

CRONOS
AUSTRALIA

2020 ANNUAL REPORT

CRONOS AUSTRALIA LIMITED

ABN 59 629 071 594

FOR THE YEAR ENDED 30 JUNE 2020



Important Disclaimer

Nothing contained in this Annual Report should be construed as inducement by Cronos Australia Limited and its affiliates to use its, or any other, Medicinal Cannabis products, or to seek medical treatment that includes medicinal cannabis therapy. Medicinal Cannabis products are unregistered drugs in Australia. Medicinal Cannabis products are not effective for everyone. If you believe that Medicinal Cannabis products may be an appropriate treatment option for you, please discuss this with a suitably qualified medical advisor. How a Medicinal Cannabis product affects a person and is metabolised is contingent on many things including: physical condition, size, weight, age and health, dosage, other medications being taken, as well as tolerance. Medicinal Cannabis as a medical therapy in Australia is regulated by the Therapeutic Goods Administration and further details about Medicinal Cannabis can be found on its website.

Cronos Australia Limited

2020 Annual Report

CONTENTS	PAGE
Letter from Chairman and Chief Executive Officer	2
Highlights and timeline	4
Strategic Overview - The Four Pillars	7
Pillar One - Australia	
Pillar Two - Medical	
Pillar Three - Asia	
Pillar Four - CBD Joint Venture	
Directors and Executives	12
Directors' Report	16
Auditor's Independence Declaration	37
Corporate Governance Statement	38
Financial statements	48
Directors' Declaration	88
Corporate directory	89
Auditor's Report	90
ASX Supplementary Information	94

The vision of Cronos Australia is to become a leading health and wellness company in the Asia Pacific region through the development and distribution of premium cannabinoid products.



Cronos Australia Limited
ABN 59 629 071 594
ASX: CAU



Founding Member
Founding Board Member

Letter from Chairman and Chief Executive Officer

Dear Shareholders,

In years to come, the year 2020 will no doubt be remembered as a significant one for many people. In the history of Cronos Australia, it will be a memorable one too, with a number of significant milestones having been achieved during the year that, collectively, position the Company well to deliver on its strategic plan to create long-term shareholder value, despite the headwinds that have impacted many industries around the world, including the cannabis industry.

Early in the Company's development and having closely monitored trends in the global cannabis industry, a decision was made to pivot the strategic direction of Cronos Australia away from its original plan to become a vertically-integrated player in the Australian medicinal cannabis industry, in favour of a downstream strategy focussed on the creation of brands, products, sales, marketing and distribution, using inputs sourced from a variety of quality third-party suppliers. The revised strategy is based on four distinct, but importantly interrelated, pillars that provide Cronos Australia with a diversified portfolio of businesses that reduces execution risk while at the same time maximising opportunities in a number of global markets, including Japan and Hong Kong.

In order to execute on its ambitious strategy, on 15 October 2019, the Company lodged a Prospectus with the Australian Securities and Investments Commission in respect of an Initial Public Offering of its shares to raise \$20 million in an offer fully underwritten by Bell Potter Securities. The IPO was successfully completed on 7 November 2019, with the Company being admitted to the Official List of the ASX trading under the code CAU. With funds secured, the Company accelerated the roll out of its plans and the establishment of its first strategic pillar in Australia, executing a nationwide distribution/3PL agreement with Sigma Healthcare Limited and placing its first orders of PEACE NATURALS™ medicinal cannabis oils with its major shareholder, Cronos Group Inc. in Canada. The first sales of the PEACE NATURALS™ medicinal cannabis oils in Australia commenced in April 2020.

In December 2019, the Company established its second pillar, a 50:50 joint venture with A&S Branding Pty. Ltd., a company established by the founders of the successful Sukin Natural Skincare brand, for the development of a range of cannabidiol ("CBD") based products for the Australian and export markets (subject to prevailing legislation in each market). Work is now underway to create brands and formulate products under the joint venture which the Company anticipates will be launched, as legislation permits, in the second half of the 2021 financial year.

A further pillar of the Company's operations was established in February 2020 with the acquisition of a 51% controlling interest in Cannadoc Health Pty. Ltd., a Melbourne-based business operating a medical practice from which a range of cannabinoid-based and other treatments are provided to its established and growing patient base. Under the terms of the agreement with the founders of Cannadoc Health, Cronos Australia acquired its economic interest in the Cannadoc business with effect from 1 January 2020. Cannadoc now has four doctors on staff providing consultations to a growing number of patients and has recently expanded its operations with the establishment of a presence in Sydney. Subject to the restrictions caused by the COVID-19 pandemic, plans are underway to further expand the number of Cannadoc clinics domestically later in 2021.

The Company's final strategic pillar, being the creation of proprietary brands and products for the sale, marketing and distribution in personal care consumer markets in Asia, as well as Australia, was advanced with the establishment of operations in both Hong Kong and Japan. The products, once completed, are expected to be sold to consumers through local distributors and via e-commerce platforms. During the year, the Company's Asian business, led by former Aesop General Manager for the Asia Pacific region, Nick Mulcahy, made significant progress on brand development and the formulation of cannabinoid products. This work included the selection of manufacturing partners, product and packaging development, securing IP protection for brand names, importing raw materials for testing purposes, and the development of launch and go-to-market strategies. Again, subject to the restrictions caused by the COVID-19 pandemic, the Company is working towards a launch of the first products in selected Asian markets by the middle of the 2021 financial year.

In July 2020, the Company expanded its local product offering with the launch of its own, proprietary range of branded medicinal cannabis products named Adaya. The Adaya range currently comprises five distinct products which have been specifically formulated to address the majority of needs of Australian patients. The Company anticipates that further products will be added to the Adaya range in future. Since its launch, sales of the Adaya products have continued to increase, with positive feedback having been received from both healthcare professionals and patients.

In keeping with its asset light philosophy, the Company executed a lease in respect of modest office premises in South Yarra, Victoria in May 2020. From this base, the Company is well positioned to manage its growing portfolio of businesses in both Australia and in overseas markets.

During the year, the Company received benefits worth almost \$200,000 under various Government COVID-19-related stimulus schemes and, with more than \$14.6 million of cash in the bank at year end, the Company is well funded to deliver on its strategic plans. Particularly in the current uncertain climate, the Company is acutely aware of the value of cash and will continue to closely monitor its expenditure to conserve its cash resources.

Despite the obvious challenges posed by the COVID-19 pandemic, we are pleased with the significant progress that has been made by the Company on multiple fronts in the relatively-short period since its IPO in November 2019. We would like to thank our small, but dedicated, team for their hard work and resolve in what has been a highly productive year that we are confident will provide the Company with a solid foundation for further growth in the coming year. Finally, we would like to thank the Board for its guidance and counsel throughout the year and the shareholders for their ongoing support of the Company.

We look forward to reporting on the further progress of Cronos Australia during its first full year as listed public company in 2021.



SHANE F. TANNER
Chairman



RODNEY D. COCKS CSM
Chief Executive Officer



Chairman Shane Tanner and CEO Rodney Cocks “ringing the bell” at ASX on 7 November 2019

Highlights and timeline

HIGHLIGHTS

There have been numerous important highlights and milestones in 2020.

All major cannabis licences granted

Company approved to conduct all aspects required for operations

\$20 million raised in IPO

Company well-funded to execute on its strategy

Admitted to Official List of ASX

Trading under ASX code CAU, the Company has more than 900 shareholders

Asset-light strategy approved

Use of carefully selected outsourcing partners ensures costs are contained

International expansion underway

Operations are well-established and growing in Hong Kong and Japan

Revenues commenced and growing

Product sales and medical consulting fees are increasing each month

“In the history of Cronos Australia, it [2020] will be a memorable one [year] too, with a number of significant milestones having been achieved during the year”

Shane F. Tanner and Rodney D. Cocks CSM

TIMELINE

The Cronos Australia journey to date.

Dec/16

Cronos Australia joint venture established.

December 2016

Jan/18

Principal cannabis licences granted by Office of Drug Control.

January 2018

September 2018

Sep/18

Cronos Australia Limited incorporated.

Experienced Board and Management

Covering all areas of global operations to deliver sustainable growth

Supply and distribution agreements in place

Strong network of global suppliers and distributors working to support the Company

Support of global Cannabinoid leader

Major shareholder, Cronos Group, is a leader in the global cannabis industry

Diversified business model

Based on four separate pillars delivering diversification and a variety of channels for growth

Pandemic resistant

Global operations have been largely unaffected by COVID-19

Founding member of MCIA

Medicinal Cannabis Industry Australia is leading industry body

Dec/18

Import/export licences granted by Office of Drug Control.

Jul/19

Asian operations established with incorporation of Hong Kong subsidiary.

Nov/19

\$20 million raised in IPO and Company admitted to Official List of ASX.

Sigma Healthcare Distribution/3PL Agreement executed.

Feb/20

Acquisition of 51% interest in Cannadoc Health.

Jul/20

Adaya product range launched in Australia.

December 2018

July 2019

October 2019

November 2019

December 2019

February 2020

April 2020

July 2020

Dec/19

CBD Joint Venture established with A&S Branding.

Oct/19

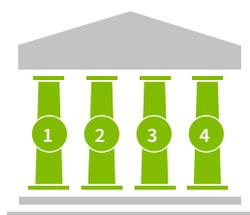
Prospectus for Initial Public Offering lodged with ASIC.

Apr/20

PEACE NATURALS™ product range launched in Australia.



Strategic Overview - The Four Pillars



The growth strategy of Cronos Australia is based on four distinct, but importantly interrelated, business units, or “pillars”, that provide the Company with a diversified portfolio of businesses that reduces execution risk while at the same time maximising opportunities in a number of growing global markets. In addition, a further unit, entitled Corporate, drives the business and manages the Group’s administration and head office function.

The four pillars and the roles they play in the overall operations of the Group are:

1 PILLAR ONE - AUSTRALIA

The development of brands and medicinal cannabis products for sale and distribution in Australia, including the Adaya and PEACE NATURALS™ brands

2 PILLAR TWO - MEDICAL

The operation of medical clinics prescribing a range of cannabinoid therapies under the Cannadoc Health brand

3 PILLAR THREE - ASIA

The development of brands and products for sale and distribution in the Asia Pacific region (subject to local legislative requirements)

4 PILLAR FOUR - CBD JV

The development of brands and CBD-based products for sale and distribution in Australia and target export markets (subject to local legislative requirements) in partnership with A&S Branding Pty. Ltd. (founders of Sukin Skincare).

While each pillar operates independently of each other, a number of important synergies exist within the Group that enable efficiencies to be gained and to leverage the activities of one pillar for the benefit of others. Examples of these synergies include various doctor engagement activities being undertaken by the Group that drive demand for the Group’s medicinal cannabis products while at the same time support the services provided by the doctors at Cannadoc Health. Others include the Group’s relationships with various global suppliers that enable the sourcing of quality cannabinoid raw materials and finished products by the Company for use across several pillars.

Since listing on the ASX in November 2019, considerable progress has been made across all four pillars, with revenue now being generated from the sale of medicinal cannabis products in Australia and from the provision of consultation services to the patients of Cannadoc Health. Subject to restrictions caused by the COVID-19 pandemic, the Company anticipates that the first products currently under development in the Asia and CBD JV pillars will be completed and made available for sale in chosen markets later in the 2021 financial year.



“We are proud to launch 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. The Adaya products are available to be prescribed by doctors and can be dispensed nationwide by pharmacists.”

Rodney Cocks, CEO and Executive Director

1 PILLAR ONE - AUSTRALIA

The Australia pillar is headed by CEO, Rodney Cocks, and is supported by a small, but dedicated, team based in Melbourne managed by Operations Manager, Tyson Craig.

In April 2020, the Company launched its first products in Australia, being the PEACE NATURALS™ brand of medicinal cannabis products. The PEACE NATURALS™ products are supplied by Peace Naturals Project Inc., an indirect subsidiary of the Company’s major shareholder, Cronos Group Inc., and are currently being sold in Canada and Germany. The products are warehoused and distributed across Australia by Sigma Healthcare Limited through its significant nationwide network of retail pharmacies and hospitals.

Subsequent to the launch, the Company’s sales of PEACE NATURALS™ products have steadily increased.

In early July 2020, to augment the PEACE NATURALS™ brand, the Company launched of its own proprietary range of medicinal cannabis products, named Adaya. The Adaya range of products, which currently comprises the five products listed below, is now being sold throughout Australia and can be prescribed through medical practitioners via the Special Access Scheme, Authorised Prescribers or Clinical Trials. The Adaya products are distributed through a national network of pharmacies and hospital pharmacies.

The current range of Adaya products, which are manufactured to Good Manufacturing Practices (“GMP”) standards and are now available to be prescribed, are:

- 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)
- Adaya CBD 100 - CBD only Medicinal Cannabis Oil (30ml tincture / 3000mg Total Cannabinoid Content)
- Adaya 20:1 - THC High Medicinal Cannabis Oil (30ml tincture / 630mg Total Cannabinoid Content)
- Adaya THC 26 - THC only Medicinal Cannabis Oil (50ml tincture / 1300mg Total Cannabinoid Content)

The Adaya range of products has been specifically formulated to address the majority of needs of Australian patients and additional products are intended to be added to the range as the Australian Medicinal Cannabis market, and patient demand, continue to grow. In order to increase awareness of the Company’s products, and to take advantage of the significant recent growth in the numbers of SAS B approvals, a number of doctor engagement activities have now commenced which have already delivered positive results that the Company anticipates will translate into growing sales in the 2021 financial year.

Adaya


PEACENATURALS™
MEDICINAL CANNABIS





“I am very pleased that Cannadoc is now part of the Cronos Australia family and I look forward to an exciting year ahead as we work together to grow the business.”

Dr. David Feng, Medical Director Cannadoc Health

2 PILLAR TWO - MEDICAL

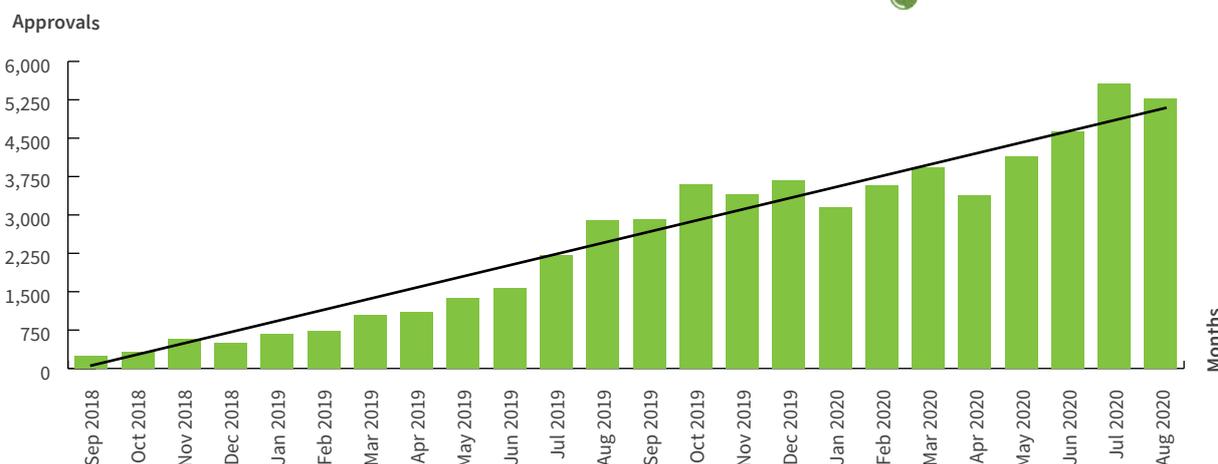
The Medical pillar is headed by Cannadoc Health Medical Director and co-Founder, Dr. David Feng. David is supported by Operations Director and co-Founder, Kevin Brabazon. Cannadoc Health now has a total of four doctors on staff, together with administration support staff. Management, financial and administration support is provided to the Cannadoc Health business by the Cronos Australia management team in Melbourne.

In February 2020, Cronos Australia acquired a 51% equity interest in Cannadoc Health Pty. Ltd. (“Cannadoc”) under an Agreement with the founders of Cannadoc, Dr. David Feng and Kevin Brabazon. Pursuant to the Agreement, the 51% economic interest in the Cannadoc business that was acquired by the Group was effective from 1 January 2020. The Founders were collectively paid a purchase price of \$300,000 in cash and may also be entitled to receive two further earn out payments on the first and second anniversaries of completion. These payments (if any) will equal 51% of five times the future EBITDA of Cannadoc, with \$300,000 to be deducted from the first earn out payment. The Founders also received a total of one million performance rights over ordinary shares in Cronos Australia which will vest on 1 September 2023, subject to certain conditions being met on that date.

Cannadoc currently operates a nationwide medical practice in Melbourne, from which a range of cannabinoid-based and other treatments are provided to its established and growing patient base via a telehealth platform. The Company is now working closely with the Founders to expand the Cannadoc business, with three additional medical practitioners having been appointed since the business was acquired. The business has now also established a presence in Sydney and, subject to the restrictions imposed as a result of the COVID-19 pandemic, the Group plans to open further clinics across Australia in due course.

Due to the prevailing restrictions, Cannadoc’s telehealth platform enables regular consultations to be conducted by the company’s doctors with patients across Australia, an arrangement which has been well-received and embraced by the majority of Cannadoc patients. Notwithstanding the lack of face-to-face consultations, revenues from the Cannadoc business continue to grow in line with the significant increase in the numbers of SAS B approvals for medicinal cannabis (as illustrated in the graph below, not including Authorised Prescribers and Clinical Trials). A number of doctor engagement initiatives are now being introduced to expand the reach of the company’s services, in accordance with applicable regulatory guidance.

Number of medicinal cannabis SAS Category B discrete approvals
(not including Authorised Prescribers and Clinical Trials)





“Each week we are seeing more consumer awareness of, and interest in, cannabinoids like CBD in Hong Kong and Tokyo. We believe there is a great deal of opportunity for Cronos Australia in responding to this interest.”

Nicholas Mulcahy, Director Asia

3 PILLAR THREE - ASIA

The Asia pillar is headed by Hong-Kong based Australian Nick Mulcahy, former head of Asia Pacific at global luxury skin care brand, Aesop. Nick has over 15 years of experience in the development and commercialisation of personal care products, along with a deep understanding of Asian consumer segments, and is supported by an experienced team comprising members based in Japan, Hong Kong and Singapore. Management, financial and administration support is provided to the Asian operations by the Cronos Australia management team in Melbourne.

In July 2019, the Company incorporated Personal Care Asia Limited, a wholly-owned subsidiary in Hong Kong, to serve as the base of the Group’s planned expansion into Asia. Following the recruitment of Nick Mulcahy, a small, Asian-based team was assembled with experience in brand and product development, sales and marketing, distribution and logistics, as well as public relations and e-commerce. In July 2020, a further subsidiary named Personal Care Asia GK was established in Japan which is managed by locally-based Country Manager, Japan, Ayumi Patel.

Also in July 2020, the Company provided an update on its developing operations in Asia aimed at capitalising on the growing market opportunities in this region. The Group is now focused on launching proprietary brands and ranges of personal care consumer products in selected Asian markets. Once complete, the products are expected to be sold to consumers through local distributors and via e-commerce platforms.

During the 2020 financial year, significant progress has been made by the Group’s team in Asia on brand development and the formulation of cannabinoid products. This includes the selection of manufacturing partners, product and packaging development, securing IP protection for brand names, importing raw materials for testing purposes, and the development of launch and go-to-market strategies.

Again, subject to restrictions caused by the COVID-19 pandemic, the Company is working towards launching three separate ranges of personal care consumer products for sale in North Asian markets and, where legal to do so, also in Australia, later in the 2021 financial year.





“Partnering with Cronos Australia offers an exciting opportunity to bring to life premium quality, Australian CBD consumer products. We have an impressive line-up of products offering a unique branding position to ensure CBD Joint Venture captures opportunities in what will be a fast-moving category.”

Alison Goodger, Director A&S Branding Pty. Ltd. (co-founder Sukin Skincare)

4 PILLAR FOUR - CBD JV

The CBD Joint Venture pillar is headed by CEO, Rodney Cocks, on behalf of Cronos Australia, and Simon O'Connor and Alison Goodger on behalf of the Company's joint venture partner, A&S Branding Pty. Ltd. Management, financial and administration support is provided to the joint venture operations by the Cronos Australia management team in Melbourne.

In December 2019, the Cronos Australia formed a joint venture with A&S Branding Pty. Ltd., a company established by Alison Goodger and Simon O'Connor, the co-founders of the successful Sukin Organic Skincare brand. The joint venture agreement provides for the development, branding and marketing of a range of CBD-based products for sale in target export markets and, subject to legislative change, also in Australia. Initial works have now commenced for the development of a brand and the first range of products.

The Company and A&S Branding have agreed to work together on an exclusive basis for an initial period of two years and intend to make the CBD-based products developed by the joint venture available for sale to consumers in overseas markets and patients in Australia, as legislation provides. A joint venture vehicle, named CBD Joint Venture Pty. Ltd., was incorporated on 20 December 2019 ahead of the venture being established, in which the Cronos Australia Group holds a 50% equity interest.

Subject to restrictions caused by the COVID-19 pandemic, the joint venture partners are hopeful of launching the first range of CBD-based consumer products later in the 2021 financial year.



A&S Branding founders, Simon O'Connor and Alison Goodger

Directors and Executives

DIRECTORS



Shane F. Tanner

Shane Tanner was appointed Independent Non-Executive Chairman of Cronos Australia on 9 October 2018. Formerly, Shane was Chairman of Vision Eye Institute (ASX: VEI), Chief Executive Officer of Mayne Nickless Diagnostic Services (later renamed Symbion Health (ASX: SYB)) and Chief Financial Officer of Mayne Group. Shane has significant strategy and transaction experience, including whilst working at Mayne Group via the IPO of telecommunications company, Optus Communications.



Daniel E. Abrahams

Daniel Abrahams was appointed as an Independent Non-Executive Director of Cronos Australia on 17 October 2018. 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 an independent adviser to companies on scaling up. Prior to this, Daniel was an Executive Director and Chief Executive Officer of Superloop Limited (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 Holdings Limited (ASX: AZJ), Suncorp Group Limited (ASX: SUN), Energex and Toyota Tsusho South Pacific.



Jason M. Adler

Jason Adler was appointed as a Non-Executive Director of Cronos Australia on 8 April 2019. He is a Director of Cronos Group Inc., a major shareholder of CAL, and is a co-founder and Managing Member of Gotham Green Partners (“Gotham Green”), a private equity firm focused primarily on early stage investing in companies operating in the cannabis industry. Prior to founding Gotham Green, Jason was the co-founder and Chief Executive Officer of Alphabet Partners, LP, a New York based multi-strategy investment management firm, focussed 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 began his career as a market maker at G&D Trading.



Anna E. Burke AO

Anna Burke AO was appointed as an Independent Non-Executive Director of Cronos Australia on 8 October 2018. 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. She currently serves as a Member of the Administrative Appeals Tribunal. Anna had extensive Committee service in the Federal Parliament, including serving as a member of the Joint Statutory Committee on Corporations and Financial Services and the 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 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.



Michael R. Gorenstein

Michael Gorenstein was appointed as a Non-Executive Director of Cronos Australia on 1 April 2019. Michael is the Executive Chairman of Cronos Group Inc., the Company’s largest shareholder. He is also a co-founder and passive Member of Gotham Green Partners and sits on the Board of Directors of Natuera, Cronos Group’s South American joint venture. Before joining the Company, Michael was the Vice President 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. Michael graduated from the University of Pennsylvania Law School with a Juris Doctor, the Wharton School at University of Pennsylvania with a certificate in Business Economics and Public Policy and the Kelley School of Business at Indiana University with a Bachelor of Science Business in Finance.

Note: Further details regarding the qualifications and positions of each Director can be found on pages 16 and 17.

EXECUTIVES



Rodney D. Cocks CSM

Rodney Cocks CSM was appointed Executive Director and Chief Executive Officer of Cronos of Cronos Australia on 27 September 2018. He is a Director of NewSouthern Capital Pty. Ltd., a private equity firm he co-founded. Prior to joining CAL, he was a member of the Senior Leadership Team at Linfox and was a Consultant at the Boston Consulting Group. Rodney served on the Counter Narcotics Team of the British Embassy in Afghanistan and with the United Nations in Afghanistan, Sri Lanka, Pakistan and Iraq and 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, was a Fellow at Harvard University and named 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.



Thomas G. Howitt

Thomas Howitt was appointed as Chief Financial Officer of Cronos Australia on 3 December 2018 and as Company Secretary on 14 August 2020. Prior to joining the Company, he was the Chief Financial Officer of Global Kinetics Corporation, a pre-IPO life sciences company, Chief Financial Officer/Company Secretary of Simavita (ASX:SVA, TSX-V:SV) a digital healthcare company, Chief Financial Officer/Company Secretary of Genetic Technologies Limited (ASX:GTG, NASDAQ:GENE) a genetic testing company, and several other listed life science companies. Prior to that, Thomas worked in the investment banking industry and was a Taxation Manager at EY. Thomas is a member of the Victorian Branch Committee of AusBiotech and a member of the CCRM Australia Industry Interface Committee based at Monash University.



Nicholas G. Mulcahy

Prior to joining Cronos Australia in 2019 as Director of its operations in Asia, Nick Mulcahy advised leading direct-to-consumer brands and private equity firms. He lives in Hong Kong and started his career at law firms in Sydney, working in London and across Asia. From 2006 to 2014, he was the head of Asia Pacific at Aesop, building it into a highly respected and coveted brand across Japan, Korea, Hong Kong, Taiwan, Singapore, Malaysia and Australia. Nick holds degrees in Arts and Law from the University of Sydney and a postgraduate degree in Arts from the University of New South Wales. He studied competitive strategy at Harvard Business School.



