigma MOU is otherwise terminated, Cronos Australia is still able to distribute products via its agreement with DHL Supply Chain. DHL is also able to distribute non-PEACE NATURALS™ products that are sourced by Cronos Australia from different suppliers (including the Material Suppliers).

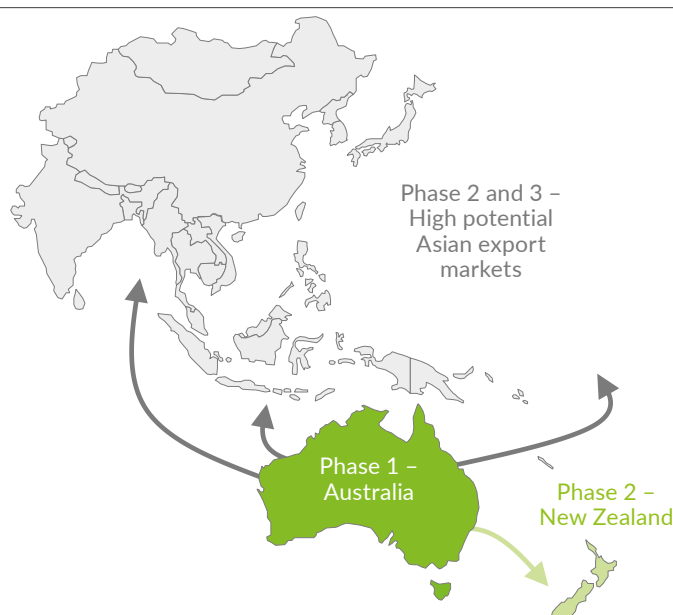
Over time, Cronos Australia will also look to supply medicinal cannabis products to the target markets of New Zealand and countries in the Asia-Pacific region (see Section 3.5) and potentially supply medicinal cannabis products to existing Cronos Group Inc customers (see Section 3.6.2.2).

To facilitate the importation and exportation of products, Cronos Australia – Operations Pty Ltd has a trading account in place with DHL Global Forwarding to handle international freight and customs clearance services on behalf of Cronos Australia. This account is subject to DHL Global Forwarding's standard trading conditions. Cronos Australia – Operations Pty Ltd has also appointed DHL Global Forwarding to be its customs broker in Australia.

Cronos Australia – Operations Pty Ltd has also entered into a services agreement with DHL Supply Chain for transportation, logistics and warehousing services. This agreement is subject to DHL Supply Chain’s standard warehouse and distribution trading conditions.

These arrangements are required to provide the logistical support to enable Cronos Australia to import finished PEACE NATURALS™ and Mile High Labs products into Australia for distribution (in addition to the import licence and permits referred to in Section 3.3) and to export medicinal cannabis products (in addition to the export licence and permits referred to in Section 3.3).

Figure 18 – Overview of Cronos Australia’s three-phase expansion strategy



Cronos Australia proposes to take a staged approach to distribution, beginning in Australia, before expanding to leverage international export opportunities.

3.6.2.1 Australian target market

Cronos Australia intends to focus on developing distribution in the Australian medicinal cannabis market as follows:

- **Distribution agreement with Sigma:** as envisaged by the Sigma MOU, Cronos Australia intends to enter into a distribution agreement with Sigma thereby providing Cronos Australia with a distribution network for its products through Sigma pharmacies and hospitals.
- **Patient access pathways for patient acquisition:** Cronos Australia intends to make medicinal cannabis products available through the Special Access Scheme (specifically SAS-B), the Authorised Prescriber Scheme and to clinical trial participants. Each of the channels provides a pathway for patient access to non-ARTG listed medicinal cannabis products (see Section 2.4.7 for more detail). Cronos Australia aims to play a key role in supporting patients and medical professionals to reduce barriers to patient access and drive patient acquisition. This engagement includes a dedicated sales force, 1:1 doctor engagement, education sessions, technology solutions and industry engagement at national conferences and forums.
- **Influencer, educator and patient outreach for patient acquisition:** Cronos Australia aims to inform and educate key stakeholders in the industry in order to drive patient acquisition. Cronos Australia, through dedicated business development resources, intends to implement a 'top-down' approach engaging with key influencers, medical professionals and educators in the profession to aid in their understanding of patient access and the benefits of medicinal cannabis products generally. Cronos Australia intends to inform current and prospective patients about the specific benefits of PEACE NATURALS™ branded medicinal cannabis usage across a number of indications based on patient experience. Cronos Australia primarily intends to reach the patient market through personalised online channels, including the PEACE NATURALS™ website and through online education tools.

03. COMPANY OVERVIEW cont.

- **Replication of the Cronos Group Inc engagement framework:** Cronos Group Inc has experience in medicinal cannabis distribution to the Canadian and German markets. Cronos Australia has access to a significant portfolio of brand collateral and marketing infrastructure for commercialisation and distribution of PEACE NATURALS™ products including digital and print marketing materials.
- **Development of Australian brands:** Cronos Australia also intends to build a range of Australian brands, including CBD Products, for the domestic and target export markets by partnering with third party manufacturers and suppliers, including the Material Suppliers.

In order to accelerate growth, Cronos Australia intends to allocate funds from the Offer to the development of product development, sales, marketing and patient acquisition resources to generate demand locally as well as build brand equity in the PEACE NATURALS™ brand and the development of Australian brands.

3.6.2.2 International target export markets – New Zealand and parts of Asia

Cronos Australia intends to explore potential export markets in the region, including New Zealand and countries within Asia, noting that regulatory changes are needed in such markets before export is possible (as well as the required licences and permits). Where suitable opportunities are identified, Cronos Australia intends to exploit those opportunities (likely in phase 3). Where possible, Cronos Australia will draw on the experience of Cronos Group Inc in establishing these various distribution channels in markets globally, navigating the unique regulation in each of these markets and securing the necessary licences.

In order to better understand, identify and capitalise on opportunities in Asia, Cronos Australia has established an Asian business development function based out of Hong Kong. This function will initially involve a strategic adviser to Cronos Australia, Nicholas Mulcahy, on a consultancy basis. Nicholas will have coverage of the Asian markets. Nicholas is the former General Manager Asia Pacific for Aesop and was responsible for Aesop's Australian and Asian businesses.

In addition, Cronos Group Inc has, via Peace Naturals Project entered into exclusive distribution agreements with Pohl-Boskamp in Germany and Delfarma in Poland. Under those agreements, Pohl-Boskamp and Delfarma have been appointed as the exclusive distributors of PEACE NATURALS™ branded products in Germany and Poland respectively.

Under the terms of the Referral MOU, Cronos Group Inc has agreed that in the event the demand for PEACE NATURALS™ products from Pohl-Boskamp or Delfarma exceeds allocated supply, Cronos Group Inc may refer supply opportunities to Cronos Australia – Operations Pty Ltd or another affiliate, who may have the opportunity to supply PEACE NATURALS™ branded products to Pohl-Boskamp or Delfarma as applicable if Pohl-Boskamp or Delfarma agree to such distribution relationships and upon entering into distribution agreements on terms acceptable to Pohl-Boskamp or Delfarma (and subject to meeting local regulatory requirements and Pohl-Boskamp's/Delfarma's product requirements, including as to quality, and subject to obtaining relevant regulatory approvals such as export licences/permits). The Referral MOU will apply while Cronos Australia is an affiliate of Cronos Group Inc.

Cronos Australia believes these arrangements could lead to valuable distribution opportunities. However, there are no guarantees that any supply opportunities will be referred to Cronos Australia, that Cronos Australia will be able to fulfil any requests or that distributors in Germany or Poland will enter into direct distribution relationships with Cronos Australia.

3.6.3 Brands

3.6.3.1 Development of Cronos Australia brands and product categories – with a CBD focus

Cronos Australia intends to invest in research and development activities and development of its own products and brands, including CBD Products, for the Australian and target export markets.

Cronos Australia intends to partner with manufacturers and suppliers, including Mile High Labs (for the supply of CBD Products) and MediPharm Labs Australia (for both THC and CBD products), in order to bring products to market.

3.6.3.2 PEACE NATURALS™

Cronos Australia intends to distribute products that use the PEACE NATURALS™ brand which has been licensed from Cronos Group Inc. PEACE NATURALS™ is Cronos Group Inc's flagship medicinal cannabis brand that is currently being used by medicinal cannabis patients in Canada and Germany.

The PEACE NATURALS™ product lines include different oil and dried flower products, including high/medium/low THC, 1:1 THC:CBD and high CBD, across sativa, indica and hybrid strains and a range of terpene profiles.

Cronos Australia intends to import the following PEACE NATURALS™ products under the PEACE NATURALS Supply Agreement (see Section 9.5.5 for further detail).

Figure 19 – PEACE NATURALS™ oil product



Cronos Australia currently plans to import finished PEACE NATURALS™ products including four dried cannabis flower products and three manufactured cannabis oil products. The ability to import such products requires Federal and Victorian licences and permits. Cronos Australia has been granted the required Federal import licence and the Victorian licence, and has received the required Federal import permits. Similarly, Canadian export permits are required at or prior to the time the relevant product will be exported to Australia.

Figure 20 – PEACE NATURALS™ products intended to be imported by Cronos Australia (subject to receipt of required permits)

Dried Cannabis Flower Products		
Product	Strength	Description
PEACE NATURALS™ 20/1 Dried Cannabis Flower	Per flower: THC 20% (+/-10%) CBD: < 1.0%	10g (dried flower)
PEACE NATURALS™ 22/1 Dried Cannabis Flower	Per flower: THC 22% (+/-10%) CBD: < 1.0%	10g (dried flower)
PEACE NATURALS™ 24/1 Dried Cannabis Flower	Per flower: THC 24% (+/-10%) CBD: < 1.0%	10g (dried flower)
PEACE NATURALS™ 18/1 Dried Cannabis Flower	Per flower: THC 18% (+/-10%) CBD: < 1.0%	10g (dried flower)

03. COMPANY OVERVIEW cont.

Cannabis Oil Products		
Product	Strength	Description
PEACE NATURALS™ THC:High Cannabis Oil	Each bottle contains: 18mg/ml THC <1.0mg/ml CBD	20ml vial
PEACE NATURALS™ CBD:High Cannabis Oil	Each bottle contains: 20mg/ml CBD <1.0mg/ml THC	20ml vial
PEACE NATURALS™ 1:1 Cannabis Oil	Each bottle contains: 10mg/ml THC 10mg/ml CBD	20ml vial

3.6.4 Intellectual property




Cronos Australia – Operations Pty Ltd, a subsidiary of Cronos Australia, has entered into the IP Licence with Cronos Group Inc (see Section 9.5.1 for more detail) which allows Cronos Australia, via a number of sole licences, to leverage certain Cronos Group Inc intellectual property and know-how across the medicinal cannabis value chain.

- **PEACE NATURALS™ products, branding and packaging:** Cronos Australia has the right to use PEACE NATURALS™ branding on locally produced products for sale in Australia (and New Zealand and Asia if the prevailing legislation in those countries are changed and if Cronos Australia is able to obtain all necessary export licences). The PEACE NATURALS™ brand has established sales in the Canadian and German markets.
- **Access to Cronos Group Inc's genetic bank:** Access to a selection of seeds and cuttings from Cronos Group Inc's bank of approximately 140 cultivars, which can be imported into Australia for propagation (if Cronos Australia is able to obtain and maintain all necessary import licences and permits and Cronos Group Inc is able to obtain and maintain all necessary export licences and permits).
- **Development of human capital:** It is proposed that Cronos Australia personnel will continue to travel to Canada for training at Cronos Group Inc's facilities and with key leaders. Likewise, Cronos Group Inc's leadership and subject matter experts intend to come to Australia to train and assist in the achievement of key milestones as required and necessary.





Additionally, Cronos Australia intends to develop its own intellectual property through research projects with AVS and through product development processes with partners such as Mile High Labs and MediPharm Labs Australia. As Cronos Australia will be undertaking both research and development activities, Cronos Australia intends to access available Federal Government research and development tax incentives.

■ 3.7 KEY RELATIONSHIPS

Cronos Australia has established a number of key relationships that will assist in the execution of its business model:

<p>Cronos Group Inc</p> 	<p>The relationship with Cronos Group Inc brings the weight of a leader in the global cannabis industry with access to proven intellectual property, genetics and technical expertise.</p> <p>Cronos Australia has sole rights in relation to the licensed intellectual property in Australia, New Zealand and certain countries in South East Asia (see Section 9.5.1 for further detail around the territory and scope of the IP Licence).</p> <p>Cronos Australia also intends to develop its own IP in Australia.</p>
<p>AVS</p> 	<p>Cronos Australia – Operations Pty Ltd is a party to two AVS agreements and one memorandum of understanding, which are described in further detail in Section 9.5.12.</p> <p>The AVS MOU relates to co-operative activities to be undertaken with AVS, which may involve:</p> <ul style="list-style-type: none"> • research projects (collaborative, contract and fee-for-service); • contract or sub-contract arrangements; • evaluation, development, deregulation and/or commercialisation of agreed intellectual property rights, technologies or products; • joint business activities, including joint venture and licencing agreements; • formal information exchange or science staff exchange; • sharing of physical resources (including but not limited to land, plant and equipment and buildings); and • providing strain identification services. <p>The Technical Services Agreement relates to the provision by AVS of services in relation to:</p> <ul style="list-style-type: none"> • importation of genetic material; • propagation of genetic material; • hosting of mother stock; • CO₂ extraction; • training; and • compliance support. <p>The Material Transfer and Confidentiality Agreement facilitates the transfer of certain material and intellectual property for the following purposes:</p> <ul style="list-style-type: none"> • analysis, propagation and evaluation relating to the growing of medicinal cannabis; and • the preparation and submission of an ODC permit application under the current AVS licence for the import of seeds and cannabis cuttings in tissue culture form pursuant to the Technical Services Agreement.
<p>Mile High Labs</p> 	<p>Mile High Labs is a CBD ingredient manufacturing business. Its head office is located in the United States, and it has an Asia-Pacific office in New Zealand. Mile High Labs supplies CBD and CBD infused products to companies across the United States and Europe. Cronos Australia – Operations Pty Ltd and Mile High Labs have executed the Mile High Labs Supply & Manufacture Agreement pursuant to which Mile High Labs may supply CBD ingredients and products, and/or may white-label CBD Products for use by Cronos Australia.</p>

03. COMPANY OVERVIEW cont.

<p>MediPharm</p> 	<p>MediPharm Labs Corp., a company domiciled in Canada, is a global leader in scaled, research-driven cannabis extraction, distillation, purification and cannabinoid isolation, and is listed on the TSX. The company's Australian venture, MediPharm Labs Australia, began in January 2017 following changes to Australia's federal legislation allowing companies to produce medicinal cannabis products in Australia. Cronos Australia – Operations Pty Ltd has entered into the MediPharm Supply Agreement with MediPharm Labs Australia pursuant to which MediPharm Labs Australia may supply cannabis goods to Cronos Australia – Operations Pty Ltd on the terms outlined therein. Cronos Australia – Operations Pty Ltd and MediPharm Labs Australia have also entered into the MediPharm Manufacture Agreement pursuant to which MediPharm Labs Australia may manufacture certain cannabis products for Cronos Australia.</p>
<p>Medicinal Cannabis Industry Australia (MCIA)</p> 	<p>MCIA is an Australian medicinal cannabis industry body and intends to be the peak industry body, engaging directly with responsible Ministers, providing media comment and opinions, advising on regulation and advocating for increased patient access.</p> <p>Cronos Australia was a founding member of MCIA with Cann Group Limited (ASX:CAN), AusCann Group Holdings Limited (ASX:AC8), THC Global Group Limited (ASX:THC) and MedReleaf Australia.</p> <p>Cronos Australia Executive Director and CEO, Rodney Cocks, is a Founding Board Member, together with the respective CEOs of the above companies. Cronos Australia's involvement with MCIA allows Cronos Australia to be at the forefront of increasing awareness of, and promoting, the medicinal cannabis industry in Australia and influencing policy decisions relating thereto.</p>
<p>DHL</p> 	<p>Cronos Australia – Operations Pty Ltd has entered into a services agreement with DHL Supply Chain for transportation, logistics and warehousing services. This agreement is subject to DHL Supply Chain's standard warehouse and distribution trading conditions.</p> <p>Cronos Australia – Operations Pty Ltd also has a trading account in place with DHL Global Forwarding to handle international freight and customs clearance services on behalf of Cronos Australia. This account is subject to DHL Global Forwarding's standard trading conditions. Cronos Australia – Operations Pty Ltd has also appointed DHL Global Forwarding to be its customs broker in Australia.</p> <p>These arrangements are required to provide the logistical support to enable Cronos Australia to import finished PEACE NATURALS™ products and Mile High Labs products into Australia for distribution (in addition to the import and export licences and permits referred to in Section 3.3 and supply terms being agreed with Cronos Group Inc).</p>
<p>Sigma</p> 	<p>Sigma is an Australian full-line wholesale and distribution business to branded and independent community pharmacies, and to hospital pharmacies. Sigma pharmacy brands include Amcal, Discount Drug Stores (DDS) Guardian, Pharmasave and Chemist King.</p> <p>Cronos Australia – Operations Pty Ltd has entered into the Sigma MOU regarding the potential for Sigma to distribute Cronos Australia products, and provide services to Cronos Australia, on terms which (if agreeable to the parties) will be documented in a formal distribution agreement.</p>

04.

FINANCIAL INFORMATION

PEACE NATURALS™
cannabis oil product.



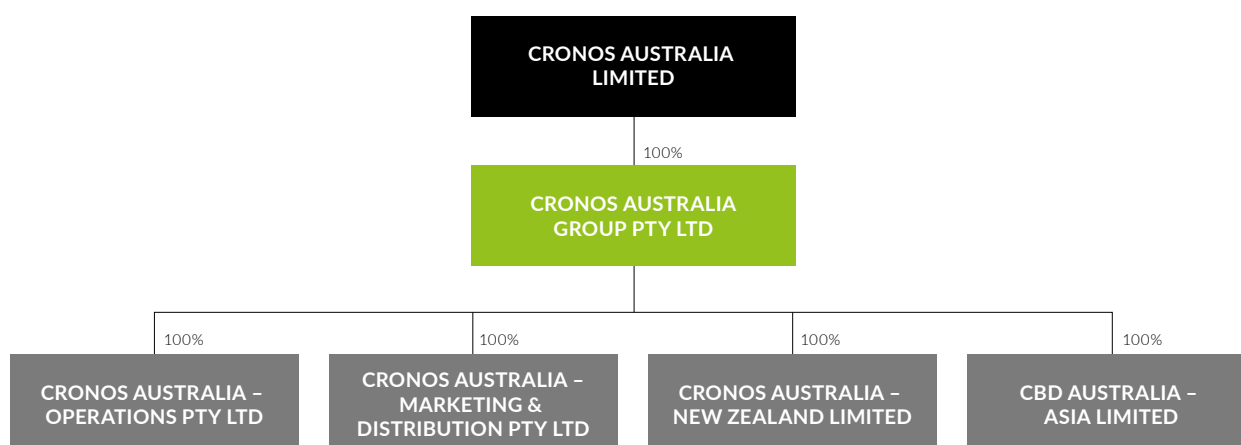
04. FINANCIAL INFORMATION

■ 4.1 BACKGROUND

In September 2018, Cronos Australia undertook certain activities in preparation for the Offer, including the Restructure, which is described in detail in Section 9.3, and the incorporation of Cronos Australia Limited which occurred on 27 September 2018.

The pro forma historical financial information presented for Cronos Australia in this Section 4, comprises the historical financial information of the following group of entities: Cronos Australia Limited (also called **CAL** in this Section 4), Cronos Australia Group Pty Ltd (**CAG**), Cronos Australia – Operations Pty Ltd (**CAO**), Cronos Australia – Marketing & Distribution Pty Ltd (**CAM&D**), Cronos Australia – New Zealand Limited (**CANZ**), which was incorporated on 12 October 2018, and CBD Australia – Asia Limited (**CBDA**), which was incorporated on 25 July 2019, as if the legal entity structure at the date of the Offer was in place from 1 July 2016.

The legal entity structure of the Cronos Australia Group as at the date of this Prospectus is set out in the following diagram:



The Directors of Cronos Australia assessed that CAO and CAM&D were under the joint control of Cronos Group Inc and CAG at 30 June 2017 and 30 June 2018 and, consequently, no consolidated financial statements have been prepared for those periods. Single entity general purpose financial statements have been prepared as follows:

- CAG, for the years ended 30 June 2017 and 30 June 2018.
- CAO, for the period from incorporation on 2 December 2016 to 30 June 2017 and the year ended 30 June 2018.
- CAM&D, for the period from incorporation on 24 August 2017 to 30 June 2018.

In addition to the above single entity general purpose financial statements, consolidated general purpose financial statements have been prepared for CAL for the year ended 30 June 2019 that incorporate the Restructure that took place on 27 September 2018, as described in Section 9.3.

■ 4.2 INTRODUCTION

The financial information in Section 4 has been prepared by Cronos Australia in connection with the Offer. The financial information contained in this Section 4 includes:

- historical financial information for the following entities:
 - > CAL historical consolidated income statement for the year ended 30 June 2019 (**FY2019**);
 - > CAG historical income statements for the years ended 30 June 2017 (**FY2017**) and 30 June 2018 (**FY2018**);
 - > CAO historical income statements for the period from incorporation to 30 June 2017 and FY2018; and
 - > CAM&D historical income statement for the period from incorporation to 30 June 2018,(together, the **Historical Income Statements**);
- CAL historical consolidated balance sheet as at 30 June 2019,
(the **Historical Balance Sheet**);
- CAL historical consolidated cash flow statement for FY2019;
- CAG historical cash flow statements for FY2017 and FY2018;
- CAO historical cash flow statements for the period from incorporation to 30 June 2017 and FY2018; and
- CAM&D historical cash flow statement for the period from incorporation to 30 June 2018,
(together, the **Historical Cash Flows**),
(collectively, the **Historical Financial Information**); and
- pro forma historical financial information for CAL comprising the:
 - > pro forma historical consolidated income statements for FY2017, FY2018 and FY2019 (**Pro Forma Historical Income Statements**);
 - > pro forma historical consolidated balance sheet as at 30 June 2019 (**Pro Forma Historical Balance Sheet**); and
 - > pro forma historical consolidated cash flow statements for FY2017, FY2018 and FY2019 (**Pro Forma Historical Cash Flows**);

(together, the **Pro Forma Historical Financial Information**),

(collectively, the Historical Financial Information and the Pro Forma Historical Financial Information, the **Financial Information**).

The Historical Financial Information is presented independently for CAG, CAO and CAM&D for the reporting periods up to, and including, 30 June 2018 as this reflected the legal entity structure and reporting requirements of the individual entities prior to the Restructure, which occurred during the year ended 30 June 2019.

Cronos Australia and its controlled entities have a 30 June financial year-end and the Financial Information has been presented on this basis, taking into account that for certain Cronos Australia Group entities this reflects the period from incorporation to 30 June, as identified above.

This Section also sets out:

- the basis of preparation and presentation of the Financial Information (see Section 4.3);
- a summary of Cronos Australia's liquidity, capital resources and indebtedness position (see Section 4.9);
- a summary of Cronos Australia's contractual obligations, commitments and contingent liabilities (see Section 4.10);
- management's discussion and analysis of the Pro Forma Historical Financial Information (see Section 4.11);
- Cronos Australia's dividend policy (see Section 4.12); and
- Cronos Australia's significant accounting policies (see Section 4.13).

All amounts disclosed in Section 4 are presented in Australian dollars and, unless otherwise noted, have been rounded to the nearest \$1,000. Any discrepancies between totals and sums of components in tables and figures contained in this Prospectus are due to rounding.

04. FINANCIAL INFORMATION cont.

The information in Section 4 should be read in conjunction with the risk factors set out in Section 6 and other information contained in this Prospectus.

The Financial Information (as defined above) has been reviewed by Ernst & Young Transaction Advisory Services Limited in accordance with the Australian Standard on Assurance Engagements ASAE 3450 *Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information* as stated in its Independent Limited Assurance Report set out in Section 5. Investors should note the scope and limitations of the Independent Limited Assurance Report as provided in Section 5.

■ 4.3 BASIS OF PREPARATION AND PRESENTATION OF THE FINANCIAL INFORMATION

Overview

The Directors of Cronos Australia are responsible for the preparation and presentation of the Financial Information.

The Financial Information included in this Prospectus is intended to present potential investors with information to assist them with understanding the historical financial performance, financial position and cash flows of Cronos Australia.

The Historical Financial Information has been prepared in accordance with the recognition and measurement principles of the Australian Accounting Standards (AAS) issued by the Australian Accounting Standards Board (AASB), which are consistent with International Financial Reporting Standards issued by the International Accounting Standards Board. Cronos Australia's significant accounting policies are described in Section 4.13.

The Pro Forma Historical Financial Information has been prepared in accordance with the recognition and measurement principles of AAS other than it includes certain adjustments which have been prepared in a manner consistent with AAS, that reflect (a) the exclusion of certain transactions that occurred during the relevant periods, and (b) the impact of certain transactions as if they had occurred on or before 30 June 2019.

The Pro Forma Historical Financial Information does not reflect the actual results or cash flows of Cronos Australia for the periods indicated. However, the Directors of Cronos Australia believe that it provides useful information as it enables investors to examine what they consider to be the historical financial performance, financial position and cash flows of the business presented on a consistent basis and reflects the financial impact of the Restructure as if it had occurred on or before 1 July 2016.

The Financial Information is presented in an abbreviated form and does not include all of the presentation and disclosures, statements or comparative information as required by the AAS and other mandatory professional reporting requirements applicable to general purpose financial reports prepared in accordance with the *Corporations Act*.

Changes in accounting standards

The following new AAS became effective for Cronos Australia on 1 July 2018 and the Historical Financial Information is based on the recognition and measurement requirements of these AAS for FY2019:

- AASB 9 *Financial Instruments*
- AASB 15 *Revenue from Contracts with Customers*

The Financial Information is based on the recognition and measurement requirements of the above new AAS for FY2019 and the Financial Information for periods prior to 1 July 2018 have not been restated.

As at 30 June 2019, AASB 16 *Leases* has been issued, but is not yet effective. AASB 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under AASB 117. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e. the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e. the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Cronos Australia adopted AASB 16 on 1 July 2019.

Segment information

Cronos Australia manages its operations as a single business operation and there are no parts of the business that qualify as operating segments under AASB 8 *Operating Segments*.

Preparation of Historical Financial Information

The annual Historical Financial Information for each entity has been derived from their respective general purpose financial statements as follows:

- the general purpose financial statements of CAL for FY2019;
- the general purpose financial statements of CAG for FY2017 and FY2018;
- the general purpose financial statements of CAO for the period from incorporation to 30 June 2017 and FY2018; and
- the general purpose financial statements of CAM&D for the period from incorporation to 30 June 2018.

The general purpose financial statements of CAL, CAG, CAO and CAM&D for the financial years stated above have been audited by KPMG in accordance with Australian Auditing Standards. KPMG has issued an unqualified audit opinion in respect of each set of general purpose financial statements.

The general purpose financial statements of CAL, CAG, CAO and CAM&D for the financial years stated above have been lodged with ASIC and are available at www.asic.gov.au.

Preparation of Pro Forma Historical Financial Information

The Pro Forma Historical Financial Information has been derived from the Historical Financial Information and adjusted for the effects of the pro forma adjustments described below.

- In relation to the Pro Forma Historical Income Statements and Pro Forma Historical Cash Flows, pro forma adjustments have been made to reflect:
 - > the removal of certain transactions incurred in respect of activities which are unrelated to the ongoing operations of Cronos Australia from 1 July 2016 (**Adjust. 1**); and
 - > the Restructure established in connection with the Offer (including the elimination of transactions and balances between the entities) as if it had been in place since 1 July 2016 (**Adjust. 2**).
- In relation to the Pro Forma Historical Balance Sheet, pro forma adjustments have been made to reflect the proceeds raised from the Offer, less related transaction costs, in addition to certain other adjustments, as if they had occurred as at 30 June 2019 (**Adjust. 3**).

Investors should refer to:

- Section 4.5 for a reconciliation of the Historical Income Statements to the Pro Forma Historical Income Statements for FY2017, FY2018 and FY2019;
- Section 4.6 for a reconciliation of the Historical Balance Sheet to the Pro Forma Historical Balance Sheet as at 30 June 2019; and
- Section 4.8 for a reconciliation of the Historical Cash Flows to the Pro Forma Historical Cash Flows for FY2017, FY2018 and FY2019.

The Pro Forma Historical Financial Information has been prepared solely for the purpose of inclusion in this Prospectus. Due to its nature, the Pro Forma Historical Financial Information does not represent Cronos Australia's actual or prospective financial position, financial performance or cash flows.

Investors should note that past results are not a guarantee of future financial performance.

04. FINANCIAL INFORMATION cont.

Going concern

The Financial Information has been prepared on a going concern basis, which assumes continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business. In making this assessment, the Directors have considered the future cash requirements of Cronos Australia and the letter of financial support Cronos Australia has received from its shareholders, including Cronos Group Inc. This letter confirms that the shareholders will continue to provide financial and other support to enable Cronos Australia and its controlled entities to pay their debts as and when they become due and payable for a period which is the earlier of 12 months from the date of signing the Financial Report for the year ended 30 June 2019 and the date on which the Company is admitted to the official list of the ASX, having raised no less than \$20 million, before expenses. Cronos Australia has generated pro forma historical operating losses and pro forma historical net cash outflows from operating activities. Cronos Australia had cash and cash equivalents of \$159,679 at 30 June 2019.

Since 30 June 2019, Cronos Australia has received a total of \$3,500,000 in funds from Pre-IPO Investors pursuant to 15 convertible loan agreements, comprising two separate tranches of \$3,000,000 and \$500,000, respectively. These funds were used to meet costs associated with the Offer and to satisfy other working capital requirements prior to the Offer. As detailed in Section 9.5.13, these loans will convert to Shares issued under this Prospectus at a rate determined by dividing the value of the loan by an amount equal to 80% of the Offer Price for each Share (i.e. a discount of 20%). No interest is payable on the loans.

In addition to the above loans with the Pre-IPO Investors, since 30 June 2018, Cronos Australia has also received a total of \$1,500,000 in funds pursuant to a Loan Agreement with Cronos Group Inc. The loan (plus all accrued interest) is payable at the option of the borrower, but is otherwise due for repayment on the repayment date which is 1 January 2022.

Following the completion of the Offer, Cronos Australia expects to have pro forma historical cash and cash equivalents of approximately \$17,607,000 as at 30 June 2019 based on a capital raising of \$20,000,000, less estimated transaction costs of \$3,340,000, of which approximately \$1,331,000 had been incurred and capitalised in the Cronos Australia historical balance sheet as at 30 June 2019. Of this amount, \$437,000 has been paid or incurred prior to 30 June 2019. The balance of \$894,000 remained unpaid at 30 June 2019 and was included within the balance of trade and other payables at 30 June 2019.

The Financial Information does not include any adjustments relating to the recoverability and classification of recorded asset amounts nor to the amounts and classification of liabilities that might be necessary should Cronos Australia not continue as a going concern.

■ 4.4 PRO FORMA HISTORICAL INCOME STATEMENTS

Table 1 sets out the Pro Forma Historical Income Statements for FY2017, FY2018 and FY2019.

Table 1: Pro Forma Historical Income Statements for FY2017, FY2018 and FY2019

	Pro forma Historical		
	FY2017 \$'000	FY2018 \$'000	FY2019 \$'000
Gain on recognition of licences ¹	–	–	57
Interest received	–	–	1
Total income	–	–	58
Accounting, tax and audit fees	(16)	(69)	(319)
Administration expenses	(30)	(54)	(305)
Finance costs	–	–	(126)
Licensing and regulatory costs	(17)	(321)	(189)
Personnel expenses	(29)	(164)	(1,713)
Site establishment expenses	–	(35)	(292)
Travel and accommodation	–	(5)	(72)
Profit/(loss) before tax	(92)	(648)	(2,958)
Income tax (expense)/benefit	–	–	44
Profit/(loss) for the period	(92)	(648)	(2,914)

¹ Gain of \$57,205 as a result of the recognition of the fair value of the net assets of previously equity accounted investments recognised as part of the Restructure. Refer to the footnotes to Tables 3 and 5 for further details.

Refer to Section 4.11 for management's discussion and analysis of the Pro Forma Historical Income Statements.

The Pro Forma Historical Income Statements for FY2017, FY2018 and FY2019, as set out in Table 1 above, are sourced from the reconciliations between the Historical Income Statements and the Pro Forma Historical Income Statements set out in Tables 3, 4 and 5 respectively below.

04. FINANCIAL INFORMATION cont.

■ 4.5 RECONCILIATION OF HISTORICAL INCOME STATEMENTS TO PRO FORMA HISTORICAL INCOME STATEMENTS

For illustrative purposes, Table 2 sets out the Historical Income Statements for FY2017, FY2018 and FY2019 to present them on a consistent basis and to reflect the financial impact of the Restructure as if it had occurred on or before 1 July 2016.

Table 2: Historical Income Statements for FY2017, FY2018 and FY2019

	Historical		
	FY2017 \$'000	FY2018 \$'000	FY2019 \$'000
Management fee income	18	448	–
Gain on recognition of licences ¹	–	–	57
Interest received	–	–	1
Total income	18	448	58
Accounting, tax and audit fees	(16)	(69)	(319)
Administration expenses	(30)	(58)	(305)
Finance costs	–	–	(126)
Licensing, legal and regulatory costs	(28)	(331)	(189)
Personnel expenses	(29)	(164)	(1,713)
Site establishment expenses	–	(35)	(292)
Travel and accommodation	–	(5)	(72)
Profit/(loss) before tax	(85)	(214)	(2,958)
Income tax (expense)/benefit	–	(42)	44
Profit/(loss) for the period	(85)	(256)	(2,914)

Refer to the footnote to Table 1 for an explanation of the line item for the gain on recognition of licences.

Table 3 sets out the reconciliation of Historical Income Statements for each Cronos Australia Group entity that was incorporated on or before 30 June 2017 to the Pro Forma Historical Income Statements for FY2017.

Table 3: Reconciliation of the Historical Income Statements to the Pro Forma Historical Income Statements for FY2017

	Historical			Adjust. 1	Pro forma
	CAG \$'000	CAO \$'000	Total \$'000	\$'000	\$'000
Management fee income	18	–	18	(18)	–
Total income	18	–	18	(18)	–
Accounting, tax and audit fees	(11)	(5)	(16)	–	(16)
Administration expenses	(29)	(1)	(30)	–	(30)
Licensing, legal and regulatory costs	(17)	(11)	(28)	11	(17)
Personnel expenses	(24)	(5)	(29)	–	(29)
Profit/(loss) before tax	(63)	(22)	(85)	(7)	(92)
Income tax (expense)/benefit	–	–	–	–	–
Profit/(loss) for the period	(63)	(22)	(85)	(7)	(92)

Adjust. 1 – Restructure

Prior to the Restructure on 27 September 2018, the principal activity of CAG was the management of various property development activities. Accordingly, the income earned and certain expenses incurred by CAG prior to that date in respect of those activities had no direct association with the ongoing activities of Cronos Australia. As CAG ceased these earlier activities completely as from the date of the Restructure, all associated income and expenditure amounts have been removed in the Pro Forma Historical Income Statements.

Table 4 sets out the reconciliation of Historical Income Statements of each Cronos Australia Group entity that was incorporated on or before 30 June 2018 to the Pro Forma Historical Income Statements for FY2018.

Table 4: Reconciliation of the Historical Income Statements to the Pro Forma Historical Income Statements for FY2018

	Historical				Adjust. 1	Pro forma
	CAG \$'000	CAO \$'000	CAM&D \$'000	Total \$'000	\$'000	\$'000
Management fee income	448	–	–	448	(448)	–
Total income	448	–	–	448	(448)	–
Accounting, tax and audit fees	(26)	(41)	(2)	(69)	–	(69)
Administration expenses	(45)	(11)	(2)	(58)	4	(54)
Licensing, legal and regulatory costs	(23)	(308)	–	(331)	10	(321)
Personnel expenses	(157)	(7)	–	(164)	–	(164)
Site establishment expenses	–	(35)	–	(35)	–	(35)
Travel and accommodation	(5)	–	–	(5)	–	(5)
Profit/(loss) before tax	192	(402)	(4)	(214)	(434)	(648)
Income tax (expense)/benefit	(42)	–	–	(42)	42	–
Profit/(loss) for the period	150	(402)	(4)	(256)	(392)	(648)

Refer to the footnote to Table 3 for an explanation of the pro forma Adjust. 1.

