Little Green Pharma Limited

Consolidated Financial Statements

For the year ended 30 June 2019

(Expressed in Australian Dollars)

LITTLE GREEN PHARMA LTD

Directors' Report

The directors present their report, together with the financial statements of the Group, being the Company and its controlled entity, for the financial year ended 30 June 2019.

General Information

Name	Position	Board Meetings	
		Eligible	Attended
Mr Michael Lynch-Bell*	Independent Non-executive Chair	2	2
Dr Neale Fong*	Independent Non-executive Director	2	2
Ms Fleta Solomon	Managing Director	2	2
Mr Angus Caithness	Executive Director	2	2

* Appointed 13 November 2018

In addition to the above board meetings, there were 11 circular resolutions in Little Green Pharma Ltd and 3 circular resolutions in Little Green Pharma AG.

Principal activities

The principal activity of the Group is the cultivation, production and manufacturing of medicinal cannabis products for patients.

Operating results and review of operations for the year

During the year, the Company changed its name from Habi Pharma Pty Ltd to Little Green Pharma Ltd and at the same time changed from a private to a public unlisted company. Two independent non executive directors were also appointed to the board.

In August 2018, the Group released Australia's first locally grown medicinal cannabis product for patients. In addition to this, further research into the Group's patented liposomal preparation occurred with patent registrations being lodged in Canada, Europe, India, Israel, China, Mexico, New Zealand, United States and South Africa.

A German subsidiary, Little Green Pharma AG, was incorporated and issued €825,000 of convertible notes which convert at a 30% discount to an initial public offering.

The Group recognised a loss after tax of $5,518,129 for the year (30 June 2018 - $3,757,808 loss) which in the opinion of the directors was consistent with expectations.

Significant changes in state of affairs

There were no significant changes in the nature or state of affairs of the Group during the financial year.

Matters or circumstances arising after the end of the year

Post year end, the Group issued $9,000,000 in convertible notes with half converting at $0.30 and half converting at the higher of a 30% discount to the initial public offering price and $0.30 on an initial public offering. The existing €825,000 convertible note holders were given the opportunity to swap their Little Green Pharma AG convertible notes for ones in Little Green Pharma Ltd on the same terms as the new note holders with all notes being swapped.

The Company moved its registered office and principal place of business on 1 September 2019 to Level 2, 66 Kings Park Road, West Perth by taking out a five year lease. In addition to this lease, the Group updated the lease terms associated with the production facility as well as leasing the block next door to that facility. Both leases are for five years with the ability to extend for a further 15 years.

Operationally, the Group exported Australia’s first products to Germany for testing, and reached the milestone of supplying over 1,000 patients in Australia.

Future developments and results

The focus of the Group remains increasing production capacity by completing the expansion of the existing facility. This will enable the Group to service its growing number of Australian patients as well as deliver into its European distribution agreements.

Environmental matters

The Group’s operations are not regulated by any significant environmental regulations.

Dividends

There were no Dividends paid or declared since the beginning of the financial year (30 June 2018 – nil).

Indemnification and insurance of directors and officers

The Group has provided Directors and Officers a deed of indemnity as well as Directors and Officers Insurance.

Proceedings on behalf of the company

No person has applied for leave of the Court to bring proceedings against the Company or Group.

Auditor's independence declaration

The auditor's independence declaration in accordance with section 307C of the *Corporations Act 2001*, for the year ended 30 June 2019 has been received and can be found on page 3 of the financial report.

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Fleta Solomon
Managing Director

14 October 2019

Deloitte Touche Tohmatsu
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The Directors
Little Green Pharma Ltd
Level 2, 66 Kings Park Rd
WEST PERTH WA 6005

14 October 2019

Dear Directors

Auditor's Independence Declaration to Little Green Pharma Ltd and its controlled entity

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Little Green Pharma Ltd.

As lead audit partner for the audit of the financial statements of Little Green Pharma Ltd for the year ended 30 June 2019, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Ian Skelton
Partner
Chartered Accountant

LITTLE GREEN PHARMA LTD
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(Expressed in Australian dollars)

	Note	30 June 2019	30 June 2018
Assets			
Current assets			
Cash and cash equivalents		**510,286**	1,474,010
Biological assets	6	**142,953**	68,237
Inventory	6	**370,787**	41,913
Accounts receivable		**88,280**	-
Prepaid expenses		**5,455**	130,393
Total current assets		**1,117,761**	1,714,553
Plant and equipment	7	**609,617**	314,585
Intangible assets	8	**158,064**	73,625
Refundable deposits		**70,697**	70,697
Other financial assets	9	**-**	1,848,000
Total non-current assets		**838,378**	2,306,907
Total assets		**1,956,139**	4,021,460
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	10	**1,726,722**	351,784
Employee benefit obligations		**186,840**	30,498
Total current liabilities		**1,913,562**	382,282
Convertible notes	11	**1,330,645**	-
Total non-current liabilities		**1,330,645**	-
Total liabilities		**3,244,207**	382,282
Net (liabilities)/assets		**(1,288,068)**	3,639,178
Shareholders' equity			
Share capital	12	**7,317,514**	7,221,577
Reserves		**887,511**	392,565
Accumulated deficit		**(9,493,093)**	(3,974,964)
Total shareholders' equity		**(1,288,068)**	3,639,178

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

LITTLE GREEN PHARMA LTD
CONSOLIDATED STATEMENT OF LOSS AND COMPREHENSIVE LOSS
(Expressed in Australian dollars)

