



FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2018

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

Table of Contents

Company Particulars	3
Directors' Report.....	4
Statement of Profit or Loss and other Comprehensive Income.....	8
Statement of Financial Position	9
Statement of Changes in Equity	10
Statement of Cash Flows	11
Notes to the Financial Statements.....	12
Directors' Declaration	24
Independent Audit Report	25

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

Company Particulars

Incorporation

Cronos Australia Pty Limited (the Company or Cronos Australia) was incorporated on 2 December 2016 with limited liability, under Australian law and is domiciled in Australia.

The Company's Australian Company Number (ACN) is 616 243 595.

Subsidiaries

Cronos Australia Pty Ltd has no subsidiaries.

Registration

The Company's Australian Business Number (ABN) is 55 616 243 595

Registered Office and Principal Place of Business

C/ D'Omka 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'Omka 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 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 New Southern Capital. He heads up the capital raising and portfolio company teams at New Southern Capital, and sits on the investment, audit and risk committee for New Southern 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 New Southern Capital and sits on the risk, audit, and investment committees for New Southern Capital. In line with New Southern Capital'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

Cronos Australia is an integrated medicinal cannabis company that has secured the necessary licenses to cultivate, produce, manufacture and research medicinal cannabis in Australia.

Permission to operate:

To date four licenses have been secured from the Federal Department of Health's Office of Drug Control;

1. Medicinal Cannabis License (Cultivation and Production) issued on 31 January 2018
2. Cannabis Research License (Cultivation and Production) issued on 31 January 2018
3. Manufacture License issued on 14 June 2018

The Company has also applied for a fourth license:

4. Export Licence – the application has been filed and a decision is expected to be received before 31 December 2018.

After balance date two permits were secured from the Federal Department of Health's Office of Drug Control;

- a. Permit for one time import of seedlings - issued on 30 July 2018 (and expiring 31 December 2018).
- b. Permit for one time import of seeds – issued on 1 August 2018 (and expiring 31 December 2018).

Business Strategies and Prospects of Future Years

The Company plans to secure its fifth licence, being a licence to export, later in the year.

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 Australia will be key component. The board also plans to commence construction of a manufacturing facility within the expanded group structure.

Cronos Australia will focus on securing its fifth licence and complying with the conditions of its existing four licences.

Financial Performance

The loss after income tax attributable to members of Cronos Australia was \$402,040 (2017: \$22,341).

Review of Operations

The Company focused on securing licences for medicinal cannabis in Australia. The operations during the financial year, and the net loss incurred, were as expected in the opinion of the Directors.

Significant Changes in State of Affairs

Three new licences were secured during the reporting period – for Medical Cannabis, Cannabis Research and Manufacture of Cannabis.

After Balance Day Events

After balance the Company secured two permits – for the importation of cannabis seedlings and for the importation of cannabis seeds. These two permits (albeit single use) significantly compliment the Company's existing licences for Cannabis research and production.

Environmental Regulation

The Company's operations are not, at this stage, 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 Held	Meetings Attended
R Cocks	1	1
P Righetti	1	1

No separate sub-committees of the board are in place.

Audit and Risk

A separate Audit and Risk committee was not in place during the year. The Company assigns responsibility for all audit and risk functions to the full board of Cronos Australia Pty Ltd. Directors of the board of directors of Cronos Australia 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 Australia.

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 Australia has appointed external auditors whose primary role is to form an opinion as to the truth and fairness of the annual financial statements. Cronos Australia appoints external auditors who demonstrate quality and independence. KPMG are the current external auditors of Cronos Australia. 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

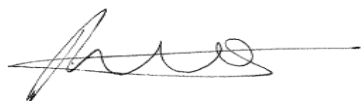
The Board of Directors meet on a regular basis to review the strategic, financial and operational position of the Company and operate under a Board charter. In addition, the Board's newly formed subcommittee, Audit & Risk, are responsible for specific functions as per their charter and report to the Board on matters that require the Board's approval.

