



CRONOS AUSTRALIA LIMITED

ABN 59 629 071 594

QUARTERLY ACTIVITIES REPORT

AND

APPENDIX 4C OF THE ASX LISTING RULES

FOR THE QUARTER ENDED

30 JUNE 2021

HIGHLIGHTS

- **Unaudited 2021 full year revenues reach \$1.7 million, an increase of 1,200+% over the previous year**
- **Q4 cash receipts of \$555,142 exceed Q3 cash receipts by 45%**
- **Total cash receipts for 2021 financial year exceed \$1.2 million**
- **Sales of Adaya medicinal cannabis products increase 39% over the previous quarter**
- **Adaya product sales have increased, on average, more than 200% quarter-on-quarter since launch**
- **Two Australian-grown THC-dominant flower products added to the Adaya medicinal cannabis range**
- **CBD-based premium personal care range, Saiph, launched in Hong Kong and Japan**

Melbourne, Australia, 29 July 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 April 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 30 June 2021.

“The final quarter of the 2021 financial year, being the Company’s first full year of operation since its IPO, has delivered further growth in both sales and revenue for Cronos Australia. Our Adaya range of medicinal cannabis products has been expanded with the addition of two new, whole-flower products to address the strong demand in this segment. Our Cannadoc Clinic business has recruited additional personnel and made a number of administration changes to improve the patient experience. We remain excited about the potential for our consumer business, as we launch our Saiph range of premium personal care products in Hong Kong and Japan. The Saiph range joins our Bathing Shed and FCTR ranges of products in these highly attractive Asian markets. We now look forward to leveraging the significant gains we have made this year in the coming 2022 financial year”, said CEO Rodney Cocks.

ANNOUNCEMENTS

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

- Launch of the Company’s FCTR range of CBD performance products in Japan and Hong Kong
- The Company’s Quarterly Activities Report and Appendix 4C for the quarter ended 31 March 2021
- Recent Adaya sales progress, including more than 200% quarter-on-quarter growth since launch
- Launch of two additional products in the Company’s Bathing Shed range of personal care products
- Launch of the Company’s Saiph range of CBD premium personal care products in Japan and Hong Kong
- Launch of Adaya THC19 and THC30 whole-flower products and a further Adaya sales update

SALES OF MEDICINAL CANNABIS PRODUCTS

During the June quarter, revenues generated by the Company’s Medical business increased by 38% over the previous quarter to more than \$603,000, while unit sales of the Company’s Adaya range of medicinal cannabis products have increased, on average, more than 200% quarter-on-quarter since the Adaya range was launched on 1 July 2020.

The Adaya range was also expanded during the June quarter with the addition of two THC-dominant flower products, THC30 and THC19, which are Australian-grown and AU GMP compliant. These products have been launched in response to growing patient demand in that product segment.

SALES OF MEDICINAL CANNABIS PRODUCTS (cont.)

The Adaya range now comprises the following seven products, all of which are manufactured in Australia to AU GMP standards:

- Adaya THC30 – THC-dominant Medicinal Cannabis Whole Flower
- Adaya THC19 – THC-dominant Medicinal Cannabis Whole Flower
- Adaya 1:25 – CBD-dominant Medicinal Cannabis Oil
- Adaya CBD 100 – CBD-only Medicinal Cannabis Oil
- Adaya 10:10 – THC:CBD-balanced Medicinal Cannabis Oil
- Adaya 20:1 – THC-dominant Medicinal Cannabis Oil
- Adaya THC 26 – THC-only Medicinal Cannabis Oil

To increase the market for Adaya products and drive sales growth, the Company's national sales force of Medical Science Liaisons ("MSLs") has been expanded, with two further MSLs joining the Company to service the growing markets of Western Australia and Northern New South Wales / Southern Queensland. Various doctor engagement activities, including educational seminars, webinars and on-demand videos of RACGP-accredited education programs on medicinal cannabis, have continued during the quarter to increase both awareness and understanding of medicinal cannabis.

As described in the March quarterly report, 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.

CANNADOC HEALTH PTY LTD MEDICINAL CANNABIS CLINIC BUSINESS

Revenues generated by Cannadoc Health during the 2021 financial year increased by more than 300% on the corresponding figure for the prior year. The total number of patients seen by the clinic during the year also increased, with the average revenues generated per consultation steadily rising as well.

To drive growth in the Clinic business, new doctors and administration staff were recruited during the June quarter to service the increasing numbers of patients seeking consultations at Cannadoc Health, both face-to-face and via telehealth. Various system improvements were also introduced, as were search engine optimisation processes to channel greater numbers of patients to the Company's clinic.

In recognition of opportunities to replicate the Cannadoc model in other markets, further expansion of the Clinic business to other cities around Australia, as well as potentially other cities including Auckland, New Zealand, is now underway.

LAUNCH OF SAIPH CBD PREMIUM PERSONAL CARE RANGE

On 25 June 2021, the Company announced the launch of its "Saiph" CBD premium personal care range. Saiph is the Company's third consumer brand, following the earlier launches of the Bathing Shed and FCTR ranges, and will initially be sold in Hong Kong and Japan. For regulatory reasons, Saiph's CBD-based consumer products are not yet available for sale in Australia.