Dr. Jian Hui (David) Feng

Dr. David Feng is a founding member and the Medical Director of Cannadoc Health Pty. Ltd., a Melbourne-based medical clinic business specialising in the delivery of cannabinoid therapies, in which Cronos Australia holds a 51% equity interest. A graduate of the University of Otago, New Zealand (Bachelor of Medicine and Bachelor of Surgery), David completed his specialist GP training in Melbourne, and became a fellow of the Royal Australian College of General Practitioners in 2016. He has a special interest in medicinal cannabis and is passionate about educating patients and medical practitioners in cannabinoid therapies.

Note: Further details regarding the qualifications and positions of Messrs. Cocks and Howitt can be found on pages 16 and 18.



Cronos Australia Limited

Financial Statements for the year ended 30 June 2020

CONTENTS	PAGE
Directors' Report	16
Auditor's Independence Declaration	37
Corporate Governance Statement	38
Statement of comprehensive income/(loss)	48
Statement of financial position	49
Statement of changes in equity	50
Statement of cash flows	51
Notes to the financial statements	52
Directors' Declaration	88
Corporate directory	89
Auditor's Report	90
ASX Supplementary Information	94

Directors' Report

The Directors of Cronos Australia Limited submit their Report for the year ended 30 June 2020.

DIRECTORS

The details of the Directors of Cronos Australia Limited ("CAL" and the "Company") who held office during the period from 1 July 2019 until the date of this Report are stated below, as are the dates on which they were appointed.

Directors in office as at the date of this Report

Shane F. Tanner

<i>Position:</i>	Independent Non-Executive Chairman
<i>Qualifications:</i>	Dip Bus (RMIT), Grad Dip Bus (Swinburne), FCPA, ACIS, MAICD
<i>Other responsibilities:</i>	Member of Audit and Risk Committee Member of Nomination and Remuneration Committee
<i>Other Directorships:</i>	Paragon Care Limited (ASX: PGC) (Chairman) Victory Offices Limited (ASX: VOL)

Shane Tanner was appointed Independent Non-Executive Chairman of CAL on 9 October 2018. Formerly, Shane was Chairman of Vision Eye Institute (ASX: VEI), Chief Executive Officer of Mayne Nickless Diagnostic Services (later renamed Symbion Health (ASX: SYB)) and Chief Financial Officer of Mayne Group. Shane has significant strategy and transaction experience, including whilst working at Mayne Group via the IPO of telecommunications company, Optus Communications.

Rodney D. Cocks CSM

<i>Position:</i>	Chief Executive Officer and Executive Director
<i>Qualifications:</i>	BCom (Melb.), LLB (QUT), MBA (Wharton), MPA (Harvard), GAICD
<i>Other responsibilities:</i>	None
<i>Other Directorships:</i>	None

Rodney Cocks CSM was appointed Executive Director and Chief Executive Officer of Cronos of Cronos Australia on 27 September 2018. He is a Director of NewSouthern Capital Pty. Ltd., a private equity firm he co-founded. Prior to joining CAL, he was a member of the Senior Leadership Team at Linfox and was a Consultant at the Boston Consulting Group. Rodney served on the Counter Narcotics Team of the British Embassy in Afghanistan and with the United Nations in Afghanistan, Sri Lanka, Pakistan and Iraq and 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, was a Fellow at Harvard University and named 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.

Daniel E. Abrahams

<i>Position:</i>	Independent Non-Executive Director
<i>Qualifications:</i>	BBus (Accounting and Finance) (Central Qld Uni.), FCPA, FCIS
<i>Other responsibilities:</i>	Chairman of Audit and Risk Committee Member of Nomination and Remuneration Committee
<i>Other Directorships:</i>	None

Daniel Abrahams was appointed as an Independent Non-Executive Director of CAL on 17 October 2018. 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 an independent adviser to companies on scaling up. Prior to this, Daniel was an Executive Director and Chief Executive Officer of Superloop Limited (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 Holdings Limited (ASX: AZJ), Suncorp Group Limited (ASX: SUN), Energex and Toyota Tsusho South Pacific.

Jason M. Adler

Position: Non-Executive Director

Qualifications: BA (University of Rhode Island)

Other responsibilities: None

Other Directorships: Cronos Group Inc. (NASDAQ: CRON; TSX: CRON)

Jason Adler was appointed as a Non-Executive Director of CAL on 8 April 2019. He is a Director of Cronos Group Inc., a major shareholder of CAL, and is a co-founder and Managing Member of Gotham Green Partners (“Gotham Green”), a private equity firm focused primarily on early stage investing in companies operating in the cannabis industry. Prior to founding Gotham Green, Jason was the co-founder and Chief Executive Officer of Alphabet Partners, LP, a New York based multi-strategy investment management firm, focussed 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 began his career as a market maker at G&D Trading.

Anna E. Burke AO

Position: Independent Non-Executive Director

Qualifications: BA (Hons), MCom (Hons) (University of Melbourne), GAICD

Other responsibilities: Member of Audit and Risk Committee
Chairman of Nomination and Remuneration Committee

Other Directorships: None

Anna Burke AO was appointed as an Independent Non-Executive Director of CAL on 8 October 2018. 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. She currently serves as a Member of the Administrative Appeals Tribunal. Anna had extensive Committee service in the Federal Parliament, including serving as a member of the Joint Statutory Committee on Corporations and Financial Services and the 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 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.

Michael R. Gorenstein

Position: Non-Executive Director

Qualifications: JD (University of Pennsylvania), BEPP (Wharton), BBS (Finance) (Kelley)

Other responsibilities: None

Other Directorships: Cronos Group Inc. (NASDAQ: CRON; TSX: CRON)

Michael Gorenstein was appointed as a Non-Executive Director of CAL on 1 April 2019. Michael is the Executive Chairman of Cronos Group Inc., the Company’s largest shareholder. He is also a co-founder and passive Member of Gotham Green Partners and sits on the Board of Directors of Natuera, Cronos Group’s South American joint venture. Before joining the Company, Michael was the Vice President 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. Michael graduated from the University of Pennsylvania Law School with a Juris Doctor, the Wharton School at University of Pennsylvania with a certificate in Business Economics and Public Policy and the Kelley School of Business at Indiana University with a Bachelor of Science Business in Finance.

In addition to the above Directors, Peter Righetti served as an Executive Director of the Company from 1 July 2019 until 19 June 2020.

Company Secretary

Thomas G. Howitt

Position: Chief Financial Officer and Company Secretary

Qualifications: BCom (University of Western Australia), CA, AICPA, AGIA, ACG, CTA

Other responsibilities: None

Other Directorships: None

Thomas Howitt was appointed as the Chief Financial Officer of CAL on 3 December 2018 and as Company Secretary on 14 August 2020. Prior to joining the Company, he was the Chief Financial Officer of Global Kinetics Corporation, a pre-IPO life sciences company, Chief Financial Officer/Company Secretary of Simavita (ASX:SVA, TSX-V:SV) a digital healthcare company, Chief Financial Officer/Company Secretary of Genetic Technologies Limited (ASX:GTG, NASDAQ:GENE) a genetic testing company, and several other listed life science companies. Prior to that, Thomas worked in the investment banking industry and was a Taxation Manager at EY. Thomas is a member of the Victorian Branch Committee of AusBiotech and a member of the CCRM Australia Industry Interface Committee based at Monash University.

In addition to the above, Lior Harel served as Company Secretary from 1 July 2019 until 14 August 2020.

INTERESTS IN THE SECURITIES OF THE COMPANY AND RELATED BODIES CORPORATE

As at the date of this Report, the following Directors held beneficial interests in the ordinary shares of the Company:

Name of Director	Nature of beneficial interest in ordinary shares
Shane F. Tanner	350,000 ordinary shares (via Tanner Superannuation Fund)
Rodney D. Cocks CSM	20,000,000 ordinary shares (via NewSouthern Investment Holdings 1 Pty. Ltd.)
Daniel E. Abrahams	100,000 ordinary shares (via Dankim Abrahams Investment Trust)
Anna E. Burke AO	50,000 ordinary shares (direct interest)

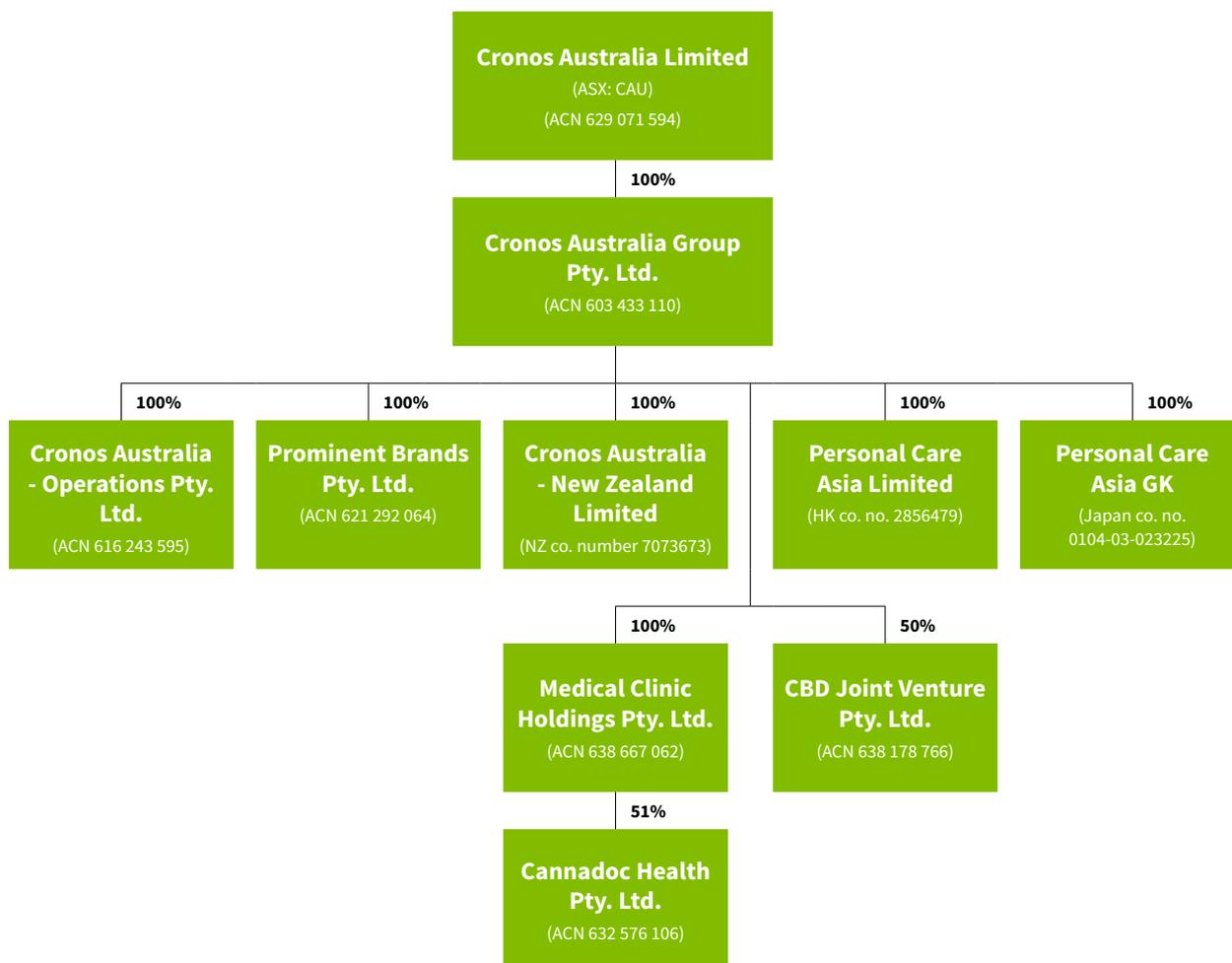
Apart from the above, no Director held any beneficial interest in the Company's shares as at the date of this Report.

OPERATING AND FINANCIAL REVIEW

Corporate structure

Cronos Australia Limited (“CAL” or the “Company”) is a public company limited by shares that is incorporated and domiciled in Australia. The Company has prepared a consolidated financial report incorporating the entities that it controlled during the year ended 30 June 2020 which are collectively referred to in this Report as the “Cronos Australia Group” or the “Group”.

The structure of the Group at the date of this Report can be represented as follows:



Overview

Cronos Australia Limited was incorporated in Victoria, Australia on 27 September 2018. CAL is a medicinal cannabis company that has entered the medicinal cannabis market in Australia and is developing ranges of brands and products, having secured all the necessary Australian licences to operate - including import and export licences. In addition to distributing the PEACE NATURALS™ brand, which is currently sold in Canada and Germany, the Company is outsourcing the manufacturing and distribution of its own cannabinoid-based and related product brands for sale in Australia and target export markets, including Japan and Hong Kong (subject to legislative reform in those markets and CAL obtaining any required approvals and licences). The first range of such products, named Adaya, was launched by the Company in Australia in early July 2020.

The business owned by CAL was established in 2016 as a 50:50 joint venture between Canadian-based cannabinoid company, Cronos Group Inc. (NASDAQ: CRON; TSX: CRON) (“Cronos Group”) and NewSouthern Capital Pty. Ltd., a Melbourne-based private equity firm controlled by Rodney Cocks, CEO of Cronos Australia Limited, and former CAL Executive Director, Peter Righetti.

Principal activities

The principal activity of the entities within the Group during the year ended 30 June 2020 was the expansion of a business to develop and sell ranges of cannabinoid-based and related product brands in Australia and target export markets, including Japan and Hong Kong.

In addition to the above activities, during the year ended 30 June 2020, the Group acquired a 51% equity interest in Cannadoc Health Pty. Ltd., a medical clinic business based in Melbourne, and established a 50:50 joint venture with A&S Branding Pty. Ltd. to develop a range of CBD-infused personal care products.

Finally, the Group expanded its Asian operations with the incorporation of a subsidiary in Japan called Personal Care Asia GK and preliminary work to create a range of cannabinoid-based products for sale in markets including Japan, Hong Kong and Australia.

Apart from the above, there were no significant changes in the Group's activities during the year under review.

Result

During the year ended 30 June 2020, the Company and its subsidiaries generated a consolidated loss after income tax of \$(3,989,678) (2019: \$(2,914,301)). Details relating to the Company's financial results for the year are included below under the heading *Financial Analysis*.

Dividends and distributions

No dividends have been paid since the Company was incorporated, nor have the Directors recommended that any dividend be paid.

Review of operations

During the year ended 30 June 2020, the Group completed its listing on the Australian Securities Exchange ("ASX") having successfully raised a total of \$20,000,000, before the payment of associated expenses, in its initial public offering of shares ("IPO") that was completed on 7 November 2019.

Following the IPO, four separate business units were established as part of a restructure of the Group's operations to facilitate the management and expansion of the Group's activities, in accordance with its "asset light" business model. In addition, a further unit, entitled Corporate, manages the Group's administration and head office function.

The names of the four business units and the activities that they undertake are:

- *Australia* - development of medicinal cannabis products and brands and sale and distribution of these products in Australia
- *Medical* - operation of medicinal cannabis clinics via its investment in Cannadoc Health Pty. Ltd.
- *Asia* - development of consumer brands and products for sale in Asian markets including Japan and Hong Kong
- *CBD Joint Venture* - development of cannabinoid-based products in partnership with A&S Branding Pty. Ltd.

Australia

In April 2020, the Company launched the PEACE NATURALS™ brand of medicinal cannabis products in Australia. The PEACE NATURALS™ products are supplied by Peace Naturals Project Inc., an indirect subsidiary of the Company's major shareholder, Cronos Group Inc., and are currently being sold in Canada and Germany. The products are warehoused and distributed by Sigma Healthcare through its significant nationwide network of retail pharmacies and hospitals. Subsequent to the launch, sales of PEACE NATURALS™ products have steadily increased.

In early July 2020, the Company announced the launch of its own proprietary range of medicinal cannabis products, named Adaya. The Adaya range of products, which initially comprised the two products below, is now being sold throughout Australia and can be prescribed through medical practitioners via the Special Access Scheme, Authorised Prescribers or Clinical Trials. The Adaya products are distributed through a national network of pharmacies and hospital pharmacies.

The two initial Adaya products, which are both manufactured to Good Manufacturing Practices (“GMP”) standards and are now available to be prescribed, are:

- 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)

During the first quarter of the 2021 financial year, the Company intends to expand the Adaya range with the launch of three additional products, all of which will also be manufactured to GMP standards:

- Adaya CBD 100 - CBD only Medicinal Cannabis Oil (30ml tincture / 3000mg Total Cannabinoid Content)
- Adaya 20:1 - THC High Medicinal Cannabis Oil (30ml tincture / 630mg Total Cannabinoid Content)
- Adaya THC 26 - THC only Medicinal Cannabis Oil (50ml tincture / 1300mg Total Cannabinoid Content)

The Adaya range of 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 Australian Medicinal Cannabis market, and patient demand, continue to grow. In order to increase awareness of the Company’s products, doctor engagement activities have now commenced which have already delivered positive results that the Company anticipates will translate into growing sales in the coming months.

Medical

In February 2020, the Group acquired a 51% equity interest in Cannadoc Health Pty. Ltd. (“Cannadoc”) under an Agreement with the founders of Cannadoc, Dr. David Feng and Kevin Brabazon (the “Founders”). Pursuant to the Agreement, the 51% economic interest in the Cannadoc business that was acquired by the Group was effective from 1 January 2020.

The Founders were collectively paid a purchase price of \$300,000 in cash and may also be entitled to receive two further earn out payments on the first and second anniversaries of completion. These payments (if any) will equal 51% of five times the future EBITDA of Cannadoc, with \$300,000 to be deducted from the first earn out payment. The Founders also received a total of one million performance rights over ordinary shares in CAL which will vest on 1 September 2023, subject to certain conditions being met on that date.

Cannadoc currently operates a growing medical practice in Melbourne, from which a range of cannabinoid-based and other treatments are provided to its established patient base. The Company is now working closely with the Founders to expand the Cannadoc business, with additional medical practitioners having been appointed since the business was acquired. Subject to the restrictions imposed as a result of the COVID-19 pandemic, the Group plans to open further clinics across Australia in due course.

Due to the above restrictions, patient consultations with Cannadoc doctors are being conducted via a telehealth platform. Notwithstanding this, revenues from the Cannadoc business continue to grow, with further engagement initiatives being introduced in accordance with applicable regulatory guidance.

Asia

In July 2020, the Company provided an update on its developing operations in Asia to address growing market opportunities in this region. The Group now has operations and subsidiaries in both 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.

As announced, 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 protection for brand names, importing raw materials for testing purposes, and the development of launch and go-to-market strategies.

The Group’s operations in Asia are led by Nick Mulcahy, former Aesop General Manager for the Asia Pacific region, who 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. Nick is supported by an experienced team.

During the 2021 financial year, the Group is working towards launching three separate ranges of consumer products for sale in North Asian markets and, where legal to do so, also in Australia.

CBD Joint Venture

In December 2019, the Group formed a joint venture with A&S Branding Pty. Ltd., a company established by Alison Goodger and Simon O'Connor, the co-founders of Sukin Organic Skincare, for the development of CBD-based products. The joint venture agreement provides for the development, branding and marketing of a range of CBD products for sale in target export markets and, subject to legislative change, in Australia. Initial works have now commenced for the development of the first range of products.

The Company and A&S Branding have agreed to work together on an exclusive basis for an initial period of two years and intend to make the CBD products developed by the joint venture available for sale to consumers in overseas markets and patients in Australia, as legislation provides. A joint venture vehicle, named CBD Joint Venture Pty. Ltd., was incorporated on 20 December 2019 ahead of the venture being established in which the Group holds a 50% equity interest.

Other activities

In addition to the above activities, in May 2020, the Group moved its headquarters to a modest facility in South Yarra, Victoria. These premises, which have been leased for a period of five years, provide the Group with a cost-effective base from which its global operations are managed.

Significant changes in the state of affairs

- On 7 November 2019, the Company raised a total of \$20,000,000, before the payment of associated expenses, in an IPO pursuant to a Prospectus dated 15 October 2019 and was admitted to the Official List of the Australian Securities Exchange under the code CAU. As part of the IPO, options and performance rights were granted by the Company to the Underwriter of the offer and certain Executives of CAL.
- On 23 December 2019, the Company formed a joint venture with A&S Branding Pty. Ltd. for the development of a range of cannabidiol-based products. A joint venture vehicle, named CBD Joint Venture Pty. Ltd., was incorporated on 20 December 2019 ahead of the venture being established in which the Group holds a 50% equity interest.
- On 23 January 2020, the Company incorporated Medical Clinic Holdings Pty. Ltd. in anticipation of the acquisition of the Group's 51% equity interest in Cannadoc Health Pty. Ltd. on 3 February 2020.
- On 3 February 2020, the Company paid \$300,000 to acquire a 51% indirect equity interest in Cannadoc Health Pty. Ltd., a Melbourne-based company operating a medical clinic business specialising in cannabinoid-based therapies.
- On 19 June 2020, Peter Righetti ceased to be an Executive Director and Chief Operating Officer of the Company.

Apart from these events, there have been no other significant changes which have not been described elsewhere in this Financial Report.

Significant events after balance date

- On 1 July 2020, the Group incorporated a Japanese subsidiary named Personal Care Asia GK from which the Group's operations in Japan will be managed.
- On 6 August 2020, Stage 4 COVID-19 restrictions were introduced in the State of Victoria, the location of the Company's headquarters. While a number of the Company's employees were required to work from home, the Group's business operations continued largely unchanged.
- On 14 August 2020, Lior Harel resigned as General Counsel and Company Secretary of the Company. On the same date, Thomas G. Howitt, the Company's Chief Financial Officer, was appointed as Company Secretary of the Company and a total of 461,400 options over the Company's ordinary shares that had previously been granted to Lior Harel were forfeited following his departure from the Company.

Apart from these events, there have been no other significant events which have occurred after balance date.

Financial analysis

Statement of Comprehensive Income/(Loss)

During the year ended 30 June 2020, the Company generated a consolidated loss after income tax of \$(3,989,678) (2019: \$(2,914,301)). For the first four months of the financial year, a significant proportion of the expenses incurred related to the establishment of the Company's medicinal cannabis business as well as preparing for its IPO and listing on the ASX, which was subsequently completed on 7 November 2019.

During the year, the Company generated its first revenues from the sale of its PEACE NATURALS™ medical cannabis oils (\$11,430) and from medical consulting services provided by its subsidiary Cannadoc Health Pty. Ltd. (\$112,264), which the Group acquired on 3 February 2020. Other income included amounts received under various Government stimulus schemes relating to the COVID-19 pandemic (\$190,183), as well as interest received (\$132,195) on the funds raised from the IPO, and a profit of \$17,700 from the sale of a motor vehicle driven by the Company's former Chief Operating Officer.

Personnel expenses increased from \$1,713,193 to \$3,147,872 as the Company's global workforce was expanded to meet its growing operations, while site-related expenses of \$81,104 were incurred as part of an earlier strategy to construct a cultivation facility that was pivoted in favour of the Company's current "asset light" strategy. Finance costs of \$205,136 related principally to interest that was accrued in relation to its loan from Cronos Group Inc. Of the total loss of \$(3,989,678), an amount of \$(52,465) related to the non-controlling interests associated with Cannadoc Health and CBD Joint Venture.

Statement of Financial Position

As at 30 June 2020, the Group's consolidated cash and cash equivalents had increased to \$14,685,943 (2019: \$159,679) as a result of the \$20,000,000 raised as part of the Company's IPO on 7 November 2019. From the amount raised, a total of \$3,542,602 in IPO-related expenses was deducted (refer *Note 21*). During the year under review, inventories of medicinal cannabis oils were purchased to meet the growing demand for the Company's products, while the balance of the Group's property, plant and equipment increased to \$490,380 as a result of the Cannadoc Health acquisition and the establishment of the Company's new office premises in South Yarra, Victoria.

Goodwill of \$291,457 was recognised as part of the Cannadoc Health acquisition in February 2020, as was a liability of \$398,988 in respect of the Company's office lease, in accordance with AASB 16 *Leases*. Trade and other payables at 30 June 2020 had fallen to \$452,436 following the payment of significant IPO-related expenses that were outstanding at 30 June 2019. Chattel mortgage liabilities relating to motor vehicles fell to \$31,892 at balance date following the payout of one of the mortgages relating to a vehicle that was subsequently sold. Employee benefit provisions relating to annual leave increased to \$70,516 in line with the Group's growing workforce and reduced annual leave taken as a result of the COVID-19 pandemic.

A share-based payments reserve of \$214,729 relating to expenses arising from the grant of various securities was created during the year, as was a balance of \$53,743 relating to the non-controlling interests associated with the interests of Cannadoc Health Pty. Ltd. and CBD Joint Venture Pty. Ltd. owned by parties outside the Group (refer *Note 24*).

Statement of Cash Flows

During the year ended 30 June 2020, the Company received its first cash receipts from customers (\$114,783 in total) relating to medical consultation fees and the sale of medicinal cannabis products. Other cash receipts from operating activities included interest (\$131,924) and cash receipts under Government stimulus schemes (\$75,478). Payments to suppliers and employees increased to \$5,211,988 in line with the Group's expanding workforce and increasing global operations.

The Group's investing activities included the receipt of a landlord incentive payment of \$49,384 relating to its South Yarra office, offset by a net cash outflow of \$295,894 in relation to the acquisition of Cannadoc Health Pty. Ltd. (refer *Note 26*), as well as purchases of equipment and other payments associated with the establishment of the new office.

