



MEDICINAL CANNABIS CLINICS

Adaya

MEDICINAL CANNABIS PRODUCTS

2021 ANNUAL REPORT

FCTR

CBD-BASED RECOVERY PRODUCTS

SAIPH

CBD-BASED PREMIUM PRODUCTS

A growing portfolio of unique cannabinoid brands

 **BATHING SHED**

CLEAN, PERSONAL CARE PRODUCTS

CRONOS
AUSTRALIA

FOR THE YEAR ENDED 30 JUNE 2021

CRONOS AUSTRALIA LIMITED
ABN 59 629 071 594

FCTR and Saiph are consumer brands currently sold in Hong Kong and Japan only. For regulatory reasons, FCTR and Saiph products are not sold in Australia.

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Important Disclaimer

Nothing contained in this Annual Report should be construed as inducement by Cronos Australia Limited and its affiliates to use its, or any other, Medicinal Cannabis products, or to seek medical treatment that includes medicinal cannabis therapy. Medicinal Cannabis products are unregistered drugs in Australia. Medicinal Cannabis products are not effective for everyone. If you believe that Medicinal Cannabis products may be an appropriate treatment option for you, please discuss this with a suitably qualified medical advisor. How a Medicinal Cannabis product affects a person and is metabolised is contingent on many things including: physical condition, size, weight, age and health, dosage, other medications being taken, as well as tolerance. Medicinal Cannabis as a medical therapy in Australia is regulated by the Therapeutic Goods Administration and further details about Medicinal Cannabis can be found on its website.

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Cronos Australia Limited

2021 Annual Report

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The vision of Cronos Australia is to become a leading health and wellness company in the Asia Pacific region through the development and distribution of premium cannabinoid products.



Cronos Australia Limited
ABN 59 629 071 594
ASX: CAU



Founding Member
Founding Board Member

Letter from Chairman and Chief Executive Officer

Dear Shareholders,

Despite the continuing challenges caused by the ongoing COVID-19 pandemic, Cronos Australia made considerable progress across all areas of its business during the 2021 financial year, being the first full year since the Company listed on the ASX in November 2019. The Company's strategy of developing and commercialising a portfolio of proprietary cannabinoid brands has been realised, with five such brands comprising 15 separate products and services now in market and selling across Australia, Japan and Hong Kong.

This strategy has seen the Company focus its efforts and resources on becoming a downstream player in the Australian medicinal cannabis industry, with an emphasis on brand and product creation and the associated sales, marketing and distribution activities, using inputs sourced from a variety of quality third-party suppliers. The strategy, which is based on three distinct, but importantly interrelated, pillars provides Cronos Australia with a diversified portfolio of businesses that reduces execution risk while at the same time maximising opportunities in a number of global markets, that we expect will expand over time as the business grows.

In early July 2020, the Company launched its first proprietary brand, the Adaya range of medicinal cannabis products. The Adaya range was added to supplement the PEACE NATURALS™ range of medicinal cannabis oils that the Company was already distributing in Australia on behalf of its major shareholder, Cronos Group Inc. The Adaya range, which was launched with two initial products, has since been expanded to include seven products, all designed to address the clinical needs and preferences of the growing patient base. Importantly, the majority of Adaya products are Australian-grown and processed, manufactured to Australian GMP standards and are competitively priced, providing patients with increased access to value-based medicinal cannabis treatment options.

Pleasingly, revenues from the sale of Adaya products increased on a quarter-on-quarter basis by an average of more than 200% during the twelve months since the range was launched, with early sales achieved in the 2022 financial year already looking very encouraging. Importantly, the full range of Adaya products is widely available through distributors and pharmacies nationwide to ensure no stock outs, which would negatively impact a patient's experience with the brand. To expand the market for Adaya products and drive further growth in sales, logistics arrangements were improved during the year and the Company's sales force expanded with the recruitment of Medical Science Liaisons who now cover all mainland states and territories of Australia. As a result of these activities, a significant number of doctors have since registered to become Authorised Prescribers of the Company's Adaya products, helping to increase both the adoption of the brand and the prescription of products further.

The 2021 financial year saw Cronos Australia increase its ownership stake in its medical clinic business, operated by Cannadoc Health Pty. Ltd. ("Cannadoc"). Having acquired its initial 51% equity interest in Cannadoc in February 2020, the Group paid \$101,000 during the year to acquire a further 24.5% interest in the company, taking the Group's total interest in Cannadoc at year end to 75.5%. Revenues generated by the Cannadoc business during the 2021 financial year increased by a pleasing \$359,531, or 320%, over the figure for the prior year, with the total number of patients seen by the clinic also increasing and the average revenues generated per consultation steadily rising as well.

In response to challenges resulting from the COVID-19 pandemic, the Cannadoc business transitioned its operations away from traditional, face-to-face consultations to a telehealth-based model, such that these consultations now represent more than 95% of the total number of consultations conducted by the business. Also during the year, additional doctors and support nurses were recruited and various system and process improvements were introduced to provide a better patient experience. In the coming year, Cannadoc will continue to build on its strong relationships with pharmacies and medical practitioners to provide the best possible service to its patients, in both Australia and New Zealand.



“We are confident that existing Cronos Australia shareholders will benefit from the significant market share held by CDA and the profitable businesses it already operates. In addition, the current multinational medicinal cannabis products, clinic and consumer operations, public markets and corporate experience that Cronos Australia brings to the combined group will greatly assist with the expansion of the operations of both businesses and maximise the opportunities available to them, all with the aim of delivering increased shareholder value for all post-Completion shareholders in the Company.”

Shane Tanner and Rodney Cocks

Despite various delays caused by the pandemic, our Consumer business also made considerable progress during the 2021 financial year, with three distinct ranges of consumer products established and now selling. While the revenues generated in 2021 from the sale of these products was modest due to the delays, it is anticipated that sales will increase quickly during 2022 as further distribution partners are secured and marketing and promotional activities increase, particularly in the lucrative Asian markets of Japan and Hong Kong. To support these activities, the Company has established a cost-effective, physical presence in each of these markets.

The first of our new consumer brands, Bathing Shed, was launched in December 2020 and is a range of premium hemp seed oil products now being sold in North Asian personal care consumer markets, and in Australia. The first product in the Bathing Shed range was 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 Bathing Shed range was subsequently expanded in June 2021 with the addition of two new products: Clean Hands No. 1, a refreshing gel cleanser which gently exfoliates the skin and has the ability to detoxify, heal, cleanse, gently exfoliate and lock in moisture; and Soft Hands No. 1, a gel moisturiser which hydrates the skin and may have anti-inflammatory and antioxidant effects. All three products in the Bathing Shed range are now being sold in Japan and Hong Kong, as well as in Australia, through distributors, retailers and via www.bathingshed.com.

Our second consumer brand, FCTR (pronounced “factor”) is a CBD-based performance range which we launched in April 2021 and is now being sold in Hong Kong and Japan. For regulatory reasons, FCTR’s CBD-based consumer products are not yet available for sale in Australia. The FCTR range, which currently contains two products called FCTR Warm Gel and FCTR Cool Gel, is a new performance brand and is designed to be a recovery partner for a wide range of athletes. Distribution partners in both Hong Kong and Japan have now been appointed and e-commerce sales, via www.getfctr.com, of both FCTR products have commenced in these important markets.

In June 2021, we announced the launch of our Saiph brand of CBD premium personal care products. Saiph is the Company’s third consumer brand and, as with FCTR, is being sold in Hong Kong and Japan and is not yet available for sale in Australia. Saiph is a sophisticated CBD personal care brand formulated for sensitive skin and, like FCTR, was initially launched with two products: Ablution, a gentle gel CBD cleanser; and Tranquillity, a protective CBD moisturiser. Both products are made in Japan and are free from parabens, mineral oils, palm oil, silicone, sulphates, alcohols, synthetic fragrances, synthetic colours and chelating agents which can irritate and dehydrate the skin. Marketing collateral for the Saiph range is currently being finalised ahead of a formal media launch and discussions with distribution and retail partners have commenced as well as the e-commerce platform built out at www.saiphlife.com.

Inventories of products in all three of the Company’s consumer ranges have now been purchased in anticipation of growing sales in 2022, as the consumer division focuses on creating demand for its products through consistent and cost-effective awareness and purchasing campaigns and supporting existing wholesale distribution relationships, while adding new distribution and retail partners for each brand in each core market.

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Also on the consumer front, the Company continued to work with its 50:50 joint venture partner, A&S Branding Pty. Ltd. (a company established by two of the founders of the successful Sukin skincare brand, Alison Goodger and Simon O'Connor, which was later sold to ASX-listed BWX), to develop a range of CBD-based products for the Australian and export markets (subject to prevailing legislation in each market). Branding for the new range of products is now complete and product formulation work and stability testing is well advanced. The preparation of a dossier that will be required to secure registration of the final products as a Schedule 3 product is also underway.

More recently, in mid-September 2021, Cronos Australia announced that it entered into a binding agreement to acquire 100% of the issued share capital of Queensland-based medicinal cannabis company CDA Health Pty. Ltd. ("CDA") ("Merger"). This exciting transaction, once complete, will provide the Company with a material increase in both size and scale of its operations and, we anticipate, a route to early profitability for the combined group. The consideration payable by the Company to CDA shareholders will comprise a combination of Cronos Australia shares and up to \$5 million in cash, with CDA shareholders holding approximately 73.7% of the shares in Cronos Australia on completion of the Merger, assuming that the full cash component is paid. At the current share price of approximately 17 cents, the combined entity is expected to have a market capitalisation at completion in excess of \$90 million.

CDA has experienced rapid growth over the last two financial years, generating more than \$21 million in sales in FY2021 while at the same time generating a profit. Further, CDA, which is already a major distributor of the Company's Adaya range of products, also owns a number of well-established brands which hold prominent positions in the Australian medicinal cannabis industry. These brands, together with the Company's existing portfolio of brands, should deliver a number of important synergistic benefits for the integrated group where we believe the combined value exceeds the sum of its parts. Full details regarding the Merger are set out on pages 8 to 14 of this Annual Report. The next steps required to complete the Merger include the drafting of a Prospectus that will be provided to all CDA shareholders and notices for the meetings of both Cronos Australia and CDA shareholders at which approval for the transaction, amongst other things, will be sought. At this stage, we are working hard towards completing the transaction by the end of November this year.

Going forward, we are confident that existing Cronos Australia shareholders will benefit from the significant market share held by CDA and the profitable businesses it already operates. In addition, the current multinational medicinal cannabis products, clinic and consumer operations, public markets and corporate experience that Cronos Australia brings to the combined group will greatly assist with the expansion of the operations of both businesses and maximise the opportunities available to them, all with the aim of delivering increased shareholder value for all post-Completion shareholders in the Company. We very much look forward to joining forces with the CDA team soon and working closely with them to create a market leader in the Australian medicinal cannabis space in the coming months and years.

Once again, we would like to thank our dedicated team for their hard work and resolve during the year. While the 2021 financial year has seen the Company pass a number of important milestones and achieve many of its strategic goals, we are confident that the 2022 financial year will see the expanded group, incorporating the CDA businesses, deliver even greater growth and penetration of a number of key markets.

Finally, we would like to thank the Board, and in particular those four Directors, Anna Burke AO, Daniel Abrahams, Mike Gorenstein and Jason Adler who will be stepping down from the Board following the completion of the CDA Merger, for its guidance and counsel throughout the year and the shareholders and key suppliers for their ongoing support of the Company.



SHANE F. TANNER
Chairman



RODNEY D. COCKS CSM
Chief Executive Officer

Highlights and Timeline

HIGHLIGHTS

The Cronos Australia journey continued at pace during its first full financial year since listing on ASX.

Significant increase in total revenue

Average quarter-on-quarter revenue growth in 2021 exceeded 300%

Expanding portfolio of consumer brands

Three unique and proprietary brands established and selling in three global markets

Awareness of Cannadoc services grows

Telehealth consultations now treating patients across Australia and in New Zealand

Rapid growth in total unit sales

More than 11,500 units of medical cannabis sold in first year alone

Nationwide sales coverage

Suppliers and Cronos Australia sales employees now servicing all of mainland Australia

Schedule 3 registration process underway

Trials and dossier preparation progressing to register product/s on ARTG

Expanding medicinal cannabis products

Adaya range now comprises seven products, with more due to be launched in FY2022

Global expansion continuing

Distribution and retail partners appointed in Hong Kong and Japan with more to follow

Cash burn contained and falling

Net cash outflows declining, despite significant expansion of operations

TIMELINE

The chronology of key events during FY2021 can be represented as follows:

Jul/20

Adaya range of medicinal cannabis products launched in Australia.



Oct/20

Cannadoc Health establishes New Zealand operations.



July 2020

Cronos Australia establishes Japanese operations.

October 2020

December 2020

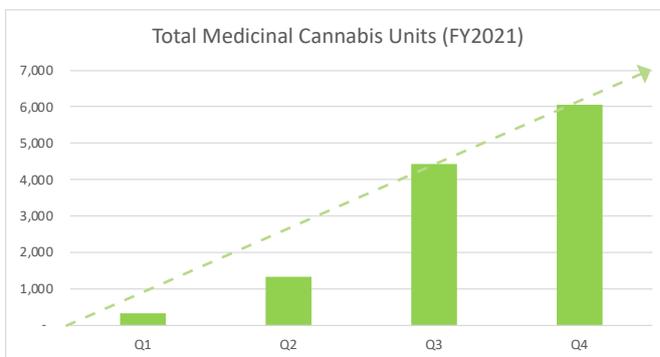
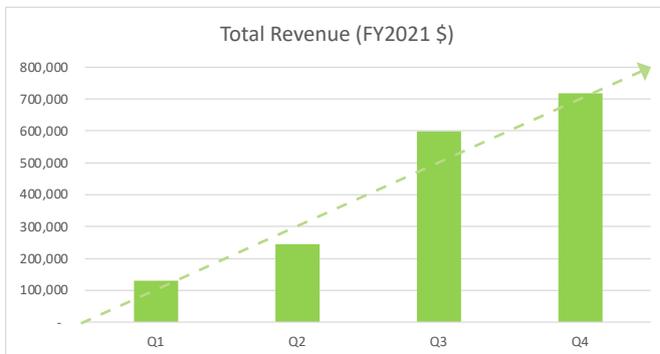
Dec/20

Bathing Shed range of products launched in Australia, Hong Kong and Japan.



BATHING SHED

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“Our first full year since listing on ASX has seen Cronos Australia achieve considerable progress across all areas of its business, building a solid foundation for further expansion and growth in 2022.”

Shane Tanner and Rodney Cocks

Feb/21

Cronos Australia acquires a further 24.5% interest in Cannadoc Health.

Jun/21

Saiph range of products launched in Hong Kong and Japan.

SAIPH

Sep/21

Cronos Australia announces planned merger with CDA Health Pty. Ltd. (refer pages 8 to 14)

CDA
HEALTH

February 2021

April 2021

June 2021

August 2021

September 2021

Apr/21

FCTR range of products launched in Hong Kong and Japan.

Bathing Shed range expanded with Clean Hands No. 1 and Soft Hands No. 1.

Aug/21

Cronos Australia announces 1,200+% year-on-year increase in revenues.

FCTR

Merger with CDA Health Pty. Ltd.

On 14 September 2021, Cronos Australia Limited (“Cronos Australia” or the “Company”) announced that it had executed a Merger Implementation Agreement (“MIA”) to acquire 100% of the issued share capital of Queensland-based medicinal cannabis company CDA Health Pty. Ltd. (“CDA”) (“Merger”), subject to customary conditions including both Cronos Australia and CDA obtaining the required shareholder approvals. The consideration payable by the Company to CDA shareholders will comprise a combination of Cronos Australia shares and cash, with CDA shareholders holding approximately 73.7% of the shares in Cronos Australia on completion of the Merger (“Completion”), assuming that the full cash component is paid.



CDA IS A CURRENT MARKET LEADER

Founded 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 generating over \$21 million in sales for FY2021 while at the same time generating a profit.

CDA operates across various segments of the medicinal cannabis industry:

- **Nationwide wholesale distribution of medicinal cannabis products – BHC’s CanView**

CDA’s wholly-owned subsidiary Burleigh Heads Cannabis Pty. Ltd. (“BHC”) operates a successful pharmacy and doctor online portal called “CanView” which distributes over 120 different product SKUs within Australia from some of the most well-known international and domestic producers, including the Adaya range of products. Since launching CanView in June 2020, BHC has opened 2,169 pharmacy wholesale accounts and registered 565 doctor accounts to the platform, resulting in 194,561 medicinal cannabis products having been sold in the same period, 78% of which have been sold in 2021, amounting to close to 400,000 units on an annualised basis given the current monthly sales rate.



- **Medicinal Cannabis Clinics – CDA Clinics**

CDA, via its subsidiary Cannabis Doctors Australia Pty. Ltd. (“CDA Clinics”), operates a successful network of clinics on the Gold Coast, Brisbane and Sunshine Coast, in addition to nationwide telehealth services. CDA also operates Cannabis Doctors Aotearoa Ltd., which imports medicinal cannabis products prescribed by doctors in New Zealand. Since launching in 2018, CDA Clinics has developed into one of the most well-established medicinal cannabis clinic brands in Australia. During the 2021 financial year, the clinics completed more than 30,000 consultations with CDA’s medical practitioners.



- **Hemp-based foods – Healthy Not High**

CDA also owns Healthy Not High Pty. Ltd., a hemp food business operating in Australia.

The competitive landscape in which CDA operates has seen many new entrants emerge in the last couple of years, however CDA’s established industry relationships and continued innovation has enabled CDA to remain a leader in the space. Over the next 12 months, CDA will continue to pursue growth of its business and to focus further on product development, in-house clinical trials for Schedule 3 over-the-counter products and supply chain technological advancements.



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“The merger with CDA Health is another key milestone achieved by Cronos Australia since its IPO in late 2019. This transaction should propel the integrated business to a position of market leadership in Australia and position it for sustainable, profitable growth. We look forward to Guy Headley, Dr. Ben Jansen and Dr. Marcia Walker joining the Company’s board, in addition to Cronos Group’s President and CEO Kurt Schmidt, who brings a wealth of experience to the team.”

Shane Tanner and Rodney Cocks

WHY THE MERGER IS ATTRACTIVE TO CRONOS AUSTRALIA

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

Post-Completion, existing Cronos Australia shareholders will benefit from the significant market share held by CDA and the profitable businesses it operates. The current multinational medicinal cannabis products, clinic and consumer operations, public markets and corporate experience, all offered by Cronos Australia, will assist with the expansion of the operations of both businesses and maximise the opportunities available to them, with the aim of delivering increased shareholder value for all post-Completion shareholders in the Company.

Post-Completion, Cronos Australia will also continue to benefit from its strong relationship with current major shareholder, Cronos Group Inc. (NASDAQ: CRON, TSX: CRON, “Cronos Group”), a global leader in the cannabis industry. This relationship is unique amongst the Australian listed medicinal cannabis players. Cronos Group’s President and CEO, Kurt Schmidt, will sit on the Cronos Australia board post-Completion.

THE KEY TERMS OF THE MERGER

Pursuant to the MIA, the Company has agreed to acquire all of the shares in CDA from its existing shareholders in consideration for the issue of Cronos Australia shares to CDA’s shareholders and the payment of cash (subject to the satisfaction of certain conditions precedent). The cash amount payable is subject to a maximum of \$5 million.

A summary of the key terms of the Merger is as follows:

- Cronos Australia will offer a total of up to 439,784,282 fully paid ordinary shares (“Consideration Shares”) to CDA’s shareholders to acquire 100% of the issued capital of CDA.
- CDA shareholders will be offered 21.534 Cronos Australia shares for every 1 CDA share held by them two business days before the Completion date.
- The Consideration Shares (as well as certain incentive securities to be granted by Cronos Australia) will be offered to CDA shareholders under a prospectus to be prepared in accordance with Part 6D.2 of the *Corporations Act 2001* and lodged with the Australian Securities and Investments Commission (“Prospectus”) and an associated Share Purchase Deed.
- The maximum number of Consideration Shares to be issued by Cronos Australia will be reduced to the extent that certain CDA shareholders elect to take a portion of the consideration payable by Cronos Australia in cash.
- Cronos Australia has agreed to pay up to \$5 million of the total consideration payable in cash (at an effective deemed value of \$0.138 per Consideration Share).
- Following Completion, CDA shareholders will own between 75.3% (if no cash was elected) and fall to 73.7% (if the full \$5 million is taken up in cash) of the issued share capital in Cronos Australia.

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CDA
CLINICS



“We are looking forward to joining forces with the Cronos Australia team to create a market leader in the Australian listed medicinal cannabis space. Since founding CDA in 2018, we have established a successful medicinal cannabis business with our exceptional team and supported by our shareholders. The integrated Cronos Australia and CDA business will allow us to take the company to the next level of growth, both in Australia and offshore.”

Guy Headley and Dr. Ben Jansen, CDA founders

In addition to entering into the MIA with CDA, the three largest CDA shareholders (who currently own roughly 78.9% of the shares in CDA) will enter into a Share Purchase Deed with Cronos Australia, pursuant to which Cronos Australia will agree to acquire the shares in CDA held by those shareholders subject to the satisfaction of the conditions precedent in the MIA. The offer will also be extended to all CDA shareholders under the Prospectus and CDA shareholders will be able to elect whether to receive Cronos Australia shares and/or cash.

CDA has more than 500 shareholders at present. To the extent that all CDA shareholders do not accept the offer, in accordance with its constitution, the major shareholders of CDA may exercise their rights to drag the remaining minority shareholders' shares in CDA (who collectively hold 21.1% of the shares on issue in CDA) into the Merger on the same terms as the other shareholders.

The parties have agreed under the MIA that, upon Completion, Cronos Australia's board will be restructured as set out below and that the merged group will remain listed on ASX under the Cronos Australia name, with the various businesses continuing to operate under their existing trading names.

THE KEY CONDITIONS OF THE MERGER

Key customary conditions to the implementation of the Merger include:

- (a) approval by Cronos Australia shareholders of resolutions set out in a Notice of Meeting to be prepared, including to:
 - (i) approve the issue of the Consideration Shares;
 - (ii) approve the issue of 15,176,065 Cronos Australia shares to Cronos Group Inc. (or its nominee) upon the conversion of its existing loan to a wholly-owned subsidiary of Cronos Australia;
 - (iii) appoint Guy Headley, Dr. Benjamin Jansen, Dr. Marcia Walker and Kurt Schmidt as directors of Cronos Australia; and
 - (iv) approve the issue of performance rights and options to existing and future directors and senior executives of Cronos Australia, to current Cronos Australia employees and to existing CDA employees (who will become employees of the merged group);
- (b) approval of the amendment of the CDA constitution by CDA's shareholders in order to facilitate the Merger;
- (c) amending the intellectual property licence agreement between Cronos Group and a wholly-owned subsidiary of the Company on terms agreed by the parties thereto;
- (d) conversion of the existing loan from Cronos Group to a wholly-owned subsidiary of the Company into Cronos Australia shares (at an effective conversion price of \$0.138 per Cronos Australia share); and
- (e) other conditions customary for a transaction of this nature.

The MIA includes reciprocal exclusivity arrangements (including non-solicitation and no-talk restrictions and notification obligations) and break fees apply to both parties. The exclusivity mechanisms are subject to customary exceptions that enable either party's directors to comply with their fiduciary and/or statutory duties.

COMPOSITION OF BOARD AND MANAGEMENT POST-MERGER

Post-Completion, Shane Tanner will continue as Cronos Australia's Independent Chairman and Rodney Cocks will remain as the Company's Executive Director and Chief Executive Officer. Thomas Howitt will continue as Chief Financial Officer and Company Secretary of the merged group.

Subject to and with effect from Completion, CDA is entitled to appoint three directors to the board of Cronos Australia. CDA has nominated Guy Headley, Dr. Ben Jansen and Dr. Marcia Walker who will be put forward for election at the general meeting of shareholders expected to take place in late November 2021. Cronos Group CEO, Kurt Schmidt, will also be appointed to the board of Cronos Australia at that time.

Current Directors Michael Gorenstein, Jason Adler, Daniel Abrahams and Anna Burke AO have each agreed to resign as Directors of Cronos Australia with effect from Completion. The Directors who are resigning are in unanimous support of the Merger.

Shareholder approval for the appointment of the four new directors, details of whom are provided below, will be sought at the Cronos Australia general meeting.

- **Guy Headley – Non-Independent Executive Director**

Guy has worked in the Australian Medicinal Cannabis space since 2016. He is a founding director of CDA Health and has acted as a director of BHC over the last four years. He brings a wealth of knowledge regarding medicinal cannabis distribution and compliance in the heavily regulated industry. Prior to working in the cannabis space, Guy spent 15+ years in the construction and development sector overseeing the procurement and management of multimillion dollar projects across New Zealand, Australia and the United Kingdom.

- **Dr. Benjamin Jansen – Non-Independent Executive Director**

As a founding Director of CDA Health and Cannabis Doctors Australia, Dr. Jansen has played a key role in advancing and advocating access and education for Medicinal Cannabis patients within Australia and New Zealand. Dr. Jansen is arguably Australia's most experienced medicinal cannabis clinician, having been directly involved with the treatment of thousands of patients. Dr. Jansen is a Fellow of both the Royal Australian and Royal New Zealand College of General Practitioners, and a Fellow of the Royal New Zealand College of Urgent Care Physicians. He received a Bachelors degree of Medicine, a Bachelors degree of Surgery, a Bachelors degree of Human Biology, and a Post Graduate Diploma in Community Emergency Medicine from the University of Auckland. He also received a Post Graduate Diploma in Sports Medicine from the University of Otago, New Zealand. Dr. Jansen was also a founder of BHC and served as a director of BHC.

- **Dr. Marcia Walker – Independent Non-Executive Director**

Dr. Walker brings significant experience in Medical Governance. She currently serves as a board member of the New Zealand Medical Association, a member of the General Practitioner Council of the NZMA, a member of the Medicines Classifications Committee for the Ministry of Health NZ. She also acts as a Medical Examiner for the Royal New Zealand College of General Practitioners. Previously, Dr. Walker acted as a Medical Advisor to the Rua BioScience (formerly Hikurangi Hemp Company) and Treasurer for the New Zealand Resident Doctors Association. She received a Bachelor of Medicine and a Bachelor of Surgery/Chirurgery from the University of Auckland and is a fellow of the Royal New Zealand College of General Practitioners. Dr. Walker also acts as the Medical Director of both the Manly Medical Centre and The Cosmetic Clinic NZ.

- **Kurt Schmidt – Non-Independent Non-Executive Director**

Kurt Schmidt serves as Cronos Group's President and Chief Executive Officer. Before joining Cronos Group, Kurt served as director and Chief Executive Officer of Blue Buffalo Company, Ltd. from 2012 through 2016. Prior to joining Blue Buffalo, Kurt was Deputy Executive Vice President at Nestlé S.A., where he was responsible for Nestlé Nutrition. Kurt joined Nestlé in 2007 as part of its acquisition of Gerber Products from Novartis, where he was the President and Chief Executive Officer of Gerber Products Company from 2004 to 2007. Prior to Gerber, Kurt held a variety of leadership roles at Kraft Foods, Inc. Kurt currently serves on the board of directors of Campbell Soup Company. He received a Bachelor of Science in Chemistry from the United States Naval Academy and a Master of Business Administration (MBA) from the University of Chicago.

In addition to the above appointments, Guy Headley will become Chief Commercial Officer of Cronos Australia, Dr. Benjamin Jansen will become Chief Medical Officer of Cronos Australia and Jessimine Jansen will become Chief Operating Officer of Cronos Australia and no redundancies are anticipated to occur as a result of the Merger.

