THC Global Group

ACN: 614 508 039

Consolidated Financial Report for the Year Ended 31 December 2019

2019 FINANCIAL REPORT

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CORPORATE INFORMATION

THC GLOBAL GROUP LIMITED (ASX: THC)

Directors
Steven Xiaobo Xu (Chairman)
Alan Preston Beasley (Deputy Chairman)
Lou Anthony Cattelan
Gary John Radcliff

Company Secretary
Henry Kinstlinger

Chief Executive Officer
Ken Charteris

Chief Financial Officer
Jarrod White

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Corporate Accountant
Traverse Accountants
Suite 305, Level 3
35 Lime Street
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Auditor
KS Black & Co
Level 1, 251 Elizabeth Street
Sydney NSW 2000

Australian Legal Advisors
Piper Alderman
Level 23, Governor Macquarie Tower
1 Farrer Place
Sydney NSW 2000

Baker McKenzie
Level 46, Tower One
International Towers Sydney
100 Barangaroo Avenue
Barangaroo NSW 2000

Canadian Legal Advisors
Borden Ladner Gervais
Centennial Place, East Tower,
1900, 520 – 3rd Ave S W,
Calgary, Alberta, Canada

CHAIRMAN'S LETTER

Dear Fellow Shareholders,

I am pleased to present to you the 2019 Annual Report for THC Global.

2019 has been a highly successful year for the Company where we are now the first ASX listed company to own and operate an end-to-end commercial scale medicinal cannabis production process under Australia's cannabis regulations, with one of the world's largest pharmaceutical GMP cannabis production facilities.

Our efforts over the past two years in refreshing the company strategy, strengthening the team capability and working through the Australian cannabis regulatory scheme, securing the many licences, permits, and authorisations required culminated in us producing our first medicinal cannabis medicines in December 2019. This was a significant milestone for our Company and has laid the foundations for our growth in 2020 and beyond. With fully vertical integrated business model, we are capable to supply high-quality low-cost medicines to Australian patients and the global export market.

Through our 'Canndeo' brand, we look forward to delivering first medicines to Australian patients in the coming weeks – ensuring that we supply an affordable, accessible medicinal cannabis product to patients in need. Through 2020 we expect to supply Canndeo products to an initial 6,000 Australian patients. In parallel, we continue expanding our global footprint for future medicines export, both as a local supplier and as a wholesaler, initially focussing on Canada, New Zealand, and Europe.

Current macroeconomic conditions and cannabis stock market appear challenging and extreme pessimism and the current share price of the Company is clearly far from where we as shareholders believe it should be. However, we observe the following trend of the Cannabis Sector:

- The market continuously grows with more countries implementing medicinal cannabis programmes.
- Medicinal cannabis regulatory frameworks tend to mirror those used for conventional medicines with a prescription, pharmacy dispensing, and pharmaceutical-quality production standards typically required. It erects barriers to entry that can be used to the advantage of well-positioned players.

THC Global is well-positioned among the peers due to its pharmaceutical GMP production capability, strong team with pharmaceutical industry experience and scalable capability to address the growing market.

With full ownership of our production facilities, we are confident that we can grow our global medicinal cannabis and hydroponics equipment operations notwithstanding the current depressed market conditions.

Your Board and management continue to work towards our goal to supply affordable, accessible, high quality medicinal cannabis medicines to Australian patients and the global export market.

On behalf of the Board and management of THC Global, I thank you for your continued support of the Company and look forward to the year to come.

Yours faithfully,

Steven Xu
Chairman
31 March 2020

CEO’S REPORT

Dear Fellow Shareholders,

After over two years of hard work from our team and patience from our shareholders, we are now just weeks away from our first supply of high quality, affordable and accessible medicinal cannabis medicines to Australian patients in need. This is a critical milestone both for our company, and for those patients in Australia struggling to find a legal medicinal cannabis medicine that they can afford.

Getting to this stage has not been an easy process, with extended periods of time where we’ve been forced to wait for licences, permits, and other approvals to proceed on our operational plan. However, we’ve now achieved something that is highly regarded and quite rare in the global cannabis sector – to have a large scale cannabis extraction facility with government issued GMP licencing able to produce product meeting the EU GMP standards.

We were pleased to host the Australian Minister for Health, The Hon. Greg Hunt MP, Mr Rob Molhoek MP and Ms Angie Bell MP at out Southport Manufacturing Facility in August 2019 for an official opening ceremony, and have been appreciative of the Australian Government’s efforts to deliver a strong medicinal cannabis industry in Australia. Whilst there is more work to be done, we are confident that THC Global will be a major supplier for the Australian Government’s estimated 100,000 annual prescription demand in the near term. By offering a more affordable and accessible option to prescribers, we expect to see the number of patients actively using medicinal cannabis in Australia to grow significantly.

To this end, we’ve now accelerated our medicinal cannabis production with the importation of crude cannabis extract, and ramping-up of our cultivation capacity at our Bundaberg facility to support production of medicines for at least an initial 6,000 patients commencing this year.

Looking globally, we expect to receive licences in Canada to enable the Company to be a local medicinal cannabis supplier for patients with valid subscriptions, in addition to offering our products to Canadian partners under wholesale agreements. We are also progressing activities in Europe and the Asia Pacific, where we hope to see our medicines exported to later this year.

Our hydroponics equipment retailing and wholesaling business, Crystal Mountain, performed extraordinarily well in 2019 with a successful repositioning of the business towards smaller cannabis cultivators who were not well serviced in the market. This repositioning led to a ~80% year on year revenue growth.

As CEO, I continue to monitor the current operating conditions including the current COVID-19 pandemic affecting the world. The safety and wellbeing of our excellent staff members is a key priority for us, and we will continue to ensure this. At present, we do not expect to see a material effect on the Company’s operation as a result of this pandemic however will continue to monitor it. Our Company is in a very strong position financially, and we’re confident that we will continue our operations towards delivering high quality, affordable and accessible medicinal cannabis medicines to Australian patients and the global export market.

I thank all our shareholders for their continued support and patience, and look forward to sharing our progress with you in the year to come.

Yours Sincerely,

K. Charteris

Ken Charteris
Chief Executive Officer
31 March 2020

DIRECTORS' REPORT

Your directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as "THC" or the 'Group') consisting of THC Global Group Limited (formerly The Hydroponics Company Limited, referred to hereafter as the 'Company') and the entities it controlled at the end of, or during, the year ended 31 December 2019.

Directors

The following persons were directors of the Company during the financial year and up to the date of this report:

Steven Xiaobo Xu	Chairman, Non-Executive Director
Alan Preston Beasley	Deputy Chairman, Non-Executive Director
Lou Anthony Cattelan	Non-Executive Director
Gary John Radcliff	Non-Executive Director

Chief Executive Officer

Ken Charteris

Chief Financial Officer

Jarrod White

Company Secretary

Henry Kinstlinger

Information on Directors

Steven Xu
Chairman (Non-Executive)
Appointed 12 January 2018

Steven Xu is the Managing Director of Une-Innovation Consulting Australia Pty Ltd and Founding Partner of INP Capital Inc which manages a series of venture capital funds. The venture capital funds invest in companies specialised in Medical/Healthcare, AI, Fintech and Industrial technology and Medical Cannabis across Australia, New Zealand, North America and Israel.

He has strong international connections and over 15 years' experience working at PricewaterhouseCoopers and listed companies in Australia and China. He specialises in financing, IPO and M&A activities in a broad range of sectors. Steven completed a Bachelor of Management.

He is a member of the Institute of Chartered Accountants (Australia and New Zealand) and the Australian Institute of Company Directors.

Special responsibilities	Chairman from 15 March 2018 Chairman of the Audit and Risk Committee (appointed 23 January 2018, Chairman to 15 March 2019) Chairman of the Strategy and Management Committee (from 4 June 2019)
Other current ASX directorships:	None
Former ASX directorships in last 3 years	None

Alan Beasley
Deputy Chairman (Non-Executive)
Appointed 29 August 2016

Alan Beasley has worked in the Investment Banking and Investment Management industries for over 30 years with Bankers Trust Australia, Goldman Sachs Asset Management, and BNP Paribas Asset Management Ltd. The last two positions as Managing Director and Australian Country Head. Alan is a director and former director of several listed and unlisted public and private companies including two public charities.

Alan has a passion for and experience in assisting to bring innovative and new technology companies to market, especially in the Health and Life Sciences sectors. Alan graduated with a Bachelor of Economics, (UNE) and completed an Advanced Management Program in International Investment Management from the Graduate Business School, Stanford University, USA.

Alan is a Certified Practising Accountant, (CPA) Fellow of the Governance Institute of Australia, (FGIA) and Fellow of the Australian Institute of Company Directors. (FAICD).

He is currently Managing Director of Hudson Investment Group Ltd (ASX.HGL).

Special responsibilities	Deputy Chairman from 15 March 2018 Chairman of Audit and Risk Committee (Member to 15 March 2019) Member of the Strategy and Management Committee (from 4 June 2019)
Other current ASX directorships:	Hudson Investment Group Limited (ASX.HGL) AFT Corporation Limited (ASX.AFT)
Former ASX directorships in last 3 years	Admiralty Resources NL (ASX.ADY) Raffles Capital Limited (ASX.RAF) E3SIXTY Limited (ASX.E3S)

Lou Cattelan
Non-Executive Director
Appointed 15 March 2018

Lou is a specialist in the pharmaceutical, nutraceutical, complementary healthcare, and allied health industry sectors with over 30 years' experience across a broad range of operational and strategic areas including, quality assurance, supply chain management, new product development, TGA and FDA regulatory compliance, sales and marketing, business development, and special projects. Lou has sat on the Consumer Healthcare Products Australia (formerly ASMI, the peak industry body for the Australian Consumer Health Industry) Committee for Complementary Medicines as a key liaison between TGA and significant industry stakeholders.

Lou has now retired as Head of Sales and Marketing of Contract Pharmaceutical Services of Australia (CPSA). In this role over the past 19 years, he has consulted with all major Pharma companies including Pfizer, MSD, Mylan and GSK to take innovative concepts through to compliant finished products. He has also worked in senior hands-on positions with Ella Bache, Milpharma, Sunspot Products, Bayer Pharma and Blackmores.

Lou is a member of the Australian Institute of Company Directors (MAICD) and has a Bachelor of Applied Science.

Special responsibilities	Member of Audit and Risk Committee
Other current ASX directorships:	None
Former ASX directorships in last 3 years	None

Gary Radcliff
Non-Executive Director
Appointed 15 March 2018

Mr Radcliff is a practicing Barrister, having been first called to the Bar in 1984 and is the President of the Gold Coast Bar Association. Mr Radcliff is also a specialist adjudicator in relation to Dispute Resolution recognised by the Office of the Commissioner for Body Corporate and Community Management (Queensland, Australia).

Mr Radcliff provides a wealth of experience in corporate governance and compliance matters both in Australia and overseas. In addition to practicing law, Mr Radcliff has significant experience in project management, corporate advisory and company directorship in a wide range of sectors, most notably, pharmaceuticals, financial services and technology.

Special responsibilities	None
Other current ASX directorships:	None
Former ASX directorships in last 3 years	None

Information on Key Management Personnel

Ken Charteris
Chief Executive Officer
Appointed 11 July 2018

Ken Charteris is a highly experienced strategic advisor, director, and executive with a focus on change management, execution of high-growth strategies and business development. Ken's experience at all levels of top management spans a wide range of industries across the globe including FMCGs, resources, manufacturing, bio-technology and pharmaceuticals. Ken's breadth of experience encompasses leading large organisations through periods of significant change, such as in strategy or operations, but has also led greenfield expansions of businesses into new territories and industries.

Having been involved in various senior levels within THC since prior to listing on the ASX, Ken has been instrumental in the execution of the Company's strategic plan, including the acquisition of THC's manufacturing facility and the securing of commercial partnerships.

Meetings of Directors (incorporating Remuneration Committee)

	Meetings	
Director	**Attended**	**Eligible to Attend**
Steven Xu (Chair)	8	8
Lou Cattelan	8	8
Gary Radcliff	8	8
Alan Beasley	8	8

Audit and Risk Committee Meetings

	Meetings	
Director	**Attended**	**Eligible to Attend**
Alan Beasley (Chair)	7	7
Lou Cattelan	7	7
Steven Xu	7	7

Review of Operations and Financial Results

The net loss after tax for the year was $11,703,510 (2018 loss: $8,611,270).

Principal Activities and Strategy

THC Global operates under a 'Farm to Pharma' pharmaceutical model and is currently delivering high quality medicinal cannabis products to Australian patients through existing access schemes.

Having secured both a significant growing capacity over multiple proprietary cultivation sites, and an industry-leading pharmaceuticals biomanufacturing facility with attached testing and product development laboratory, THC Global is in prime position to service both domestic patients and the export market. THC Global's commercial partners operate across four continents, supporting future international growth.

