



CRONOS AUSTRALIA LIMITED

ABN 59 629 071 594

QUARTERLY ACTIVITIES REPORT

AND

APPENDIX 4C OF THE ASX LISTING RULES

FOR THE QUARTER ENDED

31 DECEMBER 2019

INTRODUCTION

This Quarterly Activities Report (the “Report”), which covers the period from 1 October 2019 up to the date on which it is signed, is the first report to be released publicly by Cronos Australia Limited (“CAU” and the “Company”) following its admission to the Official List of the Australian Securities Exchange (“ASX”) on 7 November 2019.

The Report should be read in conjunction with the accompanying ASX Appendix 4C, which covers the quarter ended 31 December 2019.

“We are pleased to provide our first Appendix 4C to the market following our listing in November”, said Rodney Cocks, the Company’s CEO. “We have made solid progress in delivering on our strategy, which we outlined in our Prospectus, and we look forward to another active quarter ahead”, Mr. Cocks added.

OVERVIEW

The Company undertook several new activities during the period under review, including:

- Successfully raised \$3.5 million in a “pre-IPO” round, followed by the lodgement of a prospectus with ASIC in respect of an offer of 40 million new ordinary shares in the Company, which was completed on 7 November 2019 and resulted in an ASX listing under the code CAU, accompanied by the issuance of 8.75 million further ordinary shares on conversion of loans created in the pre-IPO round;
- Implemented a third-party logistics (“3PL”) and distribution agreement with Sigma Healthcare Limited (ASX:SIG, “Sigma”) pursuant to which the Company’s current and future products, including imported PEACE NATURALS™ branded medicinal cannabis products, may be distributed through Sigma’s significant national retail pharmacy network;
- Established a joint venture with A&S Branding Pty. Ltd., a company established by Alison Goodger and Simon O’Connor, the co-founders of Sukin Organic Skincare, to develop cannabidiol (“CBD”) based products, including skincare products, for the Australian and New Zealand markets; and
- Received the first shipment of PEACE NATURALS™ branded medicinal cannabis oils from the Company’s major shareholder, Cronos Group Inc. (“Cronos Group”).

IPO AND ASX LISTING

To fund the Company’s business strategy, CAU lodged a prospectus dated 15 October 2019 (the “Prospectus”) with ASIC in respect of an Initial Public Offering (the “IPO”) of ordinary shares in the Company that was completed on 7 November 2019. Activities in relation to the IPO were undertaken during the period from 1 October 2019 up to the date on which the IPO was completed.

A total of 40 million ordinary shares in CAU were issued in the IPO at an issue price of 50 cents each raising a total of \$20 million, before the payment of associated expenses. In addition to the initial shares, a total of 8.75 million shares were also issued as part of the IPO on the conversion of loans valued at \$3.5 million, which were created as part of a pre-IPO capital raise.

IPO AND ASX LISTING (cont.)

The funds raised by the Company from the IPO will be used to fund activities including but not limited to:

- Product and business development;
- Patient acquisition activities and practitioner engagement;
- Brand creation, development and launch;
- The purchase of inventory;
- Contract manufacturing establishment and management;
- Working capital and administrative costs; and
- Costs associated with the IPO (all of which have since been paid).

AGREEMENTS WITH SIGMA HEALTHCARE LIMITED

On 14 November 2019, the Company announced that it had executed a 3PL and distribution agreement with Sigma Healthcare Limited (ASX:SIG, “Sigma”) (the “Agreement”). This Agreement expands and formalises the memorandum of understanding that was detailed in the Prospectus and provides for 3PL services and the distribution of medicinal cannabis products. The PEACE NATURALS™ branded medicinal cannabis products that Cronos Australia is importing from Cronos Group are intended to be the first products to be distributed under the Agreement.

It is anticipated that future products and brands that Cronos Australia develops may also be distributed under the Agreement through Sigma’s national retail pharmacy network, which covers more than 1,300 pharmacies, including the Amcal+ and Guardian chains.