Saiph is a sophisticated CBD personal care brand formulated for sensitive skin. All products in the range have been allergy tested to Japanese cosmetic standards. CAU believes that the total value of retail sales in the skin and body care segments of the Company's two initial target markets, Japan and Hong Kong, were in excess of USD20 billion in 2018 (*source: national statistics agencies, export.gov, Statista*).

LAUNCH OF SAIPH CBD PREMIUM PERSONAL CARE RANGE (cont.)

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

- **Ablution** - a gentle gel CBD cleanser; and
- **Tranquillity** - a protective CBD moisturiser.

Saiph's Ablution is a premium gel-based hand and body cleanser that uses mild, high-quality cleansing agents, with 350mg of pure, Japanese-compliant CBD. The 350mL Ablution pump dispenser has an RRP of JPY3410 in Japan and HKD230 in Hong Kong, inclusive of all taxes (being approximately AUD39).

Ablution is designed to be used with its partner product, Tranquillity, a rich moisturiser with a whipped texture, formulated to be gentle on the skin while being rapidly absorbed.

Tranquillity is a leave-on moisturiser product which may assist the skin to retain moisture and improve its moisture barrier function. Tranquillity contains 700mg of pure, Japanese-compliant CBD. The 350mL pump dispenser has an RRP of JPY3990 in Japan and HKD280 in Hong Kong, inclusive of all taxes (being approximately AUD47).

Both products contain the same unique blend of pure essential oils that are suitable for sensitive skin. The custom essential oil blend for Ablution and Tranquillity includes the following fragrances:

- Sweet Orange: associated with relaxation and calm
- Bergamot Mint: often suggested by aromatherapists to promote restful sleep
- Chamomile: may assist with tension and have anti-inflammatory properties

Ablution and Tranquillity are made in Japan. Both products are free from parabens, mineral oils, palm oil, silicone, sulphates, alcohols, synthetic fragrances, synthetic colours and chelating agents which can irritate and dehydrate the skin. In addition, Tranquillity's formulation has passed skin patch and allergy testing under Japanese cosmetics standards. Both products are expected to be available in late July 2021 at www.saiphlife.com and from selected retailers.

OTHER ACTIVITIES IN ASIA

In addition to the launch of Saiph, on 3 June 2021 the Company confirmed the launch of two new products in its Bathing Shed range of personal care products that was launched in late 2020. The two products are a refreshing gel cleanser called **Clean Hands No. 1** and a gel moisturiser called **Soft Hands No. 1**. The products will be sold in key Asian markets, including Japan and Hong Kong, and also in Australia.

Bathing Shed's Clean Hands No. 1 has a refreshingly simple formulation which gently exfoliates the skin, balanced with fresh, cold-pressed Tasmanian Hemp Seed Oil. The product contains Australian sea salt which has the ability to detoxify, heal, cleanse, gently exfoliate and lock in moisture all at once. The 300mL bottle has an RRP of AUD25.

Clean Hands No. 1 is used together with its partner product, Soft Hands No. 1, a lightweight gel moisturiser formulated for rapid absorption and lasting beneficial effects.

OTHER ACTIVITIES IN ASIA (cont.)

Soft Hands No. 1 has a softening gel base and essential oil blend, with Tasmanian hemp seed oil that hydrates the skin and may have anti-inflammatory and antioxidant effects. It is free of parabens and phenoxyethanols, and contains Ag+ (silver ion) water which keeps the skin clean and may improve its antibacterial and antiviral properties. Ag+ attacks a broad range of targets in bacteria and viruses, but the level of Ag+ used in Soft Hands No. 1 is completely safe for human use. The 300mL bottle has an RRP of AUD30.

Both products have a refreshing and uplifting scent from a special blend of pure Australian essential oils:

- Eucalyptus: can assist with respiration and may reduce depression and promote energy
- Geranium: often suggested by aromatherapists to encourage intuition and creativity
- Lavender: can promote relaxation and balance instinctive feelings
- Peppermint: can promote energy and vitality, improve concentration and may give inspiration

Clean Hands No. 1 and Soft Hands No. 1 are made in Japan with Australian ingredients. Both products are free from parabens, mineral oils, palm oil, silicone, sulphates, synthetic fragrances and synthetic colours. They are also vegan friendly and are not tested on animals. Clean Hands No. 1 and Soft Hands No. 1 are available at www.bathingshed.com and from selected retailers.

During the quarter, additional retail outlets and distribution partners both the Bathing Shed and FCTR ranges were identified and sales have now commenced. It is expected that further sales channels will become available in the coming quarter.

CBD JOINT VENTURE

In addition to the activities above, the Company continued to make progress during the quarter in the development of CBD-based products as part of its Joint Venture with partner, A&S Branding Pty Ltd. Product formulations and the branding of the new range are now complete and samples are being refined in conjunction with the manufacturer. Work also continues with third parties in respect of the preparation of a dossier for the TGA to support a Schedule 3 registration of the products.

