



ASX RELEASE (31 JULY 2019)

## THC Global Quarterly Update & Appendix 4C

### Key Points:

- THC Global holds the full suite of cannabis licences in Australia including two Manufacture Licences for two facilities – one being for the largest bio-pharma extraction facility in the Southern Hemisphere
- Southport Facility capable of producing initial 12,000kg of GMP API isolates and extracts
- Expecting to complete product validation in Q4 2019 followed by supply into Australian and Asian study trials and clinical trials in early 2020
- Hydroponics equipment division achieved maiden unaudited profit for half year to 30 June 2019
- Key appointments in Australia and Canada in lead up to significant expansion of activities in near term
- End of quarter cash balance of \$5.68 million

**THC Global Group Limited (THC Global or the Company)** (ASX:THC) is pleased to provide an update on the Company's activities, as well as the Appendix 4C for the quarter ended 30 June 2019.

### Australian Cannabis Operations: Two Manufacture Licences Granted

THC Global is now the holder of two cannabis Manufacture Licences from the Australian Office of Drug Control (**ODC**), being for its Southport Facility, the largest bio-pharmaceutical extraction facility in the Southern Hemisphere, and for its Bundaberg Strain R&D & Cultivation Facility with its own separate manufacturing capability.

THC Global's Bundaberg Facility holds the full suite of cannabis licences under the Australian medicinal cannabis regulatory scheme, being a Cannabis Research Licence, a Medicinal Cannabis (Cultivation) Licence, and a Manufacture Licence, allowing for farm-to-pharma production at the site. The Bundaberg Facility also holds permits allowing cultivation for research purposes, which is currently underway. The receipt of Manufacture Licences at Southport and Bundaberg enables the Company to apply for cultivation permits to supply the Southport and Bundaberg manufacturing facilities with the Company's own cannabis biomass.

The Southport Facility is capable of producing an initial annualised 12,000kg of Good Manufacturing Practices (**GMP**) compliant Active Pharmaceutical Ingredient (**API**) isolates, or equivalent quantities of full-spectrum and broad-spectrum extracts. This process requires approximately 120,000 kg of cannabis biomass annually. The Company also expects to be able to further process these extracts into finished medicines such as oils, tinctures, and capsules following granting of additional approvals.

The production capacity secured by the Company for GMP API isolates and extracts is globally significant, allowing for large-scale supply of Australian produced medicinal cannabis for Australian clinical and study trials and patients, as well as for export into a global market with high demand for pharmaceutical grade product.

THC Global expects to complete product validation for Therapeutic Goods Administration (**TGA**) certified bulk API handling and production at the Southport Facility, as well as the receipt of a permit to commence manufacturing from the Office of Drug Control (**ODC**) in Q4 2019. This will be followed by commencement of revenue generating production in early 2020.

On completion of validation, the Company will commence formulation of medicinal cannabis products which will be supplied to select study and clinical trials in Australia and Asia.



THC Global's medicinal cannabis products will be unique in the market having being produced from Australian cannabis strains, extracted at an Australian facility, processed and packaged in Australia and made available by an Australian company to Australian patients and the global export market.

Further, as the Bundaberg Facility holds its own separate Manufacture Licence, the Company is able to explore formulation development with small scale extraction on site, allowing for reduced cost research and development activities to be conducted, accelerating formulation and medicine development.

#### Canadian Operations

THC Global's Canadian operations include Crystal Mountain, the Company's hydroponics equipment division based in Vancouver, Canada and the Company's Canadian Cannabis Cultivation Facility Project in Nova Scotia, Canada.

Crystal Mountain has reported a maiden unaudited profit for the half-year to 30 June 2019 of over A\$100,000 and unaudited trading revenue for the half year exceeding A\$2,000,000. The strengthening of Crystal Mountain's performance has been driven by a significantly expanded distribution network now covering North America, Europe, and the United Kingdom, as well as continued improvement of the Company's market positioning in response to the broadening Canadian cannabis regulations.

At THC Global's cannabis cultivation facility project in Nova Scotia, Canada, the Company expects to commence initial construction activities in the coming months. The first stage of the project will be a 20,000 sq/ft cultivation facility, followed by an extraction and processing facility to be later built. Additionally, the Company has confirmed by way of survey that the acquired land is a total of 11 acres (~44,500 sqm) which allows the Company to consider a significant expansion of its current plans once initial revenues commence.

THC Global is in a unique position in Canada as the Nova Scotia project has received a Letter of Readiness from the Canadian cannabis regulator, potentially grandfathering the project into the earlier cannabis regulations enabling a quicker licencing process. THC Global is in late stage negotiations with a number of potential funders for the project, which will allow the project to achieve revenue generating production in the near term, with limited upfront capital outlay.