	Note	Year Ended 30 June 2019	Year Ended 30 June 2018
Revenue			
Medicinal cannabis sales		**248,500**	-
Cost of sales			
Cost of goods sold	6	**(200,231)**	-
Gain on changes in fair value of biological assets	6	**52,456**	-
Gross margin		**100,725**	-
Expenses			
General and administrative	13	**(3,546,195)**	(1,713,281)
Sales and marketing		**(646,458)**	(138,015)
Licences, permits and compliance costs		**(491,419)**	(171,039)
Education		**(475,262)**	(138,280)
Research and development		**(372,792)**	(203,540)
		(5,532,126)	(2,364,155)
Loss from operations		**(5,431,401)**	(2,364,155)
Interest income		**4,164**	8,337
Interest expenses		**(4,681)**	(1,837)
Research and development incentive		**260,529**	46,110
Fair value changes in financial assets	9	**(346,326)**	(1,445,385)
Net foreign exchange		**(414)**	(878)
Loss before tax		**(5,518,129)**	(3,757,808)
Tax expense	15	**-**	-
Loss after tax		**(5,518,129)**	(3,757,808)
Other Comprehensive Income			
Items that may be reclassified subsequently to the profit or loss			
Exchange fluctuations on translation of foreign operations		**(8,070)**	-
Total comprehensive loss net of tax		**(5,526,199)**	(3,757,808)
Net loss per share			
Basic and diluted (cents)		**(7.97)**	(6.52)
Weighted average number of shares outstanding			
Basic and diluted		**69,215,006**	57,659,629

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

LITTLE GREEN PHARMA LTD
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(Expressed in Australian dollars)

		Share capital		Share based	Translation	Accumulated	Total
	Note	No. Shares	$	payment reserve	reserve	deficit	
As at 30 June 2017		41,147,337	983,763	-	-	(217,156)	766,607
							-
Shares to founders		9,336,000	44,346	-	-	-	44,346
Share placement		6,200,000	1,240,000	-	-	-	1,240,000
Share issuance costs		-	(51,250)	-	-	-	(51,250)
Transactions with LGC	9	9,783,495	4,793,385	-	-	-	4,793,385
Shares in lieu of cash	12	2,385,834	211,333	-	-	-	211,333
Share based payments	14	-	-	392,565	-	-	392,565
Loss after tax		-	-	-	-	(3,757,808)	(3,757,808)
As at 30 June 2018		68,852,666	7,221,577	392,565	-	(3,974,964)	3,639,178
Shares in lieu of cash	12	726,670	95,937	-	-	-	95,937
Share based payments	14	-	-	503,016	-	-	503,016
Translation reserve		-	-	-	(8,070)	-	(8,070)
Loss after tax		-	-	-	-	(5,518,129)	(5,518,129)
As at 30 June 2019		69,579,336	7,317,514	895,581	(8,070)	(9,493,093)	(1,288,068)

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

LITTLE GREEN PHARMA LTD
CONSOLIDATED STATEMENT OF CASH FLOWS
(Expressed in Australian dollars)

	Note	**Year Ended 30 June 2019**	Year Ended 30 June 2018
Operating activities			
Net loss before tax		**(5,518,129)**	(3,757,808)
Items not involving cash			
Changes in fair value of biological assets	6	**(52,456)**	-
Depreciation and amortisation	7,8	**94,395**	49,625
Changes in fair value of financial assets	9	**346,326**	1,445,385
Share-based payments	14	**702,743**	601,171
Changes in non-cash operating working capital			
Inventory and biological assets		**(351,134)**	(110,150)
Accounts receivable		**(88,280)**	35,661
Prepaid expenses		**124,938**	(73,680)
Accounts payable and accrued liabilities		**1,263,852**	208,768
Employee benefits obligations		**156,342**	30,498
Net cash flows from operating activities		**(3,321,403)**	(1,570,530)
Investing activities			
Purchase of plant and equipment	7	**(374,611)**	(234,913)
Purchase of intangible assets	8	**(99,255)**	(64,036)
Proceeds from sale of financial assets	9	**1,501,674**	-
Repayment of loans to related parties	21	**-**	(56,373)
Refundable deposits		**-**	(60,000)
Net cash flows from investing activities		**1,027,808**	(415,322)
Financing activities			
Convertible note issuance	11	**1,320,000**	-
Proceeds from issue of shares	12	**-**	2,784,346
Costs associated with the issue of shares	12	**-**	(51,250)
Net cash flows from financing activities		**1,320,000**	2,733,096
Net change in cash and cash equivalents		**(973,595)**	747,244
Cash and cash equivalents, beginning of year		**1,474,010**	726,766
Effect of changes in foreign exchange		**9,871**	-
Cash and cash equivalents, end of year		**510,286**	1,474,010

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

1 NATURE AND CONTINUANCE OF OPERATIONS

Little Green Pharma Limited ACN 615 586 215 (the "Company", "LGP"), was incorporated in Australia pursuant to the Corporations Act 2001 on 27 October 2016 as Habi Pharma Pty Ltd, and changed from a private to a public unlisted company at the same time as changing its name to Little Green Pharma Limited on 8 January 2019. It is a for profit company limited by shares. The financial report covers LGP and its controlled entity (the "Group"). The Company's registered office is at Level 2, 66 Kings Park Road, West Perth, 6005 Western Australia.

The Company owns 100% of the shares of Little Green Pharma AG ("LGP Germany"), a company incorporated pursuant to the German Stock Corporation Act (Aktiengesetz). The principal business of LGP Germany is the facilitation of medicinal cannabis sales into Europe.

a) Going Concern

These consolidated financial statements have been prepared on the going concern basis which assumes that the Group will be able to realise its assets and discharge its liabilities in the normal course of business for the foreseeable future. As at 30 June 2019, the Group had not yet achieved profitable operations incurring a net loss of $5,518,129 and experienced net cash outflows from operations of $3,321,403 for the year ended 30 June 2019. Additionally the Group had negative working capital of $795,801 and a net liability position of $1,288,068 as at 30 June 2019.

