



# **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 2020**

## HIGHLIGHTS

- **First half revenues exceed total revenues for the previous financial year by more than 200%**
- **Full range of Adaya medicinal cannabis oils expected to be manufactured in Australia to AU-GMP standard by end of March 2021**
- **Adaya products available through expanded distribution channels across Australia, increasing awareness and accessibility through the Health Care Professional (“HCP”) network**
- **Medical Science Liaison (MSL) sales force recruited, covering all mainland states and territories**
- **RACGP-accredited education programs conducted to increase awareness and knowledge of medicinal cannabis for HCP network**
- **Cannadoc Health Pty Ltd consulting fees increase, as New Zealand clinic welcomes first patients**
- **First personal care consumer range, Bathing Shed, launched in certain Asian markets and Australia**

**Melbourne, Australia, 27 January 2021** – Pursuant to ASX Listing Rule 4.7C.1, Cronos Australia Limited (ASX: CAU; “Cronos Australia”, “CAU”, the “Company”), releases its Quarterly Activities Report (“Report”) covering the period from 1 October 2020 up to the date on which it is signed. The Report should be read in conjunction with the attached ASX Appendix 4C, covering the quarter ended 31 December 2020.

“The second quarter of the financial year has delivered material growth in revenues across the Company’s medicinal cannabis and clinic divisions and, following the launch of our Bathing Shed brand, revenues are now also being generated from the sale of consumer products in North Asian and Australian markets. We are pleased with the increasing number of doctors prescribing our Adaya range which we anticipate will lead to increased sales in the coming quarters and, with the planned launch of two further consumer brands, we look forward to accelerating this growth in the second half of 2021”, said CEO Rodney Cocks.

## OVERVIEW

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

- Launch of the Company’s personal care consumer range, Bathing Shed, in certain Asian markets as well as Australia, with revenues from the sale of the first product, Fresh Start, received in December.
- Results from the Company’s 2020 Annual General Meeting in which all resolutions were passed.
- Company’s ASX Appendix 4C and Quarterly Activities Report for the quarter ended 30 September 2020.

## SALES OF MEDICINAL CANNABIS PRODUCTS

The Company’s Adaya range of medicinal cannabis products, which includes five SKUs, have now been in market since 1 July 2020. During that time, unit sales of Adaya and PEACE NATURALS™ products have increased, on average, more than 53% month-on-month during each of the six months under review. The currently imported Adaya CBD 100 medicinal cannabis oil is expected to be manufactured onshore by end of March 2021. At that time, all Adaya medicinal cannabis oils are then expected to be manufactured in Australia to AU-GMP standards.

To further expand the market for Adaya products and drive growth in sales, the Company’s sales force has been increased during the quarter with the recruitment of Medical Science Liaisons (“MSLs”) based in Sydney, Brisbane and Perth, covering all mainland states and territories of Australia. The MSLs have conducted education sessions with doctors to increase awareness and understanding of the Adaya range.

## **SALES OF MEDICINAL CANNABIS PRODUCTS (cont.)**

The Company has appointed additional independent distribution partners during the quarter, providing the Company with an expanded HCP network which is becoming progressively more aware of the convenience and accessibility of Adaya products through the partners' logistics and distribution services. Cronos Australia has also engaged with service provider Praxhub Pty Ltd to provide free, online webinars and on-demand videos of RACGP-accredited education programs on medicinal cannabis to increase awareness and knowledge across the HCP network.

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

## **CANNADOC HEALTH PTY LTD MEDICINAL CANNABIS CLINIC BUSINESS**

During the December quarter, revenues generated by the Company's medicinal cannabis clinic business, Cannadoc Health, continued to grow each month, with face-to-face consultations being reintroduced as restrictions due to the COVID-19 pandemic are further relaxed. A total of four doctors now service patients at the Company's clinic in St. Kilda Road, Melbourne and via telehealth.