Net cash flows from financing activities for the year ended 30 June 2020 totaling \$19,931,982 were driven largely by the funds raised from the IPO and the receipt of funds from convertible loans (\$3,500,000) that were used to fund the Group's operations prior to the IPO, all of which were converted into equity as part of the IPO process. In addition, cash payments relating to the IPO of \$3,092,824 were made, including underwriting, legal and accounting fees.

Profit/(loss) per share

The basic and diluted profit/(loss) per share for the year ended 30 June 2020 was \$(0.04) (2019: \$(0.96)).

Legal matters

There were no legal matters affecting the Company as at the date of this Report.

Business strategy, future developments and prospects

The Company has adopted an “asset light” business model in which it has outsourced the cultivation and manufacture of cannabis-based products to selected leading manufacturers globally. The Group’s primary strategy focusses on the development of proprietary brands and products sourced from such parties that the Group intends to sell and distribute in various markets around the world, including Australia.

As outlined above, the Group is focusing its efforts on four distinct areas, most of which have made significant progress since the Company listed on the ASX in late 2019. During the 2021 financial year, the Group intends to leverage the progress made during that period, as summarised below:

- *Australia* - expand the sale and distribution of medicinal cannabis products in the PEACE NATURALS™ and Adaya ranges in Australia and build on the doctor engagement programs that are now underway.
- *Medical* - increase the numbers of patients accessing the services provided by the Cannadoc medicinal cannabis clinic and explore opportunities to open further clinics around Australia, as COVID-19-related restrictions permit.
- *Asia* - complete the development of the three consumer brands and launch such products for sale in Asian markets including Japan and Hong Kong and, where legal to do so, also in Australia.
- *CBD Joint Venture* - progress the development of cannabinoid-based brands and products in partnership with A&S Branding Pty. Ltd. for target export markets and, where legal to do so, also in Australia.

Material business risks

The Group operates in the medicinal cannabis industry in Australia and is in the development and expansion phases. Given the relatively early stage of the industry in Australia as a whole, any investment in companies such as CAL should be considered high-risk. The Group is subject to a range of normal business risks including, but not limited to, its ability to hire high quality personnel, government policies, regulations and legislative changes, the state of markets generally, exchange rate fluctuations and a range of other factors which are outside the control of the Board and management.

More specific material risks that are applicable to the industry and the Group include, but are not limited to:

- **Medicinal cannabis industry in Australia.** An investment in an industry in the early stages of development, such as the Australian medicinal cannabis industry, should be considered speculative and involves risks, including obstacles or delays in the implementation of business plans, uncertainties over the ability to generate revenue and with the legislative regime generally. While regulations and guidelines in relation to the application of reforms are available, there is limited market guidance. Given the continuing developments in the relevant laws and regulations, there is a risk that a regulatory body could, in future, change the application of laws which may adversely impact the Group.
- **Regulatory.** The Group’s ability to commercialise products for sale in Australia is reliant on the renewal of licences that have been granted to it by the Office of Drug Control (“ODC”). While the Group submits renewal applications by the required dates and is not aware of any reason why the ODC would refuse to grant such renewals, the Company cannot guarantee that the licences will be renewed. Failure to comply with licence conditions may result in one or more of the Company’s licences being suspended or revoked, which could prevent the Group from carrying out its activities.
- **Future revenue and profitability.** To date, the Group has generated only modest revenue. Future sales of products by the Group and its future profitability are contingent on, amongst other things, its ability to maintain the required licences and permits, develop desirable new brands and products, entry into supply, distribution, import and export arrangements, and broader market conditions generally. Consequently, the level of future sales of products by the Group cannot be accurately determined and CAL cannot provide any guarantee that future sales will be achieved and, even if future sales are achieved, they may not result in the Group being profitable.

- **Production.** Medicinal cannabis companies rely on their ability to maintain a supply of specific plant varieties for the products they produce and sell. As such, the Group must maintain an uninterrupted supply of high-quality raw materials from growing and extracting operations which may be impacted by plant diseases, interruptions to the controlled environment required to produce medicinal cannabis, underestimating the costs and time to cultivate and produce products, access to key inputs and the impact of legislation in both Australia and in other countries. Adverse outcomes in relation to these matters may affect the Group's activities, operations and financial performance. The Company's business involves the development of brands and products that depend on the supply of raw materials whose production is susceptible to risks such as insects, disease, storm, fire, frost, flood, drought, water availability and salinity, pests and force majeure events, including the impacts of climate change generally.
- **Growth prospects and expansion plans.** CAL's prospects depend upon various factors, including brand and product acceptance. If CAL fails to execute on its strategic plans, its financial performance is likely to be affected. The Company's financial prospects are dependent on there being sufficient demand for cannabinoid and related products in Australia, and other markets that the Company may seek to enter in the future, including in Asia. There is also 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 which could adversely affect the Company's performance. The Company's ability to achieve its growth strategy is also dependent on it being able to export its products internationally which may require changes in the laws relating to cannabis in each of those countries to allow for the importation of the types of products that CAL plans to produce. There are no guarantees that the laws of any of the target markets will be amended or that the Company will be able to successfully access such markets.
- **Competition.** The Australian medicinal cannabis market is becoming increasingly more competitive and subject to rapid ongoing development. There can be no assurances that the competitive environment will not change adversely due to the actions of governments or competitors or changes in customer preferences. The actions of an existing competitor or the introduction of a new competitor in a given market may make it difficult for the Group to increase its revenue which, in turn, may have an adverse effect on its profitability. As the Group seeks to enter new markets, including those in Japan, Hong Kong and other Asian countries, the competitive landscape is less clear and may pose further risks when launching new brands and products in those markets.
- **Product failure.** In the event that any of the Group's products cause serious side effects, or are misused, abused or diverted, CAL may be exposed to increased compliance costs in carrying out trials or testing, or regulatory authorities may revoke approvals granted to the Company, impose more onerous standards or product labelling requirements or require it to conduct a product recall. In these circumstances, CAL could also be subject to regulatory action or be found liable for harm caused which could have an adverse effect on its business, results of operations, financial condition and reputation.
- **COVID-19 pandemic.** Many aspects of the global economy have been adversely impacted by the COVID-19 pandemic. While the Company is still actively pursuing its agreed strategic plan and objectives, the restrictions and uncertainty surrounding the pandemic in both Australia and overseas pose a potential risk to the Company's future activities, operations and financial performance.
- **IP Licence.** The Group has entered into an IP Licence with Cronos Group Inc. in respect of certain intellectual property rights and to provide access to certain trade secrets and know-how relating to medicinal cannabis. The IP Licence has an initial term of 10 years and will automatically extend for further one-year terms unless terminated by either party. Cronos Group may terminate the IP Licence under certain circumstances which may restrict the Company's ability to use the underlying intellectual property, including various trademarks and, potentially, the "Cronos" name. Any such termination of the Licence could have an adverse impact on the prospects of the Group.

In accordance with good business practice in the medicinal cannabis industry, the Group's Management actively and routinely employs a variety of risk management strategies which are broadly described in the Corporate Governance Statement under the heading *Principle 7: Recognise and manage risk*.

The Board believes that the Group is not yet sufficiently large to warrant the appointment of an internal auditor.

DIRECTORS' REPORT CONTINUED

ENVIRONMENT AND REGULATION

The Group does not believe it is subject to any specific environmental regulations. The Board believes there are adequate systems in place to ensure the Group's compliance with relevant Federal, State and Local government environmental regulations and the Board is not aware of any breach of applicable environmental regulations by the Group. There were no significant changes in laws or regulations during the period from 1 July 2019 to the date of this Report which have affected the business activities of the Group and the Board is not aware of any such changes in the near future.

SHARE OPTIONS AND PERFORMANCE RIGHTS

Unissued shares under option

As at 30 June 2020, the Company had a total of 3,026,400 ordinary shares under option, all of which were granted as part of the Company's IPO on 7 November 2019 (refer Note 25). Of the total number of options granted, a total of 2,000,000 were granted to the Underwriter of the Company's IPO, while the remaining 1,026,400 options were granted to Executives of the Company. The terms and conditions applicable to all of the above options were detailed in the Company's Prospectus dated 15 October 2019. No ordinary shares were issued as a result of the exercise of any options during the year ended 30 June 2020. On 14 August 2020, a total of 461,400 options that had previously been granted to Lior Harel were forfeited following his departure from the Company.

Performance rights

As at 30 June 2020, the Company had a total of 1,120,000 performance rights on issue, of which 120,000 were granted as part of the Company's IPO on 7 November 2019 (refer Note 25). The terms and conditions applicable to these rights were detailed in the Company's Prospectus dated 15 October 2019. The remaining 1,000,000 performance rights were granted to the Founders of Cannadoc Health Pty. Ltd. as part of the Company's acquisition of a 51% indirect equity interest in that company on 3 February 2020 (refer Note 26).

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

During the year ended 30 June 2020, the Company paid premiums in respect of a contract insuring the Directors and Officers of the Company and any related body corporate against a liability incurred in his or her capacity as a Director or Officer to the extent permitted by the *Corporations Act 2001*. The contract of insurance prohibits disclosure of the nature of the insurance provided and the amount of the premium. The Company has agreed to indemnify the current and former Directors and Executive Officers against all liabilities to other persons that may arise from their position as Directors or Officers of the Company and its subsidiaries, except in circumstances including where the individual concerned has committed an illegal act, wilful misconduct or dishonesty or where to do so would be generally prohibited by law.

REMUNERATION REPORT (AUDITED)

Introduction

This Remuneration Report outlines the Director and Executive remuneration arrangements of Cronos Australia Limited ("CAL" and the "Company") and its subsidiaries as at 30 June 2020 (collectively, the "Group") in accordance with the requirements of the *Corporations Act 2001* and its Regulations. For the purposes of this Report, Key Management Personnel ("KMP") of the Group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, directly or indirectly, including any Director (whether executive or not) of the parent company, and includes the three executives in the Group, as set out below.

For the purposes of this Remuneration Report, the term "Executive" encompasses the Group's Chief Executive Officer, Chief Financial Officer and General Counsel / Company Secretary. All three Executives served in their roles for the entire year ended 30 June 2020.

Also during the year ended 30 June 2020, Peter Righetti served as Chief Operating Officer and Executive Director of the Company from 1 July 2019 until 19 June 2020. On 14 August 2020, Lior Harel resigned as General Counsel and Company Secretary of the Company. On the same date, Thomas Howitt, the Company's Chief Financial Officer, was also appointed as Company Secretary of the Company.

Details of Key Management Personnel as at balance date

Directors	Executives
Shane F. Tanner (<i>Non-Executive Chairman</i>)	Rodney D. Cocks CSM (<i>Executive Director / Chief Executive Officer</i>)
Daniel E. Abrahams (<i>Non-Executive Director</i>)	Thomas G. Howitt (<i>Chief Financial Officer</i>)
Jason M. Adler (<i>Non-Executive Director</i>)	Lior Harel (<i>General Counsel / Company Secretary</i>)
Anna E. Burke AO (<i>Non-Executive Director</i>)	
Michael R. Gorenstein (<i>Non-Executive Director</i>)	

Details of shares held by Key Management Personnel as at balance date

Interest in shares held in Cronos Australia Limited	Opening balance	Shares issued	Shares purchased	Shares sold	Closing balance
Directors					
Shane F. Tanner	-	-	350,000	-	350,000
Daniel E. Abrahams	-	-	100,000	-	100,000
Jason M. Adler	-	-	-	-	-
Anna E. Burke AO	-	-	50,000	-	50,000
Michael R. Gorenstein	-	-	-	-	-
Executives					
Rodney D. Cocks CSM	1,000,000	19,000,000	-	-	20,000,000
Thomas G. Howitt	-	-	-	-	-
Lior Harel	-	-	-	-	-
Totals	1,000,000	19,000,000	500,000	-	20,500,000

Nomination and Remuneration Committee

The Nomination and Remuneration Committee of the Board of Directors of the Company was established on 28 February 2019 and is, amongst other things, responsible for determining and reviewing the remuneration arrangements of the Directors, the Chief Executive Officer and the Executive Team. The Committee is chaired by Anna Burke AO and has as its members Shane Tanner and Daniel Abrahams, all three of whom are independent directors.

The Nomination and Remuneration Committee was established to assess the appropriateness of the nature and amount of remuneration paid to Directors and Executives on a periodic basis by reference to relevant employment market conditions (as described further below), with the overall objective of ensuring maximum shareholder benefit from the retention and incentivisation of a high quality Board and Executive Team.

Remuneration strategy

The performance of the Company depends upon the quality of its Directors and Executives. To prosper, the Company must attract, motivate and retain appropriately-skilled Directors and Executives.

To this end, the Company embodies the following principles in its remuneration framework:

- provide competitive rewards to attract high calibre Executives, being those individuals charged with overseeing and managing the operations of the Company, whose names appear in the list above as at balance date;
- wherever possible, link Executive rewards to the creation of shareholder value;
- ensure that a portion of an Executive's total remuneration package is "at risk"; and
- establish appropriate and demanding performance hurdles for variable Executive remuneration.

The Company's remuneration strategy is approved each year by the Nomination and Remuneration Committee.

Remuneration structure

In accordance with best practice corporate governance, the structure of Non-Executive Director and Executive remuneration is both separate and distinct.

The key performance indicators applicable for Executives are quantifiable and the methods of measurement are defined and agreed in advance. Potential levels of remuneration are linked to each performance indicator based on the pretext that if the performance indicators, as defined, are met then the business will have more likely achieved its key financial or strategic objectives. In addition to the various key performance indicators that are used to assess the performance of each Executive, the overall financial performance of the Company is also taken into consideration when determining both base levels of remuneration and short-term incentive payments that may be made to those individuals.

Non-Executive Director remuneration

Objective

The Board seeks to set aggregate remuneration at a level which provides the Company with the ability to attract and retain Directors of the highest calibre, whilst incurring a cost which is acceptable to shareholders.

Structure

The Company's Constitution and the Listing Rules of the Australian Securities Exchange specify that the aggregate remuneration of Non-Executive Directors shall be determined from time to time by a General Meeting of shareholders. An amount not exceeding the amount so determined is then divided between the Directors, as agreed. The most recent determination was made on 4 September 2019, when an aggregate remuneration amount not exceeding \$400,000 per year was approved. The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst the Directors are reviewed annually.

Each Non-Executive Director receives a fee for serving as a Director of the Company. No additional fees are paid to any Director for serving on either of the two sub-committees of the Board. The fees paid to Directors may comprise a combination of cash and equity securities which would be granted under the Company's Equity Incentive Plan ("Plan").

Executive remuneration

Objective

The Group aims to reward its Executives with a level and mix of remuneration which is commensurate with their respective positions and responsibilities within the Group and so as to:

- reward Executives for Group and individual performance against targets set by reference to suitable benchmarks;
- align the interests of Executives with those of the shareholders; and
- ensure that the total remuneration paid is competitive by market standards.

Structure

The remuneration paid to Executives is set with reference to prevailing market levels and conditions and amounts paid by comparable companies. The total remuneration paid comprises a fixed remuneration component comprising base salary and statutory superannuation, together with a variable remuneration component (which is linked to agreed Key Performance Indicators ("KPIs")) as described below, which comprise both short-term incentive payments, which are typically paid in cash, and the granting of equity securities as part of a long-term incentive arrangement. The Group aims to target, where possible, a remuneration mix comprising 70% fixed remuneration and 30% variable remuneration.

Fixed remuneration

Objective

The Nomination and Remuneration Committee oversees the setting of fixed remuneration for KMP on an annual basis. The process consists of a review of Company, divisional and individual performance, relevant comparable remuneration being paid in the broader market and internally and, where appropriate, external advice on both policies and practices. The members of the Committee have access to external advice independent of Management, if required.

Structure

Fixed remuneration consists of some or all of the following components:

- base salary;
- non-monetary benefits which may include costs associated with novated motor vehicle leases, vehicle parking etc. (and associated fringe benefits tax, if applicable); and
- superannuation benefits, which includes statutory employer contributions made by the Company.

With the exception of the employer contributions to superannuation, Executives are given some flexibility to decide the composition of their total fixed remuneration and the allocation between cash and other benefits. It is intended that the manner of payment chosen will be optimal for the recipient without creating any additional cost for the Group.

Fixed remuneration is reviewed annually with reference to individual performance, market benchmarks for individual roles and the overall financial performance of the Group. Any changes to the fixed remuneration of Executives are first approved by the Nomination and Remuneration Committee.

All employee remuneration is evaluated on a regular basis using a set of variables and taking into account the addition of statutory superannuation contributions. An assessment of existing base salaries is made annually using comparisons against independent market data which provides information on salaries and other benefits paid for comparable roles within the life sciences sector, using independent salary survey data. Formal annual performance reviews with each employee are undertaken shortly after the end of the financial year and are based on a rating system which is used to assess his or her eligibility for salary increases. Other more qualitative factors, including the specialised knowledge and experience of the individual and the perceived difficulty of replacing that person, are also taken into account when considering salary adjustments.

Following performance reviews undertaken with each Executive in early July 2020, the Nomination and Remuneration Committee resolved that, in view of economic and other factors resulting from the COVID-19 pandemic, no increases in base salaries would be given to any members of KMP in respect of the year ending 30 June 2021.

In respect of the year ended 30 June 2020, the Company provided total remuneration for all Executives that averaged 87.6% fixed and 12.4% at risk (comprising 6.4% short term and 6.0% long term components). In respect of the year ending 30 June 2021, the Company will target total remuneration for all Executives that will average a minimum of 69.9% fixed and up to a maximum 30.1% at risk (comprising 22.9% short-term and 7.2% long-term components).

Variable remuneration

Objective

The objective of variable remuneration is to:

- align the interests of Executives with those of the shareholders;
- link Executive rewards to the achievement of strategic goals and performance of the Company; and
- ensure that the total remuneration paid by the Company is competitive by market standards.

Short Term Incentive (“STI”) plan

STI is an annual plan that applies to Executives and other senior employees which is based on the performance of both the Company and the individual during a given financial year. The levels of STI payments which may be made vary depending on the role, responsibilities and deliverables achieved by each individual during the year under review. The amount of actual STI payments made to the relevant employee will depend on the extent to which the pre-agreed specific targets are met within a financial year. Specific targets are quantifiable, with the method of measurement being defined and agreed at the beginning of the financial year. The ongoing performance of the Executive or senior employee is evaluated regularly during the performance cycle.

DIRECTORS' REPORT CONTINUED

Group objectives, and their relative weightings, vary depending on the position and responsibility of the respective individual, but in respect of the year ended 30 June 2020 they included, amongst other things, the achievement of:

- all tasks necessary for the Company to complete its proposed IPO and listing on the ASX, including the raising of \$20,000,000 in new equity to fund the Group's strategic business objectives;
- contributing to business growth and expansion in accordance with the Group's strategic plan; and
- overall performance and the delivery of results which meet or exceed agreed targets.

As the Company continues to expand its operations, future STI payments will also be based on other factors including, amongst other things, the Company's achievement of:

- earnings before interest, tax, depreciation and amortisation ("EBITDA") and net profit targets, where an individual has capacity to impact this result;
- achieving or exceeding agreed revenue targets; and
- achieving targets for cost reduction or efficiency gains.

These latter measures are chosen as they represent the key drivers for the short-term success of the business and provide a framework for delivering long-term value for shareholders. Personal and operating objectives vary according to the role and responsibility of the Executive and include a number of specific objectives such as progress made in respect of project delivery, sales expansion, capital management, regulatory and compliance/reporting outcomes, intellectual property management and various staff and other leadership objectives as agreed with the Chief Executive Officer.

Achievement of an individual's targets and objectives is documented and assessed by both the individual and his or her direct manager. Each individual participates in an annual performance review shortly after year end and must provide evidence of the objectives that he or she has delivered during the period under review. Each objective is then rated on an agreed achievement scale. Depending on the total ratings achieved, the individual may then be eligible to receive an STI payment.

STI payments, if any, are typically made in July/August of each year in relation to the previous financial year, subject to the completion of the performance review process, the receipt of a satisfactory rating and the approval of both the Nomination and Remuneration Committee and the Board. The Board, via its Chairman, conducts this process in the case of the Chief Executive Officer. Any such STI payments which may be made are delivered during the following reporting period as a combination of cash payments and the possible granting of equity securities pursuant to the Plan.

Performance appraisals for all members of the Executive Team first occurred during the year under review in respect of the year ended 30 June 2019. The most recent performance appraisals took place in mid-July 2020 in respect of the year ended 30 June 2020.

In respect of the year ended 30 June 2020, payments totalling \$101,064 were accrued as at balance date in respect of STI payments due to Executive members of KMP following the successful achievement of the targets outlined above and the completion of the annual performance appraisal process.

Also during the year ended 30 June 2020, a total of 120,000 performance rights were granted to Executive members of KMP following the successful completion of the Company's IPO on 7 November 2019, as set out in the table below:

Interest in rights over Cronos Australia shares	Opening balance	Rights granted	Rights converted	Closing balance	Vested at year end
Executives					
Rodney D. Cocks CSM	-	-	-	-	-
Thomas G. Howitt	-	60,000	-	60,000	60,000
Lior Harel	-	60,000	-	60,000	60,000
Totals	-	120,000	-	120,000	120,000

Long Term Incentive (“LTI”) plan

In order to attract, retain and incentivise high-performing senior executives and to align their overall remuneration with the creation of shareholder wealth, the Company has implemented an Equity Incentive Plan (the “Plan”). LTI grants made to Executives and senior employees are delivered in the form of options over unissued ordinary shares in the Company which are granted under the terms and conditions of the Plan. Only Executives who are able to influence the generation of shareholder wealth and have a material impact on the Group’s long-term profitability are invited to participate in the Plan. The total value of the LTI grants made to a given Executive varies and is determined with reference to the nature of the individual’s role, as well as his or her future potential and specific individual and Company performance, and are calculated as a percentage of base salary with reference to the various independent measures, as explained below.

The initial grants of securities under the Plan, in the form of options over the Company’s shares, were made to the Company’s Chief Financial Officer and General Counsel / Company Secretary immediately after the conclusion of the Company’s IPO on 7 November 2019. Equity grants to the Company’s Chief Executive Officer and (former) Chief Operating Officer were not proposed at that time given their significant shareholdings in CAL. Apart from certain time vesting provisions, there are no specific performance hurdles in respect of the LTI grants that are made to Executives. Such options also serve as a retention tool and may reduce the likelihood of high-performing Executives and senior employees resigning or being targeted by other companies.

As detailed in *Note 25* of the attached financial statements, the options described above were granted at no cost, have a life of four years and vest in three equal tranches after 12, 24 and 36 months from the date on which they were granted, being 7 November 2019.

In cases where an Executive ceases employment with the Company prior to the vesting of his or her options, the options are forfeited. In cases where the relevant options have vested, the prescribed period in which the options may be exercised ranges from two to twelve months, depending on the circumstances under which the employee left the Company, e.g. resignation, retirement, termination or death. In the event of a change of control of the Company, the performance period end date will be brought forward to the date of the change of control and all awards will vest over this shortened period.

Valuation of LTI grants

As stated above, the Company uses a variety of methods to calculate the percentage of a given Executive’s base salary that could be potentially made available in the form of LTI grants. Specifically, the Company considers industry-accepted rates for comparable companies to arrive at percentages that meet the objectives of the Plan (i.e. that they provide suitable retention and incentive characteristics) while at the same time being fair and reasonable for both the Company and its shareholders and the Executives.

In respect of the LTI securities that were granted during the year, the Company first reviewed market surveys prepared by a number of independent organisations to assess the appropriate maximum annual value of long-term equities to be issued to those Executives. The reports chosen examined the composition of the total remuneration paid to more than 200 executives based on a number of categories pertaining to the relevant companies employing them, including market capitalisations, numbers of employees and industry sector.

The figures obtained from the reports were then used to calculate the average percentage that should be applied to the current base salaries of the Executives to obtain the maximum value of the LTI component that could potentially be payable. Based on the 50th percentile figure for each of the categories in the reports, the maximum percentage that the value of long-term equity grants represents of base salary was calculated to be 22%.

In addition to the above analysis based on independent anonymous market data, the Company considered the value of the equity grants made to senior executives as a percentage of their base salaries by other ASX-listed healthcare companies that have granted long-term equities to retain and incentivise their executives. The information obtained from this review confirmed that the above figure of 22%, being the ratio of the maximum value of long-term equity grants as a percentage of base salary in a given year, was within the range being paid by other selected healthcare companies listed on the ASX.

DIRECTORS' REPORT CONTINUED

The valuation of equity securities for accounting purposes is calculated using a Black-Scholes model that takes into account a number of variables including exercise price, term, volatility, dividend payments, interest rates etc. Given the time value of an option, the longer the term of an option, the greater its value. For accounting purposes, based on AASB 2 *Share-based payments*, the total share-based payments expense attributable to such securities is recognised evenly on a monthly basis over the vesting period applicable to the relevant option.

In order to calculate how many options could be granted to each Executive to result in a fair value of options granted that represents approximately 22% of the individual's current base salary, an independent valuation of the securities was sought and received from an independent accounting firm. These values were used by the Company to calculate the total share-based payments expense that will be reflected in the Company's financial statements for the year ended 30 June 2020 and beyond.

Following performance reviews undertaken with each Executive in early July 2020, the Nomination and Remuneration Committee resolved that, in view of economic and other factors resulting from the COVID-19 pandemic, there would be no LTI grants made to any Executive in respect of the year ending 30 June 2021.

