Elixinol Pty Ltd.

ABN 38 602 495 394

General purpose financial report
for the financial year ended 31 December 2016

General purpose financial report
For the year ended 31 December 2016

Directors' report

The directors of Elixinol Pty Limited (the Company) submit herewith the annual financial report for the financial year ended 31 December 2016.

Elixinol Pty Limited was incorporated on 23 October 2014 however, did not commence any operations until October 2016. Consequently no trading occurred in the comparative year.

Directors

The directors of the Company at any time during or since incorporation are:

Paul Benhaim (appointed 23 October 2014)
Gabriel Davis Ettenson (appointed 24 October 2016)
Darren Lee Bray (appointed 24 October 2016)
Brendan Lee Collins (appointed 24 October 2016)
Stratos Karousos (appointed 26 June 2017)

The above directors held office since incorporation to the date of this financial report unless otherwise indicated.

During or since the end of the financial year no options were granted or on issue to directors.

Principal activities

The principal activity of the Company is to become the leading participant in the emerging Australian medical cannabis market.

Since incorporation there have been no significant changes in the nature of these activities other than that referred to in the financial statements and notes thereto.

Review of operations

The profit of the Company for the year ended 31 December 2016 is $Nil (2015: Nil).

A review of the operations of the Company during the financial year and the results of those operations found that during the year, 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.

Directors' report (cont'd)

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.

On 23 August 2017, the company issues $2m in Convertible Notes. Each Convertible Note is a direct, unsubordinated, unconditional and unsecured obligation of the Company in certificated form, and will at all times rank ahead of Shares, pari passu in right of payment with all other existing and future unsecured and unsubordinated obligations of the Company (other than unsecured obligations preferred by mandatory provision of law), and senior in right of payment to all existing and future subordinated obligations of the Company.

The notes are interest bearing at 10% per annum and prior to conversion confers rights on the Noteholder as an unsecured creditor of the Company; confers rights on the Noteholder to attend general meetings of the Company; and does not confer on the Noteholder rights to vote at general meetings of the Company (other than by reason of pre-existing rights to do so).

A Noteholder must not assign, transfer or otherwise deal with or dispose of the legal or beneficial interest in a Convertible Note except with the prior written consent of the Company, which may be withheld at the Company's absolute discretion.

Notes mature on the 31 December 2018 and provided that the Convertible Note has not otherwise been Converted, redeemed or cancelled, the Company must redeem the Convertible Note for the Redemption Amount, which shall become immediately due and payable in respect of the Convertible Note and pay the Redemption Amount to the Noteholder in Immediately Available Funds, and the Convertible Note will be incapable of being Converted. Conversion can be triggered by a specified event including, an IPO conversion event, change of control event, qualifying finance event or voluntary conversion by the company.

Where there has been an IPO Conversion Event, the notes convert at a 15% discount to the issue price of Shares to investors under the IPO. Where there has been a Change of Control Event (other than through an IPO), a Qualifying Financing Event or where the Company proposes to redeem the Notes a price per share (to be determined) based on the Specified Valuation divided by the number of Shares on issue immediately before the relevant event. Upon maturity or where the Company voluntarily converts the Notes the price per share will be referrable to a valuation divided by the number of Shares on issue immediately before the relevant event.

On 21 November 2017, the partially paid shares held by Elixinol LLC were forfeited as a consequence of an agreement between the two entities. Upon forfeiture of the shares by Elixinol LLC the Company cancelled the shares. The total amount paid on the shares, being less than $1 was not refundable to Elixinol LLC.

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 dividends.

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 period.

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

Signed on behalf of the Directors

Paul Benhaim
Director
21 November 2017

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

Grosvenor Place
225 George Street
Sydney, NSW, 2000
Australia

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21 November 2017

The Board of Directors
Elixinol Pty Ltd.
Level 3, 50 Pitt Street
Sydney NSW 2000

Dear Board Members,

Elixinol Pty Ltd.

I am pleased to provide the following declaration of independence to the directors of Elixinol Pty Ltd.

As lead audit partner for the audit of the financial statements of Elixinol Pty Ltd. for the financial year ended 31 December 2016, 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

Deloitte Touche Tohmatsu
ABN 74 490 121 060
Grosvenor Place
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Independent Auditor’s Report to the Members of Elixinol Pty Ltd

Opinion

We have audited the financial report of Elixinol Pty Ltd (the “Entity”) which comprises the statement of financial position as at 31 December 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 as set out on pages 7 to 23.

In our opinion, the accompanying financial report presents fairly, in all material respects, the Entity’s financial position as at 31 December 2016 and of its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards.