AGREEMENT WITH A&S BRANDING

On 23 December 2019, the Company announced that one of its wholly-owned subsidiaries, Cronos Australia Group Pty. Ltd., had formed a joint venture with A&S Branding Pty. Ltd. (“A&S Branding”), a company established by Alison Goodger and Simon O’Connor, the co-founders of Sukin Organic Skincare, for the development of CBD-based products. The joint venture agreement provides for the development, branding and marketing of CBD products for the Australian and New Zealand markets. Cronos Australia and A&S Branding have agreed to work together on an exclusive basis for an initial period of two years. In anticipation of the deal, a joint venture company named CBD Joint Venture Pty. Ltd. was incorporated by the parties on 20 December 2019.

The Company intends to make the CBD products developed by the joint venture available to patients in Australia under the SAS-B Scheme or via prescription by an Authorised Prescriber.

The collaboration with Alison Goodger and Simon O’Connor of A&S Branding is an exciting venture for the Company and will enable CAU to harness and utilise the collective expertise of both parties for the development of a range of branded CBD products.

ARRIVAL OF PEACE NATURALS™

On 9 January 2020, the Company announced that it had received its first shipment of PEACE NATURALS™ branded medicinal cannabis oils from Peace Naturals Project Inc., a subsidiary of Cronos Group. PEACE NATURALS™ branded medicinal cannabis products are currently sold to patients in Canada and Germany.

ARRIVAL OF PEACE NATURALS™ (cont.)

Pursuant to the Distribution Agreement with Sigma, PEACE NATURALS™ branded medicinal cannabis oils that are prescribed to patients under the SAS-B Scheme, or by an Authorised Prescriber, are expected to be distributed by Sigma through its significant nationwide network of retail pharmacies.

The arrival of the first shipment of PEACE NATURALS™ branded medicinal cannabis oils into Australia is an important step in making quality cannabinoid products available to Australian patients and marks a significant milestone in the Company's Australian medicinal cannabis operations.

APPENDIX 4C

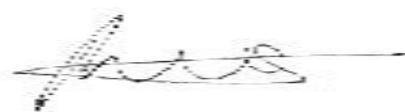
As detailed in the attached ASX Appendix 4C, the Company had in excess of \$17 million in cash and cash equivalents as at 31 December 2019.

The unaudited net loss for the six-month period ended 31 December 2019 of \$1,805,813 included non-cash expenses (comprising share-based payments expenses, interest and depreciation) totalling \$271,800, reducing the "cash loss" to \$1,534,013. This loss included several non-recurring payments relating to the Company's previous business model, in addition to two significant payments to extinguish obligations from a prior period.

As detailed above, the Company raised a total of \$23.5 million in new equity during the periods ended 31 December 2019, prior to the payment of associated expenses. As a result of these capital raises, the Company believes that it is now well capitalised to execute on the "asset-light" strategy described in the Prospectus that was prepared for the IPO.

Going forward, the Company's estimated cash outflows for the next quarter ending 31 March 2020 are forecast to increase as additional personnel are recruited to provide specific experience and expertise to help CAU expand its operations in accordance with its overall strategy.

Signed on behalf of Cronos Australia Limited



RODNEY D. COCKS
Chief Executive Officer

Dated this 24th day of January, 2020

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 4C

Quarterly report for entities subject to Listing Rule 4.7B

Introduced 31/03/00 Amended 30/09/01, 24/10/05, 17/12/10, 01/09/16

Name of entity

Cronos Australia Limited (CAU)

ABN

59 629 071 594

Quarter ended ("current quarter")