04. FINANCIAL INFORMATION cont.

Table 5 sets out the reconciliation of Historical Income Statement of CAL to the Pro Forma Historical Income Statement for FY2019.

Table 5: Reconciliation of the Historical Income Statement to the Pro Forma Historical Income Statement for FY2019

	Historical	Pro forma
	CAL \$'000	\$'000
Gain on recognition of licences	57	57
Interest received	1	1
Total income	58	58
Accounting, tax and audit fees	(319)	(319)
Administration expenses	(305)	(305)
Finance costs	(126)	(126)
Licensing, legal and regulatory costs	(189)	(189)
Personnel expenses	(1,713)	(1,713)
Site establishment expenses	(292)	(292)
Travel and accommodation	(72)	(72)
Profit/(loss) before tax	(2,958)	(2,958)
Income tax (expense)/benefit	44	44
Profit/(loss) for the period	(2,914)	(2,914)

There are no adjustments required between the Historical Income Statement and the Pro Forma Historical Income Statement for FY2019.

The accounting consequences of the restructuring activities described in Section 9.3 resulted in the recognition of the fair value of the assets that Cronos Group Inc. provided in CAO to CAG in exchange for shares in CAG. This resulted in the recognition of the fair value of the licences held by CAO (\$200,000), of which \$57,205 has been recognised as a gain within the respective Pro Forma Historical Income Statement.

■ 4.6 RECONCILIATION OF HISTORICAL BALANCE SHEET TO PRO FORMA HISTORICAL BALANCE SHEET

Table 6 sets out the Historical Balance Sheet of Cronos Australia and its controlled entities as at 30 June 2019 and the pro forma adjustments that have been made to derive the Pro Forma Historical Balance Sheet as at that date.

Table 6: Reconciliation of the Historical Balance Sheet to the Pro Forma Historical Balance Sheet as at 30 June 2019

	Historical CAL \$'000	Adjust. 3 \$'000	Pro forma \$'000
ASSETS			
Current assets			
Cash and cash equivalents	160	17,447	17,607
Trade and other receivables	39	–	39
Other assets	1,374	(1,331)	43
Total current assets	1,573	16,116	17,689
Non-current assets			
Property, plant and equipment	76	–	76
Intangible assets	200	–	200
Total non-current assets	276	–	276
Total assets	1,849	16,116	17,965
LIABILITIES			
Current liabilities			
Trade and other payables	2,436	(894)	1,542
Interest-bearing liabilities	514	–	514
Chattel mortgage liabilities	18	–	18
Provisions	3	–	3
Total current liabilities	2,971	(894)	2,077
Non-current liabilities			
Interest-bearing liabilities	1,606	–	1,606
Chattel mortgage liabilities	64	–	64
Total non-current liabilities	1,670	–	1,670
Total liabilities	4,641	(894)	3,747
Net assets/(liabilities)	(2,792)	17,010	14,218
SHAREHOLDERS' EQUITY			
Share capital	55	16,660	16,715
Share-based payments reserve	–	350	350
Accumulated losses	(2,847)	–	(2,847)
Total shareholders' equity/(deficit)	(2,792)	17,010	14,218

The Historical Balance Sheet as at 30 June 2019 has been prepared on a going concern basis notwithstanding the existence of net asset and net current asset deficiencies as at that date. Refer Section 4.3 for further details.

04. FINANCIAL INFORMATION cont.

Adjust. 3 – Offer Capital Raising

The Offer is expected to raise \$20,000,000 through the offer of 40,000,000 New Shares at an Offer Price of \$0.50 per New Share. Transaction costs associated with the Offer totalling approximately \$3,340,000 relate to the issue of New Shares in Cronos Australia and have been accounted for as a reduction to the proceeds raised through equity. Of this amount, approximately \$1,331,000 had been incurred and capitalised in the Historical Balance Sheet of CAL as at 30 June 2019. Of this amount, \$147,000 was paid prior to the Restructure on 27 September 2018, while \$290,000 was paid after that date and prior to 30 June 2019. The balance of \$894,000 remained unpaid at 30 June 2019 and was included within the balance of trade and other payables at 30 June 2019. The total transaction costs also include a non-cash amount of \$350,000 relating to the granting of the Broker Options.

■ 4.7 PRO FORMA HISTORICAL CASH FLOWS

Table 7 sets out the Pro Forma Historical Cash Flows for FY2017, FY2018 and FY2019.

Table 7: Pro Forma Historical Cash Flows for FY2017, FY2018 and FY2019

	Pro forma Historical		
	FY2017 \$'000	FY2018 \$'000	FY2019 \$'000
Cash flows used in operating activities			
Receipts from customers	–	–	–
Payments made to suppliers and employers	(84)	(331)	(1,699)
Interest paid	–	–	(4)
Research and development tax incentive received	–	–	44
Interest received	–	–	1
Total cash flows used in operating activities	(84)	(331)	(1,658)
Cash flows used in investing activities			
Purchases of plant and equipment	–	(106)	(7)
Net assets assumed on restructure	–	–	73
Total cash flows used in investing activities	–	(106)	66
Cash flows from financing activities			
Proceeds from unsecured loans	–	–	2,000
Net movement in chattel mortgages	–	99	(17)
Total cash flows from financing activities	–	99	1,983
Net increase in cash and cash equivalents	(84)	(338)	391
Cash and cash equivalents at the beginning of the period	10	(75)	(416)
Cash and cash equivalents at the end of the period	(74)	(413)	(25)

The Pro Forma Historical Cash Flows for FY2017, FY2018 and FY2019, as set out in Table 7 above, are sourced from the reconciliations between the Historical Cash Flows and the Pro Forma Historical Cash Flows set out in Tables 9, 10 and 11 respectively below.

■ 4.8 RECONCILIATION OF HISTORICAL CASH FLOWS TO PRO FORMA HISTORICAL CASH FLOWS

For illustrative purposes, Table 8 sets out the Historical Cash Flows for FY2017, FY2018 and FY2019 to present them on a consistent basis and to reflect the financial impact of the Restructure as if it had occurred on or before 1 July 2016.

Table 8: Historical Cash Flows for FY2017, FY2018 and FY2019

	Historical		
	FY2017 \$'000	FY2018 \$'000	FY2019 \$'000
Cash flows from/(used in) operating activities			
Receipts from customers	20	492	–
Payments made to suppliers and employers	(98)	(352)	(1,699)
Interest paid	–	–	(4)
Research and development tax incentive received	–	–	44
Interest received	–	–	1
Total cash flows from/(used in) operating activities	(78)	140	(1,658)
Cash flows from/(used in) investing activities			
Purchases of plant and equipment	–	(106)	(7)
Repayment of borrowings	(20)	(194)	–
Proceeds from borrowings	93	119	–
Net assets assumed on restructure	–	–	73
Total cash flows from/(used in) investing activities	73	(181)	66
Cash flows from financing activities			
Proceeds from unsecured loans	–	–	2,000
Payments of IPO-related expenses	–	–	(290)
Net movement in chattel mortgages	–	99	(17)
Total cash flows from financing activities	–	99	1,693
Net increase in cash and cash equivalents	(5)	58	101
Cash and cash equivalents at the beginning of the period	10	4	59
Cash and cash equivalents at the end of the period	5	62	160

04. FINANCIAL INFORMATION cont.

Table 9 sets out the reconciliation of Historical Cash Flows for each Cronos Australia Group entity that was incorporated on or before 30 June 2017 to the Pro Forma Historical Cash Flows for FY2017.

Table 9: Reconciliation of the Historical Cash Flows to the Pro Forma Historical Cash Flows for FY2017

	Historical			Adjust. 1	Adjust. 2	Pro forma
	CAG \$'000	CAO \$'000	Total \$'000	\$'000	\$'000	\$'000
Cash flows used in operating activities						
Receipts from customers	20	–	20	(20)	–	–
Payments made to suppliers and employers	(79)	(19)	(98)	14	–	(84)
Total cash flows used in operating activities	(59)	(19)	(78)	(6)	–	(84)
Cash flows from/(used in) investing activities						
Repayment of borrowings	(20)	–	(20)	–	20	–
Proceeds from borrowings	73	20	93	(73)	(20)	–
Total cash flows from/(used in) investing activities	53	20	73	(73)	–	–
Net increase in cash and cash equivalents	(6)	1	(5)	(79)	–	(84)
Cash and cash equivalents at the beginning of the period	10	–	10	–	–	10
Cash and cash equivalents at the end of the period	4	1	5	(79)	–	(74)

Adjust. 2 – Combination of Cronos Australia

Certain intercompany transactions and balances between Cronos Australia Group entities have been eliminated as if the Restructure had occurred on or before 1 July 2016.

Refer to the footnote to Table 3 for an explanation of the pro forma Adjust. 1.

Table 10 sets out the reconciliation of Historical Cash Flows for each Cronos Australia Group entity that was incorporated on or before 30 June 2018 to the Pro Forma Historical Cash Flows for FY2018.

Table 10: Reconciliation of the Historical Cash Flows to the Pro Forma Historical Cash Flows for FY2018

	Historical				Adjust. 1	Adjust. 2	Pro forma
	CAG \$'000	CAO \$'000	CAM&D \$'000	Total \$'000	\$'000	\$'000	\$'000
Cash flows from/(used in) operating activities							
Receipts from customers	492	–	–	492	(492)	–	–
Payments made to suppliers and employers	(237)	(115)	–	(352)	21	–	(331)
Total cash flows from/(used in) operating activities	255	(115)	–	140	(471)	–	(331)
Cash flows from/(used in) investing activities							
Purchases of plant and equipment	(106)	–	–	(106)	–	–	(106)
Repayment of borrowings	(193)	(1)	–	(194)	75	119	–
Proceeds from borrowings	–	119	–	119	–	(119)	–
Total cash flows from/(used in) investing activities	(299)	118	–	(181)	75	–	(106)
Cash flows from financing activities							
Net movement in chattel mortgages	99	–	–	99	–	–	99
Total cash flows from financing activities	99	–	–	99	–	–	99
Net increase in cash and cash equivalents	55	3	–	58	(396)	–	(338)
Cash and cash equivalents at the beginning of the period	4	–	–	4	(79)	–	(75)
Cash and cash equivalents at the end of the period	59	3	–	62	(475)	–	(413)

Refer to the footnote to Table 3 for an explanation of the pro forma Adjust. 1 and to the footnote to Table 9 for an explanation of the pro forma Adjust. 2.

04. FINANCIAL INFORMATION cont.

Table 11 sets out the reconciliation of Historical Cash Flows of CAL to the Pro Forma Historical Cash Flows for FY2019.

Table 11: Reconciliation of the Historical Cash Flows to the Pro Forma Historical Cash Flows for FY2019

	Historical	Adjust. 1	Adjust. 3	Pro forma
	CAL \$'000	\$'000	\$'000	\$'000
Cash flows used in operating activities				
Receipts from customers	–	–	–	–
Payments made to suppliers and employers	(1,699)	–	–	(1,699)
Interest paid	(4)	–	–	(4)
Research and development tax incentive received	44	–	–	44
Interest received	1	–	–	1
Total cash flows used in operating activities	(1,658)	–	–	(1,658)
Cash flows from investing activities				
Net assets assumed on restructure	73	–	–	73
Purchases of plant and equipment	(7)	–	–	(7)
Total cash flows from investing activities	66	–	–	66
Cash flows from financing activities				
Proceeds from unsecured loans	2,000	–	–	2,000
Payments of IPO-related expenses	(290)	–	290	–
Net movement in chattel mortgages	(17)	–	–	(17)
Total cash flows from financing activities	1,693	–	290	1,983
Net increase in cash and cash equivalents	101	–	290	391
Cash and cash equivalents at the beginning of the period	59	(475)	–	(416)
Cash and cash equivalents at the end of the period	160	(475)	290	(25)

Refer to the footnote to Table 3 for an explanation of the pro forma Adjust. 1 and to the footnote to Table 6 for an explanation of the pro forma Adjust. 3.

■ 4.9 LIQUIDITY, CAPITAL RESOURCES AND INDEBTEDNESS

Cronos Australia is currently funded through a \$1,500,000 loan facility from Cronos Group Inc pursuant to a loan agreement dated 25 September 2018 (which was subsequently amended on 6 March 2019 and again on 9 August 2019). Interest on monies advanced under the shareholder loan facility is payable at a rate of 12% per annum and the principal (including any accrued interest) is repayable, together with accrued interest, in full on or before 1 January 2022. As at 30 June 2019, interest totalling \$106,027 had been accrued in respect of the loan which had a balance of \$1,500,000 outstanding as at that date.

In addition to the loan from Cronos Group Inc, since 30 June 2019, Cronos Australia has received funds amounting to \$3,500,000, comprising two separate tranches of \$3,000,000 and \$500,000, respectively, from the Pre-IPO Investors pursuant to 15 convertible loan agreements. These funds were used to meet costs associated with the Offer and to satisfy other working capital requirements prior to the Offer. The loans from the Pre-IPO Investors will convert into Shares issued under this Prospectus at a rate determined by dividing the value of the loan by an amount equal to 80% of the Offer Price for each Share (i.e. a discount of 20%). No interest is payable on the loans.

Following Completion of the Offer, Cronos Australia will have a pro forma historical cash and cash equivalents balance of \$17,607,000 as at 30 June 2019. The net funds raised from the Pre-IPO Investors are not included in the pro forma historical cash and cash equivalents balance of \$17,607,000 above.

Following Completion of the Offer, Cronos Australia expects that it will have sufficient cash to carry out its stated business objectives.

Cronos Australia's ability to undertake its stated business objectives and generate sufficient cash depends on its future performance which, to a certain extent, is subject to a number of factors beyond its control including general economic, financial and competitive conditions.

■ 4.10 CONTRACTUAL OBLIGATIONS, COMMITMENTS AND CONTINGENT LIABILITIES

Cronos Australia has no contractual obligations, commitments or contingent liabilities as at 30 June 2019.

■ 4.11 MANAGEMENT DISCUSSION AND ANALYSIS OF PRO FORMA HISTORICAL FINANCIAL INFORMATION

Cronos Australia has incurred costs to date relating to obtaining the licences necessary to establish its medicinal cannabis operations (see Section 3.3). In addition, costs were incurred in relation to the expansion of Cronos Australia's leadership team, the restructuring of Cronos Australia's business ahead of the IPO (see Section 9.3), interest paid on loans to finance the development of the business and in creating preliminary plans for the potential construction of the Facility described in Section 9.5.10 which is currently not being pursued.

Costs associated with the Offer that were incurred by Cronos Australia after 1 July 2018, amounting to \$1,331,000 as at 30 June 2019, have been capitalised in the balance sheet of CAL as at that date. An intangible asset of \$200,000 relating to capitalised costs associated with the securing of the licences has also been reflected as a non-current asset in the balance sheets as at 30 June 2019.

The net cash outflows associated with the above activities of Cronos Australia have been funded by way of unsecured loans from Cronos Group Inc and the Pre-IPO Investors, as described in Section 4.3.

04. FINANCIAL INFORMATION cont.

■ 4.12 DIVIDEND POLICY

The Directors have committed to reinvesting all funds generated following the Offer into the business to maximise its growth. Accordingly, no dividends are likely to be payable for a period of at least two years following the listing of Cronos Australia on the ASX.

The payment of dividends by Cronos Australia, if any, subject to any contractual, legal or regulatory restrictions, is at the complete discretion of the Directors, and the Directors do not provide any assurance of the future level of dividends that may be paid by Cronos Australia. The ability of Cronos Australia to pay dividends will depend on a number of factors, many of which are beyond the control of Cronos Australia. In determining whether to declare future dividends, the Directors will have regard to Cronos Australia's earnings, overall financial condition and capital requirements, taxation considerations (including the level of franking credits available), the general business environment, and any other factors that the Directors may consider to be relevant.

No assurances can be given by any person, including the Directors, about the payment of any dividend or the amount of any such dividend that may be paid.

■ 4.13 SIGNIFICANT ACCOUNTING POLICIES

Cronos Australia has consistently applied the accounting policies set out below to all periods presented in the Financial Information. Certain comparative amounts have been reclassified to conform to the current period's presentation.

4.13.1 Critical accounting judgements and estimates

Preparing financial information in accordance with AAS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on Cronos Australia and that are believed to be reasonable under the circumstances.

Cronos Australia makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year include:

Deferred tax

A deferred tax asset is recognised where Cronos Australia considers that it will be probable that future taxable income will be available against which a tax credit will be utilised in the future. In estimating the amount of the deferred tax asset that should be recognised, Cronos Australia makes judgements based on current forecasts about the amount of future taxable profits and the timings of when these will be realised. A deferred tax asset is currently not being recognised due to the uncertainty as to whether it is probable that taxable income will be generated in the future.

As at 30 June 2019, the Cronos Australia Group entities had provisional unrecognised tax losses totalling approximately \$3,222,000. The ability to carry forward these tax losses and offset them against future taxable income, if any, is subject to the satisfaction of the loss recoupment rules.

4.13.2 Current versus non-current classification

Cronos Australia presents assets and liabilities in the balance sheet based on current/non-current classification. An asset is classified as current when it is:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within twelve months after the reporting period; or
- Cash or a cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

Cronos Australia classifies all other assets as non-current.

A liability is classified as current when:

- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

Cronos Australia has no material contingent liabilities and other off-balance sheet arrangements as at the date of the Offer, other than the fees that may be payable in respect of the underwriting of the Offer.

4.13.3 Financial instruments – initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets

Financial assets comprise loans and receivables.

Financial assets classified as loans and receivables are recognised initially at fair value and measured at amortised cost using the effective interest method, less any provision for impairment. Any change in their value through impairment or reversal of impairment is recognised in the income statement. There is no impairment or reversal of impairment recognised in the income statement.

Financial liabilities

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of Cronos Australia after deducting all of its financial liabilities. Equity instruments do not include a contractual obligation to deliver cash or other financial assets to another entity. Any instrument that does have the obligation to deliver cash or another financial asset to another entity is classified as a financial liability.

Financial liabilities are presented under the heading liabilities on the balance sheet.

Cronos Australia's financial liabilities include trade and other payables, interest-bearing liabilities, chattel mortgages and provisions.

Financial liabilities are recognised at face value. There has been no subsequent measurement at amortised cost using the effective interest rate method.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis to realise the assets and settle the liabilities simultaneously.

04. FINANCIAL INFORMATION cont.

4.13.4 Taxes

Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where Cronos Australia operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of the amounts Cronos Australia expects to be paid to the respective tax authorities.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses.

Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will enable the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in relation to the underlying transaction either in other comprehensive income or directly in equity.

Cronos Australia offsets deferred tax assets and deferred tax liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

4.13.5 Cash and cash equivalents

Cash and cash equivalents includes cash on hand and cash at bank which is subject to an insignificant risk of changes in value.

For the purpose of the cash flow statements, cash and cash equivalents consist of cash on hand and cash at bank.

4.13.6 Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

If Cronos Australia reacquires its own equity instruments, e.g. as the result of a share buy-back, those instruments are deducted from equity and the associated shares are cancelled. No gain or loss is recognised in the income statement and the consideration paid, including any directly attributable incremental costs (net of income taxes), is recognised directly in equity until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the owners of Cronos Australia.

4.13.7 Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

4.13.8 Goods and Services Tax (GST)

Expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables in the balance sheet are shown inclusive of GST. The net amount of GST recoverable from, or payable to, the relevant taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

4.13.9 Share-based payments

As part of the Restructure, CAG completed an asset acquisition in exchange for shares issued by Cronos Australia and, therefore, the transaction is accounted for in accordance with AASB 2 *Share-based Payments*. This requires the assets acquired to be recognised in the balance sheet at fair value.

Employees may receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments received (equity-settled transactions). The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model.

The resulting cost is recognised in the income statement, together with a corresponding increase in equity (via a share-based payments reserve), over the period in which the service and, where applicable, the performance conditions, including the vesting period, are fulfilled. The cumulative expense is recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the best estimate of the number of equity instruments that will ultimately vest. The expense or credit reflected in the income statement for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value.

No expense is recognised for awards that do not ultimately vest because non-market performance and/or service conditions have not been met. Where awards include a market or non-vesting condition, the transactions are treated as vested irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

04. FINANCIAL INFORMATION cont.

4.13.10 Investment in associates

An associate is an entity over which the investor has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

Investments in its associates are accounted for using the equity method.

Under the equity method, an investment in an associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the investor's share of the net assets of the associate since the acquisition date. The income statement reflects the investor's share of the results of operations of the associate. Where the investor's share of losses exceeds its interest in the associate, the investor discontinues to recognise further losses. Any change in other comprehensive income of those investees is presented as part of the investor's other comprehensive income. Unrealised gains and losses resulting from transactions between the investor and the associate are eliminated to the extent of the interest in the associate.

The aggregate of the investor's share of profit or loss of an associate is shown on the face of the income statement.

After application of the equity method, the investor determines whether it is necessary to recognise an impairment loss on its investment in its associate. At each reporting date, the investor determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the investor calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, and then recognises the loss in the income statement.

Upon the loss of significant influence over the associate, the investor measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in the income statement.

Upon gaining control over the associate, the investor measures and recognises a gain or loss on de-recognition of the equity accounted investment through the income statement to the extent that the fair value of consideration given differs from the carrying amount of the equity accounted investment.

As at 30 June 2019, all of the entities within Cronos Australia Group, other than Cronos Australia itself, were wholly-owned by Cronos Australia and, accordingly, there were no investments in associates as at that date.

4.13.11 Intangibles

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.


The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. The amortisation expense in relation to intangible assets with finite lives is recognised in the income statement.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Licences

A Cronos Australia Group entity has incurred costs to acquire and renew various licences. Those licences are generally granted for one year by ODC with the option of renewal at the end of each period. The costs associated with renewal are not expected to be significant and, therefore, the licences have been assessed as having indefinite useful lives.



Current pathways for patient access to medicinal cannabis include the Special Access Scheme, Authorised Prescriber Scheme and Clinical Trials.

05.

INDEPENDENT LIMITED ASSURANCE REPORT

05. INDEPENDENT LIMITED ASSURANCE REPORT



Ernst & Young Transaction Advisory
Services Limited
8 Exhibition Street
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15 October 2019

The Board of Directors
Cronos Australia Limited
Level 6, 287 Collins Street
Melbourne VIC 3000

Dear Directors

PART 1 – INDEPENDENT LIMITED ASSURANCE REPORT ON HISTORICAL FINANCIAL INFORMATION AND PRO FORMA HISTORICAL FINANCIAL INFORMATION

1. Introduction

We have been engaged by Cronos Australia Limited (“Cronos Australia” or “CAL”) to report on the historical financial information and pro forma historical financial information for inclusion in the replacement prospectus to be dated on or about 15 October 2019 (“Prospectus”), and to be issued by Cronos Australia, in respect of its initial public offering of 40,000,000 shares at an issue price of \$0.50 to raise \$20 million (the “Offer”).

Expressions and terms defined in the Prospectus have the same meaning in this report.

The nature of this report is such that it can only be issued by an entity which holds an Australian Financial Services Licence under the *Corporations Act 2001*. Ernst & Young Transaction Advisory Services Limited (“Ernst & Young Transaction Advisory Services”) holds an appropriate Australian Financial Services Licence (AFS Licence Number 240585). Jo Barker is a Director and Representative of Ernst & Young Transaction Advisory Services. We have included our Financial Services Guide as Part 2 of this report.

2. Scope

Historical Financial Information

You have requested Ernst & Young Transaction Advisory Services to review the historical financial information for the following entities:

- ▶ CAL historical consolidated income statement for the year ended 30 June 2019 as set out in Table 5 of Section 4.5 of the Prospectus;
- ▶ Cronos Australia Group Pty Ltd (“CAG”) historical income statements for the years ended 30 June 2017 and 30 June 2018 as set out in Tables 3-4 of Section 4.5 of the Prospectus;
- ▶ Cronos Australia - Operations Pty Ltd (“CAO”) historical income statements for the period from incorporation to 30 June 2017 and for the year ended 30 June 2018 as set out in Tables 3-4 of Section 4.5 of the Prospectus;
- ▶ Cronos Australia – Marketing & Distribution Pty Ltd (“CAM&D”) historical income statement for the period from incorporation to 30 June 2018 as set out in Table 4 of Section 4.5 of the Prospectus;

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Ernst & Young Transaction Advisory Services Limited, ABN 87 003 599 844
Australian Financial Services Licence No. 240585



- ▶ CAL historical consolidated cash flow statement for the year ended 30 June 2019 as set out in Table 11 of Section 4.8 of the Prospectus;
- ▶ CAG historical cash flow statements for the years ended 30 June 2017 and 30 June 2018 as set out in Tables 9-10 of Section 4.8 of the Prospectus;
- ▶ CAO historical cash flow statements for the period from incorporation to 30 June 2017 and for the year ended 30 June 2018 as set out in Tables 9-10 of Section 4.8 of the Prospectus;
- ▶ CAM&D historical cash flow statement for the period from incorporation to 30 June 2018 as set out in Table 10 of Section 4.8 of the Prospectus; and
- ▶ CAL historical consolidated balance sheet as at 30 June 2019 as set out in Table 6 of Section 4.6 of the Prospectus.

(collectively, the “Historical Financial Information”).

The Historical Financial Information for each entity has been derived from their respective financial statements as applicable below:

- ▶ the general purpose financial statements of CAL for the year ended 30 June 2019;
- ▶ the general purpose financial statements of CAG for the years ended 30 June 2017 and 30 June 2018;
- ▶ the general purpose financial statements of CAO for the period from incorporation to 30 June 2017 and for the year ended 30 June 2018; and
- ▶ the general purpose financial statements of CAM&D for the period from incorporation to 30 June 2018.

The general purpose financial statements of CAL, CAG, CAO and CAM&D for the financial years or periods stated above were audited by KPMG in accordance with Australian Auditing Standards. KPMG issued unqualified audit opinions in respect of each set of general purpose financial statements.

The Historical Financial Information has been prepared in accordance with the stated basis of preparation, being the recognition and measurement principles of the Australian Accounting Standards (“AAS”) issued by the Australian Accounting Standards Board (“AASB”), which are consistent with International Financial Reporting Standards issued by the International Accounting Standards Board.

Pro Forma Historical Financial Information

You have requested Ernst & Young Transaction Advisory Services to review the pro forma historical financial information for Cronos Australia comprising the:

- ▶ pro forma historical consolidated income statements for the years ended 30 June 2017, 30 June 2018 and 30 June 2019 as set out in Table 1 of Section 4.4 of the Prospectus;

05. INDEPENDENT LIMITED ASSURANCE REPORT cont.



- ▶ pro forma historical consolidated cash flow statements for the years ended 30 June 2017, 30 June 2018, and 30 June 2019 as set out in Table 7 of Section 4.7 of the Prospectus; and
- ▶ pro forma historical consolidated balance sheet as at 30 June 2019 as set out in Table 6 of Section 4.6 of the Prospectus.

(together, the “Pro Forma Historical Financial Information” and with the Historical Financial Information, the “Financial Information”).

The Pro Forma Historical Financial Information has been derived from the Historical Financial Information and adjusted for the effects of pro forma adjustments described in Section 4.3 of the Prospectus.

The Pro Forma Historical Financial Information has been prepared in accordance with the stated basis of preparation, being the recognition and measurement principles of AAS other than it includes certain adjustments which have been prepared in a manner consistent with AAS, that reflect (a) the exclusion of certain transactions that occurred during the relevant periods and (b) the impact of certain transactions as if they had occurred on or before 30 June 2019.

Due to its nature, the Pro Forma Historical Financial Information does not represent Cronos Australia’s actual or prospective financial position, financial performance, and cash flows.

The Financial Information is presented in the Prospectus in an abbreviated form, insofar as it does not include all of the presentation and disclosures required by the AAS and other mandatory professional reporting requirements applicable to general purpose financial reports prepared in accordance with the *Corporations Act 2001*.

3. Directors’ Responsibility

The directors of Cronos Australia are responsible for the preparation and presentation of the Historical Financial Information and Pro Forma Historical Financial Information, including the basis of preparation, selection and determination of pro forma adjustments made to the Historical Financial Information and included in the Pro Forma Historical Financial Information. This includes responsibility for such internal controls as the directors determine are necessary to enable the preparation of Historical Financial Information and Pro Forma Historical Financial Information that are free from material misstatement, whether due to fraud or error.

4. Our Responsibility

Our responsibility is to express a limited assurance conclusion on the Historical Financial Information and Pro Forma Historical Financial Information based on the procedures performed and the evidence we have obtained.

We have conducted our engagement in accordance with the Standard on Assurance Engagements ASAE 3450 Assurance Engagements involving Corporate Fundraisings and/or Prospective Financial Information.



Our limited assurance procedures consisted of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other limited assurance procedures. A limited assurance engagement is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain reasonable assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we do not express an audit opinion.

Our engagement did not involve updating or re-issuing any previously issued audit or limited assurance reports on any financial information used as a source of the Financial Information.

5. Conclusions

Historical Financial Information

Based on our limited assurance engagement, which is not an audit, nothing has come to our attention that causes us to believe that the Historical Financial Information comprising:

- ▶ CAL historical consolidated income statement for the year ended 30 June 2019 as set out in Table 5 of Section 4.5 of the Prospectus;
- ▶ CAG historical income statements for the years ended 30 June 2017 and 30 June 2018 as set out in Tables 3-4 of Section 4.5 of the Prospectus;
- ▶ CAO historical income statements for the period from incorporation to 30 June 2017 and for the year ended 30 June 2018 as set out in Tables 3-4 of Section 4.5 of the Prospectus; and
- ▶ CAM&D historical income statement for the period from incorporation to 30 June 2018 as set out in Table 4 of Section 4.5 of the Prospectus;
- ▶ CAL historical consolidated cash flow statement for the year ended 30 June 2019 as set out in Table 11 of Section 4.8 of the Prospectus;
- ▶ CAG historical cash flow statements for the years ended 30 June 2017, and 30 June 2018 as set out in Tables 9-10 of Section 4.8 of the Prospectus;
- ▶ CAO historical cash flow statements for the period from incorporation to 30 June 2017 and for the year ended 30 June 2018 as set out in Tables 9-10 of Section 4.8 of the Prospectus;
- ▶ CAM&D historical cash flow statement for the period from incorporation to 30 June 2018 as set out in Table 10 of Section 4.8 of the Prospectus; and
- ▶ CAL historical consolidated balance sheet as at 30 June 2019 as set out in Table 6 of Section 4.6 of the Prospectus,

is not presented fairly, in all material respects, in accordance with the stated basis of preparation, as described in Section 4.3 of the Prospectus.

05. INDEPENDENT LIMITED ASSURANCE REPORT cont.



Pro Forma Historical Financial Information

Based on our limited assurance engagement, which is not an audit, nothing has come to our attention that causes us to believe that the Pro Forma Historical Financial Information of Cronos Australia comprising the:

- ▶ pro forma historical consolidated income statements for the years ended 30 June 2017, 30 June 2018, and 30 June 2019 as set out in Table 1 of Section 4.4 of the Prospectus;
- ▶ pro forma historical consolidated cash flow statements for the years ended 30 June 2017, 30 June 2018 and 30 June 2019 as set out in Table 7 of Section 4.7 of the Prospectus; and
- ▶ pro forma historical consolidated balance sheet as at 30 June 2019 as set out in Table 6 of Section 4.6 of the Prospectus,

is not presented fairly, in all material respects, in accordance with the stated basis of preparation, as described in Section 4.3 of the Prospectus.

6. Restriction on Use

Without modifying our conclusions, we draw attention to Section 4.3 of the Prospectus, which describes the purpose of the Financial Information. As a result, the Financial Information may not be suitable for use for another purpose.

7. Consent

Ernst & Young Transaction Advisory Services has consented to the inclusion of this limited assurance report in the Prospectus in the form and context in which it is included.

8. Independence or Disclosure of Interest

Ernst & Young Transaction Advisory Services does not have any interests in the outcome of this Offer other than in the preparation of this report for which normal professional fees will be received.

Yours faithfully

Ernst & Young Transaction Advisory Services Limited

Jo Barker
Director and Representative



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15 October 2019

**THIS FINANCIAL SERVICES GUIDE FORMS PART OF THE INDEPENDENT
LIMITED ASSURANCE REPORT**

PART 2 – FINANCIAL SERVICES GUIDE

1. Ernst & Young Transaction Advisory Services

Ernst & Young Transaction Advisory Services Limited (“Ernst & Young Transaction Advisory Services” or “we,” or “us” or “our”) has been engaged to provide general financial product advice in the form of an Independent Limited Assurance Report (“Report”) in connection with a financial product of another person. The Report is to be included in documentation being sent to you by that person.

2. Financial Services Guide

This Financial Services Guide (“FSG”) provides important information to help retail clients make a decision as to their use of the general financial product advice in a Report, information about us, the financial services we offer, our dispute resolution process and how we are remunerated.

3. Financial services we offer

We hold an Australian Financial Services Licence which authorises us to provide the following services:

- financial product advice in relation to securities, derivatives, general insurance, life insurance, managed investments, superannuation, and government debentures, stocks and bonds; and
- arranging to deal in securities.

4. General financial product advice

In our Report we provide general financial product advice. The advice in a Report does not take into account your personal objectives, financial situation or needs.

You should consider the appropriateness of a Report having regard to your own objectives, financial situation and needs before you act on the advice in a Report. Where the advice relates to the acquisition or possible acquisition of a financial product, you should also obtain an offer document relating to the financial product and consider that document before making any decision about whether to acquire the financial product.

We have been engaged to issue a Report in connection with a financial product of another person. Our Report will include a description of the circumstances of our engagement and identify the person who has engaged us. Although you have not engaged us directly, a copy of the Report will be provided to you as a retail client because of your connection to the matters on which we have been engaged to report.

05. INDEPENDENT LIMITED ASSURANCE REPORT cont.



5. Remuneration for our services

We charge fees for providing Reports. These fees have been agreed with, and will be paid by, the person who engaged us to provide a Report. Our fees for Reports are based on a time cost or fixed fee basis. Our directors and employees providing financial services receive an annual salary, a performance bonus or profit share depending on their level of seniority. The estimated fee for this Report is \$22,000 (inclusive of GST).

Ernst & Young Transaction Advisory Services is ultimately owned by Ernst & Young, which is a professional advisory and accounting practice. Ernst & Young may provide professional services, including audit, tax and financial advisory services, to the person who engaged us and receive fees for those services.

Except for the fees and benefits disclosed in Section 9.15 of this Prospectus, Ernst & Young Transaction Advisory Services, including any of its directors, employees or associated entities should not receive any fees or other benefits, directly or indirectly, for or in connection with the provision of a Report.

6. Associations with product issuers

Ernst & Young Transaction Advisory Services and any of its associated entities may at any time provide professional services to financial product issuers in the ordinary course of business.

7. Responsibility

The liability of Ernst & Young Transaction Advisory Services, if any, is limited to the contents of this Financial Services Guide and the Report.

8. Complaints process


As the holder of an Australian Financial Services Licence, we are required to have a system for handling complaints from persons to whom we provide financial services. All complaints must be in writing and addressed to the AFS Compliance Manager or the Chief Complaints Officer and sent to the address below. We will make every effort to resolve a complaint within 30 days of receiving the complaint. If the complaint has not been satisfactorily dealt with, the complaint can be referred to the Australian Financial Complaints Authority Limited.

9. Compensation Arrangements

The Company and its related entities hold Professional Indemnity insurance for the purpose of compensation should this become relevant. Representatives who have left the Company's employment are covered by our insurances in respect of events occurring during their employment. These arrangements and the level of cover held by the Company satisfy the requirements of section 912B of the Corporations Act 2001.