During the year ended 30 June 2020, a total of 1,026,400 options over the Company's ordinary shares were granted to Executive members of KMP following the successful completion of the Company's IPO on 7 November 2019, as set out in the table below:

Interest in options over Cronos Australia shares	Opening balance	Options granted	Options exercised	Closing balance	Vested at year end
Executives					
Rodney D. Cocks CSM	-	-	-	-	-
Thomas G. Howitt	-	565,000	-	565,000	-
Lior Harel	-	461,400	-	461,400	-
Totals	-	1,026,400	-	1,026,400	-

STI and LTI payments made

In respect of the years ended 30 June 2020 and 30 June 2019, the following remuneration, STI and LTI payments were made to Executives, as well as the percentages that each payment represents as a proportion of their total remuneration:

Year ended 30 June 2020	Fixed		At risk		Post-employment	
	Base salary (% of total)	STI (% of total)	LTI (% of total)	Superannuation (% of total)	Totals	
Name and title of Executive	\$	\$	\$	\$	\$	
Rodney D. Cocks CSM <i>Chief Executive Officer</i>	307,125 (93%)	-	-	21,375 (7%)	328,500 (100%)	
Thomas G. Howitt <i>Chief Financial Officer</i>	307,125 (69%)	61,500 (14%)	50,158 (11%)	24,655 (6%)	443,438 (100%)	
Lior Harel (refer Note) <i>General Counsel / Co. Sec.</i>	250,435 (70%)	39,564 (11%)	45,142 (13%)	21,003 (6%)	356,144 (100%)	
Peter J. Righetti (refer Note) <i>Ex. Chief Oper. Officer</i>	435,214 (95%)	-	-	21,003 (5%)	456,217 (100%)	
Totals	1,299,899	101,064	95,300	88,036	1,584,299	

Note: Peter Righetti's base salary for the year ended 30 June 2020 of \$435,214 includes an Eligible Termination Payment of \$172,748 that was accrued as at 30 June 2020 and subsequently paid on 15 July 2020. On 14 August 2020, Lior Harel resigned as General Counsel and Company Secretary of the Company. On the same date, Thomas Howitt, the Company's Chief Financial Officer, was also appointed as Company Secretary of the Company.

Year ended 30 June 2019	Fixed	At risk	Post-employment	Totals	
Name and title of Executive	Base salary (% of total) \$	STI (% of total) \$	LTI (% of total) \$	Superannuation (% of total) \$	Totals \$
Rodney D. Cocks CSM <i>Chief Executive Officer</i>	300,000 (91%)	-	-	28,500 (9%)	328,500 (100%)
Thomas G. Howitt <i>Chief Financial Officer</i>	175,000 (77%)	34,521 (15%)	-	16,625 (8%)	226,146 (100%)
Lior Harel <i>General Counsel / Co. Sec.</i>	163,333 (77%)	33,293 (16%)	-	15,517 (7%)	212,143 (100%)
Peter J. Righetti <i>Ex. Chief Oper. Officer</i>	245,000 (91%)	-	-	23,275 (9%)	268,275 (100%)
Totals	883,333	67,814	-	83,917	1,035,064

Remuneration of Key Management Personnel (“KMP”) - years ended 30 June 2020 and 2019

Name of Director		Short-term	Post-employment	Share-based	Totals	
		Salary/fees \$	STI \$	Superannuation \$	LTI \$	\$
Shane F. Tanner <i>Non-Executive Chairman</i>	2020	155,000	-	-	-	155,000
	2019	86,795	-	-	-	86,795
Daniel E. Abrahams <i>Non-Executive Director</i>	2020	76,136	-	-	-	76,136
	2019	35,205	-	-	-	35,205
Jason M. Adler <i>Non-Executive Director</i>	2020	50,000	-	-	-	50,000
	2019	11,507	-	-	-	11,507
Anna E. Burke AO <i>Non-Executive Director</i>	2020	50,000	-	4,751	-	54,751
	2019	36,438	-	3,462	-	39,900
Michael R. Gorenstein <i>Non-Executive Director</i>	2020	50,000	-	-	-	50,000
	2019	12,466	-	-	-	12,466
Sub-total for Directors	2020	381,136	-	4,751	-	385,887
	2019	182,411	-	3,462	-	185,873
Name of Executive						
Rodney D. Cocks CSM <i>Executive Director / CEO</i>	2020	307,125	-	21,375	-	328,500
	2019	300,000	-	28,500	-	328,500
Thomas G. Howitt <i>Chief Financial Officer</i>	2020	307,125	61,500	24,655	50,158	443,438
	2019	175,000	34,521	16,625	-	226,146
Lior Harel (refer Note) <i>General Counsel / Co. Sec.</i>	2020	250,435	39,564	21,003	45,142	356,144
	2019	163,333	33,293	15,517	-	212,143
Peter J. Righetti (refer Note) <i>Ex. Exec. Director / COO</i>	2020	435,214	-	21,003	-	456,217
	2019	245,000	-	23,275	-	268,275
Sub-total for Executives	2020	1,299,899	101,064	88,036	95,300	1,584,299
	2019	883,333	67,814	83,917	-	1,035,064
Totals for KMP	2020	1,681,035	101,064	92,787	95,300	1,970,186
	2019	1,065,744	67,814	87,379	-	1,220,937

Note: Peter Righetti ceased to be a Director of the Company and its Chief Operating Officer on 19 June 2020. Mr. Righetti's base salary for the year ended 30 June 2020 of \$435,214 includes an Eligible Termination Payment of \$172,748 that was accrued as at 30 June 2020 and subsequently paid on 15 July 2020. On 14 August 2020, Lior Harel resigned as General Counsel and Company Secretary of the Company. On the same date, Thomas Howitt, the Company's Chief Financial Officer, was also appointed as Company Secretary of the Company.

DIRECTORS' REPORT CONTINUED

The details of those Executives nominated as Key Management Personnel under section 300A of the *Corporations Act 2001* have been disclosed in this Remuneration Report. No other employees of the Company meet the definition of "Key Management Personnel" as defined in IAS 24 / (AASB 124) Related Party Disclosures, or "senior manager" as defined in the *Corporations Act 2001*.

Employment contracts

Rodney D. Cocks CSM - Chief Executive Officer ("CEO")

The Company's CEO, Rodney Cocks, is employed under an employment contract the key terms of which include:

- During the year ended 30 June 2020, Mr. Cocks' annual remuneration package was \$328,500, including statutory superannuation contributions as prescribed under the Superannuation Guarantee legislation. There will be no change to Mr. Cocks' remuneration package for the year ending 30 June 2021;
- In respect of the year ending 30 June 2021, Mr. Cocks is eligible to receive an STI payment equal to up to 40% of his base salary subject to the successful achievement of agreed Key Performance Indicators of which 75% relate to financial metrics relevant to the Company and its performance, while the remaining 25% relate to individual performance, as determined by the Chairman of the Company, with any payments made being subject to Board approval;
- Mr. Cocks may resign from his position, terminating the contract, by giving up to 12 months written notice and the Company may terminate his contract by providing similar notice or providing payment in lieu of the notice period; and
- The Company may terminate Mr. Cocks' contract at any time without notice if serious misconduct has occurred. Where this occurs with cause, he is only entitled to receive that portion of remuneration which is fixed and only up to the date of termination. In this instance, any entitlements to either STI or LTI payments are forfeited and would lapse.

Thomas G. Howitt - Chief Financial Officer and Company Secretary ("CFO")

The Company's CFO, Thomas Howitt, is employed under an employment contract the key terms of which include:

- During the year ended 30 June 2020, Mr. Howitt's annual remuneration package was \$328,500, including statutory superannuation contributions as prescribed under the Superannuation Guarantee legislation. There will be no change to Mr. Howitt's remuneration package for the year ending 30 June 2021;
- In respect of the year ending 30 June 2021, Mr. Howitt is eligible to receive an STI payment equal to up to 30% of his base salary subject to the successful achievement of agreed Key Performance Indicators of which 75% relate to financial metrics relevant to the Company and its performance while the remaining 25% relate to individual performance, as determined by the Chief Executive Officer, with any payments made being subject to Board approval;
- Mr. Howitt is entitled to receive various equity securities, including options over the Company's ordinary shares and performance rights, subject to the terms of the Company's Equity Incentive Plan ("Plan"). The granting of securities under the Plan are subject to the achievement of agreed Key Performance Indicators, the discretion of the CEO and the approval of the Board. No securities have been granted to Mr. Howitt in respect of the year ending 30 June 2021;
- Mr. Howitt may resign from his position, terminating the contract, by giving up to two months written notice and the Company may terminate his contract by providing similar notice or providing payment in lieu of the notice period; and
- The Company may terminate Mr. Howitt's contract at any time without notice if serious misconduct has occurred. Where this occurs with cause, he is only entitled to receive that portion of remuneration which is fixed and only up to the date of termination. In this instance, any entitlements to either STI or LTI payments are forfeited and would lapse.

End of Remuneration Report

AUDIT AND NON-AUDIT SERVICES

The Company may decide to employ the auditor on assignments additional to its statutory audit duties where the auditor's expertise and experience with the Company and/or the Group are important, including work relating to the financial information that was included in the Company's Prospectus that was prepared as part of its IPO. Details of the amounts paid or payable to the auditor (KPMG) for audit and other services provided is set out in the table below.

During the year ended 30 June 2020, the following fees were paid or payable in respect of services provided by KPMG to the Company and its subsidiaries. No other assurance services, taxation or advisory services have been provided by KPMG.

	2020 \$	2019 \$
Statutory audits	82,000	45,000
Prospectus-related services	-	60,000
Total fees paid	82,000	105,000

ROUNDING OF AMOUNTS

The Company is of a kind referred to in ASIC Corporations (Rounding Financial/Directors' Reports) Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the Directors' Report. Amounts in the Directors' Report have been rounded off in accordance with that Instrument to the nearest dollar.

PROCEEDINGS ON BEHALF OF THE COMPANY

No proceedings have been brought or intervened in or on behalf of the Company with leave to the Court under section 237 of the *Corporations Act 2001*.

DIRECTORS' MEETINGS

Meeting attendances

The number of meetings of Directors held during the period from 1 July 2019 up to the date of this Report, including Circular Resolutions passed by the Board, and the number of such meetings attended by each Director, were as follows:

Name of Director	Eligible	Attended
Shane F. Tanner	15	15
Rodney D. Cocks CSM	15	15
Daniel E. Abrahams	15	15
Jason M. Adler	15	13
Anna E. Burke AO	15	14
Michael R. Gorenstein	15	15
Peter J. Righetti	12	12

Sub-committee membership

As at the date of this Report, the Company had an Audit and Risk Committee (members: Daniel Abrahams (Chair), Shane Tanner and Anna Burke AO) and a Nomination and Remuneration Committee (members: Anna Burke AO (Chair), Shane Tanner and Daniel Abrahams). All members of both sub-committees were independent Directors.

During the period from the date of incorporation up to the date of this Report, there were four meetings of the Audit and Risk Committee held at which Daniel Abrahams attended three meetings, while Shane Tanner and Anna Burke AO attended all four. There were no meetings of the Nomination and Remuneration Committee held during the same period, though a meeting of that Committee was held on 16 July 2020 in respect of the preceding (2020) financial year. All members of that Committee were present at that meeting.

DIRECTORS' REPORT CONTINUED

AUDITOR'S INDEPENDENCE DECLARATION

KPMG continues in office as auditor in accordance with section 327 of the *Corporations Act 2001*. A copy of KPMG's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 37 of this Report.

This Report is signed in accordance with a resolution of the Directors.



SHANE F. TANNER
Chairman



RODNEY D. COCKS CSM
Director

Melbourne, 28 August 2020

Auditor's Independence Declaration



Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of Cronos Australia Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Cronos Australia Limited for the financial year ended 30 June 2020 there have been:

- i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- ii. no contraventions of any applicable code of professional conduct in relation to the audit.

A handwritten signature in black ink, appearing to read 'KPMG'.

KPMG

A handwritten signature in black ink, appearing to read 'Gordon Sangster'.

Gordon Sangster

Partner

Melbourne

28 August 2020

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Liability limited by a scheme approved under Professional Standards Legislation.

Corporate Governance Statement

INTRODUCTION

Cronos Australia Limited (“CAL” and the “Company”) and its Board are committed to achieving and demonstrating the highest standards of corporate governance. The Board continues to review its corporate governance framework and practices to ensure they meet the interests of the shareholders. In this Statement, the Company and its eight controlled entities as at 30 June 2020 are together referred to as the “Group”.

A description of the Group’s main corporate governance practices is set out below. Unless otherwise stated, all of these practices were in place for the entire period from 1 July 2019 to 30 June 2020 and comply with the Corporate Governance Principles and Recommendations (including all relevant amendments) of the Australian Securities Exchange.

While in most respects, the Company complies with the Recommendations, in several areas, policies and practices are being further developed to bring them more closely into line. As new policies are produced, or as the existing ones are amended, they are published on the Company’s website.

All of the Company’s significant policies are published on its website (www.cronosaustralia.com).

As at the date of this Financial Report, the following Corporate Governance documents had been adopted by the Board, in addition to the Company’s Constitution which was adopted on 27 September 2018:

- Board Charter, which defines the role of the Board and that of Management;
- Audit and Risk Committee Charter;
- Nomination and Remuneration Committee Charter;
- Code of Conduct;
- Disclosure and Communication Policy;
- Whistleblower Policy;
- Trading Policy; and
- Diversity Policy.

ASX PRINCIPLES AND RECOMMENDATIONS

Principle 1: Lay solid foundations for management and oversight

The relationship between the Board and Management is critical to the Group’s success. The Directors are responsible to the shareholders for the performance of the Group in both the short and long terms and seek to balance sometimes competing objectives in the best interests of the Group as a whole, with a focus to enhance the interests of shareholders and other key stakeholders and to ensure the Group is appropriately managed.

The responsibilities of the Board include:

- providing strategic guidance to the Group as a whole, including contributing to the development of and approving the Group’s corporate strategy;
- reviewing and approving the Group’s business plans, its annual budget and financial plans, including available resources and major capital expenditure initiatives;
- overseeing and monitoring:
 - organisational performance and the achievement of the Group’s strategic goals and objectives;
 - compliance with, and effectiveness of, the Company’s governance practices; and
 - progress of major capital and other significant projects, including any acquisitions or divestments;
- monitoring the Group’s financial performance, including approval of the annual and half-year financial reports and regular liaison with the Company’s external auditor;
- appointment, performance assessment and, if necessary, removal of the Chief Executive Officer;

- ensuring there are effective processes in place for approving major corporate initiatives;
- ratifying the appointment and/or removal and contributing to the performance assessment of the members of the Company's Executive Team;
- enhancing and protecting the reputation of the organisation;
- overseeing the operation of the Group's system for compliance and risk management reporting to shareholders; and
- ensuring appropriate resources are available to the Group's senior Management to enable them to implement the strategies approved by the Board.

Day-to-day management of the Group's affairs and the implementation of the corporate strategy and policy initiatives are formally delegated by the Board to the Chief Executive Officer and the Executive Team as set out in the Group's delegations policies. These delegations are reviewed by the Board on an annual basis.

Given that the Company was only admitted to the Official List of the ASX during the year, a formal process for evaluating the performance of the Board, its Sub-Committees and the individual Directors is still being formulated. In the meantime, the Chairman holds regular discussions with Directors to ascertain their views on Company-related matters and to provide feedback to the Directors, where necessary. It is anticipated that a more formal performance evaluation process for all Directors and Committee members will be implemented during the financial year ending 30 June 2021.

Performance appraisals for all members of the Executive Team first occurred during the year under review in respect of the prior year ended 30 June 2019. The most recent performance appraisals took place in mid-July 2020 in respect of the current year ended 30 June 2020. The process for these assessments is described in detail in the Remuneration Report on pages 26 to 34 of this Annual Report.

Diversity policy

The Company values diversity and recognises the benefits it can bring to the organisation's ability to achieve its goals. Accordingly, the Company has developed and introduced a diversity policy which outlines its diversity objectives in relation to gender, age, cultural background, ethnicity and other factors. It includes requirements for the Board to establish measurable objectives for achieving diversity, and for the Board to assess annually both the objectives, and the Company's progress made in achieving them.

In accordance with the Company's Diversity Policy and ASX Corporate Governance principles, the Board has established various objectives in relation to gender diversity. The aim is to achieve these objectives over the coming two to three years as relevant positions become vacant and appropriately-skilled candidates are available.

The objectives set by the Board in relation to gender diversity, and the actual results as at the date of this Financial Report, are set out in the following table.

Category	Objective		Actual	
	Number	Percentage	Number	Percentage
Number of women in whole organisation	8	50%	3	23%
Number of women in Executive positions	1	25%	0	0%
Number of women on the Board	2	33%	1	17%

Responsibility for diversity has been included in the Charters for both the Board and the Nomination and Remuneration Committee. The Company anticipates it will be able to more closely achieve its diversity objectives above as it continues to expand its operations.

Principle 2: Structure the Board to add value

The Board operates in accordance with the broad principles set out in its Charter which is available in the corporate governance information section of the Company's website (www.cronosaustralia.com). The Charter provides details of the Board's composition and responsibilities.

CORPORATE GOVERNANCE STATEMENT CONTINUED

Board composition

The Charter provides that:

- the Board may be comprised of both executive and non-executive Directors;
- the Company will seek to have Directors with an appropriate range of skills, experience and expertise, together with an understanding of, and competence to deal with, current and emerging issues of the business;
- in recognition of the importance of independent views and the Board's role in supervising the activities of Management, the Chairman must be an independent non-executive Director and all Directors are required to exercise independent judgement and review and constructively challenge the performance of the Executive Team;
- the Chairman is elected annually by the full Board; and
- independent Directors should regularly meet separately to consider, amongst other things, executive performance.

The Board seeks to ensure that:

- at any point in time, its membership represents an appropriate balance between directors with experience and knowledge of the Group and directors who bring with them an external or fresh perspective; and
- the size of the Board is conducive to effective discussion and efficient decision-making.

Board members

Details of Directors, their experience, expertise, qualifications, term of office, relationships affecting their independence and their independent status are set out in the Directors' Report. As at the date of signing the Directors' Report, three of the Company's six Directors served as independent, non-executive Directors. These Directors were Shane Tanner, Daniel Abrahams and Anna Burke AO. None of these Directors had relationships which may adversely affect their independence and, as such, they are deemed independent under the principles set out above.

Directors' independence

The Board has adopted specific principles in relation to the independence of its Directors. These principles state that, when determining independence, a Director should be non-executive and the Board should consider whether the Director:

- is a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company;
- is, or has been, employed in an executive capacity by the Company or any other Group member within three years before commencing his or her service on the Board;
- within the last three years has been a principal of a material professional adviser or a material consultant to the Company or other Group member, or an employee materially associated with the service provided;
- is a material supplier or customer of the Company or any other Group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
- has a material contractual relationship with the Company or a controlled entity other than as a Director of the Group;
- is free from any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Director's independent exercise of his or her judgement;
- has close family ties with any person who falls within any of the categories described above; and
- has been a Director for such a period that his or her independence may have been compromised.

Materiality for these purposes is determined on both quantitative and qualitative bases. An amount of over five percent of annual turnover of the Company or Group or five percent of the individual Director's net worth is considered material for these purposes. In addition, a transaction of any amount or a relationship is deemed material if knowledge of it may impact the shareholders' understanding of the respective Director's performance.

It is a generally held view that a Director's independence may be perceived to be impacted by lengthy service on the Board. To avoid any potential concerns, the Board has determined that a Director will not be deemed independent if he or she has served on the Board of the Company for a period of more than ten years.

The Board assesses the independence of its Directors each year. To enable this process, the Directors must provide all information that may be relevant to the assessment. As at the date of this Financial Report, the Board comprises a total of six Directors, of whom three are deemed to be independent. In addition, the Chairman of the Board is deemed to be independent. The Board believes that its current composition, being an even split of independent and non-independent Directors, is appropriate at this stage of the Company's development.

Term of office

The Company's Constitution specifies that all non-executive Directors must retire from office no later than the third Annual General Meeting ("AGM") following his or her last election. Where eligible, a Director may stand for re-election.

Chairman and Chief Executive Officer ("CEO")

The Chairman is responsible for leading the Board, ensuring that Directors are properly briefed in all matters relevant to their role and responsibilities, facilitating Board discussions and managing the Board's relationship with the Company's Executive Team. In accepting the position, the Chairman acknowledges that the role will require a significant time commitment and confirms that other positions held will not hinder his or her effective performance in that role.

The CEO is responsible for implementing Group strategies and policies. The Board Charter specifies that the Chairman and CEO are separate roles to be undertaken by separate people.

Company Secretary

The Company Secretary is accountable directly to the Board, through the Chair, on all matters to do with the proper functioning of the Board.

Induction

The induction process provided to new Directors enables them to actively participate in Board decision-making as soon as possible. It ensures that each Director has a complete understanding of the Company's financial position, strategies, operations, culture, values and risk management policies. It also explains the respective rights, duties, responsibilities, interaction and roles of the Board and the Executive Team and the Company's meeting arrangements. Where applicable, the Company provides Directors with opportunities to undertake professional development activities which are relevant to their ability to perform their duties as Directors effectively.

Commitment

The Board held/passed a total of fifteen Board meetings and Circular Resolutions during the period from 1 July 2019 to the date of the Directors' Report. Non-executive Directors are expected to spend adequate time preparing for and attending Board and Sub-Committee meetings and associated activities. The number of meetings of the Company's Board of Directors and of each Sub-Committee held during the above period, and the number of such meetings attended, or resolutions passed by, each Director are disclosed on page 35 of this Annual Report.

The commitments of all non-executive Directors are considered by the Nomination and Remuneration Committee prior to the Director's appointment to the Board and will be reviewed each year as part of the planned annual performance assessment. Prior to appointment or re-election, each non-executive Director is required to specifically acknowledge that they have, and will continue to have, the time available to discharge their responsibilities to the Company.

Conflict of interests

In accordance with the Board Charter, all Directors are required to declare all interests in dealings with the Company and are required to take no part in decisions relating to them. In addition, those Directors are not entitled to receive any papers from the Group pertaining to those dealings. No such declarations were received from any Directors during the period from 1 July 2019 up to the date of signing the Directors' Report.

CORPORATE GOVERNANCE STATEMENT CONTINUED

Performance assessment

As detailed above, a formal process for evaluating the performance of the Board, its Sub-Committees and the individual Directors is still being formulated. In the meantime, the Chairman holds regular discussions with Directors to ascertain their views on Company-related matters and to provide feedback to the Directors, where necessary. It is anticipated that a more formal performance evaluation process, which will include consideration of the adequacy of the Company's induction and continuing education processes, access to information and the support provided to the Board by the Company Secretary, will be implemented during the financial year ending 30 June 2021.

Once established, members of the Executive Team will be invited to contribute to this appraisal process. The results and any action plans resulting from the process are to be documented, together with performance goals which will then be agreed for the coming year. The Chairman undertakes to complete an assessment of the performance of all individual Directors and to meet with each Director to discuss this assessment.

Board Sub-Committees

The Board has established two Sub-Committees to assist it in the execution of its duties and to enable detailed consideration of complex issues. The current Sub-Committees of the Board are the Audit and Risk Committee and the Nomination and Remuneration Committee. Each Sub-Committee is comprised entirely of independent, non-executive Directors. The structure and membership of each Sub-Committee is reviewed on an annual basis.

Each Sub-Committee has its own written Charter setting out its role and responsibilities and that of its members, its composition, structure, membership requirements and the manner in which the Sub-Committee is to operate. Both Charters are reviewed on an annual basis and are available for review on the Company's website. All matters determined by the Sub-Committees are submitted to the full Board as recommendations for Board decisions.

All minutes of Sub-Committee meetings are tabled at the subsequent Board meeting. Additional requirements for specific reporting by the Sub-Committees to the Board are addressed in the Charters of the respective Sub-Committees.

Nomination and Remuneration Committee

The Company's Nomination and Remuneration Committee consists of Anna Burke AO (Chairman), Shane Tanner and Daniel Abrahams, all of whom are independent. Details of their attendance at meetings of the Committee are set out on page 35 of this Annual Report. The Committee, which operates in accordance with its Charter that is available on the Company's website, met once during the period from 1 July 2019 up to the date of the Directors' Report.

The policies and practices adopted by the Company in relation to the remuneration of all Directors are detailed in the Remuneration Report which is included on pages 26 to 34 of this Annual Report.

The main responsibilities of the Nomination and Remuneration Committee are to:

- conduct an annual review of the membership of the Board, having regard to present and future needs of the Company and to make recommendations on Board composition and appointments;
- conduct an annual review of, and conclude on the independence of, each Director;
- propose candidates to fill Board vacancies;
- oversee the Company's annual performance assessment program;
- consider recommendations for any changes in the future remuneration arrangements for the Chief Executive Officer and the Executive Team;
- consider recommendations for payments under the Group's short-term and long-term incentive schemes;
- oversee Board succession, including the succession of the Chairman, and review whether succession plans are in place to maintain an appropriately balanced mix of skills, experience and diversity on the Board; and
- assess the effectiveness of the Director induction process.

When a new Director is to be appointed, the Committee prepares a Board skills matrix to review the range of skills, experience and expertise on the Board, and to identify its needs. A number of channels are used to source candidates to ensure the Company benefits from a diverse range of individuals in the selection process. Where necessary, advice and support is sought from independent search consultants. While the Company does not currently maintain a detailed skills matrix, given its early stage of development, an assessment of the skills, experience and expertise of the Directors on the Board is prepared prior to the appointment of any new Director.