Subsequent to year-end, the Group issued $9,000,000 of convertible notes (refer note 23 for further information) which have a maturity date of 31 July 2020 but are mandatorily convertible to equity upon an initial public offering ("IPO") occurring prior to maturity date.

Given this, the Group's ability to continue as a going concern is dependent on the completion of the initial public offering which would result in the mandatory conversion of the convertible notes into equity. The Group has successfully completed pre-IPO funding and is currently preparing for an IPO which is expected to occur prior to the maturity date of the convertible notes. Should the IPO not proceed the Group will be required to re-finance or re-negotiate the convertible notes and/or raise additional equity as and when required to extinguish the convertible notes by 31 July 2020.

At the date of this report and having considered the above factors, the directors are of the opinion that the Group will be able to continue as a going concern.

However, in the event the Group is unable to complete the above there exists a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern, and therefore whether it will realise its assets and discharge its liabilities in the normal course of business.

The consolidated financial statements do not include any adjustments to the recoverability and classification of recorded asset amounts and to the amount and classification of liabilities that might be necessary should the Group be unable to continue as a going concern.

b) Comparatives

The comparatives within the statement of loss have been restated to ensure consistency with the current years' classification which is by function rather than nature as was previously disclosed. This better reflects the Group's current and future operations and resulted in costs being reallocated from their previous accounts to Sales and Marketing, Education and Licences, Permits and Compliance Costs.

2 BASIS OF PRESENTATION

a) Statement of Compliance

These consolidated general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the Corporations Act 2001 which ensures compliance with the International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

The Company is a for-profit entity for the purpose of preparing the financial statements which were authorised for issue by the Board of Directors on 14 October 2019.

b) Basis of measurement

These consolidated financial statements have been prepared on a going concern basis, at historical cost except for certain financial instruments and biological assets, which are measured at fair value.

c) Basis of consolidation

These consolidated financial statements include the accounts of the Company and its subsidiary. All intercompany transactions and balances are eliminated on consolidation. Subsidiaries are all entities over which the Company has control. The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The Company has the following subsidiary:

Name of Entity	Country of Incorporation	Functional Currency	Ownership	
			30 June 2019	30 June 2018
Little Green Pharma AG	Germany	Euro	100%	0%

d) Functional and presentation currency

The Company's functional currency is Australian dollars and all amounts presented are in Australian dollars unless otherwise specified.

3 ACCOUNTING POLICIES

a) Cash and cash equivalents

Cash and cash equivalents include cash and redeemable short-term deposits with a maturity of less than three months held at major financial institutions.

b) Biological assets

The Group measures biological assets consisting of cannabis plants at fair value less cost to sell up to the point of harvest, which becomes the basis for the cost of work in progress or finished goods inventories after harvest.

Gains or losses arising from changes in fair value less cost to sell are included in the results of operations of the related period.

c) Inventory

Inventory which is classified as work in progress consists of harvested or purchased cannabis intended to be processed into oil and is valued at the lower of cost and net realisable value. Harvested cannabis is transferred from biological assets at its fair value at harvest, which becomes deemed cost. Any subsequent post-harvest costs are capitalised to work in progress. Inventory consisting of work in progress and finished goods is written down to its net realisable value if the carrying amount of inventory exceeds its estimated selling price less costs of disposal. Any amount written down is recognised as part of cost of goods sold. Cost is determined using the average cost basis.

d) Plant and equipment

Plant and equipment are carried at cost less accumulated depreciation. Plant and equipment are depreciated over their expected lives based on the following:

- Leasehold improvements – lesser of useful life or term of lease
- Cultivation and production equipment – 5 to 10 years straight line
- Manufacturing equipment – 5 to 10 years straight line
- Scientific equipment – 5 to 10 years straight line
- Office equipment – 2 to 5 years straight line

In the year of acquisition, depreciation for plant and equipment is recorded once the asset is available for use.

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognised in profit or loss.

Residual values and estimated useful lives are reviewed annually.

e) Financial instruments

i. Financial assets

The Group classifies its financial assets initially at fair value at the time of acquisition. Subsequently, they are measured at amortised cost, at fair value through other comprehensive income, or at fair value through profit or loss. Upon initial recognition, management determines the classification of its financial assets based upon the purpose for which the financial assets were acquired. Measurement and classification of financial assets is determined based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Management may, at initial recognition, irrevocably designate a financial asset as measured at fair value through profit or loss to prevent a measurement or recognition inconsistency.

Financial assets are derecognised when they mature or are sold and substantially all the risks and rewards of ownership have been transferred. Impairment of trade receivables is determined based on an individual assessment of each receivable taking into account the credit worthiness of the counterparty, the days past due and any subsequent trading history. These losses are recognised separately in the profit or loss.

ii. Financial liabilities

The Group initially recognises financial liabilities at fair value and are subsequently measured at amortised cost.

f) Convertible Notes

Convertible notes are initially recognised at fair value and is subsequently recognised on an amortised cost basis until extinguished on conversion or maturity. In addition, subsequent to initial recognition, derivatives associated with the convertible note liability are accounted for at fair value through profit or loss.

g) Intangible Assets

Intangible assets are recorded at cost and amortised over their estimated useful lives at the following annual rate:

- Computer software – 2 to 5 years straight line
- Patents – 20 years straight line

Estimated useful lives are reviewed annually.

h) Foreign currency translation

Transactions in currencies other than the Australian dollar are recorded at exchange rates prevailing on the dates of the transactions. At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies are translated at the period end exchange rate. Revenues and expenses are translated at the exchange rates approximating those in effect on the date of the transactions. Exchange gains and losses arising on translation are included in net loss.

i) Revenue recognition

Revenue is recognised at the transaction price, which is the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods to a customer. The Group's contracts with customers for the sales of dried cannabis and cannabis oil consist of one performance obligation being the delivery of that product to the customer. Revenue is recognised at that date as this represents the point in time when the sale becomes unconditional as control has been transferred with only the passage of time required before payment is due. Payment terms are generally 30 days.

