

CRONOS (DISTRIBUTION) AUSTRALIA PTY LTD



FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2018

This financial report covers Cronos (Distribution) Australia Pty Limited. Figures in this financial report are presented in Australian dollars.

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The financial report was authorised for issue by the Directors on 27 September 2018. The owners of Cronos (Distribution) Australia Limited have the power to amend and reissue the financial report after it has been issued.

CRONOS (DISTRIBUTION) AUSTRALIA PTY LTD

Company Particulars

Incorporation

Cronos (Distribution) Australia Pty Ltd (the “Company” or “Cronos Distribution”) was incorporated on 24 August 2017 with limited liability, under Australian law and is domiciled in Australia. The Company’s Australian Company Number (ACN) is 621 292 064.

Subsidiaries

Cronos (Distribution) Australia Pty Ltd has no subsidiaries.

Registration

The Company’s Australian Business Number (ABN) is 99 621 292 064

Registered Office and Principal Place of Business

C/ D’Omara Accountants Pty Ltd
Level 9, 30 Collins Street Melbourne Vic 3000
Telephone: (03) 9579 4450

Auditors

KPMG
Tower Two
Collins Square
727 Collins Street, Melbourne VIC 3008

Accountants

D’Omara Accountants
Level 9, 30 Collins Street Melbourne Vic 3000

Tax Advisors

Ernst & Young
Level 23, 8 Exhibition Street Melbourne Vic 3000

Bankers

Westpac 530 Collins Street, Melbourne VIC 3000
Westpac 97-99 Koornang Road, Carnegie, VIC 3000

Lawyers

Thomson Geer
Level 39, Rialto South Tower
525 Collins Street, Melbourne VIC 3000

Directors' Report

The Directors present their report together with the financial report of Cronos (Distribution) Australia Pty Ltd for the year ended 30 June 2018.

Information on Directors and Company Secretary

The qualifications, experience and special responsibilities of each person who has been a Director of the Company at any time during or since the end of the financial year is provided below, together with details of the Company Secretary as at the end of the financial year.

Rodney Damon Cocks

B.Comm , B.Law, MBA,MPA

Chief Executive Officer, Director and Company Secretary

Before founding Cronos Australia, Rodney was a consultant with The Boston Consulting Group, later taking up a senior role at an Australian multinational before co-founding NewSouthern Capital. He heads up the capital raising and portfolio company teams at NewSouthern Capital. As a graduate of the Royal Military College, Duntroon, Rodney commenced his career as an Australian Army infantry officer and was also a senior member of the UK Government's Counter Narcotics team at The British Embassy in Kabul, which was responsible for targeting the massive opium and cannabis cultivation and trafficking issue in Afghanistan. Rodney holds a Bachelor of Commerce, Bachelor of Laws, MBA (Wharton, University of Pennsylvania), and an MPA (Harvard University). He is an admitted lawyer to the Supreme Court of New South Wales, a Graduate of the Australian Institute of Company Directors, and an Authorised Representative under an Australian Financial Services License. Rodney was also named the Victorian Australian of the Year in 2005.

Peter John Righetti

B.Comm , B.Law

Chief Operating Officer & Director

Prior to establishing Cronos Australia, Peter worked for more than 20 years in residential and commercial property, providing strategic-level expertise in the fields of development acquisition, planning, construction/project management, project financing, and marketing. Peter heads up the investment and property teams at NewSouthern Capital. In line with NewSouthern's commitment to the creation, protection, and growth of investor wealth, Peter will assume a pivotal role in the establishment and ongoing operations of Cronos Australia. Peter is a graduate of Royal Military College, Duntroon, and served as an Army Officer in the Royal Australian Corps of Engineers. He has held senior leadership and executive positions in private and publicly listed Australian companies. Peter holds a Bachelor of Commerce and a Bachelor of Laws. He is admitted as a barrister and solicitor of the Supreme Court of Victoria.

Principal Activities

Distribution of medical cannabis. The Company had not commenced operations during the period ended 30 June 2018.

