



CRONOS AUSTRALIA LIMITED

ABN 59 629 071 594

QUARTERLY ACTIVITIES REPORT

AND

APPENDIX 4C OF THE ASX LISTING RULES

FOR THE QUARTER ENDED

31 MARCH 2021

HIGHLIGHTS

- Q3 revenues exceed Q2 revenues by 143%, with year-to-date revenues approaching \$1 million
- Sales of Adaya medicinal cannabis products up by more than 200% over the previous quarter
- Adaya product sales have increased, on average, more than 78% month-on-month since launch
- Adaya product range to be expanded with addition of Australian grown high-THC flower products
- Revenues and patient numbers at Cannadoc Health continue to increase, with new doctors joining
- CBD-based performance range, FCTR, launched in Hong Kong and Japan
- Third range of premium personal care products to be launched in North Asian markets in Q4
- Based on quarterly cash outflows, cash runway extended to 12 quarters as at 31 March 2021

Melbourne, Australia, 22 April 2021 – Pursuant to ASX Listing Rule 4.7C.1, Cronos Australia Limited (ASX: CAU; “Cronos Australia”, “CAU”, the “Company”), releases its Quarterly Activities Report (“Report”) covering the period from 1 January 2021 up to the date on which it is signed. The Report should be read in conjunction with the attached ASX Appendix 4C, covering the quarter ended 31 March 2021.

“The third quarter of the 2021 financial year has delivered significant growth in revenues for Cronos Australia. Our Adaya range of medicinal cannabis products showed strong growth in demand through the approved pathways for access, with patients seeking our Australian manufactured, Australian GMP certified and value priced products. Our Cannadoc Clinic business also enjoyed strong revenue growth as we onboarded more doctors to meet demand and continued to offer both face-to-face and nationwide telehealth consultations in Australia and New Zealand. We are also excited about the expansion of our Bathing Shed range and the recent launch of our CBD performance brand, FCTR, in Japan and Hong Kong. Cronos Australia is looking forward to closing out the 2021 financial year in a strong position, with continued growth in its Medical and Clinics businesses and the planned launch of a third brand to address a large customer segment in our Consumer business”, said CEO Rodney Cocks.

ANNOUNCEMENTS

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

- Launch of the Company’s range of CBD performance products, FCTR, in certain North Asian markets.
- Company’s Financial Report and Appendix 4D for the half-year ended 31 December 2020.
- Company’s Quarterly Activities Report and Appendix 4C for the quarter ended 31 December 2020.

SALES OF MEDICINAL CANNABIS PRODUCTS

During the March quarter, revenues generated by the Company’s Medical business increased by 219% over the previous quarter to more than \$435,000, while unit sales of the Company’s Adaya range of medicinal cannabis products have increased, on average, more than 78% month-on-month during each of the nine months since the Adaya range was launched on 1 July 2020.

The Adaya range, which currently contains five medicinal cannabis oil products, is to be expanded with the addition of Australian grown high-THC flower products in response to growing patient demand. All Adaya products are manufactured in Australia to AU GMP standards.

SALES OF MEDICINAL CANNABIS PRODUCTS (cont.)

To further expand the market for Adaya products and drive growth in sales, the Company's national sales force of Medical Science Liaisons has gained considerable traction during the quarter with a number of doctor engagement activities, including educational seminars, webinars and on-demand videos of RACGP-accredited education programs on medicinal cannabis, having been undertaken in conjunction with service provider Praxhub Pty Ltd, to increase both awareness and understanding of medicinal cannabis.

Also during the March quarter, in response to recent legislative changes, the Company continued to work with third parties to prepare a dossier for the TGA to support a Schedule 3 registration of CBD products, as well as appointing further distribution and dispensing partners for the Adaya range of products.

To ensure the ongoing supply of medicinal cannabis products for its growing number of patients across Australia, Cronos Australia continued to purchase additional inventories of products from its suppliers during the quarter. The Company believes that the Adaya range provides its patients with one of the most cost-competitive, high quality, medicinal cannabis product ranges available in Australia.

CANNADOC HEALTH PTY LTD MEDICINAL CANNABIS CLINIC BUSINESS

During the March quarter, revenues generated by Cannadoc Health, the Company's medicinal cannabis clinic business, increased by 48% over the previous quarter to more than \$160,000. The total number of patients seen by the clinic during the above periods also increased by more than 37%, with the average revenues generated per consultation rising as well.

In order to drive the Clinic business further, Adam Taylor was appointed as National Business Manager - Clinics at the beginning of March, in addition to the recruitment of two new doctors and a support nurse to service the increasing numbers of patients seeking consultations at Cannadoc Health, both face-to-face and via telehealth.