j) Research and development

Research costs are expensed as incurred. Development expenditures are capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete the development to use or sell the assets. Other development expenditures are expensed as incurred. Other than certain patent development costs, to date, no development costs have been capitalised.

k) Employee benefits

Provision is made for employee benefits such as wages, salaries and annual leave arising from services rendered to the end of the reporting period. Employee benefits which are expected to be wholly settled within one year have been measured at the amounts expected to be paid when the liability is settled. Where an obligation in respect of long term employee benefits arises, that benefit is discounted to determine its present value. Re-measurements are recognised in the profit or loss in the period in which they arise.

l) Share-based payments

The Group grants options to directors, officers and employees under the Group’s Share Incentive Plan. The fair value of these share options are recognised as an expense over the vesting period with a corresponding increase in equity. An individual is classified as an employee when they are an employee for legal or tax purposes (direct employee) or provide services similar to those performed by a direct employee, including directors of the Group. At each financial position reporting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that are expected to vest. In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at fair value of the share-based payment.

No expense is recognised for awards that do not ultimately vest except for equity settled transactions for which vesting is conditional upon a market or non-vesting condition.

Share options with a graded vesting schedule are accounted for as separate grants with different vesting periods and fair values. The fair value is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the share purchase options were granted.

Where the terms of an equity settled award are modified, the minimum expense recognised is the expense as if the terms had not been modified. An additional expense is recognised for any modification which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification. When an equity award is cancelled, it is treated as if it vests on the date of the cancellation and any expense not recognised for the award is recognised immediately.

m) Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (“GST”), except where the amount of GST incurred is not recoverable from the Australian Taxation Office (“ATO”). Receivables and payable are stated inclusive of GST. Cash flows in the statement of cash flows are included on a gross basis and the GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

n) Income taxes

Income tax expense comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity. Current tax expense is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regard to previous years.

Deferred tax is recorded using the liability method, providing for temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for the initial recognition of assets or liabilities that affect neither accounting nor taxable loss, and differences relating to investments in subsidiary to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Deferred tax assets are recognised for all deductible temporary differences and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and losses can be utilised.

o) Research and development incentive

Government grants which are received as compensation for costs which have already been incurred for which there is no future related costs such as the research and development incentive, are recognised as income in the period in which they are receivable.

p) Loss per share

Basic loss per share is computed by dividing total net loss attributable to the Group for the year by the weighted average number of shares of the Group outstanding during the year. When the Group is in a loss position, all potential share issuances on the exercise of options or warrants is anti-dilutive. In the event of a loss position, diluted loss per share is the same a basic loss per share.

q) Leases

Leases are classified as an operating lease whenever the terms of the lease do not transfer substantially all of the risks and rewards of ownership to the lessee. Operating lease payments are recognised as an operating expense in profit or loss on a straight- line basis over the lease term.

r) Impairment of long-lived assets

At the end of each reporting period, the Group's assets are reviewed to determine whether there is any indication that those assets may be impaired. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognised in profit or loss for the period. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Management considers both external and internal sources of information in determining if there are any indications that the Group's plant and equipment or intangible assets are impaired. Management considers the market, economic, and legal environment in which the Group operates that are not within its control and affect the recoverable amount of its plant and equipment and intangible assets. Management considers the manner in which the plant and equipment and intangible assets are being used or are expected to be used, and indication of economic performance of the assets. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the lesser of the revised estimate of recoverable amount, and the carrying amount that would have been recorded had no impairment loss been recognised previously.

s) Segment reporting

A segment is a component of the Group that engages in business activities in which revenues and expenses are incurred, that has distinguishable financial information available, and whose operating results are regularly reviewed by the chief operating decision maker ("CODM").

t) Significant accounting judgments and estimates

The preparation of financial statements in conformity with Australian Accounting Standards requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported revenues and expenses during the year. Actual results may differ from these estimates.

Significant estimates are evaluation and assumptions about the future and other sources of estimation uncertainty that management has made, that could result in a material adjustment to the carrying amounts of assets and liabilities. Significant estimates used in the preparation of these consolidated financial statements include, but are not limited to, the following:

Biological assets and inventory

The Group measures biological assets consisting of cannabis plants at fair value less cost to sell up to the point of harvest. Calculating the value requires management to estimate, among others, expected yield on harvest, expected selling price and remaining costs to be incurred up to the point of harvest.

The Group measures inventory at the lower of cost and net realizable value and estimates selling price, the estimated costs of completion and the estimated costs necessary to make the sale.

Provisions, accruals and contingencies

The amount recognised as a provision, including legal, contractual, constructive and other exposures or obligations, is the best estimate of the consideration required to settle the related liability, including any related interest charges, taking into account the risks and uncertainties surrounding the obligation. In addition, contingencies will only be resolved when one or more future events occur or fail to occur. Therefore, assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events. The Group assesses its liabilities and contingencies based upon the best information available.

Share based compensation

The fair value of share based compensation expense is estimated using the Black-Scholes option pricing model and relies on a number of estimated inputs, such as the expected life of the option, the volatility of the underlying share price, and the risk-free rate of return. For share based compensation dependent upon milestones, significant estimates are required as to the probability of that milestone being achieved. Changes in the underlying estimated inputs may result in materially different results.

Deferred income taxes

In assessing the probability of realising deferred income tax assets, management makes estimates related to expectations of future taxable income, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified.

4 NEW ACCOUNTING PRONOUNCEMENTS

a) Revenue from contracts with customers

Effective 1 July 2018, the Group adopted AASB 15 *Revenue from Contracts with Customers.* The Group recognises revenue from contracts with customers based on a five-step model, which is applied to all contracts with customers.