FINANCIAL SUMMARY OF THE PROPOSED TRANSACTION

The table below sets out the indicative impact of the Proposed Transaction based on financial information for the year ended 30 June 2021 (FY2021) before any adjustments to reflect the combination of the groups e.g., transactions between the respective parties, differences in accounting policies, the recognition of goodwill etc.:

Measure	Cronos Australia	CDA	Merged Group
Total assets	\$12,688,076	\$8,707,761	\$21,395,837
Total equity	\$9,222,430	\$3,767,186	\$12,989,616
Revenue	\$1,692,840	\$21,724,241	\$23,417,081
EBITDA	\$(3,927,493)	\$2,206,026	\$(1,721,467)

EFFECT ON CAPITAL STRUCTURE

The following table shows the anticipated capital structure of Cronos Australia on Completion, and on a fully diluted basis, assuming that the full \$5 million of cash being offered as part consideration is paid out:

Type of Cronos Australia Security Holder	Before Completion (undiluted)		Before Completion (on a fully diluted basis)		After Completion (undiluted)		After Completion (on a fully diluted basis)	
	No. of Shares	% of total no. of Shares	No. of Securities	% of total no. of Securities	No. of Shares	% of total no. of Shares	No. of Securities	% of total no. of Securities
Shares held by existing shareholders	128,750,000	100%	128,750,000	98.00%	143,926,065 ¹	26.3%	143,926,065	24.8%
Shares held by CDA shareholders	0	0%	0	0%	403,552,398	73.7%	403,552,398	69.4%
Performance rights holders ²	0	0%	60,000	0.05%	0	0%	8,668,696 ³	1.5%
Optionholders ²	0	0%	2,565,000	1.95%	0	0%	25,065,000 ⁴	4.3%
Totals	128,750,000	100%	131,375,000	100%	547,478,463	100%	581,212,159	100%

¹ This includes the issue of 15,176,065 shares to Cronos Group Inc. on conversion of its loan to a wholly-owned subsidiary of Cronos Australia.

² Performance rights and options are unlisted. There are currently 60,000 performance rights on issue and 2,565,000 options on issue.

³ Upon completion of the Proposed Merger, subject to ASX approval of the terms and approval of Cronos Australia Shareholders, Cronos Australia has agreed to issue 8,608,696 performance rights to existing directors, senior executives and employees of Cronos Australia and CDA Health.

⁴ Upon completion of the Proposed Merger, subject to the approval of Cronos Australia Shareholders, Cronos Australia has agreed to issue 22,500,000 options as long term incentives to senior executives of Cronos Australia and CDA Health subject to time based vesting and performance hurdles based on the revenue of the combined group for the three years following Completion.

MERGER WITH CDA HEALTH PTY. LTD. CONTINUED

In order to provide stability and security for investors, the current three largest Cronos Australia shareholders (who collectively hold approximately 62.1% of the shares currently on issue in Cronos Australia) have agreed to voluntary escrow for a period of 12 months following Completion, even once their current ASX-mandated escrow ends on 7 November 2021. In addition, the key CDA shareholders, including founders Guy Headley, Dr. Ben Jansen and Dr. Matua Jansen (who are collectively expected to represent approximately 59.5% of the shares on issue in Cronos Australia post-Completion) have also agreed that their holdings in Cronos Australia post-Completion will be subject to the same voluntary escrow for a 12-month period following Completion.

TIMETABLE AND NEXT STEPS

Cronos Australia shareholders do not need to take any action in relation to the Merger at this stage.

A Notice of Meeting containing information in relation to the Merger is expected to be circulated to all Cronos Australia shareholders by the end of October 2021. An indicative timetable to complete the Merger is set out below:

Event	Date
Dispatch of CDA Notice of Meeting and Explanatory Statement to CDA shareholders	Wednesday, 27 October 2021
Dispatch of Notice of Meeting and Explanatory Statement to Company shareholders	Wednesday, 27 October 2021
Lodge Prospectus with ASIC and release to ASX	Wednesday, 27 October 2021
Dispatch Prospectus and Share Purchase Deed to CDA shareholders	Wednesday, 27 October 2021
CDA General Meeting	Friday, 19 November 2021
Cronos Australia General Meeting	Friday, 26 November 2021
Completion of the Merger and issue of shares to CDA's shareholders	Monday, 29 November 2021



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Bathing Shed Fresh Start, Clean Hands No. 1 and Soft Hands No. 1 products for sale at Beauty Botanica in Hong Kong

order personal use only



CRONOS

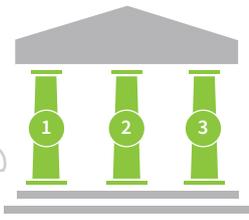
A U S T R A L I A

Saiph Ablution and Tranquillity products for sale at Beauty Botanica in Hong Kong



FCTR Cool Gel and Warm Gel products for sale at Wah-Laah! in Hong Kong

Operational Review



The growth strategy of Cronos Australia that was outlined in the Company's 2020 Annual Report has been refined and updated in 2021 to more appropriately reflect the underlying nature of the Company's three core business units, or "pillars". The names of the new pillars, Medical, Clinics and Consumer respectively, more accurately represent the activities undertaken by each and help the Executive team and the Board better manage the Company's growing businesses.

INTRODUCTION

The three pillars, together with a further unit, entitled *Corporate*, which manages the Group's administration and head office function, provide the Group with a diversified portfolio of interrelated businesses that reduces execution risk while at the same time maximising opportunities in a number of growing global markets. Pleasingly, 2021 has seen considerable growth across all three pillars, with increasing revenues now being generated by all parts of the Company's business.

The three pillars and the roles they play in the overall operations of the Group are:

1 PILLAR ONE – MEDICAL

The sale and distribution in Australia of the Company's proprietary Adaya range of medicinal cannabis products



2 PILLAR TWO – CLINICS

The operation of medical clinics in Australia and New Zealand prescribing a range of cannabinoid therapies under the Cannadoc Health brand



3 PILLAR THREE – CONSUMER

The sale and distribution in selected North Asian markets, and in Australia, of the Bathing Shed, Saiph and FCTR ranges of consumer products and the development of brands and CBD-based products in partnership with A&S Branding Pty. Ltd.



While each pillar operates independently of one another, a number of important synergies exist within the Group that enable efficiencies to be gained and to leverage the activities of one pillar for the benefit of others. Importantly, the Company is confident that there are many synergies between its current operations and those of CDA Health Pty. Ltd. which will be highly complementary once the merger between the two groups is completed later in the 2021 calendar year (refer pages 8 to 14).



Further details pertaining to each of the pillars and the activities that are planned for the 2022 financial year and beyond are provided on the following pages.



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“Having only launched our Adaya range of premium medicinal cannabis products in July 2020, we are extremely pleased with the way in which the brand has been adopted by practitioners and patients alike, delivering significant growth in both unit sales and revenues in every month since the brand was launched. We look forward to building on this solid platform in 2022 and beyond, as we expand the range with additional products and introduce our range to a wider network of prescribers and patients.”

Tyson Craig, General Manager – Operations

1 PILLAR ONE – MEDICAL

The Medical pillar, which is based in Melbourne and managed by General Manager – Operations, Tyson Craig, has seen significant growth during 2021, with sales revenues for the first full year exceeding \$1.2 million and with more than 11,500 units sold. Revenue growth increased on a quarter-on-quarter basis by an average of more than 200% during the twelve months since the range was launched and early sales achieved in the first quarter of 2022 are already very encouraging.

Following the launch on 1 July 2020 of the Company’s proprietary Adaya range of medicinal cannabis products, the range has since been expanded from the two initial products to now include seven products, with further products likely to join the Adaya line up later in 2021. The Company is confident that the expanded Adaya range will meet the clinical needs and preferences of its growing nationwide patient base, while supporting Australian cultivators and manufacturers.

The seven products that currently make up the Adaya range are:

- **Adaya THC30**
THC-dominant Medicinal Cannabis Whole Flower
- **Adaya THC19**
THC-dominant Medicinal Cannabis Whole Flower
- **Adaya 1:25**
CBD-dominant Medicinal Cannabis Oil
- **Adaya CBD 100**
CBD-only Medicinal Cannabis Oil
- **Adaya 10:10**
THC:CBD-balanced Medicinal Cannabis Oil
- **Adaya 20:1**
THC-dominant Medicinal Cannabis Oil
- **Adaya THC 26**
THC-only Medicinal Cannabis Oil



The Adaya range, which comprises Australian manufactured oils and Australian grown whole flower products, is manufactured to Australian GMP standards and is competitively priced. The range is currently distributed across Australia via a wide variety of channels, including direct-to-pharmacy and through the CanView platform owned and operated by CDA Health Pty. Ltd. (refer page 8). Details of the range can be found at www.adaya.co.

In order to support the growing number of practitioners who prescribe and the patients who use Adaya products, the Company has recruited a team of Medical Science Liaisons (“MSLs”) who now cover all mainland states and territories of Australia. The MSLs have worked hard to educate doctors and to increase both their awareness and understanding of medicinal cannabis. In turn, this has resulted in a significant number of doctors since becoming registered as Authorised Prescribers of the Company’s Adaya products, helping to further increase both the adoption of the brand and the prescription of its products.

Going forward into 2022, the Company plans to leverage the established base of Adaya practitioners and patients that has now been created and to support its growing network of Authorised Prescribers, with continuing doctor engagement activities and educational seminars, webinars and on-demand videos of RACGP-accredited education programs on medicinal cannabis. Further, in response to recent legislative changes, the Company will undertake the preparatory work required to submit a dossier to the TGA in support of a Schedule 3 registration of its CBD products.



“The restrictions caused by the COVID pandemic have seen the Cannadoc Health business pivot its operations away from traditional, face-to-face consultations to a telehealth-based model such that approximately 95% of our consultations are now conducted virtually. This transition, while maintaining a premium patient experience and journey, has enabled us to access a wider network of doctors and patients from around the country, helping to expand our business further.”

Rodney Cocks, CEO and Executive Director

2 PILLAR TWO – CLINICS

The 2021 year was the first full year of operation of Cannadoc Health Pty. Ltd. (“Cannadoc”) since the Group acquired its initial 51% equity interest in the company in February 2020. A year later, in February 2021, the Group paid \$101,000 to acquire a further 24.5% interest, taking the Group’s total interest in Cannadoc, and its medical clinic operations, at balance date to 75.5%. Pleasingly, clinic revenues for the 2021 financial year saw an increase of \$359,531, or 320%, on the prior year figure and the total number of patients seen by the clinic during the year also increased, with the average revenues generated per consultation steadily rising as well.

In order to expand the Cannadoc operations, additional doctors and support nurses were recruited during the year to meet the needs of the company’s growing patient base. Further, to provide a better patient experience and journey, various system and process improvements were introduced during the year, including an online registration and consent form and the ability of the clinic’s doctors to issue e-scripts, providing patients with a faster, higher quality level of care and service. Further, a marketing agency was appointed to design a refresh of the company’s website and improve its digital presence, as well as developing and publishing social media content across various channels, all in accordance with TGA guidelines.

Cannadoc continues to build on its strong relationships with pharmacies, general practitioners and specialists across the country to provide the best possible service to its patients and to provide cannabis-based services to general practitioners who may not have the bandwidth or experience to prescribe such products themselves. The Adaya Medical Science Liaison team is also assisting in this regard by referring such doctors, whose patients wish to consider medicinal cannabis therapies, to the Cannadoc clinic. Refer to www.cannadoc.com.au.

Looking forward into 2022, following the completion of the merger with CDA Health (which also operates clinic operations similar to those of Cannadoc), the Group will work to harmonise its procedures and back-office software and processes with those of the CDA operations, while still retaining the Cannadoc brand which has considerable goodwill in the premium segment of the market. The Company is confident that the combined clinic businesses will benefit from a number of important synergies that will deliver better patient and doctor experiences and accelerated growth and revenues for the expanded group.





“In 2021 we delivered on our primary goal to establish and launch three unique brands of consumer products in Hong Kong, Japan and Australia. Our Bathing Shed, FCTR and Saiph ranges all contain quality products that we believe are well-positioned to resonate favourably with customers in the respective markets in which they are now selling. As the number of distribution and retail partners for these products grows, we are confident that unit sales and revenues will continue to increase.”

Nicholas Mulcahy, Director Asia

3 PILLAR THREE – CONSUMER

The Group’s consumer division, which is headed by Hong-Kong based Australian Nick Mulcahy (former head of Asia Pacific at global luxury skin care brand, Aesop), made considerable progress during the 2021 financial year, with three unique ranges of consumer products now established and selling in market as at the end of the year. While early revenues recorded during the year from the sale of these products was modest due to restrictions and delays caused by the COVID-19 pandemic, it is anticipated that sales will increase quickly during 2022 as further distribution partners are secured and promotional activities expand. To support these activities, the Company has established a cost-effective, physical presence in both Hong Kong and Japan.



The Company’s three consumer ranges (Bathing Shed, FCTR and Saiph) now comprise a total of seven individual products which are being sold through a variety of channels, including local distribution partners and retailers and direct-to-consumer via e-commerce platforms. All of the Company’s consumer products are made in Japan to exacting standards using the highest quality ingredients. For regulatory reasons, the CBD-based consumer products in the FCTR and Saiph ranges are not yet available for sale in Australia. Bathing Shed products, which do not contain CBD, are being sold locally, as well as in Hong Kong and Japan. In order to make the brands more attractive to larger retail outlets and to create demonstrable value for consumers, work is also underway to develop additional products to provide depth to the ranges beyond the current seven products.

As part of the growing sales and marketing activities designed to increase awareness of the Company’s products, public relations and marketing experts have been retained by the Company. These business partners introduce the three brands to journalists, buyers and influencers and promote the brands via traditional media as well as a broad range of social media platforms. Success has already been achieved in this regard with positive articles now appearing in mainstream publications, including *The Weekend Australian* and *Marie Claire Japon*, and the number of followers on the Company’s social media platforms are increasing each month. To support the growing sales, inventories of products in all three ranges have now been purchased which are warehoused in all three markets.



Looking forward, the consumer division will focus on creating further demand for its products through consistent and cost-effective awareness and purchasing campaigns, supporting existing wholesale distribution relationships, while adding new distribution partners for each brand in each core market. Further information regarding the Group’s consumer ranges can be found at www.bathingshed.com, www.getfctr.com and www.saiphlife.com.

In addition to the three consumer brands, work on the Company’s CBD Joint Venture has continued during the year with its 50:50 joint venture partner, A&S Branding Pty. Ltd., a company established by Alison Goodger and Simon O’Connor, the co-founders of the successful Sukin Organic Skincare brand (which was later sold to ASX-listed BWX). The joint venture is developing a range of CBD-based products for the Australian and export markets (subject to prevailing legislation in each market), with branding for the new range of products now complete and product formulation work and stability testing well advanced. The joint venture partners are also undertaking the preparatory work required to submit a dossier to the TGA in support of a Schedule 3 registration of its CBD products, once complete.



Directors and Executives

DIRECTORS



Shane F. Tanner

Shane Tanner was appointed Independent Non-Executive Chairman of Cronos Australia on 9 October 2018. Formerly, Shane was Chairman of Vision Eye Institute (ASX: VEI), Chief Executive Officer of Mayne Nickless Diagnostic Services (later renamed Symbion Health (ASX: SYB)) and Chief Financial Officer of Mayne Group. Shane has significant strategy and transaction experience, including whilst working at Mayne Group via the IPO of telecommunications company, Optus Communications.



Daniel E. Abrahams

Daniel Abrahams was appointed as an Independent Non-Executive Director of Cronos Australia on 17 October 2018. Daniel is an independent consultant providing practical expertise on entrepreneurship and leadership programs to universities, helping students and alumni take ideas to commercialisation, and acting as an independent adviser to companies on scaling up. Prior to this, Daniel was an Executive Director and Chief Executive Officer of Superloop Limited (ASX: SLC), taking the company to IPO and overseeing its infrastructure rollout in Australia, Singapore and Hong Kong. Daniel has also held senior executive positions at Aurizon Holdings Limited (ASX: AZJ), Suncorp Group Limited (ASX: SUN), Energex and Toyota Tsusho South Pacific.



Jason M. Adler

Jason Adler was appointed as a Non-Executive Director of Cronos Australia on 8 April 2019. He is a Director of Cronos Group Inc., a major shareholder of CAL, and is a co-founder and Managing Member of Gotham Green Partners (“Gotham Green”), a private equity firm focused primarily on early stage investing in companies operating in the cannabis industry. Prior to founding Gotham Green, Jason was the co-founder and Chief Executive Officer of Alphabet Partners, LP, a New York based multi-strategy investment management firm, focussed on identifying mispriced assets across various industries, asset classes and geographies. Jason also founded Geronimo, LLC, a broker dealer and member of the American Stock Exchange, that made markets in equity options, and began his career as a market maker at G&D Trading.



Anna E. Burke AO

Anna Burke AO was appointed as an Independent Non-Executive Director of Cronos Australia on 8 October 2018. Anna served in the Australian Federal Parliament as the Member for Chisholm in the House of Representatives from 1998 to 2016, and was also the 28th Speaker of the Australian House of Representatives. She currently serves as a Member of the Administrative Appeals Tribunal. Anna had extensive Committee service in the Federal Parliament, including serving as a member of the Joint Statutory Committee on Corporations and Financial Services and the House of Representatives Standing Committee on Economic, Finance and Public Administration. Prior to Anna’s parliamentary career, she was an Industrial Officer with VicRoads, Victorian University of Technology and the Financial Sector Union. Anna was appointed as an Officer of the Order of Australia in January 2019 for distinguished service to the Parliament of Australia, particularly as Speaker of the House of Representatives, and to the community.



Michael R. Gorenstein

Michael Gorenstein was appointed as a Non-Executive Director of Cronos Australia on 1 April 2019. Michael is the Executive Chairman of Cronos Group Inc., the Company’s largest shareholder. He is also a co-founder and passive Member of Gotham Green Partners and sits on the Board of Directors of Natuera, Cronos Group’s South American joint venture. Before joining the Company, Michael was the Vice President and General Counsel at Alphabet Partners, LP, a New York City based multi-strategy investment management firm, focused on identifying mispriced assets across various industries, asset classes and geographies. Prior to Alphabet Partners, LP, he was a corporate attorney at Sullivan & Cromwell LLP where he focused on mergers and acquisitions and capital markets transactions. Michael graduated from the University of Pennsylvania Law School with a Juris Doctor, the Wharton School at University of Pennsylvania with a certificate in Business Economics and Public Policy and the Kelley School of Business at Indiana University with a Bachelor of Science Business in Finance.

Note: Further details regarding the qualifications and positions of each Director can be found on pages 24 and 25.

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EXECUTIVES



Rodney D. Cocks CSM

Rodney Cocks CSM was appointed Executive Director and Chief Executive Officer of Cronos Australia on 27 September 2018. He is a Director of NewSouthern Capital Pty. Ltd., a private equity firm he co-founded. Prior to joining CAL, he was a member of the Senior Leadership Team at Linfox and was a Consultant at the Boston Consulting Group. Rodney served on the Counter Narcotics Team of the British Embassy in Afghanistan and with the United Nations in Afghanistan, Sri Lanka, Pakistan and Iraq and started his career as an Infantry Officer in the Australian Army. Rodney holds a BComm from the University of Melbourne, LLB from the Queensland University of Technology, MBA from the Wharton School, University of Pennsylvania, MPA from the Harvard Kennedy School, Harvard University and is a Graduate of the Australian Institute of Company Directors and the Royal Military College, Duntroon. He is an admitted Lawyer to the Supreme Court of New South Wales, was a Fellow at Harvard University and named the 2005 Victorian Australian of the Year. In 2003, Rodney was awarded a Conspicuous Service Medal for his actions in the aftermath of the 2002 Bali bombings.



Thomas G. Howitt

Thomas Howitt was appointed as Chief Financial Officer of Cronos Australia on 3 December 2018 and as Company Secretary on 14 August 2020. Prior to joining the Company, he was the Chief Financial Officer of Global Kinetics Corporation, a pre-IPO life sciences company, Chief Financial Officer/Company Secretary of Simavita (ASX:SVA, TSX-V:SV) a digital healthcare company, Chief Financial Officer/Company Secretary of Genetic Technologies Limited (ASX:GTG, NASDAQ:GENE) a genetic testing company, and several other listed life science companies. Prior to that, Thomas worked in the investment banking industry and was a Taxation Manager at EY. Thomas is a member of the Victorian Branch Committee of AusBiotech and a member of the CCRM Australia Industry Interface Committee based at Monash University.



Nicholas G. Mulcahy

Prior to joining Cronos Australia in 2019 as Director of its operations in Asia, Nick Mulcahy advised leading direct-to-consumer brands and private equity firms. He lives in Hong Kong and started his career at law firms in Sydney, working in London and across Asia. From 2006 to 2014, he was the head of Asia Pacific at Aesop, building it into a highly respected and coveted brand across Japan, Korea, Hong Kong, Taiwan, Singapore, Malaysia and Australia. Nick holds degrees in Arts and Law from the University of Sydney and a postgraduate degree in Arts from the University of New South Wales. He studied competitive strategy at Harvard Business School.



Tyson E. Craig

Tyson Craig joined Cronos Australia on 1 July 2018 and was appointed as General Manager of Operations on 1 January 2021, with responsibility across all Australian business units. Previously, Tyson was a Project Manager with Linfox, with a focus on logistics, property developments, renewable energy and sustainability. In this role, Tyson oversaw the feasibility analysis, business development, procurement, design and construction tenders and commissioning of multiple distribution centres across Australia. He is a Bachelor of Commerce graduate of Curtin University and holds a Master of Business Administration from The Melbourne Business School. In his current role, Tyson has managed the launch and development of the Adaya medicinal cannabis range with the objective to provide medical practitioners and support patients with the highest quality, most affordable, sustainable and accessible medicinal cannabis products in Australia.

Note: Further details regarding the qualifications and positions of Messrs. Cocks and Howitt can be found on pages 24 and 26.



Cronos Australia Limited

Financial Statements for the year ended 30 June 2021

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Disclaimer

Certain statements in this Report are about the future. These are identified by words such as "believes", "considers", "could", "estimates", "expects", "intends", "may" and other similar words that involve risks and uncertainties. There are risks (both known and unknown), uncertainties, assumptions and other important factors that could cause the actual conduct, results, performance or achievements of Cronos Australia to be materially different from the future conduct, results, performance or achievements expressed or implied by such statements or that could cause the future conduct to be materially different from historical conduct. Such forward-looking statements are not guarantees of future performance. Deviations as to future conduct, results, performance and achievements are both normal and to be expected. Cronos Australia cannot and does not give any assurance that the results, performance or achievements expressed or implied by the forward-looking statements contained in this Report will actually occur and investors are cautioned not to place undue reliance on these forward-looking statements.

Directors' Report

The Directors of Cronos Australia Limited submit their Report for the year ended 30 June 2021.

DIRECTORS

The details of the Directors of Cronos Australia Limited ("CAL" and the "Company") who held office during the period from 1 July 2020 until the date of this Report are stated below, as are the dates on which they were appointed.

Directors in office as at the date of this Report

Shane F. Tanner

Position: Independent Non-Executive Chairman
Qualifications: Dip Bus (RMIT), Grad Dip Bus (Swinburne), FCPA, ACIS, MAICD
Other responsibilities: Member of Audit and Risk Committee
Member of Nomination and Remuneration Committee
Other Directorships: Paragon Care Limited (ASX: PGC) (Chairman)

Shane Tanner was appointed Independent Non-Executive Chairman of CAL on 9 October 2018. Formerly, Shane was Chairman of Vision Eye Institute (ASX: VEI), Chief Executive Officer of Mayne Nickless Diagnostic Services (later renamed Symbion Health (ASX: SYB)) and Chief Financial Officer of Mayne Group. Shane has significant strategy and transaction experience, including whilst working at Mayne Group via the IPO of telecommunications company, Optus Communications.

Rodney D. Cocks CSM

Position: Chief Executive Officer and Executive Director
Qualifications: BCom (Melb.), LLB (QUT), MBA (Wharton), MPA (Harvard), GAICD
Other responsibilities: None
Other Directorships: None

Rodney Cocks CSM was appointed Executive Director and Chief Executive Officer of Cronos of Cronos Australia on 27 September 2018. He is a Director of NewSouthern Capital Pty. Ltd., a private equity firm he co-founded. Prior to joining CAL, he was a member of the Senior Leadership Team at Linfox and was a Consultant at the Boston Consulting Group. Rodney served on the Counter Narcotics Team of the British Embassy in Afghanistan and with the United Nations in Afghanistan, Sri Lanka, Pakistan and Iraq and started his career as an Infantry Officer in the Australian Army. Rodney holds a BComm from the University of Melbourne, LLB from the Queensland University of Technology, MBA from the Wharton School, University of Pennsylvania, MPA from the Harvard Kennedy School, Harvard University and is a Graduate of the Australian Institute of Company Directors and the Royal Military College, Duntroon. He is an admitted Lawyer to the Supreme Court of New South Wales, was a Fellow at Harvard University and named the 2005 Victorian Australian of the Year. In 2003, Rodney was awarded a Conspicuous Service Medal for his actions in the aftermath of the 2002 Bali bombings.

Daniel E. Abrahams

Position: Independent Non-Executive Director
Qualifications: BBus (Accounting and Finance) (Central Qld Uni.), FCPA, FCIS
Other responsibilities: Chairman of Audit and Risk Committee
Member of Nomination and Remuneration Committee
Other Directorships: None

Daniel Abrahams was appointed as an Independent Non-Executive Director of CAL on 17 October 2018. Daniel is an independent consultant providing practical expertise on entrepreneurship and leadership programs to universities, helping students and alumni take ideas to commercialisation, and acting as an independent adviser to companies on scaling up. Prior to this, Daniel was an Executive Director and Chief Executive Officer of Superloop Limited (ASX: SLC), taking the company to IPO and overseeing its infrastructure rollout in Australia, Singapore and Hong Kong. Daniel has also held senior executive positions at Aurizon Holdings Limited (ASX: AZJ), Suncorp Group Limited (ASX: SUN), Energex and Toyota Tsusho South Pacific.

Jason M. Adler

Position: Non-Executive Director

Qualifications: BA (University of Rhode Island)

Other responsibilities: None

Other Directorships: Cronos Group Inc. (NASDAQ: CRON; TSX: CRON)

Jason Adler was appointed as a Non-Executive Director of CAL on 8 April 2019. He is a Director of Cronos Group Inc., a major shareholder of CAL, and is a co-founder and Managing Member of Gotham Green Partners (“Gotham Green”), a private equity firm focused primarily on early stage investing in companies operating in the cannabis industry. Prior to founding Gotham Green, Jason was the co-founder and Chief Executive Officer of Alphabet Partners, LP, a New York based multi-strategy investment management firm, focussed on identifying mispriced assets across various industries, asset classes and geographies. Jason also founded Geronimo, LLC, a broker dealer and member of the American Stock Exchange, that made markets in equity options, and began his career as a market maker at G&D Trading.

Anna E. Burke AO

Position: Independent Non-Executive Director

Qualifications: BA (Hons), MCom (Hons) (University of Melbourne), GAICD

Other responsibilities: Member of Audit and Risk Committee
Chairman of Nomination and Remuneration Committee

Other Directorships: None

Anna Burke AO was appointed as an Independent Non-Executive Director of CAL on 8 October 2018. Anna served in the Australian Federal Parliament as the Member for Chisholm in the House of Representatives from 1998 to 2016, and was also the 28th Speaker of the Australian House of Representatives. She currently serves as a Member of the Administrative Appeals Tribunal. Anna had extensive Committee service in the Federal Parliament, including serving as a member of the Joint Statutory Committee on Corporations and Financial Services and the House of Representatives Standing Committee on Economic, Finance and Public Administration. Prior to Anna’s parliamentary career, she was an Industrial Officer with VicRoads, Victorian University of Technology and the Financial Sector Union. Anna was appointed as an Officer of the Order of Australia in January 2019 for distinguished service to the Parliament of Australia, particularly as Speaker of the House of Representatives, and to the community.

