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CRONOS

AUSTRALIA

CRONOS AUSTRALIA LIMITED

ABN 59 629 071 594

QUARTERLY ACTIVITIES REPORT

AND

APPENDIX 4C OF THE ASX LISTING RULES

FOR THE QUARTER ENDED

30 SEPTEMBER 2020

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HIGHLIGHTS

- **First quarter revenues exceed total revenues for the 2020 financial year**
- **Extended range of Adaya GMP medicinal cannabis products now selling across Australia**
- **Three new distribution partners secured to expand domestic medicinal cannabis sales channels**
- **Cannadoc Health Pty Ltd expands with presence in New Zealand, as consulting fees increase**
- **First personal care consumer product on track for launch in certain Asian markets during December quarter**

Melbourne, Australia, 22 October 2020 – 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 July 2020 up to the date on which it is signed, being the fourth such report to be released by the Company following its listing on the ASX in late 2019. The Report should be read in conjunction with the attached ASX Appendix 4C, covering the quarter ended 30 September 2020.

"The first quarter of the new financial year has seen the Company continue to execute well on its strategy, generating increasing sales in its medicinal cannabis and medical divisions for each of the three months under review, with total revenues for the September quarter exceeding the figure for all of 2020. With the addition of new distribution partners, the extension of the Adaya range of products, and the expected launch of our first product in Asia, we look forward to building on this momentum in the second quarter of 2021", said CEO Rodney Cocks.

OVERVIEW

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

- Launch of the Company's Adaya range of GMP medicinal cannabis products in the Australian market.
- Progress made expanding the Company's operations in Asia to address opportunities in that region.
- Company's ASX Appendix 4C and Quarterly Activities Report for the quarter ended 30 June 2020, its ASX Appendices 4E and 4G for the year ended 30 June 2020 and its 2020 Annual Report.
- Company's Notice of Meeting and sample proxy in respect of its 2020 Annual General Meeting.
- Resignation and appointment of its Company Secretary.

SALES OF MEDICINAL CANNABIS PRODUCTS

On 1 July 2020, the Company announced the launch of its Adaya range of GMP medicinal cannabis products to the Australian market, to complement its existing PEACE NATURALS™ range. During the quarter, further products have been added to extend the Adaya range which now includes five SKUs, all of which have been manufactured to Australian Good Manufacturing Practices ("GMP") standards and specifically formulated to address the majority of needs of Australian patients.

Since its launch, sales of Adaya products have increased, on average, 80% month-on-month during each of the three months under review. To help expand the market for Adaya products and drive further growth in sales, agreements with additional independent, distribution partners have now been executed, providing a sales presence for the Adaya range in all mainland states and territories of Australia. As awareness of the Adaya brand grows, the number of doctors who have registered to become Authorised Prescribers of the Company's products has also increased significantly.

SALES OF MEDICINAL CANNABIS PRODUCTS (cont.)

To ensure the ongoing supply of products for its growing number of patients, the Company has purchased additional inventories of all medicinal cannabis products from its various suppliers during the quarter. Cronos Australia believes that the Adaya range provides patients with one of the most cost-competitive, yet high quality, medicinal cannabis product ranges currently available on the Australian market.

CANNADOC HEALTH PTY LTD MEDICINAL CANNABIS CLINIC BUSINESS

During the September quarter, revenues generated by the Company's medicinal cannabis clinic business, Cannadoc Health, continued to grow, despite restrictions imposed by the COVID-19 pandemic. As advised, during this time, patient consultations have been conducted via a telehealth format, which has been embraced by Cannadoc's growing number of patients, with additional doctors having been recruited to meet the needs of Cannadoc's growing patient base. Expansion of the Cannadoc operations to other cities around Australia is underway, with an early presence in Sydney having now been established.

In recognition of opportunities to replicate the Cannadoc model in other markets, on 9 October 2020, the Group incorporated a New Zealand-based subsidiary, Cannadoc Health (NZ) Limited. This company, which is wholly-owned by Cannadoc Health Pty Ltd, will conduct the Group's activities in New Zealand which is being driven by Cannadoc founder, Dr. David Feng, from a base in Wellington. On 17 October 2020, concurrently with the General Election, the New Zealand Cannabis Referendum was held, the preliminary results of which are expected to be known on 30 October 2020.

LAUNCH OF PERSONAL CARE PRODUCTS IN ASIA

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

Since the release of the announcement, considerable progress has been made in conjunction with the Company's Japanese manufacturing partner to formulate the Group's first personal care product which the Company expects to launch in select markets prior to Christmas 2020. To support the planned launch, work continues to finalise packaging, distribution and logistics arrangements.