Determining the amount of variable consideration to recognise, and whether the amount of variable consideration should be constrained, is dependent on management's estimate of the most likely amount to which the Group will be entitled and the probability of a significant reversal in that amount. These determinations require management to make estimates based on historical amounts received, current economic conditions, and current industry conditions, in Australia and abroad, adjusted for forward looking information.

Cost of sales represents the deemed cost of inventory that arose from the fair value measurement of biological assets, subsequent post-harvest costs capitalised to inventory, purchased dried cannabis, costs to produce cannabis oils capitalised to inventory (including the deemed cost of dried inventory that arose from the fair value measurement of biological assets that were used to produce cannabis oils), and packaging costs.

There were no changes required to the Group's consolidated financial statements as a result of adopting this standard other than enhanced disclosures as there were no sales in the prior year.

b) Financial instruments

Effective 1 July 2018, the Group adopted AASB 9 *Financial Instruments* ("AASB 9"), which replaced AASB 139 *Financial Instruments: Recognition and Measurement* ("AASB 139"). The standard eliminates the existing AASB 139 categories of held to maturity, available-for-sale and loans and receivable.

The new classification and measurement of the Group's financial assets and liabilities are as follows:

Amortised cost

This category includes financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the solely principal and interest ("SPPI") criterion. Financial assets classified in this category are measured at amortised cost using the effective interest method.

Fair value through profit or loss ("FVTPL")

This category includes quoted equity instruments which the Group has not irrevocably elected, at initial recognition or transition, to classify at fair value through other comprehensive income. This category would also include debt instruments whose cash flow characteristics fail the SPPI criterion or are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell. Financial assets in this category are recorded at fair value with changes recognised in profit or loss.

The following table summarises the original measurement categories under AASB 139 and the new measurement categories under AASB 9 for each class of the Group's financial assets and financial liabilities:

	AASB 139 Classification	**AASB 9 Classification**
Financial assets		
Cash	Amortised cost	Amortised cost
Cash equivalents	Amortised cost	Amortised cost
Accounts receivable	Amortised cost	Amortised cost
Refundable deposits	Amortised cost	Amortised cost
Other financial assets	Available for sale	FVTPL
Financial liabilities		
Accounts payable and accrued liabilities	Amortised cost	Amortised cost
Convertible notes	Amortised cost	Amortised cost

The adoption of this standard did not have a material impact on the measurement of the Group's financial instruments in these consolidated financial statements, however additional disclosures have been provided as there has been a presentation change applicable to other financial assets.

Impairment of financial assets

The adoption of AASB 9 has changed the Group's accounting of impairment losses for financial assets by replacing AASB 139's incurred loss approach with a forward-looking expected credit loss approach. There were no impairment losses recognised in these consolidated financial statements as a result of the adoption of AASB 9 as at the date of initial application. In the prior year an impairment of $1,445,385 was recognised.

5 NEW ACCOUNTING PRONOUNCEMENTS, ISSUED BUT NOT YET ADOPTED

AASB 16, *Leases* ("AASB 16") – replaces the guidance in AASB 117 *Leases* and establishes principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions. Under the new standard, an asset which represents the right to use the leased item is recognised with a corresponding financial liability representing the present value of the future lease payments. The only exceptions are short-term and low-value leases.

AASB 16 will be adopted from its mandatory adoption date of 1 July 2019. The Group has completed an assessment of the impact on its consolidated financial statements and based on this assessment the Group expects to recognise a right of use asset of approximately $688,000 and a corresponding associated lease liability.

6 Inventory including biological assets

The Group's inventory including biological assets is comprised of:

	Biological assets	Work in progress	Finished goods	Total
As at 30 June 2018	68,237	39,037	-	107,274
Costs incurred	452,568	101,771	30,162	584,501
Net transfer between accounts	(430,307)	202,961	227,346	-
Unrealised changes in fair value	52,456	-	-	52,456
Used in research and development	-	-	(39,171)	(39,171)
Cost of goods sold	-	-	(200,231)	(200,231)
As at 30 June 2019	142,954	343,769	18,106	504,829
Supplies and consumables				8,912
As at 30 June 2019				513,741

Biological assets are classified as Level 3 on the fair value hierarchy with the following inputs and assumptions being subject to significant volatility and uncontrollable factors which could significantly affect their fair value in future periods:

- plant waste – wastage of plants based on various stages of growth;
- yield per plant – represents the weighted average grams of dry cannabis expected to be harvested from a cannabis plant, based on historical yields;
- cannabinoid yield per gram – represents the weighted average cannabinoids expected to be obtained from a dry gram of cannabis, based on historical yields;
- selling price, less costs to sell – based on estimated selling price per gram of dry cannabis based on historical sales and expected sales;
- percentage of costs incurred to date compared to the total costs to be incurred (to estimate the fair value of an in-process plant) – represents estimated costs to bring a gram of cannabis from propagation to harvest; and
- stage of plant growth – represents the weighted average age in of the plant out of the average growing cycle as at period end date.

A 20% increase or decrease in the estimated yield of cannabis per plant would result in an increase or decrease in the fair value of biological assets of $28,591 at 30 June 2019 (30 June 2018 - $8,713). A 20% increase or decrease in the average selling price per gram less cost to sell would result in an increase or decrease in the fair value of the biological assets of $35,189 at 30 June 2019 (30 June 2018 - $17,772).

In both periods, the biological assets were approximately 50% complete as to the next expected harvest date. The average number of days from the point of propagation to harvest is 101 days.