In addition to its core medicinal cannabis business, THC Global owns two Canadian companies, being Crystal Mountain Products and Canndeo Canada, Inc (nee Vertical Canna Inc.), Crystal Mountain Products operates a revenue generating global hydroponics retailer and distributor of equipment, material, and nutrients to cannabis growers and producers. Canndeo Canada, Inc (nee Vertical Canna Inc.) is an investment vehicle through which THC Global intends to build, through acquisitions and strategic partnerships, a vertically integrated Canadian cannabis producer and retailer.

Recent Highlights

- Unaudited trading revenue for 2019 of $4.79 million – 80% YoY growth on 2018 audited revenue;
- Strong balance sheet with audited net equity of $22.3 million;
- First 'Canndeo' branded medicinal cannabis medicines produced at Southport Facility in Q4 2019;
- Southport Facility fully licenced and permitted for pharmaceutical GMP production;
- Importation of precursor crude extract for further processing at Southport Facility to allow for rapid scale-up of manufacturing at lower capex;
- Continuing growth within Canadian hydroponics equipment business unit;
- New Zealand product sales success – recent Endoca CBD product shipment under exclusive distribution sold out in October; and
- Product sales in New Zealand laying foundation for distribution of THC Global's own Australian manufactured products in mid 2020.

Significant Changes in State of Affairs

No significant changes in the Group's state of affairs occurred during the financial period.

Matters Subsequent to Balance Date

Subsequent to balance date the Company announced the following material items:

- On 20 January 2020 the Company announced an agreement with MGC Pharmaceuticals Ltd (ASX.MXC) to supply THC Global with white label production and supply of THC Global's Canndeo branded products in Australia and New Zealand;
- On 21 January 2020 the TGA granting of the GMP Manufacturing License Granted for the THC Pharma Pty Ltd Southport Facility. This value step authorises the site with a recognised GMP status to manufacture, package, and the laboratory testing of Medicinal Cannabis;
- New appointment of Chief Operating Office of THC Pharma Pty Ltd Angela Macquire to oversee the new Plant;
- On 24 March 2020 announcement of a deed of settlement between Pegasus Agriculture Pty Ltd and its related bodies corporate with respect to the Company's Epigenetic IP that was acquired during the IPO of THC. As part of the settlement terms THC Global has subsequent to balance date divested of the Epigenetic IP in return for releases from claims made by Pegasus Agriculture and other associated parties. This was after the decision of the Company that further investment in the IP would be expensive and unlikely to deliver further value to shareholders;
- As part of the settlement as detailed in the above 24 March 2020 announcement the Company will buy-back and cancel the 8,500,000 Pegasus Performance Shares (2,500,000 Class C Performance Shares and 6,000,000 Class D Performance Shares) for $1. 00. The buy-back completion will be subject to shareholder approval to be sought at the Company's upcoming Annual General Meeting.

With respect to matters outside the Company's operation, the COVID-19 pandemic declared by the World Health Organisation post 31 January 2020 is having a negative impact on world stock markets, currencies and business activities. THC Global Group Limited has initiated strict policies and procedures to address the health and wellbeing of employees, consultants and contractors.

The timing and extent of the impact and recovery from COVID-19 is not yet known. However, these events may have a post balance date impact.

No other matter or circumstance has arisen since 31 December 2019 that has significantly affected, or may significantly affect:

a. The Group's operations in future financial years; or

b. The results of those operations in future financial years; or

c. The Group's state of affairs in future financial years

Likely developments and expected results of operations

Information on likely developments in the operations of the Group and the expected results of operations have not been included in these financial statements because the directors believe it could potentially result in unreasonable prejudice to the Group.

Environmental regulation

The Group's operations are not subject to any significant environmental regulation under either Commonwealth or State legislation. The Board considers that adequate systems are in place to manage the Group's obligations and is not aware of any breach of environmental requirements as they relate to the Group.

Dividends

No dividends were paid to members during the financial year (2018: $Nil).

Indemnification of officers

During the financial year the Group paid premiums in respect of a contract insuring Directors and Executives against liabilities incurred in the ordinary course of business.

Proceedings on behalf of the Group

No person has applied to the Court for leave to bring proceedings on behalf of the Group, or to intervene in any proceedings to which the Group is a party, for the purpose of taking responsibility on behalf of the Group for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Group.

Auditor's independence declaration

A copy of the auditor's independence declaration is set out on page 20.

REMUNERATION REPORT

This report outlines the remuneration arrangements in place for directors and executives of the Group.

Remuneration philosophy

The performance of the Group depends upon the quality of its directors and executives, and the ability of the Group to attract, motivate and retain highly skilled directors and executives.

Remuneration committee

The Remuneration and Nomination Committee of Directors is responsible for determining and reviewing compensation arrangements for the Directors, the Chief Executive Officer and the executive team. The role of the Remuneration and Nomination Committee was undertaken by the full Board.

The Remuneration and Nomination Committee assesses the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team.

Remuneration structure

In accordance with best practice corporate governance, the structure of non-executive director and executive remuneration is separate and distinct.

Non-executive director remuneration

Objectives

The Board of Directors recognises that the success of the Group will depend on the quality of its directors and its senior management. For this reason, the Remuneration Committee reviews the remuneration arrangements for all senior employees to ensure that it attracts and keeps motivated, highly skilled and appropriately qualified Directors and executives.

Structure

The Company’s Constitution and the ASX Listing Rules 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 determined by shareholders in general meeting is then available to be split between the Directors as agreed between them. This determination will be put to shareholders at the next Annual General Meeting.

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned between directors will be reviewed annually. The Board takes into account the fees paid to non-executive directors of comparable companies when undertaking the annual review process.

Each director receives a fee for being a director of the Company. The Chairman receives a higher fee in recognition of the additional time commitment required of a Chairman.

Non-executive directors are encouraged by the Board to hold shares in the Company (purchased by the directors on market).

Non-executive directors’ remuneration is not linked to the performance of the Company.

The remuneration of non-executive directors for the year ending 31 December 2019 is detailed in Table 3 of this report. There is currently a maximum director payment pool of $300,000.

Senior manager and executive director remuneration

Objective

The Company aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the Company so as to ensure total remuneration is competitive by market standards.

Structure

In determining the level and make-up of executive remuneration, the Remuneration Committee reviews market conditions and the circumstances of the Company to ensure that the remuneration offered is sufficient to attract executives of the highest calibre.

Fixed remuneration

The fixed remuneration of all employees is reviewed by the Remuneration Committee as is considered necessary.

Equity Based Remuneration

The equity based remuneration of all employees is reviewed by the Remuneration Committee as is considered necessary.

Table 1: Shareholdings of key management personnel

2019	Opening balance	Granted as compensation	Acquired	Disposed	Balance 31/12/2019
Alan Beasley	500,000	-	280,000	-	780,000
Steven Xu	8,777,302	-	45,000	(7,000,000)[1]	1,822,302
Lou Cattelan	188,495	-	55,974	-	244,469
Gary Radcliff	147,616	-	15,000	-	162,616
Ken Charteris	500,000	-	15,000	-	515,000
Jarrod White	118,286	-	131,500	-	249,786
Jason Colquhoun	10,200,000[2]	-	-	(10,200,000)	-
Henry Kinstlinger	2,500,000	-	-	-	2,500,000
Laura Harvey	-	-	-	-	-
Mark Fortugno	-	-	-	-	-
Total	**22,931,699**	**-**	**542,474**	**(17,200,000)**	**6,274,173**

*Note these holdings do not include holdings of performance shares that have a separate class of equity

[1] Change due to Mr Xu ceasing KMP relationship with M Y Capital Management Limited
[2] Share holdings at date of resignation

2018	Opening balance	Granted as compensation	Acquired	Balance 31/12/2018
Ian Mutton	254,786	-	-	254,786[1]
Hamish MacDonald	4,009,572	-	-	4,009,572[1]*
Alan Beasley	500,000	-	-	500,000
Mary Verschuer	250,000	-	-	250,000
Peter Wallace	273,810	-	-	273,810[1]
Steven Xu	8,587,302[2]	190,000	-	8,777,302
Lou Cattelan	5,000[3]	95,000	88,495	188,495
Gary Radcliff	-[3]	95,000	52,616	147,616
Ken Charteris	-[4]	500,000	-	500,000
David Radford	-	-	-	-
Jarrod White	68,286	50,000	-	118,286
Jason Colquhoun	9,700,000	500,000	-	10,200,000*
Henry Kinstlinger	3,500,000[5]	350,000	-	3,850,000
Total	**27,148,756**	**1,780,000**	**141,111**	**29,069,867**

*Note these holdings do not include holdings of performance shares that have a separate class of equity

Table 2: Option holdings of key management personnel

2019	Opening balance	Granted as remuneration	Acquired	Exercised	Lapsed	Balance 31/12/2019
Alan Beasley	250,000	-	-	(250,000)		-
Steven Xu	2,000,000	-	30,000	(30,000)	(2,000,000)	-
Lou Cattelan	-	-	-	-	-	-
Gary Radcliff	-	-	-	-	-	-
Ken Charteris	4,000,000	1,350,000	-	-	-	5,350,000
Jarrod White	-	-	-	-	-	-
Jason Colquhoun	6,850,000	-	-	-	(6,183,335)	666,665
Henry Kinstlinger	-	-	-	-	-	-
Laura Harvey	-	-	-	-	-	-
Mark Fortugno	-	2,000,000	-	-	(2,000,000)	-
Total	**13,100,000**	**3,350,000**	**30,000**	**(280,000)**	**(10,183,335)**	**6,016,665**

[1] Share holdings at time of removal – 15/03/2018
[2] Share holdings at time of appointment – 12/01/2018. Note that the opening shareholdings (8,587,302) of Mr Xu, are the total holdings of associated entities that Mr Xu represents, being UNE-Innovation Consulting Australia Pty Ltd and MY INP Venture Capital Fund. They are not Mr Xu's personal holdings.
[3] Share holdings at time of appointment – 15/03/2018
[4] Share holdings at time of appointment – 11/07/2018
[5] Share holdings at time of appointment – 12/04/2018

2018	Opening balance	Granted as remuneration	Acquired	Number	%	Balance 31/12/2018
Ian Mutton	125,000	-	-	-	-	125,000[1]
Hamish MacDonald	500,000	-	-	-	-	500,000[1]
Alan Beasley	250,000	-	-	-	-	250,000
Mary Verschuer	125,000	-	-	-	-	125,000[1]
Peter Wallace	125,000	-	-	-	-	125,000[1]
Steven Xu	562,500[2]	-	1,437,500	-	-	2,000,000
Lou Cattelan	-[3]	-	-	-	-	-
Gary Radcliff	-[3]	-	-	-	-	-
Ken Charteris	-[4]	4,000,000	-	-	-	4,000,000
David Radford[5]	3,120,000	-	-	(3,120,000)	-	-
Debbie Ormsby[5]	1,000,000	-	-	(1,000,000)	-	-
Jarrod White	-	-	-	-	-	-
Jason Colquhoun	4,850,000	3,500,000	-	(1,500,000)	-	6,850,000
Henry Kinstlinger	-[6]	-	-	-	-	-
Total	**10,657,500**	**7,500,000**	**1,437,500**	**5,620,000**	**-**	**13,975,000**

[1] Option holdings at time of removal – 15/03/2018

[2] Option holdings at time of appointment – 12/01/2018 Note that the option holdings (2,000,000) of Mr Xu, are the total holdings of associated entities that Mr Xu represents, being MY INP Venture Capital Fund and are not beneficially held by Mr Xu.

[3] Option holdings at time of appointment – 15/03/2018

[4] Option holdings at time of appointment – 11/07/2018

[5] Options were not approved by shareholders. The Company accrued for these options only.