Appropriate checks are undertaken on all potential candidates, including those necessary for a Director to qualify as a “Fit and Proper” person under the rules of the Office of Drug Control, before any candidate is elected to the Board or put forward for election by the shareholders. From this list of potential candidates, the Committee prepares a short-list of those who are eligible and who have appropriate skills and experience.

The full Board then appoints the most suitable candidate who must stand for election at the Company’s next AGM. The Committee’s nomination of existing Directors for reappointment is not automatic and is contingent on their past performance, contribution to the Board and the current and future needs of both the Board and Company. The Board and the Committee are aware of the advantages of Board renewal and succession planning and notices of meetings for the election of Directors comply with the ASX Corporate Governance Council’s best practice recommendations.

New Directors are provided with a letter of appointment setting out the terms and conditions of their appointment, the Company’s expectations of them, and their rights and responsibilities as Directors. All new Directors participate in a formal induction program which covers the operation of the Board and its Sub-Committees, as well as a review of all financial, strategic, operations and risk management issues.

Independent professional advice

All Directors and members of the Board’s two Sub-Committees have the right, in connection with exercising their duties and responsibilities, to seek independent professional advice at the Company’s expense. Prior written approval of the Chairman is required, however such approval will not be unreasonably withheld. No such advice was sought during the year ended 30 June 2020.

Principle 3: Promote ethical and responsible decision making

Code of conduct

The Company has developed a statement of values and a Code of Conduct (the “Code”) which has been fully endorsed by the Board and applies to all Directors and employees. The Code is regularly reviewed and updated as necessary to ensure it reflects the highest standards of behaviour and professionalism and the practices necessary to maintain confidence in the Group’s integrity and to take into account its legal obligations and the reasonable expectations of the Company’s stakeholders.

In summary, the Code requires that, at all times, Directors and employees act with the utmost integrity, objectivity and in compliance with the letter and the spirit of the law and the Company’s policies.

The purchase and sale of Company securities by Directors and employees is governed by the Trading Policy, a copy of which is available on the Company’s website. Such trading is not permitted during the two-month periods immediately following the end of the Company’s two financial half-years, i.e. after 31 December and 30 June of each year. Any transactions undertaken by Directors outside of these periods must be notified to the Company Secretary in advance.

The Code requires employees who are aware of unethical practices within the Group or breaches of the Company’s Trading Policy to report such breaches to the Chairman. The Directors are satisfied that the Group has complied with its policies on ethical standards, including trading in the Company’s securities.

Principle 4: Safeguard integrity in financial reporting

Audit and Risk Committee

The Audit and Risk Committee consists of Daniel Abrahams (Chairman), Shane Tanner and Anna Burke AO, all of whom are independent, non-executive Directors. The Committee, which operates in accordance with its Charter that is available on the Company's website, met four times during the period from 1 July 2019 up to the date of the Directors' Report. All members of the Audit and Risk Committee are financially literate and have an appropriate understanding of the industry in which the Group operates. Details of the qualifications and experience of the members of the Committee are disclosed on pages 16 and 17 of this Annual Report.

The Company does not have an internal audit function as the Board believes that the scale of the Company's current operations does not warrant the establishment of one. To compensate, the members of the Audit and Risk Committee take an active role in reviewing the financial information that is presented to the Committee and, via the Chair of the Committee, ask questions of Management on a regular basis.

The main responsibilities of the Audit and Risk Committee are to:

- review, assess and approve the annual full and concise financial reports, the half-year financial report and all other financial information published by the Company or released to the Market, including its ASX Appendices 4C, 4D, 4E and 4G;
- assist the Board in reviewing the effectiveness of the organisation's internal control environment covering:
 - effectiveness and efficiency of operations;
 - reliability of financial reporting; and
 - compliance with applicable laws and regulations;
- oversee the effective operation of the Company's risk management framework and the regular review of the Group's Risk Register;
- recommend to the Board the appointment, removal and remuneration of the external auditor, and review the terms of its annual engagement, the scope and quality of the audit and assess its overall performance;
- consider the independence and competence of the external auditor on an ongoing basis;
- review and approve the level of non-audit services provided by the Group's external auditor and ensure that it does not adversely impact the auditor's independence;
- review and monitor all related party transactions and assess their propriety; and
- report to the Board on matters relevant to the Committee's role and responsibilities.

In fulfilling its responsibilities, the Audit and Risk Committee:

- receives regular reports from Management, and in particular the CFO, and the Company's external auditor;
- meets with the external auditor at least twice a year, or more frequently, if necessary;
- reviews the processes the CEO and CFO have in place to support their annual certifications to the Board;
- reviews any significant disagreements between the auditor and Management, irrespective of whether they have been resolved; and
- provides the external auditor with a clear line of direct communication at any time to either the Chairman of the Audit and Risk Committee or, if necessary, the Chairman of the Board.

The Audit and Risk Committee has authority, as part of its responsibilities, to seek any information it requires from any employee or external party.

External auditor

The policy of the Company and the Audit and Risk Committee is to appoint an external auditor who clearly demonstrates quality of service and independence. The performance of the Group's external auditor is reviewed annually and applications for tender of external audit services are requested as deemed appropriate, taking into consideration an assessment of performance, existing value and tender costs. KPMG was appointed as the Group's external auditor in 2018. It is KPMG's policy to rotate audit lead engagement partners on listed companies such as Cronos Australia at least every five years.

An analysis of the fees paid to the external auditor, including a break-down of fees for non-audit services, is provided in the Directors' Report and in *Note 31* to the financial statements. It is the policy of the external auditor to provide an annual declaration of its independence to the Audit and Risk Committee which is reproduced immediately following the Directors' Report on page 37 of this Annual Report.

The external auditor attends the Company's AGM and is available to answer shareholder questions about the conduct of the audit and the preparation and content of the audit report.

Corporate reporting

In complying with recommendation 4.2, the CEO and CFO make the following annual certifications to the Board:

- that the Company's financial reports are complete and present a true and fair view, in all material respects, of the financial condition and operational results of the Company and the Group and are in accordance with relevant accounting standards; and
- that the above statement is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board and that the Company's risk management and internal compliance and control is operating efficiently and effectively in all material respects in relation to financial reporting risks.

Principles 5 and 6: Make timely and balanced disclosures and respect the rights of shareholders

Continuous disclosure and shareholder communication

The Company has written policies and procedures regarding information disclosure that focuses on the continuous disclosure of any information concerning the Group that a reasonable person would expect to have a material effect on the price of the Company's securities. These policies and procedures also include the arrangements the Company has in place to promote communication with shareholders and encourage their effective participation at general meetings. A summary of these policies and procedures is available on the Company's website.

The Company Secretary has been nominated as the primary person responsible for communications with the Australian Securities Exchange ("ASX"). This role includes the responsibility for ensuring compliance with the various continuous disclosure requirements detailed in the ASX Listing Rules and overseeing and co-ordinating information disclosure to the ASX, analysts, brokers, shareholders, the media and the public. An external investor relations group is retained by the Company to assist it with the creation and dissemination of information regarding the Company to its stakeholders.

All information disclosed to the ASX is posted on the Company's website as soon as it is released to the ASX. When analysts are briefed on the Group's operations, the materials used in the presentation are released to the ASX and posted on the Company's website. Procedures have also been established for reviewing whether any price sensitive information may have been inadvertently disclosed and, if so, this information is also immediately released to the Market.

The Company's website also enables users to provide feedback to the Company and has an option for shareholders to register their email address to enable them to receive direct email updates on Company-related matters that it may release.

All shareholders are entitled to receive a hard copy of the Company's Annual and Half-Year Reports which are also available for download on its website.

Principle 7: Recognise and manage risk

The Board is responsible for satisfying itself annually, or more frequently as required, that Management has developed and implemented a sound system of risk management and internal control. Detailed work on this task is delegated to the Audit and Risk Committee and reviewed by the full Board.

The Audit and Risk Committee is responsible for ensuring there are adequate policies in relation to risk management, compliance and internal control systems. The Committee monitors the Company's risk management processes by overseeing Management's actions in the evaluation, management, monitoring and reporting of material operational, financial, regulatory, compliance and strategic risks.

In providing this oversight, the Audit and Risk Committee:

- reviews the framework and methodology for risk identification, the degree of risk the Company is willing to accept, the overall management of risk and the processes for reviewing and evaluating the effectiveness of the Company's risk management system;
- reviews Group-wide objectives in the context of the abovementioned categories of corporate risk;
- reviews and, where necessary, approves guidelines and policies governing the identification, assessment and management of the Company's exposure to risk, including the regular review of the Group's detailed Risk Register;
- reviews and approves the delegations of financial authorities and addresses any need to update these authorities on an annual basis; and
- reviews compliance with agreed policies.

The Committee recommends any actions it deems appropriate in relation to risk to the Board for its consideration.

Management is responsible for designing, implementing and reporting on the adequacy of the Company's risk management and internal control system and has to report to the Audit and Risk Committee on the effectiveness of:

- the risk management and internal control system during the year; and
- the Company's management of its material business risks via its documented Risk Register.

The Company does not believe that it has specific exposure to unusual economic, environmental or social sustainability risks beyond those that would apply to all listed companies.

Risk management group

The Company's risk management policies and the operation of the risk management and compliance system, which are documented in the Group's Risk Register, are managed by the Company's risk management group which consists of selected senior executives and is chaired by the Company's Chief Financial Officer. The Board receives reports from this group as to the effectiveness of the Company's management of material risks that may impede or impact on the Company's ability to meet its business objectives. The Risk Register is reviewed and updated on a regular basis, with the most recent review having taken place on 21 May 2020.

Each of the Company's business units reports to the risk management group on the key business risks applicable to their respective areas. The review is undertaken by business unit management, following which the risk management group consolidates the business unit reports and recommends any actions to the Board for its consideration.

Principle 8: Remunerate fairly and responsibly

All matters pertaining to the remuneration of the Company's Directors and employees are overseen and managed by the Nomination and Remuneration Committee, as described above. Committee members consider information received from external remuneration experts and other independent sources in relation to recent developments on remuneration and related matters.

Each member of the Executive Team signs a formal employment contract at the time of his or her appointment which documents a range of matters including their duties, rights, responsibilities and any entitlements they may receive on termination. The standard contract refers to a specific formal job description which is reviewed by the Nomination and Remuneration Committee on a regular basis and, where necessary, is revised in consultation with the relevant employee.

Further information on Directors' and Executives' remuneration, including the principles used to determine remuneration, is set out in the Directors' Report under the heading "Remuneration Report" on pages 26 to 34 of this Annual Report. In accordance with the Group's policy, participants in equity-based remuneration plans are not permitted to enter into any transactions that would limit the economic risk of options or other unvested entitlements.

The Nomination and Remuneration Committee also assumes responsibility for overseeing management succession planning, including the implementation of appropriate executive training and development programs and ensuring adequate arrangements are in place so that appropriate candidates can be recruited for promotion to senior positions.

Consolidated Statement of Comprehensive Income/(Loss)

For the year ended 30 June 2020

	Notes	Consolidated	
		30 June 2020 \$	30 June 2019 \$
Continuing operations			
Revenue	4	123,850	-
Cost of sales		(7,064)	-
Gross profit		116,786	-
Other income	5	340,078	58,448
Accounting, tax and audit fees		(211,715)	(319,348)
Administration expenses		(579,235)	(305,155)
Finance costs		(205,136)	(125,741)
Legal and regulatory expenses		(102,043)	(189,007)
Personnel expenses		(3,147,872)	(1,713,193)
Site-related expenses		(81,104)	(292,203)
Travel and accommodation		(119,437)	(72,039)
Loss before income tax		(3,989,678)	(2,958,238)
Income tax benefit	8(a)	-	43,937
Loss for the year	6	(3,989,678)	(2,914,301)
Other comprehensive income/(loss)			
<i>Items that may be reclassified to profit or loss</i>			
Exchange gains on translation of controlled foreign operations	22(b)	205	-
Other comprehensive income/(loss) for the year, net of tax		205	-
Total comprehensive loss for the year		(3,989,473)	(2,914,301)
Loss for the year is attributable to:			
Owners of Cronos Australia Limited		(3,937,213)	(2,914,301)
Non-controlling interests	24	(52,465)	-
Total loss for the year		(3,989,678)	(2,914,301)
Total comprehensive loss for the year is attributable to:			
Owners of Cronos Australia Limited		(3,937,008)	(2,914,301)
Non-controlling interests	24	(52,465)	-
Total comprehensive loss for the year		(3,989,473)	(2,914,301)
Loss per share attributable to owners of Cronos Australia Limited and from continuing operations:			
Basic and diluted loss per share	7	(0.04)	(0.96)

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at 30 June 2020

	Notes	Consolidated	
		30 June 2020 \$	30 June 2019 \$
Assets			
Current Assets			
Cash and cash equivalents	10	14,685,943	159,679
Trade and other receivables	11	27,200	39,447
Inventories	12	192,450	-
Other assets	13	339,780	1,373,527
Total Current Assets		15,245,373	1,572,653
Non-Current Assets			
Property, plant and equipment	14	490,380	76,402
Intangible assets and goodwill	15	491,457	200,000
Total Non-Current Assets		981,837	276,402
Total Assets		16,227,210	1,849,055
Liabilities			
Current Liabilities			
Trade and other payables	16	452,436	2,436,354
Interest-bearing liabilities	17	72,584	513,923
Chattel mortgage liabilities	18	31,892	17,337
Employee benefit provisions	19	70,516	2,968
Total Current Liabilities		627,428	2,970,582
Non-Current Liabilities			
Interest-bearing liabilities	20	2,103,113	1,606,027
Chattel mortgage liabilities	18	-	64,639
Total Non-Current Liabilities		2,103,113	1,670,666
Total Liabilities		2,730,541	4,641,248
Net Assets/(Liabilities)		13,496,669	(2,792,193)
Equity			
Share capital	21	20,012,053	54,655
Reserves	22	214,934	-
Accumulated losses	23	(6,784,061)	(2,846,848)
Equity attributable to owners of the Company		13,442,926	(2,792,193)
Non-controlling interests	24	53,743	-
Total Equity		13,496,669	(2,792,193)

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 30 June 2020

	Attributable to members of Cronos Australia Limited			Non- controlling interests \$	Totals \$
	Share capital \$	Reserves \$	Accumulated losses \$		
Balance at 30 June 2018	12	-	67,453	-	67,465
Loss for the year	-	-	(2,914,301)	-	(2,914,301)
Other comprehensive income/(loss)	-	-	-	-	-
Total comprehensive income/(loss)	-	-	(2,914,301)	-	(2,914,301)
<i>Transactions with owners</i>					
Net assets acquired on restructure	54,643	-	-	-	54,643
Total transactions with owners	54,643	-	-	-	54,643
Balance at 30 June 2019	54,655	-	(2,846,848)	-	(2,792,193)
Loss for the year	-	-	(3,937,213)	(52,465)	(3,989,678)
Other comprehensive income/(loss)	-	205	-	-	205
Total comprehensive income/(loss)	-	205	(3,937,213)	(52,465)	(3,989,473)
<i>Transactions with owners</i>					
Shares issued for cash	20,000,000	-	-	98,000	20,098,000
Shares issued for loans	3,500,000	-	-	-	3,500,000
Equity transaction costs	(3,542,602)	-	-	-	(3,542,602)
Share-based payments	-	214,729	-	-	214,729
Proportionate share of assets acquired in subsidiary	-	-	-	8,208	8,208
Total transactions with owners	19,957,398	214,729	-	106,208	20,278,335
Balance at 30 June 2020	20,012,053	214,934	(6,784,061)	53,743	13,496,669

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 30 June 2020

	Notes	Consolidated	
		30 June 2020 \$	30 June 2019 \$
Cash flows from/(used in) operating activities			
Receipts from customers		114,783	-
Payments made to suppliers and employees		(5,211,988)	(1,698,244)
Interest received		131,924	1,243
Receipts from Government stimulus schemes		75,478	-
Interest paid		-	(734)
Research and development tax incentive received	8(a)	-	43,937
Net cash flows from/(used in) operating activities	27(a)	(4,889,803)	(1,653,798)
Cash flows from/(used in) investing activities			
Landlord incentive received		49,384	-
Payment for acquisition of subsidiary, net of cash	26(a)	(295,894)	-
Payment of security deposits	13	(149,204)	-
Purchases of plant and equipment	14(c)	(120,201)	(7,179)
Net assets assumed on restructure	27(b)	-	73,322
Net cash flows from/(used in) investing activities		(515,915)	66,143
Cash flows from/(used in) financing activities			
Proceeds from the issue of shares	21(b)	20,000,000	-
Proceeds from convertible loans	21(b)	3,500,000	2,000,000
Proceeds from the issue of shares to non-controlling interests	26(b)	98,000	-
Payment of transaction costs related to the issue of shares		(3,092,824)	(290,090)
Repayment of loan from related parties	17(b)	(519,512)	-
Chattel mortgage repayments	18	(53,682)	(21,278)
Net cash flows from/(used in) financing activities		19,931,982	1,688,632
Net increase in cash and cash equivalents held		14,526,264	100,977
Cash and cash equivalents at the beginning of the year		159,679	58,702
Cash and cash equivalents at the end of the year	10	14,685,943	159,679

The accompanying notes form an integral part of these consolidated financial statements.

Notes to the Financial Statements

For the year ended 30 June 2020

1. CORPORATE INFORMATION

The financial statements of Cronos Australia Limited (“CAL” and the “Company”) for the year ended 30 June 2020 were authorised for issue in accordance with a resolution of the Company’s Board of Directors dated 28 August 2020. CAL was incorporated in Australia on 27 September 2018 and is a company limited by shares. The Company is listed on the Australian Securities Exchange and trades under the ASX symbol CAU.

The Company, together with its nine subsidiaries, are referred to in these financial statements as the “Group”.

The Company operates in the medicinal cannabis industry in Australia and is developing a range of brands and products for sale in Australia and other target markets in Asia, having secured all the necessary Australian licences to operate - including import and export licences. CAL’s operations are headquartered in Melbourne, Australia.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

These general-purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*. Cronos Australia Limited is a for-profit entity for the purpose of preparing the financial statements.

Compliance with IFRS

The consolidated financial statements of the Group also comply with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

New and amended standards adopted by the Group

New Accounting Standards and Interpretations not yet mandatory, or early adopted Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group for the reporting year ended 30 June 2020.

AASB 16 *Leases* became effective for the Group from 1 July 2019. On 11 May 2020, the Company entered into a five-year lease over office premises located at Suite 8, Level 3, 299 Toorak Road, South Yarra, Victoria 3141. The accounting policies adopted by the Group in relation to this lease are detailed in *Note 2(r)*.

Early adoption of standards

The Group has not elected to apply any pronouncements before their operative date in the annual reporting period beginning 1 July 2019.

Historical cost convention

These financial statements have been prepared under the historical cost convention.

Critical accounting estimates

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in *Note 3*.

Going concern

The financial statements contained in this consolidated Financial Report have been prepared on a going concern basis. While the longer-term impacts of the COVID-19 pandemic are uncertain, the Company does not believe that the pandemic will have a significant impact on its operations during the coming financial year.

Corporate restructure

On 27 September 2018, CAL was incorporated and became the ultimate holding company of the Cronos Australia Group (refer *Note 33*). Prior to that date, the Group was comprised of two companies: Cronos Australia - Operations Pty. Ltd. (“CAO”) and Prominent Brands Pty. Ltd. (“PB”). The reason for the restructure was to ensure that the Cronos Australia Group was appropriately structured for CAL’s proposed initial public offering of its shares (the “Offer”) to raise sufficient capital to fund its medicinal cannabis business. The Offer was subsequently completed on 7 November 2019 at which time the Company was admitted to the Official List of the Australian Securities Exchange under the ASX code CAU.

The above restructure involved, amongst other things, the incorporation of CAL on 27 September 2018 and a “top hatting” that involved the transfer of all of the shares in Cronos Australia Group Pty. Ltd. (“CAG”) from the shareholders (namely Cronos Global Holdings Inc., NewSouthern Investment Holdings 1 Pty. Ltd. and NewSouthern Investment Holdings A Pty. Ltd.) to Cronos Australia Limited in exchange for shares in CAL, and the continuation by Cronos Australia Limited of the business carried on by CAG (collectively, the “Restructure”).

Prior to the Restructure, CAG held 50% of the shares in both CAO and PB, with the remaining 50% being held by parties associated with Cronos Group Inc. As it was deemed that Cronos Australia Group jointly controlled these entities together with Cronos Group Inc., CAG accounted for its shares based on the equity method of accounting.

CAG accounted for the transfer of shares as an asset acquisition, as CAO and PB did not meet the definition of a business for the purposes of AASB 3 *Business Combinations*. In asset acquisitions, the purchase consideration is allocated to the assets acquired and liabilities assumed based on their relative fair values. Considering that the transaction price was paid via the issue of shares, AASB 2 *Share-based Payments* applied to the acquisition of non-financial assets and AASB 9 *Financial Instruments* to the financial assets and liabilities. Consequently, both the non-financial and financial assets and financial liabilities of CAO and PB were recognised by CAG at fair value with the corresponding entry in equity, which resulted in the recognition of the fair value of the licences held by CAO (\$200,000) (refer *Note 15*). The Directors of CAG have determined that the fair value of the licences approximated the cost incurred in obtaining the licences.

The incorporation of Cronos Australia Limited and the subsequent “top hatting” by this entity of CAG was deemed to be a capital reorganisation, rather than a business combination in accordance with AASB 3 *Business Combination* (refer *Note 27(b)*). The accounting implications of the capital reorganisation is that the existing accounting values of CAG have been determined to represent the most appropriate values as the substance of the “top hatting” was to insert Cronos Australia Limited as the ultimate parent entity of the group prior to listing on the ASX. As such, Cronos Australia Limited is deemed to be a continuation of Cronos Australia Group Pty. Ltd. for accounting purposes.

(b) New accounting standards and interpretations

New Accounting Standards and Interpretations not yet mandatory, or early adopted Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group for the reporting year ended 30 June 2020.

AASB 16 *Leases* became effective for the Group from 1 July 2019. On 11 May 2020, the Company entered into a five-year lease over new office premises located at Suite 8, Level 3, 299 Toorak Road, South Yarra, Victoria 3141. The accounting policies adopted by the Group in relation to this lease are detailed in *Note 2(r)*.

(c) Principles of consolidation

Subsidiaries

The consolidated financial statements of Cronos Australia Limited (the “Company”, “CAL” or the “Parent Entity”) for the year ended 30 June 2020 incorporate the assets and liabilities of the eight subsidiaries it controlled as at balance date, being Cronos Australia Group Pty. Ltd., Cronos Australia - Operations Pty. Ltd., Prominent Brands Pty. Ltd., Cronos Australia - New Zealand Limited, Personal Care Asia Limited, Medical Clinic Holdings Pty. Ltd., Cannadoc Health Pty. Ltd. and CBD Joint Venture Pty. Ltd. and their results for the periods then ended. CAL and its eight subsidiaries together are referred to in these financial statements as the “Group”.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

Subsidiaries are entities controlled by the Group. The Group “controls” an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of the subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Intercompany transactions and unrealised gains/losses on transactions between Group companies are offset against the respective loan accounts and eliminated on consolidation. Expenses paid by one Group company on behalf of another and all intercompany charges are offset against the respective loan accounts. Unrealised losses are eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries are changed where necessary to ensure consistency with Group policies. Non-controlling interests in the results and equity of the subsidiaries are shown separately in the consolidated statement of comprehensive income/ (loss), statement of financial position and statement of changes in equity, respectively.

The functional and presentation currency of the Company and its subsidiaries is the Australian dollar (AUD).

Associates

Associates are all entities over which the Group has significant influence but not control or joint control, generally accompanying a shareholding of between 20% and less than 50% of the entity’s voting rights. Investments in associates are accounted for using the equity method of accounting, after initially being recognised at fair market value. As at 30 June 2020, the Group has no investments in associates.

The Group’s share of any associate’s post-acquisition profits or losses is recognised in profit or loss and its share of post-acquisition other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates are recognised as a reduction in the carrying amount of the investment. When the Group’s share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group’s interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a reserve within equity attributable to owners of Cronos Australia Limited.

When the Group ceases to have control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, jointly controlled entity or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss. If the ownership interest in a jointly-controlled entity or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss, where appropriate.

(d) Foreign currency translation

The functional and presentation currency of Cronos Australia Limited and its Australian subsidiaries is the Australian dollar (AUD). Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction.

Monetary assets and liabilities which are denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the statement of comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate ruling at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates ruling at the date when the fair value was determined. The functional currencies of the Company's three overseas subsidiaries are as follows:

- Cronos Australia - New Zealand Limited – New Zealand dollars (NZD)
- Personal Care Asia Limited – Hong Kong dollars (HKD)
- Personal Care Asia GK – Japanese yen (JPY)

As at the reporting date, the assets and liabilities of these subsidiaries are translated into the presentation currency of Cronos Australia Limited at the rate of exchange ruling at the balance sheet date and the statement of comprehensive income is translated at the weighted average exchange rates for the period. The exchange differences arising on the retranslation are taken directly to the foreign currency translation reserve (refer *Note 22(b)*). On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the statement of comprehensive income.

(e) Earnings per share (“EPS”)

Basic EPS is calculated by dividing the profit/(loss) attributable to owners of the Company by the total combined weighted average number of ordinary shares outstanding at the end of the financial year. Diluted EPS adjusts the figures used in the determination of basic EPS to take into account the after income tax effect of interest and other financing costs associated with the dilutive potential of ordinary shares and the weighted average number of ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares, if any.