Contacting Ernst & Young Transaction Advisory Services	Contacting the Independent Dispute Resolution Scheme:
AFS Compliance Manager Ernst & Young 200 George Street Sydney NSW 2000	Australian Financial Complaints Authority Limited GPO Box 3 Melbourne, VIC 3001
Telephone: (02) 9248 5555	Telephone: 1800 931 678

This Financial Services Guide has been issued in accordance with ASIC Corporations (Financial Services Guides) Instrument 2015/541.



Cronos Australia intends to partner with leading cultivators globally for the development of innovative products.

06. RISK FACTORS

06. RISK FACTORS

There are general risks associated with any investment in the stock market and an investment in Cronos Australia carries a number of risks. In addition, there are a number of specific risks concerning Cronos Australia, its business and the industry it operates in, of which investors should be aware.

The following is not an exhaustive summary but identifies the areas the Board regards as the major risks specific to an investment in Cronos Australia. You should carefully consider the risks and uncertainties set out below and the information contained elsewhere in this Prospectus. You should also seek your own professional advice in relation to the risks associated with an investment in Cronos Australia and should make your own assessment as to investing in Cronos Australia.

■ 6.1 SPECIFIC RISK FACTORS

6.1.1 Maintaining ODC medicinal cannabis licences

Section 2.4.2 outlines the medicinal cannabis licences and permits held by a subsidiary of Cronos Australia.

Two of the three medicinal cannabis licences held by a subsidiary of Cronos Australia expire on 30 January 2020 and the third expires on 13 September 2022. The licences are subject to conditions and a failure to comply with those conditions may result in one or more of the licences being suspended or revoked.

In relation to the licences that expire on 30 January 2020, while Cronos Australia intends to submit renewal applications by the required dates and is not aware of any reason why the ODC would refuse to renew the licences, Cronos Australia cannot guarantee that the licences will be renewed. Given that Cronos Australia does not currently intend to cultivate medicinal cannabis, Cronos Australia does not believe that any failure to renew its cultivation licence will have a material impact on its proposed activities. In addition, if the research licence is not renewed, Cronos Australia expects that research can still be conducted with AVS as planned.

Cronos Australia's cannabis cultivation, manufacture and research licences issued by the ODC are linked to Cronos Australia's interest in the site in central Victoria that is the subject of the Agreement for Lease. If the Agreement for Lease is terminated and Cronos Australia is unable to obtain a freehold or leasehold interest in another site acceptable to the ODC, the relevant ODC-issued licences linked to the site will terminate.

6.1.2 Maintaining related licences and obtaining permits

In addition to the licences issued by the ODC, Cronos Australia, through one of its subsidiaries, also holds the following licences:

- an import licence from the ODC, which will be required to import finished PEACE NATURALS™ and Mile High Labs products into Australia together with import permits in relation to PEACE NATURALS™ and Mile High Labs products;
- a licence to sell or supply by wholesale from the Victorian Government's Department of Health and Human Services, which will enable the sale or supply of imported PEACE NATURALS™ products by indent; and
- an export licence authorising the exportation of PEACE NATURALS™ products.

The import licence issued to the subsidiary of Cronos Australia, together with the licence to sell or supply by wholesale, are required for the importation and supply of finished medicinal cannabis products sourced offshore as well as cannabis biomass, which is required for the purposes of the MediPharm Manufacture Agreement. If such licences are not renewed or are otherwise revoked, Cronos Australia will be prevented from selling imported products, which will in turn have a material adverse impact on the prospects of Cronos Australia. In such a scenario, Cronos Australia would seek to develop additional local supply partners.

Cronos Australia also requires import permits, which have been obtained, to import PEACE NATURALS™ products. Cronos Australia cannot guarantee that the licences will be renewed or the permits re-issued if they are not used by their current expiry date (31 December 2019). The import of PEACE NATURALS™ branded products also requires the relevant Canadian export permits to be issued, and Cronos Australia understands that Peace Naturals Project intends to seek to obtain these permits prior to the intended export date. If those permits are not issued, Cronos Australia would seek to import the PEACE NATURALS™ branded products from another country. If Cronos Australia cannot source an alternative supply of PEACE NATURALS™ branded products this will have a material adverse impact on its prospects.

The ability of Cronos Australia to import cannabis cultivars from Cronos Group Inc is also dependent on the permits referred to in Section 3.3 being granted, together with the corresponding Canadian export permits also being granted. If these permits are not granted, Cronos Australia may not be able to import the cannabis cuttings and seedlings from Cronos Group Inc. In such a scenario, Cronos Australia would need to source alternative cuttings and seedlings.

6.1.3 Supplier compliance with regulatory requirements

As medicinal cannabis is highly regulated, Cronos Australia is dependent on its suppliers complying with any regulatory requirements applicable to them or the medicinal cannabis products to be supplied by them.

In particular, the ability of MediPharm Labs Australia to meet its obligations under the MediPharm Supply Agreement and the MediPharm Manufacture Agreement is conditional on MediPharm Labs Australia having appropriate licences and certifications in place. MediPharm Labs Australia has a current manufacture licence but Cronos Australia believes it does not have TGA-issued GMP certification, although Cronos Australia understands that it has submitted an application for such a licence. Failure to retain and/or obtain such licences will result in MediPharm Labs Australia being unable to manufacture medicinal cannabis products for Cronos Australia.

In addition, unapproved medicinal cannabis products imported into and supplied/manufactured in Australia must conform with the Therapeutic Goods (Standard for Medicinal Cannabis) (TGO 93) Order 2017 (**TGO 93**), which is a standard that specifies minimum quality requirements for medicinal cannabis. A declaration form in relation to TGO 93 must be completed by medicinal cannabis product manufacturers in order for the relevant product to be accessed via the Special Access Schemes or Authorised Prescriber Schemes or used in clinical trials. While Cronos Australia is not aware of any reason why a supplier will not be able to provide a TGO 93 declaration, a failure of a supplier to do so will prevent Cronos Australia from supplying the relevant products to patients or for clinical trials.

6.1.4 Fit and proper persons

In accordance with the conditions attaching to the licences described above, notice has been given to the ODC in relation to the Restructure and proposed listing on the ASX, including the provision of information about each of the Directors. While the Restructure and the proposed listing have not involved any changes to the directors of the subsidiary that holds the ODC licences (Cronos Australia – Operations Pty Ltd), the ODC may nevertheless decide that the appointment of the Directors to the Board of Cronos Australia results in each of the Directors being a “business associate” of the licence holder and needs to satisfy the “fit and proper person” test for the purpose of the *Narcotic Drugs Act 1967* (Cth). If the ODC makes such a determination and decides that any of the Directors do not satisfy the fit and proper person test, then the ODC licences may be revoked. Further, if there are changes to the Board or shareholding in the future and such change results in a person or persons or a company being a business associate of the licence holder and the fit and proper person test is not satisfied, then the ODC licences may be revoked. As Cronos Australia is a public company seeking to be admitted to the official list of the ASX, the Board cannot control or prevent a transfer of shares in Cronos Australia or the election of a person or persons as new Directors of Cronos Australia.

6.1.5 Medicinal cannabis industry in Australia

Any investment in an industry which is in the early stages of development, such as the medicinal cannabis industry in Australia, should be considered highly speculative and involves several significant risks. These risks include obstacles or delays in the implementation of business plans and uncertainties associated with the ability to generate revenue.

There are also uncertainties associated with the medicinal cannabis legislative regime in Australia. The amendments to the ND Act in relation to medicinal cannabis came into full effect in Australia in October 2016. While the ODC has published regulations and a series of guidelines in relation to the application of the reforms, there is limited market guidance available. Given the continuing developments in the relevant laws and regulations, there is a risk that a regulatory body could, in the future, change the application of these laws which may adversely impact Cronos Australia.

06. RISK FACTORS cont.

6.1.6 Changes in laws and regulations

Cronos Australia's operations are subject to various laws, regulations and guidelines in Australia and worldwide, and governments continue to look at the benefits, risks and operations of companies involved in the medicinal cannabis market.

The introduction of new legislation, and amendments to existing legislation, may be detrimental to Cronos Australia's assets and operations and the financial performance and prospects of Cronos Australia and its Shares. In particular, the laws, regulations and guidelines in Australia in relation to medicinal cannabis are reasonably new, with the Federal government's legislative changes having come into full effect in late 2016 and the States and Territories having passed related legislation. Amendments to relevant laws, regulations and guidelines may be made as the regulatory processes are reviewed.

Cronos Australia's prospects are also dependent on how Australian Federal and State government policies evolve over time, and on legislative changes in other countries, for either the importation or export of cannabis and medicinal cannabis products.

6.1.7 Growth prospects and Cronos Australia expansion plans

Cronos Australia's growth prospects are dependent upon a number of factors, including product take up. If Cronos Australia fails to execute any expansion plan, its financial performance is likely to be negatively affected.

Cronos Australia's financial prospects are particularly dependant on there being sufficient demand for medicinal cannabis in Australia. There is a risk that the volume of medicinal cannabis products available in Australia will outstrip the demand for those products, which may result in lower product prices. This would have an adverse effect on the financial performance of Cronos Australia.

Cronos Australia's ability to achieve its growth strategy is also dependent on Cronos Australia being able to export medicinal cannabis products internationally. In order to export to the target markets of New Zealand and Asia, changes in the laws relating to cannabis will need to be passed and those laws will need to allow for the importation of the type of products produced by Cronos Australia. There are no guarantees that the laws of any of the target markets will be amended or that Cronos Australia will be able to access such markets.

6.1.8 Supply chain interruption

Cronos Australia has a strategy to import PEACE NATURALS™ products from Peace Naturals Project and to source goods (for manufacture) and finished products from both MediPharm Labs Australia and Mile High Labs. Unforeseen supply chain interruptions, and/or risks associated with production yields or agricultural issues that affect these entities' cultivation, production and/or manufacturing facilities and/or growth yields may have a material adverse effect on part, or all, of this strategy.

In order to manufacture products for Cronos Australia under the MediPharm Manufacture Agreement, MediPharm Labs Australia requires that Cronos Australia supply it with cannabis flower and trim. Cronos Australia intends to source this material from Cronos Group Inc or its affiliates, a local ODC-licensed cultivator or from MediPharm Labs Australia itself, however, Cronos Australia has not yet entered into any arrangements for the purchase of such material from these potential suppliers. Cronos Australia understands that an inability to source this material will result in MediPharm Labs Australia being unable to manufacture domestic Australian branded products. In such a circumstance, Cronos Australia may seek to obtain the white label manufacture of products from another manufacturer who does not require Cronos Australia to supply it with the required cannabis biomass.

6.1.9 IP Licence from Cronos Group Inc

As described in Section 9.5.1, Cronos Australia – Operations Pty Ltd (as licensee) has entered into the IP Licence with Cronos Group Inc. Under that agreement, Cronos Group Inc has agreed to grant a sole licence in certain intellectual property rights to the licensee and to provide access to certain know-how relating to medicinal cannabis. Among other matters, the licences granted to Cronos Australia include a sole licence to use the trademarks "CRONOS GROUP™" and "PEACE NATURALS™" in Australia, New Zealand and certain countries in South East Asia.

The IP Licence has an initial term of 10 years and will automatically extend for further one-year terms unless terminated by either party no later than one year before the end of the relevant term.

The licences granted to the licensee under the IP Licence are “sole” licences. Sole licences are not exclusive licences, and should not be considered as such. Under the IP Licence, “Sole” as it relates to the licence, means that the licensor (in this case Cronos Group Inc), the licensor’s affiliates (being any other person directly or indirectly controlling, controlled by, or under common control with the licensor), and the licensee are permitted to exploit the subject matter of the licence. This means that Cronos Group Inc, and/or its affiliates, are permitted to exploit the subject matter of the relevant licence (including the trademarks “CRONOS GROUP™” and “PEACE NATURALS™”) in Australia, New Zealand and certain countries in South East Asia. As a consequence, there is a risk that Cronos Group Inc (and/or its affiliates) may compete with Cronos Australia in the markets in which Cronos Australia operates.

Cronos Group Inc can terminate the IP Licence in the circumstances described in Section 9.5.1, including where Cronos Australia undergoes a change in control where a competitor of Cronos Group Inc is the acquirer (or one of the acquirers). On termination, the licensee will have one year to cease all uses of the intellectual property as well as all confidential information.

Where Cronos Group Inc ceases to hold (directly or indirectly) at least 20% of the total voting shares in Cronos Australia, Cronos Group Inc can terminate the Trademark Licences (as defined in Section 1.3). On termination in this instance, the licensee will have 180 days to cease all uses of the Trademark Licences. This will require that Cronos Australia ceases to use the trademark “CRONOS GROUP™” and trademarks that are similar to the “CRONOS GROUP™” trademark, which will require Cronos Australia to change its company name.

Immediately post-Offer, Cronos Global Holdings Inc (an indirect wholly-owned subsidiary of Cronos Group Inc) will hold approximately 31.07% of the Shares in Cronos Australia. Subject to the escrow arrangements described in Section 9.11, Cronos Global Holdings Inc will be entitled to divest its Shares at any time. Similarly, Cronos Australia cannot prevent a change in control event from occurring.

As noted in Section 9.11, Cronos Australia expects that all of the Shares held by Cronos Global Holdings Inc will be considered by the ASX to be restricted securities and will be subject to ASX-imposed escrow for 24 months from quotation of the Shares on the ASX.

Cronos Australia’s ability to carry out its proposed activities and operations will, at least initially, be dependent upon Cronos Group Inc complying with its obligations under the IP Licence. If the IP Licence is terminated before Cronos Australia has developed its own intellectual property, the termination of the IP Licence could have a material adverse impact on the operations and prospects of Cronos Australia.

As with any medicinal or pharmaceutical product, the loss of use of a trademark can have a material and adverse impact on sales of the relevant product to which the trademarks relate having regard to prescriber, patient and market awareness and loyalty to established brands. For Cronos Australia, the loss of use of the trademark “CRONOS GROUP™” will require Cronos Australia (and its subsidiaries) to change their company names and otherwise cease using the trademark and trademarks that are similar to the “CRONOS GROUP™” trademark. Cronos Australia will also need to cease using other licensed trademarks including “PEACE NATURALS™”. As such, the termination of the IP Licence could have a material adverse impact on sales and, accordingly, the financial performance and prospects of Cronos Australia.

To help avoid the loss of the IP Licence having a material adverse impact, Cronos Australia aims to continue to build and strengthen its relationship with Cronos Group Inc. Cronos Australia also intends to undertake research activities, including with AVS, in order to develop a range of cannabis strains and products that do not incorporate any intellectual property of Cronos Group Inc and to develop a unique Australian branded range of products, which may include forging relationships with other suppliers and partners.

6.1.10 Intellectual property

Over time, Cronos Australia will develop and acquire its own trade secrets and intellectual property rights that will be important assets. Cronos Australia may therefore utilise a combination of confidentiality and licence agreements with its consultants and third parties with whom it has relationships, as well as trade secret, copyright, trademark, and patent laws, to protect its intellectual property rights. However, various events outside of Cronos Australia’s control could pose a threat to its intellectual property rights, as well as to its products.

There is also a risk that other individuals or companies may claim to have an interest in intellectual property used by the business. Intellectual property or trade secrets may be challenged by other parties and defending such actions may adversely impact Cronos Australia’s earnings.

06. RISK FACTORS cont.

6.1.11 Uncertainty of future revenue and profitability

Cronos Australia has not yet generated any revenue. Future sales of medicinal cannabis products by Cronos Australia and Cronos Australia's future profitability are contingent on, amongst other things, Cronos Australia's ability to obtain and maintain the required licences and permits, entry into appropriate distribution, import and export arrangements, being able to maintain anticipated prices for products being acquired as well as certainty of supply, being able to set favourable prices for products being sold, patient demand for products being sold, general economic conditions, the results of further medical research and clinical trials in relation to medicinal cannabis.

Consequently, the level of any future sales of medicinal cannabis by Cronos Australia cannot be accurately determined and Cronos Australia cannot provide any guarantee that future sales will be achieved. Even if future sales are achieved, they may not result in Cronos Australia being profitable.

6.1.12 Reliance on key relationships

Cronos Australia will rely on various key customer and supplier relationships in certain parts of its business. The loss or impairment of any of these relationships could have a material adverse effect on Cronos Australia's results of operations, financial condition and prospects, at least until alternative arrangements can be implemented. In some instances, however, alternative arrangements may not be available or may be less financially advantageous than the current arrangements.

Cronos Australia will be particularly reliant on its relationship with Cronos Group Inc. The ability of Cronos Australia to realise the full benefit of the IP Licence depends on Cronos Group Inc complying with its obligations under that agreement.

Under the terms of the IP Licence, Cronos Australia has a sole licence to exploit the licensed intellectual property rights, including the trademarks "CRONOS GROUP™" and "PEACE NATURALS™", in the Territory (see Section 9.5.1). As this means that Cronos Group Inc and/or its affiliates are permitted to exploit the those trademarks in the Territory, there is a risk that Cronos Group Inc will compete with Cronos Australia in the Territory. As such, Cronos Australia is reliant on the goodwill of Cronos Group Inc not to do so.

Changes to the business, assets or operations of Cronos Group Inc could impact on the willingness or ability of Cronos Group Inc to meet its obligations to Cronos Australia, which could then impact on Cronos Australia's operations, financial condition and prospects.

In addition, Cronos Australia will be reliant on the goodwill of Peace Naturals Project in relation to the supply of finished PEACE NATURALS™ products under the PEACE NATURALS Supply Agreement. Under the PEACE NATURALS Supply Agreement, Peace Naturals Project has the ability, at its discretion, to reject a purchase order for goods submitted by the purchaser (thereby preventing the sale of any goods to the purchaser). Further, Peace Naturals Project has the unilateral ability to amend the prices of goods made available for sale under the PEACE NATURALS Supply Agreement at any time. If Peace Naturals Project increases the prices of goods made available for sale under the agreement to an amount that makes the purchase of those goods uncommercial (or if Peace Naturals Project otherwise rejects a purchase order submitted by the purchaser for any reason), Cronos Australia will not be able to source PEACE NATURALS™ products from Peace Naturals Project. Further, the PEACE NATURALS Supply Agreement requires the parties to agree on quality assurance and recall procedures. If these procedures cannot be agreed to, Peace Naturals Project may refuse to supply PEACE NATURALS™ products to Cronos Australia.

The goodwill of Cronos Group Inc is also necessary for the referral of distribution opportunities to Cronos Australia as contemplated by the Referral MOU described in Section 9.5.6.

The ability of Cronos Australia to have imported PEACE NATURALS™ products distributed to community and wholesale pharmacies in Australia by Sigma is reliant on the goodwill of Sigma to negotiate, and agree on, the terms of a formal distribution agreement. Absent the parties agreeing on mutually beneficial terms regarding distribution, Cronos Australia's immediate route to revenue will be less clear, albeit Cronos Australia will still be able to procure distribution through its agreement with DHL Supply Chain.

Cronos Australia's ability to develop and distribute its own range of CBD Products is reliant on Mile High Labs and MediPharm Labs Australia complying with its commitments under the terms of the Mile High Labs Sales Agreement, the MediPharm Supply Agreement and the MediPharm Manufacture Agreement. Changes to the business, assets or operations of these counterparties could have an impact on the willingness or ability of those parties to meet their obligations to Cronos Australia, which could then have an impact on Cronos Australia's operations, financial condition and prospects. Both suppliers under the Mile High Labs Sales Agreement and the MediPharm Supply Agreement, respectively, have the ability to amend the prices of goods made available for sale under those documents at regular intervals (without the consent of the purchaser). If either party increases the prices of goods made available for sale under those agreements to an amount that makes the purchase of the goods uncommercial, Cronos Australia will not be able to source products from those suppliers.

Cronos Australia will also be reliant on services to be provided by DHL Global Forwarding and DHL Supply Chain in relation to the proposed importation of finished PEACE NATURALSTM and Mile High Labs products.

6.1.13 Increase in competition

The medicinal cannabis market in Australia is increasingly competitive and subject to rapid development. There can be no assurances that the competitive environment will not change adversely due to actions of government regulations, competitors or changes in customer preferences. The actions of an existing competitor or the introduction of a new competitor in the market may make it difficult for Cronos Australia to increase its revenue, which in turn, may have an adverse effect on its profitability.

6.1.14 Reliance on key personnel

Cronos Australia relies on the experience and knowledge of its management team as well as key personnel at Cronos Group Inc. Cronos Australia is also dependent on its ability to recruit and retain suitably qualified personnel. In the event that such key personnel leave Cronos Australia (or leave Cronos Group Inc) and Cronos Australia is unable to recruit suitable replacements, such loss could have a materially adverse effect on Cronos Australia.

6.1.15 Historical operations

One of the companies that forms part of the Cronos Australia Group, being Cronos Australia Group Pty Ltd, previously conducted a property development business (under the name NewSouthern Capital Pty Ltd). While the Directors are not aware of any contingent or prospective liabilities in relation to historical operations, and whilst Rodney Cocks and Peter Righetti have indemnified Cronos Australia in respect of any contingent or prospective liabilities in relation to the historical operations of Cronos Australia Group Pty Ltd, there is a risk that a claim could be made against Cronos Australia Group Pty Ltd in connection with its previous activities.

6.1.16 Reputation and public sentiment

The success of Cronos Australia is dependent on maintaining a positive reputation. Unforeseen issues, accidents or events involving Cronos Australia which, for example, lead to injury or death could place the reputation of Cronos Australia at risk and may impact on future earnings and growth prospects. Similarly, issues, accidents or events involving Cronos Group Inc or its business or operations could also have an adverse effect on Cronos Australia given the relationship between the companies and the use of "Cronos" as part of Cronos Australia's corporate name.

6.1.17 Product testing and trials

In the event any products cause serious (or unexpected) side effects, or are misused, abused or diverted, Cronos Australia may be exposed to increased compliance costs to carry out trials or testing or regulatory authorities may revoke approvals that have been granted to Cronos Australia, impose more onerous facility standards or product labelling requirements or require Cronos Australia to conduct a product recall. In these circumstances, Cronos Australia could also be subject to regulatory action or be held liable for any harm caused. This could have a material adverse effect on Cronos Australia's business, results of operations, financial condition and reputation.

Further, any adverse findings from recognised clinical trials in relation to medicinal cannabis generally or in relation to specific products may have an adverse effect on Cronos Australia's business, results of operations, financial condition and reputation.

06. RISK FACTORS cont.

6.1.18 Unforeseen expenditure risk

Expenditure may need to be incurred that has not been taken into account when preparing this Prospectus. If such expenditure is subsequently incurred, this may adversely affect the proposed expenditure of Cronos Australia.

6.1.19 Product liability and uninsured risks

There may be exposure to product liability claims if Cronos Australia's medicinal cannabis is alleged to have caused injury or illness. Allegations may be made against Cronos Australia that there were inadequate instructions for using products provided by Cronos Australia or a lack of warnings regarding potential side effects. Cronos Australia will seek to secure adequate insurance to protect itself to cover potential claims (if available on terms acceptable to Cronos Australia). Even then, there is always the risk that the insurer could disclaim coverage on some claims or the insurance is not comprehensive enough to meet large claims.

6.1.20 Funding

While Cronos Australia believes it will have sufficient funds after completion of the Offer to meet its key growth and capital requirements for the near term, Cronos Australia may seek to exploit opportunities of a kind that will require it to raise additional capital from equity or debt sources. There can be no assurance that Cronos Australia will be able to raise such capital on favourable terms or at all. If Cronos Australia is unable to obtain such additional capital, it may be required to reduce the scope of its anticipated activities, which could adversely affect its business, financial condition and operating results.

6.1.21 Early stage risk

Investing in an early stage enterprise, such as Cronos Australia, should be considered highly speculative and involves several significant risks including under capitalisation and obstacles or delays in the implementation of the business plan or revenue generation coupled with existing and future legislative and regulatory risks.

Cronos Australia cannot be sure that any of its research and development activities will be successful, that its internal development milestones will be achieved, or that products will be developed that are commercially exploitable.

There are many risks inherent in the development of biotechnology products particularly where the products are in very early stages of development. Projects can be delayed or fail to demonstrate any benefit, or research may cease to be viable for a range of scientific and commercial reasons.

6.1.22 Foreign exchange

Some of Cronos Australia's supply arrangements will require Cronos Australia to make payments in foreign currencies, predominantly Canadian dollars and US dollars. Accordingly, a foreign exchange risk exists in relation to any significant fluctuations in currency exchange rates. Cronos Australia does not have any formal policy for hedging against foreign exchange exposure.

6.1.23 Concentration of shareholding

Following completion of the Offer, Cronos Global Holdings Inc, NewSouthern Investment Holdings 1 Pty Ltd and NewSouthern Investment Holdings A Pty Ltd will, in aggregate, hold approximately 62.13% of the Shares and, accordingly, may separately or together be in a position to influence the election of the Directors, the appointment of new management and the potential outcome of matters submitted to a vote of the Shareholders.

In addition, a significant sale of Shares by Cronos Global Holdings Inc and/or NewSouthern Investment Holdings 1 Pty Ltd and/or NewSouthern Investment Holdings A Pty Ltd, or the perception that such sales have occurred or might occur, could adversely affect the market price of the Shares.

6.1.24 Minority shareholding and limited liquidity

Following completion of the Offer, Cronos Global Holdings Inc, NewSouthern Investment Holdings 1 Pty Ltd and NewSouthern Investment Holdings A Pty Ltd will, in aggregate, hold approximately 62.13% of the Shares (which are subject to restrictions of disposal under the mandatory escrow arrangements described in Section 9.11). As a result, there may be low liquidity in the market for the Shares.

6.1.25 Agreement for Lease

Cronos Australia has entered into the Agreement for Lease in respect of a site in central Victoria near Daylesford. As described in Section 9.5.10, the commencement of a lease in relation to the site is conditional on the tenant providing notice of its intention to commence such lease to the landlord. If Cronos Australia does not elect to commence the lease by 30 June 2022, the landlord may terminate the Agreement for Lease (leading to Cronos Australia losing its optionality over the site). If the Agreement for Lease is terminated (for any reason) and Cronos Australia is unable to obtain a freehold or leasehold interest in another site acceptable to the ODC then the relevant ODC-issued licences linked to the site will terminate.

6.2 GENERAL RISK FACTORS

6.2.1 General equity market risks

There can be no certainty that following the listing of Cronos Australia on the ASX, an active market in the Shares will develop. In addition, Shares may trade on the ASX at a discount or premium to the Offer Price. The price at which Shares trade on the ASX may be affected by a number of factors, including the financial and operating performance of Cronos Australia and external factors over which Cronos Australia and its Directors have no control.

These external factors include actual, expected and perceived general economic conditions, changes in government policy or regulation, significant events such as natural disasters or acts of terrorism, investor attitudes, changes in taxation, movements in interest rates, movements in stock markets, and general conditions in the markets in which Cronos Australia will operate.

In addition, investors should consider the historical volatility of Australian and overseas share markets.

6.2.2 Economic conditions

The performance of Cronos Australia is likely to be affected by changes in economic conditions. Profitability of the business may be affected by some of the matters listed below. The Directors make no forecast in regard to:

- the future demand for Cronos Australia's products and services;
- general financial issues which may affect policies, exchange rates, inflation and interest rates;
- deterioration in economic conditions, possibly leading to reductions in business spending and other potential revenues which could be expected to have a corresponding adverse impact on Cronos Australia's operating and financial performance;
- the strength of the equity and share markets in Australia and throughout the world;
- financial failure or default by any entity with which a member of Cronos Australia is or may become involved in a contractual relationship; and
- industrial disputes in Australia and overseas.

6.2.3 Geo-political factors

Cronos Australia may be affected by the impact that geo-political factors have on the world or Australian economy or on financial markets and investments generally or specifically. This may include international wars, terrorist type activities and governmental responses to such activities.

6.2.4 Currency fluctuations

Related entities of Cronos Australia operate in international jurisdictions which means Cronos Australia will operate and be affected by multiple currencies and their future currency fluctuations. Accordingly, this may affect future profitability of Cronos Australia.

6.2.5 Government policies and legislation

Cronos Australia may be affected by changes to Federal and State government policies and legislation, including those relating to domestic and international taxation regimes, grants for research and development, technology companies and international incentive programs. As noted above, Cronos Australia may also be affected by changes to government policies and legislation in relation to the regulation and licensing of medicinal cannabis.

06. RISK FACTORS cont.

6.2.6 Litigation


Cronos Australia may in the ordinary course of business become involved in litigation and disputes (for example, with suppliers or customers). Any litigation or dispute could be costly and damaging to Cronos Australia's reputation and business relationships, which could have an adverse effect on its financial performance and industry standing.

6.2.7 Taxation

Any changes to the current rate of company income tax or any changes to the tax treatment of Cronos Australia's operation will impact on Shareholder returns. Any changes to the current rates of income tax applying to different types of Shareholders will impact on Shareholder returns. In addition, any change in tax rules could have an adverse impact on the level of dividend imputation and franking.

6.2.8 Accounting standards

Changes in accounting standards or their interpretation may adversely affect Cronos Australia's reported financial performance and/or financial position.



Cronos Australia intends to distribute medicinal cannabis products through Sigma (MOU signed, subject to execution of a distribution agreement).

07. BOARD, SENIOR MANAGEMENT AND CORPORATE GOVERNANCE

07. BOARD, SENIOR MANAGEMENT AND CORPORATE GOVERNANCE

This Section 7 sets out the details of the composition of the Board and senior management of Cronos Australia.

7.1 BOARD MEMBERS

The Board of Directors of Cronos Australia comprises the following Directors:



Shane Tanner

Independent Non-Executive Chairman

Shane Tanner is the Independent Non-Executive Chairman of Cronos Australia. Shane is currently the Chairman of Paragon Care Limited (ASX:PGC) and Rhythm Biosciences Limited (ASX:RHY) and he is an Independent Non-Executive Director of Victory Offices Limited (ASX:VOL). Formerly he was Chairman of Vision Eye Institute (ASX:VEI) and Zenitas Healthcare Limited (ASX:ZNT), Chief Executive Officer of Mayne Nickless Diagnostic Services (later renamed Symbion Health (ASX:SYB)) and Chief Financial Officer of Mayne Group. Shane also has significant strategy and transaction experience through the Mayne Group via the IPO of the telecommunications company, Optus Communications. Shane holds Business and Finance qualifications from RMIT University and Swinburne University of Technology.



Rodney Cocks CSM

Executive Director and Chief Executive Officer

Rodney Cocks is an Executive Director and Chief Executive Officer of Cronos Australia. Rodney is a Director of NewSouthern Capital, a private equity firm he co-founded which undertakes business in the real estate, energy and digital sectors. Prior to Cronos Australia, he was on the Senior Leadership Team at Linfox and was a Consultant at the Boston Consulting Group. Rodney also served on the Counter Narcotics Team of the British Embassy in Kabul, Afghanistan and with the United Nations in Afghanistan, Sri Lanka, Pakistan and Iraq. He started his career as an Infantry Officer in the Australian Army. Rodney holds a BComm from the University of Melbourne, LLB from the Queensland University of Technology, MBA from the Wharton School, University of Pennsylvania, MPA from the Harvard Kennedy School, Harvard University and is a Graduate of the Australian Institute of Company Directors and the Royal Military College, Duntroon. He is an admitted Lawyer to the Supreme Court of New South Wales and was also a Fellow at Harvard University and the 2005 Victorian Australian of the Year. In 2003 Rodney was awarded a Conspicuous Service Medal for his actions in the aftermath of the 2002 Bali bombings.



Peter Righetti

Executive Director and Chief Operating Officer

Peter Righetti is an Executive Director and Chief Operating Officer of Cronos Australia. Peter is a Director of NewSouthern Capital, a private equity firm he co-founded which undertakes business in the real estate, energy and digital sectors. Prior to NewSouthern Capital, he held senior commercial and leadership positions with private development and construction organisations. He was part of the executive team at ASX listed, Engenco Limited (ASX:EGN) and held senior development and project roles at construction companies including Metricon Group. Peter served as an Engineer Officer in the Australian Army. He holds a BComm from Deakin University, LLB from the University of New England and is completing an LLM at the University of Melbourne. Peter is admitted to practice as a lawyer by the Supreme Court of Victoria, is a Graduate of the Royal Military College, Duntroon, and is a graduate of the Australian Institute of Company Directors.

Peter was a director of Future Home Group Pty Ltd ACN 122 162 412 (**FHG**). FHG was a privately funded business involved in the development of affordable housing technologies. FHG was placed into liquidation on 10 October 2012 and deregistered on 27 May 2014. Peter confirms that no monies or debts were owed to employees, sub-contractors, trade creditors or third party financiers at the time of liquidation.



Anna Burke AO

Independent Non-Executive Director

Anna Burke AO is an Independent Non-Executive Director of Cronos Australia and Chairs the Nomination and Remuneration Committee. Anna served in the Australian Federal Parliament as the Member for Chisholm in the House of Representatives from 1998 to 2016, and was also the 28th Speaker of the Australian House of Representatives. Anna is also a full-time Member at the Administrative Appeal Tribunal. She also had extensive Committee service in the Federal Parliament, including Joint Statutory Committee on Corporations and Financial Services and House of Representatives Standing Committee on Economic, Finance and Public Administration. Prior to Anna's parliamentary career, she was an Industrial Officer with VicRoads, Victorian University of Technology and the Financial Sector Union. Anna holds a BA (Hons) and MComm (Hons) from the University of Melbourne. Anna was appointed as an Officer of the Order of Australia in January 2019 for distinguished service to the Parliament of Australia, particularly as Speaker of the House of Representatives, and to the community.



Daniel Abrahams

Independent Non-Executive Director

Daniel Abrahams is an Independent Non-Executive Director of Cronos Australia and Chairs the Audit and Risk Committee. Daniel is an independent consultant providing practical expertise on entrepreneurship and leadership programs to universities, helping students and alumni take ideas to commercialisation, and acting as independent adviser to companies on scaling up. Prior to this, Daniel was an Executive Director and Chief Executive Officer of Superloop (ASX:SLC) taking the company to IPO and overseeing its infrastructure rollout in Australia, Singapore and Hong Kong. Daniel has also held senior executive positions at Aurizon (ASX:AZJ), Suncorp (ASX:SUN), Energex and Toyota Tsusho South Pacific. He is a Fellow of CPA Australia, a Fellow of the Governance Institute and holds a BBus degree from Central Queensland University.



Michael Gorenstein

Non-Executive Director

Michael Gorenstein is a Non-Executive Director of Cronos Australia. Mike is the Chairman, President and Chief Executive Officer of Cronos Group Inc (NASDAQ: CRON, TSX: CRON). Mike is also a co-founder and Member of Gotham Green Partners (**Gotham Green**). Before joining Cronos Group Inc, Mike was the VP and General Counsel at Alphabet Partners, LP, a New York City based multi-strategy investment management firm, focused on identifying mispriced assets across various industries, asset classes and geographies. Prior to Alphabet Partners, LP, he was a corporate attorney at Sullivan & Cromwell LLP where he focused on mergers and acquisitions and capital markets transactions. Mike graduated from the University of Pennsylvania Law School with a JD, the Wharton School at University of Pennsylvania with a certificate in BEPP and the Kelley School of Business at Indiana University with a BSB in Finance.



Jason Adler

Non-Executive Director

Jason Adler is a Non-Executive Director of Cronos Australia. He is a Director of Cronos Group Inc (NASDAQ: CRON, TSX: CRON), the co-founder and Managing Member of Gotham Green, a private equity firm focused primarily on early-stage investing in companies in the cannabis industry. Prior to co-founding Gotham Green, Jason was the co-founder and Chief Executive Officer of Alphabet Partners, LP, a New York City based multi-strategy investment management firm, focused on identifying mispriced assets across various industries, asset classes and geographies. Jason also founded Geronimo, LLC, a broker dealer and member of the American Stock Exchange, that made markets in equity options, and he began his career as a Market Maker at G&D Trading. Jason graduated with a B.A. from the University of Rhode Island.

Each of the independent Non-Executive Directors is free from any business or other relationship that could materially interfere with, or reasonably be perceived to materially interfere with, the independent exercise of their judgement.

