



CRONOS AUSTRALIA LIMITED

ABN 59 629 071 594

QUARTERLY ACTIVITIES REPORT

AND

APPENDIX 4C OF THE ASX LISTING RULES

FOR THE QUARTER ENDED

30 SEPTEMBER 2021

HIGHLIGHTS

- Cronos Australia announces planned merger with Queensland-based CDA Health Pty Ltd
- Shareholder meeting to approve merger with CDA Health expected in December 2021
- Q1 FY2022 cash receipts of \$1,131,002 exceed previous quarter by 104%
- Sales of Adaya medicinal cannabis products increase 90% over the June quarter
- Adaya product sales have increased, on average, 179% quarter-on-quarter since launch
- First revenues generated from sales of CBD-based premium personal care range, Saiph

Melbourne, Australia, 28 October 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 July 2021 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 30 September 2021.

“The first quarter of the 2022 financial year saw the Company hit several important milestones, including the landmark merger announced with CDA Health and record revenues of more than \$1.1 million generated from the sale of Adaya products, compared with \$1.2 million for the full 2021 financial year. We are excited to be joining forces with CDA Health to create a leading force in the Australian medicinal cannabis market. Under Guy Headley and Ben Jansen’s leadership, CDA has grown in its scope of operations and scale of commercial success, generating more than \$21 million and a profit in the 2021 financial year, based on audited financial statements. Concurrently, our Adaya range continues to grow, with 90% quarter-on-quarter growth since last quarter and 179% quarter-on-quarter growth since the brand was launched in mid-2020. Our Cannadoc and Asia businesses are also showing solid signs of progress, and we look forward to continuing to capitalise on our success thus far in future quarters after the merger is completed,” said CEO Rodney Cocks.

ANNOUNCEMENTS

During the period under review, the Company released the following ASX announcements:

- Recent Adaya sales progress, including more than 200% quarter-on-quarter growth since launch
- The Company’s Quarterly Activities Report and Appendix 4C for the quarter ended 30 June 2021
- The Company’s Preliminary Final Report and Appendices 4E and 4G for the year ended 30 June 2021
- Planned merger between the Company and CDA Health Pty Ltd
- Response to share price and volume query
- The Company’s Annual Report for the year ended 30 June 2021
- Further Adaya sales progress, including a 90% increase in revenues for September quarter

PLANNED MERGER WITH CDA HEALTH PTY LTD

On 14 September 2021, the Company announced it had executed a Merger Implementation Agreement to acquire 100% of the issued capital of Queensland-based medicinal cannabis company CDA Health Pty Ltd (“CDA”) (“Merger”).

PLANNED MERGER WITH CDA HEALTH PTY LTD (cont.)

The Merger is subject to customary conditions, including both the Company and CDA obtaining the required shareholder approvals. The consideration payable by the Company to the shareholders of CDA will comprise a combination of up to 439,784,283 Cronos Australia shares and up to \$5 million in cash, in aggregate. Post completion of the Merger, CDA shareholders will hold approximately 73.57% of the Company's shares (assuming that the full cash component is taken up) and 75.20% (if no cash component is taken up).

The Merger is unanimously endorsed and supported by the Company's Board, subject to no superior proposal for the Company emerging.

Established in 2018 by Guy Headley, Dr Ben Jansen, Jessimine Jansen and Dr Matua Jansen, CDA has cemented itself as an Australian market leader in the medicinal cannabis sector. CDA has seen rapid growth over the last two financial years and, based on its audited financial statements for the year ended 30 June 2021, has generated over \$21 million in revenue for that year and a profit.

The Company believes that the Merger with CDA will provide a material increase in both size and scale of its operations and a route to early profitability for the combined group. The prominent position already held by CDA in the Australian medicinal cannabis industry, when combined with the Company's existing operations and strategic opportunities, should deliver synergistic benefits for the post-Merger group where the total value exceeds the sum of its parts.

The Company is also working to prepare a notice of meeting in respect of the Company's 2021 Annual General Meeting ("AGM"). The AGM notice will contain the resolutions typically put before an AGM, together with numerous resolutions required to give effect to the Merger. In addition to the notice, the Company is finalising a prospectus, which is required in accordance with Part 6D.2 of the *Corporations Act 2001* (Cth) and which will be sent to all CDA shareholders as part of the Merger.

At this stage, the Company anticipates that the Company's 2021 AGM will be held in December 2021. Full details will be provided to the market as soon as they are available.