(f) Revenue recognition

Revenues are recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenues can be reliably measured. Revenues are recognised at the fair value of the consideration received or receivable net of the amounts of Goods and Services Tax. The following recognition criteria must also be met before revenue is recognised:

Revenue from the sale of medicinal cannabis products

Revenues derived from the sale of medicinal cannabis products are recognised when ownership of the products passes and payment has been received in full.

Rendering of services

Revenues derived from the rendering of medical consulting services by the doctors at Cannadoc Health Pty. Ltd. are recognised when the services have been provided and the fee for the services provided is recoverable. Service arrangements are of short duration (in most cases less than one hour).

Interest received

Revenue is recognised as the interest accrues using the effective interest method.

(g) Government grants

Government grants are assistance provided by the government in the form of transfers of resources to the Group in return for past or future compliance with certain conditions relating to the operating activities of the Group. Government grants include government assistance where there are no conditions specifically relating to the operating activities of the Group other than the requirement to operate in certain regions or industry sectors.

Amounts received under Government COVID-19-related stimulus schemes are recognised as other income when confirmation that the payments will be made is received and the Company has satisfied its obligations under the respective scheme. All such amounts are recorded in the statement of comprehensive income/(loss) on a gross basis.

(h) Income tax

The income tax expense or benefit for the year is the tax payable on the current year's taxable income based on the national income tax rate applicable for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and unused tax losses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from the initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. Deferred tax assets and liabilities are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity. Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Cronos Australia Limited formed a tax consolidated group with its wholly-owned Australian-resident subsidiaries on 27 September 2018.

(i) Other taxes

Revenues, expenses and assets are recognised net of the amount of Australian Goods and Services Tax (GST), or the respective foreign equivalent thereof, except where the GST incurred on a purchase of goods and services is not recoverable from the respective taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable. Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position. Cash flows are included in the cash flow statement on a gross basis and the GST component arising from investing and financing activities, which is recoverable from or payable to the taxation authority, are classified as operating cash flows.

(j) Finance costs

Finance costs are recognised using the effective interest rate method.

(k) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing the performance of the operating segments, has been identified as the Company's Chief Executive Officer.

(l) Share-based payment transactions

The Group provides benefits to Group employees in the form of share-based payment transactions, whereby employees render services and receive rights over shares in the form of performance rights and options ("equity-settled transactions"). The Company has an Employee Incentive Plan ("EIP") in place to provide these benefits to executives and the cost of these transactions is measured by reference to the fair value of the respective security at the date it is granted.

The fair values of performance rights and options granted under the EIP is determined by BDO Corporate Finance (East Coast) Pty. Ltd. ("BDO"), an independent valuer, using a Black-Scholes option pricing model. In valuing such equity-settled transactions, no account is taken of any non-market performance conditions. The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the relevant vesting conditions are fulfilled, ending on the date the relevant employees become entitled to the award ("vesting date"). The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired; and (ii) the number of awards that, in the opinion of the Directors of the Group, will ultimately vest. This opinion is formed based on the best information available at balance date.

The Group uses non-market vesting conditions for its share-based payment transactions and no cumulative expense is recognised for any awards that do not ultimately vest. Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as at the date of modification. Where appropriate, the dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share. The Company's policy is to treat the options of former employees as forfeitures.

(m) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand and short-term deposits with an original maturity of three months or less. For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above. Cash at bank earns interest at floating rates based on daily bank deposit rates. Term deposits are typically made for varying periods of between one day and six months, depending on the Company's immediate cash requirements, and earn interest at the respective deposit rates.

(n) Trade and other receivables

Trade receivables, which are non-interest bearing and generally have terms of between 30 to 90 days, are recognised and carried at the original invoice amount less an allowance for uncollectible amounts. Impairment is valued using a model based on expected credit losses. Expected credit losses are measured as the probability-weighted present value of all cash shortfalls over the expected life of each financial asset.

(o) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in, first-out principle. In the case of manufactured inventories, cost includes freight and associated costs incurred to bring the products to the Company in readiness for sale.

(p) Performance bonds and security deposits

Performance bonds and security deposits include cash deposits held as security for the performance of certain contractual obligations of the Company.

(q) Deferred IPO expenses

Costs incurred in relation to the Company's IPO but which were paid prior to the IPO were capitalised as an asset in the statement of financial position and were subsequently offset against the funds raised from the issue of shares as part of the IPO (refer *Note 13*).

(r) Leases

At the inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease contained in AASB 16 *Leases*.

At the commencement, or on modification, of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, in respect of the lease of property, the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of the costs to dismantle and remove the underlying asset or to restore that asset, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case, the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate. The Group determines its incremental borrowing rate by obtaining interest rates from external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate the lease early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets that do not meet the definition of investment property in "property, plant and equipment" (*Note 14(a)*) and lease liabilities in "interest-bearing liabilities" (*Notes 17 and 20*) in the statement of financial position.

(s) Property, plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value. Depreciation is calculated on both diminishing value method (“DVM”) and straight-line (“SL”) bases over the estimated useful lives of the respective assets, as follows:

- Motor vehicles - 25% DVM
- Computer equipment - 66.7% DVM
- Leasehold improvements - 20% SL
- Clinic equipment - 20% SL
- Office equipment - 40% DVM

Costs relating to the day-to-day servicing of any item of property, plant and equipment are recognised in profit or loss as incurred. The cost of replacing larger parts of some items of property, plant and equipment are capitalised when incurred and depreciated over the period until their next scheduled replacement, with the replacement parts being subsequently written off.

Right-of-use assets in relation to leases are depreciated using the straight-line method from the commencement date to the end of the lease term (refer *Note 2(r)*).

(t) Intangible assets and goodwill

Licences

Licences acquired enable the Group to cultivate, produce, manufacture, research, import and export medicinal cannabis in Australia. As detailed in *Note 15(a)*, the costs incurred to date have been capitalised in the statement of financial position and are carried at their approximate cost. Licences held have an indefinite life and are therefore not amortised but rather assessed annually for impairment or when there are indicators of impairment present. Licences are carried at historical cost less any accumulated impairment losses. External costs incurred in filing, renewing and protecting the licences, for which no future benefit is assured, are expensed as incurred.

Goodwill

Goodwill on acquisition is initially measured at cost, being the excess of the cost of the business combination over the acquirer’s interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following its initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortised.

Goodwill is reviewed for impairment at each reporting date, or more frequently if there is evidence that the carrying value may be impaired. Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group’s cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes and is not larger than an operating segment in accordance with AASB 8 *Operating Segments*.

Trademarks

Costs incurred in respect of other intangible assets, including trademarks that are acquired by the Group and have finite useful lives, are expensed as incurred.

(u) Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value-in-use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value-in-use cannot be estimated to be close to its fair value. In such cases, the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses relating to operations are recognised in those expense categories consistent with the function of the impaired asset unless the asset is carried at its revalued amount, in which case the impairment loss is treated as a revaluation decrease.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If so, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless it reverses a decrement previously charged to equity, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

(v) Trade and other payables

Trade payables and other payables are carried at amortised cost and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. Trade payables and other payables generally have terms of between 30 and 60 days.

(w) Chattel mortgage agreements

Finance leases and hire purchase agreements, including chattel mortgages, which transfer to the Group substantially all the risks and benefits incidental to ownership of the financed item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments.

The relevant payments made under the agreements are apportioned between finance charges and a reduction of the associated liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in profit or loss. Capitalised leased assets and other assets under finance agreements are depreciated over the shorter of the estimated useful life of the asset or the term of the agreement. Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight-line basis over the lease term.

(x) Borrowings

Borrowings are recorded as a liability in the statement of financial position at the face value of the amounts borrowed, together with any accrued interest that may be payable. To the extent that a borrowing is likely to be repayable more than twelve months from the balance date, that portion of the borrowing is recorded as a non-current liability.

(y) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income, net of any reimbursement.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

(z) Business combinations

The acquisition method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. All costs relating to acquisitions are expensed as incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

(aa) Employee benefits

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave and, when appropriate to do so, long service leave. Liabilities arising in respect of wages and salaries, annual leave and any other employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. All other employee benefit liabilities are measured at the present value of the estimated future cash outflows to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Expenses for non-accumulating sick leave are recognised when the leave is taken during the year and are measured at rates paid or payable.

In determining the present value of future cash outflows, the market yield as at the reporting date on national government bonds, which have terms to maturity approximating the terms of the related liability, are used. Employee benefits expenses and revenues arising in respect of wages and salaries, non-monetary benefits, annual leave, long service leave and other leave benefits and other types of employee benefits are recognised against profits on a net basis in their respective categories.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

(bb) Contributed equity

Issued capital is recognised at the fair value of the consideration received by the Company. Transaction costs arising on the issue of shares are recognised directly in equity as a deduction, net of tax, of the proceeds received.

(cc) Comparative information

Certain comparative information has been restated to ensure consistent treatment with current year numbers.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

(a) Critical accounting estimates and assumptions

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying value of certain assets and liabilities within the next annual reporting period are set out below.

Research and development tax incentive

The Company's research and development activities may be eligible for incentives under the Australian Federal Government's research and development tax incentive scheme (the "Scheme"). A refundable tax offset currently equal to 43.5% of qualifying expenditure is available to eligible companies with an annual turnover of less than \$20,000,000. The Group measures the estimated incentive receivable at balance date by applying the appropriate allocation methodology to the relevant expenses incurred. Any under/over accrual of the receivable is recognised in the statement of comprehensive income/(loss) in the year in which the payment is received. On 21 March 2019, the Group lodged its first claim under the Scheme for the year ended 30 June 2018 with an amount of \$43,937 being received on 21 May 2019. No claim has been made in respect of the years ended 30 June 2019 or 2020.

Licences

Determining whether the indefinite life licences described in *Note 2(t)* are impaired is a matter of judgement. The Company undertakes a full assessment of impairment of indefinite life licences annually, as required by the relevant Accounting Standards. At other reporting periods, the Company assesses whether there are any indicators of impairment. Where such indicators exist, a full impairment assessment is undertaken.

Impairment of intangible assets and goodwill

The Group determines whether intangible assets, including goodwill, are impaired on at least a bi-annual basis, in accordance with the accounting policies stated in *Notes 2(t)* and *2(u)*. This process requires an estimation to be made of the recoverable amount of the cash-generating units to which the respective assets are allocated.

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the value of the equity instruments at the date on which they are granted. The fair value is determined by an independent valuer using a Black-Scholes options pricing model.

(b) Critical judgements in applying the Group's accounting policies

Research and development costs

An intangible asset arising from development expenditure incurred on an internal project is recognised only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the development and the ability to reliably measure the expenditure attributable to the intangible asset during its development.

To date, all research and development costs incurred by the Company have been expensed, as their recoverability cannot be regarded as assured. In future, the Group will only capitalise research and development expenses when specific milestones are met and when the Group is able to demonstrate that future economic benefits are probable.

	Consolidated	
	30 June 2020 \$	30 June 2019 \$
4. REVENUE		
Medical consultation fees	112,264	-
Sale of products	11,586	-
Total revenue	123,850	-
5. OTHER INCOME		
Payments received under Government stimulus schemes	190,183	-
Interest received	132,195	1,243
Profit on sale of motor vehicle (refer Note 14(c))	17,700	-
Gain on recognition of licences	-	57,205
Total other income	340,078	58,448
6. PROFIT/(LOSS) BEFORE INCOME TAX		
Profit/(loss) before income tax includes:		
Depreciation of property, plant and equipment (refer Note 14)	(41,006)	(27,420)
Employee benefits expenses	(3,147,872)	(1,713,193)
<i>Note: Employee benefits expenses represent all salaries, bonuses and associated on-costs attributable to employees of the Group which have been allocated across their respective functions in the statement of comprehensive income/(loss).</i>		
7. PROFIT/(LOSS) PER SHARE		
The following reflects the income and share data used in the calculations of basic and diluted profit/(loss) per share:		
Profit/(loss) for the year attributable to the owners of the Company	(3,937,213)	(2,914,301)
Weighted average number of shares used in calculating profit/(loss) per share	91,739,726	3,024,663
8. INCOME TAX		
(a) Reconciliation of income tax expense to prima facie tax payable		
Profit/(loss) before income tax	(3,989,678)	(2,958,238)
Tax at the Australian tax rate of 27.5% (2019: 27.5%)	1,097,161	813,515
Tax effect of adjustments relating to non-temporary differences		
Non-assessable payments under Government stimulus schemes	40,369	-
Share-based payments expenses	(59,050)	-
Non-deductible entertainment expenses	(3,166)	(450)
Non-assessable gain on recognition of licences	-	15,731
	1,075,314	828,796
Tax effect of adjustments relating to temporary differences		
Temporary differences not recognised	36,649	(17,480)
	1,111,963	811,316
Tax effect of tax losses not recognised	(1,111,963)	(811,316)
Research and development tax incentive received	-	43,937
Income tax benefit	-	43,937

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

	Consolidated	
	30 June 2020 \$	30 June 2019 \$
8. INCOME TAX (CONT.)		
(b) Deferred tax assets/(liabilities)		
Deferred IPO expenses	219,680	(73,227)
Lease liability	107,023	-
Accrued interest on loans	80,330	29,157
Site-related expenses	58,247	64,285
Employee benefit provisions and accruals	20,326	35,425
Intellectual property	7,840	-
Right-of-use asset	(94,130)	-
Licences	(55,000)	(55,000)
Prepayments	(14,193)	-
Tax losses	1,968,565	886,133
	2,298,688	886,773
Deferred tax assets on temporary differences not brought to account	(2,298,688)	(886,773)
Total net deferred tax assets	-	-
(c) Tax losses		
Australia	6,704,742	3,222,300
Total Australian deferred tax assets on tax losses not recognised	1,843,804	886,133

Subject to the Group continuing to meet the relevant statutory tests, Australian tax losses are available for offset against future taxable income. As at balance date, there are estimated Australian unrecognised tax losses with a benefit of \$1,843,804 (2019: \$886,133) that have not been recognised as a deferred tax asset to the Group. In addition, there are further, unquantified, tax losses that may potentially be available in various foreign jurisdictions, including Hong Kong.

The unrecognised deferred tax assets will only be obtained if:

- The Group companies derive future assessable income of a nature and amount sufficient to enable the benefits to be realised;
- The Group companies continue to comply with the conditions for deductibility imposed by the law, including the transfer of losses into the tax consolidated group; and
- No changes in tax legislation adversely affect the Group companies from realising the benefit.

(d) Tax consolidation legislation

On 27 September 2018, Cronos Australia Limited and its three wholly-owned Australian controlled entities at the time formed an income tax consolidated group under the tax consolidation regime. As at balance date, the unrecognised tax losses relating to tax consolidated group are \$6,548,611 (2019: \$3,114,913).

9. DIVIDENDS AND DISTRIBUTIONS

No dividends were paid during the year ended 30 June 2020, nor have the Directors recommended that any dividend be declared or paid in the foreseeable future. Rather, the Company intends to retain any earnings to finance its future growth and development. Any future payment of cash dividends will be dependent upon, amongst other things, the Company's future earnings, financial condition, capital requirements, and such other factors as the Board of Directors may deem relevant at that time.

	Consolidated	
	30 June 2020 \$	30 June 2019 \$
10. CASH AND CASH EQUIVALENTS		
Cash at bank	14,685,491	159,427
Cash on hand	452	252
Total cash and cash equivalents	14,685,943	159,679
11. TRADE AND OTHER RECEIVABLES		
Net GST receivable	19,682	39,447
Trade receivables	7,518	-
Total trade and other receivables	27,200	39,447
<p><i>Note: Trade and other receivables for the Group as at 30 June 2020 (and 30 June 2019) are all stated in Australian dollars.</i></p> <p><i>Refer Note 34 for details of contractual maturity and management of the risks applicable to trade and other receivables for which, due to their short-term nature, their carrying value approximates their fair value.</i></p>		
12. INVENTORIES		
Finished goods on hand, at cost	192,450	-
Total inventories	192,450	-
13. OTHER ASSETS		
Prepayments	184,576	36,130
Security deposits	155,204	6,000
Deferred IPO expenses	-	1,331,397
Total other assets	339,780	1,373,527
14. PROPERTY, PLANT AND EQUIPMENT		
Right-of-use asset	342,290	-
Property, plant and equipment	148,090	76,402
Total property, plant and equipment	490,380	76,402
(a) Right-of-use asset		
Balance at the beginning of the year	-	-
Add: recognition of right-of-use asset	354,093	-
Less: depreciation expense charged	(11,803)	-
Balance at the end of the year	342,290	-

Note: On 13 March 2020, the Company entered into a five-year lease, with effect from 11 May 2020, in respect of new office premises located at Suite 8, Level 3, 299 Toorak Road, South Yarra, Victoria 3141. Pursuant to AASB 16 Leases, the Company has recorded a right-to-use asset (refer above) and a current and non-current lease liability in respect of the lease (refer Notes 17 and 20, respectively).

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

	Consolidated	
	30 June 2020 \$	30 June 2019 \$
14. PROPERTY, PLANT AND EQUIPMENT (CONT.)		
(b) Property, plant and equipment		
Office equipment, at cost	57,736	105
Less: accumulated depreciation	(4,835)	(34)
Net office equipment	52,901	71
Leasehold improvements, at cost	56,904	-
Less: accumulated amortisation	(1,540)	-
Net leasehold improvements	55,364	-
Motor vehicles, at cost	51,512	103,024
Less: accumulated depreciation	(24,878)	(32,001)
Net motor vehicles	26,634	71,023
Computer equipment, at cost	22,026	10,098
Less: accumulated depreciation	(10,457)	(4,790)
Net computer equipment	11,569	5,308
Clinic equipment, at cost	1,732	-
Less: accumulated depreciation	(110)	-
Net clinic equipment	1,622	-
Total net property, plant and equipment	148,090	76,402
(c) Reconciliation of property, plant and equipment		
Opening gross carrying amount	113,227	105,577
Add: additions purchased during the year	120,201	7,179
Add: assets acquired on acquisition (refer Note 26(d))	7,994	-
Add: assets acquired on Restructure (refer Note 27(b))	-	471
Less: disposals made during the year	(51,512)	-
Closing gross carrying amount	189,910	113,227
Opening accumulated depreciation	(36,825)	(9,099)
Add: depreciation expense charged	(29,203)	(27,420)
Add: accumulated depreciation acquired on acquisition (refer Note 26(d))	(404)	-
Add: accumulated depreciation arising on Restructure (refer Note 27(b))	-	(306)
Less: disposals made during the year	24,612	-
Closing accumulated depreciation	(41,820)	(36,825)
Total net property, plant and equipment	148,090	76,402

14. PROPERTY, PLANT AND EQUIPMENT (CONT.)

(c) Reconciliation of property, plant and equipment (CONT.)

Asset category	Opening carrying amount \$	Additions purchased \$	Additions acquired \$	Disposals made \$	Depreciation expense \$	Closing carrying amount \$
Office equipment	71	50,022	7,257	-	(4,449)	52,901
Leasehold improvements	-	56,904	-	-	(1,540)	55,364
Motor vehicles	71,023	-	-	(26,900)	(17,489)	26,634
Computer equipment	5,308	11,543	333	-	(5,615)	11,569
Clinic equipment	-	1,732	-	-	(110)	1,622
Totals	76,402	120,201	7,590	(26,900)	(29,203)	148,090

Note: On 19 June 2020, the Company sold one of its motor vehicles for \$44,600. The written down value of the vehicle as at the date of sale was \$26,900, resulting in a profit on sale of \$17,700 (refer Notes 5 and 30(b)).

	Consolidated	
	30 June 2020 \$	30 June 2019 \$
15. INTANGIBLE ASSETS AND GOODWILL		
Licences	200,000	200,000
Goodwill	291,457	-
Total intangible assets and goodwill	491,457	200,000
(a) Licences		
Balance at the beginning of the year	200,000	-
Licences arising on Restructure	-	200,000
Balance at the end of the year	200,000	200,000
<p>Note: As part of the Restructure of the Group immediately prior to the incorporation of CAL, as described in Note 2(a), Cronos Australia Group Pty. Ltd. ("CAG") acquired 100% of the shares of Cronos Australia - Operations Pty. Ltd. ("CAO") and is therefore considered to control CAO. The accounting implications of this ownership change resulted in the recognition of the fair value of the assets that Cronos Group Inc. had provided in CAO to CAG in exchange for shares in CAG which resulted in the recognition of the fair value of the licences held by CAO at \$200,000. The Directors of CAL have determined the fair value of the licences to approximate the costs incurred in obtaining the licences.</p>		
(b) Goodwill		
Balance at the beginning of the year	-	-
Goodwill arising on purchase of Cannadoc Health Pty. Ltd.	291,457	-
Balance at the end of the year	291,457	-
<p>Note: On 3 February 2020, Medical Clinic Holdings Pty. Ltd., a wholly-owned subsidiary of the Company, executed an agreement pursuant to which it paid \$300,000 to the Founders of Cannadoc Health Pty. Ltd. ("Cannadoc") to acquire a total of 102 of the 200 shares in Cannadoc, representing 51% of the issued capital of that company. The net assets of Cannadoc on the date of acquisition were \$8,543, such that goodwill of \$291,457 arose on that date (refer Note 26(c)). As at 30 June 2020, the Directors believe that there were no impairment indicators of the goodwill.</p>		

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

	Consolidated	
	30 June 2020 \$	30 June 2019 \$
16. TRADE AND OTHER PAYABLES		
Accrued expenses	226,586	50,000
Payroll-related payables (excluding annual leave)	87,735	877,390
Trade payables	95,295	529,486
Other payables	42,820	-
IPO-related payables	-	979,478
Total trade and other payables	452,436	2,436,354
<i>Note: Trade and other payables for the Group as at 30 June 2020 include amounts due in Japanese yen of JPY 280,800 (2019: JPY Nil), US dollars of USD 34,088 (2019: USD Nil) and Great British pounds of GBP 2,879 (2019: GBP Nil).</i>		
<i>Refer Note 34 for details of contractual maturity and management of the risks applicable to trade and other payables for which, due to their short-term nature, their carrying value approximates their fair value.</i>		
17. INTEREST-BEARING LIABILITIES (CURRENT)		
(a) Lease liability (current)		
Balance at the beginning of the year	-	-
Add: recognition of lease liability	354,093	-
Add: landlord incentive received	44,895	-
Add: interest charged on lease	1,403	-
Less: payments made under lease	(11,215)	-
Net total lease liability	389,176	-
Transfer portion of lease liability to non-current liability (refer Note 20(a))	(316,592)	-
Balance at the end of the year	72,584	-
Reconciliation of net lease liability (current)		
Future payments to be made under lease	80,099	-
Less: future interest to be paid on lease liability	(7,515)	-
Net lease liability (current)	72,584	-
<i>Note: On 13 March 2020, the Company entered into a lease, with effect from 11 May 2020, in respect of office premises located at Suite 8, Level 3, 299 Toorak Road, South Yarra, Victoria 3141. Pursuant to AASB 16 Leases, the Company has recorded a right-to-use asset (refer Note 14(a)) and a lease liability in respect of the lease (refer above and Note 20(a)).</i>		
(b) Unsecured loan		
Balance at the beginning of the year	513,923	-
Add: funds advanced under unsecured loan	-	500,000
Add: interest accrued on loan	5,589	13,923
Less: repayment of unsecured loan	(519,512)	-
Balance at the end of the year	-	513,923
<i>Note: During the year ended 30 June 2019, Cronos Australia - Operations Pty. Ltd. established a loan facility via an agreement with NewSouthern Capital Pty. Ltd. ("NSC") (refer Note 30(b)). Under the agreement, NSC made available a facility of up to \$500,000 to be applied towards working capital and costs associated with the proposed listing of the Company on the ASX. The balance of the loan from NSC (plus accrued interest), of \$519,512, was repaid in full on 2 August 2019.</i>		

	Consolidated	
	30 June 2020 \$	30 June 2019 \$
18. CHATTEL MORTGAGE LIABILITIES		
Balance at the beginning of the year	81,976	99,313
Add: interest charged	3,598	3,941
Less: mortgage payments made	(21,422)	(21,278)
Less: payout of residual	(32,260)	-
Balance at the end of the year	31,892	81,976
(a) Reconciliation of chattel mortgage liabilities		
Current liability	31,892	17,337
Non-current liability	-	64,639
Total chattel mortgage liabilities	31,892	81,976

(b) Reconciliation of future payments

	Future minimum payments		Interest		Present value of minimum lease payments	
	2020	2019	2020	2019	2020	2019
Less than one year	32,823	20,515	931	3,178	31,892	17,337
One to five years	-	66,503	-	1,864	-	64,639
Total payments	32,823	87,018	931	5,042	31,892	81,976

Note: During the year ended 30 June 2018, Cronos Australia Group Pty. Ltd. financed via chattel mortgages the purchase of two commercial vehicles used in the Group's business. The mortgages cover a period of three years and are subject to an interest rate of 4.31% per annum. A total of 36 monthly payments were initially payable, with a residual payment equal to 50% of the total purchase price payable at the end of each mortgage period.

On 9 June 2020, an amount of \$32,260 was paid to extinguish the chattel mortgage in respect of one of the above vehicles that was subsequently sold for \$44,600. A profit on sale amounting to \$17,700 was recorded on the date of sale, being 19 June 2020 (refer Note 5).