In recognition of opportunities to replicate the Cannadoc model in other markets, on 9 October 2020, the Company incorporated a New Zealand-based subsidiary, Cannadoc Health (NZ) Limited. This company, which is wholly-owned by Cannadoc Health Pty Ltd, has since established a clinic in Wellington, New Zealand which is being managed by Cannadoc founder, Dr. David Feng, who is currently based there. First patients have now been seen in this clinic, as revenues increase.

Further expansion of the Cannadoc operations to other cities around Australia is underway, with an early presence in Sydney having now been established, as well as potentially other cities in New Zealand.

## **LAUNCH OF BATHING SHED PERSONAL CARE CONSUMER RANGE**

On 16 December 2020, the Company announced the "soft" launch of Bathing Shed, its first personal care consumer range. The Bathing Shed range is being created by the Company's wholly-owned Hong Kong-based subsidiary Personal Care Asia Limited and is a premium hemp seed oil range being sold in North Asian personal care consumer markets, as well as in Australia.

The first product in the Bathing Shed range is Fresh Start, a solid soap for face and body, made from ingredients including Tasmanian cold-pressed hemp seed oil, sea salt and various essential oils. The first revenues from the online sale of Fresh Start have now been generated and the Company expects to launch additional skin, body and other personal cares to expand the Bathing Shed range in the first half of calendar 2021.

Bathing Shed will donate a portion of its revenue to Clean Up Australia to assist with its beach clean up programs. Bathing Shed is also launching as a carbon-neutral brand and is supporting the Mount Sandy Conservation project in South Australia with carbon offsets.

As announced, the initial launch of the Bathing Shed range was a "soft" launch, with products being available online and with select retailers in Japan, Hong Kong and Australia. A broader launch of the range is expected to occur in February 2021 to coincide with the major retail sales cycles in the above North Asian markets. Further information regarding Bathing Shed can be found at [www.bathingshed.com](http://www.bathingshed.com).

## **LAUNCH OF BATHING SHED PERSONAL CARE CONSUMER RANGE (cont.)**

In addition to Bathing Shed, development work is also underway in respect of two further ranges of personal care products which the Company expects to launch in the second half of the current financial year. Branding for these two product ranges has now been completed, with intellectual property assets, including trademarks, having also been secured in chosen markets, and early product formulation work for products in both of these ranges has now commenced.

## **CBD JOINT VENTURE**

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

## **APPENDIX 4C**

As detailed in the attached ASX Appendix 4C, the Company had more than \$12.1 million in cash and cash equivalents as at 31 December 2020 which, based on the net cash used in operating activities during the December quarter, provides the Company with 11.3 quarters, or more than two years, of funding.

Cash receipts from the sale of medicinal cannabis and consumer products and the provision of clinic services during the December quarter were \$176,872, up \$62,060, or 54%, from the corresponding figure in the September quarter.

Product, manufacturing and operating costs of \$297,143 included further purchases of medicinal cannabis products made to increase inventory levels as demand for the Company's products continues to grow. Staff costs of \$701,316 were less than the previous quarter's costs and more closely reflect the Company's ongoing obligations in respect of its personnel. Government incentive payments totalling \$32,266 were received during the quarter which are likely to be the last of such payments the Company will receive.

## **ASX LISTING RULE 4.7C**

Pursuant to **Listing Rule 4.7C.2**, the Company confirms that, in the 14-month period since listing on the ASX, it has incurred expenditures largely in line with the Use of Proceeds set out on page 31 of its Prospectus dated 15 October 2019 (the "Prospectus").

Attached as **Appendix One** is a comparison of the actual cash spent during the period from its admission to the Official List of the ASX, being 7 November 2019, to 31 December 2020, as compared to the "Use of Proceeds", as detailed on page 31 of the Prospectus.

As disclosed in the Appendix, during the above period covering almost 14 months since its IPO, the Company has spent approximately \$3.0 million less than was forecast in the Prospectus. This deficit has been caused by a combination of factors including the over estimation of certain costs associated with product development and delays resulting from the COVID-19 pandemic, the abandonment of certain cultivation-related research programs, lower than expected travel expenses due to restrictions caused by the pandemic, as well as reduced personnel costs arising from changes made to the Company's sales and business development model subsequent to the Prospectus being released.