07. BOARD, SENIOR MANAGEMENT AND CORPORATE GOVERNANCE cont.

7.2 KEY MANAGEMENT PERSONNEL



Lior Harel

General Counsel and Company Secretary

Lior Harel is the General Counsel and Company Secretary of Cronos Australia. Prior to Cronos Australia he was the Chief Legal Counsel of SEEK.com.au (ASX:SEK) with coverage of SEEK's Australian and Asian businesses. Prior to SEEK, Lior was the Chief Operating Officer and General Counsel of ecommerce and travel business, The Lux Group (cudo.com.au, luxuriescapes.com, deals.com.au). He commenced his career at leading Australian commercial law firm, Arnold Bloch Leibler, rising to Senior Associate in the Corporate/Commercial and Banking and Finance teams. Lior holds an LLB and a BA from the University of Melbourne.



Thomas Howitt

Chief Financial Officer

Thomas Howitt is the Chief Financial Officer of Cronos Australia. Prior to Cronos Australia he was the Chief Financial Officer of Global Kinetics Corporation a pre-IPO life sciences company, Chief Financial Officer and Company Secretary of Simavita (ASX:SVA, TSX-V:SV) a digital healthcare company, Chief Financial Officer and Company Secretary of Genetic Technologies Limited (ASX:GTG, NASDAQ:GENE) a genetic testing company, Chief Financial Officer and Company Secretary of Intermoco Limited (formerly ASX:INT) a remote monitoring and control company, Chief Financial Officer and Company Secretary of Lowell Capital a privately held investment banking group and Manager at EY. Thomas holds a BComm from the University of Western Australia.

7.3 DIRECTORS' INTERESTS

Except as set out below or elsewhere in this Prospectus, no Director (whether individually or in consequence of that person's association with any company or firm or in any material contract entered into by Cronos Australia) has now, or has had, in the two-year period ending on the date of this Prospectus, any interest in:

- the formation or promotion of Cronos Australia; or
- any property acquired or proposed to be acquired by Cronos Australia in connection with Cronos Australia's formation.

In addition, except as set out below or elsewhere in this Prospectus, no benefits of any kind (whether in cash, Shares or otherwise) have been paid or agreed to be paid to any Director, to any company or firm with which a Director is associated to induce him to become, or to qualify as, a Director, or otherwise for services rendered by him or his company or firm with which the Director is associated in connection with the formation or the promotion of Cronos Australia.

7.3.1 Interest in securities

Director (inc. associates)	Shares/Options after completion of the Offer
Rodney Cocks	20,000,000 Shares held by NewSouthern Investment Holdings 1 Pty Ltd
Peter Righetti	20,000,000 Shares held by NewSouthern Investment Holdings A Pty Ltd

The Directors (and their associates) are entitled to apply for New Shares in the Offer. The Directors reserve their rights as at the date of this Prospectus as to whether they will participate in the Offer. Nothing in this Prospectus will be taken to preclude Directors, officers, employees or advisers of Cronos Australia, from applying for New Shares on the same terms and conditions as offered pursuant to this Prospectus.

7.3.2 Non-executive Director remuneration

Non-executive Directors' fees are determined within an aggregate non-executive Directors' fee pool limit. For the financial year commencing 1 July 2018 and in respect of each financial year thereafter and until otherwise determined by a resolution of Shareholders, the maximum aggregate remuneration payable by Cronos Australia to all non-executive Directors of Cronos Australia for their services as Directors including their services on a Board committee or sub-committee and including superannuation is limited to \$400,000 per annum (in total). The total remuneration packages inclusive of superannuation benefits for the current non-executive Directors are as follows:

Non-executive Director	Remuneration
Shane Tanner	\$120,000
Anna Burke AO	\$50,000
Daniel Abrahams	\$50,000
Michael Gorenstein	\$50,000
Jason Adler	\$50,000

The terms of appointment of each of the non-executive Directors are customary for appointments of this nature.

Non-executive Directors may be invited to participate in the NED Plan from time to time. Please see Section 9.10 for further information.

7.3.3 Executive Director remuneration

Details regarding the terms of employment of each of Rodney Cocks (as Chief Executive Officer and Executive Director) and Peter Righetti (as Chief Operating Officer and Executive Director) including their remuneration are set out in Section 9.14.

7.3.4 Other executives' remuneration

The total fixed remuneration packages inclusive of superannuation and other benefits for other executives of Cronos Australia are as follows:

- Thomas Howitt, Chief Financial Officer: \$328,500 (including superannuation)
- Lior Harel, General Counsel and Company Secretary: \$268,275 (including superannuation)

Cronos Australia intends to grant the above executives EIP Options and Performance Rights immediately after completion of the Offer. Please see Sections 9.7 and 9.9 for further information.

7.4 OFFICER ACCESS AND INDEMNITY DEEDS

Cronos Australia has agreed to indemnify the current Directors and certain current executives of Cronos Australia against all liabilities to another person (other than Cronos Australia or a related body corporate) that may arise from their position as an officer of Cronos Australia, to the extent permitted by law. The access and indemnity deed provides that Cronos Australia may advance money to the officer to meet any costs and expenses that may be incurred in defending civil, criminal, administrative or judicial proceedings brought against the officers in their capacity as officers of a Cronos Australia Group entity.

Cronos Australia pays a premium to insure Directors and certain officers of Cronos Australia and its controlled entities. As the insurance policy operates on a claims made basis, former Directors and officers of Cronos Australia are also covered.

7.5 CORPORATE GOVERNANCE

The Board is responsible for the corporate governance of Cronos Australia. The Board believes that effective corporate governance will improve Cronos Australia's performance and create value among its stakeholders.

All ASX listed entities are required to disclose annually the extent of their compliance with the Corporate Governance Principles and Recommendations released by the ASX Corporate Governance Council (**ASX CG Principles**).

As at the date of its ASX listing, Cronos Australia will have complied in most respects with the ASX CG Principles as set out in Section 7.6.

07. BOARD, SENIOR MANAGEMENT AND CORPORATE GOVERNANCE cont.

The Board is responsible for the overall corporate governance of Cronos Australia and has adopted the following charters and policies:

- Board Charter;
- Audit and Risk Committee Charter;
- Nomination and Remuneration Committee Charter;
- Code of Conduct;
- Trading Policy;
- Diversity Policy; and
- Disclosure and Communication Policy.

A summary of the key terms of these charters and policies is set out below. These charters and policies are incorporated by reference into this Prospectus, and copies can be obtained from Cronos Australia's website www.cronosaustralia.com.

7.5.1 Board Charter

The Board Charter provides a framework for the effective operation of the Board and sets out:

- the role and responsibilities of the Board and Company Secretary;
- delegations of authority to committees and management;
- the size and composition of the Board; and
- Board processes, including the ability of Directors to seek independent professional advice.

Please see the Corporate Governance Statement at Section 7.6 for further information on the role of the Board.

7.5.2 Audit and Risk Committee Charter

The Audit and Risk Committee Charter sets out the role, responsibilities, membership and operation of the Audit and Risk Committee. The charter notes that the role of the Audit and Risk Committee is to assist the Board in carrying out its accounting, auditing and financial reporting responsibilities, including oversight of the:

- integrity of Cronos Australia's financial reporting systems, internal and external financial reporting and financial statements;
- appointment, remuneration, independence and competence of Cronos Australia's external auditors;
- performance of the external audit functions and review of their audits;
- effectiveness of Cronos Australia's system of risk management and internal controls; and
- Cronos Australia's systems and procedures for compliance with applicable legal and regulatory requirements.

The charter also sets out:

- the size and composition of the Audit and Risk Committee; and
- committee processes, including the ability of the committee to seek independent professional advice.

The Audit and Risk Committee is comprised of Daniel Abrahams (chair of the committee), Anna Burke AO and Shane Tanner. All three members are independent non-executive Directors.

7.5.3 Nomination and Remuneration Committee Charter

The Nomination and Remuneration Committee Charter sets out the role, responsibilities, membership and operation of the Nomination and Remuneration Committee. The committee assists and advises the Board on:

- nomination matters, including Board, CEO and senior executive succession planning, performance evaluation and the recruitment, appointment and re-election of directors; and
- remuneration matters, including assisting and advising on remuneration policies and practices for the Board, the CEO and senior executives.

The charter also sets out:

- the size and composition of the Nomination and Remuneration Committee; and
- committee processes, including the ability of the committee to seek independent professional advice.

The Nomination and Remuneration Committee is comprised of Anna Burke AO (chair of the committee), Daniel Abrahams and Shane Tanner. All three members are independent non-executive Directors.

7.5.4 Code of Conduct

The Code of Conduct applies to all Directors as well as all officers, employees, contractors, consultants, other persons that act on behalf of Cronos Australia, and associates of Cronos Australia. Please see the Corporate Governance Statement at Section 7.6 for further information on the Code of Conduct.

Among other matters (as described in Section 7.6), the Code of Conduct sets out how related party transactions are to be managed, including requiring that all related party transactions be:

- notified to the Company Secretary prior to their execution;
- on arm's length terms; and
- approved by the Board.

Related party transactions not on arm's length terms must be approved by Cronos Australia's shareholders unless another exception in the Corporations Act applies. The Code of Conduct sets out the process for referring proposed related party transactions.

The Code of Conduct notes that compliance with the code will be monitored and any known or suspected breaches will be investigated. If a breach is found to have occurred, legal or disciplinary action may be taken.

7.5.5 Trading Policy

The Trading Policy governs the buying and selling of any securities in Cronos Australia that are able to be traded on a financial market.

The policy summarises insider trading laws and confidentiality requirements as well as the rules that apply to all Directors, officers, key management personnel and other designated persons (and their families and associates) in relation to specific matters, including:

- the periods during which dealing in Cronos Australia's securities by such persons is prohibited (subject to exceptions outlined in the policy); and
- restrictions in relation to margin lending, short-term or speculative trading and hedging.

7.5.6 Diversity Policy

The Diversity Policy applies to the Board, as well as senior management, employees and contractors of Cronos Australia.

Cronos Australia is committed to promoting diversity within Cronos Australia and recognises the value of diversity in achieving Cronos Australia's corporate objectives and maximising value to shareholders.

The Diversity Policy sets out the objectives of Cronos Australia in relation to diversity and notes that the Board is responsible for designing and overseeing the implementation of the policy, with employees being required to act in a manner that supports diversity within the workplace and promotes the objectives of the policy.

The policy also deals specifically with gender diversity and non-inclusive or discriminatory behaviour.

7.5.7 Disclosure and Communication Policy

The Disclosure and Communication Policy applies to the Board as well as officers, employees and consultants of Cronos Australia. The policy deals with:

- Cronos Australia's continuous disclosure obligations;
- the roles and responsibilities of the Board, the Company Secretary and other employees in relation to disclosure obligations;
- disclosure processes;
- market communications; and
- shareholder communications.

07. BOARD, SENIOR MANAGEMENT AND CORPORATE GOVERNANCE cont.

7.6 CORPORATE GOVERNANCE STATEMENT

Subject to its admission to the official list of the ASX, Cronos Australia will be required to report any departures from the ASX CG Principles in its annual financial report. Cronos Australia's compliance and departures from the ASX CG Principles as at the date of this Prospectus are as follows:

ASX CG Principles	Compliance by Cronos Australia
Principle 1 – Lay solid foundations for management and oversight <i>A listed entity should establish and disclose the respective roles and responsibilities of board and management and how their performance is monitored and evaluated.</i>	
Recommendation 1.1 A listed entity should disclose the respective roles and responsibilities of its board and management, and those matters expressly reserved to the board and those delegated to management.	<p>Cronos Australia has adopted a formal charter (Board Charter) clearly setting out the respective roles and responsibilities of the Board and management.</p> <p>Responsibilities reserved to the Board include:</p> <ul style="list-style-type: none"> • providing leadership and setting the strategic objectives of Cronos Australia; • appointing the chairperson; • appointing and when necessary replacing the CEO; • approving the appointment and when necessary replacement of other senior executives of Cronos Australia; • overseeing management's implementation of Cronos Australia's strategic objectives and its performance generally; • through the chairperson, overseeing the role of the Company Secretary; • approving operating budgets and major capital expenditure; • overseeing the integrity of Cronos Australia's accounting and corporate reporting systems, including the external audit; • overseeing Cronos Australia's process for making timely and balanced disclosure of all material information concerning it that a reasonable person would expect to have a material effect on the price or value of Cronos Australia's securities; • ensuring that Cronos Australia has in place an appropriate risk management framework and setting the risk appetite within which the Board expects management to operate; • approving Cronos Australia's remuneration framework; and • monitoring the effectiveness of Cronos Australia's governance practices. <p>A copy of the Board Charter is available on Cronos Australia's website.</p>

ASX CG Principles	Compliance by Cronos Australia
<p>Recommendation 1.2</p> <p>A listed entity should:</p> <ul style="list-style-type: none"> • undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election as a director; and • provide security holders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director. 	<p>The Board undertakes appropriate checks before appointing or nominating Board candidates. In addition, Cronos Australia has established a Nomination and Remuneration Committee to identify and make recommendations to the Board for the appointment of new Board candidates, having regard to their skills, experience and expertise and the results of appropriate checks.</p>
<p>Recommendation 1.3</p> <p>A listed entity should have a written agreement with each director and senior executive setting out the terms of their appointment.</p>	<p>All Directors and senior executives have entered into written appointment agreements with Cronos Australia. Specifically:</p> <ul style="list-style-type: none"> • the non-executive Directors have each executed a letter of appointment setting out the terms and conditions of their appointment; and • the executive Directors and senior executives of Cronos Australia have entered into service contracts, setting out the terms and conditions of their employment.
<p>Recommendation 1.4</p> <p>The company secretary of a listed entity should be accountable directly to the board, through the chair, on all matters to do with the proper functioning of the board.</p>	<p>The Company Secretary is accountable directly to the Board, through the chairperson, on all matters to do with the proper functioning of the Board.</p> <p>Cronos Australia has adopted a formal charter (Board Charter) setting out the Company Secretary's responsibilities.</p> <p>Under the Board Charter, the Company Secretary is responsible for:</p> <ul style="list-style-type: none"> • advising the Board and its committees on governance matters; • monitoring the Board and committee policy and procedures are followed; • coordinating the timely completion and dispatch of Board and committee papers; • ensuring the business at Board and committee meetings is accurately captured in the minutes; and • helping to organise and facilitate the induction and professional development of Directors and the Company Secretary.

07. BOARD, SENIOR MANAGEMENT AND CORPORATE GOVERNANCE cont.

ASX CG Principles	Compliance by Cronos Australia
<p>Recommendation 1.5</p> <p>A listed entity should:</p> <ul style="list-style-type: none"> • have a diversity policy which includes requirements for the board or a relevant committee of the board for achieving gender diversity and to assess annually both the objectives and the entity's progress in achieving them; • disclose that policy or a summary of it; and • disclose as at the end of each reporting period the measurable objectives for achieving gender diversity set by the board or a relevant committee of the board in accordance with the entity's diversity policy and its progress towards achieving them, and either: <ul style="list-style-type: none"> (i) the respective proportions of men and women on the board, in senior executive positions and across the whole organisation (including how the entity has defined "senior executive" for these purposes); or (ii) if the entity is a "relevant employer" under the Workplace Gender Equality Act, the entity's most recent "Gender Equality Indicators", as defined in and published under that Act. 	<p>Cronos Australia has a diversity policy (Diversity Policy) in place.</p> <p>The Diversity Policy entrusts the Board with the responsibility for designing and overseeing the implementation of the Diversity Policy.</p> <p>Under the Diversity Policy, the Board is:</p> <ul style="list-style-type: none"> • required to develop initiatives that will promote and achieve diversity goals; • responsible for reviewing this diversity policy and will assess the status of diversity within Cronos Australia and the effectiveness of this policy in achieving the measurable objectives which have been set to achieve diversity; and • responsible for assessing the effectiveness of Cronos Australia's diversity objectives each year.
<p>Recommendation 1.6</p> <p>A listed entity should:</p> <ul style="list-style-type: none"> • have and disclose a process for periodically evaluating the performance of the board, its committees and individual directors; and • disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process. 	<p>Under the Board Charter, each Director's performance is assessed when standing for re-election. Before each annual general meeting, the Chairman of the Board assesses the performance of any Director standing for re-election and the Board will determine their recommendation to shareholders on the re-election of the Director (in the absence of the Director involved). The Board (excluding the Chairman) will conduct the review of the Chairman.</p>
<p>Recommendation 1.7</p> <p>A listed entity should:</p> <ul style="list-style-type: none"> • have and disclose a process for periodically evaluating the performance of its senior executives; and • disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process. 	<p>Under the Board Charter, senior executives' performance will be considered by the independent Directors in a meeting separate to the Board meetings. The Chairman is responsible for ensuring independent Director meetings take place on a regular basis.</p>

Principle 2 – Structure the board to add value

A listed entity should have a board of an appropriate size, composition, skills and commitment to enable it to discharge its duties effectively.

Recommendation 2.1

The board of a listed entity should:

- have a nomination committee which:
 - (i) has at least three members, a majority of whom are independent directors; and
 - (ii) is chaired by an independent director, and disclose:
 - (iii) the charter of the committee;
 - (iv) the members of the committee; and
 - (v) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or
- if it does not have a nomination committee, disclose that fact and the processes it employs to address board succession issues and to ensure that the board has the appropriate balance of skills, knowledge, experience, independence and diversity to enable it to discharge its duties and responsibilities effectively.

The Board has adopted a dedicated Nomination and Remuneration Committee, which will have authority and power to exercise the roles and responsibilities granted to it under a nomination and remuneration committee charter (**Nomination and Remuneration Committee Charter**), and any other resolutions of the Board from time to time. The committee is comprised of three Directors who are all independent, non-executive Directors. The chairperson is one of the independent, non-executive Directors.

The Nomination and Remuneration Committee Charter is available on Cronos Australia's website.

Recommendation 2.2

A listed entity should have and disclose a board skills matrix setting out the mix of skills and diversity that the board currently has or is looking to achieve in its membership.

The Board has not, at this time, adopted a board skills matrix. However, Cronos Australia will seek to appoint directors with an appropriate range of skills, experience and expertise and an understanding of and competence to deal with current and emerging issues of the business. In addition, the Board Charter provides that the Chairman is responsible for overseeing that membership of the Board is skilled and appropriate for Cronos Australia's needs. The Nomination and Remuneration Committee is responsible for identifying candidates with appropriate skills, experience and expertise.

07. BOARD, SENIOR MANAGEMENT AND CORPORATE GOVERNANCE cont.

ASX CG Principles	Compliance by Cronos Australia
Recommendation 2.3 A listed entity should disclose: <ul style="list-style-type: none"> the names of the directors considered by the board to be independent directors; if a director has an interest, position, association or relationship of the type described in Box 2.3 of the ASX CG Principles but the board is of the opinion that it does not compromise the independence of the director, the nature of the interest, position, association or relationship in question and an explanation of why the board is of that opinion; and the length of service of each director. 	<p>Board members, Anna Burke AO, Daniel Abrahams and Shane Tanner are each considered to be independent Directors.</p> <p>The Board will regularly assess the independence of each Director in light of the interests disclosed by them. That assessment will be made at least annually at, or around the time, that the Board considers candidates for election to the Board, and each independent Director is required to provide the Board with all relevant information for this purpose.</p> <p>If the Board determines that a Director's independent status has changed, that determination will be disclosed to the market in a timely fashion.</p>
Recommendation 2.4 A majority of the board of a listed entity should be independent directors.	<p>The Board currently consists of three independent and four non-independent Directors; as such the Board does not have a majority of independent directors.</p> <p>The Board believes that the early stage of Cronos Australia's development does not justify the increased costs associated with a larger number of directors and that non-compliance with this recommendation will not adversely affect Cronos Australia. However, the Board will consider increasing the size of the Board as the business develops further.</p>
Recommendation 2.5 The chair of the board of a listed entity should be an independent director and, in particular, should not be the same person as the Chief Executive Officer of the entity.	<p>The Chairman of the Board is Shane Tanner, who is an independent, non-executive Director.</p> <p>Rodney Cocks is the Chief Executive Officer.</p>
Recommendation 2.6 A listed entity should have a program for inducting new directors and provide appropriate professional development opportunities for directors to develop and maintain the skills and knowledge needed to perform their role as directors effectively.	<p>Under the Board Charter, the Directors are expected to participate in any induction or orientation programs on appointment, and any continuing education or training arranged for them.</p> <p>The Company Secretary is responsible for facilitating the induction and professional development of Directors.</p>

ASX CG Principles	Compliance by Cronos Australia
Principle 3 – Act ethically and responsibly <i>A listed entity should act ethically and responsibly.</i>	
Recommendation 3.1 A listed entity should: <ul style="list-style-type: none"> • have a code of conduct for its directors, senior executives and employees; and • disclose that code or a summary of it. 	<p>The Board has adopted a code of conduct (Code of Conduct) which sets out the values, commitments, ethical standards and policies of Cronos Australia and outlines the standards of conduct expected of Cronos Australia's business and people, taking into account Cronos Australia's legal and other obligations to its stakeholders.</p> <p>The Code of Conduct applies to all Directors, as well as all officers, employees, contractors, consultants, other persons that act on behalf of Cronos Australia, and associates of Cronos Australia.</p> <p>The Code of Conduct covers the following:</p> <ul style="list-style-type: none"> • Cronos Australia's core values; • conflicts of interest; • opportunities, benefits and ownership of work; • anti-bribery and gifts; • dealings with politicians and government officials; • confidentiality; • privacy; • fair dealing; • discrimination, bullying, harassment and vilification; • health and safety; • protection and use of Cronos Australia's assets and property; • compliance with laws; • responsibility to shareholders and other stakeholders; • related party transactions; • insider trading; and • whistleblower protection. <p>The Code of Conduct is available on Cronos Australia's website.</p>

07. BOARD, SENIOR MANAGEMENT AND CORPORATE GOVERNANCE cont.

ASX CG Principles	Compliance by Cronos Australia
Principle 4 – Safeguard integrity in corporate reporting <i>A listed entity should have formal and rigorous processes that independently verify and safeguard the integrity of its corporate reporting.</i>	
Recommendation 4.1 The board of a listed entity should: <ul style="list-style-type: none"> have an audit committee which: <ul style="list-style-type: none"> (i) has at least three members, all of whom are non-executive directors and a majority of whom are independent directors; and (ii) is chaired by an independent director, who is not the chair of the board, and disclose: <ul style="list-style-type: none"> (iii) the charter of the committee; (iv) the relevant qualifications and experience of the members of the committee; and (v) in relation to each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or if it does not have an audit committee, disclose that fact and the processes it employs that independently verify and safeguard the integrity of its corporate reporting, including the processes for the appointment and removal of the external auditor and the rotation of the audit engagement partner. 	<p>The Board is committed to following Recommendation 4.1 and has established an Audit and Risk Committee. This committee is responsible for, amongst other things, appointing Cronos Australia's external auditors and overseeing the integrity of Cronos Australia's financial reporting systems and financial statements.</p> <p>The members of the Audit and Risk Committee are Daniel Abrahams (chair of the committee), Anna Burke AO and Shane Tanner, all of whom are non-executive Directors and who are also independent.</p> <p>Cronos Australia has also adopted an Audit and Risk Committee Charter which is available on Cronos Australia's website.</p> <p>Cronos Australia intends to disclose, at the relevant time, the number of times the Audit and Risk Committee has met, and the attendance at those meetings, at the end of each relevant reporting period.</p>
Recommendation 4.2 The board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.	<p>The Board will implement a process to receive written assurances from its Chief Executive Officer and Chief Financial Officer that the declarations that will be provided under section 295A of the Corporations Act are founded on a system of risk management and internal control and that the system is operating in all material respects in relation to financial reporting risks.</p> <p>The Board will seek these assurances prior to approving the annual financial statements for all half year and full year results that follow.</p>
Recommendation 4.3 A listed entity that has an AGM should ensure that its external auditor attends its AGM and is available to answer questions from security holders relevant to the audit.	<p>Cronos Australia has adopted a formal Disclosure and Communication Policy, where there is an express requirement that the external auditor will attend the AGM and be available to answer questions about the conduct of the audit and the preparation and content of the auditor's report.</p>

ASX CG Principles	Compliance by Cronos Australia
<p>Principle 5 – make timely and balanced disclosure</p> <p><i>A listed entity should make timely and balanced disclosure of all matters concerning it that a reasonable person would expect to have a material effect on the price or value of its securities.</i></p> <p>Recommendation 5.1</p> <p>A listed entity should:</p> <ul style="list-style-type: none"> • have a written policy for complying with its continuous disclosure obligations under the ASX Listing Rules; and • disclose that policy or a summary of it. 	<p>Consistent with the Board’s commitment to improving its disclosure policy, the Board has adopted a Disclosure and Communication Policy, which sets out Cronos Australia’s commitment to the objective of promoting investor confidence and the rights of shareholders by:</p> <ul style="list-style-type: none"> • complying with the continuous disclosure obligations imposed by law; • ensuring that company announcements are presented in a factual, clear and balanced way; • ensuring that all shareholders have equal and timely access to material information concerning Cronos Australia; and • communicating effectively with shareholders and making it easy for them to participate in general meetings. <p>The Disclosure and Communication Policy is available on Cronos Australia’s website.</p>
<p>Principle 6 – Respect the rights of security holders</p> <p><i>A listed entity should respect the rights of its security holders by providing them with appropriate information and facilities to allow them to exercise those rights effectively.</i></p> <p>Recommendation 6.1</p> <p>A listed entity should provide information about itself and its governance to investors via its website.</p>	<p>Cronos Australia recognises the rights of its shareholders and other interested stakeholders to have easy access to balanced, understandable and timely information concerning the operations of the Group. The Chief Executive Officer and the Company Secretary will be primarily responsible for ensuring communications with shareholders are delivered in accordance with this strategy and with its current market disclosure policy.</p> <p>Cronos Australia will strive to communicate with shareholders and other stakeholders in a regular manner as outlined in Principle 5 of this statement.</p> <p>Information concerning Cronos Australia and its governance practices will be made available on its website in due course.</p>

07. BOARD, SENIOR MANAGEMENT AND CORPORATE GOVERNANCE cont.

ASX CG Principles	Compliance by Cronos Australia
Recommendation 6.2 A listed entity should design and implement an investor relations program to facilitate effective two-way communication with investors.	As mentioned above under Recommendation 5.1, the Board has adopted a Disclosure and Communication Policy which supports its commitment to effective communication with its shareholders. In addition, Cronos Australia intends to communicate with its shareholders: <ul style="list-style-type: none"> • by making timely market announcements; • by posting relevant information on its website; • by inviting shareholders to make direct inquiries to Cronos Australia; and • through the use of general meetings.
Recommendation 6.3 A listed entity should disclose the policies and processes it has in place to facilitate and encourage participation at meetings of security holders.	The Board encourages participation of shareholders at the Annual General Meeting or any other shareholder meetings to ensure a high level of accountability and identification with Cronos Australia's strategy and goals. Upon the dispatch of any notice of meeting to shareholders, the Company Secretary will send out material with that notice stating that shareholders are encouraged to participate at the meeting.
Recommendation 6.4 A listed entity should give security holders the option to receive communications from, and send communications to, the entity and its security registry electronically.	Cronos Australia's Shareholders may elect to receive information from Cronos Australia and its registry electronically. Otherwise, Cronos Australia and its registry will communicate by post with shareholders who have not elected to receive information electronically.
Principle 7 – Recognise and manage risk <i>A listed entity should establish a sound risk management framework and periodically review the effectiveness of that framework.</i>	
Recommendation 7.1 The board of a listed entity should: <ul style="list-style-type: none"> • have a committee or committees to oversee risk, each of which: <ul style="list-style-type: none"> (i) has at least three members, a majority of whom are independent directors; and (ii) is chaired by an independent director; • disclose: <ul style="list-style-type: none"> (i) the charter of the committee; (ii) the members of the committee; and (iii) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or • if it does not have a risk committee or committees that satisfy (a) above, disclose that fact and the processes it employs for overseeing the entity's risk management framework. 	<p>The Board has adopted a formal Audit and Risk Committee to, amongst other things, ensure Cronos Australia has an effective risk management system in place and to manage key risk areas.</p> <p>As noted above, the members of the Audit and Risk Committee are Daniel Abrahams, Anna Burke AO and Shane Tanner, all of whom are independent.</p> <p>Cronos Australia intends to disclose, at the relevant time, the number of times the committee has met, and the attendance at those meetings, at the end of each reporting period.</p> <p>Cronos Australia has adopted an Audit and Risk Committee Charter which is available on Cronos Australia's website.</p>

ASX CG Principles	Compliance by Cronos Australia
<p>Recommendation 7.2</p> <p>The board or a committee of the board should:</p> <ul style="list-style-type: none"> • review the entity's risk management framework at least annually to satisfy itself that it continues to be sound; and • disclose, in relation to each reporting period, whether such a review has taken place. 	<p>Under the Board Charter, the Board will ensure that Cronos Australia has in place an appropriate risk management framework and will set the risk appetite within which the Board expects management to operate.</p> <p>Further, it is intended that the Audit and Risk Committee will, among other things, regularly review and update the risk profile and ensure that Cronos Australia has an effective risk management system.</p> <p>As part of this process, the Board will review, at least annually, Cronos Australia's risk management framework in order to satisfy itself that it continues to be sound.</p> <p>Cronos Australia intends to disclose, at the relevant time, whether a review of Cronos Australia's risk management framework was undertaken during the relevant reporting period.</p>
<p>Recommendation 7.3</p> <p>A listed entity should disclose:</p> <ul style="list-style-type: none"> • if it has an internal audit function, how the function is structured and what role it performs; or • if it does not have an internal audit function, that fact and the processes it employs for evaluating and continually improving the effectiveness of its risk management and internal control processes. 	<p>The Audit and Risk Committee is responsible for ensuring that Cronos Australia has appropriate internal audit systems and controls in place, and for overseeing the effectiveness of these internal controls. The committee will also be responsible for conducting investigations of breaches or potential breaches of these internal controls.</p> <p>In addition, the Audit and Risk Committee will be responsible for preparing a risk profile which describes the material risks facing Cronos Australia, regularly reviewing and updating this risk profile, and assessing and ensuring that there are internal controls in place for determining and managing key risks.</p>
<p>Recommendation 7.4</p> <p>A listed entity should disclose whether it has any material exposure to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those risks.</p>	<p>Cronos Australia has disclosed all material risks facing Cronos Australia in Section 6 of this Prospectus, including exposure to economic, environmental and social sustainability risks. Cronos Australia will continue to disclose these material risks in the future in its annual report or elsewhere as appropriate.</p>

Principle 8 – Remunerate fairly and responsibly

A listed entity should pay director remuneration sufficient to attract and retain high quality directors and design its executive remuneration to attract, retain and motivate high quality senior executives to align their interests with the creation of value for security holders.

Recommendation 8.1

The board of a listed entity should:

- have a remuneration committee which:
 - (i) has at least three members, a majority of whom are independent directors; and
 - (ii) is chaired by an independent director;
- disclose:
 - (i) the charter of the committee;
 - (ii) the members of the committee; and
 - (iii) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or
- if it does not have a remuneration committee, disclose that fact and the processes it employs for setting the level and composition of remuneration for directors and senior executives and ensuring that such remuneration is appropriate and not excessive.

Cronos Australia has established a Nomination and Remuneration Committee. The committee is responsible for developing, reviewing and making recommendations on:

- the remuneration framework for Directors, including the process by which any pool of Directors' fees approved by security holders is allocated to Directors;
- the remuneration packages to be awarded to senior executives;
- equity-based remuneration plans for senior executives and other employees; and
- superannuation arrangements for Directors, senior executives and other employees.

The members of the Nomination and Remuneration Committee are Anna Burke AO (Chair of the Committee), Daniel Abrahams and Shane Tanner, all of whom are independent.

Cronos Australia intends to disclose, at the relevant time, the number of times the committee has met, and the attendance at those meetings, at the end of each reporting period.

Cronos Australia has adopted a Nomination and Remuneration Committee Charter which is available on Cronos Australia's website.

Recommendation 8.2

A listed entity should separately disclose its policies and practices regarding the remuneration of non-executive directors and the remuneration of executive directors and other senior executives.

Each Director and senior executive has entered into a separate agreement with Cronos Australia. The remuneration of Directors and senior executives is to be reviewed annually. As noted above, a Nomination and Remuneration Committee Charter is in place and it is anticipated that this committee will consider its approach to remuneration in due course.

Recommendation 8.3

A listed entity which has an equity-based remuneration scheme should:

- have a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme; and
- disclose that policy or a summary of it.

Cronos Australia's Trading Policy is a code that is designed to minimise the potential for insider trading.

The Trading Policy explains when options or rights under an employee incentive scheme can be exercised and also outlines Cronos Australia's restrictions around margin lending, short-term or speculative trading in Cronos Australia and hedging.

The Trading Policy is available on Cronos Australia's website.



08.

DETAILS OF THE OFFER

Cronos Australia intends to undertake
R&D activities with AVS.

08. DETAILS OF THE OFFER

■ 8.1 THE OFFER

Cronos Australia is undertaking an initial public offering of 40,000,000 New Shares to investors in Australia, at an Offer Price of \$0.50 per New Share. A breakdown of the expected costs of the Offer is set out under Section 9.17.

The net proceeds of the Offer will be used to provide working capital to fund the ongoing operations and future growth of Cronos Australia (see Section 8.1.3 for further information in this regard). The implementation of the Offer will also enable Cronos Australia to increase its spread of Shareholders.

The Offer is expected to raise \$20 million (before costs).

The Offer comprises the Broker Firm Offer (see Section 8.2), the Chairman's List Offer (see Section 8.3) and the Institutional Offer (see Section 8.4). There is no general public offer of Shares.

The Broker Firm Offer, Chairman's List Offer and Institutional Offer will be fully underwritten by the Lead Manager. A summary of the Underwriting Agreement, including the events which would entitle the Lead Manager to terminate the Underwriting Agreement, is set out in Section 9.5.11.

The following offers are also made pursuant to this Prospectus:

- the offer of the Broker Options to the Lead Manager; and
- the offer of Shares to the Pre-IPO Investors in connection with the Convertible Loan Agreements.

The Offer is made on the terms and is subject to the conditions set out in this Prospectus.

8.1.1 Important dates

Lodgement of Prospectus with ASIC	15 October 2019
Opening Date of Offer	16 October 2019
Closing Date of Offer	25 October 2019
Allotment of New Shares – under the Institutional Offer, Chairman's List Offer and Broker Firm Offer	7 November 2019
Expected commencement of trading on ASX on a deferred settlement basis	7 November 2019
Expected dispatch of Shareholder holding statements	8 November 2019
Shares expected to commence trading on ASX on a normal settlement basis	11 November 2019

Dates may change

The above dates are subject to change and are indicative only. Cronos Australia reserves the right to vary the dates and times of the Offer, including to close the Offer early, extend the Offer or accept late Applications, without notifying any recipient of this Prospectus or any Applicants, subject to the Corporations Act, the ASX Listing Rules and other applicable laws. Applicants are encouraged to submit their Applications as early as possible after the Offer opens.

8.1.2 Structure of the Offer

The Offer comprises:

- the **Broker Firm Offer**, which is open only to investors with a registered address in Australia who are not Institutional Investors and who have received an invitation from their Broker to participate;
- the **Chairman's List Offer**, which is open to selected investors in Australia who have received an invitation to participate in the Chairman's List Offer; and
- the **Institutional Offer**, which consists of an invitation to apply for Shares made to Institutional Investors in Australia and a number of other eligible jurisdictions.

The following offers are also made pursuant to this Prospectus:

- the offer of the Broker Options to the Lead Manager; and
- the offer of Shares to the Pre-IPO Investors in connection with the Convertible Loan Agreements.

These offers are being made under this Prospectus to facilitate the secondary trading of any Shares issued on exercise of the Broker Options and the Shares to be issued in connection with the Convertible Loan Agreements. The terms of the Broker Options are set out in Section 9.6 and the terms of the Convertible Loan Agreements are summarised in Section 9.5.13.

No general public offer of Shares will be made under the Offer.

The allocation of Shares under the Broker Firm Offer, the Chairman's List Offer and the Institutional Offer has been made after consultations between the Lead Manager and Cronos Australia. No guarantee of allocation of any Shares may be made to any Applicant.

Until the Shares are issued and transferred to successful Applicants, any Application Monies for Shares offered under the Offer will be held on trust for Applicants. If the Offer is withdrawn, Application Monies will be fully refunded. No interest will be paid on the Application Monies.