THC Global expects to see new revenue opportunities arise in Canada across both of its business units following further regulatory changes effective in October 2019 allowing for the production and sale of cannabis extracts, edibles, and topicals.

#### Global Team Changes

To support the development of the Company's Canadian operations, the Company has appointed Laura Harvey as Chief Operating Officer of THC Global's Canadian operations. Laura has over twenty five years' experience in strategic and operational management, marketing, finance, sales, and human resources. Laura holds a Masters in Business Administration. Laura's appointment follows the resignation of Jason Colquhoun, formerly the manager of Crystal Mountain, earlier this year.

In the lead up to the Company commencing GMP API isolate and extract production, the Company has further increased its internal quality assurance and compliance capability, with the appointment of Scott Coleman as the Quality Manager at the Company's Bundaberg Facility and the appointment of Elsie Green as the Company's Compliance Officer across all Australian cannabis projects. Scott is an expert in quality assurance, R&D programs, and agribusiness. Elsie is highly experienced in the pharmaceuticals industry having formerly held roles at Sun Pharma and GSK including TGA reporting and GMP compliance obligations. The Company notes that Katy Williams Day, formerly the Company's Product and Regulatory Affairs Manager has resigned, with the role being fulfilled by other persons within the Company.

Mark Fortugno, the Chief Financial Officer of the Company has advised the Company of his intention to relocate overseas. THC Global expects to ultimately appoint a new full time CFO based in Queensland, Australia reflecting the strategic and operational significance of the Southport Facility to the future growth of the Company. In the intervening period, Jarrod White will be appointed Group CFO. Jarrod is a Chartered Accountant with significant experience as a CFO in a number of ASX and LSE listed entities. Jarrod has been working with the Company in various finance positions for over two years and is highly familiar with the Company's global operations and activities.

The Company has also undertaken a review of the remuneration of the Group CEO, Ken Charteris, one year after his appointment to the role, and has agreed to vary his incentives package to better align his performance to shareholders. The details of these amendments are provided in Annexure A.

**For further information, please contact:**



**Ken Charteris**  
Chief Executive Officer  
e: [ceo@thc.global](mailto:ceo@thc.global)

**Henry Kinstlinger**  
Company Secretary  
e: [corporate@thc.global](mailto:corporate@thc.global)  
p: +61 2 8644 0601

**Sonny Didugu**  
Investors & Media  
e: [media@thc.global](mailto:media@thc.global)  
p: +61 2 8088 4760

**THC Global Group Limited (ASX: THC) [thc.global](http://thc.global)**

THC Global operates under a 'Farm to Pharma' pharmaceutical model, now holding all three key cannabis licences being a Cannabis Research Licence, a Medicinal Cannabis Licence (Cultivation), and two Manufacture Licences through its domestic medicinal cannabis subsidiaries THC Pharma and Canndeo. THC Global has secured a significant cannabis growing capacity over multiple cultivation projects. and owns a licenced GMP ready high-volume bio-pharma extraction facility with attached testing and product development laboratory.

THC Global is in prime position to commence medicinal cannabis production to service both domestic patients and the global export market. THC Global is active globally with operations in Australia, New Zealand, and Canada and partnerships across Europe, Asia, and the Middle East. In addition to its core Australian medicinal cannabis assets, THC Global has a significant Canadian presence – both in cannabis and in hydroponics equipment. THC Global's Canadian cannabis operation, Vertical Canna, holds property in Nova Scotia, Canada being developed into a large scale cannabis production site. THC Global's hydroponics equipment division, Crystal Mountain, is a revenue generating manufacturer, wholesaler, and retailer of hydroponics equipment and supplies for cannabis cultivation.

**Annexure A: CEO Remuneration Amendments**

The Company will restructure the CEO's long term incentives based on two week Volume Weighted Average Prices (**VWAP**) as follows:

- 1,500,000 Performance Options vesting on a two-week VWAP of \$0.75 by 11 July 2020;
- 2,500,000 Performance Options vesting on a two-week VWAP of \$1.20 by 11 July 2020;
- 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.

The Options have already been issued to the CEO following shareholder approval at a general meeting in November 2018. If the VWAP targets for the Options are met by 11 July 2020, the CEO will have one year to 11 July 2021 to exercise the Options. If the VWAP targets are met, and the CEO exercises 100% of his options, the Company will raise \$4.125 million from the CEO.

The Performance Rights are a new addition to the existing remuneration for the CEO and will be issued on or before 2 August 2019 under the Company's Employee Option Plan as nil-exercise price Options. The Performance Rights convert 1:1 into Fully Paid Ordinary Shares if the VWAP targets are met before the expiry dates. The Performance Rights will be subject to the terms of the Employee Option Plan, as well as the ASX Listing Rules and other relevant statutory and regulatory requirements.