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

Other Information

Management is responsible for the other information. The other information comprises the Directors’ Report for the year ended 31 December 2016, 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 Management and the Directors for the Financial Report

Management of the Entity is responsible for the preparation of the financial report in accordance with Australian Accounting Standards and for such internal control as management determine is necessary to enable the preparation of the financial report that 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 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 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 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 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 Entity 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.

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

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;

(b) in the directors' opinion, the attached financial statements are in compliance with International Financial Reporting Standards, as stated in note 1 to the financial statements; and

(c) 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

Statements of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2016

	Notes	2016 $	2015 $
Continuing Operations			
Interest income		918	-
Recruitment expenses		35,000	-
Administration expenses	N5 (a)	41,273	-
Finance costs	N5(b)	82	-
		(75,437)	-
Extinguishment of borrowings	N9	75,437	-
Profit before income tax	N5	-	-
Income tax expense		-	-
Profit for the year		-	-
Other comprehensive income		-	-
Total comprehensive income for the year		-	-

The accompanying notes form part of these financial statements.

Statement of financial position

As at 31 December 2016

	Notes	2016 $	2015 $
Current assets			
Cash and cash equivalents	N11(a)	462,719	1
Trade and other receivables	N7	2,270	-
Other assets		447	-
Total current assets		465,436	1
Total non-current assets		-	-
Total assets		465,436	1
Current liabilities			
Other payables	N8	40,695	-
Borrowings	9N	424,566	
Total current liabilities		**465,261**	
Total non-current liabilities		**-**	**-**
Total liabilities		**465,261**	-
Net assets		175	1
Equity			
Issued capital	N10	175	1
Retained profits		-	-
Total equity		175	1

The accompanying notes form part of these financial statements.

Statement of Changes in Equity

For the year ended 31 December 2016

	Notes	Issued capital $	Retained earnings $	Total $
2015				
Balance at 1 January 2015	N10	1	-	-
Profit for the period		-	-	-
Total comprehensive income for the period		-	-	-
Other comprehensive income for the year		-	-	-
Balance at 31 December 2015		1	-	-
2016				
Balance at 1 January 2016		1	-	1
Issue of shares	N10	174	-	174
Profit for the period		-	-	-
Other comprehensive income for the year		-	-	-
Total comprehensive income for the period		-	-	-
Balance at 31 December 2016		175	-	175

The accompanying notes form part of these financial statements.

Statement of cash flows

for the year ended 31 December 2016

	Notes	2016 $	2015 $
Cash flows from operating activities			
Payments from customers		(1,799)	-
Payments to suppliers and employees		(35,660)	-
Net cash used in operating activities	11(b)	(37,459)	-
Cash flows from investing activities			-
Net cash from investing activities		-	-
Cash flows from financing activities			
Proceeds from ordinary shares classified as debt		500,003	-
Proceeds from issue of shares	10	174	-
Net cash from financing activities		500,177	-
Net increase in cash and cash equivalents		462,718	-
Cash and cash equivalents at the beginning of the period		1	1
Cash and cash equivalents at the end of the period	11(a)	462,719	1

The accompanying notes form part of these financial statements.

Notes to the financial report

1. General information

Elixinol Pty Ltd is a for-profit company limited by shares, incorporated and domiciled in Australia. The address of its registered office and its principal place of business are as follows:

Level 3, 50 Pitt Street
Sydney NSW 2000

Statement of compliance

This financial report is a general purpose financial report prepared in accordance with Australian Accounting Standards (AAS) and Interpretations as issued by the Australian Accounting Standards Board (AASB).

The financial report complies with 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 statements have been prepared on the basis of historical cost, except for certain properties and financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below. Historical cost is generally based on the fair values of the consideration given in exchange for goods and services. All amounts are presented in Australian dollars, unless otherwise noted.

Fair value is 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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of AASB 2, leasing transactions that are within the scope of AASB 117, 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.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

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

The financial statements have been prepared on the basis of historical cost, except for certain properties and financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below. Historical cost is generally based on the fair values of the consideration given in exchange for goods and services. All amounts are presented in Australian dollars, unless otherwise noted.

Notes to the financial report

2. Adoption of new and revised Accounting Standards

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

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 2016, and therefore relevant for the current year end.

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

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	31 December 2018
AASB 15 Revenue from Contracts with Customers	1 January 2019	31 December 2019
AASB 16 Leases	1 January 2019	31 December 2020

The potential effect of the revised Standards/Interpretations on the company's financial statements is not expected to be material to the current operations.

3. Significant accounting policies

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

(a) Cash and cash equivalents

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

(b) 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.