Further information regarding the Merger can be found in the above announcement which is available at: www.cronosaustralia.com/investors.

SALES OF MEDICINAL CANNABIS PRODUCTS

Adaya sales update

The first quarter of FY2022 saw strong revenue growth for the Company, having achieved almost the same revenue for the September quarter as it did for the entire previous financial year. Highlights include:

- 90% quarter-on-quarter revenue growth from the sale of Adaya medicinal cannabis products in the first quarter of FY2022.
- Strong growth is underpinned by a 179% average quarter-on-quarter revenue growth in the five quarters since the Adaya brand was launched in July 2020.
- Revenue from the sale of Adaya medicinal cannabis products in the first quarter of FY2022 exceeded \$1.1 million, compared with \$1.2 million for the full previous year of FY2021.

SALES OF MEDICINAL CANNABIS PRODUCTS (cont.)

Additional products added to the Adaya Range

During the September quarter, two new whole flower products were added to the Adaya range – Adaya THC 19 and Adaya THC 30. Like all Adaya products, the new products have been specifically developed based on feedback from Australian patients and healthcare professionals, with the products being:

- Australian-grown and processed;
- Australian-manufactured to GMP standards;
- Value-priced, to prioritise patient accessibility and affordability; and
- Widely available through distributors and pharmacies nationwide to ensure no stock outs, which could negatively impact patients' treatment and experience with the product.

The Adaya THC 30 whole flower product is one of the highest strength THC products currently available in the Australian medicinal cannabis market. Both Adaya whole flower products are only available by a doctor's prescription via the TGA's Special Access Scheme or from an Authorised Prescriber. Both products address a large and growing segment of healthcare professionals and patients demanding Australian-grown, THC-dominant whole flower products.

During the September quarter under review, Cronos Australia announced it intends to launch additional Adaya products in the coming months, including the new Adaya 25:25 THC:CBD-balanced Medicinal Cannabis Oil in a 50ml tincture, with an expected launch date in November 2021. This product will assist in the on-going treatment of new and established patients who require a higher strength and balanced product. Adaya 25:25 will be sold at an affordable price per milligram of active ingredient, highlighting the importance of accessibility to Adaya products for consumers.

The expanded Adaya range will then comprise the following 8 products:

- Adaya THC 30 – THC-dominant Medicinal Cannabis Whole Flower (10-gram pack)
- Adaya THC 19 – THC-dominant Medicinal Cannabis Whole Flower (10-gram pack)
- Adaya 1:25 – CBD-dominant Medicinal Cannabis Oil (30ml tincture)
- Adaya CBD 100 – CBD-only Medicinal Cannabis Oil (30ml tincture)
- Adaya 20:1 – THC-dominant Medicinal Cannabis Oil (30ml tincture)
- Adaya THC 26 – THC-only Medicinal Cannabis Oil (50ml tincture)
- Adaya 10:10 – THC:CBD-balanced Medicinal Cannabis Oil (30ml tincture)
- Adaya 25:25 – THC:CBD-balanced Medicinal Cannabis Oil (50ml tincture)

Continuing doctor engagement via Cronos Australia sponsored webinars

The Company has delivered three RACGP Praxhub (www.praxhub.com) webinars since the start of the financial year, where attendees can claim RACGP-accredited Continuing Professional Development points:

- "Sleep and the role of Medicinal Cannabis" – held on 1 September 2021
- "Medicinal Cannabis: Role in Digestive Diseases" – held on 29 September 2021
- "Medicinal Cannabis Whole Flower Masterclass" – held on 20 October 2021

A future webinar is also scheduled:

- "Cannabinoids to treat severe behavioural problems in children and adolescents with intellectual disabilities and autism" – to be held on 23 November 2021

SALES OF MEDICINAL CANNABIS PRODUCTS (cont.)

Additional webinars are planned for the second half of the financial year. Healthcare professionals can find out more information on the Adaya Medicinal Cannabis range and view all previous webinars on-demand by registering at www.adaya.co.

CANNADOC HEALTH PTY LTD MEDICINAL CANNABIS CLINIC BUSINESS

To help drive demand for the services offered by Cannadoc Health Pty Ltd, further system and process improvements were introduced during the September quarter, including streamlining patient registration and consent processes and recruiting a new doctor and nurse practitioner.