8.1.3 Application of proceeds

In satisfaction of the specific requirements of ASX Listing Rule 1.3.2(b) regarding the indicative future application of cash expected to be available to Cronos Australia following completion of the Offer, the use of proceeds relating to the Offer are as follows:

Use of proceeds*	Estimated spend	% of funds raised
Product development	\$2,575,000	12.87%
Business development	\$2,390,000	11.95%
Patient acquisition and practitioner engagement	\$2,355,000	11.78%
Brand creation, development and launch	\$2,080,000	10.40%
Contract manufacturing management	\$1,200,000	6.00%
Research and development activities	\$1,190,000	5.95%
Licensing and regulatory costs	\$755,000	3.78%
Directors' remuneration	\$750,000	3.75%
Inventory of finished products	\$585,000	2.92%
Working capital and administrative costs**	\$3,950,000	19.75%
Outstanding cash costs of the Offer^	\$2,170,000	10.85%
Total funds raised	\$20,000,000	100%

NOTES:

* Amounts included in the use of proceeds table above exclude inflows from potential revenues (and the associated cost of goods sold and distribution costs), interest earned and other credits.

** Working capital includes corporate operations and corporate governance costs, as well as a contingency pool. The repayment of the loan described in Section 9.5.7 is not included in the above table as such loan is not due for repayment until 1 January 2022.

^ The total costs of the Offer (excluding GST) are estimated to be approximately \$3,340,000, comprising amongst other things, lead manager underwriting fees (\$1,550,000, including non-cash costs of \$350,000), legal expenses (\$890,000), accounting, audit and tax advisory fees (\$710,000), ASX and ASIC fees (\$130,000) and design and printing costs (\$60,000)). Please refer to Section 9.17 for a detailed breakdown of the costs of the Offer.

The estimated spend in the above table covers the period to 31 December 2021, being the expected duration of phases 1 and 2 of the growth strategy (see Section 3.5).

The above table is a statement of current intentions as at the date of this Prospectus. Investors should note that, as with any budget, the allocation of funds set out in the above table may change depending on a number of factors, including the level of sales success, operational and development activities, regulatory developments, and market and general economic conditions. In light of this, the Board reserves its right to alter the way the funds are applied.

08. DETAILS OF THE OFFER cont.

The Board is satisfied that upon completion of the Offer, Cronos Australia will have sufficient working capital to carry out its stated objectives (refer Section 3.5).

The use of further equity funding or share placements will be considered by the Board where it is appropriate to accelerate a specific project, transaction or expansion.

It is possible that future projects, transactions or expansions that may be contemplated may exceed the current projected financial resources of Cronos Australia and it is expected that these activities would be funded by project finance and/or subsequent equity issues (subject to required shareholder approvals, if any).

8.1.4 Expected benefits of the Offer

The Offer is expected to generate future opportunities for the development of Cronos Australia, including to:

- import medicinal cannabis products;
- develop distribution channels in Australia for medicinal cannabis and generate first revenues;
- develop brands, products and other medicinal cannabis IP;
- explore export distribution opportunities in New Zealand and Asia (although noting that even if suitable opportunities are identified it is not anticipated that Cronos Australia will export to Asia until Phase 3); and
- fund working capital to accelerate growth.

Some of these benefits may be generated quickly while others may be achieved over a longer time period.

8.1.5 Terms and Conditions of the Offer

TOPIC	SUMMARY
What is the type of security being offered?	Shares (being fully paid ordinary shares in Cronos Australia).
What are the rights and liabilities attached to the Shares?	A description of the Shares, including the rights and liabilities attaching to them, is set out in Section 9.4.
What is the consideration payable for each Share?	The Offer Price is \$0.50 per Share under the Broker Firm Offer, Chairman's List Offer and Institutional Offer.
What is the Offer Period?	Key Dates, including details of the Offer period, are set out on page 4. No Shares will be issued on the basis of this Prospectus later than the Expiry Date.
What are the cash proceeds to be raised under the Offer?	\$20 million will be raised from successful Applicants under the Offer.
What is the minimum and maximum Application size under the Broker Firm Offer?	<p>The minimum Application under the Broker Firm Offer is \$2,000 (equivalent to 4,000 Shares at the Offer Price), and in multiples of \$1,000 (equivalent to 2,000 Shares at the Offer Price) thereafter. There is no maximum value of Shares that may be applied for under the Broker Firm Offer.</p> <p>The Lead Manager and Cronos Australia reserve the right to reject any Application or to allocate a lesser number of Shares than that applied for. Cronos Australia and the Lead Manager also reserve the right to aggregate any Applications which they believe may be multiple Applications from the same person.</p>

TOPIC	SUMMARY
What is the guaranteed, minimum and maximum Application size under the Chairman's List Offer?	<p>Invited Applicants under the Chairman's List Offer will receive a guaranteed minimum allocation of \$2,000 worth of Shares (equivalent to 4,000 Shares at the Offer Price). The minimum Application amount under the Chairman's List Offer is \$2,000 worth of Shares (equivalent to 4,000 Shares at the Offer Price). There is no maximum value of Shares for which Applicants may apply under the Chairman's List Offer.</p> <p>The Lead Manager and Cronos Australia reserve the right to reject any Application or to allocate a lesser number of Shares than that applied for. Cronos Australia and the Lead Manager also reserve the right to aggregate any Applications which they believe may be multiple Applications from the same person.</p>
What is the allocation policy?	<p>The allocation of Shares between the Broker Firm Offer, the Chairman's List Offer, and the Institutional Offer was determined by the Lead Manager in consultation with Cronos Australia.</p> <p>For the Broker Firm Offer, the Lead Manager and the Brokers to the Offer will determine how Brokers allocate Shares among their clients.</p> <p>For the Chairman's List Offer, Cronos Australia in consultation with the Lead Manager will determine the allocation of Shares among Applicants.</p> <p>Institutional Offer allocations were determined by Cronos Australia in consultation with the Lead Manager.</p>
When will I receive confirmation whether my Application has been successful?	<p>It is expected that initial holding statements will be dispatched by standard post on or about 8 November 2019.</p>
Will the Shares be quoted?	<p>Cronos Australia will apply for admission to the official list of the ASX and quotation of Shares on the ASX under the code 'CAU'.</p> <p>Completion of the Offer is conditional on the ASX approving this application. If approval is not given within three months after such application is made (or any longer period permitted by law), the Offer will be withdrawn and all Application Monies received will be refunded without interest as soon as practicable in accordance with the requirements of the Corporations Act.</p> <p>Cronos Australia will be required to comply with the ASX Listing Rules, subject to any waivers obtained by Cronos Australia from time to time.</p> <p>The ASX takes no responsibility for this Prospectus or the investment to which it relates. The fact that the ASX may admit Cronos Australia to the official list is not to be taken as an indication of the merits of Cronos Australia or the Shares offered for subscription.</p>
When are the Shares expected to commence trading?	<p>It is expected that trading of the Shares on the ASX will commence on or about 7 November 2019, initially on a deferred settlement basis and until Cronos Australia has advised the ASX that holding statements have been dispatched to Shareholders.</p> <p>Normal settlement trading is expected to commence on or about 11 November 2019.</p> <p>It is the responsibility of each Applicant to confirm their holding before trading in Shares. Applicants who sell Shares before they receive an initial statement of holding do so at their own risk.</p> <p>Cronos Australia and the Lead Manager disclaim all liability, whether in negligence or otherwise, to persons who sell Shares before receiving their initial statement of holding, whether on the basis of a confirmation of allocation provided by any of them, by the Cronos Australia Limited Offer Information Line, by a Broker or otherwise.</p>

08. DETAILS OF THE OFFER cont.

TOPIC	SUMMARY
Is the Offer underwritten?	Yes. The Lead Manager has fully underwritten the Offer. Details are provided in Sections 8.11 and 9.5.11.
Are there any escrow arrangements?	Yes. Details are provided in Section 9.11.
Are there any tax considerations?	Yes. Refer to Section 8.12.
Are there any brokerage, commission or stamp duty considerations?	No brokerage, commission or stamp duty is payable by Applicants on acquisition of Shares under the Offer. See Sections 9.17 and 8.8 for details of various fees payable by Cronos Australia to the Lead Manager and other brokers that may be appointed to the Offer in certain circumstances.
What should I do with any enquiries?	<p>All enquiries in relation to this Prospectus should be directed to the Cronos Australia Offer Information Line on 1800 176 125 (within Australia) or +61 1800 176 125 (outside Australia) from 8.30am to 5.30pm (AEDT), Monday to Friday (excluding public holidays).</p> <p>If you are unclear in relation to any matter or are uncertain as to whether Cronos Australia is a suitable investment for you, you should consult with your stockbroker, accountant or other independent and qualified professional adviser before deciding whether to invest.</p>

8.2 BROKER FIRM OFFER

8.2.1 Who can apply

The Broker Firm Offer is open only to investors with a registered address in Australia who are not Institutional Investors and who have received an invitation from their Broker to participate. If you have received an invitation to participate from your Broker, you will be treated as a Broker Firm Applicant under the Broker Firm Offer. You should contact your Broker to determine whether you can receive an invitation from them under the Broker Firm Offer. The Broker Firm Offer is not open to persons in the United States.

8.2.2 How to apply

If you have received an invitation to participate from your Broker and wish to apply for Shares under the Broker Firm Offer, you should contact your Broker for information about how to complete and lodge your Broker Firm Offer Application Form and for payment instructions. Application Forms must be completed in accordance with the instructions given to you by your Broker and the instructions set out on the Application Form. Applicants under the Broker Firm Offer must not send their Application Forms or payment to the Share Registry.

Applicants under the Broker Firm Offer should contact their Broker to request a Prospectus and Application Form, or download a copy at www.cronosaustralia.com. Your Broker will act as your agent and it is your Broker's responsibility to ensure that your Application Form and Application Monies are received before 5.00pm (AEDT) on the Closing Date or any earlier closing date as determined by your Broker.

If you are an investor applying under the Broker Firm Offer, you should complete and lodge your Broker Firm Offer Application Form with the Broker from whom you received your invitation to participate. Broker Firm Offer Application Forms must be completed in accordance with the instructions given to you by your Broker and the instructions set out on the reverse of the Application Form.

By making an Application, you declare that you were given access to this Prospectus (or any supplementary or replacement prospectus), together with an Application Form. The Corporations Act prohibits any person from passing an Application Form to another person unless it is included in, or accompanied by, a hard copy of this Prospectus or the complete and unaltered electronic version of this Prospectus.

The minimum application under the Broker Firm Offer is \$2,000 worth of Shares. There is no maximum value of Shares that may be applied for under the Broker Firm Offer. However, Cronos Australia and the Lead Manager reserve the right to aggregate any Applications which they believe may be multiple Applications from the same person. Cronos Australia may determine a person to be eligible to participate in the Broker Firm Offer, and may amend or waive the Broker Firm Offer Application procedures or requirements, in its discretion in compliance with applicable laws.

Cronos Australia, the Lead Manager and the Share Registry take no responsibility for any acts or omissions committed by your Broker in connection with your Application.

The Broker Firm Offer opens at 9.00am (AEDT) on 16 October 2019 and is expected to close at 5.00pm (AEDT) on 25 October 2019. Cronos Australia and the Lead Manager may elect to close the Offer or any part of it early, extend the Offer or any part of it, or accept late Applications either generally or in particular cases. The Offer, or any part of it, may be closed at any earlier date and time, without further notice. Your Broker may also impose an earlier closing date. Applicants are therefore encouraged to submit their Applications as early as possible. Please contact your Broker for instructions.

8.2.3 How to pay

Applicants under the Broker Firm Offer must pay their Application Monies in accordance with the instructions received from their Broker.

8.2.4 Application Monies

Cronos Australia reserves the right to decline any Application in whole or in part, without giving any reason. Application Monies received under the Broker Firm Offer will be held in a special purpose account until Shares are issued or transferred to Successful Applicants.

Applicants under the Broker Firm Offer whose Applications are not accepted, or who are allocated a lesser number of Shares than the amount applied for, will receive a refund of all or part of their Application Monies, as applicable. No refunds pursuant solely to rounding will be provided. Interest will not be paid on any monies refunded and any interest earned on Application Monies pending the allocation or refund will be retained by Cronos Australia.

Applicants whose Applications are accepted in full will receive the whole number of Shares calculated by dividing the Application Monies provided by the Offer Price. Where the Offer Price does not divide evenly into the Application Monies, the number of Shares to be allocated will be determined by the Applicant's Broker.

8.2.5 Acceptance of Applications

An Application in the Broker Firm Offer is an offer by an Applicant to Cronos Australia to apply for Shares specified on the Application Form at the Offer Price on the terms and conditions set out in this Prospectus (including any supplementary or replacement prospectus) and the Application Form (including the conditions regarding quotation on ASX in Section 8.6 and the acknowledgements in Section 8.5). To the extent permitted by law, an Application by an Applicant is irrevocable.

An Application may be accepted in respect of the full amount, or any amount lower than that specified in the Application Form, without further notice to the Applicant. Acceptance of an Application will give rise to a binding contract on allocation of Shares to Successful Applicants.

The Lead Manager, in agreement with Cronos Australia, reserves the right to reject any Application which is not correctly completed or which is submitted by a person who they believe is ineligible to participate in the Broker Firm Offer, or to waive or correct any errors made by the Applicant in completing their Application.

8.2.6 Broker Firm Offer allocation policy

The allocation of Shares to Brokers was determined by Cronos Australia and the Lead Manager. Shares which have been allocated to Brokers for allocation to their retail clients with a registered address in Australia will be issued to the Applicants who have received a valid allocation of Shares from those Brokers. It will be a matter for each Broker as to how they allocate firm Shares among their retail clients, and they (and not Cronos Australia or the Lead Manager) will be responsible for ensuring that retail clients who have received a firm allocation from them, receive the relevant Shares.

08. DETAILS OF THE OFFER cont.

■ 8.3 CHAIRMAN'S LIST OFFER

8.3.1 Who can apply

The Chairman's List Offer is open to selected investors in Australia who have received an invitation to participate in the Chairman's List Offer.

The Chairman's List Offer is not open to persons outside of Australia.

8.3.2 How to apply

If you have received a personalised invitation to apply for Shares under the Chairman's List Offer and you wish to apply for all or some of those Shares, you should follow the instructions on your personalised invitation for how to apply under the Chairman's List Offer.

You may apply for an amount up to and including the amount indicated on your invitation. Applications under the Chairman's List Offer must be for a minimum of \$2,000 worth of Shares and in multiples of \$1,000 worth of Shares thereafter.

By making an Application, you declare that you were given access to this Prospectus (or any supplementary or replacement prospectus), together with an Application Form. The Corporations Act prohibits any person from passing an Application Form to another person unless it is included in, or accompanied by, a hard copy of this Prospectus or the complete and unaltered electronic version of this Prospectus.

8.3.3 How to pay

Recipients of an invitation to participate in the Chairman's List Offer may only apply for Shares by applying online at www.cronosaustralia.com using the online Application Form and by paying their Application Monies by BPAY in accordance with instructions on their personalised invitation and the online Application Form. For more details, invitation recipients should refer to www.cronosaustralia.com or contact the Cronos Australia Offer Information Line on 1800 176 125 (within Australia) or +61 1800 176 125 (outside Australia) between 8.30am and 5.30pm (AEDT), Monday to Friday (Business Days only).

When completing your BPAY payment, please make sure to use the specific biller code and unique Customer Reference Number (CRN) generated by the online Application Form. Application Monies paid via BPAY must be received by the Share Registry by no later than 5.00pm on 25 October 2019 and it is your responsibility to ensure that this occurs.

You should be aware that your financial institution may implement earlier cut-off times with regard to electronic payment and you should therefore take this into consideration when making payment. Neither Cronos Australia nor the Lead Manager takes any responsibility for any failure to receive Application Monies or payment by BPAY before the Chairman's List Offer closes arising as a result of, among other things, delays in processing of payments by financial institutions.

8.3.4 Application Monies

Cronos Australia reserves the right to decline any Application in whole or in part, without giving any reason. Applicants under the Chairman's List Offer whose Applications are not accepted, or who are allocated a lesser number of Shares than the amount applied for, will receive a refund of all or part of their Application Monies, as applicable. Interest will not be paid on any monies refunded.

Applicants whose Applications are accepted in full will receive the whole number of Shares calculated by dividing the Application Monies provided by the Offer Price. Where the Offer Price does not divide evenly into the Application Monies, the number of Shares to be allocated will be rounded down and any excess refunded (without interest).

If the amount of your Application Monies that you pay via BPAY is less than the amount specified on your online Application Form, you may be taken to have applied for such lower Australian dollar amount of Shares as for which your cleared Application Monies will pay (and to have specified that amount on your online Application Form) or your Application may be rejected.

8.3.5 Acceptance of Applications

An Application in the Chairman's List Offer is an offer by an Applicant to Cronos Australia to apply for Shares in the amount specified on the Application Form at the Offer Price on the terms and conditions set out in this Prospectus (including any supplementary or replacement prospectus) and the Application Form (including the conditions regarding quotation on ASX in Section 8.6 and the acknowledgements in Section 8.5). To the extent permitted by law, an Application by an Applicant under the Offer is irrevocable.

An Application may be accepted by Cronos Australia and the Lead Manager in respect of the full number of Shares specified on the Application Form or any of them, without further notice to the Applicant. Cronos Australia reserves the right to decline any Application in whole or in part, without giving any reason. Applicants under the Chairman's List Offer who are allocated a lesser number of Shares than the amount applied for will receive a refund of all or part of their Application Monies, as applicable. Interest will not be paid on any monies refunded.

Applicants whose Applications are accepted in full will receive the whole number of Shares calculated by dividing the Application Monies provided by the Offer Price. Where the Offer Price does not divide evenly into the Application Monies, the number of Shares to be allocated will be rounded down. Any excess funds due solely to rounding will not be refunded.

If the amount of your Application Monies that you pay is less than the amount specified on your Application Form, you may be taken to have applied for such lower Australian dollar amount of Shares as for which your cleared Application Monies will pay (and to have specified that amount on your online Application Form) or your Application may be rejected.

Acceptance of an Application will give rise to a binding contract.

8.3.6 Chairman's List Offer allocation policy

Chairman's List Offer Applicants may be eligible to receive a guaranteed allocation up to and including the amount indicated on their Chairman's List Offer Invitation or such lesser amount validly applied for. Beyond this, the allocations under the Chairman's List Offer will be at the absolute discretion of Cronos Australia subject to an aggregate allocation under the Chairman's List Offer of 5,370,000 Shares.

■ 8.4 INSTITUTIONAL OFFER

8.4.1 Invitations to bid

The Institutional Offer consisted of an invitation to certain Institutional Investors in Australia and a number of other eligible jurisdictions to apply for Shares. The Lead Manager has separately advised Institutional Investors of the application procedures for the Institutional Offer.

8.4.2 Allocation policy under Institutional Offer

The allocation of Shares among Applicants in the Institutional Offer was determined by the Lead Manager in consultation with Cronos Australia. Cronos Australia and the Lead Manager had absolute discretion regarding the basis of allocation of Shares among Institutional Investors and there was no assurance that any Institutional Investor would be allocated any Shares, or the number of Shares for which it had bid.

Participants in the Institutional Offer have been advised of their allocation of Shares, if any, by the Lead Manager. The allocation policy was influenced, but not constrained, by a number of factors including:

- the number of Shares bid for by particular Applicants;
- the timeliness of the bid by particular Applicants;
- Cronos Australia's desire for an informed and active trading market following listing;
- Cronos Australia's desire to establish a wide spread of institutional shareholders;
- the overall level of demand under the Broker Firm Offer, Chairman's List Offer and the Institutional Offer;
- the size and type of funds under management of particular Applicants;
- the likelihood that particular Applicants will be long-term shareholders; and
- any other factors that Cronos Australia and the Lead Manager considered appropriate.

08. DETAILS OF THE OFFER cont.

■ 8.5 ACKNOWLEDGEMENTS

Each Applicant under the Offer will be deemed to have:

- agreed to become a member of Cronos Australia and to be bound by the terms of the Constitution and the terms and conditions of the Offer;
- acknowledged having personally received a printed or electronic copy of the Prospectus (and any supplementary or replacement prospectus) including or accompanied by the Application Form and having read them all in full;
- declared that all details and statements in their Application Form are complete and accurate;
- declared that the Applicant(s), if a natural person, is/are over 18 years of age;
- acknowledged that, once Cronos Australia or a Broker receives an Application Form, it may not be withdrawn;
- applied for the number of Shares at the Australian dollar amount shown on the front of the Application Form;
- agreed to being allocated and issued the number of Shares applied for (or a lower number allocated in a way described in this Prospectus), or no Shares at all;
- authorised Cronos Australia and the Lead Manager and their respective officers or agents, to do anything on behalf of the Applicant(s) necessary for Shares to be allocated to the Applicant(s), including to act on instructions received by the Share Registry upon using the contact details in the Application Form;
- acknowledged that Cronos Australia may not pay dividends and that any dividends paid may not be franked;
- acknowledged that the information contained in this Prospectus (or any supplementary or replacement prospectus) is not financial product advice or a recommendation that Shares are suitable for the Applicant(s), given the investment objectives, financial situation or particular needs (including financial and tax issues) of the Applicant(s);
- declared that the Applicant(s) is/are a resident of Australia (except as applicable to the Institutional Offer);
- acknowledged and agreed that the Offer may be withdrawn by Cronos Australia or may otherwise not proceed in the circumstances described in this Prospectus; and
- acknowledged and agreed that if listing does not occur for any reason, the Offer will not proceed.

■ 8.6 THE OFFER IS CONDITIONAL – APPLICATION FOR ADMISSION TO THE OFFICIAL LIST OF THE ASX

The Offer set out in this Prospectus is conditional on permission being granted for the quotation of the New Shares on the ASX.

Within 7 days after the date of this Prospectus, Cronos Australia will lodge an application with the ASX for admission of Cronos Australia to the official list of the ASX and quotation of all Shares (including New Shares issued pursuant to this Prospectus) on the ASX.

If Cronos Australia's application for listing is accepted by the ASX, it is anticipated that Cronos Australia will be listed on the ASX on or about 11 November 2019.

It is the responsibility of the Applicants to check their allocation of New Shares prior to trading.

No issue of New Shares will be made until permission is granted for quotation of the New Shares on the ASX. If the New Shares are not admitted for quotation within 3 months after the date of this Prospectus or if any of the other conditions precedent to the Offer are not met, no funds will be raised pursuant to this Prospectus. Therefore, the Offer will not proceed, no New Shares will be issued pursuant to the Offer and Applications received for New Shares may need to be dealt with in accordance with section 724 of the Corporations Act.

■ 8.7 ISSUE OF NEW SHARES

Conditional on the matters referred to in Section 8.6 of this Prospectus, Cronos Australia expects to issue the New Shares in accordance with the indicative timetable set out in Section 8.1.1.

The New Shares, from the time they are issued, will be fully paid Shares and will rank equally with existing Shares. Full details of the rights attaching to the New Shares are contained in the Corporations Act and Cronos Australia's Constitution. A summary of Cronos Australia's Constitution is set out in Section 9.4.

No Shares will be allotted or issued on the basis of this Prospectus later than 13 months after the date of issue of this Prospectus.

■ 8.8 BROKERAGE AND HANDLING FEES

No brokerage or handling fees will be paid in respect of Applications made.

■ 8.9 CHESS

Cronos Australia will apply to participate in the Securities Clearing House Electronic Sub-register System (**CHESS**), and will maintain an electronic CHESS sub-register and an electronic issuer sponsored sub-register.

Accordingly, Cronos Australia will not issue Share certificates to successful Applicants but as soon as practicable after allocation, successful Applicants will receive a holding statement that sets out the number of Shares that have been allocated to them pursuant to this Prospectus. The holding statement will also set out each successful Applicant's unique "Holder Identification Number" in the case of a holding on the CHESS sub-register, or "Securityholder Reference Number" in the case of a holding on Cronos Australia's issuer sponsored sub-register.

Shareholders will be provided with periodic holding statements showing any changes in their holdings of Shares. Shareholders may request a holding statement at any time (although an administration fee may be charged for these additional statements). It is the responsibility of Shareholders to determine their holding prior to trading in any Shares.

■ 8.10 DEFERRED SETTLEMENT TRADING

It is expected that trading of the Shares on the ASX will commence on or about 7 November 2019, initially on a deferred settlement basis and until Cronos Australia has advised the ASX that holding statements have been dispatched to Shareholders.

Normal settlement trading is expected to commence on or about 11 November 2019.

It is the responsibility of each Applicant to confirm their holding before trading in Shares. Applicants who sell Shares before they receive an initial statement of holding do so at their own risk. Cronos Australia and the Lead Manager disclaim all liability, whether in negligence or otherwise, to persons who sell Shares before receiving their initial statement of holding, whether on the basis of a confirmation of allocation provided by any of them, by the Cronos Australia Limited Offer Information Line, by a Broker or otherwise.

■ 8.11 OFFER IS FULLY UNDERWRITTEN

The Offer is fully underwritten. The Lead Manager and Cronos Australia have entered into the Underwriting Agreement under which the Lead Manager has been appointed as manager and underwriter of the Offer. The Lead Manager agrees, subject to certain conditions and termination events, to underwrite Applications for all Shares under the Offer. The Underwriting Agreement sets out a number of circumstances under which the Lead Manager may terminate the Underwriting Agreement and its underwriting obligations.

A summary of certain terms of the agreement and underwriting arrangements, including the termination provisions, is provided in Section 9.5.11.

08. DETAILS OF THE OFFER cont.

■ 8.12 AUSTRALIAN TAXATION – THE OFFER

The taxation implications of the Offer will vary depending upon your particular circumstances. Neither Cronos Australia nor any of its officers or employees, nor its advisers, accepts any liability or responsibility in this regard and recommends that you seek and rely upon your own professional advice in connection with the Offer.

This Section 8.12 does not constitute financial product advice as defined in the Corporations Act, is confined to taxation issues, and is only one of the matters investors need to consider when making a decision about their investments. Investors should seek advice from their own independent professional adviser before deciding whether to invest in Cronos Australia.

The following tax comments in this Section 8.12 are based on the tax law in Australia in force as at the date of this Prospectus. Australian tax laws are complex. This summary is general in nature and is not intended to be an authoritative or complete statement of all potential tax implications for each investor or relied upon as tax advice. During the period of ownership of the New Shares by investors, the taxation laws of Australia, or their interpretation, may change. The precise implications of ownership or disposal will depend upon each investor's specific circumstances. Investors should seek their own independent professional advice on the taxation implications of holding or disposing of the New Shares, taking into account their specific circumstances.

The following information is a general summary of the Australian income tax (including Capital Gains Tax), Goods and Services Tax and Stamp Duty implications for Australian tax resident individuals, complying superannuation entities, trusts, partnerships and corporate investors that will hold their New Shares on capital account. These comments do not apply to non-resident investors, investors that hold New Shares on revenue account or as trading stock, investors who are exempt from Australian income tax or investors subject to the Taxation of Financial Arrangements regime in Division 230 of the *Income Tax Assessment Act 1997* (Cth).

8.12.1 Non-resident capital gains tax withholding

Cronos Australia will be issuing New Shares to investors pursuant to the Offer. In accordance with subsection 14-225(1) of the Taxation Administration Act 1953 (Cth), Cronos Australia declares that, for the period from the Closing Date until the date of Completion of the Offer, it will be a resident of Australia for tax purposes. Accordingly, investors should not have an obligation to withhold any portion of the price paid for the Shares under the Offer.

8.12.2 Dividends paid on Shares to Australian tax residents

8.12.2.1 Australian resident Individuals and complying superannuation entities with a registered address in Australia

Dividends paid by Cronos Australia on a Share will constitute assessable income of an Australian tax resident investor. Australian tax resident investors who are individuals or complying superannuation entities should include the dividend in their assessable income in the year the dividend is paid, together with any franking credit attached to that dividend.

Subject to the comments below at Section 8.12.2.4, such investors should be entitled to a tax offset equal to the franking credit attached to the dividend. The tax offset can be applied to reduce the tax payable on the investor's taxable income. Where the tax offset exceeds the tax payable on the investor's taxable income, the investor should be entitled to a tax refund equal to the excess.

To the extent that the dividend is unfranked, an individual investor will generally be taxed at his or her prevailing marginal rate on the dividend received (with no tax offset). Complying superannuation entities will generally be taxed at the prevailing rate for complying superannuation entities on the dividend received (with no tax offset).

8.12.2.2 Corporate investors

Corporate investors are required to include both the dividend and, where a fully franked or partially franked dividend is received, the associated franking credit in their assessable income.

Subject to the comments below at Section 8.12.2.4, corporate investors should be entitled to a tax offset up to the amount of the franking credit attached to the dividend.

A corporate investor with a registered address in Australia should be entitled to a credit in its own franking account to the extent of the franking credits attached to the distribution received. This will allow the corporate investor to pass on the franking credits to its investor(s) on the subsequent payment of franked dividends.

Excess franking credits received by corporate investors will not give rise to a refund entitlement for a company, but can be converted into carry forward tax losses.

8.12.2.3 Trusts and partnerships

Investors who are trustees (other than trustees of complying superannuation entities, which are dealt with in Section 8.12.2.1 above) or partnerships should include any dividends and any franking credit received in determining the net income of the trust or partnership. Where a fully franked or partially franked dividend is received, the relevant beneficiary or partner may be entitled to a share of the tax offset equal to the beneficiary's or partner's share of the net income of the trust or partnership.

8.12.2.4 Shares held at risk

The benefit of franking credits can be denied where an investor is not a "qualified person", in which case the investor will not need to include the amount of the franking credits in their assessable income and will not be entitled to a tax offset.

Broadly, to be a "qualified person", two tests must be satisfied, namely the holding period rule and the related payment rule.

Under the holding period rule, an investor is required to hold shares "at risk" for more than 45 days continuously within the primary qualification period (which is measured as the period commencing the day after the shares were acquired and ending on the 45th day after the shares become ex-dividend) in order to qualify for franking benefits. The holding period rule is subject to certain exceptions, including where the total franking offsets of an individual in a year of income do not exceed \$5,000.

Under the related payment rule, a different testing period applies where the investor has made, or is under an obligation to make, a related payment in relation to the dividend. The related payment rule requires the investor to have held the shares at risk for the continuous 45-day period as above but within the period commencing on the 45th day before, and ending on the 45th day after the day the shares become ex-dividend.

Investors should seek independent professional advice to determine if these requirements, as they apply to them, have been satisfied.

There are specific integrity rules that prevent taxpayers from obtaining a tax benefit from additional franking credits where dividends are received as a result of "dividend washing" arrangements. Shareholders should consider the impact of these rules together with the broader integrity provisions that apply to the claiming of tax offsets, having regard to their own personal circumstances.

8.12.3 Disposal of Shares – Australian tax residents

Most Australian tax resident investors will be subject to Australian capital gains tax (CGT) on the disposal of their Shares. Some investors may hold their Shares on revenue account, as trading stock, or be subject to the Taxation of Financial Arrangements regime. Those investors should seek their own independent professional advice in respect of the consequences of a disposal of Shares.

An investor will derive a capital gain on the disposal of shares where the capital proceeds received on disposal exceed the cost base of the shares. The cost base of the shares is broadly the amount paid to acquire the shares plus any transaction and incidental costs.

A CGT discount may be available on the capital gain for individual investors, trustee investors and investors that are complying superannuation entities provided the particular shares are held for at least 12 months prior to sale. Any current year or carry forward capital losses should offset the capital gain first before the CGT discount can be applied.

The CGT discount for individuals and trusts is 50% and for complying superannuation entities is 33⅓%. In relation to trusts, the CGT discount rules are complex, but the discount may flow through to presently entitled beneficiaries of the trust where the beneficiaries should themselves be entitled to apply the CGT discount.

An investor will incur a capital loss on the disposal of their particular shares to the extent that the capital proceeds on disposal are less than the reduced cost base of the shares.

If an investor derives a net capital gain in a year, this amount is, subject to the following comments, included in the investor's assessable income. If an investor incurs a net capital loss in a year, this amount is carried forward and is available to offset against capital gains derived in subsequent years, subject in some cases to the investor satisfying certain rules relating to the recoupment of carried forward losses.

08. DETAILS OF THE OFFER cont.

8.12.4 Tax file numbers

An investor is not required to quote their tax file number (**TFN**) to Cronos Australia. However, if their TFN details (or certain exemption details) are not provided, Australian tax may be required to be deducted by Cronos Australia from dividends at the maximum marginal tax rate plus the Medicare levy.

An investor who holds Shares as part of an enterprise may quote its Australian Business Number instead of its TFN.

8.12.5 Stamp duty

On the basis that no investor, together with their associates, should exceed the landholder acquisition threshold for a listed entity (being 90%), no stamp duty should be payable by investors on the acquisition of the New Shares.

Investors should seek their own tax advice as to the impact of stamp duty in their own particular circumstances.

8.12.6 Australian goods and services tax (GST)

The acquisition, redemption or disposal of the New Shares by an investor with a registered address in Australia (who is registered or required to be registered for GST) will be an input taxed financial supply, and therefore is not subject to GST.

No GST should be payable in respect of dividends paid to investors.

An investor with a registered address in Australia registered for GST may not be entitled to claim full input tax credits in respect of GST on expenses incurred relating to the acquisition, redemption or disposal of the Shares (e.g. lawyers' and accountants' fees).

Investors should seek their own tax advice on the impact of GST in their own particular circumstances.

■ 8.13 FOREIGN SELLING RESTRICTIONS

This Prospectus does not constitute an offer or invitation to subscribe for New Shares in any jurisdiction in which, or to any person to whom, it would not be lawful to make such an offer or invitation or issue under this Prospectus.

No action has been taken to register or qualify this Prospectus, the New Shares or the Offer or otherwise to permit a public offering of the New Shares in any jurisdiction outside Australia. In particular, this Prospectus may not be distributed to any person, and the New Shares may not be offered or sold, in any country outside Australia except to the extent permitted below:

Hong Kong

WARNING: This document has not been, and will not be, registered as a prospectus under the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong, nor has it been authorised by the Securities and Futures Commission in Hong Kong pursuant to the Securities and Futures Ordinance (Cap. 571) of the Laws of Hong Kong (the **SFO**). No action has been taken in Hong Kong to authorise or register this document or to permit the distribution of this document or any documents issued in connection with it. Accordingly, the New Shares have not been and will not be offered or sold in Hong Kong other than to "professional investors" (as defined in the SFO and any rules made under that ordinance).

No advertisement, invitation or document relating to the New Shares has been or will be issued, or has been or will be in the possession of any person for the purpose of issue, in Hong Kong or elsewhere that is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to New Shares that are or are intended to be disposed of only to persons outside Hong Kong or only to professional investors. No person allotted New Shares may sell, or offer to sell, such securities in circumstances that amount to an offer to the public in Hong Kong within six months following the date of issue of such securities.

The contents of this document have not been reviewed by any Hong Kong regulatory authority. You are advised to exercise caution in relation to the Offer. If you are in doubt about any contents of this document, you should obtain independent professional advice.

New Zealand

This document has not been registered, filed with or approved by any New Zealand regulatory authority under the *Financial Markets Conduct Act 2013* (the **FMC Act**). The New Shares are not being offered or sold in New Zealand (or allotted with a view to being offered for sale in New Zealand) other than to a person who:

- is an investment business within the meaning of clause 37 of Schedule 1 of the FMC Act;
- meets the investment activity criteria specified in clause 38 of Schedule 1 of the FMC Act;
- is large within the meaning of clause 39 of Schedule 1 of the FMC Act;
- is a government agency within the meaning of clause 40 of Schedule 1 of the FMC Act; or
- is an eligible investor within the meaning of clause 41 of Schedule 1 of the FMC Act.

Singapore

This document and any other materials relating to the New Shares have not been, and will not be, lodged or registered as a prospectus in Singapore with the Monetary Authority of Singapore. Accordingly, this document and any other document or materials in connection with the offer or sale, or invitation for subscription or purchase, of New Shares, may not be issued, circulated or distributed, nor may the New Shares be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore except pursuant to and in accordance with exemptions in Subdivision (4) Division 1, Part XIII of the Securities and Futures Act, Chapter 289 of Singapore (the **SFA**), or as otherwise pursuant to, and in accordance with the conditions of any other applicable provisions of the SFA.