Michael R. Gorenstein

Position: Non-Executive Director

Qualifications: JD (University of Pennsylvania), BEPP (Wharton), BBS (Finance) (Kelley)

Other responsibilities: None

Other Directorships: Cronos Group Inc. (NASDAQ: CRON; TSX: CRON)

Michael Gorenstein was appointed as a Non-Executive Director of CAL on 1 April 2019. Michael is the Executive Chairman of Cronos Group Inc., the Company’s largest shareholder. He is also a co-founder and passive Member of Gotham Green Partners and sits on the Board of Directors of Natuera, Cronos Group’s South American joint venture. Before joining the Company, Michael was the Vice President and General Counsel at Alphabet Partners, LP, a New York City based multi-strategy investment management firm, focused on identifying mispriced assets across various industries, asset classes and geographies. Prior to Alphabet Partners, LP, he was a corporate attorney at Sullivan & Cromwell LLP where he focused on mergers and acquisitions and capital markets transactions. Michael graduated from the University of Pennsylvania Law School with a Juris Doctor, the Wharton School at University of Pennsylvania with a certificate in Business Economics and Public Policy and the Kelley School of Business at Indiana University with a Bachelor of Science Business in Finance.

Company Secretary

Thomas G. Howitt

Position: Chief Financial Officer and Company Secretary

Qualifications: BCom (University of Western Australia), CA, AICPA, AGIA, ACG, CTA

Other responsibilities: None

Other Directorships: None

Thomas Howitt was appointed as the Chief Financial Officer of CAL on 3 December 2018 and as Company Secretary on 14 August 2020. Prior to joining the Company, he was the Chief Financial Officer of Global Kinetics Corporation, a pre-IPO life sciences company, Chief Financial Officer/Company Secretary of Simavita (ASX:SVA, TSX-V:SV) a digital healthcare company, Chief Financial Officer/Company Secretary of Genetic Technologies Limited (ASX:GTG, NASDAQ:GENE) a genetic testing company, and several other listed life science companies. Prior to that, Thomas worked in the investment banking industry and was a Taxation Manager at EY. Thomas is a member of the Victorian Branch Committee of AusBiotech and a member of the CCRM Australia Industry Interface Committee based at Monash University.

In addition to the above, Lior Harel served as Company Secretary from 1 July 2020 until 14 August 2020.

INTERESTS IN THE SECURITIES OF THE COMPANY AND RELATED BODIES CORPORATE

As at the date of this Report, the following Directors held beneficial interests in the ordinary shares of the Company:

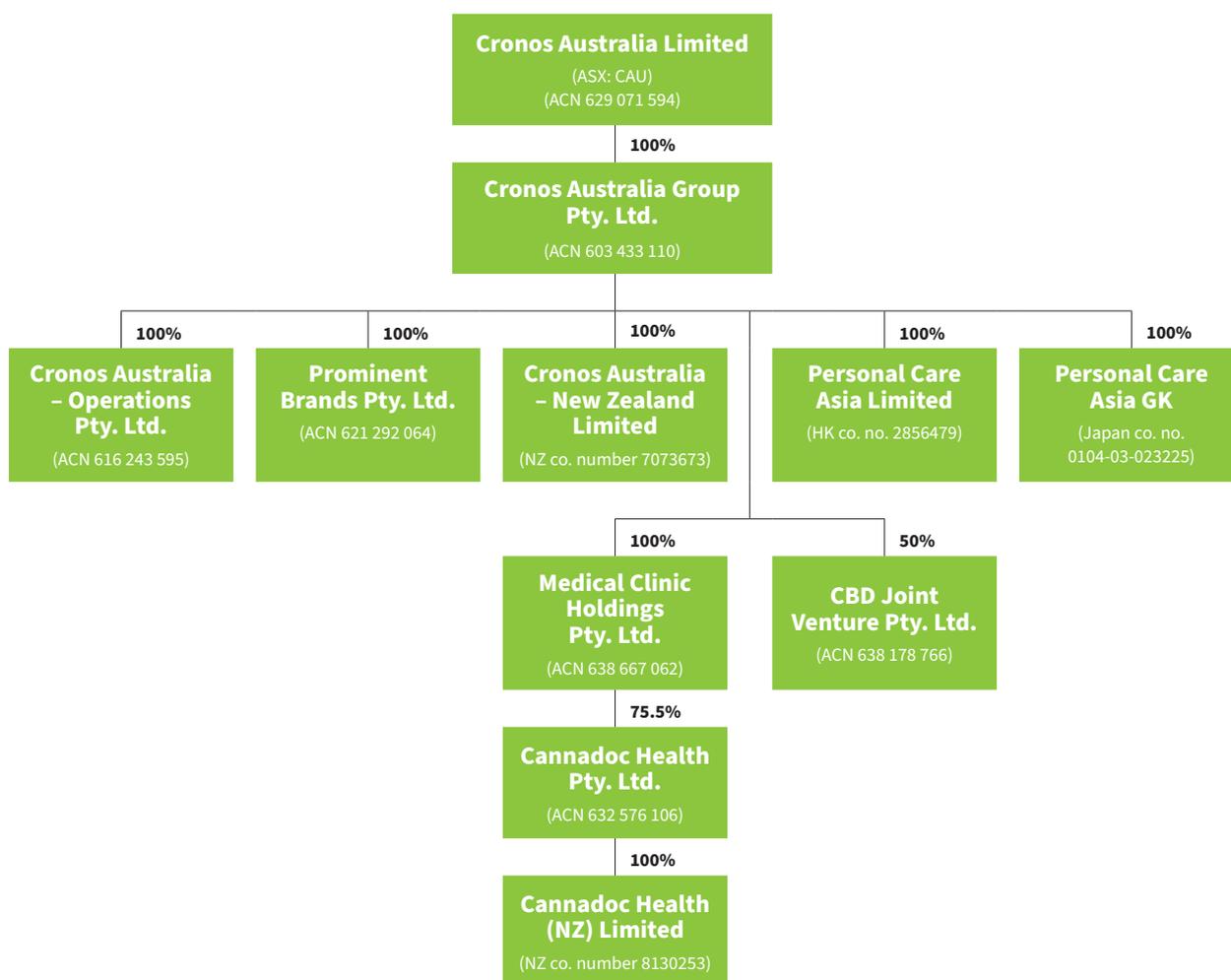
Name of Director	Nature of beneficial interest in ordinary shares
Shane F. Tanner	350,000 ordinary shares (via Tanner Superannuation Fund)
Rodney D. Cocks CSM	20,000,000 ordinary shares (via NewSouthern Investment Holdings 1 Pty. Ltd.)
Daniel E. Abrahams	100,000 ordinary shares (via Dankim Abrahams Investment Trust)
Anna E. Burke AO	50,000 ordinary shares (direct interest)

Apart from the above, no Director held any beneficial interest in the Company's shares as at the date of this Report.

OPERATING AND FINANCIAL REVIEW

Corporate structure

Cronos Australia Limited (“CAL” and the “Company”) is a public company limited by shares that is incorporated and domiciled in Australia. The Company has prepared a consolidated financial report incorporating the entities that it controlled during the year ended 30 June 2021 which are collectively referred to in this Report as the “Cronos Australia Group” or the “Group”. The structure of the Group at the date of this Report can be represented as follows:



Overview

Cronos Australia Limited was incorporated in Victoria, Australia on 27 September 2018 and was admitted to the Official List of the Australian Securities Exchange on 7 November 2019.

CAL is a medicinal cannabis company that has created a number of cannabinoid-based products and brands which it is selling in Australia and target export markets, including Japan and Hong Kong. The first of these brands is the Adaya range of medicinal cannabis products that was launched by the Company in Australia in early July 2020.

In December 2020, the Company’s first range of premium hemp seed oil personal care consumer products, Bathing Shed, was launched in certain North Asian markets, as well as in Australia. In April 2021, the second range of consumer CBD performance products, FCTR, was launched in Japan and Hong Kong, with the Company’s third range of premium personal care products, Saiph, being launched in June 2021. For regulatory reasons, products in the FCTR and Saiph ranges are not yet available for sale in Australia.

In addition to the above products, CAL owns 75.5% of Cannadoc Health Pty. Ltd., a business operating a growing medical practice specialising in the provision of cannabinoid-based therapies and treatments via face-to-face consultations, from its clinics in Melbourne, Australia and New Zealand, and via telehealth.

Principal activities

The principal activity of the entities within the Group during the year ended 30 June 2021 was the expansion of its business to develop ranges of cannabinoid-based and related brands and sell the resulting products in Australia and target export markets, including Japan and Hong Kong, as well as expanding Cannadoc Health Pty. Ltd., its medical clinic business in Australia and New Zealand.

There were no significant changes in the Group's activities during the year under review.

Result

During the year ended 30 June 2021, the Company and its subsidiaries generated a consolidated loss after income tax of \$(4,205,850) (2020: \$(3,989,678)). Details relating to the Company's financial results for the year are included below under the heading *Financial Analysis*.

Dividends and distributions

No dividends have been paid since the Company was incorporated, nor have the Directors recommended that any dividend be paid.

Review of operations

During the year ended 30 June 2021, the Group continued to develop each of its three discrete business units, or pillars, that were restructured during the year to better reflect the nature of their activities, as summarised below. In addition, a further unit, entitled *Corporate*, manages the Group's administration and head office function.

- *Medical* – development of medicinal cannabis brands and products and the sale of these products in Australia.
- *Clinics* – operation of medicinal cannabis clinics via its 75.5% investment in Cannadoc Health Pty. Ltd.
- *Consumer* – development of consumer brands and products for sale in Australia and certain North Asian markets.

Medical

On 1 July 2020, the Company launched its proprietary Adaya range of Medicinal Cannabis products in the Australian market to complement the PEACE NATURALS™ range of products it had started selling during the prior year. The Adaya range, which was launched with two initial products, has since been expanded to include the following seven products:

- Adaya THC30 – THC-dominant Medicinal Cannabis Whole Flower
- Adaya THC19 – THC-dominant Medicinal Cannabis Whole Flower
- Adaya 1:25 – CBD-dominant Medicinal Cannabis Oil
- Adaya CBD 100 – CBD-only Medicinal Cannabis Oil
- Adaya 10:10 – THC:CBD-balanced Medicinal Cannabis Oil
- Adaya 20:1 – THC-dominant Medicinal Cannabis Oil
- Adaya THC 26 – THC-only Medicinal Cannabis Oil

Revenue from the sale of Adaya products increased on a quarter-on-quarter basis by an average of more than 200% during the twelve months since the range was launched. Total revenues generated by the Company's medical division increased significantly during the year, from \$11,430 in 2020 to \$1,211,626 in 2021, with early sales achieved in the 2022 financial year already looking encouraging. Importantly, the Adaya range of products is competitively priced and provides patients with value-based medicinal cannabis treatment options.

All products in the Adaya range have been specifically developed based on feedback from Australian patients and healthcare professionals and are only available by a doctor's prescription via the TGA's Special Access Scheme or from an Authorised Prescriber. Importantly, the majority of Adaya products are Australian-grown and processed, manufactured to Australian GMP standards and are widely available through distributors and pharmacies nationwide to ensure no stock outs, which would negatively impact patients.

To help expand the market for Adaya products and drive further growth in sales, agreements with a number of independent distribution partners were executed during the year, providing nationwide access to the Adaya range for patients. In addition, logistics arrangements have been improved and the Company's sales force expanded with the recruitment of Medical Science Liaisons ("MSLs") who now cover all mainland states and territories of Australia. As a result of these activities, the Company's MSLs have identified a significant number of doctors who have since registered to become Authorised Prescribers ("APs") of the Company's Adaya products.

To support its growing network of APs, the Company's MSLs undertook a number of doctor engagement activities during the year, in conjunction with service provider Praxhub Pty. Ltd., including educational seminars, webinars and on-demand videos of RACGP-accredited education programs on medicinal cannabis. These important activities have helped to increase both awareness and understanding of medicinal cannabis.

In response to recent legislative changes, the Company has also continued to work with third parties to undertake the preparatory work required to submit a dossier for the TGA to support a Schedule 3 registration of its CBD products. The anticipated timing for this project is uncertain as a number of factors are currently unknown.

Clinics

The financial year ended 30 June 2021 was the first full year of operation of Cannadoc Health Pty. Ltd. ("Cannadoc") since the business was acquired by the Group in February 2020. Revenues for the year then ended were \$471,795, an increase of \$359,375, or 320%, on the prior year figure. The total number of patients seen by the clinic during the year also increased, with the average revenues generated per consultation steadily rising as well. In response to challenges resulting from the COVID-19 pandemic, the Cannadoc business transitioned its operations away from traditional, face-to-face consultations to a telehealth-based model. This new model has been well received by patients, with such consultations now representing approximately 90% of the total number of consultations conducted by the business. For those patients who prefer to meet with a doctor, consultations are still being offered at the Cannadoc clinic located in St. Kilda Road, Melbourne.

In an effort to replicate the Cannadoc business model in other markets, on 9 October 2020, the Group incorporated a New Zealand-based subsidiary, Cannadoc Health (NZ) Limited. This company, which is wholly-owned by Cannadoc Health Pty. Ltd., conducts the Group's activities in New Zealand. These operations, which are currently based in Wellington, are expected to expand into Auckland during the 2022 financial year. Further expansion of the Cannadoc operations to other cities around Australia also occurred during the year, with an early presence in Sydney having now been established.

During the year under review, additional doctors and support nurses were recruited to meet the needs of Cannadoc's growing patient base. Further, to provide a better patient experience, various system and process improvements were also introduced, as were search engine optimisation processes to channel greater numbers of patients to the Company's clinic. Cannadoc continues to build on its strong relationships with a number of pharmacies and general practitioners across the country to provide the best possible service to its patients.

In February 2020, the Group acquired a 51% equity interest in Cannadoc. On 1 February 2021, the Group paid \$101,000 to acquire a further 24.5% interest in Cannadoc, taking the Group's total interest in Cannadoc at balance date to 75.5%.

Consumer

The Group's consumer division made considerable progress during the 2021 financial year, with three distinct ranges of consumer products established and in market as at the end of the year. While early revenues recorded during the year from the sale of these products was modest due to restrictions and delays caused by the COVID-19 pandemic, it is anticipated that sales will increase quickly during 2022 as further distribution partners are secured and promotional activities expand, particularly in the lucrative Asian markets of Japan and Hong Kong. To support these activities, the Company has established a cost-effective, physical presence in each of these markets.

On 16 December 2020, the Company announced the 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, and in Australia. The first product in the Bathing Shed range was 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 Bathing Shed range was subsequently expanded with the addition of two new products that were launched in June 2021. The two products are a refreshing gel cleanser called Clean Hands No. 1 and a gel moisturiser called Soft Hands No. 1. The products are also now being sold in Japan and Hong Kong, and in Australia. Clean Hands No. 1 gently exfoliates the skin, using an effective surfactant that thoroughly cleanses the skin, balanced with fresh, cold-pressed Tasmanian Hemp Seed Oil and contains sea salt which has the ability to detoxify, heal, cleanse, gently exfoliate and lock in moisture all at once. Clean Hands No. 1 is a lightweight gel moisturiser formulated for rapid absorption and lasting beneficial effects. It has a softening gel base and essential oil blend, with hemp seed oil that hydrates the skin and may have anti-inflammatory and antioxidant effects.

On 1 April 2021, the Company announced the launch of its second consumer brand, the "FCTR" (pronounced "factor") CBD-based performance range, which is now being sold in Hong Kong and Japan. For regulatory reasons, FCTR's CBD-based consumer products are not yet available for sale in Australia. FCTR, which currently contains two products called Warm Gel and Cool Gel, is a new performance brand and is designed to be a recovery partner for a wide range of athletes. Both FCTR products are entirely formulated and manufactured in Japan and contain compliant CBD in a rapidly absorbed and residue-free gel. FCTR Warm Gel and Cool Gel come in premium, airless packaging with easy grip design, enabling single-handed, mess-free use by athletes. Distribution partners in both Hong Kong and Japan have now been appointed and e-commerce sales are underway in these markets.

On 25 June 2021, the Company announced the launch of its "Saiph" CBD premium personal care range. Saiph is the Company's third consumer brand and, as with FCTR, is being sold in Hong Kong and Japan and is not yet available for sale in Australia. Saiph is a sophisticated CBD personal care brand formulated for sensitive skin. The Company believes that the total value of retail sales in the skin and body care segments of the Company's two initial target markets, Japan and Hong Kong, were in excess of USD20 billion in 2018 (source: *national statistics agencies, export.gov, Statista*). The first two products in the Saiph range are called Ablution, a gentle gel CBD cleanser, and Tranquillity, a protective CBD moisturiser. Both products are made in Japan and are free from parabens, mineral oils, palm oil, silicone, sulphates, alcohols, synthetic fragrances, synthetic colours and chelating agents which can irritate and dehydrate the skin.

Inventories of products in all three consumer ranges have now been purchased in anticipation of growing sales in 2022. Further information regarding the Group's consumer ranges can be found at www.bathingshed.com, www.getfctr.com and www.saiphlife.com.

In the coming financial year, the consumer division will focus on creating demand for its products through consistent and cost-effective awareness and purchasing campaigns, supporting existing wholesale distribution relationships while adding new distribution partners for each brand in each core market, as well as adding selected new products for all three brands that support the brands and create demonstrable value for consumers.

Legal matters

There were no legal matters affecting the Company as at the date of this Report.

Profit/(loss) per share

The basic and diluted profit/(loss) per share for the year ended 30 June 2021 was \$(0.03) (2020: \$(0.04)).

Financial analysis

Statement of Comprehensive Income/(Loss)

During the year ended 30 June 2021, being the Company's first full year of operations after listing on the ASX in November 2019, the Company generated a consolidated loss after income tax of \$(4,205,850), an increase of \$(216,172), or 5%, on the figure for the prior year. Revenues totaling nearly \$1.7 million for the year were principally generated from the sale of medicinal cannabis products and the provision of medical consultation services, as compared to \$123,850 for the previous corresponding period. The majority of the Company's medicinal cannabis sales came from the sale of products in its Adaya range which was launched in July 2020, while the medical consultation services were provided by Cannadoc Health Pty. Ltd., the business acquired by the Company during the previous financial year. An amount of \$82,266 was also received during the year under the Australian Federal Government's "Cash Flow Boost" scheme. Interest income fell during the year as a result of the Group's declining cash balance and the material falls in deposit interest rates.

Despite the material growth in total revenues and the expansion of the Group's workforce, personnel expenses increased during the year by only \$279,702, or less than 9%, to \$3,425,074. In line with the Company's increasing revenues, total sales, marketing and distribution expenses increased more significantly during 2021 to \$285,629, as the Company launched four new product ranges during the year, including the Adaya range. Finance costs of \$294,158 principally comprised accrued interest on the loan from Cronos Group Inc. Legal and regulatory expenses, which increased to \$309,550 during the year, included expenses related to a potential business development opportunity. Travel expenses fell to \$54,820, as COVID-19 restrictions prevented the movement of employees. Of the total loss of \$(4,205,850), an amount of \$156,641 related to the 24.5% non-controlling interests associated with Cannadoc Health.

Statement of Financial Position

As at 30 June 2021, the Group's consolidated cash and cash equivalents decreased by \$5,218,768 to \$9,467,175 (2020: \$14,685,943). During the year under review, trade receivables increased to \$317,666 in line with the Company's growing sales, with all receivables at balance date being within normal trading terms. Material inventories of medicinal cannabis oils were purchased to meet the growing demand for the Company's products, while initial orders of products for the Bathing Shed, FCTR and Saiph ranges of consumer products were also made ahead of their respective launches during the year. Other assets included an amount of \$293,321 of capitalised costs in respect of the potential issuance of equity as part of a business development opportunity.

Trade and other payables at 30 June 2021 had increased to \$1,002,226 as material inventory purchases were made near year end, together with the accrual of transaction-related expenses. The Company's loan from Cronos Group Inc., which is notionally repayable on 1 January 2022, was reclassified as a current liability on 1 January 2021. A new capital reserve was established during the year as a result of the acquisition by the Company of a further 24.5% interest in Cannadoc Health Pty. Ltd. on 1 February 2021 (refer *Note 26(d)*). Finally, a credit of \$21,744 was made during the year to the share-based payments reserve as a result of the forfeiture of various options and performance rights which had been granted to former Group employees.

Statement of Cash Flows

During the 2021 financial year, net cash outflows from operations decreased by \$82,533, or approximately 2%, to \$4,796,055. The net outflows of \$4,796,055 included cash receipts from customers of \$1,228,932, an increase of \$1,114,149, or 971%, over the figure for the previous year. Other cash receipts from operating activities included interest (\$46,091) and payments received under Government stimulus schemes (\$179,263). Payments to suppliers and employees increased to \$6,250,341, in line with the Group's expanding workforce and increasing global operations.

The Group's investing activities included the payment of \$101,000 to acquire a further 24.5% beneficial interest in Cannadoc Health Pty. Ltd., while the net financing cash flows included cash payments totaling \$171,889 in respect of the potential issuance of equity as part of a business development opportunity.

Business strategy, future developments and prospects

The Company has adopted an "asset light" business model in which it outsources the manufacture of cannabinoid-based products to selected leading manufacturers. The Group's strategy focusses on the development of brands and products sourced from such parties that the Group sells and distributes in various markets including Australia, Japan and Hong Kong.

As outlined above, the Group is focusing its efforts on three distinct areas, all of which have made significant progress during the year under review. During the first half of the 2022 financial year, the Group intends to leverage the progress made during that period, as summarised below:

- *Medical* – further expand the sale and distribution of medicinal cannabis products in the Company's Adaya range in Australia and broaden the doctor engagement programs that are now underway.
- *Clinics* – increase the numbers of patients accessing the services provided by the Cannadoc medicinal cannabis clinics and explore opportunities to potentially establish further clinics around Australia and in New Zealand.
- *Consumer* – develop and launch additional products for the Bathing Shed, FCTR and Saiph ranges of personal care and performance products and identify new distribution partners to expand sales in current and future Asian markets.

Material business risks

The Group operates in the medicinal cannabis industry in Australia and is still largely in the development and expansion phases. Given the relatively early stage of the industry in Australia as a whole, any investment in companies such as CAL should be considered high-risk. The Group is subject to a range of normal business risks including, but not limited to, its ability to hire and retain high quality personnel, government policies, regulations and legislative changes, the state of markets generally, exchange rate fluctuations and a range of other factors which remain outside the control of the Board and management.

More specific material risks that are applicable to the industry and the Group include, but are not limited to:

- **Medicinal cannabis industry in Australia.** An investment in an industry in the relatively early stages of development, such as the Australian medicinal cannabis industry, should be considered speculative and involves risks, including obstacles or delays in the implementation of business plans, uncertainties over the ability to generate revenue and with the legislative regime generally. While regulations and guidelines in relation to the application of reforms are available and improving, there still remains limited guidance. Given the continuing developments in the relevant laws and regulations, there is a risk that a regulatory body could, in future, change the application of laws which may adversely impact the Group.
- **Regulatory.** The Group's ability to commercialise products for sale in Australia is reliant on the renewal of licences that have been granted to it by the Office of Drug Control ("ODC"). While the Group submits renewal applications by the required dates and is not aware of any reason why the ODC would refuse to grant such renewals, the Company cannot guarantee that the licences will be renewed. Failure to comply with licence conditions may result in one or more of the Company's licences being suspended or revoked, which could prevent the Group from carrying out its activities.
- **Future revenue and profitability.** To date, the Group has generated growing, but still relatively modest, revenue and has not yet derived a profit from its operations. Future sales of products by the Group and its future profitability are contingent on, amongst other things, its ability to maintain the required licences and permits, develop desirable new brands and products, enter into favourable supply and distribution arrangements, and broader market conditions generally. Consequently, the level of future sales of products by the Group cannot be accurately determined and CAL cannot provide any guarantee that future sales will be achieved and, even if future sales are achieved, they may not result in the Group being profitable.
- **Supply.** As the Company's business involves the development of brands and products for sale, the Group must maintain an uninterrupted supply of high-quality products from a variety of producers whose production is susceptible to risks. Such risks include insects, disease, storm, fire, frost, flood, drought, water availability and salinity, pests and force majeure events, including the impacts of climate change generally. Any adverse outcomes in relation to these matters may affect the Group's ability to source suitable products in a timely fashion which, in turn, could adversely impact its activities, operations and financial performance.

- **Growth prospects and expansion plans.** CAL's prospects depend upon various factors, including brand and product acceptance. If CAL fails to execute on its strategic plans, its financial performance is likely to be affected. The Company's financial prospects are dependent on there being sufficient demand for cannabinoid and related products in Australia, and other markets that the Company may seek to enter in the future, including in Asia. There is also a risk that the volume of medicinal cannabis products available in Australia will outstrip the demand for those products, which may result in lower product prices which could adversely affect the Company's performance. The Company's ability to achieve its growth strategy is also dependent on it being able to sell its products internationally which may require changes in the laws relating to cannabis in each of those countries. There are no guarantees that the laws of any of the target markets will be amended or that the Company will be able to successfully access such markets in future.
- **Competition.** The Australian medicinal cannabis market is becoming increasingly more competitive and subject to rapid ongoing development. There can be no assurances that the competitive environment will not change adversely due to the actions of governments or competitors or changes in customer preferences. The actions of an existing competitor or the introduction of a new competitor in a given market may make it difficult for the Group to increase its revenue which, in turn, may have an adverse effect on its profitability. As the Group seeks to enter new markets, including those in Japan, Hong Kong and other Asian countries, the competitive landscape is less clear and may pose further risks when launching additional products in those markets.
- **Product failure.** In the event that any of the Group's products cause serious side effects, or are misused, abused or diverted, CAL may be exposed to increased compliance costs in carrying out trials or testing, or regulatory authorities may revoke approvals granted to the Company, impose more onerous standards or product labelling requirements or require it to conduct a product recall. In these circumstances, CAL could also be subject to regulatory action or be found liable for harm caused which could have an adverse effect on its business, results of operations, financial condition and reputation.
- **COVID-19 pandemic.** Many aspects of the global economy have been adversely impacted by the COVID-19 pandemic. While the Company is still actively pursuing its agreed strategic plan and objectives, the restrictions and uncertainty surrounding the pandemic in both Australia and overseas pose an ongoing potential risk to the Company's future activities, operations and financial performance.
- **IP Licence.** The Group has entered into an IP Licence with Cronos Group Inc. in respect of certain intellectual property rights and to provide access to certain trade secrets and know-how relating to medicinal cannabis. The IP Licence has an initial term of 10 years and will automatically extend for further one-year terms unless terminated by either party. Cronos Group may terminate the IP Licence under certain circumstances which may restrict the Company's ability to use the underlying intellectual property, including various trademarks and, potentially, the "Cronos" name. Any such termination of the Licence could have an adverse impact on the prospects of the Group.

In accordance with good business practice in the medicinal cannabis industry, the Group's Management actively and routinely employs a variety of risk management strategies which are broadly described in the Corporate Governance Statement under the heading *Principle 7: Recognise and manage risk* and maintains a detailed Risk Register which is reviewed and updated on a regular basis.

The Board believes that the Group is not yet sufficiently large to warrant the appointment of an internal auditor.

Significant changes in the state of affairs

- On 1 July 2020, the Group incorporated a Japanese subsidiary named Personal Care Asia GK from which the Group's operations in Japan are managed.
- On 6 August 2020, Stage 4 COVID-19 restrictions were introduced in the State of Victoria, the location of the Company's headquarters. While a number of the Company's employees were required to work from home, the Group's business operations continued largely unchanged throughout the remainder of the 2021 financial year.
- On 14 August 2020, Lior Harel resigned as General Counsel and Company Secretary of the Company. On the same date, Thomas G. Howitt, the Company's Chief Financial Officer, was also appointed as Company Secretary of the Company and a total of 60,000 performance rights and 461,400 options over the Company's ordinary shares that had previously been granted to Lior Harel were forfeited following his departure from the Company.
- On 9 October 2020, the Company incorporated a New Zealand subsidiary named Cannadoc Health (NZ) Limited from which the Group's clinic operations in New Zealand are managed.

DIRECTORS' REPORT CONTINUED

Significant changes in the state of affairs (CONT.)

- On 27 October 2020, the Company held its Annual General Meeting of shareholders. All resolutions that were put before the shareholders at the Meeting were passed.
- On 16 December 2020, the Company announced the launch of "Bathing Shed", its personal care range.
- On 1 April 2021, the Company announced the launch of "FCTR" (pronounced factor), its CBD performance range.
- On 25 June 2021, the Company announced the launch of "Saiph", its CBD premium personal care range.

Apart from these events, there have been no other significant changes which have not been described elsewhere in this Financial Report.