Business Strategies and Prospects of Future Years

The Company plans to commence operations as a distributor of medical cannabis.

It is the board's intention to incorporate other entities as part of larger group and to formalise and capitalise this new group – of which Cronos Distribution will be key component. The intention is also to secure additional licences and to commence construction of a manufacturing facility within the expanded group structure.

Financial Performance

The loss after income tax attributable to members of Cronos Distribution was \$2,430.

Review of Operations

A review of the Company operations during the financial year and the results of those operations concluded the following:

The Company's operations during the reporting period performed as expected in the opinion of the Directors.

Significant Changes in State of Affairs

No significant changes in the Company's state of affairs occurred during the reporting period.

After Balance Day Events

No matters or circumstances have arisen since reporting date which significantly affected or may significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in future reporting periods.

Environmental Regulation

The Company's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a state or territory.

Dividends Paid, Recommended and Declared

No dividends have been paid, declared or recommended since the incorporation of the Company.

Share Options

No options over issued shares or interests in the Company were granted during or since the end of the reporting period and there were no options outstanding at the date of this report.

Indemnification and Insurance of Directors, Officers and Auditors

No indemnities have been given or insurance premiums paid, during or since the end of the reporting period, for any person who is or has been an officer or auditor of the Company.

Proceedings on Behalf of the Entity

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings. The Company was not a party to any such proceedings during the reporting period.

Directors' Meetings

The number of meetings of Directors (including meetings of Committees of Directors) held during the year and the number of meetings attended by each Director was as follows:

Directors	Meetings Attended	Meetings Held
R Cocks	1	1
P Righetti	1	1

Audit and Risk Committee

A separate Audit and Risk committee was not in place during the year. Instead the Company assigns responsibility for all audit and risk functions to the full board of Cronos Distribution. Directors of the board of directors of Cronos Distribution are:

- (i) Rodney Cocks (Director)
- (ii) Peter Righetti (Director)

The Board assumes responsibilities for all matters related to financial management and reporting, intellectual property, external audit and risk management of Cronos Distribution.

The Board monitors management processes in relation to preparation of financial reports, including the annual financial statements, and the processes in relation to external audit. The Board ensures compliance with the ASIC regulations and the Corporations Act 2001 requirements.

The Board reviews the annual financial statements, the adequacy of the financial control environment, applicable financial management and reporting policies (including policies relating to potential fraud and misappropriation) and developments in international financial reporting standards. The Board also monitors enterprise risk management activity, its impact on mitigating material risks to the business and the work of the external auditors.

In accordance with the Corporations Act 2001, Cronos Distribution has appointed external auditors whose primary role is to form an opinion as to the truth and fairness of the annual financial statements. Cronos Distribution appoints external auditors who demonstrate quality and independence. KPMG are the current external auditors of Cronos Distribution. KPMG attends Board meetings by invitation and annually reports to the Board on its independence and the outcomes of its audit.

Non-audit services

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company are important.

Details of the amounts paid or payable to the auditor (KPMG) for audit and non-audit services provided during the year are set out below.

The Board of Directors has considered the position and, in accordance with advice received from the audit committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- (i) All non-audit services have been reviewed by the Audit and Risk Committee to ensure they do not impact the impartiality and objectivity of the auditor.
- (ii) None of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*

During the year, no fees were paid or payable for non-audit services provided by the auditor (KPMG):

Details of amounts paid or payable to the auditor for audit services provided during the year by the auditor are outlined in the financial statements.

Corporate Governance

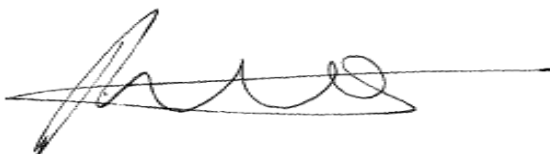
The Board of Directors meet on a regular basis to review the strategic, financial and operational position of the company and operate under a Board charter.

