



ASX RELEASE (11 July 2018)

Acquisition Delivers +\$16m to Balance Sheet Medicinal Cannabis Strategy Outlined

THC continues build out to supply to Australian patients and the export market

Key Points

- Independent market valuation of THC's Southport Manufacturing Facility delivers \$16.68 million combined asset value to balance sheet – replacement value assessed \$35 million
- Southport Manufacturing Facility capability complements existing licenced R&D and growing facility in Bundaberg, Queensland and 60,000m² grow site in Northern NSW
- Bundaberg planned capacity of 850,000 clones per year, supplying up to 20,000m² of growing partners in addition to THC's Northern NSW grow site
- Southport Manufacturing Facility will be a revenue generating asset – able to produce high-quality pharmaceutical grade GMP medicinal cannabis product
- 60,000m² site to be secured for medicinal cannabis cultivation in NSW capable of cultivating 600,000 plants per year in organic, greenhouse conditions or 300,000 plants open-field
- New grow site and Southport Manufacturing Facility complement existing licenced operations at Bundaberg, Queensland – licence application for Southport Manufacturing Facility awaiting review
- THC in negotiations to provide toll manufacturing services to other Australian medicinal cannabis growers to utilise excess capacity at Southport Manufacturing Facility
- THC's industry-leading capability has attracted established global partners including Ascent Industries (North America), Endoca (Europe) and BOL Pharma (Israel)
- THC imported Endoca product to be available to Australian patients within weeks – TGO93 compliant
- Off-take agreements in progress – advancing revenue generation and securing global role for THC

The Hydroponics Company Limited (THC or the Company), Australia's leading Medicinal Cannabis company¹, provides the following update with respect to a revaluation of the Company's Southport pharmaceutical manufacturing facility of \$14.58 million with an unmatched domestic manufacturing capability. THC has to-date secured significant growing capacity, imported products for Australian patients, export and off-take agreements in final stage negotiations, and international commercial partnerships.

¹ Assessment based on key peers (CAN, AC8) comparison matrix



Chairman, Steven Xu commented:

"Having secured significant medicinal cannabis growing capability and a manufacturing facility with industry leading capacity, THC has a clear path to a revenue generating medicinal cannabis business in the near term, with the ability to service domestic patients and export into other markets.

"Securing key commercial partners from the global medicinal cannabis industry such as Endoca, BOL Pharma, and Ascent places THC in prime position to take advantage of its production-ready capabilities. The increase in shareholder value from the acquisition of THC's Southport Manufacturing Facility highlights THC's prudent investment and corporate strategy."

Valuation of Pharmaceutical Manufacturing Facility

THC announced the purchase of the largest southern hemisphere pharmaceutical botanicals extraction and purification facility (the **Southport Manufacturing Facility**), as well as land and building in Southport in April 2018. The acquisition added significant and immediate capability to THC in its plan to provide domestic medicinal cannabis manufacture capability for near term domestic and export supply.

The Board has sought an independent external valuation from global valuation firm AON Valuation Services of THC's Southport Manufacturing Facility assets in Queensland, Australia which has valued the Southport Manufacturing Facility assets at \$14.58 million at market value. With land and building at acquisition price, the combined value of THC's Southport Manufacturing Facility, will be recognised in the Company's June 2018 Half Year Accounts at \$16.68 million.

Having been advised of the costs of constructing the Southport Manufacturing Facility by its previous owner, THC has assessed the replacement value to be in the range of \$35 million, and has insured the property on that basis. The Board may revisit the valuation as the Company ramps up into revenue generating full scale pharma-grade production in the near term.

International Integration

THC's Australian scale-up is revenue driven in the near and medium term and recognises the presence of multiple significant international medicinal cannabis markets in addition to Australia's emergent market.

Through its Australian investment, THC provides a platform for international market access that is highly attractive to global commercial partners.

Australia has low cost, high-quality cannabis growing, a pharmaceutical manufacturing focus and world leading clinical trial industry. Australia is therefore an ideal location for international collaboration partners to supply current generation medicines and develop future generation products.

THC's international alliance approach has secured commercial engagement with sizeable revenue generating businesses in sophisticated medicinal cannabis markets. THC continues to attract, engage and retain global partners such as Endoca (Europe), BOL Pharma (Israel), and Ascent Industries (North America). THC's commercial partners currently service patients globally.

THC's Growing and Manufacturing Capabilities

THC now has complete end-to-end growing and manufacturing facilities capable of large scale operation. The completion of full vertically-integrated infrastructure for pharma-grade product places THC in an elite global group of companies.