In anticipation of the planned merger with CDA Health, work has now commenced to integrate the two group's respective clinic businesses to harmonise the various back-office systems and create operational efficiencies and cost savings.

Regular engagement with General Practitioners who may be interested in having their patients use medicinal cannabis continues, with relevant education being offered by the Company's Medical Science Liaison team to drive additional referrals to the Cannadoc business. Cannadoc doctors are also supporting the Company's broader business via their participation in the various RACGP Praxhub webinars described above.

ACTIVITIES IN ASIA

Following positive media coverage in *The Weekend Australian*, sales of Bathing Shed products spiked during September, with a record number of units of Bathing Shed products sold. Further coverage of the Company's consumer products was also secured in other publications across Hong Kong and Japan, including *Marie Claire Japon*, which has helped to both increase awareness of the products and drive the execution of further distribution agreements with local partners.

The September quarter also saw the generation of the first revenues from the sale of products in the Company's range of Saiph CBD-based premium products which, for regulatory reasons, are not available for sale in Australia.

Activities planned for the coming December quarter include extended digital ad testing and expansion of the Company's social media channels, together with the official media launch in Japan of the Saiph range of products and further development of the Company's three consumer websites to further drive demand.

CBD JOINT VENTURE

The Company continued to make progress during the quarter in the development of CBD-based products as part of its Joint Venture with partner, A&S Branding Pty Ltd. Product formulations and the branding of the new range are now complete and samples are being refined in conjunction with the manufacturer. Work also continues with third parties, including CDA Health Pty Ltd ahead of the planned merger, in respect of the preparation of a dossier for the TGA to support a Schedule 3 registration of the products.

ASX APPENDIX 4C

As detailed in the attached ASX Appendix 4C, the Company had approximately \$8.4 million in cash and cash equivalents as at 30 September 2021 which, based on the net cash used in operating activities during the September quarter, provides the Company with almost 10 quarters of funding.

Total cash receipts from the sale of medicinal cannabis and consumer products and the provision of clinic services during the September quarter were \$1,131,002, up \$575,860, or 104%, from the corresponding figure in the June quarter. As a result, the net cash used in operating activities during the current quarter of \$774,607 was a pleasing \$630,867, or 45%, less than the corresponding figure in the June quarter.

In response to the Company's growing sales, product manufacturing and operating costs of \$661,923 included further material purchases of medicinal cannabis and consumer products to increase inventory levels, as demand for the Company's products continues to grow.

Cash costs amounting to \$254,839, relating primarily to legal and expert's fees, were also incurred during the September quarter in relation to the planned merger between the Company and CDA Health Pty Ltd. These costs have been capitalised in the Company's balance sheet and will be offset against the equity to be issued by the Company as part of the transaction.

ASX LISTING RULE 4.7C

Pursuant to **Listing Rule 4.7C.2**, the Company confirms (subject to the comments made below), that during the nearly 23-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 30 September 2021, 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 23 months since its IPO, the Company has spent approximately \$2.9 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, 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, reduced personnel costs arising from changes made to the Company's sales and business development model subsequent to the Prospectus being released, together with ongoing cost containment strategies.

Pursuant to **Listing Rule 4.7C.3**, and as disclosed in Item 6.1 of the attached Appendix 4C, the Company advises that during the September quarter a total of \$176,777 was paid to Directors and entities associated with Directors in respect of Directors' fees, as well as salary, a bonus and superannuation paid to CEO, Rodney Cocks, who also serves as a Director of the Company.

Going forward, as mentioned in the previous Quarterly Activities Report, while restrictions relating to the COVID-19 pandemic appear to be gradually easing, it is likely that certain business development activities, including regular face-to-face doctor acquisition activities and practitioner engagement, as well as travel to overseas destinations, are likely to continue to be delayed, reducing the rate at which expenditure is likely to be spent in the short to medium term.

ASX LISTING RULE 4.7C (cont.)

Notwithstanding the above, and as described elsewhere in this Report, the Company has announced a planned merger with CDA Health Pty Ltd (“CDA”), which is expected to be completed prior to the end of the 2021 calendar year. To the extent that this transaction occurs, the combined group’s ASX Appendix 4C for the quarter ending 31 December 2021, which will include certain financial results for CDA, is likely to look considerably different to the Appendix 4C that accompanies this Report.

