

Hemp Foods Australia Pty Ltd

ABN 84 090 668 367

Special Purpose Financial Report

For the financial years ended- 30 June 2017

30 June 2016

30 June 2015

Special Purpose Financial Report
For the years ended
30 June 2017, 30 June 2016 and 30 June 2015

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Directors' report

The directors of Hemp Foods Australia Pty Ltd (the Company) submit herewith this special purpose financial report for the financial years ended 30 June 2017, 30 June 2016 and 30 June 2015 as follows:

Directors

The directors of the Company at any time during or since the end of the financial year are:

Paul Benhaim
Harry Youngman (Appointed on 25 October 2016)
Linda McLeod (Appointed on 2 January 2017)

The above directors have been in the office since 1 July 2015 unless otherwise stated.

Principal activities

The principal activities of the Company is the integrated production, processing and sale of hemp based products, as finished product and in bulk from in Australia and export markets.

During the periods there was no significant change in the nature of those activities other than that referred to in the financial statements and notes thereto.

Review of operations

The loss of the Company after providing for income tax amounted to \$982,163 (FY 2016: profit \$247,447; FY 2015: profit \$380,624).

A review of the operations of the Company during the financial periods and the results of those operations found that during the periods, the Company continued to engage in its principal activity, the results of which are disclosed in the attached financial statements.

Changes in state of affairs

There were no significant changes in the state of affairs of the Company during the financial year.

Environmental regulation

The Company's operations are not regulated by any significant environmental regulations under both Commonwealth and State legislation. The Board believes that the Company has adequate systems in place for the management of its environmental requirements and is not aware of any significant breaches of those environmental requirements as they apply to the Company.

Subsequent events

As at the date of signing this financial report, the shareholders are in the process of negotiating a conditional contract for Elixinol Global Ltd to purchase all issued capital of the Company upon Elixinol Global Ltd successfully completing an initial public offering of its securities and listing on the Australian Stock Exchange.

Additionally, on 20 November 2017 the company resolved to conduct a share split. For each ordinary share held by shareholders an additional 999 shares have been issued, that is a 1000:1 split.

With the exception of the matters noted above, there has not been any matter or circumstance occurring subsequent to the end of the financial period that has significantly affected, or may significantly affect, the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

Directors' report (cont'd)

Future developments

It is not foreseen that the Company will undertake any change in its general direction during the coming financial year. The Company will continue to pursue its trading activities as detailed earlier in the report to produce the most beneficial result for the shareholders.

Dividends

The Company has not declared or distributed any dividend in FY 2017 (FY 2016: Nil, FY 2015: Nil).

Indemnification of officers and auditors

The Company has not, during or since the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the Company or of any related body corporate against a liability incurred as such an officer or auditor.

Proceedings on Behalf of the Company

No legal claims have been brought against the Company or by the Company during the relevant time periods.

Signed in accordance with a resolution of the Board of Directors:

Signed by the Directors



Paul Benhaim
Director
21 November 2017

21 November 2017

The Board of Directors
Hemp Foods Australia Pty Ltd
2/6, Dudgeons Lane,
Bangalow New South Wales - 2479
21 November 2017

Dear Board Members,

Hemp Foods Australia Pty Ltd

I am pleased to provide the following declaration of independence to the directors of Hemp Foods Australia Pty Ltd.

As lead audit partner for the audit of the financial statements of Hemp Foods Australia Pty Ltd for the financial years ended 30 June 2017, 30 June 2016 and 30 June 2015, I declare to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements as set out in the Corporations Act 2001; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

Deloitte Touche Tohmatsu
DELOITTE TOUCHE TOHMATSU



Tara Hill
Partner
Chartered Accountants

Independent Auditor's Report to the Members of Hemp Foods Australia Pty Ltd

Qualified Opinion

We have audited the financial statements, being special purpose financial statements, of Hemp Foods Australia Pty Ltd (the "Entity") which comprises:

- the statement of financial position as at 30 June 2017, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies;
- the statement of financial position as at 30 June 2016, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies; and
- the statement of financial position as at 30 June 2015, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matters described in the Basis for Qualified Opinion paragraph, the accompanying financial statements present fairly, in all material respects, the Entity's financial position as at 30 June 2017, 30 June 2016 and 30 June 2015 and of its financial performance and its cash flows for the periods then ended in accordance with Australian Accounting Standards.

Basis for Qualified Opinion

We were not appointed the auditors of the Entity until after 30 June 2017 and thus did not observe the counting of physical inventories at 30 June 2014, 30 June 2015 or 30 June 2016 and were unable to satisfy ourselves by alternative means concerning the inventory quantities and thus the carrying value of inventory held at 30 June 2014, 30 June 2015 or 30 June 2016. Since the opening and closing inventory enters into the determination of the financial performance and cash flows, we were unable to determine whether adjustments might have been necessary in respect of the cost of sales reported in the statement of profit or loss and other comprehensive income and the net cash flows from operating activities reported in the statement of cash flows for the years ended 30 June 2015, 2016 and 2017.