Significant events after balance date

There have been no significant events which have occurred after balance date which have not been described elsewhere in this Financial Report.

ENVIRONMENT AND REGULATION

The Group does not believe it is subject to any specific environmental regulations. The Board believes there are adequate systems in place to ensure the Group's compliance with relevant Federal, State and Local government environmental regulations and the Board is not aware of any breach of applicable environmental regulations by the Group. There were no significant changes in laws or regulations during the period from 1 July 2020 to the date of this Report which have affected the business activities of the Group and the Board is not aware of any such changes in the near future.

SHARE OPTIONS AND PERFORMANCE RIGHTS

Unissued shares under option

As at 30 June 2021, the Company had a total of 2,565,000 ordinary shares under option, all of which were granted as part of the Company's IPO on 7 November 2019 (refer Note 25). Of the total number of options granted, a total of 2,000,000 were granted to the Underwriter of the Company's IPO, while the remaining 565,000 options were granted to an Executive of the Company. The terms and conditions applicable to the above options were detailed in the Company's Prospectus dated 15 October 2019. During the year ended 30 June 2021, a total of 461,400 options that had previously been granted to an executive of the Company were forfeited following his departure from the Company. No ordinary shares were issued as a result of the exercise of any options during the year ended 30 June 2021.

Performance rights

As at 30 June 2021, the Company had a total of 60,000 performance rights on issue which were granted as part of the Company's IPO on 7 November 2019 (refer Note 25). The terms and conditions applicable to these rights were detailed in the Company's Prospectus dated 15 October 2019. During the year ended 30 June 2021, a total of 1,060,000 performance rights that had previously been granted to executives of the Group were forfeited following their departures from the Company and Cannadoc Health Pty. Ltd. No performance rights were converted into ordinary shares during the year ended 30 June 2021.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

During the year ended 30 June 2021, the Company paid premiums in respect of a contract insuring the Directors and Officers of the Company and any related body corporate against a liability incurred in his or her capacity as a Director or Officer to the extent permitted by the *Corporations Act 2001*. The contract of insurance prohibits disclosure of the nature of the insurance provided and the amount of the premium. The Company has agreed to indemnify the current and former Directors and Executive Officers against all liabilities to other persons that may arise from their position as Directors or Officers of the Company and its subsidiaries, except in circumstances including where the individual concerned has committed an illegal act, wilful misconduct or dishonesty or where to do so would be generally prohibited by law.

REMUNERATION REPORT (AUDITED)

Introduction

This Remuneration Report outlines the Director and Executive remuneration arrangements of Cronos Australia Limited (“CAL” and the “Company”) and its subsidiaries as at 30 June 2021 (collectively, the “Group”) in accordance with the requirements of the *Corporations Act 2001* and its Regulations. For the purposes of this Report, Key Management Personnel (“KMP”) of the Group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, directly or indirectly, including any Director (whether executive or not) of the parent company, and includes the executives in the Group, as set out below.

For the purposes of this Remuneration Report, the term “Executive” encompasses the Group’s Chief Executive Officer, and Chief Financial Officer / Company Secretary. Both Executives were employed by the Company for the entire year ended 30 June 2021.

On 14 August 2020, Lior Harel resigned as General Counsel and Company Secretary of the Company. On the same date, Thomas Howitt, the Company’s Chief Financial Officer, was also appointed as Company Secretary of the Company.

Details of Key Management Personnel as at balance date

Directors	Executives
Shane F. Tanner (<i>Non-Executive Chairman</i>)	Rodney D. Cocks CSM (<i>Executive Director / Chief Executive Officer</i>)
Daniel E. Abrahams (<i>Non-Executive Director</i>)	Thomas G. Howitt (<i>Chief Financial Officer / Company Secretary</i>)
Jason M. Adler (<i>Non-Executive Director</i>)	
Anna E. Burke AO (<i>Non-Executive Director</i>)	
Michael R. Gorenstein (<i>Non-Executive Director</i>)	

Details of shares held by Key Management Personnel as at balance date

Interest in shares held in Cronos Australia Limited	Opening balance	Shares issued	Shares purchased	Shares sold	Closing balance
Directors					
Shane F. Tanner	350,000	-	-	-	350,000
Daniel E. Abrahams	100,000	-	-	-	100,000
Anna E. Burke AO	50,000	-	-	-	50,000
Executives					
Rodney D. Cocks CSM	20,000,000	-	-	-	20,000,000
Totals	20,500,000	-	-	-	20,500,000

Nomination and Remuneration Committee

The Nomination and Remuneration Committee of the Board of Directors of the Company was established on 28 February 2019 and is, amongst other things, responsible for determining and reviewing the remuneration arrangements of the Directors, the Chief Executive Officer and the Executive Team. The Committee is chaired by Anna Burke AO and has as its members Shane Tanner and Daniel Abrahams, all three of whom are independent directors.

The Nomination and Remuneration Committee was established to assess the appropriateness of the nature and amount of remuneration paid to Directors and Executives on a periodic basis by reference to relevant employment market conditions (as described further below), with the overall objective of ensuring maximum shareholder benefit from the retention and incentivisation of a high quality Board and Executive Team.

Remuneration strategy

The performance of the Company depends upon the quality of its Directors and Executives. To prosper, the Company must attract, motivate and retain appropriately-skilled Directors and Executives.

To this end, the Company embodies the following principles in its remuneration framework:

- provide competitive rewards to attract high calibre Executives, being those individuals charged with the oversight and management of the Company's operations, whose names appear in the list above as at balance date;
- wherever possible, link Executive rewards to the creation of shareholder value;
- ensure that a portion of an Executive's total remuneration package is "at risk"; and
- establish appropriate and demanding performance hurdles for variable Executive remuneration.

The Company's remuneration strategy is approved each year by the Nomination and Remuneration Committee.

Remuneration structure

In accordance with best practice corporate governance, the structure of Non-Executive Director and Executive remuneration is both separate and distinct.

The key performance indicators applicable for Executives are quantifiable and the methods of measurement are defined and agreed in advance. Potential levels of remuneration are linked to each performance indicator based on the pretext that if the performance indicators, as defined, are met then the business will have more than likely achieved its key financial or strategic objectives. In addition to the various key performance indicators that are used to assess the performance of each Executive, the overall financial performance of the Company is also taken into consideration when determining both base levels of remuneration and short-term incentive payments that may be made to those individuals.

Non-Executive Director remuneration

Objective

The Board seeks to set aggregate remuneration at a level which provides the Company with the ability to attract and retain Directors of the highest calibre, whilst incurring a cost which is acceptable to shareholders.

Structure

The Company's Constitution and the Listing Rules of the Australian Securities Exchange specify that the aggregate remuneration of Non-Executive Directors shall be determined from time to time by a General Meeting of shareholders. An amount not exceeding the amount so determined is then divided between the Directors, as agreed. The most recent determination was made on 4 September 2019, when an aggregate remuneration amount not exceeding \$400,000 per annum was approved. The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst the Directors are reviewed annually.

Each Non-Executive Director receives a fee for serving as a Director of the Company. No additional fees are paid to any Director for serving on either of the two sub-committees of the Board. The fees paid to Directors may comprise a combination of cash and equity securities which would be granted under the Company's Equity Incentive Plan ("Plan").

Executive remuneration

Objective

The Group aims to reward its Executives with a level and mix of remuneration which is commensurate with their respective positions and responsibilities within the Group and so as to:

- reward Executives for Group and individual performance against targets set by reference to suitable benchmarks;
- align the interests of Executives with those of the shareholders; and
- ensure that the total remuneration paid is competitive by market standards.

Structure

The remuneration paid to Executives is set with reference to prevailing market levels and conditions and amounts paid by comparable companies. The total remuneration paid comprises a fixed remuneration component comprising base salary and statutory superannuation, together with a variable remuneration component (which is linked to agreed Key Performance Indicators (“KPIs”)) as described below, comprising both short-term incentive payments which are typically paid in cash, and the granting of equity securities as part of a long-term incentive arrangement. The Group aims to target, where possible, a remuneration mix comprising approximately 70% fixed remuneration and 30% variable remuneration.

Fixed remuneration

Objective

The Nomination and Remuneration Committee oversees the setting of fixed remuneration for KMP on an annual basis. The process consists of a review of Company, divisional and individual performance, relevant comparable remuneration being paid in the broader market and internally and, where appropriate, external advice on both policies and practices. The members of the Committee have access to external advice independent of Management, if required.

Structure

Fixed remuneration consists of some or all of the following components:

- base salary;
- non-monetary benefits which may include costs associated with novated motor vehicle leases, vehicle parking etc. (and associated fringe benefits tax, if applicable); and
- superannuation benefits, which includes statutory employer contributions made by the Company.

With the exception of the employer contributions to superannuation, Executives are given some flexibility to decide the composition of their total fixed remuneration and the allocation between cash and other benefits. It is intended that the manner of payment chosen will be optimal for the recipient without creating any additional cost for the Group.

Fixed remuneration is reviewed annually with reference to individual performance, market benchmarks for individual roles and the overall financial performance of the Group. Any changes to the fixed remuneration of Executives are first approved by the Nomination and Remuneration Committee.

All employee remuneration is evaluated on a regular basis using a set of variables and taking into account the addition of statutory superannuation contributions. An assessment of existing base salaries is made using comparisons against independent market data which provides information on salaries and other benefits paid for comparable roles within the life sciences sector, using independent salary survey data. Formal annual performance reviews with each employee are undertaken shortly after the end of the financial year and are based on a rating system which is used to assess his or her performance during the year and eligibility for salary increases. Other more qualitative factors, including the specialised knowledge and experience of the individual and the perceived potential difficulty of replacing that person, are also taken into account when considering salary adjustments.

Following performance reviews undertaken with each Executive in July 2021, the Nomination and Remuneration Committee resolved that, in view of economic and other factors resulting from the COVID-19 pandemic, once again no increases in base salaries would be given to any members of KMP in respect of the year ending 30 June 2022.

In respect of the year ended 30 June 2021, the Company provided total remuneration for all Executives that averaged 77.2% fixed and 22.8% at risk (comprising 19.1% short term and 3.7% long term components). In respect of the year ending 30 June 2022, the Company expects to target total remuneration for all Executives that will average 70% fixed and 30% at risk (comprising approximately 50% short-term and 50% long-term components).

Variable remuneration

Objective

The objective of variable remuneration is to:

- align the interests of Executives with those of the shareholders;
- link Executive rewards to the achievement of strategic goals and performance of the Company; and
- ensure that the total remuneration paid by the Company is competitive by market standards.

Short Term Incentive ("STI") plan

STI is an annual plan that applies to Executives and other senior employees which is based on the performance of both the Company and the individual during a given financial year. The levels of STI payments made vary depending on the role, responsibilities and deliverables achieved by each individual during the year under review. The amount of actual STI payments made to the relevant employee will depend on the extent to which the pre-agreed specific targets are met within a financial year. Specific targets are quantifiable, with the method of measurement being defined and agreed at the beginning of the financial year. The ongoing performance of the Executive or senior employee is evaluated regularly during the performance cycle.

Group objectives, and their relative weightings, vary depending on the position and responsibility of the respective individual, but in respect of the year ended 30 June 2021 they included, amongst other things, the achievement of:

- earnings before interest, tax, depreciation and amortisation ("EBITDA");
- divisional net profit targets, where an individual has capacity to impact this result;
- agreed revenue targets, on both a divisional and Group basis;
- agreed unit sales targets for products in the Group's various medicinal cannabis and personal care ranges;
- agreed targets for patient and consultation numbers at the Group's medicinal cannabis clinics; and
- targets for cost reduction or efficiency gains.

These latter measures are chosen as they represent the key drivers for the short-term success of the business and provide a framework for delivering long-term value for shareholders. Personal and operating objectives vary according to the role and responsibility of the Executive and may also include a number of non-financial objectives such as progress made in respect of project delivery, sales expansion, capital management, regulatory and compliance/ reporting outcomes, intellectual property management and staff and other leadership objectives, as agreed with the Chief Executive Officer.

As the Company continues to expand its operations, future STI payments will also be based on other factors that may be relevant to the Group's operations at that time and best reflect the overall performance of the Group.

Achievement of an individual's targets and objectives is documented and assessed by both the individual and his or her direct manager. Each individual participates in an annual performance review shortly after year end and must provide evidence of the objectives that he or she has delivered during the period under review. Each objective is then rated on an agreed achievement scale. Depending on the total ratings achieved, the individual may then be eligible to receive an STI payment.

STI payments, if any, are typically made in July/August of each year in relation to the previous financial year, subject to the completion of the performance review process, the receipt of a satisfactory rating and the approval of both the Nomination and Remuneration Committee and the Board. The Board, via its Chairman, conducts this process in the case of the Chief Executive Officer. Any such STI payments which may be made are delivered during the following reporting period as a combination of cash payments and the possible granting of equity securities pursuant to the Plan.

The most recent performance appraisals took place in mid-July 2021 in respect of the year ended 30 June 2021.

In respect of the year ended 30 June 2021, payments totalling \$161,070 were accrued as at balance date in respect of STI payments due to Executive members of KMP following the successful achievement of the targets outlined above and the completion of the annual performance appraisal process.

Long Term Incentive (“LTI”) plan

In order to attract, retain and incentivise high-performing senior executives and to align their overall remuneration with the creation of shareholder wealth, the Company has implemented an Equity Incentive Plan (the “Plan”). LTI grants made to Executives and senior employees are typically delivered in the form of premium priced options over unissued ordinary shares in the Company which are granted under the terms and conditions of the Plan. Only Executives who are able to influence the generation of shareholder wealth and have a material impact on the Group’s long-term profitability are invited to participate in the Plan.

The total value of the LTI grants made to a given Executive varies and is determined with reference to the nature of the individual’s role, as well as his or her future potential and specific individual and Company performance. The value of the grants is generally calculated as a percentage of base salary with reference to the various independent measures, as explained below. No options were granted by the Company during the year ended 30 June 2021. Refer *Note 25* for details of options that were outstanding as at that date.

In cases where an Executive ceases employment with the Company prior to the vesting of his or her options, the options are forfeited. In cases where the relevant options have vested, the prescribed period during which the options may be exercised ranges from two to twelve months, depending on the circumstances under which the employee left the Company, e.g. resignation, retirement, termination or death. In the event of a change of control of the Company, the performance period end date will be brought forward to the date of the change of control and all awards will vest over this shortened period.

Valuation of LTI grants

As stated above, the Company uses a variety of methods to calculate the percentage of a given Executive’s base salary that could be potentially made available in the form of LTI grants. Specifically, the Company considers industry-accepted rates for comparable companies to arrive at percentages that meet the objectives of the Plan (i.e. that they provide suitable retention and incentive characteristics), while at the same time being fair and reasonable for both the Company and the Executives.

In respect of the LTI securities that the Company granted during the year ended 30 June 2020, the Company first reviewed market surveys prepared by a number of independent organisations to assess the appropriate maximum annual value of long-term equities to be issued to Executives. The reports chosen examined the composition of the total remuneration paid to more than 200 executives based on a number of categories pertaining to the relevant companies employing them, including market capitalisations, numbers of employees and industry sector.

The figures obtained from the reports were then used to calculate the average percentage that should be applied to the current base salaries of the Executives to obtain the maximum value of the LTI component that could potentially be payable. Based on the 50th percentile figure for each of the categories in the reports, the percentage that the value of long-term equity grants represents of base salary was calculated to be 22%.

In addition to the above analysis based on independent anonymous market data, the Company considered the value of the equity grants made to senior executives as a percentage of their base salaries by other ASX-listed healthcare companies that have granted long-term equities to retain and incentivise their executives. The information obtained from this review confirmed that the above figure of 22%, being the ratio of the maximum value of long-term equity grants as a percentage of base salary in a given year, was within the range being paid by other selected healthcare companies listed on the ASX.

The valuation of equity securities for accounting purposes is calculated using a Black-Scholes option-pricing model that takes into account a number of variables including exercise price, term, volatility, dividend payments, interest rates etc. Given the time value of an option, the longer the term of an option, the greater its value. For accounting purposes, based on AASB 2 *Share-based payments*, the total share-based payments expense attributable to such securities is recognised evenly on a monthly basis over the vesting period applicable to the relevant option.

In order to calculate how many options could be granted to each Executive which would result in a fair value of those options being approximately 22% of the individual’s current base salary, an independent valuation of the securities was sought and received from an independent accounting firm. These values were used by the Company to calculate the total share-based payments expense that will be reflected in the Company’s financial statements for the years ended 30 June 2021 and beyond.

Variable remuneration (CONT.)

Following performance reviews undertaken with each Executive in early July 2020, the Nomination and Remuneration Committee resolved that, in view of economic and other factors resulting from the COVID-19 pandemic, there would be no LTI grants made to any Executive in respect of the year ending 30 June 2021. Consequently, no such grants were made during the 2021 financial year.

STI and LTI payments made

In respect of the years ended 30 June 2021 and 30 June 2020, the following remuneration, STI and LTI payments were made to Executives, as well as the percentages that each payment represents as a proportion of their total remuneration:

Year ended 30 June 2021	Fixed	At risk	Post-employment		
Name and title of Executive	Base salary (% of total) \$	STI (% of total) \$	LTI (% of total) \$	Superannuation (% of total) \$	Totals \$
Rodney D. Cocks CSM Chief Executive Officer	306,806 (73%)	92,040 (22%)	-	21,694 (5%)	420,540 (100%)
Thomas G. Howitt Chief Financial Officer / Company Secretary	306,806 (72%)	69,030 (16%)	31,026 (7%)	21,694 (5%)	428,556 (100%)
Lior Harel (refer Note) Former General Counsel	36,453 (93%)	-	-	2,661 (7%)	39,114 (100%)
Totals	650,065	161,070	31,026	46,049	888,210

Note: On 14 August 2020, Lior Harel resigned as General Counsel and Company Secretary of the Company. On the same date, Thomas Howitt, the Company's Chief Financial Officer, was also appointed as Company Secretary of the Company.

Year ended 30 June 2020	Fixed	At risk	Post-employment		
Name and title of Executive	Base salary (% of total) \$	STI (% of total) \$	LTI (% of total) \$	Superannuation (% of total) \$	Totals \$
Rodney D. Cocks CSM Chief Executive Officer	307,125 (93%)	-	-	21,375 (7%)	328,500 (100%)
Thomas G. Howitt Chief Financial Officer	307,125 (69%)	61,500 (14%)	50,158 (11%)	24,655 (6%)	443,438 (100%)
Lior Harel Former General Counsel	250,435 (70%)	39,564 (11%)	45,142 (13%)	21,003 (6%)	356,144 (100%)
Peter J. Righetti (refer Note) Former Chief Op. Officer	435,214 (95%)	-	-	21,003 (5%)	456,217 (100%)
Totals	1,299,899	101,064	95,300	88,036	1,584,299

Note: Peter Righetti resigned as a Director of the Company and as its Chief Operating Officer on 19 June 2020. Mr. Righetti's base salary for the year ended 30 June 2020 of \$435,214 included an Eligible Termination Payment of \$172,748 that was accrued as at 30 June 2020 and subsequently paid on 15 July 2020.

Remuneration of Key Management Personnel (“KMP”) – years ended 30 June 2021 and 2020

Name of Director		Short-term		Post-employment	Share-based	Totals
		Salary/fees \$	STI \$	Superannuation \$	LTI \$	\$
Shane F. Tanner	2021	120,000	-	-	-	120,000
<i>Non-Executive Chairman</i>	2020	155,000	-	-	-	155,000
Daniel E. Abrahams	2021	50,000	-	-	-	50,000
<i>Non-Executive Director</i>	2020	76,136	-	-	-	76,136
Jason M. Adler	2021	50,000	-	-	-	50,000
<i>Non-Executive Director</i>	2020	50,000	-	-	-	50,000
Anna E. Burke AO	2021	50,000	-	4,751	-	54,751
<i>Non-Executive Director</i>	2020	50,000	-	4,751	-	54,751
Michael R. Gorenstein	2021	50,000	-	-	-	50,000
<i>Non-Executive Director</i>	2020	50,000	-	-	-	50,000
Sub-total for Directors	2021	320,000	-	4,751	-	324,751
	2020	381,136	-	4,751	-	385,887
Name of Executive						
Rodney D. Cocks CSM	2021	306,806	92,040	21,694	-	420,540
<i>Executive Director / CEO</i>	2020	307,125	-	21,375	-	328,500
Thomas G. Howitt	2021	306,806	69,030	21,694	31,026	428,556
<i>CFO / Co. Secretary</i>	2020	307,125	61,500	24,655	50,158	443,438
Lior Harel	2021	36,453	-	2,661	-	39,114
<i>Ex. General Counsel</i>	2020	250,435	39,564	21,003	45,142	356,144
Peter J. Righetti (refer Note)	2021	-	-	-	-	-
<i>Ex. Exec. Director / COO</i>	2020	435,214	-	21,003	-	456,217
Sub-total for Executives	2021	650,065	161,070	46,049	31,026	888,210
	2020	1,299,899	101,064	88,036	95,300	1,584,299
Totals for KMP	2021	970,065	161,070	50,800	31,026	1,212,961
	2020	1,681,035	101,064	92,787	95,300	1,970,186

Note: Peter Righetti resigned as a Director of the Company and as its Chief Operating Officer on 19 June 2020. Mr. Righetti's base salary for the year ended 30 June 2020 of \$435,214 included an Eligible Termination Payment of \$172,748 that was accrued as at 30 June 2020 and subsequently paid on 15 July 2020.

The details of those Executives nominated as KMP under section 300A of the *Corporations Act 2001* have been disclosed in this Remuneration Report. No other employees of the Company meet the definition of “Key Management Personnel” as defined in IAS 24 / (AASB 124) Related Party Disclosures, or “senior manager” as defined in the *Corporations Act 2001*.

Employment contracts

Rodney D. Cocks CSM – Chief Executive Officer (“CEO”)

The Company's CEO, Rodney Cocks, is employed under an employment contract the key terms of which include:

- During the year ended 30 June 2021, Mr. Cocks' annual remuneration package was \$328,500, including statutory superannuation contributions as prescribed under the Superannuation Guarantee legislation. There will be no change to Mr. Cocks' remuneration package for the year ending 30 June 2022;
- In respect of the year ended 30 June 2021, Mr. Cocks was eligible to receive an STI payment equal to up to 40% of his base salary subject to the achievement of Key Performance Indicators, of which 75% relate to financial metrics relevant to the Company and its performance, while the remaining 25% relates to individual performance, as determined by the Company's Chairman, with any payments made being subject to Board approval. On 30 July 2021, an STI payment of \$92,040, representing 75% of his maximum entitlement, was paid in respect of the year ended 30 June 2021;
- Mr. Cocks may resign from his position, terminating the contract, by giving up to 12 months written notice and the Company may terminate his contract by providing similar notice or providing payment in lieu of the notice period; and
- The Company may terminate Mr. Cocks' contract at any time without notice if serious misconduct has occurred. Where this occurs with cause, he is only entitled to receive that portion of remuneration which is fixed and only up to the date of termination. In this instance, any entitlements to unvested STI and LTI are forfeited and would lapse.

Thomas G. Howitt – Chief Financial Officer and Company Secretary (“CFO”)

The Company's CFO, Thomas Howitt, is employed under an employment contract the key terms of which include:

- During the year ended 30 June 2021, Mr. Howitt's annual remuneration package was \$328,500, including statutory superannuation contributions as prescribed under the Superannuation Guarantee legislation. There will be no change to Mr. Howitt's remuneration package for the year ending 30 June 2022;
- In respect of the year ended 30 June 2021, Mr. Howitt was eligible to receive an STI payment equal to up to 30% of his base salary subject to the achievement of agreed Key Performance Indicators, of which 75% relate to financial metrics relevant to the Company and its performance while the remaining 25% relates to individual performance, as determined by the CEO, with any payments made being subject to Board approval. On 30 July 2021, an STI payment of \$69,030, representing 75% of his maximum entitlement, was paid in respect of the year ended 30 June 2021;
- Mr. Howitt is entitled to receive various equity securities, including options over the Company's ordinary shares and performance rights, subject to the terms of the Company's Equity Incentive Plan (“Plan”). The granting of securities under the Plan are subject to the achievement of agreed Key Performance Indicators, the discretion of the CEO and the approval of the Board. No securities were granted to Mr. Howitt in respect of the year ended 30 June 2021;
- Mr. Howitt may resign from his position, terminating the contract, by giving up to two months written notice and the Company may terminate his contract by providing similar notice or providing payment in lieu of the notice period; and
- The Company may terminate Mr. Howitt's contract at any time without notice if serious misconduct has occurred. Where this occurs with cause, he is only entitled to receive that portion of remuneration which is fixed and only up to the date of termination. In this instance, any entitlements to unvested STI and LTI are forfeited and would lapse.

End of Remuneration Report

AUDIT AND 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 Group are important. During the year ended 30 June 2021, total fees of \$75,000 (2020: \$82,000) were paid or payable in respect of audit services provided by KPMG to the Company and \$5,000 (2020: \$nil) was paid or payable in respect of securities valuation services provided by KPMG to the Company.

ROUNDING OF AMOUNTS

The Company is of a kind referred to in ASIC Corporations (Rounding Financial/Directors' Reports) Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the Directors' Report. Amounts in the Directors' Report have been rounded off in accordance with that Instrument to the nearest dollar.

PROCEEDINGS ON BEHALF OF THE COMPANY

No proceedings have been brought or intervened in or on behalf of the Company with leave to the Court under section 237 of the *Corporations Act 2001*.

DIRECTORS' AND COMMITTEE MEETINGS

As at the date of this Report, the Company had six Directors. The Company also had an Audit and Risk Committee (members: Daniel Abrahams (Chair), Shane Tanner and Anna Burke AO) and a Nomination and Remuneration Committee (members: Anna Burke AO (Chair), Shane Tanner and Daniel Abrahams). All of the members of both Committees were independent Directors.

The number of meetings of Directors and the respective Committees held during the period from 1 July 2020 up to the date of this Report, including Circular Resolutions passed by the Board, and the number of such meetings attended by each Director, are summarised in the table below:

Name of Director	Board of Directors		Audit and Risk Committee		Nomination and Remuneration Committee	
	Eligible	Attended	Eligible	Attended	Eligible	Attended
Shane F. Tanner (<i>Chairman</i>)	16	16	4	4	2	2
Rodney D. Cocks CSM	16	16	-	-	-	-
Daniel E. Abrahams	16	16	4	4	2	2
Jason M. Adler	16	14	-	-	-	-
Anna E. Burke AO	16	16	4	4	2	2
Michael R. Gorenstein	16	15	-	-	-	-

AUDITOR'S INDEPENDENCE DECLARATION

KPMG continues in office as auditor in accordance with section 327 of the *Corporations Act 2001*. A copy of KPMG's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 45 of this Annual Report.

This Report is signed in accordance with a resolution of the Directors.



SHANE F. TANNER
Chairman



RODNEY D. COCKS CSM
Director

Melbourne, 27 August 2021

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Auditor's Independence Declaration



Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of Cronos Australia Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Cronos Australia Limited for the financial year ended 30 June 2021 there have been:

- i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- ii. no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

Gordon Sangster

Partner

Melbourne

27 August 2021

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Corporate Governance Statement

INTRODUCTION

Cronos Australia Limited (“CAL” and the “Company”) and its Board are committed to achieving and demonstrating the highest standards of corporate governance. The Board continues to review its corporate governance framework and practices to ensure they meet the interests of the shareholders. In this Statement, the Company and the ten entities it controlled as at 30 June 2021 are collectively referred to as the “Group”.

A description of the Group’s main corporate governance practices is set out below. Unless otherwise stated, all of these practices were in place for the entire period from 1 July 2020 to 30 June 2021 and comply with the Corporate Governance Principles and Recommendations (including all relevant amendments) of the Australian Securities Exchange (“ASX”).

While in most respects the Company complies with the Recommendations, in several areas, policies and practices are being further developed to bring them more closely into line. As new policies are produced, or as the existing ones are updated, they are published on the Company’s website.

All of the Company’s significant policies are published on its website (www.cronosaustralia.com).