**ASX LISTING RULE 4.7C (cont.)**

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

Pursuant to **Listing Rule 4.7C.3**, and as disclosed in Item 6.1 of the attached Appendix 4C, the Company advises that a total of \$124,200 was paid to Directors and entities associated with Directors in respect of Directors' fees, as well as salary and superannuation paid to CEO, Rodney Cocks, who also serves as a Director of the Company.

Based on the Company's net cash outflows from operations for the quarter ended 31 December 2020, Cronos Australia has approximately 11.3 quarters of cash remaining at balance date.

The Company's estimated net cash outflows for the coming quarter ending 31 March 2021 are likely to be influenced to some extent by the impacts of the COVID-19 pandemic. While the Company anticipates that it will continue to expand its operations and increase its revenues in accordance with its overall strategy, it intends to carefully manage its existing cash reserves and make spending decisions taking into account external factors as they arise.

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

Dated this 27<sup>th</sup> day of January, 2021

**Forward-looking statements**

This Report may include forward-looking statements. These forward-looking statements are based on the Company's expectations and beliefs concerning future events. Forward-looking statements are necessarily subject to risks, uncertainties and other factors, many of which are outside the control of the Company, which could cause actual results to differ materially from such statements. The Company makes no undertaking to update or revise the forward-looking statements made in this Report to reflect any change in circumstances or events after the date of this Report.

## APPENDIX ONE

Use of proceeds as detailed on page 31 of the Company's Prospectus dated 15 October 2019		Period from 7 November 2019 to 31 December 2020		Comments
Categories	Total cash to be spent	Forecast cash to be spent	Actual cash spent	
Product development	\$2,575,000	\$1,677,814	\$217,844	Costs incurred are lower than forecast and delayed due to pandemic
Business development	\$2,390,000	\$1,131,395	\$238,731	Forecast travel expenses are lower due to pandemic
Patient acquisition / practitioner engagement	\$2,355,000	\$1,120,000	\$1,445,406	Includes costs associated with the acquisition of Cannadoc Health
Brand creation, development and launch	\$2,080,000	\$1,414,556	\$1,112,862	
Contract manufacturing management	\$1,200,000	\$380,720	\$14,850	Manufacturing outsourced to third party providers
Research and development activities	\$1,190,000	\$711,455	\$221,248	Cultivation-related projects abandoned in line with business model
Licensing and regulatory costs	\$755,000	\$207,005	\$229,917	
Director remuneration	\$750,000	\$400,000	\$421,222	
Inventory of finished products, inc. distribution	\$585,000	\$614,899	\$800,892	
Working capital and administrative costs <sup>1</sup>	\$3,950,000	\$2,385,861	\$2,073,858	Includes fitout costs associated with new office premises
Outstanding cash costs of the Offer <sup>2</sup>	\$2,170,000	\$2,170,000	\$2,395,674	Additional costs relate to overruns of estimated IPO expenses
<b>Totals <sup>3</sup></b>	<b>\$20,000,000</b>	<b>\$12,213,705</b>	<b>\$9,172,504</b>	

### Notes:

1. Working capital includes corporate operations and corporate governance costs, as well as a contingency pool.
2. The total outstanding cash costs of the Offer as at the date of the Prospectus (being 15 October 2019) comprised, amongst other things, legal expenses, accounting, audit and tax advisory fees, lead manager and underwriter fees, ASIC and ASX fees, in addition to prospectus design and printing costs.
3. Amounts included in the use of proceeds table above excluded inflows from revenues, interest earned and other income. During the period from 7 November 2019, being the date of the IPO, to 31 December 2020, the Company generated a total of \$747,685 from such sources that is not reflected in the table above.

