



# **CRONOS AUSTRALIA LIMITED**

ABN 59 629 071 594

QUARTERLY ACTIVITIES REPORT

AND

APPENDIX 4C OF THE ASX LISTING RULES

FOR THE QUARTER ENDED

31 MARCH 2020

## HIGHLIGHTS

- **Receipt of first shipment of PEACE NATURALS™ branded medicinal cannabis oils**
- **First PEACE NATURALS™ branded products prescribed and revenues generated**
- **Acquisition of a 51% controlling interest in Cannadoc Health Pty Ltd**
- **First revenues from Cannadoc Health Pty Ltd generated**

**Melbourne, Australia, 23 April 2020** - Cronos Australia Limited (ASX: CAU, “Cronos Australia”, “CAU” or the “Company”), releases its Quarterly Activities Report (the “Report”), covering the period from 1 January 2020 up to the date on which it is signed, which is the second such report to be released by the Company following its admission to the Official List of the Australian Securities Exchange (the “ASX”) on 7 November 2019. The Report should be read in conjunction with the accompanying ASX Appendix 4C, which covers the quarter ended 31 March 2020.

“In our first full quarter as a listed public company, we have continued to make progress on our strategic objectives, including the generation of the Company’s first revenues. This progress has been achieved despite the challenges posed by the COVID-19 crisis”, said Rodney Cocks, the Company’s CEO. “We have taken a number of proactive steps to mitigate the impacts of COVID-19 on our operations and we are working hard to deliver further progress across the business during the quarter ahead”, Mr. Cocks added.

## OVERVIEW

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

- Receipt of its first shipment of PEACE NATURALS™ branded medicinal cannabis oils from the Company’s major shareholder, Cronos Group Inc. (“Cronos Group”). These products are now being prescribed by doctors and are generating revenue.
- Acquisition of a 51% controlling interest in Cannadoc Health Pty Ltd (“Cannadoc”), which operates a Melbourne-based medical clinic business, with effect from 1 January 2020, and with first revenues having now been received by CAU.
- Release of the Company’s ASX Appendix 4D and accompanying Half-Year Report for the period ended 31 December 2019.
- Resignation of the Company’s Chief Operating Officer.
- Share purchases made by Directors of the Company.
- Company’s response to the COVID-19 crisis.

## 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., an indirect, wholly-owned subsidiary of Cronos Group. PEACE NATURALS™ branded medicinal cannabis products are currently sold to patients in Canada and Germany. PEACE NATURALS™ branded medicinal cannabis oils that are prescribed to patients under the SAS-B Scheme, or by an Authorised Prescriber, are now being made available through the Sigma Healthcare distribution network.

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 marked a significant milestone in the Company’s Australian medicinal cannabis operations, with the first prescriptions and sales of the products having now occurred.

## **ACQUISITION OF CONTROLLING INTEREST IN CANNADOC HEALTH PTY LTD**

On 3 February 2020, the Company announced that Medical Clinic Holdings Pty Ltd (“MCHPL”), one of its indirect, wholly-owned subsidiaries, had acquired a 51% equity interest in Cannadoc, pursuant to a Share Transfer & Shareholders Agreement (the “Agreement”) with the two founders of Cannadoc, Dr. David Feng and Kevin Brabazon (the “Founders”). Pursuant to the Agreement, MCHPL acquired its 51% economic interest in the Cannadoc business with effect from 1 January 2020.

Cannadoc operates a medical practice in Melbourne, from which a range of cannabinoid-based treatments are provided to its established patient base. Due to COVID-19, the doctors employed by Cannadoc are currently conducting all consultations via telehealth. Notwithstanding this, CAU intends to continue to work with the Founders to expand the Cannadoc business, which includes engaging additional medical practitioners and preparing for the opening of further clinics at an appropriate time.

The Founders were paid a total purchase price of \$300,000 in cash and may also receive further earn out payments on the first and second anniversaries of completion. The payments (if any) will equal 51% of 5 times the future EBITDA of Cannadoc, with \$300,000 to be deducted from the first earn out payment. In addition, the Founders received a total of one million performance rights (the “Performance Rights”) over shares in CAU which have a vesting date of 1 September 2023 and will vest if certain conditions are met as at the vesting date. If the vesting conditions are not met by the vesting date, the Performance Rights will lapse.