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 year ended 30 June 2018

		2018	2017
		<i>12 months</i>	<i>7 months</i>
	<i>Notes</i>	\$	\$
Expenditure			
Professional fees	4	298,516	9,750
Permits, licences & registration fees	5	93,755	6,613
Staff costs		7,242	4,928
Other expenses		<u>2,527</u>	<u>1,050</u>
Total Expenditure		402,040	22,341
Loss before income tax		(402,040)	(22,341)
Income tax benefit / (expense)	6	-	-
Total comprehensive loss for the period		<u>(402,040)</u>	<u>(22,341)</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	2018 \$	2017 \$
Current Assets			
Cash and cash equivalents	7	3,149	348
Other receivables	8	28,758	874
Total Current Assets		31,907	1,222
Total Assets			
		31,907	1,222
Current Liabilities			
Trade and other payables	9	316,634	2,750
Borrowings	10	139,534	20,693
Total Current Liabilities		456,168	23,443
Total Liabilities			
		456,168	23,443
Net Assets			
		(424,261)	(22,221)
Equity			
Issued Capital	11	120	120
Accumulated Loss		(424,381)	(22,341)
Total Equity		(424,261)	(22,221)

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

Statement of Changes in Equity

For the year ended 30 June 2018

	Notes	Issued capital \$	Accumulated loss \$	Total equity \$
As at incorporation date, 2 December 2016		120	-	120
Total comprehensive loss for the period		-	(22,341)	(22,341)
Balance as at 30 June 2017	11	120	(22,341)	(22,221)
As at 1 July 2017		120	(22,341)	(22,221)
Total comprehensive loss for the year		-	(402,040)	(402,040)
Balance as at 30 June 2018	11	120	(424,381)	(424,261)

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

Statement of Cash Flows

For the year ended 30 June 2018

	Notes	2018 \$	2017 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments to suppliers (inclusive of goods and services tax)		(114,610)	(20,465)
Net cash inflow/(outflow) from operating activities	12	(114,610)	(20,465)
CASH FLOWS FROM INVESTING ACTIVITIES			
Loans made to related party		(1,430)	-
Net cash inflow/(outflow) from investing activities		(1,430)	-
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from the issue of shares		-	120
Proceeds from borrowings		118,841	20,693
Net cash inflow from financing activities		118,841	20,813
Net increase/(decrease) in cash and cash equivalents		2,801	348
Cash and cash equivalents at beginning of the financial year		348	-
Cash and cash equivalents at end of the year	7	3,149	348

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

Notes to the Financial Statements

for the year ended 30 June 2018

1. CORPORATE INFORMATION

This financial report for the year ended 30 June 2018 covers Cronos Australia Pty Limited (the “Company” or “Cronos Australia”). Cronos Australia is a Company limited by shares, incorporated on 2 December 2016 and domiciled in Australia.

Cronos Australia is owned by NewSouthern Capital Pty Ltd and Cronos Group Inc (TSE: CRON). Both entities own 50% of the ordinary shares in Cronos Australia.

The Company is principally engaged in the licencing of medical cannabis. 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. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The financial report of Cronos is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board. Cronos is a for-profit entity for the purpose of preparing the financial statements.

The accounting policies and methods of computation adopted in the preparation of the financial statements are consistent with those adopted and disclosed in the prior period financial statements ended 30 June 2017. These accounting policies are consistent with Australian Accounting Standards and International Financial Reporting Standards.

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. The comparative information is for the period from the date of incorporation, 2 December 2016, to 30 June 2017.

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 a history of operating losses and incurred a loss after tax of \$402,040 (2017: loss after tax of \$22,341) and has a net asset deficiency at 30 June 2018 of \$424,261 (2017: net asset deficiency of \$22,221). 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 letters of financial support from their shareholders, including from Cronos Group Inc., a company listed on the Toronto and Nasdaq stock exchanges (CRON) and which owns 50% of the Company. This letter confirms that Cronos Group Inc. 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 15 Subsequent events, which provides further details on a proposed restructure.