Additionally, an audit was not able to be conducted for the year ended 30 June 2014. As we were unable to satisfy ourselves by alternative means concerning the opening balances of the Entity at 1 July 2014 and the opening balances enter into the determination of the financial performance and cash flows, we were unable to determine whether adjustments might have been necessary in respect of the financial performance reported in the statement of profit or loss and other comprehensive income and the cash flows reported in the statement of cash flows for the year ended 30 June 2015.

Emphasis of Matter – Basis of Accounting and Restriction on Distribution and Use

We draw attention to Note 2 to the financial statements, which describes the basis of accounting. The financial statements have been prepared to assist the Directors with their reporting requirements. As a result, the financial statements may not be suitable for another purpose. Our opinion is not further modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises the Directors' Report for the years ended 30 June 2017, 30 June 2016 and 30 June 2015, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements 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 statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements 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 Management and the Directors for the Financial Statements

Management of the Entity is responsible for the preparation and fair presentation of the financial statements and has determined that the basis of preparation and accounting policies described in Note 2 to the financial statements are appropriate to meet the requirements of Australian Accounting Standards and Interpretations as issued by the Australian Accounting Standards Board and are appropriate to meet the needs of the Members. Management's responsibility also includes such internal control as Management determine is necessary to enable the preparation and fair presentation of the financial statements that is free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the ability of the Entity 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 Entity or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are 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 these financial statements.

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 statements, 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 Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- 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 Entity'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 statements 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 Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with Management and 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



Tara Hill
Partner
Chartered Accountants
Sydney, 21 November 2017

Directors' declaration

As detailed in Note 3 to the financial statements, the company is not a reporting entity because in the opinion of the directors there are unlikely to exist users of the financial statements who are unable to command the preparation of reports tailored so as to satisfy specifically all of their information needs. Accordingly, these special purpose financial statements have been prepared to satisfy the directors' reporting requirements.

The directors declare that:

- (a) 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; and
- (b) in the directors' opinion, the attached financial statements and notes thereto are in compliance with accounting standards and giving a true and fair view of the financial position and performance of the company.

Signed in accordance with a resolution of the directors.

On behalf of the Directors



Director Paul Benhaim

Sydney, 21 November 2017

Statement of Profit or Loss and Other Comprehensive Income

For the years ended 30 June 2017, 30 June 2016 and 30 June 2015

	Notes	30 June 2017 \$	30 June 2016 \$	30 June 2015 \$
Revenue	5	2,941,221	2,505,696	2,748,516
Cost of sales		(1,971,795)	(1,404,637)	(1,678,574)
Gross Profit		969,426	1,101,059	1,069,942
Other Income		218,402	665,504	495,160
 Sales and marketing expenses		(363,162)	(204,997)	(141,470)
Consulting, legal and accounting expense		(301,931)	(236,244)	(126,436)
Administrative expense		(333,515)	(272,608)	(204,980)
Depreciation	6(a)	(161,863)	(100,456)	(58,717)
Employee benefit expense	6(b)	(574,597)	(450,074)	(554,805)
Research and development expense		(206,669)	(239,564)	(194,209)
Finance costs	6(c)	(12,759)	(17,106)	(5,614)
Other expenses		(218,059)	(10,860)	(32,654)
Share of (loss)/profit of associates accounted for using equity method	16(b)	(17,731)	12,523	3,108
(Loss)/Profit before income tax	6	(1,002,458)	247,177	249,325
Income tax benefit	7	20,295	270	131,299
(Loss)/Profit for the year		(982,163)	247,447	380,624
 Other comprehensive income		-	-	-
Total comprehensive income for the year		(982,163)	247,447	380,624

The accompanying notes form part of this financial report.

Statement of financial position
As at 30 June 2017, 30 June 2016 and 30 June 2015

	Notes	30 June 2017 \$	30 June 2016 \$	30 June 2015 \$
Current assets				
Cash and cash equivalents	16(a)	511,599	299,375	218,488
Trade and other receivables	8	415,574	490,207	319,071
Inventories	9	1,405,506	411,108	305,966
Other assets		130,805	214,963	52,223
Current tax receivable		-	82,362	45,873
Total current assets		2,463,484	1,498,015	941,621
Non-current assets				
Property, plant and equipment	10	885,739	622,543	271,006
Intangible assets – trade marks		16,142	14,413	10,645
Investments in associates	11	24,904	48,036	35,513
Deferred tax assets	7	51,550	9,182	93,386
Total non-current assets		978,335	694,174	410,550
Total assets		3,441,819	2,192,189	1,352,171
Current liabilities				
Trade and other payables	12	468,765	559,188	406,251
Borrowings	13	298,852	324,253	1,430
Current tax liability		160,953	-	-
Provision	14	53,095	43,639	33,316
Total current liabilities		981,665	927,080	440,997
Non-current liabilities				
Provision	14	90,000	40,000	-
Borrowings	13	9,609	66,508	20
Total non-current liabilities		99,609	106,508	20
Total liabilities		1,081,274	1,033,588	441,017
Net assets		2,360,545	1,158,601	911,154
Equity				
Issued capital	15	2,184,207	100	100
Accumulated profit		176,338	1,158,501	911,054
Total Equity		2,360,545	1,158,601	911,154

The accompanying notes form part of this financial report.