The vertically integrated infrastructure incorporates licenced Bundaberg facilities for cannabis R&D and growing, a 60,000m² site for the growing of medicinal cannabis soon to be secured by THC, and the industry leading Southport Manufacturing Facility. THC has moved to quickly secure a medicinal cannabis manufacturing licence application over the Southport Manufacturing Facility, which is currently under review.

The 60,000m² site in Northern NSW for the growing of medicinal cannabis soon to be secured by THC, is capable of cultivating approximately 600,000 plants per year under organic production in greenhouses or 300,000 plants per year in open field. THC is also exploring innovative indoor growing technologies to boost cultivation output. The site complements THC's high-value strain R&D and grow facility in Bundaberg which has the capacity to produce an expected 850,000 strain clones per year capable of seeding the Company's Northern NSW growing site and 20,000m² of THC's growing partners sites.

Following commencement of operation of the Southport Manufacturing Facility, THC will have the capacity to produce oils, powders, and crystals to a pharma-grade, export-ready quality specification. **THC is currently in negotiations with other medicinal cannabis companies in Australia to provide toll manufacturing services** whereby THC will process other companies' medicinal cannabis through the Southport Manufacturing Facility to produce product to their specifications. This approach will extend utilisation of THC's large capacity Southport Manufacturing Facility, and further confirms THC as Australia's leading Medicinal Cannabis company.

Global Partnership and Strategic Alliance Strategy

THC has accelerated supply of medicinal cannabis to Australian patients through engagement with international commercial partners. Through an exclusive supply agreement, THC imported Endoca's CBD oil, as well as unique CBD+CBDa oil, with supply to Australian patients to commence within weeks. The products imported by THC from Endoca are TGO93 compliant.

THC announced on 9 July 2018 the signing of a binding engagement with Endoca, directed towards development and production of CBD-based and THC-based products produced under pharmaceutical GMP from European and Australian facilities, and their supply to multiple international markets. The agreement extends the existing supply agreement, and will further accelerate utilisation of THC's 60,000m² land and Southport Manufacturing Facility utilisation.

A similar engagement with Canada's Ascent Industries announced on 28 June 2018 outlines a proposed exchange of strains, production from THC's Southport Manufacturing Facility and collaboration in the development of THC and CBD-based medicines, as well as general knowledge exchange.

THC's investment in medicines manufacturing and development in collaboration with partners **advantageously places THC in control of the high-value-addition manufacturing step for pharmaceutical medicinal cannabis, at large scale**. It accelerates realisation of near term revenue as well as securing future revenue opportunities through the collaborative development of the next generation of medicinal cannabis.

Offtake Agreements

THC's recognition of the scale and growth rate of international markets is reflected in establishment of multiple offtake agreements focused on medicinal cannabis and additional value-added products.

THC's engagement with Ascent Industries includes an offtake agreement with THC exporting medicinal cannabis to Ascent in Canada, grown from both THC's own strains and imported Ascent strains. THC will soon complete an off-take agreement with Meluka Health, through which THC will provide medicinal cannabis to Meluka Health for inclusion in cannabis honey products.

THC's progress in establishing revenue generating offtake agreements evidences THC's focus on bringing forward revenue streams, engaging in high value commercial partnerships and alliances, which further secures THC's role in the rapidly expanding medicinal cannabis market globally, and as an industry leader in Australia.

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The Hydroponics Company Limited (ASX: THC)

THC is at the forefront of developing a leading, diversified worldwide cannabis business, focusing on two core business units: Development and delivery of medicinal cannabis, and manufacturing and distribution of hydroponics equipment, materials and nutrients.

Forward Looking Statements

This announcement may contain forward-looking statements that involve risks and uncertainties. Indications of, and guidelines or outlook on, future earnings, distributions or financial position or performance and targets, estimates and assumptions in respect of production, prices, operating costs, results, capital expenditures, reserves and resources are also forward-looking statements. These statements are based on an assessment of present economic and operating conditions, and on a number of assumptions and estimates regarding future events and actions that, while considered reasonable as at the date of this announcement and are expected to take place, are inherently subject to significant technical, business, economic, competitive, political and social uncertainties and contingencies. Such forward-looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties, assumptions and other important factors, many of which are beyond the control of the Company, the directors and management. We cannot and do not give any assurance that the results, performance or achievements expressed or implied by the forward-looking statements contained in this announcement will actually occur and readers are cautioned not to place undue reliance on these forward-looking statements. These forward-looking statements are subject to various risk factors that could cause actual events or results to differ materially from the events or results estimated, expressed or anticipated in these statements.



Annexure A: Image Gallery of THC's Facilities



THC's Bundaberg R&D and Cultivation Site



THC's Southport Manufacturing Facility (1)



THC's Southport Manufacturing Facility (2)



THC's Southport Manufacturing Facility (3)