In recognition of opportunities to replicate the Cannadoc model in other markets, further expansion of the Clinic business to other cities around Australia is currently underway, with an early presence in Sydney having now been established, as well as potentially other cities in New Zealand in addition to its current clinic in Wellington.

LAUNCH OF FCTR PERFORMANCE RANGE

On 1 April 2021, the Company announced the launch of its "FCTR" CBD-based performance range. FCTR (pronounced "factor") is the Company's second consumer brand, following the launch of Bathing Shed, and will initially be sold in Hong Kong and Japan. For regulatory reasons, FCTR's CBD-based consumer products are not yet available for sale in Australia.

FCTR is Cronos Australia's new performance brand and is designed to be a recovery partner for a wide range of athletes.

The first two products being launched in the FCTR range are:

- FCTR **Warm Gel** which has a warming sensation when applied to the skin and may aid in recovery; and
- FCTR **Cool Gel** which has a cooling sensation when applied to the skin and may aid in recovery.

LAUNCH OF FCTR PERFORMANCE RANGE (cont.)

Both FCTR products are entirely formulated and manufactured in Japan and contain compliant CBD in a rapidly absorbed and residue-free gel. The retail prices for each product in their respective markets is HKD190 and JPY2,500, excluding Japanese consumption tax, (approximately AUD30 excluding GST based on current exchange rates).

FCTR Warm Gel and Cool Gel come in premium, airless packaging with easy grip design, enabling single-handed, mess-free use by athletes.

To accelerate the distribution of FCTR Warm Gel and Cool Gel in Hong Kong, the Company has completed a sales agency agreement with SS Outdoor Limited, a Sure Step Asia group company ("Sure Step").

FCTR Warm Gel and Cool Gel will soon be available in Sure Step's WAH-LAAH! retail store in Causeway Bay, Hong Kong and it is expected that the products will also be available for e-commerce purchase at getfctr.com in Hong Kong and Japan in the coming quarter. Sure Step is planning to add additional retail stockists for FCTR through its network in April and the Company is also in discussions with a number of agencies in Japan to conclude wholesale arrangements similar to that with Sure Step.

Further information regarding FCTR can be found at www.getfctr.com and on Instagram @getfctr

OTHER ACTIVITIES IN ASIA

In addition to the launch of FCTR, sales of Fresh Start, the first product in the Company's personal care consumer range Bathing Shed, continued during the quarter. Additional retail outlets and distribution partners for Fresh Start and future Bathing Shed products are now being identified in both Australia and North Asian markets, while the Company works to launch additional skin, body and other personal care products to expand the Bathing Shed range towards the end of the financial year. Further information regarding Bathing Shed can be found at www.bathingshed.com

In addition to the Bathing Shed and FCTR ranges, which now both have products in market, the final development work is also underway in respect of a third range of premium personal care products which the Company expects to launch during the final quarter of the current financial year. Branding for this new range has now been completed, with intellectual property assets, including trademarks, having also been secured in chosen markets. Late-stage formulation work for the products in the new range is now nearing completion in anticipation of production commencing late in the June quarter.

CBD JOINT VENTURE

In addition to the above activities, the Company continued to make progress during the quarter in relation to brand development and the formulation of CBD-based products as part of its CBD Joint Venture in conjunction with its partner, A&S Branding Pty Ltd. Product formulations are now complete, as is the branding of the new range, with samples being refined in conjunction with the manufacturer. Early work is also now underway with respect to the preparation of a dossier for the TGA to support a Schedule 3 registration of the products. Finally, in anticipation of the launch of the products, preliminary discussions have been held with national pharmacy groups with a view to them stocking the products to be made by the Joint Venture.

ASX APPENDIX 4C

As detailed in the attached ASX Appendix 4C, the Company had approximately \$11.1 million in cash and cash equivalents as at 31 March 2021 which, based on the net cash used in operating activities during the March quarter of \$927,165, provides the Company with 12.0 quarters, or roughly three years, of funding.

Cash receipts from the sale of medicinal cannabis and consumer products and the provision of clinic services during the March quarter were \$381,756, up \$204,884, or 116%, from the corresponding figure in the December quarter.

Product, manufacturing and operating payments of \$288,840 included further purchases of medicinal cannabis products made to increase inventory levels as demand for the Company's products continues to grow. Staff costs of \$696,964 were again less than the costs for the previous quarter and reflect recent changes to the Group's personnel.

An amount of \$101,000 was paid during the quarter by the Company to acquire a further 24.5% interest in Cannadoc Health Pty Ltd, the Group's clinic business. As a result, Cronos Australia now owns 75.5% of that company.