In addition to the above activities, development work is also being undertaken in respect of two further ranges of personal care products which the Company is aiming to launch in the second half of the current financial year. Branding for these two product ranges has now been completed, with intellectual property assets, including trademarks, having also been secured in chosen markets.

CBD JOINT VENTURE

In addition to the above activities, the Company has made further progress during the quarter on other aspects of its business, including the development of brands and products in conjunction with its joint venture partner, A&S Branding Pty Ltd, a company established by Alison Goodger and Simon O'Connor, the founders of Sukin Natural Skincare. The joint venture partners anticipate that final decisions relating to branding for the products will be made in the near future, with initial product formulations expected to be completed early in the March quarter of 2021.

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APPENDIX 4C

As detailed in the attached ASX Appendix 4C, the Company had more than $13.2 million in cash and cash equivalents as at 30 September 2020 which, at the current burn rate, provides the Company with more than 28 months, or approximately 2.4 years, of funding.

Cash receipts from the sale of medicinal cannabis products and the provision of clinic services during the quarter were $111,661, up from $69,804 in the June quarter, together with $146,798 received under various COVID-19 related Government stimulus schemes.

Product, manufacturing and operating costs of $532,649 included significant purchases of medicinal cannabis products made to increase inventory levels as demand for the Company's products continues to grow. Staff costs of $728,610 were materially higher than previous quarters due to payments made to consultants on the successful delivery of agreed projects, timing differences relating to payments made to the Australian Taxation Office and various year-end workcover, payroll tax and incentive payments made during the quarter.

ASX LISTING RULE 4.7C

Pursuant to **Listing Rule 4.7C.2**, the Company confirms that, in the eleven months since listing on the ASX, it has incurred expenditures largely in line with the Use of Proceeds set out on page 31 of its Prospectus dated 15 October 2019 (the "Prospectus").

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 September 2020, 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 eleven months since its IPO, the Company has spent approximately $1.9 million less than forecast in the Prospectus. This reduction 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, 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.

Going forward, as mentioned in the previous Quarterly Activities Report, due to restrictions imposed as a result of the COVID-19 pandemic, it is likely that certain business development activities, including face-to-face patient acquisition and practitioner engagement, will be delayed, reducing the rate at which revenues are expected to be generated and funds are spent in the short to medium term. In addition, the proposed research and development activities mentioned in the Prospectus may also be delayed.

Pursuant to **Listing Rule 4.7C.3**, and as disclosed in Item 6.1 of the attached Appendix 4C, the Company advises that a total of $258,060 was paid to Directors and entities associated with Directors in respect of Directors' fees, as well as salaries, superannuation and an eligible termination payment paid to, and on behalf of, executives Rodney Cocks and Peter Righetti, both of whom also served as Directors of the Company. As announced previously, Peter Righetti resigned as a Director and ceased to work for the Company as of 19 June 2020.

Based on the Company's net cash outflows from operations for the quarter ended 30 September 2020, Cronos Australia has approximately 9.4 quarters of cash remaining at balance date.

ASX LISTING RULE 4.7C (cont.)

The Company's estimated net cash outflows for the quarter ending 31 December 2020 are likely to be influenced by the impacts of the COVID-19 pandemic. While the Company anticipates that it will continue to expand its operations in accordance with its overall strategy, it intends to carefully manage its existing cash reserves and make spending decisions taking into account external factors as they arise.

CANCELLATION OF SECURITIES

Subsequent to the resignation of the Company's former General Counsel and Company Secretary in August 2020, a total of 60,000 Performance Rights and 461,400 options over the Company's ordinary shares that were formerly held by him have either expired or been forfeited.

APPROVED BY THE BOARD OF CRONOS AUSTRALIA LIMITED

Dated this 22nd day of October, 2020

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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 September 2020		Comments
Categories	**Total cash to be spent**	**Forecast cash to be spent**	**Actual cash spent**	
Product development	$2,575,000	$1,366,251	$198,822	Costs incurred are lower than forecast and delayed due to pandemic
Business development	$2,390,000	$891,343	$197,595	Forecast travel expenses are lower due to pandemic
Patient acquisition / practitioner engagement	$2,355,000	$845,000	$1,090,453	Includes costs associated with the acquisition of Cannadoc Health
Brand creation, development and launch	$2,080,000	$1,145,028	$934,069	
Contract manufacturing management	$1,200,000	$189,480	$14,850	
Research and development activities	$1,190,000	$412,228	$212,448	
Licensing and regulatory costs	$755,000	$157,648	$209,329	
Director remuneration	$750,000	$320,000	$340,446	
Inventory of finished products, inc. distribution	$585,000	$434,583	$511,268	
Working capital and administrative costs [1]	$3,950,000	$1,795,766	$1,705,410	Includes fitout costs associated with new 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**	**$9,727,327**	**$7,810,364**	