Statement of Changes in Equity

For the years ended 30 June 2017, 30 June 2016 and 30 June 2015

	Note	Issued capital \$	Accumulated profit/(loss) \$	Total \$
<u>2015</u>				
Balance at 1 July 2014		100	530,430	530,530
Profit for the year		-	380,624	380,624
Other comprehensive income for the year		-	-	-
Total comprehensive income for the year		-	380,624	380,624
Balance at 30 June 2015		100	911,054	911,154
<u>2016</u>				
Balance at 1 July 2015		100	911,054	911,154
Profit for the year		-	247,447	247,447
Other comprehensive income for the year		-	-	-
Total comprehensive income for the year		-	247,447	247,447
Balance at 30 June 2016		100	1,158,501	1,158,601
<u>2017</u>				
Balance at 1 July 2016		100	1,158,501	1,158,601
Loss for the year		-	(982,163)	(982,163)
Other comprehensive income for the year		-	-	-
Total comprehensive income for the year		-	(982,163)	(982,163)
Transaction with owners of the company				
Issue of share capital	15	2,184,107	-	2,184,107
Balance at 30 June 2017		2,184,207	176,338	2,360,545

The accompanying notes form part of this financial report.

Statement of cash flows
For the years ended 30 June 2017, 30 June 2016 and 30 June 2015

	Notes	30 June 2017 \$	30 June 2016 \$	30 June 2015 \$
Cash flows from operating activities				
Receipts from customers		3,070,116	2,840,724	3,468,488
Government grant received		152,600	473,274	-
Income tax refund/(paid)		221,242	47,985	(41,684)
Interest received		10,105	2,253	8,119
Interest paid		(12,759)	(17,106)	(5,614)
Payments to suppliers and employees		(4,904,099)	(3,199,793)	(3,259,792)
Net cash (used in)/ generated by operating activities	16(b)	(1,462,795)	147,337	169,517
Cash flows from investing activities				
Purchase of property, plant and equipment	10	(425,059)	(314,491)	(96,884)
Payment for intangible assets		(1,729)	(3,768)	(5,125)
Net cash used in investing activities		(426,788)	(318,259)	(102,009)
Cash flows from financing activities				
Proceeds from borrowings from Director	20	-	251,809	-
Repayment of borrowings		(82,300)	-	(365,407)
Issued capital (net of issue costs)	15	2,184,107	-	-
Net cash (used in)/ generated financing activities		2,101,807	251,809	(365,407)
Net increase/ (decrease) in cash held		212,224	80,887	(297,899)
Cash at beginning of financial year		299,375	218,488	516,387
Cash at end of financial year	16(a)	511,599	299,375	218,488

The accompanying notes form part of this financial report.

Notes to the financial report

1. General information

Hemp Foods Australia Pty Ltd is proprietary company, limited by shares, incorporated and operating in Australia. Hemp Foods Australia Pty Ltd's registered office and its principal place of business are as follows:

Registered office

315 Tweed Valley Way
Murwillumbah NSW 2484

Principal place of business

2/6 Dudgeons Lane,
Bangalow NSW 2479

The company's principal activity in the course of the financial year was the integrated production, processing and sale of hemp based products, as finished product and in bulk from in Australia and export markets.

2. Significant accounting policies

Statement of compliance

This financial report is a special purpose financial report prepared in accordance with Australian Accounting Standards (AAS) and Interpretations as issued by the Australian Accounting Standards Board (AASB). Hemp Foods Australia Pty Ltd is a for-profit entity for the purposes of preparing this financial report.

The financial report complies with all recognition and measurement requirements aspects of International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The financial report was authorised for issue by the directors on 21 November 2017.

Basis of preparation

The financial report has been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

Significant accounting policies

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

(a) Foreign currency

The financial statements of the company are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the financial statements, the results and financial position of the entity are expressed in Australian dollars, which is the functional currency of the Company, and the presentation currency for the financial statements.

In preparing the financial statements of the company, transactions in currencies other than the company's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise.

(b) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

(c) Employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

Liabilities recognised in respect of employee benefits expected to be settled within 12 months are measured at their nominal values using the remuneration rate expected to apply at the time of settlement

Liabilities recognised in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the company in respect of services provided by employees up to reporting date.

(d) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- i. where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- ii. for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the Statement of cash flows on a gross basis. 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.

2. Significant accounting policies (contd.)

(e) Impairment of assets

At each reporting date the company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Recoverable amount is higher of fair value less costs to sell and value in use. 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 for which estimates of future cash flows have not been adjusted.

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.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

(f) Income tax

Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

(f) Income tax (contd.)

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences.

Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the company intends to settle its current tax assets and liabilities on a net basis.

2. Significant accounting policies (contd.)

(f) Income tax (contd.)

Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in the income statement except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity.

(g) Leased assets

Leased assets are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards incidental to ownership to the lessee. All other leases are classified as operating leases.