7 Plant and equipment

The Group's plant and equipment comprised of:

	Leasehold improvements	Cultivation & production	Manufacturing equipment	Scientific equipment	Office equipment	Total
Cost						
As at 30 June 2017	44,695	63,912	-	-	17,653	126,260
Additions	123,622	31,011	-	32,280	48,000	234,913
As at 30 June 2018	168,317	94,923	-	32,280	65,653	361,173
Additions	55,536	1,450	300,820	-	16,805	374,611
As at 30 June 2019	223,853	96,373	300,820	32,280	82,458	735,784
Accumulated depreciation						
As at 30 June 2017	(543)	(322)	-	-	(634)	(1,499)
Depreciation	(15,675)	(7,256)	-	(1,474)	(20,684)	(45,089)
As at 30 June 2018	(16,218)	(7,578)	-	(1,474)	(21,318)	(46,588)
Depreciation	(30,491)	(11,886)	-	(2,152)	(35,050)	(79,579)
As at 30 June 2019	(46,709)	(19,464)	-	(3,626)	(56,368)	(126,167)
Carrying value						
30 June 2018	152,099	87,345	-	30,806	44,335	314,585
30 June 2019	177,144	76,909	300,820	28,654	26,090	609,617

8 Intangible assets

The Group's intangible assets comprised of:

	Patents & trademarks	Computer software	Total
Cost			
As at 30 June 2017	21,536	2,837	24,373
Additions	14,036	50,000	64,036
As at 30 June 2018	35,572	52,837	88,409
Additions	87,055	12,200	99,255
As at 30 June 2019	122,627	65,037	187,664
Accumulated amortisation			
As at 30 June 2017	(10,201)	(48)	(10,249)
Amortisation	(924)	(3,611)	(4,535)
As at 30 June 2018	(11,125)	(3,659)	(14,784)
Amortisation	(4,816)	(10,000)	(14,816)
As at 30 June 2019	(15,941)	(13,659)	(29,600)
Carrying value			
30 June 2018	24,447	49,178	73,625
30 June 2019	106,686	51,378	158,064

9 Other financial assets

The movement associated with the Group's other financial assets is as follows:

	30 June 2019	30 June 2018
Opening balance	**1,848,000**	-
Additions	**-**	3,293,385
Disposals	**(1,501,674)**	-
Change in fair value	**(346,326)**	(1,445,385)
Closing balance	**-**	1,848,000

During the year ended 30 June 2018, LGC Capital invested $1,500,000 in cash at an issue price of $0.20 along with other investors. As part of this transaction, an entry premium was paid through the issuance of 5,660,000 shares in LGC Capital valued at $635,435. Later in that year, the Company issued 2,283,495 shares to LGC Capital at a share price of $1.16 in exchange for 5,000,000 shares in LGC Capital valued at $2,657,950. During the current year, all LGC Capital shares were sold for $1,501,674 which resulted in a loss of $1,791,711. These transactions were a method of managing the Group's capital requirements with the net result being the receipt of $1,501,674 in cash for the Company issuing 2,283,495 shares.

10 Accounts payable and accrued liabilities

The Group's accounts payable and accrued liabilities comprised of:

	30 June 2019	30 June 2018
Trade and other payables	**659,461**	160,648
Goods and services tax payable	**52,686**	47,316
Accrued liabilities	**1,014,575**	143,820
	1,726,722	351,784

Trade and other payables are unsecured, non interest bearing and are normally settled within 30 days. Accrued liabilities of $747,392 represent legal fees associated with the aborted Frankfurt Stock Exchange initial public offering. These costs have been written off to the profit or loss and the liabilities will fall due in December 2019. A further $103,790 of accrued liabilities related to potentially cash settled share based payments owed to employees under their contract.

11 Convertible notes

The movement associated with the Group's convertible notes is as follows:

	30 June 2019	30 June 2018
Opening balance	**-**	-
Additions	**1,320,000**	-
Translation reserve	**10,645**	-
Closing balance	**1,330,645**	-

During the year ended 30 June 2019, the Company's subsidiary issued €825,000 worth of convertible notes with a maturity date of 31 March 2021. A coupon rate of 10% per annum is payable commencing 1 October 2019 and there is a mandatory conversion on an initial public offering.

12 Share capital

At 30 June 2019 a total of 69,579,336 ordinary shares had been issued (30 June 2018 - 68,852,666).

Non cash financing activities for the year ended 30 June 2019 included issuing 726,670 ordinary shares (30 June 2018 - 2,385,834) in lieu of cash at a weighted average issue price of $0.13 per share (30 June 2018 - $0.09) and in the prior year exchanging shares in the Company for shares in LGC Capital (refer Note 9).

13 General and administrative

The Group's general and administrative expenses comprised of:

	30 June 2019	30 June 2018
Professional, director and consulting fees	**869,083**	502,850
Share-based payments	**702,743**	601,171
Wages and benefits	**416,404**	178,954
Investor relations and media	**313,865**	173,997
Travel and accommodation	**241,963**	62,376
Depreciation and amortisation	**45,050**	37,665
Other costs	**209,695**	156,268
Aborted transaction costs	**747,392**	-
	3,546,195	1,713,281

14 Share-based payments

Options

The Board of Directors has the discretion to determine to whom options will be granted, the number and exercise price of such options and the terms and time frames in which the options will vest and be exercisable.

	Number of options	Weighted average exercise price
Balance at 30 June 2017	-	-
Granted	14,850,000	0.30
Forfeited	(4,000,000)	0.30
Exercised	-	-
Balance at 30 June 2018	10,850,000	0.30
Granted	-	-
Forfeited	-	-
Exercised	-	-
Balance at 30 June 2019	**10,850,000**	**0.30**

On 19 September 2017, as part of Angus Caithness' employment contract, he was granted 7,500,000 options vesting over 3 years. On becoming a director in February 2018 he voluntarily forfeited 4,000,000 of those options. The remaining options had a total value of $129,535 which is being evenly expensed over the three years. At 30 June 2019 a total of 2,074,429 options had vested and were exercisable (30 June 2018 - 907,763).