The governance structure serves the Company in all matters associated with ensuring the Board meet their ongoing governance obligations.

Signed in accordance with a resolution of the Directors.



Peter Righetti
Director



Rodney Cocks
Director

Dated: 27 September 2018

Statement of Profit or Loss and other Comprehensive Income

for the period from the date of incorporation, 24 August 2017, to 30 June 2018

	<i>Notes</i>	<i>\$</i>
Expenditure		
Formation costs		1,430
Audit costs		<u>1,000</u>
Total Expenditure		2,430
Loss before income tax		(2,430)
Income tax benefit / (expense)	4	-
Total comprehensive loss for the period		<u><u>(2,430)</u></u>

The above statement of profit or loss and other comprehensive Income should be read in conjunction with the accompanying notes.

Statement of Financial Position

as at 30 June 2018

	Notes	\$
Current Assets		
Cash and cash equivalents	5	120
Total Current Assets		120
Total Assets		120
Current Liabilities		
Other payables		1,000
Borrowings	6	1,430
Total Current Liabilities		2,430
Total Liabilities		2,430
Net Assets		(2,310)
Equity		
Issued capital	7	120
Accumulated loss		(2,430)
Total Equity		(2,310)

The above statement of financial position should be read in conjunction with the accompanying notes.

Statement of Changes in Equity

for the period from the date of incorporation, 24 August 2017, to 30 June 2018

	Notes	Issued capital \$	Accumulated loss \$	Total equity \$
As at incorporation date, 24 August 2017		120	-	120
Total comprehensive loss for the period		-	(2,430)	(2,430)
As at 30 June 2018	7	120	(2,430)	(2,310)

The above statement of changes in equity should be read in conjunction with the accompanying notes.

Statement of Cash Flows

for the period from the date of incorporation, 24 August 2017, to 30 June 2018

	Notes	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments to suppliers (inclusive of goods and services tax)		-
Net cash inflow/(outflow) from operating activities	8	-
CASH FLOW FROM FINANCING ACTIVITIES		
Proceeds from the issue of shares		120
Proceeds from borrowings		-
Net cash inflow from financing activities		120
Net increase in cash and cash equivalents		120
Cash and cash equivalents at beginning of the period		-
Cash and cash equivalents as at 30 June 2018	5	120

The above statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the Financial Statements

For the period from the date of incorporation, 24 August 2017, to 30 June 2018

CORPORATE INFORMATION

The financial statements of Cronos (Distribution) Australia Pty Limited (the “Company”) for the period from the date of incorporation, 24 August 2017, to 30 June 2018 were authorised for issue in accordance with a resolution of the directors on 27 September 2018. Cronos (Distribution) Australia Pty Limited is a for profit company limited by shares incorporated in Australia.

As at balance date Cronos (Distribution) Australia Pty Limited was owned by Cronos Group Inc. (TSE: CRON) and NewSouthern Capital Pty Ltd.

The Company is principally engaged in the provision of cannabis distribution services but is yet to commence formal operations. The Company’s principal place of business is Level 9, 30 Collins Street Melbourne, Australia. Further information on the nature of the operations and principal activities of the Company is provided in the Directors’ report.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board.

The financial report has been prepared on a historical cost basis. The financial report is presented in Australian dollars, the Company’s functional currency and all values are rounded to the nearest dollar. There is no comparative information as this is the Company’s first set of financial statements since incorporation.

Going concern

The financial report is prepared on a going concern basis, which contemplates continuity of normal operations and the realisation of assets and settlement of liabilities in the ordinary course of operations. In making this assessment, the directors have considered future events and conditions for a period of at least 12 months following the approval of these financial statements.

The company has made a loss of \$2,430 during the year and has a current asset deficiency of \$2,310 at 30 June 2018. In addition, the company is currently in a start-up phase and does not generate revenues.

Notwithstanding the above, the directors consider that it is appropriate for the financial statements to be prepared on a going concern basis as they have received a letter of financial support from their shareholders confirming that they will continue to provide financial and other support to the Company to enable it to pay its liabilities as and when they become due and payable for at least 12 months from the date of signing its financial report.