Notes to the financial report

3. Significant accounting policies (continued)

(c) 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. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at revalued value, in which case the impairment loss is treated as a revaluation decrease.

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. A reversal of an impairment loss is recognised in profit or loss immediately unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

(d) 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).

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.

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.

Notes to the financial report

3. Significant accounting policies (continued)

(e) 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.

(f) 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.

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 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.

Notes to the financial report

3. Significant accounting policies (continued)

For financial assets 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.

(g) GST

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 cash flow statement 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 within operating cash flows.

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.

Notes to the financial report

4. Critical accounting judgements and key sources of estimation uncertainty (continued)

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:

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.

	2016	2015
	$	$
5. Profit for the year		
Profit for the year was derived after considering the following expenses:		
(a) Administration expenses		
Consultancy Fees	12,006	-
Contractors	14,462	-
Professional fees	14,556	-
Others- Miscellaneous	249	-
	41,273	-
(b) Finance cost		
Bank charges	80	-
Interest paid	2	-
	82	-
(c) Fees paid to the auditor		
Audit of the financial report	12,500	-

The auditor of Elixinol Pty Limited is Deloitte Touche Tohmatsu.

Notes to the financial report

6. Income tax

(a) Income tax recognised in Profit and Loss

	2016	2015
	$	$
The components of income tax comprise		
- current tax	-	-
Numeric reconciliation of income tax expense		
- loss before income tax expense	-	-
Tax at Australian tax rate of 30% (2016: 30%)	-	-
Tax effect of:		
- non assessable income	(22,631)	-
- losses not brought to account	22,631	-
Income tax expense	-	-

(b) Unrecognised deferred tax assets

As at 31 December 2016, the company has accumulated carried forward unrecognised tax losses of $75,437 (2015: Nil).

The unrecognised tax effected deferred tax asset of approximately $22,631 (2015: Nil) may be available to be applied against future taxable profits.

	2016	2015
7. Other receivables	**$**	**$**
Sundry receivables	178	-
GST receivables	2,092	-
Income tax receivable	-	-
	2,270	-
8. Other payables		
Accrued expenses	40,695	-

Notes to the financial report

	2016	2015
	$	$
9. Current borrowings		
Refundable equity	424,566	-
Opening balance at 1 January	-	-
Issue of refundable seed investor shares	500,003	-
Extinguishment of borrowings	(75,437)	-
	424,566	-

(a) On 24 October 2016 1,800 shares were issued to three seed investors to provide working capital to the Company to enable the directors to obtain certain licences to operate a medical cannabis business in Australia. If the Company fails to acquire the relevant licences within 12 months of the share issue, the seed investors are entitled to (at the Company's choice) either a refund of unexpended amounts of their capital contribution for the acquisition of shares or receive an equity position in Elixinol LLC, a director related entity, in an amount equivalent to the value of the refund subject to certain procedures and rights of the shareholders of Elixinol LLC.

Consequently shares have been classified as borrowings. As a result of these repayment conditions the amounts paid for ordinary shares issued to seed investors have the substance of borrowings and have been classified as such. As expenditure is incurred the value of the amounts payable are adjusted.

Of the three seed investors, one investor Brendan Collins, a director of the company, hold 450 of these shares for which $125,001 was paid.

10. Issued capital

24,000 fully paid Ordinary shares (FY 2015: Nil)	500,178	-

(a) Fully paid ordinary shares	**No. of shares**	**$**
Balance as at incorporation – 1 January 2016	100	1
24 October 2016 share split of 100:1	9,900	-
24 October 2016 issue of new shares (Note 9a)	1,800	
24 October 2016 issue of new shares	7,400	174
Balance as at 31 December 2016	19,200	175

(b) Partially paid shares

On 24 October 2016 4,800 shares issued to Elixinol LLC at a price of $416.67 per share paid to $0.0001 per share on 24 October 2016.	4,800	-
Balance as at 31 December 2016	**24,000**	**175**

Notes to the financial report

10. Issued capital (cont'd)

On 24 October 2016, 4,800 ordinary shares with an issue price of $416.67 per share were issued to Elixinol LLC, a director related entity. At 31 December 2016 and 30 June 2017, the paid up value of each share was $0.0001. The total uncalled value of these shares is $2,000,000. All other shares are fully paid.

These shares held by Elixinol LLC are held for the purpose of transferring to future investors. Upon transfer the company can immediately make a call on the unpaid capital sufficient to raise $2,000,000. There is otherwise no requirement for Elixinol LLC to make a contribution for uncalled amounts or for an amount to be called.

Subsequent to year end, these partially paid shares were forfeited and canceled. Refer to note 17(c).