This document has been given to you on the basis that you are (i) an existing holder of Cronos Australia's shares, (ii) an "institutional investor" (as defined in the SFA) or (iii) an "accredited investor" (as defined in the SFA). In the event that you are not an investor falling within any of the categories set out above, please return this document immediately. You may not forward or circulate this document to any other person in Singapore.

Any offer is not made to you with a view to the New Shares being subsequently offered for sale to any other party. There are on-sale restrictions in Singapore that may be applicable to investors who acquire New Shares. As such, investors are advised to acquaint themselves with the SFA provisions relating to resale restrictions in Singapore and comply accordingly.

United Kingdom

Neither this document nor any other document relating to the offer has been delivered for approval to the Financial Conduct Authority in the United Kingdom and no prospectus (within the meaning of section 85 of the *Financial Services and Markets Act 2000*, as amended (**FSMA**)) has been published or is intended to be published in respect of the New Shares.

This document is issued on a confidential basis to "qualified investors" (within the meaning of section 86(7) of the FSMA) in the United Kingdom, and the New Shares may not be offered or sold in the United Kingdom by means of this document, any accompanying letter or any other document, except in circumstances which do not require the publication of a prospectus pursuant to section 86(1) of the FSMA. This document should not be distributed, published or reproduced, in whole or in part, nor may its contents be disclosed by recipients to any other person in the United Kingdom.

Any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received in connection with the issue or sale of the New Shares has only been communicated or caused to be communicated and will only be communicated or caused to be communicated in the United Kingdom in circumstances in which section 21(1) of the FSMA does not apply to Cronos Australia.

In the United Kingdom, this document is being distributed only to, and is directed at, persons (i) who have professional experience in matters relating to investments falling within Article 19(5) (investment professionals) of the *Financial Services and Markets Act 2000* (Financial Promotions) Order 2005 (**FPO**), (ii) who fall within the categories of persons referred to in Article 49(2)(a) to (d) (high net worth companies, unincorporated associations, etc.) of the FPO or (iii) to whom it may otherwise be lawfully communicated (together **relevant persons**). The investments to which this document relates are available only to, and any offer or agreement to purchase will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents.

08. DETAILS OF THE OFFER cont.

United States

The New Shares have not been, and will not be, registered under the US Securities Act or the securities laws of any state or other jurisdiction of the United States and may not be offered or sold in the United States except in transactions exempt from, or not subject to, the registration requirements of the US Securities Act and applicable US state securities laws.

This Prospectus does not constitute an offer to sell or a solicitation of an offer to buy any of the securities offered hereby within the United States. This Prospectus may not be distributed in the United States or Canada unless it is attached to, or constitutes part of, the Offering Circular for distribution to institutional and professional investors in accordance with the laws of those jurisdictions.

Each person, to whom the Offer is made under this Prospectus, will be taken to have represented, warranted and agreed that such person:

- understands that the New Shares (i) have not been, and will not be, registered under the US Securities Act or the securities laws of any state or other jurisdiction of the United States; and (ii) may not be offered, sold or resold in the United States except in transactions exempt from, or not subject to, registration requirements of the US Securities Act and any other applicable US securities laws;
- is not in the United States;
- has not sent and will not send this Prospectus or any other material relating to the Offer to any person in the United States; and
- will not offer or sell the New Shares in the United States or in any other jurisdiction outside Australia except in transactions exempt from, or not subject to, registration requirements of the US Securities Act and in compliance with all applicable laws in the jurisdiction which New Shares are offered and sold.

■ 8.14 PROFESSIONAL ADVICE

If you are in any doubt as to whether to accept the Offer, please consult your licensed financial adviser, accountant, stockbroker, lawyer or other professional adviser.

The Directors do not consider it appropriate to give Shareholders or investors advice regarding the taxation consequences of subscribing for New Shares under this Prospectus.

Cronos Australia, its advisers and its officers do not accept any responsibility or liability for any such taxation consequences to Shareholders or investors. As a result, Shareholders and investors should consult their professional tax adviser in connection with any aspect of the Offer and/or applying for New Shares under this Prospectus.

■ 8.15 DISPUTES

The Board may settle, in any manner it thinks fit, any disputes or anomalies which may arise in connection with or by reason of the operation of the Offer, whether generally or in relation to any Shareholder, investor, Applicant or Application. The decision of the Board will be conclusive and binding on all persons to whom the determination relates.

■ 8.16 CHANGE TO THE TERMS OF THE OFFER

Cronos Australia reserves the right to waive strict compliance with or vary any provision of the Terms of the Offer, or to vary, suspend or terminate the Offer at any time without notice. If the Offer does not proceed, Application Monies will be refunded. No interest will be paid on any Application Money refunded as a result of the withdrawal or termination of the Offer.

Failure to notify Shareholders or investors of changes to, suspension or termination of the Offer or the Terms of the Offer will not invalidate the change, suspension or termination.

Cronos Australia reserves the right to issue no New Shares or fewer New Shares than an Applicant applies for under the Offer if the Board believes the issue of those New Shares would contravene an ASIC Class Order, requirements or policies, any law or any ASX Listing Rule.

■ 8.17 ELECTRONIC PROSPECTUS

This Prospectus is available online at www.cronosaustralia.com.

■ 8.18 PRIVACY DISCLOSURE

Cronos Australia collects information in relation to each Applicant as provided on an Application Form (**Information**) for the purposes of processing the Application Form and, should the Application be successful, to administer the Applicant's security holding in Cronos Australia (**Purposes**).

Cronos Australia may use the Information for the Purposes and Cronos Australia may disclose the Information for the Purposes to the Share Registry, Cronos Australia's related bodies corporate, agents, contractors and third party service providers, and to ASX, ASIC and other regulatory authorities.

The Information may also be used and disclosed to persons inspecting the Share Register, including bidders for your securities in the context of takeovers, licensed securities dealers, mail houses, and regulatory bodies including the Australian Taxation Office.

You may request access to your personal information held by or on behalf of Cronos Australia. You can request access to your personal information or obtain further information about Cronos Australia's privacy practices by contacting the Share Registry. You may be required to pay a reasonable charge to the Share Registry in order to access your personal information. Cronos Australia aims to ensure that the personal information it retains about you is accurate, complete and up-to-date. To assist with this, please contact the Share Registry if any of the details you have provided change.

In accordance with the requirements of the Corporations Act, information on the Shareholder register will be accessible by members of the public.

■ 8.19 GOVERNING LAW

This Offer is governed by the law in force in Victoria. By accepting the Offer, you submit to the non-exclusive jurisdiction of the courts of Victoria.



09.

ADDITIONAL INFORMATION

Cronos Australia intends to implement a medical practitioner engagement framework to drive patient access to its products.

09. ADDITIONAL INFORMATION

9.1 CORPORATE STATUS

Cronos Australia was incorporated in Australia under the Corporations Act on 27 September 2018.

9.2 SHAREHOLDING

As at the date of the Prospectus, Cronos Global Holdings Inc holds 50% of the Shares in Cronos Australia, NewSouthern Investment Holdings 1 Pty Ltd holds 25% of the Shares and NewSouthern Investment Holdings A Pty Ltd holds the remaining 25%.

The table below sets out the holdings of these Shareholders at completion of the Offer.

Shareholder	Shares on completion of the Offer	% on completion of the Offer
Cronos Global Holdings Inc ¹	40,000,000	31.07%
NewSouthern Investment Holdings 1 Pty Ltd ²	20,000,000	15.53%
NewSouthern Investment Holdings A Pty Ltd ³	20,000,000	15.53%

1. *Hortican Inc and Cronos Group Inc will have a relevant interest in the Shares held by Cronos Global Holdings Inc.*

2. *Rodney Cocks will have a relevant interest in the Shares held by NewSouthern Investment Holdings 1 Pty Ltd.*

3. *Peter Righetti will have a relevant interest in the Shares held by NewSouthern Investment Holdings A Pty Ltd.*

9.3 RESTRUCTURE

On 27 September 2018, Cronos Australia became the ultimate holding company of the Cronos Australia Group. Previously, the Cronos Australia Group was comprised solely of Cronos Australia – Operations Pty Ltd (previously named Cronos Australia Pty Ltd) and Cronos Australia – Marketing & Distribution Pty Ltd (previously named Cronos (Distribution) Australia Pty Ltd). Both of those companies were owned 50% by Cronos Group Inc and 50% by Cronos Australia Group Pty Ltd (previously named NewSouthern Capital Pty Ltd), which was in turn owned:

- 50% by NewSouthern Investment Holdings 1 Pty Ltd (previously named RDC Investment Holdings Pty Ltd, being a company controlled by Rodney Cocks); and
- 50% by NewSouthern Investment Holdings A Pty Ltd (previously named D. M. Consultants Pty Ltd, being a company controlled by Peter Righetti).

The reason for the restructure was to ensure that the Cronos Australia Group was appropriately structured for the Offer. The restructure involved the following:

- the transfer of the shares held by Cronos Group Inc in Cronos Australia – Operations Pty Ltd and Cronos Australia – Marketing & Distribution Pty Ltd to Cronos Australia Group Pty Ltd in exchange for new shares in Cronos Australia Group Pty Ltd;
- the transfer by Cronos Group Inc of its shares in Cronos Australia Group Pty Ltd to Hortican Inc. (a wholly-owned subsidiary of Cronos Group Inc) and a subsequent transfer of those shares from Hortican Inc to Cronos Global Holdings Inc (a wholly-owned subsidiary of Hortican Inc);
- the formation of an Australian income tax consolidated group by Cronos Australia Group Pty Ltd and its Australian subsidiaries;
- the incorporation of Cronos Australia;
- a “top hatting” that involved the transfer of all of the shares in Cronos Australia Group Pty Ltd from Cronos Global Holdings Inc, NewSouthern Investment Holdings 1 Pty Ltd and NewSouthern Investment Holdings A Pty Ltd to Cronos Australia in exchange for shares in Cronos Australia, and the appointment of Cronos Australia as head of the Australian consolidated income tax group;
- the implementation of company name changes;
- the adoption of new constitutions by all Australian subsidiary members of the Cronos Australia Group; and
- a single share in Cronos Australia that was issued to D’Omara Accountants Pty Ltd on incorporation being cancelled by way of a selective buy back and cancellation,

(collectively, the **Restructure**).

09. ADDITIONAL INFORMATION cont.

In addition to the Restructure, Cronos Australia – New Zealand Ltd was incorporated as a wholly-owned subsidiary of Cronos Australia Group Pty Ltd.

Figure 11 in Section 3.1.1 shows the structure of the Cronos Australia Group following the Restructure and the above steps.

■ 9.4 CRONOS AUSTRALIA'S CONSTITUTION AND RIGHTS ATTACHING TO NEW SHARES

Cronos Australia's constitution (**Constitution**) is of the kind usually adopted by a public company, with certain provisions taking effect once (and for so long as) Cronos Australia is listed on the ASX.

A summary of the rights attaching to Shares under the Constitution is set out below. This summary is qualified by the full terms of the Constitution (copies of the Constitution may be inspected at the registered office of Cronos Australia during normal business hours by appointment with the Company Secretary) and does not purport to be exhaustive or to constitute a definitive statement of the rights and liabilities of Shareholders. These rights and liabilities can involve complex questions of law arising from an interaction of the Constitution with statutory, ASX Listing Rules and common law requirements. For an investor to obtain a definitive assessment of the rights and liabilities which attach to Shares in any specific circumstances, that investor should seek legal advice.

9.4.1 General

Subject to the Constitution and the terms of issue of a Share, attached to each Share is the right to receive notice of, attend and vote at all meetings of Shareholders, to receive dividends, and in a winding up to participate equally in the distribution of assets of Cronos Australia subject only to the amounts unpaid on any Share.

9.4.2 Voting

At a meeting of Shareholders, subject to the Constitution, the Corporations Act, the ASX Listing Rules (if applicable) and to any rights or restrictions attaching to any class of Shares, on a show of hands each Shareholder present in person or by proxy has one vote. At the taking of a poll, each Shareholder present in person or by proxy has one vote for each fully paid Share, and for each partly paid Share a fraction of a vote equivalent to the proportion which the amount paid (not credited) bears to the total amount paid and payable (excluding amounts credited). A Shareholder is entitled to be counted in a vote only in respect of Shares on which all calls due and payable have been paid.

A resolution put to vote at a meeting must be decided on a show of hands unless a poll is demanded.

9.4.3 General meetings and notices

A Director of Cronos Australia may call a general meeting and the Directors must call an annual general meeting in accordance with the Corporations Act. Shareholders may request or call and arrange to hold a general meeting in accordance with the Corporations Act.

Each Shareholder is entitled to receive notice of, attend and vote at general meetings of Cronos Australia and to receive all notices, financial statements and other documents required to be sent to Shareholders under Cronos Australia's Constitution, the Corporations Act and (if applicable) the ASX Listing Rules.

The quorum for a meeting of Shareholders is two Shareholders entitled to vote at the meeting and the quorum must be present at all times during the meeting.

9.4.4 Dividends and share plans

The Directors may pay to Shareholders any dividends as they see fit. The Directors may declare or determine that a dividend is payable and fix the amount, the time for payment and the method of payment (which may include the payment of cash, the issue of Shares and/or the transfer of assets).

Subject to the Corporations Act and the ASX Listing Rules (if applicable), the Directors may establish and make rules for a dividend reinvestment plan or a dividend election plan in relation to any dividend payable by Cronos Australia.

The Directors may declare dividends on a class of Shares to the exclusion of and in different amounts than other classes. Dividends on partly paid shares must not exceed the proportion which the amount paid (not credited) bears to the total amount paid and payable (excluding amounts credited) on that Share.

9.4.5 Issue of Shares

Subject to the Constitution, the Corporations Act, the ASX Listing Rules (if applicable) and any special rights conferred on holders of existing Shares or a class of shares, the Directors may issue or otherwise dispose of, or grant options in respect of, shares to such persons on such terms as they think fit. In particular, the Directors may issue shares with preferred, deferred or special rights or restrictions in relation to dividends, voting, return of capital and payment of calls.

Cronos Australia may issue preference shares which are, or at the option of Cronos Australia are to be, liable to be redeemed. Holders of preference shares will only have the right to vote at a meeting convened for the purpose of reducing capital, in certain circumstances upon winding up, where the resolution effects the rights attached to the preference shares, when a dividend on the preference shares is in arrears or on a resolution to approve the terms of a buy-back.

9.4.6 Transfer of Shares

Generally, all Shares are freely transferable subject to the procedural requirements of the Constitution, and to the provisions of the Corporations Act, the ASX Listing Rules (if applicable) and the operating rules of ASX Settlement Pty Limited (if applicable). The Directors may decline to register an instrument of transfer received where refusal is permitted under the Constitution and (if applicable) the ASX Listing Rules. If Cronos Australia is admitted to the official list of the ASX, the Directors must refuse to register the transfer of "restricted securities" (as defined in the ASX Listing Rules) during the relevant escrow period (except as permitted by the ASX Listing Rules or the ASX) or any other transfer as required by the ASX Listing Rules. If the Directors decline to register a transfer, Cronos Australia must give reasons for the refusal.

9.4.7 Proportional takeover provisions

If Cronos Australia is admitted to the official list of the ASX or if Cronos Australia is an unlisted public company with more than 50 Shareholders, the registration of a transfer of Shares which would give effect to a proportional takeover bid is prohibited unless and until an approving resolution approving the proportional takeover bid is passed. The proportional takeover provisions will cease to have effect on the third anniversary of the adoption of the Constitution, unless renewed.

9.4.8 Small shareholdings

If Cronos Australia is admitted to the official list of the ASX, subject to the ASX Listing Rules and compliance with the procedure set out in the Constitution, Cronos Australia may issue a notice of divestment to a Shareholder holding a parcel of non-marketable shares. Unless the Shareholder objects to the divestment, Cronos Australia must sell the Shares with all consideration received by Cronos Australia to be paid to the relevant Shareholder.

9.4.9 Winding up

Subject to any special rights attaching to a class of shares, if Cronos Australia is wound up the liquidator in a winding up may, with the sanction of a special resolution of the Shareholders, divide the assets of Cronos Australia among the Shareholders.

9.4.10 Liability of Shareholders

As all existing Shares on issue are fully paid, and the New Shares to be issued pursuant to this Prospectus will be fully paid, Shareholders will not be subject to any further call for money by the Directors and therefore Shares will not become liable to forfeiture.

9.4.11 Variation of rights

The rights attaching to the Shares may only be varied, modified or cancelled with the prior written consent of at least 75% of the holders of votes in that class or by a special resolution of the holders of Shares in that class at a meeting of those holders.

09. ADDITIONAL INFORMATION cont.

9.4.12 Directors – Appointment, retirement and removal

The minimum number of Directors is three and the maximum is ten. The Directors are not required to hold any Shares.

Directors may be appointed by resolution of Shareholders at a general meeting. The Directors may appoint a Director either in addition to existing Directors or to fill a casual vacancy, and such Director will hold office until the next annual general meeting.

Subject to the Corporations Act, Directors may only be removed by resolution of Shareholders at a general meeting.

A Director must retire from office at the end of the third annual general meeting following that Director's last appointment or three years, whichever is longer. The requirement to retire does not apply to the Chief Executive Officer. If there is more than one Chief Executive Officer then the requirement to retire will not apply to just one Chief Executive Officer. A retiring Director is eligible for re-election.

9.4.13 Decisions of Directors

The quorum for a meeting of Directors is two. Questions arising at a meeting of Directors are decided by a majority of votes cast by Directors entitled to vote on the resolution. The Chairman has a casting vote.

9.4.14 Alteration to the Constitution

The Constitution can only be amended by a special resolution passed by at least 75% of Shareholders present and voting at a general meeting. At least 21 days' notice (if Cronos Australia is not listed) or 28 days' notice (if Cronos Australia is listed) of the meeting at which the special resolution is proposed must be given.

■ 9.5 MATERIAL CONTRACTS

Set out below is a brief summary of certain contracts which have been entered into by Cronos Australia or its subsidiaries. These are important contracts for Cronos Australia and have accordingly been identified as relevant information of which an investor in Cronos Australia should be aware.

9.5.1 IP Licence

Cronos Group Inc and Cronos Australia – Operations Pty Ltd (for the purposes of this Section, the **licensee**) are parties to the **IP Licence**, the key terms of which are as follows:

- Cronos Group Inc grants the licensee a sole licence in relation to the following:
 - > a selection of cannabis cultivars including strains currently used in the PEACE NATURALS™ range of products (**Licensed Biological IP**);
 - > certain facility designs and drawings for the growing and production of cannabis (**Licensed Technology**);
 - > a series of registered trademarks and pending trademark applications, including the trademarks "CRONOS GROUP™" and "PEACE NATURALS™" and the right to use the domain names www.cronosaustralia.com and www.peacenaturals.com.au (**Licensed Trademarks**); and
 - > certain other intellectual property related to the marketing and promotion of cannabis (**Licensed Marketing IP**).
- The licensee will have the sole right to exploit the Licensed Biological IP, Licensed Technology, the Licensed Trademarks and the Licensed Marketing IP in Australia, New Zealand, Micronesia, Melanesia and Polynesia (excluding Hawaii and US Territories), Timor Leste, Papua New Guinea, Brunei Darussalam, Cambodia, Indonesia, Laos PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam (**Territory**).
- "Sole" as it relates to the IP Licence, means that the licensor (in this case Cronos Group Inc), the licensor's affiliates (being any other person directly or indirectly controlling, controlled by, or under common control with the licensor), and the licensee are permitted to exploit the subject matter of the licence. This means that Cronos Group Inc, and/or its affiliates, are permitted to exploit the subject matter of the relevant licence (including the trademarks "CRONOS GROUP™" and "PEACE NATURALS™") in the Territory.
- Improvements to the Licensed Biological IP, Licensed Technology and Licensed Marketing IP will be owned by Cronos Group Inc.

- Cronos Group Inc has also agreed to:
 - > share certain know-how, including technical and proprietary information that is useful for the growing, cultivating and producing of cannabis and/or manufacturing cannabis extracts and tinctures as well as design drawings and technical data relating to the design and construction of a growing and production facility; and
 - > provide training and instruction for the use of the know-how, the Licensed Biological IP and the Licensed Technology.
- The licensee must pay a royalty fee of \$10,000 Canadian dollars per annum in respect of the Licensed Biological IP and the Licensed Technology, and another royalty fee of \$10,000 Canadian dollars per annum in respect of the Licensed Trademarks and Licensed Marketing IP.
- Cronos Group Inc has the right to reasonably update the royalty fees from time to time during the term.
- The IP Licence has an initial term of 10 years and will automatically extend for further one-year terms unless terminated by either party no later than one year before the end of the relevant term.
- Cronos Group Inc can terminate the IP Licence in the following circumstances:
 - > if Cronos Australia undergoes a change in control and a competitor of Cronos Group Inc or Cronos Australia is the acquirer (or one of the acquirers);
 - > Cronos Australia misuses the Licensed Biological IP, Licensed Technology, Licensed Trademarks or Licensed Marketing IP in a manner that Cronos Group Inc, acting reasonably, believes is prejudicial to its reputation or standing;
 - > if the licensee materially breaches any representation, warranty, condition or covenant in the IP Licence and does not or cannot adequately compensate Cronos Group Inc or otherwise remedy the breach in accordance with the terms of the IP Licence; or
 - > in certain insolvency, administration or liquidation scenarios or if the licensee ceases to carry on business in the ordinary course.
- Cronos Group Inc can terminate that part of the IP Licence relating to the Licensed Trademarks and the Licensed Marketing IP where Cronos Group Inc ceases to hold (directly or indirectly) at least 20% of the total voting shares in Cronos Australia.
- On termination of the IP Licence, the licensee will have 12 months to cease all uses of the Licensed Biological IP, Licensed Technology, Licensed Trademarks and Licensed Marketing IP and on termination of the Licensed Trademarks and the Licensed Marketing IP the licensee will have 180 days to cease all uses of the Licensed Trademarks and the Licensed Marketing IP. In both cases, termination means that Cronos Australia will cease using the trademark "CRONOS GROUP" and any trademarks that are similar to the "CRONOS GROUP" trademark, which will require Cronos Australia to change its company name.

9.5.2 Mile High Labs Sales Agreement

Mile High Labs (as supplier) and Cronos Australia – Operations Pty Ltd (as purchaser) have entered into the Mile High Labs Sales Agreement dated 29 July 2019 pursuant to which the supplier may supply products to the purchaser on the terms outlined therein. The products that may be sold under the Mile High Labs Sales Agreement include finished goods (tinctures, vape liquids and topicals) and bulk products (tinctures, vapes, distillates and isolates), each of different CBD strengths (each a **Product**, and collectively the **Products** for the purposes of this Section) which are sourced by Mile High Labs.

The term of the Mile High Labs Sales Agreement is 12 months, with an automatic rolling renewal period of 12 months if neither party advises the other of its intention not to renew the agreement.

In order to purchase a Product, the purchaser must submit a purchase order to the supplier specifying the type and quantity of Product required. The supplier must supply the Products to the purchaser at the prices outlined in the Mile High Labs Sales Agreement or as otherwise set by the supplier, who is entitled to review and adjust the prices on a quarterly basis.

The Products will be manufactured in accordance with all applicable laws and industry standards.

Either party may terminate the Mile High Labs Sales Agreement if an insolvency event occurs or is threatened in respect of the other, if there is an assignment by the other party for the benefit of creditors, if the other breaches a material provision of the agreement, or if a regulatory body issues an order that would prevent it or the other from fulfilling its obligations under the agreement.

09. ADDITIONAL INFORMATION cont.

Each party makes representations and warranties to the other that are standard for an agreement of this nature. The supplier warrants that the manufacture of the Products will be in accordance with the terms and conditions of this agreement and all applicable laws, regulations, guidelines or regulatory requirements.

Each party indemnifies the other against any losses incurred as a consequence of, amongst other things, a breach of the agreement or the gross negligence or wilful act or omission, on the part of the indemnifier.

The agreement contains standard provisions regarding ownership of intellectual property, confidentiality obligations and dispute resolution mechanisms. The agreement is governed by the laws of Victoria, Australia.

9.5.3 MediPharm Supply Agreement

MediPharm Labs Australia (as supplier) and Cronos Australia – Operations Pty Ltd (as purchaser) have entered into the MediPharm Supply Agreement dated 1 August 2019 pursuant to which the supplier may supply products for the purchaser on the terms outlined therein. The products the subject of the MediPharm Supply Agreement include cannabis resin, tinctures, distillate and capsules, each of different strengths (each a **Good**, and collectively the **Goods** for the purposes of this Section) which are manufactured by MediPharm Labs Australia or its affiliates.

The MediPharm Supply Agreement is conditional on both parties receiving all requisite licences and certifications to perform their respective obligations under the MediPharm Supply Agreement. The supplier has a current manufacture licence but does not have TGA-issued GMP certification, although Cronos Australia understands that it has submitted an application for such a licence.

The term of the MediPharm Supply Agreement is 12 months from 1 August 2019, with two automatic renewal periods of 12 months each. The MediPharm Supply Agreement will automatically renew for a renewal period if neither party advises the other, at least 60 days prior to the relevant renewal period commencing, of its intention not to renew the agreement.

In order to purchase a Good, the purchaser must submit a purchase order to the supplier specifying the type and quantity of Goods required. The supplier must supply the Goods to the purchaser at the prices outlined in the Supply Agreement or as otherwise set by the supplier, who is entitled to revise the prices on 1 July each year.

The Goods will be manufactured in accordance with minimum applicable requirements at law.

Either party may terminate the MediPharm Supply Agreement if an insolvency event occurs or is threatened in respect of the other, if there is an assignment by the other party for the benefit of creditors, if the other breaches a material provision of the agreement, or if a regulatory body issues an order that would prevent it or the other from fulfilling its obligations under the agreement.

Each party makes representations and warranties to the other that are standard for an agreement of this nature, noting that each represents that it owns, or possesses, all required licences, permits and authorities to engage in the activities contemplated by the agreement.

Each party indemnifies the other (and their offices, directors and employees) against any losses incurred as a consequence of, amongst other things, a breach of the agreement, negligence, misconduct or dishonesty, on the part of the indemnifier.

The agreement contains standard provisions regarding ownership of intellectual property, confidentiality obligations and dispute resolution mechanisms. The agreement is governed by the laws of Victoria, Australia.

9.5.4 MediPharm Manufacture Agreement

MediPharm Labs Australia (as manufacturer) and Cronos Australia – Operations Pty Ltd (as supplier) have entered into the MediPharm Manufacture Agreement dated 1 August 2019 pursuant to which the manufacturer may manufacture products for the supplier on the terms outlined therein. The products the subject of the MediPharm Manufacture Agreement include jars of cannabis resin and distillate, formulation and filled tincture bottles of varying total capacity, and capsules (each a **Product**, and collectively the **Products** for the purposes of this Section).

The agreement is conditional on both parties receiving all requisite licences and certifications to perform their respective obligations under the MediPharm Manufacture Agreement. The manufacturer has a current manufacture licence but does not have TGA-issued GMP certification, although Cronos Australia understands that it has submitted an application for such a certification.

The term of the Manufacture Agreement is 12 months (**Term**) from 1 August 2019, with two automatic renewal periods of 12 months each. The Manufacture Agreement will automatically renew for a renewal period if neither party advises the other, at least 60 days prior to the relevant renewal period commencing, of its intention not to renew the agreement.

Prior to the commencement of each calendar quarter during the Term, the supplier will give the manufacturer a rolling forecast of the estimated amounts of material (i.e. cannabis flower and trim) that is available for distribution in Australia (**Forecast Form**) for that quarter and the price set in respect of the material.

On receipt of a Forecast Form, the manufacturer may issue a purchase order (**Purchase Order**) to the supplier which constitutes a formal offer to acquire the material at the price determined by the supplier. If the Purchase Order is accepted by the supplier, the supplier will sell the material to the manufacturer, and will ensure delivery of the material to the manufacturer in accordance with relevant laws. The supplier has no obligation to accept any Purchase Order that it receives from the manufacturer.

The agreement sets out the responsibilities of the parties in relation to the transfer and storage of material (and Products), and the passage of title relating thereto.

The manufacturer will manufacture the Products using the material supplied by the supplier. The manufacturer may, on request by the supplier, source and deliver all primary packaging required by the supplier in respect of the Products for an additional cost. The supplier will set prices for the supply of the material and the manufacturer will set prices for the supply of the Products. The manufacturer will arrange delivery of the Products to the supplier within five business days of payment of the manufacturer's invoice. Any products manufactured by the manufacturer that are not purchased by the supplier may be sold to third parties, with net revenue from those sales split 75% to the manufacturer and 25% to the supplier.

In accordance with the requirements of the MediPharm Manufacture Agreement, the parties have also entered into a quality assurance agreement related to the sale of the material and the Products.

Either party may terminate the MediPharm Manufacture Agreement if an insolvency event occurs or is threatened in respect of the other, if there is an assignment by the other party for the benefit of creditors, if the other breaches a material provision of the agreement, or if a regulatory body issues an order that would prevent it or the other from fulfilling its obligations under the agreement.

Each party makes representations and warranties to the other that are standard for an agreement of this nature, noting that each represents that it owns, or possesses, all required licences, permits and authorities to engage in the activities contemplated by the agreement.

Each party indemnifies the other (and their offices, directors and employees) against any losses incurred as a consequence of, amongst other things, a breach of the agreement, negligence, misconduct or dishonesty, on the part of the indemnifier.

The agreement contains standard provisions regarding ownership of intellectual property, confidentiality obligations and dispute resolution mechanisms. The agreement is governed by the laws of Victoria, Australia.

9.5.5 PEACE NATURALS Supply Agreement

Peace Naturals Project, which is an indirect wholly-owned subsidiary of Cronos Group Inc (as supplier), and Cronos Australia – Operations Pty Ltd (as purchaser) have entered into the PEACE NATURALS Supply Agreement dated 2 August 2019 pursuant to which the supplier may supply goods for the purchaser on the terms outlined therein. The goods the subject of the PEACE NATURALS Supply Agreement include a range of dried cannabis flower products, and a range of cannabis oils (each a **Good**, and collectively the **Goods** for the purposes of this Section).

Unless terminated earlier, the term of the PN Supply Agreement is aligned with the term of the IP Licence.

In order to purchase a Good, the purchaser must submit a purchase order to the supplier specifying the type and quantity of Goods required (noting that the supplier has the right, at its discretion, to reject a purchase order). If the supplier accepts a purchase order, the supplier will supply the Goods to the purchaser at the prices determined by the supplier (acting in good faith and having consideration to the position of the purchaser on the matter).

Either party may terminate the PEACE NATURALS Supply Agreement if the IP Licence is terminated, if the other breaches a material provision of the agreement, or if a regulatory body issues an order that would prevent it or the other from fulfilling its obligations under the agreement.

09. ADDITIONAL INFORMATION cont.

Each party makes representations and warranties to the other that are standard for an agreement of this nature, noting that each represents that it owns, or possesses, all required licences, permits and authorities to engage in the activities contemplated by the agreement.

Each party indemnifies the other (and their offices, directors and employees) against any losses incurred as a consequence of, amongst other things, a breach of the agreement, negligence, misconduct or dishonesty, on the part of the indemnifier.

The agreement provides that the parties will at a future date agree protocols relating to product recalls and quality assurance.

The agreement contains standard provisions regarding ownership of intellectual property, confidentiality obligations and dispute resolution mechanisms. The agreement is governed by and interpreted and enforced in accordance with the laws of the Province of Ontario and the laws of Canada applicable therein.

9.5.6 Referral MOU

Cronos Group Inc has, via Peace Naturals Project entered into exclusive distribution agreements with Pohl-Boskamp in Germany and Delfarma in Poland. Under those agreements, Pohl-Boskamp and Delfarma have been appointed as the exclusive distributors of PEACE NATURALS™ branded products in Germany and Poland respectively.

Cronos Australia – Operations Pty Ltd and Cronos Group Inc entered into a memorandum of understanding dated 1 April 2019 (**Referral MOU**).

Under the terms of the Referral MOU, Cronos Group Inc has agreed that in the event demand for PEACE NATURALS™ products from Pohl-Boskamp or Delfarma exceeds allocated supply, Cronos Group Inc may refer supply opportunities to Cronos Australia – Operations Pty Ltd or another affiliate, who may have the opportunity to supply PEACE NATURALS™ branded products to Pohl-Boskamp or Delfarma as applicable if Pohl-Boskamp or Delfarma agree to such distribution relationships and upon entering into distribution agreements on terms acceptable to Pohl-Boskamp or Delfarma (and subject to meeting local regulatory requirements and Pohl-Boskamp's/Delfarma's product requirements, including as to quality, and subject to obtaining relevant regulatory approvals such as export licences/permits). The Referral MOU will apply while Cronos Australia remains an affiliate of Cronos Group Inc.

Cronos Australia believes these arrangements could lead to valuable distribution opportunities, although there are no guarantees that any supply opportunities will be referred to Cronos Australia, that Cronos Australia will be able to fulfil any requests or that distributors in Germany or Poland will enter into direct distribution relationships with Cronos Australia.

9.5.7 Loan Agreement – Cronos Group Inc

Cronos Australia – Operations Pty Ltd (as borrower) and Cronos Group Inc (as lender) are parties to a Loan Agreement dated 25 September 2018, which was amended on 6 March 2019 and 9 August 2019. Pursuant to this agreement, Cronos Group Inc agreed to make available a facility of up to \$1.5 million to be applied towards the costs associated with the Offer and the proposed listing of Cronos Australia on the ASX.

Under this agreement, Cronos Australia – Operations Pty Ltd must pay interest at a rate of 12% per annum on each advance. The loan (plus all accrued interest) is prepayable at the option of the borrower, but is otherwise due for repayment on the repayment date which is 1 January 2022.

The agreement permits the lender to cancel the facility and/or require immediate repayment of the loan (plus all accrued interest) if an "Event of Default" occurs. "Event of Default" is defined by reference to certain insolvency, administration or liquidation scenarios.

There is a risk that the lender will require the loan to be repaid in circumstances where the borrower does not have sufficient funds to satisfy its repayment obligations.

Cronos Australia – Operations Pty Ltd has drawn down the full amount of the facility as at 30 June 2019.

9.5.8 DHL Agreements

Cronos Australia – Operations Pty Ltd has a trading account in place with DHL Global Forwarding to handle international freight and customs clearance services on behalf of Cronos Australia. This account is subject to DHL Global Forwarding's standard trading conditions. Cronos Australia – Operations Pty Ltd has also appointed DHL Global Forwarding to be its customs broker in Australia.

Cronos Australia – Operations Pty Ltd has entered into a services agreement with DHL Supply Chain for transportation, logistics and warehousing services. This agreement is subject to DHL Supply Chain's standard warehouse and distribution trading conditions. The term of the agreement is two years, commencing from 7 January 2019, however DHL Supply Chain may terminate the agreement at any time. Cronos Australia – Operations Pty Ltd may terminate the agreement on the provision of six months' written notice to DHL Supply Chain.

These arrangements are required to provide logistical support to enable Cronos Australia to import finished PEACE NATURALS™ products and Mile High Labs products into Australia for distribution (in addition to the import and export licences and permits referred to in Section 3.3 and supply terms being agreed with Cronos Group Inc).

9.5.9 Sigma MOU

Cronos Australia – Operations Pty Ltd and Sigma entered into a memorandum of understanding dated 18 June 2019 (**Sigma MOU**). The Sigma MOU records the intention of the parties to enter into a distribution agreement with respect to the distribution of Cronos Australia products (which may include PEACE NATURALS™ branded products) by Sigma, including the provision of 3PL/4PL services, wholesaling services and preferred supplier arrangements for Sigma's retail brands, on terms and conditions mutually acceptable to the parties, acting in good faith. The distribution agreement will cover terms and conditions with respect to, amongst other things: scope of exclusivity, minimum volume levels, purchase orders and forecasts, payment, transportation, product specifications, quality assurance, and warranties. The parties to the Sigma MOU have no obligation to enter into a distribution agreement.

9.5.10 Agreement for Lease

Cronos Australia – Operations Pty Ltd (**Tenant**) has entered into the Agreement for Lease over a long-term ground lease of a site near Daylesford in Victoria (**Land**) with Glenbrook Pastoral Pty Ltd (**Landlord**) on which Cronos Australia could, if it so elected, construct the Facility.