Refer to Note 11 (Subsequent Events), which provides further details on a proposed restructure.

Compliance with International Financial Reporting Standards (“IFRS”)

The financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

2.2 Summary of significant accounting policies

a) Current versus non-current classification

The Company presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realised within twelve months after the reporting period or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

The Company classifies all other assets as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Company classifies all other liabilities as current.

b) Financial instruments – initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets

Financial assets comprise loans and receivables.

Financial assets classified as loans and receivables are recognised initially at fair value and measured subsequent to initial recognition at amortised cost using the effective interest method, less provision for impairment. Any change in their value through impairment or reversal of impairment is recognised in the income statement. Loans and receivables consist of cash and cash equivalents.

Financial liabilities

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its financial liabilities. Equity instruments do not include a contractual obligation to deliver cash or other financial assets to another entity. Any instrument that does have the obligation to deliver cash or another financial asset to another entity is classified as a financial liability.

Financial liabilities are presented under liabilities on the statement of financial position.

The Company's financial liabilities include other payables and borrowings.

Borrowings are initially measured at fair value and are subsequently measured at amortised cost, using the effective interest rate method, except for borrowings designated at fair value through profit and loss ("FVTPL").

In the absence of any unconditional right to defer the settlement of the loan for at least twelve months after the reporting period the Company's borrowings have been recognised as current liabilities and valued at face value.

Maturities of financial liabilities

The tables below analyses the Company's financial liabilities into relevant maturity groupings based on their contractual maturities for all non-derivative financial liabilities. The Company does not hold any derivative financial liabilities.

The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

Contractual maturities of financial liabilities	Less than 6 months	6-12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total contractual cash flows	Carrying amount
	\$	\$	\$	\$	\$	\$	\$
At 30 June 2018							
Non-derivatives							
Trade and other payables	1,000	-	-	-	-	1,000	1,000
Borrowings	-	1,430	-	-	-	1,430	1,430
Total non-derivatives	1,000	1,430	-	-	-	2,430	2,430

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

c) Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash on hand which is subject to an insignificant risk of changes in value.

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash on hand.

d) Taxes

Current income tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the country in which the Company operates and generates taxable income.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses.

Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

The Company offsets deferred tax assets and deferred tax liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

2.4 New or revised accounting standards and interpretations

Certain new accounting standards, amendments and interpretations to existing standards have been published that are mandatory for accounting periods beginning on or after 1 July 2018. The Company does not expect that adoption of these accounting standards or interpretations will have a material impact on the Company's financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of expenses, assets and liabilities, and the accompanying disclosures as follows:

Deferred tax

Deferred tax asset is recognised where the Company considers that it will be probable that future tax profits will be available against which tax credit will be utilised in the future. In estimating the amount of the deferred tax asset that should be recognised, the Company makes judgements based on current forecasts about the amount of future taxable profits and the timings of when these will be realised. A deferred tax asset is currently not being recognised due to the unpredictability of future taxable trading profits.

Uncertainty about the above assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of an asset in future periods.

Other disclosures relating to the Company's exposure to risks and uncertainties includes:

- Capital management (Note 9)
- Financial instruments risk management, objectives and policies (Note 10)

4. INCOME TAX

Income tax expense is \$nil for the period ended 30 June 2018 as the Company has not commenced its trading operation. No deferred tax asset was recognised for the losses from continuing operations due to unpredictability of the future taxable trading profits. Unrecognised tax losses for the period ended 30 June 2018 amounted to \$2,430.

5. CASH AND CASH EQUIVALENTS

	\$
Cash and cash equivalents	
Cash on hand	120
Cash at bank	<u>-</u>
Total cash and cash Equivalents	120

6. BORROWINGS

	\$
Current	
<i>Loan from a related company</i>	
Loan - Cronos Australia Pty Ltd	<u>1,430</u>
Total Current Borrowings	1,430

An interest free loan was drawn down for \$1,430 from Cronos Australia Pty Ltd, a related party. No loan agreement is in place so the balance at 30 June 2018 has been classified as current and no accrual has been made for any interest expense.