Notes:

1. Working capital includes corporate operations and corporate governance costs, as well as a contingency pool.
2. 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.
3. 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 September 2020, the Company generated a total of $505,542 from such sources that is not reflected in the table above.

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Appendix 4C

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

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Name of entity	
Cronos Australia Limited (ASX: CAU)	
ABN	**Quarter ended ("current quarter")**
59 629 071 594	**30 September 2020**

Consolidated statement of cash flows		**Current quarter $A**	**Year to date (three months) $A**
1.	**Cash flows from operating activities**		
1.1	Receipts from customers	111,661	111,661
1.2	Payments for		
	(a) research and development	(22,000)	(22,000)
	(b) product manufacturing, operating costs	(532,649)	(532,649)
	(c) advertising and marketing	(10,000)	(10,000)
	(d) leased assets	-	-
	(e) staff costs	(728,610)	(728,610)
	(f) administration and corporate costs	(252,255)	(252,255)
1.3	Dividends received (see note 3)	-	-
1.4	Interest received	1,088	1,088
1.5	Interest and other costs of finance paid	-	-
1.6	Income taxes paid	-	-
1.7	Government stimulus payments received	146,798	146,798
1.8	Other (net Eligible Termination Payment)	(127,698)	(127,698)
1.9	**Net cash from / (used in) operating activities**	(1,413,665)	(1,413,665)

2.	**Cash flows from investing activities**		
2.1	Payments to acquire:		
	(a) entities, net of cash on acquisition	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	(3,757)	(3,757)
	(d) investments	-	-
	(e) intellectual property	-	-
	(f) security deposits	-	-

Consolidated statement of cash flows		Current quarter $A	Year to date (three months) $A
2.2	Proceeds from disposal of:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	-	-
	(d) investments	-	-
	(e) intellectual property	-	-
	(f) security deposits	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Chattel mortgage payments	(2,660)	(2,660)
2.6	**Net cash from / (used in) investing activities**	(6,417)	(6,417)

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 and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Proceeds from non-controlling interests	10,000	10,000
3.10	**Net cash from / (used in) financing activities**	10,000	10,000

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Consolidated statement of cash flows		Current quarter $A	Year to date (three months) $A
4.	**Net increase / (decrease) in cash and cash equivalents for the period**		
4.1	Cash and cash equivalents at beginning of period	14,685,943	14,685,943
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,413,665)	(1,413,665)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(6,417)	(6,417)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	10,000	10,000
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	**Cash and cash equivalents at end of period**	13,275,861	13,275,861

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	1,025,409	14,685,491
5.2	Call deposits	12,250,000	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	452	452
5.5	**Cash and cash equivalents at end of quarter (should equal item 4.6 above)**	13,275,861	14,685,943

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	(258,060)
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

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7.	**Financing facilities** *Note: the term "facility' includes all forms of financing arrangements available to the entity.* *Add notes as necessary for an understanding of the sources of finance available to the entity.*	**Total facility amount at quarter end $A**	**Amount drawn at quarter end $A**
7.1	Loan facilities	1,500,000	1,500,000
7.2	Credit standby arrangements	-	-
7.3	Other - credit card facility	50,000	5,183
7.4	**Total financing facilities**	1,550,000	1,505,183

7.5	**Unused financing facilities available at quarter end**	44,817

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

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

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

8.	**Estimated cash available for future operating activities**	**$A**
8.1	Net cash from / (used in) operating activities (Item 1.9)	(1,413,665)
8.2	Cash and cash equivalents at quarter end (Item 4.6)	13,275,861
8.3	Unused finance facilities available at quarter end (Item 7.5)	44,817
8.4	Total available funding (Item 8.2 + Item 8.3)	13,320,678
8.5	**Estimated quarters of funding available (Item 8.4 divided by Item 8.1)**	9.4

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

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

Answer: N/A

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

Answer: N/A

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

Answer: N/A

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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 October 2020**

Authorised: **By the Board**

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.

2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.

3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.

4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [*name of board committee – eg Audit and Risk Committee*]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".

5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

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