The grant of the lease is conditional on the Tenant providing written notice (**Commencement Notice**) to the Landlord, prior to 30 June 2022, that it wishes for the ground lease to commence 11 business days after the provision of the notice. If the Tenant has not issued a Commencement Notice by 30 June 2022 then either the Tenant or the Landlord may terminate the Agreement for Lease.

The Tenant has been granted a licence to access the Land, prior to the lease commencing, to undertake minor early works required to prepare the site for construction of the Facility. The Tenant must pay a licence fee of 20% of the commencing rent payable under the lease up until the time that the lease term commences.

A lease of the site will be granted once a Commencement Notice has been issued by the Tenant. The Tenant must not commence any works associated with the construction of the Facility (with the exception of the minor early works) unless it has issued a Commencement Notice to the Landlord and it has obtained the required development and planning approvals and provided a copy of the same to the Landlord.

Once the lease has commenced, the Tenant will be required to carry out the works to construct the Facility as soon as reasonably practicable. The Tenant is entitled to make changes to the plans for the Facility during the course of construction without objection by the Landlord. The Facility remains the property of the Tenant at all times during the lease. On expiration or sooner termination of the lease, the Tenant may (at its election) make good the site by removing all improvements and cleaning the site, or may pay the Landlord a make good sum (sum to be agreed by the parties) in lieu of complying with the make good provisions of the lease.

Key commercial terms of the lease and agreement for lease are as follows:

- One term of 10 years, and eight options of 5 years each (a total of 50 years).
- A commencing rental of \$115,000 plus GST per annum (payable on and from the commencement date), increased annually by the greater of 2.9% or CPI, with a market review on exercise of each option (if applicable).
- An obligation to pay 100% of outgoings attributable to the Land, in addition to the rent.

09. ADDITIONAL INFORMATION cont.

- Where the Facility is damaged or destroyed during the term of the lease:
 - > where the Facility is partially damaged or destroyed, the Tenant must reinstate; or
 - > where the Facility is totally damaged or destroyed, the Tenant may elect to either reinstate the Facility or the Tenant may instead elect to demolish the Facility, in which case it must make good the Land, surrender the lease, and pay to the Landlord the lesser of the balance of rent and outgoings for the remainder of the term or 24 months' rent and outgoings.

The Tenant will not be entitled to surrender the lease where the damage or destruction is caused or contributed to by the Tenant.

- Where, through no fault of the Tenant, the permitted use becomes unlawful or is prevented by any act or omission of a government authority, or by a change in legislation or regulation, and the Tenant wishes to surrender the lease, the Tenant must promptly deliver to the Landlord a surrender of lease and pay to the Landlord a surrender sum of 24 months' rent.

The Agreement for Lease is a related party arrangement as the Landlord is an entity controlled by a party related to one of the Directors (Peter Righetti) and is therefore a related party transaction for the purpose of Chapter 2E of the Corporations Act.

The Board is satisfied that the Agreement for Lease is on arm's length terms. As such, member approval has not been sought or obtained.

Please see Section 6.1.25 for an overview of the risks associated with the Agreement for Lease and Section 7.5.4 for an overview of Cronos Australia's processes in relation to related party transactions.

9.5.11 Underwriting Agreement

The Offer has been underwritten by the Lead Manager pursuant to an underwriting agreement between Cronos Australia and the Lead Manager dated 4 October 2019 (**Underwriting Agreement**). Under the Underwriting Agreement, the Lead Manager has agreed to arrange and manage, and act as the underwriter for, the Offer.

Commissions, fees and expenses

Subject to the terms of the Underwriting Agreement, Cronos Australia has agreed to pay the Lead Manager a management and underwriting fee equal to 6.0% of the gross Offer proceeds (**Gross Proceeds**).

In addition to the fees described above, Cronos Australia has agreed to pay or reimburse the Lead Manager for the reasonable costs and expenses incurred by the Lead Manager in respect of the Underwriting Agreement and Offer.

Termination Events

The Lead Manager may at any time terminate the Underwriting Agreement, without cost or liability to itself, by notice to Cronos Australia if any of the following events occurs before 5:00pm on the date of completion of the Offer:

- (**failure to lodge a Prospectus**) Cronos Australia fails to lodge this Prospectus with ASIC in a form approved by the Lead Manager;
- (**disclosures in Offer documents**) a statement contained in this Prospectus is misleading or deceptive (including by omission) or is likely to mislead or deceive, or becomes misleading or deceptive, or a material matter is omitted from this Prospectus which cannot be remedied by the issue of a supplementary prospectus;
- (**Supplementary or replacement prospectus**) The Lead Manager reasonably forms the view that a supplementary prospectus must be lodged and Cronos Australia fails to lodge a supplementary or replacement prospectus in the form and, with the content, and within the time, reasonably required by the Lead Manager;
- (**market fall**) the S&P/ASX 200 Index falls to a level that is 90% or less of the level of that index as at the close of trading on the business day immediately preceding the date of the Underwriting Agreement and remains below that level at the closing of trading on ASX for 2 consecutive business days or at the close of trading on ASX on the business day immediately prior to the date for settlement of the Offer;
- (**repayment of Application Monies**) Any circumstance arises after lodgement of the Prospectus that results in, or will result in, Cronos Australia having to repay the application monies received from Applicants or offering Applicants an opportunity to withdraw their Applications and be repaid their Application Monies;

- **(listing and quotation)** Cronos Australia is not granted approval, is granted approval other than subject to customary conditions, or if granted, the approval is subsequently withdrawn or qualified by other than customary conditions, to be admitted to the official list, or for the quotation of the Shares on ASX on or before 4 November 2019;
- **(regulatory action)** ASIC issues a stop order or commences an investigation or gives notice of intention to hold a hearing in relation to the Offer or the Prospectus, or a person applies for a court order (except where the application does not become public and is dismissed or withdrawn at least 1 business day before the date for settlement of the offer), in relation to the Offer;
- **(ASX approvals)** ASX withdraws, revokes or amends the waivers it has granted to Cronos Australia;
- **(withdrawal)** Cronos Australia withdraws this Prospectus, any supplementary or replacement prospectus or the Offer;
- **(unable to issue Offer Shares)** Cronos Australia is or becomes unable, for any reason, to issue the New Shares on the allotment date;
- **(notice regarding deficiencies in the prospectus)** a director, proposed director named in the Prospectus (with their consent) or a person named in the Prospectus (with their consent as having made a statement) gives notice during the application period that they have become aware that, a material statement in the Prospectus is misleading or deceptive, there is material omission from the Prospectus or that a material new circumstance has arisen since the date of the Prospectus which requires disclosure;
- **(insolvency)** an insolvency event occurs with respect to Cronos Australia or any other material member of the Cronos Australia Group;
- **(Certificate not provided)** Cronos Australia does not provide a certificate setting out, among other things, that Cronos Australia has complied with its obligations under the Underwriting Agreement and statute or otherwise and the representations and warranties remain true and correct (**Certificate**), as and when required by the Underwriting Agreement;
- **(Certificate incorrect)** A statement in any Certificate is false, misleading, inaccurate or untrue or incorrect; or
- **(change in management)** there is a change in Cronos Australia's CEO, CFO or board of directors.

The Lead Manager is also entitled to terminate on the occurrence of certain standard events if the Lead Manager has reasonable grounds to believe that the event has or is likely to have a materially adverse effect on the marketing, success, outcome or settlement of the Offer, the willingness of the investors to subscribe for the Offer or the subsequent market for the Offer; or the condition, trading or financial position, performance, profits and losses, results, business or operations of Cronos Australia disclosed in the Prospectus or certain other documents relating to the Offer; or will, or is likely to, give rise to a liability of the Lead Manager under, or a contravention by the Lead Manager of, any applicable law. Such events include (amongst others):

- the occurrence of adverse changes in the Group's business or financial position or performance from that disclosed in this Prospectus;
- any material contracts, including those contracts disclosed in Section 9.5 of this Prospectus or the escrow agreements being terminated, breached or varied without the Lead Manager's consent or the material contracts become void, voidable, illegal or unenforceable;
- any event set out in the timetable in this Prospectus is delayed for more than five business days, unless the Lead Manager consents to a variation (that consent not to be unreasonably withheld or delayed);
- trading on the ASX, the Hong Kong Stock Exchange, the London Stock Exchange or the New York Stock Exchange being suspended for at least one day on which it is open for trading; and
- directors or senior executives of Cronos Australia being charged with indictable offences, or Cronos Australia or its directors or officers engaging in fraudulent conduct.

In the event the Lead Manager terminates its obligations under the Underwriting Agreement, the Lead Manager will be immediately relieved of its obligations under the Underwriting Agreement, but the termination of its obligations under the Underwriting Agreement will not limit or prevent the exercise of any other rights or remedies which any of the parties may otherwise have under the Underwriting Agreement.

09. ADDITIONAL INFORMATION cont.

Conditions, warranties, undertaking and other terms

The Underwriting Agreement contains certain standard representations, warranties and undertakings by Cronos Australia to the Lead Manager as well as common conditions precedent, such as the receipt by the Lead Manager of the final, signed due diligence committee report and the ASX indicating that it will grant permission for quotation of Shares on the ASX. The obligation of the Lead Manager under the Underwriting Agreement is also subject to the Transaction Documents remaining on foot and not having been terminated, breached or materially amended.

The representations and warranties given by Cronos Australia relate to matters such as conduct of the Group, power and authorisations, information provided by Cronos Australia, information in this Prospectus and compliance with laws and the ASX Listing Rules. Cronos Australia also provides additional representations and warranties in connection with the business and affairs of the Group, including in relation to historical financial performance, litigation, assets, compliance with laws and authorisations, and eligibility for listing.

Cronos Australia's undertakings include that it will not, until 180 days after the completion of the Offer, issue (or agree to issue) or indicate in any way that it may or will issue any Shares or securities without the prior written consent of the Lead Manager. This undertaking is subject to certain exceptions, such as any issue made pursuant to the Offer, an employee share plan or a non-underwritten dividend reinvestment or bonus share plan.

Indemnity

Subject to certain exclusions relating to, among other things, fraud, wilful misconduct or gross negligence of any indemnified party, Cronos Australia agrees to keep the Lead Manager and its representatives indemnified from losses suffered by them in connection with the Offer and the Underwriting Agreement.

9.5.12 Contractual Arrangements – Agriculture Victoria

AVS Memorandum of Understanding (MOU)

Cronos Australia – Operations Pty Ltd entered into a memorandum of understanding dated 6 July 2018 with the State of Victoria, Department of Economic Development Jobs, Transport and Resources (**DEDJTR**) through its Agriculture Victoria Research (**AVR**) division, and AVS (**AVS MOU**).

AVS is the commercial and IP management arm of AVR that specialises in supporting the objectives of DEDJTR where the capability and research of AVR is delivered via private sector collaboration.

The AVS MOU relates to co-operative activities that the parties intend to undertake in relation to medicinal cannabis cultivation, product extraction, cannabis strain identification techniques, breeding techniques and variations of different cannabis strains.

The co-operation between the parties may take the form of:

- undertaking research projects;
- contract or sub-contract arrangements;
- evaluation, development, deregulation and/or commercialisation of intellectual property, technologies or products;
- joint business activities, including joint venture and licensing arrangements;
- formal information or scientific staff exchange;
- sharing physical resources; and
- the provision of strain identification services.

The AVS MOU may lead to separate project agreements being entered into for agreed research projects that the parties wish to undertake.

The AVS MOU will remain in place unless terminated by either party by providing 30 days' written notice to the other parties. The parties acknowledge in the memorandum of understanding that the term is envisaged to be initially three years.

In accordance with the terms of the AVS MOU, Cronos Australia – Operations Pty Ltd is now progressing towards reaching agreement on the terms of sponsored and collaborative research agreements with AVS.

Technical Services Agreement

Cronos Australia – Operations Pty Ltd and AVS as agent of DEDJTR, have entered into a technical services agreement dated 1 July 2018 (**TSA**).

The TSA outlines the terms on which AVS will deliver services to Cronos Australia – Operations Pty Ltd, including services in relation to the importation of strains from Cronos Group Inc; the provision of biomass processing of such strains; the provision of strain cuttings from such strains; and related know-how.

The TSA has an initial term of two years, which term may be extended by Cronos Australia – Operations Pty Ltd by two further periods of one year each, provided Cronos Australia – Operations Pty Ltd has complied with the TSA.

Either party may terminate the TSA by giving 6 months' written notice to the other party, in which case AVS is entitled to cease providing the technical services and must deliver up all deliverables developed up to termination. The TSA may also be terminated in the event of a material breach (subject to a remedy period).

Under the Technical Services Agreement, AVS, through AVR has agreed to provide:

- agreed strain importation services in return for a fee of \$38,000 (excluding GST), with agreed hourly rates to apply for additional services;
- agreed strain technical services in return for a fee of \$86,000 (excluding GST), with agreed hourly rates to apply for additional services. The technical services to be provided by AVS will relate to biomass processing and cuttings provision from cannabis strains provided by Cronos Group Inc and include grinding and extraction services, the generation, establishment and maintenance of strains, the propagation and maintenance of cuttings and mother plants, and related training services; and
- additional strain services at the request of Cronos Australia – Operations Pty Ltd in return for agreed fees. These additional services may facilitate the provision of AVS medicinal cannabis strains to Cronos Australia under a separate licence agreement.

The TSA details terms relating to intellectual property ownership, confidentiality and risk management.

Material Transfer and Confidentiality Agreement

Cronos Australia – Operations Pty Ltd, the State of Victoria represented by the Department of Economic Development, Jobs Transport and Resources through its AVR division, AVS and Peace Naturals Project Inc (a wholly-owned subsidiary of Cronos Group Inc) have entered into a material transfer and confidentiality agreement dated 14 September 2018 (**MT&CA**).

The MT&CA facilitates the transfer of certain material (such as seed, germplasm, mother plants or clones) and intellectual property, in accordance with the terms of the Technical Services Agreement described above, for the following purposes:

- analysis, propagation and evaluation relating to the growing of medicinal cannabis;
- the preparation and submission of an ODC permit application for the import of seeds and tissue cultures;
- producing clonally propagated material;
- determining genetic variation in the plant material; and
- production of plant material propagated from seeds, but expressly excluding use of the material to develop plant material with altered genetic profiles.

The MT&CA has a term of 10 years unless terminated earlier by any party with 90 days' notice. Termination will only apply to future uses or transfers of material. The MT&CA also includes terms relating to intellectual property ownership and confidentiality.

09. ADDITIONAL INFORMATION cont.

9.5.13 Convertible Loan Agreements – Pre-IPO Investors

Cronos Australia (as borrower) has entered into the Convertible Loan Agreements with the Pre-IPO Investors (each as a lender), with varying dates but which are otherwise on identical terms. Pursuant to these agreements, the lenders made available, after 30 June 2019, loans with an aggregate loan amount of \$3,500,000, in two separate tranches of \$3,000,000 and \$500,000, respectively, to be applied towards general working capital purposes, asset acquisitions and costs associated with the Offer (**Approved Purpose**).

Each lender agreed to make their loan amount available to the borrower in one drawing and the borrower agreed to only use the loan amount for the Approved Purpose. The Convertible Loan Agreements provide that the loans are unsecured and that interest does not accrue.

Under the agreements, the loans will automatically convert to Shares on the issuing of Shares under the Offer (**Conversion**). The number of Shares issued to each lender on Conversion will be determined by dividing the amount of their respective loan divided by 80% of the Offer Price per Share. The number of Shares will be rounded up to the nearest whole number in the event of a fractional entitlement.

If the Offer does not proceed by the first anniversary of the agreement (**Repayment Date**), each lender will (in addition to being repaid the loan) be entitled to a fee equal to 20% of the loan amount (**Fee**) on the Repayment Date. The borrower may repay the loans, together with the Fee, prior to the Repayment Date.

The agreement permits the lender to cancel the facility and/or require immediate repayment of the loan (plus the Fee) if an “Event of Default” occurs. “Event of Default” is defined by reference to certain insolvency, administration or liquidation scenarios.

Cronos Australia has drawn down the full amount of each loan.

9.5.14 Consultancy Agreement

Cronos Australia has entered into a consultancy agreement with Delphic Ltd dated 1 August 2019 (**Delphic**) pursuant to which it will procure that Nicholas Mulcahy (a director of Delphic) provides services to Cronos Australia. The services to be provided include, among other things:

- market analysis of the CBD product market in the Asia-Pacific region to identify opportunities for new entrants;
- mapping the strategic space for a new Australian-based CBD product business in Asia which would combine the positive brand image of Australia with the benefits of CBD Products; and
- such other related activity as Cronos Australia reasonably requests.

The term of the agreement is 12 months, and Delphic is expected to dedicate such number of days a week during the course of the term to the provision of the services as agreed between Delphic and Cronos Australia. Either party can terminate the agreement for any reason at any time by providing the other with 30 days' written notice.

In consideration for undertaking the services, Delphic will be entitled to be paid USD\$1,500 per day worked by Delphic. Delphic assigns to Cronos Australia all intellectual property rights in the deliverables associated with the services.

9.6 BROKER OPTIONS

The Lead Manager will be issued options to subscribe for Shares on the following terms (**Broker Options**) prior to Cronos Australia's proposed ASX listing.

Number of Broker Options:	The Lead Manager will be issued 2,000,000 Broker Options.
Exercise Price:	The Exercise Price for each Broker Option is \$0.65.
Terms of the securities:	<p>Each Broker Option is exercisable at any time during the period from the date of its issue until 5:00pm (Melbourne time) on 31 December 2021 (Exercise Period). Each Broker Option will automatically lapse if it is not exercised by the end of the Exercise Period.</p> <p>Upon payment of the Exercise Price, each Broker Option entitles the registered owner of a Broker Option (Option Holder) to subscribe for one fully paid Share.</p> <p>The Broker Options will not be listed on the ASX.</p>
Manner of exercise of Broker Options:	<p>A Broker Option may be exercised by the Option Holder by completing the prescribed form of the notice (Notice of Exercise of Options) and forwarding the same to Cronos Australia's registered office to be received during the Exercise Period. The minimum number of Broker Options that may be exercised at any one time is the lesser of 100,000 or the total number of Broker Options held by the holder.</p> <p>The Notice of Exercise of Options by the Option Holder must be accompanied by payment in full for the relevant number of Shares being subscribed. An exercise of a Broker Option is only effective when Cronos Australia has received the full amount of the Exercise Price in cleared funds.</p>
Ranking of Shares:	Shares issued on the exercise of Broker Options will rank equally with all existing Shares on and from the date of issue in respect of all entitlement offers, bonus share issues and dividends which have a record date for determining entitlements on or after the date of issue of those Shares.
Voting:	The Option Holder is not entitled to attend or vote at any meeting of the members of Cronos Australia unless it is, in addition to being an option holder, a Shareholder.
Timing and issue of Shares:	After a Broker Option is validly exercised, Cronos Australia must within 10 business days issue and allot the Share, and, subject to admission to the official list of the ASX, apply for official quotation of the Share issued upon exercise of the Broker Option.
Transferability:	<p>Subject to the restriction below and any restriction or escrow arrangements imposed by ASX or under applicable Australian securities laws, with consent from Cronos Australia, the Broker Options may be transferred (including to members of the Lead Manager's staff, or members of the Lead Manager group of companies) and may be exercised by any other person or body corporate.</p> <p>Cronos Australia's consent must not be unreasonably withheld except where the proposed transfer is to a person or body corporate that is, or may be in the future, a competitor of Cronos Australia or a competitor of any member of the Cronos Australia group of companies.</p>

09. ADDITIONAL INFORMATION cont.

Participation in new issues:	<p>The Option Holder may participate in new issues of securities to holders of Shares only if and to the extent that:</p> <p>(a) a Broker Option has been exercised; and</p> <p>(b) a Share has been issued in respect of the exercise before the record date for determining entitlements to the new issue.</p>
Adjustment for bonus issues of Shares:	<p>If Cronos Australia makes a bonus issues of Shares or other securities to existing Shareholders (other than an issue in lieu or in satisfaction of dividends or by way of dividend reinvestment):</p> <p>(a) the number of Shares which must be issued on exercise of the Broker Options will be increased by the number of Shares which the Option Holder would have received if the Option Holder had exercised the Broker Option before the record date for the bonus issue; and</p> <p>(b) no change will be made to the Exercise Price.</p>
Adjustment for pro rata issues of Shares (except bonus issues):	<p>If Cronos Australia makes a pro rata issue of Shares, the Exercise Price of a Broker Option may be reduced according the formula set out in ASX Listing Rule 6.22.2.</p>
Reconstructions:	<p>If at any time the issued capital of Cronos Australia is reorganised or reconstructed, all rights of a holder of a Broker Option are to be changed in a manner consistent with the Corporations Act and the ASX Listing Rules at the time of the reorganisation or reconstruction.</p>

Cronos Australia understands that the Broker Options and any Shares issued on exercise of the Broker Options will be subject to ASX imposed mandatory escrow for a period of 24 months from the date of quotation of Shares on ASX in connection with the Offer.

9.7 EQUITY INCENTIVE PLAN

Cronos Australia has adopted an employee incentive plan known as the Cronos Australia Limited Equity Incentive Plan (EIP), pursuant to which the Board has a discretion to offer Shares and/or rights to acquire Shares (**EIP Rights**) and/or options to acquire Shares (**EIP Options**) (each an **Award**) to employees or Directors (including directors of any Cronos Australia Group entity), or any other person so designated by the Board.

The terms of issue of the Awards are as follows:

Invitation to participate:	<p>The Board may, from time to time, in its absolute discretion, operate the EIP and invite eligible participants to participate in the EIP. The Board may determine the type and number of Awards to be issued under the EIP and other terms of issue of the Awards.</p>
Terms of participation:	<p>Participants are deemed to have agreed to be bound by: (a) the rules of the EIP; (b) the terms of the invitation letter received from Cronos Australia; and (c) the Trading Policy and any other relevant Cronos Australia and/or Cronos Australia Group policies.</p>
Title to Awards:	<p>A grant of Awards is personal to the participant and cannot be transferred to other persons or entities.</p>
Restricted Shares:	<p>Shares allocated under the EIP may be subject to a disposal restriction which prevents dealings with Shares before or after vesting.</p>

Participant Shareholder entitlements:	<p>For each Award allocated, a participant shall not be entitled to vote, receive dividends or distributions, or have any other rights of a Shareholder in respect of the Award until the underlying Shares are allocated to the participant following vesting and, if applicable, exercise.</p> <p>For each Share allocated, a participant shall be entitled to vote, receive dividends or distributions, and have any other rights of an ordinary Shareholder in respect of the Shares.</p>
Lapse of Awards:	<p>Unvested Awards will lapse in whole or in part upon the earliest of:</p> <p>(a) the date specified in the invitation letter, or if no date is specified, 10 years after the Award was granted to the participant;</p> <p>(b) a circumstance or event described in the EIP rules or the invitation letter that has the effect of lapsing an Award; or</p> <p>(c) any condition imposed under the EIP rules or an invitation letter not being satisfied.</p>
Transferability:	An Award is only transferable with the written consent of the Board.
Vesting of Awards:	The Board will determine the extent to which Awards vest and the date that the Awards will vest.
Bonus issues:	<p>If there is a pro rata issue or bonus issue of new Shares to Shareholders:</p> <p>(a) each participant who has been allocated Shares will participate in the issue in the same manner as Shareholders; and</p> <p>(b) each participant who has been allocated EIP Rights or EIP Options may not participate in the new issue unless his or her EIP Rights or EIP Options have vested and, if applicable, been exercised in accordance with the EIP's rules.</p>
Change of control:	Upon a change of control of Cronos Australia, all Awards which are unvested at that time shall automatically vest.
Ceasing employment:	If a participant ceases to be an employee prior to the Awards vesting by reason of resignation or termination for cause (including gross misconduct), those Awards will lapse immediately.
Vested Awards:	A participant who ceases to be an employee must exercise any vested Awards that require manual exercise by the earlier of 60 days of ceasing to be an employee, or the date the Award lapses. Awards not exercised within the period specified in this rule will lapse.

As at the date of this Prospectus, no Awards have been issued by Cronos Australia pursuant to the EIP.

Cronos Australia intends to grant the following Awards immediately after completion of the Offer, the details of which are set out below:

Thomas Howitt, Chief Financial Officer	86,300 Class A EIP Options 181,200 Class B EIP Options 297,500 Class C EIP Options
Lior Harel, General Counsel and Company Secretary	70,500 Class A EIP Options 147,900 Class B EIP Options 243,000 Class C EIP Options

09. ADDITIONAL INFORMATION cont.

Each EIP Option, if vested, will entitle the holder to acquire one Share for consideration equal to the amounts set out below (**Exercise Price**) in respect of each class of EIP Option. The EIP Options will be granted subject to the following vesting conditions:

- Class A EIP Options shall have an Exercise Price of \$0.50 each, being equal to the Offer Price. All Class A EIP Options shall vest 12 months after the date of grant;
- Class B EIP Options shall have an Exercise Price of \$0.67 each, being a premium of 34% to the Offer Price. All Class B EIP Options shall vest 24 months after the date of grant; and
- Class C EIP Options shall have an Exercise Price of \$0.83 each, being a premium of 66% to the Offer Price. All Class C EIP Options shall vest 36 months after the date of grant.

The exercise of all EIP Options shall be subject to the continued employment of the holder at the time that the respective EIP Options vest.

All EIP Options will expire on the fourth anniversary of the date of grant.

The EIP Options will be issued for nil consideration.

■ 9.8 DEFERRED SHORT TERM INCENTIVE PLAN

In addition to the EIP described above, Cronos Australia has put in place a Deferred Short Term Incentive Plan (**DSTI**). The purpose of the DSTI is to reward performance and to further align the interests of executives with the interests of Shareholders through further equity exposure in Cronos Australia.

For Thomas Howitt and Lior Harel, up to 20% of their salaries can be awarded as a DSTI based on an individual balanced scorecard of financial and non-financial metrics. A minimum of 20% of any DSTI award must be taken as equity securities and the balance in cash, however participants may take up to 100% of the DSTI award as equity securities.

■ 9.9 INCENTIVES FOR SUCCESSFUL OFFER

To assist in the retention of key executives, and recognise the efforts of the individuals below in the listing of Cronos Australia, and to align their interests with the interests of Shareholders, Cronos Australia intends to grant the following Performance Rights immediately after completion of the Offer:

Thomas Howitt, Chief Financial Officer	60,000 Performance Rights
Lior Harel, General Counsel and Company Secretary	60,000 Performance Rights

Each Performance Right provides the participant with a right to receive a Share in Cronos Australia for nil consideration, subject to the satisfaction of the vesting condition.

The terms of issue of the Performance Rights are as follows:

Vesting date:	Immediately after Cronos Australia is admitted to the official list of the ASX (subject to such admission occurring).
Vesting condition:	A Performance Right will vest if the participant remains employed by Cronos Australia at the vesting date and has not given, or been given, notice of termination of employment prior to the vesting date.
Title to Performance Rights:	A grant of Performance Rights is personal to the participant and cannot be transferred to other persons or entities.
Restricted Shares:	Shares allocated pursuant to the Performance Rights may be subject to ASX imposed disposal restrictions.

Participant Shareholder entitlements:	<p>For each Performance Right allocated, a participant shall not be entitled to vote, receive dividends or distributions, or have any other rights of a Shareholder in respect of the Performance Rights until the underlying Shares are allocated to the participant following vesting and, if applicable, exercise.</p> <p>For each Share allocated, a participant shall be entitled to vote, receive dividends or distributions, and have any other rights of an ordinary Shareholder in respect of the Shares.</p>
Transferability:	Unless the Board determines otherwise, a Performance Right is only transferable with the written consent of the Board.
Bonus issues:	If there is a pro rata issue or bonus issue of new Shares to Shareholders, each participant who has been allocated Performance Rights may not participate in the new issue unless his or her Performance Rights have vested and been exercised in accordance with their terms.
Ceasing employment:	If a participant ceases, for any reason, to be an employee prior to the Performance Rights vesting, those Performance Rights will lapse immediately.
Vested Performance Rights:	A participant who ceases to be an employee must exercise any vested Performance Rights by the earlier of 60 days of ceasing to be an employee, or the date the Performance Right lapses. Performance Rights not exercised within the period specified in this rule will lapse.

■ 9.10 NON-EXECUTIVE DIRECTOR FEE SACRIFICE RIGHTS PLAN

Cronos Australia has adopted a Non-Executive Director Fee Sacrifice Rights Plan (**NED Plan**), pursuant to which non-executive Directors may elect to sacrifice part of their director's fees to acquire fully paid Shares.

The NED Plan is designed to provide the opportunity to non-executive Directors (each an **Eligible Person**) to acquire an option to acquire Shares upon conversion at nil cost, through sacrificing a portion of their director's fees, on the terms and conditions determined by the Board (**NED Rights**).

Cronos Australia believes it will be granted a waiver from ASX Listing Rule 10.14 to the extent necessary to permit Cronos Australia to issue the NED Rights to the non-executive Directors under the NED Plan without shareholder approval. The waiver is likely to be granted on the basis that adequate information about the issue of the NED Rights and the terms of the NED Plan are contained in this Prospectus (at a minimum the requirements of ASX Listing Rule 10.15A).

The terms of issue of the NED Rights are as follows:

Invitation to participate:	The Board may, from time to time, in its absolute discretion, operate the NED Plan and invite Eligible Persons to participate in the NED Plan. Participation is voluntary. The Board may determine the number of NED Rights to be issued under the NED Plan (or the method or formula for determining the number or value of the NED Rights), the proposed percentage or fixed dollar amount of the Eligible Person's pre-tax fees that can be sacrificed in return for NED Rights, the participation period and other terms of issue of the NED Plan.
Terms of participation:	Eligible Persons who apply for a grant of NED Rights are deemed to have agreed to be bound by the rules of (a) the NED Plan; (b) the terms of the invitation letter received from Cronos Australia; (c) following allocation of Shares upon the conversion of Rights, the Constitution; and (d) other relevant Cronos Australia and/or Cronos Australia Group policies.
Title to NED Rights:	A grant of NED Rights is personal to the Eligible Person who has been granted Rights under the NED Plan (Participant) and cannot be transferred to other persons or entities.

09. ADDITIONAL INFORMATION cont.

Grant of NED Rights:	Where an application to participate in the NED Plan has been accepted by the Board, the Participant will receive a grant of the number of NED Rights determined and the Participant authorises Cronos Australia (or any relevant Cronos Australia Group company) to withhold the agreed percentage or fixed dollar amount of a Participant's pre-tax director's fees over the relevant period.
Shareholder entitlements:	A Participant will not be entitled to vote, receive dividends or have any other rights of a Shareholder in respect of NED Rights until Shares are allocated to the Participant following the conversion of NED Rights. Whilst Shares are subject to any trading restriction howsoever imposed, the rights and entitlements attaching to them must be exercised in accordance with the rules of the NED Plan.
Lapse of NED Rights:	At the Board's absolute discretion, some or all of a Participant's NED Rights will lapse upon the earliest to occur of: (a) a date specified in the invitation letter from the Board; (b) upon ceasing to be an Eligible Person prior to the conversion of NED Rights; and (c) any other circumstance or event described in the NED Plan rules which results in the lapsing of NED Rights, whether automatically or as the Board determines.
Conversion of NED Rights:	Subject to any applicable restrictions imposed by law or the Trading Policy, upon satisfaction of any relevant condition imposed by the Board, on conversion of a NED Right, Cronos Australia must issue or procure the transfer of one Share to, or for the benefit of, the Participant for each NED Right that is converted.
Ranking of Shares:	If Cronos Australia issues Shares under the NED Plan, Cronos Australia will apply for quotation on the ASX of the Shares issued within the period required by the ASX. All Shares issued under the NED Plan will rank equally in all respects with other Shares for the time being on issue by Cronos Australia (except as regards to any rights attaching to such other Shares by reference to a record date prior to the date of their issue).
Treatment of Shares upon cessation:	Subject to the terms of the invitation letter and unless the Board determines otherwise, if a Participant ceases to be an Eligible Person prior to the conversion of NED Rights, the NED Rights will lapse on cessation and the Participant will be paid, in cash, an amount equivalent to the contribution they have made to Cronos Australia from the start of the relevant participation period up until the date of cessation, in respect of those lapsed NED Rights.
Change of control:	If a change of control occurs in respect of Cronos Australia, the Board may, in its absolute discretion, determine a particular treatment that will apply to NED Rights and/or Shares that are subject to a trading restriction under the NED Plan, including that the NED Rights will be converted and the trading restriction on Shares will cease (at a time determined by the Board).

The table below sets out the information required under ASX Listing Rule 10.15A in respect of the NED Rights:

LISTING RULE	REQUIREMENT	DISCLOSURE
10.15A.1	If the person is not a director, a statement of the relationship between the person and the director that requires the approval to be obtained.	Not applicable.
10.15A.2	The maximum number of securities that may be acquired by all person for whom approval is required, including the formula (if one is used) for calculating the number of securities to be issued.	<p>Cronos Australia intends to invite Shane Tanner, Anna Burke AO and Daniel Abrahams to participate in the NED Plan. Each of these Directors will be invited to sacrifice up to 100% of their Director fees. The number of NED Rights that each Director will be eligible to receive will be determined by dividing the fees that the Director has elected to sacrifice by \$0.50.</p> <p>The maximum number of Shares that may be issued under the NED Plan for the 2019/20 financial year is 440,000 Shares. This would occur if all three Directors elected to sacrifice 100% of their fees (being a total aggregate amount of \$220,000).</p> <p>For future financial years, the method or formula for calculating the number of NED Rights will be determined by the Board.</p>
10.15A.3	The price (including a statement whether the price will be, or be based on, the market price), or the formula for calculating the price, for each security to be acquired under the scheme.	<p>As noted above, for the year ending 30 June 2020, the number of NED Rights (and therefore, the number of Shares) to be issued under the NED Plan will be determined by dividing the fees that the Director has elected to sacrifice by \$0.50, being the Offer Price for New Shares under this Prospectus.</p> <p>For years ending after 1 July 2020, the method or formula for calculating the number of NED Rights will be determined by the Board.</p>
10.15A.4	The names of all persons referred to in rule 10.14 who received securities under the scheme since the last approval, the number of the securities received, and acquisition price for each security.	Not applicable. No persons have previously received securities under the NED Plan.
10.15A.5	The names of all persons referred to in rule 10.14 entitled to participate in the scheme.	Shane Tanner, Anna Burke AO, Daniel Abrahams.
10.15A.6	A voting exclusion statement.	Not applicable.
10.15A.7	The terms of any loan in relation to the acquisition.	Not applicable.

09. ADDITIONAL INFORMATION cont.

LISTING RULE	REQUIREMENT	DISCLOSURE
10.15A.8	A statement to the effect noted in the rule.	<p>Details of any securities issued under the NED Plan will be published in each annual report of Cronos Australia relating to a period in which securities have been issued.</p> <p>Any additional persons who become entitled to participate in the NED Plan after the date of this Prospectus and who were not named above will not participate until approval is obtained under ASX Listing Rule 10.14.</p>
10.15A.9	The date by which Cronos Australia will issue the securities, which must be no later than 3 years after the meeting.	<p>To the extent that any of Shane Tanner, Anna Burke AO or Daniel Abrahams elect to take up NED Rights under the invitations referred to above, Cronos Australia plans to issue the NED Rights shortly following completion of the Offer. Those NED Rights will first convert to Shares during the trading window following the release of the Cronos Australia Accounts first released after the company is listed on the ASX. Any such Shares will be subject to a trading restriction of two years commencing on the date the NED Rights are converted.</p> <p>NED Rights will not be issued any later than three years after the date of this Prospectus.</p>

9.11 ESCROW

The Shareholders of Cronos Australia as at the date of the Prospectus will be subject to mandatory escrow arrangements under the ASX Listing Rules. Prior to listing on the ASX, such Shareholders (and their related entities) will be required to enter into mandatory escrow restriction agreements in relation to Shares held by them.