[6] Option holdings at time of appointment – 12/04/2018

Table 3: Details of remuneration

Name		Salary and fees $	Other fees $	Post-employment benefits $	Share based payments $	Total $
Executive Directors						
Hamish MacDonald	2019	-	-	-	-	-
	2018	6,331	-	-	-	6,331
Non-Executive Directors						
Alan Beasley	2019	55,000[2]	-	-	-	55,000
	2018	48,958[2]	-	-	-	48,958
Steven Xu	2019	124,140	-	4,193	-	128,333
	2018	77,581	-	-	99,997	177,758
Lou Cattelan	2019	45,662	-	4,338	-	50,000
	2018	33,086	-	3,143	49,999	86,228
Gary Radcliff	2019	50,000	-	-	-	50,000
	2018	36,229	-	-	49,999	86,228
Mary Verschuer	2019	-	-	-	-	-
	2018	9,167	-	-	-	9,167
Peter Wallace	2019	-	-	-	-	-
	2018	11,000	-	-	-	11,000
Ian Mutton	2019	-	-	-	-	-
	2018	10,653[1]	-	-	-	10,653
Subtotal – Non-Executive Directors	2019	274,802	-	8,531	-	283,333
	2018	233,005	-	3,143	199,995	436,143

Key Management Personnel

		Salary and fees	Other fees	Post-employment benefits	Share based payments	Total
Ken Charteris – CEO	2019	394,235[7]	-	-	285,215	679,450
	2018	151,083[7]	-	-	372,095	523,178
Jarrod White	2019	82,000	115,983[3]	-	-	197,983
	2018	-	190,454[3]	-	25,145	215,599
Henry Kinstlinger	2019	51,000	537,785[4]	-	50,000	638,785
	2018	-	358,125[4]	-	176,015	534,140
Laura Harvey	2019	65,044	-	2,980	-	68,024
	2018	-	-	-	-	-
Debbie Ormsby	2019	-	-	-	-	-
	2018	139,756	-	8,945	-	148,701
Jason Colquhoun	2019	91,703	-	2,736	-	94,439
	2018	126,384	-	2,827	765,575	894,786
David Radford	2019	-	-	-	-	-
	2018	198,414	-	13,026	-	211,440
Subtotal – Key Management Personnel	2019	683,982	653,768	5,716	335,215	1,678,681
	2018	615,637	548,579	24,798	1,338,830	2,572,844
Total	**2019**	**958,784**	**704,768**	**14,247**	**335,215**	**1,862,014**
	2018	**848,642**	**548,579**	**27,941**	**1,538,825**	**2,963,987**

Notes:
1. Legal fees paid to Crafers Law Pty Ltd, an entity related to Mr Mutton;
2. Advisory fees paid to Hudson Corporate Ltd and Hudson Pacific Group Limited, entities related to Mr Beasley;
3. CFO and Company Secretarial specific fees paid to Jarrod White and Traverse Accountants Pty Ltd, an entity related to Mr White;
4. Advisory fees paid to Team Corporate Group Pty Ltd, Henson Advisory Pty Ltd, MMR Corporate Services Pty Ltd and Henry Kinstlinger & Associates, entities related to Mr Kinstlinger;
5. Service fees were paid throughout the year to Agri Fibre Industries Pty Ltd. These amounts are not included in the above fees however it is noted that Messrs Hall and Beehag are shareholders of Agri Fibre Industries, and that Agri Fibre Industries Pty Ltd is a shareholder of THC and the holder of performance shares as noted in the prospectus;
6. Rental payments were made from Canndeo Limited to Crop Management Australia Pty Ltd and Hall Super Fund that are related parties of Mr Hall. These are not included in his remuneration;
7. Consultancy agreement payments to North Trade Associates Pty Ltd for Chief Executive Officer services of which Mr Charteris is a related party.

All payments to related parties are on arms' length terms and at rates comparable to the market rate or average for these contracts. All contracts have received Board approval.

Performance of the company and shareholder returns

The application of the Group's executive reward framework has regard to shareholder return indices. Options issued to executives have exercise prices set at significant premiums to the share price at issue dates. Other with nil exercise prices are subject to THC's share price meeting a number of performance milestones.

Refer to Note 20 Share based payments for details of the valuation of these payments.

Loans provided to key management personnel

Table 4: Loans to Related Parties of the Company

Details of loans made to directors and other key management personnel (and/or their related entities) of the Group are set out below.

	Opening balance	Amount repaid	Amount forgiven	Total Balance 31/12/2019
Jason Colquhoun^	1,583,995	(1,148,137)	(435,858)	-
Mike Sigur*	157,250	(112,476)	(44,774)	-
Total	**1,741,245**	**(1,260,613)**	**(480,632)**	**-**

^ Loan made to 0971224 B.C. Ltd, an entity controlled by Mr Jason Colquhoun. 0971224 B.C. Ltd is also a significant shareholder of the Company.
* Loan to other employee

Key contracts

Ken Charteris – Chief Executive Officer

- Consultancy commenced 11 July 2018, varied May 2019;
- Contract fee of $328,000 ex. GST per annum, less applicable deductions required by law;
- Sign-on bonus of 500,000 THC shares;
- 1,500,000 3 year options, vesting on achievement of a $0.75 milestone share price over a two week trading VWAP within 2 years from date of issue, with their being an exercise price of $0.75;
- 2,500,000 3 year options, vesting on achievement of a $1.20 milestone share price over a two week trading VWAP within 2 years from date of issue, with their being an exercise price of $1.20;
- 250,000 Performance Rights converting on a two-week VWAP of $0.60 by 31 December 2020;
- 450,000 Performance Rights converting on a two-week VWAP of $0.85 by 30 June 2021; and
- 650,000 Performance Rights converting on a two-week VWAP of $1.10 by 31 December 2021.

Henry Kinstlinger, Henson Advisory Pty Ltd and Team Corporate Group Pty Ltd

- Engagement commenced from 2 July 2019;
- A fee for $5,000 per month for company secretarial services;
- A fee for corporate advisory work of $15,000 per month;
- A fee for providing investor and media relations of $5,000 per month;
- A fee of 1% of funds raised by the Company through the issue of new equity;
- A fee payable in the event of any acquisition of a relevant interest in at least 50% of the issued voting shares in the Company:
- An additional fee of $25,000 per month to assist with any and each takeover offer;
- A fee of 3% of the Enterprise Value of the Company based on the final offer share price.

On behalf of the Directors,

Alan Beasley
Deputy Chairman &
Chairman of Audit & Risk Committee

31 March 2020

CORPORATE GOVERNANCE STATEMENT

THC Global Group Limited ('the Company') has adopted the Third Edition of the Corporate Governance Principles and Recommendations which was released by the ASX Corporate Governance Council on 27 March 2014 and became effective for financial years beginning on or after 1 July 2014.

The Company's Corporate Governance Statement for the financial year ending 31 December 2019 is dated as at 31 March 2020 and was approved by the Board on 31 March 2020. The Corporate Governance Statement is available on the Company's website at http://www.thc.global/corporate-governance.

AUDITOR'S INDEPENDENCE DECLARATION

Level 1
251 Elizabeth Street
SYDNEY NSW 2000

75 Lyons Road
DRUMMOYNE NSW 2047

K.S. Black & Co.
ABN 48 117 620 556

20 Grose Street
NORTH PARRAMATTA NSW 2151

PO Box 2210
NORTH PARRAMATTA NSW 1750

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

To the Members of THC Global Group Limited

I declare that, to the best of my knowledge and belief, during the year ended 31 December 2019 there has 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.

The entities are in respect of THC Global Group Limited and the entities it controlled during the period.

KS Black & Co
Chartered Accountants

Scott Bennison
Partner

Dated in Sydney on this 31st day of March 2020

Phone 02 8839 3000 Fax 02 8839 3055
www.ksblack.com.au

CHARTERED ACCOUNTANTS
AUSTRALIA • NEW ZEALAND

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	Year ended 31 Dec 2019 $	Year ended 31 Dec 2018 $
Revenue from continuing operations	3	4,792,258	2,664,094
Cost of goods sold		(3,652,620)	(1,904,336)
Gross profit		**1,139,638**	**759,758**
Other income	3	292,074	254,637
Freight and other selling expenses		(439,810)	(206,861)
Professional expenses		(964,039)	(1,053,108)
Corporate and consulting expenses	4	(2,182,513)	(1,155,721)
Plant and facility costs		(474,685)	(313,954)
Research and development expenses		(140,297)	(41,629)
License and registration fees		(66,003)	(80,434)
Employee benefits expense		(2,370,377)	(1,580,518)
Advertising and promotion expenses		(231,687)	(189,128)
Insurance expenses		(472,260)	(304,875)
Bad debts expense		(84,183)	(22,853)
Depreciation and amortisation expense	12	(222,099)	(115,135)
Impairment expense	5	(2,537,177)	(1,200,000)
Finance expenses		(143,699)	(84,052)
Office and occupancy expenses		(368,496)	(372,637)
Administration expenses		(1,247,477)	(963,616)
Foreign exchange loss		(40,124)	-
Share based payments	20	(1,150,296)	(1,941,144)
Loss before income tax		**(11,703,510)**	**(8,611,270)**
Income tax expense	8	-	-
Loss for the year		**(11,703,510)**	**(8,611,270)**
Other comprehensive income			
Items that will be reclassified subsequently to profit or loss when specific conditions are met:			
Exchange differences on translating foreign operations, net of tax		85,645	71,458
Items that will not be reclassified subsequently to profit or loss:			
Gain on revaluation of land and buildings, net of tax		-	10,246,426
Total comprehensive income/(loss) for the year		**(11,617,865)**	**1,706,614**
Earnings per share			
- Basic/diluted losses per share (Cents)	24	**(8.80)**	**(6.93)**

The above Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

	Notes	As at 31 December 2019 $	As at 31 December 2018 $
Assets			
Current Assets			
Cash and cash equivalents	9	3,551,595	6,333,540
Trade and other receivables	10	1,231,152	866,623
Inventory	11	1,347,557	1,310,071
Total Current Assets		**6,130,304**	**8,510,234**
Non-Current Assets			
Trade and other receivables	10	248,058	1,758,963
Property, plant and equipment	12	18,408,506	17,727,498
Leased assets	13	611,396	384,577
Intangible assets	14	-	1,050,000
Goodwill	7	2,415,140	3,315,140
Total Non-Current Assets		**21,683,100**	**24,236,178**
Total Assets		27,813,404	32,746,412
Liabilities			
Current Liabilities			
Trade and other payables	15	894,386	363,770
Total Current Liabilities		**894,386**	**363,770**
Non-Current Liabilities			
Deferred tax liability		3,886,575	3,886,575
Finance leases		711,263	408,118
Total Non-Current Liabilities		**4,597,838**	**4,294,693**
Total Liabilities		5,492,224	4,658,463
Net Assets		**22,321,180**	**28,087,949**
Equity			
Contributed equity	17(a)	28,448,111	23,004,812
Other contributed equity	17(b)	850,000	2,650,000
Reserves	18	11,068,019	13,431,615
Accumulated losses		(18,044,950)	(10,998,478)
Equity		**22,321,180**	**28,087,949**

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	Contributed equity $	Other contributed equity $	Accumulated losses $	Reserves $	Total $
At 1 January 2018		**17,517,047**	**3,742,000**	**(2,746,886)**	**2,845,739**	**21,357,900**
Loss for the year		**-**	**-**	**(8,611,270)**	**-**	**(8,611,270)**
Other comprehensive income		-	-	-	10,317,884	10,317,884
Total comprehensive loss		**-**	**-**	**(8,611,270)**	**10,317,884**	**1,706,614**
Shares issued in the period	17(a)	3,000,001	-	-	-	3,000,001
Costs of capital raising		(72,500)	-	-	-	(72,500)
Performance shares cancelled		-	(1,092,000)	-	-	(1,092,000)
Options issued		1,246,790	-	-	-	1,246,790
Options expired/cancelled		-	-	359,678	(359,678)	-
Equity based payments		1,313,474	-	-	627,670	1,941,144
Total transactions with owners		**5,487,765**	**(1,092,000)**	**359,678**	**267,992**	**5,023,435**
At 31 December 2018		**23,004,812**	**2,650,000**	**(10,998,478)**	**13,431,615**	**28,087,949**
At 1 January 2019		**23,004,812**	**2,650,000**	**(10,998,478)**	**13,431,615**	**28,087,949**
Loss for the year		**-**	**-**	**(11,703,510)**	**-**	**(11,703,510)**
Other comprehensive income		-	-	-	85,645	85,645
Total comprehensive loss		**-**	**-**	**(11,703,510)**	**85,645**	**(11,617,865)**
Shares issued in the period	17(a)	5,498,104	-	-	-	5,498,104
Costs of capital raising		(54,805)	-	-	-	(54,805)
Lapsing of performance shares' vesting conditions		-	(1,800,000)	1,800,000	-	-
Options issued		-	-	-	407,797	407,797
Options expired/cancelled		-	-	2,857,038	(2,857,038)	-
Total transactions with owners		**5,443,299**	**(1,800,000)**	**4,657,038**	**(2,449,241)**	**5,851,096**
At 31 December 2019		**28,448,111**	**850,000**	**(18,044,950)**	**11,068,019**	**22,321,180**

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	Year ended 31 December 2019 $	Year ended 31 December 2018 $
Cash flows from operating activities			
Receipts from customers		4,726,704	2,588,466
Payments to suppliers and employees		(12,737,286)	(8,466,763)
Research and development tax incentive received		278,363	-
Interest received		20,473	128,340
Finance costs		(143,699)	(100,148)
Net cash outflow from operating activities	**21**	**(7,855,445)**	**(5,850,105)**
Cash flows from investing activities			
Payments for plant and equipment		(517,351)	(763,197)
Payments for land and buildings		(197,328)	(2,268,179)
Investment in subsidiary		-	(27,168)
Net cash outflow from investing activities		**(714,679)**	**(3,058,544)**
Cash flows from financing activities			
Proceeds from shares issued net of costs		2,928,695	4,204,291
Proceeds from conversions of options		1,592,104	-
Loans repaid by related parties		1,260,613	-
Net cash inflow from financing activities		**5,781,412**	**4,204,291**
Net decrease in cash and cash equivalents		**(2,788,712)**	**(4,704,358)**
Cash and cash equivalents at the beginning of the financial year		6,333,540	11,037,689
Foreign exchange adjustment to cash balance		6,767	209
Cash and cash equivalents at end of the year	**9**	**3,551,595**	**6,333,540**

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2019

1. Summary of significant accounting policies

These consolidated financial statements and notes represent those of the consolidated entity (referred to hereafter as the 'Group') consisting of THC Global Group Limited (referred to hereafter as the 'Company') and the entities it controlled at the end of, or during, the year ended 31 December 2019.