(c) Capital management

The board of directors oversees the capital of the company to ensure the company can fund its operations and continue as a going concern. The company's capital is managed by maintaining adequate credit facilities, monitoring future rolling cash flows and adjusting its capital structure as required to meet business objectives. The strategy is to ensure the company can fund growth and continue as a going concern.

	2016	2015
	$	$

11. 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:

	2016 $	2015 $
Cash at bank	462,719	-

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

	2016 $	2015 $
Loss for the year	-	-
Less: Non-cash adjustment to borrowings (note 9)	(75,437)	-
Changes in net assets and liabilities:		
(Increase)/decrease in assets:		
Trade and other receivables	(2,270)	-
Other assets	(447)	-
Increase/ (decrease) in liabilities	-	
Current payables	40,695	-
Net cash generated by operating activities	(37,459)	-

Notes to the financial report

12. 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. As at 31 December 2016, all company debtors were within trading terms.

(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.

(d) Market risk

<u>Interest rate risk</u>

Other than refundable equity as disclosed in note 9, the company has no borrowings and has limited exposure to interest rate risk by cash balance.

The carrying amounts of the company's assets and liabilities at the end of each report period approximate their fair values.

Fair values derived may be based on information that is estimated or subject to judgement, where changes in assumptions may have a material impact on the amounts estimated. Areas of judgement and the assumptions have been detailed in the notes to this report. Where possible, valuation information used to calculate fair value is extracted from the market, with more reliable information available from markets that are actively traded.

Notes to the financial report

13. Key management personnel compensation

No compensation was made to directors and other members of key management personnel of the company during the year or comparative period

14. Related party transactions

The ultimate controlling parent entity of the Company is Raw With Life Pty Ltd as trustee for the Benhaim Trading Trust.

Other than equity transactions as noted in notes 9 and 10, no other related party transactions occurred.

15. Segment information

The company operates in a single segment being development of operations in the emerging Australian medicinal cannabis market. The results of which are disclosed in this financial report.

16. Commitments, Contingent liabilities and Contingent assets

At period end the company has no contractual commitments, contingent liabilities or contingent assets.

17. Subsequent events

The follows events have occurred post balance date:

(a) Shareholder s conditional contract to acquire shares

Subsequent to the half year end, 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.

(b) Issue of convertible notes

On 23 August 2017, the company issues $2m in Convertible Notes. Each Convertible Note is a direct, unsubordinated, unconditional and unsecured obligation of the Company in certificated form, and will at all times rank ahead of Shares, pari passu in right of payment with all other existing and future unsecured and unsubordinated obligations of the Company (other than unsecured obligations preferred by mandatory provision of law), and senior in right of payment to all existing and future subordinated obligations of the Company.

The notes are interest bearing at 10% per annum and prior to conversion confers rights on the Noteholder as an unsecured creditor of the Company; confers rights on the Noteholder to attend general meetings of the Company; and does not confer on the Noteholder rights to vote at general meetings of the Company (other than by reason of pre-existing rights to do so).
A Noteholder must not assign, transfer or otherwise deal with or dispose of the legal or beneficial interest in a Convertible Note except with the prior written consent of the Company, which may be withheld at the Company’s absolute discretion.

Notes to the financial report

17. Subsequent events (continued)

Notes mature on the 31 December 2018 and provided that the Convertible Note has not otherwise been Converted, redeemed or cancelled, the Company must redeem the Convertible Note for the Redemption Amount, which shall become immediately due and payable in respect of the Convertible Note and pay the Redemption Amount to the Noteholder in Immediately Available Funds, and the Convertible Note will be incapable of being Converted. Conversion can be triggered by a specified event including, an IPO conversion event, change of control event, qualifying finance event or voluntary conversion by the company.

Where there has been an IPO Conversion Event, the notes convert at a 15% discount to the issue price of Shares to investors under the IPO. Where there has been a Change of Control Event (other than through an IPO), a Qualifying Financing Event or where the Company proposes to redeem the Notes a price per share (to be determined) based on the Specified Valuation divided by the number of Shares on issue immediately before the relevant event. Upon maturity or where the Company voluntarily converts the Notes the price per share will be referable to a valuation divided by the number of Shares on issue immediately before the relevant event.

(c) Forfeiture of partially paid shares

On 21 November 2017, the partially paid shares held by Elixinol LLC were forfeited as a consequence of an agreement between the two entities. Upon forfeiture of the shares by Elixinol LLC the Company cancelled the shares. The total amount paid on the shares, being less than $1 was not refundable to Elixinol LLC.

At the date of this report there are no partially paid shares on issue.

There have not been any other matters or circumstances occurring subsequent to the end of the financial half year that have significantly, 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.