



CRONOS AUSTRALIA LIMITED

ABN 59 629 071 594

QUARTERLY ACTIVITIES REPORT

AND

APPENDIX 4C OF THE ASX LISTING RULES

FOR THE QUARTER ENDED

30 JUNE 2020

HIGHLIGHTS

- **Launch of Adaya medicinal cannabis oil range of products**
- **Significant progress made towards launch of personal care consumer products in Asia**
- **Revenues from Cannadoc Health Pty Ltd medicinal cannabis clinic continue to increase**
- **Sale of PEACE NATURALS™ branded medicinal cannabis oil products**

Melbourne, Australia, 23 July 2020 - Cronos Australia Limited (ASX: CAU, “Cronos Australia”, “CAU” or the “Company”), releases its Quarterly Activities Report (the “Report”), covering the period from 1 April 2020 up to the date on which it is signed, which is the third such report to be released by the Company following its admission to the Official List of the Australian Securities Exchange (the “ASX”) in late 2019. The Report should be read in conjunction with the accompanying ASX Appendix 4C, covering the quarter ended 30 June 2020.

“As we near the end of our first financial year as a listed public company, we have made solid progress on our strategic objectives, while minimising our costs in line with our stated “asset light” business model. We now sell two medicinal cannabis product ranges in Australia, with personal care brands and products intended to come online in Asia in the coming months. This progress has been complemented by a growing medical clinic business. All of this has been achieved despite the challenges posed by the prevailing COVID-19 crisis”, said Rodney Cocks, the Company’s CEO. “We continue to work hard to deliver further operational and commercial progress across the business and look forward to continue to grow the business in FY21”, Mr. Cocks added.

OVERVIEW

During the period, the Company released announcements to the ASX regarding the:

- Launch of the Company’s Adaya range of medicinal cannabis products to the Australian market, which can be prescribed through medical practitioners via the Special Access Scheme, Authorised Prescribers or Clinical Trials. The first sales of Adaya products have now commenced, with the products being distributed through Cronos Australia’s national distribution network of pharmacies and hospital pharmacies across Australia.
- Progress made developing the Company’s operations in Asia to address the growing cannabis market opportunity in this region. Cronos Australia now has operations in Hong Kong and Japan and is focused on launching proprietary products and brands in personal care consumer markets in Asia. The products are expected to be sold to consumers through local distributors and via e-commerce platforms.
- Release of the Company’s ASX Appendix 4C and accompanying Quarterly Activities Report for the quarter ended 31 March 2020.
- Changes to the Company’s registered office details.

LAUNCH OF ADAYA MEDICINAL CANNABIS OIL RANGE OF PRODUCTS

On 1 July 2020, the Company announced the launch of its Adaya range of medicinal cannabis products to the Australian market, which can be prescribed through medical practitioners via the Special Access Scheme, Authorised Prescribers or Clinical Trials. Sales of Adaya products have commenced, with the products being distributed through Cronos Australia’s national distribution network of pharmacies and hospital pharmacies across Australia.

LAUNCH OF ADAYA MEDICINAL CANNABIS OIL RANGE OF PRODUCTS (cont.)

Two initial products have been launched and are now being prescribed and sold:

- Adaya 10:10 - THC:CBD Balanced Medicinal Cannabis Oil
(30ml tincture / 600mg Total Cannabinoid Content)
- Adaya 1:25 - CBD High Medicinal Cannabis Oil
(30ml tincture / 780mg Total Cannabinoid Content)

Both of the above products have been manufactured to Australian Good Manufacturing Practices (GMP) standards and will be sold alongside the Company's PEACE NATURALS™ branded medicinal cannabis oils.

Later this year, Cronos Australia intends to launch two additional products in the Adaya range, both of which will also be manufactured to GMP standards:

- Adaya CBD 100 - CBD only Medicinal Cannabis Oil
(30ml tincture / 3000mg Total Cannabinoid Content)
- Adaya THC 26 - THC only Medicinal Cannabis Oil
(50ml tincture / 1300mg Total Cannabinoid Content)

The range of Adaya products has been specifically formulated to address the majority of needs of Australian patients. Additional products are intended to be added to the range as the medicinal cannabis market, and patient demand, continue to grow.

Cronos Australia CEO, Rodney Cocks said, "We are very proud to have launched the Adaya range of medicinal cannabis products, which have been carefully designed and formulated to meet the needs of patients in the growing Australian medicinal cannabis market. We are also pleased to see early sales of the products and an acceptance by a growing number of medical practitioners."

PROGRESS TOWARDS LAUNCH OF PERSONAL CARE PRODUCTS IN ASIA

On 16 July 2020, the Company provided an update to the Market on its developing operations in Asia to address the growing cannabis market opportunity in this region. Cronos Australia now has operations in Hong Kong and Japan and is focused on launching proprietary products and brands in personal care consumer markets in Asia. The products are expected to be sold to consumers through local distributors and via e-commerce platforms.