Basis of preparation

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board ("AASB") and the Corporations Act 2001.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions to which they apply. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards. Material accounting policies adopted in the preparation of this financial report are reported below. They have been consistently applied unless stated otherwise. All applicable new accounting standards have been adopted for the year ended 31 December 2019.

The financial report has been prepared on an accruals basis and is based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

Accounting policies

a. Principles of Consolidation

A controlled entity is any entity THC Global Group Limited has the power to control the financial and operating policies of so as to obtain benefits from its activities.

As at the reporting date, the assets and liabilities of all controlled entities have been incorporated into the consolidated financial statements as well as their results for the year ended.

All inter-company balances and transactions between entities in the Group, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the Company.

Where controlled entities have entered or left the Group during the year, their operating results have been included/excluded from the date control was obtained or until the date control ceased.

Minority interests, being that portion of the profit or loss and net assets of subsidiaries attributable to equity interests held by persons outside the Group, are shown separately within the Equity section of the Consolidated Statement of Financial Position and in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

b. Business Combinations

The Group applies the acquisition method in accounting for business combinations. The consideration transferred by the Group to obtain control of a subsidiary is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities incurred and the equity interests issued by the Group, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred.

The Group recognises identifiable assets acquired and liabilities assumed in a business combination regardless of whether they have been previously recognised in the acquiree's financial statements prior to the acquisition. Assets acquired and liabilities assumed are generally measured at their acquisition-date fair values.

Goodwill is stated after separate recognition of identifiable intangible assets. It is calculated as the excess of the sum of: (a) fair value of consideration transferred, (b) the recognised amount of any non-controlling interest in the acquiree, and (c) acquisition-date fair value of any existing equity interest in the acquiree, over the acquisition-date fair values of identifiable net assets. If the fair values of identifiable net assets exceed the sum calculated above, the excess amount (i.e. gain on a bargain purchase) is recognised in profit or loss immediately.

c. Going Concern

The financial statements have been prepared on the going concern basis, which contemplates continuity of normal business activities and the realisation of assets and the discharge of liabilities in the normal course of business.

The Group incurred a loss after tax of $11,703,510 (2018: loss of $8,611,270) and had net cash outflows from operating activities of $7,855,445 for the year ended 31 December 2019 (2018: $5,850,105). As at that date the Group had net current assets of $5,235,918 (2018: $8,146,464), total assets of $27,813,404 (2018: $32,746,412) as well as cash and cash equivalents of $3,551,595 as at 31 December 2019 (2018: $6,333,540).

The Directors believe that there are reasonable grounds to believe that the Group will be able to continue as a going concern, after consideration of the following factors:

- The Group has cash and cash equivalents of $3,551,595 as at 31 December 2019. As at that date the Group had net current assets of $5,235,918 and total assets of $27,813,404;
- If required, the Group has the ability to continue to raise additional funds on a timely basis; and
- The Group has the ability to scale back a significant portion of its development activities if required.

Accordingly, the Directors believe that the Group will be able to continue as a going concern and that it is appropriate to adopt the going concern basis in the preparation of the financial report.

d. Foreign currency translation

i. Functional currency

Items included in the financial statements of the Group's operations are measured using the currency of the primary economic environment in which it operates ('the functional currency').

The functional currency of the Company is Australia dollars (AU$).

The functional currency of CMP and Canndeo Canada is Canadian dollars (C$).

The functional currency of the Canndeo Limited is Australian dollars (AU$).

Foreign currency transactions are translated into the functional currency using the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the end of the reporting period. Foreign exchange gains and losses resulting from settling foreign currency transactions, as well as from restating foreign currency denominated monetary assets and liabilities, are recognised in profit or loss, except when they are deferred in other comprehensive income as qualifying cash flow hedges or where they relate to differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when fair value was determined.

ii. Presentation currency

The financial statements are presented in Australian dollars, which is the Company's presentation currency.

Functional currency balances are translated into the presentation currency using the exchange rates at the balance sheet date. Value differences arising from movements in the exchange rates are recognised in the Foreign Currency Translation Reserve.

e. Revenue recognition

The Company had adopted AASB 15 Revenue for the first time in the 2018 financial year.

Under AASB 15, revenue is recognised when the goods are delivered and have been accepted by customers at their premises.

For contracts that permit the customer to return an item, revenue is recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. Therefore, the amount of revenue recognised is adjusted for expected returns, which are estimated based on the historical data. In these circumstances, a refund liability and a right to recover returned goods asset are recognised.

The right to recover returned goods asset is measured at the former carrying amount of the inventory less any expected costs to recover goods. The refund liability is included in other payables and the right to recover returned goods is included in inventory. The Group reviews its estimate of expected returns at each reporting date and updates the amounts of the asset and liability accordingly.

Interest income is recognised as interest accrues using the effective interest method. The effective interest method uses the effective interest rates which is the rate that exactly discounts the estimated future cash receipts over the expected future life of the financial asset.

When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

f. Income tax

The income tax expense (income) for the year comprises current income tax expense (income) and deferred tax expense (income).

Current tax and deferred tax are recognised in profit or loss except to the extent that they relate to a business combination or are recognised directly in equity or in other comprehensive income. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Current and deferred income tax expense (income) is charged or credited directly to equity instead of profit or loss when the tax relates to items that are credited or charged directly to equity.

Except for business combinations, no deferred income tax is recognised from the initial recognition of an asset or liability where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, and their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where: (a) a legally enforceable right of set-off exists; and (b) the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

g. Goods and Services Tax (GST)

Revenue, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the Statement of Financial Position are shown inclusive of GST.

Cash flows are presented in the Statement of Cash Flows on a gross basis, except for the GST components of investing and financing activities, which are disclosed as operating cash flows. There is provision made in the Statement of Cash Flows to disclose the applicable GST refunds/payments that have been remitted to the ATO to accurately show the cash position of THC Global Group Limited.

h. Leases

The Group early adopted AASB 16 Leases for the first time in the 2018 financial year.

Under AASB 16, all leases are accounted for by recognising a right-of-use asset and a lease liability except for:

- Leases of low value assets; and
- Leases with a duration of twelve months or less.

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease unless (as is typically the case) this is not readily determinable, in which case the Group's incremental borrowing rate on commencement of the lease is used. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate.

On initial recognition, the carrying value of the lease liability also includes:

- Amounts expected to be payable under any residual value guarantee;
- The exercise price of any purchase option granted in favour of the Group if it is reasonably certain to assess that option;
- Any penalties payable for terminating the lease, if the term of the lease has been estimated on the basis of termination option being exercised.

Right-of-use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for:

- Lease payments made at or before commencement of the lease;
- Initial direct costs incurred; and
- The amount of any provision recognised where the Group is contractually required to dismantle, remove or restore the leased asset.

Subsequent to initial measurement lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Right-of-use assets are amortised on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if, rarely, this is judged to be shorter than the lease term.

When the Group revises its estimate of the term of any lease (because, for example, it re-assesses the probability of a lessee extension or termination option being exercised), it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted at the same discount rate that applied on lease commencement. The carrying value of lease liabilities is similarly revised when the variable element of future lease payments dependent on a rate or index is revised. In both cases an equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortised over the remaining (revised) lease term.

i. Impairment of assets

At the end of each reporting period the Group assesses whether there is any indication that individual assets are impaired. Where impairment indicators exist, the recoverable amount is determined and impairment losses are recognised in profit or loss where the asset's carrying value exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of 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.

Where it is not possible to estimate the recoverable amount for an individual asset, the recoverable amount is determined for the cash generating unit to which the asset belongs.

j. Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the statement of financial position.

k. Trade and other receivables

Trade and other receivables are stated at their cost less an allowance for impairment of receivables.

l. Other receivables

Other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Other receivables are generally due for settlement within 30 days.

Collectibility of other receivables is assessed on an ongoing basis. Debts which are known to be uncollectible are written off. An allowance made for doubtful debts is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms. Objective evidence of impairment includes financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue).

The amount of the impairment loss is recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income as 'impairment expenses.' When a trade or other receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the Statement of Profit or Loss and Other Comprehensive Income.

m. Trade and other payables

Trade and other payables represent liabilities for goods and services provided to the Group prior to the year end and which are unpaid. These amounts are unsecured and are usually payable within 30 days of recognition.

n. Provisions

Provisions for legal claims, service warranties and make good obligations are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

o. Employee benefits

i. Wages and salaries and annual leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the end of the reporting period are recognised in other payables in respect of employees' services rendered up to the end of the reporting period and are measured at amounts expected to be paid when the liabilities are settled.

ii. Retirement benefit obligations

The Group does not maintain a superannuation plan. The Group makes fixed percentage contributions for all Australian resident employees to complying third party superannuation funds and for Canadian resident employees to complying pension funds. The Group's legal or constructive obligation is limited to these contributions.

Contributions to complying third party superannuation funds and pension plans are recognised as an expense as they become payable. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

p. Contributed equity

Costs directly attributable to the issue of new shares are shown as a deduction from the equity as a deduction proceeds net of any income tax benefit. Costs directly attributable to the issue of new shares or options associated with the acquisition of a business are included as part of the purchase consideration.

q. Plant and equipment

Plant and equipment are measured on the cost basis.

The carrying amount of plant and equipment is reviewed annually by management to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Depreciation

The depreciable amount of all fixed assets is depreciated on a straight-line basis over the asset's useful life to the Group commencing from the time the asset is held ready for use.

Depreciation is calculated over the estimated useful life of the assets, 1) Plant and equipment – 1 to 10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains or losses are recognised immediately in profit or loss. When revalued assets are sold, amounts included in the revaluation surplus relating to that asset are transferred to retained earnings.

r. Intangible assets

Patents

Patents have a finite life and is carried at cost less any accumulated amortisation and impairment losses. It has an estimated useful life of 15 years.

s. Inventories

Inventories are stated at the lower of cost and net realisable value. Cost includes all expenses directly attributable to the manufacturing process as well as suitable portions of related production overheads, based on normal operating capacity. Costs are assigned using the first in, first out cost formula. Net realisable value is the estimated selling price in the ordinary course of business less any applicable selling expenses.

t. Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the results attributable to the owners the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

u. Operating segments

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

v. Share-based payments

Equity-settled and cash-settled share-based compensation benefits are provided to employees.

Equity-settled transactions are awards of shares, or options over shares that are provided to employees in exchange for the rendering of services. Cash-settled transactions are awards of cash for the exchange of services, where the amount of cash is determined by reference to the share price.

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using either the Binomial or Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the consolidated entity receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

The cumulative charge to profit or loss until settlement of the liability is calculated as follows:

- during the vesting period, the liability at each reporting date is the fair value of the award at that date multiplied by the expired portion of the vesting period.
- from the end of the vesting period until settlement of the award, the liability is the full fair value of the liability at the reporting date.

All changes in the liability are recognised in profit or loss. The ultimate cost of cash-settled transactions is the cash paid to settle the liability.

Market conditions are taken into consideration in determining fair value. Therefore, any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

If equity-settled awards are modified, as a minimum, an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the consolidated entity or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the consolidated entity or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

w. Research and Development

Canndeo Ltd, a subsidiary of the Group, has a Medicinal Cannabis (Research & Development) Licence. The licence provides authorisation for Canndeo to perform research and development of cannabis for medicinal purposes.

Expenditure on the research phase of projects to develop new cannabis strains and products is recognised as an expense as incurred.

Costs that are directly attributable to a project's development phase are recognised as intangible assets, provided they meet the following recognition requirements:

• the development costs can be measured reliably
• the project is technically and commercially feasible
• the Group intends to and has sufficient resources to complete the project
• the Group has the ability to use or sell the software
• the developed asset will generate probable future economic benefits.

Development costs not meeting these criteria for capitalisation are expensed as incurred.

Directly attributable costs include employee costs incurred on software development along with an appropriate portion of relevant overheads and borrowing costs.

x. Comparative information

Comparative information presented is for the Group for the year ended 31 December 2018.

y. New, revised or amending Accounting Standards and Interpretations adopted

The Group has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

z. New Accounting Standards and Interpretations not yet mandatory or early adopted

At the date of authorisation of the financial statements the following new standards and interpretations have not been early adopted. The below are a list of the standards and the likely impact.