7. ISSUED CAPITAL

	shares	\$
Reconciliation of Shares on Issue		
Ordinary A Class Shares	120	120
Shares issued at incorporation date, 24 August 2017, and at end of the reporting period	120	120

Ordinary fully paid Class A shares carry one vote per share and carry a right to dividends. There are no rights, preferences or restrictions on any of the shares that have been issued.

The shares currently authorised and on issue as at 30 June 2018 have a par value of \$1 per share.

8. CASH FLOW INFORMATION

	\$
Reconciliation of the net profit/(loss) before tax to the net inflow/(outflow) from operating activities	
Profit/(loss) for the year	(2,430)
Adjustments to reconcile profit before tax to net cash flows:	
Amortisation of formation costs	1,430
Working capital adjustments:	
Increase/(Decrease) in payables	1,000
	<hr/>
Income tax paid	-
	<hr/>
Net cash inflow/(outflow) from operating activities	-

9. CAPITAL MANAGEMENT

For the purpose of the Company's capital management, capital includes issued capital. The primary objective of the Company's capital management is to maximise the shareholder value.

The Company manages its capital structure and makes adjustments in light of changes in economic conditions. The Company is not subject to the requirements of any financial covenants under its loan agreement. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders, issue new shares or draw down new borrowings.

10. FINANCIAL INSTRUMENTS, RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's principal financial liabilities comprise borrowings which are non-interest bearing loans from a related party. The main purpose of these financial liabilities is to finance the Company's operations. The Company's principal financial assets include cash and cash equivalents that derive directly from the issuance of capital.

The Company is exposed to financial instruments risks. The Company's senior management in coordination with the Board of Directors oversees the management of these risks. The Company is not exposed to credit risk and market risk as its financial assets consists of cash on hand, and its financial liabilities are interest-free. The most significant financial risks to which the Company is exposed to is described below:

10.1 Liquidity risk

The Company monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Company's operations and mitigate effects of fluctuations in cash flows.

The maturity profile of the Company's financial liabilities is less than 12 months from the end of the reporting period.

10.2 Categories of financial instruments

The following table sets out the financial instruments as at the end of the reporting period:

	\$
Assets:	
Cash and cash equivalents	120
Total Financial Assets	120
Liabilities:	
Accrued audit fees	1,000
Borrowings (loan from related party)	1,430
Total Financial liabilities	2,430

10.3 Fair value

The carrying amounts of financial assets and liabilities are recorded in the financial statements at their approximate fair values, determined in accordance with the accounting policies as disclosed in Note 2 to the financial statements.

11. SUBSEQUENT EVENTS

Post reporting date, a corporate restructure is underway which will see the ownership of the Company transferred entirely to NewSouthern Capital Pty Ltd. Ownership of NewSouthern Capital Pty Ltd will, in turn, be transferred to a new entity. This new entity will be owned 50% by the current owners of NewSouthern Capital Pty Ltd and 50% Cronos Group Inc. Cronos Group Inc. is listed on both the Toronto and NASDAQ Stock Exchanges (CRON).

Post reporting date, a letter of support has been provided by the directors of the company. The directors have agreed to provide the financial resources necessary to support the company for the next 12 months.

12. RELATED PARTY DISCLOSURES

The following table provides the total amount of transactions that have been entered into with related parties for the financial period ended 30 June 2018.

Amounts owed to related parties

	\$
<i>Related company:</i>	
Cronos Australia Pty Ltd	<u>1,430</u>
Total owed to related parties	<u><u>1,430</u></u>

There are no sales to or purchases from related parties during the financial period.

Loan from a related company

The loan from Cronos Australia Pty Ltd, a related company is intended to fund working capital needs. The loan is interest-free, unsecured and no formal agreement is in place (see Note 6).