Finance leased assets are amortised on a straight-line basis over the estimated useful life of the asset.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Lease incentives

In the event that lease incentives are received to enter into operating leases such incentives are recognised as a liability. The aggregate benefits of incentives are recognised as a reduction of rental expense on a straight-line basis except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(h) Property, Plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Depreciation is provided on property, plant and equipment. Depreciation is calculated using a combination of straight line and diminishing value bases, so as to write off the net cost over its expected useful life. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight line method. The estimated useful lives, residual values and depreciation method is reviewed at the end of each annual reporting period. The following basis are used in the calculation of depreciation for the current and comparative year:

- | | |
|-------------------------------------|--------------------------|
| • Computer equipment | diminishing at 30% - 50% |
| • Furniture, fittings and equipment | diminishing at 12% - 30% |
| • Machinery | diminishing at 20% |
| • Motor vehicle | diminishing at 20% |

2. Significant accounting policies (contd.)

(i) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for customer returns and other similar allowances.

Sale of goods

Revenue from the sale of goods is recognised when the company has transferred to the buyer the significant risks and rewards of ownership of the goods.

Interest revenue

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Government grant

Grants that compensate the Company for expenses incurred are recognised in profit or loss on a systematic basis in the in period which the expenses are recognised.

(j) Share based payments

For cash-settled share-based payments, a liability is recognised for the goods or services acquired, measured initially at the fair value of the liability. At the end of each reporting period until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognised in profit or loss for the year.

(k) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(l) Inventories

Inventories are valued at the lower of cost and net realisable value. Costs are assigned to inventory on hand on an average cost basis. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

(m) Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

2. Significant accounting policies (contd.)

(n) Financial instruments

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Determination of fair value

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices
- the fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions
- the fair value of derivative instruments, is calculated using quoted prices. Where such prices are not available use is made of discounted cash flow analysis using the applicable yield curve
- for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives
- the fair value of financial guarantee contracts is determined using option pricing models where the main assumptions are the probability of default by the specified counterparty extrapolated from market-based credit information and the amount of loss, given the default.

(p) Financial assets

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Parent loans repayable on demand are held in current liabilities at their nominal value.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

2. Significant accounting policies (contd.)

(p) Financial assets (cont'd)

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment

For certain categories of financial assets, such as trade receivables, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. For financial assets that are carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period. For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of AFS debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

3. Adoption of new and revised Accounting Standards

3.1 New and revised AASBs affecting amounts reported and/or disclosures in the financial statements

For the years included in this financial report, the Company has applied a number of amendments to AASBs and a new Interpretation issued by the Australian Accounting Standards Board (AASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2014, 2015 and 2016, and therefore relevant for each year reported.

The application of these amendments does not have any material impact on the disclosures or the amounts recognised in the financial statements.

3.2 Standards and Interpretations in issue not yet adopted

At the date of authorisation of the financial statements, the Standards and Interpretations listed below were in issue but not yet effective.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 9 'Financial Instruments', and the relevant amending standards	1 January 2018	30 June 2019
AASB 15 'Revenue'	1 January 2018	30 June 2019
AASB 16 'Leases'	1 January 2019	30 June 2020
AASB 2016-2 'Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107'	1 January 2017	30 June 2018

The potential effect of the revised Standards/Interpretations on the company's financial statements has not yet been quantified. However, management expect that the value of lease assets and lease liabilities will increase as a consequence of taking premises leases to the balance sheet on first time application of AASB 16.

4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the company's accounting policies, which are described in note 3, the directors are required to make judgements, estimates and assumptions about carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical accounting estimates and judgements

The directors evaluate estimates and judgments incorporated into the financial report based upon historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within.

Key estimates include:

Inventory provision

The Company reviews the ageing analysis of inventories at each reporting date, and makes provision for obsolete and slow-moving inventory items identified that are no longer suitable for sale. The net realisable value for such inventories are estimated based primarily on the latest invoice prices and current market conditions. Possible changes in these estimates could result in revisions to the valuation of inventories. The carrying amount of the inventory is disclosed in Note 19 to the financial statements.

Doubtful debts provision

The doubtful debts provision is determined after analysis of the profile of the debtor file. Each debtor account is analysed and historical trends and information used to determine the likelihood of the settlement of the debt. The provision is reviewed on an annual basis.

	30 June 2017 \$	30 June 2016 \$	30 June 2015 \$
5. Revenue			
Operating activities			
(a) Sales Revenue			
Sale of goods	2,941,221	2,505,696	2,748,516
	<u>2,941,221</u>	<u>2,505,696</u>	<u>2,748,516</u>
(b) Other Income			
Interest income	10,105	2,253	8,119
Government grant (mainly Accelerating Commercialisation Grant)	6,430	591,337	12,000
Sale of Elixinol product	-	1,743	344,120
Sale of inventory at cost to related party	201,867	-	-
Miscellaneous income	-	70,171	130,921
	<u>218,402</u>	<u>665,504</u>	<u>495,160</u>
	<u>3,159,623</u>	<u>3,171,200</u>	<u>3,243,676</u>
6. Profit before income tax			
Profit for the year has been arrived at after crediting/(charging) the following items of income and expense:			
(a) Depreciation			
Depreciation	<u>161,863</u>	<u>100,456</u>	<u>58,717</u>
(b) Employee expenses			
Salaries and wages	449,933	386,787	458,041
Other employee benefits	26,993	16,911	46,158
SGC Superannuation	56,133	46,376	50,606
Shared based payment – cash settled (Note 19 (a))	41,538	-	-
	<u>574,597</u>	<u>450,074</u>	<u>554,805</u>
(c) Finance cost			
Interest paid to third parties – finance lease	<u>12,759</u>	<u>17,106</u>	<u>5,614</u>
(d) Lease payments			
Rent	<u>156,217</u>	<u>130,301</u>	<u>66,169</u>
(e) Bad debts			
Bad debts expenses	<u>1,435</u>	<u>1,314</u>	<u>40,711</u>