Standard/ Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending	Likely impact on initial application
Conceptual Framework for Financial Reporting	1 January 2020	31 December 2020	When these amendments are first adopted for the year ending 31 December 2020, there will be no material impact on the financial statements.
AASB 2019-1 Amendments to Australian Accounting Standards – References to the Conceptual Framework	1 January 2020	31 December 2020	When these amendments are first adopted for the year ending 31 December 2020, there will be no material impact on the financial statements.
AASB 2018-6 Amendments to Australian Accounting Standards – Definition of a Business	1 January 2020	31 December 2020	When these amendments are first adopted for the year ending 31 December 2020, there will be no material impact on the financial statements.
AASB 2018-7 Amendments to Australian Accounting Standards – Definition of Material	1 January 2020	31 December 2020	When these amendments are first adopted for the year ending 31 December 2020, there will be no material impact on the financial statements.
AASB 2019-2 Amendments to Australian Accounting Standards – Implementation of AASB 1059	1 January 2020	31 December 2020	When these amendments are first adopted for the year ending 31 December 2020, there will be no material impact on the financial statements.
AASB 2019-3 Amendments toAustralian Accounting Standards – Interest Rate Benchmark Reform	1 January 2020	31 December 2020	When these amendments are first adopted for the year ending 31 December 2020, there will be no material impact on the financial statements.
AASB 2019-5 Amendments to Australian Accounting Standards – Disclosure of the Effect ofNew IFRS Standards Not Yet Issued in Australia	1 January 2020	31 December 2020	When these amendments are first adopted for the year ending 31 December 2020, there will be no material impact on the financial statements.
IFRS 17 Insurance Contracts	1 January 2021	31 December 2022	The entity is yet to undertake a detailed assessment of the impact of IFRS 17. However, based on the entity's preliminary assessment, the Standard is not expected to have a material impact on the transactions and balances recognised in the financial statements when it is first adopted for the year ending 30 June 2022.

2. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Provision for impairment of receivables

The provision for impairment of receivables assessment requires a degree of estimation and judgement. The level of provision is assessed by taking into account the recent sales experience, the ageing of receivables, historical collection rates and specific knowledge of the individual debtor's financial position.

Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences only if the Group considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The Group remained in a development phase during the period and consequently there is some uncertainty surrounding the availability of future taxable amounts to utilise tax losses. Management considers it prudent not to raise any deferred tax assets at this point in time.

Share based payments

The Group measures the cost of equity-settled transactions by reference to the fair value of the equity instruments at the date at which they are granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Increases in the carrying amounts arising on revaluation of property, plant and equipment and land and buildings are recognised, net of tax, in other comprehensive income and accumulated in reserves in shareholders' equity.

To the extent that the increase reverses a decrease previously recognised in profit or loss, the increase is first recognised in profit or loss. Decreases that reverse previous increases of the same asset are first recognised in other comprehensive income to the extent of the remaining surplus attributable to the asset; all other decreases are charged to profit or loss. Each year, the difference between depreciation based on the revalued carrying amount of the asset charged to profit or loss and depreciation based on the asset's original cost, net of tax, is reclassified from the property, plant and equipment revaluation surplus to retained earnings. Refer to Note 25 for assumptions of fair value of assets.

3. Revenue and other income

The Group's revenue disaggregated by operating segment is as follows:

	31 December 2019			
	Hydroponics Equipment, Materials and Nutrients	Medicinal Cannabis	Unallocated	Total
	$	$	$	$
Revenue				
Canada	4,742,151	-	-	4,742,151
Australia (R&D tax incentive and interest income)	-	328,470	13,711	342,181
	4,742,151	**328,470**	**13,711**	**5,084,332**
Goods transferred at a point in time	4,742,151	328,470	-	5,070,621
Services transferred over time	-	-	-	-
Interest income recognised over time	-	-	13,711	13,711
	4,742,151	**328,470**	**13,711**	**5,084,332**

	31 December 2018			
	Hydroponics Equipment, Materials and Nutrients	Medicinal Cannabis	Unallocated	Total
	$	$	$	$
Revenue				
Canada	2,663,279	-	-	2,663,279
Australia	-	815	-	815
	2,663,279	**815**	**-**	**2,664,094**
Goods transferred at a point in time	2,663,279	815	-	2,664,094
Services transferred over time	-	-	-	-
	2,663,279	**815**	**-**	**2,664,094**

4. Corporate and consulting expenses

	For the Year Ending 31 December 2019	For the Year Ending 31 December 2018
Consulting fees	1,145,210	752,596
Corporate services fees	1,037,303	403,125
	2,182,513	**1,155,721**

5. Impairment expense

During the year, the Company reviewed the vesting probabilities of Performance Shares issued as part consideration for asset purchases made, in conjunction with the Company's IPO in May 2017.

The evaluation for impairment has been made as an evaluation of the proportion of vesting time past for those Performance Shares when compared to their total vesting period and conditions. As result the following classes of Performance Shares have been impaired and more detail around the evaluation of their vesting probability is disclosed at Note 16(b):

	For the Year Ending 31 December 2019	For the Year Ending 31 December 2018
Class B Performance Shares	900,000	900,000
Class C Performance Shares	250,000	-
Class D Performance Shares	300,000	300,000
	1,450,000	**1,200,000**

Impairment expense was raised in the 2019 financial year for the impairment of intangible assets and related party loans.

Impairment of intangible assets	500,000	-
Impairment of related party loans receivable	480,632	-
Impairment of slow-moving inventory	106,545	-
	1,087,177	**-**
	2,537,177	**1,200,000**

In 2019, the Group fully impaired intellectual property acquired from Pegasus Agriculture Pty Ltd in 2017. The Company has no plans to develop or commercialise the IP further at this stage as it remains focused on its cultivation and extraction projects. Settlement deeds were signed in the 2019 relating to loans to previous key management personnel, which resulted in partial write downs of the loans of $480,632.

6. Business combinations

Controlled entities	Country of Incorporation	Percentage Owned
Crystal Mountain Products Ltd	Canada	100%
Dragon Vision Limited	Hong Kong	100%
0970203 B.C. Ltd	Canada	100%

Accounting subsidiaries	Country of Incorporation	Percentage Owned
Canndeo Limited	Australia	100%
Canna Clinics Pty Ltd	Australia	100%
THC Plant Science Pty Ltd	Australia	100%
THC Pharma Pty Ltd	Australia	100%
THC Pharma (NZ) Limited	New Zealand	100%
Canndeo Canada Inc. (formerly Vertical Canna Inc.)	Canada	100%
10034622 Canada Inc.	Canada	100%

7. Goodwill

	For the Year Ending 31 December 2019	For the Year Ending 31 December 2018
	$	$
Balance at beginning of the period	3,315,140	5,307,140
Impairment expense	(900,000)	(1,992,000)
Balance at end of the period	**2,415,140**	**3,315,140**

a. Crystal Mountain and Dragon Vision

	As at 31 December 2019
	$
Consideration transferred Shares, options and performance shares issued	2,944,200
Other costs of acquisition	174,936
	3,119,136
Net assets acquired in CMDV at the date of acquisition	(1,451,640)
Accumulated impairment	(696,000)
Goodwill carried forward	**971,496**

b. Canndeo Limited

	As at 31 December 2019
	$
Consideration transferred Shares, options and performance shares issued	3,363,500
	3,363,500
Net assets acquired in Canndeo at the date of acquisition	276,144
Accumulated impairment	(2,196,000)
Goodwill carried forward	**1,443,644**
Total goodwill recognised	**2,415,140**

The recoverable amount of Goodwill is determined and impairment losses are recognised in profit or loss where the asset's carrying value exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Throughout the period the Group prepared Discounted Cash Flow analysis for both Crystal Mountain and Dragon Vision and Canndeo Limited to determine their fair value less costs to sell.

7. Goodwill (Continued)

Key financial inputs into that analysis were:

- Discount rate: 16.87%
- Income tax rate: 27.5%
- Risk free rate: 0.78%
- Term: In the case of Crystal Mountain, 3 years; In the case of Canndeo Limited, 10 years.

8. Income tax expense

a. The components of tax expense comprise:

	For the Year Ending 31 December 2019	For the Year Ending 31 December 2018
	$	$
Current tax	-	-
Deferred tax	-	-
	-	**-**

b. Numerical reconciliation of income tax expense to prima facie tax payable

Loss from continuing operations before income tax expense	(11,703,510)	(8,611,270)
Tax at the Australian tax rate of 27.5% (2018 – 27.5%)	**(3,218,465)**	**(2,368,099)**
Add tax effect of:		
- Other non-allowable items	1,470,571	1,175,229
Less tax effect of:		
- Other non-assessable items	-	(37,795)
- Other deductible items	(405,186)	(423,755)
Carried forward tax benefit not recognized in the current year	2,153,080	1,654,420
Total income tax expense	**-**	**-**

The Group has carried forward tax losses of approximately $15,871,125 (2018: $8,041,741). The benefit of these losses will only be recognised where it is probable that future taxable income will be available against which the benefits of the deferred tax asset can be utilised.

9. Cash and cash equivalents

Cash at bank and in hand	3,551,595	6,333,540
	3,551,595	**6,333,540**

10. Trade and other receivables

	For the Year Ending 31 December 2019	For the Year Ending 31 December 2018
	$	$
Current		
Trade receivables	570,126	698,442
Provision for bad debts	(80,966)	(228,782)
Prepayments	647,685	257,083
Trade credit receivable	-	74,030
Other receivables	94,307	65,850
	1,231,152	**866,623**
Non-current		
Deposits paid	248,058	17,718
Loans to related parties[1]	-	1,741,245
	248,058	**1,758,963**
	1,479,210	**2,625,586**

11. Inventory

Finished goods	1,455,041	1,310,071
Less: Provision for slow-moving inventory	(107,484)	-
	1,347,557	**1,310,071**

12. Property, plant and equipment

Website development – at cost	370,000	370,000
Accumulated depreciation – website development	(109,151)	(55,151)
	260,849	**314,849**
Plant and equipment – at cost	15,292,955	14,958,686
Accumulated depreciation – plant and equipment	(112,450)	(45,794)
	15,180,505	**14,912,892**
Land, buildings and improvements – at cost	2,983,867	2,507,012
Accumulated depreciation – buildings and improvements	(16,715)	(7,255)
	2,967,152	**2,499,757**
Closing balance	**18,408,506**	**17,727,498**

[1] Terms of the loans to related parties are disclosed in the Remuneration Report at Table 4.

At 31 December 2019, the Group had $14,822,478 and $2,287,290 of plant and equipment and building and improvements, respectively (2018: $14,912,892 and $2,499,757), that were owned but not yet ready for use. The Group had not commenced depreciation of these assets at year end.

	Website development	Plant and equipment	Building and improvements	Total
	$	$	$	$
Balance at 1 January 2018	348,811	189,226	100,795	638,832
Acquisitions in the year	-	4,511,735	2,406,217	6,917,952
Revaluation[1]	-	10,246,425	-	10,246,425
Depreciation expense	(33,962)	(34,284)	(7,255)	(75,501)
Foreign exchange adjustment	-	(210)	-	(210)
Balance at 31 December 2018	**314,849**	**14,912,892**	**2,499,757**	**17,727,498**
Acquisitions in the year	-	334,268	476,855	811,123
Depreciation expense	(54,000)	(65,944)	(9,460)	(129,404)
Foreign exchange adjustment	-	(711)	-	(711)
Balance at 31 December 2019	**260,849**	**15,180,505**	**2,967,152**	**18,408,506**

13. Leases

Nature of leasing activities (in the capacity as lessee)

The Group leases a number of properties in the jurisdictions from which it operates. In some jurisdictions it is customary for lease contracts to provide for payments to increase each year by inflation or and in others to be reset periodically to market rental rates. In some jurisdictions property leases the periodic rent is fixed over the lease term.

The percentages in the table below reflect the current proportions of lease payments that are either fixed or variable. The sensitivity reflects the impact on the carrying amount of lease liabilities and right-of-use assets if there was an uplift of 5% on the balance sheet date to lease payments that are variable.

	Lease Contracts	Fixed Payments	Variable Payments	Sensitivity
	Number	%	%	$
Property leases with payments linked to inflation	4	-	100%	+/- 37,186
Property leases with periodic uplifts to market rentals	-	-	-	-
Property leases with fixed payments	-	-	-	-

[1] The key assumptions used to determine the fair value of assets are provided in Note 25.