31 December 2019

Consolidated statement of cash flows	Current quarter \$A	Year-to-date (six months) \$A
1. Cash flows from operating activities		
1.1 Receipts from customers	-	-
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(275,596)	(340,661)
(c) advertising and marketing	-	-
(d) leased assets	-	-
(e) staff costs	(378,723)	(1,293,530)
(f) administration and corporate costs	(806,707)	(1,317,523)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	4,922	8,526
1.5 Interest and other costs of finance paid	-	(19,512)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(1,456,104)	(2,962,700)
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	-	(1,827)
(b) businesses (see item 10)	-	-
(c) investments	-	-
(d) intellectual property	-	-
(e) other non-current assets	-	-

Consolidated statement of cash flows		Current quarter \$A	Year-to-date (six months) \$A
2.2	Proceeds from disposal of:		
	(a) property, plant and equipment	-	-
	(b) businesses (see item 10)	-	-
	(c) investments	-	-
	(d) intellectual property	-	-
	(e) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (chattel mortgages over vehicles)	(5,355)	(10,711)
2.6	Net cash from / (used in) investing activities	(5,355)	(12,538)
3.	Cash flows from financing activities		
3.1	Proceeds from issues of shares	20,000,000	20,000,000
3.2	Proceeds from issue of convertible notes	-	3,500,000
3.3	Proceeds from exercise of share options	-	-
3.4	Transaction costs related to issues of shares, convertible notes or options	(2,468,586)	(3,092,824)
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	(500,000)
3.7	Transaction costs related to loans / borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
3.10	Net cash from / (used in) financing activities	17,531,414	19,907,176
4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of quarter/year-to-date	1,021,662	159,679
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,456,104)	(2,962,700)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(5,355)	(12,538)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	17,531,414	19,907,176
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of quarter	17,091,617	17,091,617

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	1,091,365	1,021,410
5.2 Term deposits	16,000,000	-
5.3 Bank overdrafts	-	-
5.4 Cash on hand	252	252
5.5 Cash and cash equivalents at end of quarter (should equal item 4.6 above)	17,091,617	1,021,662

6. Payments to directors of the entity and their associates

	Current quarter \$A
6.1 Aggregate amount of payments to these parties included in item 1.2	(240,750)
6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3	-
6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2	

The figure at Item 6.1 includes fees paid to non-executive directors, consulting fees paid to parties associated with the Directors and salaries paid to executives Rodney Cocks and Peter Righetti, both of whom also serve as Directors of the Company.

7. Payments to related entities of the entity and their associates

	Current quarter \$A
7.1 Aggregate amount of payments to these parties included in item 1.2	-
7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3	-
7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2	

8. Financing facilities available
Add notes as necessary for an understanding of the position

	Total facility amount at quarter end \$A	Amount drawn at quarter end \$A
8.1 Loan facilities	1,500,000	1,500,000
8.2 Credit standby arrangements	-	-
8.3 Other (please specify)	-	-
8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		

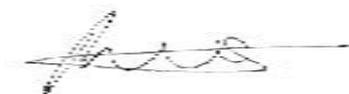
The above loan facility was provided by Cronos Group Inc., the Company's largest shareholder. The loan is unsecured and is subject to interest at 12% p.a. and is repayable no later than 1 January 2022. The facility was fully drawn down as at 31 December 2019.

9. Estimated cash outflows for next quarter	\$A
9.1 Research and development	-
9.2 Product manufacturing and operating costs	(250,000)
9.3 Advertising and marketing	(30,000)
9.4 Leased assets	(45,000)
9.5 Staff costs	(580,000)
9.6 Administration and corporate costs	(640,000)
9.7 Other (provide details if material)	-
9.8 Total estimated cash outflows	(1,545,000)

10. Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)	Acquisitions	Disposals
10.1 Name of entity	Not applicable	Not applicable
10.2 Place of incorporation or registration		
10.3 Consideration for acquisition or disposal		
10.4 Total net assets		
10.5 Nature of business		

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.



Sign here:
Chief Executive Officer

Date: **24 January 2020**

Print name: **Rodney Damon Cocks**

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly 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 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.