At 30 June 2019 a further 2,300,000 options associated with employees and service providers had vested and were exercisable (30 June 2018 –625,000).

All options vest on a time basis unless there is a change of control or an initial public offering in which case there is an accelerated vesting.

The fair values of the options granted during the year were determined on the date of the grant using the Black-Scholes option pricing model with the following assumptions:

	30 June 2019	30 June 2018
Risk free interest rate	**-**	2.37%
Expected life of options (years)	**-**	3.00
Expected annualised volatility	**-**	80%
Expected dividend yield	**-**	0
Weighted average Black Scholes value of each option	**-**	0.05

Volatility was determined by using the historical volatility of the Group. The expected life in years represents the period of time that options granted are expected to be outstanding. The risk- free rate is based on Australian government bonds with a remaining term equal to the expected life of the options.

Performance rights

	Number of shares	**Weighted average share price**
Balance at 30 June 2017	-	-
Granted	6,500,000	0.12
Forfeited	-	-
Exercised	-	-
Balance at 30 June 2018	6,500,000	0.12
Granted	**733,335**	**0.20**
Forfeited	**-**	**-**
Exercised	**-**	**-**
Balance at 30 June 2019	**7,233,335**	**0.13**

On 19 September 2017, as part of Angus Caithness' employment contract, he was granted 6,500,000 performance rights with the following milestones and vesting conditions:

- 3,000,000 performance shares on the first saleable product being produced (achieved)
- 1,000,000 performance shares on the first renewal of the Company's cultivation licence (achieved)
- 1,500,000 performance shares on a change of control or an initial public offering
- 1,000,000 performance shares on achieving a market capitalisation of $100m

Performance rights if achieved also have a time served requirement and vest over the 3 year contract period unless there is a change of control or an initial public offering in which case there is an accelerated vesting. An expense of $188,705 was recognised at 30 June 2019 in relation to these performance shares (30 June 2018 - $130,949).

In the year ended 30 June 2019 employees were issued 733,335 performance rights. These vest between issue date and 1 July 2021 unless there is an initial public offering in which case there is an accelerated vesting. An expense of $83,853 was recognised at 30 June 2019 in relation to these performance shares.

15 Income taxes

As the Group has recorded a net loss for accounting and income tax purposes in both 2019 and 2018, no current income tax expense or deferred tax asset has been recorded in these financial statements.

The reconciliation of income tax obtained by applying statutory rates to the loss before income tax is as follows:

	30 June 2019	30 June 2018
Loss for the year before income taxes	**(5,518,129)**	(3,757,811)
Statutory tax rate	**27.5%**	27.5%
	(1,517,485)	(1,033,398)
Add		
- non-deductible legal fees	**12,859**	14,270
- impairment of financial asset	**95,240**	397,647
Deferred tax asset not recognised	**(1,409,387)**	(621,481)

Total tax losses for which no deferred tax assets has been recognised is $2,084,146. Utilisation of carry forward tax losses is dependent upon the satisfaction of the requirements of the Income Tax Assessment Act 1936 and 1997 within Australia and the relevant loss recoupment provisions in subsidiaries in foreign jurisdictions.

16 Commitments

Operating leases

The Group leases both its production facility and its head office. At 30 June 2019 the Group had $80,000 minimum lease payments under non-cancellable operating leases due within less than one year (30 June 2018 - $19,867 less than one year).

17 Financial instruments

The classification of the Group's financial instruments, as well as their carrying amounts and fair values, are as follows:

	30 June 2019		30 June 2018	
	Fair value	**Carrying value**	Fair value	Carrying value
Financial assets				
*Available for sale**				
Other financial assets	**-**	**-**	1,848,000	1,848,000
Amortised Cost				
Cash and cash equivalents	**510,286**	**510,286**	1,474,010	1,474,010
Accounts receivable	**88,280**	**88,280**	-	-
Refundable deposits	**70,697**	**70,697**	70,697	70,697
Financial liabilities				
Amortised Cost				
Accounts payable and accrued liabilities	**1,726,722**	**1,726,722**	351,784	351,784
Convertible notes	**1,330,645**	**1,330,645**	-	-

* Refer Note 4 with regard to the change in accounting policy affecting other financial assets

The carrying value of the cash and cash equivalents, accounts receivable, refundable deposits, accounts payable and accrued liabilities approximate the fair value because of the short-term nature of these instruments. Given the recent issuance of the convertible notes, their carrying value represents their fair value as the coupon rate approximates the market interest rate.

Financial instruments recorded at fair value at the statement of financial position dates are classified using the fair value hierarchy, which reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 – Valuation based on quoted prices unadjusted in active markets for identical assets or liabilities.
- Level 2 – Valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 – Valuation techniques using inputs for the asset or liability that are not based on observable market data.

There were no financial instruments at fair value at 30 June 2019 and there were no transfers between fair value levels during the year. At 30 June 2018, the only financial instruments at fair value were other assets of $1,848,000 which were measured using quoted share prices and therefore classified as Level 1 within the fair value hierarchy.

The Group is exposed to varying degrees to a variety of financial instrument related risks:

Currency risk

The Company's functional and presentation currency is the Australian dollar and the majority of its assets, liabilities, revenue and expenditures are Australian dollar denominated. The Company's subsidiary has a Euro functional currency and the majority of its assets, liabilities and expenditures are Euro denominated.

Credit risk

Credit risk is the risk of an unexpected loss to the Group if a customer or third-party to a financial instrument fails to meet its contractual obligations. The Group's maximum exposure to credit risk as at 30 June 2019 is the carrying value of its financial assets. The Group's cash and refundable deposits are predominately held in large Australian financial institutions. With regards to receivables, the Group is not exposed to significant credit risk as the Group's sales are both limited in value and there are a limited number of counterparties who are only provided credit in the normal course of business.