13. Leases (Continued)	For the Year Ending 31 December 2019	For the Year Ending 31 December 2018
Right-of-Use Assets	**$**	**$**
Land and buildings		
Balance at beginning of the year	384,577	-
Additions	319,514	424,211
Amortisation	(92,695)	(39,634)
Balance at end of the year	**611,396**	**384,577**
Lease Liabilities		
Land and buildings		
Balance at beginning of the year	408,118	-
Additions	319,514	424,212
Interest expense	79,306	58,906
Lease payments	(95,675)	(75,000)
Balance at end of the year	**711,263**	**408,118**
Short term lease expense	101,159	207,553
Low value lease expense	-	-
Expense relating to variable lease payments not included in the measurement of lease liabilities	7,766	23,500

14. Intangible assets

Intangible assets purchased	1,400,000	1,400,000
Accumulated impairment	(1,400,000)	(350,000)
Closing balance	**-**	**1,050,000**
Balance at beginning of the year	1,050,000	1,350,000
Additions	-	-
Impairment expense	(1,050,000)	(300,000)
Balance at end of the year	**-**	**1,050,000**

In 2019, the Group fully impaired intellectual property acquired from Pegasus Agriculture Pty Ltd in 2017. The Company has no plans to develop or commercialise the IP further at this stage.

15. Trade and other payables

Current		
Trade payables	585,838	120,890
Payroll liabilities	127,743	105,666
Accrued expenses	180,805	88,866
Other payables	-	48,348
	894,386	**363,770**

16. Commitments

The Group leases offices under various leases. The future minimum lease payments are as follows:

	Minimum Lease Payments Due			
	Within 1 Year	1-5 Years	After 5 Years	Total
	AUD	AUD	AUD	AUD
31 December 2019	303,259	608,060	189,148	1,100,467
31 December 2018	95,833	438,396	300,475	834,705

17. Contributed equity

a. Share capital

	As at 31 December 2019		As at 31 December 2018	
	No. of Shares	$	No. of Shares	$
At the beginning of the period	127,267,572	23,004,812	116,808,414	17,517,047
Share placement	5,967,000	2,983,500	4,762,182	3,000,001
Options converted	3,980,260	1,592,104	3,116,976	1,246,790
Shares issued to directors and employees	1,350,000	667,500	2,580,000	1,313,474
Shares issued to other suppliers	600,000	255,000	-	-
Share issue expenses	-	(54,805)	-	(72,500)
	139,164,832	**28,448,111**	**127,267,572**	**23,004,812**

Ordinary shares

Each ordinary shareholder maintains, when present in person or by proxy or by attorney at any general meeting of the Company, the right to cast one vote for each ordinary share held.

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

b. Performance shares

Performance shares issued and authorised are summarised as follows:

	No. of Shares	$	Class	Probability
Performance shares				
Performance shares issued to acquire Canndeo	12,000,000	1,800,000	B	38%
Performance shares issued to acquire IP from Pegasus Agriculture	2,500,000	250,000	C	50%
Performance shares issued to acquire IP from Pegasus Agriculture	6,000,000	600,000	D	25%
Balance at beginning of the year	**20,500,000**	**2,650,000**		

	No. of Shares	$	Class	Probability
Balance at beginning of the year	20,500,000	2,650,000		
Performance shares lapsed without meeting vesting conditions	(12,000,000)	(1,800,000)	B	-
Balance at end of the year	**8,500,000**	**850,000**		

The fair value of performance shares is based upon the price of THC at issue date, adjusted for the probability of their performance milestones being achieved. The value of the performance shares, together with the probability of milestones being achieved, is assessed by the directors at least annually.

18. Reserves

	As at 31 December 2019	As at 31 December 2018
	$	$
Options reserve	671,129	3,120,370
Foreign currency translation reserve	150,465	64,820
Asset revaluation reserve	10,246,425	10,246,425
	11,068,019	**13,431,615**

a. Options reserve

	As at 31 December 2019		As at 31 December 2018	
	No. of Options	$	No. of Options	$
At the beginning of the year	64,673,024	3,120,370	64,410,000	2,852,378
Options issued to employees and directors	5,850,000	160,746	7,500,000	627,670
Vesting expense on issued options	-	247,051	-	-
Options lapsed	(56,026,099)	(2,857,038)	(4,120,000)	(359,678)
Options converted	(3,980,260)	-	(3,116,976)	-
	10,516,665	**671,129**	**64,673,024**	**3,120,370**

b. Foreign currency translation reserve

	As at 31 December 2019	As at 31 December 2018
	$	$
Balance beginning of financial year	64,820	(6,639)
Movement in the financial year	85,645	71,459
Balance at end of the financial year	**150,465**	**64,820**

c. Asset revaluation reserve

	As at 31 December 2019	As at 31 December 2018
	$	$
Balance beginning of financial year	10,246,425	-
Movement in the financial year	-	10,246,425
Balance at end of the financial year	**10,246,425**	**10,246,425**

19. Segment information

Management identifies its operating segments based on the Group's service lines, which represent the main products and services provided by the Group. The Group's two (2) main operating segments are:

a. manufacture and distribution of hydroponics equipment, materials and nutrients; and
b. development and delivery of medicinal cannabis.

These operating segments are monitored and strategic decisions are made on the basis of adjusted segment operating results.

The main source of revenue for these operating segments in the year to 31 December 2019 is from distribution of hydroponics equipment, materials and nutrients. The revenues and profit generated by each of the Group's operating segments and segment assets are summarised as follows:

Segment performance

	31 December 2019			
	Hydroponics Equipment, Materials and Nutrients	Medicinal Cannabis	Unallocated	Total
	$	$	$	$
Revenue				
External sales	4,742,151	50,107	-	4,792,258
Other (R&D tax incentive and interest income)	-	278,363	13,711	292,074
Total segment revenue	**4,742,151**	**328,470**	**13,711**	**5,084,332**
Segment operating result	133,313	(3,922,438)	(7,914,385)	(11,703,510)
Assets				
Current assets	2,136,105	352,139	3,642,060	6,130,304
Non-current assets	117,930	18,419,676	730,354	19,267,960
Goodwill	971,496	1,443,644	-	2,415,140
Total assets	**3,225,531**	**20,215,459**	**4,372,414**	**27,813,404**

	31 December 2018			
	Hydroponics Equipment, Materials and Nutrients	Medicinal Cannabis	Unallocated	Total
	$	$	$	$
Revenue				
External sales	2,663,279	815	-	2,664,094
Other	-	-	-	-
Total segment revenue	**2,663,279**	**815**	**-**	**2,664,094**
Segment operating result	(230,721)	(1,766,562)	(6,613,987)	(8,611,270)
Assets				
Current assets	1,383,976	121,876	7,004,382	8,510,234
Non-current assets	88,069	17,772,313	3,060,656	20,921,038
Goodwill	971,496	2,343,644	-	3,315,140
Total assets	**2,443,541**	**20,237,833**	**10,065,038**	**32,746,412**

The Group's segment operating profit reconciles to the Group's profit before tax as presented in its financial statements as follows:

	For the Year Ending 31 December 2019	For the Year Ending 31 December 2018
	$	$
Total reporting segment operating profit	(3,789,126)	(728,990)
Share-based payment expenses	(1,150,296)	(1,941,144)
Employee benefit expenses	(352,610)	(1,580,518)
Other income not allocated	13,479	152,938
Other expenses not allocated	(6,424,957)	(4,513,556)
Group operating profit	**(11,703,510)**	**(8,611,270)**

20. Share based payments

The Group made the below share-based payments in the financial year:

Date	Description	Shares $	Options $	Total $
25/03/19	2,075,000 options issued to directors and employees	-	14,884	14,884
26/07/19	850,000 shares issued on directors on satisfaction of performance milestones	467,500	-	467,500
26/07/19	2,000,000 options issued to directors and employees	-	79,630	79,630
23/08/19	50,000 shares issued to consultants for services	25,000	-	25,000
23/08/19	1,350,000 options issued to directors and employees	-	38,165	38,165
18/09/19	100,000 shares issued to supplier for services	50,000	-	50,000
29/11/19	500,000 shares issued under ESOP	200,000	-	200,000
29/11/19	425,000 options issued under directors and employees	-	28,067	28,067
	Vesting expense on previously issued securities	-	247,050	247,050
		742,500	**407,796**	**1,150,296**

Employee options

The Company established an Employee Option Plan (EOP) plan that was approved by shareholders at the Extraordinary General Meeting held on 15 November 2018. The EOP is designed to provide long term incentives to senior executives to deliver long-term shareholder returns. Under the plan, employees are granted options which vest if certain criteria are met.

Set out below are summaries of options granted under the proposed plan thus far:

	31 December 2019		31 December 2018	
	Average exercise price per option	No. of Options	Average exercise price per option	No. of Options
At the beginning of the year	0.62	9,620,000	0.30	4,120,000
Granted during the year	0.59	5,850,000	0.95	7,500,000
Lapsed during the year	0.32	(4,953,335)	-	-
Balance at end of the year	**0.75**	**10,516,665**	**0.72**	**11,620,000**
Vested and exercisable	**0.75**	**5,216,665**	0.62	9,620,000

For options granted during the current financial period, the Black-Scholes valuation model inputs used to determine the fair value at the grant date are as follows:

Grant Date	Expiry Date	Share Price at Grant Date*	Exercise Price	Expected Volatility	Dividend Yield	Risk-free Interest Rate	Fair Value per Option
25/03/19	01/01/22	$0.50	$0.80	46%	-	1.53%	$0.0535
25/03/19	01/01/22	$0.50	$0.90	46%	-	1.53%	$0.0440
25/03/19	01/01/22	$0.50	$1.05	46%	-	1.53%	$0.0333
25/03/19	01/01/22	$0.50	$1.20	46%	-	1.53%	$0.0256
26/07/19	31/12/20	$0.53	$0.50	57.5%	-	0.93%	$0.1320
23/08/19	31/12/20	$0.48	$- (Hurdle: $0.60)	57.5%	-	0.73%	$0.2108
23/08/19	30/06/21	$0.48	$- (Hurdle: $0.85)	57.5%	-	0.73%	$0.1479
23/08/19	31/12/21	$0.48	$- (Hurdle: $1.10)	57.5%	-	0.73%	$0.1179
23/08/19	31/07/21	$0.48	$0.50	57.5%	-	0.73%	$0.0660

21. Reconciliation of loss after income tax to net cash outflow from operating activities

	For the Year Ending 31 December 2019	For the Year Ending 31 December 2018
	$	$
Loss for the year	(11,703,510)	(8,611,270)
Depreciation expense	222,099	115,135
Impairment expense	2,537,177	1,200,000
Share-based payments	1,150,296	1,941,144
Effects of foreign exchange	85,645	71,458
Change in operating assets and liabilities		
Increase in trade and other receivables	(668,898)	(169,491)
Increase/(Decrease) in trade and other payables	528,000	(243,979)
Increase in inventories	(6,255)	(153,102)
Net cash outflow from operating activities	**(7,855,445)**	**(5,850,105)**

22. Financial risk management

a. Financial risk management

The Group's financial instruments consist mainly of deposits with banks, accounts receivable and payable and inter-entity loans.

The directors' overall risk management strategy seeks to assist the Group in meeting its financial targets, whilst minimising potential adverse effects on financial performance.

Credit risk

The Group trades only with recognised, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. The receivable balances are monitored on an ongoing basis. The group's exposure to bad debts is not significant.

There is considerable concentration of credit risk within the Group as it only has a limited number of customers at this stage of its development.

With respect to credit risk arising from other financial assets of the Group, which comprise cash and cash equivalents, the Group's exposure to credit risk arises form default of the counter party, with a maximum exposure equal to the carrying amount of these instruments.

Since the Group trades only with recognised third parties, there is no requirement for collateral security.

The maximum exposure to credit risk at balance date is as follows:

	As at 31 December 2019	As at 31 December 2018
	$	$
Cash and cash equivalents	3,551,595	6,333,540
Trade and other receivables	1,479,210	866,623

Liquidity risk

The Group's policy is to maintain a comfortable level of liquidity through the continual monitoring of cash reserves and the raising of additional capital as required.

Market risk

Foreign exchange risk

Most of the Group's transactions occur in Canada and are predominantly denominated in CAD and USD. Cash and cash equivalents used to fund working capital are mainly held in Canadian and US bank accounts.

The Group is exposed to foreign exchange risk when capital is raised in AUD and then transferred to the Canadian subsidiary. The Group closely monitors foreign currency movements at such times but does not use hedging instruments to manage such risk.

Foreign currency denominated financial assets and liabilities which expose the Group to currency risk are disclosed below. The amounts shown are those reported to key management translated into $AUD at the closing rate:

	Short Term Exposure	Long Term Exposure
	$	$
31 December 2019		
Financial assets	863,381	22,731
Financial liabilities	245,167	
31 December 2018		
Financial assets	581,819	1,690,128
Financial liabilities	363,770	-

The following table illustrates the sensitivity of profit or loss and equity in regards to the Group's financial assets and financial liabilities and the CAD/AUD and NZD/AUD exchange rate 'all other things being equal'. It assumes a +/- 10% change of the CAD/AUD and NZD/AUD exchange rate for the year. This percentage has been determined based on the average market volatility in exchange rate in the previous twelve (12) months. The sensitivity analysis is based on the Group's foreign currency financial instruments held at each reporting date and also takes into account forward exchange contracts that offset effects from changes in currency exchange rates.