As at the date of this Financial Report, the following Corporate Governance documents had been adopted by the Board, in addition to the Company’s Constitution which was adopted on 27 September 2018:

- Board Charter, which defines the role of the Board and that of Management;
- Audit and Risk Committee Charter;
- Nomination and Remuneration Committee Charter;
- Code of Conduct;
- Disclosure and Communication Policy;
- Whistleblower Policy;
- Trading Policy; and
- Diversity Policy.

ASX PRINCIPLES AND RECOMMENDATIONS

Principle 1: Lay solid foundations for management and oversight

The relationship between the Board and Management is critical to the Group’s success. The Directors are responsible to the shareholders for the performance of the Group in both the short and long terms. They also seek to balance sometimes competing objectives in the best interests of the Group as a whole, with a focus to enhance the interests of shareholders and other key stakeholders and to ensure the Group is appropriately managed.

The responsibilities of the Board include:

- providing strategic guidance to the Group as a whole, including contributing to the development of and approving the Group’s corporate strategy;
- reviewing and approving the Group’s business plans, its annual budget and financial plans, including available resources and major capital expenditure initiatives;
- overseeing and monitoring:
 - organisational performance and the achievement of the Group’s strategic goals and objectives;
 - compliance with, and effectiveness of, the Company’s governance practices; and
 - progress of major capital and other significant projects, including any acquisitions or divestments;
- monitoring the Group’s financial performance, including approval of the annual and half-year financial reports and regular liaison with the Company’s external auditors;

Principle 1: Lay solid foundations for management and oversight (CONT.)

- appointment, performance assessment and, if necessary, removal of the Chief Executive Officer;
- ensuring there are effective processes in place for approving major corporate initiatives;
- ratifying the appointment and/or removal of members of the Company's Executive Team and contributing to the assessment of their performance;
- enhancing and protecting the reputation of the organisation;
- overseeing the operation of the Group's system for compliance and risk management; and
- ensuring appropriate resources are available to the Group's senior Management to enable them to implement the strategies approved by the Board.

Day-to-day management of the Group's affairs and the implementation of the corporate strategy and policy initiatives are formally delegated by the Board to the Chief Executive Officer and the Executive Team as set out in the Group's delegations policies. These delegations are reviewed by the Board on a regular basis.

The Company was admitted to the Official List of the ASX during the year ended 30 June 2020 and a formal process for evaluating the performance of the Board, its Committees and the individual Directors themselves is still being further developed. In the meantime, the Chairman holds regular discussions with Directors to ascertain their views on Company-related matters and to provide feedback to the Directors, where necessary. It is anticipated that further enhancements to the performance evaluation process for all Directors and Committee members will be introduced during the financial year ending 30 June 2022.

The most recent performance appraisals for all members of the Executive Team took place in mid-July 2021 in respect of the year ended 30 June 2021. The process for these assessments is described in detail in the Remuneration Report on pages 35 to 42 of this Annual Report.

Diversity policy

The Company values diversity and recognises the benefits it can bring to the organisation's ability to achieve its goals. Accordingly, the Company has developed and introduced a diversity policy which outlines its diversity objectives in relation to gender, age, cultural background, ethnicity and other factors. It includes requirements for the Board to establish measurable objectives for achieving diversity, and for the Board to annually assess both the objectives, and the Company's progress made in achieving them.

In accordance with the Company's Diversity Policy and ASX Corporate Governance principles, the Board has established various objectives in relation to gender diversity. The aim is to achieve these objectives over the coming two to three years as relevant positions become vacant and appropriately-qualified candidates are available.

The objectives set by the Board in relation to gender diversity, and the actual results as at the date of this Financial Report, are set out in the following table.

	Objective		Actual	
	Number	Percentage	Number	Percentage
Number of women in whole organisation	8	50%	7	42%
Number of women in Executive positions	1	33%	0	0%
Number of women on the Board	2	33%	1	17%

Responsibility for diversity has been included in the Charters for both the Board and the Nomination and Remuneration Committee. The Company anticipates it will be able to more closely achieve its diversity objectives above as it continues to expand its operations and attract more individuals into the organisation.

Principle 2: Structure the Board to add value

The Board operates in accordance with the broad principles set out in its Charter which is available in the corporate governance information section of the Company's website (www.cronosaustralia.com). The Charter provides details of the Board's composition and responsibilities.

Board composition

The Charter provides that:

- the Board may be comprised of both executive and non-executive Directors;
- the Company will seek to have Directors with an appropriate range of skills, experience and expertise, together with an understanding of, and competence to deal with, current and emerging issues faced by the business;
- in recognition of the importance of independent views and the Board's role in supervising the activities of Management, the Chairman must be an independent non-executive Director and all Directors are required to exercise independent judgement and review and constructively challenge the performance of the Executive Team;
- the Chairman is elected by the full Board; and
- independent Directors should regularly meet separately to consider, amongst other things, executive performance.

The Board seeks to ensure that:

- at any point in time, its membership represents an appropriate balance between directors with experience and knowledge of the Group and directors who bring with them an external or fresh perspective; and
- the size of the Board is conducive to effective discussion and efficient decision-making.

Board members

Details of Directors, their experience, expertise, qualifications, term of office, relationships affecting their independence and their independent status are set out in the Directors' Report. As at the date of signing the Directors' Report, three of the Directors served as independent, non-executive Directors. These Directors were Shane Tanner, Daniel Abrahams and Anna Burke AO. None of these Directors had relationships which may adversely affect their independence and, as such, they are deemed independent under the principles set out above.

Directors' independence

The Board has adopted specific principles in relation to the independence of its Directors. These principles state that, when determining independence, a Director should be non-executive and the Board should consider whether the Director:

- is a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company;
- is, or has been, employed in an executive capacity by the Company or any other Group member within three years before commencing his or her service on the Board;
- within the last three years has been a principal of a material professional adviser or a material consultant to the Company or other Group member, or an employee materially associated with the service provided;
- is a material supplier or customer of the Company or any other Group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
- has a material contractual relationship with the Company or a controlled entity other than as a Director of the Group;
- is free from any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Director's independent exercise of his or her judgement;
- has close family ties with any person who falls within any of the categories described above; and
- has been a Director for such a period that his or her independence may have been compromised.

Principle 2: Structure the Board to add value (CONT.)

Materiality for these purposes is determined on both quantitative and qualitative bases. An amount of over five percent of annual turnover of the Company or Group or five percent of the individual Director's net worth is considered material for these purposes. In addition, a transaction of any amount or a relationship is deemed material if knowledge of it may impact the shareholders' perception of the respective Director's performance.

It is a generally held view that a Director's independence may be perceived to be impacted by lengthy service on the Board. To avoid any potential concerns, the Board has determined that a Director will not be deemed independent if he or she has served on the Board of the Company for a period of more than ten years.

The Board assesses the independence of its Directors each year. To enable this process, the Directors must provide all information that may be relevant to the assessment. As at the date of this Financial Report, the Board comprises a total of six Directors, of whom three are deemed to be independent. In addition, the Chairman of the Board is deemed to be independent. The Board believes that its current composition, being an even split of independent and non-independent Directors, is appropriate at this, relatively-early stage of the Company's development.

Term of office

The Company's Constitution specifies that all non-executive Directors must retire from office no later than the third Annual General Meeting ("AGM") following his or her last election. Where eligible, a Director may stand for re-election.

Chairman and Chief Executive Officer ("CEO")

The Chairman is responsible for leading the Board, ensuring that Directors are properly briefed in all matters relevant to their role and responsibilities, facilitating Board discussions and managing the Board's relationship with the Company's Executive Team. In accepting the position, the Chairman acknowledges that the role will require a significant time commitment and confirms that other positions held will not hinder his or her effective performance in that role.

The CEO is responsible for implementing Group strategies and policies. The Board Charter specifies that the Chairman and CEO are separate roles to be undertaken by separate people.

Company Secretary

Through the Chair, the Company Secretary is accountable directly to the Board on all matters to do with the proper functioning of the Board.

Induction

The induction process provided to new Directors enables them to actively participate in Board discussions and decision-making as soon as possible. It ensures that each Director has a complete understanding of the Company's financial position, strategies, operations, culture, values and risk management policies and processes. It also explains the respective rights, duties and responsibilities of each Director and their interaction with the Executive Team as well as the Company's meeting arrangements. Where applicable, the Company provides Directors with opportunities to undertake professional development activities which are relevant to their ability to perform their duties as Directors effectively.

Commitment

The Board held/passed a total of sixteen Board meetings and Circular Resolutions during the period from 1 July 2020 to the date of the Directors' Report. Non-executive Directors are expected to spend adequate time preparing for and attending Board and Committee meetings and associated activities. The number of meetings of the Company's Board of Directors and each Committee held during the above period, and the number of such meetings attended, or resolutions passed by, each Director are disclosed on page 43 of this Annual Report.

The commitments of all non-executive Directors are considered by the Nomination and Remuneration Committee prior to the respective Director's appointment to the Board and are reviewed each year as part of the annual performance assessment. Prior to appointment or re-election, each non-executive Director is required to specifically acknowledge that they have, and will continue to have, the time available to fully discharge their responsibilities to the Company.

Conflict of interests

In accordance with the Board Charter, all Directors are required to declare all interests in dealings with the Company and are required to take no part in decisions relating to them. In addition, those Directors are not entitled to receive any papers from the Group pertaining to those dealings. No such declarations were received from any Directors during the period from 1 July 2020 up to the date of signing the Directors' Report.

Performance assessment

As detailed above, a formal process for evaluating the performance of the Board, its Committees and each individual Director is still being further developed. In the meantime, the Chairman holds regular discussions with Directors to ascertain their views on Company-related matters and to provide feedback to the Directors, where necessary. It is anticipated that a more formal performance evaluation process, which will include consideration of the adequacy of the Company's induction and continuing education processes, access to information and the support provided to the Board by the Company Secretary, will be implemented during the financial year ending 30 June 2022.

Once established, members of the Executive Team will be invited to contribute to this appraisal process. The results arising from this review and any action plans are to be documented, together with performance goals which will then be agreed for the coming year. The Chairman undertakes to complete an assessment of the performance of all Directors individually and to meet with each Director separately to discuss this assessment.

Board Sub-Committees

The Board has established two Committees to assist it in the efficient execution of its duties and to enable the detailed consideration of complex issues. The current Committees of the Board are the Audit and Risk Committee and the Nomination and Remuneration Committee. Both Committees are comprised entirely of independent, non-executive Directors. The structure and membership of each Committee is reviewed on an annual basis.

Each Committee has its own written Charter setting out its role and responsibilities and that of its members, its composition, structure, membership requirements and the manner in which the Committee is to operate. Both Charters are reviewed on an annual basis and are available for review on the Company's website. All matters determined by the Committees are submitted to the full Board as recommendations for Board decisions.

All minutes of Committee meetings are tabled at the subsequent Board meeting. Additional requirements for specific reporting by the Committees to the Board are addressed in the Charters of the respective Committees.

Nomination and Remuneration Committee

The Company's Nomination and Remuneration Committee consists of Anna Burke AO (Chairman), Shane Tanner and Daniel Abrahams, all of whom are independent. Details of their attendance at meetings of the Committee are set out on page 43 of this Annual Report. The Committee, which operates in accordance with its Charter that is available on the Company's website, met twice during the period from 1 July 2020 up to the date of the Directors' Report.

The policies and practices adopted by the Company in relation to the remuneration of all Directors are detailed in the Remuneration Report which is included on pages 35 to 42 of this Annual Report.

The main responsibilities of the Nomination and Remuneration Committee are to:

- conduct an annual review of the membership of the Board, having regard to present and future needs of the Company and to make recommendations on Board composition and appointments;
- conduct an annual review of, and conclude on the independence of, each Director;
- propose candidates to fill Board vacancies;
- oversee the Company's annual performance assessment program;
- consider recommendations for any changes in the future remuneration arrangements for the Chief Executive Officer and the Executive Team;
- consider recommendations for any payments under the Group's short-term and long-term incentive schemes;
- oversee Board succession, including the succession of the Chairman, and review whether succession plans are in place to maintain an appropriately balanced mix of skills, experience and diversity on the Board; and
- assess the effectiveness of the Director induction process.

Principle 2: Structure the Board to add value (CONT.)

When a new Director is to be appointed, the Committee prepares a Board skills matrix to review the range of skills, experience and expertise on the Board, and to identify its needs. A number of channels are used to source candidates to ensure the Company benefits from a diverse range of individuals in the selection process. Where necessary, advice and support are sought from independent search consultants. While the Company does not currently maintain a detailed skills matrix, given its relatively early stage of development, an assessment of the skills, experience and expertise of the Directors on the Board is prepared prior to the appointment of any new Director.

Appropriate checks are undertaken on all potential candidates, including those necessary for a Director to qualify as a “Fit and Proper” person under the rules of the Office of Drug Control, before any candidate is elected to the Board or put forward for election by the shareholders. From this list of potential candidates, the Committee prepares a short-list of those who are eligible and who have appropriate skills and experience.

The full Board then appoints the most suitable candidate who must stand for election at the Company’s next AGM. The Committee’s nomination of existing Directors for reappointment is not automatic and is contingent on their past performance, contribution to the Board and the current and future needs of both the Board and Company. The Board and the Committee are aware of the advantages of Board renewal and succession planning and notices of meetings for the election of Directors comply with the ASX Corporate Governance Council’s best practice recommendations.

New Directors are provided with a letter of appointment setting out the terms and conditions of their appointment, the Company’s expectations of them, and their rights and responsibilities as Directors. All new Directors participate in a formal induction program which covers the operation of the Board and its Committees, as well as a review of all financial, strategic, operations and risk management issues.

Independent professional advice

All Directors and members of the Board’s two Committees have the right, in connection with exercising their duties and responsibilities, to seek independent professional advice at the Company’s expense. Prior written approval of the Chairman is required, however such approval will not be unreasonably withheld. No such advice was sought during the year ended 30 June 2021.

Principle 3: Promote ethical and responsible decision making

Code of conduct

The Company has developed a statement of values and a Code of Conduct (the “Code”) which has been fully endorsed by the Board and applies to all Directors and employees. The Code is regularly reviewed and updated as necessary to ensure it reflects the highest standards of behaviour and professionalism and the practices necessary to maintain confidence in the Group’s integrity and to take into account its legal obligations and the reasonable expectations of the Company’s stakeholders. A copy of the Code is available on the Company’s website.

In summary, the Code requires that, at all times, Directors and employees act with the utmost integrity, objectivity and in compliance with the letter and the spirit of the law and the Company’s policies.

The purchase and sale of Company securities by Directors and employees is governed by the Trading Policy, a copy of which is available on the Company’s website. Such trading is not permitted during the two-month periods immediately following the end of the Company’s two financial half-years, i.e. after 31 December and 30 June of each year, respectively. Any transactions undertaken by Directors outside of these periods must be notified to the Company Secretary in advance.

The Code requires employees who become aware of unethical practices within the Group or breaches of the Company’s Trading Policy to report such breaches to the Chairman. The Directors are satisfied that the Group has complied with its policies on ethical standards, including trading in the Company’s securities.

Principle 4: Safeguard integrity in financial reporting**Audit and Risk Committee**

The Audit and Risk Committee consists of Daniel Abrahams (Chairman), Shane Tanner and Anna Burke AO, all of whom are independent, non-executive Directors. The Committee, which operates in accordance with its Charter that is available on the Company's website, met four times during the period from 1 July 2020 up to the date of the Directors' Report. All members of the Audit and Risk Committee are financially literate and have an appropriate understanding of the industry in which the Group operates. Details of the qualifications and experience of the members of the Committee are disclosed on pages 24 and 25 of this Annual Report.

The Company does not have an internal audit function as the Board believes that the scale of the Company's current operations does not warrant the establishment of one. To compensate and ensure appropriate oversight, the members of the Audit and Risk Committee take an active role in reviewing the financial information that is presented to the Committee and, via the Chair of the Committee, ask questions of Management on a regular basis.

The main responsibilities of the Audit and Risk Committee are to:

- review, assess and approve Company's annual financial reports, the half-year financial report and all other financial information published by the Company or released to the Market, including its ASX Appendices 4C, 4D, 4E and 4G;
- assist the Board in reviewing the effectiveness of the organisation's internal control environment covering:
 - the effectiveness and efficiency of its operations;
 - the reliability of financial reporting; and
 - its compliance with applicable laws and regulations;
- oversee the effective operation of the Company's risk management framework and the regular review of the Group's Risk Register;
- recommend to the Board the appointment, removal and remuneration of the external auditors, and review the terms of their annual engagements, the scope and quality of the audit and assess the auditor's overall performance;
- consider the independence and competence of the external auditor on an ongoing basis;
- review and approve the level of non-audit services provided by the Group's external auditor and ensure that it does not adversely impact the auditor's independence;
- review and monitor all related party transactions and assess their propriety; and
- report to the Board on matters relevant to the Committee's role and responsibilities.

In fulfilling its responsibilities, the Audit and Risk Committee:

- receives regular reports from Management, and in particular the CFO, and the Company's external auditor;
- meets with the external auditor at least twice a year, or more frequently, if necessary;
- reviews the processes the CEO and CFO have in place to support their annual certifications to the Board;
- reviews any significant disagreements between the auditor and Management, irrespective of whether they have been resolved; and
- provides the external auditor with a clear line of direct communication at any time to either the Chairman of the Audit and Risk Committee or, if necessary, the Chairman of the Board.

The Audit and Risk Committee has authority, as part of its responsibilities, to seek any information it requires from any employee or external party.

Principle 4: Safeguard integrity in financial reporting (CONT.)

External auditor

The policy of the Company and the Audit and Risk Committee is to appoint an external auditor who clearly demonstrates quality of service and independence. The performance of the Group's external auditor is reviewed annually and applications for tender of external audit services are requested as deemed appropriate, taking into consideration an assessment of performance, existing value and tender costs. KPMG was appointed as the Group's external auditor in 2018. It is a regulatory requirement to rotate audit lead engagement partners on listed companies such as Cronos Australia at least every five years.

An analysis of the fees paid to the external auditor, including a break-down of fees for non-audit services, is provided in the Directors' Report and in *Note 31* to the financial statements. It is the policy of the external auditor to provide an annual declaration of its independence to the Audit and Risk Committee which is reproduced immediately following the Directors' Report on page 45 of this Annual Report.

The external auditor attends the Company's AGM and is available to answer shareholder questions about the conduct of the audit and the preparation and content of the audit report.

Corporate reporting

In complying with recommendation 4.2, the CEO and CFO make the following annual certifications to the Board:

- that the Company's financial reports are complete and present a true and fair view, in all material respects, of the financial condition and operational results of the Company and the Group and are in accordance with relevant accounting standards; and
- that the above statement is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board and that the Company's risk management and internal compliance and control is operating efficiently and effectively in all material respects in relation to financial reporting risks.

Principles 5 and 6: Make timely and balanced disclosures and respect the rights of shareholders

Continuous disclosure and shareholder communication

The Company has written policies and procedures regarding the disclosure of information that focus on the continuous disclosure of any information concerning the Group that a reasonable person would expect to have a material effect on the price of the Company's securities. These policies and procedures also include the arrangements the Company has in place to promote communication with shareholders and encourage their effective participation at general meetings. A summary of these policies and procedures is available on the Company's website.

The Company Secretary has been nominated as the primary person responsible for communications with the Australian Securities Exchange ("ASX"). This role includes the responsibility for ensuring compliance with the various continuous disclosure requirements detailed in the ASX Listing Rules and overseeing and co-ordinating information disclosure to the ASX, analysts, brokers, shareholders, the media and the public. An external investor relations group is retained by the Company to assist it with the creation and dissemination of information regarding the Company to its stakeholders.

All information disclosed to the ASX is posted on the Company's website as soon as it is released to the ASX. When analysts are briefed on the Group's operations, the materials used in the presentation are released to the ASX and posted on the Company's website. Procedures have also been established for reviewing whether any price sensitive information may have been inadvertently disclosed and, if so, this information is also immediately released to the Market.

The Company's website enables users to provide feedback to the Company and has an option for shareholders to register their email addresses to receive direct email updates on all Company-related matters that it may release.

All shareholders are entitled to receive a hard copy of the Company's Annual and Half-Year Reports which are also available for download on its website.

Principle 7: Recognise and manage risk

The Board is responsible for satisfying itself annually, or more frequently as required, that Management has developed and implemented a sound system of risk management and internal control. Detailed work on this task is delegated to the Audit and Risk Committee and reviewed by the full Board.

The Audit and Risk Committee is responsible for ensuring there are adequate policies in place in relation to risk management, compliance and internal control systems. The Committee monitors the Company's risk management processes by overseeing Management's actions in the evaluation, management, monitoring and reporting of material operational, financial, regulatory, compliance and strategic risks faced by the Company.

In providing this oversight, the Audit and Risk Committee:

- reviews the framework and methodology for risk identification, the degree of risk the Company is willing to accept, the overall management of risk and the processes for reviewing and evaluating the effectiveness of the Company's risk management system;
- reviews Group-wide objectives in the context of the abovementioned categories of corporate risk;
- reviews and, where necessary, approves guidelines and policies governing the identification, assessment and management of the Company's exposure to risk, including the regular review of the Group's detailed Risk Register;
- reviews and approves the delegations of financial authorities and addresses any need to update these authorities on an annual basis; and
- reviews compliance with agreed policies.

The Committee recommends any actions it deems appropriate in relation to risk to the Board for its consideration.

Management is responsible for designing, implementing and reporting on the adequacy of the Company's risk management and internal control system and has to report to the Audit and Risk Committee on the effectiveness of:

- the risk management and internal control system during the year; and
- the Company's management of its material business risks via its documented Risk Register.

The Company does not believe that it has specific exposure to unusual economic, environmental or social sustainability risks beyond those that would apply to all listed companies.

Risk management group

The Company's risk management policies and the operation of its risk management and compliance system, which are documented in the Group's Risk Register, are managed by the Company's risk management group which consists of selected senior executives and is chaired by the Company's Chief Financial Officer. The Board receives reports from this group as to the effectiveness of the Company's management of material risks that may impede or impact the Company's ability to meet its business objectives. The Risk Register is reviewed and updated on a regular basis, with the most recent review having taken place on 20 May 2021.

Each of the Company's business units report to the risk management group on the key business risks applicable to their respective areas. The review is undertaken by business unit management, following which the risk management group consolidates the business unit reports and recommends any actions to the Audit and Risk Committee, and subsequently the Board, for their consideration.

Principle 8: Remunerate fairly and responsibly

All matters pertaining to the remuneration of the Company's Directors and employees are overseen and managed by the Nomination and Remuneration Committee, as described above. As necessary, Committee members consider information received from external remuneration experts and other independent sources in relation to recent developments on remuneration and related matters.

Each member of the Executive Team signs a formal employment contract at the time of his or her appointment which documents a range of matters including their remuneration, duties, rights, responsibilities and any entitlements they may receive on termination. The standard contract refers to a specific formal job description which is reviewed by the Nomination and Remuneration Committee on a regular basis and, where necessary, is revised in consultation with the relevant employee.

Further information on Directors' and Executives' remuneration, including the principles used to determine remuneration, is set out in the Directors' Report under the heading "Remuneration Report" on pages 35 to 42 of this Annual Report. In accordance with the Group's policy, participants in equity-based remuneration plans are not permitted to enter into any transactions that would limit the economic risk of options or other unvested entitlements.

The Nomination and Remuneration Committee also assumes responsibility for overseeing management succession planning, including the implementation of appropriate executive training and development programs and ensuring that adequate arrangements are in place so that appropriate candidates can be recruited for promotion to senior positions.

Consolidated Statement of Comprehensive Income/(Loss)

For the year ended 30 June 2021

	Notes	Consolidated	
		30 June 2021 \$	30 June 2020 \$
Continuing operations			
Revenue	4	1,692,840	123,850
Cost of sales		(819,912)	(7,064)
Gross profit		872,928	116,786
Other income	5	129,101	340,078
Accounting, tax and audit fees		(113,319)	(211,715)
Administration expenses		(725,329)	(533,321)
Finance costs		(294,158)	(205,136)
Legal and regulatory expenses		(309,550)	(166,051)
Personnel expenses		(3,425,074)	(3,145,372)
Sales, marketing and distribution expenses		(285,629)	(65,510)
Travel and accommodation		(54,820)	(119,437)
Loss before income tax		(4,205,850)	(3,989,678)
Income tax benefit/(expense)	8(a)	-	-
Loss for the year	6	(4,205,850)	(3,989,678)
Other comprehensive income/(loss)			
<i>Items that may be reclassified to profit or loss</i>			
Exchange gains on translation of controlled foreign operations	22(b)	54,355	205
Other comprehensive income/(loss) for the year, net of tax		54,355	205
Total comprehensive loss for the year		(4,151,495)	(3,989,473)
Loss for the year is attributable to:			
Owners of Cronos Australia Limited		(4,049,209)	(3,937,213)
Non-controlling interests	24	(156,641)	(52,465)
Total loss for the year		(4,205,850)	(3,989,678)
Total comprehensive loss for the year is attributable to:			
Owners of Cronos Australia Limited		(3,994,854)	(3,937,008)
Non-controlling interests	24	(156,641)	(52,465)
Total comprehensive loss for the year		(4,151,495)	(3,989,473)
Loss per share attributable to owners of Cronos Australia Limited and from continuing operations:			
Basic and diluted loss per share	7	(0.03)	(0.04)

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at 30 June 2021

	Notes	Consolidated	
		30 June 2021 \$	30 June 2020 \$
Assets			
Current Assets			
Cash and cash equivalents	10	9,467,175	14,685,943
Trade and other receivables	11	433,328	27,200
Inventories	12	1,338,747	192,450
Other assets	13	519,507	339,780
Total Current Assets		11,758,757	15,245,373
Non-Current Assets			
Property, plant and equipment	14	437,862	490,380
Intangible assets and goodwill	15	491,457	491,457
Total Non-Current Assets		929,319	981,837
Total Assets		12,688,076	16,227,210
Liabilities			
Current Liabilities			
Trade and other payables	16	1,002,226	452,436
Interest-bearing liabilities	17	2,110,217	72,584
Chattel mortgage liabilities	18	-	31,892
Employee benefit provisions	19	99,516	70,516
Total Current Liabilities		3,211,959	627,428
Non-Current Liabilities			
Interest-bearing liabilities	20	253,687	2,103,113
Total Non-Current Liabilities		253,687	2,103,113
Total Liabilities		3,465,646	2,730,541
Net Assets		9,222,430	13,496,669
Equity			
Share capital	21	20,012,053	20,012,053
Reserves	22	116,827	214,934
Accumulated losses	23	(10,833,270)	(6,784,061)
Equity attributable to owners of the Company		9,295,610	13,442,926
Non-controlling interests	24	(73,180)	53,743
Total Equity		9,222,430	13,496,669

The accompanying notes form an integral part of these consolidated financial statements.