Significant progress has been made on brand development and the formulation of cannabinoid products. This includes the selection of manufacturing partners, product and packaging development, securing IP agreements for brand names, importing raw materials for testing purposes, and the development of launch and go-to-market strategies.

Cronos Australia's operations in Asia are led by Nick Mulcahy, former Aesop General Manager for the Asia Pacific region. Nick has over 25 years of experience in the development and commercialisation of personal care products, along with a deep understanding of the Asian market consumer, and is supported by an experienced local team.

Director of Cronos Australia Asian Operations, Nick Mulcahy said, "We see a unique opportunity for our products in the Asian market, which is backed by consumer data from local market research and analysis. I am very pleased with the team's progress to date and look forward to launching our first set of products in the Asian region in late calendar 2020, with more to follow in 2021."

REVENUES FROM CANNADOC HEALTH PTY LTD MEDICINAL CANNABIS CLINIC

Further to the Company's acquisition of a 51% indirect beneficial interest in Cannadoc Health Pty Ltd ("Cannadoc") in early February 2020, the revenues generated by the Cannadoc business continue to grow, despite restrictions imposed by the COVID-19 pandemic.

In response to the COVID restrictions, patient consultations have successfully transitioned to a telehealth format, which has been welcomed and widely embraced by Cannadoc's growing number of patients. As patient demand increases, Cannadoc has recruited additional doctors to meet the needs of its growing patient base. Expansion of the Company's clinic operations to other cities around Australia is currently being planned, subject to the prevailing restrictions permitting such expansion.

SALE OF PEACE NATURALS™ BRANDED MEDICINAL CANNABIS OIL PRODUCTS

In the previous Quarterly Activities Report, the Company announced that it had received its first shipment of PEACE NATURALS™ branded medicinal cannabis oils from Peace Naturals Project Inc., an indirect, wholly-owned subsidiary of Cronos Group. PEACE NATURALS™ branded medicinal cannabis products are currently sold by Cronos Group Inc. to patients in Canada and Germany. In Australia, PEACE NATURALS™ branded medicinal cannabis oils that are prescribed to patients under the SAS-B Scheme, or by an Authorised Prescriber, are now being made available through the Sigma Healthcare distribution network.

The Company's first sales of PEACE NATURALS™ branded medicinal cannabis oils commenced in Australia in April 2020 and, since that time, sales figures and revenues continue to grow. Additional orders of PEACE NATURALS™ branded medicinal cannabis oils are expected in the coming months to replenish inventory levels.

RELOCATION OF OFFICE

On 12 May 2020, the Company announced that it had changed its registered address and moved its headquarters to Suite 8, Level 3, 299 Toorak Road, South Yarra, Victoria 3141.

OTHER UPDATES

In addition to the above activities, the Company has made progress during the quarter on other aspects of its business, including the development of brands and products in conjunction with its joint venture partner, A&S Branding Pty Ltd, a company established by Alison Goodger and Simon O'Connor, the founders of Sukin Natural Skincare.

APPENDIX 4C

As detailed in the attached ASX Appendix 4C, the Company had more than \$14.6 million in cash and cash equivalents as at 30 June 2020 which, at the current rate, provides the Company with more than three years of funding. During the quarter, cash receipts from customers relating to sales of PEACE NATURALS™ branded medicinal cannabis oils and revenues from the Cannadoc clinic business increased to \$69,804. In addition, payments of \$52,197 were received under various Government COVID-19 stimulus schemes. Net cash flows used in operations increased to \$1,110,849 in line with the Company's expansion activities, including brand and product development expenses and the purchase of product inventories for sale.

The Company's net investing outflows included payments totalling \$77,799 in respect of the Company's new office premises which was offset by the receipt of a "Landlord's Allowance" of \$49,384. The payout of a chattel mortgage as part of the sale of a Company motor vehicle resulted in an increase in the associated payments to \$37,616.

APPENDIX 4C (cont.)

Pursuant to Listing Rule 4.7C.2, the Company confirms that, in the eight months since listing on the ASX, it has incurred expenditures largely in line with the Use of Proceeds set out on page 31 of its Prospectus dated 15 October 2019 (the "Prospectus"). As mentioned in the previous Quarterly Activities Report, due to restrictions imposed as a result of the COVID-19 pandemic, it is likely that certain business development activities, including face-to-face patient acquisition and practitioner engagement, will be delayed, reducing the rate at which revenues are expected to be generated and funds are spent in the short to medium term. In addition, the proposed research and development activities mentioned in the Prospectus may also be delayed.

Pursuant to Listing Rule 4.7C.3 and as disclosed in Item 6.1 of the attached Appendix 4C, \$157,999 was paid in respect of Directors' fees and consulting fees paid to Directors and entities associated with the Directors, as well as salaries and superannuation paid to, and on behalf of, executives Rodney Cocks and Peter Righetti, both of whom also served as Directors of the Company. As announced previously, Peter Righetti resigned as a Director and ceased to work for the Company as of 19 June 2020.