## Appendix 4C

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

Name of entity

<b>Cronos Australia Limited (ASX: CAU)</b>
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ABN

<b>59 629 071 594</b>
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Quarter ended ("current quarter")

<b>31 December 2020</b>
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Consolidated statement of cash flows	Current quarter \$A	Year to date (six months) \$A
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	176,872	291,684
1.2 Payments for		
(a) research and development	(16,392)	(38,392)
(b) product manufacturing, operating costs	(297,143)	(832,943)
(c) advertising, product and marketing	(70,836)	(80,836)
(d) leased assets	-	-
(e) staff costs	(701,316)	(1,429,926)
(f) administration and corporate costs	(230,621)	(469,420)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	33,011	34,099
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	32,266	179,064
1.8 Other (net Eligible Termination Payment)	-	(127,698)
<b>1.9 Net cash from / (used in) operating activities</b>	<b>(1,074,159)</b>	<b>(2,474,368)</b>
<b>2. Cash flows from investing activities</b>		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	-	(3,757)
(d) investments	-	-
(e) intellectual property	-	-
(f) 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) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	-	-
(d) investments	-	-
(e) intellectual property	(43,173)	(56,629)
(f) other non-current assets	-	-
2.3 Cash flows from loans to other entities	-	-
2.4 Dividends received (see note 3)	-	-
2.5 Other (chattel mortgage payments)	(2,660)	(5,320)
<b>2.6 Net cash from / (used in) investing activities</b>	<b>(45,833)</b>	<b>(65,706)</b>
<b>3. Cash flows from financing activities</b>		
3.1 Proceeds from issues of equity securities (excluding convertible debt securities)	-	-
3.2 Proceeds from issue of convertible debt securities	-	-
3.3 Proceeds from exercise of options	-	-
3.4 Transaction costs related to issues of equity securities or convertible debt securities	-	-
3.5 Proceeds from borrowings	-	-
3.6 Repayment of borrowings	-	-
3.7 Transaction costs related to loans, borrowings	-	-
3.8 Dividends paid	-	-
3.9 Other (proceeds from non-controlling interests)	-	10,000
<b>3.10 Net cash from / (used in) financing activities</b>	<b>-</b>	<b>10,000</b>



Consolidated statement of cash flows		Current quarter \$A	Year to date (six 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	13,275,861	14,685,943
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,074,159)	(2,474,368)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(45,833)	(65,706)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	-	10,000
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>12,155,869</b>	<b>12,155,869</b>

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	12,155,417	1,025,409
5.2	Call deposits	-	12,250,000
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	452	452
<b>5.5</b>	<b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>12,155,869</b>	<b>13,275,861</b>

6. Payments to related parties of the entity and their associates		Current quarter \$A
6.1	Aggregate amount of payments to related parties and their associates included in item 1	(124,200)
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-
<i>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.</i>		

<b>7. Financing facilities</b>	<b>Total facility amount at quarter end \$A</b>	<b>Amount drawn at quarter end \$A</b>
<i>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.</i>		
7.1 Loan facilities (refer item 7.6 below)	1,500,000	1,500,000
7.2 Credit standby arrangements	-	-
7.3 Other (credit cards) (refer item 7.6 below)	50,000	21,340
<b>7.4 Total financing facilities</b>	<b>1,550,000</b>	<b>1,521,340</b>
<b>7.5 Unused financing facilities available at quarter end</b>		<b>28,660</b>
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.		
<p>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 December 2020.</p> <p>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.</p>		

<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)	(1,074,159)
8.2 Cash and cash equivalents at quarter end (item 4.6)	12,155,869
8.3 Unused finance facilities available at quarter end (item 7.5)	28,660
8.4 Total available funding (item 8.2 + item 8.3)	12,184,529
<b>8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)</b>	<b>11.3</b>
<i>Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.</i>	
8.6 If item 8.5 is less than 2 quarters, please provide answers to the following questions:	
8.6.1 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: Not applicable	
8.6.2 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: Not applicable	
8.6.3 Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?	
Answer: Not applicable	
<i>Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.</i>	

## 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: **27 January 2021**

Authorised by: **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.