6. Profit before income tax (contd.)**(f) Foreign exchange loss/(gain)**

Foreign exchange loss/(gain)

	30 June 2017	30 June 2016	30 June 2015
	\$	\$	\$
	-	66	(3,949)

7. Income tax expense and deferred tax assets**(a) Components of Tax Expense**

Current tax expense

- current year movements

(247,125) 284,270 599,337

- over/under provision

- - (37,571)

Deferred tax expense from temporary differences

- current year movements

(35,600) 84,204 (93,386)

Tax losses not recognised

262,430 - -

R & D tax offset

- (368,744) (599,679)

Tax expense benefit

(20,295) (270) (131,299)

(b) Explanation of the relationship between tax expense and accounting profit

Pre-tax accounting (loss)/ profit

(1,002,458) 247,177 249,325

Tax at the applicable rate of 30%

(300,737) 74,153 74,798

Permanent tax differences per tax calculation

- 301,792 399,786

R & D tax offset

- (368,744) (599,679)

Legal costs

2,707 - -

Tax losses not recognised

262,430 - -

DTL not recognised in prior years

- - 1,620

Under/over prior years

- - (37,571)

Others

15,305 (7,471) 29,747

Tax expense

(20,295) (270) (131,299)

7. Income tax expense (contd.)**(c) Unrecognised deferred tax assets**

As at 30 June 2017, the Company has accumulated carried forward unrecognised tax losses of \$874,768 (2016: nil, 2015: nil).

The unrecognised tax effected deferred tax asset of approximately \$262,430 (2016: nil, 2015: nil) will be available to be applied against future taxable profits. Given the loss making history of the Company, recoverability is not considered probable.

(d) Deferred tax balances

The following is the analysis of deferred tax assets/(liabilities) presented in the statement of financial position:

	30 June 2017 \$	30 June 2016 \$	30 June 2015 \$
Deferred tax assets	71,741	25,092	95,939
Deferred tax liabilities	(20,191)	(15,910)	(2,553)
	<u>51,550</u>	<u>9,182</u>	<u>93,386</u>

Deferred tax assets/(liabilities) in relation to:

Provisions	66,326	25,092	95,939
Property, plant and equipment	(19,200)	(9,600)	-
Others	4,424	(6,310)	(2,553)
	<u>51,550</u>	<u>9,182</u>	<u>93,386</u>

8. Trade and other receivables

Trade receivables amounts due from:-

- third parties	253,506	223,093	179,778
- associate	124,224	89,917	122,852
- related corporations (20)	6,817	-	4,915
	<u>384,547</u>	<u>313,010</u>	<u>307,545</u>

Amount due from shareholders (non-trade) - - 11,526

Accelerating Commercialisation Grant receivables	31,027	177,197	-
Total	<u>415,574</u>	<u>490,207</u>	<u>319,071</u>

Non-trade amount due from shareholders are unsecured, interest-free, and repayable on demand.

8. Trade and other receivables (contd.)

	30 June 2017	30 June 2016	30 June 2015
<u>The ageing of trade receivables</u>	\$	\$	\$
Not past due	260,800	191,992	209,989
Past due 0-30 days	33,103	98,161	90,597
Past due 31 days plus	90,644	22,857	6,959
Total	<u>384,547</u>	<u>313,010</u>	<u>307,545</u>

The maximum credit period on trade sales is 30 days. No interest is charged on the trade receivables from the date of invoice or when past due. Based on historical default rates, the Company believes that no impairment allowance is necessary in respect of loans and receivables not past due or past due but not impaired. These receivables are mainly arising from customers that have a good credit record with the Company.

As at the reporting date, the maximum exposure to credit risk for trade receivables by type of counterparty was as follows:

Distributors	253,506	223,093	179,778
Related parties	131,041	89,917	127,767
	<u>384,547</u>	<u>313,010</u>	<u>307,545</u>

9. Inventories

Finished goods at net realisable value	372,168	90,352	-
Raw material at net realisable value	959,000	183,384	241,507
Goods-in-transit at cost	74,338	137,372	64,459
	<u>1,405,506</u>	<u>411,108</u>	<u>305,966</u>

Provision for stock obsolescence

At beginning of the year	-	286,480	-
Provision made	77,991	-	286,480
Utilised	-	(286,480)	-
At end of the year	<u>77,991</u>	<u>-</u>	<u>286,480</u>

In 2015, due to outbreak of salmonella, the Company fully provided all finished goods and raw material affected amounting to \$286,480.