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Consolidated Statement of Changes in Equity

For the year ended 30 June 2021

	Attributable to members of Cronos Australia Limited			Non- controlling interests \$	Totals \$
	Share capital \$	Reserves \$	Accumulated losses \$		
Balance at 30 June 2019	54,655	-	(2,846,848)	-	(2,792,193)
Loss for the year	-	-	(3,937,213)	(52,465)	(3,989,678)
Other comprehensive income/(loss)	-	205	-	-	205
Total comprehensive income/(loss)	-	205	(3,937,213)	(52,465)	(3,989,473)
<i>Transactions with owners</i>					
Shares issued for cash	20,000,000	-	-	98,000	20,098,000
Shares issued for loans	3,500,000	-	-	-	3,500,000
Equity transaction costs	(3,542,602)	-	-	-	(3,542,602)
Share-based payments	-	214,729	-	-	214,729
Proportionate share of assets acquired in subsidiary	-	-	-	8,208	8,208
Total transactions with owners	19,957,398	214,729	-	106,208	20,278,335
Balance at 30 June 2020	20,012,053	214,934	(6,784,061)	53,743	13,496,669
Loss for the year	-	-	(4,049,209)	(156,641)	(4,205,850)
Other comprehensive income/(loss)	-	54,355	-	-	54,355
Total comprehensive income/(loss)	-	54,355	(4,049,209)	(156,641)	(4,151,495)
<i>Transactions with owners</i>					
Share-based payments	-	(21,744)	-	-	(21,744)
Acquisition of non-controlling interests without a change in control	-	(130,718)	-	29,718	(101,000)
Total transactions with owners	-	(152,462)	-	29,718	(122,744)
Balance at 30 June 2021	20,012,053	116,827	(10,833,270)	(73,180)	9,222,430

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 30 June 2021

	Notes	Consolidated	
		30 June 2021 \$	30 June 2020 \$
Cash flows from/(used in) operating activities			
Receipts from customers		1,228,932	114,783
Payments made to suppliers and employees		(6,250,341)	(5,200,773)
Receipts from Government stimulus schemes		179,263	75,478
Interest received		46,091	131,924
Net cash flows from/(used in) operating activities	28	(4,796,055)	(4,878,588)
Cash flows from/(used in) investing activities			
Proceeds from sale of plant and equipment		500	-
Acquisition of non-controlling interests		(101,000)	-
Purchases of plant and equipment	14(c)	(40,185)	(120,201)
Payment of security deposits		(20,000)	(149,204)
Landlord incentive received		-	49,384
Payment for acquisition of subsidiary, net of cash	26(a)	-	(295,894)
Net cash flows from/(used in) investing activities		(160,685)	(515,915)
Cash flows from/(used in) financing activities			
Proceeds from non-controlling interests		30,000	-
Payment of equity issuance costs		(171,889)	-
Payment of lease liabilities	17(a)	(87,316)	(11,215)
Chattel mortgage repayments	18	(32,823)	(53,682)
Proceeds from the issue of shares	21(b)	-	20,000,000
Proceeds from convertible loans	21(b)	-	3,500,000
Proceeds from the issue of shares to non-controlling interests	26(b)	-	98,000
Payment of transaction costs related to the issue of shares		-	(3,092,824)
Repayment of loan from related parties	17(c)	-	(519,512)
Net cash flows from/(used in) financing activities		(262,028)	19,920,767
Net increase/(decrease) in cash and cash equivalents held		(5,218,768)	14,526,264
Cash and cash equivalents at the beginning of the year		14,685,943	159,679
Cash and cash equivalents at the end of the year	10	9,467,175	14,685,943

The accompanying notes form an integral part of these consolidated financial statements.

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Notes to the Financial Statements

For the year ended 30 June 2021

1. CORPORATE INFORMATION

The financial statements of Cronos Australia Limited (“CAL” and the “Company”) for the year ended 30 June 2021 were authorised for issue in accordance with a resolution of the Company’s Board of Directors dated 27 August 2021. CAL was incorporated in Australia on 27 September 2018 and is a company limited by shares. The Company is listed on the Australian Securities Exchange and trades under the ASX symbol CAU.

The Company, together with its subsidiaries, are referred to in these financial statements as the “Group”.

The Company operates in the medicinal cannabis industry in Australia and has also launched three ranges of consumer products for sale in Australia and target markets in Asia. CAL’s operations are headquartered in Melbourne, Australia.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

These general-purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*. Cronos Australia Limited is a for-profit entity for the purpose of preparing the financial statements.

Compliance with IFRS

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

New and amended standards adopted by the Group

New Accounting Standards and Interpretations not yet mandatory, or early adopted Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group for the reporting year ended 30 June 2021.

Early adoption of standards

The Group has not elected to apply any pronouncements before their operative date in the annual reporting period beginning 1 July 2020.

Historical cost convention

These financial statements have been prepared under the historical cost convention.

Critical accounting estimates

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in *Note 3*.

Going concern

The financial statements contained in this consolidated Financial Report have been prepared on a going concern basis. While the longer-term impacts of the COVID-19 pandemic are uncertain, the Company does not believe that the pandemic will have a significant impact on its operations during the coming financial year.

(b) New and amended accounting standards and interpretations

A number of new and revised standards and interpretations are effective from 1 July 2020, however they did not have a material impact on the disclosures or amounts recognised in the Company’s consolidated financial statements for the year ended 30 June 2021.

A number of new standards are effective for annual periods beginning after 1 July 2021 and earlier application is permitted. However, in preparing these consolidated financial statements, the Group has not early adopted the new or amended standards.

(c) Principles of consolidation

Subsidiaries

The consolidated financial statements of Cronos Australia Limited (the “Company”, “CAL” or the “Parent Entity”) for the year ended 30 June 2021 incorporate the assets and liabilities of the subsidiaries it controlled as at balance date, being Cronos Australia Group Pty. Ltd., Cronos Australia – Operations Pty. Ltd., Prominent Brands Pty. Ltd., Cronos Australia – New Zealand Limited, Personal Care Asia Limited, Personal Care Asia GK, Medical Clinic Holdings Pty. Ltd., Cannadoc Health Pty. Ltd., Cannadoc Health (NZ) Limited and CBD Joint Venture Pty. Ltd. and their results for the periods then ended. CAL and its subsidiaries together are referred to in these financial statements as the “Group”.

Subsidiaries are entities controlled by the Group. The Group “controls” an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of the subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Intercompany transactions and unrealised gains/losses on transactions between Group companies are offset against the respective loan accounts and eliminated on consolidation. Expenses paid by one Group company on behalf of another and all intercompany charges are offset against the respective loan accounts. Unrealised losses are eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries are changed where necessary to ensure consistency with Group policies. Non-controlling interests in the results and equity of the subsidiaries are shown separately in the consolidated statement of comprehensive income/(loss), statement of financial position and statement of changes in equity, respectively.

The functional and presentation currency of the Company and its subsidiaries is the Australian dollar (AUD).

Associates

Associates are all entities over which the Group has significant influence but not control or joint control, generally accompanying a shareholding of at least 20% and less than 50% of the entity’s voting rights. Investments in associates are accounted for using the equity method of accounting, after initially being recognised at fair market value. As at 30 June 2021, the Group has no investments in associates.

The Group’s share of any associate’s post-acquisition profits or losses is recognised in profit or loss and its share of post-acquisition other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates are recognised as a reduction in the carrying amount of the investment. When the Group’s share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group’s interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a reserve within equity attributable to owners of Cronos Australia Limited.

When the Group ceases to have control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, jointly controlled entity or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss. If the ownership interest in a jointly-controlled entity or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss, where appropriate.

(d) Foreign currency translation

The functional and presentation currency of Cronos Australia Limited and its Australian subsidiaries is the Australian dollar (AUD). Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction.

Monetary assets and liabilities which are denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the statement of comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate ruling at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates ruling at the date when the fair value was determined. The functional currencies of the Company's four overseas subsidiaries are as follows:

- Cronos Australia – New Zealand Limited and Cannadoc Health (NZ) Limited – New Zealand dollars (NZD)
- Personal Care Asia Limited – Hong Kong dollars (HKD)
- Personal Care Asia GK – Japanese yen (JPY)

As at the reporting date, the assets and liabilities of these subsidiaries are translated into the presentation currency of Cronos Australia Limited at the rate of exchange ruling at the balance sheet date and the statement of comprehensive income is translated at the weighted average exchange rates for the period. The exchange differences arising on the retranslation are taken directly to the foreign currency translation reserve (refer *Note 22*). On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the statement of comprehensive income.

(e) Earnings per share (“EPS”)

Basic EPS is calculated by dividing the profit/(loss) attributable to owners of the Company by the total combined weighted average number of ordinary shares outstanding at the end of the financial year. Diluted EPS adjusts the figures used in the determination of basic EPS to take into account the after income tax effect of interest and other financing costs associated with the dilutive potential of ordinary shares and the weighted average number of ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares, if any.

(f) Revenue recognition

Revenues are recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenues can be reliably measured. Revenues are recognised at the fair value of the consideration received or receivable net of the amounts of Goods and Services Tax. The following recognition criteria must also be met before revenue is recognised:

Revenue from the sale of medicinal cannabis and consumer products

Revenues derived from the sale of medicinal cannabis and consumer products are recognised when ownership of the products passes and all of the Company's related obligations have been met.

Rendering of services

Revenues derived from the rendering of medical consulting services by the doctors at Cannadoc Health Pty. Ltd. are recognised when the services have been provided and the fee for the services provided is recoverable. Service arrangements are of short duration (in most cases less than one hour).

Interest received

Revenue is recognised as the interest accrues using the effective interest method.

(g) Government grants

Government grants are assistance provided by the government in the form of transfers of resources to the Group in return for past or future compliance with certain conditions relating to the operating activities of the Group. Government grants include government assistance where there are no conditions specifically relating to the operating activities of the Group other than the requirement to operate in certain regions or industry sectors.

Amounts received under Government COVID-19-related stimulus schemes are recognised as other income when confirmation the payments will be made is received and the Company has satisfied its obligations under the scheme. All such amounts are recorded in the statement of comprehensive income/(loss) on a gross basis. During the year ended 30 June 2021, the Group received payments under the Government's "Cash Flow Boost" scheme totalling \$82,266 (refer *Note 5*). The Group was not eligible to receive payments under the "Job Keeper" scheme.

(h) Income tax

The income tax expense or benefit for the year is the tax payable on the current year's taxable income based on the national income tax rate applicable for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and unused tax losses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from the initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those differences and losses. Deferred tax assets and liabilities are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity. Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Cronos Australia Limited formed a tax consolidated group with its wholly-owned Australian-resident subsidiaries on 27 September 2018.

(i) Other taxes

Revenues, expenses and assets are recognised net of the amount of Australian Goods and Services Tax (GST), or the respective foreign equivalent thereof, except where the GST incurred on a purchase of goods and services is not recoverable from the respective taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable. Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position. Cash flows are included in the cash flow statement on a gross basis and the GST component arising from investing and financing activities, which is recoverable from or payable to the taxation authority, are classified as operating cash flows.

(j) Finance costs

Finance costs are recognised using the effective interest rate method.

(k) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing the performance of the operating segments, has been identified as the Company's Chief Executive Officer.

(l) Share-based payment transactions

The Group provides benefits to Group employees in the form of share-based payment transactions, whereby employees render services and receive rights over shares in the form of performance rights and options ("equity-settled transactions"). The Company has an Employee Incentive Plan ("EIP") in place to provide these benefits to executives and the cost of these transactions is measured by reference to the fair value at the date they are granted.

The fair values of performance rights and options granted under the EIP is determined by BDO Corporate Finance (East Coast) Pty. Ltd. ("BDO"), an independent valuer, using a Black-Scholes option-pricing model. In valuing such equity-settled transactions, no account is taken of any non-market performance conditions. The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the relevant vesting conditions are fulfilled, ending on the date the relevant employees become entitled to the award ("vesting date"). The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired; and (ii) the number of awards that, in the opinion of the Directors of CAL, will ultimately vest. This opinion is formed based on the best information available at balance date.

The Group uses non-market vesting conditions for its share-based payment transactions and no cumulative expense is recognised for any awards that do not ultimately vest. Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as at the date of modification. Where appropriate, the dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share. The Company's policy is to treat the unexercised performance rights and options of former employees as forfeitures.

(m) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less. For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above. Cash at bank earns interest at floating rates based on daily bank deposit rates. Term deposits are typically made for varying periods of between one day and six months, depending on the Company's immediate cash requirements, and earn interest at the respective deposit rates.

(n) Trade and other receivables

Trade receivables, which are non-interest bearing and generally have terms of between 30 to 90 days, are recognised and carried at the original invoice amount less an allowance for uncollectible amounts. Impairment is valued using a model based on expected credit losses. Expected credit losses are measured as the probability-weighted present value of all cash shortfalls over the expected life of each financial asset.

(o) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in, first-out principle. In the case of manufactured inventories, cost includes freight and associated costs incurred to bring the products to the Company in readiness for sale.

(p) Performance bonds and security deposits

Performance bonds and security deposits include cash deposits held as security for the performance of certain contractual obligations of the Company.

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(q) Deferred IPO expenses

Costs incurred in relation to the Company's IPO in November 2019, but which were paid prior to the IPO, were capitalised as an asset in the statement of financial position and were subsequently offset against the funds raised from the issue of shares as part of the IPO.

(r) Leases

At the inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease contained in AASB 16 *Leases*.

At the commencement, or on modification, of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, in respect of the lease of property, the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of the costs to dismantle and remove the underlying asset or to restore that asset, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case, the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those which apply to other items of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate. The Group determines its incremental borrowing rate by obtaining interest rates from external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate the lease early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets that do not meet the definition of investment property in "property, plant and equipment" (*Note 14(a)*) and lease liabilities in "interest-bearing liabilities" (*Notes 17 and 20*) in the statement of financial position.

(s) Property, plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value. Depreciation is calculated on both diminishing value method (“DVM”) and straight line (“SL”) bases over the estimated useful lives of the respective assets, as follows:

- Motor vehicles – 25% DVM
- Computer equipment – 66.7% DVM
- Leasehold improvements – 20% SL
- Office and clinic equipment – 40% DVM

Costs relating to the day-to-day servicing of any item of property, plant and equipment are recognised in profit or loss as incurred. The cost of replacing larger parts of some items of property, plant and equipment are capitalised when incurred and depreciated over the period until their next scheduled replacement, with the replacement parts being subsequently written off.

Right-of-use assets in relation to leases are depreciated using the straight-line method from the commencement date to the end of the lease term (refer *Note 2(r)*).

(t) Intangible assets and goodwill

Licences

Licences acquired enable the Group to cultivate, produce, manufacture, research, import and export medicinal cannabis in Australia. As detailed in *Note 15*, the costs incurred to date have been capitalised in the statement of financial position and are carried at their approximate cost. Licences held have an indefinite life and are therefore not amortised but rather assessed annually for impairment or when there are indicators of impairment present.

Licences are carried at historical cost less any accumulated impairment losses. External costs incurred in filing, renewing and protecting the licences, for which no future benefit is assured, are expensed as incurred.

Goodwill

Goodwill on acquisition is initially measured at cost, being the excess of the cost of the business combination over the acquirer’s interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following its initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortised.

Goodwill is reviewed for impairment at each reporting date, or more frequently if there is evidence that the carrying value may be impaired. Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group’s cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes and is not larger than an operating segment in accordance with AASB 8 *Operating Segments*.

Trademarks

Costs incurred in respect of other intangible assets, including trademarks that are acquired by the Group and have finite useful lives, are expensed as incurred.

(u) Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value-in-use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value-in-use cannot be estimated to be close to its fair value. In such cases, the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses relating to operations are recognised in those expense categories consistent with the function of the impaired asset unless the asset is carried at its revalued amount, in which case the impairment loss is treated as a revaluation decrease.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If so, the carrying amount of the asset is increased to its recoverable amount. The increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless it reverses a decrement previously charged to equity, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

(v) Trade and other payables

Trade payables and other payables are carried at amortised cost and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. Trade payables and other payables generally have terms of between 30 and 60 days.

(w) Chattel mortgage agreements

Finance leases and hire purchase agreements, including chattel mortgages, which transfer to the Group substantially all the risks and benefits incidental to ownership of the financed item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments.

The relevant payments made under the agreements are apportioned between finance charges and a reduction of the associated liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in profit or loss. Capitalised leased assets and other assets under finance agreements are depreciated over the shorter of the estimated useful life of the asset or the term of the agreement. Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight-line basis over the lease term.

(x) Borrowings

Borrowings are recorded as a liability in the statement of financial position at the face value of the amounts borrowed, together with any accrued interest that may be payable. To the extent that a borrowing is likely to be repayable more than twelve months from the balance date, that portion of the borrowing is recorded as a non-current liability.

(y) Contributed equity

Issued capital is recognised at the fair value of the consideration received by the Company. Transaction costs arising on the issue of shares are recognised directly in equity as a deduction, net of tax, of the proceeds received.

(z) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income, net of any reimbursement.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

(aa) Employee benefits

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave and, when appropriate to do so, long service leave. Liabilities arising in respect of wages and salaries, annual leave and any other employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. All other employee benefit liabilities are measured at the present value of the estimated future cash outflows to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Expenses for non-accumulating sick leave are recognised when the leave is taken during the year and are measured at rates paid or payable.

In determining the present value of future cash outflows, the market yield as at the reporting date on national government bonds, which have terms to maturity approximating the terms of the related liability, are used. Employee benefits expenses and revenues arising in respect of wages and salaries, non-monetary benefits, annual leave, long service leave and other leave benefits and other types of employee benefits are recognised against profits on a net basis in their respective categories.

(bb) Business combinations

The acquisition method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. All costs relating to acquisitions are expensed as incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

(cc) Comparative information

Certain comparative information has been restated to ensure consistent treatment with current year numbers.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are evaluated and based on historical experience and other factors, including expectations of events that may have a financial impact on the Company and are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying value of certain assets and liabilities within the next annual reporting period are set out below.

Research and development tax incentive

The Company's research and development activities may be eligible under the Australian Federal Government's research and development tax incentive scheme (the "Scheme"). A refundable tax offset equal to 43.5% of qualifying expenditure is available to eligible companies, such as CAL. The Group measures the estimated incentive receivable at balance date by applying an allocation methodology to the relevant expenses incurred. Any under/over accrual of the receivable is recognised in the statement of comprehensive income/(loss) when the payment is received. The Group lodged its first claim under the Scheme for the year ended 30 June 2018. No claim has been made in respect of the years ended 30 June 2019, 2020 or 2021, as the Company incurred no eligible expenditure.

Inventories

The Group values inventories of finished goods in accordance with the accounting policies stated in *Note 2(o)*. This process requires an estimation to be made of the net realisable value of inventories. Net realisable value is the estimated selling price less the estimated selling expenses.

Licences

Determining whether the indefinite life licences described in *Note 2(t)* are impaired is a matter of judgement. The Company undertakes a full assessment of impairment of indefinite life licences annually, as required by Accounting Standards. At other reporting periods, the Company assesses whether there are any indicators of impairment present. Where such indicators exist, a full impairment assessment is undertaken.

Impairment of intangible assets and goodwill

The Group determines whether intangible assets, including goodwill, are impaired on at least a bi-annual basis, in accordance with the accounting policies stated in *Notes 2(t)* and *2(u)*. This process requires an estimation to be made of the recoverable amount of the cash-generating units to which the respective assets are allocated.

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the value of the equity instruments at the date on which they are granted. The fair value is determined by an independent valuer using a Black-Scholes options-pricing model.

(b) Critical judgements in applying the Group's accounting policies

Research and development costs ("R&D costs")

An intangible asset arising from development expenditure incurred on an internal project is recognised only when the Group can demonstrate the technical feasibility of completing the project so that it will be available for use or sale, its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to reliably measure the expenditure attributable to the intangible asset during its development. To date, all R&D costs incurred have been expensed, as their recoverability cannot be regarded as assured. In future, the Group will only capitalise R&D costs when specific milestones are met and when the Group is able to demonstrate that future economic benefits are probable.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

	Consolidated	
	30 June 2021 \$	30 June 2020 \$
4. REVENUE		
Sale of medicinal cannabis products	1,212,307	11,586
Medical consultation fees	471,795	112,264
Sale of consumer products	8,738	-
Total revenue	1,692,840	123,850
5. OTHER INCOME		
Payments received under Government stimulus schemes	82,266	190,183
Interest received	46,563	132,195
Profit on sale of plant and equipment	272	17,700
Total other income	129,101	340,078
6. PROFIT/(LOSS) BEFORE INCOME TAX		
Profit/(loss) before income tax includes:		
Amortisation of right-of-use assets (refer Note 14(a))	(80,515)	(11,803)
Depreciation of property, plant and equipment (refer Note 14(c))	(55,944)	(29,203)
Employee benefits expenses	(3,425,074)	(3,145,372)
7. PROFIT/(LOSS) PER SHARE		
The following reflects the income and share data used in the calculations of basic and diluted profit/(loss) per share:		
Profit/(loss) for the year attributable to the owners of the Company	(4,049,209)	(3,937,213)
Weighted average number of shares used in calculating profit/(loss) per share	128,750,000	91,739,726
8. INCOME TAX		
(a) Reconciliation of income tax expense to prima facie tax payable		
Profit/(loss) before income tax	(4,205,850)	(3,989,678)
Tax at the Australian tax rate of 26.0% (2020: 27.5%)	1,093,521	1,097,161
Tax effect of adjustments relating to non-temporary differences		
Non-assessable payments under Government stimulus schemes	21,389	40,369
Share-based payments credits/(expenses)	5,653	(59,050)
Equity issuance costs	(11,375)	-
Non-deductible entertainment expenses	(3,042)	(3,166)
	1,106,146	1,075,314
Tax effect of adjustments relating to temporary differences		
Temporary differences not recognised	(66,685)	36,649
	1,039,461	1,111,963
Tax effect of tax losses not recognised	(1,039,461)	(1,111,963)
Income tax benefit/(expense)	-	-

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	Consolidated	
	30 June 2021 \$	30 June 2020 \$
8. INCOME TAX (CONT.)		
(b) Deferred tax assets/(liabilities)		
Deferred IPO expenses	138,465	219,680
Accrued interest on loans	121,427	80,330
Lease liabilities	91,987	107,023
Employee benefit provisions and accruals	88,708	20,326
Site-related expenses	37,503	58,247
Intellectual property	16,193	7,840
Right-of-use assets	(79,497)	(94,130)
Licences	(52,000)	(55,000)
Depreciable assets	(3,718)	-
Prepayments	(330)	(14,193)
Tax losses	2,908,120	1,968,565
	3,266,858	2,298,688
Deferred tax assets on temporary differences not brought to account	(3,266,858)	(2,298,688)
Total net deferred tax assets	-	-
(c) Tax losses		
Australia	9,897,908	6,704,742
Total Australian deferred tax assets on tax losses not recognised	2,573,456	1,843,804

Subject to the Group continuing to meet the relevant tests, Australian tax losses are available for offset against future taxable income. As at balance date, there are estimated Australian unrecognised tax losses with a benefit of \$2,573,456 (2020: \$1,843,804) that have not been recognised as a deferred tax asset to the Group. In addition, there are further, unquantified, tax losses that may potentially be available in various foreign jurisdictions, including Hong Kong and Japan.

The unrecognised deferred tax assets will only be obtained if:

- The Group derives future assessable income of a nature and amount to enable the benefits to be realised;
- The Group companies continue to comply with the conditions for deductibility imposed by the law, including the transfer of losses into the tax consolidated group; and
- No changes in tax legislation adversely affect the Group companies from realising the benefit.

(d) Tax consolidation legislation

On 27 September 2018, Cronos Australia Limited and its three wholly-owned Australian controlled entities at the time formed an income tax consolidated group under the tax consolidation regime. As at 30 June 2021, the unrecognised tax losses relating to tax consolidated group are \$9,376,639 (2020: \$6,552,631).

9. DIVIDENDS AND DISTRIBUTIONS

No dividends were paid during the year ended 30 June 2021, nor have the Directors recommended that any dividend be declared or paid in the foreseeable future. Rather, the Company intends to retain any earnings to finance its future growth and development. Any future payment of cash dividends will be dependent upon, amongst other things, the Company's future earnings, financial condition, capital requirements, and such other factors as the Board of Directors may deem relevant at that time.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

	Consolidated	
	30 June 2021 \$	30 June 2020 \$
10. CASH AND CASH EQUIVALENTS		
Cash at bank	9,466,723	14,685,491
Cash on hand	452	452
Total cash and cash equivalents	9,467,175	14,685,943
11. TRADE AND OTHER RECEIVABLES		
Trade receivables	317,666	7,518
Net GST receivable	115,167	19,682
Accrued interest	495	-
Total trade and other receivables	433,328	27,200
<i>Note: Trade and other receivables for the Group as at 30 June 2021 (and 30 June 2020) are all stated in Australian dollars. Refer Note 34 for details of contractual maturity and management of the risks applicable to trade and other receivables for which, due to their short-term nature, their carrying value approximates their fair value.</i>		
12. INVENTORIES		
Finished goods on hand, at cost	1,054,068	192,450
Raw materials on hand, at cost	284,679	-
Total inventories	1,338,747	192,450
13. OTHER ASSETS		
Deferred equity issuance costs	293,321	-
Security deposits	175,204	155,204
Prepayments	50,982	184,576
Total other assets	519,507	339,780
<i>Note: Costs incurred in relation to a planned equity issuance are capitalised as an asset in the statement of financial position and will be transferred to equity when the equity transaction is recognised, or recognised in profit or loss if the equity issuance is no longer expected to be completed.</i>		

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	Consolidated	
	30 June 2021 \$	30 June 2020 \$
14. PROPERTY, PLANT AND EQUIPMENT		
Right-of-use assets	305,759	342,290
Property, plant and equipment	132,103	148,090
Total property, plant and equipment	437,862	490,380
(a) Right-of-use assets		
Balance at the beginning of the year	342,290	-
Add: recognition of right-of-use asset	43,984	354,093
Less: amortisation expense charged	(80,515)	(11,803)
Net right-of-use assets	305,759	342,290
<i>Note: On 13 March 2020, the Company entered into a five-year lease, with effect from 11 May 2020, in respect of office premises located at Suite 8, Level 3, 299 Toorak Road, South Yarra, Victoria 3141. On 11 March 2021, Cannadoc Health Pty. Ltd., a subsidiary, entered into a two-year lease, with effect from 21 January 2021, in respect of office premises located at Suite 3, Level 8, 492 St. Kilda Road, Melbourne, Victoria 3004. Pursuant to AASB 16 Leases, the Company has recorded right-to-use assets (refer above) and current and non-current lease liabilities in respect of the leases (refer Notes 17 and 20, respectively).</i>		
(b) Property, plant and equipment		
Office and clinic equipment, at cost	75,735	59,468
Less: accumulated depreciation	(28,743)	(4,945)
Net office and clinic equipment	46,992	54,523
Leasehold improvements, at cost	56,904	56,904
Less: accumulated amortisation	(12,921)	(1,540)
Net leasehold improvements	43,983	55,364
Motor vehicles, at cost	51,512	51,512
Less: accumulated depreciation	(31,536)	(24,878)
Net motor vehicles	19,976	26,634
Computer equipment, at cost	44,635	22,026
Less: accumulated depreciation	(23,483)	(10,457)
Net computer equipment	21,152	11,569
Total net property, plant and equipment	132,103	148,090
(c) Reconciliation of property, plant and equipment		
Opening gross carrying amount	189,910	113,227
Add: additions purchased during the year	40,185	120,201
Add: assets acquired on acquisition (refer Note 26(d))	-	7,994
Less: disposals made during the year	(1,309)	(51,512)
Closing gross carrying amount	228,786	189,910

	Consolidated	
	30 June 2021 \$	30 June 2020 \$
(c) Reconciliation of property, plant and equipment (CONT.)		
Opening accumulated depreciation	(41,820)	(36,825)
Add: depreciation expense charged	(55,944)	(29,203)
Add: accumulated depreciation acquired on acquisition (refer Note 26(d))	-	(404)
Less: disposals made during the year	1,081	24,612
Closing accumulated depreciation	(96,683)	(41,820)
Total net property, plant and equipment	132,103	148,090

Asset category	Opening carrying amount \$	Additions \$	Disposals \$	Depreciation expense \$	Closing carrying amount \$
Office and clinic equipment	54,523	16,267	-	(23,798)	46,992
Leasehold improvements	55,364	-	-	(11,381)	43,983
Motor vehicles	26,634	-	-	(6,658)	19,976
Computer equipment	11,569	23,918	(228)	(14,107)	21,152
Totals	<u>148,090</u>	<u>40,185</u>	<u>(228)</u>	<u>(55,944)</u>	<u>132,103</u>

	Consolidated	
	30 June 2021 \$	30 June 2020 \$
15. INTANGIBLE ASSETS AND GOODWILL		
Goodwill	291,457	291,457
Licences	200,000	200,000
Total intangible assets and goodwill	491,457	491,457

Note: As part of the restructure of the Group immediately prior to the incorporation of CAL, Cronos Australia Group Pty. Ltd. acquired 100% of the shares of Cronos Australia – Operations Pty. Ltd. (“CAO”) and is therefore considered to control CAO. The accounting implications of this ownership change resulted in the recognition of the fair value of the licences held by CAO at \$200,000 which the Directors have determined approximates the costs incurred in obtaining them.