Cronos Australia has made available a secured loan facility of up to \$1 million to Cannadoc on commercial terms for working capital purposes and to expand the business. In addition to the loan, MCHPL contributed \$102,000 in equity to Cannadoc, with the Founders contributing \$98,000. Under the Agreement, CAU has appointed two Directors to the Cannadoc board to sit alongside the Founders.

Revenues generated by the Cannadoc business grew during each of the three months since 1 January 2020 and the Company believes that, subject to any adverse disruptions that may be caused on account of COVID-19 or other unforeseen circumstances, further growth can be achieved in the months to come.

## **RESIGNATION OF CHIEF OPERATING OFFICER**

On 7 February 2020, the Company announced that Mr. Peter Righetti had resigned from his position as Chief Operating Officer of Cronos Australia.

Pursuant to his Executive Employment Agreement, Peter is continuing to work for the Company for a period of up to 12 months from 7 February 2020 to transition his current responsibilities to other members of the Executive Team. Peter remains a Director of Cronos Australia.

## **COVID-19 RESPONSE**

On 26 March 2020, the Company released an announcement regarding its assessment of the COVID-19 situation and the potential impact it may have on the operations of CAU.

## **OTHER UPDATES**

In addition to the above activities, the Company has made progress during the quarter on other aspects of its business. Product and brand development continues with the aim of creating ranges of cannabinoid-based products for distribution and sale in Australia and certain Asian markets, subject to applicable law in such markets. In order to further progress our asset-light strategy, the Company continues to work with suppliers, manufacturers, distributors and other parties that are expected to form part the Company’s supply chain.

**APPENDIX 4C**

As detailed in the attached ASX Appendix 4C, the Company had more than \$15.8 million in cash and cash equivalents as at 31 March 2020. During the quarter, net cash flows used in operations were \$827,618, a monthly average of \$275,873, and included the Company's first cash receipts of \$44,979. Operating outflows improved quarter-on-quarter, due to the conclusion of non-recurring payments in the quarter ended 31 December 2019 relating to the Company's IPO and previous business model.

The Company's net investing outflows also included a net cash payment of \$295,694 made to acquire the Company's interest in Cannadoc, a further \$155,000 transferred to term deposits that were established as security for a new credit card facility and the Company's bond over its office in South Yarra, plus \$49,127 in fit-out costs.

Pursuant to Listing Rule 4.7C.2, the Company confirms that, in the five months since listing on the ASX, it has incurred expenditures largely in line with the Use of Proceeds set out on page 31 of its Prospectus. Due to restrictions imposed as a result of the COVID-19 pandemic, it is likely that certain business development activities, including face-to-face patient acquisition and practitioner engagement, will be delayed, reducing the rate at which funds are expected to be spent in the short term. In addition, proposed research and development activities may also be delayed.

Pursuant to Listing Rule 4.7C.3 and as disclosed in Item 6.1 of the attached Appendix 4C, \$168,517 was paid in respect of Directors' fees and consulting fees paid to Directors and entities associated with the Directors, as well as salaries and superannuation paid to, and on behalf of, executives Rodney Cocks and Peter Righetti, both of whom also serve as Directors of the Company.

Based on the Company's net cash outflows from operations for the quarter ended 31 March 2020, the Company has more than 19 quarters (representing nearly five years) of cash remaining at balance date.

Going forward, the Company's estimated net cash outflows for the next quarter ending 30 June 2020 are likely to be influenced by the impacts of the COVID-19 crisis. While the Company anticipates that it will continue to expand its operations in accordance with its overall strategy, it intends to carefully manage its existing cash reserves and make spending decisions to account for external factors as they arise.