ASX LISTING RULE 4.7C

Pursuant to **Listing Rule 4.7C.2**, the Company confirms (subject to the comments made below), that during the 17-month period since listing on the ASX, it has incurred expenditures largely in line with the Use of Proceeds set out on page 31 of its Prospectus dated 15 October 2019 (the "Prospectus").

Attached as **Appendix One** is a comparison of the actual cash spent during the period from its admission to the Official List of the ASX, being 7 November 2019, to 31 March 2021, as compared to the "Use of Proceeds", as detailed on page 31 of the Prospectus.

As disclosed in the Appendix, during the above period covering almost 17 months since its IPO, the Company has spent approximately \$3.6 million less than was forecast in the Prospectus. This deficit has been caused by a combination of factors including the over estimation of certain costs associated with product development and delays resulting from the COVID-19 pandemic, the abandonment of certain cultivation-related research programs, lower than expected travel expenses due to restrictions caused by the pandemic, as well as reduced personnel costs arising from changes made to the Company's sales and business development model subsequent to the Prospectus being released, together with ongoing cost containment strategies.

Going forward, as mentioned in the previous Quarterly Activities Report, while restrictions relating to the COVID-19 pandemic are easing, it is likely that certain business development activities, including face-to-face doctor acquisition activities and practitioner engagement as well as travel to overseas destinations, will continue to be delayed, reducing the rate at which revenues may be generated and associated funds are spent in the short to medium term.

Pursuant to **Listing Rule 4.7C.3**, and as disclosed in Item 6.1 of the attached Appendix 4C, the Company advises that during the March quarter a total of \$123,746 was paid to Directors and entities associated with Directors in respect of Directors' fees, as well as salary and superannuation paid to CEO, Rodney Cocks, who also serves as a Director of the Company.

Based on the Company's net cash outflows from operations for the quarter ended 31 March 2021 of \$927,165, Cronos Australia has approximately 12.0 quarters of cash remaining at balance date.

ASX LISTING RULE 4.7C (cont.)

The Company's estimated net cash outflows for the quarter ending 30 June 2021 are likely to increase as its global activities continue to expand, notwithstanding projected growth in revenues from increasing sales. While such an increase in costs is in accordance with its overall strategy, the Company intends to carefully manage its existing cash reserves and make spending decisions taking into account external factors as they arise.

APPROVED BY THE BOARD OF CRONOS AUSTRALIA LIMITED

Dated this 22nd day of April, 2021

Forward-looking statements

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

APPENDIX ONE

Use of proceeds as detailed on page 31 of the Company's Prospectus dated 15 October 2019		Period from 7 November 2019 to 31 March 2021		Comments
Categories	Total cash to be spent	Forecast cash to be spent	Actual cash spent	
Product development	\$2,575,000	\$1,990,300	\$235,635	Costs incurred are lower than forecast and delayed due to pandemic
Business development	\$2,390,000	\$1,371,447	\$282,136	Forecast travel expenses are lower due to pandemic
Patient acquisition / practitioner engagement	\$2,355,000	\$1,395,000	\$1,935,847	Includes costs associated with the acquisition of Cannadoc Health
Brand creation, development and launch	\$2,080,000	\$1,635,126	\$1,220,291	
Contract manufacturing management	\$1,200,000	\$396,960	\$14,850	Manufacturing outsourced to third party providers
Research and development activities	\$1,190,000	\$760,683	\$233,215	Cultivation-related projects abandoned in line with business model
Licensing and regulatory costs	\$755,000	\$283,361	\$250,935	
Director remuneration	\$750,000	\$480,000	\$496,997	
Inventory of finished products, inc. distribution	\$585,000	\$761,551	\$1,067,400	
Working capital and administrative costs ¹	\$3,950,000	\$2,977,080	\$2,511,850	Includes fitout costs associated with South Yarra office premises
Outstanding cash costs of the Offer ²	\$2,170,000	\$2,170,000	\$2,395,674	Additional costs relate to overruns of estimated IPO expenses
Totals ³	\$20,000,000	\$14,221,508	\$10,644,830	

Notes:

- Forecast working capital included corporate operations and corporate governance costs, as well as a contingency pool.
- The total outstanding cash costs of the Offer as at the date of the Prospectus (being 15 October 2019) comprised, amongst other things, legal expenses, accounting, audit and tax advisory fees, lead manager and underwriter fees, ASIC and ASX fees, in addition to prospectus design and printing costs.
- Amounts included in the use of proceeds table above excluded inflows from revenues, interest earned and other income. During the period from 7 November 2019, being the date of the IPO, to 31 March 2021, the Company generated a total of \$1,151,136 from such sources that is not reflected in the table above.