On 3 February 2020, the Group paid \$300,000 to the Founders of Cannadoc Health Pty. Ltd. (“Cannadoc”) to acquire a total of 102 of the 200 shares in Cannadoc, representing 51% of the issued capital of that company. The net assets of Cannadoc on the date of acquisition were \$8,543, such that goodwill of \$291,457 arose on that date (refer Note 26(c)).

For the purposes of impairment testing, the above goodwill and licences, being indefinite-lived intangible assets, have been allocated to the Group’s clinics and medical CGUs (operating divisions), respectively.

The recoverable amount of both CGUs was based on their value in use, determined by discounting the future cash flows to be generated from the continuing use of the CGUs. The recoverable amount of the CGUs was determined to be higher than their carrying amounts.

The key assumptions used in the estimation of value in use for both CGUs were as follows:

- Discount rate 12%: Based on a market-determined, risk adjusted pre-tax nominal discount rate of 12%.
- Terminal growth rate 2%: The terminal growth rate of 2% adopted for all CGUs represents the growth rate applied to cash flows beyond the five-year forecast period. The terminal growth rate is based on management expectations of the CGU’s long-term performance after considering current conditions and available external market data.
- Budgeted EBITDA: Budgeted EBITDA was based on management’s expectations of future outcomes taking into account past experience, adjusted for anticipated revenue growth.

	Consolidated	
	30 June 2021 \$	30 June 2020 \$
16. TRADE AND OTHER PAYABLES		
Trade payables	495,395	95,295
Accrued expenses	423,832	226,586
Payroll-related payables (excluding annual leave)	77,627	87,735
Other payables	5,372	42,820
Total trade and other payables	1,002,226	452,436
<p><i>Note: Trade and other payables for the Group as at 30 June 2021 include amounts due in Japanese yen of JPY 1,094,529 (2020: JPY 280,800), Hong Kong dollars of HKD 49,616 (2020: nil), US dollars of USD 8,500 (2020: USD 34,088) and Great British pounds of GBP 3,006 (2020: GBP 2,879). Refer Note 34 for details of contractual maturity and management of the risks applicable to trade and other payables for which, due to their short-term nature, their carrying value approximates their fair value.</i></p>		
17. INTEREST-BEARING LIABILITIES (CURRENT)		
Lease liabilities	100,111	72,584
Unsecured loan	2,010,106	-
Total interest-bearing liabilities (current)	2,110,217	72,584
(a) Lease liabilities (current)		
Balance at the beginning of the year	72,584	-
Add: recognition of lease liability	43,984	354,093
Add: interest charged on leases	7,954	1,403
Add: landlord incentive received	-	44,895
Less: payments made under leases	(87,316)	(11,215)
Net total lease liabilities	37,206	389,176
Net transfer from/(to) non-current liabilities (refer Note 20(a))	62,905	(316,592)
Net lease liabilities (current)	100,111	72,584
Reconciliation of net lease liabilities (current)		
Future payments to be made under leases	106,550	80,099
Future interest to be paid on lease liabilities	(6,439)	(7,515)
Net lease liabilities (current)	100,111	72,584
<p><i>Note: On 13 March 2020, the Company entered into a lease, with effect from 11 May 2020, in respect of office premises located at Suite 8, Level 3, 299 Toorak Road, South Yarra, Victoria 3141. On 11 March 2021, Cannadoc Health Pty. Ltd., one of the Company's subsidiaries, entered into a lease, with effect from 21 January 2021, in respect of office premises located at Suite 3, Level 8, 492 St. Kilda Road, Melbourne, Victoria 3004.</i></p> <p><i>Pursuant to AASB 16 Leases, the Company has recorded right-to-use assets (refer Note 14(a)) and lease liabilities in respect of both leases (refer above and Note 20(a)).</i></p>		

	Consolidated	
	30 June 2021 \$	30 June 2020 \$
17. INTEREST-BEARING LIABILITIES (CURRENT) (CONT.)		
(b) Unsecured loan		
Balance at the beginning of the year	-	-
Add: balance transferred from non-current liability on 1 January 2021 (refer Note 20(b))	1,877,754	-
Add: interest accrued on loan	89,274	-
Add: royalties accrued via addition to loan	43,078	-
Balance at the end of the year	2,010,106	-
<i>Note: During the year ended 30 June 2019, Cronos Australia – Operations Pty. Ltd. (a wholly-owned subsidiary of CAL) established a loan facility via an agreement with Cronos Group Inc. (“CGI”), the Company’s largest shareholder. Under the loan agreement, CGI made available a facility of \$1,500,000 that was applied towards working capital and costs associated with the Company’s listing on the ASX. The full amount of the facility was drawn down during the year ended 30 June 2019. The loan is unsecured and attracts an interest rate of 12% per annum. Under the terms of the agreement, the loan from CGI (plus the royalties accrued in respect of the Company’s IP Licence with CGI and interest accrued) is not repayable until 1 January 2022.</i>		
(c) Unsecured loan		
Balance at the beginning of the year	-	513,923
Add: interest accrued on loan	-	5,589
Less: repayment of loan	-	(519,512)
Balance at the end of the year	-	-
<i>Note: During the year ended 30 June 2019, Cronos Australia – Operations Pty. Ltd. established a loan facility via an agreement with NewSouthern Capital Pty. Ltd. (“NSC”). Under the agreement, NSC made available a facility of \$500,000 to be applied towards working capital and costs associated with the listing of the Company on the ASX. The balance of the loan from NSC (plus accrued interest), of \$519,512, was repaid in full on 2 August 2019.</i>		
18. CHATTEL MORTGAGE LIABILITIES		
Balance at the beginning of the year	31,892	81,976
Add: interest charged	931	3,598
Less: mortgage payments made	(7,031)	(21,422)
Less: payout of residual	(25,792)	(32,260)
Balance at the end of the year	-	31,892
(a) Reconciliation of chattel mortgage liabilities		
Current liability	-	31,892
Total chattel mortgage liabilities	-	31,892

18. CHATTEL MORTGAGE LIABILITIES (CONT.)

(b) Reconciliation of future payments

	Future minimum payments		Interest		Present value of minimum lease payments	
	2021	2020	2021	2020	2021	2020
Less than one year	-	32,823	-	931	-	31,892
Total payments	-	32,823	-	931	-	31,892

Note: During the year ended 30 June 2018, Cronos Australia Group Pty. Ltd. financed via chattel mortgages the purchase of two commercial vehicles used in the Group's business. The mortgages covered a period of three years and were subject to an interest rate of 4.31% per annum. A total of 36 monthly payments were initially payable, with a residual payment equal to 50% of the total purchase price payable at the end of each mortgage period.

On 9 June 2020, an amount of \$32,260 was paid to extinguish the chattel mortgage in respect of one of the above vehicles that was subsequently sold for \$44,600. A profit on sale amounting to \$17,700 was recorded on the date of sale, being 19 June 2020 (refer Note 5). On 5 March 2021, an amount of \$25,792 was paid to extinguish the chattel mortgage in respect of the remaining vehicle which is still being used in the Company's business.

	Consolidated	
	30 June 2021 \$	30 June 2020 \$
19. EMPLOYEE BENEFIT PROVISIONS		
Annual leave		
Balance at the beginning of the year	70,516	2,968
Add: annual leave obligation accrued during the year	122,248	142,284
Less: annual leave utilised during the year	(65,759)	(52,647)
Less: annual leave paid out on termination of employees	(27,489)	(22,089)
Balance at the end of the year	99,516	70,516
20. INTEREST-BEARING LIABILITIES (NON-CURRENT)		
Lease liabilities	253,687	316,592
Unsecured loan	-	1,786,521
Total interest-bearing liabilities (non-current)	253,687	2,103,113
(a) Lease liabilities (non-current)		
Balance at the beginning of the year	316,592	-
Net transfer from/(to) current liabilities (refer Note 17(a))	(62,905)	316,592
Net lease liabilities (non-current)	253,687	316,592

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NOTES TO THE FINANCIAL STATEMENTS CONTINUED

	Consolidated	
	30 June 2021 \$	30 June 2020 \$
20. INTEREST-BEARING LIABILITIES (NON-CURRENT) (CONT.)		
Reconciliation of net lease liabilities (non-current)		
Future payments to be made under leases	261,010	329,756
Future interest to be paid on lease liabilities	(7,323)	(13,164)
Net lease liabilities (non-current)	253,687	316,592
<i>Note: On 13 March 2020, the Company entered into a lease, with effect from 11 May 2020, in respect of office premises located at Suite 8, Level 3, 299 Toorak Road, South Yarra, Victoria 3141. On 11 March 2021, Cannadoc Health Pty. Ltd., one of the Company's subsidiaries, entered into a two-year lease, with effect from 21 January 2021, in respect of office premises located at Suite 3, Level 8, 492 St. Kilda Road, Melbourne, Victoria 3004.</i>		
<i>Pursuant to AASB 16 Leases, the Company has recorded right-to-use assets (refer Note 14(a)) and lease liabilities in respect of both leases (refer Note 17(a) and above).</i>		
(b) Unsecured loan		
Balance at the beginning of the year	1,786,521	1,606,027
Add: interest accrued on loan	91,233	180,494
Less: balance transferred to current liability on 1 January 2021 (refer Note 17(b))	(1,877,754)	-
Balance at the end of the year	-	1,786,521

	Consolidated	
	30 June 2021 \$	30 June 2020 \$
21. SHARE CAPITAL		
(a) Issued and paid-up capital		
Fully paid ordinary shares	20,012,053	20,012,053
Total share capital	20,012,053	20,012,053
(b) Movements in shares on issue		
Year ended 30 June 2021	Number	\$
Balance at the beginning of the year	128,750,000	20,012,053
Balance at the end of the year	128,750,000	20,012,053
Year ended 30 June 2020	Number	\$
Balance at the beginning of the year	4,000,000	54,655
Add: issue of ordinary shares prior to IPO (not for cash)	76,000,000	-
Add: issue of ordinary shares on IPO at 50 cents per share (for cash)	40,000,000	20,000,000
Add: issue of ordinary shares on conversion of unsecured loans	8,750,000	3,500,000
Less: transaction costs related to IPO	-	(3,542,602)
Balance at the end of the year	128,750,000	20,012,053

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21. SHARE CAPITAL (CONT.)

(c) Terms and conditions of contributed equity

Ordinary shares have the right to receive dividends and, in the event of winding up the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held. Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company.

(d) Capital management

When managing capital, Management's objective is to ensure that the Group continues as a going concern as well as to provide returns for shareholders and benefits for other stakeholders. Management also aims to maintain a capital structure to minimise the entity's cost of capital.

	Consolidated	
	30 June 2021 \$	30 June 2020 \$
22. RESERVES		
Share-based payments reserve	192,985	214,729
Foreign currency translation reserve	54,560	205
Capital reserve	(130,718)	-
Total reserves	116,827	214,934
(a) Share-based payments reserve		
Balance at the beginning of the year	214,729	-
Movement in reserve during the year	(21,744)	214,729
Balance at the end of the year	192,985	214,729
<i>Note: This reserve is used to record the value of share-based payments provided to employees and others providing similar services as part of their remuneration.</i>		
(b) Foreign currency translation reserve		
Balance at the beginning of the year	205	-
Movement in reserve during the year	54,355	205
Balance at the end of the year	54,560	205
<i>Note: This reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.</i>		
(c) Capital reserve		
Balance at the beginning of the year	-	-
Movement in reserve during the year	(130,718)	-
Balance at the end of the year	(130,718)	-
<i>Note: This reserve is used to record the value of amounts paid to increase the Group's equity interest in Cannadoc Health Pty. Ltd. (refer Note 26(d)).</i>		
23. ACCUMULATED LOSSES		
Balance at the beginning of the year	(6,784,061)	(2,846,848)
Add: loss attributable to owners of Cronos Australia Limited	(4,049,209)	(3,937,213)
Balance at the end of the year	(10,833,270)	(6,784,061)

	Consolidated	
	30 June 2021 \$	30 June 2020 \$
24. NON-CONTROLLING INTERESTS		
Balance at the beginning of the year	53,743	-
Add: share of net assets acquired by non-controlling interests	29,718	8,208
Less: share of operating losses	(156,641)	(52,465)
Add: investment made by non-controlling interests	-	98,000
Balance at the end of the year	(73,180)	53,743

	30 June 2021	30 June 2020
25. OPTIONS AND PERFORMANCE RIGHTS		
(a) Reconciliation of options granted		
Balance at the beginning of the year	3,026,400	-
Less: options forfeited during the year	(461,400)	-
Add: options granted during the year to Underwriters of IPO	-	2,000,000
Add: options granted during the year to Executives of the Company	-	1,026,400
Balance at the end of the year	2,565,000	3,026,400

(b) Option terms

Date granted	Quantity	Exercise price (cents)	Vesting date	Expiry date	Fair market value (cents)
7 November 2019	86,300	50.0	7 November 2020	7 November 2023	17.40
7 November 2019	2,000,000	65.0	7 November 2019	31 December 2021	5.59
7 November 2019	181,200	67.0	7 November 2021	7 November 2023	14.71
7 November 2019	297,500	83.0	7 November 2022	7 November 2023	12.80
Totals	2,565,000				

Note: None of the above options are listed on the ASX.

	30 June 2021	30 June 2020
(c) Reconciliation of performance rights		
Balance at the beginning of the year	1,120,000	-
Less: rights forfeited during the year	(1,060,000)	-
Add: rights granted during the year to Executives of the Company	-	120,000
Add: rights granted to Founders of Cannadoc Health Pty. Ltd.	-	1,000,000
Balance at the end of the year	60,000	1,120,000

Note: None of the above performance rights are listed on the ASX.

	Consolidated	
	30 June 2021 \$	30 June 2020 \$
26. ACQUISITION OF SUBSIDIARY		
(a) Payment for acquisition of subsidiary, net of cash		
Cash consideration paid	-	(300,000)
Add: cash acquired	-	4,106
Net payment for acquisition of subsidiary	-	(295,894)
(b) Contribution of equity capital made to subsidiary		
Equity capital contribution made by Company (51%)	-	102,000
Add: equity capital contribution made by non-controlling interests (49%)	-	98,000
Total equity capital contribution made to subsidiary	-	200,000
(c) Goodwill arising on acquisition of subsidiary		
Cash consideration paid	-	300,000
Add: non-controlling interests	-	8,208
Less: net assets acquired	-	(16,751)
Goodwill arising on acquisition of subsidiary (refer Note 15)	-	291,457
(d) Assets purchased on acquisition of subsidiary		
Office equipment, at cost	-	7,609
Less: accumulated depreciation	-	(352)
Net office equipment purchased	-	7,257
Computer equipment, at cost	-	385
Less: accumulated depreciation	-	(52)
Net computer equipment purchased	-	333
Total net assets purchased on acquisition of subsidiary	-	7,590
<i>Note: On 3 February 2020, the Group executed a Share Transfer and Shareholders Agreement (the "Agreement") pursuant to which it paid \$300,000 to acquire a 51% equity interest in Cannadoc Health Pty. Ltd. ("Cannadoc"), a company operating a medical clinic business specialising in cannabinoid-based therapies. Immediately following the acquisition, the shareholders of Cannadoc contributed a further \$200,000 in equity capital (refer Note 26(b)). Under the Agreement, the Company acquired its economic interest in the Cannadoc business with effect from 1 January 2020 and, accordingly, the results of the Cannadoc business have been consolidated into the Group result from that date.</i>		
<i>Under the terms of the Agreement, CAL agreed to make available to Cannadoc a loan facility of up to \$1 million on commercial terms, which may be used for working capital purposes and to further expand the business (refer Note 32(c)). As at balance date, an amount of \$250,000 has been advanced to Cannadoc under this facility. The loan is secured and attracts interest at a rate of 9% per annum, which has been accrued into the outstanding balance.</i>		
<i>On 1 February 2021, the Group paid \$101,000 to acquire a further 24.5% interest in Cannadoc, taking the Group's total interest in Cannadoc to 75.5%. The amount paid by the Group to acquire this interest has been reflected in a capital reserve (refer Note 22(c)).</i>		

27. EMPLOYEE BENEFITS

(a) Employee options and performance rights

On 4 September 2019, the Company established an Employee Incentive Plan (“EIP”) pursuant to which the Directors may, at their discretion, grant options and performance rights over the Company’s ordinary shares to Executives and employees of the Group (refer *Note 25*).

During the year ended 30 June 2020, the Company granted a total of 3,026,400 options over the Company’s ordinary shares to the Underwriter of its IPO (2,000,000) and to certain Executives of the Company (1,026,400). In addition, a total of 1,120,000 performance rights were granted to certain Executives of the Company (120,000) and employees of Cannadoc Health Pty. Ltd. (1,000,000).

During the year ended 30 June 2021, a total of 461,400 options and 1,060,000 performance rights were forfeited following the resignations of the holders of the respective securities. There were no further options or performance rights issued during the year ended 30 June 2021.

The fair value of each option granted under the EIP is estimated by an external independent valuer using a Black-Scholes option-pricing model, with the following assumptions used for grants made during the year ended 30 June 2020:

	30 June 2020
Dividend yield	N/A
Historic volatility and expected volatility	70%
Option exercise prices	\$0.50 to \$0.83
Weighted average exercise price	\$0.677
Risk-free interest rate	0.75% to 0.88%
Expected life of an option	2.15 years to 4 years

(b) Superannuation commitments

During the year ended 30 June 2021, the Group made statutory contributions to superannuation funds on behalf of its Australian employees at a rate of 9.5% per annum, in addition to other superannuation contributions as part of salary packaging arrangements with certain staff. All contributions are expensed when incurred. Contributions made by the Group of 9.5% per annum of an employee’s salaries up to a statutory limit are legally enforceable in Australia. A provision for annual leave accrued and taken during the year by employees of the Group was also maintained.

Effective from 1 July 2021, the rate at which the Group will make statutory contributions to superannuation funds on behalf of its Australian employees will increase to 10.0% per annum.

	Consolidated	
	30 June 2021 \$	30 June 2020 \$
28. RECONCILIATION OF CASH FLOWS		
Reconciliation of loss for the year		
Reconciliation of loss for the year after income tax to the net cash flows from/(used in) operating activities		
Loss for the year	(4,205,850)	(3,989,678)
Non-cash items		
Interest expense accrued	180,507	186,083
Amortisation of right-of-use assets	80,515	11,803
Depreciation of property, plant and equipment	55,944	29,203
Royalties accrued	43,078	-
Unrealised foreign currency losses	24,848	7,958
Interest charged on lease liabilities	7,954	1,403
Share-based payments expense/(credit)	(21,744)	214,729
Bad debts written off	(9,389)	(1,975)
Profit on sale of plant and equipment	(272)	(17,700)
Government stimulus payments accrued	-	(96,798)
Changes in assets and liabilities		
(Increase)/decrease in trade and other receivables	(406,128)	7,758
(Increase)/decrease in inventories	(1,146,297)	(192,450)
(Increase)/decrease in other assets	(133,594)	(124,053)
Increase/(decrease) in trade and other payables	705,373	(982,419)
Increase/(decrease) in employee benefit provisions	29,000	67,548
Net cash flows from/(used in) operating activities	(4,796,055)	(4,878,588)

29. SEGMENT INFORMATION

(a) Reportable segments

The Group has identified three reportable business segments based on the products sold and/or the services provided, as set out below, as these represent the source of the Group's major risks and have the greatest effect on the rates of return. The Group has identified two geographic segments, being Australia (including New Zealand) and Asia, based on the jurisdictions where the Company's operations are located. The segments are reported in a manner consistent with the reporting provided to the chief operating decision maker, being the Company's Chief Executive Officer.

(b) Segment accounting policies

Segment information is prepared in conformity with the accounting policies of the entity and Accounting Standard AASB 8 *Operating Segments*. As a result, the primary reporting segments reflect more closely the information that Management uses to make decisions about operating matters. Interest received and finance costs are allocated under the heading *Corporate* as they are not part of the core operations of any other segment.

NOTES TO THE FINANCIAL STATEMENTS CONTINUED

29. SEGMENT INFORMATION (CONT.)

(c) Business segments

The Group's three business segments can be described as follows:

- *Medical* – involving the sale of medicinal cannabis products
- *Clinics* – involving the operation of medicinal cannabis clinics
- *Consumer* – involving the sale of consumer products

The *Corporate* disclosures below include revenues, costs, assets and liabilities associated with CAL's headquarter function.

Segment		Sales revenue \$	Other income \$	Totals \$	Profit/(loss) \$
Medical	2021	1,211,626	-	1,211,626	(461,353)
	2020	11,430	21,798	33,228	(520,053)
Clinics	2021	471,795	-	471,795	(571,082)
	2020	112,420	62,500	174,920	(106,042)
Consumer	2021	9,419	-	9,419	(1,013,835)
	2020	-	-	-	(451,673)
Sub-totals	2021	1,692,840	-	1,692,840	(2,046,270)
	2020	123,850	84,298	208,148	(1,077,768)
Corporate	2021	-	129,101	129,101	(2,159,580)
	2020	-	255,780	255,780	(2,911,910)
Totals	2021	1,692,840	129,101	1,821,941	(4,205,850)
	2020	123,850	340,078	463,928	(3,989,678)

Segment		Assets \$	Liabilities \$	Depreciation/ amortisation \$	Purchases of equipment \$
Medical	2021	1,615,159	(385,583)	-	-
	2020	429,159	-	-	-
Clinics	2021	114,649	(96,091)	(10,075)	364
	2020	300,176	(28,449)	(2,026)	5,205
Consumer	2021	281,142	(102,921)	-	-
	2020	803	(54,498)	-	-
Sub-totals	2021	2,010,950	(584,595)	(10,075)	364
	2020	730,138	(82,947)	(2,026)	5,205
Corporate	2021	10,677,126	(2,881,051)	(126,384)	39,821
	2020	15,497,072	(2,647,594)	(38,980)	114,996
Totals	2021	12,688,076	(3,465,646)	(136,459)	40,185
	2020	16,227,210	(2,730,541)	(41,006)	120,201

29. SEGMENT INFORMATION (CONT.)

(d) Geographic segments

The Group's two geographic segments can be described as follows:

- *Australia* is the home country of the parent entity, Cronos Australia Limited, and the location of the Group's medicinal cannabis and clinics operations. Due to the relatively modest revenues generated by the Group in New Zealand, the activities undertaken by the Group in that country have been included under the heading *Australia*.
- *Asia* is the home of the Group's consumer business.

The *Corporate* disclosures below include revenues, costs, assets and liabilities associated with CAL's headquarter function.

Segment		Sales revenue \$	Other income \$	Totals \$	Profit/(loss) \$
Australia	2021	1,686,247	-	1,686,247	(1,193,569)
	2020	123,850	84,298	208,148	(627,103)
Asia	2021	6,593	-	6,593	(852,701)
	2020	-	-	-	(450,665)
Sub-totals	2021	1,692,840	-	1,692,840	(2,046,270)
	2020	123,850	84,298	208,148	(1,077,768)
Corporate	2021	-	129,101	129,101	(2,159,580)
	2020	-	255,780	255,780	(2,911,910)
Totals	2021	1,692,840	129,101	1,821,941	(4,205,850)
	2020	123,850	340,078	463,928	(3,989,678)

Segment		Assets \$	Liabilities \$	Depreciation/ amortisation \$	Purchases of equipment \$
Australia	2021	1,759,762	(488,500)	(10,075)	364
	2020	729,486	(28,449)	(2,026)	5,205
Asia	2021	251,188	(96,095)	-	-
	2020	652	(54,498)	-	-
Sub-totals	2021	2,010,950	(584,595)	(10,075)	364
	2020	730,138	(82,947)	(2,026)	5,205
Corporate	2021	10,677,126	(2,881,051)	(126,384)	39,821
	2020	15,497,072	(2,647,594)	(38,980)	114,996
Totals	2021	12,688,076	(3,465,646)	(136,459)	40,185
	2020	16,227,210	(2,730,541)	(41,006)	120,201

(e) Additional segment disclosures

Other income – corporate includes interest received of \$46,563 (2020: \$132,195).

Assets – corporate includes cash and cash equivalents of \$9,117,798 (2020: \$14,685,943).

There were no intersegment sales.

(f) Major customers

As at 30 June 2021, the Group has two customers through whom it distributes products and from whom the Group generated revenues representing more than 10% of the total consolidated revenue from operations.

30. RELATED PARTY TRANSACTIONS

(a) Ultimate parent

Cronos Australia Limited is the ultimate Australian parent company. As at the date of this Report, no single shareholder controls more than 50 percent of the issued capital of the Company.

(b) Related party transactions

Unsecured loan – Cronos Group Inc.

During the year ended 30 June 2019, Cronos Australia – Operations Pty. Ltd. (a subsidiary of CAL) established a loan facility via an agreement with Cronos Group Inc. (“CGI”), the Company’s largest shareholder. Under the agreement, CGI made available a loan of \$1,500,000 that was applied towards working capital and costs associated with the Company’s listing on the ASX. The full amount of the facility was drawn down during the year ended 30 June 2019. The loan, which is unsecured and attracts an interest rate of 12% per annum, is repayable on, or before, 1 January 2022.

Apart from the above transaction, there were no transactions with related parties during the year ended 30 June 2021.

(c) Details Key Management Personnel as at balance date

Directors

Shane F. Tanner (*Non-Executive Chairman*)
 Daniel E. Abrahams (*Non-Executive Director*)
 Jason M. Adler (*Non-Executive Director*)
 Anna E. Burke AO (*Non-Executive Director*)
 Michael R. Gorenstein (*Non-Executive Director*)

Executives

Rodney D. Cocks CSM (*Executive Director / Chief Executive Officer*)
 Thomas G. Howitt (*Chief Financial Officer / Company Secretary*)

Note: Lior Harel resigned as General Counsel and Company Secretary of the Company on 14 August 2020.

(d) Remuneration of Key Management Personnel

	Consolidated	
	30 June 2021	30 June 2020
	\$	\$
Short-term employee benefits	1,131,135	1,782,099
Post-employment benefits	50,800	92,787
Share-based payments	31,026	95,300
Total remuneration of Key Management Personnel	1,212,961	1,970,186

Note: Key Management Personnel include all Directors of the Company and members of the Executive Team that report directly to the CEO.

30. RELATED PARTY TRANSACTIONS (CONT.)

(e) Shares held by Key Management Personnel

Interest in shares held in Cronos Australia Limited	Opening balance	Shares issued	Shares purchased	Shares sold	Closing balance
Directors					
Shane F. Tanner	350,000	-	-	-	350,000
Daniel E. Abrahams	100,000	-	-	-	100,000
Anna E. Burke AO	50,000	-	-	-	50,000
Executives					
Rodney D. Cocks CSM	20,000,000	-	-	-	20,000,000
Totals	20,500,000	-	-	-	20,500,000

(f) Options held by Key Management Personnel

Interest in options over Cronos Australia shares	Opening balance	Options granted	Options exercised	Closing balance	Vested at year end
Executives					
Thomas G. Howitt	565,000	-	-	565,000	86,300
Totals	565,000	-	-	565,000	86,300

Note: None of the above options are listed on the ASX.

(g) Performance rights held by Key Management Personnel

Interest in rights over Cronos Australia shares	Opening balance	Rights granted	Rights converted	Closing balance	Vested at year end
Executives					
Thomas G. Howitt	60,000	-	-	60,000	60,000
Totals	60,000	-	-	60,000	60,000

Note: None of the above performance rights are listed on the ASX.

31. AUDITORS' REMUNERATION

Name of Auditor	Year	Audit services \$	Other services \$	Totals \$
KPMG	2021	75,000	5,000	80,000
	2020	82,000	-	82,000
Parkwell CPA Limited	2021	3,378	-	3,378
	2020	-	-	-
Total auditors' remuneration	2021	78,378	5,000	83,378
	2020	82,000	-	82,000

Note: Parkwell CPA Limited acts as auditor of the Company's wholly-owned, Hong Kong based subsidiary, Personal Care Asia Limited.