In 2017, the Company purchased packaging material of \$77,991 to prepare to enter into skin care product range. However, due to change in regulation, the Company is not able to utilise the product. The full amount have been provided at balance date.

	30 June 2017 \$	30 June 2016 \$	30 June 2015 \$
10. Property, plant and equipment			
Plant and machinery at cost	989,527	663,063	271,343
Less: accumulated depreciation	(266,127)	(143,095)	(64,891)
	<u>723,400</u>	<u>519,968</u>	<u>206,452</u>
Motor vehicle at cost	42,072	42,072	42,072
Less: accumulated depreciation	(22,981)	(19,162)	(14,579)
	<u>19,091</u>	<u>22,910</u>	<u>27,493</u>
Office furniture and equipment at cost	8,921	5,696	4,424
Less: accumulated depreciation	(6,347)	(4,227)	(2,328)
	<u>2,574</u>	<u>1,469</u>	<u>2,096</u>
Leasehold Improvements at cost	193,221	97,851	38,850
Less: accumulated depreciation	(52,547)	(19,655)	(3,885)
	<u>140,674</u>	<u>78,196</u>	<u>34,965</u>
Total property, plant and equipment	<u>885,739</u>	<u>622,543</u>	<u>271,006</u>

Movement in carrying amounts

Movements in carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year:

	Machinery and equipment \$	Motor vehicle \$	Office furniture and equipment \$	Leasehold improvements \$	Total \$
Balance at 1 July 2015	198,138	32,993	1,708	-	232,839
Additions	56,171	-	1,863	38,850	96,884
Depreciation expense	(47,857)	(5,500)	(1,475)	(3,885)	(58,717)
Balance at 30 June 2015	206,452	27,493	2,096	34,965	271,006
Additions (a)	391,720	-	1,272	59,001	451,993
Depreciation expense	(78,204)	(4,583)	(1,899)	(15,770)	(100,456)
Balance at 30 June 2016	519,968	22,910	1,469	78,196	622,543
Additions	326,464	-	3,225	95,370	425,059
Depreciation expense	(123,032)	(3,819)	(2,120)	(32,892)	(161,863)
Balance at 30 June 2017	<u>723,400</u>	<u>19,091</u>	<u>2,574</u>	<u>140,674</u>	<u>885,739</u>

- (a) During the financial year ended 30 June 2016, the Company acquired property, plant and equipment with an aggregate cost of \$451,993, of which \$137,502 was acquired by means of finance leases. Cash payments of \$328,609 were made to purchase property, plant and equipment.

Assets pledged as security

As at report date, property plant and equipment of the company with a carrying amount of \$88,409 (2016: \$110,511, 2015: \$1,620) are pledged as security to finance leases.

11. Investment in associate

<u>Name of the associate</u>	<u>Country of incorporation /operation</u>	<u>Principle activities</u>	<u>Proportion of ownership</u>		
			%	%	%
Hemp Foods Japan	Japan	Distribution Hemp Foods products	25	31.25	31.25

Summarised financial information in respect of the associate is set out below. The summarised financial information below represents amounts shown in the associate's financial statements

	30 June 2017 \$	30 June 2016 \$	30 June 2015 \$
Current assets	226,213	265,584	254,638
Non-current assets	25,521	27,564	26,427
Current liabilities	63,830	79,817	76,527
Non-current liabilities	72,704	69,764	66,888
	<u>115,200</u>	<u>143,567</u>	<u>137,650</u>
Revenue	556,767	749,624	694,761
Loss/ (Profit) for the year	<u>(58,158)</u>	<u>41,075</u>	<u>38,086</u>

Reconciliation of the above summarised financial information to the carrying amount of the interest in Hemp Foods Japan recognised in the financial statements

Net assets of the associate	115,200	143,567	137,650
Proportion of the Company's ownership interest in Hemp Foods Japan	28,800	44,865	43,016
Other adjustments	<u>(3,896)</u>	<u>3,171</u>	<u>(7,503)</u>
Carrying amount of the Company's interest in Hemp Foods Japan	<u>24,904</u>	<u>48,036</u>	<u>35,513</u>

12. Trade and other payables

	30 June 2017	30 June 2016	30 June 2015
	\$	\$	\$
<u>Current</u>			
<i>Unsecured liabilities</i>			
Trade payables	410,717	542,678	379,947
Other payables	16,510	16,510	26,304
Share based payment accrual (b)	41,538	-	-
	468,765	559,188	406,251

- (b) Share based payments accrual is related to a share based payment to an employee amounting. The employee is entitled to a bonus which will be settled in cash upon, subject to the certain liquidity events of the Company.

	30 June 2017	30 June 2016	30 June 2015
	\$	\$	\$
13. Borrowings			
<u>Current</u>			
Finance lease liabilities (b)	56,897	58,327	1,430
Borrowings from Directors (a)	241,955	265,926	-
	298,852	324,253	1,430
<u>Non-current</u>			
Finance lease liabilities (b)	9,609	66,508	20
	9,609	66,508	20
Total borrowings	328,461	390,761	1,450

- (a) The borrowings from a director, Paul Benhaim are non-trade in nature, non-interest bearing and repayable on demand.