The following Shareholders have agreed to enter into restriction agreements in relation to the Shares they will hold on completion of the Offer:

	Escrow Shares	% holding	% Shares on issue	Escrow period
Cronos Global Holdings Inc*	40,000,000	100%	31.07%	24 months from quotation
NewSouthern Investment Holdings 1 Pty Ltd^	20,000,000	100%	15.53%	24 months from quotation
NewSouthern Investment Holdings A Pty Ltd*^	20,000,000	100%	15.53%	24 months from quotation
Total	80,000,000		62.13%	

NOTES:

* Cronos Global Holdings Inc is a promoter for the purposes of the ASX Listing Rules, Appendix 9B.

^ NewSouthern Investment Holdings 1 Pty Ltd is an entity related to Rodney Cocks.

*^ NewSouthern Investment Holdings A Pty Ltd is an entity related to Peter Righetti.

In addition, Cronos Australia understands that the Broker Options described in Section 9.6 and any Shares issued on exercise of the Broker Options will be subject to ASX imposed mandatory escrow for a period of 24 months from the date of quotation of Shares on ASX in connection with the Offer and that the Lead Manager will be required to enter into a mandatory restriction agreement in relation to the Broker Options and any Shares issued on exercise of the Broker Options.

Subject to the ASX Listing Rules and, in the case of mandatory ASX-imposed escrow, ASX's consent, the escrow arrangements do not preclude a holder of escrowed securities from transferring their securities in certain circumstances including pursuant to a transaction which results in an individual or entity acquiring more than 50% of the total fair market value of voting power of Cronos Australia's Shares, provided that the holders of at least 50% of Cronos Australia's Shares that are not subject to escrow arrangements have accepted the Offer.

Moreover, all Shareholders who are employees, officers or Directors of Cronos Australia, and certain others, will be restricted from dealing in Shares in accordance with Cronos Australia's Securities Trading Policy.

■ 9.12 DIVIDENDS

The policy of Cronos Australia will be to invest all cash flow into the business in order to maximise its growth. Accordingly, it is anticipated that no dividends will be payable for a period of at least two years following Cronos Australia's listing on the ASX.

The Directors can give no assurance as to the amount, timing, franking or payment of any future dividends by Cronos Australia. The capacity to pay dividends will depend on a number of factors including future earnings, capital expenditure requirements and the financial position of Cronos Australia.

■ 9.13 LITIGATION

To the knowledge of Directors, there is no litigation threatened against Cronos Australia and no litigation threatened by Cronos Australia. The Directors are not presently aware of any circumstances likely to give rise to any of the above.

■ 9.14 KEY EMPLOYMENT AGREEMENTS

Rodney Cocks, Chief Executive Officer

Cronos Australia and Rodney Cocks have entered into an executive employment agreement under which Rodney was appointed Chief Executive Officer. Rodney will be paid a salary package of \$328,500 per annum including statutory superannuation. Rodney's appointment is not for a fixed term.

The agreement is subject to a mutual 12-month notice period (but which may be immediately terminated by Cronos Australia in the event of serious misconduct). Cronos Australia may elect to make a lump sum payment in lieu of notice.

Rodney's executive employment agreement also includes a post-employment non-compete and non-solicitation restraint of trade, which operates worldwide (as the maximum area) for 12 months from the date on which his employment ceases (as the maximum period).

Peter Righetti, Chief Operating Officer

Cronos Australia and Peter Righetti have entered into an executive employment agreement under which Peter was appointed Chief Operating Officer. Peter will be paid a salary package of \$268,500 per annum including statutory superannuation. Peter's appointment is not for a fixed term.

The agreement is subject to a mutual 12-month notice period (but which may be immediately terminated by Cronos Australia in the event of serious misconduct). Cronos Australia may elect to make a lump sum payment in lieu of notice.

Peter's executive employment agreement also includes a post-employment non-compete and non-solicitation restraint of trade, which operates worldwide (as the maximum area) for 12 months from the date on which his employment ceases (as the maximum period).

09. ADDITIONAL INFORMATION cont.

Thomas Howitt, Chief Financial Officer

Cronos Australia and Thomas Howitt have entered into an executive employment agreement under which Thomas was appointed Chief Financial Officer. Thomas will be paid a salary package of \$328,500 per annum including statutory superannuation. Thomas' appointment is not for a fixed term.

The agreement is subject to a mutual 2-month notice period (but which may be immediately terminated by Cronos Australia in the event of serious misconduct). Cronos Australia may elect to make a lump sum payment in lieu of notice.

Thomas' executive employment agreement also includes a post-employment non-compete and non-solicitation restraint of trade, which operates worldwide (as the maximum area) for 12 months from the date on which his employment ceases (as the maximum period).

Lior Harel, General Counsel and Company Secretary

Cronos Australia and Lior Harel have entered into an executive employment agreement under which Lior was appointed General Counsel and Company Secretary. Lior will be paid a salary package of \$268,275 per annum including statutory superannuation. Lior's appointment is not for a fixed term.

The agreement is subject to a mutual 2-month notice period (but which may be immediately terminated by Cronos Australia in the event of serious misconduct). Cronos Australia may elect to make a lump sum payment in lieu of notice.

Lior's executive employment agreement also includes a post-employment non-compete and non-solicitation restraint of trade, which operates worldwide (as the maximum area) for 12 months from the date on which his employment ceases (as the maximum period).

■ 9.15 INTERESTS OF NAMED PERSONS

Set out below are the benefits that have been or have been agreed to be given to any person named in this Prospectus as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Prospectus (together, **Prescribed Persons**).

Except as set out below or elsewhere in this Prospectus, no Prescribed Person holds, or during the last two years has held, any interests in:

- the formation or promotion of Cronos Australia;
- any property acquired or proposed to be acquired by Cronos Australia in connection with Cronos Australia's formation or the promotion, or the Offer; or
- the Offer.

In addition, except as set out below or elsewhere in this Prospectus, no benefit of any kind, (whether in cash, Shares or otherwise) has been paid or agreed to be paid to a Prescribed Person in connection with the preparation or distribution of the Prospectus for services rendered by that person in connection with the formation or promotion of Cronos Australia, or the Offer.

Ernst & Young has provided financial and tax due diligence and other advisory services in relation to the Offer and has received or is to receive fees amounting to approximately \$477,500 excluding GST and disbursements.

Ernst & Young Transaction Advisory Services Limited has acted as Investigating Accountant and has prepared the Independent Limited Assurance Report in Section 5 of this Prospectus and has received or is to receive fees amounting to approximately \$20,000 excluding GST and disbursements.

KPMG has acted as Cronos Australia's auditor for the purposes of the Offer. For this work, KPMG has received fees amounting to approximately \$60,000 excluding GST and disbursements.

D'Omkara Accountants has acted as supporting accountants to Cronos Australia for the purposes of the Offer. For this work, D'Omkara Accountants has received fees amounting to approximately \$152,500 excluding GST and disbursements.

Thomson Geer has acted as the Australian legal advisers to Cronos Australia for the purposes of the Offer. For this work, Thomson Geer has received or is to receive fees amounting to approximately \$850,000 excluding GST and disbursements. Thomson Geer has also provided legal advice in connection with the establishment of the Cronos Australia Group and the Restructure and for this work has received or is to receive fees amounting to approximately \$130,000 excluding GST and disbursements.

Bell Potter Securities Limited has acted as the Lead Manager and Underwriter for the Offer. It is to receive fees under the terms of the Underwriting Agreement amounting to 6.0% of the total gross proceeds of the Offer, excluding disbursements, in addition to the Broker Options.

9.16 CONSENTS

Each of the parties named in the table below in this Section 9.16 has consented to being named in this Prospectus in the form and context in which it is named and has not withdrawn such consent prior to the lodgement of this Prospectus with the ASX:

Capacity in relation to Cronos Australia	Consenting party
Australian legal adviser	Thomson Geer
Investigating Accountant and inclusion of its Independent Limited Assurance Report	Ernst & Young Transaction Advisory Services Limited
Provider of financial and tax due diligence and other advisory services	Ernst & Young
Auditors	KPMG
Supporting Accountants	D'Omkara Accountants
Share registry	Link Market Services Limited
Lead Manager of the Offer	Bell Potter Securities Limited

To the maximum extent permitted by law, each of the parties named in this Section 9.16:

- states that it has not authorised or caused the issue of this Prospectus;
- is not taken to have made, or purported to have made, any representation or warranty in relation to Cronos Australia either express or implied or any statement in this Prospectus or on which a statement made in the Prospectus is based other than as specified in this Section 9.16; and
- expressly disclaims and takes no responsibility for any part of this Prospectus other than as referred to in this Prospectus as having been made by such party.

9.17 EXPENSES OF THE OFFER

All expenses connected with the Offer are being borne by Cronos Australia.

Based on the Offer being fully subscribed, the estimated costs of the Offer, which have been paid or are payable by Cronos Australia are as follows:

Expenses of the Offer	Amounts (excluding GST)
Legal fees relating to the offer	\$890,000
Independent Limited Assurance Report, financial due diligence, auditing and related financial and tax advisory costs	\$710,000
Lead Manager and Underwriting fees (including non-cash costs relating to the Broker Options of \$350,000)	\$1,550,000
ASIC and ASX fees	\$130,000
Other miscellaneous costs (including design and printing costs)	\$60,000
TOTAL	\$3,340,000

09. ADDITIONAL INFORMATION cont.

■ 9.18 SUPPLEMENTARY INFORMATION

A supplementary prospectus will be issued if Cronos Australia becomes aware of any of the following between the issue of this Prospectus and the date the Shares are quoted:

- a material statement in this Prospectus is misleading or deceptive;
- there is a material omission from this Prospectus;
- there has been a significant change affecting a matter included in this Prospectus; or
- a significant new circumstance has arisen and it would have been required to be included in this Prospectus.

■ 9.19 DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal office hours free of charge at the registered office of Cronos Australia for a period of not less than 12 months from the date of this Prospectus:

- each Director's consent for the lodgement of this Prospectus;
- the Constitution; and
- the consents referred to in Section 9.16 of this Prospectus.

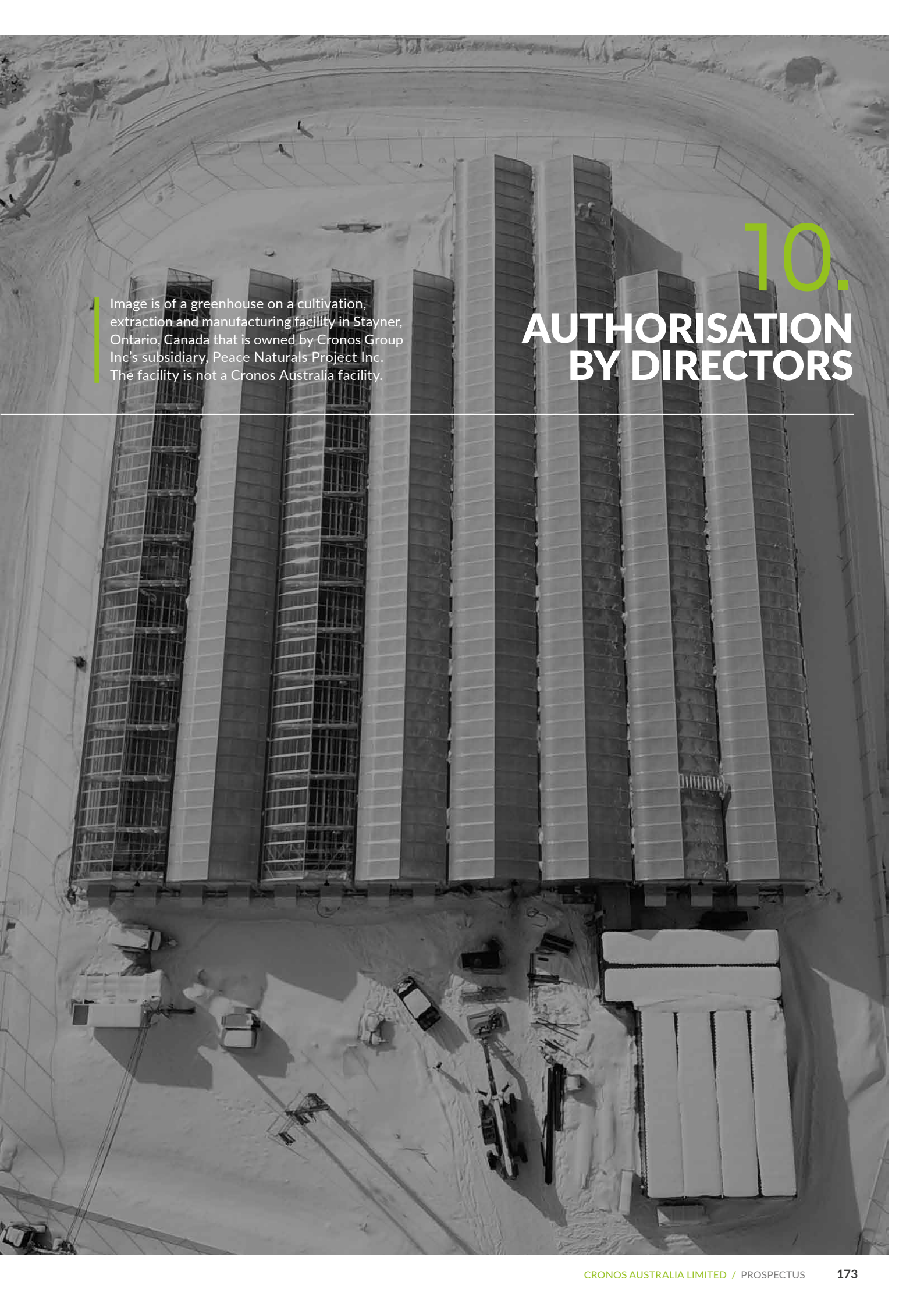


Image is of a greenhouse on a cultivation, extraction and manufacturing facility in Stayner, Ontario, Canada that is owned by Cronos Group Inc's subsidiary, Peace Naturals Project Inc. The facility is not a Cronos Australia facility.

10. AUTHORISATION BY DIRECTORS

10. AUTHORISATION BY DIRECTORS

The Directors state that they have made all reasonable enquires and on that basis have reasonable grounds to believe that any statements made by the Directors in this Prospectus are not misleading or deceptive and that in respect of any other statements made in the Prospectus by persons other than Directors, the Directors have made reasonable enquiries and on that basis have reasonable grounds to believe that the persons making the statement or statements were competent to make such statements, those persons have given their consent to the statements being included in the Prospectus in the form and context in which they are included and have not withdrawn that consent before lodgement of this Prospectus with ASIC, or to the Directors' knowledge, before any issue of New Shares pursuant to this Prospectus.

The Prospectus is prepared on the basis that certain matters may be reasonably expected to be known to likely investors or their professional advisers.

Each Director has consented to the lodgement of this Prospectus with ASIC and has not withdrawn that consent.

This Prospectus is authorised by each of the Directors of Cronos Australia, pursuant to a resolution of the Board.

Signed for and on behalf of

Cronos Australia Limited

A handwritten signature in black ink, appearing to read 'Shane Tanner', with a stylized, flowing script.

By Shane Tanner
Independent Non-Executive Chairman



Cronos Group Inc subsidiary
Peace Naturals Project Inc.,
cannabis under cultivation.

11.

GLOSSARY

11. GLOSSARY

11.1 INDUSTRY GLOSSARY

In this Prospectus, unless the context or subject matter otherwise requires:

TERM	DESCRIPTION
ARTG	Australian Register of Therapeutic Goods. A record of the contents and classification details of therapeutic goods registered in Australia.
Cannabinoid	A compound found in a cannabis plant.
CBD	Cannabidiol – a non-psychoactive cannabinoid.
CBD Product	Products (medicinal or otherwise) that only incorporate CBD, or otherwise incorporate a level of THC that is negligible.
Endocannabinoid System	Neurotransmitters in the body that have been shown to interact with the active compounds found in medicinal cannabis.
Entourage effect	The combined effect of various cannabinoids interacting together believed to be responsible for many of the therapeutic benefits that patients have reported from the use of cannabis.
FDA	US Food and Drug Administration. A federal agency of the United States Department of Health and Human Services responsible for protecting and promoting public health.
Flavonoid	A compound found in a cannabis plant.
GMP	Good Manufacturing Practices. Quality control principles and procedures required to ensure standardisation at all stages of production for every batch produced. GMP for pharmaceutical products in Australia is administered by the TGA.
ND Act	<i>Narcotic Drugs Act 1967</i> (Cth).
NDA Act	<i>Narcotic Drugs Amendment Act 2016</i> (Cth). Legislation to amend the ND Act to begin to allow the development of a safe, legal and sustainable local supply of cannabis for medicinal and scientific purposes in Australia.
ODC	Office of Drug Control, Commonwealth Department of Health. A part of the Health Products Regulation Group of the Department of Health that regulates and provides advice on the import, export and manufacture of controlled drugs including medicinal cannabis.
Single Convention	Single Convention on Narcotic Drugs (1961). An international drug control treaty that prohibits drug activities with an exception for specific purposes, such as medical treatment and research.
Terpene	A compound found in a cannabis plant.
TGA	Therapeutic Goods Administration. Australia's regulatory authority for therapeutic goods.
TG Act	<i>Therapeutic Goods Act 1989</i> (Cth). The legislative framework that provides for the establishment and maintenance of a system of controls for the quality, safety, efficacy and timely availability of therapeutic goods that are used in Australia or exported from Australia.
THC	Δ -9-tetrahydrocannabinol – a psychoactive cannabinoid.

■ 11.2 CORPORATE GLOSSARY

In this Prospectus, unless the context or subject matter otherwise requires:

TERM	DESCRIPTION
Agreement for Lease	The agreement for lease between Cronos Australia – Operations Pty Ltd (as tenant) and Glenbrook Pastoral Pty Ltd (as landlord) in relation to a site near Daylesford in Victoria.
Applicant	A person who returns an Application.
Application	An application for New Shares under the Offer.
Application Form	The entitlement and acceptance form attached to this Prospectus.
Application Monies	The payment of the Offer Price under the Offer submitted by an Applicant for the purposes of making an Application.
ASIC	Australian Securities and Investments Commission.
ASX	ASX Limited ACN 008 624 691 or the stock exchange which it operates, as the context requires.
ASX Listing Rules	The official Listing Rules of ASX.
AVR	The Agriculture Victoria Research division of the Victorian Department of Economic Development Jobs, Transport and Resources.
AVS	Agriculture Victoria Services Pty Ltd on its own behalf and as agent for the Agriculture Victoria Research Division of the Victorian Department of Economic Development, Jobs, Transport and Resources.
AVS MOU	Has the meaning given to that term in Section 9.5.12.
Awards	Has the meaning given to that term in Section 9.7.
Board	The board of Directors.
Broker	Any ASX participating organisation selected by the Lead Manager to participate in the Broker Firm Offer.
Broker Firm Offer	The component of the Offer which is open only to investors with a registered address in Australia who are not Institutional Investors and who have received an invitation from their Broker to participate.
Broker Options	The options to acquire Shares granted to the Lead Manager as described in Section 9.6.
Chairman's List Offer	The component of the Offer which is open to selected investors in Australia nominated by Cronos Australia.
Closing Date	5.00pm (AEDT) on 25 October 2019 (unless varied).
Convertible Loan Agreements	The 15 convertible loan agreements between Cronos Australia and the Pre-IPO Investors as summarised in Section 9.5.13.
Corporations Act	<i>Corporations Act 2001</i> (Cth) as amended from time to time.
Cronos Australia	Cronos Australia Limited ACN 629 071 594.
Cronos Australia Group	Cronos Australia, Cronos Australia Group Pty Ltd, Cronos Australia – Operations Pty Ltd, Cronos Australia – Marketing & Distribution Pty Ltd and Cronos Australia – New Zealand Ltd.
Cronos Group Inc	Cronos Group Inc. Corporation Number 2339498, being a company incorporated under the laws of the Province of Ontario, Canada and listed on the NASDAQ Global Market (NASDAQ:CRON) and Toronto Stock Exchange (TSX:CRON).

11. GLOSSARY cont.

TERM	DESCRIPTION
Delfarma	Delfarma Sp. Zo.o.
DSTI	Cronos Australia's Deferred Short-Term Incentive Plan as defined in Section 9.8.
Directors	The directors of Cronos Australia.
DHL Global Forwarding	DHL Global Forwarding (Australia) Pty Ltd ACN 002 636 124.
DHL Supply Chain	DHL Supply Chain (Australia) Pty Ltd ACN 071 798 617.
Eligible Person	Has the meaning given to that term in Section 9.10.
EIP	Cronos Australia's employee equity incentive plan as described in Section 9.7.
EIP Options	Options to acquire Shares granted (or to be granted) to employees under the terms of the EIP.
EIP Rights	Has the meaning given to that term in Section 9.7.
Escrow Period	The period of 24 months from quotation of the Shares.
Executive Directors	The two Directors who hold executive roles within the Cronos Australia Group, being Rodney Cocks and Peter Righetti.
Exposure Period	The period during which Cronos Australia cannot accept Applications as described in section 727(3) of the Corporations Act.
Expiry Date	The date that is 13 months after the date of issue of this Prospectus.
Facility	The medicinal cannabis cultivation and production facility that Cronos Australia may choose to construct near Daylesford in Victoria.
Financial Information	The financial information of Cronos Australia as defined in Section 4.2 of this Prospectus.
GST	Has the meaning given to that term in <i>A New Tax System (Goods and Services Tax) Act 1999</i> (Cth) and includes goods and services tax.
Institutional Investor	An investor to whom offers or invitations in respect of securities can be made without the need for a lodged prospectus and, in Australia, an investor who is a "wholesale client" for the purposes of section 761G of the Corporations Act and who is either a "professional investor" or "sophisticated investor" under sections 708(11) and 708(8) of the Corporations Act.
Institutional Offer	The component of the Offer which is open to certain Institutional Investors in Australia and a number of other eligible overseas jurisdictions.
Investigating Accountant	Ernst & Young Transaction Advisory Services Limited.
IP	Intellectual property.
IP Licence	The intellectual property license deed dated 1 April 2019 between Cronos Group Inc and Cronos Australia – Operations Pty Ltd.
Lead Manager	Bell Potter Securities Limited ACN 006 390 772.
Material Suppliers	MediPharm Labs Australia and Mile High Labs.
Material Supply Agreements	The MediPharm Supply Agreement and the Mile High Labs Sales Agreement.
MediPharm Labs Australia	MediPharm Labs Australia Pty Ltd ACN 616 895 606.
MediPharm Manufacture Agreement	The cannabis concentrate manufacture agreement dated 1 August 2019 between MediPharm Labs Australia and Cronos Australia – Operations Pty Ltd.

TERM	DESCRIPTION
MediPharm Supply Agreement	The supply agreement dated 1 August 2019 between MediPharm Labs Australia and Cronos Australia – Operations Pty Ltd.
Mile High Labs	Mile High Labs APAC Limited, a New Zealand corporation.
Mile High Labs Sales Agreement	The sales agreement dated 29 July 2019 between Mile High Labs and Cronos Australia – Operations Pty Ltd.
NED Plan	Has the meaning given to that term in Section 9.10.
NED Rights	Has the meaning given to that term in Section 9.10.
New Shares	The Shares offered under the Offer as set out in this Prospectus.
NewSouthern Capital	NewSouthern Capital Pty Ltd ACN 624 750 081, a company controlled by Rodney Cocks and Peter Righetti.
Offer	The offer of 40,000,000 Shares via the Broker Firm Offer, the Chairman's List Offer and the Institutional Offer, subject to and on the Terms of the Offer.
Offer Price	The subscription price per New Share under the Offer (i.e. \$0.50 per New Share).
Opening Date	9.00am (AEDT) on 16 October 2019 (unless varied).
Options	An option to acquire a Share.
Peace Naturals Project	Peace Naturals Project Inc. a corporation incorporated under the laws of Canada. Peace Naturals Project Inc is an indirect wholly-owned subsidiary of Cronos Group Inc.
PEACE NATURALS Supply Agreement	The supply agreement entered into by Cronos Australia and Peace Natural Project on 2 August 2019 in relation to the supply of PEACE NATURALS™ branded products by Peace Naturals Project to Cronos Australia.
Performance Rights	Has the meaning given to that term in Section 9.9.
Pohl-Boskamp	G. Pohl-Boskamp GmbH & Co. KG.
Pre-IPO Investors	The investors that advanced, after 30 June 2019, \$3,500,000 in aggregate to Cronos Australia in accordance with Convertible Loan Agreements between Cronos Australia and each investor.
Prospectus	This prospectus.
Referral MOU	Has the meaning given to that term in Section 9.5.6.
Restructure	The pre-Offer restructure of the Cronos Australia Group described in Section 9.3.
Shareholder	Holder of Shares.
Share Registry	Link Market Services Limited ACN 083 214 537.
Shares	Ordinary shares in the capital of Cronos Australia.
Sigma	Sigma Healthcare Limited ACN 088 417 403.
Sigma MOU	Has the meaning given to that term in Section 9.5.9.
Technical Services Agreement	The technical services agreement dated 1 July 2018 between Cronos Australia – Operations Pty Ltd and AVS.
Terms of the Offer	The terms and conditions set out in this Prospectus, including any modifications made by Cronos Australia.
Underwriting Agreement	The underwriting agreement dated 4 October 2019 between Cronos Australia and the Lead Manager.

12. CORPORATE DIRECTORY

Board Members

Shane Tanner – Independent Non-Executive Chairman

Rodney Cocks – Executive Director

Peter Righetti – Executive Director

Anna Burke AO – Independent Non-Executive Director

Daniel Abrahams – Independent Non-Executive Director

Michael Gorenstein – Non-Executive Director

Jason Adler – Non-Executive Director

Company Secretary

Lior Harel

Auditor to Cronos Australia

KPMG

Tower Two, Collins Square
727 Collins Street,
Docklands VIC 3008
Ph: +61 3 9288 5555
www.kpmg.com.au

Lead Manager

Bell Potter Securities Ltd

Level 29, 101 Collins Street
Melbourne VIC 3000
Ph: +61 3 9256 8700
www.bellpotter.com.au

Share Registry

Link Market Services Limited

Tower Four, Collins Square
727 Collins Street
Docklands VIC 3008
Ph: +61 1300 554 474
www.linkmarketservices.com.au

Registered Office

Level 2, 287 Collins Street
Melbourne VIC 3000
www.cronosaustralia.com

Legal Adviser

Thomson Geer

Level 39, Rialto South Tower
525 Collins Street
Melbourne VIC 3000
Ph: +61 3 8080 3500
www.tglaw.com.au

Investigating Accountant

Ernst & Young Transaction Advisory Services Limited

8 Exhibition Street
Melbourne VIC 3000
Ph: +61 3 9288 8000
www.ey.com/au

Supporting Accountants

D'Omkara Accountants

Level 5, 30 Collins Street
Melbourne VIC 3000
Ph: +61 3 9579 4450
www.domkara.com.au

Broker Firm Offer Application Form

This is an Application Form for Shares in Cronos Australia Limited under the Broker Firm Offer on the terms set out in the Prospectus dated 15 October 2019. You may apply for a minimum of \$2,000 worth of Shares (4,000 Shares) and in multiples of \$1,000 (2,000 Shares) thereafter. This Application Form and your cheque or bank draft must be received by your Broker by the deadline set out in their offer to you.

If you are in doubt as to how to deal with this Application Form, please contact your accountant, lawyer, stockbroker or other professional adviser. The Prospectus contains information relevant to a decision to invest in Shares and you should read the entire Prospectus carefully before applying for Shares.

Shares applied for

Price per Share

Application Monies

A

at

A\$0.50

B A\$

(minimum of \$2,000 (4,000 Shares) and in multiples of \$1,000 (2,000 Shares))

PLEASE COMPLETE YOUR DETAILS BELOW (refer overleaf for correct forms of registrable names)

Applicant #1

Surname/Company Name

C

Title

First Name

Middle Name

Joint Applicant #2

Surname

Title

First Name

Middle Name

Designated account e.g. <Super Fund> (or Joint Applicant #3)

TFN/ABN/Exemption Code

First Applicant

Joint Applicant #2

Joint Applicant #3

D

TFN/ABN type – if NOT an individual, please mark the appropriate box

Company

Partnership

Trust

Super Fund

PLEASE COMPLETE ADDRESS DETAILS

PO Box/RMB/Locked Bag/Care of (c/-)/Property name/Building name (if applicable)

E

Unit Number/Level

Street Number

Street Name

Suburb/City or Town

State

Postcode

Email address (only for purpose of electronic communication of shareholder information)

CHESS HIN

F

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If you have a Broker Sponsored account and would like your securities to be allocated to this account, it is important that you enter your HIN at this step. Failure to do so will result in your securities being allocated to a new Issuer Sponsored account. You will not be able to change this until after the stock exchange listing takes place and you will need to request your broker to do this for you.

Telephone Number where you can be contacted during Business Hours

Contact Name (PRINT)

G

Cheques or bank drafts should be drawn up according to the instructions given by your Broker.

Cheque or Bank Draft Number

BSB

Account Number

H

Total Amount

A\$

LODGEMENT INSTRUCTIONS

You must return your application so it is received by your Broker by the deadline set out in their offer to you.

Your Guide to the Application Form

Please complete all relevant white sections of the Application Form in BLOCK LETTERS, using black or blue ink. These instructions are cross-referenced to each section of the form.

The Shares to which this Application Form relates are Cronos Australia Limited Shares. Further details about the Shares are contained in the Prospectus dated 15 October 2019 issued by Cronos Australia Limited. No New Shares will be issued on the basis of the Prospectus later than 13 months after the date of issue of the Prospectus. While the Prospectus is current, Cronos Australia Limited will send paper copies of the Prospectus, any supplementary document and the Application Form, free of charge on request.

The Australian Securities and Investments Commission requires that a person who provides access to an electronic application form must provide access, by the same means and at the same time, to the relevant Prospectus. This Application Form is included in the Prospectus.

The Prospectus contains important information about investing in the Shares. You should read the Prospectus before applying for Shares.

- A** Insert the number of Shares you wish to apply for. The Application must be for a minimum of 4,000 Shares and thereafter in multiples of 2,000 Shares. You may be issued all of the Shares applied for or a lesser number.
- B** Insert the relevant amount of Application Monies. To calculate your Application Monies, multiply the number of Shares applied for by the issue price. Amounts should be in Australian dollars. Please make sure the amount of your cheque or bank draft equals this amount.
- C** Write the full name you wish to appear on the register of Shares. This must be either your own name or the name of a company. Up to three joint Applicants may register. You should refer to the table below for the correct registrable title.
- D** Enter your Tax File Number (TFN) or exemption category. Business enterprises may alternatively quote their Australian Business Number (ABN). Where applicable, please enter the TFN or ABN for each joint Applicant. Collection of TFN(s) and ABN(s) is authorised by taxation laws. Quotation of TFN(s) and ABN(s) is not compulsory and will not affect your Application. However, if these are not provided, Cronos Australia Limited will be required to deduct tax at the highest marginal rate of tax (including the Medicare Levy) from payments.
- E** Please enter your postal address for all correspondence. All communications to you from Cronos Australia Limited and the Share Registry will be mailed to the person(s) and address as shown. For joint Applicants, only one address can be entered.
- F** If you are already a CHES participant or sponsored by a CHES participant, write your Holder Identification Number (HIN) here. If the name or address recorded on CHES for this HIN is different to the details given on this form, your Shares will be issued to Cronos Australia Limited's issuer sponsored subregister.
- G** Please enter your telephone number(s), area code and contact name in case we need to contact you in relation to your Application.
- H** Please complete the details of your cheque or bank draft in this section. The total amount of your cheque or bank draft should agree with the amount shown in section B.
- If you receive a firm allocation of Shares from your Broker make your cheque payable to your Broker in accordance with their instructions.

CORRECT FORMS OF REGISTRABLE NAMES

Note that ONLY legal entities are allowed to hold Shares. Applications must be in the name(s) of natural persons or companies. At least one full given name and the surname is required for each natural person. The name of the beneficiary or any other non-registrable name may be included by way of an account designation if completed exactly as described in the examples of correct forms below.

Type of Investor	Correct Form of Registration	Incorrect Form of Registration
Individual Use given names in full, not initials	Mrs Katherine Clare Edwards	K C Edwards
Company Use Company's full title, not abbreviations	Liz Biz Pty Ltd	Liz Biz P/L or Liz Biz Co.
Joint Holdings Use full and complete names	Mr Peter Paul Tranche & Ms Mary Orlando Tranche	Peter Paul & Mary Tranche
Trusts Use the trustee(s) personal name(s)	Mrs Alessandra Herbert Smith <Alessandra Smith A/C>	Alessandra Smith Family Trust
Deceased Estates Use the executor(s) personal name(s)	Ms Sophia Garnet Post & Mr Alexander Traverse Post <Est Harold Post A/C>	Estate of late Harold Post or Harold Post Deceased
Minor (a person under the age of 18 years) Use the name of a responsible adult with an appropriate designation	Mrs Sally Hamilton <Henry Hamilton>	Master Henry Hamilton
Partnerships Use the partners' personal names	Mr Frederick Samuel Smith & Mr Samuel Lawrence Smith <Fred Smith & Son A/C>	Fred Smith & Son
Long Names	Mr Hugh Adrian John Smith-Jones	Mr Hugh A J Smith Jones
Clubs/Unincorporated Bodies/Business Names Use office bearer(s) personal name(s)	Mr Alistair Edward Lilley <Vintage Wine Club A/C>	Vintage Wine Club
Superannuation Funds Use the name of the trustee of the fund	XYZ Pty Ltd <Super Fund A/C>	XYZ Pty Ltd Superannuation Fund

Put the name(s) of any joint Applicant(s) and/or account description using < > as indicated above in designated spaces at section C on the Application Form.

Broker Firm Offer Application Form

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Shares applied for

Price per Share

Application Monies

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at

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(minimum of \$2,000 (4,000 Shares) and in multiples of \$1,000 (2,000 Shares))

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Surname/Company Name

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Title

First Name

Middle Name

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Surname

Title

First Name

Middle Name

Designated account e.g. <Super Fund> (or Joint Applicant #3)

TFN/ABN/Exemption Code

First Applicant

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Joint Applicant #3

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TFN/ABN type – if NOT an individual, please mark the appropriate box

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Telephone Number where you can be contacted during Business Hours

Contact Name (PRINT)

G

Cheques or bank drafts should be drawn up according to the instructions given by your Broker.

Cheque or Bank Draft Number

BSB

Account Number

H

Total Amount

A\$

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You must return your application so it is received by your Broker by the deadline set out in their offer to you.

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- E** Please enter your postal address for all correspondence. All communications to you from Cronos Australia Limited and the Share Registry will be mailed to the person(s) and address as shown. For joint Applicants, only one address can be entered.
- F** If you are already a CHES participant or sponsored by a CHES participant, write your Holder Identification Number (HIN) here. If the name or address recorded on CHES for this HIN is different to the details given on this form, your Shares will be issued to Cronos Australia Limited's issuer sponsored subregister.
- G** Please enter your telephone number(s), area code and contact name in case we need to contact you in relation to your Application.
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Trusts Use the trustee(s) personal name(s)	Mrs Alessandra Herbert Smith <Alessandra Smith A/C>	Alessandra Smith Family Trust
Deceased Estates Use the executor(s) personal name(s)	Ms Sophia Garnet Post & Mr Alexander Traverse Post <Est Harold Post A/C>	Estate of late Harold Post or Harold Post Deceased
Minor (a person under the age of 18 years) Use the name of a responsible adult with an appropriate designation	Mrs Sally Hamilton <Henry Hamilton>	Master Henry Hamilton
Partnerships Use the partners' personal names	Mr Frederick Samuel Smith & Mr Samuel Lawrence Smith <Fred Smith & Son A/C>	Fred Smith & Son
Long Names	Mr Hugh Adrian John Smith-Jones	Mr Hugh A J Smith Jones
Clubs/Unincorporated Bodies/Business Names Use office bearer(s) personal name(s)	Mr Alistair Edward Lilley <Vintage Wine Club A/C>	Vintage Wine Club
Superannuation Funds Use the name of the trustee of the fund	XYZ Pty Ltd <Super Fund A/C>	XYZ Pty Ltd Superannuation Fund

Put the name(s) of any joint Applicant(s) and/or account description using < > as indicated above in designated spaces at section C on the Application Form.

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