	Consolidated	
	30 June 2021 \$	30 June 2020 \$
32. COMMITMENTS AND CONTINGENCIES		
(a) Lease expenditure commitments		
Minimum lease payments		
Not later than one year	106,550	80,099
Later than one year but not later than five years	261,010	329,756
Later than five years	-	-
Total minimum lease payments	367,560	409,855

As at 30 June 2021, the Group had entered into two leases relating to the following office premises which have been recognised, along with corresponding right-of-use assets, under AASB 16 *Leases* (refer *Notes 14, 17 and 20*):

Location	Landlord	Date of expiry of lease	Minimum payments (\$)
Suite 8, Level 3, 299 Toorak Road South Yarra, Victoria 3141	Newmark Como Property Trust	10 May 2025	329,755
Suite 3, Level 8, 492 St. Kilda Road Melbourne, Victoria 3004	Perpetual Corporate Trust Limited	21 January 2023	37,805
			367,560

(b) Chattel mortgage commitments

Minimum chattel mortgage payments

Not later than one year	-	32,823
Later than one year but not later than five years	-	-
Later than five years	-	-
Total minimum chattel mortgage payments	-	32,823

Note: The Company, via its wholly-owned subsidiary Cronos Australia Group Pty. Ltd., financed via a chattel mortgage the purchase of a commercial vehicle used in the Company's business. An amount of \$25,792 was paid on 5 March 2021 to extinguish the mortgage at the expiry of the mortgage term. The vehicle is now owned outright by the Company.

(c) Finance commitments

CBD Joint Venture Pty. Ltd.

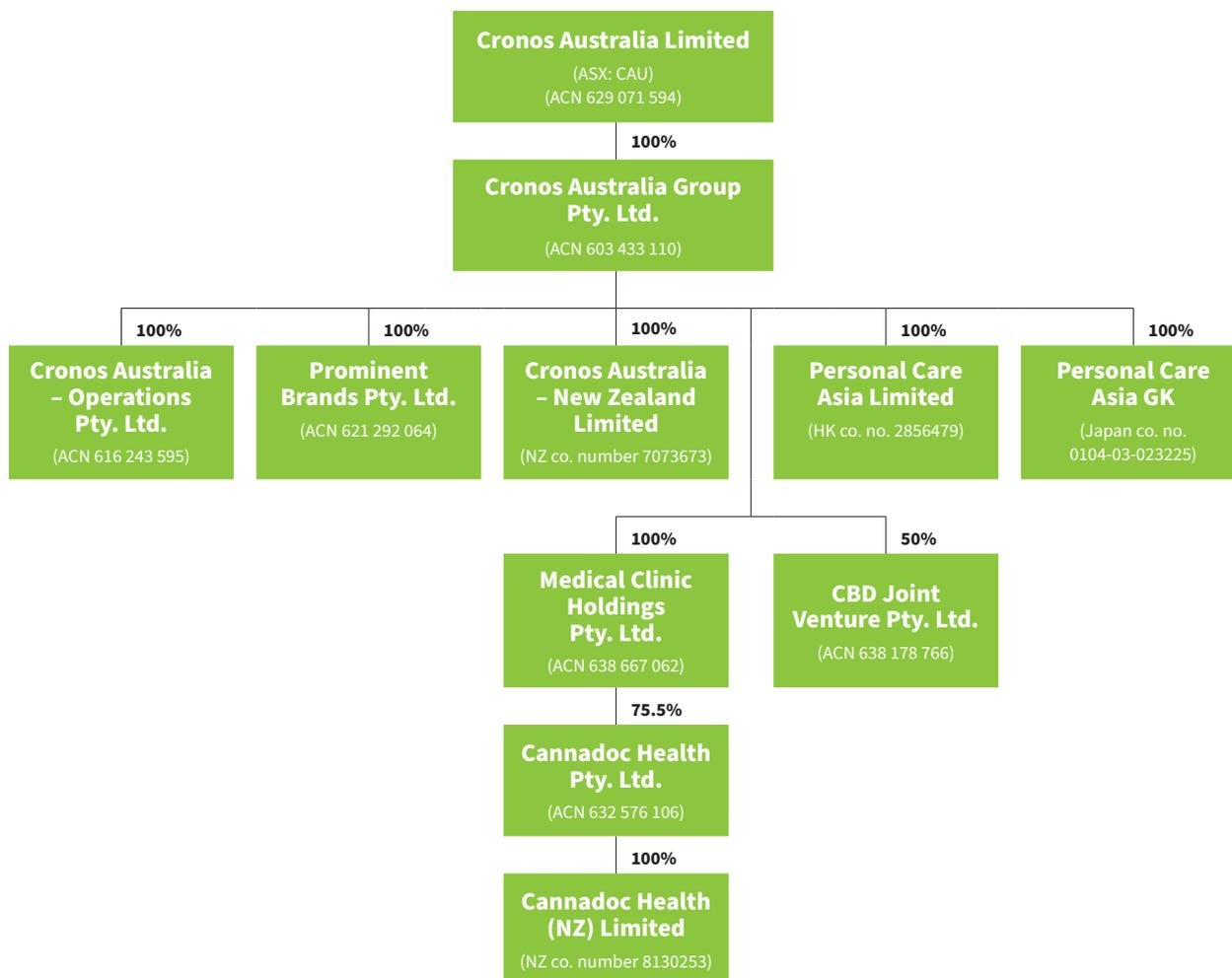
On 23 December 2019, the Company announced that it had formed a joint venture with A&S Branding Pty. Ltd. for the development of cannabidiol-based products. CAL will make available to the joint venture vehicle (CBD Joint Venture Pty. Ltd.) an unsecured loan facility of up to \$250,000 on commercial terms, which may be used for working capital purposes and to further expand the business. As at 30 June 2021, an amount of \$30,000 had been advanced by the Company to CBD Joint Venture Pty. Ltd. The loan is unsecured and no interest is charged.

Cannadoc Health Pty. Ltd.

On 3 February 2020, the Group executed a Share Transfer and Shareholders Agreement (the "Agreement") pursuant to which it acquired a 51% equity interest in Cannadoc Health Pty. Ltd. ("Cannadoc"), a Melbourne-based company operating a medical clinic business specialising in cannabinoid-based therapies. On 1 February 2021, the Group paid \$101,000 to acquire a further 24.5% interest in Cannadoc, taking the Group's total interest in Cannadoc to 75.5%. Under the terms of the Agreement, CAL agreed to make available to Cannadoc a loan facility of up to \$1 million on commercial terms, which may be used for working capital purposes and to further expand the business. As at 30 June 2021, an amount of \$250,000 had been advanced by the Company to Cannadoc. The loan is secured and interest is charged at a rate of 9.0 per cent per annum on the outstanding balance.

33. GROUP STRUCTURE

The following diagram is a depiction of the Group structure as at the date of this Report:



Name of Group company	Incorporation details (date and place)
Cronos Australia Limited	27 September 2018; Victoria, Australia
Cronos Australia Group Pty. Ltd.	18 December 2014, Victoria, Australia
Cronos Australia - Operations Pty. Ltd.	2 December 2016; Victoria, Australia
Prominent Brands Pty. Ltd.	24 August 2017; Victoria, Australia
Cronos Australia - New Zealand Limited	12 October 2018; New Plymouth, New Zealand
Personal Care Asia Limited	25 July 2019; Central, Hong Kong
Personal Care Asia GK	1 July 2020; Tokyo, Japan
Medical Clinic Holdings Pty. Ltd.	23 January 2020; Victoria, Australia
CBD Joint Venture Pty. Ltd.	20 December 2019; Victoria, Australia
Cannadoc Health Pty. Ltd.	28 March 2019; Victoria, Australia
Cannadoc Health (NZ) Limited	9 October 2020; New Plymouth, New Zealand

34. FINANCIAL RISK MANAGEMENT

(a) Introduction

The Group's activities expose it to various financial risks such as credit risk, market risk (including foreign currency risk and interest rate risk) and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses different methods to measure the different types of risk to which it is exposed. These methods include sensitivity analysis in the case of foreign exchange, and interest rate and aging analysis in the case of credit risk.

The Group's overall risk profile is managed by the Company's Chief Risk Officer in conjunction with the other members of the Executive team. During the year ended 30 June 2021, the Company reviewed and updated its comprehensive Risk Register and documented the material perceived risks that the Group is currently exposed to, together with a detailed summary of the consequences of such risks occurring and the various actions that the Company can take to mitigate their impact. The updated Risk Register was tabled and discussed at a meeting of the Company's Audit and Risk Committee held on 20 May 2021, following which it was distributed to the Board for noting and comment.

The Group's principal financial instruments comprise cash and cash equivalents. The Group also has other financial assets and liabilities, such as trade receivables and trade payables, which arise directly from its operations.

The Group does not enter into derivative transactions, such as interest rate swaps or forward currency contracts. It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken. The main risks arising from the Group's financial instruments are credit risk exposures, foreign currency risk, interest rate risk and liquidity risk. The policies and procedures for managing these risks are summarised below.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument, are disclosed in *Note 2*.

The Group holds the following financial instruments:

	Consolidated	
	30 June 2021 \$	30 June 2020 \$
Financial assets		
Cash and cash equivalents	9,467,175	14,685,943
Trade and other receivables	433,328	27,200
Other assets	226,186	339,780
Total financial assets	10,126,689	15,052,923
Financial liabilities		
Trade and other payables	1,002,226	452,436
Interest-bearing liabilities	2,010,106	1,786,521
Lease liabilities	353,798	389,176
Chattel mortgage liabilities	-	31,892
Total financial liabilities	3,366,130	2,660,025

34. FINANCIAL RISK MANAGEMENT (CONT.)

(b) Credit risk

The Group's credit risk is managed on a Group basis. Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions. If there is no independent rating, the Group assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal and/or external ratings. The compliance with credit limits by customers is regularly monitored by Management. The maximum exposures to credit risk as at 30 June 2021 in relation to each class of recognised financial asset is the carrying amount of that asset, as recorded in the statement of financial position.

Financial assets included on the statement of financial position that potentially subject the Group to a concentration of credit risk consist principally of cash and cash equivalents. The Group minimises this concentration of risk by placing its cash and cash equivalents with financial institutions that maintain superior credit ratings in order to limit the degree of credit exposure. For banks and financial institutions, only independently-rated parties with a satisfactory credit rating are accepted. The Group has not entered into any transactions that qualify as a financial derivative instrument.

In addition, receivable balances are monitored on an ongoing basis such that the Group's exposure to bad debts is not significant. During the year ended 30 June 2021, an amount of \$9,389 (2020: \$1,975) had been written off in respect of bad debts. As at 30 June 2021, the Group had not raised any provisions for doubtful debts.

An analysis of the aging of trade receivables is provided below:

	Consolidated	
	30 June 2021 \$	30 June 2020 \$
Trade receivables		
Current (less than 30 days)	312,951	5,504
31 days to 60 days	4,346	190
61 days to 90 days	369	600
Greater than 90 days	-	1,224
Total trade receivables (Note 11)	317,666	7,518

(c) Market risk

Foreign currency risk

The Group currently operates predominantly in Australia and Asia and, at balance date, has exposure to foreign currency exchange risk in currencies including Japanese yen, Hong Kong dollars, US dollars and Great British pounds. As the Company continues to expand its operations into other markets, this situation may change.

Interest rate risk

The Group's main interest rate risk arises in relation to its short-term deposits with various financial institutions. If interest rates were to decrease, the Group may generate less interest revenue from such deposits. However, given the relatively short duration of such deposits and the historically low deposit rates currently being offered by major banks in Australia, the associated risk is minimal. As at balance date, the Group had exposure to one interest bearing loan with a face value of \$1,500,000 that was subject to a fixed rate of interest of 12 percent per annum. This loan is due for repayment on, or before, 1 January 2022, though it is possible that the loan, together with all accrued interest, may be converted into equity before that date. Other than this loan, and the Company's various leases, the Company has no liabilities on which interest is charged as at balance date.

34. FINANCIAL RISK MANAGEMENT (CONT.)

(c) Market risk (CONT.)

The Group adopts a prudent approach to cash management that is tailored to cash forecasts rather than seeking the highest rates of return that may compromise access to funds as and when they are required. Where appropriate, the Group strives to deposit its surplus cash in a range of deposits over different time frames in order to diversify its portfolio and thereby minimise its overall risk. On a monthly basis, Management reviews all cash and cash equivalents, including the periods over which the cash has been deposited, the name and credit rating of the institution holding the deposit and the interest rates at which the funds have been deposited.

Given the historically low deposit interest rates being offered by major banks in Australia in respect of cash and cash equivalents held by the Group held during the year ended 30 June 2021, if interest rates had changed by +/- 50 percent from the year-end rates, with all other variables held constant, the Group's equity, relating solely to the movement in profit and loss for the year, would not have changed materially. The Group's principal interest rate exposure during the year ended 30 June 2021 arose in respect of a fixed rate borrowing from its major shareholder which was subject to an interest rate that did not fluctuate (see above).

The Group's exposure to interest rate risks and the effective interest rates of financial assets and liabilities, both realised and unrealised, is as follows:

	Year	Floating rate	Fixed rate	Carrying amount	Weighted-average rate	Maturity period
		\$	\$	\$	%	days
Financial assets						
Cash and cash equivalents	2021	9,467,175	-	9,467,175	0.10%	At call
(Note 10)	2020	14,685,943	-	14,685,493	0.25%	At call
Other assets	2021	226,186	-	226,186	0.39%	N/A
(Note 13)	2020	339,780	-	339,780	0.28%	N/A
Totals	2021	9,693,361	-	9,693,361		
	2020	15,025,723	-	15,025,723		
Financial liabilities						
Interest-bearing liabilities	2021	-	2,010,106	2,010,106	12.00%	N/A
(Notes 17 and 20)	2020	-	1,786,521	1,786,521	12.00%	N/A
Lease liabilities	2021	-	353,798	353,798	2.15%	N/A
(Notes 17 and 20)	2020	-	389,176	389,176	2.15%	N/A
Chattel mortgage liabilities	2021	-	-	-	-	N/A
(Note 18)	2020	-	31,892	31,892	4.31%	N/A
Totals	2021	-	2,363,904	2,363,904		
	2020	-	2,207,589	2,207,589		

Note: All periods in respect of financial assets are for less than one year.

34. FINANCIAL RISK MANAGEMENT (CONT.)

(d) Liquidity risk

Prudent liquidity risk management necessitates maintaining sufficient cash and cash equivalents and the availability of funding through committed credit facilities, such as credit card facilities. The Group manages liquidity risk by regularly monitoring forecast and actual cash flows and, wherever possible, matching the maturity profiles of financial assets and liabilities.

Due to the dynamic nature of the Company's underlying business, Management aims to maintain flexibility in funding by keeping committed credit lines available. Surplus funds are generally only invested in instruments that are tradable in highly liquid markets. An analysis of the aging of trade payables is provided below:

	Consolidated	
	30 June 2021 \$	30 June 2020 \$
Trade payables		
Current (less than 30 days)	460,413	80,253
31 days to 60 days	26,631	15,042
61 days to 90 days	8,351	-
Greater than 90 days	-	-
Total trade payables (Note 16)	495,395	95,295

A balanced view of cash inflows and outflows affecting the Group is summarised in the table below:

		< 6 months \$	6 to 12 months \$	1 to 5 years \$	> 5 years \$	Totals \$
Inflows – financial assets						
Cash and cash equivalents	2021	9,467,175	-	-	-	9,467,175
	2020	14,685,943	-	-	-	14,685,943
Trade and other receivables	2021	433,328	-	-	-	433,328
	2020	27,200	-	-	-	27,200
Other assets	2021	226,186	-	-	-	226,186
	2020	339,780	-	-	-	339,780
Total financial assets	2021	10,126,689	-	-	-	10,126,689
	2020	15,052,923	-	-	-	15,052,923
Outflows – financial liabilities						
Trade and other payables	2021	1,002,226	-	-	-	1,002,226
	2020	452,436	-	-	-	452,436
Interest-bearing liabilities	2021	2,010,106	-	-	-	2,010,106
	2020	-	-	1,786,521	-	1,786,521
Lease liabilities	2021	49,385	50,727	253,686	-	353,798
	2020	35,898	36,686	316,592	-	389,176
Chattel mortgage liabilities	2021	-	-	-	-	-
	2020	4,638	27,254	-	-	31,892
Total financial liabilities	2021	3,061,717	50,727	253,686	-	3,366,130
	2020	492,972	63,940	2,103,113	-	2,660,025

34. FINANCIAL RISK MANAGEMENT (CONT.)

(e) Classification of financial instruments

AASB 13 *Fair Value Measurement* establishes a fair value hierarchy that prioritises the input to valuation techniques used to measure fair value, as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair values of the Company's financial assets and liabilities as at 30 June 2021 (as set out above), all of which are Level 3, approximate their carrying values due to the short-term nature of these instruments.

(f) Borrowing facilities

The Group had access to the following borrowing facilities as at 30 June 2021:

	Facility limit \$	Amount used \$	Amount available \$
Nature of facility			
Loan from Cronos Group Inc.	1,500,000	(1,500,000)	-
Credit card facility from ANZ Banking Group	50,000	(16,275)	33,725

35. SUBSEQUENT EVENTS

There were no events that have occurred subsequent to balance date that have not been disclosed elsewhere in this Annual Report.

Directors' Declaration

In the opinion of the Directors of Cronos Australia Limited:

1. the Financial Statements and accompanying notes, as set out on pages 56 to 94, are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2021 and of its performance for the financial year ended on that date; and
2. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and

Note 2 confirms that the Financial Statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

This Declaration is made in accordance with a resolution of the Directors.



SHANE F. TANNER
Chairman



RODNEY D. COCKS CSM
Director

Melbourne, 27 August 2021

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Independent Auditor's Report

To the shareholders of Cronos Australia Limited

Report on the audit of the Financial Report

Opinion

We have audited the **Financial Report** of Cronos Australia Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the Group's financial position as at 30 June 2021 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The **Financial Report** comprises:

- Statement of financial position as at 30 June 2021
- Statement of comprehensive income/(loss), Statement of changes in equity, and Statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

The **Group** consists of Cronos Australia Limited (the Company) and the entities it controlled at the year end or from time to time during the financial year.

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 Group in accordance with *the Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards) (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.

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Key Audit Matters

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Report of the current period.

This matter was addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

Revenue recognition (\$1,692,840)

Refer to Note 2(f) *Revenue recognition* and Note 4 *Revenue*

The key audit matter	How the matter was addressed in our audit
<p>Revenue from the sale of medicinal cannabis products is recognised when the Group has delivered the product to its customers and revenue from medical consultation fees is recognised when the service has been provided.</p> <p>Revenue recognition is a key audit matter due to:</p> <ul style="list-style-type: none"> the revenue recognised being significant to the understanding of the financial performance of the Group; the high volume of relatively low value individual transactions; and the judgements applied in determining whether the criteria for revenue recognition has been met and that revenue is recognised in the correct period. 	<p>Our procedures included:</p> <ul style="list-style-type: none"> We assessed the Group's revenue recognition accounting policies against the criteria in the accounting standards. We selected a sample of medical cannabis product sales and a sample of medical consultation fees. We checked the samples to underlying records including evidence of payment to assess the accuracy of revenue recognised and whether the revenue was recognised in the correct period. We evaluated the disclosures relating to revenue recognition against the criteria in the accounting standards.

Other Information

Other Information is financial and non-financial information in Cronos Australia Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are 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, with the exception of the Remuneration Report and our related assurance opinion.

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 the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Group and 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 Group and 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:

https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf. This description forms part of our Auditor's Report.

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Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Cronos Australia Limited for the year ended 30 June 2021, complies with *Section 300A of the Corporations Act 2001*.

Directors' responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with *Section 300A of the Corporations Act 2001*.

Our responsibilities

We have audited the Remuneration Report included in pages 35 to 42 of the Directors' report for the year ended 30 June 2021.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.

KPMG

Gordon Sangster

Partner

Melbourne

27 August 2021

ASX Supplementary Information

INTRODUCTION

Cronos Australia Limited was admitted to the Official List of the Australian Securities Exchange (“ASX”) on 7 November 2019. The ASX code for the Company’s ordinary shares is **CAU**. The additional information provided in this section is required by the Listing Rules of the ASX and is not disclosed elsewhere in this Annual Report. The information provided below is current as at 27 September 2021.

DISTRIBUTION OF EQUITY SECURITIES

The numbers of holders of ordinary shares, performance rights and options in the Company as at 27 September 2021, ranked by size of holding, are as follows:

Ranges	Shares			Performance Rights			Options		
	Holders	Numbers	%	Holders	Numbers	%	Holders	Numbers	%
1 – 1,000	28	10,243	0.01	-	-	-	-	-	-
1,001 – 5,000	308	1,066,747	0.83	-	-	-	-	-	-
5,001 – 10,000	258	2,036,018	1.58	-	-	-	-	-	-
10,001 – 100,000	429	14,905,170	11.57	1	60,000	100	1	86,300	3.36
100,001 and over	82	110,731,822	86.01	-	-	-	2	2,478,700	96.64
Totals	1,105	128,750,000	100	1	60,000	100	3	2,565,000	100

UNMARKETABLE PARCELS

The number of shareholders holding less than a “marketable parcel” of ordinary shares (being 2,858 shares) is 116. The total number of ordinary shares held by these shareholders on 27 September 2021 was 182,536, representing 0.14% of the Company’s total issued share capital.

TWENTY LARGEST SHAREHOLDERS

The names of the twenty largest registered shareholders of the Company’s ordinary shares as at 27 September 2021 are:

Rank	Name of registered shareholder	Number of shares	Percentage held
1	Cronos Global Holdings Inc.	40,000,000	31.07%
2	NewSouthern Investment Holdings 1 Pty. Ltd.	20,000,000	15.53%
2	NewSouthern Investment Holdings A Pty. Ltd.	20,000,000	15.53%
4	Citicorp Nominees Pty. Ltd.	4,940,937	3.84%
5	Syracuse Capital Pty. Ltd. <The Rocco Tassone Superfund A/C>	1,720,000	1.34%
6	Marienburg Pty. Ltd. <Robinson Family A/C>	1,600,000	1.24%
7	BG & Dewar Pty. Ltd.	1,531,340	1.19%
8	BNP Paribas Nominees Pty. Ltd. <IB AU Noms Retail Client DRP>	1,054,205	0.82%
9	Yavern Creek Holdings Pty. Ltd.	1,000,000	0.77%
10	Zena Dabaja	793,066	0.61%
11	Yarra River Capital Management Pty. Ltd.	731,836	0.57%
12	Seascape Avenue Pty. Ltd.	625,000	0.49%
13	Gracelite Pty. Ltd. <Sigston Family A/C>	620,994	0.48%
14	DJT Group Pty. Ltd.	600,000	0.47%
15	EECE Investments Pty. Ltd.	587,611	0.46%
16	Heath Nominees (Aust) Pty. Ltd. <The Heath Family A/C>	586,922	0.45%
17	Gum Young Investment Pty. Ltd. <GRX Investment A/C>	570,000	0.44%
18	Theresa Lyn Zelenak and Yan Zelenak <Zelenak Family Super A/C>	508,749	0.40%
19	William Haberfield, Joylene Haberfield and Stuart Haberfield <Haberfield Super Fund A/C>	500,000	0.39%
19	Richmond Bridge Investment Pty. Ltd. <Richmond Bridge Invest A/C>	500,000	0.39%
Totals		98,470,660	76.48%

SUBSTANTIAL SHAREHOLDERS

As at 27 September 2021, the names of the substantial shareholders holding shares representing more than 5% of the Company's total issued share capital, who have notified the Company in accordance with section 671B of the *Corporations Act 2001*, are:

Name of substantial shareholder	Number of shares	Percentage held
Cronos Global Holdings Inc.	40,000,000	31.07%
Rodney D. Cocks (via NewSouthern Investment Holdings 1 Pty. Ltd.)	20,000,000	15.53%
Peter J. Righetti (via NewSouthern Investment Holdings A Pty. Ltd.)	20,000,000	15.53%

RESTRICTED SECURITIES

As at 27 September 2021, the following ordinary shares were subject to escrow agreements with the Company:

Name of substantial shareholder	Number of shares	Escrow expiry date
Cronos Global Holdings Inc.	40,000,000	7 November 2021
Rodney D. Cocks (via NewSouthern Investment Holdings 1 Pty. Ltd.)	20,000,000	7 November 2021
Peter J. Righetti (via NewSouthern Investment Holdings A Pty. Ltd.)	20,000,000	7 November 2021
Peter J. Righetti (via Seascope Avenue Pty. Ltd.)	125,000	7 November 2021

UNLISTED SECURITIES

As at 27 September 2021, Bell Potter Securities Limited is the holder of 2,000,000 unlisted broker options exercisable at \$0.65 each on or before 31 December 2021 which, if exercised, will be subject to escrow for a period of 24 months from the date on which quotation of the resulting shares commences.

The following unlisted securities are also on issue as at 27 September 2021. All securities were granted during the year ended 30 June 2020 pursuant to the Company's Employee Incentive Plan ("EIP"):

- 60,000 performance rights (which were fully vested on 30 June 2021)
- 86,300 Class A EIP options exercisable at \$0.50 each (which were fully vested on 30 June 2021)
- 181,200 Class B EIP options exercisable at \$0.67 each (which will vest on 7 November 2021)
- 297,500 Class C EIP options exercisable at \$0.83 each (which will vest on 7 November 2022)

ON-MARKET BUYBACK

The Company currently has no on-market share buyback program.

ASX REPRESENTATIVE AND COMPANY SECRETARY

Pursuant to ASX Listing Rule 12.6, Thomas Howitt has been appointed as the Company's ASX Representative and as its Company Secretary.

STATEMENT REGARDING USE OF CASH AND ASSETS

Pursuant to ASX Listing Rule 4.10.19, the Company confirms that, during the period from 7 November 2019, being the date of its admission to the Official List of the ASX, to 30 June 2021, it has used its cash and cash equivalents in a way consistent with its business objectives.

During the above period covering almost 20 months since its IPO, the Company has spent approximately \$3.2 million less than forecast in its "Use of Proceeds" table on page 31 of its Prospectus dated 15 October 2019. This deficit has been caused by a combination of factors including the overestimation 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, together with ongoing cost containment strategies.

VOTING RIGHTS

Shares

The Company only has ordinary shares on issue.

At a meeting of Shareholders, subject to the Constitution, the Corporations Act, the ASX Listing Rules (if applicable) and to any rights or restrictions attaching to any class of Shares, on a show of hands each Shareholder present in person or by proxy has one vote. At the taking of a poll, each Shareholder present in person or by proxy has one vote for each fully paid Share, and for each partly paid Share a fraction of a vote equivalent to the proportion which the amount paid (not credited) bears to the total amount paid and payable (excluding amounts credited). A Shareholder is entitled to be counted in a vote only in respect of Shares on which all calls due and payable have been paid.

A resolution put to vote at a meeting must be decided on a show of hands unless a poll is demanded.

Options and performance rights

Options and performance rights have no voting rights.

Corporate Directory

DIRECTORS

Shane F. Tanner (*Non-Executive Chairman*)
Rodney D. Cocks CSM (*Executive Director and Chief Executive Officer*)
Daniel E. Abrahams (*Non-Executive*)
Jason M. Adler (*Non-Executive*)
Anna E. Burke AO (*Non-Executive*)
Michael R. Gorenstein (*Non-Executive*)

COMPANY SECRETARY

Thomas G. Howitt

REGISTERED OFFICE

Suite 8, Level 3, 299 Toorak Road
South Yarra Vic. 3141
Australia

Email: info@cronosaustralia.com

AUSTRALIAN BUSINESS NUMBER

59 629 071 594

COMPANY WEBSITE

www.cronosaustralia.com

STOCK EXCHANGE

Australian Securities Exchange

Level 4, Rialto North Tower
525 Collins Street
Melbourne Vic. 3000
Australia

ASX code: **CAU**

BANKER

Australia and New Zealand Banking Group Limited

833 Collins Street
Docklands Vic. 3008
Australia

AUDITOR

KPMG

Chartered Accountants
Level 36, Tower Two, Collins Square
727 Collins Street
Melbourne Vic. 3008
Australia

SHARE REGISTER

Link Market Services Limited

Level 13, Tower Four, Collins Square
727 Collins Street
Melbourne Vic. 3008
Australia

Shareholder enquiries: **1300 554 474 (toll free)**

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