As a result, the Company’s estimated net cash outflows for the quarter ending 31 December 2021 are likely to increase significantly as the activities of CDA are included. While such an increase in costs is in accordance with the group’s overall strategy, the Company intends to carefully manage its existing cash reserves and make strategic spending decisions taking into account external factors as they arise.

APPROVED BY THE BOARD OF CRONOS AUSTRALIA LIMITED

Dated this 28th day of October, 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 30 September 2021		Comments
Categories	Total cash to be spent	Forecast cash to be spent	Actual cash spent	
Product development	\$2,575,000	\$2,365,272	\$279,527	Costs incurred are lower than forecast and delayed due to pandemic
Business development	\$2,390,000	\$1,854,747	\$859,455	Includes costs incurred exploring business opportunities
Patient acquisition / practitioner engagement	\$2,355,000	\$1,915,000	\$2,733,499	Includes costs associated with the acquisition of Cannadoc Health
Brand creation, development and launch	\$2,080,000	\$1,926,266	\$1,513,093	
Contract manufacturing management	\$1,200,000	\$429,684	\$14,850	Manufacturing outsourced to third party suppliers
Research and development activities	\$1,190,000	\$859,877	\$254,665	Cultivation-related projects abandoned in line with business model
Licensing and regulatory costs	\$755,000	\$438,585	\$316,428	
Director remuneration	\$750,000	\$628,513	\$652,906	
Inventory of finished products, inc. distribution	\$585,000	\$1,245,677	\$2,527,362	Additional inventories purchased to meet forecast future sales
Working capital and administrative costs ¹	\$3,950,000	\$4,062,377	\$3,451,772	Includes fitout costs associated with South Yarra office premises
Outstanding cash costs of the Offer ²	\$2,170,000	\$2,170,000	\$2,395,674	Additional costs relate to overruns of estimated IPO expenses
Totals ³	\$20,000,000	\$17,895,998	\$14,999,231	

Notes:

- Forecast working capital included corporate operations and corporate governance costs, as well as a contingency pool.
- 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.
- 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 30 September 2021, the Company generated a total of \$2,850,161 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
Cronos Australia Limited (ASX: CAU)
ABN
59 629 071 594
Quarter ended ("current quarter")
30 September 2021

Consolidated statement of cash flows	Current quarter \$A	Year to date (three months) \$A
1. Cash flows from operating activities		
1.1 Receipts from customers	1,131,002	1,131,002
1.2 Payments for		
(a) research and development	(13,171)	(13,171)
(b) product manufacturing, operating costs	(661,923)	(661,923)
(c) advertising, product and marketing	(35,974)	(35,974)
(d) leased assets	-	-
(e) staff costs	(966,787)	(966,787)
(f) administration and corporate costs	(230,317)	(230,317)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	2,563	2,563
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other	-	-
1.9 Net cash from / (used in) operating activities	(774,607)	(774,607)
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities (further interest in subsidiary)	-	-
(b) businesses	-	-
(c) property, plant and equipment	(5,231)	(5,231)
(d) investments	-	-
(e) intellectual property	(885)	(885)
(f) security deposits	-	-

Consolidated statement of cash flows	Current quarter \$A	Year to date (three 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 (chattel mortgage payments)	-	-
2.6 Net cash from / (used in) investing activities	(6,116)	(6,116)
3. Cash flows from financing activities		
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 as part of CDA Health merger	(254,839)	(254,839)
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)	-	-
3.10 Net cash from / (used in) financing activities	(254,839)	(254,839)

Consolidated statement of cash flows		Current quarter \$A	Year to date (three months) \$A
4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	9,467,175	9,467,175
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(774,607)	(774,607)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(6,116)	(6,116)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(254,839)	(254,839)
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	8,431,613	8,431,613

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	8,431,161	9,466,723
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	452	452
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	8,431,613	9,467,175

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	(176,777)
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 <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>	Total facility amount at quarter end \$A	Amount drawn at quarter end \$A
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	14,134
7.4 Total financing facilities	1,550,000	1,514,134
7.5 Unused financing facilities available at quarter end		35,866
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 30 June 2021.</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>	

8. Estimated cash available for future operating activities	\$A
8.1 Net cash from / (used in) operating activities (item 1.9)	(774,607)
8.2 Cash and cash equivalents at quarter end (item 4.6)	8,431,613
8.3 Unused finance facilities available at quarter end (item 7.5)	35,866
8.4 Total available funding (item 8.2 + item 8.3)	7,692,872
8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)	9.9
<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: **28 October 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.