The Company has also agreed to a short term incentive of between 30-60% of the CEO's base salary per year subject to the discretion of the Board and their review of his performance, with the incentive to be paid in either shares or cash.

## Appendix 4C

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

Introduced 31/03/00 Amended 30/09/01, 24/10/05, 17/12/10, 01/09/16

**Name of entity**

THC GLOBAL GROUP LIMITED

**ABN**

33 614 508 039

**Quarter ended ("current quarter")**

30 June 2019

<b>Consolidated statement of cash flows</b>	<b>Current quarter \$A'000</b>	<b>Year to date (6 months) \$A'000</b>
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	578	1,421
1.2 Payments for		
(a) research and development	(116)	(128)
(b) product manufacturing and operating costs	(631)	(1,439)
(c) advertising and marketing	(45)	(121)
(d) Facility operating and running costs	(170)	(332)
(e) staff costs	(644)	(1,187)
(f) administration and corporate costs	(1,145)	(2,191)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	12	17
1.5 Interest and other costs of finance paid	(10)	(21)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	278	278
1.8 Other (provide details if material)	-	-
<b>1.9 Net cash from / (used in) operating activities</b>	<b>(1,893)</b>	<b>(3,703)</b>

<b>2.</b>	<b>Cash flows from investing activities</b>		
2.1	Payments to acquire:		
	(a) property, plant and equipment	(49)	(104)
	(b) businesses (see item 10)	-	-
	(c) investments	(197)	(197)
	(d) intellectual property	-	-
	(e) other non-current assets	-	-
2.2	Proceeds from disposal of:		
	(a) property, plant and equipment	-	-
	(b) businesses (see item 10)	-	-
	(c) investments	-	-
	(d) intellectual property	-	-
	(e) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
<b>2.6</b>	<b>Net cash from / (used in) investing activities</b>	<b>(246)</b>	<b>(301)</b>

<b>3.</b>	<b>Cash flows from financing activities</b>		
3.1	Proceeds from issues of shares	2,988	2,988
3.2	Proceeds from issue of convertible notes	-	-
3.3	Proceeds from exercise of share options	420	420
3.4	Transaction costs related to issues of shares, convertible notes or options	(55)	(55)
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (loans to other entities)	-	-
<b>3.10</b>	<b>Net cash from / (used in) financing activities</b>	<b>3,353</b>	<b>3,353</b>

<b>4.</b>	<b>Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1	Cash and cash equivalents at beginning of quarter/year to date	4,470	6,334
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,893)	(3,703)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(246)	(301)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	3,353	3,353
4.5	Effect of movement in exchange rates on cash held	5	6
<b>4.6</b>	<b>Cash and cash equivalents at end of quarter</b>	<b>5,689</b>	<b>5,689</b>

<b>5.</b>	<b>Reconciliation of cash and cash equivalents</b> at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	<b>Current quarter \$A'000</b>	<b>Previous quarter \$A'000</b>
5.1	Bank balances	5,689	4,470
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
<b>5.5</b>	<b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>5,689</b>	<b>4,470</b>

<b>6.</b>	<b>Payments to directors of the entity and their associates</b>	<b>Current quarter \$A'000</b>
6.1	Aggregate amount of payments to these parties included in item 1.2	68
6.2	Aggregate amount of cash flow from loans to these parties included in item 2.3	-
6.3	Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2	
N/A		

7. <b>Payments to related entities of the entity and their associates</b>	Current quarter \$A'000
7.1 Aggregate amount of payments to these parties included in item 1.2	77
7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3	-
7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2	

N/A

8. <b>Financing facilities available</b> <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1 Loan facilities	-	-
8.2 Credit standby arrangements	-	-
8.3 Other (please specify)	-	-
8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		

N/A

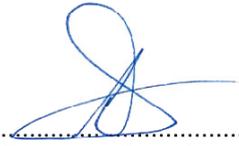
9. <b>Estimated cash outflows for next quarter</b>	\$A'000
9.1 Research and development	50
9.2 Product manufacturing and operating costs	350
9.3 Advertising and marketing	40
9.4 Facility operating and running costs	170
9.5 Staff costs	600
9.6 Administration and corporate costs	1,000
9.7 Other (development costs)	-
<b>9.8 Total estimated cash outflows</b>	<b>2,210</b>

10. <b>Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)</b>	Acquisitions	Disposals
10.1 Name of entity	-	-
10.2 Place of incorporation or registration	-	-
10.3 Consideration for acquisition or disposal	-	-
10.4 Total net assets	-	-
10.5 Nature of business	-	-

**Compliance statement**

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Sign here:

  
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Company Secretary

Date: 31 July 2019

Print name: Henry Kinstlinger

**Notes**

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.