New and revised Standards and Interpretations

The Company has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board that are relevant to their operations and effective for the current reporting period. This adoption has not resulted in any changes to the Company’s accounting policies and has no significant effect on the amounts reported in the current and prior period. The Company is continuing to assess the impact of standards issued but not yet adopted.

Compliance with International Financial Reporting Standards

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

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 non-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 at amortised cost using the effective interest method, less any provision for impairment. Any change in their value through impairment or reversal of impairment is recognised in the profit or loss. Loans and receivables consist of cash and cash equivalents and a loan to a related company. There is no impairment or reversal of impairment recognised in the statement of profit and loss and other comprehensive income.

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 trade and other payables and borrowings.

Financial liabilities are recognised at face value. There has been no subsequent measurement at amortised cost, using the effective interest rate method.

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) Taxes

Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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.

(d) Cash and cash equivalents

Cash and cash equivalents includes cash on hand and cash at bank 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 and cash at bank.

(e) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

If the entity reacquires its own equity instruments e.g. as the result of a share buy-back, those instruments are deducted from equity and the associated shares are cancelled. No gain or loss is recognised in the profit or loss and the consideration paid including any directly attributable incremental costs (net of income taxes) is recognised directly in equity until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, and is included in equity attributable to the owners of the Company.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Company's accounting policies.

Except for the judgement on any deferred tax asset below, there are no areas that involved a higher degree of judgement or complexity, and no items which are more likely to be materially adjusted due to the high degree estimates and assumptions used.

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.

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

- Financial instruments risk management, objectives and policies (Note 13)
- Capital management (Note 14)

4. PROFESSIONAL FEES

	2018	2017
	<i>12 months</i>	<i>7 months</i>
	\$	\$
Legal	135,698	4,500
Advertising	4,500	-
Planning	776	-
Design - electricity service & usage	3,000	-
Risk management services	58,000	-
Surveyor fees	5,600	-
Water boring	6,000	-
Audit	8,000	2,750
Licensing services	20,531	-
Budgeting and forecasting services	26,113	-
Project management services	19,438	-
Other	3,874	-
Accounting	6,986	2,500
Total professional fees	298,516	9,750

5. PERMIT, LICENCES AND LICENSING FEES

	2018	2017
	<i>12 months</i>	<i>7 months</i>
	\$	\$
Australian Government Department of Health:		
- Office of Drug Control - licence fees	55,755	6,613
Agricultural intellectual property registration	38,000	-
Total Permits, licences and licensing fees	93,755	6,613

6. INCOME TAX BENEFIT/(EXPENSE)

No income tax is payable due to the Company incurring an operating loss for the financial year ended 30 June 2018.

	2018	2017
	\$	\$
Accounting loss before income tax	(402,040)	(22,341)
Non-deductible temporary differences:		
Accrued expense claimed in previous year	(2,750)	-
Accrued expenses	51,317	2,750
Adjusted accounting loss before tax	(353,473)	(19,591)
Unrecognised tax losses	(353,473)	(19,591)

No deferred tax asset has been recognised in relation to the losses due to the uncertainty of future taxable trading profits. Unrecognised tax losses for the financial year ended 30 June 2018 amounted to \$353,473 (2017: \$19,591).

Likewise no deferred tax assets have been recognised in relation to timing differences. Total accrued expenses, for which no deferred tax asset is recognised in the state of financial position amounted to \$51,317 (2017: \$2,750).

7. CASH AND CASH EQUIVALENTS

	2018	2017
	\$	\$
Cash on Hand	120	120
Cash at Bank	3,029	228
Total Cash and Cash Equivalents	3,149	348

8. OTHER RECEIVABLES

	2018	2017
	\$	\$
Current		
GST Receivable	27,328	874
<i>Loan to a related company:</i>		
Loan - Cronos (Distribution) Australia Pty Ltd	<u>1,430</u>	-
Total current other receivables	28,758	874

There is no loan agreement in place for the above interest free loan. As a result it has been recognised as a non-current receivable.