**APPROVED BY THE BOARD OF CRONOS AUSTRALIA LIMITED**

Dated this 23<sup>rd</sup> day of April, 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 cash flow report for entities subject to Listing Rule 4.7B

Name of entity

**Cronos Australia Limited (ASX: CAU)**

ABN

**59 629 071 594**

Quarter ended ("current quarter")

**31 March 2020**

Consolidated statement of cash flows	Current quarter \$A	Year to date (nine months) \$A
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	44,979	44,979
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing, operating costs	(68,215)	(408,876)
(c) advertising and marketing	(3,000)	(3,000)
(d) leased assets	-	-
(e) staff costs	(370,190)	(1,663,720)
(f) administration and corporate costs	(509,372)	(1,826,895)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	78,180	86,706
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)	-	-
<b>1.9 Net cash from / (used in) operating activities</b>	<b>(827,618)</b>	<b>(3,790,318)</b>
<b>2. Cash flows from investing activities</b>		
2.1 Payments to acquire:		
(a) entities, net of cash on acquisition	(295,694)	(295,694)
(b) businesses	-	-
(c) property, plant and equipment	(49,127)	(50,954)
(d) investments	-	-
(e) intellectual property	-	-
(f) security deposits	(155,000)	(155,000)

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

Consolidated statement of cash flows		Current quarter \$A	Year to date (nine months) \$A
2.2	Proceeds from disposal of:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	-	-
	(d) investments	-	-
	(e) intellectual property	-	-
	(f) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	(5,355)	(16,066)
<b>2.6</b>	<b>Net cash from / (used in) investing activities</b>	<b>(505,176)</b>	<b>(517,714)</b>
<b>3.</b>	<b>Cash flows from financing activities</b>		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	20,000,000
3.2	Proceeds from issue of convertible debt securities	-	3,500,000
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	(3,092,824)
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	(500,000)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Proceeds from non-controlling interests	98,000	98,000
<b>3.10</b>	<b>Net cash from / (used in) financing activities</b>	<b>98,000</b>	<b>20,005,176</b>

Consolidated statement of cash flows		Current quarter \$A	Year to date (nine months) \$A
<b>4.</b>	<b>Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1	Cash and cash equivalents at beginning of period	17,091,617	159,679
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(827,618)	(3,790,318)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(505,176)	(517,714)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	98,000	20,005,176
4.5	Effect of movement in exchange rates on cash held	-	-
<b>4.6</b>	<b>Cash and cash equivalents at end of period</b>	<b>15,856,823</b>	<b>15,856,823</b>

<b>5.</b>	<b>Reconciliation of cash and cash equivalents</b> 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	1,106,371	1,091,365
5.2	Call deposits	14,750,000	16,000,000
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	452	252
<b>5.5</b>	<b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>15,856,823</b>	<b>17,091,617</b>

<b>6.</b>	<b>Payments to related parties of the entity and their associates</b>	Current quarter \$A
6.1	Aggregate amount of payments to related parties and their associates included in item 1	(168,517)
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-

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

**7. Financing facilities**

Note: the term "facility" includes all forms of financing arrangements available to the entity.

Add notes as necessary for an understanding of the sources of finance available to the entity.

	Total facility amount at quarter end \$A	Amount drawn at quarter end \$A
7.1 Loan facilities	1,500,000	1,500,000
7.2 Credit standby arrangements	-	-
7.3 Other – credit card facility	50,000	971
<b>7.4 Total financing facilities</b>	<b>1,550,000</b>	<b>1,500,971</b>

7.5 **Unused financing facilities available at quarter end** 49,029

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

The above loan facility was provided by Cronos Group Inc., the Company's largest shareholder. The loan, which is unsecured, is subject to interest payable at a rate of 12% p.a. and is repayable no later than 1 January 2022. The facility was fully drawn down as at 31 March 2020.

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

<b>8. Estimated cash available for future operating activities</b>	<b>\$A</b>
8.1 Net cash from / (used in) operating activities (Item 1.9)	(827,618)
8.2 Cash and cash equivalents at quarter end (Item 4.6)	15,856,823
8.3 Unused finance facilities available at quarter end (Item 7.5)	49,029
8.4 Total available funding (Item 8.2 + Item 8.3)	15,905,852
<b>8.5 Estimated quarters of funding available (Item 8.4 divided by Item 8.1)</b>	<b>19</b>

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

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

Answer: N/A

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

Answer: N/A

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

Answer: N/A



## Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Date: **23 April 2020**

Authorised: **By the Board**

## Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.