Appendix 4C

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

Name of entity

Cronos Australia Limited (ASX: CAU)
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ABN

59 629 071 594

Quarter ended ("current quarter")

31 March 2021

Consolidated statement of cash flows	Current quarter \$A	Year to date (nine months) \$A
1. Cash flows from operating activities		
1.1 Receipts from customers	381,756	673,440
1.2 Payments for		
(a) research and development	(11,967)	(50,359)
(b) product manufacturing, operating costs	(288,840)	(1,121,783)
(c) advertising, product and marketing	(30,674)	(111,510)
(d) leased assets	-	-
(e) staff costs	(696,964)	(2,126,890)
(f) administration and corporate costs	(282,155)	(751,575)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	1,679	35,778
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	179,064
1.8 Other (net Eligible Termination Payment)	-	(127,698)
1.9 Net cash from / (used in) operating activities	(927,165)	(3,401,533)
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities (further interest in subsidiary)	(101,000)	(101,000)
(b) businesses	-	-
(c) property, plant and equipment	(9,441)	(13,198)
(d) investments	-	-
(e) intellectual property	(3,710)	(60,339)
(f) security deposits	(20,000)	(20,000)

Consolidated statement of cash flows	Current quarter \$A	Year to date (nine months) \$A
2.2 Proceeds from disposal of:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	-	-
(d) investments	-	-
(e) intellectual property	-	-
(f) other non-current assets	-	-
2.3 Cash flows from loans to other entities	-	-
2.4 Dividends received (see note 3)	-	-
2.5 Other (chattel mortgage payments)	(27,565)	(32,885)
2.6 Net cash from / (used in) investing activities	(161,716)	(227,422)
3. Cash flows from financing activities		
3.1 Proceeds from issues of equity securities (excluding convertible debt securities)	-	-
3.2 Proceeds from issue of convertible debt securities	-	-
3.3 Proceeds from exercise of options	-	-
3.4 Transaction costs related to issues of equity securities or convertible debt securities	-	-
3.5 Proceeds from borrowings	-	-
3.6 Repayment of borrowings	-	-
3.7 Transaction costs related to loans, borrowings	-	-
3.8 Dividends paid	-	-
3.9 Other (proceeds from non-controlling interests)	20,000	30,000
3.10 Net cash from / (used in) financing activities	20,000	30,000

Consolidated statement of cash flows		Current quarter \$A	Year to date (nine months) \$A
4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	12,155,869	14,685,943
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(927,165)	(3,401,533)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(161,716)	(227,422)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	20,000	30,000
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	11,086,988	11,086,988

5. Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts		Current quarter \$A	Previous quarter \$A
5.1	Bank balances	11,086,536	12,155,417
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	452	452
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	11,086,988	12,155,869

6. Payments to related parties of the entity and their associates		Current quarter \$A
6.1	Aggregate amount of payments to related parties and their associates included in item 1	(123,746)
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-
<i>Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments.</i>		

7. Financing facilities <i>Note: the term "facility" includes all forms of financing arrangements available to the entity. Add notes as necessary for an understanding of the sources of finance available to the entity.</i>	Total facility amount at quarter end \$A	Amount drawn at quarter end \$A
7.1 Loan facilities (refer item 7.6 below)	1,500,000	1,500,000
7.2 Credit standby arrangements	-	-
7.3 Other (credit cards) (refer item 7.6 below)	50,000	26,316
7.4 Total financing facilities	1,550,000	1,526,316
7.5 Unused financing facilities available at quarter end		23,684
7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.		
<p>The above loan facility was provided by Cronos Group Inc., the Company's largest shareholder. The loan, which is unsecured, is subject to interest payable at a rate of 12% p.a. and is repayable no later than 1 January 2022. The facility was fully drawn down as at 31 March 2021.</p> <p>The credit card facility is provided by ANZ Banking Group Limited. The facility is secured by way of a bank guarantee. All amounts due are paid on time such that no interest is payable.</p>		

8. Estimated cash available for future operating activities	\$A
8.1 Net cash from / (used in) operating activities (item 1.9)	(927,165)
8.2 Cash and cash equivalents at quarter end (item 4.6)	11,086,988
8.3 Unused finance facilities available at quarter end (item 7.5)	23,684
8.4 Total available funding (item 8.2 + item 8.3)	11,110,672
8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)	12.0
<i>Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.</i>	
8.6 If item 8.5 is less than 2 quarters, please provide answers to the following questions:	
8.6.1 Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?	
Answer: Not applicable	
8.6.2 Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?	
Answer: Not applicable	
8.6.3 Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?	
Answer: Not applicable	
<i>Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.</i>	

Compliance statement

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

Date: **22 April 2021**

Authorised by: **By the Board**

Notes

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