ASX APPENDIX 4C

As detailed in the attached ASX Appendix 4C, the Company had approximately \$9.5 million in cash and cash equivalents as at 30 June 2021 which, based on the net cash used in operating activities during the June quarter, provides the Company with 6.8 quarters of funding. However, the June quarter included the purchase of considerable inventories which meant that the net cash used in operating activities during the June quarter was materially higher than the average outflows for the full year of \$1.2 million. Based on this reduced average amount, the Company had almost 8 quarters of funding as at 30 June 2021.

Cash receipts from the sale of medicinal cannabis and consumer products and the provision of clinic services during the June quarter were \$555,142, up \$173,386, or 45%, from the corresponding figure in the March quarter.

As described above, product manufacturing and operating costs of \$886,108 included further significant purchases of medicinal cannabis and consumer products made to increase inventory levels, as demand for the Company's products continues to grow. Costs of \$196,860 were also incurred during the June quarter exploring potential business opportunities for the Group.

ASX LISTING RULE 4.7C

Pursuant to **Listing Rule 4.7C.2**, the Company confirms (subject to the comments made below), that during the 20-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 30 June 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 20 months since its IPO, the Company has spent approximately \$3.4 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 appear to be gradually easing, it is likely that certain business development activities, including regular face-to-face doctor acquisition activities and practitioner engagement as well as travel to overseas destinations, are likely to 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 June 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.

The Company's estimated net cash outflows for the quarter ending 30 September 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 29th day of July, 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 30 June 2021		Comments
Categories	Total cash to be spent	Forecast cash to be spent	Actual cash spent	
Product development	\$2,575,000	\$2,302,786	\$251,627	Costs incurred are lower than forecast and delayed due to pandemic
Business development	\$2,390,000	\$1,611,499	\$536,249	Includes costs incurred exploring business opportunities
Patient acquisition / practitioner engagement	\$2,355,000	\$1,655,000	\$2,362,475	Includes costs associated with the acquisition of Cannadoc Health
Brand creation, development and launch	\$2,080,000	\$1,855,696	\$1,369,118	
Contract manufacturing management	\$1,200,000	\$413,200	\$14,850	Manufacturing outsourced to third party suppliers
Research and development activities	\$1,190,000	\$809,911	\$241,494	Cultivation-related projects abandoned in line with business model
Licensing and regulatory costs	\$755,000	\$302,634	\$265,158	
Director remuneration	\$750,000	\$560,000	\$572,772	
Inventory of finished products, inc. distribution	\$585,000	\$955,390	\$1,913,960	Additional inventories purchased to meet forecast future sales
Working capital and administrative costs ¹	\$3,950,000	\$3,568,300	\$2,906,726	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	\$16,204,416	\$12,830,103	

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 30 June 2021, the Company generated a total of \$1,716,596 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)

ABN

59 629 071 594

Quarter ended ("current quarter")

30 June 2021

Consolidated statement of cash flows	Current quarter \$A	Year to date (12 months) \$A
1. Cash flows from operating activities		
1.1 Receipts from customers	555,142	1,228,582
1.2 Payments for		
(a) research and development	(8,280)	(58,639)
(b) product manufacturing, operating costs	(886,108)	(2,007,891)
(c) advertising, product and marketing	(23,836)	(135,346)
(d) leased assets	-	-
(e) staff costs	(791,438)	(2,918,328)
(f) administration and corporate costs	(261,273)	(1,001,295)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	10,319	46,097
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	(1,405,474)	(4,795,454)
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities (further interest in subsidiary)	-	(101,000)
(b) businesses	-	-
(c) property, plant and equipment	(7,098)	(20,296)
(d) investments	-	-
(e) intellectual property	(10,381)	(70,720)
(f) security deposits	-	(20,000)

Consolidated statement of cash flows	Current quarter \$A	Year to date (12 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)	-	(32,885)
2.6 Net cash from / (used in) investing activities	(17,479)	(244,901)
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	(196,860)	(208,413)
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)	-	30,000
3.10 Net cash from / (used in) financing activities	(196,860)	(178,413)

Consolidated statement of cash flows		Current quarter \$A	Year to date (12 months) \$A
4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	11,086,988	14,685,943
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,405,474)	(4,795,454)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(17,479)	(244,901)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(196,860)	(178,413)
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	9,467,175	9,467,175

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	9,466,723	11,086,536
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)	9,467,175	11,086,988

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	-

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

7. Financing facilities <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	16,275
7.4 Total financing facilities	1,550,000	1,516,275
7.5 Unused financing facilities available at quarter end		33,725
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 30 June 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)	(1,405,474)
8.2 Cash and cash equivalents at quarter end (item 4.6)	9,467,175
8.3 Unused finance facilities available at quarter end (item 7.5)	33,725
8.4 Total available funding (item 8.2 + item 8.3)	9,500,900
8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)	6.8
<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: **29 July 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.