9. TRADE AND OTHER PAYABLES

	2018	2017
	\$	\$
Current		
Trade payables	265,317	-
Accruals:		
Professional fees	4,104	-
Consulting	35,438	-
Back office administration	1,025	-
Audit	<u>10,750</u>	2,750
Total current trade and other payables	316,634	2,750

Trade payables are non-interest bearing and are normally settled on a 30-day term.

10. BORROWINGS

	2018	2017
	\$	\$
Current		
<i>Loan from a related company</i>		
Loan - NewSouthern Capital Pty Ltd	139,534	20,693
Total Current Borrowings	139,534	20,693

In December 2016, the Company obtained a loan from NewSouthern Capital, a related company to fund its working capital needs. The Company made additional drawdowns against this loan during the year ended 30 June 2018. The loan is unsecured and the Company has no unconditional right to defer settlement of the liability for at least twelve months after the reporting period.

11. ISSUED CAPITAL

Issued and paid up capital

	2018	2017	2018	2017
	shares	shares	\$	\$
Reconciliation of Shares on Issue				
Ordinary A Class Shares	120	120	120	120
Shares on Issue at the Beginning of Reporting Period - (2018: 1 July 2017 and 2017: 2 December 2016)	120	120	120	120
Shares on Issue at End of Reporting Period	120	120	120	120
Issued Capital	120	120	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 (2017: \$1 per share).

12. CASH FLOW INFORMATION

	2018	2017
	\$	\$
Reconciliation of the net loss after tax to the net of operating inflows		
Loss for the year	(402,040)	(22,341)
Changes in operating assets and liabilities		
(Increase)/Decrease in Other Receivables	(26,454)	(874)
Increase/(Decrease) in Trade & Other payables	313,884	2,750
Net cash inflow/(outflow) from operating activities	(114,610)	(20,465)

13. FINANCIAL INSTRUMENT RISK MANAGEMENT, OBJECTIVES AND POLICIES

This note explains the Company's exposure to financial instruments risks and how these risks could affect the Company's future financial performance.

(a) Exposure to risks

The Company's capital structure and the nature of the business activities result in limited exposure to operational risk and a number of financial risks including:

Risk	Exposure arising from	Measurement	Management
Credit risk	Cash and cash equivalents and Non-current other receivables	Aging analysis Credit ratings	Credit limits, letters of credit
Liquidity risk	Borrowings	Rolling cash flow forecasts	Availability of credit lines and borrowing facilities

(b) Use of financial instruments

The Company holds the following financial instruments for operational, financing and risk management reasons:

- Cash and cash equivalents
- Non-current other receivables
- Borrowings
- Trade and other payables.

Risk management is carried out by the Board of Directors and is reviewed periodically. The senior management identifies, evaluates and manages financial risks in close co-operation with the Directors. The Directors provide written principles for overall risk management, as well as policies covering specific areas, such as credit risk and liquidity risk.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, and the availability of funding through an adequate amount of committed credit facilities, to meet obligations when due and to close out market positions. At the end of the reporting period, the Company held cash and cash equivalents of \$3,149 (2017: \$348). Liquidity risk is managed via access to a loan from NewSouthern Capital and a letter of support from Cronos Group Inc. Refer Note 2.1 (Going Concern).

Management monitors rolling forecasts of the Company's liquidity reserve comprising cash and cash equivalents (Note 7) on the basis of expected cash flows.

In addition, the Company's liquidity management policy involves projecting cash flows and considering the level of liquid assets necessary to meet these.

The Company manages liquidity risk by monitoring forecast cash flows and raising additional capital when needed. The ongoing liquidity of the Company, its ability to meet its commitments as they fall due, and execute its existing and future commercialisation plans, are mainly dependent on being successful in:

- raising additional capital from new and existing shareholders;
- drawing on existing lines of credit; and
- ongoing management of expenditure.