Shares issued to directors and key management personnel

Number of shares issued during the period.

	Balance at 24-Aug-17 Ordinary	Allocated as Remuneration Ordinary	Acquired Ordinary	Other Ordinary	Balance at 30-Jun-18 Ordinary
NewSouthern Capital	60	-	-	-	60

As at balance date 100% of the shares in NewSouthern Capital are owned by the directors of the Company.

13. AUDITORS REMUNERATION

	\$
Amounts due and receivable by KPMG for:	
Statutory audit of the financial report of Cronos Distribution	<u>1,000</u>
Total	<u><u>1,000</u></u>

Directors' Declaration

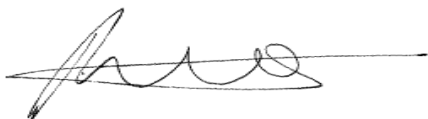
In the Directors' opinion:

- (a) the financial statements and notes set out on pages 8 to 19:
 - (i) comply with Accounting Standards and other mandatory professional reporting requirements; and
 - (ii) give a true and fair view of Cronos Distribution's financial position as at 30 June 2018 and of its performance, as represented by the results of the operations, changes in equity and the cash flows, for the financial period ended on that date; and
- (b) there are reasonable grounds to believe that Cronos Distribution will be able to pay its debts as and when they become due and payable.

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



Peter Righetti
Director



Rodney Cocks
Director

Dated 27 September 2018



Independent Auditor's Report

To the Directors of Cronos (Distribution) Australia Pty Ltd

Opinion

We have audited the **Financial Report** of Cronos (Distribution) Australia Pty Ltd (the **Company**).

In our opinion, the accompanying Financial Report presents fairly, in all material respects, the financial position of the Company as at 30 June 2018, and of its financial performance and its cash flows for the period since the date of incorporation, being 24 August 2017 to 30 June 2018 in accordance with *Australian Accounting Standards*.

The **Financial Report** comprises:

- Statement of financial position as at 30 June 2018
- Statement of profit or loss and other comprehensive income, Statement of changes in equity, and Statement of cash flows for the period since the date of incorporation, being 24 August 2017 to 30 June 2018
- Notes including a summary of significant accounting policies.

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 Company in accordance with the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (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.

Restriction on use and distribution

The Financial Report has been prepared to assist the Directors of Cronos (Distribution) Australia Pty Ltd for the purpose of their due diligence in relation to an Initial Public Offering.

As a result, the Financial Report and this Auditor's Report may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Our report is intended solely for the Directors of Cronos (Distribution) Australia Pty Ltd and should not be used by or distributed to parties other than the Directors of Cronos (Distribution) Australia Pty Ltd. We disclaim any assumption of responsibility for any reliance on this report, or on the Financial Report to which it relates, to any person other than the Directors of Cronos (Distribution) Australia Pty Ltd or for any other purpose than that for which it was prepared.

Other Information

Other Information is financial and non-financial information in Cronos (Distribution) Australia Pty Ltd's reporting that contains or accompanies the Financial Report, which is provided in addition to the Financial Report and the Auditor's Report. This consists of the Directors' Declaration. It does not include the Offering Memorandum. Management is 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.

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 Management for the Financial Report

Management is responsible for:

- the preparation and fair presentation of the Financial Report in accordance with the *Australian Accounting Standards*, and have determined that the financial reporting framework is appropriate to meet the needs of the Directors of Cronos (Distribution) Australia Pty Ltd for the purpose of their due diligence in relation to the Initial Public Offering;
- implementing necessary internal control to enable the preparation of the Financial Report that is free from material misstatement, whether due to fraud or error; and
- assessing the 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 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: http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf. This description forms part of our Auditor's Report.

A handwritten signature in black ink, appearing to read 'KPMG' in a stylized, cursive script.

KPMG
Melbourne
27 September 2018

A handwritten signature in black ink, appearing to read 'Gordon Sangster' in a stylized, cursive script.

Gordon Sangster
Partner