- (b) Finance lease liabilities are secured over the property, plant and equipment with carrying value of \$88,409 (2016: \$110,511, 2015: \$1,620).

The average effective interest rate on the Company's borrowings is 3.65% (2016: 4.36%, 2015: 3.05%)

14. Provision**Current**

	30 June 2017 \$	30 June 2016 \$	30 June 2015 \$
Provision for employee entitlements	53,095	43,639	33,316

Non-current

Provision for makegood	90,000	40,000	-
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Total provision

	143,095	83,639	33,316
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Movement for provision for restoration cost:

Opening balance	40,000	-	-
Additions	50,000	40,000	-
Closing balance	90,000	40,000	-

15. Issued capital

	30 June 2017	30 June 2016	30 June 2015
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No of shares

Ordinary shares at beginning of the year	100	100	100
Issuance of shares during the year	2,220,000	-	-
Ordinary shares at end of the year	2,200,100	100	100

	30 June 2017	30 June 2016	30 June 2015
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	\$	\$	\$
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Issued capital at beginning of the year	100	100	100
Issue of 2,200,000 ordinary shares on 24 October 2016 for \$1 per share	2,200,000	-	-
Transaction costs (net of tax)	(15,893)	-	-
Issued capital at end of the year	2,184,207	100	100

All issued ordinary shares are fully paid. There is no par value for these ordinary shares. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

16. Cash and cash equivalents**(a) Reconciliation of cash and cash equivalents**

For the purposes of the statement of cash flows, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the financial year as shown in the statement of cash flows can be reconciled to the related items in the statement of financial position as follows:

	30 June 2017 \$	30 June 2016 \$	30 June 2015 \$
Cash on hand	929	-	-
Cash at bank	510,670	299,375	218,488
	<u>511,599</u>	<u>299,375</u>	<u>218,488</u>

(b) Reconciliation of deficit for the year to net cash flows from operating activities

(Loss)/Profit for the year	(982,163)	247,447	380,624
Depreciation	161,863	100,456	58,717
Share of loss/ (profit) of associate accounted for using equity method	17,731	(12,523)	(3,108)

Changes in net assets and liabilities:

(Increase)/decrease in assets (BI):

Trade and other receivables	74,633	(171,136)	(45,398)
Inventories	(994,398)	(105,142)	(158,521)
Deferred tax assets	(42,368)	84,204	(93,386)
Other assets	84,158	(162,740)	(51,920)

Increase/(decrease) in liabilities (BI):

Trade and other payables	(85,022)	119,621	162,106
Provisions	59,456	83,639	-
Current tax liability	243,315	(36,489)	(79,597)
Net cash generated by operating activities	<u>(1,462,795)</u>	<u>147,337</u>	<u>169,517</u>

	30 June 2017 \$	30 June 2016 \$	30 June 2015 \$
17. Commitments for expenditure			
<u>Operating lease commitments</u>			
Non-cancellable operating leases contracted for but not capitalised in the financial statements.			
Not longer than 1 year	145,322	143,627	121,824
Longer than 1 year but not longer than 5 years	44,974	190,295	333,922
	<u>190,296</u>	<u>333,922</u>	<u>455,746</u>

18. Financial instruments**(a) Financial risk management**

The Company's activities expose it to a variety of financial risks; market risks (including foreign exchange risk), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the company. The company uses different methods to measure different types of risk to which it is exposed.

The board has overall responsibility for the establishment and oversight of the risk management framework. Risk management policies are established to identify the risks faced by the Company, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company does not enter into or trade in derivative financial instruments.

(b) Credit risk

Credit risk arises from the financial assets of the company, which comprise of cash and cash equivalents, trade and other receivables. Credit risk refers to the risks that a counterparty will default on its contractual obligations resulting in financial loss to the company.

To minimise credit risk, the company trades with recognised, creditworthy third parties. Receivables balances are monitored on an ongoing basis with the result being that the company's exposure to bad debts is not significant.

Exposure to credit risk

At the reporting date, the Company's maximum exposure to credit risk is represented by the carrying amount of each class of financial assets recognised in the statement of financial position.

The Company's major classes of financial assets are trade and other receivables, bank deposits. Bank deposits are held with reputable financial institutions.

Further details of credit risks on trade and other receivables are disclosed in Note 8.

18. Financial instruments (contd.)**(c) Liquidity risk**

Liquidity risk is the risk that the company will not be able to meet its financial obligations as they fall due. The company manages liquidity risk through regularly monitoring the budget, forecasts and monthly financial statements to ensure adequate funds are maintained. Emphasis is placed on ensuring there is sufficient funding in place to meet the ongoing requirements of the company's growth and expansion activities.

As outlined in Note 2, the financial report has been prepared on the going concern basis which contemplates the continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business and assumes the company will have sufficient cash resources to pay its debts as and when they become due and payable for at least 12 months from the date of signing the financial report.