If the AUD had strengthened/weakened against the CAD and NZD by 10% then this would have had the following impact:

	Loss for the Year		Equity	
	+ 10%	**-10%**	**+ 10%**	**-10%**
31 December 2019	106,990	(130,833)	(227,373)	277,901
31 December 2018	(3,083)	3,777	(36,222)	44,271

Exposures to foreign exchange rates vary during the year depending on the volume of overseas transactions. Nonetheless, the analysis above is considered to be representative of the Group's exposure to currency risk.

b. Financial instrument composition and maturity analysis

The table below reflects the undiscounted contractual settlement terms for financial instruments of a fixed period of maturity as well as management's expectations of the settlement period of all other financial instruments. As such, the amounts may not reconcile to the Statement of Financial Position.

	Weighted average interest rate	Non-interest bearing	Floating interest rate	Fixed interest rate maturing within 1 year	Total
2019	**%**	**$**	**$**	**$**	**$**
Financial Assets					
Cash and cash equivalents	0.18	-	3,551,595	-	3,551,595
Trade and other receivables	-	1,479,210	-	-	1,479,210
Total financial assets		**1,479,210**	**3,551,595**	**-**	**5,030,805**
Financial Liabilities					
Trade and other payables	-	894,386	-	-	894,386
Total financial liabilities		**894,386**	**-**	**-**	**894,386**

	Weighted average interest rate	Non-interest bearing	Floating interest rate	Fixed interest rate maturing within 1 year	Total
2018	%	$	$	$	$
Financial Assets					
Cash and cash equivalents	0.52	-	6,333,540	-	6,333,540
Trade and other receivables	-	2,625,586	-	-	2,628,586
Total financial assets		**2,625,586**	**6,333,540**	**-**	**8,959,126**
Financial Liabilities					
Trade and other payables	-	363,770	-	-	363,770
Total financial liabilities		**363,770**	**-**	**-**	**363,770**

	Carrying amount	Contractual cash flow due 1 to 3 months	Contractual cash flow due 3 months to 1 year	Contractual cash flow due 1 to 5 years
2019	$	$	$	$
Financial Assets				
Trade and other receivables	1,479,210	831,525	647,685	-
Total financial assets	**1,479,210**	**831,525**	**647,685**	**-**
Financial Liabilities				
Trade and other payables	894,386	894,386	-	-
Total financial liabilities	**894,386**	**894,386**	**-**	**-**

	Carrying amount	Contractual cash flow due 1 to 3 months	Contractual cash flow due 3 months to 1 year	Contractual cash flow due 1 to 5 years
2018	$	$	$	$
Financial Assets				
Trade and other receivables	2,340,782	581,819	-	1,758,963
Total financial assets	**2,340,782**	**581,819**	**-**	**1,758,963**
Financial Liabilities				
Trade and other payables	363,770	363,770	-	-
Total financial liabilities	**363,770**	**363,770**	**-**	**-**

c. Net fair values

The net fair value of assets and liabilities approximates their carrying value. No financial assets and liabilities are readily traded on organised markets in standardised form.

The aggregate net fair values and carrying amounts of financial assets and financial liabilities are disclosed in the Statement of Financial Position and notes to the financial statements.

d. Sensitivity Analysis

The Company has performed a sensitivity analysis relating to its exposure to foreign currency risk at balance date. The effect on profit or loss and equity as a result of changes in the value of the Australian Dollar to the US Dollar and Canadian Dollar with all other variables remaining constant, is not expected to be significant.

23. Auditor's remuneration

	For the Year Ending 31 December 2019	For the Year Ending 31 December 2018
	$	$
KS Black & Co		
- Audit and review services	70,300	55,655
- Other services	-	-

24. Earnings per share

	For the Year Ending 31 December 2019	For the Year Ending 31 December 2018
	Cents	Cents
Basic earnings per share	(8.80)	(6.93)
Diluted earnings per share	(8.80)	(6.93)
Weighted average number of shares used for the purposes of calculating diluted earnings per share reconciles to the number used to calculate basic earnings per share as follows:		
- Basic earnings per share	133,040,637	82,779,348
- Diluted earnings per share	133,040,637	82,779,348

The loss used to calculate earnings per share was $11,703,510 (2018: loss of $8,611,270).

25. Fair Value Measurement

The Group measures and recognises specialised plant and equipment assets at fair value on a recurring basis after initial recognition.

The Group does not subsequently measure any liabilities at fair value on a non-recurring basis.

a. Fair value hierarchy

AASB 13: Fair Value Measurement requires the disclosure of fair value information by level of fair value hierarchy, which categorises fair value measurements into one of three possible levels based on the lowest level that an input that is significant to the measurement can be categorized into as follows:

Level 1	Level 2	Level 3
Measurements based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.	Measurements based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.	Measurements based on unobservable inputs for the asset or liability.

The fair values of assets and liabilities that are not traded in an active market are determined using one or more valuation techniques. These valuation techniques maximise, to the extent possible, the use of observable market data. If all significant inputs required to measure fair value are observable, the asset or liability is included in Level 2. If one or more significant inputs are not based on observable market data, the asset or liability is included in Level 3.

Valuation Techniques

The Group selects a valuation technique that is appropriate in the circumstances and for which sufficient data is available to measure fair value. The availability of sufficient and relevant data primarily depends on the specific characteristics of the asset or liability being measured. The valuation techniques selected by the Group are consistent with one or more of the following valuation approaches:

- Market approach: valuation techniques that use prices and other relevant information generated by market transaction for identical or similar assets or liabilities.
- Income approach: valuation techniques that convert estimated future cash flows or income and expenses into a single discounted present value.
- Cost approach: valuation techniques that reflect the current replacement cost of an asset at its current service capacity.

Each valuation technique requires inputs that reflect the assumptions that buyers and sellers would use when pricing the asset or liability, including assumptions about risk. When selecting a valuation technique, the Group gives priority to those techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Inputs that are developed using market data (such as publicly available information on actual transactions) and reflect the assumptions that buyers and sellers would generally use when pricing the asset or liability are considered observable, whereas inputs for which market data are not available and therefore are developed using the best information available about such assumptions are considered unobservable.

The following tables provide the fair values of the Group's assets and liabilities measured and recognized on a recurring basis after initial recognition and their categorization within the fair value hierarchy.

Recurring fair value measurements

	31 December 2019			
	Level 1 $	Level 2 $	Level 3 $	Total $
Total non-financial assets recognized at fair value on a recurring basis	-	-	15,180,505	15,180,505
Total non-financial assets recognised at fair value	**-**	**-**	**15,180,505**	**15,180,505**

a. Valuation techniques and inputs used to measure Level 3 fair values

Description Non-financial assets	Fair value ($) at 31 Dec 2019	Valuation technique	Inputs used
Plant and equipment	15,180,505	Income approach using net present value.	Independent sales price, margin on cost of goods sold from previous supplier and fixed overhead. Expected sales volumes are based on independent market estimate of size of Proprietary Product market.
	15,180,505		

26. Related party transactions

a. Key management personnel

Disclosures relating to key management personnel are set out in the Remuneration Report.

b. Transactions with other related parties

There were no related party transactions aside from those listed in the Remuneration Report.

27. Contingent assets and liabilities

The Group did not have any contingent assets or liabilities at 31 December 2019 (31 December 2018: Nil).

28. Events occurring after the balance sheet date

Subsequent to balance date the Company announced the following material items:

- On 20 January 2020 the Company announced an agreement with MGC Pharmaceuticals Ltd (ASX.MXC) to supply THC Global with white label production and supply of THC Global's Canndeo branded products in Australia and New Zealand;
- On 21 January 2020 the TGA granting of the GMP Manufacturing License Granted for the THC Pharma Pty Ltd Southport Facility. This value step authorises the site with a recognised GMP status to manufacture, package, and the laboratory testing of Medicinal Cannabis;
- New appointment of Chief Operating Office of THC Pharma Pty Ltd Angela Macquire to oversee the new Plant;
- On 24 March 2020 announcement of a deed of settlement between Pegasus Agriculture Pty Ltd and its related bodies corporate with respect to the Company's Epigenetic IP that was acquired during the IPO of THC. As part of the settlement terms THC Global has subsequent to balance date divested of the Epigenetic IP in return for releases from claims made by Pegasus Agriculture and other associated parties. This was after the decision of the Company that further investment in the IP would be expensive and unlikely to deliver further value to shareholders;
- As part of the settlement as detailed in the above 24 March 2020 announcement the Company will buy-back and cancel the 8,500,000 Pegasus Performance Shares (2,500,000 Class C Performance Shares and 6,000,000 Class D Performance Shares) for $1. 00. The buy-back completion will be subject to shareholder approval to be sought at the Company's upcoming Annual General Meeting.

With respect to matters outside the Company's operation, the COVID-19 pandemic declared by the World Health Organisation post 31 January 2020 is having a negative impact on world stock markets, currencies and business activities. THC Global Group Limited has initiated strict policies and procedures to address the health and wellbeing of employees, consultants and contractors.

The timing and extent of the impact and recovery from COVID-19 is not yet known. However, these events may have a post balance date impact.

No other matter or circumstance has arisen since 31 December 2019 that has significantly affected, or may significantly affect:

b. The Group's operations in future financial years; or

c. The results of those operations in future financial years; or

d. The Group's state of affairs in future financial years

29. Parent entity disclosures

	For the Year Ending 31 December 2019	For the Year Ending 31 December 2018
	$	$
THC Global Group Limited		
Financial position		
Assets		
Total current assets	3,627,873	6,384,524
Total non-current assets	16,078,207	14,122,891
Total assets	**19,706,080**	**20,507,415**
Liabilities		
Total current liabilities	428,410	336,506
Total non-current liabilities	330,812	-
Total liabilities	**759,222**	**336,506**
Equity		
Contributed equity	28,448,111	23,004,812
Other contributed equity	-	2,650,000
Reserves	671,129	3,120,370
Accumulated losses	(10,172,382)	(8,604,273)
Total equity	**18,946,858**	**20,170,909**
Financial performance		
Loss for the year	(7,075,147)	(6,633,818)
Other comprehensive income	-	-
Total comprehensive loss	**(7,075,147)**	**(6,633,818)**

DECLARATION BY DIRECTORS

The directors of the Company declare that, in the opinion of the directors:

a. the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including

   i. giving a true and fair view of the financial position and performance of the Company and the Group; and

   ii. complying with Australian Accounting Standards, including the Interpretations, and the Corporations Regulations 2001;

b. the financial statements and notes thereto also comply with International Financial Reporting Standards, as disclosed in Note 1; and

c. the directors have been given the declarations required by s.295A of the Corporations Act 2001.

d. there are reasonable grounds to believe that the Company and the Group will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors made pursuant to s295(5) of the Corporations Act 2001.

On behalf of the Directors:

Alan Beasley
Deputy Chairman &
Chairman of Audit & Risk Committee
31 March 2020

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS

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INDEPENDENT AUDITOR'S REPORT

To the Members of the THC Global Group Limited

Qualified Opinion

We have audited the financial report of THC Global Group Limited (the company and its subsidiaries (the Group)), which comprises the consolidated statement of financial position as at 31 December 2019, the consolidated statement of profit and loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, except for the effect of the matter described in the *Basis for Qualified Opinion* section of our report, the accompanying financial report of the Group is in accordance with the Corporations Act 2001, including:

i) giving a true and fair view of the Group's financial position as at 31 December 2019 and of its financial performance for the year then ended; and
ii) complying with Australian Accounting Standards and *the Corporations Regulations 2001.*

Basis for Qualified Opinion

Plant & Equipment

The basis for the qualified opinion is a disagreement with management over the application of Australian Accounting Standards, in particular AASB 36 *'Fair Value Measurement'* and AASB 136 *'Impairment of Assets'*.

In reference to note 12 and 7 of the financial statements, the Group had property, plant and equipment stated at $15,180,505 net of depreciation and Goodwill for its Canndeo Limited cash generating unit of $1,443,644.

The core activities of the Group are the cultivation, manufacture, production and sale of medical cannabis oil extracts.

In the previous financial year ended 31 December 2018, the Group did not have the necessary licences in place to commence the production of medical cannabis oils, and were reliant on use of the plant and equipment for the extraction of proprietary botanical extracts.

During the current year ended 31 December 2019 the Group obtained its licences to manufacture medical cannabis oils which included:

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- Manufacturing license
- Manufacturing permit
- S8 license
- TGA GMP Manufacturing audit in December 2019 (which led to the granting of a license in January 2020)

During 2019 the Group therefore abandoned the production of proprietary extracts in pursuit of its preferred business objective of the cultivation, growing, manufacturing and sale of medical cannabis oils.

The basic concepts to the 'Fair Value' assessment of property, plant and equipment is that the intended use of the property, plant and equipment must be physically possible, legally permissible and financially feasible.