Interest rate risk

Interest rate risk is the risk the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Financial assets and liabilities with variable interest rates expose the Group to cash flow interest rate risk. The Group does not hold any financial liabilities with variable interest rates. The Group does maintain bank accounts which earn interest at variable rates, but it does not believe it is currently subject to any significant interest rate risk.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its obligations associated with financial liabilities. As at 30 June 2019, the Group had negative working capital but subsequent to year end issued a convertible note of $9,000,000 which matures 31 July 2020 unless there is an initial public offering before this date. The Group's ability to continue as a going concern is dependent on management's ability to raise required funding through future equity issuances, through short term borrowing or through an initial public offering which would result in the mandatory conversion of the convertible notes into equity. The Group manages its liquidity risk by forecasting cash flows from operations and anticipating any investing and financing activities. Management and the Board of Directors are actively involved in the review, planning and approval of significant expenditures and commitments. All liabilities fall due within 6 months other than the $1,330,645 worth of convertible notes issued during 30 June 2019 which previously fell due on 31 March 2021, but subsequent to year end had their terms updated to reflect the same terms as the newly issued convertible notes.

18 Capital management

The Group's objective when managing its capital is to ensure sufficient equity financing to fund its planned operations in a way that maximises the shareholder return given the assumed risks of its operations. The Group considers shareholders' equity as capital along with the convertible notes given the expectation of them converting into equity. Through the ongoing management of its capital, the Group will modify the structure of its capital based on changing economic conditions. In doing so, the Group may issue new shares. Annual budgeting is the primary tool used to manage the Group's capital. Updates are made as necessary to both capital expenditure and operational budgets in order to adapt to changes in risk factors, proposed expenditure programs and market conditions.

19 Operating segments

The Group's CEO, who is the Group's CODM, manages the business, makes resource allocation decisions and assesses performance based on the operations as a whole and therefore the consolidated financial statements represent the single operating segment.

20 Parent entity

The financial information for the parent entity, Little Green Pharma Limited, has been prepared on the same basis as the consolidated financial statements with the exception of its investment in its subsidiary which has been accounted for at cost.

	30 June 2019	30 June 2018
Total current assets	**1,012,849**	1,714,553
Total non-current assets	**919,490**	2,306,907
Total assets	**1,932,339**	4,021,460
Current Liabilities	**934,861**	382,282
Non current liabilities	**1,202,384**	-
Total liabilities	**2,137,245**	382,282
Share capital	**7,317,514**	7,221,577
Reserves	**895,581**	392,565
Accumulated deficit	**(8,418,001)**	(3,974,964)
Total shareholders' equity and net (liabilities)/assets	**(204,906)**	3,639,178
Net loss and comprehensive loss	**(4,443,037)**	(3,757,808)

21 Related party transactions

The Group recognised the following expenses related to key management personnel:

	Short term	Post employment	Share based payments	Total
As at 30 June 2019				
Directors				
Michael Lynch-Bell	**-**	**-**	**20,000**	**20,000**
Dr Neale Fong	**-**	**-**	**20,000**	**20,000**
Fleta Solomon	**120,000**	**11,400**	**-**	**131,400**
Angus Caithness	**100,000**	**-**	**231,884**	**331,884**
	220,000	**11,400**	**271,884**	**503,284**
As at 30 June 2018				
Directors				
Fleta Solomon	120,000	11,400	-	131,400
Angus Caithness	78,052	-	235,713	313,765
	198,052	11,400	235,713	445,165

During the year ended 30 June 2018, a loan from William Mckay of $56,373 was repaid by the Company. The loan was interest free and at call.

22 Auditors' remuneration

The Group paid Deloitte $52,928 (30 June 2018 - $39,500) in audit fees.

23 Events after the reporting date

Post year end, the Group issued $9,000,000 in convertible notes with half converting at $0.30 and half converting at the higher of a 30% discount to the initial public offering price and $0.30 on an initial public offering. The existing €825,000 convertible note holders were given the opportunity to swap their Little Green Pharma AG convertible notes for ones in Little Green Pharma Ltd on the same terms as the new note holders with all notes being swapped.

The Company moved its registered office and principal place of business on 1 September 2019 to Level 2, 66 Kings Park Road, West Perth by taking out a five year lease. In addition to this lease, the Group updated the lease terms associated with the production facility as well as leasing the block next door to that facility. Both leases are for five years with the ability to extend for a further 15 years.

Operationally, the Group exported Australia’s first products to Germany for testing, and reached the milestone of supplying over 1,000 patients in Australia.

The directors of the Company declare that:

1. the financial statements and notes for the period ended 30 June 2019 are in accordance with the Corporations Act 2001 and:

    a. comply with Australian Accounting Standards, which, as stated in basis of preparation Note 1 to the financial statements, constitutes explicit and unreserved compliance with International Financial Reporting Standards (IFRS); and
    b. give a true and fair view of the financial position and performance of the Group;

2. In the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

____
Fleta Solomon
Managing Director

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Independent Auditor's Report to the Directors of Little Green Pharma Ltd

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Little Green Pharma Ltd (the "Company") and its subsidiaries ("Group") which comprises the consolidated statement of financial position as at 30 June 2019, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended 30 June 2019, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, 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 30 June 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 Opinion

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's 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.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, 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.

Deloitte.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 to the financial report, which indicates that the Group incurred a net loss of $5,518,129 and experienced net cash outflows from operating activities of $3,321,403 for the year ended 30 June 2019. Additionally the Group had negative working capital of $795,801 and a net liability position of $1,288,068 as at 30 June 2019. These conditions, along with the other matters as set forth in Note 1, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. Our opinion is not modified in relation to this matter.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2019, but does not include the financial report and our 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 this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors of the Company 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 control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group 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 Responsibilities 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 when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group's audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Ian Skelton
Partner
Chartered Accountants
Perth, 14 October 2019