Financing arrangements

The Company has no (2017: \$nil) access to undrawn borrowing facilities at the end of the reporting year. The Company does however have the ability to make additional drawdowns against the existing loan from NewSouthern Capital Pty Ltd although this arrangement is not documented. The Company is also the beneficiary of a letter of financial support from Cronos Group Inc.

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	316,634	-	-	-	-	316,634	316,634
Borrowings	-	139,534	-	-	-	139,534	139,534
Total non-derivatives	316,634	139,534	-	-	-	456,168	456,168

The Company does not have any plans to repay any of the financial liabilities above, before their maturity date.

(d) Fair values

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 disclosed in Note 2.

14. CAPITAL MANAGEMENT

When managing capital, management's objectives are to safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders, benefits for other stakeholders and to maintain an optimal capital structure, in order to reduce the cost of capital.

There were no dividends paid or declared during the year ending 30 June 2018 (2017: \$nil).

The Company is not subject to any externally imposed capital requirements.

Refer to Note 13 for information on the Company's financing arrangements and maturities of financial liabilities.

15. 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).

16. RELATED PARTY DISCLOSURES

(a) Directors and/or Key Management Personnel

The directors and/or key management personnel of Cronos Australia during the period were:

<u>Directors and management</u>	<u>Position</u>
Peter Righetti	Executive Director
Rodney Cocks	Executive Director

<u>Related Entities</u>	<u>Relationship</u>
Cronos (Distribution) Australia Pty Ltd	Entity controlled by directors
New Southern Capital Pty Ltd	Entity controlled by directors
New Southern Holdings Pty Ltd	Entity controlled by directors

Director and Key management personnel compensation

Neither director and/or key management personnel received any short term employee benefits or share based payments.

Shares issued to directors and key management personnel (includes direct and indirect holdings)

Number of shares issued during the financial year ended 30 June 2018:

	Balance at 1-Jul-17 Ordinary	Allocated as Remuneration Ordinary	Acquired Ordinary	Other Ordinary	Balance at 30-Jun-18 Ordinary
NewSouthern Capital Pty Ltd	60	-	-	-	60

Number of shares in Cronos Australia issued from incorporation date, 2 December 2016 to 30 June 2017:

	Balance at 2-Dec-16 Ordinary	Allocated as Remuneration Ordinary	Acquired Ordinary	Other Ordinary	Balance at 30-Jun-17 Ordinary
NewSouthern Capital Pty Ltd	60	-	-	-	60

The directors of Cronos Australia own 100% of the shares of NewSouthern Capital Pty Ltd – 50% each.

Loans to Directors and other key management personnel during the financial period

There have been no loans to Directors and other key management personnel during the financial period.

(b) Loans to or from related parties

Loans made to, or obtained from, related parties in the financial year ending 30 June 2018 or in previous financial years are included under the following:

- Current Other Receivables - listed in Note 8.
- Borrowings - listed in Note 10.

17. AUDITORS' REMUNERATION

	2018	2017
	\$	\$
Amounts due and receivable by KPMG for:		
Statutory audit of the financial reports of Cronos	10,750	2,750
Total	10,750	2,750

Directors' Declaration

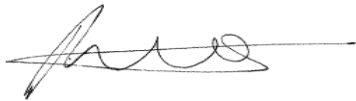
In the Directors' opinions:

- (a) the financial statements and notes set out on pages 8 to 23:
 - (i) comply with Accounting Standards and other mandatory professional reporting requirements; and
 - (ii) give a true and fair view of Cronos Australia'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 Australia 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

27 September 2018



Independent Auditor's Report

To the Directors of Cronos Australia Pty Ltd

Opinion

We have audited the **Financial Report** of Cronos 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 year then ended 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 year then ended
- 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 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 Australia Pty Ltd and should not be used by or distributed to parties other than the Directors of Cronos 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 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 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 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'.

KPMG
Melbourne
27 September 2018

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

Gordon Sangster
Partner