	Consolidated	
	30 June 2020 \$	30 June 2019 \$
19. EMPLOYEE BENEFIT PROVISIONS		
Annual leave		
Balance at the beginning of the year	2,968	-
Add: obligation accrued during the year	142,284	45,407
Less: annual leave utilised during the year	(52,647)	(42,439)
Less: annual leave paid out on termination of employee	(22,089)	-
Balance at the end of the year	70,516	2,968

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

	Consolidated	
	30 June 2020 \$	30 June 2019 \$
20. INTEREST-BEARING LIABILITIES (NON-CURRENT)		
Lease liability	316,592	-
Unsecured loan	1,786,521	1,606,027
Total interest-bearing liabilities (non-current)	2,103,113	1,606,027
(a) Lease liability (non-current)		
Balance at the beginning of the year	-	-
Add: recognition of lease liability	354,093	-
Add: landlord incentive received	44,895	-
Add: interest charged on lease	1,403	-
Less: payments made under lease	(11,215)	-
Net total lease liability	389,176	-
Transfer portion of lease liability to current liability (refer Note 17(a))	(72,584)	-
Balance at the end of the year	316,592	-
Reconciliation of net lease liability (non-current)		
Future payments to be made under lease	329,756	-
Less: future interest to be paid on lease liability	(13,164)	-
Net lease liability (non-current)	316,592	-
<i>Note: On 13 March 2020, the Company entered into a lease, with effect from 11 May 2020, in respect of office premises located at Suite 8, Level 3, 299 Toorak Road, South Yarra, Victoria 3141. Pursuant to AASB 16 Leases, the Company has recorded a right-to-use asset (refer Note 14(a)) and a lease liability in respect of the lease (refer above and Note 17(a)).</i>		
(b) Unsecured loan		
Balance at the beginning of the year	1,606,027	-
Add: funds advanced under unsecured loan	-	1,500,000
Add: interest accrued on loan	180,494	106,027
Balance at the end of the year	1,786,521	1,606,027
<i>Note: During the year ended 30 June 2019, Cronos Australia - Operations Pty. Ltd. (a wholly-owned subsidiary of CAL) established a loan facility via an agreement with Cronos Group Inc. ("CGI"), the Company's largest shareholder. Under the loan agreement, CGI made available a facility of up to \$1,500,000 that was applied towards working capital and costs associated with the Company's listing on the ASX. The loan is unsecured and attracts an interest rate of 12% per annum. The full amount of the facility was drawn down during the year ended 30 June 2019. Under the terms of the agreement, the loan from CGI (plus accrued interest) is not repayable until 1 January 2022.</i>		

	Consolidated	
	30 June 2020 \$	30 June 2019 \$
21. SHARE CAPITAL		
(a) Issued and paid-up capital		
Fully paid ordinary shares	20,012,053	54,655
Total share capital	20,012,053	54,655
(b) Movements in shares on issue		
Year ended 30 June 2020	Number	\$
Balance at the beginning of the year	4,000,000	54,655
Add: issue of ordinary shares prior to IPO (not for cash)	76,000,000	-
Add: issue of ordinary shares on IPO at 50 cents per share (for cash)	40,000,000	20,000,000
Add: issue of ordinary shares on conversion of unsecured loans	8,750,000	3,500,000
Less: transaction costs related to IPO	-	(3,542,602)
Balance at the end of the year	128,750,000	20,012,053
Year ended 30 June 2019	Number	\$
Balance at the beginning of the year	-	12
Add: issue of ordinary share on incorporation	1	1
Less: cancellation of incorporation share	(1)	(1)
Add: issue of ordinary shares on Restructure (refer Note 2(a))	4,000,000	54,643
Balance at the end of the year	4,000,000	54,655

(c) Effect of Restructure

As a result of the Restructure described in Note 2(a), the Company, via its ownership of Cronos Australia Group Pty. Ltd., acquired the assets and liabilities of Cronos Australia - Operations Pty. Ltd. and Prominent Brands Pty. Ltd. (formerly Cronos Australia - Marketing & Distribution Pty. Ltd.) on 27 September 2018. The balance of the net assets acquired, being \$54,643, was recognised above as an adjustment to equity.

(d) Terms and conditions of contributed equity

Ordinary shares have the right to receive dividends as declared and, in the event of winding up the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held. Ordinary shares, which have no par value, entitle their holder to one vote, either in person or by proxy, at a meeting of the Company.

(e) Capital management

When managing capital, Management's objective is to ensure that the Group continues as a going concern as well as to provide returns for shareholders and benefits for other stakeholders. Management also aims to maintain a capital structure to reduce the entity's cost of capital.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

	Consolidated	
	30 June 2020 \$	30 June 2019 \$
22. RESERVES		
Share-based payments reserve	214,729	-
Foreign currency translation reserve	205	-
Total reserves	214,934	-
(a) Share-based payments reserve		
Balance at the beginning of the year	-	-
Add: movement in reserve during the year	214,729	-
Balance at the end of the year	214,729	-
(b) Foreign currency translation reserve		
Balance at the beginning of the year	-	-
Add: movement in reserve during the year	205	-
Balance at the end of the year	205	-
(c) Nature and purpose of reserves		
Share-based payments reserve		
This reserve is used to record the value of share-based payments provided to employees and others providing similar services as part of their remuneration.		
Foreign currency translation reserve		
This reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.		
23. ACCUMULATED LOSSES		
Balance at the beginning of the year	(2,846,848)	67,453
Add: loss attributable to owners of Cronos Australia Limited	(3,937,213)	(2,914,301)
Balance at the end of the year	(6,784,061)	(2,846,848)
24. NON-CONTROLLING INTERESTS		
Balance at the beginning of the year	-	-
Add: investment made by non-controlling interests	98,000	-
Add: share of net assets acquired by non-controlling interests	8,208	-
Less: share of operating losses	(52,465)	-
Balance at the end of the year	53,743	-

	30 June 2020	30 June 2019
25. OPTIONS AND PERFORMANCE RIGHTS		
(a) Reconciliation of options granted		
Balance at the beginning of the year	-	-
Add: options granted during the year to Underwriters of IPO	2,000,000	-
Add: options granted during the year to Executives of the Company	1,026,400	-
Balance at the end of the year	3,026,400	-

(b) Option terms

Date granted	Quantity	Exercise price (cents)	Vesting date	Expiry date	Fair market value (cents)
7 November 2019	156,800	50.0	7 November 2020	7 November 2023	17.40
7 November 2019	2,000,000	65.0	7 November 2019	31 December 2021	5.59
7 November 2019	329,100	67.0	7 November 2021	7 November 2023	14.71
7 November 2019	540,500	83.0	7 November 2022	7 November 2023	12.80
Totals	<u>3,026,400</u>				

Note: None of the above options are listed on the ASX.

	30 June 2020	30 June 2019
(c) Reconciliation of performance rights granted		
Balance at the beginning of the year	-	-
Add: rights granted during the year to Executives of the Company	120,000	-
Add: rights granted during the year to Founders of Cannadoc Health Pty. Ltd.	1,000,000	-
Balance at the end of the year	1,120,000	-

Note: None of the above performance rights are listed on the ASX.

	Consolidated	
	30 June 2020	30 June 2019
	\$	\$
26. ACQUISITION OF SUBSIDIARY		
(a) Payment for acquisition of subsidiary, net of cash		
Cash consideration paid	(300,000)	-
Add: cash acquired	4,106	-
Net payment for acquisition of subsidiary	(295,894)	-
(b) Contribution of equity capital made to subsidiary		
Equity capital contribution made by Company (51%)	102,000	-
Add: equity capital contribution made by non-controlling interests (49%)	98,000	-
Total equity capital contribution made to subsidiary	200,000	-
(c) Goodwill arising on acquisition of subsidiary		
Cash consideration paid	300,000	-
Add: non-controlling interests	8,208	-
Less: net assets acquired	(16,751)	-
Goodwill arising on acquisition of subsidiary (refer Note 15(b))	291,457	-

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

	Consolidated	
	30 June 2020 \$	30 June 2019 \$
26. ACQUISITION OF SUBSIDIARY (CONT.)		
(d) Assets purchased on acquisition of subsidiary		
Office equipment, at cost	7,609	-
Less: accumulated depreciation	(352)	-
Net office equipment purchased	7,257	-
Computer equipment, at cost	385	-
Less: accumulated depreciation	(52)	-
Net computer equipment purchased	333	-
Total net assets purchased on acquisition of subsidiary (refer Note 14(c))	7,590	-
<i>Note: On 3 February 2020, the Group executed a Share Transfer and Shareholders Agreement (the "Agreement") pursuant to which it paid \$300,000 to acquire a 51% equity interest in Cannadoc Health Pty. Ltd. ("Cannadoc"), a Melbourne-based company operating a medical clinic business specialising in cannabinoid-based therapies. Immediately following the acquisition, the shareholders of Cannadoc contributed a further \$200,000 in equity capital in proportion to their respective shareholdings (refer Note 26(b)). Under the Agreement, CAL will also make available to Cannadoc a secured loan facility of up to \$1,000,000 on commercial terms, which may be used for working capital purposes and to further expand the business (refer Note 32(c)). No such terms had been agreed as at balance date. Under the Agreement, the Company acquired an economic interest in the Cannadoc business with effect from 1 January 2020 and, accordingly, the results of the Cannadoc business have been consolidated into the Group result from that date.</i>		
27. RECONCILIATION OF CASH FLOWS		
(a) Reconciliation of loss for the year		
Reconciliation of loss for the year after income tax to the net cash flows from/(used in) operating activities		
Loss for the year	(3,989,678)	(2,914,301)
Non-cash items		
Share-based payments expense	214,729	-
Interest expense accrued	186,083	119,950
Depreciation of property, plant and equipment	41,006	27,420
Unrealised foreign currency losses	7,958	-
Interest charged on lease liability	1,403	-
Government stimulus payments accrued	(96,798)	-
Profit on sale of motor vehicle	(17,700)	-
Bad debts written off	(1,975)	-
Gain on recognition of licences	-	(57,205)
Changes in assets and liabilities		
(Increase)/decrease in trade and other receivables	7,758	44,378
(Increase)/decrease in inventories	(192,450)	-
(Increase)/decrease in other assets	(124,053)	(29,547)
Increase/(decrease) in trade and other payables	(993,634)	1,154,295
Increase/(decrease) in employee benefit provisions	67,548	1,212
Net cash flows from/(used in) operating activities	(4,889,803)	(1,653,798)

	Consolidated	
	30 June 2020 \$	30 June 2019 \$
27. RECONCILIATION OF CASH FLOWS (CONT.)		
(b) Capital reorganisation		
On 27 September 2018, the Company completed a Restructure as described in <i>Note 2(a)</i> . The Restructure resulted in the following assets and liabilities being included within the Group:		
Assets		
Trade and other receivables	-	26,522
Assets under construction (since expensed)	-	25,300
Property, plant and equipment (net)	-	165
Deferred IPO expenses	-	146,781
Intangible assets (licences)	-	142,795
Liabilities		
Trade and other payables	-	(358,486)
Employee benefit provisions	-	(1,756)
Allocation to issued capital (refer <i>Note 21</i>)	-	(54,643)
Net assets assumed on Restructure	-	73,322

28. EMPLOYEE BENEFITS

(a) Employee options and performance rights

On 4 September 2019, the Company established an Employee Incentive Plan (“EIP”) pursuant to which the Directors may, at their discretion, grant options and performance rights over the Company’s ordinary shares to Executives and employees of the Group (refer *Note 25*).

During the year ended 30 June 2020, the Company granted a total of 3,026,400 options over the Company’s ordinary shares to the Underwriter of its IPO (2,000,000) and to certain Executives of the Company (1,026,400). In addition, a total of 1,120,000 performance rights were granted to certain Executives of the Company (120,000) and the Founders of Cannadoc Health Pty. Ltd. (1,000,000).

The fair value of each option granted under the EIP is estimated by an external independent valuer using a Black-Scholes option pricing model, with the following assumptions used for grants made during the year ended 30 June 2020:

	30 June 2020
Dividend yield	-
Historic volatility and expected volatility	70%
Option exercise prices	\$0.50 to \$0.83
Weighted average exercise price	\$0.677
Risk-free interest rate	0.75% to 0.88%
Expected life of an option	2.15 years to 4 years

(b) Superannuation commitments

During the year ended 30 June 2020, the Group made statutory contributions to superannuation funds on behalf of Australian employees at a rate of up to 9.5% per annum, in addition to other superannuation contributions as part of salary packaging arrangements with certain staff. All contributions are expensed when incurred. Contributions made by the Group of 9.5% per annum of an employee’s salaries up to a statutory limit are legally enforceable in Australia. A provision for annual leave accrued and taken during the year by employees of the Group was also maintained.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

29. SEGMENT INFORMATION

(a) Reportable segments

The Group has identified three reportable business segments based on the products to be sold and/or the services provided, as set out below, as these represent the source of the Group's major risks and have the greatest effect on the rates of return. The Group has identified two geographic segments, being Australia and Asia, based on the jurisdictions where the Company's operations are located. The segments are reported in a manner consistent with the reporting provided to the chief operating decision maker, being the Company's Chief Executive Officer.

(b) Business segments

The Group's three business segments can be described as follows:

- *Medicinal cannabis* - involving the sale of medicinal cannabis products
- *Clinics* - involving the operation of medicinal cannabis clinics
- *Consumer* - involving the sale of consumer products

The *Corporate* disclosures below include revenues, costs, assets and liabilities associated with CAL's headquarter function.

Segment		Sales revenue \$	Other income \$	Totals \$	Profit/(loss) \$
Medicinal cannabis	2020	11,430	21,798	33,228	(520,053)
	2019	-	-	-	(313,353)
Clinics	2020	112,420	62,500	174,920	(106,042)
	2019	-	-	-	-
Consumer	2020	-	-	-	(451,673)
	2019	-	-	-	-
Sub-totals	2020	123,850	84,298	208,148	(1,077,768)
	2019	-	-	-	(313,353)
Corporate	2020	-	255,780	255,780	(2,911,910)
	2019	-	58,448	58,448	(2,600,948)
Totals	2020	123,850	340,078	463,928	(3,989,678)
	2019	-	58,448	58,448	(2,914,301)

Segment		Assets \$	Liabilities \$	Depreciation/ amortisation \$	Purchases of equipment \$
Medicinal cannabis	2020	429,159	-	-	-
	2019	200,000	-	-	-
Clinics	2020	300,176	(28,449)	(2,026)	5,205
	2019	-	-	-	-
Consumer	2020	803	(54,498)	-	-
	2019	-	-	-	-
Sub-totals	2020	730,138	(82,947)	(2,026)	5,205
	2019	200,000	-	-	-
Corporate	2020	15,497,072	(2,647,594)	(38,980)	114,996
	2019	1,649,055	(4,641,248)	(27,419)	7,179
Totals	2020	16,227,210	(2,730,541)	(41,006)	120,201
	2019	1,849,055	(4,641,248)	(27,419)	7,179

29. SEGMENT INFORMATION (CONT.)

(c) Geographic segments

The Group's two geographic segments can be described as follows:

- *Australia* is the home country of the parent entity, Cronos Australia Limited, and the location of the Group's medicinal cannabis and clinics operations.
- *Asia* is the home of the Group's Asian-based consumer business.

The *Corporate* disclosures below include revenues, costs, assets and liabilities associated with CAL's headquarter function.

Segment		Sales revenue \$	Other income \$	Totals \$	Profit/(loss) \$
Australia	2020	123,850	84,298	208,148	(627,103)
	2019	-	-	-	(313,353)
Asia	2020	-	-	-	(450,665)
	2019	-	-	-	-
Sub-totals	2020	123,850	84,298	208,148	(1,077,768)
	2019	-	-	-	(313,353)
Corporate	2020	-	255,780	255,780	(2,911,910)
	2019	-	58,448	58,448	(2,600,948)
Totals	2020	123,850	340,078	463,928	(3,989,678)
	2019	-	58,448	58,448	(2,914,301)

Segment		Assets \$	Liabilities \$	Depreciation/ amortisation \$	Purchases of equipment \$
Australia	2020	729,486	(28,449)	(2,026)	5,205
	2019	200,000	-	-	-
Asia	2020	652	(54,498)	-	-
	2019	-	-	-	-
Sub-totals	2020	730,138	(82,947)	(2,026)	5,205
	2019	200,000	-	-	-
Corporate	2020	15,497,072	(2,647,594)	(38,980)	114,996
	2019	1,649,055	(4,641,248)	(27,419)	7,179
Totals	2020	16,227,210	(2,730,541)	(41,006)	120,201
	2019	1,849,055	(4,641,248)	(27,419)	7,179

(d) Additional segment disclosures

Other income - corporate includes interest received of \$132,195 (2019: \$1,243).

Assets - corporate includes cash and cash equivalents of \$14,685,943 (2019: \$159,679).

There were no intersegment sales.

	Consolidated	
	30 June 2020 \$	30 June 2019 \$
29. SEGMENT INFORMATION (CONT.)		
(e) Intersegment balances		
Business segments		
Loan payable (corporate) and loan receivable (medicinal cannabis)	130,481	1,207,289
Loan payable (clinics) and loan receivable (corporate)	561,224	-
Loan payable (consumer) and loan receivable (corporate)	377,400	-
Loan payable (consumer) and loan receivable (medicinal cannabis)	20,335	-
Loan payable (clinics) and loan receivable (medicinal cannabis)	1,674	-
Geographic segments		
Loan payable (Australia) and loan receivable (corporate)	431,802	-
Loan payable (Asia) and loan receivable (Australia)	20,335	-
Loan payable (Asia) and loan receivable (corporate)	376,341	-
Loan payable (corporate) and loan receivable (Australia)	-	1,207,289

(f) Segment accounting policies

Segment information is prepared in conformity with the accounting policies of the entity and Accounting Standard AASB 8 *Operating Segments*. As a result, the primary reporting segments reflect more closely the information that Management uses to make decisions about operating matters. Interest received and finance costs are allocated under the heading *Corporate* as they are not part of the core operations of any other segment.

(g) Major customers

As at 30 June 2020, the Group has no customers to which it provides products and from whom the Group generated revenues representing more than 10% of the total consolidated revenue from operations.

30. RELATED PARTY TRANSACTIONS

(a) Ultimate parent

Cronos Australia Limited is the ultimate Australian parent company. As at the date of this Report, no single shareholder controls more than 50 percent of the issued capital of the Company.

(b) Related party transactions

Sale of motor vehicle

On 19 June 2020, the Company entered into a Deed of Settlement and Release with former Executive Director, Peter Righetti, pursuant to which the Company agreed to sell to him a motor vehicle owned by Cronos Australia Group Pty. Ltd. (a wholly-owned subsidiary of CAL), but driven by him, for a sale price of \$44,600. The sale of the vehicle generated a profit on sale of \$17,700 (refer *Notes 5 and 14(c)*). The Company received two independent valuations of the vehicle prior to its sale and is satisfied that the sale of the vehicle to Mr. Righetti was on arm's-length terms.

Contingent lease commitment

As detailed in the Company's previous Financial Report, on 12 October 2018, the Group, via its wholly-owned subsidiary Cronos Australia - Operations Pty. Ltd., entered into an Agreement for Lease over a long-term ground lease of a site near Daylesford in Victoria with Glenbrook Pastoral Pty. Ltd. (the "Landlord") on which the Group could, if it so elected, construct a facility to cultivate cannabis. The Agreement for Lease is a related party arrangement as the Landlord is an entity controlled by a party related to substantial shareholder and former Executive Director of the Company, Peter Righetti. The Company is satisfied that the lease is on arm's-length terms. During the year ended 30 June 2020, the Group made payments to the Landlord pursuant to the Agreement for Lease totalling \$23,000.

30. RELATED PARTY TRANSACTIONS (CONT.)

(b) Related party transactions (CONT.)

Unsecured loan - Cronos Group Inc.

During the year ended 30 June 2019, Cronos Australia - Operations Pty. Ltd. (a wholly-owned subsidiary of CAL) (“CAO”) established a loan facility via an agreement with Cronos Group Inc. (“CGI”), the Company’s largest shareholder. Under the agreement, CGI made available a loan of \$1,500,000 that was applied towards working capital and costs associated with the Company’s listing on the ASX. The loan is unsecured and attracts an interest rate of 12% per annum. The full amount of the facility was drawn down during the year ended 30 June 2019. Under the terms of the agreement, the loan from CGI (plus all accrued interest) is not repayable until 1 January 2022.

Unsecured loan - NewSouthern Capital Pty. Ltd.

During the year ended 30 June 2019, CAO established a loan facility via an agreement with NewSouthern Capital Pty. Ltd. (“NSC”), a company related to Rodney Cocks and Peter Righetti, both of whom were Directors of the Company at the time. Under the agreement, NSC made available to CAO an unsecured loan of \$500,000 to be applied towards working capital and costs associated with the listing of the Company on the ASX. The balance of the loan from NSC (plus all accrued interest), which totalled \$519,512, was repaid in full on 2 August 2019 (refer Note 17(b)).

Apart from the above transactions, there were no transactions with related parties during the year ended 30 June 2020.

(c) Details of Key Management Personnel as at balance date

Directors

Shane F. Tanner (Non-Executive Chairman)
Daniel E. Abrahams (Non-Executive Director)
Jason M. Adler (Non-Executive Director)
Anna E. Burke AO (Non-Executive Director)
Michael R. Gorenstein (Non-Executive Director)

Executives

Rodney D. Cocks CSM (Executive Director / Chief Executive Officer)
Thomas G. Howitt (Chief Financial Officer)
Lior Harel (General Counsel / Company Secretary)

*Note: Peter J. Righetti served as Chief Operating Officer and an Executive Director of the Company from 1 July 2019 up to 19 June 2020.
Lior Harel resigned as General Counsel and Company Secretary of the Company on 14 August 2020.*

(d) Remuneration of Key Management Personnel

	Consolidated	
	30 June 2020	30 June 2019
	\$	\$
Short-term employee benefits	1,782,099	1,133,558
Share-based payments	95,300	-
Post-employment benefits	92,787	87,379
Total remuneration of Key Management Personnel	1,970,186	1,220,937

Note: Key Management Personnel include all Directors of the Company and members of the Executive Team that report directly to the CEO.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

30. RELATED PARTY TRANSACTIONS (CONT.)

(e) Shares held by Key Management Personnel

Interest in shares held in Cronos Australia Limited	Opening balance	Shares issued	Shares purchased	Shares sold	Closing balance
Directors					
Shane F. Tanner	-	-	350,000	-	350,000
Daniel E. Abrahams	-	-	100,000	-	100,000
Jason M. Adler	-	-	-	-	-
Anna E. Burke AO	-	-	50,000	-	50,000
Michael R. Gorenstein	-	-	-	-	-
Executives					
Rodney D. Cocks CSM	1,000,000	19,000,000	-	-	20,000,000
Thomas G. Howitt	-	-	-	-	-
Lior Harel	-	-	-	-	-
Totals	1,000,000	19,000,000	500,000	-	20,500,000

(f) Options held by Key Management Personnel

Interest in options over Cronos Australia shares	Opening balance	Options granted	Options exercised	Closing balance	Vested at year end
Executives					
Rodney D. Cocks CSM	-	-	-	-	-
Thomas G. Howitt	-	565,000	-	565,000	-
Lior Harel	-	461,400	-	461,400	-
Totals	-	1,026,400	-	1,026,400	-

(g) Performance rights held by Key Management Personnel

Interest in rights over Cronos Australia shares	Opening balance	Rights granted	Rights converted	Closing balance	Vested at year end
Executives					
Rodney D. Cocks CSM	-	-	-	-	-
Thomas G. Howitt	-	60,000	-	60,000	60,000
Lior Harel	-	60,000	-	60,000	60,000
Totals	-	120,000	-	120,000	120,000

31. AUDITOR'S REMUNERATION

Name of Auditor		Audit services \$	Other services \$	Totals \$
KPMG	2020	82,000	-	82,000
	2019	45,000	60,000	105,000
Total auditor's remuneration	2020	82,000	-	82,000
	2019	45,000	60,000	105,000

	Consolidated	
	30 June 2020 \$	30 June 2019 \$
32. COMMITMENTS AND CONTINGENCIES		
(a) Lease expenditure commitments		
Minimum lease payments		
Not later than one year	80,099	-
Later than one year but not later than five years	329,756	-
Total minimum lease payments	409,855	-

As at 30 June 2020, the Group had entered into a lease relating to the following office premises which has been recognised, along with a corresponding right-of-use asset, under AASB 16 Leases (refer Notes 17 and 20):

Location	Landlord	Date of expiry of lease	Minimum payments (\$)
Suite 8, Level 3, 299 Toorak Road South Yarra, Victoria 3141	Newmark Como Property Trust	10 May 2025	409,855

As at 30 June 2019, the Company had a commitment of \$18,000 in respect of premises located at Level 2, 287 Collins Street, Melbourne, Victoria 3000 that were formerly occupied by the Company.

	Consolidated	
	30 June 2020 \$	30 June 2019 \$
(b) Chattel mortgage commitments		
Minimum chattel mortgage payments		
Not later than one year	32,823	21,422
Later than one year but not later than five years	-	65,596
Total minimum chattel mortgage payments	32,823	87,018

Note: The Company, via its wholly-owned subsidiary Cronos Australia Group Pty. Ltd., has financed via a chattel mortgage the purchase of a commercial vehicle used in the Company's business. The monthly payment due under the mortgage is \$887. As at 30 June 2020, a total of eight further monthly payments were payable, in addition to a final payment of \$25,727, being 50% of the total amount financed in respect of the vehicle (refer Note 18).

(c) Finance commitments

CBD Joint Venture Pty. Ltd.