The table below summarises the maturity profile of the Company's financial liabilities at the reporting date based on contractual undiscounted repayment obligations:

	One year or less	One to five years	Over five years	Total
	\$	\$	\$	\$
2017				
Trade and other payables	468,765	-	-	468,765
Borrowings	241,955	9,609	-	251,564
	<u>710,720</u>	<u>9,609</u>	<u>-</u>	<u>720,329</u>
2016				
Trade and other payables	559,188	-	-	559,188
Borrowings	324,253	66,508	-	390,761
	<u>883,441</u>	<u>66,508</u>	<u>-</u>	<u>949,949</u>
2015				
Trade and other payables	406,251	-	-	406,251
Borrowings	1,430	20	-	1,450
	<u>407,681</u>	<u>20</u>	<u>-</u>	<u>407,701</u>

(d) Market riskInterest rate risk

The company has no borrowings at floating rate and has limited exposure to interest rate risk by cash balance.

Foreign exchange risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Currency risk arises when transactions are denominated in foreign currencies.

The Company has transactional currency exposures mainly arising from borrowings that are denominated in a currency other than the functional currency of Australia dollar (AUD). The foreign currencies in which these transactions are denominated are mainly US dollar (USD).

18. Financial instruments (contd.)

The Company's exposures to foreign currency is disclosed below:

	30 June 2017	30 June 2016	30 June 2015
	\$	\$	\$
USD			
Trade and other receivables	128,746	88,651	-
Cash and cash equivalents	-	8,595	-
Trade and other payables	(10,602)	(78,908)	(33,316)
	<u>118,144</u>	<u>18,338</u>	<u>(33,316)</u>

The following table demonstrates the sensitivity of the Company's foreign currency balances denominated in USD held by the Company whose functional currency is AUD, to a reasonably possible change in the USD exchange rates against the AUD, with all other variables held constant.

	Profit net of tax		
	Increase/(Decrease)		
	30 June 2017	30 June 2016	30 June 2015
	\$	\$	\$
USD/AUD - strengthened 5%	4,135	642	(1,166)
- weakened 5%	<u>(4,135)</u>	<u>(642)</u>	<u>1,166</u>

19. Key management personnel compensation

The aggregate compensation made to directors and other members of key management personnel of the company is set out below:

	30 June 2017	30 June 2016	30 June 2015
	\$	\$	\$
Short-term employee benefits	267,121	187,761	176,461
Post-employment benefits – Superannuation	20,623	15,424	15,296
Share based payment (a)	41,538	-	-
	<u>329,282</u>	<u>203,185</u>	<u>191,757</u>

(a) Share based payments

Felipe Favaro is the sole participant in a Shadow Equity Bonus Scheme (the Scheme). The Scheme does not entitle Mr Favaro to equity in HFA. However, should Mr Favaro remain employed by the company upon the occurrence of certain liquidity events, he becomes entitled to a cash sum equivalent to 2.5% of the fair value of the issued capital at that time payable within 3 months of the transaction date.

20. Related party transactions

The immediate parent and ultimate controlling party respectively of the company are Raw with Life Pty Ltd as trustee for Benhaim Trading Trust (incorporated in Australia). Paul Benhaim is the sole director of Raw with Life Pty Limited and a beneficiary of the Benhaim Trading Trust.

During the year, the company entered into the following transactions with related parties:

	30 June 2017	30 June 2016	30 June 2015
	\$	\$	\$
Employee benefits expense paid to J. Benhaim (a)	6,727	6,255	5,799
Operating expenses paid to D. Benhaim (a)	49,765	-	-
Book publishing fees paid by Hemp Foods Japan *	10,018	-	-
Sale of products to Hemp Foods Japan *	35,782	380,445	327,671
Sale of products to Elixinol LLC *	6,475	6,853	5,513
Goods and services provided to Tiverton **	72,783	137,939	-
Purchase of machinery from Raw With Life	67,000	-	-

* Director related entity

** Shareholder related entity

(a) J Benhaim and D Benhaim are immediate family members of Paul Benhaim

The following balances were outstanding at the end of the reporting periods:

	30 June 2017	30 June 2016	30 June 2015
	\$	\$	\$
Amounts receivable from Hemp Foods Japan	124,224	89,917	122,852
Amounts receivable from director related entities	6,817	-	4,915
Amounts payable to Paul Benhaim	298,852	265,926	-

All amounts payable and receivable are at call and non-interest bearing.

21 Fair value measurement

AASB 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability which market participants would take into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for leasing transactions that are within the scope of AASB 117 Leases, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in AASB 102 Inventories or value-in-use in AASB 136 Impairment of Assets. The carrying amount of financial assets and financial liabilities with a maturity of less than one year is assumed to approximate their fair values

22. Subsequent events

As at the date of signing this financial report, the shareholders are in the process of negotiating a conditional contract for Elixinol Global Ltd to purchase all issued capital of the Company upon Elixinol Global Ltd successfully completing an initial public offering of its securities and listing on the Australian Stock Exchange.

Additionally, on 20 November 2017 the company resolved to conduct a share split. For each ordinary share held by shareholders an additional 999 shares have been issued, that is a 1000:1 split.

With the exception of the matter noted above, there has not been any matter or circumstance occurring subsequent to the end of the financial period that has significantly affected, or may significantly affect, the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

23. Segment information

The company operates in a single segment being the sale of hemp based nutraceutical products in Australia. The results of which are disclosed in this financial report