Based on the Company's net cash outflows from operations for the quarter ended 30 June 2020, Cronos Australia has more than 13 quarters (or more than three years) of cash remaining at balance date.

The Company's estimated net cash outflows for the quarter ending 30 September 2020 are likely to be influenced by the impacts of the COVID-19 pandemic. While the Company anticipates that it will continue to expand its operations in accordance with its overall strategy, it intends to carefully manage its existing cash reserves and make spending decisions to account for external factors as they arise.

APPROVED BY THE BOARD OF CRONOS AUSTRALIA LIMITED

Dated this 23rd day of July, 2020

Forward-looking statements

This Report may include forward-looking statements. These forward-looking statements are based on the Company's expectations and beliefs concerning future events. Forward-looking statements are necessarily subject to risks, uncertainties and other factors, many of which are outside the control of the Company, which could cause actual results to differ materially from such statements. The Company makes no undertaking to update or revise the forward-looking statements made in this Report to reflect any change in circumstances or events after the date of this Report.

Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity

Cronos Australia Limited (ASX: CAU)

ABN

59 629 071 594

Quarter ended ("current quarter")

30 June 2020

Consolidated statement of cash flows	Current quarter \$A	Year to date (twelve months) \$A
1. Cash flows from operating activities		
1.1 Receipts from customers	69,804	114,783
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing, operating costs	(355,961)	(764,837)
(c) advertising and marketing	(17,150)	(20,150)
(d) leased assets	-	-
(e) staff costs	(403,932)	(2,067,652)
(f) administration and corporate costs	(501,025)	(2,351,201)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	45,218	131,924
1.5 Interest and other costs of finance paid	-	(19,512)
1.6 Income taxes paid	-	-
1.7 Government stimulus payments received	52,197	75,478
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(1,110,849)	(4,901,167)
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) entities, net of cash on acquisition	-	(295,694)
(b) businesses	-	-
(c) property, plant and equipment	(77,799)	(128,753)
(d) investments	-	-
(e) intellectual property	-	-
(f) security deposits	-	(155,000)

Consolidated statement of cash flows		Current quarter \$A	Year to date (twelve months) \$A
2.2	Proceeds from disposal of:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	-	-
	(d) investments	-	-
	(e) intellectual property	-	-
	(f) security deposits	6,000	6,000
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Chattel mortgage payments	(37,616)	(53,682)
2.5	Landlord's Allowance	49,384	49,384
2.6	Net cash from / (used in) investing activities	(60,031)	(577,745)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	20,000,000
3.2	Proceeds from issue of convertible debt securities	-	3,500,000
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	(3,092,824)
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	(500,000)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Proceeds from non-controlling interests	-	98,000
3.10	Net cash from / (used in) financing activities	-	20,005,176

Consolidated statement of cash flows		Current quarter \$A	Year to date (twelve months) \$A
4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	15,856,823	159,679
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,110,849)	(4,901,167)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(60,031)	(577,745)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	-	20,005,176
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	14,685,943	14,685,943

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A	Previous quarter \$A
5.1	Bank balances	14,685,491	1,106,371
5.2	Call deposits	-	14,750,000
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	452	452
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	14,685,943	15,856,823

6.	Payments to related parties of the entity and their associates	Current quarter \$A
6.1	Aggregate amount of payments to related parties and their associates included in item 1	(157,999)
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-

Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments

7. Financing facilities

Note: the term "facility" includes all forms of financing arrangements available to the entity.

Add notes as necessary for an understanding of the sources of finance available to the entity.

	Total facility amount at quarter end \$A	Amount drawn at quarter end \$A
7.1	1,500,000	1,500,000
7.2	-	-
7.3	50,000	9,225
7.4	1,550,000	1,509,225

7.5 **Unused financing facilities available at quarter end** 40,775

7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.

The above loan facility was provided by Cronos Group Inc., the Company's largest shareholder. The loan, which is unsecured, is subject to interest payable at a rate of 12% p.a. and is repayable no later than 1 January 2022. The facility was fully drawn down as at 30 June 2020.

The credit card facility is provided by ANZ Banking Group Limited. The facility is secured by way of a bank guarantee. All amounts due are paid on time such that no interest is payable.

8. Estimated cash available for future operating activities	\$A
8.1 Net cash from / (used in) operating activities (Item 1.9)	(1,110,849)
8.2 Cash and cash equivalents at quarter end (Item 4.6)	14,685,943
8.3 Unused finance facilities available at quarter end (Item 7.5)	40,775
8.4 Total available funding (Item 8.2 + Item 8.3)	13,615,869
8.5 Estimated quarters of funding available (Item 8.4 divided by Item 8.1)	13

8.6 If Item 8.5 is less than 2 quarters, please provide answers to the following questions:

1. Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?

Answer: N/A

2. Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?

Answer: N/A

3. Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer: N/A

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Date: **23 July 2020**

Authorised: **By the Board**

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.