The Group has satisfied the conditions that the intended use of the property, plant and equipment must be physically possible and legally permissible and has produced sample products and are in discussions with medical clinics for the sale of their product

With respect to financially feasible the sale of medical cannabis oils are on a prescriptive basis and the Group is currently in discussions with numerous medical clinics for the sale of their products domestically and internationally. Our qualification arises as a result of not being able to verify the commercial dialogue and formal arrangements of those discussions at scale, which will likely be forthcoming during the following 2020 financial year.

Goodwill of Canndeo Limited

With respect to the valuation of Goodwill, the Group has purchased goodwill for its two cash generating units, Crystal Mountain and Dragon Vision and Canndeo Limited which were both supported by discounted cash flow forecasts in support of their respective carrying amounts in the financial statements.

Whilst there is no issue with respect to the discounted cash flow of Crystal Mountain, the discounted cash flow forecast in respect of Canndeo Limited, was supported by the same assumptions as the one used for the valuation of plant and equipment as Southport Queensland.

Notwithstanding that the Group's facilities have produced sample products and are in discussions with medical clinics for the sale of their product, the Group has not been able to provide us with sufficient and appropriate audit evidence supporting third party revenues in the discounted cash flow forecast that underlines the fair value of property, plant and equipment, and Goodwill for the Canndeo Limited cash generating unit in the financial statements.

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Impact of COVID-19

Furthermore, events that have occurred after balance date relating to the COVID-19 Pandemic may impact the Group's ability to manufacture and sell their product due to announcements made by the Federal and State Governments in relation to businesses continuing their operations.

We conducted our audit in accordance with Australian Auditing Standards. 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 auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Notwithstanding the above, we confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Group, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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. These matters were addressed in the context of our audit of financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Cash and cash equivalents (going concern) Refer to note 9 (Cash and cash equivalents) At 31 December 2019, the Group has cash and cash equivalents of \$3.55mil, a decrease a decrease of cash reserves of \$2.78 from the previous financial year. The Statements of Cash Flows shows net cash outflows from operating activities of \$7.55mil, an increase of deficiency of 2mil from the previous financial year.	**Our procedures included, amongst others:** • Confirmation of year end balances by auditing year end bank reconciliations, bank statements and bank audit certificates; • Subsequent receipt and payment testing; • Reviewed Management's Cash Flow forecast projection to December 2021 and in particular the projected 12 month total expenditure; • Enquired about future capital raising activities; • Confirmation from management regarding accuracy of projected cash flow levels (management representation letter).

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During the financial year, the Group raised net $5.78mil from proceeds of share issues, conversion of options and repayments of loans by related parties. The continued depletion of cash reserves would place reliance upon external capital raising and/or other revenues and should be brought to the attention by way of a key audit matter.	• Obtained representations from management that notwithstanding the depletion of cash reserves, reliance on external capital raisings, the impact on the business by the COVID-19 Pandemic, that the company will have sufficient cash reserves over the next months to pay its debts as and when they fall due.
Trade and Other Receivables Refer to note 10 (Trade and other receivables) As at 31 December 2019 the Group had trade and other receivables of $1.47mil, ($1.23mil current and $248k non-current), that Includes trade receivables, prepayments, other receivables and loans to related parties. The interaction of trade receivables and prepayments with inventory collectively represent the core operations of the business and together with related party loans and the required disclosures should be brought to the attention by way of a key audit matter.	**Our procedures included, amongst others:** • Engaged Manning Elliott from Canada directly to undertake debtor's circularisation, follow up and subsequent receipts testing. • Reviewed the work performed by Manning Elliott; in particular the results of the debtors circularisation, subsequent receipts testing. • From the information provided, we assessed doubtful debt and liaised with management to ensure that an adequate doubtful debts provision was provided for and adequate disclosures in the financial statements. • With respect to related party loans, we confirmed the existence of signed loan agreements, funds were lent at arm's length, collectibility and ensured appropriate disclosure in the financial statements. • Confirmed other receivables by reference to subsequent receipts of other audit evidence. • Confirmed prepayments by sighting invoices and confirming cut-off where it applied to inventory purchases. • We reviewed invoices pre and post year-end to ensure cut off for trade receivables and prepayments. Obtained representation from management with respect collectibility of trade receivables and related party loans, prepayments, doubtful debt provision and other debtors. (management representation letter).

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Inventory Refer to note 11 At 31 December 2019, the Group has Inventory of $1.35 mil. The Group inventory of medicinal cannabis and associated product are sold from its Canadian location. Due to the geographical location of inventory, its integral connection to generating revenue for the Group, inventory should be brought to the attention by way of key audit matter.	**Our procedures included, amongst others:** • We engaged Manning Elliott from Canada directly to undertake stock counts, inventory valuation and obsolete inventory testing. • We reviewed the work performed by Manning Elliott by inspection of work papers, inspection of procedures performed by Manning Elliott, sighting of inventory invoices, cross checked inventory values to supplier's listings, tracing identified obsolete inventory items to post sale data and discussion with management regarding adequate provision for diminution of the value of inventory items in the financial statements. • Reviewed invoices pre and post year end to confirm cut-off. • Reviewed the general ledger to ensure that the appropriate value was transferred to cost of goods sold; and • Confirmations from management regarding existence, security, data integrity, quantity, valuation, obsolescence and ownership of inventory by way of management representation letter.
Contributed equity Refer to note 17(a)(b) At 31 December 2019, the Group has total contributed equity of $29.3mil comprising of contributed equity of $28.4mil and other contributed equity (performance shares) of $850k. Capital raising should be brought to the attention by way of a key audit matter.	**Our procedures included, amongst others:** • Reviewed bank statements to ensure accuracy of capital raised; • Reviewed ASIC website to ensure all capital raising and listing requirements met; • Reviewed minutes and ASIC documentation in regards to capital raising; • We confirm that appropriate disclosure has been met in relation to share and option placements, performance shares for current/former key management personnel; • We confirmed directors/ employees entitlements to any shares issued; and • Obtained management representation relating to capital raising, share and option placements, performance shares (management representation letter).
Goodwill Refer to note 7 At 31 December 2019, the Group has Goodwill stated at $2.4mil.	**Our procedures included, amongst others:** • Audited the discounted cash flow forecasts for the Group's two cash generating units. • We tested key inputs to verify the recoverable amounts.

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The Goodwill relates to two cash generating units, Crystal Mountain and Dragon Vision $971,496 and Canndeo Limited $1,443,664. Due to our qualification in relation to of the Goodwill for Canndeo Limited; and the value of goodwill generally, these items should be brought to the attention by way of a key audit matter.	• Examined selected material transactions relating to the cash generating units to identify any unusual transactions. • With respect to the discounted cash flow forecast for Canndeo Limited we were unable to verify income projections due to. • Considered impairment and assessed recoverability of Goodwill having regard to the Group's current capitalisation. • We confirmed adequate disclosure in the financial statements regarding goodwill valuation; and • We obtained representation from management regarding discounted cash flow's projected income and expenses, underlying assumptions and recoverability.
Plant and Equipment Refer to note 12 At 31 December 2019, the Group has recorded property, plant and equipment at $18.4mil. This asset represents 66.18 % of the Group's total assets and is a key infrastructure. Due to the importance of these assets to the Group, its material values, and the disagreement with management over its 'fair value (refer to qualified opinion) this item should be brought to the attention by way of a key audit matter.	**Our procedures included, amongst others:** • We have considered audit evidence having regard to AASB 13(27) 'highest and best use' & AASB 13(28) ensuring that the asset is physically possible, legally permissible and financially feasible. • We physically inspected the properties at Bundaberg Queensland confirming existence of medical cannabis plants, lab facilities, test harvest quantities, commercial harvest schedule commencing April 2020 and total harvest growing capacity per year. • We were unable to visit the site at Southport due the travel restrictions relating to COVID-19, However we were able to video conference and confirm that the equipment was reconfigured to produce medical cannabis oils, total production capacity of the site, the amount of oil produced from the test harvest and production schedule commencing in April 2020. • We confirmed that the Group was licenced to produce medical cannabis oil at its Southport site. • We were able to sight preliminary correspondence with potential clinics confirming that the Group is in discussions with external clinics for the sale of their products. • We audited the discounted cash flow prepared by the Group, and apart from revenue projections; we were able to verify other input costs.

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- We reviewed the discounted cash flow (DCF) for the production of medical cannabis oil extract, its inputs and calculations and were able to establish that the present value of cash flows exceeded the carrying amount.
- We obtained representation from management relating to the total harvest capacity, total production capacity and costs associated with harvest and production.
- We ensured that all necessary disclosures relating to 'Fair Value' have been adequately disclosed in the financial statements.

Other Matters

The Covid-19 Pandemic announced by the World Health Organisation post 31 January 2020 is having a negative impact on world stock markets, currencies and business activities. The Group has initiated strict policies and procedures to address the health and well being of employees, consultants and contractors. The timing and extent of the impact and recovery from Covid-19 is not yet known, however, these events may have a post balance sheet date impact.

Our opinion is not modified in respect of this matter.

Other information

The directors are responsible for the other information. The other information comprises the information in the Group's annual report for the year ended 31 December 2019, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, 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.
If, based on the work we have performed, we conclude that there is a material misstatement of the other information we are required to report that fact. We have nothing to report in this regard.

Directors' responsibility for the financial report

The directors are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal controls as the directors determine are necessary to enable the presentation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibility for the audit of the financial report
Our objectives are 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 the Australian Auditing Standards will always detect a material misstatement individually or in the aggregate, that could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our representation of our responsibilities for the audit of the financial report is located at The Australian Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/Home.aspx. This description forms part of our auditor's report.

Report on the Remuneration Report
Opinion on the Remuneration Report

We have audited the Remuneration Report include in pages 12 to 18 of the directors' report for the year ended 31 December 2019.

In our opinion, the Remuneration Report for the year ended 31 December 2019 complies with section 300A of the Corporation Act 2001.

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

KS Black & Co
Chartered Accountants

Scott Bennison
Partner
Dated: 31 March 2020
Sydney

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SHAREHOLDER INFORMATION

ASX additional information

Additional information required by the Australian Securities Exchange and not shown elsewhere in this report is as follows. The information is current as at 26 March 2020.

a. Spread of Shareholders

At 26 March 2020, there were 8,423 holders of Shares. The shareholders were entitled to one vote for each Share held.

Spread of Holdings	No. of Holders	No. of Units	% Issued Capital
1 – 1000	1,382	1,001,091	0.71
1,001 – 5,000	3,933	9,926,497	7.05
5,001 - 10,000	1,229	9,738,248	6.92
10,001 - 100,000	1,672	47,442,098	33.70
100,001 and over	207	72,661,607	51.62
Total	**8,423**	**140,769,541**	**100.00**

There were 3,683 shareholders holding less than a marketable parcel of 2,500 shares as at 26 March 2020 ($0.20).

b. Top 20 Shareholders

	Holder Name	Share Holding	% Issued Capital
1	BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP>	3,760,299	2.67
2	AGRI FIBRE INDUSTRIES PTY LTD	2,627,375	1.87
3	MMR CORPORATE SERVICES PTY LTD	2,500,000	1.78
4	CITICORP NOMINEES PTY LIMITED	2,114,534	1.50
5	MR GEORGE DAABOUL	2,000,000	1.42
6	MR NICHOLAS CHARLES DEVERELL POWNALL	1,979,929	1.41
7	MRS KATJA GORDON	1,865,000	1.32
8	UNE-INNOVATION CONSULTING AUSTRALIA PTY LTD	1,587,302	1.13
9	PEARS DAISLEY PTY LTD <DAISLEY PEARS A/C>	1,500,000	1.07
10	SAWFAM PTY LTD <SAWYER SUPER FUND A/C>	1,409,751	1.00
11	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	1,141,518	0.81
12	MADONNA ANDREWS <ANDREWS FAMILY A/C>	1,023,810	0.73
13	IECO INDUSTRIES PTY LTD	962,625	0.68
14	HAMSAR PTY LTD	950,000	0.67
15	PEGASUS AGRICULTURE PTY LTD	944,810	0.67
16	MR SID BAINY + MRS SAMIA BAINY	900,000	0.64
17	BLACKIES SUPER HOLDINGS PTY LIMITED <AMANDA'S SUPER FUND A/C>	900,000	0.64
18	JOHNPENN SUPER PTY LTD <HALL SUPERANNUATION FUND A/C>	800,000	0.57
19	MRS MARGARET DOREEN BEEHAG	780,000	0.55
20	CS THIRD NOMINEES PTY LIMITED <HSBC CUST NOM AU LTD 13 A/C>	744,324	0.53
	Total	**30,491,277**	**21.66**

c. Substantial Shareholders

The Company's register of shareholders had no substantial shareholders as at 26 March 2020.

d. Voting Rights

All ordinary shares (whether fully paid or not) carry one vote per share without restriction.

e. Statement of Restricted Securities

The Company has no securities which are Restricted Securities as at 26 March 2020.

THC Global Group