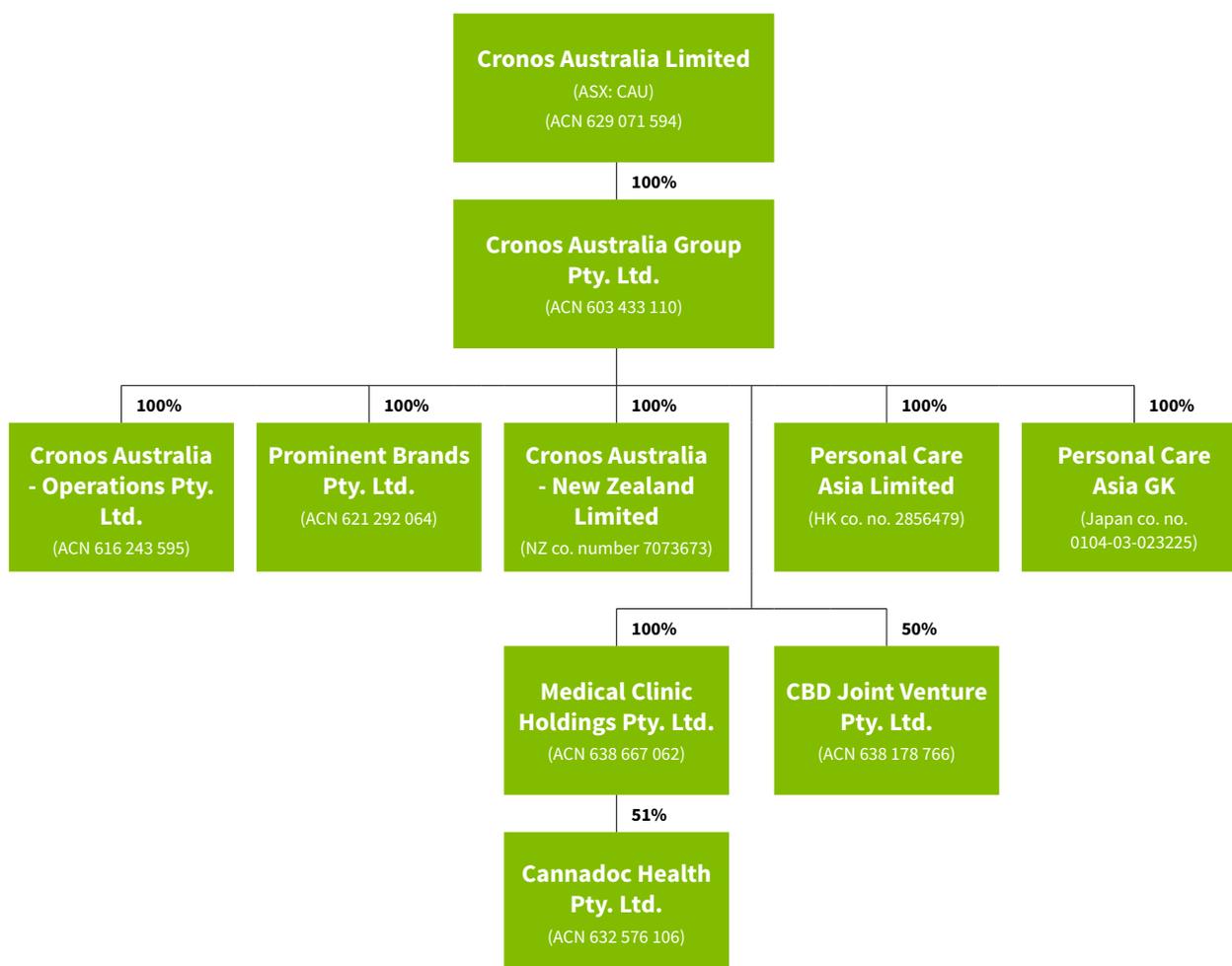
On 23 December 2019, the Company announced that it had formed a joint venture with A&S Branding Pty. Ltd. for the development of cannabidiol-based products. CAL will make available to the joint venture vehicle (CBD Joint Venture Pty. Ltd.) an unsecured loan facility of up to \$250,000 on commercial terms, which may be used for working capital purposes and to further expand the business. No such terms have yet been agreed.

Cannadoc Health Pty. Ltd.

On 3 February 2020, the Group executed a Share Transfer and Shareholders Agreement (the "Agreement") pursuant to which it acquired a 51% equity interest in Cannadoc Health Pty. Ltd. ("Cannadoc"), a Melbourne-based company operating a medical clinic business specialising in cannabinoid-based therapies. Under the Agreement, CAL may be obliged to pay the Founders of Cannadoc two payments on the first and second anniversaries of completion. The payments (if any) will equal 51% of five times the future EBITDA of Cannadoc, with \$300,000 to be deducted from the first payment. CAL will also make available to Cannadoc a loan facility of up to \$1,000,000 on commercial terms, which may be used for working capital purposes and to further expand the business. No such terms have yet been agreed.

33. GROUP STRUCTURE

The following diagram is a depiction of the Group structure as at the date of this Report:



Name of Group company	Incorporation details (date and place)
Cronos Australia Limited	27 September 2018; Victoria, Australia
Cronos Australia Group Pty. Ltd.	18 December 2014, Victoria, Australia
Cronos Australia - Operations Pty. Ltd.	2 December 2016; Victoria, Australia
Prominent Brands Pty. Ltd.	24 August 2017; Victoria, Australia
Cronos Australia - New Zealand Limited	12 October 2018; Taranaki, New Zealand
Personal Care Asia Limited	25 July 2019; Central, Hong Kong
Personal Care Asia GK	1 July 2020; Tokyo, Japan
Medical Clinic Holdings Pty. Ltd.	23 January 2020; Victoria, Australia
CBD Joint Venture Pty. Ltd.	20 December 2019; Victoria, Australia
Cannadoc Health Pty. Ltd.	28 March 2019; Victoria, Australia

34. FINANCIAL RISK MANAGEMENT

(a) Introduction

The Group's activities expose it to various financial risks such as credit risk, market risk (including foreign currency risk and interest rate risk) and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses different methods to measure the different types of risk to which it is exposed. These methods include sensitivity analysis in the case of foreign exchange, and interest rate and aging analysis for credit risk.

34. FINANCIAL RISK MANAGEMENT (CONT.)

(a) Introduction (CONT.)

The Group's overall risk profile is managed by the Company's Chief Risk Officer in conjunction with the other members of the Executive team. During the year ended 30 June 2020, the Company created a comprehensive Risk Register that reviewed and documented all of the perceived risks that the Group is exposed to, together with a detailed summary of the consequences of such risks occurring and various actions that the Company can take to mitigate their impact. The Risk Register is reviewed and updated on a periodic basis and tabled at meetings of the Company's Audit and Risk Committee, following which it is distributed to the Board for noting and comment.

The Group's principal financial instruments comprise cash and cash equivalents. The Group also has other financial assets and liabilities, such as trade receivables and payables, which arise directly from its operations.

The Group does not enter into derivative transactions, such as interest rate swaps or forward currency contracts. It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken. The main risks arising from the Group's financial instruments are credit risk exposures, foreign currency risk, interest rate risk and liquidity risk. The policies and procedures for managing these risks are summarised below.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in *Note 2*.

The Group holds the following financial instruments at balance date:

	Consolidated	
	30 June 2020	30 June 2019
	\$	\$
Financial assets		
Cash and cash equivalents	14,685,943	159,679
Trade and other receivables	27,200	39,447
Other assets	339,780	42,130
Total financial assets	15,052,923	241,256
Financial liabilities		
Trade and other payables	452,436	2,436,354
Interest-bearing liabilities	2,175,697	2,119,950
Chattel mortgage liabilities	31,892	81,976
Total financial liabilities	2,660,025	4,638,280

(b) Credit risk

The Group's credit risk is managed on a Group basis. Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions. If there is no independent rating, the Group assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal and/or external ratings. The compliance with credit limits by customers is regularly monitored by Management. The maximum exposures to credit risk as at 30 June 2020 in relation to each class of recognised financial asset is the carrying amount of that asset, as recorded in the statement of financial position.

Financial assets included on the statement of financial position that potentially subject the Group to a concentration of credit risk consist principally of cash and cash equivalents. The Group minimises this concentration of risk by placing its cash and cash equivalents with financial institutions that maintain superior credit ratings in order to limit the degree of credit exposure. For banks and financial institutions, only independently-rated parties with a satisfactory credit rating are accepted. The Group has not entered into any transactions that qualify as a financial derivative instrument.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

34. FINANCIAL RISK MANAGEMENT (CONT.)

(b) Credit risk (CONT.)

In addition, receivable balances are monitored on an ongoing basis such that the Group's exposure to bad debts is not significant. During the year ended 30 June 2020, an amount of \$1,975 had been written off in respect of bad debts. As at 30 June 2020, the Group had not raised any provisions for doubtful debts.

An analysis of the aging of trade receivables at balance date is provided below:

	Consolidated	
	30 June 2020	30 June 2019
	\$	\$
Trade receivables		
Current (less than 30 days)	5,504	-
31 days to 60 days	190	-
61 days to 90 days	600	-
Greater than 90 days	1,224	-
Total trade receivables (Note 11)	7,518	-

(c) Market risk

Foreign currency risk

The Group currently operates predominantly in Australia and, at balance date, has limited exposure to foreign currency exchange risk in currencies including US dollars, Japanese yen, Hong Kong dollars and Canadian dollars. As the Company expands its operations, particularly into Asia, this situation will progressively change.

Interest rate risk

The Group's main interest rate risk arises in relation to its short-term deposits with various financial institutions. If interest rates were to decrease, the Group may generate less interest revenue from such deposits. However, given the relatively short duration of such deposits and the historically low deposit rates currently being offered by major banks, the associated risk is minimal. As at balance date, the Group had exposure to one interest bearing loan with a face value of \$1,500,000 that was subject to a fixed rate of interest of 12 percent per annum. This loan is due for repayment on, or before, 1 January 2022. Other than this loan and a chattel mortgage in respect of a motor vehicle, the Company has no liabilities on which interest is charged.

The Group adopts a prudent approach to cash management that is tailored to cash forecasts rather than seeking the highest rates of return that may compromise access to funds as and when they are required. Where appropriate, the Group strives to deposit its surplus cash in a range of deposits over different time frames in order to diversify its portfolio and thereby minimise its overall risk. On a monthly basis, Management reviews all cash and cash equivalents, including the periods over which the cash has been deposited, the name and credit rating of the institution holding the deposit and the interest rate at which the funds have been deposited.

Given the historically low deposit interest rates being offered by major banks in respect of cash and cash equivalents held by the Group held during the year ended 30 June 2020, if interest rates had changed by +/- 50 percent from the year-end rates, with all other variables held constant, the Group's equity, relating solely to the movement in profit and loss for the year, would not have changed materially. The Group's main interest rate risk during the year ended 30 June 2020 arose in respect of a fixed rate borrowing from its major shareholder which was subject to an interest rate that did not fluctuate (see above).

34. FINANCIAL RISK MANAGEMENT (CONT.)

(c) Market risk (CONT.)

The Group's exposure to interest rate risks and the effective interest rates of financial assets and liabilities, both realised and unrealised, at balance date is as follows:

		Floating rate	Fixed rate	Carrying amount	Weighted-average rate	Maturity period
		\$	\$	\$	%	days
Financial assets						
Cash and cash equivalents	2020	14,685,943	-	14,685,493	0.25%	At call
(Note 10)	2019	159,679	-	159,679	1.25%	At call
Trade and other receivables	2020	27,200	-	27,200	N/A	At call
(Note 11)	2019	39,447	-	39,447	N/A	At call
Other assets	2020	339,780	-	339,780	0.28%	N/A
(Note 13)	2019	42,130	-	42,130	N/A	N/A
Totals	2020	15,052,923	-	15,052,923		
	2019	241,256	-	241,256		
Financial liabilities						
Interest-bearing liabilities	2020	-	2,175,697	2,175,697	10.37%	N/A
(Notes 17 and 20)	2019	-	2,119,950	2,119,950	12.00%	N/A
Chattel mortgage liabilities	2020	-	31,892	31,892	4.31%	N/A
(Note 18)	2019	-	81,976	81,976	4.31%	N/A
Totals	2020	-	2,207,589	2,207,589		
	2019	-	2,201,926	2,201,926		

Note: All periods in respect of financial assets are for less than one year.

(d) Liquidity risk

Prudent liquidity risk management necessitates maintaining sufficient cash and cash equivalents and the availability of funding through committed credit facilities, such as credit card facilities. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and, wherever possible, matching the maturity profiles of financial assets and liabilities.

Due to the dynamic nature of the Company's underlying business, Management aims to maintain flexibility in funding by keeping committed credit lines available. Surplus funds are generally only invested in instruments that are tradable in highly liquid markets.

An analysis of the aging of trade payables at balance date is provided below:

	Consolidated	
	30 June 2020	30 June 2019
	\$	\$
Trade payables		
Current (less than 30 days)	80,253	114,200
31 days to 60 days	15,042	5,500
61 days to 90 days	-	12,375
Greater than 90 days	-	397,411
Total trade payables (Note 16)	95,295	529,486

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

34. FINANCIAL RISK MANAGEMENT (CONT.)

(d) Liquidity risk (CONT.)

A balanced view of cash inflows and outflows affecting the Group is summarised in the table below:

		< 6 months \$	6 to 12 months \$	1 to 5 years \$	> 5 years \$	Totals \$
Inflows - financial assets						
Cash and cash equivalents	2020	14,685,943	-	-	-	14,685,943
	2019	159,679	-	-	-	159,679
Trade and other receivables	2020	27,200	-	-	-	27,200
	2019	39,447	-	-	-	39,447
Total financial assets	2020	14,713,143	-	-	-	14,713,143
	2019	199,126	-	-	-	199,126
Outflows - financial liabilities						
Trade and other payables	2020	452,436	-	-	-	452,436
	2019	2,436,354	-	-	-	2,436,354
Interest-bearing liabilities	2020	35,898	36,686	2,103,113	-	2,175,697
	2019	513,923	-	1,606,027	-	2,119,950
Chattel mortgage liabilities	2020	4,638	27,254	-	-	31,892
	2019	8,668	8,669	64,639	-	81,976
Total financial liabilities	2020	492,972	63,940	2,103,113	-	2,660,025
	2019	2,958,945	8,669	1,670,666	-	4,638,280

(e) Classification of financial instruments

AASB 13 establishes a fair value hierarchy that prioritises the input to valuation techniques used to measure fair value, as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair values of the Company's financial assets and liabilities as at 30 June 2020 (as set out above), all of which are Level 3, approximate their carrying values due to the short-term nature of these instruments.

(f) Borrowing facilities

The Group had access to the following borrowing facilities as at 30 June 2020:

	Facility limit \$	Amount used \$	Amount available \$
Nature of facility			
Loan from Cronos Group Inc.	1,500,000	(1,500,000)	-
Credit card facility from ANZ Banking Group	50,000	(9,225)	40,775

35. SUBSEQUENT EVENTS

- On 1 July 2020, the Group incorporated a Japanese subsidiary named Personal Care Asia GK from which the Group's operations in Japan will be managed.
- On 14 August 2020, Lior Harel resigned as General Counsel and Company Secretary of the Company. On the same date, Thomas Howitt, the Company's Chief Financial Officer, was also appointed as Company Secretary of the Company and a total of 461,400 options over the Company's ordinary shares that had previously been granted to Lior Harel were forfeited following his departure from the Company.

Apart from the events described above, there were no other events that have occurred subsequent to balance date that have not been disclosed elsewhere in this Financial Report.

Directors' Declaration

In the opinion of the Directors of Cronos Australia Limited:

1. the Financial Statements and accompanying notes, as set out on pages 48 to 87 of this Annual Report, are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2020 and of its performance for the financial year ended on that date; and
2. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and

Note 2 confirms that the Financial Statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

This Declaration is made in accordance with a resolution of the Directors.



SHANE F. TANNER
Chairman



RODNEY D. COCKS CSM
Director

Melbourne, 28 August 2020

Corporate Directory

DIRECTORS

Shane F. Tanner (*Non-Executive Chairman*)
Rodney D. Cocks CSM (*Executive Director and Chief Executive Officer*)
Daniel E. Abrahams (*Non-Executive*)
Jason M. Adler (*Non-Executive*)
Anna E. Burke AO (*Non-Executive*)
Michael R. Gorenstein (*Non-Executive*)

COMPANY SECRETARY

Thomas G. Howitt

REGISTERED OFFICE

Suite 8, Level 3, 299 Toorak Road
South Yarra Vic. 3141
Australia

Email: info@cronosaustralia.com

AUSTRALIAN BUSINESS NUMBER

59 629 071 594

TELEPHONE NUMBER

1300 799 491

COMPANY WEBSITE

www.cronosaustralia.com

STOCK EXCHANGE

Australian Securities Exchange
Level 4, Rialto North Tower
525 Collins Street
Melbourne Vic. 3000
Australia

ASX code: **CAU**

SHARE REGISTER

Link Market Services Limited
Level 13, Tower Four, Collins Square
727 Collins Street
Melbourne Vic. 3008
Australia

Shareholder enquiries: **1300 554 474 (toll free)**

BANKER

Australia and New Zealand Banking Group Limited
833 Collins Street
Docklands Vic. 3008
Australia

AUDITOR

KPMG
Chartered Accountants
Level 36, Tower Two, Collins Square
727 Collins Street
Melbourne Vic. 3008
Australia

Auditor's Report



Independent Auditor's Report

To the shareholders of Cronos Australia Limited

Report on the audit of the Financial Report

Opinion

We have audited the **Financial Report** of Cronos Australia Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the Group's financial position as at 30 June 2020 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The **Financial Report** comprises:

- Statement of financial position as at 30 June 2020
- Statement of comprehensive income/(loss), statement of changes in equity, and statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

The **Group** consists of Cronos Australia Limited (the Company) and the entities it controlled at the year end or from time to time during the financial year.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Group in accordance with *the Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards) (the Code)* that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Liability limited by a scheme approved under Professional Standards Legislation.



Key Audit Matters

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Report of the current period.

This matter was addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

Acquisition accounting of Cannadoc Health

Refer to Note 26

The key audit matter	How the matter was addressed in our audit
<p>A key audit matter for us was the Group's acquisition of 51% of Cannadoc Health Pty. Ltd. (Cannadoc Health), given the size and pervasiveness of the acquisition to the Financial Report. We focused on the judgemental aspects of the Group's accounting for the acquisition of Cannadoc Health, including the Group's determination of control and impact on consolidation accounting. Judgement was required by the Group in assessing its power over the relevant activities of Cannadoc Health.</p> <p>We involved senior team members in assessing this key audit matter.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none">• We read the Share Transfer & Shareholders Agreement to understand the terms and conditions of the acquisition.• We assessed the Group's analysis of control and accounting for non-controlling interest against the criteria in the accounting standards. We did this with reference to the key terms and conditions of the Share Transfer & Shareholders Agreement and our understanding of the acquisition;• We assessed the Group's disclosures in respect of business acquisitions, including the provisional accounting, against the requirements of the accounting standards and our understanding of the acquisition.

Other Information

Other Information is financial and non-financial information in Cronos Australia Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.



Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Group and Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group and Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at:

https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf. This description forms part of our Auditor's Report.



Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Cronos Australia Limited for the year ended 30 June 2020, complies with *Section 300A of the Corporations Act 2001*.

Directors' responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with *Section 300A of the Corporations Act 2001*.

Our responsibilities

We have audited the Remuneration Report included in pages 26 to 34 of the Directors' report for the year ended 30 June 2020.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.

KPMG

Gordon Sangster

Partner

Melbourne

28 August 2020

ASX Supplementary Information

INTRODUCTION

Cronos Australia Limited was admitted to the Official List of the Australian Securities Exchange (“ASX”) on 7 November 2019. The ASX code for the Company’s ordinary shares is **CAU**. The additional information provided in this section is required by the Listing Rules of the ASX and is not disclosed elsewhere in this Annual Report.

The information provided below is current as at **9 September 2020**.

DISTRIBUTION OF EQUITY SECURITIES

The numbers of holders of ordinary shares and performance rights in the Company as at 9 September 2020, ranked by size of holding, are as follows:

Range of shares	Shares		Performance Rights	
	Holders	Numbers	Holders	Numbers
1 - 1,000	19	9,145	-	-
1,001 - 5,000	259	817,973	-	-
5,001 - 10,000	198	1,567,310	-	-
10,001 - 100,000	376	13,441,738	2	120,000
100,001 and over	78	112,913,834	2	1,000,000
Totals	930	128,750,000	4	1,120,000

UNMARKETABLE PARCELS

The number of shareholders holding less than a “marketable parcel” of ordinary shares (being 5,435 shares) is 292. The total number of ordinary shares held by these shareholders on 9 September 2020 was 900,119, representing 0.70% of total issued share capital.

TWENTY LARGEST SHAREHOLDERS

The names of the twenty largest registered shareholders of the Company’s ordinary shares as at 9 September 2020 are:

Rank	Name of registered shareholder	Number of shares	Percentage held
1	Cronos Global Holdings Inc.	40,000,000	31.07%
2	NewSouthern Investment Holdings 1 Pty. Ltd.	20,000,000	15.53%
3	NewSouthern Investment Holdings A Pty. Ltd.	20,000,000	15.53%
4	Citicorp Nominees Pty. Ltd.	6,688,744	5.20%
5	National Nominees Limited	3,210,000	2.49%
6	BG & Dewar Pty. Ltd.	1,346,694	1.04%
7	BNP Paribas Nominees Pty. Ltd. <IB AU Noms Retail Client DRP>	1,279,128	0.99%
8	Syracuse Capital Pty. Ltd. <The Rocco Tassone Superfund A/C>	1,216,288	0.94%
9	Zena Dabaja	1,075,407	0.84%
10	Blamnco Trading Pty. Ltd.	733,416	0.57%
11	Yarra River Capital Management Pty. Ltd.	731,836	0.57%
12	Gracelite Pty. Ltd. <Sigston Family A/C>	651,043	0.51%
13	Seascape Avenue Pty. Ltd.	625,000	0.49%
14	DJT Group Pty. Ltd.	600,000	0.47%
15	Rongxin Gan <GRX Investment A/C>	570,000	0.44%
16	JP Morgan Nominees Australia Pty. Ltd.	525,237	0.41%
17	CS Fourth Nominees <HSBC Cust Nom AU Ltd. 11 A/C>	511,050	0.40%
18	Shelsa Investments Pty. Ltd. <Jane Aiping Tao Family A/C>	508,389	0.39%
19	Richmond Bridge Investment Pty. Ltd. <Richmond Bridge Invest A/C>	500,000	0.39%
20	Yavern Creek Holdings Pty. Ltd.	498,000	0.39%
Totals		101,270,232	78.66%

SUBSTANTIAL SHAREHOLDERS

As at 9 September 2020, the names of the substantial shareholders holding shares representing more than 5% of the Company's total issued share capital, who have notified the Company in accordance with section 671B of the *Corporations Act 2001*, are:

Name of substantial shareholder	Number of shares	Percentage held
Cronos Global Holdings Inc.	40,000,000	31.07%
Rodney D. Cocks (via NewSouthern Investment Holdings 1 Pty. Ltd.)	20,000,000	15.53%
Peter J. Righetti (via NewSouthern Investment Holdings A Pty. Ltd.)	20,000,000	15.53%

RESTRICTED SECURITIES

As at 9 September 2020, the following ordinary shares were subject to escrow agreements with the Company:

Name of substantial shareholder	Number of shares	Escrow expiry date
Cronos Global Holdings Inc.	40,000,000	7 November 2021
Rodney D. Cocks (via NewSouthern Investment Holdings 1 Pty. Ltd.)	20,000,000	7 November 2021
Peter J. Righetti (via NewSouthern Investment Holdings A Pty. Ltd.)	20,000,000	7 November 2021
Seascape Avenue Pty. Ltd.	125,000	7 November 2021

UNLISTED SECURITIES

As at 9 September 2020, Bell Potter Securities Limited is the holder of 2,000,000 unlisted broker options exercisable at \$0.65 each on, or before, 31 December 2021 which, if exercised, will be subject to escrow for a period of 24 months from the date on which quotation of securities commences.

The following unlisted securities are on issue as at 9 September 2020. All securities were granted during the year ended 30 June 2020 pursuant to the Company's employee incentive plan ("EIP"):

- 86,300 Class A EIP options exercisable at \$0.50 (which shall vest on 7 November 2020)
- 181,200 Class B EIP options exercisable at \$0.67 (which shall vest on 7 November 2021)
- 297,500 Class C EIP options exercisable at \$0.83 (which shall vest on 7 November 2022)
- 120,000 performance rights (which were fully vested at 30 June 2020)
- 1,000,000 performance rights (which shall vest on 1 September 2023, subject to certain conditions being met)

ON-MARKET BUYBACK

There is currently no on-market buyback program.

ASX REPRESENTATIVE AND COMPANY SECRETARY

Pursuant to ASX Listing Rule 12.6, Thomas Howitt has been appointed as the Company's ASX Representative and as its Company Secretary.

STATEMENT REGARDING USE OF CASH AND ASSETS

Pursuant to ASX Listing Rule 4.10.19, the Company confirms that, during the period from 7 November 2019, being the date of its admission to the Official List of the ASX, to 30 June 2020, it has used its cash and cash equivalents in a way consistent with its business objectives.

During the above period covering almost eight months since its IPO, the Company has spent approximately \$1.5 million less than forecast in its "Use of Proceeds" table on page 31 of its Prospectus dated 15 October 2019. This reduction has been caused by a combination of factors including the over estimation of certain costs associated with product development and lower than expected travel expenses due to restrictions caused by the COVID-19 pandemic, as well as reduced personnel costs arising from changes made to the Company's business development model.

VOTING RIGHTS

Shares

The Company only has ordinary shares on issue.

At a meeting of Shareholders, subject to the Constitution, the *Corporations Act 2001*, 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.

Options

No voting rights are attributed to the options on issue.

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